

INTRODUCTION

NEPAL HAS A POPULATION OF AROUND 28 MILLION and is a low-income country. In 2006, Nepal had a gross national income (GNI) per capita of USD 1 630 (in purchasing power parity terms). The most recent poverty survey, the Nepal Living Standard Survey, was conducted in 2003/04. It estimated that nearly 24% of the population live below the dollar-per-day international poverty line; 69% live below the two-dollars-per-day line. Nepal is emerging from conflict; a Comprehensive Peace Accord between the Government of Nepal and the Communist Party (Maoist) of Nepal was signed in late 2006. Moreover, the constituent assembly election was held successfully in April 2008, and the country is now in the process of producing a new constitution.

According to the OECD's Aid at a Glance data, total net official development assistance (ODA) provided by members of the OECD's Development Assistance Committee (OECD-DAC) amounted to USD 514 million in 2006. The top five donors in 2005-2006 included Japan, the Asian Development Fund, the United Kingdom, the United States and the World Bank. It should be noted that this excludes aid from Nepal's near neighbours, India and China.

DIMENSIONS	2007	CHALLENGES	PRIORITY ACTIONS
Ownership	Moderate	Enhancing country capacity and commitment for ownership of development plans and programmes in the post-conflict environment	Implement Poverty Reduction Strategy Paper and Three Year Interim Plan; establish clearer linkages with the annual budget
Alignment	Moderate	Limited extent to which aid flows are on budget and to which detailed information on disbursements is provided to government	Government to implement public expenditure and financial accountability action plan
Harmonisation	Low	Limited use of programme-based approaches and sector-wide approaches	Extend sector-wide approaches into sectors beyond health and education
Managing for results	Moderate	Relative absence of monitorable performance assessment framework	Donors and government to agree on common monitoring and evaluation framework in sector-wide support programmes
Mutual accountability	Low	Lack of mechanism for mutual assessment of aid effectiveness	Build and implement a joint action plan for aid effectiveness

OVERVIEW

Box 38.1:

Challenges and priority actions

Nepal was not included in the first round of monitoring for the Paris Declaration. Therefore, the Paris Declaration 2010 targets will be based on the results of this round of monitoring (the 2008 Survey). Twenty-one donors responded to the survey, with their aid constituting approximately 93% of total ODA from members of the OECD-DAC. Aid accounts for approximately 6% of GNI. As the country seeks to move beyond its recent history of political conflict, the government is highly committed to improving aid effectiveness and its relations with donors.

OWNERSHIP

OWNERSHIP IS CRITICAL TO ACHIEVING DEVELOPMENT RESULTS and is central to the Paris Declaration on Aid Effectiveness. Aid is most effective when it supports a country-owned approach to development; aid is less effective when countries feel that aid policies and approaches are driven by donors that provide assistance. In the context of the Paris Declaration, ownership specifically concerns a country's ability to carry out two, inter-linked activities: exercise effective leadership over its development policies and strategies; and co-ordinate the efforts of various development actors working in the country.

INDICATOR 1

Do countries have operational development strategies?

Ownership has many dimensions. Indicator 1 – assessed as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead* – provides an entry point to the issue. The World Bank assesses the operational value of a country's development strategy and policy against three criteria, all of which are essential features of any serious effort to harness domestic and external resources for development purposes: the existence of an authoritative, country-wide development policy which clearly identifies priorities and is well-costed.

The World Bank rates the operational value of a country's development strategy against a five-point scale running from A (highest score) to E (lowest score). The Paris Declaration 2010 target is to raise, to at least 75%, the proportion of partner countries having operational development strategies – *i.e.* meriting a rating of A or B.

Nepal's long-term vision, running from 1997 to 2016, is a long-term strategy for poverty reduction. It informed the country's tenth Five-Year Plan (2002-07) and is presented as the country's Poverty Reduction Strategy Paper (PRSP). The PRSP includes measurable targets of poverty reduction based on four pillars: broad-based economic growth; social sector development; social inclusion; and good governance. The paper also entails sectoral plans for agriculture, rural transport, rural electrification, water supply and sanitation, health, and education.

Implementation of the PRSP has been patchy, mainly because of conflict. The paper has, nevertheless, provided a consensus on Nepal's socio-economic development platform for the country's development partners. A Three Year Interim Plan (TYIP), designed to address development challenges as Nepal emerges from conflict, was adopted in late 2007.

A medium-term expenditure framework (MTEF) provides some links between the country's development plans and budgeting processes. Coupled with national level Immediate Action Plans (IAPs), the MTEF has led to some success in directing spending to priority areas. However, successful implementation of the MTEF has always been a challenge, particularly given the capacity constraints faced by the government. Thus, the MTEF has been further confined to certain sectors and areas of the country that were not deeply affected by the conflict.

In 2007, as in 2005, Nepal received a C rating which suggests that some, albeit inadequate, progress had been made.

The Nepalese government is strengthening its role in the co-ordination of development assistance, and has now taken over the chair of the Nepal Development Forum (NDF) from the World Bank. As part of the NDF series, the Nepal Donors Consultation Meeting (NDCM) was held in February 2008. In the NDCM, the Government of Nepal indicated that a full-fledged NDF would take place sometime in the latter part of 2008.

As regards ownership, a broader range of national stakeholders (including civil society and the private sector), were involved in the formulation of Nepal's PRSP. However, the state of conflict meant that their engagement in its implementation was limited and, therefore, needs to be strengthened. Parliament was dissolved from 2002 to 2006 and has, thus, played only a small role in relation to the PRSP. ■

ALIGNMENT

FOR AID TO BE EFFECTIVE, it must be aligned with national development strategies, institutions and procedures. The Paris Declaration envisions donors basing their support fully on country partner aims and objectives. Indicators 2 through 8 examine several dimensions of aid to assess the degree to which partner countries and donors achieve alignment.

The data for Nepal show mixed results. There is some positive news in regards to recording of aid on budget, use of country systems, and – if the data is accurate – aid untying. However, the results are less encouraging on other aspects of harmonisation, including the reliability of country systems and the provision of technical co-operation in a manner that responds to the country's expressed requirements.

BUILDING RELIABLE COUNTRY SYSTEMS

Indicator 2 covers two aspects of country systems: public financial management (PFM) and procurement. In each case, the focus is on the degree to which these systems adhere to broadly accepted good practices – or to which there is in place a reform programme to promote improved practices. If countries have reliable systems, donors will be encouraged to use such systems for the delivery and management of aid. This helps to align aid more closely with national development strategies and enhances aid effectiveness.

Indicator 2a of the Paris Declaration assesses the degree to which partner countries either have public financial management (PFM) systems that are in line with broadly accepted good practices or have credible reform programmes in place to establish reliable PFM systems. The assessment is based on the World Bank's Country Policy and Institutional Analysis (CPIA) score for the quality of PFM systems, which uses a scale running from 1 (very weak) to 6 (very strong) with half-point increments. To score highly, a country needs to meet all three of the following criteria: a comprehensive and credible budget linked to policy priorities; effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and, timely and accurate accounting and fiscal reporting, including timely and audited public accounts. The 2010 target is that each country will move up at least one measure (*i.e.* 0.5 points) on the CPIA scale for measuring the quality of PFM systems.

INDICATOR 2a

How reliable are country public financial management systems?

Nepal received a rating of 3.5 for its PFM systems in 2005. Had it participated in the 2006 Baseline Survey, this rating would have placed the country around the middle range for participating countries. The same score was achieved for 2007.

The Paris Declaration global 2010 target is for half of partner countries to register a half-point increase in the rating received for the reliability of PFM systems. For Nepal, a first-time participant in the 2008 Survey, an appropriate target for 2010 would be a “moderately strong” rating of 4.0.

The government is undertaking a number of initiatives to improve PFM systems, something that has been on its agenda for many years. Following a landmark Country Financial Accountability Assessment in 2002, a public expenditure and financial accountability (PEFA) assessment was completed in 2006. Implementation of the associated action plan is now the priority of the Government of Nepal.

INDICATOR 2b

How reliable are country procurement systems?

At the time of the 2006 Baseline Survey, no mechanism was in place to systematically assess and quantify the quality of procurement systems in partner countries. Thus, it was impossible to set country-level targets on progress towards Indicator 2b.

To date, no assessment has been made of the reliability of Nepal’s procurement systems. However, reforms of this system are underway with the establishment, in 2007, of a Public Procurement Act, a Public Procurement Monitoring Office and the enforcement of Public Procurement Rules. These moves supplement existing laws and initiatives relating to corruption and the abuse of authority. Still, as the *country report* illustrates, the government has been relatively ineffective in preventing corruption, and the procurement process remains a problem.

ALIGNING AID FLOWS ON NATIONAL PRIORITIES

INDICATOR 3

Comprehensive and transparent reporting on aid, and how it is used, is an important means of ensuring that donors align aid flows with national development priorities. The degree to which development assistance to the government sector is fully and accurately reflected in the budget provides a useful indication of the degree to which serious effort is made to connect aid programmes with country policies and processes. It also allows partner country authorities to present accurate and comprehensive budget reports to their parliaments and citizens.

Indicator 3 is a proxy for alignment. It measures the percentage of aid disbursed by donors to the government sector that is included in the annual budgets for the same fiscal year. The indicator is a joint measure of two components: the degree to which donors report aid flows comprehensively to partner countries; and the degree to which partner countries accurately record aid.

The final figure highlights any discrepancy between the government’s budget estimates and actual disbursements by donors. The discrepancy (or gap) can be in either direction: budget estimates can be higher or lower than disbursements by donors. In order to have a single measure of discrepancy under 100%, the ratio is inverted when budget estimates are higher than donor disbursements. The 2010 target is to halve the proportion of aid flows to the government sector that is not currently reported on government budget(s), ultimately arriving at a point where at least 85% of aid is reported on the budget.

TABLE 38.1:
Are government budget estimates comprehensive and realistic?

	Government budget estimates of aid flows for 2007 (USD m)	Aid disbursed by donors for government sector in 2007 (USD m)	2007*	
	a	b	c = a / b	c = b / a
Asian Development Bank	90	113	79%	
Australia	0	0	--	
Canada	0	0	--	
Denmark	12	28	41%	
European Commission	1	0		0%
Finland	2	6	30%	
France	0	0		0%
GAVI Alliance	4	3		68%
Germany	5	38	14%	
Global Fund	8	3		43%
IFAD	2	2		61%
Japan	28	42	66%	
Korea	0	2	0%	
Netherlands	1	5	24%	
Norway	6	15	37%	
Saudi Arabia	1	1		56%
Switzerland	2	11	18%	
United Kingdom	24	25	96%	
United Nations	39	29		74%
United States	16	20	77%	
World Bank	70	79	88%	
Average donor ratio	--	--		46%
Total	311	422		74%

* Ratio is $c=a/b$ except where government budget estimates are greater than disbursements ($c=b/a$).

Disbursements recorded by government for donors that have not reported data in the 2008 Survey: USD 1.29 million. Two donors (Netherlands and Australia) are not included in the table due to differences in reporting years.

On aggregate, an encouraging 74% of aid disbursed by donors to the government sector in Nepal was accurately estimated in the government budget. However, for the average donor only 46% of aid was accurately recorded in the budget. Some of the gap is due to donors and the government operating with different fiscal years and having different conceptualisations of disbursement. More importantly, significant aid funds are spent on procurement and consultants without being recorded in the government budget. Some donors prefer to retain the system of direct funding because of their lack of confidence in government systems. In addition, commitments made by donor headquarters do not always take sufficient account of limited implementation capacity in donor country offices. Thus, actual disbursements may not be at the level of commitments.

The Paris Declaration 2010 target is for countries to have 85% of aid accurately estimated on budget, or to halve the gap - whichever is more ambitious. For Nepal, a first-time participant in the 2008 Survey, meeting a target of 85% would be quite ambitious. Achieving this target will require a considerable effort by both government (to make realistic budget estimates) and donors (to share information about disbursements). Concrete progress is possible, by establishing consistent accounting systems to record disbursement, based on the date of delivery.

CO-ORDINATING SUPPORT TO STRENGTHEN CAPACITY

INDICATOR 4

Capacity constraints significantly undermine the ability of partner countries to capture, co-ordinate and utilise aid flows more effectively. Under the Paris Declaration, donors committed to providing technical co-operation in a manner that is co-ordinated with partner country strategies and programmes. This approach aims to strengthen capacities while also responding to the needs of partner countries. Likewise, there is greater recognition that successful capacity building is endogenous – *i.e.* is led by the partner country. To this end, the partner country defines clear objectives to ensure that existing capacities are used effectively and that external support is harmonised within this framework.

Indicator 4 focuses on the extent to which donor technical co-operation – an important input into capacity development – is moving towards this country-led model. It measures the degree of alignment between donor technical co-operation and the partner country's capacity development needs and strategies. The Paris Declaration 2010 target is that 50% of technical co-operation flows are implemented through co-ordinated programmes that are consistent with national development strategies.

Table 38.2:
How much technical
co-operation is co-ordinated
with country programmes?

	Co-ordinated technical co-operation (USD m) a	Total technical co-operation (USD m) b	2007 c = a / b
Asian Development Bank	0	5	0%
Australia	0	3	9%
Canada	0	9	0%
Denmark	0	1	36%
European Commission	0	2	0%
Finland	0	3	0%
France	0	0	--
GAVI Alliance	0	0	--
Germany	2	15	14%
Global Fund	0	0	--
IFAD	1	1	72%
Japan	6	8	77%
Korea	1	1	99%
Netherlands	0	3	0%
Norway	0	1	5%
Saudi Arabia	0	0	--
Switzerland	0	10	0%
United Kingdom	4	46	9%
United Nations	6	26	24%
United States	0	37	0%
World Bank	6	11	55%
Total	27	182	15%

Data for 2007 show that, in Nepal, only 15% of technical co-operation is co-ordinated with country programmes; this total amounts to around one-third of total aid. Only three donors provide more than 50% of their technical co-operation in a manner that is co-ordinated with country programmes. This situation is explained by the fact that Nepal lacks a coherent national strategy for capacity development.

The Paris Declaration 2010 target is that 50% of technical co-operation be co-ordinated with country programmes. Significant progress will have to be made for this target to be met in Nepal. Some progress has been made through the use of sector-wide approaches (SWAs) in education and health. However, to move beyond this the government must produce a national strategy for capacity development; donors must then align their technical co-operation with that strategy.

USING COUNTRY SYSTEMS

Donor use of a partner country's established institutions and systems increases aid effectiveness by strengthening the partner's long-term capacity to develop, implement and account for its policies – to both its citizens and its parliament. The Paris Declaration encourages donors to increase their use of country systems that are of sufficient quality, and to work with partner countries to strengthen systems that are currently weak. In this respect, Indicator 5 is directly linked to Indicator 2 on the quality of PFM and procurement systems, and measures the use of both.

Indicator 5a measures the extent to which donors use partner country PFM systems when providing funding to the government sector. It measures the volume of aid that uses partner country PFM systems (budget execution, financial reporting, and auditing) as a percent of total aid disbursed to the government sector. The 2010 target is relative to Indicator 2a on the quality of PFM systems.

Indicator 5b measures the volume of aid, as a percent of total aid disbursed to the government sector, that uses partner country procurement systems. The 2010 target is relative to Indicator 2b; thus, targets are indicated only for those countries that established scores for Indicator 2b in the context of the 2006 Baseline Survey.

Data for Nepal show an impressive 68% of aid making use of the country's PFM systems, with much of this accounted for by support to the health and education sectors.

The Paris Declaration 2010 target for countries scoring a 3.5 for the reliability of their PFM systems (Indicator 2a) is to reduce by one-third the percentage of aid to the government sector not using country PFM systems. For Nepal, participating for the first time in the Paris Declaration monitoring process, a 2010 target of 76% is ambitious.

INDICATOR 5

TABLE 38.3:
How much aid for
the government sector
uses country systems?

	Aid disbursed by donors for government sector (USD m) a	Public financial management (PFM)				Procurement	
		Budget execution (USD m) b	Financial reporting (USD m) c	Auditing (USD m) d	2007 avg (b,c,d) / a	Procurement systems (USD m) e	2007 e / a
Asian Development Bank	113	108	108	108	96%	108	96%
Australia	0	0	0	0	--	0	--
Canada	0	0	0	0	--	0	--
Denmark	28	28	28	28	100%	28	100%
European Commission	0	0	0	0	--	0	--
Finland	6	6	6	6	100%	6	100%
France	0	0	0	0	--	0	--
GAVI Alliance	3	0	0	3	33%	0	0%
Germany	38	23	0	0	20%	23	60%
Global Fund	3	3	3	3	100%	0	0%
IFAD	2	2	2	2	100%	2	100%
Japan	42	11	11	11	26%	11	26%
Korea	2	0	0	0	0%	0	0%
Netherlands	5	0	0	0	0%	0	0%
Norway	15	18	12	12	95%	13	84%
Saudi Arabia	1	0	0	0	0%	0	0%
Switzerland	11	3	3	3	25%	0	0%
United Kingdom	25	25	25	25	100%	25	100%
United Nations	29	1	1	3	7%	0	1%
United States	20	1	1	1	2%	0	0%
World Bank	79	78	78	78	98%	20	25%
Total	422	307	278	283	68%	235	56%

At present, only 56% of aid to the government sector makes use of country procurement systems. This reflects donors' lack of confidence in the systems and continuing concerns about corruption. With a rating of C for the reliability of country procurement systems, no 2010 target has been set for their use. Nevertheless, the expectation is that recent initiatives and reforms will strengthen Nepal's procurement systems and encourage donors to make greater use of them.

AVOIDING PARALLEL IMPLEMENTATION STRUCTURES

INDICATOR 6

When providing development assistance, some donors establish specific project implementation units (PIUs), *i.e.* dedicated management units designed to support development projects or programmes. A PIU is said to be "parallel" when it is created at the behest of the donor and operates outside existing country institutional and administrative structures.

TABLE 38.4:
How many PIUs are parallel
to country structures?

	2007 (units)
Asian Development Bank	0
Australia	0
Canada	8
Denmark	2
European Commission	1
Finland	3
France	0
GAVI Alliance	0
Germany	0
Global Fund	0
IFAD	0
Japan	0
Korea	0
Netherlands	0
Norway	2
Saudi Arabia	0
Switzerland	15
United Kingdom	12
United Nations	32
United States	31
World Bank	0
Total	106

In the short term, parallel PIUs can play a useful role in establishing good practice and promoting effective project management. However, in the long run, parallel PIUs often tend to undermine national capacity building efforts, distort salaries and weaken accountability for development.

To make aid more effective, the Paris Declaration encourages donors to "avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes." Indicator 6 is a count of the number of parallel PIUs being used in partner countries. The 2010 target is to reduce by two-thirds the stock of parallel PIUs in each partner country.

The 2008 Survey for Nepal recorded a total of 106 parallel PIUs in 2007, with nearly 60% of these established by just two donors. Generally, parallel

PIUs are established for two reasons: some donors are concerned about a lack of government capacity; others desire to ensure tight adherence to their own requirements for funding, aid management and maintain close control of projects they regard as their own.

The Paris Declaration 2010 target is to reduce the stock of parallel PIUs by two-thirds. For Nepal, which is a first-time participant in the 2008 Survey with only three years to meet the target, reducing the stock of parallel PIUs to 64 represents an appropriate level of ambition. Progress towards this target will be made as the shift from project-focused support to SWAps continues and as some donors work to integrate their PIUs into government systems.

PROVIDING MORE PREDICTABLE AID

For many countries, development assistance constitutes a vital source of revenue and resources. Being able to predict aid disbursements – in terms of both how much aid will be delivered and when – is as an important factor in the ability of countries to manage public finances and undertake realistic planning for development. It is particularly crucial to enabling partner countries to implement medium- to long-term development plans and to optimise the allocation of resources within and across sectors. In this regard, the Paris Declaration calls on donors to provide reliable, indicative commitments of aid over a multi-year framework, and to disburse aid in a timely and predictable fashion according to agreed schedules.

Indicator 7 examines in-year predictability of aid to the government sector, measuring the proportion of planned disbursements (as reported by donors) that are recorded by governments in the national accounting system as actually disbursed. Indicator 7 assesses predictability from two angles. The first angle is the combined ability of donors and government to disburse aid on schedule. The second is the ability of donors and government to record comprehensively disbursements made by donors to the government sector.

INDICATOR 7

TABLE 38.5:
Are disbursements
on schedule and recorded
by government?

	Disbursements recorded by government in 2007 (USD m) a	Aid scheduled by donors for disbursement in 2007 (USD m) b	Aid disbursed by donors for government sector in 2007 (USD m) for reference only c	2007*	
				c = a / b	c = b / a
Asian Development Bank	44	91	113	48%	
Australia	0	4	0	0%	
Canada	0	0	0	--	
Denmark	6	28	28	22%	
European Commission	0	0	0		0%
Finland	1	11	6	9%	
France	0	0	0		0%
GAVI Alliance	2	4	3	52%	
Germany	3	34	38	9%	
Global Fund	5	5	3	85%	
IFAD	2	3	2	69%	
Japan	32	42	42	75%	
Korea	0	0	2	--	
Netherlands	2	0	5		0%
Norway	3	15	15	20%	
Saudi Arabia	0	0	1		0%
Switzerland	1	10	11	10%	
United Kingdom	16	37	25	42%	
United Nations	26	69	29	38%	
United States	11	20	20	56%	
World Bank	53	70	79	76%	
Average donor ratio	--	--	--	32%	
Total	207	444	422	47%	

* Ratio is $c=a/b$ except where disbursements recorded by government are greater than aid scheduled for disbursement ($c=b/a$).

Disbursements recorded by government for donors that haven't reported data in the 2008 Survey: USD 0.43 million

Indicator 7 is designed to encourage progress in relation to both angles, with the aim of gradually closing the predictability gap – by one-half – by 2010. The ultimate goal is to improve not only the predictability of actual disbursements, but also the accuracy of how disbursements are recorded in government systems – an important feature of ownership, accountability and transparency.

In 2007, on aggregate, only 47% of scheduled disbursements in Nepal were accurately recorded by the government; for the average donor, the ratio was 32%. A small portion of the predictability gap is explained by the difference between planned and actual disbursements, but most is due to a large gap between actual and recorded disbursements. This, in turn, results from a lack of co-ordination between donors and the government on reporting, accounting and other aspects of aid.

The Paris Declaration 2010 target for Indicator 7 is to close the predictability gap by one-half. As Nepal is a first-time survey participant with three (rather than five) years to meet the target, an appropriate level of ambition would be to increase predictability to 65%. This represents a considerable challenge for Nepal, although the shift towards SWAps may deliver some improvements in predictability. Better co-ordination and understanding between donor headquarters and their country offices would be valuable. On the government side, it will be necessary to progress with efforts to fully capture aid disbursements in the accounting system.

To improve the predictability of donor funding over the longer term, most donors are trying to improve the linkages between their country assistance plans and the government's TYIP. However, in the absence of comprehensive and co-ordinated country programming by Nepal's donors, enhancing longer-term predictability remains a challenge.

UNTYING AID

INDICATOR 8

How much aid is untied?

Aid is said to be "tied" when it is provided on the condition that the recipient country will use it to purchase goods and services from suppliers based in the donor country. Experience shows that aid with such conditions attached increases the costs of goods and services provided to partner countries; it also increases the administrative burdens on both donors and partners. By contrast, untied aid helps build a country's capacity to provide goods and services.

Country figures for untying aid are based on voluntary self-reporting by donors that are members of the OECD-DAC. The 2010 target is to continue progress towards untying aid over time.

The OECD reports that 94% of aid provided to Nepal in 2006, as reported by the members of the OECD-DAC, was untied. This compares favourably to the average level of untying of 75% for countries that participated in the 2006 Baseline Survey. However, the qualitative assessment notes that aid remains tied in some case. For example, some agreements between the government and donors explicitly mention that procurement of goods and services will not be made under international competitive bidding (ICB), or that if the donors are not the suppliers, they will arrange for limited competitive bidding (LCB). ■

HARMONISATION

DECADES OF DEVELOPMENT EXPERIENCE show that poor co-ordination of aid increases the cost for both donors and partner countries, and significantly reduces the value-added of aid. Harmonisation of aid delivery procedures and adoption of common arrangements help reduce duplication of effort and lower the steep transaction costs of managing aid. The Paris Declaration focuses on two dimensions of aid as a proxy for assessing overall harmonisation: the use of common arrangements within programme-based approaches (PBAs) and the extent to which donors and partner countries conduct joint missions and share analysis.

Harmonisation is relatively unadvanced in Nepal. To date, little use is made of programme-based approaches (PBAs) and only a small proportion of country analytical work is conducted jointly. Some progress has been made in the health and education sectors but needs to be deepened; overall, harmonisation needs to be expanded to other sectors.

USING COMMON ARRANGEMENTS

Aid effectiveness is enhanced when donors use common arrangements to manage and deliver aid in support of partner country priorities. A sound mechanism for aid co-ordination can be described as one that builds on shared objectives and that reconciles, in a constructive manner, the various interests of stakeholders.

INDICATOR 9

	Programme-based approaches (PBAs)			Total aid disbursed (USD m) d	2007 e = c / d
	Budget support (USD m) a	Other PBAs (USD m) b	Total (USD m) c = a + b		
	Asian Development Bank	16	0		
Australia	0	0	0	3	0%
Canada	0	0	0	9	0%
Denmark	21	0	21	41	50%
European Commission	0	0	0	11	0%
Finland	0	5	5	11	42%
France	0	0	0	1	0%
GAVI Alliance	0	1	1	3	22%
Germany	0	5	5	38	14%
Global Fund	0	7	7	9	73%
IFAD	0	0	0	2	0%
Japan	0	1	1	43	3%
Korea	0	0	0	3	0%
Netherlands	0	0	0	8	0%
Norway	7	10	16	42	39%
Saudi Arabia	0	0	0	1	0%
Switzerland	1	1	2	15	14%
United Kingdom	20	1	21	66	32%
United Nations	3	7	9	65	14%
United States	0	1	1	47	2%
World Bank	0	35	35	79	44%
Total	66	73	139	609	23%

TABLE 38.6:
How much aid is
programme based?

Indicator 9 assesses the degree to which donors work together by measuring the proportion of total ODA disbursed within PBAs. In practice, there are many different modalities for implementing PBAs, which operate at various levels. At one level, the partner country is responsible for defining clear, country-owned programmes (*e.g.* sector policy) and establishing a single budget framework that captures all resources (both domestic and external). At the second level, donors are responsible for taking steps to use local systems for programme design and implementation, financial management, monitoring and evaluation. Finally, partner countries and donors are jointly responsible for donor co-ordination and harmonisation of donor procedures. The 2010 target is that 66% of aid flows are provided in the context of PBAs.

Data for 2007 show that only 23% of aid to Nepal makes use of PBAs, around half of which is provided as budget support. The 2010 target for Indicator 9 is for 66% of aid to make use of PBAs. This represents a major challenge for Nepal although some progress can be expected as donors and the government begin to work more closely together, especially in particular sectors.

CONDUCTING JOINT MISSIONS AND SHARING ANALYSIS

INDICATOR 10a

One of the most frequent complaints of partner countries is that donors make too many demands in relation to their limited resources: country authorities spend too much time meeting with donor officials and responding to their many requests. The Paris Declaration recognises that donors have a responsibility to ensure that, to the greatest extent possible, the missions and analytical work they commission are undertaken jointly – *i.e.* that the burden of such work is shared.

TABLE 38.7:
How many donor missions
are co-ordinated?

	Co-ordinated donor missions* (missions) a	Total donor missions (missions) b	2007 c = a / b
Asian Development Bank	6	53	11%
Australia	1	3	33%
Canada	4	9	44%
Denmark	3	4	75%
European Commission	3	7	43%
Finland	3	3	100%
France	0	0	--
GAVI Alliance	1	1	100%
Germany	3	12	25%
Global Fund	0	3	0%
IFAD	1	3	33%
Japan	0	29	0%
Korea	1	3	33%
Netherlands	0	0	--
Norway	2	11	18%
Saudi Arabia	0	0	--
Switzerland	0	7	0%
United Kingdom	6	6	100%
United Nations	43	54	80%
United States	2	14	14%
World Bank	14	40	35%
Total	60	262	23%

* The total of co-ordinated missions has been adjusted to avoid double-counting. A discount factor of 35% is applied.

Indicator 10 measures the extent to which donors are merging their missions (Indicator 10a) and analytical work (Indicator 10b) at the country level – either with country partner authorities or amongst the donor community (or both). It calculates the proportion of missions to the country undertaken jointly (*i.e.* by more than one donor) and the share of country-analysis exercises undertaken on a joint or co-ordinated basis. The 2010 target is that 40% of donor missions to the field are conducted jointly and that 66% of country analytical work is carried out jointly.

In 2007, an encouraging 23% of a total of 262 donor missions in Nepal were conducted jointly. This figure has been adjusted to take account of potential double-counting. A small number of donors are responsible for a large proportion of the missions that are not conducted jointly. The 2010 target for Indicator 10a is that 40% of donor missions are conducted jointly. For Nepal, meeting this target is well within reach. Indicator 10B measures the proportion of country analytical work that is undertaken jointly.

In 2007 in Nepal, only 28% of country analytical work was undertaken jointly. This figure – which takes account of potential double-counting – falls well short of the 2010 target of 66%. Some donors, including the World Bank and United Kingdom, have shown some enthusiasm for conducting joint analytical work. Nevertheless, meeting the 2010 target will be a challenge. ■

INDICATOR 10b

	Co-ordinated donor analytical work* (analyses) a	Total donor analytical work (analyses) b	2007 c = a / b
Asian Development Bank	0	8	0%
Australia	4	4	100%
Canada	0	0	--
Denmark	1	1	100%
European Commission	0	0	--
Finland	0	0	--
France	0	0	--
GAVI Alliance	0	0	--
Germany	1	2	50%
Global Fund	3	5	60%
IFAD	2	4	50%
Japan	0	0	--
Korea	0	0	--
Netherlands	0	0	--
Norway	1	5	20%
Saudi Arabia	0	0	--
Switzerland	0	0	--
United Kingdom	7	7	100%
United Nations	9	27	33%
United States	2	22	9%
World Bank	3	5	60%
Total	25	90	28%

TABLE 38.8:
How much country analysis
is co-ordinated?

* The total of co-ordinated analytical work has been adjusted to avoid double-counting. A discount factor of 25% is applied.

MANAGING FOR RESULTS

INDICATOR 11

Do countries have results-based monitoring frameworks?

THE PARIS DECLARATION CALLS ON donors and partner countries to make a joint commitment to managing for development results – *i.e.* to manage resources according to desired results. This implies defining desired results and measuring progress toward them, as well as using information on results to improve decision making and performance. It also implies strengthening capacity to undertake such management and helping to increase the demand for a focus on results (*i.e.* adopt a results-based monitoring framework).

Indicator 11 utilises data collected as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead*. The review focuses on three particular aspects of a robust results-based monitoring framework: the quality of the information generated; stakeholder access to the information; and the extent to which such information is utilised within a country-level monitoring and evaluation system.

The assessments are expressed in scores running from A (high) to E (low), with B representing a “largely developed results-based monitoring framework”. The 2010 target is to reduce by one-third the proportion of countries lacking transparent, results-based monitoring frameworks (*i.e.* reduce by one-third the number of countries not attaining at least a B rating).

In Nepal, some progress has been made in establishing a monitorable performance assessment framework, known as the government's Poverty Monitoring Analysis System. The National Planning Commission plays the key role in consolidating the results of monitoring processes, with the government's Central Bureau of Statistics playing a key role in maintaining other datasets. PRSP progress reports are said to be well used by the government and donors for decision making. The World Bank's assessment is that, in 2007, Nepal merited a rating of C for Indicator 11. Making progress towards a B by 2010 will require that the focus on development results – driven by government and with the support of donors – extends beyond particular areas of policy and government. ■

MUTUAL ACCOUNTABILITY

INDICATOR 12

Do countries have reviews of mutual accountability?

THE PARIS DECLARATION RECOGNISES that for aid to be truly effective, stronger and more balanced accountability mechanisms are required at all levels. In particular, aid is more effective when both donors and partner country governments are accountable – to their respective publics and to each other – for the use of resources and management to achieve development results. The Paris Declaration calls for donors and partner countries to jointly assess (through existing country-level mechanisms) mutual progress in implementing agreed commitments on aid effectiveness, including commitments made under the Paris Declaration.

Indicator 12 is concerned with the specific question of whether there is a country-level mechanism for mutual assessment of progress on the partnership commitments arising from the Rome or Paris Declarations, or from local harmonisation and alignment plans. The 2010 target is for all partner countries to have in place such mechanisms.

For Nepal, the government and donors do engage in joint monitoring, evaluation and reporting activities. However, as yet there is no mechanism in place to assess jointly the progress made on aid effectiveness. The Ministry of Finance is currently preparing an action plan for aid effectiveness and the Foreign Aid Policy is currently being revised. These initiatives could provide a sound basis for strengthening mutual accountability. ■

PROGRESS SINCE 2005 AND PRIORITIES FOR 2010

HAVING EMERGED FROM A VIOLENT INTERNAL CONFLICT, Nepal faces a number of challenges relating to aid effectiveness and, in a wider context, to development. Meeting the 2010 targets will be far from easy. The government will have to make concerted efforts to implement its plans and clarify to donors what is required of them. For their part, donors need to help to build the capacity of the government and extend their efforts to work together beyond the health and education sectors. ■

INDICATORS		2007	2010 TARGET
1	Operational development strategies	C	B or A
2a	Reliable public financial management (PFM) systems	3.5	4.0
2b	Reliable procurement systems	Not available	Not applicable
3	Aid flows are aligned on national priorities	74%	85%
4	Strengthen capacity by co-ordinated support	15%	50%
5a	Use of country PFM systems	68%	76%
5b	Use of country procurement systems	56%	Not applicable
6	Strengthen capacity by avoiding Parallel PIUs	106	64
7	Aid is more predictable	47%	65%
8	Aid is untied	94%	More than 94%
9	Use of common arrangements or procedures	23%	66%
10a	Joint missions	23%	40%
10b	Joint country analytical work	28%	66%
11	Results-based monitoring frameworks	C	B
12	Mutual accountability	No	Yes

SUMMARY
TABLE 38.9

CONTRIBUTORS

National Co-ordinator: Lal Shanker Ghimir

Donor Focal Points: Anna Isabelle and Sharad Neupane (United Nations)
Bella Bird and Anjaly Tamang Bista (United Kingdom)

ACRONYMS

IAPs	Immediate Action Plans
MDGs	Millennium Development Goals
MTEF	Medium-term expenditure framework
ODA	official development assistance
OECD-DAC	OECD Development Assistance Committee
PBAs	programme-based approaches
PEFA	Public expenditure and financial accountability
PFM	public financial management
PIUs	project implementation units
PRSP	Poverty Reduction Strategy Paper
SWAPs	Sector-wide approaches

