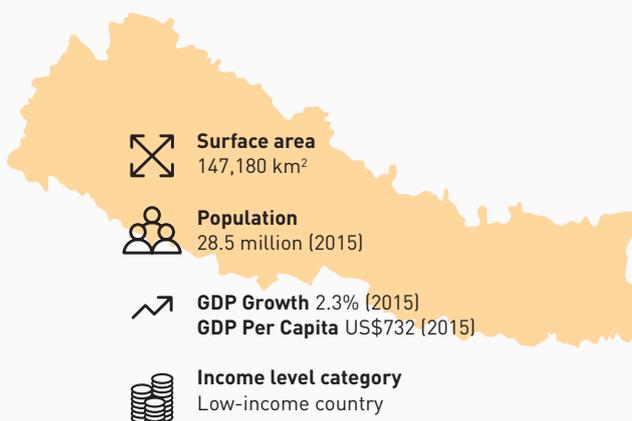




## 1. Country Context

Nepal is a landlocked country located along the Himalayas with a population of 28.5 million. Its low-income economy generates an annual GDP per capita of US\$732 (2015). The country has seen a formidable peace dividend after ending the decade-long armed struggle in 2006, halving poverty from 49% in 1992 to 23.8% in 2013 and drastically improving the social indicators in health and education. The annual economic growth rate was 4.1% average over last 10 years. Because of massive earthquakes, the annual growth rate was limited to 2.3% in 2015. Due to supply constraints after the promulgation of new constitution, the economic growth rate is estimated to be 0.8% in FY 2015/2016. With a low human development value of 0.548, Nepal ranked 145th in the Human Development Index in 2014. Nepal received a total development co-operation of US\$1.037 billion, distributed among 33 development partners. The three major development partners (the World Bank, United Kingdom and Asian Development Bank) contribute almost half of co-operation received by the government. Besides these, a number of South-South development partners, particularly China, India and Kuwait, provide a significant amount of development co-operation. While official development finance is mainly for development financing, most of the support was directed to post-earthquake emergency and humanitarian finance in 2015.

### Quick Facts



### Key Development Indices:



National Poverty Index  
23.8% of pop.  
(2013)



Official Development Assistance/Capital Formation  
12% (2014)

ODA per Capita US\$31 (2014)



✓ 1 188 145 Human Development Index (2014)  
(Best rank: Position 1)

1 189 99 Doing Business Rank (2015)  
(Best rank: Position 1)

+2.5 -2.5 -0.5 Anti-corruption Index: -0.5 (2014)  
(Highest anti-corruption: +2.5)

### Inflows (% Gross Domestic Product)

LATEST YEAR AVAILABLE



### Key Development Challenges

Nepal is still recovering from the 2015 earthquake, but has made essential improvements in social areas such as education, health and gender equality. The new development plan will address the Sustainable Development Goals (SDGs), opening manifold opportunities to deepen social and economic progress. The country seeks to graduate from LDC by 2022 and attain middle-income economy status by 2030. Future sustainable development will require improving human development, addressing the poor infrastructure, investing in the large agricultural sector and as managing risks related to climate change and natural disasters.

## 2. Efforts to Implement the Effectiveness Principles

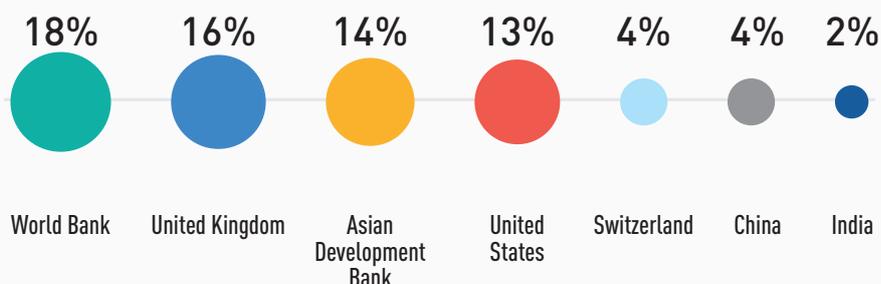
### A. Policies and Tools for Partners' Alignment

Development efforts in Nepal are guided by medium-term periodic plans that are operationalized in sector and local plans with an overarching results framework. Efficient and effective operationalization of local plans are key because of Nepal's being

one of the least urbanized countries in the world, persistent poverty in rural areas and limited access to public services. The government has drafted the approach paper to the Fourteenth Periodic Plan (2017-2020) with a longer-term vision to become

a middle-income country by 2030. This planning exercise will be a key opportunity to localize and internalize the Sustainable Development Goals (SDGs).

#### Major Development Partners of this Round (by Reported Disbursements)



#### Participation in 2014 Monitoring



#### Existence of a National Co-operation Policy

### B. Governance and Management of Development Finance and Co-operation

Development planning and financing fall under the National Planning Commission (NPC), which reports to the National Development Council headed by the prime minister. The implementation of the Plan as well as development financing are monitored by the National Development Action Committee at the national level, ministerial development action committees at the ministry level and district development action committees at the district level. The 2014 Development Co-operation Policy establishes a number of criteria in line with the Global Partnership principles. In addition, the government and partners meet frequently and a high-level Nepal Portfolio Performance Review (NPPR) is held annually. Stakeholders attend regular sector planning and reviews. Nepal has

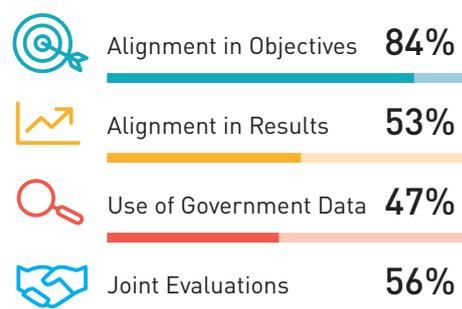
been a close partner of all monitoring rounds since 2008, voicing its distinct needs as a post-conflict country with the clear ambition to enhance the effectiveness of development co-operation. Institutionally, development finance information is managed by the Ministry of Finance through its Aid Management Platform (AMP). Nepal's AMP is comprehensive, capturing not only conventional ODA, but also South-South co-operation finance. In addition, the country has been a member of the International Aid Transparency Initiative (IATI) since 2012. However, challenges remain for the government to adequately capture all finance, particularly in the arena of humanitarian finance, which partners often disburse in less transparent ways.

## 3. Country Ownership

### Indicator 1: Partners' Alignment and Use of Country-Led Results Frameworks

Only 84% of development co-operation reported in 2015 aligned to national objectives and targets included in the Periodic Plan as well as its sector and local operationalization. However, only 53% include country-led results and only 47% use Nepalese monitoring systems. In 56% of planned project evaluations, the government plays a role, mainly by defining the scope. Bilateral development partners

such as Australia, Germany and the United States tend to make limited use of country-led results frameworks. This is especially acute in the large number of emergency and humanitarian interventions following the 2015 earthquake. More needs to be done to ensure quality planning for all external support, which should consistently align to national priorities.

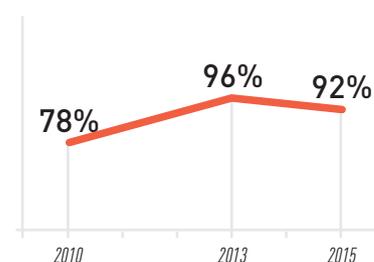


## Indicator 6. Development Co-operation is on Budget (Subject to Parliamentary Scrutiny)

The proportion of development co-operation reported to be on budget remains quite high – above 90% – which is quite satisfactory, given the number of partners engaged in the country. Slight variations might be related to the emergency following the April 2015 earthquake, with a number of key partners slowing down their development-

related activities in benefit of humanitarian assistance (such as the EU institutions, Japan, Norway and the World Bank). In view of strong government ownership, post-disaster development efforts might be again better captured in the next years, enabling Nepal to verge on the 100% ideal target.

### Percentage on Budget



## Indicators 9 and 10. Use of Country Systems

The use of Nepal's country systems was stagnant, with a declining tendency for some procedures. In 2015, 69% of development co-operation used budget execution (versus 75% in 2013) and 70% relied on country financial reporting and auditing (which were 61% and 75%, respectively). Only 43% of development finance used the national procurement system (compared to 60% in 2013). In the meantime, Nepal's

score in the Country Policy and Institutional Assessment (CPIA) improved from 2.5 (2012) to 3.0 (in 2014 and 2015). A recent second PEFA assessment also confirmed progress in national PFM systems. The untying of official development finance remained stable at 86%. Considering the 2015 emergency situation, the results for indicator 9b should be read with caution, as humanitarian assistance often flows outside

the national public financial management (PFM). In this year's round, all partners contributing significant development finance to Nepal use country systems to some extent and are on their way to making greater use in the near future, especially if the CPIA continues to increase from its still rather low current value.

	Budget (ideal: 100%)	Financial Reporting (ideal: 100%)	Auditing (ideal: 100%)	Procurement (ideal: 100%)	CPIA* (maximum: 6)	Untying (ideal: 100%)
<b>INDICATOR 9B.</b>	69% ▼	70% ▲	70% ▼	43% ▼		
<b>INDICATORS 9A &amp; 10.</b>					3.0 ▶	86% ▶

\* Country Policy and Institutional Assessment

## 4. Inclusive Partnerships for Development

### Indicators 2 and 3. Fostering Inclusive Partnerships for Development

Consolidating its democracy and enhancing state capacity, Nepal has generated adequate conditions to enable the full participation of civil society organizations (CSOs) and private sector companies in government-led development processes. CSOs are coordinated under the umbrella of the NGO Federation of Nepal (NFN), which has more than 6,000 often-grassroots and local members who are further organized in thematic networks, such as those on community forest, indigenous people, disabilities and water. However, the mushrooming of CSOs has created too much duplication at the local level. According to the government, the

capacity of social welfare council needs to be strengthened to make CSOs more responsible and accountable. The private sector is represented mainly through the Federation of Nepalese Chambers of Commerce & Industry (FNCCI), which has more than 600 members. CSOs and the private sector are fully recognized by the 2014 Development Co-operation Policy and other legal frameworks. Dialogue structures include the Nepal Development Forum and the Nepal Business Forum. There is an incipient dialogue with development co-operation partners, although non-state actors stress that external partners often lack a clear policy and programmatic

approaches to engage and support them. So far, inclusive partnerships in Nepal are driven by a very vibrant environment of non-state players willing to contribute, a progressive legal and institutional setting, and an ongoing multi-level dialogue at different levels of government, particularly in the local context. Main challenges for the future include further formalization of spaces for dialogue and developing capacities for policy implementation and monitoring on behalf of CSOs, as well as more strategic and programmatic support by external partners to these country-led processes.

### Indicator 8. Gender Empowerment

To plan and track allocations for gender equality, the Government of Nepal uses a gender-responsive budget (GRB) with a three-level code to distinguish the extent of

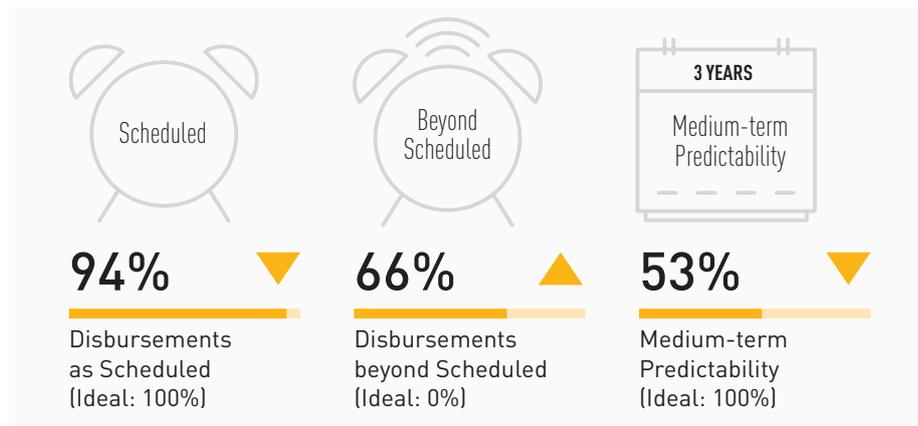
impact on gender equality (direct, indirect or neutral). In addition, the Ministry of Women, Children and Social Welfare has initiated the gender audit of the ministries

that might soon further spur women's empowerment. The GRB in Nepal is one of the internationally renowned initiatives with a well-established allocation mechanism.

## 5. Transparency and Accountability

### Indicator 5. Development Co-operation is More Predictable

In 2015, 94% of development co-operation was disbursed as scheduled in-year, higher by 10 points from 2013, but only 53% was predictable for the next three fiscal years, a considerable drop from 81% in 2013. The existing AMP is an effective tool for predictability and partners have ample margin to improve their use of the AMP to communicate forward spending for the next three years. Apart from the second largest partner (the United Kingdom), especially smaller partners and South-South partners need to improve the predictability of their contributions.



### Indicator 7. Mutual Accountability

The Government of Nepal has set up a multi-level national architecture for effective development co-operation at the national, sector and local levels. Based on the 2014 Development Co-operation Policy, the government and development partners have assumed distinct commitments in order to move towards and ensure a high quality of

development effectiveness. Annual reviews are being done at the operational arena (Nepal Portfolio Performance Review) and frequent review meetings with individual development partners as well as local development partners meeting four times a year. But there might be opportunities for a medium-term assessment on mutual

accountability in 2017. This monitoring round has generated numerous vital lessons for all involved partners as well as a number of areas of particular relevance, such as the options to improve medium-term predictability and to expand the use of country systems and results frameworks.

## National Priorities Going Forward

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The Government of Nepal is committed to the global agenda for effectiveness of official development finance. In line with the Development Co-operation Policy 2014, government-partner co-operation will be further strengthened through regular local partners' meetings, the Nepal Portfolio Performance Review and sectoral meetings. In addition, the Ministry of Finance has already started joint annual project review meetings with individual development partners. The government has mobilized all development finance through the country system. In order to monitor and facilitate the implementation of the development co-operation policy, the High-Level Policy Implementation Committee headed by the Minister of Finance will be more active. The government will work with development partners to minimize the fragmentation of official development finance. Similarly, development partners will be encouraged to submit timely reports about such finance – including about three-year forward spending – to the government through the Aid Management Platform. The government will ensure user-friendly public access to AMP information about official development finance in order to enhance transparency and accountability. The government will study the development financing assessment in order to increase alignment of public and private finance to Nepal's national development plan and the 2030 Agenda. The government will prioritize post-earthquake reconstruction and implementation of a new constitution in the coming years. While mobilizing development co-operation, the government will give due importance to inclusive growth, transparency of development assistance, South-South co-operation, engagement of civil society, gender equality, climate change, disaster mitigation and best results. The government will initiate programmes to minimize possible fiduciary risks and to improve the public financial management system. The government will initiate the establishment of the Project Bank in the Ministry of Finance in order to identify and prepare a list of projects to mobilize development co-operation based on its needs and priorities. As LDCs, including Nepal, need more and more official development assistance to achieve the SDGs, development partners should not only commit to provide significant amount of assistance, but also assist in capacity utilization of partner countries.

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Footnote: Any discrepancies between information in this profile vs. information that has been reported are due to adjustments that were made after conclusion of the monitoring round.

**Disclaimer** This document was prepared based on data collected from voluntary reporting to the Second Monitoring Round of the Global Partnership for Effective Development Co-operation and, for Country Context, other open source information available online. The views presented cannot be used or cited as an official UNDP source of information.

For ease of reference, the term 'country' is used to refer to developing countries and territories that reported to the Monitoring Round. Participation in this process and mention of any participant in this document is without prejudice to the status or international recognition of a given country or territory.