

## PRESENTATION BY AMBASSADOR OF NORWAY/24.1.2002

### MAKING DEVELOPMENT PARTNERSHIP IN NEPAL A MORE EFFECTIVE TOOL FOR POVERTY REDUCTION A BILATERAL RESPONSE

#### 1. The global context

There is a growing global concern about the need to improve the impact of development co-operation on poverty reduction. Agreeing on common goals as well as the establishment of lasting and productive partnership are keys to attaining this. The issue can be addressed through;

- comprehensive national poverty reduction strategies, fully owned by the recipient partner
- improved development partnerships, between government, civil society, private sector, academia etc, and
- harmonised donor practices

The Development Committee (DAC) of OECD has produced a checklist for partnership, with i.a. the following recommendations;

“Donors should encourage recipient partners to formulate their own development strategies – setting out local priorities, plans and instruments for implementing such strategies. This process should systematically involve civil society, as well as consultations with external partners. Where such locally-owned strategies are compatible with internationally agreed goals, donors should work to implement their aid programmes in a co-ordinated manner on the basis of such locally owned strategies and accept their discipline.”

and,

“External partners should agree in principle to adjust more to local procedures, where necessary helping recipient countries to bring their procedures and management capacities up to international standards.”

International priorities and visions for partnership dialogue have been formulated in various UN conferences, synthesised in the OECD strategy “Shaping the 21<sup>st</sup> Century”, including the Millennium Development Goals.

Many countries are now developing their own Poverty Reduction Strategy Paper, PRSP. Broad consultations with various stakeholders in the civil society, non-governmental organisations, private sector, political parties and academia, has become a part of the process of developing a national PRSP. Development partners has encouraged this process and contributed with their own views and positions, bearing in mind the respect for national ownership and solutions. In many Least Developed Countries the PRSP is seen by bilateral and multilateral partners as a basis for a common approach and a basis for more flexible support, including financial support through the budget and debt relief.

Bilateral donors have, through DAC, and in co-operation with multilateral development banks and the UN system, recently approved new "Guidelines on Poverty Reduction". These Guidelines emphasise the need to move from agency-driven to country-led activities, create space for partnership and promote integrated programs and sector-wide support. They also call for improved aid co-ordination by working collaboratively, undertaking joint tasks and combining skills and resources and request partners to promote country leadership and provide resources more flexibly.

As regards harmonisation of operating policies and procedures, developing countries and donor nations have increasingly called on developing agencies and development banks to harmonise their multiple and often differing practices, which burden the administrative capacity of developing countries. The DAC have requested the bilateral and multilateral donor partners, together with the World Bank, to develop an overall framework including time-bound action plan to guide and co-ordinate future work.

**The goal** of this work is to:

- Reduce transaction costs of the development co-operation
- Build recipient capacity

The first stage of this work is now completed. The work groups have carried out stocktaking, compared requirements and identified differences in need of resolution, and donors have begun to collaborate on country diagnostic work. The second ongoing stage implies that the donors are moving to develop common standards or good practice principles at the institutional level. By December 2002 it is expected that significant work on common standards have been developed.

## **2. Review of development partnerships in Nepal**

At the last Nepal Development Forum (April 2000), the Development Partners agreed that they would adopt the following principles in their work:

- collaboration should be a learning process for both the government and their development partners;
- the development partners will steer away from "donor-driven" behaviour and put the government in the "driver's seat"; and
- the government will be the manager of donor co-ordination.

The work by the Government of Nepal (HMG) to produce a Foreign Aid Policy was warmly welcomed by the development partners.

As HMG is preparing the 10<sup>th</sup> Five-Year Plan, there is an increasing focus and sense of urgency on improving the effectiveness of its development efforts aimed at reducing poverty and violence. HMG's declared intention of making the 10<sup>th</sup> Plan its Poverty Reduction Strategy (PRS) underlines the commitment to reinforcing the poverty focus of the development plan. The rise of a Maoist insurgency over the years may also be seen as a reaction against poverty, unemployment, poor public service and corrupt practices in rural areas. There is a collective view among various

stakeholders that there is a need for a renewed and more focussed approach in the development efforts in Nepal, and a more widely owned, inclusive, implementation of national priorities.

HMG is now preparing a poverty reduction strategy, and a medium term expenditure framework to better manage its public expenditure programs. A final draft of the Foreign Aid Policy has also been prepared to redefine the relationship between donors, HMG and other partners in the society. At the upcoming Nepal Development Forum (NDF), HMG plans to make the framework for foreign aid and development partnerships one of the agenda items. Having stressed the need for stronger leadership by HMG and a more satisfactory HMG-donors partnership, donors welcome this evolution. In preparation for this important dialogue, a review of development partnership, as seen by various stakeholders in Nepal, was initiated by the donors.

An Expert Panel, lead by Head of Division, OECD/DAC undertook the review of development partnership from November 18 to December 14, 2001. The main objective of the review and report was to help development partners in Nepal to reflect on their past efforts, particularly the way they worked together, and to make pragmatic suggestions on how to improve the effectiveness of the development assistance. The panel's members assume the full responsibility for the content of the report, and it does not necessarily reflect the views of the donors. The report is enclosed as Annex I.

**According to the report** NGO-representatives, professionals and media are very critical of the dysfunctional relationship between HMG and donors, which they see as a significant component of aid ineffectiveness in Nepal. They argue that aid has generally not delivered the benefits that were hoped for. Many believe that donors have contributed to “failed development” in Nepal. They consider that multilateral development banks set ineffective and unrealistic conditions that undermine development and worsen the conditions for the poor. They also see some bilateral donors as pushing their own commercial interests and believe that over-funding of certain (large) projects, without openness and competition, has contributed to corruption. They argue that the donor community is not sufficiently concerned about the specific circumstances and needs of the poor in rural and isolated areas. There is a strong feeling that donors are not transparent and their reporting and accountability mechanisms are mainly focused on their headquarters' requirements, rarely on the need to inform and also be accountable to Nepali public. Nevertheless, it is not always clear whether civil society is ready to be fully transparent in order to enhance its own credibility and effectiveness.

### **3. Donors response**

In the Nepal Development Forum in Nepal in February 2002, and as a response to the Foreign Aid Policy, it is suggested that donors may agree to work jointly to achieve the following overall objective in Nepal:

***Aid is made a more effective tool for poverty reduction through improved relations between donors, government and society.***

The donors may work together with government and other development partners in Nepal to obtain the following;

***Immediate Objective 1; Aid is focussed on priority needs for poverty reduction***

Output

- 10<sup>th</sup> Plan/PRS provides clear and effective strategies for poverty reduction
- MTEF ensures coherence between financial resources and development priorities
- External assistance is aligned with the 10<sup>th</sup> Plan/PRS/MTEF framework
- A system for review of results and outcome is developed
- Additional and non-governmental resources are encouraged for high priority areas for poverty reduction

Input

Donors may commit themselves to:

- Participate in consultations on the 10<sup>th</sup> Plan/PRS and MTEF, and contribute views and positions in a transparent manner
- Accept the final 10<sup>th</sup> Plan and MTEF as the basic framework for support and review their assistance strategies in light of this framework, and in consultation with the government
- Commit predictable funding over medium term, in a transparent manner
- Consider needs for short term support to areas affected by the insurgency
- Be receptive to the views of various stakeholders on development priorities and the need for change in donor priorities and practices
- Contribute to monitoring the outcome and implementation of the 10<sup>th</sup> Plan/PRS/-MTEF, and the short term interventions
- Contribute to finance the participation of non-governmental organisations, in a transparent manner

***Immediate Objective 2; Waste and ineffective implementation of development programmes is reduced***

Output

- Public sector management improved
- Corruption and mismanagement reduced
- Nepali human resources utilised to a maximum extent wherever available at competitive price and quality
- Result based monitoring and evaluation of aid effectiveness improved

Input

Donors may commit themselves to:

- Consider additional funding through government if effectiveness of implementation is improved and concrete steps taken to reduce the risk of corruption and mismanagement

- Support the devolution of power, resources and responsibilities to districts and the strengthening of local governance
- Take specific steps to eliminate corruption and misuse of funds in donor-funded projects
- Untie the aid to the greatest extent possible
- Assist government in strengthening the capacity for monitoring and evaluation of development programmes in each line ministry, the Ministry of Finance and independent agencies

***Immediate Objective 3; Trust and co-operation between donors, government and society is built***

Output

- Basic rules for development partnership agreed between donors and government, on the basis of the Foreign Aid Policy
- Increased transparency of donor commitments and conditionalities
- Co-operation between donors and government improved
- Larger society involved in development and poverty reduction activities

Input

Donors may commit themselves to:

- Participate in the consultations on the Foreign Aid Policy (FAP) and contribute views and positions in a transparent manner
- Participate in working out basic rules for development partnership based on the FAP
- Consider harmonising procedures in areas such as planning, financial management/reporting/auditing, progress reporting/monitoring/reviews as well as technical assistance, to lessen burden for the government
- Practice full transparency, including making reports on results, progress, accounts and audits on any donor-supported activity easily available to public, including posting of basic information on a web-site
- Consult widely with relevant stakeholders and acquire substantial information on social, economic and environmental implications before entering into agreement for support
- Greater integration of their development assistance efforts and programme activities

***Immediate Objective 4; National ownership of development strategies, priorities and programmes is ensured***

Output

- The 10<sup>th</sup> Plan/PRS and the MTEF is developed after consultations with a wide range of stakeholders
- Government uses 10<sup>th</sup> Plan/PRS and MTEF as framework for requesting and approving donor support

- Government invites donors regularly (quarterly) to meetings for a policy dialogue on the progress of implementing the development agenda, results and obstacles
- Line Ministries develop Sector wide strategies to implement 10<sup>th</sup> Plan/PRS, within the framework of the MTEF
- Line ministries invite relevant donors to discuss sector strategies and policies and the planning and implementation of sector wide activities

#### Input

Donors may commit themselves to:

- Relate to the government and various stakeholders in an open and transparent manner
- Avoid mixed policy messages which are counterproductive
- Establish functional co-ordination mechanism with relevant line ministries
- Participate in the development of sectoral strategies and sector wide approaches and support their implementation in a co-ordinated manner, making support to decentralisation an early priority
- Give time for the development programmes fully owned by the stakeholders