

**Policy Paper  
on  
Governance Reform**

**Nepal Development Forum-2002**

**His Majesty's Government of Nepal  
Kathmandu  
February, 2002**

**Table of Contents**

<b>I. OVERVIEW: ROLE OF FOREIGN AID</b>	<b>1</b>
<b>II. AID PERFORMANCE</b>	<b>2</b>
<b>III. CHANGING CONTEXT OF FOREIGN AID POLICY</b>	<b>4</b>
<b>IV. GUIDING PRINCIPLES AND OBJECTIVES</b>	<b>6</b>
<b>V. EXTERNAL AID PRIORITIES FOR THE SHORT TERM</b>	<b>8</b>
<b>VI. AID PRIORITIES FOR THE LONGER TERM</b>	<b>9</b>
<b>VII. MAJOR POLICIES</b>	<b>10</b>
<b>VIII. MAJOR STRATEGIES</b>	<b>15</b>
<b>IX. MAJOR POLICY INSTRUMENTS AND INSTITUTIONAL FRAMEWORKS</b>	<b>16</b>
<b>X. CONCLUSION</b>	<b>20</b>

## **Governance Reform Policy**

**2058/10/15**

### **1. Introduction**

For a predominantly pluralistic society and an agrarian economy like Nepal, governance reform has been considered a path to economic growth and poverty reduction. A host of policy documents, including the Ninth Five Year Plan (1997-2002), the budget speeches of fiscal years 2001 and 2002, and the reports of the Public Expenditure Review Commission (PERC) and various administrative reform commissions, unanimously stress the need for public management to be more pro-public, efficient, transparent and accountable, with an added emphasis on corrective, preventive, advocative and promotional measures for improving governance at all levels. His Majesty's Government of Nepal (HMG/N) is strongly committed to making public-sector management lean, transparent, competitive, economical, efficient, service-oriented, accountable and more gender-sensitive. Furthermore, it also recognizes the fact that improvement in public-sector management based on the aforementioned attributes would add to the government's credibility by ensuring just and good governance to the people. Nepal's reform attempts of the past have had little positive effect on the economy, which is primarily attributed to a low level of commitment, the lack of a change-friendly and change-oriented bureaucracy, and lack of widespread consultation with stakeholders. Apart from these, the non-existence of a clear-cut delineation of duties and responsibilities between politicians and administrators is also lately recognized as one of the problems of governance.

This paper, within this broad framework, tries to shed light on macro-level governance issues, challenges and prospects focusing mainly on the implementation status of civil service reform of HMG/N. Moreover

throughout the paper, the term 'governance reform' will be used instead of civil service reform. This is simply because the present reform programme of HMG/N includes measures to minimize corruption and incorporates many dimensions of private sector management and civil society involvement in designing and implementing the reform initiatives. Furthermore, the various papers related to decentralization, role of civil society, financial sector management and so forth, prepared by sectoral ministries will cover the other important issues and status of governance, adding complementarity to this paper.

## **2. Major Attempts of the Past: Some Lessons**

Reform is an ongoing process. Between 1952 and 1992, five administrative reform commissions were set up. The principal recommendations made by each of the commissions were valid and important to their times. However in the absence of an appropriate institutional mechanism for managing and implementing needed changes, they could only be partially implemented. The reports of the PERC and the aforementioned commissions recommend an efficient, economical and people-oriented governance system in Nepal. During the period from June 1999 to December 2000, a study on "Preparation of an Action Plan on Civil Service Reforms" was initiated basically to lay the foundation for broader reform efforts. Nepal's reform experience to date has resulted in a number of important lessons learned:

- Since reform to a great extent is a political process, broad-based and continued political commitment needs to be fostered and nurtured in deciding reform priorities and solutions;
- Resistance from such internal stakeholders as bureaucrats and employee unions must be overcome;
- In order to generate a wide range of options and support for reform, external stakeholders like politicians, the private sector, academics, civil society and others must not only be consulted but must also be

given practical opportunities for continued participation. This will provide the stakeholders' perspective to the reform process and help maintain positive pressure on the government for executing the reforms;

- There must be an institutional approach towards implementing the recommendations that recognizes change as a natural part of the reform process. In the past, there has been a lack of such sustainable mechanisms other than the monitoring committees set up to oversee change;
- A change management process must i) be anchored around a reform agenda developed and owned by all stakeholders ii) address central and cross-cutting issues of poor performance iii) improve the general and specific skills needed for new processes and new ways of doing things iv) be implemented by the civil servants and v) be supported and demanded from both within the bureaucracy and by the people at large.

### **3. Recent Reform Performance**

With the foundation made through the "Action Plan on Civil Service Reforms", the Government has recently initiated a comprehensive programme for governance reforms. It is worth-noting that HMG/N, prior to the present reform programme, undertook a number of initiatives. The initiatives included:

- In line with the Civil Service Act and Regulations, the Government has strictly adhered to the provision of not arbitrarily transferring civil servants. However there are exceptions that are made only on the basis of a strong rationale, as demanded by the Act and Regulations.
- A civil servant database has been created at the Civil Servant Records Department in an effort to bring about efficiency and effectiveness in record management. Some 68,000 files have been entered. A circular

has been sent to all concerned agencies to furnish their personnel data to the Civil Servant Records Department. In the subsequent stages of the reform programme, HMG/N will link the data with the payroll and connect the database with principal ministries. The system will incorporate a management information system that will have the ability to respond the queries.

- As part of efforts to rightsize the bureaucracy, HMG/N has abolished 1,045 posts as a result of the revamping of the government's central organizational structure. During fiscal year 2000/01, 2,328 civil servants, mostly from the non-gazetted level, were granted approval for retirement following the introduction of the Voluntary Early Retirement Scheme (VERS). The positions thus vacated have been abolished. HMG/N, in the same way, has not made appointments to more than fifteen thousand vacant positions.
- Permanent staff are being used in development projects instead of temporary and contract personnel. In such an attempt, nine hundred employees from the reserve pool have been transferred to these offices subsequently reducing the number of temporary positions.
- The number of ministries has been reduced from 26 to 21. Likewise, a merger of VAT and Tax Offices has been completed. Some regional offices have been abolished.
- A policy decision has been taken by HMG/N not to pay salary to positions without prior approval of the payroll by the Civil Servant Records Department.
- With a view to making civil-service training more practical and job-oriented, a revised training policy has been promulgated by HMG/N.
- As per HMG/N's bid to standardize jobs and establish a job culture, the Ministry of General Administration (MOGA) has issued a circular to

all secretaries requesting them to prepare job descriptions and depute personnel accordingly.

- A system is in place that requires specific standards be defined and sufficient justification reached, through thorough study and analysis, when creating new positions and new organizations.
- As per HMG/N's effort to perform the regular activities as per the standard procedure, MOGA has prepared three specific manuals pertaining to, the duties, roles, responsibilities, code of conduct and punishment provisions for civil servants; civil servant personnel administration; and promotion system for civil servants. These manuals have been distributed to all principal offices from the centre to the local level. Similarly, financial rules and regulations have been amended to make civil servants more accountable.
- Evaluation criteria for civil service rewards have been developed and subsequently rewards have been announced.
- With regard to HMG/N's goal of having a more gender sensitive civil service, MOGA has issued two specific directives to all ministries - firstly to include women in civil service staff development training activities and secondly to promote a gender-friendly environment in the workplace.

A number of macro-level governance reform measures have also been initiated by HMG/N. They include:

- The Local Self-Governance Act has been promulgated to ensure a decentralized mode of governance enhancing maximum public participation. It aims at strengthening local institutions in terms of financial autonomy, making them directly accountable to the people. This will, in the long run, help achieve the ultimate objective of

establishing local self-governance. Moreover, HMG/N is committed to implementing the Local Self-Governance Act by amending the sectoral acts in order to remove contradictions and overlaps.

- A process is being developed in accordance with the budget speech of fiscal year 2002 to devolve responsibility for primary education, agriculture extension and health-service delivery to local bodies and contracting out of some of the services presently rendered by civil servants to the private sector.
- HMG/N improved and decompressed wage scales with salary increases from 50 to 88 per cent, intended to encourage performance enhancement in the civil service. A long-term pay policy, likewise, is being formulated.
- A review of the Civil Service Act is under way so as to incorporate essential elements of reform innovations.
- A number of government organizations pertaining to aviation, telecommunication, and tourism have been turned into autonomous bodies reducing the size of the government and providing space for those organizations to operate autonomously with commercial underpinnings.
- HMG/N has also presented three anti-corruption related bills to parliament to enhance the anti-corruption legislative framework. This is intended to strengthen the institutionalization process of anti-corruption practices in Nepal.
- A Freedom of Information Bill has been drafted, underscoring HMG/N's commitment to governance reform.

#### **4 Governance Reform Goal, Challenges, Areas, Objectives and Strategy**

4.1 **The Goal of Governance Reform:** The reform would collectively help HMG/N achieve the broader goal of creating a civil service that is result and people-oriented and gender-responsive, thereby resulting in enhanced economic growth and poverty reduction. It can reasonably be assumed that such a civil service will be efficient, accountable, transparent and client-oriented, contributing to a redefined role of the government as a facilitator.

4.2 **Major Challenges** From the reform activities implemented recently, HMG/N has recognized the following five major challenges:

- Management structures and processes at the centre of government are inadequate to lead and support the reform effort,
- Limited efforts to generate fiscal savings constrain pay enhancement and operational expenditures in the recurrent budget,
- Systemic corruption and lack of robust systems and procedures undermine the performance of the bureaucracy,
- Low staff productivity and morale, and
- Limited concern within ministries to deliver better services.

4.3 **Reform Areas:**

A holistic approach to overcome the aforementioned challenges has been adopted by HMG/N. The strict pursuance of the following five major areas of reform intends to resolve these challenges (Annex I):

*4.3.1 Reform Management and Capacity Building:*

Five change units have been set up in order for managing the reform and building capacity to implement sequenced governance reform actions as defined in the Governance Reform Programme (GRP). The change units are;

Governance Reform Coordination Unit (GRCU) at MOGA, Efficiency Unit (EU) at the MOF and three change units in other ministries viz. Ministry of Education and Sports, Ministry of Health, and Ministry of Agriculture and Cooperatives. The core activities of these change units will be launching a leadership development program in key committees and agencies and ensuring that the program is integrated into the regular processes of government operations.

*4.3.2 Improve Overall Efficiency of the Civil Service:*

The reform program aims at generating fiscal savings by rightsizing the government and improving personnel management processes and systems to support enhanced performance and outcomes from the public sector. The activities to be carried out in this area include:

- i. Reviewing the current VERS scheme and applying measures to reduce staffing levels,
- ii. Framing a policy on devolving non-core activities,
- iii. Establishing wage-bill control, and
- iv. Setting up computerized personnel information processes and systems.

*4.3.3 Anti Corruption Measures:*

The program aims at strengthening the legal framework for combating corruption, enforcing its implementation and ensuring the involvement of civil society in the government's anti-corruption efforts.

This will take a number of forms like enhancing the investigative capacity of the personnel, strengthening legal provisions, corporate planning and preparation of various prosecution manuals. A number of actions will be taken on anti-money laundering in terms of awareness

creation, drafting of act, manual preparation and imparting knowledge and skills pertaining to it. To ensure prompt and decisive action against non-compliance, HMG/N will prepare draft legislation that creates a special court for CIAA.

*4.3.4 Enhance Competence and Motivation of Civil Servants:*

Increasing the motivation and improving the skills of civil servants by adopting modern human resources management principles and enhancing pay levels is another key area of the Program. In addition, in order to promote gender balance, special attempts will be made to increase the number of women civil servants and retain them.

*4.3.5 Performance Improvement in Key Ministries:*

The Program envisages to enhancing the service delivery to citizens by reinforcing a new management culture and work processes that are related to performance-based management. The focus will also be to establish the culture and processes related to performance-based management for public-sector entities and demonstrate budget incentives, efficiency dividends and benefits in terms of improved quality of outcomes for participating entities as a platform for further expansion.

**4.4 Implementation Strategy**

It is obvious that the ultimate goal of the reform effort would only be realized over the long term. Sustained external and internal support would be required for this purpose. Since a number of risks and uncertainties impede the successful execution of the reform programme, the following approaches have been adopted to minimize such externalities as far as practicable. Moreover, these approaches constitute the strategic hallmarks of the governance reform programme of HMG/N

#### **4.4.1 Methodological Strategy**

One of the strategic hallmarks of the reform program is the adoption of the process approach as the methodology. In this case, bureaucrats, stakeholders and consultants work together as a team so that appropriate knowledge, skills and attitude would be transferred to bureaucrats. This would enable bureaucrats to support and sustain reform innovations over the long term.

#### **4.4.2 Institutional Strategy**

At the implementation level, as stated earlier, CUs in the pilot ministries i.e., Ministry of Agriculture and Cooperatives (MOAC), Ministry of Education and Sports (MOES) and Ministry of Health (MOH) have been set up. Senior, young and change-oriented civil servants properly man these units. MOGA has established the GRCU as the nucleus of the governance reform implementation group to provide coordination and technical support to the change units. The EU at the MOF has been established to work on the devolution of non-core activities and other means of enhancing the economy and efficiency of government. These five units represent the first level of the institutional framework for implementing the reform measures.

The second tier of the institutional arrangement comprises the Administrative Reforms Committee headed by the Minister for General Administration. This committee beside other things extends supports in the effective implementation of the reform initiatives.

Reform being multidimensional and multisectoral in nature, the ultimate institutional arrangement is the Administration

Reform Coordination and Monitoring Committee (ARCMC) headed by the Prime Minister (Annex II). This committee extends policy, monitoring and guidance support for effective coordination of the resulting implementation of the reforms (Please refer to Annex III).

#### **4.4.3 Operational Strategy**

The operational strategy takes care of the following critical areas of concern:

In view of the low percentage of women in the civil service, utmost care is taken to increase their participation through the introduction of an affirmative action plan.

While adopting and implementing a policy of rightsizing the bureaucracy, the retention of women civil servants will be critically considered.

Gender focal points are assigned to all change units, GRCU, EU and also in Public Service Commission (PSC) with a view to enhancing gender concerns in all components of reform.

Capacity and leadership development of the reform agents is another important strategy. The leadership programme will address the needs for developing the participants as change agents. The participants of this programme would be Ministers and Officials of HMG/N.

Transparency and accountability will be enhanced with the intensive involvement of civil society in every area of the reform. Widespread communication programmes regarding

all major aspects of reform will enhance transparency and accountability.

Given the nature of reform in a developing society like Nepal, a continuous refinement approach, rather than a blueprint approach, is being pursued. As reform itself is an iterative process, continuous refinement is the *modus operandi* of the reform programme.

A pragmatic approach has been adopted in simplifying the reform targets so that the programme will focus on what is doable and achievable.

#### **4.4.4 Participatory Strategy**

People's/stakeholders' participation in the design, refinement and implementation of the changes is pivotal to the success of the programme. Civil society representing every major sector like civil servants, consumers, politicians, unions, NGOs, community-based organizations, the media, professional organizations and others are being involved directly as partners of reform, so that the scope will conform to the needs and capacity of the country. Moreover, this mechanism provides an excellent opportunity to incorporate a purely supply-side and people's perspective to reform. This will also ensure sustained support to the programme.

### **5. Reform Monitoring and Evaluation**

An independent monitoring, reporting and evaluation system will be strengthened through the involvement of civil society. Civil society, taken as the partner of change management, would provide valuable inputs to reform and offer critical feedback on performance. Citizens' Charters

backed by client survey reports are taken as the principal tools. The reform programme intends to involve the stakeholders to the extent that they frame the monitoring and evaluation system.

## **6. Critical Points to Consider**

The most important factor leading to a successful reform programme is political commitment and ownership. The participants/partners of change must internalize the reform, as externally driven change will not induce lasting effect. Moreover during the whole process, the prevailing political and administrative culture supporting or impeding change must be taken into account. Greater attention to critical analysis of the prevailing culture while implementing the reform measures would provide a way to maximize supporting factors and mitigates hindrances. The overall reform programme has been designed through wide consultations and discussions with political parties, including the opposition, civil servants and other stakeholders. However, this part of the process needs continuous vigilance. Moreover as mentioned earlier, continuous internal and external support, especially the donors' support, is necessary for the successful implementation of the reform programme.

Since governance is an economy wide phenomenon, the implementation experience of the present programme will pave a way towards the expansion of the scope of reform covering other important sectors including police and judiciary.

Governance reform itself is a cross cutting issue. Hence support and cooperation from every sector is necessary. Equally important is the positivism and implementation confidence towards this end by every sector.

## **7. Expected Benefits**

Both tangible and intangible benefits are expected to accrue over the years on the basis of sustained effort. The governance reform programme aims

to achieve a right-sized, customer-friendly, better paid and motivated, result-oriented, transparent, efficient and accountable bureaucracy. These attributes would collectively help establish a credible image of the government and the bureaucracy among the people. Moreover, many cascading effects can be achieved after the establishment of a credible environment of governance. This ultimate objective of the reform programme will be achieved with the realization of the following immediate outputs:

- ❑ Capacity building for reform implementation and leadership development of the Ministries and ensuring the commitment of senior civil servants and political leaders;
- ❑ Redefined redundancy and VERS with alternative measures based on provisions of the Civil Service Act and consistent with the fiscal and budgetary framework. This will aim at the retention of efficient and productive staff. This will also take care of the retention of women civil servants.
- ❑ Increase in the number of women civil servants as a result of the implementation of the affirmative action plan.
- ❑ Fiscal savings as an outcome of right sizing and the adoption of various wage bill control measures, especially those concerned with teacher service. Fiscal saving and rightsizing will also be achieved through devolution of non-core functions and decentralization of appropriate functions to village committees.
- ❑ Strengthened legal framework for combating corruption through passing of three anti-corruption bills and the CIAA Act. An anti-money laundering bill and a whistle-blower protection bill will also be approved by Parliament. Training and procedures manuals related to

anti-money laundering efforts and prosecution and investigation would be prepared.

- ❑ Establishment of an Anti-corruption Unit at the Prime Minister's Office to launch a public-awareness campaign.
- ❑ Amendments to the Civil Service Act with a new salary structure, enhanced merit-based recruitment and promotion system and gender friendliness as integral elements.
- ❑ Installation of a fully computerized personnel information system (CPIS) having the ability to respond to managers' queries.
- ❑ Design and implementation of performance-based planning and management processes and systems consistent with best value and best practice with a focus on clients in three pilot ministries.
- ❑ Comprehensive training and mentoring to assist internalization and extension of performance-based planning for concerned units. Moreover, Nepal Administrative Staff College (NASC) will be strengthened and to this end, NASC will conduct tailor made training programmes.
- ❑ Preparation of a succession plan.
- ❑ Estimated government savings of about USD 104.1 in the first four years of the reform programme. Another USD 243.9 million will be saved between the fifth and eighth years. This direct benefit will be realized through the implementation of VERS, abolition of positions through natural and induced attrition, contracting out and devolution, decentralization of functions, management of temporary and contract position, performance improvements and mid-term expenditure

framework (MTEF). Furthermore, the restructuring policy adopted by the government will cut significant amount of expenditure.

- Transparency will also be met on the part of all political parties through the provision of annual audit of funds.

The distribution of rights and duties between the political and bureaucratic levels, specifically those of the Minister and Secretary will be delineated.

#### **8. Expected Outcomes:**

The expected tangible and intangible benefits will impact governance in general and the civil service in particular in a number of ways. The following end results are expected:

- Since reform measures are meant to facilitate the implementation strategy of achieving sustainable high economic growth and poverty reduction, they are targeted to result in improvements in efficiency and economy together with a devolved and decentralized mode of governance. Moreover, local level recruitment systems will be established keeping in view the meeting of the two fold objectives of maintaining regional balance and reducing poverty.
- The role of the government as a facilitator, regulator and assistor will be enhanced with the role reinforcement of major partners and participants of development.
- Efficiency gains in service delivery will be achieved with a total perspective from clients through quality, equity and equality, sufficiency, adequacy and timeliness dimensions of such delivery.
- Greater public resources can be directed to the social sector, as the coverage of private sector will grow primarily because of devolution and decentralization of various functions.

- A result-oriented, people-oriented and gender sensitive civil service will be established with the achievement of a number of civil-service-related outputs like merit-based recruitment and promotion system and market-based salary structure, among others things.
- A clean and accountable government carrying a more credible image among the people will be established.

## **9 Key to Success**

Sustainable political commitment, high morality, willingness to work with due process and respect for law and justice at all levels of political, social and administrative processes are key to the success of the governance reform programme of HMG/N.

## **10 Some New Donor Partnership Opportunities in the Reform Program**

As the government continues to press forward on its program to decentralize much of the service delivery and operational decision-making to local levels, some important areas of change are emerging. It is hoped that the continuing dialogue with our donor partners will result in new and creative relationships in these key areas.

Among such areas of change are –

- i. A greater focus on policy direction, planning, analysis and data management at the central level
- ii. Improvements in the central functions of monitoring and evaluation of service delivery and program management
- iii. Increased financial control and management capacity of the core civil service
- iv. An improved flow of data within and between ministries' headquarters, and from local operations to the centre and *vice versa*, as a basis for more informed management decision-making in government

- v. A more functionally capable cadre of civil servants at the centre and in regional centers to ensure effective and efficient management of government policies, programs, and resources
- vi. A set of effective working relationships and well-defined roles and responsibilities between the central and local civil servants
- vii. Training for civil servants at the local and central level to establish capacity to effectively carry out new roles and responsibilities
- viii. A continued move towards a results-based and performance-management based civil service, including a major attitude shift in current civil servants
- ix. Strong audit functions and institutions increasingly focused on outcomes and results rather than on inputs and adherence to rules and regulations
- x. Strengthened structures at the political and parliamentary levels to ensure that evaluation and audit comments are made public and are acted upon
- xi. Institutional support for the investigation of corruption cases at all levels of government
- xii. Increased participation of civil society in the development of service delivery standards, oversight of the delivery of public services, and the general probity, efficiency and effectiveness of civil servants and politicians.

It is only with a well functioning central governance system in place, that decentralized operations can be expected to function effectively.