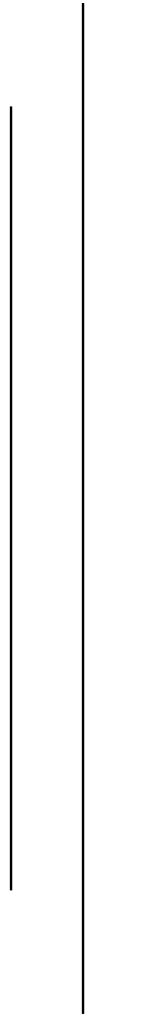


**CONCEPT PAPER ON
PRSP/10th Plan**



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CONCEPT PAPER* ON PRSP/10th Plan

I. INTRODUCTION

A. Context

1. The overriding objective of the development efforts in Nepal is poverty alleviation. Despite some achievements over the past decade, much remains to be done in order to achieve the targets of poverty alleviation. The country is committed to reduce poverty by focusing and prioritizing all policies and programs on poverty alleviation.
2. Poverty incidence has remained high in Nepal. The low and yearly fluctuating agricultural growth rates, inadequate social service delivery, and limited coverage of successful targeted programs are some of the reasons for the continued high incidence of poverty. Political uncertainties, weak institutional capacity and weak public resource management have fuelled its perpetuation. Thus, poverty reduction requires concerted efforts in an integrated and comprehensive manner on all fronts.
3. The PRSP/10th Plan being prepared by the National Planning Commission (NPC) provides a general framework for poverty reduction strategy within which all the stakeholders will act. The Plan will be evolved through a participatory process.

B. Objective, the Time Frame, and Preparation of PRSP/10th Plan

4. The main objective of the PRSP/10th Plan is to identify the much-sought poverty reduction approach in Nepal. The key actions for the approach include policy changes, institutional reforms, and implementing targeted programs and projects. This definitely is not an easy task. Efforts are needed to formulate and implement appropriate strategies that will ensure the sustainability and effectiveness of the medium and long-term development projects.
5. The PRSP/10th Plan includes objectives and strategies for poverty reduction and is supported by medium term expenditure framework which provides three to five years' time bound action plan. Macroeconomic framework and policy matrix to achieve a faster and sustainable economic growth have also been presented.
6. The framework and strategies developed in the PRSP/10th Plan will help donors to develop their respective assistance strategies based on their comparative advantage and resource availability. However, on the other hand, it will discourage donors from producing separate country strategy papers of their own. They will instead be able to pick up the areas of their assistance from the prioritized programs listed in the PRSP/10th Plan.

C. Participation and Consultations for Full PRSP/10th Plan

7. A Steering Committee, chaired by the Vice-chairman of the NPC, is providing the strategic leadership for the preparation of the PRSP/10th Plan. Sub

* This paper is the revised version of I-PRSP, which was made public in July 2001. Major strategies and activities of all the sectors of the economy have been provided in the Approach Paper of the Tenth Plan. Similarly, separate medium-term expenditure framework (MTEF) papers have been prepared for agriculture, irrigation, education, health, drinking water, electricity and roads. MTEF summary paper as well as policy papers on various cross cutting issues have also been prepared and presented. They all have to be taken as a package of the 10th Plan.

committees, chaired by an NPC member each, will coordinate the studies and reports on various sectors of the economy (May 2001).

8. A Task force has been formed in all sectors to workout the details of the Plan. A chief technical consultant is coordinating the activities of the consultants and the various task forces.
9. The past development plans were drawn-up to a large extent centrally and implemented by various public agencies. The full PRSP/10th Plan will mark a deviation from the past by making it as participatory as possible.
10. The PRSP/10th Plan will thus be based on a bottom-up approach. The inputs of the local people in plan preparation process will now be recognized as a critical element in building up of a plan's "ownership". In addition, the process will also help in the diversion of national resources to the projects and programs originating from the local communities.
11. Draft of sectoral studies conducted on the priority areas as well as other chapters will be shared and reviewed in the active participation of all stakeholders, including civil societies, NGOs/INGOs, donor committees and the private sector.
12. Intensive intra-sectoral consultation process will be initiated during the preparation of the PRSP/10th Plan (July 2001–July 2002).
13. The first draft of the PRSP/10th Plan, which will identify priority actions with a view to integrating the government's poverty alleviation strategies into the three-year public investment program, will be presented and discussed in 5 regional workshops to incorporate the views of the local stakeholders. Separate consultation programs will be organized with women, dalits, migrant worker employers' organizations, and trade unions to ensure their active participation, and to address the problems of children (March – April 2002).
14. The final draft of the PRSP/10th Plan will be prepared by incorporating the views of the participants expressed during the discussion on the first draft of the PRSP/10th Plan (April 2002).
15. A National seminar will be organized to finalize the PRSP/10th Plan (May 2002). The programs, projects and priorities outlined in the document will be the basis for the 2002/03 budget.
16. The final version of the PRSP/10th Plan will be adopted by the National Planning Commission and the Cabinet before or immediately after the presentation of the 2002/03 budget.

II. POVERTY SITUATION AND ITS TREND

D. Current State of Poverty in Nepal

17. Poverty in Nepal is widespread with about 38 percent of the population living below the nationally defined poverty line in 1999. However, if the definition of 'US dollar a day' poverty line is applied, which is often used for the purpose of making international comparison of poverty, then the incidence of poverty in Nepal turns out to be 37 percent. Nepal Living Standard Survey, 1996 conducted by the Central Bureau of Statistics, however, estimated the incidence of poverty in Nepal to be about 42 percent (World Bank 1999). Large segments of the poor are hardcore poor barely eking out subsistence living on fragile and vulnerable ecosystems and large areas of the country lack even the most basic infrastructure. There are wide variations based on rural-urban divide, geography, ethnic group and occupational caste.

Table 1: 1995/96 Survey: Poverty Measures for Nepal

(Poverty Line of NRs. 4,404 Per Person Per Annum)

	Head-count Index ¹ (Population below the poverty line)	Poverty-gap Index ¹	Squared-poverty- gap Index ¹
Ecological Zone			
Mountain	0.56 (0.059)	0.185 (0.027)	0.082 (0.015)
Hills	0.41 (0.031)	0.136 (0.014)	0.061 (0.008)
Terai	0.42 (0.025)	0.099 (0.009)	0.034 (0.004)
Sector			
Urban	0.23 (0.058)	0.070 (0.025)	0.028 (0.012)
Rural	0.44 (0.020)	0.125 (0.008)	0.051 (0.004)
National Average	0.42 (0.019)	0.121 (0.008)	0.050 (0.004)

Source: NPC, 1998; World Bank, 1999, *Nepal: Poverty at the Turn of the twenty-first Century*.

¹ Figures in the parentheses are standard errors adjusted for stratification and clustering in the sample.

18. There is a wide variation in poverty incidence across various geographical regions. Poverty is much more severe in the rural areas where a close to 88 per cent of the total population resides. An estimated 44 percent of the rural households and 23 percent of the urban households lie below the poverty line. When we look at poverty incidence by ecological zones, it doesn't vary much between the Hill and *Terai* zones, but is much higher in the Mountain zone. Distribution of poverty incidence across the five development regions indicates that households in the eastern and central development regions are less poor than those compared to other development regions. Further, the rural residents in the remote western part of the country are poorer than from the other rural areas.
19. Table 1 presents poverty incidence, intensity (as measured by poverty gap index) and severity (as measured by squared poverty gap index) by ecological zone and rural, urban sectors based on the NLSS data. Comparing the poverty incidence, intensity and severity by ecological zones, the poverty situation in the Mountain zone is seen to be more, deeper and more severe than that in the Hills and the Terai.

20. It is rather difficult to investigate variation in poverty incidence, if any, across gender, mainly due to insufficient data. Still it is possible to analyze two measures of poverty, namely, the size distribution of male and female in poor households and the poverty incidence of female headed households. NLSS data do not indicate that there are more females than males in poor households. However, some sort of feminization of poverty is evident through the second indicator pointed out above. The same data set suggests that “female-headed households in general, and widow-headed households in particular, are much more likely to be poor if there is no adult male present”.
21. Most of the economic and social indicators have improved in Nepal since the collection of such indicators was started roughly four decades ago. However, as the country started with very low values for such indicators, the current situation is still characterized by low levels of economic and social indicators even by South Asian standards. More than 48 percentage of adult population cannot read or write; only less than half the population have access to safe drinking water; and the country has infant mortality rate of 64 per thousand—all of which are still much lower even by South Asian standards.
22. Human development indicators have improved significantly over the last few years, but the levels are still low. The Human Development Index (HDI) value for Nepal for 1999 (based on 1997 data) was 0.480 indicating a low level of human development.
23. As in the case of income poverty, disparities are seen in social indicators across regions and socio-economic groups. For instance, people in rural areas are twice as more likely to be illiterate than those in urban areas. Illiteracy rates are higher among the disadvantaged groups. The other social indicators such as access to health, education, safe drinking water are lower in rural areas as compared to those in urban areas. Further, these indicators are the lowest in the remote areas (mostly western, mid-western and far-western Hill and Mountain districts).

E. Changes in Poverty over Time

24. Comparing poverty incidences across the various surveys conducted from 1976/77 to 1995/96 is tricky because of the differences in methodology, definitions of welfare criterion and the poverty line. In an effort to address these problems, the World Bank re-calculated poverty estimates by applying the definitions of poverty line, income, and consumption {employed in earlier surveys to the data for 1995/96}. This procedure made it possible to compare poverty incidences for the 1995/96 data with those of earlier surveys. But comparisons between poverty incidences reported in the earlier surveys cannot be made.
25. The comparative results from 1984/85 and 1995/96 data indicate that rural poverty has increased while the urban poverty decreased, although neither of these changes was substantial. Over the same period, rural poverty in the Hills and the Terai showed little change, though both slightly worsened. In the case of urban poverty, the Terai shows a 16.6 percent rise while the Hills show a nearly 45 percent drop.
26. Similarly, comparison between the 1991 survey and the 1995/96 survey indicates that rural poverty has not increased during the period, instead showing that there might have been a slight decline.
27. Poverty trends can be further understood by examining the available indicators of inequality obtained from different surveys.

- i) rural inequality appears to be slightly lower than urban inequality,
 - ii) rural household inequality does not appear to have changed much, but rural per capita inequality has increased, and
 - iii) urban per capita income inequality appears to have increased at a rate faster than the rural per capita income inequality.
28. The country appears to have made significant progress notably in primary education and health. However, as the country started with fairly low values in most of the indicators, namely social, demographic, infrastructure, etc., including health and education, there is still a tremendous scope for progress.

F. Proximate Causes of Poverty

29. It is difficult to determine the causes of poverty in Nepal on the basis of the available surveys and data because different surveys had different scopes, objectives and methodologies. However, an analysis of the relation between growth and poverty in the Asia-Pacific reveals that 1 percent growth in GDP per capita tends to reduce poverty by about 0.83 percent (ESCAP 1999). On the other hand, the relationship between GDP growth and the poverty line defined in terms of US \$ 1 day shows that 1 percentage GDP per capita income growth will reduce the percentage of people living below poverty line by 0.3 percent in South Asia (UNDP 2001). Similar results have been observed from the analysis of the time series data of individual countries. However, it has also been observed that the impact of economic growth on poverty alleviation will be relatively higher during the initial stages of development, when the incidence of poverty is high. As the incidence falls, any further reduction as a result of a given rate of growth is likely to be slower.
30. Over the last one decade, Nepal's economy has been growing at an annual average rate of less than 5 percent, which only marginally exceeds the rate of population growth of 2.27 percent. The growth rate in the agricultural sector over the same period is even smaller, about 3 percent, which has shown a very inconsistent behavior over the years, probably reflecting an overwhelming dependence on the monsoon. The slower rate of agricultural growth is largely responsible for the existing higher poverty incidence and its severity in the rural areas.
31. Agricultural productivity in Nepal has been quite low and decreasing. Examining the data on production of the major food crops from 1985-86 to 1998-99, both production and productivity were found stagnating or only marginally increasing, except for wheat, which showed a modest gain. But over a longer period from 1961-63 to 1991-93, yield actually decreased by 0.07 percent. Among the three ecological regions, the yield levels are lowest in the Mountains followed by the Hills while the Terai has the highest yield. The low returns for the poor from agriculture is mainly due to factors such as smaller size of landholdings, lower share of good quality land, poor share of irrigated land, virtually zero access to technology and insufficient access to rural roads and formal-sector credit.
32. The growth of the non-agricultural sector, estimated to be the major source of growth in recent years generating 60 per cent of the GDP presently, is driven mostly by the growth of the export sector, public investment and the urban services, which grew by about 6.5 percent in the 1990s. It has helped to reduce the incidence of urban poverty, but has not been strong enough to have desirable impact on the rural poor. A host of measures is essential to strengthen and encourage more active participation of private sector in the

areas including legal and regulatory framework, institutions and enforcement capacity and banking and financial governance.

33. While growth is relatively easy to define and quantify, the concept of poverty is multidimensional and complex to analyze. Measurements of poverty based on income and expenditure is clearly inadequate. The concept needs to be broadened to include social services such as education and health. Therefore, deprivation and poverty is not just due to lack of income but also due to lack of access to social sectors like education, health, safe drinking water, sanitation facilities and other services. Availability of such social services not only determines the standard of living, but also influences the income earning capacity of individuals.
34. Human development indicators have improved remarkably at least during the last decade, but the current situation is still characterized by low levels of social development. Infant mortality (per 1,000) and maternal mortality ratio (per 100,000) are 64 and 439 respectively. Similarly, the adult literacy rate is about 52 percent and net primary school enrolment about 71 percent.
35. Girls and women are discriminated against in most of the activities and their roles curtailed at the lower levels. Studies have revealed that empowering women will have several benefits to society. Infant mortality and child malnutrition as well as the rate of population growth will slow down as women get more educated.
36. The level of social development in Nepal is low even by South Asian standards. Lower level of social development and differences in human development indices among different geographical regions and socio-economic groups have had a severe impact on the existing inequality in Nepal. Inadequate social service delivery is seen to be one of the primary reasons for the poor to remain poor in the rural areas.
37. The key social and economic infrastructure such as health, education, drinking water and energy show the following general characteristics: (a) the poor in general have less access to social services; (b) except for access to primary schools no other services are comparable; and (c) even in the primary schools, accessibility, enrollment rate, dropout rate, etc., are significantly worse off in rural areas.
38. High population growth is one of the reasons for low per capita income growth. Although the population growth rate has declined, it is still high at 2.27 per cent. Proper strategies must be developed to contain the rate of population growth.
39. Internal efficiency of social service delivery is poor in Nepal. Dropout rates and failure rates are high in public schools. Only about 18% of the primary school children complete the primary cycle on time. The situation is similar in the secondary and high schools. Approximately 60% of primary school teachers are still untrained. School supervision system is weak and non-wage expenditure in education is extremely low. Similarly, the quality of health services at the rural health institutions is either unavailable or very poor mainly due to the absence of health personnel and medical supplies.
40. Public investment has played a key role in raising growth and addressing poverty incidence in most of the countries. In Nepal, public expenditure is suffering from weak prioritization, inadequate project screening and weak monitoring and supervision. Increased public expenditure in rural areas has not made much impact in reducing rural poverty.

41. Despite significant growth in the budget in the social sectors including health and education, the per capita expenditure in these sectors is low as compared to most of the developing countries and the investment has to be made more equitable. More than 40 percent of the education sector's budget goes to secondary and tertiary education and almost 30 percent of the public expenditure in health is allocated in sectors other than primary health care system. Cost recovery is low and proper targeting has remained poor.
42. Governance issues have been a major factor affecting the poverty through policies and programs. Managing public bureaucracy, promoting public-private investment mix in the development process, strengthening the rule of law, ensuring accountability and transparency, promoting and strengthening independent judiciary, building institutions and empowering people are some of the factors required to enhance governance.
43. Political stability and governance have remained weak in the country. Since the mid-term election of November 1994 to the general election of May-June 1999, there have been six coalition governments with an average tenure of 9 months. Political instability and weak public bureaucracy have promoted unaccountability thus constraining better management of the economy. Institutional capability of the administrative system has also weakened.
44. A number of programs and projects have been initiated and implemented for the disadvantaged groups of the society. However, evaluation of various targeted programs shows that more than 2/5th of the budget do not go to the targeted population. Disparity between the social indicators for the poor and disadvantaged groups and the better-off segments of the society is great. Communities belonging to minority groups and backward castes and those living in geographically disadvantaged regions fare worse than the rest of the population. The leakage in targeted programs has to be checked.
45. Roads, electricity and communication services benefit the poor in many ways. They enable rural people to get access to basic services like education, health, services, market and information. Availability of these services plays an important role in enhancing agricultural incomes. Despite significant improvements in the infrastructure development, the total constructed road is only 93 km per thousand sq. km. Penetration of telephone is 11 per thousand and the population covered by electricity is only 17 percent.

III. GOVERNMENT EFFORTS FOR POVERTY REDUCTION

G. Planning for Poverty Reduction

46. Poverty has always been an overriding concern of the planned efforts for development. However, it was explicitly stated as an objective only since the Sixth Plan in 1980. The first attempt to formulate a separate plan with long term perspective for poverty alleviation was made during the Seventh Plan period (1985-90). Over ambitious as it was, it was later abandoned in the ensuing political upheavals. The Eighth (1992-97) and Ninth (1997- 2002) plans, formulated and implemented after the political change, have poverty reduction as the main objective. Unlike the previous plans, the Ninth Plan has established long-term targets on different development indicators for all sectors based on their potential for alleviating poverty.
47. The Ninth Plan (1997-2002) has aimed at bringing down the incidence of poverty from 42 percent to 32 percent by the end of the Plan period. The long-term vision is to reduce poverty incidence down to 10 percent within the next two decades. Over and above the 'income poverty' target, several other indicators representing 'human poverty' - such as illiteracy, infant mortality rate, maternal mortality rate, average life expectancy at birth - have been identified, and targets have also been set.

H. Economic Reform and Growth

48. Nepal initiated a massive economic reform program in 1991 after the restoration of multi-party democracy in 1990. The reform measures have since covered almost all sectors of the economy including trade and investment, fiscal and monetary policies, financial and capital markets and other economic and social sectors. Policy changes, so far, have affected the non-agricultural sector positively, but the reforms did not have any positive impact on the agricultural sector.
49. Real GDP grew by an average rate of 4.8 percent in the 1992-2000 period as compared to 4.6 percent witnessed during the 1982-1991 period. The growth of non-agricultural sector was 6.5 percent in the 1990s compared to 5.0 percent in the 1980s. The higher growth rate was derived from the industrial, trade, tourism, transport, communication, finance and social sectors. Liberal and deregulated policies positively affected the industrial sector's growth rate. The manufacturing sector's growth rate increased from an average annual growth rate of 6.6% in the pre-liberalization period to almost 10 percent in the post-liberalization period.
50. However, on the other hand, the agricultural sector's growth was only 2.5 percent during the 1990s compared to 4.0 percent in the 1980s. High dependence on agriculture and lower than expected growth in this sector in the 1990s adversely affected the goal of poverty reduction in the country.
51. As an attempt to achieve a broad-based pro-poor growth, the agriculture sector is given top priority during the Ninth Plan. The Plan has set the target of achieving a minimum of 6 percent annual GDP growth rate during the Plan period. The target is to bring down the NLSS defined rate of unemployment to 4 percent and underemployment to 35 percent respectively. These targets are to be achieved by promoting sectoral programs as well as specific employment-generation programs.

52. Employment creation is expected to come mainly from sectoral programs - in both agriculture and non-agriculture sectors. In the non-agricultural sector, the main emphasis has been placed on developing tourism, expanding the labor-intensive manufacturing sector, hydropower development and expansion of transportation and communication network and activities.
53. The Ninth Plan also focused its strategy on agricultural growth. The Agriculture Perspective Plan (APP), formulated in 1995 with a twenty-year time horizon, aims at raising the annual agriculture growth rate from less than 3 percent in the preceding two decades to 4 percent during the Ninth Plan period, and then to 5 percent during the plan implementation period. The strategy for the hills and mountains, on the other hand, is devoted to livestock products and other high-value crops, the demand for which is expected to come partly from a more prosperous Terai and partly from the export markets. The hills and mountains have a comparative advantage in these products.
54. The APP lays special emphasis on increasing the use of modern inputs, such as chemical fertilizer, whose consumption, however, declined during last two years. There is an allegation that the private sector is engaged in supplying low graded fertilizer. Subsidy in chemical fertilizer and groundwater irrigation has been completely abolished. The formal credit flow in the rural areas has been inadequate. These constraints have adversely affected the utilization of modern inputs.
55. The Ninth Plan recognizes that growth itself is not sufficient for poverty reduction. It has to be 'growth with equity' or 'pro-poor growth' to ensure an active participation of the poor in the country's development process.

I. Macroeconomic Stability

56. The economic reform process has given high importance to *achieve* macroeconomic stability. Fiscal deficit was brought down from an average of 7.7 percent of GDP during pre-liberalization period to 5.8 percent in 1999. The lower deficit was achieved mainly by a tight expenditure policy. Development expenditure rose significantly for the first few years after the initiation of reform program mainly due to higher revenue mobilization. In the second half of 1990s, however, fiscal balance was maintained but the growth rate of development expenditure started declining. Rate of revenue mobilization was also lower during the second half of 1990s.
57. The post-liberalization* period saw improvements in savings and investment rates too. The average savings rate improved from 10.5 percent of the GDP in 1980s to 13.8 percent in 1990s. Liberalization of the financial and capital market acted as an impetus for the growth in savings. In addition, higher growth rates especially in non-agricultural sector contributed in improving the savings rate. Similarly, the average investment-GDP ratio increased, but the savings and investment gap also widened slightly during the post-liberalization period.

J. Financial Sector

58. Financial sector reforms have also been carried out to support trade and industrial reforms. Administered Interest rates were deregulated and joint-venture banks and finance companies were allowed to open-up. Nepal also introduced current account convertibility. The overvalued Nepalese currency

* The period beginning from fiscal year 1991/92 has been considered as the post-liberalization period.

- was also corrected to improve export competitiveness of the trade and industrial sector.
59. During the 1990s, the growth rate of narrow money supply was about 15.4 percent. In some years, flow of large amount of domestic credit to the government from the banking sector became a reason for high monetary expansion; while in other years, increase in net foreign assets resulted in the higher rate of money supply. However, whatever was the reason for monetary expansion, it was under control, and that helped in maintaining internal and external stability.
 60. However, the financial sector in Nepal is in a critical stage when viewed not only from the perspective of macroeconomic stability, but also from poverty and unemployment. The main problem of the banking system is inefficiency, which has resulted in high spread rates and increasing non-performing assets. Financial problems, which can also bring currency crisis, could result in devaluation, higher inflation, and significant loss in output. As a result, unemployment and poverty may increase. The cost of restructuring of the financial crisis could be high. Competitive and efficient financial intermediation system reduces cost of capital, leads to efficient utilization of resources, and supports sustainable growth and reduces poverty.
 61. In order to direct the credit to rural areas, particularly to the poor and women in focused way, micro credit schemes are being promoted. Grameen Banks and the Rural Micro Credit Development Center are the efforts towards institutionalizing the micro credit provision in the rural areas. Besides, there is an obligatory provision for the commercial banks to lend to priority sectors. In addition, several other NGOs, with the approval of the concerned authorities, are providing services in extending micro credit. The recently instituted Poverty Alleviation Fund (PAF) is another effort to channel the credit to rural areas for diverse purposes. The PAF aims at coordinating all poverty reduction programs and help flow the credit to rural areas through Local Trust Fund at the VDC level. The Local Trust Fund consists of matching contribution from DDC and participating VDCs, and some seed money from the Project.
 62. Micro credit is an important mechanism to reach out to the poor and meet their credit needs. In the present context, it has various forms (a) Small Farmers Development Program implemented by Agriculture Development Bank. (b) Grameen (Rural) Banks and their replicators (c) Priority sector lending operation by Commercial Banks, and (d) Independent savings and credit groups by various development programs including Participatory District Development Program and Local Governance Program of UNDP.
 63. Social mobilization is at the core of credit disbursement. It has been established through a few innovative approaches that social capital building is a key to make poverty reduction programs sustainable.
 64. The exchange rate of Nepalese rupees with the Indian currency has been kept fixed and has remained unchanged since 1992. It is argued that the fixed exchange rate with the Indian currency helps in lowering the fluctuation in the price level of the Indian products. As the consumption basket of Nepalese poor consists of items mostly imported from India, it is assumed that the fixed rate regime will help them as well.
 65. Despite reforms in the financial sector, regulatory and oversight functions of the central bank is still weak, the performance of state owned banks have deteriorated and legislative and institutional framework is inadequate.

66. The government has initiated a program for improving governance, transparency, and accountability in the corporate and financial sector. The program includes upgrading the legal and regulatory framework and standards, strengthening of institutions and service delivery in the financial sector, and preparing for the restructuring and development of selected financial intermediaries.

K. Trade, Investment, and Industrial Policy

67. The import substitution trade strategy gave way to export oriented strategy gradually through different measures. The import licensing system and quantitative restrictions were eliminated and tariff rates and structure were reduced significantly and rationalized to make the trade sector competitive. Additional measures initiated to promote international trade includes the introduction of a bonded warehouse, duty-drawback scheme, the initiation of the multi-modal facility (dry port) and an export processing zone.
68. Nepal's trade reform program was complemented by a new bilateral trade-treaty signed with India in 1996. The treaty allows Nepal to export manufactured products to India free of customs duty and quantitative restrictions. The treaty has helped to increase Nepal's exports to India significantly.
69. The reform measures in the real sector are primarily aimed at promoting competition and investment in the private sector. Major reform measures in this respect are: privatization of public enterprises and entry of private sector in health and education, imports and distribution of chemical fertilizer, infrastructure development, hydropower development, and aviation services.
70. Similarly, in order to improve the environment for investment, the Industrial Enterprise Act (1992), the Transfer of Technology Act (1992) and their amendments were enacted in line with the open, liberal and market-oriented policy. These acts have further improved investment incentives.
71. These reforms have expanded trade and investment significantly. Nepal's trade-GDP ratio, which was stagnant at 5 percent of the GDP during the late 1980s, increased to 13.5 percent in 2000. Export diversification to a certain extent, in products as well as markets have also been achieved during 1990s. Altogether 39 countries have invested Rs 71.23 billion for 649 projects since Nepal opted for liberal economic policies in the early 1990s.

L. Public Expenditure

72. Government income and expenditure policies are important for growth and equity. Apart from pursuing a fiscal policy that fulfils the overall macro objectives, the government also incurs substantial expenditures that are helpful in alleviating poverty.
73. Government revenue, which grew at an average annual rate of 21.6 percent during 1991-95, slowed down in the late 1990s. Revenue-GDP ratio has remained in the range of 11.2-12.0 percent between 1995 and 2000. Prudent fiscal policy has helped to reduce fiscal deficit in 1990s.
74. The development expenditures have stagnant over the last few years, mainly due to slower growth rate of revenues, increased current expenditures and reduced foreign assistance in real terms. On the other hand, the number of projects and programs has risen. These factors have reduced budget allocation per project significantly in real terms. In addition, institutional capacity for

screening, monitoring, supervision and regulation has weakened. As a result project completion rate has gone down.

75. One major question is to what extent government expenditure in Nepal has helped in alleviating poverty. This is a difficult question to answer. But evidence suggests that efficient and effective rural expenditures can significantly reduce poverty.

M. Expenditures on Social Sectors and Infrastructure Development

76. The share of public expenditure on social sectors has gone up from 22 percent in 1992 to 36 percent in 2000. It is heartening to note that the increasing social spending ratio is reflected in rising per capita spending as well - nearly 33 percent within a span of just four years. Per capita social expenditure has gone up from US \$ 9.09 in 1992/93 to US \$ 11.90 in 1997/98. Per capita expenditure on social priority sectors increased marginally from US \$ 5.20 in 1994/95 to US \$ 5.46 in 1998/99.
77. The private sector's involvement in education and health sectors increased rapidly in the 1990s. The share of primary and secondary enrolment in private schools rose to 8 and 23 percent respectively in the late 1990s from almost nothing in the early years of the same decade. Similarly, the involvement of the private sector in providing health services has been increasing rapidly.
78. On the whole, the response of the Government of Nepal to the '20/20' initiative in social sector development should be considered satisfactory and encouraging. An increasing share of social and social priority sectors are reflected in rising per capita expenditures as well. However, further progress towards this direction will largely depend upon (i) the level of foreign assistance, (ii) domestic resource mobilization, and (iii) the government's sectoral priority setting and its program structure.
79. As for foreign assistance, the broad trend is similar to the one discussed above for overall public expenditure. However, the share of foreign assistance going to social priority sectors has shown a declining trend in recent years. The major share of total aid disbursement has gone to infrastructure, followed closely by agriculture.
80. The government's priority together with the increasing involvement of the private sector and NGO/INGOs helped to improve the human development indicators of the country. Literacy rate increased from 40 percent in 1991 to 52 percent in 2001. Infant mortality declined and average life expectancy increased significantly. The improvement in Nepal's human development index, according to UNDP's Human Development Report, was one of the most remarkable among the developing countries in the 1990s.
81. Significant progress has also been observed in the infrastructure development of the country. The total length of road reached almost 14 thousand km in 2000. Similarly, significant improvements have been made in the communication and electricity sector.
82. Despite significant improvements in social development indicators, the quality of public schools, which are the only avenues available for poor people, is consistently low at all levels and access for the poor is also constrained by a number of socio-economic factors. Dropout rates and failure rates are high in public schools. Less than 18% of the primary school children complete the primary cycle on time. The situation is similar in the secondary and high

schools. Approximately 60% of primary school teachers are still untrained. This shows that internal efficiency of education is low.

83. Similarly, composition of the public expenditure in the health sector shows that there has been a sharp reduction in the share of budget allocations for primary health. This indicates that allocations are biased more towards hospitals as against primary care and towards curative as against preventive interventions. Public health services are of poor quality. Staff vacancies and absenteeism are serious problems in rural public health institutions.
84. Despite significant development of infrastructure, 14 district headquarters out of 75 districts are still not connected with road networks. Total constructed road is only 93 km per thousand square km in area. Similarly, penetration of telephone and electricity is low in the country. Many roads are still constructed without completing feasibility studies. This has resulted in low return from road construction. Sustainability and maintenance of the constructed road are still major problems in this sector.
85. Resource allocated to targeted programs including local development has increased rapidly in the 1990s. The impact of these programs in poverty allocation has been mixed; only a small portion of fund has reached the poor and disadvantaged groups in the community. Project design and monitoring have remained weak in this sector.

N. Poverty Alleviation Fund

86. Since the early 1990s, various targeted and sectoral poverty alleviation programs have been implemented in the country. However, a majority of these programs, which were mostly centrally planned and implemented, ignored community preferences and their potential contribution and thus was mostly unsustainable. Furthermore, due to the lack of coordination, and particularly in the absence of monitoring and evaluation mechanism, these programs do not appear to be as effective as planned. In this context, HMG has established a Poverty Alleviation Fund (PAF) to strengthen, coordinate, support and monitor targeted activities directed towards meeting the goal of poverty reduction.
87. The main objective of the PAF is to strengthen and support targeted programs by adopting a coordinated and integrated approach to achieve effective and sustainable reduction in poverty. Especially, it aims to contribute towards providing necessary safety nets to the vast majority of poor.
88. The PAF is an umbrella Fund, not itself an implementing agency, which mobilizes resources available from the government and donor communities for launching poverty reduction programs in an integrated and coordinated manner. It aims to integrate targeted but scattered poverty reduction programs of similar nature within one umbrella without disturbing the anti-poverty spirit of the programs. As an autonomous organization, the PAF envisages to expand the coverage of the anti-poverty sectoral and targeted programs by promoting and acquiring support of the actors close to the grass-root communities - local agencies, NGOs and CBOs. The Fund will be established on the basis of demand-led principles focusing mainly on social mobilization programs including demanded micro-infrastructure and credit programs. It supports the local agencies and the NGOs/CBOs on a sustainable manner by allocating the funding on a competitive basis through systematic and transparent selection of the best performing actors.
89. As for the institutional arrangement of the PAF, the government has envisaged to establish it under a Special Act to guarantee autonomy to the PAF Board.

This provision will allow the PAF to function independently, with no interference from the government in its day-to-day activities. Moreover, in conjunction with the establishment of the Fund, it is envisaged that a system for ensuring monitoring, reporting and accountability on the use of funds at the central level will also be created. The PAF will also be fully integrated into the budget process. The Fund will be exclusively responsive to the needs of the poor. It will operate as a body for mobilizing resources - both internal and external - concentrating more on prioritized poverty alleviation efforts and vulnerable groups for a larger impact.

O. Program Management, Monitoring, and Evaluation

90. Poverty alleviation is the sole objective of the Ninth Plan. Taking agriculture as the lead sector, an attempt has been made to orient all the policies and programs of all the sectors towards this direction. However, orientation and integration of these programs towards the goal of poverty alleviation have been weak and limited. Evaluations of various poverty related programs are not done regularly.
91. In short, the existing mechanism at the central level for monitoring the status of poverty, for evaluating policies and programs to determine their successes and failures, and for undertaking the necessary corrective actions have remained weak.

P. Legal Aspects

92. Legal measures to ensure a competitive market set-up, and stop monopolistic and oligopolistic tendencies are yet to take its full form. The role of civil societies including that of consumer societies in monitoring the performance of the private sector and taking some legal actions, if necessary, has not yet been established. The elaborate system of institutions responsible for watching and monitoring the performance of various actors of the economy and legal framework to make them strong and effective is yet to take shape. It is indicated earlier that there are legal lacuna with regards to bankruptcy, contract and labor. Likewise, the provision of land ceiling is too restrictive for other commercial and industrial uses.
93. There is a growing concern that enforcement agencies are inadequate and poorly equipped – all in terms of the legal, authority-wise and facility-wise. The authority and performance of the Commission for the Investigation of Abuse of Authority is being debated. The government is coming up with new Acts and action programs in this area.
94. The need for legal framework for the purpose of regulating and monitoring and at the same time ensuring competitive set-up has been realized strongly. In this context, property rights and enforcement of contracts must be protected. The government is committed to reforms in these areas. Works are in progress to review the present land ownership and record system. Experiments with computerization of land records are being assessed for their wider introduction throughout the country.

IV. FINDINGS OF THE PUBLIC CONSULTATIONS

95. Poverty reduction strategy development has been an evolving process learning from the past lessons, findings of different surveys, and discussions and interactions with people and people's representatives. As a part of the building of PRSP/10th Plan, public consultations with secondary level stakeholders are being made. In preparing, I-PRSP altogether five public consultations were held - three at the DDC level, and two others for women participants.
96. The participants have defined poverty in several ways. On the whole, their definitions mainly include three elements: (a) inadequacy of food and clothes, (b) no access to education and health facilities, and (c) poor access to economic resources including skills. The poor/poor groups identified by the participants range from the lower to few pockets of high caste people, landless and small farmers, and indigene. Some poor groups/castes are region specific, and some are common in the country. The lower caste groups are common to all the regions.
97. Their analysis of causes of poverty is comprehensive. They see problems in unstable government, absence of strong commitment in the political parties, political influence on resource allocation leading to thin resource allocation, lack of ownership and participation of local people in projects, mismanagement of resources etc. Likewise, problems are observed in inaccessibility in remote areas, unequal land distribution, land fragmentation, lack of access to economic resources, absence of modernization of agriculture, and lack of market for agriculture production. They see a need for augmenting economic growth and employment opportunities for poverty reduction. In this context, they are also equally emphatic upon reducing population growth, increasing the access and quality of social services, and curbing child labor. They also see a need for changing the attitude towards work, and promoting gender equality. They are found to be emphatic towards the need for greater roles to local government institutions. They see the passive roles given to these institutions as one of the major reasons for failing to achieve the desired results in poverty reduction particularly in relation to targeted programs. They are of the opinion that the local government agencies are in a better position to identify the poor, and reach to them.
98. The recommendations that emerge from these public consultations include empowering and strengthening local government institutions, modernizing and commercializing agriculture, promoting basic and technical education, and providing basic health and drinking water facilities. They also recommend for strong measures for improving bureaucracy, and reducing corruption.

V. STRATEGIC PLANNING FOR POVERTY REDUCTION

Context

99. The 10th Plan is being prepared and will be launched in a very difficult time. GDP is projected to increase only by 2.5 percent in FY 2001/02, which is also the base year for the 10th Plan. The lower growth rate projection is mainly due to lower agricultural growth caused by bad weather conditions, domestic disturbances and lower external demand following the events of September 11.
100. Events of September 11 reduced Nepal's exports and tourism growth significantly. Export in the first 4 months of the current FY 2001/02, as for example, has declined by more than 8 percent and arrival of tourist declined by 22 percent in 2001.
101. Maoists have created a highly insecure situation in the country. Insecurity has greatly restricted access to social services and disrupted economic activities. Programs of poverty alleviation have been adversely affected by these events.
102. As security is a prerequisite to an enabling environment necessary for improving the socio-economic status especially of the poor people, the government has beefed up security services in the country. To meet the cost of security, the government is forced to curtail development expenditures.
103. These events have challenged the fiscal discipline of the country. Revenue growth rate is expected to slow down to 6-7 percent in FY 2001/02 compared to the growth rate of 14 percent in the last fiscal year. On the other hand, the regular expenditure will have a whopping surge of about 27 percent leaving virtually no revenue surplus for development activities. This will reduce government's ability even to provide counterpart fund for donor-funded projects and programs in the country. Therefore the program and strategy formulation, priority and target setting and resource allocation and utilization have to be done carefully.
104. Nepal's objective for the next 5 years is to achieve broad-based, pro-poor growth rate of about 6.2 percent per annum. (Table 2). This can be achieved by focussing on the reform agenda aimed at addressing the constraints on both agricultural as well as non-agricultural growth to reduce poverty. The major strategies and plan of action for achieving the goal of poverty alleviation have been provided in the policies and programs outlined below and in the policy matrix in Annex1.

Q. Macroeconomic Framework

Table 2 : Nepal Real GDP Growth Rates and Macroeconomic Framework

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
GDP (% change)	4.5	6.2	5.1**	2.5**	6.2**	6.2**
Agricultural GDP (% change)	2.7	5.0	4.0	1.5	4.1	4.1
Non-agricultural GDP (% change)	5.7	6.9	5.9	3.2	7.3	7.4
Fiscal Deficit* (after grants)	5.2	4.7	5.6	6.3	5.2	5.0
Revenue*	11.3	11.8	12.1	12.1	12.1	12.4
National Savings*@	17.8	19.3	20.1	20.3	20.5	20.7
Investment* @	20.5	23.7	25.6	27.0	27.4	27.6
Inflation (% change)	11.4	3.4	2.4	5.0	5.0	5.0

* *Percent of GDP*

** *Estimated and projections.*

@ *These numbers may not tally with other publications, because of different methodology used (Source: CBS).*

105. In any case, the sources of growth will be higher agricultural growth, better tourism, trade and industrial policies, and improved public resource management. Creating a better environment for the private sector development, including macroeconomic stability, is expected to help in the acceleration of private sector investment in the country. Improved irrigation facilities, increased supply of chemical fertilizer and rural credit, expansion of rural roads and increased public resources allocation in agricultural sector is expected to increase agriculture production by 4.1 percent per annum. Enhanced economic environment for private sector can raise non-agricultural sector growth to 7.3 percent per annum.
106. The economic reform process in Nepal has been important in achieving macroeconomic stability. Macroeconomic indicators have improved significantly in Nepal in the 1990s. However, the recent external crisis as well as the continuing insecurity and disturbances in the country has posed challenges to macroeconomic situation of the country.
107. The revenue ratio, which has shown some improvement in the last 2 years, is not expected to perform well in the near future despite government's efforts to strengthen tax administration, tax reform program and widening of the tax net. Efforts will also be made to keep annual inflation at around 5 percent. Financial sector reform is expected to impact positively the savings and investment, reduce the cost of capital and improve the environment for private investment.

R. Pillars of Poverty Reduction Strategy

108. While economic growth and macroeconomic stability are necessary conditions for poverty reduction, it is a multidimensional issue. Economic growth must be high and broad-based. Quality of life of the poor has to be enhanced by providing basic health and education services. Similarly, disadvantaged, isolated and marginalized people should be given special attention with an objective of bringing them above the poverty line. Implementation of programs and strategies can have desired outcome only if accountability and transparency of public actions are enhanced and service delivery to poor is made effective. These are the dimensions of poverty eradication and

conditions for it. For these reasons, the 10th Plan will be structured around the following four overarching goals:

- Broad based high economic growth,
- Social sector development,
- Targeted programs for the backward and vulnerable groups and safety nets, and
- Good governance.

S. Broad-Based Economic Growth

109. Experiences of Nepal and other countries show positive impact of growth on poverty alleviation. Growth that improves the income distribution appears to further reinforce the positive impact of growth on poverty. In this context, a development strategy that provides benefits, which can be spread across all income groups including the poor segments of society, will have two major components. First, as more than three-fourth of the population are engaged in agriculture, agriculture must be targeted to grow by at least 4-5 percent; and second, private sector led growth must be further emphasized.
110. To increase the growth rate of agricultural production the strategy will focus on (i) increased investment (both private and public sector), (ii) streamlining the public expenditure in line with the APP investment plan, and (iii) improved modality of implementation by emphasizing polycentric institutional arrangement. Improved modality, among other things, also refers to the greater involvement of the private sector/NGOs even in the existing programs that is being executed by the government.
111. The agriculture related programs have been designed to:
- (i) increase agriculture production, productivity, and incomes for ensuring food security,
 - (ii) develop and adopt demand based technology, and
 - (iii) expand income and employment generating activities for marginal and landless agriculture workers.
- Livestock, horticulture and specific crop suitable to various agro-climatic zones will be developed and marketing facilities will be improved in the hilly areas. In order to successfully implement the APP, strong emphasis will be given to the package programs on fertilizer, irrigation, technology, rural agricultural roads, electricity and market access.
112. The main elements of the irrigation sector objective include expansion of year round irrigation by developing new irrigation system in line with the agricultural policy as defined by the APP and by emphasizing operation, maintenance and rehabilitation of the existing irrigation system.
113. The development of the forestry sector which is the backbone for the agriculture sector especially in raising livestock, making compost fertilizer, in conserving herbs and fodder plants will also be emphasized. It also gives support to irrigation and electricity projects by conserving watershed areas and ground water resources
114. Nepal's economy, especially trade, tourism and industrial regime, is quite liberal. However, the size of the private sector is small, inefficient and lacks

competitiveness. The country needs to expand the output capacity and improve the competitiveness of the private sector through appropriate measures. Therefore, to enhance the environment for private sector led growth, the government will focus its strategy in removing the impediments for private sector development. To enhance the competitiveness, a strong promotional package especially for export-oriented industries, measures for increased incentives for investment, and a comprehensive technology and information program will be introduced.

115. It is recognized that the overall environment for private sector needs to be strengthened especially in the area of legal and regulatory framework, institutions and enforcement capacity. Similarly, the corporate and financial governance, including the improvement of auditing and accounting standards and corporate legislation are the major constraints for sustainable private sector development.
116. Nepal lacks sound accounting and reporting standards. Disclosure requirements for companies are inadequate and information available to lenders is incomplete. Similarly, legal and regulatory environment is highly fragmented and the judicial system is not fully equipped to implement legislation. Institutional capacity for regulation and supervision is weak. Constraints and impediments for private sector investment have to be removed. The reform agenda is huge, but has to be initiated and implemented for sound private sector development.
117. Infrastructural development has a major role to play in the development of the private sector. Despite significant progress in the expansion of road density, penetration of telephone and electricity is still low. The government will give priority to strategic road network, maintenance of major roads and highways and expansion of electricity and national communication infrastructure. The government, however, in the medium term, will gradually reduce its allocation, especially in the areas where private sector can undertake economic activities, including telecommunication and hydroelectricity.
118. Measures will be taken to attract more foreign investment into the country. They include improved policy and legal framework in line with market economy, efficient administrative mechanism, development of necessary physical infrastructures and human resource development.
119. Financial sector of Nepal is in a critical stage not only from the perspective of macro-economic stability, but also from the viewpoint of poverty and unemployment. The main problem of the banking system is inefficiency and this has resulted in high spread rate and increasing non-performing assets. In this connection, the NRB has already announced the Financial Sector Strategy for its improvement.
120. The future reform agenda in the financial sector involves: (i) restructuring and privatizing state owned banks, (ii) improving auditing and accounting standards, (iii) strengthening monitoring and regulatory functions and capacity of the NRB, and (iv) strengthening legislative and institutional framework for effective loan recovery.
121. At present, the commercial banks are required to lend to priority sectors and institutions at subsidized rates. The Central Bank is also involved through Rural Development Banks in this mechanism. The longer-term goal, however, will be to shift this activity from the commercial banks to other agencies. The change in the system will enable commercial banks to function more

professionally. However, the new mechanism will continue to target subsidized resources towards the most disadvantaged groups. An action plan towards this new mechanism will be developed.

122. The non-banking sector provides ample opportunity to improve financial intermediation process in the economic development of the country. In this context, restructuring of the two government owned development banks (Agricultural Development Bank and Nepal Industrial Development Bank), and ensuring healthy growth of the finance companies and the micro-finance sectors are essential. They will be brought under a transparent and more accountable regulatory framework. External auditing of NIDC is planned for FY 2001/02.
123. The government will encourage the private sector as much as possible for the development of hydropower, telecommunication and IT. In this regard, new strategies and policies have already been initiated. They will be further strengthened in accordance with the suggestions of recently completed Water Strategy report, IT Policy framework and Telecommunication Policy.
124. The importance of macroeconomic stability can hardly be overemphasized for either growth or poverty alleviation. Maintenance of satisfactory macroeconomic fundamentals is also a necessary precondition for the operation of market oriented economy and also for promoting private investment. The recent Asian crisis has shown that unstable macroeconomic environment can result in huge output losses and a serious increase in unemployment. The country will work towards developing a stable and predictable macroeconomic environment for overall development of the country characterized by low budget deficit, low inflation and desired financial and external sector indicators.
125. Some of the structural policies directly or indirectly affect poverty situation and programs. Similarly, economic liberalization and globalization process can increase income inequality and affect vulnerable groups. These factors will be analyzed in detail and measures to address identified problems will be designed.

T. Social Sector Development

126. The development of human resources is essential for creating employment opportunities, reducing poverty and for accelerating broad-based growth. While human resources development has many dimensions; education, health, rural drinking water and sanitation are particularly important. Proper education policy is also an important policy instrument in bringing about greater equity.
127. The education system receives the largest allocation of the government expenditure, but the resource utilization in this sector is not efficient. Accessibility to education in primary school is still inadequate. The focus of the future strategy, therefore, must be in improving the efficiency of the education system, increasing accessibility to primary education and secondary education with special emphasis on girls enrolment for the expansion of literacy programs, and extending the opportunities for technical and vocational education.
128. In education, the investment efficiency is also low. Dropout rates and repetition rates are high. Pass rates of the government schools are much lower than that of the private schools. The public expenditure in health is also skewed. There has been a reduction in the budget share for primary health care.

129. Health plan and programs in Nepal in the coming years will be focused on providing Essential Health Care Services (EHCS) to all people by developing an effective and efficient health management system. The core areas of EHCS consist of child health, family health (family planning and safe motherhood), control of communicable disease and improvement of the institutional capacity. To use the existing resources efficiently and effectively, the problems of absenteeism, staff shortages and lack of supplies and equipment will be addressed. Measures to reduce population growth will also be expanded and strengthened.
130. In view of the status of the health and education system in the country, the strategy for social sector development will include: (i) continued increased allocation of public resources in the social sector, (ii) streamlining of resources according to the priority and providing emphasis on basic education, literacy, primary health care and demand-oriented skill development programs, (iii) programs to reduce human development inequality arising from weak government programs, (iv) decentralized management and (v) increased but coordinated involvement of private sector and NGOs in the delivery of social services.
131. The water supply and sanitation program will contribute to the national goal of providing increased water supply service and sanitation. Water supply service will also be upgraded significantly during the 10th Plan period. Melamchi project, which has been initiated in FY 2002, is expected to improve the water supply situation in the Kathmandu valley.
132. Discrimination against women is widespread and failure to empower them has resulted in lower human development indicators in women than men. Enhancing women's capabilities not only improve their access to assets, education and freedom, but also benefit society in improving social indicators like child survival and maternal mortality rates and in slowing down population growth. The 10th Plan will focus on the issue of gender, mainstreaming women's participation in every aspect of national development.

U. Targeted Programs and Employment Generation

133. Broad-based economic growth benefits the poor, but there are specific groups of people, who if left on their own, will either be unable to escape the poverty trap or take an unacceptably long time to do so. These groups can be the hard-core poor, assetless people, disadvantaged groups, indigenous people, people living in the remote or isolate areas, female-headed households and women.
134. Preliminary evaluation of various targeted programs shows that some of the programs have proved quite successful. However, many other programs have shortcomings.
135. The basic objective of the targeted programs is to design and implement the programs in such a way that they benefit the poor. The strategy of these programs, therefore, will be to develop modalities of the various programs for the selection or targeting of the beneficiary groups. The coverage and outreach will be increased in the case of successful projects. However various income cut-off points, geographical targeting, categorical or self-targeting modalities will be used for various compensatory, market-based, and facilitation programs. These measures will help in administering safety net and targeted programs fairly and equitably.
136. There are many projects and programs for addressing the conditions of the poorest and vulnerable sections of society. The rationale for these separate

programs is that the disadvantaged groups of the society require special state support to improve their social and economic situation. The protection and promotion of the rights and interests of women, children, dalits and other socially and economically disadvantaged groups will be improved by enforcing laws related to eliminating discrimination and by undertaking additional measures in accordance with its pledge to ensure the protection and promotion of these group's rights.

137. The government has initiated Poverty Alleviation Fund (PAF) in order to strengthen target-oriented programs. NPC will use this program as an umbrella program. Consultation with the local governments and beneficiaries has been started in order to develop the effective modality of the PAF. Programs of poverty alleviation will be widely discussed with the grassroots organizations, local governments and general public in order to strengthen ownership of the programs and successful implementation.
138. A number of targeted programs, which have similar objectives, have been implemented by different agencies with different modalities. Targeted programs of similar nature will be merged and implementation modalities will be simplified in order to improve the effectiveness of these scattered programs.
139. The major components of targeted programs include technological adaptation and advisory services in agriculture and livestock, rural infrastructure, rural access program, sustainable natural resource utilization, access to markets, land reform (already announced), micro-finance, micro-enterprises, and skill/vocational training.
140. Employment opportunities in the country will be expanded by raising effectiveness and relevance of present training programs, creating labour intensive public works and minimum needs programs, and by enhancing opportunities for wage and self-employment through training and skill development.
141. Entrepreneurship will be developed particularly among the youths, and the dropouts of schools and colleges for the promotion of micro and small enterprises keeping in view the role of employment and income-generating opportunities for disadvantaged groups will be created.
142. The process of social dialogue will be strengthened to bring together employers and employees to resolve the conflicts and to participate in the process of poverty reduction.
143. The National Master Plan against child labor (2001-2010) and the time-bound programme for the elimination of the worst forms of child labor will be implemented.

V. Governance

144. Entrepreneurship will be developed particularly among the youths, and the dropouts of schools and colleges for the promotion of micro and small enterprises keeping in view the role of employment as a vehicle of poverty reduction and social integration. Decent employment and income-generating opportunities for disadvantaged groups will be created.
145. The process of social dialogue will be strengthened to bring together employers and the employee to resolve the conflicts and to participate in the process of poverty reduction.

146. The government commitment for decentralization has been reflected in the local Self-Governance Act of 1999, which seeks to delegate authority and responsibility to local bodies, empower local authorities to collect taxes and develop plans and local administrative cadre. These initiatives, including social mobilization, will be implemented and strengthened in a phase-wise manner by strengthening local government institutions.
147. Decentralization is an important mechanism for improving service delivery to local communities and enhancing effectiveness of public spending. The decentralization process will be strengthened by: (i) promoting transparency, accountability, and responsiveness in the local institutions, (ii) improving the capacity of local bodies to identify their needs, mobilize resources, plan, prepare and implement projects and programs, and report accounting and expenditures, (iii) clarifying the responsibilities of both local bodies and line ministries and transforming the authority from central to local and (iv) fiscal decentralization. Necessary resources and responsibility will be entrusted to the local bodies in the areas of agriculture extension, primary education, health care, postal service and animal health beginning from the FY 2001/02
148. In terms of decentralization, the present local Self-Governance Act and the rules provides the most comprehensive strategy for the devolution of authority and its implementation to local bodies. Implementation of the Act and the recommendation of Local Authorities Fiscal Commission Report 2000 will be accelerated. To ensure accountability for the use of public resources, improved reporting and monitoring mechanism will be initiated.
149. Civil service reform will be geared towards increasing efficiency and accountability by: (i) improving the management structures at the central level to lead and support the reform effort, (ii) improving overall efficiency of the civil service, (iii) strengthening the legal framework and implementation mechanism for combating corruption, and (iv) enhancing competence and motivation of civil servants.
150. Civil service reform, which includes transforming public administration into a service and result-oriented system and making them responsive to local demands, will be emphasized. This is not an easy task, but some indicators and tools have been developed in reforming the civil service.
151. HMG is committed to accountable, efficient and right-sized civil service. The government has already started reducing the size of civil service by freezing hiring, terminating temporary jobs, linking of wage bill disbursements to documentation by ministries of occupied positions. Eliminating vacancies in select ministries and initiating voluntary retirement schemes. Similarly, the government has already developed a medium-term civil service reform program and an action plan, which are under implementation. Personal records of the government employees are being computerized. Significant upward revision of salary structure of civil service, army, police and teachers has already been introduced.
152. It is recognized that specialized institutions and the NGOs and CBOs can play a complementary role in support of the government's massive efforts towards poverty alleviation in the country. The government will continue to encourage NGOs to render services aimed at poverty alleviation and other rural development program within the framework of its spelt out policies. However, they need to work closely with local governments.

VI. IMPLEMENTATION STRATEGY AND COSTINGS

153. Past attempts to implement plans have often been frustrated by a lack of implementation mechanism and resources. The proposed implementation strategy is designed to overcome these problems. Implementation strategy consists of mainly improved public expenditure management, MTEF, strategic planning and monitoring mechanism.

W. Public Expenditure Management and MTEF

154. Public resource management in Nepal has suffered from over-programming, inadequate prioritization, weak project screening and expenditure management, lack of ownership of project and programs and inadequate monitoring and supervision. These problems have caused real budget allocations to fall to about half the level in the mid-nineties, bringing down the project completion rates and productivity.
155. The government established the Public Expenditure Review Commission (PERC) to address issues in public expenditure management. These include prioritization of projects and regular expenditures, strengthening financial discipline, rationalizing expenditures by public enterprises and local authorities and reorganization and rationalization of the government offices at the central, regional and district levels.
156. The aim of the public expenditure management will be identifying priority programs, completing prioritized project on time, institutionalizing project screening and expenditure management and strengthening implementation of budgets and achievements for agreed output targets.
157. The report of the PERC has been submitted to the government and the recommendations of the report will be implemented gradually. In order to improve the public expenditure management, the government in accordance with the recommendation of the PERC, over the next 2 years, plans to: (i) integrate the regular and development budgets, (ii) reduce the number of projects, (iii) initiate a medium-term framework for the development budget, (iv) emphasize the completion of core programs of priority projects, (v) institutionalize the mid-term budget review, (vi) strengthen the capacity for monitoring expenditure as well as physical progress of projects and programs, (vii) decentralize some of the functions of the central government including primary education, health and agricultural extension activities, (viii) merge some of the offices especially at the district level, (ix) introduce performance based budget allocation in selected areas, (x) introduce self-funded pension scheme, and (xi) increase budget allocation to priority sectors, etc. Implemented of these recommendations have started from FY 2001/02.

158. The role of the public sector in the economy will be focused more on agricultural, social and infrastructural development. Opportunities for private sector investment will be further enhanced especially in the areas wherever private sector can undertake economic activities and deliver goods and services competitively. Private sector's involvement especially in the areas of communication, energy, public enterprises through privatization will be further supported and enhanced.
159. The greatest challenge to the country is to improve the effectiveness of projects and programs so that the benefits of budget allocation are maximized and the objective of poverty reduction is met.
160. In order to improve the effectiveness of the budget and governance of budget management, the government has initiated Medium Term Expenditure Framework (MTEF). The framework has been prepared in order to link inputs, outputs and outcomes in a framework, which ensures consistency of sectoral expenditure levels with the overall resource constraints, in order to ensure macroeconomic stability and to maximize the efficiency of public expenditure in attaining predetermined outcomes. MTEF, by identifying sector strategies and by prioritizing programs, will help in achieving the objective of poverty alleviation. In the meantime, spending will be within an affordable financial envelope.
161. The MTEF also provides guidance to all expenditures including the use of resources committed by donors. Donors are encouraged to contribute to a common pool of resources used to achieve the sectoral objectives. Details about the MTEF have been produced separately.
162. The first key element is that the ministries should have a clear idea not only of the macroeconomic resource envelope, but also of the likely level of resources available to their sector consistent with the government's own resources and donor-commitments.

X. Strategic Planning

163. Though the 10th Plan/PRSP and the MTEF provide the overall framework and budget structure, it is the individual line ministries that will take initiatives to develop and design the detailed strategic plans within each sector. This mechanism is expected to improve effectiveness of policies and programs designed in the various sectors of the economy.

Y. Security and Development Activities

164. However, in the near-term insecurity as a result of Maoist terrorist activities has greatly restricted access to social services and disrupted economic activities in

many parts of the country. Maoists have engaged in attacking banks, army, police, innocent people and infrastructure. As a result, human suffering has increased and earning opportunities declined significantly.

165. In order to help reduce human suffering, protect and rebuild communities and to generate employment opportunities, massive target programs as well as health and education support system will be initiated. Activities which are visible and which can be completed in a shorter period of time will be preferred. Local bodies and NGOs will carry out the activities channeled through various programs including PAF.
166. Security is a prerequisite to an enabling environment that is necessary for improving the socio-economic status of the people. The government is committed to root-out terrorism from the country relatively faster, but it is the responsibility of the country to save lives and relieve suffering.
167. However, since these activities cannot be initiated and completed for security reasons, they will be carried out by developing a joint security and development program, which has already been tested in Nepal. This mechanism of 'shield' and 'support' program can provide enormous benefit to local communities. The cost of development in this scenario will increase as the hardware and other needs for security expenses may increase.

Z. Cost of Achieving Sector Plans and Targets

168. The 10th Plan/PRSP is implemented on an annual basis through the MTEF (3 years). Under a resource constraint, the long-term (5 years) perspective on objectives, targets and resources has to be reviewed. Approximate costing and long-term resource estimates for achieving the main objectives will be helpful in increasing the effectiveness of the plan.
169. The outcomes/targets and resource estimates for the MTEF is projected under the assumption of hard budget constraint for the 1st year and about 15% growth per annum for the next two years. However, the requirements for the last two years of the plan period is estimated to achieve the targets set by the plan at the end of the five-year. The cost estimates, however, is preliminary.
170. Table 3 provides the summary estimates of costing and targets identified in selected sectoral plans. While these estimates will be refined over time, initial estimates suggest a gap equivalent to 42 % of current GDP or Rs. 175 billion between the level of spending and the current trend of revenue mobilization. The gap is estimated on the basis of MTEF calculations. However the level of spending required to fully implement the 10th Plan programs suggests that the gap will be 50% of current GDP or Rs. 207 billion for the next 5 years.

Table 3
MTEF and Tenth Plan Periods
Estimated Budget and Outcomes

Rs. Million.

Sector/Sub Sectors	2001/02	Estimated Budget and Outcomes			
		MTEF Period 3yrs.		Tenth Plan Period 5yrs	
		2002/03 – 2004/05		2002/03 – 2006/07	
		Budget	Outcomes	Budget	Outcomes
1. Agriculture		9722.1		20000.0	
- Agricultural Growth rate	3.2		4.2		4.2
- Food grain Production, MT '000	7178		8678.0		9678.0
- Fruit MT (000)	473		533		
2. Health		9945.2		19310.0	
- Essential. health care services to % of Pop.	70		82		90.0
- Essential drugs to % of pop.	80		86		90.0
- Essential hlth. service provide from Health st.	60		72		80.0
- Women attn. the antenatal care services 4 terms during pregnancy	16		20		25.0
- TT2 doses avail. to 15-44 age group female (in %)	15		36		50.0
- Delivery conducted by health workers %	12.7		16		18.0
- User of family planning contraceptives %	39.3		45		47.0
- Condom users for safer sex by 14-35 yrs age group	-	-	25		35.0
- Total fertility rate	4.1		3.8		3.5
- Crude birth rate	33.1		-		30.1
- Infant Mortality Rate	64		50.0		45.0
- Maternal Mortality Rate	400.0		340.0		300.0
3. Education		12745.0		30816.3	
- Literacy, 15 years + (in %)	52		61		67
- Child Dev./Pre-primary Edu., GER	13		23.7		
- Primary Edu., GER	120		116		114
- Lower Secondary Edu., GER	56.9		63		65
- Secondary Education, GER	39		47		55
- Higher Secondary Edu., GER	17		24.0		28.0
- Techs. & Voc. Edu., Regular Training	NA		1443		
- Higher Edu., GER	4		5.5		6.0
4. Water resources		25251.1		45251.1	
a) Electricity					
- Power generation MW	592		732		820.0
- Transmission line KM	1939		2127		
- Electricity .Service % of total pop.	20		23		25.0
b) Irrigation		8780.7		37186.1	
- Operation and Mgmt. (in1000 hectares)			245.9		
- Management transfer of AMIS (in1000 hectares)			32.2		
- Rehabilitation (in1000 hectares)			36.0		
- Renovation of AMIS (in 1000 he)			2.2		100.0
- Ongoing and new irrigation development			39.0		200.0
- Special Irrigation Projects in (1000 ha)			0.5		
5. Physical Planning & Works		14848.2		44857.9	
Roads					
- New Road construction in Km			375		650
- Upgrading (in Km)			427		711
- Road improvement & Rehabilitation (in Km)			293		370
- Periodic maintenance (in Km)			466		710
- Motor able bridge constriction- all type in no.			150		240
- Additional no. of Dist. Hqtrs additional linked			5		7
Drinking Water					
- Rural population served by basic water supply service (in 1000)	16976.0	26660.0	1958.4	54922.2	4235.0
- Urban population served by basic water supply service (in 1000)	14464.0		1703.4		3362.0
- % of total population served by Basic water supply	2512.0		255.0		873.0
	71.5		80.0		85.0
Total		108893.0		253662.0	
All Sectors Grand Total		156374.0		320134.0	

Note: Outcomes figures are cumulative for agriculture, health, education, water resources sectors, but additional for roads and drinking water sectors.

AA. Poverty Assessment and Monitoring

171. In order to ensure that the targets set in the PRSP/10th Plan are met and that progress is made towards the goal of poverty eradication, one has to evaluate not only the outcomes against targets but also strategies intended to have desired effect.
172. It will be difficult to introduce, design or modify poverty-related programs unless one knows the profile and dynamics of poverty. Inadequate information has led to limited coverage of successful targeted programs and social service delivery has not been adequate. In order to make a dent in poverty alleviation, policies and programs must be designed on the basis of full information. Implementation must be effectively monitored and programs evaluated regularly.
173. The monitoring of progress will also help to build accountability and will continually inform key agents involved in the process about the progress on poverty analysis. This process is also expected to help in modifying the design and implementation strategies.
174. Monitoring will be structured at different levels. The Monitoring Division of the National Planning Commission will be further strengthened for program and project monitoring. The present structure of Ministerial Level Development Action Committee and National Level Action Committee will be made more effective. A program to make local level authorities more responsible for monitoring and supervision, especially at the local level projects and program, will be initiated.
175. Annual reports will be prepared to provide an update on the progress of meeting individual but key development targets related to reducing poverty. Data gaps will be identified and the indicators and the design of the report will be finalized with the consultation and participation of the line ministries, the Central Bureau of Statistics and other relevant agencies.
176. The government will initiate, improve and institutionalize data collection and analysis of poverty indicators and of the impact of national policies and projects. A detailed household survey to generate high quality estimates of trends in poverty could provide much useful information. In this context, a follow-up to the National Living Standards Survey (1996) has been planned with the help of the World Bank in 2002.
177. In order to gather information on the spatial distribution of poverty and to identify the pockets of poverty especially to initiate and implement targeted programs successfully, a poverty mapping system will be introduced. Poverty mapping and monitoring exercise will be started.
178. Monitoring of the grant-financed projects conducted by the local authorities and the INGOs/NGOs will also be initiated and strengthened. Evaluation and monitoring of other related programs will also be carried out regularly. Line Ministries, NGOs and other relevant agencies will be coordinated for this purpose.
179. To monitor the targets set up by the PRSP/10th Plan, NPC has set up a Monitoring Unit. The monitoring and evaluation system will track progress on some sixteen strategic indicators at the impact and output level.

Annex 1

Policies and Programs for Poverty Alleviation (Matrix)