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### **DRAFT COUNTRY REVIEW PAPER**

#### **Implementation in Asia and the Pacific of the Brussels Programme of Action for the Least Developed Countries for the Decade 2001-2010: progress made, obstacles encountered and the way forward**

*Nepal*

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## ABBREVIATIONS

APP	Agriculture Perspective Plan
BOOT	Build Operate Own and Transfer
BOT	Build Operate and Transfer
BPOA	Brussels Program of Action
CIAA	Commission for the Investigation of Abuse of Authority
DDC	District Development Committee
DWS	Drinking Water Supply
EFA	Education for All
GoN	Government of Nepal
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MLD	Ministry of Local Development
MOAC	Ministry of Agriculture and Cooperatives
MOES	Ministry of Education and Sports
MOF	Ministry of Finance
MOH	Ministry of Health
MOHP	Ministry of Health and Population
MPPW	Ministry of Physical Planning and Works
MTEF	Medium Term Expenditure Framework
NDF	Nepal Development Forum
NDHS	Nepal Demographic Health Survey
NLSS	Nepal Living Standards Surveys
NA	Not Available
NPC	National Planning Commission
NTFPs	Non-Timber Forest Products
PRSP	Poverty Reduction Strategy Paper
SDA	Sustainable Development Agenda
SLTHP	Second Long Term Health Plan
SMC	School Management Committee
UNDP	United Nations Development Program
UNCT	United Nations Country Team
VAT	Value Added Tax
VDC	Village Development Committees

## I. INTRODUCTION

### A. Background and review of the overall economy

Nepalese economy, despite showing some signs of improvement in the attainment of UN MDGs, has not really been successful in making substantive change in income and growth terms. Poverty has declined but income inequality is growing meaning that the economy continued to suffer from economic ills. The *Tenth Five Plan* (2002-2007) recorded a growth rate of nearly 3.8 per cent, which is well below the targeted growth of 6.2 per cent. The Nepal Living Standard Survey (CBS 2004) indicated that poverty in the country has declined to about 30.8 per cent of the population from 42 per cent in 1996. However, income inequality has increased from 0.34 Gini to 0.41 Gini. In addition, large segments of the poor are *hardcore poor*, barely able to eke out subsistence on fragile lands and a vulnerable eco-system. Large areas of the country lack even the most basic infrastructure developments and essential services. There are also wide variations based on rural-urban divide, geography, ethnic group and occupational caste. To address the situation, the Ninth Five-Year Plan (1997-2002), the Tenth Five-Year Plan (2002-2007) and Three-Year Interim Plan (2007-2010) identified poverty alleviation as the single most important objective. The situation has not improved much due to a host of reasons particularly political instability, the transitional phase is under going and the persistence of disturbances despite commitment towards peace and development.

Economic development is a daunting task in Nepal, given its limited resource endowment, its landlocked location and the rugged terrain and with its underdeveloped economic and social infrastructure. The economic development efforts of more than four decades, starting from the first economic development plan started in 1956, have yielded an average growth of around four per cent per annum which, if discounted by the population growth rate of about 2.3 per cent during the same period, gives a per capita income growth of less than two per cent per annum. Growth in the services sub-sector may be a relatively higher, but it basically depicts a poor development particularly when the two neighbouring countries are galloping ahead with high growth rates.

The euphoria following the transition to a democratic government in 1990 facilitated by wide-ranging economic reforms in early nineties, contributed to the acceleration of the economy and brought about improvements in some key sectors, such as trade, investment and foreign exchange regimes. The ensuing political instability following the mid-nineties slowed down development and contributed to increasing politicisation, weakening of administrative and institutional capacity, increasing problems with governance, poor economic policies, and the deterioration of law and order, culminating in the emergency situation in connection with the insurgency problem.

During the last twenty years, the economic reforms initiated in the nineties neither could be properly sustained nor yielded desired results in view of growing political turmoil and persistence of contradictions and inconsistencies.

Accordingly, Nepal remains one of the poorest countries in the world with about 31 percent population living below the poverty level though currently it is estimated to have declined to 25 or 26 per cent based on the estimated growth poverty elasticity of

0.27 and as also supported by a number of surveys. Nepal's economy is still dominated by agriculture. Out of about 57 per cent of the population classified as economically active, 73.9 per cent were engaged in agriculture in 2008, which has the lowest value addition per worker. This is only about one fourth in comparison to the industrial sector. The contribution of non-agriculture activities to the GDP has gradually increased in recent years, while the contribution of agriculture to GDP has gone down to 34 per cent in 2008/2009 from 48 per cent in the year 1990/1991.

The economy *per se* is not an encouraging scenario with the growth rate just above the population growth during the last decade or so meaning that per capita income has almost stagnated. The phase of political transition, lack of infrastructure facilities and high costs thereof, and a weak civil service delivery have all inhibited a fuller growth potential. Nepal, thus, is passing through a phase of economic doldrums and is unable to take advantage from exemplary growth being noted among its two big neighbours, Peoples Republic of China and India, which has attracted global imagination.

The infrastructure development in the country is still limited, though widespread progress has been reported. Initiatives on infrastructure development began only after 1950, the year the oligarchic Rana regime was overthrown and democratic politics were introduced. However, most parts of the country still remains deprived from access to any sort of connectivity, though in some areas the pace of development has been quite appreciable. Roads remain the single most important means of access in this landlocked mountainous country but road building itself is not an easy task in such rugged physical terrain. Connectivity, therefore, is limited even within the domestic environment and this does not augur well for external connectivity.

The total road length has reached an estimated 19,000 km but a large part of the country has yet to be connected with modern transport means. Vast areas, especially in the northern part of Nepal, are still deprived of any viable and easy connectivity making it essential to walk for several days from the nearest road-head as the only alternative. Still six district headquarters out of 75 are not linked to road access, though three headquarters may be connected with road access this fiscal year.

In the communication sector, telephone lines have increased several folds with vast rural areas now receiving telephone lines and cellular coverage was started in major urban areas and along highways. Though communications have grown fast, they have generally tended to be concentrated in urban areas and the low income, low literacy level, and low access to electricity, among other factors, have to date limited expansion of information and communication technologies and perhaps widened the digital divide between the social groups. Radio and television coverage are still not nation-wide, although the number of privately operated FM radio stations has risen to more than 20.

The total electricity available is around 600 megawatts. Electricity is available to almost 54 per cent of the country's population, mostly urban and semi-urban.

The international connectivity by air is limited to operations from one international airport at Kathmandu. However, the domestic air transport network is extensive and plays an important role for many parts of the country, but remains

unaffordable for much of the population. Rail linkage in the form of cargo movement has only reached to Birgunj ICD since 2004.

The challenges in Nepal are not characterized only by income poverty. Large irregularities appear to exist in social indicators when comparing the various geographic regions and socio-economic groups. Taking the example of literacy, rural dwellers are twice as likely to be illiterate than urban dwellers, and illiteracy is highest among the lower castes and disadvantaged groups. In terms of other indicators, like access to essential services such as health, education and safe drinking water, the rural regions tend to be significantly behind, with disadvantaged groups still having less access. Since disadvantaged groups figure prominently in the incidence in both income and capability-poverty, it is essential that the government's poverty reduction programmes address the factors that remove such inequalities. In Nepal, social exclusion is primarily driven by feudal institutions and historic processes that uphold or exacerbate income and capability poverty on the basis of gender, ethnicity, caste and religion. But, the problem is also driven in some instances where the voice of the rural poor is muted or virtually excluded from the policy dialogue itself, due to regressive trends and on-going troublesome socio-political inclinations (i.e., poor or weak governance at various levels).

These anomalies apart, the increasingly volatile situation of the country demands an overhauling of approaches and strategies to really focus on poor and disadvantaged groups and to improve the lives of the most deprived. It is argued that a government that works for the people should be able to develop a policy framework that reflects the voice of the people, can meet the poverty reduction targets and can raise, allocate and account for resources in accordance with those pro-poor policies. In this respect, donor agencies have clamoured for integrated and comprehensive strategies for poverty reduction and the government's recognition for the same has helped to create a more congenial environment in which to focus development activities on poverty reduction.

Governance issues have been a major factor undermining the effectiveness of development efforts. They have taken many forms including excessive political interference and increasing corruption (World Bank 2000). Some of the main examples are political interference in government appointments, the frequent transfer of civil servants and project officials, political involvement even in simple procurement decisions, misuse and diversion of public funds for unauthorized purposes, and cabinet decisions serving parochial interests. In this environment, project implementation has suffered and desired goals have not be reached. This has clearly heightened the need for good governance; the recognition of it and defining it as a strategy is a major point of departure in the Tenth Plan (PRSP) and also equally emphasized in the interim three year plan (2007-2010). It is notable that PRSP (2002-2007) and TYIP (2007-2010) basically aimed at attaining Millennium Development Goals (MDGs) and accordingly enraptured the goals and targets of Programme of Actions for LDCs. These are expected to extend thrust in attaining these goals.

Thus, two things are happening side-by-side. On the one hand, the overall policy framework has become more encouraging; but, on the other hand, there are some glaring differences in approach and intent between sectors. Such differences sow confusion and result in poorly defined programmes or in strategic difficulties in meeting the goals of otherwise well-designed programmes.

## **B. Objectives**

The basic objective of the study is to make a review of Programme of Actions (PoA for LDCs) in Nepal during 2001-2009. The specific objectives are:

1. to assess the progress in the implementation of PoA in Nepal,
2. to review the overall socio-economic performance of the country,
3. to analyse international support and assistance,
4. to identify results achieved,
5. to identify challenges, issues and lessons learnt, and
6. to provide recommendations.

## **C. Methodology**

First of all, relevant literature e.g., Brussels Programme of Action, Nepal's Programme of Action, and studies, surveys and progress reports thereof were collected and reviewed. Efforts were made to collect data for all identified indicators. Discussions were made with various government and other relevant agencies. On the basis of these, this report was prepared.

## **D. Limitations of the study**

- In view of the paucity of data and weak information system, data for a number of indicators was not available
- In many cases, data has to be presented for years other than the mid-term review year (2009) as surveys or information collection were available for different periods or years.

# **II. REVIEW OF POLICIES, ACTIONS AND STRATEGIES**

## **A. Introduction**

The Programme of Action (PoA) for the Least Developed Countries (LDCs) for the decade 2001-2010 is an outcome of the Brussels Declaration in May 2001. The basic objective of PoA is to achieve substantial progress in meeting the Millennium Development Goals (MDGs) of halving poverty by 2015 and promoting sustainable development in the LDCs so that special efforts can be put to upgrade the LDCs and mainstream them in the bandwagon of development. The priority issues defined in the PoA are: poverty reduction, gender equality, employment generation, governance, capacity building, and special problems faced by landlocked and small island developing countries, and the conflict affected LDCs. The PoA contains 30 international development goals, including MDGs. The key underlying principle is to achieve results. It is expected that LDCs will be able to achieve development both in human and economic terms in a more focussed way.

To implement PoA, Nepal has constituted a high level National Forum. Its basic task is to monitor and guide its implementation. The National Planning Commission (NPC) Member responsible for Macro Economic Sector is the chair of the Forum, and it is represented from Government ministries, civil society, academia and non-governmental organizations. The NPC Member has also been designated as the

National Focal Point. The important steps Nepal has taken are to integrate the PoA in the tenth national development plan or PRSP (2002-2007) and Three Year Interim Plan (TYIP) (2007-2010) – the country’s main plan and policy documents for the period.

## **B. Implementation of the Brussels Programme of Action for LDCs in Nepal**

The major goals include attaining an annual GDP growth rate of at least 7 per cent, culminating to 7.5 per cent by 2010; increasing investment to GDP ratio to 25 per cent annually, and halving the proportion of people living in extreme poverty and hunger by 2015. With an overarching goal of poverty reduction, Nepal prepared and implemented its 10<sup>th</sup> national development plan (2002-2007), and the ongoing TYIP (2007-2010).

The TYIP (2007-2010) is based on six strategic pillars: (i) give special emphasis on relief, reconstruction and reintegration, (ii) achieve employment-oriented, pro-poor and broad based economic growth, (iii) good governance and effective service delivery (iv) emphasis on physical infrastructure development, (v) social development, and (vi) adopt an inclusive development process and carry out targeted programs. To implement the plans and programmes, the government has been preparing annually, a three-year Medium Term Expenditure Framework (MTEF) with detailed actions and project specific allocations, prioritising them in such a way that more effective activities are included, an annual program for budget implementation and an immediate action Plan covering priority policy and actions to be addressed with high emphasis in the annual programme.

To attain high and broad-based economic growth, the plans emphasized on agriculture including agro industries, tourism, infrastructure (irrigation, road, power and communication) and exports. To develop agriculture, implementation will be based on the APP (Agriculture Perspective Plan, 1995-2015), and for non-agriculture sector, focus is on promoting the role of the private sector and reducing the role of state in economic activities. The role of state has been defined as enhancing facilitation and creating an environment more conducive to the private sector development.

Social sector programs mainly consisting of health, education, drinking water and sanitation have been given due emphasis. Investment in the sector is considerably increased to improve human goals and the program in the rural areas. TYIP advocates for the participatory and inclusive development including social inclusion. In order to attain these, TYIP places special emphasis by focussing on the target groups. Programmes are implemented targeting disadvantaged groups of population, including women. Positive discrimination in the public sector opportunities, scholarships for poor, girls, and scheduled castes, priority to conflict affected people in supplying labour to foreign market, loans to needy poor to join foreign labour market, emphasis of involvement of women in the consumer committees in development works are some examples to promote social inclusion and reduce undesired but persisting gaps. The one third representations of women in the Constituent Assembly is a major illustration of initiative being taken to promote gender parity. Importantly the government has also brought various social security measures for example old age allowance, allowance to disabled population allowance to single women and 100 days work guarantee in some geographical regions.

### C. Good governance

TYIP has recognised that development and attainment of goals cannot be done without improving governance. Various efforts have been made to uphold the rule of law, improve service delivery, and efficiently utilise the limited resources.

The fundamental goal is to make the government sector accountable, efficient and inclusive. The proposed activities include civil service reform, decentralization (including fiscal devolution) and corruption control. The basic purpose is to strengthen the institutions. Right sizing bureaucracy, devolutions to local bodies and strengthening institutional capacity to combat corruption are being initiated. A positive discrimination policy has been adopted to increase representation of women, disadvantaged groups, *Janajatis* (indigenous people) and disabled populations in civil service, political, economic and social sphere.

Performance-based management system is being implemented in a number of ministries; Ministry of Agriculture and Cooperatives (MOAC), Ministry of Education and Sports (MOES) and Ministry of Health and Population (MHP), which are core service delivery ministries. A permanent body has been established to review salary structure and pay policy of civil servants and to recommend salary increases has been tied to consumer price index. A contributory pension scheme has been introduced to make the pension system sustainable. Attempts are one also made to develop and place improved MIS to assist overall management system. Management for development results (MfDR) is being piloted in three agencies to make development activities more result oriented.

Nepal has made significant efforts in the area of decentralization with the enactment of Local Self-Governance Act 1999 (LSG) and its Regulations 2000. Full-scale devolution policy has been designed compatible to the Act. Devolution in key sectors agriculture and livestock extension, primary health care, basic education, and infrastructure development has already been started in all 75 districts. Accordingly, management responsibility of number of village agriculture extension activities, sub-health posts, and primary schools are being handed over to local communities. On the basis of the experience, the government has piloted from 2005/6 “full” devolution at 14 districts. Under this, all the district level activities and district development offices of the government including the resources are being handed over to district public office – DDC. In View of the persisting instability, this effort has to be seen from implementation perspective. Besides, the legal anomalies between the LSG and other Acts are yet to be resolved. Hence, the true pace of devolution has not occurred at the desired pace but the declaration of federal state has taken the process of devolution to new levels.

The country has an impressive legal framework to combat corruption with a set of anti-corruption acts (Corruption Prevention Act 2002, Commission for the Investigation of Abuse of Authority (CIAA) Act Second Amendment 2002, Impeachment Act 2002, Act to regulate financing of political party, 2002) in place. But enforcement and compliance with the laws still remains weak due to inadequate institutional and technical strength and will power to implement.

Apart from the above, some other notable measures taken are as follows:

- (i) Establishment of National Human Rights Commission.
- (ii) Promoting industrial peace, healthy and safe working environment to labourers and eliminating child labour.
- (iii) Amendment of national country code on women's right to property and a conditioned right to abortion.
- (iv) Identification of 59 indigenous/ethnic people, and enactment of Indigenous and Ethnic Peoples' Development National Academy Act 2001 to set up a separate academy with the objective of bringing ethnic and indigenous people to the mainstream of development.
- (v) Setting up of National *Dalit* (scheduled cast) Commission for Dalit's uplifting. A work on preparing *Dalits'* Rights Preservation Bill is underway. Programs targeted at the upliftment Dalit has been implemented through *Dalit* Development Board.
- (vi) Commitment to promote inclusive development.

The reform initiatives, albeit their successful implementation to some degree, however, remain major challenges. Decentralization process received a setback due to the long absence of elected representatives from village to central level since July 2002. Restoration of the elected parliament is expected to bring metamorphosis in an otherwise difficult environment.

#### **D. Human and institutional capacity**

The PoA for LDCs contains 18 quantifiable goals and 63 targets in these areas. They include in the areas of nutrition, health, drinking water and sanitation, education and their social integration.

The fifth and six strategies of the TYIP address the concerns of the third commitment of PoA. The fifth strategy focuses on the social sector development including human development in general, the sixth strategy of the TYIP incorporates to reduce disparity by caste, ethnicity and gender in the implementation of all the strategies by inculcating inclusive approach.

#### ***Health***

Nepal developed and adopted a National Health Policy was adopted in 1991. A 20 year (1997-2017) Second Long Term Health Plan (SLTHP) is also being implemented. The major strategies and policies under TYIP include: (i) extension of public health services to provide services to the poor and backward communities; (ii) emphasis on preventive measures; (iii) management and decentralization of the health sector; (iv) provision and curative measures, (v) partnership between government, non-government and private sector to provide health services, and (vi) control /eradication of specific disease like HIV/Aids, Malaria, Tuberculosis. They are all in consonance to PoA and MDGs.

Nepal Health Sector Programme is implemented emphasising on (i) providing safety nets to the poor, under-privileged and socially excluded, (ii) developing

alternative health financing scheme, and (iii) providing quality health care services. The activities initiated so far included handing over of health institutions including one district hospital to the community. Many campaigns are also launched to take awareness and preventive cures to the doors of the people.

### ***Education***

TheTYIP strategies include: (i) promotion of universal primary education and emphasize on pre-primary and primary enrolments, (ii) increase literacy by expanding non-formal education, (iii) emphasize public participation for the overall management of school in line with decentralization, (iv) increase technical and skilled human resource, (v) increase secondary level access to those completing primary school, (vi) enhance the quality of education at all levels, (vii) adopt the principle of cost recovery in higher education, (viii) conduct additional programmes for the enhanced access of education to *Dalit* (oppressed people), and backward communities, and (ix) mobilize youth in community development.

Nepal is making further efforts for providing access to primary education for all 5-9 year old children under its “Education for All” (EFA) programme (2001-2015). Universal primary education is aimed at achieving through decentralized planning and management of school education and other innovative measures.

The government intends to act as a facilitator only by providing block grant based on the School Improvement Plan, Village and District Education Plans, and monitoring results of quality and access to education. In order to enhance the quality of education, steps like teaching license system, mandatory women teachers in preschool, at least one women teacher in primary level, and school operation grant manual for a cost sharing in secondary education have been introduced to enhance quality. It is also expected to reduce government financial liability.

Various efforts have been initiated to enhance the access to education to the disadvantaged groups of population including girl child. Scholarship is provided to girls and children from deprived communities. Other agencies are encouraged to run literacy programmes. The government has recently launched an enrolment campaign (School Welcome Program) targeting out-of-school children, focusing on the poor and disadvantaged, as a means to extend the coverage of primary education. Policy of recruiting female teachers and nutrition programmes has also supported the enrolment increase as well as promote equity in the education sector. Mid-day meal schemes are introduced to sustain continuity and extend nutrition facilities to children in specific geographic regions and communities are also being given monthly allowances. Moreover, government has increased investment in the social sector in successive annual budgets.

Despite considerable progress in the education, there are challenges particularly in respect to how to address the quality and equity. The quality of education in public schools where generally poorer students pursue studies is reported to be seriously weak. This further creates disparity between rich and poor.

### ***Drinking Water and Sanitation***

The TYIP strategy in the water supply and sanitation sector is to increase sustainable access to safe drinking water supply and sanitation facilities to both rural and urban areas. It will improve health, lessen drudgery, and save time mostly of women. The TYIP target is to make basic drinking water services available to 85 per cent (from 76.6 per cent) of the population. TYIP has emphasised on (i) promote simple technology based schemes, (ii) priority to DWS projects affordable to consumers committees based on simple and appropriate technology, (iii) priority to reconstruction and rehabilitation of on-going rural DWS projects, (iv) development and conservation of natural water storage, (v) sanitation as an integral component of drinking water project, (vi) improvement water quality, (vii) strengthening institutional capacity and (viii) hand over of the projects and their monitoring and evaluation by the government to local bodies/communities.

The Plan targets for water supply are likely to be achieved, though the quality and adequacy of water will continue to be major problems and Nepal will continue to be a country with serious paucity of sanitation facilities, which will not help to improve health indicators.

### ***Social integration***

Nepal is a multi-lingual and multi-ethnic country. Different races, castes and indigenous population live in different ecological regions – Mountain, Hills and Tarai. The status of women, low castes, and disadvantaged indigenous groups is still poor and most of them outside the sphere of change and development. This discriminates between the citizens in terms of access to resources and services. People in mountain are poorer, and those of mid- and far-west development region further poorer. The society is still marred with feudal characteristics.

TYIP has included the strategy of inclusive development and targeted programmes with various support activities and affirmative actions. However, the progress is still not inadequate due to the resource constraints and lack of commitment.

## **E. Enhance productive capacities to make globalization work for LDCs**

### ***Transportation and Communication***

In the globalising world, Nepal cannot remain in isolation and hence necessary capacity has to be built to integrate the economy globally. WTO, SAFTA and BIMSTEC further necessitate the process. Improving and modernising means of transportation and increasing communication networks to integrate rural area is necessary for enhancing productive capacity to alleviate poverty. GoN policies include constructing and expanding road networks for improving connectivity by promoting also the public private partnership.

GoN adopted a participatory approach in selection, preparation and implementation of the development projects in rural infrastructure. Private sector involvement is also encouraged with the provision of Build Operate and Transfer (BOT) and Build Operate Own and Transfer (BOOT). Likewise, private sector involvement is promoted also in the maintenance of national and local road networks.

Fifty-four districts (out of 75 in the country) have prepared district road master plan. Moreover, 20-year road sector master plan is being prepared in the country. Groundwork for developing Nepal as a transit point between India and China has been initiated. GoN's given priority in linking the remaining six district head quarters with road shortly and at least three district headquarters during the current year (2009-2010).

In the information and communication sector enhancing participation of private sector, effective development of broadcasting services and flow of information and capacity enhancement of postal services are some major policies of the government. IT policy 2000 has been revised with focus on cyber regulation, e-governance and e-commerce. The telecommunications Policy 2004 of GoN has been made more forward looking. Three private sector organizations have entered in the business and mobile service has also expanded reaching an estimated 6 million.

#### **F. Reducing vulnerability and protecting the environment**

Nepal prepared a 15-year sustainable development agenda (SDA) in May 2003. It aims to guide and influence national level planning and policies up to 2017. In Nepal, the area of effective forest is estimated 37 per cent and there is around 10 per cent land as bush land, which were once forest. GoN has emphasized community and leasehold forestry as one of the primary strategies. There has been substantial progress in community forestry, and partial progress in the leasehold forestry. This is expected to ameliorate the process of deforestation and also help in alleviation in poverty. The GoN has committed to sustain 40 per cent of the total areas forests.

GoN has developed different policies in the area of environment. Chief among them include preparation of National Environmental Policy and implementation of environmental impact assessment guidelines. In the field of disaster, National Strategy for Disaster Management is also being prepared, and disaster preparedness and mitigation programmes are under implementation. Likewise, water induced disaster management has been given priority in the National Water Plan (2002-2027).

However, for the last decade the problem of flooding and inundation has been increasing in the Tarai districts of the country due to deforestation in the porous Bhabar Zone. The problem is further aggravated by river based projects without adequate mitigation measures.

#### **G. Mobilizing financial resources**

Nepal has adopted various strategies to improve resource mobilization.

##### ***Domestic Resource Mobilization***

Domestic saving/GDP ratio is declining and has come down to 8 per cent but the revenue/GDP ratio of Nepal is increasing and almost reached 15 per cent in 2008-2009. Since it is below 15 per cent Nepal has not qualified to receive debt relief from the World Bank. This indicates that despite increase, domestic resource mobilisation is still low. But the trends of 2008 and 2009 have been highly encouraging in resource mobilisation front. GON has made some notable interventions for the mobilization of domestic resources:

- Programmes for the qualitative improvement in the performance of revenue administration are continued.
- Improvements and adjustments have been made in the taxes including excise duty, income tax, customs and Value Added Tax (VAT).
- Emphasis has been placed to mobilize local resources.
- The process of enactment of Micro Credit Policy and drafting of Micro finance Act is underway.
- The restructuring of Nepal Bank Limited and Rastriya Banijya Bank, reengineering of Nepal Rastra Bank along with developing institutional mechanisms to take action against wilful defaulters have been continuing. Similarly, restructuring of Rural Development banks has been in progress. These are expected to reduce non-performing assets.
- Legal arrangements are being made for the creation of regulatory authority for Employee's Provident Fund, Citizen's Investment Trust, Postal Saving Bank and agencies engaged in the trusteeship of pension funds.
- Public Procurement Ordinance has been designed to make public procurement system more effective, economic, competitive and transparent.

### ***Foreign Aid***

Importance of managing foreign aid appropriately is obvious in a country like Nepal where bulk of development expenditure is financed through external source and about 12 per cent of government revenue goes for external debt servicing. Foreign aid Policy was prepared in 2002. Attempts are also being made to improve debt management. The new foreign aid policy has also been drafted.

Foreign loan in Nepal is increasing over the years while the ratio of outstanding loan to GDP has been maintained around 50 per cent over the last decade. The ratio of net outstanding loan to GDP was 52 per cent in 2001/2002 and ..... per cent in ..... The decrease, however, is due to declining development expenditure rather than due to resource generation efficiency.

GoN has taken up following initiatives to improve aid utilization.

- Development and implementation of Foreign Aid Policy 2002 with the objective of ensuring the compatibility and convergence of foreign aided development activities with nationally determined priorities.
- Improving the quality, effectiveness and efficiency of foreign aid operations through prioritisation of pro-poor projects.
- Enhanced development partnership between Nepal and donor institutions.
- Economic reforms through various measures.
- Periodic review of public expenditure to undertake procedural reform measures and enhance the spending capacity of the government.
- Prioritisation of projects and programmes to facilitate donor harmonisation for aid effectiveness and coordination.
- Reduction of projects it to a manageable level.

In terms of activities, therefore, there is no dearth of plans and initiatives. The pertaining results are analysed in the next chapter.

### **III. STATUS OF BPOA**

#### **A. Commitment 1: Fostering a people-centred policy framework**

Attaining an annual GDP growth rate of at least 7 per cent, increasing investment to GDP ratio to 25 per cent annually, and halving the proportion of people living in extreme poverty and hunger by 2015 are the major goals and targets under the commitment 1. For achieving those goals, Nepal has adopted policies and measures. With an overarching goal of poverty reduction, Nepal prepared and implemented its 10<sup>th</sup> periodic plan (2002-2007), which is also the Poverty Reduction Strategy Paper (PRSP). PRSP aims to reduce the absolute poverty from 38 per cent in 2001 to 30 per cent by the end of the plan.

The Three Year Interim Plan (TYIP) is based on six strategic pillars (i) relief, reconstruction and reintegration, (ii) employment-oriented, pro-poor and broad-based economic growth; (iii) good governance and effective service delivery, (iv) increased investment in physical infrastructure, (v) social development, and (vi) targetted programmes and inclusive development. To enhance the TYIP implementation, the government has been preparing annually a three-year Business Plan with broader perspective, a three-year Medium Term Expenditure Framework (MTEF) with detailed actions and project specific allocations, an Annual Program for budget implementation and an Immediate Action Plan covering priority policy and actions to be addressed with high emphasis in the annual program. For Macro Economic Stability, the TYIP incorporates macroeconomic framework which emphasizes on (i) maintaining fiscal discipline, (ii) ensuring efficient use of public resources, and (iii) sustaining monetary and external stability. To increase pro-poor investment, prioritization of projects and programs has been implemented since the implementation of the plan.

To achieve defined goals, TYIP emphasizes on Agriculture including agro industries, tourism, infrastructure (irrigation, road, power and communication) and exports. In agriculture the APP (Agriculture Perspective Plan, 1995-2015) is embraced though it is increasingly realised that APP will not yield desired results, and for non-agriculture sector, focus is on reducing the role of state in economic activities by enhancing facilitation and creating an environment more conducive to the private sector development.

Social sector programs (health, education and drinking water) have been duly emphasized in the tenth plan and TYIP. Investment in the sector is considerably increased to direct the program in the rural areas and cover larger population. PRSP/TYIP recognises also the participatory and inclusive development, and strongly advocates for social inclusion. More than 32 programmes are implemented targeting disadvantaged groups of population, including women. Positive discrimination in the public sector opportunities, scholarships for poor, girls, and scheduled casts, priority to conflict affected people in supplying labour to foreign market, loans to needy poor to join foreign labour market, emphasis of involvement of women in the consumer committees in development works are some examples

Nepal has continued the reform measures that started in the mid of the 1980 and enforced in an all encompassing framework in early nineties with the restoration of democracy. During the last two decades, GoN has implemented further financial reforms, improved public expenditure management, strengthened anti-corruption institutions, and improved financial sector regulatory framework. Financial sector reform has been undertaken to improve the performance of loss making public financial institutions. Other major initiatives included (a) governance reform program, (b) decentralization and transfer of local level activities in basic education, basic health, agriculture extension, drinking water, and rural infrastructure to local bodies and the community level management committees (c) Strengthening of monitoring and evaluation system and establishment of poverty monitoring mechanism and (d) Privatisation of public enterprises.

However, average of investment to GDP ratio was 20.0 per cent in the last eight years of the Plan. Private sector investments remained the dominating factor, contributing more than three fourths of the investment in sustaining the level of investments in the economy. Macroeconomic indicators are at a satisfactory level and domestic borrowing/fiscal deficit remained under control despite the country facing severe difficulties during the conflict and thereafter in the current transition period. Slow GDP growth was a major concern. GDP grew at an average annual rate of 4.0 per cent only well below the targeted BPOA and this is the area in which Nepal lagged

**Table 1: Status/trends of indicators under Commitment 1**

Goal / Target	2001/02	2008/09
<b>Goal-1: Attain a GDP Growth Rate of at least 7 per cent per annum</b>		
1. Real GDP (Rs billion at 2000/01 price at factor cost)	427.4	563.4
2. GDP growth rate		3.8
<b>Goal 2: Increase the ratio of investment to GDP to 25 per cent per annum</b>		
3. Investment to GDP ratio (%)	19.6	21.3
<b>Goal 3: Make substantial progress toward halving the proportion of people living in extreme poverty by 2015 (MDG 1, T-1)</b>		
4. % of population below \$1/day (PPP)	37.7 <sup>a</sup>	30.8
5. Poverty gap ratio	9.7 <sup>a</sup>	7.55
6. Share of poorest quintile in national consumption	7.6 <sup>a</sup>	6.2
<b>Goal 4: Make substantial progress towards halving the proportion of people from hunger by 2015 (MDG 1, T-2)</b>		
7. % of population below minimum level of dietary energy consumption	47 <sup>b</sup>	35.2

Note: NA indicates Not Available.

Source: Economic Survey, CBS (2009), Nepal Living Standards Survey (NLSS); Human Development and MDG Report(Global and Nepal) and MOF (2006).

a=1996 data; b=1997 data

significantly behind, the probable reasons being political instability and poor investment climate. Likewise, average annual inflation (CPI) reached a phenomenal 13.0 per cent in 2008-2009, which is now estimated to have come down to single digit in recent times. However, ICOR (incremental capital output ratio) has increased due to increase investments in capital intensive longer gestation projects like hydropower and roads and

to some extent probably due to relative higher rise in costs of investments compared to returns.

Poverty reduced from 42 per cent in 1995/96 to 31 per cent in 2003/2004 – between the 8 years of two Nepal Living Standards Surveys (NLSS). The decrease in poverty was higher in urban areas but the incidence was still higher in the poorer and deprived areas – the mid and far-west Nepal. The income inequality measured by Gini coefficient increased from 0.34 in 1995/1996 to 0.41 in 2003/2004.

The major contributory factor for significant reduction in poverty despite conflict is the increased remittance. It is estimated that the per capita remittances in real terms at 1995/96 prices increased from Rs. 674 in 1995/1996 to Rs.6,909 in 2008-2009 recording a growth of 64.7 percent per annum. Remittance through formal channels increased from Rs. 47.5 billion in 2001/2002 to Rs. 190 billion in 2008/2009 recording an average annual growth rate of 21.9 per cent. The other factors for growth in the transitional situation are increased cash crops production, increased urbanisation with more private expenditure in housing construction, and increase in real wages.

Although Nepal is on the track of the poverty reduction goals under commitment 1, the conflicts and the prevailing situation in the country even after the restoration of peace since mid 1990s has posed serious constraint in attaining the growth target (7 per cent) of the BPOA. The poverty goals, however, are likely to meet with reducing poverty gap ratio. But, the income inequality has risen and the wealth of the lowest quintile has actually declined.

## **B. Commitment 2: Good governance at national and international levels**

Emphasizing Good governance as the fourth pillar of the PRSP and the third strategic pillar of TYIP, various efforts have been made to uphold the rule of law, improve service delivery, and efficiently utilise the limited public resources. The constitution of Nepal stipulates non-discrimination and equality as fundamental rights.

Emphasis is laid in making the government sector accountable, efficient and inclusive and is pursued through civil service reform, decentralization (including fiscal devolution) and corruption control. Right sizing bureaucracy, devolutions and strengthening institutional capacity to combat corruption are underway. 7,344 Government staffs positions have been eliminated as of July 2005. An affirmative policy action has been adopted to increase representation women, Dalit (scheduled cast), Janajati (indigenous people) and disabled populations in civil service, political, economic and social sphere.

In the area of human resources management, a computerized personnel database of civil servants has been developed and internet-based personnel information system operationalized. Performance-based management system is being piloted in three ministries: Ministry of Agriculture and Cooperatives (MOAC), Ministry of Education and Sports (MOES) and Ministry of Health and Population (MHP), which are core service delivery ministries. A permanent body has been established to review salary structure and pay policy of civil servants and to recommend salary increases has been tied to consumer price index. A contributory pension scheme has been introduced to make the pension system sustainable. A comprehensive civil service act Second

Amendment Ordinance has been promulgated in July 2005 by addressing various governance reform programmes.

Nepal has made good efforts in the area of decentralization with the enactment of Local Self-Governance Act 1999, and its Regulations 2000. Full-scale devolution policy has been designed compatible to the Act. Devolution in key sectors agriculture and livestock extension, primary health care, basic education, and infrastructure development has already been started in all 75 districts. Accordingly, management responsibility of number of village agriculture extension activities, sub-health posts, and primary schools are being handed over to local communities. Building on the experience, the government has piloted from 2005/6 “full” devolution at 14 districts. Under this, all the district level activities and district development offices of the government including the resources are being handed over to district public office – DDC (district development committee).

With a set of anti-corruption acts (Corruption Prevention Act 2002, Commission for the Investigation of Abuse of Authority (CIAA) Act Second Amendment 2002, Impeachment Act 2002, Act to regulate financing of political party, 2002) in place, the country has an impressive legal framework to combat corruption. Further, new laws on anti-money laundering are proposed and are in the process of drafting. But enforcement and compliance with the laws still remains weak due to inadequate technical strength.

Apart from the above, some other policy measures taken are as follows:

- (i) Establishment of National Human Right Commission.
- (ii) Promoting industrial peace, healthy and safe working environment to labourers and eliminating child labour.
- (iii) Establishment of peace secretariat to assist in the resolution of armed conflict and the ongoing insurgency.
- (iv) Amendment of national country code on women's right to property and a conditioned right to abortion.
- (v) Identification of 59 indigenous/ethnic people, and enactment of Indigenous and Ethnic Peoples' Development National Academy Act 2001 to set up a separate academy with the objective of bringing ethnic and indigenous people to the mainstream of development.
- (vi) Setting up of National Dalit (scheduled cast) Commission for Dalit's uplifting. A work on preparing Dalits' Rights Preservation Bill is underway. Programs targeted at the upliftment Dalit has been implemented through Dalit Development Board.

Despite various reform initiatives, owing to the recent conflict situation, their successful implementation is a major challenge. Decentralization process received a setback due to the long absence of elected representatives from village to central level since July 2002. The ongoing insurgency has had its toll on the electoral process. The election of the Constituent Assembly is a landmark achievement with the representation of almost one third of women and proportionate representation of various socio-ethnic groups has made it most inclusive and representative in the annals of Nepalese history. Results of some recent initiatives and reforms mainly on social inclusion can be evaluated at a later date.

### **C. Commitment 3: Building human and institutional capacity**

The BPOA contains 18 quantifiable goals and 63 targets in these areas. They address access of people to nutrition, health, drinking water and sanitation, education and their social integration.

The second and third pillars of the TYIP-PRSP address the concerns of the third commitment of BPOA. While the fifth strategy focus on the social sector development including human development in general, the sixth strategy of the TYIP seeks a commitment to promote inclusive development reducing disparity by caste, ethnicity and gender in the implementation of all the strategies and also implement more than 32 targeted programmes as stated earlier.

#### ***Health***

National Health Policy was adopted since 1991. A 20 year (1997-2017) Second Long Term Health Plan (SLTHP) is also under implementation. Based on SLTHP and MDG, the major strategies and policies under quality include: (i) extension of public health services, (ii) Emphasis preventive measures, (iii) management through decentralization of the health sector, (iv) ensure easy access to health services to all citizens, (v) partnership between government, non-government and private sector to provide health services, (vi) ensure enabling environment of utilizing available health services, and (vii) Control/eradication of specific diseases like HIV/Aids, Malaria, Tuberculosis.

Nepal Health Sector Programme has been implemented to address the strategies with specific emphasis on (i) providing safety nets to the poor, under-privileged and socially excluded, (ii) developing alternative health financing scheme, and (iii) providing quality health care services. As part of sector reform, the government has initiated management transfer of health facilities to local bodies, a total of 1,434 health posts of various categories have been transferred to communities in 29 districts. As a pilot effort, management of one district hospital has been contracted out to NGOs under public-private partnership initiative. Community health insurance has also been piloted in some areas.

Despite improvement in many of the health related indicators as shown in Table 2, the results in BPOA targets is highly encouraging though it may be difficult to attain some of these indicators. There is a need for the intensification of the efforts on HIV/Aids preventive health measures and improving the maternal health in Nepal.

**Table 2: Status/trends of selected health related goals and indicators under Commitment 3**

Goal / Target	2001/2002	2006
<b>Goal-5: Make accessible reproductive health to all as soon as possible and no later than 2015</b>		
8. % of births attended by skilled health personnel	11	18.7
9. % of women reporting 4 or more antenatal visits	37.9	29.4
<b>Goal-6: Make available safe, effective, affordable and acceptable family planning and contraceptive methods</b>		
10. Contraceptive use (modern method) by current married women	35.4	NA
11. Contraceptive prevalence rate – any method (%)	47.9	44.2
<b>Goal-10: Reduce infant mortality rate below 35 per 1,000 live births by 2015 (MDG 4, T-5)</b>		
29. Infant mortality rate (IMR)	64	48.0
30. % of 1 year children immunised against measles	71	85
31. % of 1 year children immunised against TB	84.5	934.2
32. % of 1 year children immunised against DPT3	72.1	88.3
<b>Goal-11: Reduce under 5 mortality rate below 45 per 1,000 live births by 2015 (MDG 4, T-5)</b>		
33. Under five mortality rate	91	61
<b>Goal-12: Reduce maternal mortality rate by three quarters of the current rate by 2015 (MDG 5, T-6)</b>		
34. Maternal mortality rate	415	281
<b>Goal-13: Reduce undernourished people by half, by 2015 (see indicator 7)</b>		
<b>Goal-14: Reduce by half, by 2015, the % of people who are unable to reach safe drinking water (MDG 7, T 10)</b>		
35. % Population with sustainable access to improved sources	73	84

Source: NPC/UNCT (2005), Nepal MDG Progress Report 2005; MOH, New ERA and ORC Macro (2002), NDHS 2001, NDHS 2006.

### **Education**

The major strategies and policies include: (i) attain universal literacy by ensuring to access to all (ii) emphasize public participation for the overall management of school in line with decentralization, (iii) increase technical and skilled human resource, (iv) increase secondary level access to those completing primary school, (v) enhance the quality of education at all levels, (vi) adopt the principle of cost recovery in higher education, (vii) conduct additional programmes for the enhanced access of education to Dalit (oppressed people), and backward communities.

Nepal is making efforts for providing access to primary education for all 5-9 year old children under its “Education for All” (EFA) programme (2001-2015), based on the Dakar Conference. Universal primary education is aimed at achieving through decentralized planning and management of school education and other innovative measures.

**Table 3: Education indicators**

Goal / Target	2001/2002	2008/2009
<b>Goal-7: Ensure that by 2015 all children have access to and complete primary education (MDG 2, T3)</b>		
12. NER in Primary Education – Both sexes (%)	81	92
13. NER ratio in primary education, girls (%)		
14. NER ratio in primary education, boys (%)		
15. % of pupils starting grade 1& reaching grade 5 – both sexes	63	76
16. % of pupils ... 1 and reaching grade 5 – girls		
17. % of pupils ... 1and reaching grade 5 – boys		
<b>Goal-8: Achieve 50% improvement adult literacy by 2015 ...</b>		
18. Adult literacy rate, both sexes	44	58
19. Adult literacy rate, girls	19.4	44
20. Adult literacy rate, boys	53.5	73
21. Literacy rate 15-24 year olds, both sexes	70.1	73
22. Literacy rate 15-24 year olds, both sexes		
23. Literacy rate 15-24 year olds, both sexes		
<b>Goal-9: Eliminate gender disparities in primary and secondary education by 2005, and (MDG 3, T-4)</b>		
24. Ratio of girls to boys in primary education	0.79	0.948
25. Ratio of girls to boys at secondary education	0.7	0.82
26. Ratio of literate women to men 15-24 year olds	NA	0.73
27. % women in wage employment in non-agri sector		
28. % of seats occupied by women in parliament		

*Source: Ministry of Education and Culture.*

In the spirit of the Decentralization (Local Self Governance Act, 1999) School Management Committee (SMC) at local level is entrusted to planning and monitoring of school activities through school improvement plan. SMC has the authority to allocate and use resources and hire and manage teachers. The role of government has been gradually shifted from a direct implementer to that of a facilitator by providing block grant based on the School Improvement Plan, Village and District Education Plans, and monitoring results of quality and access to education. In order to enhance the quality of education, steps like teaching license system, mandatory women teachers in preschool, at least one women teacher in primary level, and school operation grant manual for a cost sharing in secondary education have been introduced to enhance quality and reduce government financial liability in education.

In order to enhance the access to education to the disadvantaged groups of population, scholarship is provided to girls, and children from deprived communities; and NGOs and support organisation are encouraged to run literacy programmes. Scholarship budget to cover deprived groups, girls and remote areas has been increased almost over the years and all the girls completing high school from 24 remote districts has been provided full scholarship to pursue their education at 11th and 12th level. The government has launched an enrolment campaign (School Welcome Program) targeting out-of-school children, focusing on the poor and disadvantaged, as a means to extend the coverage of primary education. Policy of recruiting female teachers and nutrition programmes has also supported the enrolment increase. Moreover, government has increased social sector allocation in successive annual budgets. In FY 2009/2010, about 45 per cent of total budget was allocated in social sector and 16.6 per cent in education.

Under the decentralised management, in total 9,414 primary schools have been handed over to School Management Committees at local level. Moreover, over the years, student enrolment in primary education has steadily increased; disadvantaged children's access to primary education has improved; and primary cycle completion rate has risen. There is also a significant increase in the number of trained and certified teachers.

Despite considerable progress in the education, there are challenges as to how to address the quality and equity. The quality of education in public schools, where generally poorer than that of private schools and access to private school is beyond the reach of poor. This further creates disparity between rich and poor. In order to address this issue there is a need for increasing resource allocation to the education. Successful implementation of the recently initiated school management transfer program would help enhance education quality in public schools.

Disruption of education of displaced children is another major issue as a substantial number of students have been displaced from the conflict-hit areas. Besides, quality and relevance of the education remain a serious issue.

### ***Drinking Water and Sanitation***

The overall strategy in the water supply and sanitation sector is to increase sustainable access to safe drinking water supply and sanitation facilities to both rural and urban areas. It will improve health, lessen drudgery, and save time (mostly of mothers). Moreover, it has many indirect effects such as increase in literacy rate of the women, improved child well being, etc. The TYIP target is to make basic drinking water services available to 85 per cent (from 76.6 in 2006/2007) of the population. In implementing the strategy, the plan has envisaged a number of policy emphasis including: (i) cost recovery in the operation of drinking water supply (DWS) projects, (ii) implementation of rural DWS projects through consumers' committees or NGOs while ensuring conservation of local resources, (iii) priority to DWS projects affordable to consumers committees based on simple and appropriate technology, (iv) priority to reconstruction and on-going rural DWS projects, (v) development and conservation of natural water storage, (vi) sanitation as an integral component of drinking water project, (vii) improvement of water quality, (viii) adhering to 2007 drinking water standards, (ix) ensure sustainable water supply, (x) gradually extend the service standards as per the water supply and sanitation policy, 2004, (xi) promote and extend sanitation facilities with the participation and contribution of local agencies and users' committees, and (xii) strengthen institutional capacity to extend defined services.

In the last 8 years, considerable progress has been made including the policy shifts. So far, the 1998 Water Supply and Sanitation Policy document has been revised and a new water and sanitation policy declared in 2004 for the Rural Water Supply and Sanitation Sub-sector. The policy has clarified the roles of sector agencies and incorporated the demand driven and participatory approach (the matching grand Fund Board approach) to service delivery.

**Table 4: Status/trends of selected drinking water related goal and indicator under Commitment 3**

Goal / Target	2001/2002	2004/2005
<b>Goal-14: Reduce by half, by 2015, the % of people who are unable to reach safe drinking water (MDG 7, T 10)</b>		
% population with sustainable access to improved sources	73	81

*Source: NPC/UNCT (2005), Nepal MDG Progress Report 2005, Ministry of Physical Planning.*

TYIP targets for water supply are likely to be achieved, however, the sanitation targets are not likely to be achieved given the current rate of resource investment and the trend of achievements. It is estimated that sanitation has reached 48 per cent households.

### ***Social integration***

Nepal is country with diversity both in natural and socio-economic features. Different races, castes and indigenous population live in three different ecological regions – Mountain, Hills and Tarai. Social inclusion of women, low castes, and disadvantaged indigenous groups is poor. This discriminates between the citizens in terms of access to resources and services. People in mountain are poorer, and those of mid- and far-west development region further poorer. The society is still marred with feudal characteristics because of low level of literacy and deep-rooted traditions. This has been one of the causes of rising conflict in the country since in new areas like Terai. Thus, social cohesion and integration is an issue in Nepal.

Inclusions are emphasized in all activities. TYIP has critical made special emphasis on targeted programmes with various support activities and affirmative actions as mentioned earlier. However, the progress speed is inadequate due to the resource constraints. Moreover, there is need for better identification and targeting of the programmes to reach to the more needy.

## **D. Commitment 4: Building productive capacities to make globalisation work for LDCs**

### ***Transportation and Communication***

Improving and modernising means of transportation and increasing communication networks to integrate rural area is necessary for enhancing productive capacity to alleviate poverty. GoN has policy of developing, constructing and expanding road networks for improving connectivity by promoting also the public private partnership. Using appropriate technology and managing environment have also been emphasized.

**Table 5: Status/trends of selected transport and communication related goals and indicators under Commitment 4**

Goal / Target	2001/2002	2006
<b>Goal-22: Increasing road networks in LDCs to the current level of other developing countries &amp; urban road capacities, including sewerage and other related facilities by 2010</b>		
Total road network (km.)	15 905	19 209
Air passengers carried (number)	1 879	2 562
<b>Goal-27: Increasing average telephone density to 5 main lines per 100 inhabitants and internet connection to 10 users per 100 inhabitants by the year 2010 (MDG 8, T-8)</b>		
Telephones lines per 100 population	1	3.7
Estimated number of internet users (in thousand)	45	120

Sources: MOF (2005) *Economic Survey 2004/05*; NPC (2002), *Tenth Plan*; NPC/UNCT (2005), *Nepal MDG Progress Report 2005*.

GoN has prepared and implemented policies to involve consumer groups and community based organisations in selection, preparation and implementation of the development projects in rural infrastructure. Private sector involvement is also encouraged with the provision of Build Operate and Transfer (BOT) and Build Operate Own and Transfer (BOOT). Likewise, private sector involvement is promoted also in the maintenance of national and local road networks by establishing Road Board, which comprises majority of the members from non-government sector. In line with decentralization local road activities of the Department of Roads is shifted under the jurisdiction of local authorities.

Fifty-four districts (out of 75 in the country) have prepared district road master plan. Moreover, 20-year road sector master plan is being prepared in the country. GoN has given highest priority in linking district headquarters by road network and in this connection 70 out of 75 district head quarters have been connected by road and three other district headquarters are expected to be connected shortly.

GoN has embraced information and communication as pivotal to development of the country. Enhancing participation of private sector, effective development of broadcasting services and flow of information and capacity enhancement of postal services are some major policies of the government. IT policy 2000 has been revised with focus on cyber regulation, e-governance and e-commerce. The telecommunications Policy 2004 of HMG has been made people-centred and service-oriented. In recent years, privatisation of government owned Nepal Telecom is in process. With multiple efforts, there has been significant improvement in the telecommunication within a short period. Telephone lines are more than seven million including about one million landlines and the rest mobile. VDCs accessed by telephone lines has reached 3,229 or 82.5 per cent. Three private sector organizations have entered in the business and mobile service has reached almost 6 million by 2009.

GoN has fixed targets of extending 40 lines telephone service to every 1,000 population, and extending telephones services in all about 4000 Village Development Committees (VDC) of the country by 2007. The number of additional districts connected with road is expected to be 6 by 2006 as against the target of 10 by 2007 and road expansion by 2005 is 3,317 km (638 km strategic road and 2,679 km rural roads).

Both in transportation and communication, meeting the BOPA target is grossly inadequate due to low base and dampened progress in extending the coverage in the recent years. As to the telephones, it still is urban. There are as large as 27 people per telephone line (Table 5). The road construction at present is being done mostly either through community involvement at local level or through security support under the concept of “development and security”.

### ***Technology and Enterprise Development***

TYIP has the objective of carrying out research and development works on appropriate technology for rural development while at the same time exploring new technology suitable for sustainable and overall development of the country. Mobilization of private sector and import of appropriate foreign technology to contribute to the socio-economic development of the country has been emphasized.

New Industrial Policy has been drafted, and entrepreneurship development trainings have been conducted. The government and umbrella organizations of the private sector are jointly revising labour laws. Promoting training institutes and capacity building of the apex bodies of the business organizations are also being undertaken.

### ***Alternative Energy***

The objective of the sub-sector under the TYIP is to develop and expand alternative energy as a contributor to rural development, alleviating poverty and reducing dependency on imported energy. As most of the rural people are deprived of electricity it needs a huge investment to connect rural sector and supply power from the national grid, and therefore development of alternative energy, which requires less investment will be pragmatic approach to improve the rural life faster.

Major strategies and policies of the sub-sector include: (i) promotion and expansion of micro hydropower, solar power, wind power and improved ovens in the rural areas; (ii) expansion and development of alternative energy to uplift the life standard of rural people; (iii) use alternate energy in the development of IT in rural areas; and (iv) establishment of rural energy fund for the sustainable development of rural energy and conducting necessary research on alternative energy. Among others, the 10<sup>th</sup> Plan targets for providing electricity services to 12 per cent of the rural people from alternative energy sources, and supply of electricity in 1000 VDCs.

### ***Electricity Expansion***

The TYIP has also provided strategies and policies for the electricity development. Comprehensive approach on developing and managing hydroelectricity in the context of national development, developing power with joint investments, and expanding rural are some of the major policies. A twenty-five year National Water Plan (2002-2027) has been developed with an integrated strategy of developing hydropower, irrigation and other related components. As per the plan, 54 per cent of the population is to be served by electricity by 2010.

## *Agriculture and Agro Industries*

Agriculture Perspective Plan (APP) implemented by the government since 1997 remains the core of the agricultural growth strategy. APP envisages diversification and commercialisation of agriculture by speeding, in the output front, cereal production in the Tarai and the production of fruits, high value crops including Non-Timber Forest Products (NTFPs), and livestock products in the hills and mountain regions of the country. These are to be achieved by managing four key inputs namely need-based research and extension, eased fertilizer supply, controlled year-round irrigation, linkage of potential production pockets to market through rural agricultural roads and the expansion of rural electrification.

Review of the APP implementation, and the formulation of an APP Implementation Action Plan have been completed by MOAC. The basic objective of the review was to reorient the agricultural sector towards commercial agriculture. Policies in agricultural sector also need some additional reforms to address issues raised by WTO and SAFTA membership.

PRSP and TYIP have emphasized to intensify the implementation of APP. Accordingly, it has given highest priority to agricultural and rural development with emphasis on progressive private sector involvement in input and output marketing, strategic and coordinated provision of public infrastructure and services, partnership with private providers including NGOs, and devolution of rural services.

Some important activities ongoing in the sector are as follows:

- Focus research and extension towards agriculture commercialization and diversification;
- Mobilization of private sector and NGOs as partner service providers on a contract basis;
- Monitoring, quality control and regulation of inputs supplied by private sector;
- Transfer of extension services to local bodies and veterinary services to private sector;
- Conversion of agricultural farms/stations into resource centres;
- Promotion of cooperative and contract farming;
- Development of market centres;
- Integration of rural roads irrigation and micro-irrigation for agricultural intensification;
- Mainstreaming women and disadvantaged groups in farmer group formation in developing enterprises;
- Supplying food in food deficit remote districts to maintain food security.

In spite of the policy initiatives, agriculture diversification and commercialisation needs to be widened as it has concentrated in limited pockets. There is need for bringing efficiency in the marketing of high value crops, off season vegetables, livestock products (meat, milk and eggs) and fruits.

### **E. Commitment 5: Enhancing the role of trade in development**

About 20 per cent of Nepalese export is related to agriculture and the country has large potential of expanding it. Recognising the role of trade in economic development, the government moved for liberal and market oriented trade policy since the mid-1980s. Trade policy reform marked a fundamental departure from the earlier restrictive approach. As a result, there has been gradual increase in Nepal's international trade, and change in the structure of the trade. The PRSP aims at mainstreaming trade with poverty reduction initiatives. Transit point development between India and China through Nepal is a recent initiative being promoted by the country at present. Policy towards developing appropriate route and related services is under way.

Nepal has become the full-fledged member of WTO on 23 April 2004. Nepal is also a member of two regional trading arrangements: SAFTA and BIMSTEC. This would help to integrate the Nepalese trade at the regional and global level. However, challenge is to prepare herself to be able to take the advantage specifically by increasing quality production and by preparing infrastructure for meeting certification standards. Nepal has recently reduced the tariff on some commodities supporting the principles of SAFTA and BIMSTEC.

Although the expiry of the multi-fibre agreement has affected the Nepalese garment entrepreneurs, the provision of duty free and quota free access for the 32 LDCs in the developed countries' market concluded in the 6<sup>th</sup> Ministerial Conference at Hong Kong recently has opened up opportunities for export. However, the country has to develop both supply side arrangement and transit framework to take full advantage of it.

### **F. Commitment 6: Reducing vulnerability and protecting the environment**

Nepal prepared a 15-year sustainable development agenda (SDA) in May 2003. It aims to guide and influence national level planning and policies up to 2017. As aimed in the SDA, the equity between generations requires keeping natural capital intact. In Nepal, the area of effective forest has decreased to 29 percent and there is more than 10 percent land as bush land, which were once forest. HMG is committed to recover it through promotional programs. HMG has emphasized community and leasehold forestry under APP as one of the strategy. There has been successful implementation of community forestry, and partial success in the leasehold forestry. This is expected to ameliorate the process of deforestation and also help in alleviation in poverty. Community forestry of Nepal is considered as one of the successful world model.

HMG has developed different policies and adopted various measures in order to protect and promote the environment. Chief among them include preparation of National Environmental Policy and implementation of environmental impact assessment guidelines. In the field of disaster, National Strategy for Disaster Management is also being prepared, and disaster preparedness and mitigation programmes are under implementation. Likewise, water induced disaster management has been given priority in the National Water Plan (2002-2027).

Besides, Government is emphasizing rural infrastructure development including transportation and communication, and other superstructures such as schools and health

facilities, which will further build the capacity of the people to fight against risks, and will also reduce vulnerability.

However, for the last decade the problem of flooding and inundation has been increasing in the Tarai districts of the country due to deforestation in the porous Bhabar Zone. The problem is further aggravated by dam constructions without adequate mitigation measures. Some problems are of multi-country consequence.

### G. Commitment 7: Mobilizing financial resources

There is critical role of external financial resources in achieving the goals of the BPOA. Achievements on three financial goals are inadequate and status by target category is mixed. Nepal MDGs Needs Assessment Study estimated a total resource requirement of US\$ 16 billion, with a financing gap of US\$ 7.6 billion for the next decade 2005-2015. This necessitates scaling up of the external support level by more than 50 per cent if the MDG goals are to be met as targeted. The evaluation of MDG status and Supportive environment has been given in Table 6.

<b>Three Goals under Commitment 7</b>
<b>Goal 28:</b> Donor countries providing more than 0.20 per cent of their GNP as ODA to LDCs: Continue to do so and increase their efforts (MDG 8, T-13)
<b>Goal 29:</b> Other donor countries, which have met the 0.15 percent target: Undertake to reach 0.20 per cent expeditiously.
<b>Goal 30:</b> All other donor countries, which have committed themselves to the 0.15 per cent target: Reaffirm their commitment and undertake either to achieve the target in next 5 years or to make best efforts to accelerate their endeavours to reach the target.

**Table 6: Nepal's Progress towards MDGs status and supportive environment**

<b>Goals</b>	<b>Will the goal be reached ?</b>	<b>Status of supportive environment</b>
1. Eradicate extreme poverty and hunger	Likely	Fair
2. Achieve universal primary education	Potentially	Strong
3. Promote gender equality and empower women	Potentially	Fair
4. Reduce child mortality	Likely	Strong
5. Improve maternal health	Potentially	Improving
6. Combat HIV/AIDS, malaria and other diseases	Unlikely	Weak but improving
7. Ensure environmental sustainability	Likely	Fair

\* The probability of the attainment of goals is categorized into: likely, potentially, unlikely and lack of data.

# The status of supportive environment is categorized into: strong, fair, weak but improving and weak.

Source: Nepal MDGs – Progress Report 2005, HMG/UNDP/N, Kathmandu.

## ***Domestic Resource Mobilization***

Domestic saving/GDP ratio and revenue/GDP ratio of Nepal remained between 12 to 13 per cent in the last three years of the 10<sup>th</sup> plan. In recent years, the effort of domestic resource mobilization has been further constrained by the sluggish growth, low use of natural resources and weak domestic corporate sector due to high NPA (non performing assets). However, the recent emphasis has brought amazing results in domestic resource mobilisation with the achievements exceeding the target and recording phenomenal growth in 2008-2009. The domestic resource mobilisation reached just under 15 per cent of GDP in 2008-2009. Growth in the first four months of 2009-2010 is also highly encouraging recording growth of 42 per cent and expected to cross 15 per cent of GDP. GoN has made some interventions for the mobilization of domestic resources:

- ❑ Programmes for the qualitative improvement in the performance of revenue administration are continued.
- ❑ Improvements and adjustments have been made in the taxes including excise duty, income tax, customs and Value Added Tax (VAT).
- ❑ Basic social services and rural infrastructure are devolved to local level to mobilize local resources.
- ❑ The process of enactment of Micro Credit Policy is underway. Similarly, the drafting of Micro Finance Act is under way.
- ❑ The restructuring of Nepal Bank Limited and Rastriya Banijya Bank, reengineering of Nepal Rastra Bank have been continuing. Similarly, restructuring of Rural Development banks has been in progress.
- ❑ Legal arrangements are being made for the creation of regulatory authority for Employee's Provident Fund, Citizen's Investment Trust, Postal Saving Bank and agencies engaged in the trusteeship of pension funds.
- ❑ Institutional mechanism is strengthened to take action against wilful defaulters for marinating bank discipline.
- ❑ Public Procurement Ordinance has been designed to make public procurement system more effective, economic, competitive and transparent. This will also help enhance people's participation in development.
- ❑ Strong focus and commitment in domestic resource mobilisation.

## ***Aid and Its Effectiveness***

Importance of managing foreign aid appropriately is obvious in a country like Nepal where more than 60 per cent of development expenditure is financed through external source and about 12 per cent of government revenue goes for external debt servicing. Foreign aid Policy was prepared in 2002. An ADB TA was implemented during 2004-2005 for institutional strengthening of debt management. A draft policy is also prepared for systematic management of public debt. A new draft policy has been readied to incorporate timely changes.

Foreign loan in Nepal is increasing over the years while the ratio of outstanding loan to GDP has been maintained around 50 per cent over the last decade. The outstanding foreign loan increased from Rs 220 billion in 2001/2002 to Rs 274 billion in 2008/2009 with a growth of 3.2 per cent a year in nominal term. The ratio of net

outstanding loan to GDP was 52 per cent in 2001/2002 and 30.0 per cent in 2008/2009, the fall attributed to fall in development expenditures along with rise in domestic resources. Country like Nepal which was trying to maintain its discipline in foreign debt should be encouraged by providing additional incentive to join the Heavily Indebted Poor Countries Initiative of IDA and IMF.

Experience reveals that there is significant scope for improving foreign aid utilization in the country. HMGN has taken up following initiatives:

- Development and implementation of Foreign Aid Policy 2002 with the objective of ensuring the compatibility and convergence of foreign aided development activities with nationally determined priorities.
- Improving the quality, effectiveness and efficiency of foreign aid operations and enhancing its contribution to poverty reduction through prioritisation of pro-poor projects.
- Enhanced development partnership between Nepal and donor institutions. HMG has been utilising the Nepal Development Forum (NDF) as a platform for open dialogue with development partners.
- Economic reforms through various measures.
- Periodic review of public expenditure to undertake procedural reform measures and enhance the spending capacity of the government.
- Prioritisation of projects and programs to facilitate donor harmonisation for aid effectiveness and coordination.
- Reduction of projects to bring it to a manageable level.

### ***Foreign Direct Investment (FDI)***

Economic reform measures, open and liberal policy adopted by the government have opened the ground for foreign investment in Nepal. A separate industrial policy and Acts are in operation. Total fixed capital of the industries amount to more than Rs 74 billion. Of this the share of foreign investment is about Rs 26 billion. Employment contribution by the industries is estimated to be 98,361. FDI has been increasing in the recent years. During 2002-2005, FDI worth Rs. 5.4 billion is added contributing to about 11 thousand employments. FDI is estimated to have been rising in recent times too but the trend does not appear to be encouraging as the industrial climate is still reported to be susceptible. Speeding of industries development with FDI in the country requires establishment of lasting peace.

## **IV. ISSUES, LESSONS LEARNT, CONCLUSION AND RECOMMENDATIONS**

### **A. Issues and challenges**

Nepal, one of the LDCs of the lower rung, is facing multi-various problems that of poverty, disadvantage and slow growth on the one hand and on the other growing insurgency and need to create a peaceful environment. The resulting achievements have hardly been awe-inspiring as is to be expected. Of course, things have not stood still and progress has been made in many aspects.

At a time when things are expected to move much more positively in the direction of growth and prosperity translating MDG/PoA move purposefully, the country is engrossed in diverting resources from development to security, from productive to destructive, from welfare to abandonment. The important issues and challenges Nepal has had to encounter are stated below.

1. Political Transition, which has started in mid-nineties, took serious turn pushing the country at the threshold of civil war. Insurgency and the subsequent political instability have impacted many problems direct and indirect, some of which can be listed as (i) increasing resource diversion from development to security; (ii) serious effect to economic activities particularly industrial activities; (iii) increasing internal migration causing overflow to urban and semi-urban areas but reducing economically active population in the rural areas; (iv) dwindling or virtually no investment in productive sectors; (v) rising costs of business and development; and (vi) enhanced risk. In many areas, since long no development activities have been able to be taken. The deprived regions and populace, thus, have become more deprived.

2. Political instability has seriously eroded economic prospects and activities. The government has not been able to bring necessary policies or proactive initiatives in the socio-economic front. On the other, frequent closures, strikes and agitations have seriously disrupted the economic activities. In the situation, it is praiseworthy that Nepalese economy is still sustaining and growing even at a marginal level showing the resilience of the economy.

3. Governance has been a serious issue. Engulfed in the crisis, the governance, to a lot of extent, has concentrated on political and social issues rather than development and service delivery. More importantly, the quality and efficiency of service delivery has hardly been inspiring. The agenda of decentralization, efficiency, service delivery all have come down to futile platitudes. In the difficult situations, it is more pertinent that governance is improved and act in an assuring manner. In the absence, the situation has become less than satisfactory. It is of course not to belittle efforts from diverse quarters.

4. Sluggish economic growth hardly matching the population growth has been a major deterrent. It has not really helped to alleviate poverty. The widening gap between haves and have-nots and the increasing rural urban divide have been far from encouraging. Deprived and disadvantaged communities continued to suffer and their problems aggravated in many cases. Unless development strategies are clearly focused targeting these inherent issues, desired effects cannot be generated.

5. Continued high population growth has been a major challenge to Nepal. The population growth rate estimated at 2.25 percent per annum is the highest in the SAARC regions except Pakistan. This does not help to yield desirable results.

6. One of the critical issues is inadequacy in development, capital expenditures and poor capacity to use even the meagre resources. Corruption and other malpractices lead to increase costs of development significantly. A lot of wastage in costs is reported in foreign assisted projects too. The result has been lesser productivity, higher ICOR and lesser overall benefits.

7. The status of infrastructure also is yet to be desired. Inadequate access and energy are principal deterrents for quick development. True infrastructure development is not easy in difficult physical terrain. It does not make it easy to create a socially and economically prosperous nation. Access is still limited and a large geographical area is deprived of even basic infrastructure. In recent times, load shedding has seriously affected production and economic activities.

8. Slow growth, subsistent economy and limited scope of revenue are affecting revenue mobilisation. Resource paucity seriously restrain the nation to march ahead fuelled by the depleting foreign assistance in view of the situation of the country, has not helped the cause. The recent improvement in resource mobilisation however has raised hopes for better leverage and promoting more development initiatives.

9. The human resources remain under developed. Some developed ones are not placed properly. Quite a few have opted for greener pastures abroad. In the situation, inadequacy of quality human resources worsened by poor utilization of such resources does not help improve the country. Drive against poverty, both in economic and social terms, has become weak resultantly.

10. Institutional capacity in many cases is also limited besides resource constraint as specified above by slow inefficient and arduous processes, poor utilization of resources and lack of institutionalisation of systems. In many cases, persons dominate than the systems. More emphasis is given to processes than results. Even in good governance efforts and initiatives to curb corruption and other malpractices, emphasis does not appear to have changed from processes to goals. The result has been weak, static and inefficient institutions.

## **B. Lessons learnt**

1. The most important lesson learnt is that things are happening and it is possible to do things provided right approaches and strategies are adopted. CBOs and local based NGOs have been operating and have become means for reaching otherwise unreachable areas. This has helped to continue development and economic activities and many donor assisted projects have been able to continue. The GoN has also given special focus to disadvantaged regions like Karnali, Mid-West and Far Western regions.

2. It is not necessary that economic development should precede human or social development. Nepal has been able to achieve more in human and social development, while in the economic front, the scenario is hardly anywhere near satisfactory level.

3. Institutional strengthening and institution building are requisites for sustained development efforts.

4. There is a need to make all efforts cost effective and transparent. An LDC like Nepal, with pronounced resource deficiency, cannot afford to be wasteful.

5. Activities with better vision will always result in better results. Only through proper vision, strategies and concerted efforts, development goals can be realised.

6. Simple interventions, if done in a right and proper way can make big impacts. There is no need to launch big projects or activities to create favourable impacts.

7. Better results can be derived if purposive segmented strategies e.g by target groups are adopted.

8. Partnership approach, networking and using the institutions or agencies according to their strength are more effective than individualistic efforts.

### **C. Conclusion**

Nepal's achievements in PoA and MDG are at best moderate only mainly caused by unfavourable situation though in some areas including reduction in poverty, the targets are most likely to be achieved nay even surpass it. However, implementation impediments remained. Further there was an obvious lack of coordination between the planning body and the executing agencies. Thus, apart from the conflicts and political reasons, Nepal has lagged behind due to institutional reasons as well.

The growth scenario in the past seven or eight years has been discouraging with the actual growth attained just over half of the target. The growth target, thus, will remain heavily under attained despite maintenance of macro-economic stability and growing contribution of remittances. Evidences are available about the reduction of poverty in some quarters. But the most disadvantaged communities and regions have lagged behind with hardly any symptoms of changes particularly in rural areas.

Gender discrepancy and social discrepancy are still persisting though particularly in gender, the gap is declining. Social and human capacity indicators like in education and health sectors, however, are improving and prospects are good about their attainment.

The achievements in themselves are not small if we consider the prevailing situation in the country. However, it will have to do much more if MDG/PoA goals are to be attained. In this respect the proposed three year plan (2010-2013) aiming to attain MDGs with three year targeting having five year perspective is expected to contribute positively in this direction.

### **D. Recommendations**

1. Nepal must try to create a peaceful environment. The investment climate will have to be improved if sustained growth is to be attained.

2. There is a need to ensure most efficient use of available resources. Continuous monitoring, bench marking, transparency, abatement of corrupt practices and proper auditing including social auditing should help to attain this goal.

3. Institutional strengthening including human resource development, their proper use and systemic approaches should help to enhance the capacity to attain goals in an easier manner.

4. Positive discrimination policy must be forwarded to mitigate gender gaps and community, regional and ethnic differences. The policy of social inclusion needs to be adopted with priority.

5. Coordination must be promoted between planning and executing bodies through mutual operations networking and exchange of information.

6. Strategies need to be dynamic and suitable to grass root realities. Segmented strategies as per specific groups' needs may help to improve the achievement.

7. Transparency, inclusion and participatory approaches must be promoted to attain better results and motivate people.

8. Proper partnerships and networking are essential to develop synergy of resources and implementation capabilities. Similarly agencies which are likely to succeed most should be given the task whether they be government agencies, private sector, local bodies, NGOs or CBOs.

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