



Technical Assistance Report

Project Number: 39604
December 2007

Nepal: Economic Policy Network II

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 10 December 2007)

Currency Unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.16
\$1.00	=	NRs63.3

ABBREVIATIONS

ADB	–	Asian Development Bank
EPN	–	economic policy network
MOF	–	Ministry of Finance
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Law, economic management, and public policy
Subsectors	–	Economic management and public finance and expenditure management
Themes	–	Sustainable economic growth, private sector development, and capacity development
Subthemes	–	Promoting economic efficiency and enabling markets; policy, institutional, legal, regulatory reforms; and institutional development

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. In 2003, the Asian Development Bank (ADB) provided technical assistance to the Government of Nepal to establish an economic policy network¹ to facilitate policy dialogue among various stakeholders, foster consensus, and secure commitment to facilitate implementation of the policy reform agenda. The Government has asked ADB to continue this support through a second phase. Consequently, this TA, Economic Policy Network II, was included in the 2007 program. The Fact-Finding Mission during 14–23 August 2007 gathered inputs on the TA scope and design; and met with government agencies, private sector organizations, and policy research institutions. It reached an understanding with the Government on the TA objectives, scope, costs and financing, tentative implementation arrangements, and counterpart support.² The design and monitoring framework is in Appendix 1.

II. ISSUES

2. Nepal implemented a policy reform agenda in the early 1990s to accelerate the pace of economic development and reduce poverty in the country. However, the progress on the policy reforms has been inadequate due to weaknesses in policy formulation and implementation. The 2003 ADB-supported TA helped the Government to (i) develop a network for economic policy dialogue and analysis; (ii) undertake policy research and analysis, and information dissemination on several policy issues, and (iii) strengthen networking among government agencies, private sector, academic institutions, and nongovernment organizations.

3. However, despite strong leadership by the Government line ministries, adoption and implementation of the policy recommendations has been slow. The reform process needs to be sustained and consolidated as policy reforms involve the competing interests of different stakeholders. Further, since implementation of the sector policy recommendations is largely determined by the line ministries, their ownership needs to be deepened to ensure that they undertake the policy reforms. The implementation status of the first phase of the support must be assessed, and conditions identified to enhance implementation of policy recommendations.

4. The Government is preparing a 3-year interim development plan to address the development challenges during the ongoing political transition. The main strategies identified in the plan are reconstruction and rehabilitation of physical infrastructure, economic recovery, inclusive development, and economic and social transformation. The plan also aims to introduce policy reforms to move the development agenda forward. Owing to the country's political developments, some emerging areas of policy need sound analysis. Based on the analysis of the current situation and consultations with relevant stakeholders, the following thematic clusters have been identified for related policy analysis:

- (i) **Macroeconomic management and inclusive growth.** Continued low growth is a serious concern and needs immediate attention to formulate suitable policies for achieving a higher growth rate. Appropriate policy initiatives are required to meet the challenge of rising inequality. Similarly, management and utilization of foreign aid and regulation of nonbanking financial institutions need attention to ensure sustainable economic growth and poverty reduction.

¹ ADB. 2003. *Technical Assistance to Nepal for Establishing Economic Policy Network*. Manila (TA 4288-NEP, approved in December 2003 and closed on 31 December 2006).

² The TA first appeared in *ADB Business Opportunities* on 24 July 2007.

- (ii) **Decentralized governance.** A transparent and efficient governance system is vital for effective implementation of policies and programs, and effective delivery of local services. In view of the political decision to adopt federalism, huge challenges in terms of the relationship of the central and local governments must be resolved for resource sharing, fiscal federalism, and other related issues.
- (iii) **Trade, regional integration, and private sector development.** Industrial performance has been weak in recent years, often due to problems of adjustments to the emerging new world trade order with regard to the World Trade Organization, and other regional and bilateral trade agreements. The Government must have strategies to gain from these international trading arrangements and possess a strong position with clarity on the benefits to the country. Options need to be explored to devise policies to benefit from these international trading arrangements. Private sector investment must be attracted to expand industrial activities and become globally competitive. Creating an enabling environment with suitable policies for attracting private sector investment remains crucial.
- (iv) **Social inclusion and human development.** Despite marked progress in poverty reduction, human development indicators are not very encouraging, especially in some sections of society. The geographic aspects of human development and horizontal inequality require the attention of policy makers. Social policies to enhance access of all communities from all parts of country to economic opportunities would yield sustained economic development. At the same time, opportunities should be created for the general public to avail of public services.
- (v) **Infrastructure development.** Poor infrastructure is a major barrier to growth. The role of infrastructure for poverty reduction by creating connectivity, particularly in rural areas, has emerged as an important policy objective. Policies for improving transport, communications, energy, and other related infrastructure should be devised.
- (vi) **Agriculture and rural development.** A concerted effort will be required to increase the productivity of the agriculture sector to enhance rural income and employment growth, and concurrently address commercialization. A huge investment is required to transform the traditional subsistence agriculture into a vibrant commercial activity.

5. Various findings and recommendations of the 2003 TA are incorporated in the fiscal budgets of FY2006 and FY2007 and the 3-year interim development plan. However, the TA was found to lack continuity due to the lack of a devoted institution for research and analyses on the public policy reform agenda and process. The experiences gained through TA implementation confirm a strong demand for an institution with a defined constituency to undertake networking with all concerned stakeholders on the public policy reform agenda. The lessons from the TA³ suggest a need to institutionalize the government system network created for public policy analysis. The institution could serve as a focal body to identify policy issues; and undertake policy dialogue with various stakeholders including government agencies, private sector, other

³ ADB. 2007. *Technical Assistance Completion Report on Establishing Economic Policy Network in Nepal*. Manila. (TA 4288).

policy institutions, individual experts, and nongovernment organizations; and foster mutual benefits and consensus among them. It would also coordinate activities related to the public policy reform agenda and be responsible for monitoring and evaluation.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

6. The TA aims to establish a formal process of informed policy making in the Government wherein the policies developed and recommended are adopted to promote growth and reduce poverty. The TA will help to establish an institution with responsibility to undertake networking of the socioeconomic reform agenda and policy analysis of the Government for achieving poverty reduction and human development. It will contribute to institutional capacity development for informed policy-making processes of the Government. The ownership and consensus on the policy reforms required for achieving the larger objective of sustainable growth and development in Nepal will be strengthened.

7. The TA outputs include (i) plan of action for implementing the policy recommendations based on review and assessment of the 2003 TA, (ii) policy papers based on research and analysis on identified and emerging issues under the specified thematic clusters, (iii) establishment of an institution in the Government as a focal body to undertake networking and foster policy dialogue among various stakeholders, and (iv) a mechanism for monitoring and evaluation of the policy reform agenda and impacts.

B. Methodology and Key Activities

8. A thorough assessment of internalization and use of the 32 policy papers⁴ prepared under the 2003 economic policy network TA will be undertaken. An action plan for implementation of the policy papers will be prepared to guide follow-up activities. Policy papers on specific issues identified under the thematic clusters will be prepared during the course of TA implementation. Policy dialogue will be undertaken through regular national and local workshops and seminars, as well as informal consultations with stakeholders. In an effort to deepen the ownership of the policy recommendations by the Government, proposals will be sought from Government agencies, public policy institutions, and private sector associations by the focal unit to seek financial assistance for research and analysis on policy issues. A template for the proposal and evaluation criteria will be developed to ensure uniformity of the process.

9. The TA will develop 2–3 options for institutionalizing the economic policy network in the Government system during the first 6 months of TA implementation. These options will be submitted to the steering committee for endorsement of one feasible option for establishing an operational network. The organization structure, operating procedures, and terms of reference will be developed within 12 months of TA commencement. Private sector and civil society participation during the process and their integration into the institutional mechanism will be ensured to achieve independence and transparency to the institution. Modalities needed for proper monitoring and evaluation of the activities and policy actions will be adopted. A dissemination strategy will be developed to widely disseminate the TA outputs by using all forms of media. The dissemination material will take into account the language and education status of

⁴ All of the 32 policy papers are posted at www.mof.gov.np under four thematic areas: (i) macroeconomic management; (ii) international trade, investment, and employment; (iii) infrastructure development and tourism; and (iv) agriculture and regional development.

the target audience. This will enhance the understanding of the general public about the policy reform agenda and the process being followed for policy formulation.

10. ADB will finance the studies, workshops, and seminars, as well as some of the costs borne in establishing the institution. The TA activities include the following: (i) establish a focal unit, steering committee, and thematic committees; (ii) support planning and review meetings of the steering committee; (iii) identify specific research topics under each thematic cluster; (iv) prepare the template for the proposal and evaluation criteria; (v) commission policy studies, monitor progress, and assess performance; (vi) prepare policy papers and a dissemination strategy; (vii) conduct local consultations and expert technical workshops; (viii) develop options for institutionalizing the network, and operating guidelines for the institution; (ix) hold policy seminars for opinion makers and stakeholders; and (x) produce and widely disseminate the reports.

C. Cost and Financing

11. The total cost of the TA is estimated at \$600,000. ADB will provide \$500,000 on a grant basis from ADB's TA funding program. The main components to be funded by ADB are consultants, equipment, workshops and seminars, and administration support. The Government will contribute \$100,000 equivalent to provide office accommodation, counterpart staff support, facilities for seminars and meetings, and other administrative expenses. Details of the cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

12. **Executing Agency.** The Ministry of Finance (MOF) will be the Executing Agency. The thematic committee, in consultation with the high-level advisory committee and executive committee, will identify the implementing agencies. The high-level advisory committee chaired by the vice chair of the National Planning Commission will be formed to provide strategic guidance, monitor TA progress, and take all necessary actions to facilitate TA implementation. The committee will comprise the National Planning Commission member responsible for macroeconomic policies, secretary of MOF, secretary of the National Planning Commission, governor of Nepal Rastra Bank, representatives of the private sector and policy research institutions, and individual experts. Private sector representatives will make up at least half of the committee. An executive committee chaired by secretary, MOF and comprised of secretaries from the line agencies representing the thematic clusters and Nepal Rastra Bank, will also be formed to undertake the TA implementation. The implementation arrangements will be reviewed during implementation to provide flexibility and ensure smooth implementation.

13. **Thematic Committee.** A thematic committee will be formed for each theme comprising senior experts from the public and private sectors. The committees will be responsible for identifying sector-specific policy issues, preparing work plans, and engaging in policy dialogue with the stakeholders. The committee will select individuals and policy research institutions in Nepal on a competitive basis to undertake policy research activities on identified policy issues. The committee will be supported by a thematic expert who will help solicit and evaluate the proposals, and prepare terms of reference for the specific expertise required to undertake research and analysis.

14. **Focal Unit.** The economic analysis and policy affairs division of MOF will serve as the focal unit of the network. The focal unit will (i) support all activities related to the thematic committees, (ii) assist in building capacity, (iii) arrange for peer review and public discourse,

(iv) maintain and update the web portal and disseminate information, and (v) consolidate progress reports for the committees and disburse funds. The focal unit will be shifted to the proposed institution after its establishment.

15. The TA will be implemented over 24 months from March 2008 to February 2010. Tripartite meetings of the Government, TA consultants, and ADB will be chaired by the MOF secretary and held semiannually or as and when needed to review TA implementation priorities, address issues arising during TA implementation, and provide guidance to the TA consultants. The high-level advisory committee and executive committee will meet at the beginning of the TA and every 4 months thereafter to guide the TA and resolve policy and implementation issues. The thematic committees will meet once every 2 months to sustain the momentum of the policy research agenda.

16. **Consulting Services.** Three person-months of international and 68 person-months of national consulting services will be provided during the TA. The consultants will be recruited through a firm using the quality- and cost-based system in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time); the distribution of weights to technical and financial proposals will be 80:20. The team leader, institutional specialist, thematic specialists, and information dissemination specialist will be recruited at the beginning of the TA. The remaining pool of consultants will be selected after the policy issues are identified by the thematic committees. National consultants will be required to prepare policy papers on the issues assigned by the team leader under the guidance of the steering and thematic committees. Outline terms of reference for the consulting services are attached in Appendix 3. Limited equipment will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time), and will be handed over to the Government on completion.

17. The team leader will submit an inception report including a detailed work program for the TA to the focal unit, high-level advisory committee, executive committee, and ADB within 30 days of commencement of the TA. A quarterly progress report and midterm report will be submitted to the focal unit and ADB; the draft final report will be submitted 1 month prior to and a final report upon completion of the TA.

IV. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis to the Government of Nepal for Economic Policy Network II, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Policy reform process is channeled through the institution created, and recommendations are adopted in the government system to promote growth and reduce poverty</p>	<p>A functional network is established.</p> <p>Policy recommendations are included in the Government's annual budgets and development plans</p>	<p>Regular reporting to the steering committee through meetings</p> <p>Tripartite meetings, assessment of outputs and outcomes</p>	<p>Policy recommendations may not be translated into reforms</p> <p>The private sector is willing to take ownership and contribute to the process</p>
<p>Outcome Institutional and human capacity of the stakeholders enhanced in adopting informed policy-making process, and increased ownership and consensus achieved among them</p>	<p>A policy research constituency is established</p> <p>Private sector consultations and involvement in the Government's policy reform initiative are increased</p>	<p>Continuous monitoring by the steering committee and thematic committees</p> <p>Quarterly progress reports</p>	<p>Networking activities may not strengthen reforms</p> <p>Policy makers are committed to sustaining the process</p>
<p>Outputs</p> <p>1. Action plan for implementation of the policies</p> <p>2. Policy papers on the selected policy issues</p> <p>3. A unit for networking among all stakeholders and consolidating the policy reform agenda for policy preparation and dialogue</p> <p>4. Mechanism for monitoring and evaluation based on public-private partnership</p>	<p>The related line ministries adopt action plans</p> <p>Research activities undertaken and policy papers prepared</p> <p>A unit within Ministry of Finance is established to serve as a network secretariat for policy dialogue and development</p> <p>Modality for public-private stakeholder involvement is institutionalized</p>	<p>Policy retreats with policy makers</p> <p>Continuous monitoring by the thematic committees</p> <p>Technical workshops</p> <p>Periodic TA review by ADB staff</p> <p>Continuous monitoring by the steering committee and thematic committee</p> <p>Quarterly progress reports</p> <p>Tripartite meetings</p> <p>Meetings with the private sector</p>	<p>The Government is willing to implement the policy recommendations</p> <p>Policy papers are of good quality and are accepted by the stakeholders as policy documents</p> <p>All stakeholders recognize the unit</p> <p>The private sector participates in reviewing implementation progress and regular feedback. Policy makers lack commitment for monitoring</p>
<p>Activities with Milestones</p> <p>1.1 Establish a focal unit by March 2008.</p> <p>1.2 Establish high-level advisory committee, executive committee and thematic committees by March 2008.</p> <p>1.3 Prepare action plan for implementing policy papers developed during the</p>			<p>Inputs</p> <ul style="list-style-type: none"> • Asian Development Bank: \$500,000 • Government: \$100,000

<p>2003 TA—Establishing Economic Policy Network—by August 2008.</p> <ol style="list-style-type: none">1.4 Conduct planning and review meetings of the steering committee and thematic committees to identify specific research topics.1.5 Commission policy studies, monitor performance.1.6 Disseminate strategy by September 2008.1.7 Hold seminars and consultations to discuss and finalize the policy papers.1.8 Hold regular meetings of the committees to monitor implementation progress.1.9 Develop a public–private mechanism for monitoring and evaluation of the public policy reform agenda.1.10 Prepare options for institutionalizing the economic policy network by September 2008.1.11 Establish the institution by March 2009.1.12 Widely disseminate information through periodic reports, conference, and regular update of EPN website. <ol style="list-style-type: none">2.1 Inception report2.2 Quarterly progress report2.3 Midterm report2.4 Draft final report2.5 Final report	
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COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank Financing ^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	60.00
ii. National Consultants	220.00
b. International and Local Travel ^b	30.00
c. Reports and Communications	15.00
2. Equipment ^c	25.00
3. Training, Seminars, and Conferences	
a. Policy Conferences, Seminars, and Workshops	25.00
b. Local, Regional, and National Consultations	20.00
4. Miscellaneous Administration and Support Costs	
a. Steering and Subcommittees Meetings	10.00
b. Consumable, Documents, and Publications	25.00
c. Technical Assistance Office Administration ^d	20.00
5. Contingencies	50.00
Subtotal (A)	500.00
B. Government of Nepal Financing	
1. Office Accommodation and Transport	30.00
2. Remuneration of Counterpart Staff	30.00
3. Facilities for Seminars and Meeting	20.00
4. Other Administrative Expenses	20.00
Subtotal (B)	100.00
Total	600.00

^a Financed by the Asian Development Bank's technical assistance funding program.

^b Including cost of hiring vehicles, and international and national airfares.

^c Procurement of photocopier, computers, printers, facsimile machine, furniture, and other office equipment.

^d Includes office utilities and supplies, and secretarial expenses.

Source: Asian Development Bank estimates.

TERMS OF REFERENCE FOR CONSULTING SERVICES

1. **Economic Policy Networking Specialist and Team Leader** (national, 12 person-months). The specialist will undertake the following:

- (i) Help the technical assistance (TA) focal unit to oversee and coordinate overall TA implementation and activities, and ensure supervision and timely submission of individual consulting reports to the Government.
- (ii) Assist the steering committee in forming the thematic subcommittees and preparing proposal template and evaluation criteria for research and analysis on the policy issues.
- (iii) Work with the international consultant to identify operating modalities for the network using international best practices.
- (iv) Assist the thematic committees in evaluating and selecting proposed issues for analysis.
- (v) Help all concerned agencies and committees prepare detailed scopes of work for national consultants.
- (vi) Work with the international consultant to assist the Government in establishing the economic policy network (EPN) secretariat and develop operating guidelines.
- (vii) Ensure quality outputs from the informed research and arrange for its proper dissemination to all users.
- (viii) Support proper dissemination of TA outputs.
- (ix) Prepare a public–private partnership modality for monitoring and evaluation of implementation of the policy reform agenda.
- (x) Contribute to development of electronic platforms for sharing the research works using facilities such as web portals and other similar means.
- (xi) Assist the Ministry of Finance and other agencies in organizing periodic seminars and presentations to consolidate the networking constituency.
- (xii) Organize and participate in steering committee, thematic committee, and tripartite meetings; seminars; local consultations; and workshops.
- (xiii) Maintain proper coordination between the Government and ADB, and undertake other tasks as required by the steering committee and ADB.
- (xiv) Maintain strict accountability at all times as per contractual obligations and reporting requirements.

2. **Institutional Economic Policy Networking Specialist** (international, 3 person-months). The specialist will have the following responsibilities:

- (i) Advise the Ministry of Finance on the scope of the network to deepen and widen its coverage, and the modalities to bring the stakeholders together based on international best practice.
- (ii) Contribute in the inception meetings, and report and develop the formulation process and operating modalities for institutionalizing the EPN based on suitable and successful international best practice.
- (iii) Contribute to developing the terms of reference for each thematic committee.
- (iv) Contribute to developing the template for the proposal on specific policy issues for research and analysis to be used by the line ministries and other stakeholders for consideration of the thematic committee.
- (v) Share international experience and knowledge of economic policy networking and advise on appropriate options for Nepal.

- (vi) Identify the options for institutionalizing the network and suggest the best option for Nepal.
- (vii) Help design the monitoring and follow-up actions to assess progress in institutionalizing the EPN.
- (viii) Contribute to development of electronic platforms for sharing the research works using facilities such as web portals and similar means.
- (ix) Undertake other tasks as required by the steering committee and ADB.
- (x) Maintain strict accountability at all times as per contractual obligations and reporting requirements.

3. **Thematic Specialists** (18 person-months requiring 6 national consultants; 3 person months for each of the six themes). Activities include the following:

- (i) Assist the team leader in preparing and finalizing the template for the proposal.
- (ii) Assist the team leader in setting up the thematic committees and selecting implementing agencies.
- (iii) Coordinate and report on the activities undertaken by each thematic committee to the team leader and the steering committee.
- (iv) Assist the line agencies in developing areas of studies based on thorough analysis of needs.
- (v) Assist the team leader in evaluating and selecting the proposals received under the respective thematic group.
- (vi) Assist the team leader in identifying and short-listing consultants.
- (vii) Support the overall activities of the thematic committee.
- (viii) Coordinate and support the team leader in conducting thematic workshops and consultations.
- (ix) Support the EPN once it is established within the government system.

4. **Information Dissemination Specialist** (national, 2 person-months). Activities of the specialist will include the following:

- (i) Prepare dissemination strategy for wide distribution of policy prepared under the TA.
- (ii) Review the policy papers before they are made available to the public.
- (iii) Regularly update the website ensuring uploading of latest policy papers.
- (iv) Liaise with local newspapers and other media (both electronic and print) in establishing links of economic policy network in their websites.
- (v) Maintain proper documentation of reports prepared under the TA.

5. **Pool of National Consultants** (national, 36 person-months). Policy studies will be undertaken under each thematic area based on the proposal received from the line ministries and other stakeholders including the private sector and civil society. Specific consultant inputs and terms of reference will be prepared by the team leader in consultation with the steering and thematic committees and ADB, based on the proposal received.