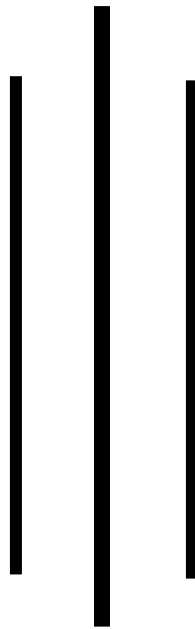


Development Cooperation Policy, 2014

International Cooperation for Development Effectiveness



Government of Nepal
Ministry of Finance
Kathmandu, Nepal

Table of Contents

Background	1
Opportunities and Challenges	2

Part I

Introduction

1. Name and Commencement	4
2. Vision	4
3. Mission	4
4. Objectives	4
5. Strategies	4

Part II

Policy Framework

2.1. Alignment with National Priority	6
2.2. Aid Modality	7
2.3. Grant	8
2.4. Concessional Loan	9
2.5. Other Loans	9
2.6. Technical Assistance	10
2.6.1. Project Preparatory Technical Assistance	10
2.6.2. Stand Alone Technical Assistance for Capacity Development	11
2.6.3. International and Regional Technical Assistance	11
2.7. Consultants Mobilization	12
2.8. External Volunteer Mobilization	12

2.9.	Civil Society and National/International Non-Governmental Organization	12
2.10.	Direct Implementation	14
2.11.	Humanitarian Aid	15
2.12.	Inter-Governmental Joint Economic Commission	15
2.13.	South-South Cooperation	15
2.14.	Partnership with Private Sector	16
2.15.	Aid for Trade	16

Part III

Implementation and Coordination Mechanism

3.1.	Development Cooperation Policy Implementation Committee	17
3.6.	Government-Development Partners Joint Mechanism	18
3.6.1.	Nepal Development Forum	18
3.6.2.	Local Development Partners Meeting	19
3.6.3.	Nepal Portfolio Performance Review	19
3.7.	Joint Sectoral Review	19
3.8.	Joint Local Level Review	19
3.9.	Responsibility of Development Partners	20
3.10.	Division of Works among Development Partners	20
3.11.	Government Commitment towards Development Cooperation Effectiveness and Reform	21
	Part IV: Provision Related to Tax Exemption and Visa	22
	Part V: The Way Forward	23
	Part VI: Repeal and Savings	24

1. Background

- 1.1. Development cooperation has played a vital role in Nepal's overall development efforts over the past 6 decades. However, enhancement of development cooperation effectiveness to deliver expected results remains a key challenge. There is a need of continuous reform for maximum use of cooperation with mutual understanding among the development partners and the Government for which, Nepal has been also expressing its commitment at various international forums.
- 1.2. In this context, Nepal has endorsed the Paris Declaration on Aid Effectiveness 2005, the Accra Agenda for Action 2008, and the Busan Commitment 2011. Furthermore, Nepal has expressed its solidarity with the global collective efforts for reform made during the First High-Level meeting held in Mexico in 2014 with the goal of garnering global partnership for development effectiveness.
- 1.3. The second Constituent Assembly election concluded in 2013 has paved the way for promulgation of a new constitution. In the context of moving from transition towards stability, the Government of Nepal has given higher priority for economic development agenda. It is necessary to mobilize development cooperation more effectively in order to achieve those agendas.
- 1.4. It is essential to mobilize development cooperation effectively to achieve Nepal's goal of graduating from 'Least Developed Country' to 'Developing Country' status by 2022 AD, and also to gradually reduce the dependency on foreign aid and build a self-reliant economy.
- 1.5. The Government has felt the need to revise the Foreign Aid Policy, 2002 as per the demand of time and the need to formulate a new policy in the context of changed national and international scenarios. In addition, various development cooperation stakeholders – development partners, international forums, the civil society, and government agencies – have advised the Government from time to time on the need for a new development cooperation policy. After the People's Movement of 2006/07, the people's aspirations for economic development and prosperity have significantly heightened. Addressing those aspirations also comes under the purview of the State responsibility. Therefore, there has been a need to formulate a new and dynamic development cooperation policy to address the aspirations emerged from the political changes, to internalize the recommendations and commitments from international forums, to incorporate

the changes in donors' cooperation strategies, to increase accountability and transparency by using the aid money in priority areas in selective manner, and to increase the use of country system in the mobilization of development cooperation in order to transform the country's goal of upgrading the status from 'Least Developed Country' to 'Developing Country' by 2022.

2. Opportunities and Challenges

- 2.1. Nepal has been implementing economic reform programs since the decade of 1990. In line with this, there is a need to create a conducive environment for the private sector and the civil societies to participate in development efforts.
- 2.2. The current challenges of enhancing effectiveness of development cooperation has also been viewed as an opportunity for reforms. Both the Government and the development partners are aware of the fact that the effectiveness can only be enhanced if the ownership of aid funded projects lies with the recipient government.
- 2.3. It is expected that the Government's policy of allocating resources through keeping Development Results at the centre will have a positive impact on the preparation, implementation and monitoring of development cooperation programs.
- 2.4. There is a need to internalize aid management system and the outcomes of joint discussions, interactions, and progress review exercises organized from time to time in order to translate the principle of mutual accountability into practice that calls for holding the development partners and the government accountable to each other and to their respective taxpayers for success or failure of development cooperation.
- 2.5. Although there has been improvements in the process of aligning development cooperation with the country's priorities and the system, there are mixed results when it comes to implementation. There are some challenges in this respect such as disseminating the message of alignment to the grassroots level, strengthening the public financial management, and aligning all the development partners with the country system by enhancing the internal capacity.
- 2.6. There is a need to further reform, based on the evaluation of the growing harmonization exercises among the development partners in sectors such as education and health, and to roll over this practice to other sectors as well.

- 2.7. Aid scattered in many smaller projects have caused fragmentation with high transaction costs and additional burden for both the Government and the development partners. There is a need to improve this situation through division of work among development partners on basis of comparative advantage. There is also a need to reduce the number of projects to enhance the quality of aid.
- 2.8. Without relying only on traditional development cooperation, there is a need to mobilize resources from private sector investment, trade, and domestic resource for financing development. Similarly, there is also a need to acquire expertise, knowledge, and technology from the organizations/countries mobilizing development cooperation for the country's economic and social transformation. This development cooperation policy has been announced in order to address the current challenges associated with development cooperation and help achieve the national development goals and make gradual shift towards the creation of a self-reliant economy through the optimum utilization of opportunities from development cooperation.

PART I

Introduction

1. Name and Commencement

The name of this policy is “Development Cooperation Policy, 2014”. This policy will be effective from the date of approval by the Government of Nepal.¹

2. Vision

The long-term vision of this policy will be to build a self-reliant economy through an effective mobilization of development cooperation and help transform Nepal into a prosperous democratic country.

3. Mission

The main mission of this policy will be to help achieve national goals through mobilizing development cooperation in a way that enhances the country's capacity to be able to realize maximum advantages.

4. Objectives: The objectives of this policy will be as follows:

- a) To help achieve development goals stated in the periodic development plans through the mobilization of external resources
- b) To help transform Nepal from status of ‘Least Developed Country’ to ‘Developing Country’ by 2022 through effective utilization of development cooperation
- c) To achieve development effectiveness through achieving ‘Best Value for Money’, and
- d) To help build a self-reliant economy through gradually reducing dependency on aid.

5. Strategies:

- a) Mobilizing development cooperation in line with the national policy and priority in a way to achieve a broad-based, inclusive, and sustainable economic growth, generating employment, reducing poverty, and yielding maximum returns,

¹ Date of Approval by the Government of Nepal, Council of Ministers: 26 June 2014

- b) Helping to achieve country's development goals through mobilization of development cooperation in priority areas in a selective way,
- c) Contributing to Nepal's socio economic development through increasing investments in infrastructure development such as hydropower and roads, agricultural modernization, tourism, industry and trade,
- d) Ensuring sustainability of the achievements made so far in Social Development and Human Development Index and the achievements made in Millennium Development Goals and mobilizing resources required for post 2015 development agenda and sustainable development agenda,
- e) Achieving a rapid economic growth by creating a conducive environment for private investment and trade in productive sectors through effective utilization of development cooperation,
- f) Channeling development cooperation in accordance with the high level global commitments for development effectiveness, including the Paris Declaration, the Accra Agenda for Action, the Busan Commitment, and the Mexico High Level Meeting,
- g) Ensuring development cooperation's contribution to national capacity development and the transfer of knowledge and technology; and utilizing development cooperation through using the country system in a transparent way,
- h) Introducing a minimum threshold of development cooperation to reduce aid fragmentation and high transaction costs,
- i) Mobilizing development cooperation in a way that helps reduce regional imbalances,
- j) Utilizing development cooperation in activities that contribute to increase the internal revenue and build a self-sustained economy,
- k) Strengthening Aid Management Platform, enhancing transparency of development cooperation, and disseminating the aid information to the wider public.

PART II

Policy Framework

2.1. Alignment with National Priority

According to the Paris Principles on aid effectiveness, alignment could be achieved through two ways. First, donors should provide aid on the basis of the recipient country's development priority, policy, and strategy. This is termed as 'Policy Alignment'. Second, development cooperation should be delivered through the country system to the extent possible. This is termed as 'System Alignment'. If the alignment of development cooperation with the national policy, priority and the country system is to be attained, it is necessary to build a robust National Result Framework. For that, there is a need for further reform to revise the existing result framework both at national and sectoral level. There is also the need to get commitment from development partners to support the Government agencies for the alignment with the National Result Framework.

The following policies will be adopted to align development cooperation with national priority:

- 2.1.1. The prioritization and selection of development cooperation will be based on the Government's policies and strategies stipulated in the periodic development plan and the policies and programs announced by the Government from time to time.
- 2.1.2. The Government will identify and prepare a list of projects to mobilize development cooperation based on its needs and priorities. The details of such projects will have to be updated in the Project Bank established at the Ministry of Finance by the relevant ministries and agencies,
- 2.1.3. The Government will encourage programmatic approach and sector wide programs to address the needs of the sectoral level and will urge development partners to provide development assistance in such programs,
- 2.1.4. Priority will be given to provide resources from development cooperation for the programs that aim to contribute to inclusive growth and priority programs of the remote areas,
- 2.1.5. Any form of cooperation that directly or indirectly undermines national integrity, sovereignty, religious, ethnic and social harmony or have a negative effect on the country's security policy will not be accepted. Acceptance or mobilization of any foreign assistance against this policy will be punishable as per the existing laws,

- 2.1.6. The Government will evaluate the proposed development cooperation on the basis of its contribution towards physical infrastructure development, employment generation, production and productivity growth, creation of conducive environment for the private sector for trade and investment growth, and assisting to maintain macroeconomic stability.
- 2.1.7. Cross-cutting issues including social inclusion, improving the quality of life of marginalized citizens, conflict resolution and management, gender equality, and social development of the community will remain as integral part of all projects/programs operated through the development cooperation,
- 2.1.8. Both the development partners and the Government will have to be accountable towards development results.

2.2. Aid Modality

The Government, while mobilizing development cooperation, will opt for Program Based Approach. Stand Alone Project Approach will be adopted when such projects are aligned with national priority and plan. Principle of comparative advantages will be applied to mobilize the assistances. In this connection, the following modalities have been determined for the implementation of development cooperation:

- 2.2.1. General Budgetary Support will be the Government's most preferred aid modality. The resources so received will be mobilized in accordance with the national priority,
- 2.2.2. Sector Budget Support will be the second most preferred aid modality. This form of aid will also be aligned with the national priority. Due attention will be paid to strike right balances across the sectors during resource allocation,
- 2.2.3. Stand Alone Projects aligned with the National Plan will be the third preferred aid modality for the Government. While using this modality, minimum transaction costs, innovation, and sustainability will have to be ensured. Once these Stand Alone Projects that attract new technology become successful, their sustainability and expansion to the country system have to be ensured.
- 2.2.4. Development partners will be encouraged to set up a Pool Fund for small-sized Stand Alone Projects in order to minimize transaction costs and shorten the implementation delays.

- 2.2.5. While implementing Program-Based Approaches (PBA) or Sector Wide Approaches (SWAp) in any sector, the planning, budgeting and monitoring frameworks of the PBA or SWAp in that sector will be integrated, even though the implementation modalities may vary;
- 2.2.6. If there is a need for humanitarian assistance or items related to a natural disaster, food assistance, technology, fertilizer and medicine, etc. the Government may accept such assistance or request the development partners to provide such assistance,
- 2.2.7. The Government will emphasize on untied aid in order to get the Best Value for Money. International consultancy services will be utilized only if the expertise is not available locally .The expenses of such services should be kept to the minimum level,
- 2.2.8. Aid that is not in accordance with the Development Cooperation Policy and not adequately aligned with the country system will not be accepted,
- 2.2.9. Development cooperation will be mobilized through the Country Budgetary System. The Office of the Auditor General will conduct the audit of such cooperation. However, if it has been mentioned otherwise in the bilateral agreements concluded as per the existing laws, the provisions of such agreements shall prevail,
- 2.2.10 Efforts will be made to receive assistance from funds established at international levels to help in areas such as education, health, and climate change. While receiving assistance in climate change, grants will be preferred over loan assistance.
- 2.2.11.The Ministry of Finance will coordinate the task of negotiations with the development partners. The Ministry of Finance will prepare the Terms of Reference required for the negotiating team.

2.3. Grant

The Government will mobilize the grant assistance in accordance with the modality mentioned in the priority section of this policy. Rural infrastructure development, and social sector development including health, education, drinking water, sanitation, human development, and agriculture sectors will be given priority while mobilizing grant assistance. The grant assistance of less than US\$ 5 million will not be utilized except for the Sector Wide Approach Program (SWAp), Pool Fund, climate change, sustainable

development grant, small grant for community development, small grant for rural infrastructure development, co-financial arrangements, humanitarian assistance, technical assistance, and capacity development.

2.4. Concessional Loan

- 2.4.1. The Government of Nepal expects concessional loan from the development partners,
- 2.4.2. Concessional loan will be utilized in sectors that help in high economic growth such as physical infrastructure (hydropower, roads and bridges, irrigation, airports, railway, dry port and urban infrastructure development), agriculture and tourism, as well as in sectors that generate employment and earn foreign currency,
- 2.4.3. Concessional loan of less than US\$ 10 million per Stand Alone Project will not be mobilized. However, the Government can accept such loan if it is accompanied by high knowledge and technology. This threshold will not apply for the projects that fall under Sector Wide Approach (SWAp), Pool Fund, and Co-financing model.
- 2.4.4. The Government will make arrangements of debt servicing in local currency to the extent possible, and will use necessary monetary instruments to manage the foreign currency exchange risk,
- 2.4.5. During the loan negotiation, the expenses related to international consultancy services, foreign trip, and procurement of vehicles will be minutely reviewed. These expenses will be approved only if they are absolutely necessary to achieve the project's objectives.
- 2.4.6. Loan that is tied to procurement of goods and services through fixed supplier will be discouraged,
- 2.4.7. Suppliers credit will not be utilized.

2.5. Other Loans

- 2.5.1. In addition to the concessional loan provided by the World Bank, the Asian Development Bank, and other multilateral financial Institutions, the Government can also utilize loans through Additional Windows of such institutions including from the Export Import Bank (EXIM Bank) of various countries,
- 2.5.2. Except the concessional loans, Government will not utilize other loan assistance that is less than US\$ 20 million per project/programme.

2.5.3. These kinds of loans can be used in the following areas:

- a) Hydropower development including transmission line
- b) Highways, strategic road network, and bridges
- c) Railways
- d) Airports
- e) Dry ports
- f) Large-scale irrigation projects
- g) Any other area deemed to be appropriate by the Government of Nepal

2.5.4. Notwithstanding to anything mentioned above, the Government will not accept commercial loan,

2.5.5. The Government will not provide guarantee for the private or non-governmental sectors, while accepting foreign loans.

2.6. Technical Assistance

Technical assistance will be utilized in a selective way at individual level (in terms of skills, knowledge, innovation, entrepreneurship) and at organizational level (in terms of system, procedure, technology) to assist country's capacity development. Development partners will be encouraged to pool technical assistance fund in the Technical Assistance Pool Fund. The Government and Development Partners will jointly prepare the framework of the Technical Assistance Pool Fund mechanism. Technical assistance from the development partners can only be accepted when the technical capacity for a project's implementation is not available within the Government system. The following policies will be applicable for TA mobilization:

2.6.1. Project Preparatory Technical Assistance

2.6.1.1. At the request of a project implementation agency, development partners will be requested to provide project preparatory technical assistance for pre-feasibility study, feasibility study, and preparation of detailed project report.

2.6.1.2. The policy of utilizing Project Preparatory Fund of Ministry of Finance will be adopted for smaller projects. Resources from this fund will also be gradually extended to large and medium scale projects.

2.6.2. Stand Alone Technical Assistance for Capacity Development

2.6.2.1. Stand Alone Technical Assistance for capacity development can be utilized at the request of the concerned agencies that should be in line with national or sectoral capacity development plan,

2.6.2.2. While accepting such technical assistance, the project framework document should clearly spell out the exit plan and ensure sustainability.

2.6.3. International and Regional Technical Assistance

2.6.3.1. In consistent with national need and comparative advantage, international and regional technical assistance can be accepted with the consent of the implementing agency,

2.6.3.2. There will be a periodic review to evaluate the progress of such technical assistance,

2.6.4. The implementation of technical assistance projects will be carried out by a Steering Committee established under the leadership and involvement of Government agencies,

2.6.5. The Government will not use loan assistance for technical assistance,

2.6.6. No agency will directly accept technical assistance without the prior approval of the Ministry of Finance

2.6.7. Development partners should report all information related to technical assistance to the Aid Management Platform (AMP) of Ministry of Finance,

2.6.8. Without the prior approval of the Ministry of Finance, technical assistance will not be utilized to procure vehicles, machinery equipments or to participate in foreign study tour and trainings. The Ministry of Finance will prepare criteria for this purpose.

2.7. Consultants Mobilization

- 2.7.1. Regular Government employees should be deployed while implementing projects. Consultant's service can only be procured in the cases where the work cannot be done by regular Government staff.
- 2.7.2. Priority will be given to Nepali citizens while mobilizing consultants,
- 2.7.3. Approval for the procurement of international consultant for any project/program can be given only when written justification with sufficient reason is produced by the concerned agency,
- 2.7.4. The Terms of Reference (ToR) for consulting service should be attached with the project documents.

2.8. External Volunteer Mobilization

- 2.8.1. The Government will mobilize volunteers as technical assistance received from development partners and international volunteer organizations. These volunteers will be mobilized in different programs operated at local level according to their expertise and local needs. External volunteers can also be mobilized through National Development Volunteers Services. The following policies will be adopted to make such assistance effective and demand driven,
 - 2.8.1.1. In order to mobilize volunteers, the Government will identify the priority areas, and request development partners and volunteer organizations to send volunteers in those areas.
 - 2.8.1.2. The volunteers will be involved with local counterpart organizations or individuals to ensure sustainability,
 - 2.8.1.3. Concerned Government agency will monitor the volunteer service and send report to concerned line Ministry, Ministry of Finance, and even other agencies as per the need,
 - 2.8.1.4. Ministry of Finance will be the focal point for external volunteer mobilization.

2.9. Civil Society and National/International Non-Governmental Organization

The Government has acknowledged the services delivered in the rural areas and the contributions made towards social and human sector development by the civil society and the national/international non-governmental organizations. Emphasis will be given on the

need for such organizations that receive development assistance directly from bilateral/multilateral aid agencies and international organizations, to adopt accountability in their process and to enhance transparency in order to increase development cooperation effectiveness. In this regard, the following policies will be adopted:

- 2.9.1. All national/international non-governmental organizations (N/INGOs) that are established in Nepal with the objectives of mobilizing development assistance are to be registered with the Social Welfare Council (SWC),
- 2.9.2. N/INGOs willing to mobilize development cooperation should get prior approval from SWC. The SWC will provide such approval on the recommendation of the Project Analysis and Facilitation Committee,
- 2.9.3. A “Project Analysis and Facilitation Committee” will be formed under the Ministry of Women, Children, and Social Welfare as an inter-ministerial coordination mechanism to provide recommendation for the approval of programs mobilized by N/INGOs. The Ministry will prepare guidelines in order to manage the working procedures of the Committee,
- 2.9.4. The project activities implemented through N/INGOs should be aligned with Nepal’s national development and sectoral priority. Action Plan with measurable results, deadline, and exit plan should be attached while submitting the program,
- 2.9.5. N/INGOs should coordinate with the concerned sectoral Ministry while preparing project proposal to mobilize development assistance,
- 2.9.6. N/INGOs will have to present project proposal only in the organization's specialized sector as per the organizational aims.
- 2.9.7. N/INGOs will have to mention the details of the bank with which the organization wishes to do transaction, including the bank's name and address, while submitting the project proposal,
- 2.9.8. N/INGOs should follow the Participatory Plan Preparation Procedure conducted under the leadership of the concerned local agency while selecting the project for implementation,
- 2.9.9. N/INGOs should coordinate with the concerned sectoral Ministry while implementing central level projects. They should coordinate with the district-level sectoral office, District Development Committee (DDC), and the

Municipality or the Village Development Committee (VDC) while implementing district-level projects,

- 2.9.10. N/INGOs cannot propose a project using the amount that has already been earmarked by an aid agency to Nepal,
- 2.9.11. When N/INGOs propose a project in which the aid amount to be utilized has come directly from an international organization through their independent efforts and not through a development partner at a local level, then the project details as well as the approved financial details will have to be updated on the Ministry of Finance's Aid Management Platform on a regular basis,
- 2.9.12. The Social Welfare Council will submit a detailed report of the financial and physical progress of the activities of N/INGOs to the Ministry of Finance, National Planning Commission, and concerned Ministry by Mid-October every year,
- 2.9.13. Ministry of Finance can issue necessary directives to the Project Analysis and Facilitation Committee to ensure effective mobilization of development cooperation through N/INGOs.

2.10. Direct Implementation

In the context of yet to be developed national capacity, and the need for carrying out some projects by the development partners under turn-key basis, the Government will also use the direct implementation approach while mobilizing the development cooperation. The following policies will be adopted in this regard:

- 2.10.1. Direct implementation modality can be used for high priority medium and large scale projects including hydropower, transmission line, highway construction, strategic road network, bridges, railway, airports, large irrigation, dry port, and special economic zones,
- 2.10.2. The projects that are implemented under the direct implementation modality should be reflected in the country's budgetary system,
- 2.10.3. The details of the projects implemented using this modality should be reported at the Aid Management Platform (AMP) of the Ministry of Finance by the development partners on a regular basis,
- 2.10.4. The implementation of the development cooperation projects being directly implemented by the donors will be as per the directions of the Project Steering Committee formed under the leadership of the Government agency,

- 2.10.5. The periodic financial details of the projects so implemented should be regularly submitted by the donors to the concerned ministry and the Ministry of Finance,

2.11. Humanitarian Aid

Humanitarian aid will be mobilized to respond to incidences, such as natural disaster, epidemic, food insecurity and malnutrition, conflict and refugee management. The management of humanitarian aid will be as per the established international principles. Humanitarian aid will be mobilized in the following ways:

- 2.11.1. Humanitarian aid providers should adhere to international best practices and principles such as the Principles of Good Donorship,
- 2.11.2. Humanitarian aid providers will work closely with the Government during the phases of preparation, reconstruction, and rehabilitation to prevent, mitigate, and respond to crises through strengthening national capacity,
- 2.11.3. Humanitarian aid will have to be mobilized in a transparent manner by coordinating with the designated government agency.

2.12. Inter-Governmental Joint Economic Commission

- 2.12.1 Ministry of Finance will explore potential areas for economic partnership with interested countries. This kind of partnership shall be transparent and will be determined on the basis of mutual benefit and comparative advantage. Such partnership will be carried out through the formation of Inter-Governmental Joint Economic Commissions,
- 2.12.2 This kind of partnership will be established so as to be consistent with Foreign Investment and Technology Transfer Policy (FITTA), Industrial Policy, Trade Policy and will be guided by objectives of a broad based economic development, expansion of international economic relations and other relevant public policies, meetings, and comments that are geared towards promotion of national interest.

2.13. South-South Cooperation

As per the concept of South-South Cooperation and based on the appropriateness and the experience with the southern region partners, cooperation mechanisms like Triangular Cooperation will be utilized to exchange cooperation keeping in mind the gain potential. As a part of this, the assistance from regional mechanisms, including

SAARC, BIMSTEC, UNESCAP, Colombo Plan can be enhanced and cooperation can also be mobilized through the inter-Governmental Economic Commission.

2.14. Partnership with Private Sector

The Government believes in the private sector as a partner of development. The Busan partnership for development effectiveness has also acknowledged the private sector as a partner of development. In the context of partnering with private sector, the policies for mobilization of development cooperation shall be as follows:

- 2.14.1. The Government will utilize development cooperation for infrastructure development, creation of a investment friendly environment, and supply of public goods, in order to attract private sector investment,
- 2.14.2. The private sector will be encouraged to co-finance in selected projects. Cooperation will be mobilized in such a way that helps the Public-Private Partnership (PPP),
- 2.14.3. Mechanisms like the Nepal Business Forum will be encouraged to continue the dialogue between the Government and the private sector through development cooperation,
- 2.14.4. There shall be no adverse effects on private sector investments while mobilizing development cooperation.

2.15. Aid for Trade

- 2.15.1 Development cooperation will be mobilized to help trade promotion, especially to boost exports,
- 2.15.2 Development cooperation will be mobilized to remove the trade-related barriers and create an investment-friendly environment, construction of physical infrastructure, enhance the institutional capacity, remove the non-tariff barriers, and adopt other measures of trade facilitation,
- 2.15.3 Technical assistance may be mobilized for capacity development in trade-related areas.

PART III

Implementation and Coordination Mechanism

3.1 Development Cooperation Policy Implementation Committee

A High-Level “Development Cooperation Policy Implementation Committee” will be formed in order to provide guidance for the implementation of this policy as follows:

Finance Minister	Chairman
Vice Chairman, National Planning Commission	Vice Chairman
Chief Secretary, Government of Nepal	Member
Governor, Nepal Rastra Bank	Member
Secretary, Ministry of Finance	Member
Secretary, Ministry of Law, Justice, Constituent Assembly and Parliamentary Affairs	Member
Secretary, Ministry of Foreign Affairs	Member
Secretary, Ministry of Women, Children and Social Welfare	Member
Secretary, Secretariat of the National Planning Commission	Member
Financial Comptroller General, Financial Comptroller General Office	Member
Joint Secretary, IECCD, Ministry of Finance	Member-Secretary

3.2. Development Cooperation Policy Implementation Committee can invite Secretaries of other line Ministries of the Government of Nepal, representatives of other agencies, representatives from civil society organization and the representative from private sector as invitees or as observers to the meeting of the committee based on their association and expertise,

3.3. Development Cooperation Policy Implementation Committee will give guidance for the effective implementation of development cooperation policy. The Chairman of the Committee shall inform the Cabinet about the progress of the implementation of this policy as well as the challenges associated with it as and when required. The

International Economic Cooperation Coordination Division of Ministry of Finance will serve as the Secretariat of Development Cooperation Policy Implementation Committee. The Committee shall determine its working procedure itself. The Committee can interpret this policy to avoid any ambiguity that may arise during the policy implementation.

- 3.4. The responsibility of mobilizing development cooperation as per the need of the Government of Nepal lies at the Ministry of Finance. The International Economic Cooperation Coordination Division at the Ministry will be the focal point for coordinating the development assistance. None of the other government agencies are entitled to seek or request foreign aid, submit proposals, provide information regarding priorities, communicate with the project's concept paper and proposal, and sign any agreement or understanding without prior approval from the Ministry of Finance. Likewise, development partners should also direct their communication regarding development cooperation mobilization or propose assistance to any Government agency of Nepal only through the Ministry of Finance. Line ministries and other Government agencies of Nepal should get consent from the National Planning Commission while proposing development projects.
- 3.5. Without prior approval of the Ministry of Finance, no individual holding a Government position is allowed to go on foreign visit at the expense of development cooperation program and project and in the invitation from national/international non-governmental organization and domestic or foreign consultant.

3.6 Government-Development Partner Joint Mechanism

3.6.1. Nepal Development Forum

Nepal Development Forum is a forum for high-level dialogue between the Government of Nepal and development partners on issues such as periodic plan, development strategy, priority, and national development result frameworks. This forum will review the policies and action plan for development jointly put forwarded by the Government and development partners. The forum also discusses the effectiveness of development cooperation in Nepal, resource estimation and pledging from the donors. This forum will hold extensive deliberations between the Government and development partners regarding development cooperation mobilization policy and will announce initiatives to drive reforms in the implementation of

projects/programs. The meetings of Nepal Development Forum will be organized as and when required.

3.6.2. Local Development Partners Meeting

Local Development Partners Meeting is generally organized at the interval of four months. This mechanism serves as a platform for regular dialogue and coordination between the Government and the development partners working at local level regarding the implementation of development cooperation policy and the problems associated with aid mobilization.

3.6.3. Nepal Portfolio Performance Review

This meeting is organized once a year under the initiative of the Government. All development partners can participate voluntarily at this meeting. During this meeting, there will be a review of the programs/projects implemented by development partners in Nepal and an Action Plan to facilitate the improvement of project implementation is prepared. In addition, this forum also serves as a mechanism to enhance mutual accountability between the Government and local development partners.

3.7. Joint Sectoral Review

The Joint Sectoral Review meetings will take place between the government and development partners for sectoral planning, policy and program implementation, and coordination. Sectoral ministries will lead the review meetings.

3.8 Joint Local Level Review

3.8.1. There will be a joint local level review meeting to review the development programs implemented by local agencies. Generally, the District Development Committee (DDC) coordinates such review meetings,

3.8.2. The disputes regarding development cooperation effectiveness that cannot be resolved at the local level will have to be submitted to Ministry of Finance for solutions and directions. General guidance related to the issues of development cooperation will be provided by the International Economic Cooperation Coordination Division of the Ministry of Finance.

3.9. Responsibilities of Development Partners

- 3.9.1. Development partners will align development cooperation with national development plan and priority,
- 3.9.2. Development partners will participate in country led coordination mechanisms,
- 3.9.3. Development partners will provide assistance without conditionality to the extent possible,
- 3.9.4. Development partners will give priority to mobilize all kinds of development cooperation aligning with the national and sectoral development framework in a way to achieve clear results,
- 3.9.5. Development partners will report all kinds of aid information to the Aid Management Platform (AMP) well in advance to ensure aid predictability,
- 3.9.6. Development partners will help prevent aid fragmentation, to reduce transaction costs, and expand the Sector Wide Approaches (SWAp) to other sectors, based on the past experience of implementation,
- 3.9.7. Development partners will give priority to mobilize development cooperation through Nepal's National Budgetary system,
- 3.9.8. Development partners will not bypass the country system undermining the role and capacity of the Government agency by creating parallel implementation unit,
- 3.9.9. Development partners will make joint mission and joint analytical study works effective,
- 3.9.10. Development partners will channelize development cooperation only through the Ministry of Finance

3.10. Division of Works among Development Partners

Development partners will provide assistance by dividing sectors of cooperation among themselves based on their comparative expertise, past involvement, and mutual understanding.

3.11. Government Commitment towards Development Cooperation Effectiveness and Reform

- 3.11.1. While mobilizing development cooperation, the Government will give due importance to inclusive growth, aid transparency, south-south cooperation, engagement of the civil society, gender equality, climate change, disaster mitigation, and the best results,
- 3.11.2 The Government will adopt the policy of good governance and zero tolerance against corruption while mobilizing development cooperation,
- 3.11.3 The Government will implement programs for institutional reform and capacity development of the entities of the Government of Nepal and its associated institutions that are directly involved in infrastructure building,
- 3.11.4 Nepal is committed to participate in the global partnership for and monitoring of effectiveness of the development cooperation.
- 3.11.5 The Government will initiate programs to minimize possible fiduciary risks and improve public financial management system,
- 3.11.6 The Government is committed to reduce project's transaction cost and maintain sustainability through enhancing national capacity,
- 3.11.7 Reform in development cooperation mobilization will be carried out in collaboration with development partners,
- 3.11.8 The Government is committed to implement recommendations of the second Public Expenditure and Financial Accountability (PEFA) evaluation,
- 3.11.9 The Government is committed to simplify the procedure of public service delivery and improve the quality of expenditure,
- 3.11.10 The Government will ensure public access to aid information available in the Aid Management Platform (AMP), in order to enhance transparency and accountability.

PART IV

Provision Related to Tax Exemption and Visa

1. Fund from development cooperation will not be used for the purpose of tax payment.
2. The amount required for tax payment due to the exemption provision in the Agreement, will be managed by the Government of Nepal through internal sources ,
3. In the event of tax exemption granted in the Agreement and for those projects where the expenses for exemption could not be met by internal resources, tax exemption can be granted as per the prevailing laws. However, the exemption for Value Added Tax (VAT) paid in local purchases will be provided by the tax refund procedure, as per the prevailing Value Added Tax Act,
4. Since the tax levied on income and profit is not considered as a part of development cooperation, the prevailing tax laws will be applicable in this regard,
5. Foreign workers, employees, and their dependents working in the projects under development cooperation will be provided with gratis non-tourist visa,
6. Foreign volunteers working under a separate Agreement in Nepal will be provided with gratis non-tourist visa.

PART V

The Way Forward

1. Development cooperation will be mobilized to fill the immediate resource gap required for socio-economic development. Based on national priority, the development cooperation will be utilized in a selective way so as to contribute towards the country's internal revenue growth and the creation of a self-reliant economy. Staying within the realms of this policy, Nepal can graduate from its current status of 'Least Developed Country' by 2022, through effective mobilization of development cooperation. As a result, the dependency on development cooperation can be gradually reduced leading to the advancement of creating a self-reliant economy.
2. There will be a periodic review of the implementation of this policy. Based on the recommendation of such reviews, this policy will be amended to adjust needful changes.

PART VI

Repeal and Savings

1. Foreign Aid Policy, 2002 has been repealed from the date of the commencement of the Development Cooperation Policy, 2014.
2. All the activities accomplished in accordance with Foreign Aid Policy, 2002 shall be considered as accomplished under this policy.