

**Developing Capacities for Effective Aid Management and Coordination**

2011 Progress Report

Implementing partner: Ministry of Finance

Funding donors: Denmark, DFID and UNDP

**Project Information**

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| Full Title: | Developing Capacities for Effective Aid Management and Coordination |
| Award ID:  | 00056856 |
| Project ID: | 00069957 |
| Expected Output:  | Aid management and coordination system strengthened at Ministry of Finance, national planning Commission and selected line ministries |
| Implementing Partner: | Ministry of Finance (MoF) |
| Other Partners: | National Planning Commission (NPC), Ministry of Education, Ministry of Health and Population, Ministry of Local Development |
| Project Duration: | 31 January 2009 till 31 December 2011 (initial), extended till 31 December 2012 |
| Total Budget:  | USD 1,585,418 |
| Allocated Resources: *(as of 15 January 2012)* | UNDP: USD 830,058DFID: USD 240,000Denmark: USD 158,360 ***Unfunded: USD 357,000***  |

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**Executive summary**

2011 has seen significant progress in all three areas of intervention for the project.

The launch of the Aid Management Platform (AMP) with all resident donors was a major milestone for the project and a key contribution towards better aid transparency in Nepal. Following the work done in 2010 to get Government data on aid into the database, the project supported the launch of the Aid Management Platform with all 34 resident donor agencies, through individual trainings and technical support in the first half of 2011. As a result, the volume and quality of aid information available to the Government of Nepal and donors has significantly improved, in particular for off-budget projects, which were not systematically recorded before the implementation AMP. As of end 2011, the database includes almost 500 ongoing projects, valued at over USD 5.5 billion, compared to 175 projects (on-budget only) at the end of 2010.

The project provided financial and technical support for the preparation of Nepal’s contribution to the 4th High Level Forum on Aid Effectiveness, including the conduct of the 2011 Paris Declaration Survey and the preparations for two interventions from the Nepalese delegation, respectively on aid transparency and risk-management approaches to development cooperation.

The project also assisted MOF/FACD to launch an initiative on mutual accountability in Nepal, as part of the Nepal Portfolio Performance Review (NPPR) process. The 2011-12 NPPR work plan includes for the first time clear commitments from concerned development partners in the areas of aid transparency, aid predictability, use of national systems and phasing out of parallel implementation units, with reciprocal commitments from the Government side.

Work on the finalization of the new Foreign Aid Policy was delayed for a significant portion of the year, due to changes in Government and the resulting transfers of senior staff. However, work in this area has picked up pace in the last two months of the year, with a firm commitment from Ministry of Finance to conduct the consultation process and develop a final draft within the first half of 2012. The project has helped produce an updated draft which has been submitted to all concerned ministries for comments. A detailed calendar for the consultation process has also been developed by the Ministry of Finance.

On the basis of the capacity assessment report finalized in 2010, a capacity development plan was developed for the four concerned ministries (Finance, Local Development, Health and education) and the National Planning Commission. Long Term Agreements were put in place with three local training institutes, and trainings were delivered for example on negotiation skills, Sector-Wide Approaches, or the assessment of projects from an aid effectiveness perspective. Where relevant, exchange of knowledge between the more advanced ministries and others was also promoted, with an emphasis on ministries expected to receive significant amounts of climate change finance in the near future (Environment, Agriculture, Forestry, Irrigation, Physical Planning).

Overall, major objectives for the year have been reached and the project has also met its financial delivery target (above 95%). Ministry of Finance has taken a strong lead in implementing the Aid Management Platform, introducing a mutual accountability component in the dialogue with donors, and renewed GoN commitment to the revision of the Foreign Aid Policy provides an excellent opportunity to integrate the recommendations of the Busan High Level Forum in the policy framework at country level.

The project will continue to support this process in 2012, including the Foreign Aid Policy document itself, but also any related changes to the Government-donor coordination mechanisms, and the monitoring of the mutual accountability targets included in NPPR.

On the capacity development side, lessons learned in 2011 will be integrated and planned activities will 1) step up efforts to include important ministries with lower levels of coordination capacities, and to facilitate exchanges of experience with more advanced ministries; 2) start engaging local levels of Government on aid effectiveness and their potential role, with an emphasis on downward accountability; 3) conduct follow-up sessions with trainees to gather feedback on the concrete results of the trainings and any obstacles faced in applying their new skills.

AMP implementation will continue with the roll-out of AMP to more ministries and a public launch of the database planned for mid-2012, as a key contribution to aid transparency and accountability efforts in Nepal. A development cooperation report will be produced for the first time in 7 years. The partial integration of AMP with the national budget and financial management systems is also planned, subject to availability of resources.

The project is facing a significant funding gap for 2012, amounting to 357,000 USD. It corresponds to AMP-related activities and some aspects of the policy support provided for the Foreign Aid Policy and aid coordination mechanisms.

The project is scheduled for completion at the end of 2012. A review will be conducted in the first half of the year to evaluate project achievements and discuss support to GoN’s aid effectiveness initiatives post-2012.

1. **Background**

After years of conflict in Nepal, there is a great expectation that the national vision for development can now be realized. Success will hinge, however, on the outcome of internal political processes and the country’s ability to formulate a coherent strategy and align domestic and external resources to its successful implementation. International assistance plays a significant role in Nepal’s socio-economic development, amounting to 26% of the national budget and 41% of capital expenditures for the 2011-2012 fiscal year.

The 2011 Paris Declaration Monitoring Survey has shown some progress for example on the coordination of technical assistance and country analytical work. However, the survey also highlights some persisting constraints that make it difficult for Nepal to ensure alignment and effectiveness. On average per donor, only 58% of donor assistance is recorded in the Red Book (budget), the levels of aid for the government sector using national Public Financial Management (PFM) systems has gone down to 63%, and to 35% for use of procurement systems. Only 31% of all assistance is through programme-based approaches. This reflects differing views between GoN and development partners on the quality of national systems. The medium term expenditure framework – which forms a bridge between plan and budget – still requires further improvement. Systems for monitoring the planned and actual results of public investments have seen some progress but difficulties in bringing together budget, ODA and results data make it difficult to effectively manage for results.

GoN is aware of these challenges and has taken steps to address them, for example through PFM and procurement reforms, the development of results-based business plans for key ministries, and work on a human resource policy. Individual line ministries have also made progress towards better aid effectiveness, notably through SWAps and programme-based approaches in Health, Education and Local Development.

This project seeks to support aid management efforts by focusing not only on central policy level institutions (such as MoF or NPC), but also on key line ministries, in order to support a common understanding of their respective roles in the implementation of the aid effectiveness agenda in Nepal, build the required linkages between them, and provide coordinated capacity development support.

1. **Progress summary**

The project is active in three main areas:

1. Support to increased aid transparency and accountability through the implementation of the national Aid Management Platform;
2. Facilitation of policy initiatives, including the revised Foreign Aid Policy and GoN-donor coordination mechanisms;
3. Support ministries’ ownership and capacity to engage in aid effectiveness

2011 progress against annual result targets for each activity is summarized below.

**Activity Result 1: Aid Management Platform launched and available online to MoF and development partners**

* The Aid Management Platform was launched with all resident donors throughout the first half of 2011. Designated donor focal points were trained individually and provided access to their respective donor workspaces as well as the coordination workspace where all data can be viewed and reports produced. Verification of data entered by GoN for on-budget projects and entry of off-budget projects was completed by July 2011.
* The AMP data management guidelines have been finalized, approved by the AMP Working Group and disseminated. They include a description of the reporting responsibilities for both donors and GoN. Donor performance in reporting in AMP by the agreed deadlines has been mixed for the first two reporting cycles (July and November), with about one third of donors completing the task on time and the other two thirds requiring various levels of follow-up.

***Table 1: Donor reporting deadlines in AMP Nepal***

|  |  |
| --- | --- |
| **Deadline** | **Data to be reported** |
| 30 November  | Actual Disbursements (first trimester of fiscal year) |
| 31 December | Planned Disbursements (next 1-3 fiscal years) |
| 30 January | Actual Disbursements up to mid-term of fiscal year |
| 30 March | Actual Disbursements (second trimester of fiscal year) |
| 31 July | Actual Disbursements (third trimester of fiscal year) |
| As needed | Entry of new off-budget projects upon signature |

* Further customization of the system was conducted to incorporate the new functional coding (sector codes) used in the national budget, and to include a gender responsiveness field, based on the methodology used for gender-responsive budgeting in the national budget.
* AMP version 2.0 was introduced in November 2011 to improve the user friendliness of the system. It includes improved access to the edit function (to take into account slow internet connections in some donor /GoN offices), improved dashboards and a more user-friendly reporting module. All donor focal points were invited to a refresher training and feedback session on their AMP experience to date.
* FACD designated a focal point for AMP, who has been instrumental in the success of the roll-out to donors, and in supporting other FACD staff on issues related to AMP. On the IT side, the recruitment of an IT engineer has not been finalized by MoF in 2011. It is currently planned for the first half of 2012 and will be essential for the sustainability of AMP (server management). Local IT company Yomari has been providing these services in the interim period.

**Activity Result 2: Survey on aid effectiveness conducted and preparations for the 4th High Level Forum on Aid Effectiveness**

* The 2011 Paris Declaration Monitoring Survey was conducted within the deadlines set by the OECD, with technical and financial support from the project and DFID. The report has been published and disseminated, together with the shorter country chapter produced by the OECD for the 4th High Level Forum on Aid effectiveness.

***Indicators of the 2011 Paris Declaration Survey***

|  |  |  |  |
| --- | --- | --- | --- |
| **Indicators** | **2008****Results** | **2011****Results** | **OECD Target 2010** |
| 1.Operational development strategies | C | D | B or A |
| 2.Reliable PFM systems | 3.5 | 2.5 | 4 |
| 3.Aid on Budget (average per donor) | 46% | 58% | 85% |
| 4.Coordinated Technical Assistance | 15% | 48% | 50% |
| 5a.Using Country Public Financial Management System | 68% | 63% | 76% |
| 5b.Using Country Procurement System | 56% | 35% | N/A |
| 6.Parallel Project Implementation Units | 106 | 68 | 64 |
| 7. Untied aid | 95% | 96% | >96% |
| 8.In-year predictability | 47% | 55% | 65% |
| 9.Programme-based approaches  | 23% | 31% | 66% |
| 10a.Joint missions | 23% | 21% | 40% |
| 10b.Joint country analytic work | 28% | 47% | 66% |
| 11.Results oriented frameworks | C | B | B or A |
| 12.Mutual accountability mechanisms | N | Y | Y |

* The project also provided support for the preparation of the Nepal delegation’s interventions in Busan, including the Finance Minister’s remarks on risk-management approaches to development cooperation and the Finance Secretary’s presentation on Nepal experience with Amp and aid transparency.
* As part of the technical assistance provided for the implementation of the Paris Declaration in Nepal, the project also helped to establish a mutual accountability component under the NPPR mechanism, which for the first time links key donor commitments (on aid transparency, predictability, use of national systems and reduction of parallel implementation units) to related GoN commitments.
* The project provided some inputs for the revision of the Foreign Aid Policy, so that the evolving landscape of international development aid and the recommendations emerging from Busan could be taken into account. The consultation process within Government started in December 2011, with further consultations planned during the first quarter of 2012 with civil society, parliamentarians and donors.

**Activity Result 3: Capacity Development plan for aid management implemented in line with the work plan**

* The trainings planned in the 2011 work plan, in line with the 2010 capacity assessment, have all been implemented as planned with the exception of the training for senior officials, which was linked to the adoption of the new Foreign Aid Policy. Efforts have been made to select people in appropriate positions for the trainings, and not subject to imminent transfers. Back to office action plans have been systematically developed, with random checks conducted by the project on the status of implementation. A total of 147 staff have been trained in 2011, at the Under Secretary and Section Officer levels. The overall assessment of the trainings was positive.
* Long Term Agreements have been put in place with three local institutions on the basis of competitive bidding, for the delivery of the trainings included in the program. The following subjects were covered in 2011: Negotiation and consensus building skills (for Under Secretaries), Sector Wide Approaches, Technical appraisal of projects from an aid effectiveness perspective, Facilitation skills and managing meetings, Advanced English language course (applied to GoN business), exchange with a best practice country on AMP, federal aid coordination mechanisms and donor coordination mechanisms (Tanzania).



*Under Secretaries from Ministries of Finance, Local Development, Health and Education practicing their negotiation skills*

*(August 2011)*

* While the focus was on the ministries who were part of the 2010 capacity assessment, the trainings were also designed to facilitate exchange of experience between these – generally more advanced – ministries and some ministries which are expected to receive significant amounts of aid (and climate finance) in the near future, and who do not have easy access to aid effectiveness trainings.
* An exchange with Tanzania was conducted in December 2011 to look into the following issues: 1) AMP implementation – in particular experience with donor reporting; 2) donor coordination mechanisms (example of the Tanzania Joint Assistance Strategy) and 3) policies and practices for aid management in a federal set-up (example of Tanzania/ Zanzibar).

**Programme support**

The project team saw some changes in 2011, with the Administrative and Financial Assistant leaving for a more senior position with UNDP/LGCDP. He was replaced by Mr Ajaya Hamal. The National Project Officer Mr Kuldip Poudel resigned in November 2011 to take up a new position with an international NGO. He has not been replaced to date but the project has hired a consultant to support the Foreign Aid Policy consultation process.

The team is based in Ministry of Finance and working closely with FACD management and staff to achieve the objectives set for the project.

1. **Financial implementation**

**Financial overview of the project (USD)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Source of funds | Funds required (a) | Funds committed (b) | Funding Gap (c) | Total cash received (d) | Previous years expenditure (e) | Current year expenditure\* (f) | Cumulative expenditure to date\*(g) = (e)+(f) |
| UNDP |  | 830,058 |  | 730,058 | 425,057 | 300,694 | 725,751 |
| DFID | 240,000 | 240,000 | 174,528 | 65,472 | 240,000 |
| Denmark | 158,360 | 72,000 | - | 60,297 | 60,297 |
| Total | 1,585,418 | 1,228,418 | 357,000 | 1,042,058 | 599,585 | 426,463 | 1,026,048 |

\**Provisional 2011 figures*, *as at 15 January 2012*

The overall project delivery in 2011 was satisfactory, with expenditures amounting to 96.4 % of the annual project budget:

**Delivery status 2011 (USD)**

|  |  |  |  |
| --- | --- | --- | --- |
| Source of funds | 2011 Annual Work Plan Budget | 2011 Annual expenditure\* | Delivery rate\* |
| UNDP | 305,001 | 300,694 | 98.6% |
| DFID | 65,472 | 65,472 | 100% |
| Denmark | 72,000 | 60,297 | 83.7% |
| Total | 442,473 | 426,463 | 96.4% |

\* *Provisional 2011 figures*, *as at 15 January 2012*

The planned budget for 2012 is 543,360 USD, of which 186,360 USD are already funded by Denmark and UNDP. The funding shortfall for 2012 amounts to 357,000 USD.

1. **Lessons learned**
* One positive lesson learnt is that the recruitment of short-term support staff helped to get the AMP data collection process started. A smooth transition to a ministry focal point was made possible thanks to the commitment of FACD management who assigned a staff member for this task.
* Frequent staff transfers remain a threat to the sustainability of the project, as key people (such as the AMP focal point) are due for transfer very soon. One way to mitigate this risk would be to have in key positions (AMP focal point and IT focal point) some alternate focal points, on a different transfer schedule, who could ensure that there are no gaps in the management of AMP. Another risk mitigation measure which the project has already implemented is to train all section officers on basic AMP tasks (such as monitoring of donor data entry) so that a critical mass of people within MOF/ FACD have the required skills at all times and can train newcomers, regardless of the transfer schedule.
* On the capacity development side, there is a high demand for trainings related to aid effectiveness. However, the capacity development program should target some of the less advanced ministries as well as key staff at local level, who have less learning opportunities on these issues than ministry staff in SWAp sectors. The project should also facilitate more exchanges of experiences between ministries, as there are a lot of lessons learned within Nepal but insufficiently documented and shared.
1. **Priorities for 2012**
* Aid transparency: roll out of AMP to Parliamentarians, NGOs and the wider public, as well as other line ministries. Analysis will also be produced and published through an AMP website and a development cooperation report. Subject to availability of funds, AMP partial integration with the national budget and financial systems will be implemented.
* Greater involvement of FACD section officers in AMP will be a priority to address issues related to frequent staff turnover. Transfer of IT skills for AMP will also be a priority as soon as an IT engineer is recruited by MoF.
* Policy support will focus on the consultations and approval process for the new foreign aid policy, as well as the strengthening of Government-donor dialogue mechanisms (NPPR, LDM), also taking into account new international commitments from the 4th High Level Forum on aid effectiveness.
* Capacity Development efforts will continue in line with the capacity assessment recommendations and include some of the less advanced ministries in terms of aid coordination, as well as key local level officials. These efforts will also include drawing on international best practices.