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## Foreword

The Association of International NGOs (AIN) is an informal network of INGOs working in Nepal. AIN has come together to promote mutual understanding, exchange information and share experiences and learning of our work in Nepal for more effective collaboration. At present the AIN comprises more than 50 INGOs, working on a wide-range of issues and sectors to contribute to development efforts in Nepal.

Recognising the growing need to work in a country afflicted by endemic conflict, AIN is committed to expand its resources on behalf of all disadvantaged people in Nepal, especially those affected by the ongoing struggle. Over the years INGOs have played a crucial role as key stakeholders and partners in the development of Nepal and we would like to continue to engage with the Government, donors, various sectors of the civil society, NGOs and poor and excluded people on these issues.

The Poverty Reduction Strategy Paper (PRSP/Tenth Plan 2002-2007) is the government's main medium-term strategic planning document. The Plan has formulated a poverty reduction strategy based on four pillars - broad based high and sustainable economic growth, social sector development with emphasis on human development, targeted programmes with emphasis on social inclusion, and improved governance.

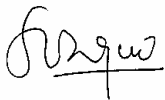
Programmes conducted by INGOs are for poverty reduction and sustainable development in Nepal, concurrent with the primary objective of the PRSP. AIN's development work in Nepal is primarily people centered in partnership with local organizations and aims to address issues such as social exclusion, poor governance, lack of infrastructure, development of the social sector, conflict management, peace building and so forth. In order to fulfil these objectives AIN engages with alliances, networks and stakeholders, including the government in identified areas.

In this regard, AIN conducted a review of its work, resources and contribution towards the fulfilment of the objective of the PRSP of HMG/N. This, we believe, would help bring more synergy in development efforts and identify future areas for collaboration between AIN members as well as other development actors, including the HMG/N, as appropriate. In addition, this would also help AIN to identify areas where it should strengthen its engagements.

Thus this report presents the findings of the review of the development budget of Nepal in relation to the PRSP, the contribution of AIN to the development budget and programmes in relation to the PRSP.

We hope this report will be informative and valuable to those working for the development of Nepal, especially INGOs and more significantly to His Majesty's Government of Nepal to make the environment for development work more conducive as well as identify various sectors where the government can enhance its collaboration with INGOs.

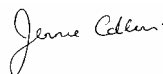
With best wishes,  
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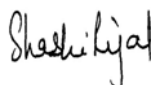
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## CONCLUSION AND RECOMMENDATIONS

### CONCLUSION

- The overriding objective of development efforts in Nepal is poverty alleviation. In spite of some noticeable progress achieved over the past decade, there is still widespread poverty. Segments of the poor are hardcore poor barely eking out subsistence on fragile, vulnerable ecosystems; large areas of the country lack even the most basic infrastructure. There are wide variations in poverty levels based on rural-urban divide, geography, gender, ethnic groups and occupational castes. The Tenth Plan/Poverty Reduction Strategy Paper (2002-2007) represents a renewed commitment by His Majesty's Government of Nepal (HMG/N) to this all-important task. Its sole objective is to achieve a remarkable and sustainable reduction in poverty in Nepal from 38% of the population at the beginning of the Plan period to 30% by the end of the Tenth Plan, and to further reduce the poverty ratio to 10% in about fifteen years' time (HMG/N: The Tenth Plan 2002-2007).
- In line with the stated goals and objectives of the Tenth Plan/PRSP (2002-2007), the government has proposed a budget of Rs. 111.7 billion for the year 2004/05 of which, Rs. 64.5 billion (58%) has been allocated for expenses related to general administration and debt servicing and Rs. 47.2 billion, which is about 42% of the total estimated expenditures, has been allocated for various sectors. The contribution of the foreign aid comprising loans and grants amounting to Rs. 32.31 billion has over two thirds (68%) of share in the sector-wise allocations of Rs. 47.2 billion clearly influencing the development works of the country. For example, in order to meet the deficit of Rs. 41 billion (Rs. 115 billion expenditure minus Rs. 74 billion income), the government has planned to realize Rs. 32 billion from foreign aid (Rs. 15 billion in the form of grants and Rs. 17 billion as loans). However, the government came up with a new revised estimate of only Rs. 20 billion (Rs. 11 billion as grants and Rs. 9 billion as foreign loans) afterwards because of its inability to absorb the earlier proposed amount due to heightening conflict.
- The Association of International NGOs (AIN), formed by INGOs working in Nepal in 1994, is an important actor in the development sector of Nepal as it has been implementing various people-centered development programmes throughout the hills, mountains and Terai areas. INGOs' active participation is established from their allocation of sizeable amount of resources - around Rs. 7 billion - generated either from their own country citizens, donors or other bilateral agencies. INGOs' involvement in the poverty reduction programmes and other development efforts is in line with the spirit of the Tenth Plan which calls for the participation of the private sector and others to complement the government towards the attainment of the plan objectives.

- AIN, representing over fifty INGOs in the country, has been playing a crucial role in the development sector of Nepal by implementing various programmes that aim to reduce poverty. Their allocations of resources in relation to the four pillars of PRSP indicate their priorities focused around basic services and economic infrastructure, building up the capacity, skill and competence of poor and excluded people, supporting disadvantaged and marginalized groups to improve their livelihood and income, and providing them with relief facilities at the time of emergency, disaster, displacement and humanitarian crisis.
- The total budget of AIN members in January 2005 was reported to be around Rs. 7.3 billion. It is feared that due to the delays of relevant government institutions to process the project agreements with INGOs in a timely manner, Rs. 0.7 billion has already been lost, since the new budget reported in June 2005 shows their contribution only at around Rs. 6.7 billion. Nevertheless, AIN members have increased their budgets by 15% - from Rs. 5.8 billion in 2004 to Rs. 6.7 billion in 2005 to better respond to the growing needs of the country.
- The total budget estimates of INGOs for the year 2005 amounting to Rs. 6.66 billion has more than 14% share in the total sector wise strategic allocations (Rs. 47.2 billion) of the government. When compared with the major sources of fund for the PRSP as expected to be met by foreign aid (Rs. 32.31 billion), and internal and other sources (Rs. 14.89 billion), the contribution of INGOs comes to be around 21% and 45% (Rs. 6.66 of Rs. 32.31 billion and Rs. 14.89 billion) respectively. The combined contribution of external sources inclusive of bilateral and multilateral donors and INGOs is around Rs. 38.97 billion, which is a significant resource in a country like Nepal.
- In 2005, members of AIN have mobilized, from their countries of origin, Rs. 5.13 billion through fund-raising campaigns, seeking solidarity funds and getting support from their headquarters, and Rs. 1.53 billion from bilateral and/or multilateral donors within Nepal. While the funds mobilized outside Nepal is equal to 77% of the total INGO budget for Nepal, the funds mobilized inside the country is only about 23%.
- In the original estimate of the foreign fund (Rs. 32.31 billion) including both grants and loans pledged by bilateral and multilateral donors, AIN's contribution of Rs.6.67 billion was 21%. This contribution has now been 32% after the revised estimate of foreign aid, which is only Rs. 21 billion.

- Pillar wise allocation of INGOs' resources is as follows: Rs 1.54 billion to Broad Based Economic Growth (BBEG), which is a share of 8.64%; Rs. 3.17 billion to Social sector Development including Human Development (SSDHD), which is a share of 14.95%; Rs. 1.21 billion to Social Inclusion and Targeted Programmes (SITP), which is a share of 43.84%; and Rs. 0.42 billion to Good Governance (GG), which is a share of 7.76 %.

## RECOMMENDATIONS

Foreign aid has played a crucial role towards fulfilling the Nepalese aspirations of development and also strengthening the balance of payments situation of the country. According to the recent publication of the Asian Development Bank (*Measuring the Economic Costs of Conflict: the Effect of Declining Development Expenditures*) the economic growth slowed down to an average of 1.9% whereas development expenditures declined at the current rate of 4.2%. More than 12,000 lives have been lost and physical infrastructure worth at least USD 250 million has been destroyed since the beginning of the conflict. Development expenditures have fallen by 33% since 2001, while in contrast the government has almost doubled the security expenditures. In view of this economic and social situation in the country, mobilization and optimal utilization of foreign aid would be crucial to achieve significant progress towards accomplishing the objective of poverty reduction and realizing sustained, high economic development. In such disturbing social and economic situation the role and contribution of the INGOs along with other donors is obvious.

- HMG/N should create a development-oriented environment for I/NGOs to allow better access to remote areas and excluded populations.
- HMG/N should encourage INGOs to raise more funds for the country and its suffering population and provide the necessary legal framework for safe and secure operations.
- HMG/N should significantly improve the administrative procedures for accommodating General Agreements and Project Agreements in order to accelerate project implementation.
- Since the contribution of INGOs in the development sector of Nepal is significant as shown by the findings of the review, INGOs should carry out comprehensive studies periodically (individually or collectively) to examine the real impact of their work in Nepal.

## **1.0 INTRODUCTION**

### **1.1 Objective**

The broad objective of this study is to analyze AIN's contribution to the four pillars of the PRSP of HMG/N for the year 2004/05 to determine the role of INGOs in poverty alleviation in Nepal.

The specific activities undertaken to fulfil this objective are as follows:

- Review of the development budget of Nepal in relation to the PRSP
- Review of AIN's contribution to the PRSP
- Review of AIN's programmes in relation to the PRSP
- Review of the sources of AIN's budget

### **1.2 Methodology**

The review has used both quantitative and qualitative data collected from primary and secondary sources. AIN member INGOs were provided with forms seeking information on their actual spending in the year 2004 and their budget for the year 2005. They were also requested to provide breakdown of the budgetary figures for 2005 into four pillars of PRSP of HMG/N along with the sources of the fund and expense headings. Likewise, secondary information were collected from Ministry of Finance, Nepal Rastra Bank, National Planning Commission and other few organizations apart from the information extracted from previous studies and reports published for public consumption.

### **1.3 Limitations of the study**

The review represents information from only 50 INGOs despite the 52 INGOs affiliated to AIN in Nepal. Unavailability of the required data from the entire AIN family has limited the scope of the study. This is mainly because of the unavailability of the key staff in some INGOs with limited human resources as the task demanded some extra skill and competence to convert their plan and budget format to that of the four-pillar format as required by the review. One other limitation of the study was the occurrence of some difference between the total budget of AIN and its allocation by four pillars as there was some confusion with regard to whether the latter should include administrative cost as well. Lastly, the detailed analysis of the development expenditure by sub-heading (water, education, micro credit, sanitation, etc) was not possible though this was one of the tasks to be carried out in this study, since the breakdown of the annual expenditure by these sub-headings was neither available from the government nor from INGOs.

## 2.0 REVIEW OF THE DEVELOPMENT BUDGET OF HMG/N IN RELATION TO THE PRSP

### 2.1 An Overview of Nepalese Economy

Nepal, a landlocked country, with 25 million population and 147,181 square kilometers area coverage, has China in its northern border and India in its eastern, southern and western borders. According to the World Development Indicators of the World Bank (August 2004), Nepal is the poorest country in South Asia with a per capita income of US\$ 240 per annum. The Human Poverty Index (HPI) value for Nepal is estimated at 39.6%, a figure fairly close to the HPI (41.2%) reported in the global Human Development Report 2004. The HPI value exceeds all the other South Asian countries except for Bangladesh and Pakistan.

In Nepal, the poverty in rural areas (42%) surpasses that of urban areas (25.2%). The incidence is most pronounced in the mountain, followed by Terai and the hills. As over 90% of the people of the country live in the rural areas, poverty is widespread and deep-rooted. Therefore, poverty reduction has been one serious concern for the planners, donors and the civil society. Poverty in Nepal is attributed to causes such as people's inaccessibility to resources, income and other human development facilities; social exclusion of people like women, Dalit, Kamaiya, ethnic minorities and indigenous communities, disabled, and people living with HIV and AIDS (PLWHA)), etc. due to caste, class, ethnicity, gender, and religion; and power imbalance amongst general population due to various social, economic, cultural and political factors. These factors have contributed a lot to the ongoing conflict in the country. In turn, Human Development Index (HDI) value in Nepal is 0.504 (UNDP global Human Development Report 2004) and ranks 140 out of a total of 177 countries. The ongoing conflict for the last ten years has actually perpetuated and aggravated the poverty in Nepal.

According to the latest statistics of the Nepal Rastra Bank (the central bank), the Gross Domestic Product (GDP) has plummeted to 3.6% in the first eight months of the current fiscal year (2004/05) compared to the initial target of over 4%. Similarly, the growth rate in Balance of Payments (BoP) surplus over the first eight months of the current fiscal year has slipped to Rs. 4.4 billion compared to Rs.10.9 billion during the same period last year. Likewise, there has been a decline in the export trade from 6.9% last year to 2.4% this year. However, the revenue collection as of the first eight months of the current fiscal year is Rs. 46.30 billion against the revised annual estimates of Rs.73.92 billion which is 11.7% higher compared to the corresponding period though.<sup>1</sup> All these inform us about the dismal performance of the economy in the first eight months of current fiscal year 2004/05.

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<sup>1</sup> Ministry Of Finance, HMG/N May – 2005.

## 2.2 Tenth Plan / PRSP

The Tenth Plan, also known as Poverty Reduction Strategy Paper (PRSP) of His Majesty's Government of Nepal (HMG/N) is the main medium-term strategic planning document targeting to bring about sustainable reduction in poverty. PRSP is guided by few considerations namely rural orientation of poverty reduction strategy, priority to actions and interventions bearing quick results, strong strategic focus and strategic flexible document. The PRSP relies heavily on private sector, NGOs (Non-Government Organizations), INGOs (International NGOs) and Community Based Organizations (CBOs) for carrying out economic activities, infrastructure development and service delivery wherever possible, both in partnership with central and local governments and agencies, and to complement the role of the government in development.

The PRSP targets to bring down the overall poverty ratio from 38% in 2001/02 to 30% by 2006/07. Raising literacy to 63%, reducing the infant mortality rate to 45 per thousand live-births, raising life expectancy to 65 years, and increasing access to drinking water for 85% of the population, electricity to 55% and telephone facility to almost all village development committees are some other targets of the plan (Annex-I).

## 2.3 Four Pillars of PRSP

The sole objective of the PRSP is to bring about a sustainable reduction in poverty in the country within the plan period (2002-2007), for which HMG/N has formulated a **four-pillar** strategy. The pillars are:

- **Broad Based Economic Growth (BBEG)**
- **Social Sector Development including Human Development (SSDHD)**
- **Social Inclusion and Targeted Programmes (SITP)**
- **Good Governance (GG)**

The broad areas of work directly under **Broad Based Economic Growth** are income generating activities, agriculture, irrigation, forestry, land, water, micro-finance, agro bio-diversity, conservation and environmental protection, trade, corporate sector, infrastructure development and policy work. This pillar tries to address the income poverty.

Likewise, **Social Sector Development including Human Development** covers areas such as, education, health and nutrition, drinking water and sanitation, infrastructure development, capacity building, other basic services and amenities for improving the quality of life and policy work. This pillar aims at providing basic services related to improvements in the quality of life.

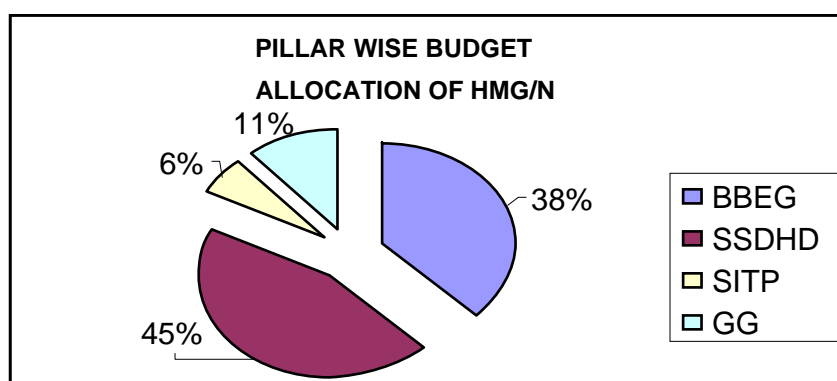
**Social Inclusion and Targeted Programmes** cover hard-core poor, asset-less, women, disadvantaged (such as Dalits, Kamaiya, disabled, PLWHA), indigenous groups and ethnic minorities, and trafficked children. This pillar tries to bring the ultra poor and other deprived ones into mainstream of development through targeted programmes for their upliftment.

The fourth pillar, **Good Governance**, covers control of corruption and leakage, mechanism to ensure accountability and transparency, participatory processes and policy work. This pillar, which is the most vital for the success of all other three pillars, calls for good governance free from corruption and leakages ensuring accountability.<sup>1</sup>

Overall, the key focus of the four pillars is in improving the lives of the poor, marginalized and excluded groups by addressing the income and human poverty, their deprivation of basic human development and social services, and their exclusion from the mainstream of developmental works on account of caste, class, ethnicity, religion, and gender related reasons.

## 2.4 Pillar-Wise Budget Allocation

HMG/N has been allocating pillar-wise development expenses in line with the focus of the PRSP. As per sector-wise strategic allocation, the total budget appropriated under **pillar I** (BBEG), **pillar II** (SSDHD), **pillar III** (SITP) and **pillar IV** (GG) are **Rs. 17.82 billion**, **Rs. 21.21 billion**, **Rs. 2.76 billion** and **Rs. 5.41 billion** respectively. HMG/N has started to present the total annual expenditures of the government under **recurrent**, **capital** and **principal repayment** headings from the current fiscal year onwards instead of the earlier provision of maintaining regular and development expenses. Therefore, it is natural that the pillar-wise strategic allocation includes the recurrent, capital and principal repayment expenses as well.



The chart shows that out of the total estimated budget estimates of Rs. 47.20 billion, 45% fund has been allocated for social sector development followed by 38%, 11% and 6% for broad-based economic growth, good governance and social inclusion respectively.

<sup>1</sup> *The Tenth Plan (2002-2007), National Planning Commission, HMGW July - 2003.*

The Tenth Plan also provides information on expenses of major poverty related development sectors. This has been revealed that various prioritized poverty expenditure sectors are supposed to have about 80% of the total development expenditures in the first three years of the plan period<sup>1</sup> (Annex-II).

## 2.5 Pledged Fund vis-à-vis the Actual Expenses

It is obvious that Nepal requires substantial amount of resources for poverty reduction. In turn, this has been a national agenda of the government. If the desired level of investment cannot be directed towards the programmes and activities related to poverty reduction in the annual development programmes of the government, there could be an adverse impact on the target achievements of PRSP.

In this context, it is imperative to mention that Nepal's development efforts have always been met by internal and external sources inclusive of donors and INGOs. As per the income and expenditure estimates of HMG/N in the fiscal year 2004/05, the share of pledged foreign aid is about Rs. 32.31 billion against the total national expenditure of Rs. 111.7 billion. Foreign aid, comprising foreign loan and grants, has over two-thirds (68%) of contribution to the sector-wise strategic allocations in the four pillars of PRSP for the same year (Table 1).

**Table 1**

**Income and Expenditures of HMG/N for FY (2004/05)**

(Rs. in billion)

Total Expenditure/Budget		<b>111.69</b>
Recurrent (Foreign Aid)	67.61	
Principal Repayment (foreign Aid)	31.58	
Capital	12.50	
Revenue collection		<b>70.32</b>
Deficit		<b>41.37</b>
Deficit Recovery Foreign Aid		<b>32.31</b>
Foreign Grants	15.35	
Foreign Loan	16.96	
Domestic Borrowings		<b>9.06</b>
Revised Estimate of Foreign Aid		<b>20.40</b>
Foreign Grants	11.31	
Foreign Loan	9.09	

Note: Data extracted from Table 2

<sup>1</sup> *Estimates of Expenditure for Fiscal Year 2004/05, Ministry Of Finance, HMG/N, 2004.*

Notwithstanding the fact that foreign aid is crucial in the overall development budgets of Nepal, the changes with regards to the actual spending against the earlier commitments of donors have serious impact on the implementation of development projects that are already in the pipeline. In the beginning of 2004/05, HMG/N had estimated to receive Rs. 32.31 billion as foreign aid comprising Rs. 16.96 billion in the form of loans and Rs.15.35 billion as grants (Table 1). However, the government has scaled down the amount of foreign aid flowing into the country in the form of loans and grants by 36% and the estimated decline has been attributed to the escalation of conflict, unstable political situation and lack of confidence on the part of donor community<sup>1</sup>.

As a result, out of the pledged foreign loan amounting to Rs. 16.96 billion and grants of Rs. 15.35 billion, the real flow of the same is expected around Rs. 9.09 billion and Rs. 11.31 billion respectively totalling a net flow of Rs. 20.4 billion only. This will result in a total shortfall of almost Rs. 12 billion against the earlier estimates made in the Income and Expenditure of the government (Table 2).

This is also learnt that IDA-PRSC directly related with poverty reduction and public sector reforms programme would be directly affected as a result of decline in the foreign loan component. This downward trend in the flow of foreign aid that has a major say in the development budget of the country would impact on the PRSP related programmes ultimately affecting the task of poverty reduction.

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<sup>1</sup> *The Himalayan Times, April 22, 2005 Kathmandu.*

**Table 2****Revised Budget Estimates of FY 2004/05**

(Rs. in million)

Particulars	Inclusive of Additional Budget	Actual as of First Six months	Revised Estimates	Revised Estimates (%)
Total Revenue	73920	29835	72703	98.4
Tax Revenue	55970	24560	55550	99.3
Non-Tax Revenue	15950	5057	15152	95.0
Principal Refund	2000	218	2000	100
Total Expenditure	<b>115290</b>	36998	<b>102170</b>	<b>88.6</b>
Recurrent	70098	25811	64924	92.6
Capital	32687	6805	24842	76.0
Principal Repayment	12504	4383	12404	99.2
Surplus (+) Deficit (-) Before Grants	- 41370 <b>15351</b>	- 7163 4330	- 29467 <b>11311</b>	71.2 <b>73.67</b>
Surplus (+) Deficit (-) After Grants	26019	- 2833	- 11311	72.1
Sources of Deficit Financing	- 26019	3816	- 18156	72.1
Foreign Loan	<b>16960</b>	1616	<b>9096</b>	<b>57.2</b>
Domestic Borrowings	9060	2200	9060	100
Cash Balance Surplus (+) Deficit (-)	0	983	0	0

Source: Mid-term Evaluation Report of Budget of FY 2004/05, Ministry of Finance, HMG/N, Mid-Feb. 2005.

### **3.0 REVIEW OF AIN`s CONTRIBUTION TO THE PRSP**

#### **3.1 An Overview of AIN in Nepal**

Association of International NGOs (AIN), formed in 1994, is an informal network of INGOs working in Nepal. AIN has come together to promote mutual understanding, exchange information and share experiences of their work in Nepal in order to better improve the impacts of their development works on poor and excluded people. AIN is committed to expand its resources and energies on behalf of all disadvantaged people in Nepal, including those affected by the ongoing conflict. INGOs have been playing an important role in the development sector of Nepal for more than 50 years.

There are 52 INGOs currently affiliated with AIN and still another 60 to 70 are actively participating in the wider range of development activities in the mountain, hill and Terai districts of the country. The broad work sectors of these organizations cover areas such as, agriculture, environment, disability, construction/engineering, sanitation, relief and rehabilitation to refugees, disaster management, internally displaced people (IDP), human rights, children, ethnic minorities, economic and business development, micro finance/savings-credit, good governance, media, social mobilization, conflict management and peace building, and poverty eradication.

#### **3.2 Annual Budget Estimate of INGOs**

INGOs have been spending a sizeable amount of resources by operating different programmes in the areas of income generating activities, infrastructure development, and basic services aimed to improve the quality of life of the poor and excluded people. The available information has revealed that annual spending of INGOs has been increasing considerably over the last few years. Despite the reduced figures of some INGOs, due to uncertainty of the political situation as they perceived, the total budget earmarked for the year 2005 has stood on higher side indicating the increased mobilization of resources with an assumption that Nepal needs resources as much not only to continue the regular development work but also to address the problems such as, internal displacement, intense conflict and its negative impact, recurring and post conflict issues etc.

As presented in Table 3 there has been an increase of 15% in the budget estimate of INGOs in 2005 (Rs. 6.66 billion) as against their actual spending in 2004 (Rs. 5.41 billion). The total budgeted amount for the year 2005 is planned to be met by out-country mobilization from respective donors (Rs. 4.87 billion) and in-country mobilization (Rs. 1.79 billion). While the out-country mobilization represents 73% of the total estimate, the in-country mobilization is only 27% (Table 3).

It was also found that of the total budget estimate about 80-85% is spent on programme and capital expenses while around 15-20 % is spent to meet administrative costs.

**Table 3**  
**Annual Spending and Budget Estimates of INGOs in Nepal**  
**for the year 2004 and 2005**

(Rs. in billion)

Spending in 2004	Budget Estimate in 2005		
5.41	<b>Out country mobilization</b>	<b>In country mobilization</b>	<b>Total</b>
	4.87	1.79	6.66

For reasons that the present analysis is based only on information received from 50 INGOs though there are many such INGOs operating in Nepal, and that a number of INGOs are following different fiscal years while maintaining their accounts, it can be safely concluded that INGOs are bringing in more resources than what is being presented in this review, which means their contribution to the development of Nepal is significantly substantial.

### **3.3 AIN's Programmes in relation to the PRSP Goals**

AIN's development works in Nepal are primarily people-centered and are implemented in partnership with locally based NGOs and CBOs. AIN also engages with other alliances, networks, forums and various other stakeholders, including the government and the private sector as appropriate, in identified areas. AIN in Nepal has concentrated its programmes targeting at enhancing economic activities, infrastructure development and delivery of various social services in the rural and semi-urban areas of the country.

Their involvement in areas such as, agriculture, irrigation, forestry and soil conservation, water, food security, environment protection, education, health and nutrition, drinking water and sanitation, capacity building and other amenities for improving the quality of life etc. are of much significance in view of the worsening socio-economic and political situation of the country. As INGOs' development, immediate relief and long-term rehabilitation works are mainly with and for the poorest, the most marginalized and excluded people such as, women, children, Dalit, Kamaiya, landless and tenants, urban poor, people living with HIV & AIDS, victims of conflict and natural disaster, ethnic minorities and indigenous people, disabled and so forth, it has helped to address the problems related to injustice, inequity, powerlessness and therefore, conflict. It can perhaps be safely argued that such an involvement with the poor and excluded people can eventually lead to a society with sustainable human development.

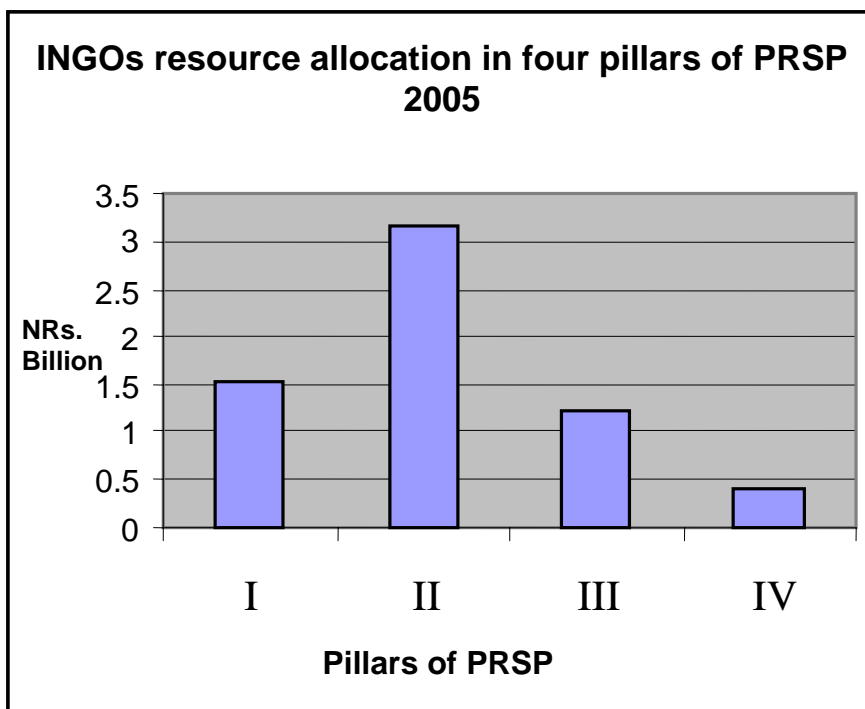
For the benefit of such poorest and excluded people that are outside their immediate programme areas, INGOs are also engaged in policy advocacy work. While undertaking such development works, INGOs' emphasis has always been on improving governance including, transparency, accountability and people's participation. INGOs' work, among others, in improving the social and human dimensions such as, increasing literacy rates, reducing infant mortality rates, increasing access to and control over resources including income, life expectancy, productivity and production, etc. is significant to the focus of the PRSP.

As the overriding objective of the PRSP is poverty reduction, programmes conducted by INGOs are crucial as they primarily work with focus on reducing poverty so as to achieve sustainable development in Nepal. INGOs' programmes are jointly implemented in partnership with the government, NGOs, CBOs, users' groups, alliances, networks, forums, etc. at various levels - national, regional or local. For reason that the PRSP has clearly underscored the importance of INGO, NGO and other Community Based Organizations (CBO) in the development of Nepal and thus the need for partnerships between them and the government at all levels, INGOs have been targeting at different sectors of PRSP to meet the PRSP goals.

In this regard, this will be important to draw a relationship between the INGOs' programmes and the PRSP goals. HMG/N has proposed a total budget of Rs. 47.20 billion in the sector wise strategic allocations under PRSP for 2004/05, while INGOs have a budget over Rs. 6.6 billion directed towards various work under PRSP for the year 2005. INGOs, by contributing 14% of the government's budget on sector wise strategic allocations related to PRSP, are directly complementing the government's efforts to reduce poverty in Nepal.

### **3.4 Resource Allocation by INGOs in Various Sectors of PRSP**

While the earlier section 2.04 focused on the allocation of the government budget to the four pillars of the PRSP for 2004/05, this section analyses the allocation of INGOs' budget to the same four pillars for 2005. The graph below depicts that of the total budget of Rs. 6.66 billion for the year 2005 INGOs plan to spend Rs. 1.54 billion for activities related to broad based economic growth (pillar I), Rs. 3.17 billion in social sector development (pillar II), Rs. 1.21 billion in social inclusion (pillar III) and Rs 0.42 for good governance (pillar IV). In percentage terms, 23.3% of the total budget of the INGOs is planned to be spent on pillar I, 48.0% on pillar II, 18.3% on pillar III and 6.4% on pillar IV respectively. This spending of INGOs implies that their involvement in basic services such as, education, health and nutrition, drinking water and sanitation, infrastructure development and economic development in sectors such as, agriculture, irrigation, forestry, food security and income generating activities, etc. is high. The second major investment from INGOs has been on activities related to broad based economic growth followed by social inclusion activities for people like Dalits, women, disabled, indigenous people etc. INGOs' investment in good governance has been as poor as the government's.



There has been a shortfall of foreign aid of almost Rs. 12 billion out of total pledged foreign loan and grants in the fiscal year 2004/05 as presented in Table 2. Nevertheless, INGOs by virtue of their working on wider range of issues and sectors of development and committed to increase their share in terms of real spending (and not just the pledges) can try to lessen the negative impacts on development on account of the reduced volume of foreign aids. This can be substantiated from the increased resources of INGOs over the years as discussed in the earlier sections and their continued commitment in providing and contributing to the important sectors such as, social inclusion and social sector development as will be discussed in the following section.

As presented in Table 4, the share of the INGOs in the total resource allocated by the government, inclusive of largest chunk of foreign aid, for PRSP in the year 2005 is 14%. While comparing the share of INGOs across the pillar wise allocations of the government, it is found that the highest share of INGOs is in social inclusion (44%) followed by social sector development (15%). Their share in the government's allocations of resources for broad based economic growth and good governance is 8% each. Since the share of the INGOs has been calculated on the pledges of the government and not on the real spending unlike in case of INGOs, the actual share of INGOs in each of these four pillars will actually be much higher than what it seems to be now. Moreover, as social exclusion and the inability of the government to cater the basic services by developing the social sector have been found as some major reasons behind the ongoing conflict in Nepal, the higher share taken by the INGOs in these two sectors seems relevant and timely.

**Table 4**

**Total Resource Allocation of HMG/N and INGOs in PRSP**

(Rs. in billion)

	Total Budget	P-I*	P-II*	P-III*	P-IV*
HMG/N's contribution <sup>1</sup>	47.2	17.82	21.21	2.76	5.41
INGOs' share in the government's contribution (in Rs. and percentage <sup>2</sup> )	6.66 (14%)	1.54 (8%)	3.17 (15%)	1.21 (44%)	.42 (8%)

**Notes:**

<sup>1</sup> HMG/N's contributions on PRSP are largely contributed by foreign aid amounting to Rs. 32.31 billion.

<sup>2</sup> Includes Rs. 0.32 billion allocated for administrative expenses

HMG/N figures (F.Y.2004/05), INGOs figures (2005)

\* refers to four pillars of PRSP

At the end, keeping in view the involvement of INGOs in wider areas of development, the resources they are bringing in, their successful attempts to increase their resources over the years, and the positive changes taken place in various social and economic aspects of the Nepalese society, this can be concluded that INGOs in Nepal are committed, profound and willing to supplement the efforts of other actors to reduce Nepal's poverty.

#### 4.0 IMPACT ON POVERTY REDUCTION PROGRAMMES

A substantial amount of resources has been allocated for PRSP in the recent past by the government. The INGOs and the private sector have also been investing their resources on activities related to PRSP so as to help in achieving the objectives of the Tenth Plan, most importantly, poverty reduction.

The Tenth Plan has targeted to reduce the overall poverty ratio from 38% to 30% within the plan period (2002-07). In Nepal, the degree of rural poverty is much higher than the urban poverty. Lack of income, economic resources and other human development facilities to the rural poor has been responsible for the present stage of poverty in the country. As a result, the government has seriously pursued PRSP to address the causes of poverty. This will therefore be relevant to examine the impacts of resources invested so far in reducing poverty in the country though the real impact of PRSP on poverty reduction can be seen only after the completion of the plan in two years.

The latest statistics of the Nepal Living Standard Measurement Surveys (NLSM), Central Bureau of Statistics, National Planning Commission, HMG/N<sup>2</sup>, shows that there has been some remarkable progress in the reduction of poverty ratio in Nepal as follows:

- In 2003-04, estimated poverty head count was 31%, compared to 42% in 1995-96.
- Between 1995-96 and 2003-04, the incidence of poverty declined by 8 percentage points in rural areas (from 43% to 35%) and 12 percentage points in urban areas (from 22% to 10%).
- During the same period, a healthy progress was seen in Poverty Gap. Poor people have moved closer toward the poverty line.
- However, between the two surveys, expenditure inequality has widened. Gini coefficient, one measurement of this inequality between the rich and poor, rose from 0.34 in 1995-96 to 0.41 percent in 2003-04.

The reduction in poverty both at the national level and rural-urban level must be attributed, apart from others like unexpected remittance, to the effectiveness of programmes addressed to the poorer segment backed by the sufficient resources from donors, government, INGOs, private sector, NGOs and the like for their continued efforts in undertaking development works seriously and effectively in the country.

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<sup>2</sup> National Planning Commission Secretariats, Central Bureau of Statistics, May 04, 2005.

However, there are some other serious issues, which still call for continued commitments by the government as well as other organizations towards poverty reduction. This is supported by the fact that there still remains a higher percentage of poverty in rural areas as compared to the urban community and that the inequality between the rich and the poor has widened. As a result, eradicating poverty does not seem possible in a short time in a country like Nepal where a majority of the people still reside in rural areas and therefore have great difficulty to have access to and control over productive resources.

Further, the domestic resources are not that sufficient to fight poverty and therefore a substantial amount of development budget has to be regularly borne by foreign aid. Hence, the continued participation of INGOs along with others in the PRSP related programmes is unquestionable as they have been playing an important role in complementing the government's efforts to reduce poverty in Nepal for the last many years.

**Annex – I****Indicative Targets of the Tenth Plan**

Particulars	Ninth Plan End 2001-02	Tenth Plan Normal Case	End 2006-07 Lower Case
<b>Overall Poverty Level (Percent of Population)</b>	<b>38</b>	<b>30</b>	<b>33</b>
<b>Real GDP Growth (At Factor Cost % p.a.)</b>			
▪ Agriculture	<b>3.6</b>	<b>6.2</b>	<b>4.3</b>
▪ Non-agriculture	3.3	4.1	2.8
	3.9	7.5	5.2
<b>Per-capita Income Growth (Percent p.a.)</b>	<b>1.3</b>	<b>4.1</b>	<b>2.2</b>
<b>Social Indicators</b>			
▪ Infant Mortality Rate (per thousand)	64.2	45.0	47.0
▪ Total Fertility Rate %	4.1	3.5	3.6
▪ Maternal Mortality Rate (per 100000)	415.0	300.0	3.5
▪ Rate of Contraceptive Users %	39.3	47.0	46.0
▪ Obstetric Services by Trained Manpower %	13.0	18.0	17.0
▪ Average Life Expectancy (years)	61.9	65.0	64.0
▪ Population Growth Rate %	2.25	2.1	2.1
▪ Net Enrolment in Primary Level (above 6 yrs %)	80.4	90.0	89.0
▪ Literacy (above 15 yrs, %)	49.2	63.0	61.0
▪ Female Literacy (above 15 yrs, %)	35.6	55.0	53.0
▪ Drinking Water (Population benefited, %)	71.6	85.0	83.0
▪ Human Development Index (HDI)	0.466	0.517	0.512
▪ Human Poverty Index (HPI)	39.2	34.0	34.5
<b>Physical Infrastructure</b>			
▪ No.of Districts with Access to Roads	60	70.0	70.0
▪ Irrigated Area ('000 of hectares)	1121.4	1417.0	1375.0
▪ Telephones (per '000 of Population)	14.0	40.0	36.0
▪ VDCs with Telephone Facility	1761.0	All	3590.0
▪ VDCs Connected with Computer Networks	NA	1500.0	1275.0
▪ Population Having Electricity (Percent)	40.0	55.0	53.0
▪ VDCs Having Electricity	1600	2600.0	2450.0
▪ Agricultural & Rural Roads (Kilometers)	NA	10000.0	8500.0

Source: The Tenth Plan/PRSP, National Planning Commission, July – 2003.

**Annex – II****Major Poverty Related Development Expenses****(Rs. in billion)**

Sector	Projection F.Y. 2004/05
<b>Education</b>	
▪ Basic and Primary Education, Scholarship and Women's Education	2.83
<b>Health</b>	
▪ Basic Health and Family Planning	1.97
<b>Drinking Water Supply and Sanitation</b>	9.93
<b>Rural Electrification</b>	
▪ Rural Electrification and Distribution Alternate Energy	2.42
<b>Agriculture</b>	
▪ Programs for increasing agriculture productivity, crop development, research, extension and training	2.73
<b>Irrigation</b>	2.98
<b>Income Generating Forestry Activities</b>	0.17
<b>Rural Infrastructure Development</b>	6.53
<b>Grant to Local Communities</b>	3.42
<b>Skill Development</b>	3.28
(Only of Ministry of Education, Ministry of Industry and Ministry of Labour)	
<b>Poverty Alleviation Fund</b>	1.0
<b>Micro-Credit</b>	2.08
<b>Total</b>	<b>39.34</b>
<b>Total Development Budget</b>	<b>49.1</b>
(% of Prioritized Poverty-Expenditure)	80.1

Source: The Tenth Plan/PRSP, National Planning Commission, July – 2003.