

CHAIRMAN'S SUMMING UP**Nepal Poverty Reduction Strategy Paper and Joint IDA-IMF Staff Assessment
Meeting of the Board of Executive Directors of IDA****November 18, 2003**

The Executive Directors discussed Nepal's Poverty Reduction Strategy Paper (PRSP) and the Joint IDA-IMF Staff Assessment of the PRSP. Directors welcomed the PRSP as providing a good vision for accelerating Nepal's reform momentum, improving economic and human development and fighting poverty. However, they noted major challenges and risks from the uncertainties posed by the continuing conflict and political instability.

Directors welcomed the focus on accelerating income and employment growth in rural Nepal and the recognition of social inclusion as a fundamental development challenge facing the country. They noted the strategy's recognition of the country's constrained fiscal situation and weak implementation capacity, and welcomed proposals for a realistic approach to manage these constraints through a Medium Term Expenditure Framework and an Immediate Action Plan. They were also encouraged by the strategy's emphasis on improving delivery of public services through devolution of management to local communities and reducing corruption and corruption practices.

Some Directors felt that the PRSP may have underestimated the impact of civil conflict and the challenges it posed to implementation going forward. They noted that PRSP growth scenarios appeared optimistic and called for deeper analysis of the risks involved. They stressed the need to identify sources of growth and their linkages to poverty reduction. Directors also called for improvements in the costing of public policies as inputs to annual budget processes and further development of the MTEF to deepen prioritization to cover all government spending. They advised further elaboration of pro-poor rural strategies to ensure social inclusion through targeted programs and improvements across all the sectors in public service delivery.

Directors emphasized implementation of a coherent monitoring and evaluation strategy, including building capacity for poverty monitoring and developing an institutional framework for its implementation. They stressed the need for broadening and deepening the participatory process underlying the PRSP in order to enhance and secure ownership and accountability. In this regard, Directors urged that an open and transparent dialogue be institutionalized to share information and seek feedback about the document's implementation, and translate it into languages of the major ethnic groups.

Directors emphasized that the success of the PRSP process is contingent on peace and political stability which, in turn, is key to a sustainable macroeconomic framework to protect pro-poor expenditures, and improving governance and the overall policy environment. The immediate challenges for implementation are strengthening capacity to execute the envisaged programs, improving expenditure planning and control through an improved public expenditure management system, and building an effective monitoring system.

Directors noted the importance of developing output and outcome targets for the PRSP and the need to institutionalize effective monitoring and evaluation. In this regard they supported greater stakeholder participation in assessing progress in the implementation of the PRSP. They strongly encouraged the government to undertake poverty and social impact assessments of key reforms envisaged in the PRSP.

Finally, Directors concurred with staff that the PRSP provides a sound basis for IDA's concessional assistance to Nepal.