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Telephone: East Kilbride [Redacted]

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Your Ref: PO 7400

Date: 6th July 2016

Contract Amendment No: 1

CONTRACT FOR: Financial Sector Stability Programme

CONTRACT NUMBER: PO 7400

With reference to the contractual letter dated 3rd December 2015 whereby your firm was engaged to carry out the terms of reference and with reference to subsequent discussion, I confirm that the UK Government wishes to make the following amendments to the letter of 3rd December 2015:

Section 1 - Form of Contract

4. Financial Limit

Delete: Payments under this Contract shall not, in any circumstances, exceed £4,607,667 exclusive of any government tax, if applicable (the "Financial Limit"). Payment for the Inception Period shall not exceed £209647.

Insert: Payments under this Contract shall not, in any circumstances, exceed £7,248,963 exclusive of any government tax, if applicable (the "Financial Limit"). Payment for the Inception Period shall not exceed £209647.

Section 3: Terms of Reference

Delete: Section 3 – Terms of Reference

Insert: Section 3 – Terms of Reference (June 2016) enclosed

Section 4: Special Conditions

2. Additional Documents to be included in this Contract

Delete: The following documents are included in and form part of the Contract in addition to Sections 1-5 inclusive:

Best and Final Offer – Technical – received 9th October 2015
Best and Final Offer – Commercial – received 9th October 2015
Best and Final Offer – Value for Money – received 9th October 2015
Post Tender Clarifications submitted 25th November 2015

Insert: The following documents are included in and form part of the Contract in addition to Sections 1-5 inclusive:

Best and Final Offer – Technical – received 9th October 2015
Best and Final Offer – Commercial – received 9th October 2015
Best and Final Offer – Value for Money – received 9th October 2015
Post Tender Clarifications submitted 25th November 2015
Proposal for Program Management Support: Disaster Recovery Site (DRS) Implementation for Nepal

Rastra Bank (NRB)- dated 20 April 2016

Proposal for Divestiture of Controlling Stake of Government of Nepal in Nepal Bank Limited- dated 29 April 2016

3. Key Personnel

Delete: The following of the Supplier's Personnel cannot be substituted by the Supplier without DFID's prior written consent:

[Redacted]

Insert: The following of the Supplier's Personnel cannot be substituted by the Supplier without DFID's prior written consent:

[Redacted]

Section 5 Schedule of Prices

Delete in toto and replace with Schedule of Prices (June 2016) enclosed.

2. These amendments relate to the procurement and implementation of the additional systems Disaster Recovery Site (DRS) and Nepal Bank Limited (NBL).

3. Please confirm in writing by signing and returning one copy of this letter, within **15 working days** of the date of signature on behalf of DFID that you accept the amendments set out herein.

4. Please note the provision in the contractual letter that the financial limit of the UK Government's liability to the Supplier under this engagement shall not exceed the sum specified unless the amount of any such excess has been agreed by the Department for International Development in writing before the Supplier takes any action which might result in the financial limit being exceeded.

For and on behalf of the
Secretary of State
for International Development

Name: [Redacted]

Position: Procurement and Commercial Officer

Signature:

Date:

For and on behalf of

Name:

PricewaterhouseCoopers Private Limited

Signature:

Date:

Enc

Section 3 – Terms of Reference (June 2016)

Financial Sector Stability Programme

1 Overview

1.1 Through this TOR, DFID is seeking the services of a supplier to undertake the implementation of Lot 3 of DFID Nepal's Programme, Accelerating Investment and Infrastructure (AiiN). The Programme is scheduled to run until March 2020 and will have three main results areas:

Output 1: Increased Investment in Large Scale, Growth Enhancing Infrastructure

Output 2: Streamlined Economic Policies and Regulations to Promote Growth

Output 3: Subnational Growth enhanced through a combination of economic policies and infrastructure delivered locally.

1.2 To deliver these results DFID is issuing three contracts to separate suppliers for three main components which will be procured under a Lots negotiated procurement process. These lots are as follows:

- i. Lot 1: Accelerating Private and Public Investment in Infrastructure Component (APPIIC) delivering the full requirements of Output 1.
- ii. Lot 2: Economic Policy Incubator (Anchor Component) delivering most but not all of the requirements for Outputs 2 and 3.
- iii. Lot 3: Financial Sector Stability Component (FSSP) delivering the macroeconomic stability component of Output 2.

1.3 **Suppliers are welcome to bid for one or more of the lots and a distinct proposal will be required for each lot for which a bid is submitted.** Regardless of bidding approach, suppliers should demonstrate how:

- The proposal will maximise Value for Money (refer to the VfM framework in the BC);
- They propose to create excellent synergies and complementarities between lots irrespective of the number of suppliers involved;
- They will ensure effectiveness in monitoring, management and reviews;
- They will ensure excellent relationship management with multiple stakeholders and DFID.

2 Recipient

2.1 The principal recipient of these services will be the public stakeholders charged with financial sector stability in Nepal, principally the Ministry of Finance, National Planning Commission, Central Bank and relevant regulatory agencies. The ultimate beneficiaries of the programme's effects will be small and medium enterprise owners and poor households in Nepal who will enjoy a more stable financial sector to facilitate their economic activities.

3 Revised Scope of Work and Detailed Programme Requirements

3.1 Nepal's financial sector is subject to significant vulnerabilities including weak financial reporting standards, insufficient regulatory oversight of the banking and cooperatives sectors and incomplete mechanisms for safeguarding the assets of financial services consumers. FSSP aims to secure the stability and robustness of Nepal's financial sector by reducing these systemic risks.

3.2 FSSP will be the successor programme to DFID's Macroeconomic Reform Programme (MRP) which, by the middle of 2015 is expected to have:

1. Completed special audits of 54 financial institutions
2. Completed Nepal Financial Reporting Standards (NFRS)¹ training covering up to "intermediate" Module 2 for 277 regulators

¹ Following the Accounting Standards Board's recommendation, the Institute of Chartered Accountants of Nepal

3. Designed and delivered institution-specific NFRS training (Module 3) possibly to all 277 regulators linked to their regulatory functions; delivered management workshops to participating institutions' managers on a non-specialist understanding of NFRS.

4. Supported the GoN to deliver reforms to banking resolution, deposit insurance, state divestiture of state owned banks, financial sector development strategy and supported relevant legal reforms to ensure the successful completion of two Development Policy Credits from the World Bank.

3.3 To continue to address the issues in financial sector stability and build on the work of the MRP, there are six broad thematic areas of work that will be covered through FSSP with their expected components:

a) Stability of the financial system

1. Technical support to strengthen risk-based supervision of the banking system
2. Diagnostic of insurance companies to identify weak institutions and their role in systemic vulnerability
3. Implement priority actions based on FSAP recommendations
4. Support the technical investigation of financial crimes through DMLI and Police
5. In line with the provisions of this TOR in section 5.2 and as identified in MRP 2, provide necessary support for the divestiture of Nepal Bank Limited.

b) Capacity strengthening of financial sector regulatory bodies

1. Development of Supervisory Information System (SIS) at NRB
2. Training of NRB supervisors to build capacity on risk-based supervision
3. Supervisory training and regulatory strengthening of Nepal Insurance Board
4. Capacity strengthening of the regulatory body for cooperatives
5. Following the priority need assessed post the 2015 earthquakes, identify, implement and operationalize the Disaster Recovery Site at the Central Bank.

c) Developing and implementing an inclusive financial sector policy

1. Support the implementation of FSDS
2. Implement priority actions based on the recommendations from the Financial Sector Survey

d) Supervision of the cooperative sector

1. Assessing the capacity needs of the regulatory body for cooperatives
2. Development of Supervisory Information System at DOC
3. Data and evidence building on the exposure of Savings and Credit Cooperatives and its impact on the financial sector under stress situations
4. Assist in drafting of the regulations and relevant policies for the establishment of Cooperatives' Credit Information Bureau that will formalize the building of database on assets and liabilities of the cooperative sector and act as information repository

e) Research on topical issues related to financial sector stability

Eg. Drivers of liquidity in the financial system

3.4 GoN has identified the following areas as priorities within the above scope of work:

1. Technical support to strengthen risk-based supervision of the banking system
2. Diagnostic of insurance companies to identify weak institutions and their role in systemic vulnerability
3. Development of Supervisory Information System (SIS) at NRB
4. Training of NRB supervisors to build capacity on risk-based supervision
5. Supervisory training and regulatory strengthening of Nepal Insurance Board

3.5 The MRP programme may conduct preliminary work on some of the priority interventions in paragraph 3.4 above (eg formulating TORs for systems and their procurement or assessing institutional needs as agreed with the Government of Nepal) but FSSP will be responsible for reviewing and (if necessary) revising MRP preparatory work and delivering and/or operationalising all areas under paragraph 3.4.

(ICAN) pronounced implementation of Nepal Financial Reporting Standards (NFRS) which is in line with the International Financial Reporting Standards (IFRS).

4 Expected Results of the FSSP

4.1 FSSP will deliver the following results as detailed in the business case. A full results framework that expands on these headlines will need to be developed during the duration of the FSSP²:

Headline FSSP Result by the end of Year Three

- Key financial sector reforms to bank supervision, resolution and reporting reduce the risk of a financial sector collapse and strengthen stable lending practices.

Specific Results:

- A functioning deposit insurance system created and operational.
 - All critically undercapitalised banks being resolved or under corrective action programmes
 - Strengthened processes for bank supervision are in place.
 - 75% of the relevant staff of Ministry of Finance, Internal Revenue and Central Bank has completed intermediate level International Financial Reporting Standards training.
-

5 Partnerships and Transition

5.1 The supplier for FSSP will be expected to work in close collaboration with and in support of the World Bank's Development Policy Credit (DPC) programme and a series of proposed Financial Sector DPCs. It will play a critical role to ensure co-ordination with Government institutions and other stakeholders and manage relationships for successful delivery of FSSP.

5.2 FSSP under guidance of GoN and DFID must transition smoothly from the work of MRP, with a potential overlap between both interventions during the FSSP's inception phase in 2015, which can be up to 3 months, to help facilitate this. As part of its inception, FSSP will be expected to recommend what aspects of MRP should be retained, changed or dropped on the basis of an objective analysis of strategic need and the MRP's performance. Particularly important will be assessing whether FSSP needs to secure the sustainability and institutionalisation of MRP's main outputs to ensure delivery of FSSP's core objectives.

5.3 Notwithstanding the scope for coordination between MRP and FSSP mentioned in paragraph 5.2, the FSSP will be a full break from MRP and we expect a full design of a new programme to account for the greater number of intervention areas as well as a deeper focus on institutional and policy reform as part of engagement under FSSP. DFID will not give preference to MRP team members that are proposed to take up interventions under FSSP in conducting bid assessments. DFID do not recognise exclusivity agreements, therefore no bidder should seek to put these in place with any sub-contractors. DFID may spot-check compliance with this requirement during the ITT stage. As part of ensuring impartiality in procurement, DFID may hold a pre-bid meeting during ITT stage to explain the procurement process. The information on this will be posted on our Portal soon after the publication of this TOR.

6. Management and Delivery Structures

6.1 During the 3.5 month inception phase, the Service Provider should put in place all necessary **arrangements to ensure that the component begins operating within one month of contract signature**. This includes the mobilisation of all core staff, establishment of the component in suitable premises, formation of the governance structure (linking with other AiiN components) and the development and adoption of clear policies and procedures to ensure smooth functioning of the component. This will include plans, policies and procedures to support:

- a. Programme management and reporting processes;
- b. Procurement, financial management and reporting following best practices;

² As mentioned in the AiiN logframe FSSP will deliver Output 2.2 of the AiiN programme: "Independent Assessment from IMF/WorldBank Reports Sustained Reduction in Systemic Risks to the Financial Sector to Manageable Levels."

- c. Design and establishment of a results framework and a monitoring and evaluation system;
- d. Management and contractual arrangements for all staff;
- e. Developing a risk management strategy;
- f. Approaches for ensuring Evidence-based analysis underpin all interventions and for prioritising and sequencing interventions;
- g. Approaches for ensuring all interventions have theories of change with clear problem identification analysis and linkage to the objectives of AiiN;
- h. Clear milestones in workplans, reflecting the articulated theories of change to track progress on a regular basis and judge performance; and
- i. Approach to link up the management and governance arrangements for the FSSP with the AiiN Programme and its other intervention areas in future. This should include, at least but not limited to, effective coordination in the formation and functioning of a steering committee led by relevant government counterparts.

The Service Provider, working in close collaboration with DFID staff, will strive to maximise synergy with other components under the AiiN programme. The component will be subject to DFID's annual reviews, a mid-term evaluation, a project completion review and an ex-post evaluation.

6.2 The contract will be issued for the full period, until the end of March 2020. **However, it will be** subject to two break points: after the inception phase and the mid-term evaluation of the entire AiiN programme in order to ensure agreement of detailed milestones for the next period, and satisfactory performance of the supplier. Suppliers are expected to provide appropriate staff/consultants appraisal systems with which they will engage DFID on key performance issues arising. Programme performance will be reviewed at least annually by both DFID and the supplier as part of DFID's annual review and/or contract management process and be either continued or terminated accordingly. Contracts may be confirmed for the outer years subject to performance and to the recommendations of the AiiN mid-term evaluation (see section 15 below for more details). If DFID wishes to terminate or amend the consultancy contract at any time, this will take place at no cost to DFID and will follow standard DFID procedures.

7 Core Requirements of the Supplier

Technical

7.1 The technical proposal should build on the analysis in the Business Case. It should build on (a) the review of relevant literature/documentation to define the international best practices applicable to Nepal that will be used to implement this component; (b) identify the issues, including those identified in the Social Inclusion Assessment and Governance and Conflict Assessment, that are critical for financial and macroeconomic stability; (c) identify further analysis that needs to be done and how it should be undertaken; and (d) formulate a technical programme strategy to achieve the FSSP targets.

7.2 This technical proposal should include:

1. An FSSP theory of change (ToC), including evidence, risks and assumptions, to demonstrate how they link up with the AiiN outcomes;
2. The programme, principles and processes within which the FSSP will operate;
3. An approach that demonstrates effective transition from MRP for design and implementation of FSSP's expanded scope of work. The proposal will suggest appropriate prioritization and sequencing of interventions (or an approach to assessing these) in terms of their potential impact on financial and macroeconomic stability, growth and poverty reduction. This should be consistent with implementation constraints and inform how such constraints might affect stability and growth;
4. A draft gender and inclusion strategy that will guide FSSP implementation, and a plan for conducting analysis on the impacts of FSSP interventions on women's economic opportunities as set out in the business case;
5. A short strategy for linking with DFID and other donor programmes in the AiiN Programme areas where most relevant and implementation process;
6. If applicable a rationale for combining lots into a single programme delivered by the service provider and a justification of value added. This will not form part of the evaluation, but instead be read should one supplier be the top scoring bidder on each lot and form the basis of final negotiations on synergies;

7. An approach to show how maximum local capacity can be built through the FSSP, how the success of that looks like and can be measured. Innovative approaches to building local capacity are highly encouraged; and
8. Any innovative approaches or other critical elements not mentioned in this ToR that the service provider would like to feature to demonstrate a competence for practical innovation or to further demonstrate the quality of understanding of the ToR requirement.

Management and Delivery

7.3 In preparing bids for this work, prospective Service Providers should develop appropriate management arrangements to deliver and robustly monitor programme implementation with clear demonstrable evidence of proactive management of value for money and risks to securing it. The proposal should include the framework, principles and processes within which the component will operate and an indicative work plan for the first 2 years of the component.

7.4 The proposal will include a broad 2 year management strategy, this will comprise a detailed indicative work plan and budget for the first year of operation and an updated results framework. The supplier will then select one of the most important risks from its risk assessment and set out a workplan for the second year of operation that accounts for this risk materialising at the end of year 1 with indicative milestones and budget. In detail:

- **Broad two year management strategy and budget.** Budgets should be broken down by potential output and activity and include projected timelines of key activities. For Year 2, the workplan and budget should reflect the emergence of a key risk that the supplier has selected from its own risk assessment.
 - **Indicative first year work plan** and Financial Plan. Indicative milestones should also be proposed to be refined and agreed with DFID. Milestones will be reviewed and revised by the supplier and accepted by DFID at a minimum, on an annual basis if not more frequently, in order to take account of programme progress to date, reflect all lesson learning, and realisation of further synergies and VfM opportunities.
 - **Proposed Results Framework** framed around the impact and outcome statements in the business case and the AiiN logframe. Drawing on projected activities in the 1 year work plan and technical strategy, this will include a full set of objectively and quantitatively verifiable indicators for measuring progress against impact, outcome and output, including means of verification and risks and assumptions.
9. Based on the identified risks in the technical proposal and any management risks identified in the management strategy, a detailed **risk mitigation strategy** should be included in the bid. Improving VFM requires a focused approach to managing risks. A substantive risk assessment and mitigation plans focusing not just on risks highlighted in the Business Case but also any new issues identified – to capture all foreseeable and potential risks to FSSP delivery during implementation. Based on the identified risks, a detailed risk mitigation strategy will be included as part of the proposal and updated regularly;
- **Whilst it is preferable though not mandatory that the proposed project manager for FSSP be a core member of supplier personnel, irrespective they must be fully accountable for the quality and performance of the programme to DFID and have a direct reporting line to the suppliers' internal management. This person must provide a clear rationale for how the past results they have delivered in their CV match the needs of this component. A one-page Statement of Assurance is required as part of the signoff and must be written by the proposed manager. This should state their professional views on how to implement FSSP and their commitment to deliver meaningful results.**
 - **A payment modality for the component** that incentivises the achievement of results, value for money and effective and equitable risk sharing with suggested key performance indicators closely linked to the outcomes required by the component. The budget should show the management overhead cost if appropriate and demonstrate how that delivers maximum value for money. DFID will make payments according to its procedures.

- All bidders should ensure that they assure DFID of appropriate due diligence approaches including for sub-contracted partners and that these approaches are part of the bid.

8 Formal Reporting Requirements

8.1 The key formal reports will be as follows although these may be amended by mutual agreement of DFID and the supplier:

- **Three-monthly work plans and budgets** to be delivered one month before the start of the next three monthly programme cycle to allow adequate time for consultation with and feedback from DFID and key stakeholders;
- **Quarterly Progress Reports** in a succinct and readable format that links directly to the results;
- **Monthly Progress Updates** with the lead advisor/programme manager; and
- **Annual Report** on total progress and achievements and lessons learned from feedback mechanisms.

8.2 Outputs under the proposed scope of work in this ToR may be amended or refined during the post tender discussion between the successful bidder and DFID. The targets agreed in the revised programme results framework and work plans and strategies will form the basis upon which performance will be monitored and tracked. The supplier will propose key performance indicators which will be used alongside FSSP reviews to monitor performance.

8.3 Overall coordination of the FSSP will rest with DFID Nepal Economic Adviser. The supplier will report to the Programme Manager, Economic Development Team, for programme administration, finance and contracting issues.

9 Value for Money Guidelines

9.1 The supplier for the FSSP should incorporate the VFM programme developed in the business case (Tables 8 and 9, pp.37) where appropriate, including when designing the implementation plan, policy and procedures.

10 Handling Sensitive Information

10.1 Supplier personnel working for FSSP may be required to handle sensitive information and will be expected to uphold the highest levels of integrity and professionalism in the use, management and dissemination of such information. Such information should not be disclosed to outside parties other than DFID and the relevant Nepali stakeholders without the consent of both. Staff may need to sign non-disclosure and confidentiality agreements to this effect.

11 Key Competency Requirement for the Service Provider

11.1 Building local capacity is an integral part of DFID's programme. The Service Provider will include a list of full time technical and support personnel and accompanying technical experts able to deliver programme outputs and outcomes. Bidders are therefore encouraged to consider the optimum approach includes qualified regional/national organizations where possible but DFID does not recognise the use of exclusivity agreements and suppliers must not propose these to partners.

11.2 The Service Provider must be able to demonstrate a clear strategy for supporting and building Nepali capacity both internally, within the leadership and management of the FSSP, and externally.

11.3 At the technical level the Service Provider will demonstrate the following capabilities:

- 1) Ability to ensure effective management of financial sector interventions and of an effective programme handover process;
- 2) Ability to procure personnel with right technical and managerial skills at relatively short notice. Such procurement of personnel should inform how the achievements, capabilities, and expertise of these individuals will enable a successful delivery of the FSSP and ensure value for money;
- 3) Ability to work with a wide range of stakeholders, government, private sector and other donors and continue maintaining the high degree of trust and confidence. Each proposed team member

should include a verifiable description of how they have excelled at building relationships and how they have influenced stakeholders to achieve an objective;

- 4) Very strong networking and relationship-building skills at both the leadership and advisory levels in Nepal or similar context, including a robust approach to maintaining excellent and constructive relationships with the DFID client. There should be a common understanding across the team that behavioural change is at the heart of policy change and the theory of change;
- 5) Good understanding of working in similar contexts and programmes; and
- 6) Ability to manage, assess and quality assure FSSP progress.

11.4 At the management level the Service Provider will demonstrate capabilities including, but not limited to:

- 1) Excellent programme management and co-ordination skills coupled with technical skills;
- 2) Ability to manage and account for substantial levels of funds;
- 3) Knowledge in the procurement of services and the effective local application of best international practices, with knowledge of DFID's own Procurement Agent processes where relevant;
- 4) Ability to honestly record and learn from failures and change and adapt at pace to an evolving country context and with an aptitude for identifying opportunities and blockages in advance; and
- 5) Ability to implement strong management, results and monitoring systems to ensure progress is adequately tracked, poor performance is identified early and the programme can manage a complex operating environment.

11.5 The Service Provider will be expected to support the establishment of the component in a main office in Kathmandu with appropriately skilled and qualified personnel. The Service Provider will be expected to access a full range of technical outreach support to implement and ensure that outputs of the component are achieved.

12 Financing Mechanism

12.1 Suppliers should note the approximate funding available for Lots 1, 2 and 3 for the five years is about £25m with Lot 1 expected to take up a share above 40% to accommodate the pooled fund for IBN. Suppliers should not craft their bids in such a way as to reach the budget ceilings this split implies. Bids will be evaluated based on value for money in pursuit of achieving the Terms of Reference, competitiveness of costs proposed, a strong understanding of the need to start small and scale up in response to stakeholder demand and/or success achieved, as well as demonstration of maximising the effective utilisation of the proposed budget, linked to results to be achieved. Bidders will be asked to provide details of the construction of their financial proposals when full tenders are requested. The Service Provider should be prepared to amend the strategy, work plans and budgets should DFID decide to scale up or down on the programme and should be aware of the need for a contract amendment should this be the case. During implementation the supplier's ability to provide accurate forecasts and spending risks analysis will be a key performance criterion.

12.2 The total cost will include the Service Provider fees for management and the retained portion of personnel and technical assistance fee rates (the competitiveness of which will be evaluated in the commercial proposal) demonstrating good value for money outcomes to deliver the maximum intended results. The supplier is required to include a table in the Commercial proposal demonstrating key activities, value of the fund in each activity, and the transparent breakdown of management and administrative costs associated with delivery of these activities.

12.3 The Service Provider should propose an appropriate mix of full-time personnel and short-term technical assistance to implement the FSSP. Suppliers will maximise the proportion of national experts where possible.

12.4 The Service Provider will be responsible for financial administration of allocated funds. The Service Provider will provide advance resources which will be reimbursed by DFID on a monthly basis in accordance with agreed milestone payments. The Service Provider will be responsible for monitoring and forecasting of all spending and be fully accountable to DFID for all expenditure.

12.5 Neither the Service Provider nor any of its consortium members will be eligible to receive grants, technical assistance or any form of financial assistance or support of any kind as part of the implementation of the FSSP. The Service Provider should be solely implementing the project using the funds agreed through its contract with DFID.

13 Duty of Care

13.1 The Service Provider is responsible for the safety and well-being of their personnel and third parties affected by their activities detailed in this TOR. They will also be responsible for the provision of suitable security arrangements for their domestic and business property

13.2 The Service Provider is responsible for ensuring appropriate safety and security briefings for all of their short-term personnel delivering work as defined in these TOR and ensuring, where appropriate that their long-term personnel register and receive briefing as outlined above. Travel advice is also available on the FCO website and the service provider must ensure they (and their personnel) are up to date with the latest position.

13.3 This Procurement will require the Supplier to operate in a seismically active zone and is considered at high risk of earthquakes. Minor tremors are not uncommon. Earthquakes are impossible to predict and can result in major devastation and loss of life. There are several websites focusing on earthquakes, including <http://geology.about.com/library/bl/maps/blworldindex.htm>. The Supplier should be comfortable working in such an environment and should be capable of deploying to any areas required within the region in order to deliver the Contract (subject to travel clearance being granted)

14 Brief Background on AiiN Programme Strategic Scope and Objectives

14.1 Poor people in Nepal need jobs. Getting more and better-paying jobs is only possible through private sector-led economic growth. A faster growing Nepal that can mobilise private and domestic tax resources will be better able to deliver public services and transition out of aid dependency. Poor transport and energy infrastructure, uncertain and costly business regulations and the risks of financial sector instability are the main bottlenecks to accelerating growth beyond the current 4.4% rate. As a small and landlocked country, Nepal will need to improve economic links with its neighbours to sustain economic growth over the medium and long term.

14.2 This DFID funded AiiN programme will work with both the Nepalese public and private sectors to put in place the conditions for higher rates of economic growth by: i) improving Nepal's ability to formulate and implement economic policies that balance the objectives of economic growth, equity and inclusion; ii) accelerating public and private investment in transport, energy and other growth-enhancing infrastructure; iii) reforming laws, policies and regulations that directly affect the perceived and real costs and uncertainty of doing business; and iv) deliver meaningful economic reforms and infrastructure investments sub-nationally that have a compound effect on accelerating growth and take advantage of Nepal's spatial economics.

14.3 This programme is continuing the unfinished work of existing DFID economic programmes in Nepal, all due to close in 2014, on hydropower, investment climate reform and financial sector stability. The existing programmes are predicated on major institutional reforms but these take time and have encountered unforeseen delays outside of the control of programmes, not least because of Nepal's fragile context.

14.4 The primary vehicle for delivering these improvements will be technical assistance from specialist expertise and there is potential for some programme funds to be used to invest in Nepal's capital investments or to fund demand-based initiatives generated and executed by Nepali stakeholders.

14.5 The **outcome** that the programme is targeting is a more conducive policy, regulatory and infrastructure environment that creates the conditions for sustaining higher rates of economic growth. The programme will target:

- Number of major economic policies and regulations improved. This is measured against the following "improved" criteria: evidence based, transparent, predictable, well consulted, and enforced;
- Increases in Government Civil Works Expenditure as a % of GDP;
- Annual nominal growth of 14% in the average number of private firms investing and in the average value of investment; and
- Key Economic Policy Making processes and Regulation Enforcement Systems are transparent, predictable, evidence based, well consulted on and robustly implemented/enforced.

14.6 The **impact** of the programme will be improved private and public investment rates and an increase in Nepal's overall capital stock³. These impacts are expected to lead to more and better paying jobs for the vast majority of Nepalis but, through policy analysis and implementation that addresses inclusion and poverty issues, especially improve the lives of the poor and excluded. All intervention areas will be contributing to this shared outcome and impact.

15 AiiN Programme Structure and Timing

15.1 The AiiN programme will have a three tiered governance and management structure. At the top DFID will have meetings every six months with the partner Government of Nepal ministries (Finance, Central Bank and Planning Commission) to discuss programme strategy and overall progress. Implementing partners and local partners will be invited to attend on a case by case basis. Quarterly formal update meetings will be undertaken with each implementing partner, in each intervention area with key local stakeholders invited to update the results and value for money management systems and take formal decisions on each intervention area. These may be done either separately or jointly. More regular (1 to 1.5 month) individual and informal update meetings will be undertaken at the discretion of the lead DFID advisor with the implementing partner. At each level, outcomes and action points should feed into the other level's meeting agenda and decision-making.

15.2 The Programme will be conducted in two phases lasting until the end of March 2020 with a contract breakpoint after 3 years. The first phase will last for a total of three years from the signing of the contract date. It will include up to a 3 month inception period- although this will vary depending on the intervention area - which will include a break point after inception to check on quality and content and strategic alignment. After 2.5 years a midterm evaluation of the entire programme will be carried out to determine whether to: continue with existing plans, scale back or drop intervention areas or expand or generate new intervention areas. The Programme may be extended by an additional two years, up to 2022 if there is a value for money and performance-based rationale.

15.3 The contract will have adequate provision for variation to adapt to changes that occur during the life of the programme. DFID will have the right to request changes to the contract, including services, the terms of reference and the contract cost to reflect lessons learned, or change in circumstances, policies or objectives relating to or affecting the programme. DFID will also have the right to terminate the contract at any point where it has justification that the programme is not delivering the intended results and/ or does not offer value for money to DFID.

16 Reference Documents

- i) AiiN Programme Business Case
- ii) AiiN Logframe
- iii) DPC1 Programme Document: <http://documents.worldbank.org/curated/en/2013/06/17816418/nepal-financial-sector-stability-credit-program>
- iv) DPC1 Implementation Completion
Report: <http://documents.worldbank.org/curated/en/2014/09/20285898/nepal-financial-sector-stability-credit-project>
- v) DPC2 Project Information
Document: <http://documents.worldbank.org/curated/en/2014/03/19323198/nepal-financial-sector-stability-dpc2>
- vi) IMF Nepal Article IV Consultation Report: www.imf.org/external/pubs/ft/scr/2014/cr14214.pdf
- vii) Non-Restricted Internal DFID Reports on MRP Year 1 progress

³ An increase in household income by NPR 40,000 per annum is taken as equivalent to the creation of one job.