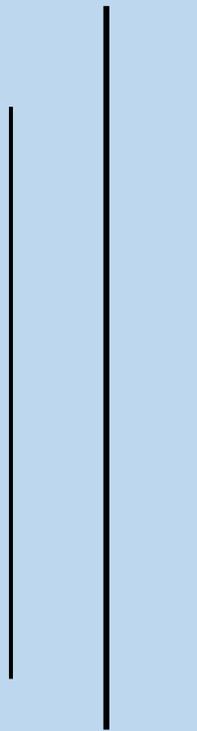




Foreign Aid Mobilization Policy, 2025



Government of Nepal
Ministry of Finance



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Chapter 1: Introduction

1.1 Background

Nepal has been utilizing foreign aid to achieve high and sustainable economic growth while realizing the aspiration of **Prosperous Nepal, Happy Nepali**, and fulfilling national and international commitments for development, as domestic resources alone are insufficient for the necessary resource mobilization. According to the Constitution of Nepal, foreign aid must be mobilized through the national budget system in a transparent manner based on national interests and priorities. It is necessary to enhance the effectiveness of foreign aid to maximize its benefits, contribute to national capital formation, and thereby strengthen the national economy.

Nepal has expressed its solidarity in high-level international meetings such as the 2005 Paris Declaration and subsequent global partnerships forums on aid effectiveness. Additionally, Nepal has emphasized mobilizing foreign aid within the framework of the Addis Ababa Action Agenda to secure necessary resources for achieving Sustainable Development Goals (SDGs).

International trends in foreign aid have evolved over time. Recently, various new policy, approaches, frameworks, and priorities are adopted globally to enhance the effectiveness of the foreign aid system. Overall, foreign aid is increasingly focused on achieving the SDGs. The 17 Sustainable Development Goals set by the United Nations in 2015 have become key guiding principles for foreign aid with greater emphasis placed on poverty alleviation, education, health, environmental sustainability, and gender equality. There is an increasing trend to focus foreign aid on poverty reduction, education, health, environmental sustainability, and gender equality. There is also a growing demand for local ownership and partnerships. Globally, the role of the private sector in development financing is expanding, with increased efforts to mobilize philanthropic institutions and donor contributions to promote the private sector. Practices are emerging where governments assume regulatory risks while the private sector assumes investment risks, fostering public-private co-investment models.

Efforts are being made to use digital technologies, artificial intelligence (AI), blockchain, and data analytics in the management of foreign aid to enhance its effectiveness and transparency. A significant portion of foreign aid is being directed toward climate finance to address the impacts of climate change. Support for renewable energy, climate adaptation, and green infrastructure is rising. There is also a growing trend towards exploring and implementing hybrid financial models that make development projects financially viable by combining grants, loans, and private investment. There is a growing international practice of prioritizing public-private partnership models, involving the private sector in development assistance.

Development partners are increasingly reducing administrative structures, adopting new technologies, and involving third-party implementing partner rather than direct participation. Practices are rising such as a large portion of foreign aid being mobilized outside the government system globally, earmarking of aid to a specific sector, mobilizing foreign aid through NGOs of development partner's own countries and to small scale private projects. Lately, war-torn countries have absorbed a large portion of foreign aid, reducing the share available to other countries like Nepal.

Nepal has been mobilizing financial resources through grants and concessional loans from bilateral and multilateral development partners, as well as through grants from international non-governmental organizations. Additionally, foreign aid has also been mobilized, as required, in the form of technical and humanitarian support. Foreign aid has played a significant role in infrastructure sectors like hydropower, roads, bridges, irrigation, and urban development, as well as in human and social sectors like education, health, nutrition, and drinking water. Contributions have been particularly notable in post-earthquake reconstruction following the major disaster of 2015 and in managing COVID-19 and other natural calamities. In the initial stages, grant financing was more prevalent, but in recent years, concessional loans are increasing.

The share of budgetary support based on policy reforms in concessional lending has also increased. The share of multilateral foreign aid has been increasing in comparison to bilateral one.

Although concessional loans obtained from multilateral institutions have relatively lower interest rates and longer repayment periods, fluctuations in the exchange rate between foreign currencies—such as the US Dollar—and the Nepalese currency have led to increased costs. As public investment projects are not completed within the scheduled timeframe, resulting in delays in the realization of returns, and since the repayment periods for loans obtained in the past have gradually commenced, the overall size of principal and interest payments on foreign loans has also been increasing.

1.2 Issues and Challenges

Some issues and challenges are still prevailing in mobilizing foreign aid in Nepal. Foreign aid agreements are often signed before project implementation readiness is ensured, leading to delays in completion within the estimated time and cost. Expected reform has not realized in foreign aid mobilization also due to issues on procurement and contract management, as well as a lack of inter-agency coordination.

Most of the projects, supported by development partners, are reimbursement-based. Due to delays in submitting reimbursement claims and inadequate monitoring of disbursed amounts, the government's cash flow is under constant pressure. Fragmentation in aid mobilization has not been sufficiently addressed. Since most foreign support is performance-based, projects not being completed on time results in lower disbursement compared to its commitments and thereby signals a risk of reducing the potential for further foreign aid mobilization.

Environmental degradation, climate change-induced natural disasters, and health pandemics have led to a large share of foreign aid being diverted to climate risk reduction and adaptation. Due to a lack of ownership and coordination among agencies involved in budgetary support tied to policy reforms, aid effectiveness and sustainability have not been achieved. Expected improvements in institutional and technical capacity for aid mobilization have not materialized. There remains a mismatch between development partners' priorities and national priorities in bilateral aid mobilization.

1.3 Need for a New Policy

In the process of updating the foreign aid mobilization policy, the Development Cooperation Policy, 2014 was repealed, and the *International Development Cooperation Mobilization Policy, 2019* was introduced in the final fiscal year of the 14th plan, incorporating the federal structure. This policy adopted new provisions such as commercial loans, blended finance, disaster management, and aid mobilization, monitoring, and evaluation within the federal framework.

In the course of implementing existing International Development Cooperation Mobilization Policy, new trends and practices have established following national and international contexts. Foreign aid structure is also changing due to the financial challenges faced by development partners. It is observed that additional clarity is essential in inter-agency and inter-level coordination following the increasing volume of foreign aid mobilization at provincial and local levels.

To enhance the role of the private sector in development, further policy clarity is required in foreign aid mobilization. Development cannot be achieved solely through government efforts and limited resources; therefore, there is an urgent need to utilize the resources, knowledge, skills, and experience of the private sector and other development partners. A new policy is required to utilize and mobilize latest financing instruments in foreign aid incorporating the emerging foreign aid concepts, financing instruments, and models as developed in the course of time. There is a need for policy arrangements to mobilize necessary resource for development from mobilizing jointly from blending of public, private, foreign aid and also from innovative financing based on its feasibility. It is essential to achieve efficiency and effectiveness in the mobilization of foreign aid by translating the assumption into practice that the effectiveness of foreign aid increases when the recipient country takes leadership and ownership in its mobilization and by translating the principle of mutual accountability into practice where both the government and development partners must be accountable to each other and their respective taxpayers.

As Nepal is expected to graduate to a developing country status by 2026, concessional facilities may decrease, and with an increase in per capita national income, the cost of foreign aid is likely to rise. Grant assistance may decline while concessional loan repayment terms may tighten, necessitating a more selective approach to aid mobilization.

This policy has been formulated by further enhancing based on the experiences and achievements of past policies—Development Cooperation Policy, 2002; Development Cooperation Policy, 2014; and International Development Cooperation Policy, 2019 incorporating the spirit of Nepal’s Constitution and the evolving national and international contexts. The 16th plan also redefined national needs and priorities in a new manner. Considering all the above aspects, there is a need to issue a contemporary new policy to maintain coherence with them.

This policy is deemed necessary to further strengthen the role of the private sector, integrate the latest financing instruments in mobilizing foreign aid, ensure effective mobilization of foreign aid across federal, provincial, and local levels, address post-graduation financial challenges, mobilize climate funds including other sources of climate finance, align foreign aid provisions with the Financial Procedures and Fiscal Accountability Act, 2019 and related regulations and to make it further clarity.

This policy is essential to maximize the opportunities obtained from foreign aid mobilization, enhance partnerships and co-investment among public, private, community, and other sectors to achieve national development goals, and strengthen the economy through increased coordination in foreign aid mobilization across federal, provincial, and local levels. This policy outlines sequential strategies and policy actions in accordance with policy and includes action plans to implement it.

Chapter 2: Policy Structure

2.1 Vision

Mobilization of Foreign Aid: Contribution to Nepal's Development.

2.2 Mission

To mobilize foreign aid in productive and high return sectors aligning with the country's needs and priorities.

2.3 Goals

- 2.3.1. To fulfill the means and resources gap required to achieve long-term development goals.
- 2.3.2. To contribute to economic expansion through the mobilization of foreign aid.
- 2.3.3. To increase utilization capacity with qualitative improvement establishing a nation's leadership role in foreign aid mobilization.

2.4 Objectives

- 2.4.1. To enhance production and productivity through foreign aid mobilization.
- 2.4.2. To enhance the capacity to utilize foreign aid by accelerating project and program implementation.
- 2.4.3. To create a conducive environment for mobilizing domestic and foreign capital and technology through foreign aid.

2.5 Policies

- 2.5.1. Mobilize foreign aid in areas aligned with national needs and priorities.
- 2.5.2. Establish joint accountability and responsibility with development partners in foreign aid mobilization.
- 2.5.3. Enhance national capacity for the mobilization of foreign aid.
- 2.5.4. Mobilize foreign aid to promote private sector development and attract private investment.

2.6 Strategies

Related to Policy 2.5.1:

- 2.6.1. To mobilize foreign aid aligning with national systems.
- 2.6.2. To use technical assistance selectively to address capacity and expertise gaps.
- 2.6.3. To utilize in-kind support based on national needs and priorities.
- 2.6.4. To maximize the utilization of available climate finance for Nepal based on climate justice principle.
- 2.6.5. To mobilize foreign aid for disaster risk reduction and management.
- 2.6.6. To improve the access to international funds for foreign aid mobilization.
- 2.6.7. To ensure responsible and transparent utilization of aid channeled through NGOs.

Strategies related to Policy 2.5.2:

- 2.6.8. To strengthen joint accountability and responsibility of both the recipient and development partners for outcomes of foreign aid.
- 2.6.9. To strengthen ownership and coordination across government tiers and inter agencies to ensure efficient utilization of foreign aid.
- 2.6.10. To strengthen international partnerships for foreign aid mobilization.

Strategies related to Policy 2.5.3

- 2.6.11. To strengthen national utilization capacity prioritizing project and program based foreign aid and mobilizing sector wide and policy-based budget support as necessary.

Strategies related to Policy 2.5.4

- 2.6.12. To facilitate private sector development and to attract private capital by utilizing innovative financing instruments in foreign aid mobilization.

2.7 Action Policy

2.7.1. Strategy Related to 2.6.1 (To mobilize foreign aid aligning with national systems)

- a. Implement project and programs based on sectoral policies and priorities identified by periodic development plans.
- b. Implement programs and projects announced through the sectoral policies, annual policies, programs, and budgets of the federal, provincial, and local levels.
- c. Implement the programs to fulfill the commitments made by the government at the international level.
- d. Prioritize the mobilization of foreign aid aligning with the partnership frameworks/strategies of development partners and national needs.
- e. Mobilize foreign aid in consistent with national laws and systems while addressing public procurement, accounting, reporting, auditing, and social, gender, and environmental issues.
- f. Include foreign aid into the annual budgets and programs of the federal, provincial, and local levels and mobilize it through the government's treasury.
- g. Implement foreign aid projects and programs through the existing government structure and human resources, as far as possible.
- h. Secure foreign aid to implement disaster management, environmental conservation, and climate change adaptation and mitigation plans and frameworks.
- i. Mobilize foreign aid in sectors and programs that are deemed appropriate for enhancing domestic resource mobilization capacity.
- j. Mobilize foreign aid for trade-related infrastructure development, trade facilitation to increase trade capacity, and develop export-related industries.

2.7.2. Strategy Related to 2.6.2 (To use technical assistance selectively to address capacity and expertise gaps)

a. Mobilization of Technical Assistance

1. Prioritize unconditional technical assistance.
2. Avoid utilizing loans for any purposes other than technical support directly related to the projects.
3. Obtain technical assistance with Ministry's approval.
4. Seek international and regional technical assistance based on national needs and benefits.
5. Ensure Nepal's involvement and benefits when accepting regional technical assistance, particularly in matters of national, regional, and international development concerns.
6. Development partners must enter all technical assistance data into the aid information system.
7. The periodic review and evaluation of technical assistance implementation will be jointly conducted by the Government of Nepal and development partners.

b. Project Preparation Support

1. In general, prioritize grant-based aid for project preparation.
2. For projects with high returns and income generating, concessional loans can be mobilized considering technical complexity and availability of resources.
3. Include loan aid amount into the overall project cost.

c. Project-Based Technical Assistance

1. Obtain project-based technical assistance to address the lack of required expertise during the implementation phase of national pride projects.
2. Ensure sustainability by developing the institutional capacity of the implementing agency and facilitating learning and technology transfer while mobilizing technical assistance in the project.

d. Consultant Mobilization

1. Prioritize local Nepali citizens or institutions for technology and knowledge transfer, and only mobilize international consultants when expertise is unavailable at the national level.
2. Define term and conditions, and scope of works for consultancy services clearly in project documents.
3. Expenses for consultancy service will not exceed 5 (five) percent of the total infrastructure project cost, without prior approval of the Government of Nepal.
4. If a province or local level requests to mobilize foreign consultants through the respective line ministry, the Ministry may give consent based on the necessity and justification.

e. Volunteer Mobilization

1. Mobilize volunteers as technical assistance from the volunteer organizations of bilateral development partners.
2. Mobilize volunteers in the federal, provincial, and local levels based on technical expertise and the needs of development projects or programs.
3. Line ministries and development partners will deploy volunteers as per framework agreements, and the Ministry's approval must be obtained when deploying volunteers under such framework agreements.
4. Volunteers will be linked with local institutions, bodies, or communities for sustainable technology, knowledge, and skills transfer.
5. Volunteers must respect the religious beliefs and faith of Nepali citizens and behave in conformity with Nepali civilization, culture, and social harmony.
6. Monitor volunteer services through both the deploying agency and the host agency.
7. Before requesting work permit, the volunteer-providing development partner must enter the details in the information system maintained by the Ministry.

8. Volunteer-providing organization must submit an annual report on volunteer mobilization to the relevant line ministry and the Ministry.

2.7.3. Strategy 2.6.3 Related (To utilize in-kind support based on national needs and priorities)

- a. Relevant line ministries, province and local levels may receive in-kind support with prior approval of the Ministry.
- b. Items prohibited for import under prevailing laws shall not be accepted as in-kind support.
- c. When receiving electronic software as in-kind support, an analysis must be done related to source code, annual renewal, maintenance, and security fees that could create liabilities for the Government of Nepal.

2.7.4. Related to Strategy 2.6.4 (To maximize the mobilization of available climate finance for Nepal based on climate justice principle)

- a. Priority should be given to sectors and geographies that are most severely affected by climate change for the mobilization of climate finance.
- b. Prioritize grants over loans and give preference to areas related to climate adaptation in the mobilization of climate finance.
- c. Prioritize to mobilize climate finance through national system.
- d. Advocate internationally to increase climate finance commitments from carbon-emitting developed countries to meet resource needs for Nepal's Nationally Determined Contributions (NDC) and National Adaptation Plan (NAP).
- e. Advocate in international forums for process simplification to improve accountability, transparency, and easy access to funds for the mobilization of climate finance.
- f. Strengthen the capacity of institutions involved in climate finance to prepare climate-related projects, increase access to climate funds, and ensure effective use of resources obtained from the funds.

- g. Reduce co-financing conditions, to be fulfilled by Nepal, while mobilizing climate finance.
- h. Advocate internationally for the effective implementation of loss and damage funds.
- i. Adopt the latest internationally recognized methods in carbon trading to maximize Nepal's benefits.
- j. Utilize the latest instruments for mobilizing climate finance.
- k. Prepare a list of potential climate finance projects and prioritize resource mobilization accordingly.
- l. Emphasize integrated and programmatic approaches, including agriculture, drinking water, irrigation, and forestry during the development of climate change adaptation projects.
- m. Regularize and systematize climate finance to be mobilized from non-government and private sector.

2.7.5. Related Strategy 2.6.5 (To mobilize foreign aid for disaster risk reduction and management)

- a. Foreign aid may be received in the form of humanitarian aid, relief, rescue operations, food supplies, medicines, and other essential materials for disaster management.
- b. Ensure the swift mobilization of humanitarian aid to targeted areas during disasters.
- c. Manage to mobilize humanitarian and disaster assistance through the existing mechanisms at the federal, provincial, and local levels, considering the immediate needs and capacities.
- d. Adhere to international best practices when mobilizing humanitarian support during disasters.
- e. Humanitarian support providing development partners must coordinate with line ministries during disasters at the time of different stages such as preparedness, mitigation, response, relief, reconstruction, and recovery to enhance national capacity.
- f. While distributing humanitarian aid at the time of disaster, respect Nepal's civilization, culture, social harmony, and individuals' religious beliefs, values, and customs.

2.7.6. Related to Strategy 2.6.6 (To improve the access to international funds for foreign aid mobilization)

- a. Focus on mobilizing grants from internationally established funds in sectors such as education, health, climate change, and disaster management. In the absence of grants, concessional loans may be mobilized as needed.
- b. When competing for foreign aid from international funds, mobilize the funds based on national priorities under provisions that apply to all nations.
- c. Obtain prior approval from the ministry to receive assistance from internationally established funds. Such approval shall be granted based on recommendations from the relevant line ministry.
- d. Ensure that project proposals submitted to international funds do not exceed the allocated amount for Nepal and do not create financial liability for the government.
- e. Non-governmental organizations accessing international funds must prepare project documents in coordination with the ministry and relevant line ministries.
- f. The ministry shall approve the mobilization of assistance from international funds based on established standards and procedures for aid mobilization.
- g. NGOs accessing international funds do not need to make separate agreement with the Social Welfare Council. Monitoring and evaluation of such projects shall be in accordance with financing agreements approved by the Government of Nepal.

2.7.7. Related to Strategy 2.6.7 (To ensure responsible and transparent utilization of aid channeled through NGOs)

- a. Foreign aid mobilized through international NGOs must be directed toward national needs and priority sectors.
- b. National and international NGOs must submit project proposals when they raise foreign aid on their own initiative, through the Social Welfare Council, in addition to country allocation for the Government of Nepal by development partners.

- c. International NGOs must obtain prior consent from the local level where the project is to be implemented in the local level. Details of such support must be entered into the aid management information system maintained by the Ministry.
- d. If an international NGO makes implementation agreements with local NGOs, the details must be submitted to the Social Welfare Council. Based on the received details, the Social Welfare Council will facilitate the implementation process.
- e. International NGOs must involve federal, provincial, and local levels in project selection and planning.
- f. National and international NGOs must implement projects in coordination with the local level from where prior approval has been obtained for the project.
- g. Mobilizing aid in religious, political, or nationally sensitive sectors are not allowed through NGOs.
- h. To avoid geographical and sectoral duplication, specific thematic areas and geographical regions for project operations can be designated for international NGOs. Regulatory bodies may conduct digital mapping of such projects.
- i. Administrative expenses for projects implemented by international NGOs must not exceed 20% of the total project cost.
- j. International NGOs operating in Nepal must publicly disclose annual financial statements and activities related to the aid.
- k. International NGOs must conduct third-party evaluations, public hearings, and social audits of their programs at least once a year in the respective local government area.
- l. National and international NGOs must ensure that project details entered into the ministry's aid management information system do not overlap. The responsibility for entering grant assistance details into the system lies with the respective donor entity.
- m. If an international NGO is designated as an implementation partner in a financing agreement between the Government of Nepal and a development partner, no additional agreement with the Social Welfare Council is required. Monitoring and evaluation shall be conducted as per the financing agreement.

- n. If a development partner selects an international NGO as an implementation partner, details must be submitted to the ministry, the relevant implementing ministry, and the Social Welfare Council within 15 days of selection.

2.7.8. Strategy Related to 2.6.8 (To strengthen joint accountability and responsibility of both the recipient and development partners for outcomes of foreign aid)

- a. Active participation of the implementing agencies should be encouraged from the project identification stage to enhance ownership.
- b. Development partners and aid recipients should focus on procedural simplification for the swift implementation of aid.
- c. Conduct regular monitoring and review of foreign aid-funded projects and programs to resolve emerging issues.
- d. Both parties must bear joint accountability and responsibility for the outcomes of foreign supported projects and programs.

2.7.9. Related to Strategy 2.6.9 (To strengthen ownership and coordination across government tiers and inter agencies to ensure efficient utilization of foreign aid)

a. Strengthening Ownership and Coordination across government levels

1. For grant support, loan under the responsibility of the Government of Nepal, and technical assistance, the ministry will make financing agreements and forward them to the provincial and local levels for implementation.
2. When mobilizing support through the loan agreement at the request of provincial and local levels, the Government of Nepal will initiate for a subsidiary loan agreement with the relevant province and local level and forward it for implementation through the budget. If necessary, an escrow account may be used for loan repayment.
3. Except for loans in education and health sectors, concessional loans for other projects/programs at provincial and local levels will be mobilized through subsidiary loan agreements based on potential.

4. Grant support mobilized through the budget system will be transferred to provinces and local levels as conditional grants.
5. Provincial and local levels will bear the required funds for co-financing in development projects/programs implemented at their respective levels.
6. The relevant level will be represented during the negotiation and agreement with development partners to secure finance for the projects recommended by province and local levels.

b. Strengthening Inter-Agency Coordination

1. Ensure active participation of the concerned local level, province, federal ministries/agencies while mobilizing foreign aid.
2. If any issues arise during foreign aid mobilization, the concerned local level, province, federal ministries/agencies, and development partners should hold a joint meeting under the Ministry's leadership and focus on immediate resolution.
3. If any support or facilitation is required from the development partner during the implementation of a project/program funded by foreign aid, the Ministry may request to the concerned development partner at the request of line Ministry.
4. Development partners may maintain direct coordination and facilitation with the agencies involved in the project/program implementation.
5. If coordination is needed with agencies not directly involved in project implementation, send a request to the Ministry.
6. Conduct periodic reviews of foreign aid implementation progress in coordination with development partners.

2.7.10. Related to Strategy 2.6.10 (To strengthen international partnerships for foreign aid mobilization)

- a. Participate actively in international partnership forums for foreign aid mobilization to promote the country's interests and expand international relations.
- b. Establish transparent partnerships for foreign aid with countries that align with Nepal's national interests based on mutual and comparative benefits.
- c. Engage in international partnerships for foreign investment, technology transfer, and trade promotion.
- d. Exchange cooperation based on the South-South and triangular cooperation framework based on appropriateness and experience.
- e. Facilitate mutual cooperation among two or more aid-receiving countries in the South region while coordinating with traditional donor nations and institutions in the North region.
- f. Strengthen collaboration with regional mechanisms such as the South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and mobilize aid through intergovernmental joint economic commissions.

2.7.11. Related to Strategy 2.6.11 (To strengthen national utilization capacity prioritizing project and program based foreign aid and mobilizing sector wide and policy-based budget support as necessary)

a. Project-Based Foreign Aid

1. Select projects based on economic feasibility, high return rates, low operational costs, innovation, investment attraction potential (high leverage), and sustainability.
2. Choose projects that have completed preparatory work, demonstrated profitability through cost-benefit analysis, are included in the national project bank, have confirmed implementing agencies and methodologies, and meet the ministry's project readiness checklist.

3. Prioritize the project aligned with sectoral priorities while selecting projects in the development partner's multi-year project list.
4. Reduce dependency on consultants for project implementation and encourage implementation through government human resources.
5. When adopting procurement methods during project implementation, prioritize compliance with national procurement laws. When applying development partner procurement policies, align them with Nepal's procurement laws and procedures.
6. Define inter-agency responsibilities and implementation plans when signing project agreements.
7. Ensure the availability of necessary construction materials and other supplies for project implementation.
8. For large-scale projects, form a mechanism under the ministry's leadership with inter-agency representation to resolve problems promptly.
9. Encourage development partners to create pooled funds for similar projects to minimize operational costs and avoid delays in implementation.
10. For large-scale, high-cost projects requiring foreign aid from multiple development partners, develop a coordination system through a lead development partner, ensuring that aid terms apply uniformly under the lead partner's framework.
11. When executing projects, ensure that procurement agreements with contractors/consultants are made in the same currency as the financial agreement with the development partner or in Nepalese currency.
12. Avoid initiating loan processes for projects where competition in goods and services procurement is restricted or where project costs are not clearly defined.
13. Avoid mobilizing loans for land acquisition, government office building construction (except for post-disaster reconstruction), and vehicle procurement as separate projects.

b. Program-Based and Sectoral Assistance

1. Determine disbursement-linked indicators (DLIs) by incorporating quantitative targets as outlined in the periodic plan and annual program.
2. Assign public sector experts and specialized agencies for third-party evaluation of results and achievements.
3. Allocate the received support to infrastructure projects of the relevant sector and transformative projects and programs.
4. Ensure that all preparations for program development are completed according to the project readiness filter developed by the ministry.
5. Deposit reimbursement-based program assistance into a separate account designated by the Office of the Comptroller General and transfer funds to the central account based on expenditure progress.
6. Prioritize mobilizing aid through donor pool funds and trust funds.

c. Policy-Based Budget Support

1. Identify policy and legal reforms aligned with government priorities.
2. Establish a mechanism led by the Ministry, with representatives from relevant ministries/agencies, for setting programs for reforms, implementing planned actions, and institutionalizing the reforms.
3. Allocate budget support funds to projects and programs that have completed preparatory work, are of high priority, and are of strategic importance.
4. If budget support cannot be fully utilized within the same fiscal year, allocate the remaining amount to the same project in the following year. After project completion, any unused funds will be reallocated to another priority project.

2.7.12. Related to Strategy 2.6.12 (Utilizing New Tools for Foreign Aid Mobilization to Support Private Sector Development and Attract Private Capital)

a. Blended Finance

1. To address the shortage of development finance, the government will mobilize foreign aid through blended finance by combining grants and concessional loans with investments from commercial, private, and non-governmental funds.
2. Finalize the funding modality, ensuring that the funds from grants and loans is combined with other sources, such as commercial, private, and non-governmental funds under blended finance to determine a financial structure that makes the projects commercially viable and attracts private capital.

b. Public-Private Partnerships (PPP)

1. When implementing nationally prioritized projects under public-private partnerships, the government may provide guarantees and facilitate loan mobilization to address capital shortages in the public sector.
2. To make public-private partnerships more viable and attractive, facilitate the private sector's access to external capital.

c. Viability Gap Funding (VGF)

To enhance the financial viability and attractiveness of public-private partnerships, the government may mobilize foreign aid for capital investment, provide capital grants, or share financial risk through other mechanisms.

d. Bonds

1. Facilitate the mobilization of foreign capital to legally established public investment or development funds to meet development finance needs.
2. The government may issue sovereign bonds with fixed returns or offshore bonds to finance sustainable development, energy, and green development projects, either independently or in collaboration with national and international financial institutions.

3. If government-owned or majority-owned entities wish to issue bonds, the Government may provide counter-guarantee in accordance with the law.

e. Infrastructure Fund

The government will provide policy support for the establishment of an infrastructure fund to enable private sector-led investment in transportation, energy, and industrial infrastructure projects through equity investment or credit line facilities.

f. Facilitation of foreign aid for Private Sector Development

1. Encourage the utilization of aid for private sector development from development partners in areas such as the construction of essential public infrastructure and technology transfer.
2. Coordinate and facilitate the mobilization of grant or loan support to the private sector that is mobilized in addition to the country allocation ensuring that it will not create additional liability to the government in future.

Chapter 3 – Policy Implementation

3.1. Institutional Arrangements

3.1.1. Steering Committee

- a. A high-level Foreign Aid Mobilization Steering Committee will be established as follows to provide guidance for the implementation of this policy,

Position	Role
Finance Minister	Chairperson
Vice-Chairperson, National Planning Commission	Member
Secretary, Office of the Prime Minister and Council of Ministers (Development Management)	Member
Secretary, Ministry of Finance	Member
Secretary, Ministry of Law, Justice, and Parliamentary Affairs	Member
Secretary, Ministry of Foreign Affairs	Member
Secretary, Ministry of Federal Affairs and General Administration	Member
Secretary of the Ministry associated with the program/project supported by foreign support	Member
Financial Comptroller, Financial Comptroller General Office	Member
Joint Secretary, related to Foreign Aid Coordination Division, Ministry of Finance	Member Secretary

- b. The Steering Committee may invite senior officials from other ministries of the Government of Nepal, representatives from relevant agencies, provincial governments, private sector or experts as invitee members fore in committee meetings based on relevance, expertise, and need.

- c. The steering committee will provide guidance for the effective implementation of this policy.
- d. The Ministry will serve as the secretariat of the Foreign Aid Mobilization Policy Implementation Committee.

3.1.2. Project Recommendation Committee

- a. A Project Recommendation Committee shall be formed to assess whether the proposed projects from line ministries are suitable for foreign aid mobilization. The committee shall be composed as follows:

Position	Role
Joint Secretary, related to Foreign Aid Coordination Division, Ministry	Coordinator
Joint Secretary, Relevant Line Ministry	Member
Joint Secretary, National Planning Commission	Member
Under Secretary, Budget and Program Division (related to the concerned line ministry), Ministry	Member
Under Secretary, related to Foreign Aid Coordination Division, Ministry	Member Secretary

- b. The Project Recommendation Committee may invite other members as necessary.
- c. The committee shall recommend projects in accordance with the procedure approved by the Ministry.

3.1.3. Local Development Partner Meeting

Local Development Partner Meetings shall generally be held twice a year or as needed. This mechanism will act as a platform for regular dialogue and coordination between local development partners and the Government of Nepal regarding the implementation of the Foreign Aid Mobilization Policy and related issues.

3.2. Legal Framework

The provisions of this policy shall be implemented in accordance with the Public Debt Management Act, 2079 (2022 AD); Financial Procedure and Fiscal Accountability Act, 2076 (2019 AD); Public Procurement Act, 2063 (2006 AD); and financing agreements with development partners.

3.3. Policy Coordination and Harmonization

3.3.1. Role of the Ministry

- a. Act as the focal point for coordination of foreign aid mobilization required by the Government of Nepal. Effective use of economic diplomacy as well for coordination of foreign aid.
- b. Develop and implement a Standard Operating Procedures to ensure consistency among stakeholders and to mobilize aid based on national priorities.
- c. Manage international resources required for national-level projects.
- d. Correspond with development partners, send requests, conduct negotiations, and sign financing agreements on behalf of the Government of Nepal.
- e. Before negotiating loans, obtain prior cabinet-level (Council of Ministers) in-principle consent together with authorization for the negotiation.
- f. Extend or restructure agreements for grants and loans without changing the scope of work, conditions, loan amount, or cost.
- g. Secure additional grant for projects/programs without changing the scope and conditions mentioned in the original agreement.
- h. Periodically review the progress of foreign aid mobilization.
- i. Lead international meetings, workshops, and conferences related to foreign aid mobilization.
- j. Facilitate agreements and documentation preparation for project implementation between provincial governments and development partners, and between local governments and development partners.

- k. Provide foreign support as project-based loans to provinces, local governments, and public institutions, including the necessary technical assistance.
- l. In regard to loan secured by Government of Nepal from development partners following the demands from provinces and local level or public institutions, mobilize the fund to respective provinces and local level or public institutions having a subsidiary loan agreement. This may include arrangements for loan and interest payments through escrow accounts.
- m. Support and coordinate in conducting preparatory activities for the selection of potential projects requiring foreign aid.

3.3.2. Role of Line Ministries/Agencies

- a. Prepare a list of potential projects requiring foreign aid within the respective ministry.
- b. Submit proposals to the ministry for foreign aid mobilization according to the project readiness checklist.
- c. Nominate representatives for negotiation with development partners on behalf of the sectoral Ministry assigning authority.
- d. Provide feedback on technical aspects of projects and finalize project documents.
- e. Evaluate and proceed the proposals submitted by province and local levels or public institutions seeking foreign aid.
- f. Monitor whether programs or projects supported by foreign aid are implemented as per the agreement and whether the conditions are being complied, and provide necessary facilitation.
- g. Prepare and submit an integrated annual report within two months after the end of the fiscal year on technical assistance and volunteer mobilization under the line ministry.
- h. Appoint a project chief for foreign aid supported program for the entire project duration.
- i. Coordinate and monitor programs operated under the ministry mobilized through international non-governmental organizations (INGOs).

- j. Obtain prior approval from the Ministry to use technical assistance for the purchase of vehicles or equipment, or for participation in foreign study visits or training.
- k. All government agencies at any level, constitutional bodies, state owned enterprises, and institutions or foundations operating under full or partial government grants must obtain prior approval from the Ministry before seeking foreign aid, making formal requests, presenting proposals, engaging in negotiations, sharing any information, corresponding with development partners with concept papers and proposals, or signing memorandums of understanding or agreements.

3.3.3. Role of Provincial Governments

- a. Identify potential projects requiring foreign aid within the province and prepare an integrated project list.
- b. Submit proposals for feasible foreign aid-supported projects to the Ministry through the relevant line ministries of the Government of Nepal.
- c. Receive in-kind support with the Ministry's approval, based on recommendations from the relevant sectoral ministries of the Government of Nepal.
- d. Appoint a representative for negotiations with development partners on behalf of the provincial government assigning authority to negotiate.
- e. In regard to foreign aid mobilization through loan as per provincial request, repay principal and interest in accordance with subsidiary loan agreement.
- f. Implement and facilitate foreign aid supported programs/projects.
- g. Make expenditures and maintain accounts under the terms specified in the project agreements, and regularly provide financial and physical progress reports, reimbursement details, financial data, and other relevant information to the concerned project management offices and units within stipulated timeframes.

- h. Coordinate and monitor programs implemented in more than one local level within the province by international non-governmental organizations (INGOs).

3.3.4. Role of Local Levels

- a. Identify potential projects requiring foreign aid within the local level and prepare an integrated project list.
- b. Submit proposals for feasible foreign aid-supported projects to the Ministry through the relevant sectoral Ministry of the Government of Nepal.
- c. Appoint a representative for negotiations with development partners on behalf of the local level assigning authority to negotiate
- d. In regard to foreign aid mobilization through loan as per local level request, repay principal and interest in accordance with subsidiary loan agreement.
- e. Receive in-kind support with the Ministry's approval following the recommendations of the relevant sectoral ministries of the Government of Nepal.
- f. Implement and facilitate foreign aid supported programs/projects.
- g. Make expenditures and maintain accounts under the terms specified in the project agreements, and regularly provide financial and physical progress reports, reimbursement details, financial data, and other relevant information to the concerned project management offices and units within stipulated timeframes.
- h. In case of programs supported by International NGO and implemented within the local level, include it in local level annual programs, and coordination and monitoring shall be carried out by the respective District Coordination Committees.

3.3.5. Role of Development Partners

- a. Ascertain areas of cooperation based on mutual agreement, comparative expertise, and past engagement to provide aid

- b. Obtain approval from the Ministry before mobilizing any kind of foreign aid.
- c. Share estimated aid volume and thematic focus of engagement for the next three to five years to the Ministry at the end of each fiscal year.
- d. Provide periodic updates, monitoring, and evaluation reports of foreign assisted projects to the Ministry, relevant sectoral Ministries, and concerned provincial and local levels.
- e. Prioritize unconditional aid mobilization ensuring alignment with national/regional development frameworks and delivery of clear outcomes.
- f. Support the expansion of the sector-wide approach to reduce aid fragmentation and operational costs.
- g. Implement programs aligning with national systems and organizational structures in the leadership of government to enhance local capacity and ownership.
- h. Promote joint missions and joint analytical studies where feasible.
- i. Report all types of support provided to Nepal to the Ministry's Foreign Aid Information System, including annual expenditure and disbursement data within two months of the fiscal year's end.

3.3.6. Role of Social Welfare Council

- a. Facilitate the mobilization of foreign aid through international NGOs in accordance with Nepal's national policies and laws.
- b. Ensure that international NGO programs implemented at the provincial and local levels have obtained consent and approval from the respective government. After program completion, international NGOs must submit reports to the relevant province and local level.
- c. Ensure that foreign aid mobilized through INGOs is reported in the Ministry's Aid Information System.

- d. Provide details on commitments and disbursement of foreign aid mobilized through international NGOs to the Ministry within two months of the fiscal year ends.
- e. Publish monitoring reports prepared by the Social Welfare Council and annual progress and evaluation reports submitted by international NGOs on its website.

3.3.7. Role of International Non-Governmental Organizations (INGOs)

- a. Mobilize support in Nepal's priority sectors in accordance with national policies and laws.
- b. Maximize the use of local human resources and materials while mobilizing aid.
- c. Contribute to economic and social development while mobilizing thorough local NGOs in coordination, engagement and collaboration with provinces and local levels.
- d. Prioritize employment-generating programs while mobilizing aid.
- e. Ensure that funds are from legitimate sources and comply with prevailing laws and anti-money laundering and anti-terrorism financing laws.
- f. Maintain transparency of aid mobilized through international NGOs. All supports are to be reported and updated in the Ministry's electronic aid information system.
- g. Submit annual progress, monitoring, and evaluation reports and recommendations related to INGO supported programs to the Social Welfare Council.

3.4. Risk Identification and Management

3.4.1. Potential Risks in Foreign Aid Mobilization

The implementation of the Foreign Aid Mobilization Policy faces the following risks:

- a. Changes in the internal policies and financial situations of development partners either bilateral countries or multilateral institutions.

- b. Shifts in the aid mobilization strategies of development partners.
- c. Changes in the capacity of bilateral country and multilateral institutions to provide aid.
- d. Reduction in concessional volume following the weak aid mobilization.
- e. Increased liabilities to the Government of Nepal when mobilizing foreign aid through loans.

3.4.2. Risk Mitigation Strategies

To mitigate the above risks, the following strategies will be adopted:

- a. Diversify bi-lateral and multi-lateral development partners.
- b. Utilize alternative and innovative financing instruments.
- c. Focus on alignment between development partner strategies and national priorities.
- d. Conduct in-depth study and analysis of the various terms and conditions of foreign aid.
- e. Encourage mobilizing foreign capital through private sector facilitating private sector engagement.
- f. Continuously review and improve policy implementation capacity to remove constraints in foreign aid mobilization

3.5. Monitoring, Evaluation and Policy Review

3.5.1. Monitoring and Evaluation

- a. Joint review meetings between the line ministries and development partners will be held to monitor and evaluate the implementation of sectoral plans, policies, and programs. Line ministries will lead such meetings. Share the decision of review meeting to the Ministry. Maintain integrated record of decisions by the Ministry.
- b. The primary responsibility for monitoring and evaluation of foreign aid-related programs and projects lies with the relevant line ministries. The Ministry may also conduct monitoring and evaluation as needed. Implementing agencies and development partners may be involved in the process.

- c. Findings from joint reviews of aid mobilization will be internalized and incorporated into future aid mobilization efforts to ensure continuous improvement
- d. A coordination mechanism consisting of representatives from government and non-government institutions will be established at the provincial level to review foreign aid-supported projects and programs. This mechanism will generally be led and coordinated by the Ministry overseeing economic affairs at the provincial level. The Ministry may also conduct such monitoring.
- e. District Coordination Committees will monitor and review foreign aid projects and programs implemented by local governments.
- f. Issues related to foreign aid-supported project implementation that cannot be resolved at the provincial or local level shall be reported to the relevant Ministry of the Government of Nepal for necessary guidance. The Foreign Aid Coordination Division of the Ministry will provide general guidance for this purpose.

3.5.2. Policy Review

A review and evaluation of policy implementation shall be conducted every two years.

3.6. Miscellaneous

3.6.1. Tax Exemptions and Visa Arrangements

- a. Foreign aid received as grants shall generally not be used for tax payments.
- b. Tax exemption provisions shall generally not be included in loan-funded projects.
- c. No tax exemptions shall be granted for the import of goods that are sufficiently produced within the country.
- d. In the case of in-kind support, Ministry may grant tax exemption under prevailing laws based on recommendations from the relevant line Ministry.
- e. Taxes on income and profits shall be governed by prevailing tax laws.

- f. Foreign workers, employees, and their dependents engaged in foreign aid-funded projects will be provided visas, labor and work permits approvals as per the terms specified in agreements and prevailing laws.
- g. Volunteers shall be provided visa, labor and work permits, as per agreements with volunteer-providing organizations and recommendations from the deploying agency under prevailing laws.

3.6.2. Government of Nepal's Commitment to Effective Aid Implementation

- a. Give importance to national needs and priorities, universal human rights, democracy, rule of law, green, resilient, and inclusive development, good governance, zero tolerance for corruption, aid transparency, and achieving optimal results.
- b. Implement institutional reform and capacity-building programs in agencies and institutions involved in infrastructure development.
- c. Participate in the implementation, monitoring, and evaluation as committed during the international partnerships and high-level forums related to aid effectiveness and development.
- d. Implement appropriate programs to reduce financial risks and improve public financial management, including procurement systems.
- e. Reduce project operational costs and ensure sustainability by enhancing national capacity,
- f. Strengthen the mobilization of aid in partnership with development partners.
- g. Implement recommendations of public expenditure and financial accountability assessments.
- h. Simplify public service delivery processes and improve the quality of expenditures.
- i. Disclose foreign aid related information to ensure transparency and accountability.

3.6.3. Other Provisions

- a. Cross cutting issues such as social inclusion, improving the living standards of marginalized communities, gender equality, and the development of economically and socially disadvantaged regions and communities will be integral components of all foreign aid-funded projects and programs.
- b. Ensure that gender equality and social inclusion are considered while designing aid-funded projects, including activities that promote these objectives.
- c. Any kinds of foreign aid shall not be accepted if it directly or indirectly undermines Nepal's national identity, integrity, sovereignty, religious, ethnic, and social harmony, or adversely affects national security.

3.7. Repeal and Saving

- 3.7.1. International Development Cooperation Policy, 2076 (2019 AD)" has been repealed.
- 3.7.2. All activities accomplished under the International Development Cooperation Policy, 2076 shall be considered as accomplished under this policy.
- 3.7.3. If any difficulty arises in connection with the interpretation or implementation of this policy, the Ministry can resolve such difficulty.

Date of approval by the Government of Nepal: 21 April 2025.

Disclaimer: If the content in English and Nepali version of this policy contradicts, the latter will be valid.

Schedule 1: Definitions

Unless otherwise explained, for the purpose of this policy:

- a. “Grant” refers to foreign aid to be obtained on non-refundable terms so that it does not create any financial liability to the government in future.
- b. “International Non-Governmental Organization (INGO)” refers to a foreign association or organization permitted or seeking permission to operate in Nepal under Section 12 of the Social Welfare Act, 2049 (1992).
- c. “International Consultancy Services” refers to consulting services to be received from foreign citizen or organizations.
- d. “Other Loan” refers to loans received from export-import (EXIM) banks or other similar agencies other than concessional loans for financing projects.
- e. “Project Support” refers to foreign aid received for implementing a separate project with pre-defined objectives, budget and outputs.
- f. “Program-Based Support” refers to foreign support received and to be implemented under the leadership of the government agencies, which features a comprehensive program and budget framework developed through a formal process of coordination and harmonization among development partners with respect to budgeting, financial management, procurement and reporting.
- g. “Sector-Wide Approach (SWAp)” refers to result-based programmatic foreign support for implementing a comprehensive program and policy of a particular sector with a common approach of implementing the program under a joint financing agreement, common action plan and code of conduct.
- h. “Climate Fund” refer to both climate funds established under the United Nations Framework Convention on Climate Change (UNFCCC) and other bilateral and multilateral climate-related funds.
- i. “Climate Finance” refers to financial resources received for carbon emission reduction, climate adaptation, and compensation for

climate-related damages, including revenue from carbon trading, beyond regular bilateral and multilateral support.

- j. “Turn Key” refers to a project implementation modality where development partners directly engage in implementation under a bilateral agreement and hand over the project to the Government of Nepal upon completion.
- k. “Paris Declaration” refers to the proclamation based on the joint commitment of all participating Development Partners, partners countries, and organizations at the High-Level Forum on Aid Effectiveness held in Paris in 2005 that identified best practices for enhancing effectiveness of development cooperation grounded in the principles of ownership, alignment, harmonization, managing for development results and mutual accountability.
- l. “Technical Assistance” refers to financial, in-kind, service-based, or blended assistance provided by development partners to address national capacity gaps by supporting individual, institutional, and societal skills, knowledge, awareness, innovation, entrepreneurship, policy, law, systems, procedures, and technologies through studies, training, consultancy, equipment, and logistical support.
- m. “Budget Support” refers to foreign support transferred to the Government’s treasury, with or without being associated with institutional reform of a particular sector, so as to allow allocation across development priorities and programs of Government.
- n. “Ministry” refers to the Ministry of Finance, Government of Nepal.
- o. “Humanitarian Aid” refers to goods, services, or financial support provided as grants by bilateral country, multilateral institutions, or foreign organizations during or after natural disasters, health crises, or emergencies.
- p. “In-Kind Support” refers to support received in the form of goods, excluding Turnkey projects.
- q. “Development Partner” refers to bilateral countries, multilateral institutions, or other global funds that provide financial, technical, or in-kind support for development and construction in various sectors.
- r. “Line Ministry” refers to the respective sectoral ministries of the Government of Nepal.

- s. “Foreign Aid” refers to financial, technical, and in-kind support received by the government from bilateral countries, multilateral, international, and regional organizations, philanthropic institutions, and other global funds for development and construction in various sectors.
- t. “Blended Finance” refers to a financial arrangement that strategically mobilizes resources from commercial viability-based private sectors, cooperatives, and philanthropic funds and other financial sources, in addition to traditional foreign aid to support development activities.
- u. “Concessional Loan” refers to loans obtained under more favorable terms and conditions compared to those generally available in the international market.
- v. “Volunteer” refers to a foreign national with specific educational qualifications, expertise, and experience who provides services in Nepal without receiving any remuneration from the Government of Nepal, in accordance with the provisions of a framework agreement with the Government of Nepal.



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