



DEVELOPMENT EFFECTIVENESS COUNTRY BRIEF

# Nepal

## Selected Country Indicators

Country Indicators	Comparison Year	Most recent year
Gross domestic product per capita	\$217 (1995)	\$386 (FY2007)
Human Development Index rank	152/173 (1990)	138/177 (2006)
Poverty incidence (% below poverty line)	42 (1996)	31 (2004)
Population living on less than \$1 a day (%)	–	37.7 (2006)
Primary education net enrollment (%)	64 (1990)	84 (2005)
Ratio of literate females to males (% , 15–24 years)	56 (1995)	73 (2005)
Primary completion rate to grade 5 (% of relevant age group)	50.4 (2004)	68.0 (2006)
Ratio of girls to boys in primary and secondary education (%)	Primary: 66 (1995) Secondary: 56 (1995)	105.5 (2005)
Population growth rate (%)	2.1 (1990)	2.3 (2006)
Maternal mortality ratio (per 100,000 live births)	539 (1995)	415 (2000)
Under-5 child mortality (per 1,000 live births)	118 (1995)	82 (2005)
Underweight children under 5 years of age (%)	57 (1990)	53 (2002)
Births attended by skilled health staff (% of total)	7 (1991)	20 (2005)
Prevalence of HIV/AIDS (% , 15–49 years)	0.29 (2000)	0.50 (2005)
Contraceptive prevalence rate (%)	24 (1990)	39 (2005)
Malaria cases (per 100,000 people)	115 (1990)	78 (2005)
Tuberculosis cases (per 100,000 people)	420 (1995)	280 (2005)
Population with access to an improved water source (%)	46 (1990)	81 (2005)
Urban population with sustainable access to basic sanitation (%)	34 (1990)	81 (2005)
Access to an all-season road (% of hill/terai/population)	–	85/total population (2006) 68/hills (2006) 98/terai (2006)
Household electrification rate (% of households)	40 (2002)	48 (2006)
Fixed line subscribers (per 1,000 people)	17.64 (2004)	25.40 (2006)
Cost required for business start-up (% of GNI per capita)	74.1 (2004)	78.5 (2006)
Time required for business start-up (days)	31 (2004)	31 (2006)

GNI = gross national income.

# COUNTRY DEVELOPMENT SETTING

## Overview of Country Achievements and Development Challenges

- Poverty and Human Development.** Nepal is one of the poorest countries in the world with a per capita income of \$386 per annum and weak human development indicators. Access to basic social services is generally poor for large sections of the population. Nevertheless, despite more than 10 years of armed conflict within the country, Nepal has made significant progress in poverty reduction and human development during the past decade. Income poverty has been reduced from 42% in 1996 to 31% in 2004, but the reductions are unevenly spread among ethnic groups and geographical regions so significant inequalities remain. Nepal is also on track to achieve several Millennium Development Goals (MDGs) including those related to income poverty, gender equality, incidence of tuberculosis, and child mortality (see table). Although progress has been made, the MDGs in primary education, maternal health, and HIV/AIDS are not likely to be met.
- Economic Growth and Macroeconomic Policy.** Nepal's gross domestic product (GDP) growth averaged about 5% during the 1990s. Due to the onset of the conflict and the related political instability, average GDP growth fell to only 2.9% in fiscal years (FYs) 2002–2007. Facing several challenges, Nepal has adopted sound macroeconomic policies that have generally been effective in preserving macroeconomic stability. As a result, the current account and overall balance of payments remain in surplus, and the level of foreign exchange reserves is very comfortable covering about 9 months of imports. Inflation has been low, averaging only 4.8% over the last 5 years. However, the investment climate remains unfavorable due to the weak law and order situation and infrastructure bottlenecks. In addition, labor unrest, lack of industrial security, transport blockades, and energy shortfalls among other factors continue to disrupt industrial production and external trade. The much anticipated economic recovery following the cessation of the armed conflict has thus not materialized.
- Development Challenges.** Though progress has been made, Nepal still faces great challenges to achieving stronger growth and reducing poverty and inequalities. The current peace process creates significant development opportunities, yet it is very fragile. As a result of the conflict, public confidence in the Government is low and private sector confidence has yet to be restored. Delivering services and fostering economic activity in a landlocked country with a topography like Nepal's—66% of its area is covered by hills and mountains—are both difficult and costly. About 85% of Nepal's population lives in rural areas, and the country is characterized by small landholdings, rapid population growth, and fragile ecology that make growth and poverty reduction very challenging. Economic growth that creates employment will be

critical for achieving sustainable peace and development. Improving governance and strengthening public and market institutions are pressing issues for Nepal

that have significant implications for improving the delivery of economic and social services and for the effective use of development assistance.

## ADB'S CONTRIBUTIONS TO DEVELOPMENT RESULTS

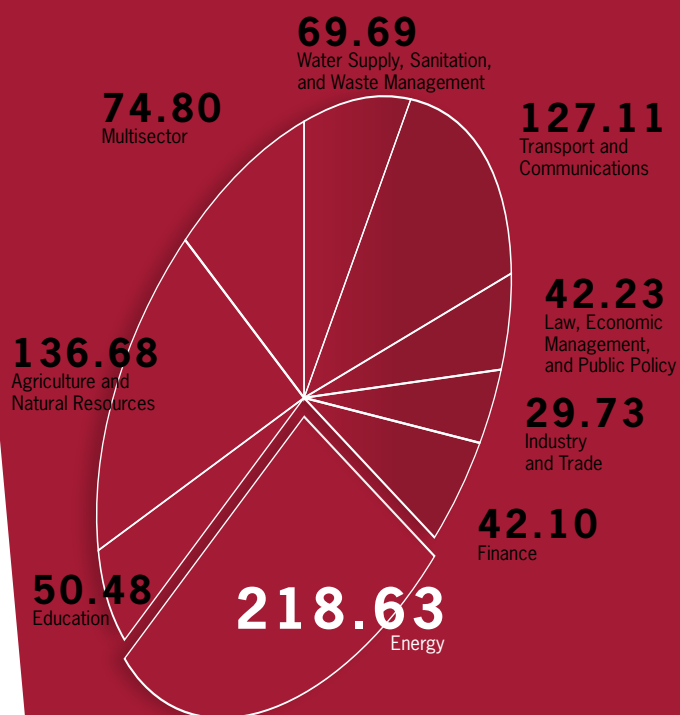
### Volume and Performance of ADB Operations

- Assistance to Nepal began in 1968, and ADB remains a leading development partner in the country. As of 31 December 2006, cumulative lending to Nepal was \$2.25 billion, comprising 111 loans; 4 grant projects amounting to \$83.9 million;

and 260 technical assistance (TA) projects totaling \$121.3 million. ADB's assistance covers agriculture and natural resources, education, water supply and sanitation, transport and communications, finance, energy, and public and private sector governance. Figures 1 and 2 provide information on Asian Development Fund (ADF) disbursements and approvals by sector from 1995 to 2006.

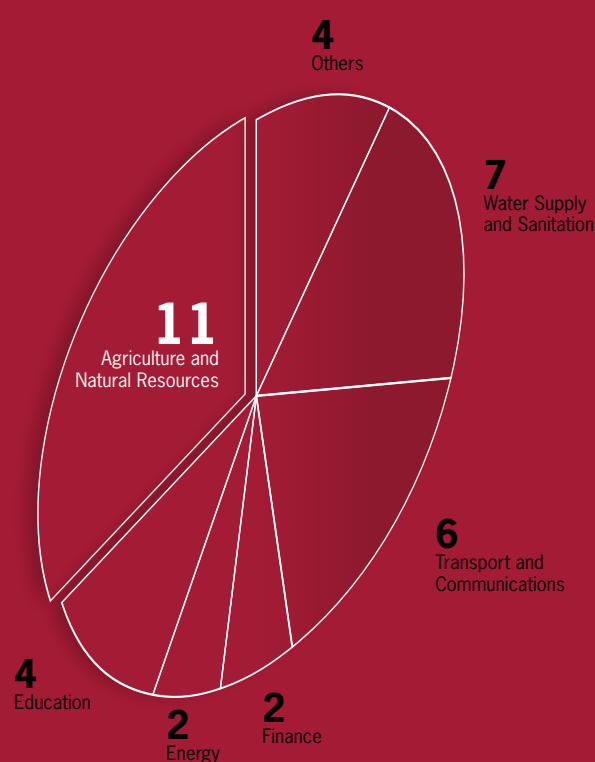
**Figure 1**

Asian Development Fund Disbursements, 1995–2006 (\$ million)



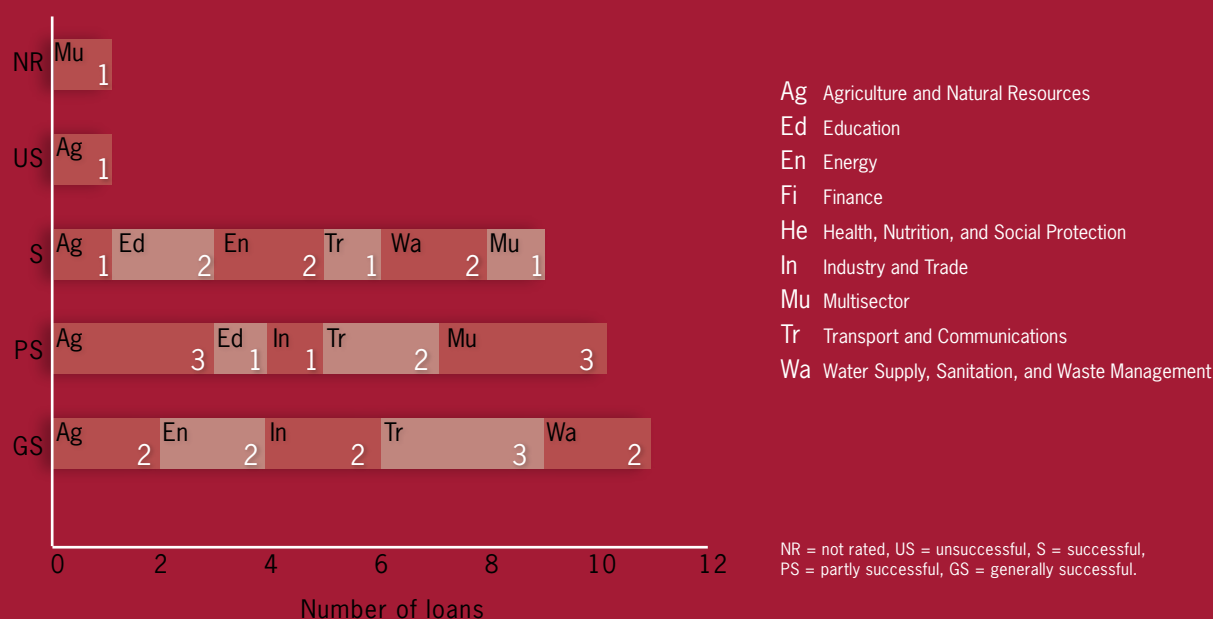
**Figure 2**

Asian Development Fund Loans and Grants Approved, 1995–2006 (number of projects)



**Figure 3**

Project Completion Report Ratings, 1995–2004



5. **Project Implementation Performance and Success Rate.** Of the 32 project completion reports (PCRs) from 1995 to 2004, 11 were rated generally successful, 10 were partly successful, 9 were successful, 1 was unsuccessful, and 1 has not yet been rated (figure 3). The PCR findings indicate that successful project implementation depends on various factors such as realistic project design, government commitment and ownership, stakeholders' involvement in the entire project cycle, and continuous monitoring and impact evaluation.
6. **Impact of ADB Assistance.** The country assistance program evaluation (CAPE) conducted by ADB's Operations Evaluation Department covered 37 projects operational from 1988 to 2003. The CAPE found that overall, ADB's lending program had a positive impact socially, environmentally, and economically. Most projects were (i) selected and designed within the priorities of the country strategy, (ii) had a positive development impact, and (iii) were relatively successfully implemented, incorporating important cross-cutting issues.
7. The CAPE observed notable improvements in the policy and institutional environment, especially in the agriculture and natural resources and in the energy sectors. In fact, the impact of energy projects on the country's overall economic growth was found to be particularly significant. A number of factors constraining the effectiveness of ADB assistance were identified, including poor implementation performance especially in water supply and sanitation, inadequate attention to transport and rural development, inadequate time horizons for capacity building, excessive project complexity, and numerous limitations to performance imposed by the conflict.

## The Third Livestock Development Project and Poor Women

The Third Livestock Development Project was designed to help poor families, particularly women. In all, 55.4% of the project beneficiaries held less than 0.5 hectares of land while 30% of the families came from disadvantaged and low caste communities. Women's participation in the project increased from 15% in 1997 to 51% at project completion against the appraisal target of 35%. About 44% of representatives in partner nongovernment organization's executive committees were women. Women who previously had no access to cash income reportedly earned 4,000 Nepal rupees per year from tending small livestock. Women benefited from increased participation, from better livelihood options, from increased income, and from saving time due to the proximity of forage and fodder. Increased income was spent on essentials such as food, oil, clothes, education, and family health care.

The gender action plan of the project proved to be an effective tool for mainstreaming gender issues in the communities. Women's access to new social networks and their own independent identities as group members have improved their social status, increased their public speaking skills, and provided greater personal freedom. Increased access to cash income has enhanced their self-esteem and has resulted in greater recognition of their contribution to the livelihoods of poor households. Women have effectively advocated against trafficking in women, alcoholism, and gambling and have initiated birth and death registries in their communities.

## Highlights of ADB Results

8. **Agriculture.** Two ADB-assisted irrigation projects—the Second Irrigation Sector Project and the Irrigation Management Transfer Project completed in November 2003 and September 2004, respectively—helped to increase year-round irrigated areas by about 50,300 hectares from 2000 to 2005. These interventions

benefited small and marginal farmers and disadvantaged ethnic communities through increased agricultural production and employment generation. The ongoing Community Groundwater Irrigation Sector Project is also targeting poor farmers.

9. The Third Livestock Development Project, completed in July 2004, helped to reduce poverty, gender disparity, and social exclusion by benefiting poor women (see box). As a result of this positive experience and progress made toward gender equality, the Ministry of Agriculture and Cooperatives established a new target of 50% female participation in the agriculture/livestock sector and prepared its own gender strategy with support from ADB.

10. **Transport Connectivity and Rural Access.** About 36% of Nepal's 24 million people live at least a 2-hour walk from the nearest all-season road, and 15 out of 75 district headquarters are not connected by roads. In addition, 60% of the main road network and almost all rural roads are dry-season tracks that cannot be used during the rainy season. The Rural Infrastructure Development Project that was completed in June 2005 constructed 267 kilometers of fair weather rural roads and 31 multipurpose village buildings. It also raised public awareness through campaigns on (i) labor-based and environment-friendly approaches to rural road construction and maintenance, (ii) local self-help initiatives, (iii) active participation by women in community development, and (iv) environmental protection (see box on next page).

11. **Power.** The Kali Gandaki "A" Hydroelectric Project with an output of 144 megawatts (MW), that was successfully completed in June 2002

at a cost of about \$355 million, is the largest power plant in Nepal. Jointly financed by ADB (\$140.7 million) and the Government of Japan through the Japan Bank for International Cooperation (JBIC) (\$100.6 million), the primary objective of the project was to help meet the increasing demand for electricity in an environmentally sustainable, socially acceptable, and low-cost manner. Although the project encountered significant delays in implementation mainly due to unforeseen adverse geological conditions, it effectively achieved its intended outputs. The power plant is harnessing water resources to generate renewable energy with minimal environmental and social impacts and is helping to meet daily peak load requirements year-round. The plant replaced the inefficient, polluting diesel generators used by industrial and commercial consumers, thereby reducing reliance on expensive imported fuels. It also encouraged poor rural customers to switch from kerosene to electric lighting.

12. **Gender.** The Microcredit for Women Project successfully achieved its output targets at project completion in June 2002. Over 95% of the income-generating activities and microenterprises established under the credit services were financially viable and provided income and employment opportunities for women. The project established a foundation for an alternative financial system for women by transforming 29 local nongovernment organizations (NGOs) and 9 women's savings and credit cooperatives (SCCs) into financial intermediaries and by federating women's self-help groups into 82 SCCs. Continued gender focus in ADB operations and assistance helped the Government to adopt legislation that eliminates discrimination against women (see bottom box).

### **The Rural Infrastructure Development Project Benefits the Poor in Remote Villages**

Although implementation was delayed for 2 years, the Rural Infrastructure Development Project effectively delivered development results. It helped to improve access to remote villages, raise the socioeconomic standards of the local people, and protect the fragile ecological conditions in the hill region of Nepal. An estimated 184,000 people directly benefited in terms of access to basic services and markets for their agricultural produce. The cost of transportation was reduced by as much as 75% while travel time to markets and services decreased by up to 50%.

The project generated 4.2 million person-days of skilled and unskilled employment for local poor people. The skills acquired during the construction phase helped laborers to find jobs in nearby areas where similar construction work was ongoing. Local people, including porters who were displaced from their work, have been mobilized to maintain the roads, collect tolls, drive vehicles, and work as conductors. The number of automobile workshops and related businesses in district headquarters in the project area has also increased creating additional employment opportunities.

### **Legal Provisions to Reduce Discrimination against Women in Nepal**

Encouraged by ADB, Nepal has made progress in developing a legal framework for gender equality. ADB's extensive support and its gender focus were instrumental in having the Gender Equality Act approved in 2006. The act eliminates discriminatory provisions in various laws and regulations, bringing Nepal in compliance with the UN Convention on Ending All Forms of Discrimination Against Women.

# ADB'S AGENDA FOR ENHANCING PARTNERSHIPS AND AID EFFECTIVENESS

## Current ADB Portfolio and Assistance Pipeline

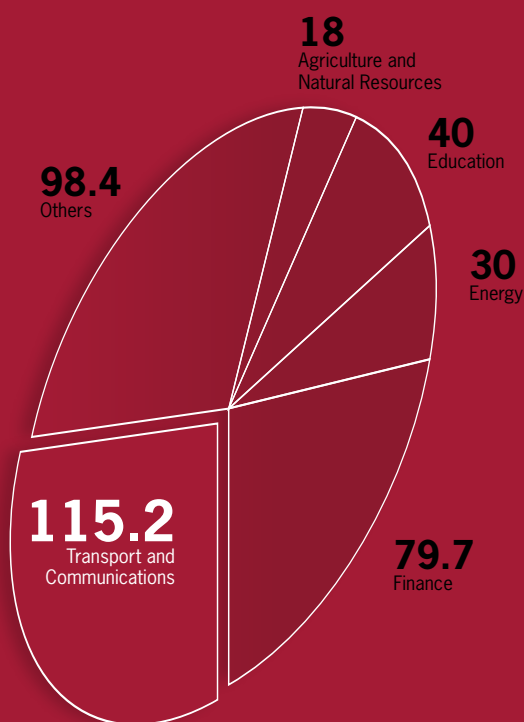
13. Figures 4 and 5 show projected approvals by sector in millions of dollars and in number of projects for the period 2005–2008. ADB's current assistance portfolio consists of 23 ongoing loans (19 projects and 4 program loans) and 4 grants with an overall net loan amount of about \$775.3 million. Of the 27 ongoing loans and grants, 74% are rated satisfactory, 7% highly satisfactory, and the remaining 19% either partly satisfactory or have not been rated (figure 6).

## Ownership, Alignment, and Managing for Results in ADB Operations

14. **Managing for Development Results (MfDR).** Although MfDR is a key tool for development effectiveness, many development partners in Nepal are insufficiently aware of its potential. ADB is actively supporting the Government in adopting MfDR approaches and has taken a leading role in involving other development partners. In particular, ADB is working with a number of donors to harmonize capacity development support

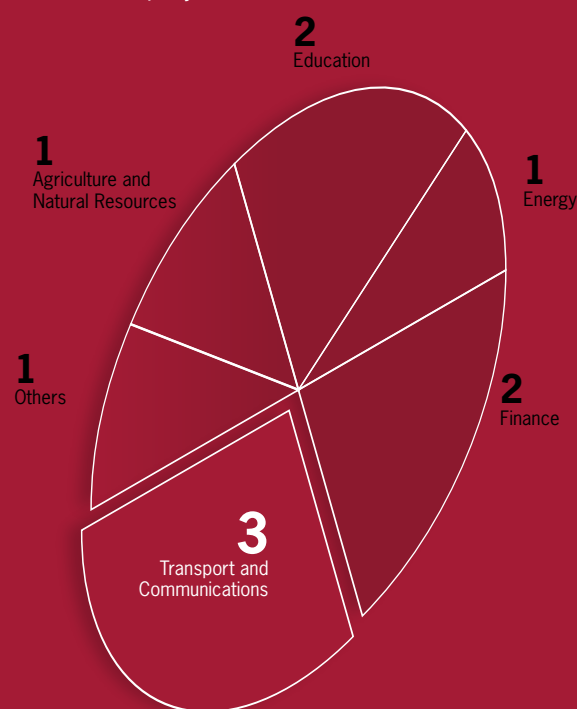
**Figure 4**

Projected Approvals, 2005–2008 (\$ million)



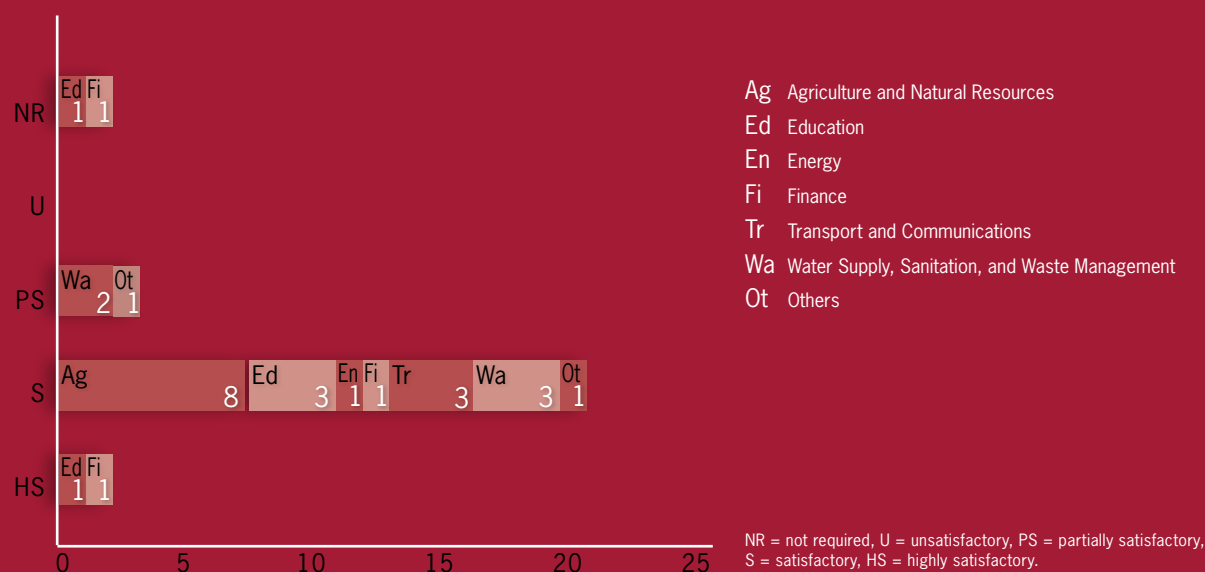
**Figure 5**

Projected Approvals, 2005–2008 (number of projects)



**Figure 6**

Project Performance Report Ratings (current)



in weak institutions with a view to enhancing aid absorption capacity. The Government's ownership of MfDR is encouraged through extensive dialogue, joint working arrangements, and advisory TAs. This process is facilitated by MfDR teams located at the Nepal Resident Mission. ADB has provided two TA projects to support the Government's efforts to implement and institutionalize MfDR in the National Planning Commission, the Ministry of Education, the Ministry of Local Development, and the Ministry of Physical Planning and Works, as well as four district development committees (Jhapa, Dhanusha, Dang, and Jumla).

15. **Results-Based Country Strategy.** The 2005–2009 Country Strategy and Program (CSP) for Nepal, approved in September 2004, was ADB's first results-based CSP. It identified (i) the results sought by the Government to which ADB could contribute, (ii) the expected outcomes of the program implementation period, (iii) mechanisms and indicators for monitoring progress toward achieving those outcomes, and (iv) a basis for

evaluating success of the strategy. The CSP includes a results framework as a management tool for focusing ADB assistance on delivering development results. It also supported a conflict-sensitive approach whereby every project will be examined to assess the degree to which it can be effectively implemented during conflict, and to identify assistance options and modalities that can address the root causes of the conflict. MfDR teams of the resident mission, with the support of the responsible project staff, are working closely with the Government to ensure the effective implementation of the result-based CSP. This involves periodic reviews and updates of the results framework.

16. **Strategic Focus and Alignment of the CSP.** Incorporating the findings of the CAPE, the ADB strategy entails a well focused program that prioritizes larger-scale projects, mainstreams governance, and emphasizes the principles of ownership of the assistance program and alignment with the country's development priorities as reflected in the Poverty Reduction Strategy (PRS). ADB adopted a

consultative and participatory approach while preparing the CSP. Recognizing that the root causes of the conflict are poverty, regional disparities, and social exclusion, the CSP is built on four pillars: (i) broad-based and higher economic growth; (ii) human development; (iii) targeted programs to foster social inclusion of the ultra poor, vulnerable, and historically deprived groups; and (iv) good governance. With the completion of the PRS in July 2007 and in view of the country's political transition, the Government is preparing a 3-year interim development plan (IDP) to address immediate needs. The IDP emphasizes service delivery at the local level and continued focus on infrastructure and education, consistent with ADB's CSP.

17. **Use of Country Systems.** The Government has adopted a Medium-Term Expenditure Framework to more effectively implement the PRS and to achieve transparency and accountability in public financial management. Since 1998, ADB has been supporting the Central Bureau of Statistics. ADB assistance helped to migrate national accounts to the 1993 System of National Accounts and to develop a system for quarterly national account estimates. The Consolidated Statistical National Plan was also prepared with ADB support. To support harmonization in public procurement, a new procurement act prepared jointly by the Government, ADB, and the World Bank was passed by Parliament and became operational in January 2007. The act provides basic principles and procedures for procuring public goods, public works, consulting, and other services. Efforts are being made by the Government and ADB to reduce the number of project implementation units where feasible.

## ADB's Role in Donor Coordination and Harmonization Initiatives

### 18. **Donor Coordination and Harmonization.**

In line with the Paris Declaration, ADB continues to coordinate and harmonize its assistance and activities with other development partners. Regular coordination meetings are held among the four major development partners in the country: ADB, the United Kingdom's Department for International Development (DFID), JBIC, and the World Bank. Given its role as one of the leading partners, ADB regularly organizes special sector-focused donors' meetings to discuss policy and other issues affecting operations and performance. ADB is also implementing the joint action plan that was signed in 2004 with DFID and the German Technical Cooperation Agency (GTZ). ADB is a member of several thematic working groups including energy, education, agriculture and rural development and participates in the donor group formed to pilot principles for good international practices.

19. **Monitoring and Evaluation.** ADB has been working with the Government, JBIC, and the World Bank to enhance the harmonization of aid monitoring and reporting. Joint portfolio performance reviews conducted by these partners have also included other donors as observers. A poverty monitoring and analysis system has been developed at the project level, including a mechanism to monitor the allocation of counterpart funds to donor-assisted interventions. ADB, the Government, and stakeholders jointly monitor and evaluate progress through the annual reviews of the CSP.

20. **Use of Program/Sector-Wide Approaches.**

Since 2006, ADB has been involved in the development of the sector-wide approach in education. The education sector program loan approved in December 2006 ensures that budgetary support from development partners is fully aligned with Government systems and that the budget is earmarked for mutually agreed areas and types of activities. Donor funds are pooled and managed jointly by ADB, Denmark, the European Union, Finland, Norway, the United Nations International Children's Fund, and the World Bank.

21. **Cofinancing.** For the ongoing loan portfolio, ADB mobilized cofinancing in the amount \$176 million. Funds are utilized through arrangements with the Danish International Development Agency, GTZ, DFID, the Swiss Agency for Development Cooperation, the Canadian International Development Agency, and the Organization of Petroleum Exporting Countries fund. Several externally financed trust funds within ADB (such as the Poverty Reduction Fund, the Japan Fund for Poverty Reduction, the Managing for Development Results Cooperation Fund, and the Gender Development Cooperation Fund) have been tapped to provide technical assistance to the Government. These projects mainly focus on capacity building and institutional strengthening.

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