

MANAGEMENT RESPONSE TO THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR NEPAL: DELIVERING ASSISTANCE IN A CHALLENGING ENVIRONMENT

On 8 July 2009, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. The Country Assistance Program Evaluation (CAPE) process has evolved over the last several years to become a key assessment tool for both looking back on past performance and, drawing on lessons learnt, making recommendations for future ADB operations in its developing member countries. We appreciate the effort undertaken by IED to provide a comprehensive analysis of ADB's operations in Nepal over the period 2004 to 2008, and acknowledge the wide consultation process involved, with extensive engagement with all the key stakeholders, notably Government, the private sector, civil society and other development partners in Nepal, as well as with ADB staff.

2. The CAPE's subtitle "Delivering Assistance in a Challenging Environment" captures the context in which ADB delivered its program of assistance. During the period under review, Nepal emerged from armed conflict and political instability to embark on a peace process which led to a cessation of hostilities, successful elections for a Constituent Assembly and formation of a coalition government. Nepal also achieved modest economic growth. ADB and the broader donor community played an important role in supporting Nepal during this pivotal time and achieving these outcomes. We regard the CAPE's top-down assessment of borderline "successful" as reflecting well ADB's overall contribution to these positive developments in Nepal.

3. The bottom-up assessment of "partly successful" is based on concerns with implementation efficiency, the timely completion of projects, and the sustainability of project and program outcomes. Conflict and political uncertainty exacerbated weak governance and very limited capacity, particularly at the local level, resulting in limited outcomes despite the high level of effort made by Government, the range of stakeholders and ADB. The re-emergence of political uncertainty and deteriorating rule of law indicate that this unfavorable environment for both development assistance and private sector development will need to be addressed in the next country partnership strategy (CPS).

4. The CAPE documents a range of important lessons learnt during four years of operations in Nepal. Among these, the adoption of a conflict sensitive approach which enabled ADB operations to continue during a highly unstable period in Nepal's history is arguably the most significant. As Nepal now addresses the challenge of completing its peace process, and seeks to draw excluded groups into the political process and the mainstream economy, this lesson will remain relevant for future operations. Completion of the peace process and the formation of a federal state under a new constitution will take time, and ADB will need to continue to develop approaches that deliver services

and infrastructure in rural areas while maintaining high standards of accountability and transparency.

II. Comments on Specific Recommendations

5. Recommendation 1. Infrastructure-Led Inclusive Growth Strategy.

We agree. Assistance to infrastructure is fundamental to achieving inclusive economic growth, poverty reduction and regional integration. Nepal faces a very large infrastructure deficit in transport, power and urban services delivery (including water supply and sanitation). The CAPE rightly emphasizes the need to address policy and institutional constraints to improve absorptive capacity, financial sustainability and maintenance, with the objective of improving service quality and extending coverage to excluded groups. ADB can play an important role in helping improve connectivity with neighboring countries, so that Nepal is better able to participate in regional growth and exploit its potential for hydropower development. In the short term Nepal will be reliant on budget and donor funding to support infrastructure development, but the CAPE correctly identifies the need for greater private sector involvement, including through public-private partnerships (PPPs). Irrigation and water resource management will be pursued within the context of Nepal's response to global climate change.

6. Recommendation 2. Governance, Capacity Development and the Results Framework.

We agree. Improved governance and accountability are critical for achieving Nepal's development goals. The country strategy and program (CSP) under review was ADB's first results-based CSP, and over the period, ADB was active in institutionalizing the results orientation in its own program and providing support to the government as it sought to introduce management for development results. We agree that the adoption of result-based monitoring tools to assess performance and development results against targets has facilitated improvement in governance in Nepal. These efforts should be consolidated and expanded in the next phase of ADB support; the new CPS will continue ADB's focus on promoting good governance and capacity building of key public institutions. However, political instability and weakened rule of law are putting government procurement and financial management at risk. Under these circumstances additional measures and effort will be required to ensure that government and donor resources are used efficiently and effectively, particularly in rural areas.

7. Recommendation 3. Private Sector Development and Regional Cooperation.

We agree. Much needs to be done to improve the environment for private sector development in Nepal. The CAPE sets out clearly the main constraints facing the private sector and those areas considered appropriate to concentrate ADB support -- notably provision of physical infrastructure and governance, improvement of the policy environment for investment and trade, and support for PPPs in infrastructure development, in particular the energy sector. The constraints to private sector growth are confirmed by the recently completed important input (prepared by ADB/DFID and ILO under leadership from ADB's Economics and Research Department) to the formulation of the next CPS: "Nepal: Critical Development Constraints". Given the range of constraints facing private investment in Nepal, PPPs will need to be prepared carefully and appropriately sequenced to build support and confidence in this potentially very

important investment modality. In this regard, the South Asia Department and Private Sector Operations Department are already cooperating and coordinating in the preparation of the CPS to ensure a successful role for the private provision of infrastructure in Nepal and mobilization of financial resources.

8. The CAPE rightly identifies the importance of regional cooperation and integration in contributing to Nepal's future economic growth and development. As a relatively small, open economy located between two of Asia's major economies, Nepal has much to gain from more active participation in the regional economy. ADB is well placed to provide assistance through the provision of key linking infrastructure, notably in the transport and power sectors, and support for trade and transport facilitation and tourism development. Nepal's active participation in the South Asian Association for Regional Cooperation provides a sound institutional framework within which it can pursue regional economic integration.