

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2000-2002)**

NEPAL

December 1999

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank (ADB) for Nepal covering the three-year period 2000-2002. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 1999, in close consultation with the Government of Nepal, and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 1999. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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CURRENCY EQUIVALENTS

(as of 30 November 1999)

Currency Unit	–	Nepalese Rupee/s (NRe/NRs)
NRs1.00	=	\$0.01455
\$1.00	=	NRs68.73

The Nepalese rupee is closely linked to the Indian rupee (Re) at NRs1.60 to Re1.00. It is fully convertible on all current account transactions.

ABBREVIATIONS

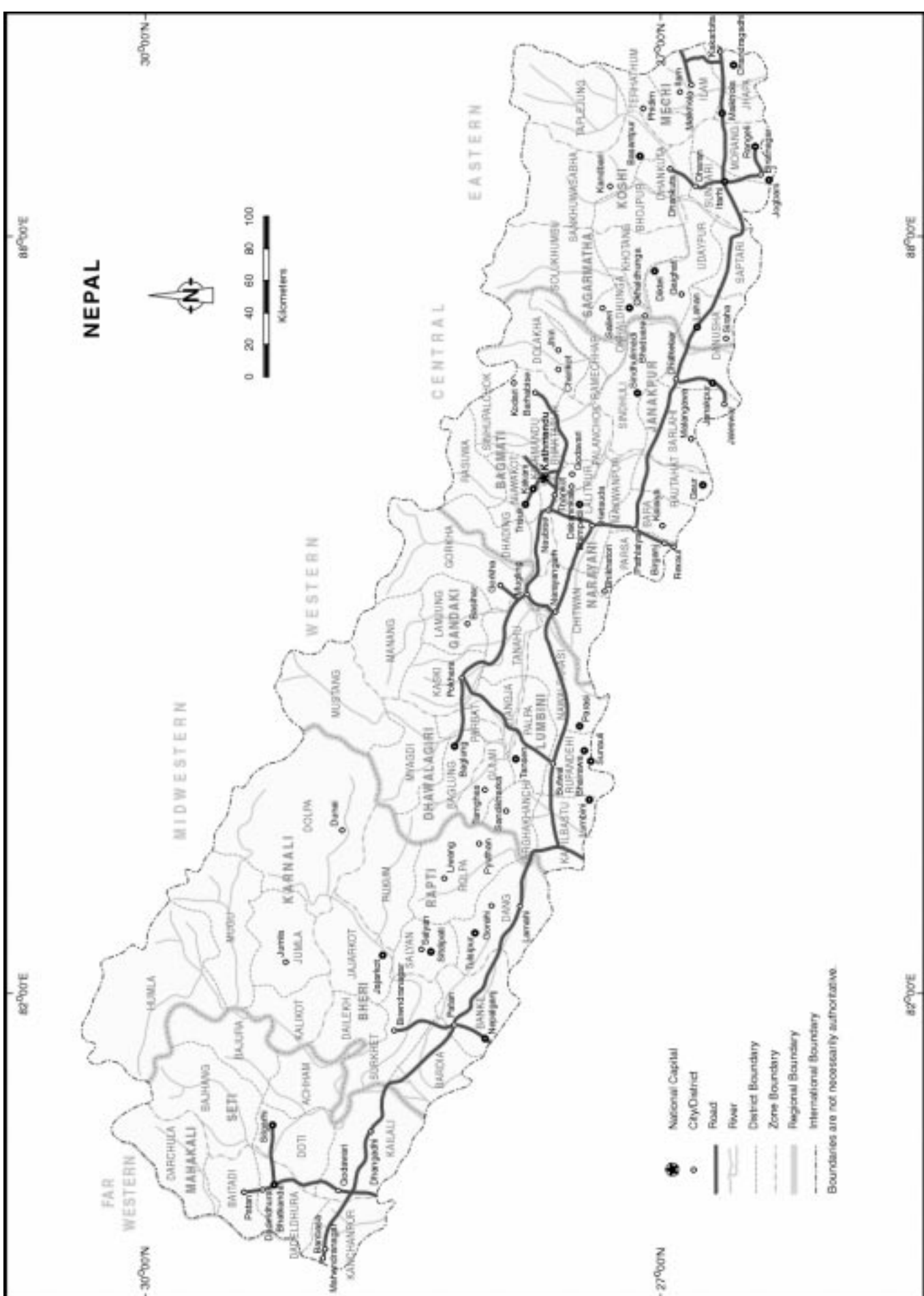
ADB	-	Asian Development Bank
ADB N	-	Agriculture Development Bank of Nepal
ADF	-	Asian Development Fund
ADTA	-	Advisory Technical Assistance
APP	-	Agriculture Perspective Plan
COS	-	country operational strategy
DANIDA	-	Danish International Development Agency
DFID	-	Department for International Development
ESW	-	economic and sector work
GDP	-	gross domestic product
MOPE	-	Ministry of Population and Environment
MOFSC	-	Ministry of Forests and Soil Conservation
MWSW	-	Ministry of Women and Social Welfare
NDF	-	Nordic Development Fund
NEA	-	Nepal Electricity Authority
NGOs	-	nongovernment organizations
NORAD	-	Norwegian Agency for International Cooperation
NRM	-	Nepal Resident Mission
OECD	-	Overseas Economic Cooperation Fund
OPEC	-	Organization of Petroleum Exporting Countries
PPTA	-	Project Preparatory Technical Assistance
UNDP	-	United Nations Development Programme
VAT	-	value-added tax

NOTES

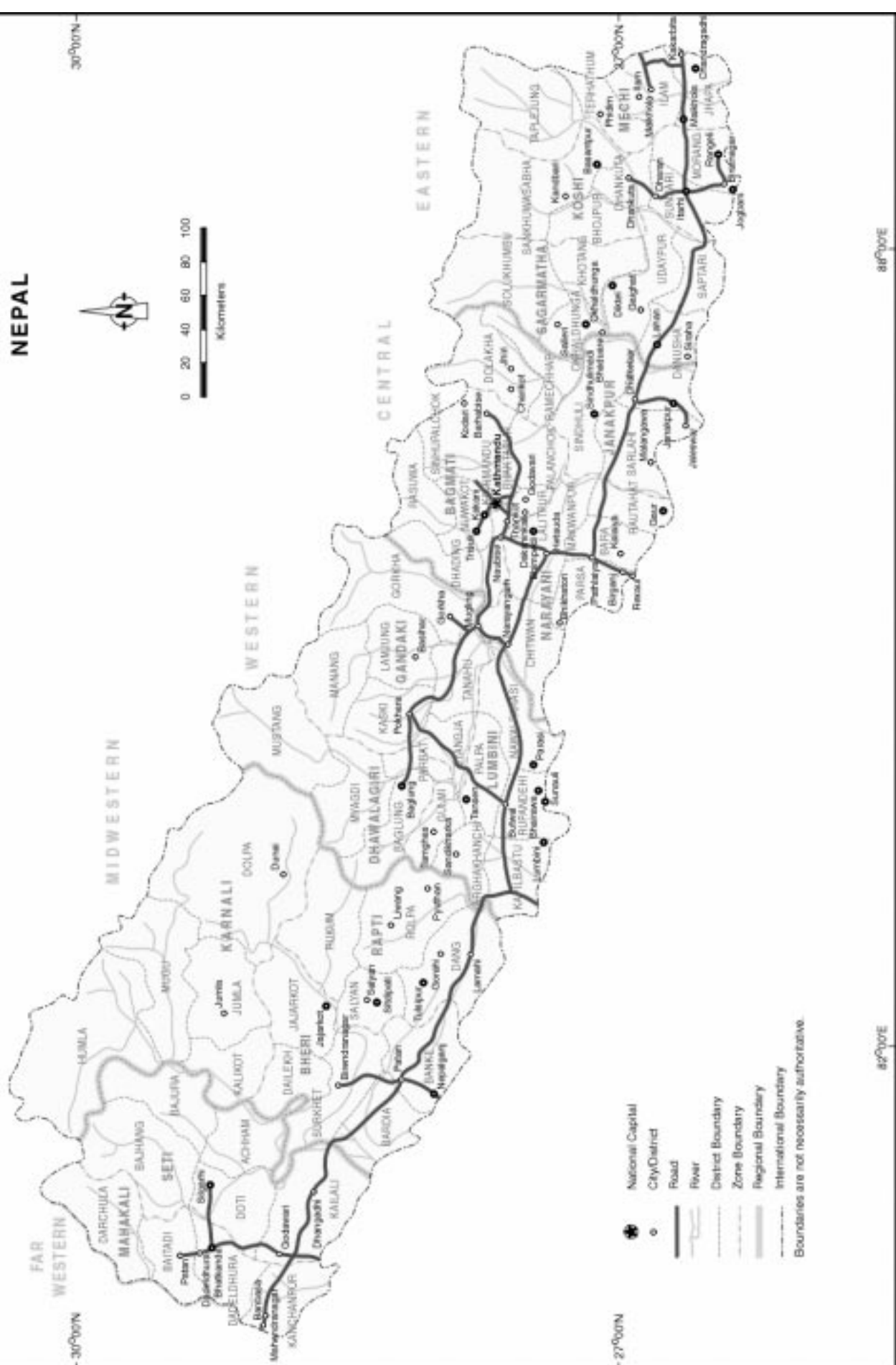
- (i) The fiscal year (FY) of the Government ends on 15 July. FY before a calendar year denotes the year in which the fiscal year ends, e.g. FY1999 ends on 15 July 1999.
- (ii) In this report, "\$" refers to US dollars.

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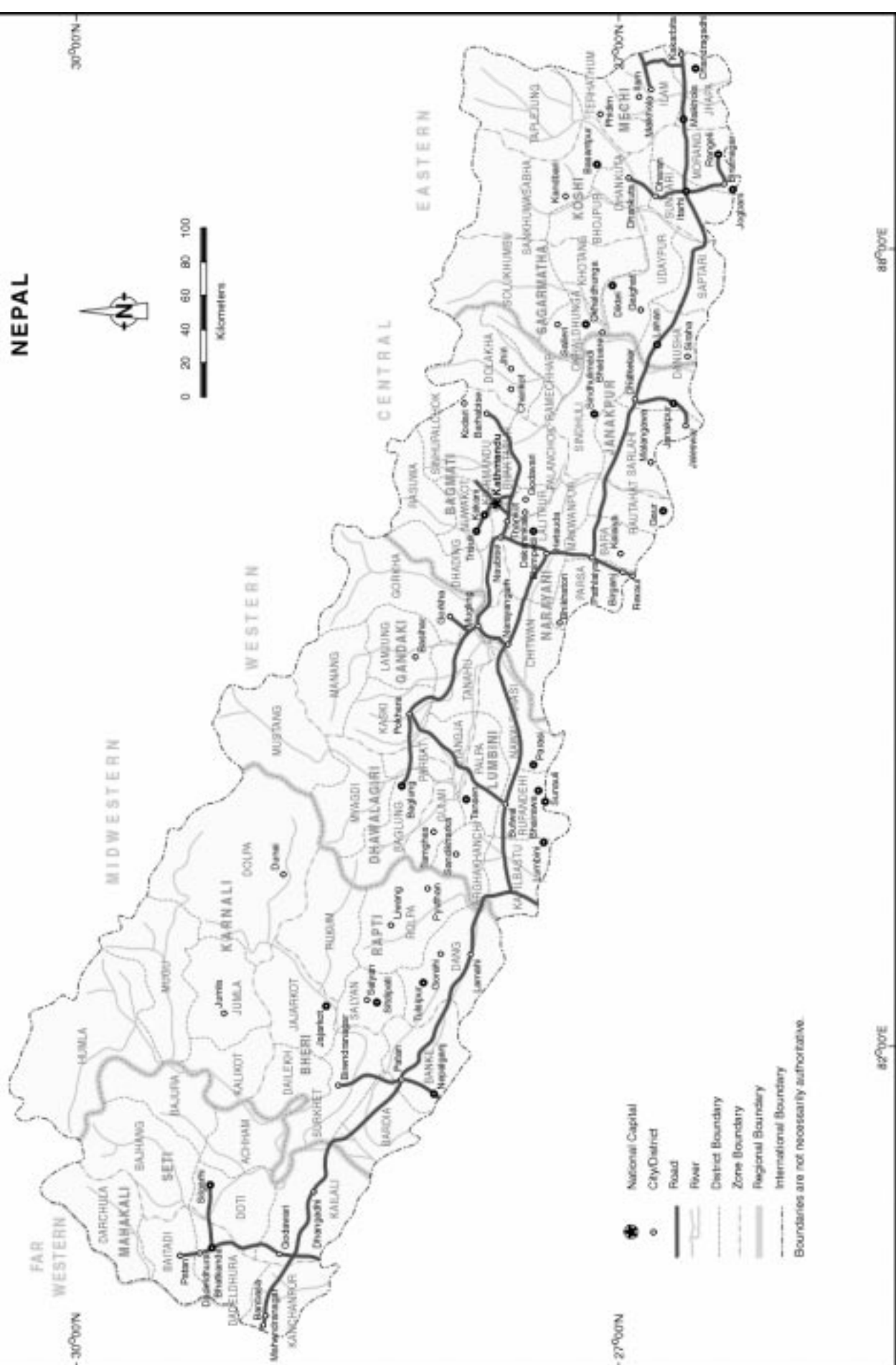
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I. Country Performance Assessment

A. Economic Performance Assessment

1. Despite a series of development plans and assistance from international aid agencies, Nepal's economic growth has just barely kept pace with its expanding population. In FY1999, gross domestic product (GDP) per capita was less than \$225, making Nepal one of the poorest countries in the region. Several structural factors hinder the country's attempts at development such as (i) the difficult terrain of a mountainous, landlocked country; (ii) heavy dependence on subsistence agriculture; (iii) low levels of physical infrastructure and human capital; (iv) low domestic resource mobilization and the related dependence on foreign assistance; and (v) inadequate institutional capacity for development management. While the country has been moving toward a more market-oriented economy since the early 1990s, frequent changes in government have hampered the implementation of policy reforms and delayed the implementation of development projects. The recently elected majority government has raised expectations of providing the stability needed to pursue necessary reforms.

2. Growth in total output, as measured by GDP at factor cost, reached 3.3 percent in FY1999. While this exceeds the population growth rate of 2.4 percent and the previous year's growth rate of 2.6 percent, it is still considerably less than the 6 percent projected under the Ninth Five-Year Plan (FY1998-FY2002). The higher overall growth was led by rising industrial output which grew by 4.4 percent compared with the 0.2 percent growth in FY1998. As Nepal is still primarily an agricultural economy (the sector accounts for 41 percent of total production), relatively slow growth in agriculture has hampered the overall performance of the economy. Growth in agriculture was only 2.4 percent in FY1999, an improvement from the previous year but only sufficient to meet the growing population.

3. Domestic revenue collection was substantially lower than budgeted in FY1999, remaining at the previous year's level of about 11 percent of GDP. The poor revenue performance is due to reductions in tax rates, a slowdown in imports, and poor collection of taxes. The introduction of the value-added tax (VAT) in November 1997 was meant to be the centerpiece of an overall tax reform, but continued resistance from the business community has delayed its full implementation. Authorities have made several compromises since the introduction of the VAT including lowering the rate, expanding the exemption list, and raising the level of the minimum business size covered by the tax.

4. The budget deficit remained at 6 percent of GDP in FY1999, despite the poor domestic revenue performance and the additional expenses related to holding the elections in May 1999. Slower growth in development expenditures than had been budgeted made up for the shortfall in revenues. Development expenditures rose by only 9 percent rather than the 26 percent envisaged at the time the FY1999 budget was announced. Foreign grants and loans financed about 65 percent of development expenditures in FY1999, compared with 50 percent in the early 1990s. The dependency on foreign resources is expected to continue with foreign loans and grants again expected to cover 65 percent of budgeted development expenditures.

5. Government military expenditures have declined over time in total, as a share of GDP, and in comparison to social expenditures. In 1985, \$49 million was spent on defense, compared to \$39 million in 1996. Defense expenditure as a percentage of GDP in 1996 decreased to 0.9

percent, from 1.5 percent in 1985, compared with an average of 3.7 percent of GDP in all developing countries in 1996. Defense expenditure per capita also decreased in this period from \$3 to \$2, compared with \$39 per person on average in developing countries in 1996.¹ Military expenditures as a percentage of combined health and education expenditures in Nepal contracted from 67 percent to 35 percent between 1985 and 1996, compared with an average of 63 percent for all developing countries in 1996. As a percent of total expenditures, military spending fell from 8.4 percent to 4.9 percent in this period.

6. The National Budget for FY2000 was presented to the Parliament in July 1999. A total outlay of NRs77.2 billion (\$1.1 billion) has been proposed for FY2000, representing a nominal increase of 22.5 percent over the revised estimate of NRs 63 billion (\$926 million) for FY1999. The fiscal deficit is expected to be around 6 percent of GDP. Development expenditures are projected to grow by 33 percent, to be financed mainly by foreign grants that are projected to increase by 47 percent. Domestic revenue estimates are similarly optimistic with a projected growth rate of 14 percent. Actual revenue performance will hinge on the effective implementation of the VAT. To achieve this goal, the Government lowered the minimum revenue level for firms covered by the VAT from NRs4.5 million to NRs2.0 million and accelerated the registration of firms to widen the tax net. As in past years, development expenditures will probably be reduced to cover shortfalls in domestic revenues and foreign grants. The Budget Statement is encouraging with respect to the Government's firm commitment to revenue mobilization and key reforms, including reform in the financial/banking sector.

7. Money supply growth has slowed somewhat. Broad money (M2) increased by about 19 percent in FY1999 compared with 22 percent in the previous year. The slower money growth is due to lower inflows of foreign assets as growth in domestic credit was the same as last year. Because of the relatively open border and the exchange rate peg to the Indian rupee, inflation in Nepal generally follows India. Inflation rose to nearly 13 percent from 4 percent driven by the sharp rise in food prices in India. As food prices have now stabilized and have even fallen for some items, inflation in the current year is expected to decline. Barring any radical policy shifts in India—such as the trade embargo India imposed on Nepal in 1992—Nepal should continue to experience relatively moderate inflation.

8. On the external side, preliminary estimates of Nepal's current account suggest a dramatic decline in the deficit for FY1999 due to strong export growth and a contraction in imports. However, the decline in imports was mainly for aid-related items because of the slowdown in investment activity prior to the elections. Non-aid imports were roughly on par with the previous year. While loan disbursements from aid agencies also slowed prior to the elections, the country's foreign exchange reserves continued to rise. The current account deficit should widen somewhat in the current fiscal year as aid-related imports return to their previous levels. External debt as a percent of GDP has been rising over time with the inflow of foreign aid reaching 54 percent of GDP in FY1998. However, due to the concessional nature of this lending, the debt service ratio for external debt is at the manageable level of 6.1 percent of exports, a situation that should continue in FY2000.

9. Nepal's success in the medium term depends on the Government's ability to address the structural weaknesses of the economy, particularly in the financial sector and aid utilization. Sustained improvement of the trade deficit in the medium term will require substantial efforts to

¹ The International Institute for Strategic Studies. 1997. *The Military Balance 1997/98*. Oxford: Oxford University Press. Dollar values of expenditures are at constant 1995 prices and exchange rates.

improve the institutional and policy environment enabling further development of export items and destinations. To reduce the dependence on foreign assistance for the country's development expenditures continued efforts are needed to mobilize domestic resources. This will require tax reforms (including improved implementation of the VAT), financial sector reforms, privatization of state-owned enterprises, and strengthening of the capital market. Structural reforms have been delayed in the past due to political instability. However, the new majority Government is in a better position to maintain the consensus and commitment necessary to implement such a far-reaching reform program.

B. Assessment of Socio-Environmental Performance

1. Poverty Issues

10. The social indicators for Nepal show little progress in reducing poverty and improving the socioeconomic status of low-income groups. Nepal ranks 144th among 174 countries in the United Nations Development Programme's (UNDP) 1997 human development index (HDI), published in 1999. Nepal's HDI rank is lower than its real GDP per capita rank expressed in purchasing power parity dollars, which indicates the low level of social development in the country. Poverty is widespread and about 45 percent of the population, or more than 10 million people, live below the national poverty line of NRs4,400 (\$77) per capita per annum, which is based on a minimum calorie intake, housing, and various nonfood standards (Appendix 1). There is increasing inequality of income distribution. The Gini coefficient has increased from 0.26 in 1985 to 0.43 in 1996 in urban areas, while in rural areas it has increased from 0.23 to 0.31 during the same period. There are also wide variations in average household income by geographical areas, and the urban/rural disparity is also large. In rural areas, the western part of the country has lower incomes than the eastern and central parts. Per capita incomes are lower in the *terai* (flat plain) than in the hills (income distribution is also worst in the *terai* with a Gini coefficient of 0.66); however, in the eastern and central areas, incomes are higher in the *terai* than in the hills.² Region-wise, the worst income distribution is found in the central region (Gini coefficient of 0.66).

11. Poverty undermines efforts at promoting human development, since it prevents many parents from sending their children to school. The current literacy rate is 48 percent (66 percent for men and 30 percent for women). However, only 20 percent of the poor are literate compared to 60 percent of those in the higher-income groups. Poverty also heightens gender differences. While 32 percent of poor men are literate, the literacy rate of poor women is much lower at 9 percent. Poverty induces malnutrition and frequent illnesses forcing households to waste their precious resources on medical care. In turn, illiteracy, malnutrition, and disease reduce development and employment opportunities, worsening poverty. The major challenge facing Nepal is to overcome this vicious cycle of poverty and low human development.

12. There is little evidence from the existing data to show that poverty incidence has declined substantially, despite considerable efforts and investments made for poverty reduction. Due to the rising population, there are indications that the absolute number of the poor has almost doubled in the past 20 years.³ Many factors have constrained reduction of poverty, including (i) inequitable land distribution, (ii) caste and gender bias, and (iii) erratic and low economic growth along with high population growth. Initiatives to reduce poverty need to address these closely interrelated factors.

² Nepal Living Standards Survey Report 1996.

³ Nepal South Asia Centre. 1998. *Nepal: Human Development Report*.

2. Gender Issues

13. Women in Nepal are deprived and severely underprivileged in rural areas. Nepal ranks 121st among 143 countries in UNDP's 1997 gender development index (GDI), published in 1999. The maternal mortality rate of 539 per 100,000 live births is one of the highest in the Asia and Pacific region. Gender disparity persists in educational attainment, health status, and participation in the decision-making process. Disadvantaged castes and ethnic communities show higher levels of gender disparities in education. Enrolment levels show a severe gender gap in school attendance. While efforts are being made to improve the status of women, the Constitution and subsequent legislation on citizenship do not treat women equally. Under the Citizenship Chapter of the Constitution and the subsequent Act, maternal descent is not recognized for natural citizenship rights; and female and male foreign spouses are treated unequally. Women are treated unequally under inheritance laws. Women also suffer from rising and widespread violence and trafficking, and there is no legal protection from domestic violence. While women have made substantial gains in education, and the female literacy rate has risen from 4 percent in 1971 to 30 percent in 1998, the gender gap in educational levels is rising. Efforts have been made by the Government to close the gender disparity gap as well as to improve the status of women through various development programs and activities funded by bilateral and multilateral donors. However, the results of these efforts are likely to remain limited unless the gender bias in the social system is progressively reduced, if not eliminated.

14. In late 1997, the Government prepared the National Action Plan for Women consisting of a number of sectoral and cross-cutting chapters, each of which includes a situation analysis, vision, list of policy recommendations for the Ninth Five-Year Plan, and action plan. The lead agency and focal point for women's development is the Ministry of Women and Social Welfare. The overriding objective of the Ministry is to mainstream women in national development through gender equality and empowerment. The Ministry focuses on advocacy and sensitization and has been working for legislation to ensure women's rights and legal reforms to eliminate discrimination against women. Some of the outcomes include amendment of the laws concerning property rights and formulation of the new Domestic Violence Act. The Ministry is currently reviewing all laws and planning to draw up a new Family Code and Juvenile Code.

3. Human Development

15. Social indicators in Nepal remain weak. While some improvement has been made over the past decade, the reduction in the total fertility rate from 6.3 in 1985 to 5.0 in 1996, and infant mortality rate from 152 per 1,000 live births in 1985 to 75 per 1,000 live births in 1997 are still high in comparison to countries of similar income level. While the adult literacy rate has increased at an average rate of about 1.0 percent per year in recent years, the vast majority of the adult population in rural areas is illiterate. About 71 percent of the population have access to safe water and only 20 percent of households have sanitary facilities. Poor water supply and sanitation and unhygienic living conditions, especially in rural villages and slums, remain among the major obstacles to improving the health status of the people. Child malnutrition is widespread at 47 percent, resulting in mental impairment, school dropout, loss of productivity, and lifelong disabilities such as blindness due to vitamin A deficiency.

16. During the implementation of the Eighth Five-Year Plan (FY1993-FY1997), Government spending shifted significantly in favor of the social sector. Overall expenditures in the social sectors have grown by 116 percent in five years, with similar increases in infrastructure expenditures, compared to a 39 percent increase in expenditures on economic services. However, public

expenditure on education at 2.6 percent of GDP in FY1997 was still below the average in countries with a low level of human development. Public expenditure on health also remains at a low level, accounting for 0.9 percent of GDP (FY1997).

17. The Government has developed broad plans for macroeconomic and fiscal reforms, decentralization, and human development in both public and private sectors to overcome poverty, but has made little progress in addressing core management functions and systems. While the broad policy framework is in place to address economic and sectoral priorities, management capacity to implement it is inadequate. Sustained reduction in poverty and achieving good governance are the two most crucial issues in human development in Nepal.

18. Out of 5.7 million children in the 5 – 14 age group in 1996, more than one million were economically active. While the proportion of economically active children declined from 57 per cent to 23 per cent from 1981 to 1991, boys benefited more than girls did from this transition, as indicated by the increased school enrolment of boys. The Government has ratified the UN Convention on the Rights of the Child and has taken steps to eliminate child labor. The Labor Act 1992 and the Children's Act 1992 have clearly defined, regulated and prohibited employment of children using a number of provisions. The Government has also formulated a ten-year National Program of Action for Children and created a Child Welfare Board at the national and district levels.

4. Environment

19. Nepal's natural resource base is under increasing pressure. High population growth, poverty, and environmental problems are all linked to the degradation process perpetuated by slow economic growth. Soil erosion, deforestation, and degradation of the natural ecosystem and its biodiversity, together with air and water pollution and lack of proper sanitation and solid waste disposal in the urban areas, are among Nepal's major environmental problems. The poor rely on the overexploitation of the country's natural resources for their survival, e.g. cultivation of marginal lands and uncontrolled fuelwood collection, and this increasing pressure coupled with rapid population growth contributes to further decline in labor and soil productivity, which in turn is the main factor contributing to poverty and further environmental degradation. To achieve sustainable development and preserve its natural resource base, the country must therefore break this vicious circle by effectively addressing poverty, high population growth, and ecological imbalances in both rural and urban areas.

20. Recognizing the crucial importance of proper environmental management and the effective implementation of the existing environmental policy and legal framework, the Government has, in the last decade, taken important steps towards a more systematic approach. Policies to protect the environment were included under the Seventh and Eighth Development Plans and in the National Conservation Strategy (NCS) and Nepal Environmental Policy and Action Plan (NEPAP), which were prepared in 1988 and 1993, respectively. In addition, a comprehensive process to establish and operationalize an Environmental Impact Assessment (EIA) system was undertaken. In 1993 the Environment Protection Council (EPC) was created and the Ministry of Population and Environment (MOPE) was established in September 1995. The Environment Protection Act was approved at the beginning of 1997 and, more recently, the Environment Protection Regulations were enacted by the Cabinet.

21. These legislative developments are significant institutional steps towards improved enforcement and overall effective implementation of environmental policies. Environmental management in Nepal has reached a crucial point and three factors will now play a decisive

role: (i) the level of commitment and ownership at the highest institutional and political levels; (ii) the sustained capacity to enhance inter-agency coordination and government–nongovernment cooperation in undertaking and implementing environmental programs; and (iii) the degree to which continued, coordinated, and streamlined external assistance will be able to effectively assist the country in achieving its main environmental objectives.

C. Governance: Sound Development Management

22. Nepal has many of the formal prerequisites of modern, democratic governance, highlighted most recently by carrying out a democratic election and change in government effectively and peacefully. With the implementation of the Agriculture Perspective Plan (APP) and emphasis on district and village development committees, the Government has also enhanced decentralization and people's participation in development activities. For example, the Local Governance Bill was passed by Parliament in September 1998. Reforms are also gaining speed at the national level. The Civil Service Act was amended in 1998 to overcome existing problems. To oversee the civil service reform process, the Government has established a high-level Administrative Reforms Coordinating and Follow-up Committee chaired by the Prime Minister, and an Administrative Reforms Committee coordinated by the Minister of General Administration. Decisions have been taken in 1999 to initiate action to streamline the organizational structure of the Government and integrate Government training centers into a single entity.

23. However, effective implementation of other elements of governance is weak and often lacks efficiency, transparency, and accountability in the administrative system. There are increasing allegations of corruption at many levels, and this represents a key constraint to effective delivery of essential services. Basic institutions essential to the effective functioning of a market economy either do not exist or do not operate effectively. Distrust among various institutions is a major constraint to private sector investment. The ineffective performance of the financial system and regulatory agencies is also a cause for concern. Weaknesses in financial management include chronic delays in accounting, low revenue collection, lack of follow-up of audit recommendations, and limited skills, particularly in district treasuries. Policy formulation is hindered by superficial discussion, and limited attention to implementation capacity. Public service performance suffers from the excessive number of ministries, inadequate remuneration and resulting corruption, poor record keeping, excessive staff transfers, and manipulation of rules and regulations to serve vested interests of senior officials and politicians. Poor governance and the unsustainable financial performance of public agencies and state-owned enterprises are a major drain on limited public resources.

24. Continuing institutional and human resource weaknesses constrain the emergence of a strong and efficient development administration in Nepal. The situation has been compounded by frequent political changes from which the civil service has not been adequately protected. The key issues in governance that need to be addressed in Nepal are civil service reform to improve efficiency and accountability, decentralization, and capacity building to strengthen policy formulation and implementation capability. Progress in these areas has been slow and limited, and much greater political will is needed to improve the situation. Although the size of Nepal's public sector is not large, a broad consensus exists among both Nepalese and the donor community that its productivity is low.

25. Recently, the donor community has expressed concern to the Government about the politicization of the bureaucracy, and the non-implementation of many of the important recommendations of the 1992 Administrative Reform Commission. The main reasons for the inability to implement these recommendations were (i) lack of political commitment and support

to civil service reform, (ii) resistance of public service personnel to change, (iii) lack of strong leadership for managing change, and (iv) lack of appropriate mechanisms for initiating and monitoring reforms in the civil service. The previous Government indicated its intention to proceed with a comprehensive civil service reform and initiated action in this regard. It is expected that the new Government will continue to support this process. Success of this effort will depend on the degree of consensus that can be built by the political leadership, as well as its own resolve. As regards decentralization, many laws moving in this direction have been enacted, and elections have been held for local bodies at the village and district levels. However, significant progress in extending local autonomy has yet to be achieved, with decision-making remaining very much centralized. There is substantial scope for devolution of power and authority from the center, which requires effective compliance with legal provisions. At the same time, considerable efforts are needed to strengthen the capacity for policy, program, and project formulation and implementation, at both the central and local levels.

D. Implementation Assessment

1. The Portfolio

26. Asian Development Bank (ADB) operations in Nepal began in 1968. As of 31 December 1998, ADB had provided 94 loans for a total amount of \$1.6 billion (including \$59 million for five loans to the private sector). ADB assistance has mainly focused on the agriculture sector (48 percent), energy (23 percent), transport and communications (14 percent) and social infrastructure (8 percent). A total of 200 TAs (123 advisory and 77 project preparatory) for \$85.5 million have been provided over the same period. The sectoral focus of TAs has been agriculture (56 percent), energy (13 percent), and social infrastructure (10 percent).

27. As of 31 December 1998, there were 21 ongoing ADB projects with a net loan amount of \$561.5 million, cumulative contact awards of \$305.3 million, and net undisbursed funds of \$265.7 million (60 percent of the portfolio). The sectoral distribution of ongoing loans was agriculture (38 percent), energy (38 percent), transport and communications (11 percent), and social infrastructure (14 percent). Details of the ongoing loans are provided in Appendix 2.

28. ADB assistance has contributed to an expansion of the country's physical assets and some development of human resources, but many of the outputs from past investments have not been sustainable, and the overall development impact has been limited. Substantial delays in project implementation and failure to comply with specific loan covenants remain as major problems in achieving the desired objectives.

29. To date, sixty-nine out of the 89 public sector loans in Nepal have been closed and 32 loans or 37 percent of the total have been postevaluated. These postevaluated projects were approved during the period 1970 to 1988 and were completed prior to 1993. Of the 32 postevaluated projects in Nepal, Project/Program Performance Audit Reports (PPARs) rated 16 projects (50 percent) generally successful, 8 projects (25 percent) partly successful, and 8 projects (25 percent) unsuccessful (Table 1). The performance of ADB-financed projects in Nepal compares unfavorably with Bank-wide performance and other South Asian⁴ countries, but is somewhat better than the performance of Group A countries⁵. While the percent of projects rated generally successful is on par with South Asia as a whole, the share of unsuccessful

⁴ Includes Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

⁵ ADB classified 15 of its 57 member countries in Group A based on per capita GNP and debt repayment capacity. R204-98: *A Graduation Policy for the Bank's DMCs*, 23 November 1998.

projects is much higher. Of the 10 most recently postevaluated projects, only 2 were considered generally successful, 5 were partly successful, and 3 were rated unsuccessful. Given the importance of the agriculture sector in the country and its importance ADB's investment portfolio, it is of particular concern that three of the eight most recently post-evaluated agriculture projects were rated unsuccessful.

**Table 1: Summary of Postevaluation Results
(as of 31 October 1999)**

Country	Total No. of Projects	Generally Successful (%)	Partly Successful (%)	Unsuccessful (%)
Bank-wide	538	56.7	31.8	11.2
Group A countries	86	44.2	30.2	24.4
South Asia	170	50.0	37.1	12.9
Nepal	32	50.0	25.0	25.0

30. The 1999 Country Synthesis of Evaluation Findings⁶ undertaken by the Operations Evaluation Office highlights a number of lessons learned. The study concludes that (i) projects must be better prepared at the design stage; (ii) local communities must be involved in project preparation from the outset; (iii) project formulation must consider operation and maintenance requirements after construction; (iv) the institutional capacity of executing agencies must be carefully assessed during project preparation; (v) project design should include effective benefit monitoring and evaluation systems; (vi) to maximize project impacts on poverty alleviation, the project design must specifically include measures to target the poor; and (vii) greater staff resources are needed for ADB review missions to ensure adequate supervision of project implementation, particularly in remote areas.

31. In general, ADB's experience in Nepal shows that inappropriate project design, an inadequate policy and institutional environment, lack of ownership, and insufficient monitoring and supervision are major causes of unsuccessful projects. Political instability, inefficient administration, policy distortion, and institutional weaknesses continue to hamper private sector development and adversely affect the effectiveness of development inputs to generate and sustain longer-term development impact. Poor governance and corruption are of major concern to all segments of society.

32. On the positive side, there is increasing evidence in ADB-supported projects that the involvement of local groups and communities can help achieve the desired impact of development assistance⁷ in such areas as rural water supply and sanitation, farmer-managed small-scale irrigation, and labor-intensive rural road construction, as seen in ADB investments formulated in the past few years.⁸ Greater consultation with stakeholders and their participation at the local level during the formulation and implementation of development assistance are crucial to enhancing ownership and sustaining the favorable impact of investments.

⁶ Operations Evaluation Office. *Country Synthesis of Evaluation Findings in Nepal*, October 1999.

⁷ The mobilization of community-based groups to implement rural water supply and sanitation schemes has generated favorable results, particularly in promoting ownership, enhancing the sustainability of project benefits, and improving women's status.

⁸ Loan 1165-NEP(SF): *Third Water Supply and Sanitation Sector*, for \$20 million, approved on 25 June 1992.

Loan 1311-NEP(SF): *Irrigation Management Transfer*, for \$12.9 million, approved on 13 September 1994.

Loan 1437-NEP(SF): *Second Irrigation Sector*, for \$25 million, approved on 16 May 1996.

Loan 1450-NEP(SF): *Rural Infrastructure Development*, for \$12.2 million, approved on 27 June 1996.

Loan 1464-NEP(SF): *Fourth Rural Water Supply and Sanitation*, for \$20 million, approved on 24 September 1996.

2. Issues in Project Implementation

33. Nepal's portfolio disbursement ratio during the period 1996 to 1998 improved considerably and exceeded Bank-wide ADF average in 1997 and 1998. The performance in these years was 14.4, 21.8 and 28.0 compared to Bank-wide ADF average of 18.9, 17.9, and 20.1 respectively. Performance in 1996 was less than Bank-wide average because of the approval of several new loans. As of 30 September 1999 implementation progress on 17 of the 19 ongoing loans was rated satisfactory in the respective Project Performance Reports. The remaining two loans were rated partially satisfactory.

34. The 1998 Country Portfolio Review Mission (CPRM) held in September 1998 noted good progress achieved by the Government in implementing the 1997 CPRM Action Plan. Portfolio performance in achieving loan effectiveness, establishing project offices, and submitting audited accounts has improved in recent years. However, the CPRM also noted a number of issues affecting portfolio implementation, including issues arising from political instability, such as frequent changes of senior Government personnel, delayed passage of legislation, delayed introduction of policy initiatives and lack of commitment to previous decisions. Other issues raised concerned the need for cancellation of loan savings (spring-cleaning), slow implementation of public works projects, and scarcity of ADF resources. General issues considered included (i) the frequent transfer of project managers and other key staff; (ii) slow decision making by the Government, and the need to delegate more authority to project staff; (iii) the need for improved project coordination and monitoring at the national and district level; (iv) inadequate staffing of projects; (v) inadequate counterpart fund allocation; (vi) the need for more frequent ADB review missions; and (vii) a lack of ownership of TAs. The Nepal Resident Mission (NRM) has been following up on the implementation of the Action Plan of the 1998 CPRM. Of a total of 22 actions, 14 were completed, and 7 are in process, with one not yet due. The 7 actions in progress are related to amendments to the Financial Rules and Regulations, which were delayed because of the 1999 elections. Otherwise, implementation of the Action Plan has been satisfactory.

35. ADB also financed a small-scale TA⁹ in 1998 to improve project implementation by identifying the causes and constraints hindering timely implementation of projects, and to formulate and implement solutions acceptable to the Government and ADB. Two workshops were held with senior Government officials to identify the problems and prepare an action plan to address key issues such as lack of project ownership, improvement of institutional capacity, delegation of authority, procurement of goods and services, improvement of consultant services, and coordination and monitoring. An ADB Mission visited Nepal in March 1999 to review progress in implementing the action plan. Of the 17 actions in the plan, all were being implemented. The Mission was satisfied with the progress in implementing the actions. The actions taken, and in process, need continued monitoring by NRM, to sustain the efforts to improve project implementation. The action plan agreed with the Government will form part of the 1999 Nepal CPRM action plan and will be regularly followed up by NRM.

36. Another important ADB initiative to improve project implementation is a proposed advisory TA for strengthening project implementation practices. The TA will develop a comprehensive guide and reference for project personnel to use when implementing projects, in the form of public works directives. The directives will be combined with training and the introduction of improved methods to strengthen overall capability. Modern project management methods will be introduced on computerized systems, as will be new concepts in contracting.

⁹ TA 2992-NEP: *Improvement of Project Implementation*, for \$65,000, approved on 6 March 1998.

37. Improvements in portfolio performance over the past few years are also a result of the close interaction between NRM and the Government on implementation issues. The monthly meetings held at NRM with project managers have been an effective means of pursuing outstanding issues with the Government, and monitoring progress in implementing the action plans of loan review missions.

II. Country Operational Strategy

38. The goal of the last Country Operational Strategy (COS) approved in 1993 was poverty reduction through broad-based economic growth activities, support to basic social services and environmental protection, and private sector development. It guided ADB investment in growth and equity-oriented projects and programs in agriculture, transport, energy, tourism, industry, and social services. While identifying priorities, the implementation of the strategy lacked (i) sector development plans (road maps) to provide a framework for ADB intervention, (ii) performance standards to verify the impact on development, and (iii) a realistic time frame for establishing and developing institutions to sustain development. Modest improvements have since been recorded in human development and per capita income. However, prospects for substantial further development have deteriorated with declining economic and export growth, a growing fiscal deficit, low investment efficiency, slowing private sector growth, and inadequate domestic resource mobilization. Institutional weaknesses have been compounded by high civil service staff turnover following frequent changes in government. All stakeholders consulted in preparing the new COS identified poor governance and corruption as major constraints.

39. The experience of the 1993 COS also showed that past ADB assistance has created assets, but sustainability and development impact have been limited. Poverty incidence remains high and social and human development indicators low. Progress has not been commensurate with past investment levels. The anticipated institutional strengthening and policy improvements were not fully realized. All these factors have adversely affected the delivery of development assistance. Achieving better results from ADB assistance will require tangible progress in good governance. Future levels of ADB assistance will be directly linked to progress in addressing this concern. The lessons learned from the 1993 COS are that (i) ADB will need to consult more widely with all stakeholders to develop partnerships; (ii) institutional strengthening should reflect broader and longer term sector development needs and consider alternative institutional arrangements; (iii) loan covenants related to policy, institutional, and financial issues are essential for effective project implementation and need to be enforced; (iv) an appropriate institutional and policy environment is required for the sustainability of ADB interventions; (v) good governance and elimination of corruption, are critical to the effective delivery of public services and need to be explicitly considered in designing all ADB interventions.

40. A new COS was adopted in 1999¹⁰ to guide ADB's operations during the next 3-5 years. The overarching objective of the new strategy is to achieve a sustainable reduction in poverty through (i) generation of productive employment opportunities and increased rural incomes resulting from faster and broad-based economic growth, (ii) equitable improvements in basic social services to enhance human development resulting in reduction of population growth, and (iii) protection and improvement of the environment to sustain gains. A major difficulty in achieving these objectives is the lack of efficiency, predictability, transparency, and

¹⁰ STS:NEP99006: *Country Operational Strategy Study, Nepal*, July 1999.

accountability in key development and market institutions. Thus, building effective institutions needed to implement socioeconomic development in a market economy is the strategic approach of the new COS.

41. There are five key elements of the new strategy that will be emphasized as means of achieving ADB's operational objectives, and building of effective institutions in Nepal. The first, improved governance, will require policy and institutional reforms particularly to strengthen key institutions in undertaking a changing role to promote private sector participation. The second element is support to implement the Government's initiative in decentralization including support for local administrations, such as village development committees and district development committees to plan and implement development activities and better serve local needs is also an important crosscutting element of the new strategy. The three other strategic elements include private sector development, gender equity, and subregional cooperation.

42. The new COS emphasizes that building capacity in order to maximize and sustain the development impact of investments must take precedence over levels of assistance. The importance of learning from past mistakes and successes by development partners is also highlighted. A clear demonstration of strong stakeholder support for proposed ADB interventions will be a prerequisite for future interventions, as will be the formulation of long-term institutional development strategies, with clearly identified road maps for sector development. Improved ADB monitoring and supervision will need to include a focus on progress in implementing these road maps as a criterion in annual country programming. ADB will take necessary measures to ensure satisfactory compliance with loan covenants during project implementation.

43. ADB support to particular sectors/subsectors will depend on progress toward strengthening the policy and institutional environment in these sectors. A clearly documented assessment of the policy and institutional environment will be required prior to consideration of new investment projects. Longer-term technical assistance will support the policy and institutional reforms needed to create such an environment. To effectively use ADB's limited concessional resources, a sharper focus on fewer sectors/subsectors will be necessary. Under the new strategy, ADB would focus on up to 10 sectors/subsectors instead of the previous 18. The sectors/subsectors include (i) agriculture, (ii) irrigation, (iii) roads, (iv) power, and (v) finance, (vi) basic education, (vii) health, (viii) water supply and sanitation, (ix) environmental improvement, and (x) watershed rehabilitation and management.

44. In implementing the new strategy, ADB will place much more emphasis on project design issues, economic and sector work, improved donor coordination and subregional cooperation. In line with ADB's policy, future lending to Nepal will be linked to progress in addressing the major country performance issues that will improve the environment for private and public investments to generate and sustain development impact. Five key areas including (i) human development, (ii) fiscal performance, (iii) civil service reform, (iv) governance, and (v) portfolio performance have been identified and performance standards established accordingly for further monitoring and evaluation of achievements. These key areas are essential to develop effective institutions to ensure sustained development impacts. Progress reports, which will be prepared jointly by ADB and the Government, will be part of the annual Nepal Country Assistance Plan.

III. Sector Strategies

A. Agriculture

1. Agriculture and Rural Development

45. Agriculture is the dominant sector in the country, accounting for about 40 percent of GDP and about 80 percent of total employment. The sustainable growth of the sector is a prerequisite for economic development and poverty reduction in the country. However, its growth has been disappointing because of (i) spreading the use of scarce financial resources too thinly over subsectors and the isolated regions of the country; (ii) the degraded soil nutrient status of farmland in the country; (iii) lack of an effective and properly maintained rural transportation network; and (iv) the ineffective public interventions, regulations, and administrative procedures which have largely stifled private initiatives. ADB will continue to monitor the progress of the Government's reform measures under the ongoing Second Agriculture Program Loan.¹¹ The progress of these reform measures, particularly the deregulation of the fertilizer trade, will substantially affect agricultural performance in Nepal.

46. Under the new COS, ADB's assistance will concentrate on priority subsectors in line with the policy directions of the APP,¹² and where growth potential and positive impact on the rural poor are likely to be high. Following the recently completed TA for Implementation and Monitoring of APP,¹³ ADB has included in the 1999 program a small-scale technical assistance to support further institutionalization and monitoring of APP's progress. ADB will formulate this TA in close consultation with other external funding agencies. A TA to conduct an in-depth review of the agriculture sector as a medium-term assessment of APP is included in the 2000 program. Based on this assessment, the TA will also form the basis of ADB's future sector strategy for agriculture and rural development in Nepal.

47. To promote effective dissemination of updated agricultural technology and marketing information, a Crop Diversification Project is proposed for 2000. The Project aims to increase rural incomes in the poverty-stricken mid-western and far-western regions by improving the productivity of major secondary crops. The Project will also contribute to poverty reduction and address gender issues in these regions. ADB assistance in the irrigation sector will aim to mobilize community groups to be directly involved in all aspects of the projects. Any additional assistance in the irrigation subsector will depend on demonstrated improvements in implementation capacity in ADB's ongoing assistance.

48. ADB's ongoing Rural Infrastructure Development Project¹⁴ supports the Government's pilot efforts to expand rural road networks and market infrastructure in three hill districts. The mid-term review of this Project is scheduled for April 2000. Based on the outcome of this review, ADB will provide a project preparatory technical assistance (PPTA) in 2000 to prepare a detailed investment proposal for a Rural Infrastructure Sector Development Project. It will be formulated in close consultation with other external funding agencies, including the World Bank and World Food Programme. A PPTA will also be provided in 2001 to prepare a Third Irrigation Sector Project. ADB will also support institutional strengthening of the Ministry of Local Development with an advisory TA in 2002.

¹¹ Loan 1604-NEP: *Second Agriculture Program Loan*, for \$50 million, approved on 22 January 1998.

¹² Approved by the Government in 1996.

¹³ TA 2618-NEP: *Implementation and Monitoring of the Agriculture Perspective Plan*, for \$850,000, approved on 25 July 1996.

¹⁴ Loan 1450-NEP: *Rural Infrastructure Development Project*, for \$12.2 million, approved on 27 June 1996.

49. The Microcredit for Women Project¹⁵ has been successful, and women's groups are in need of ADB's further assistance under the project, particularly for skills training. Skills' training for women beneficiaries is therefore included in the 2000 TA program to continue the project's interventions.

2. Forestry and Natural Resources

50. In the forestry and natural resources sector, ADB assistance will focus on activities to maintain environmental sustainability and social viability with the active involvement of local communities, nongovernment organizations (NGOs), and the private sector. ADB approved a TA in December 1998¹⁶ to assist the Government in preparing a Watershed Management and Rehabilitation Project. In addition, ADB will support the Government's efforts to ensure environmentally sustainable development through the provision of advisory technical assistance (ADTA) in 2002 for capacity building of the Ministry of Forest and Soil Conservation in its monitoring of the country's forest resources. It will contribute to the enhancement of sound watershed management in hill districts. A Watershed Management and Rehabilitation Project is also planned for 2002.

B. Infrastructure

1. Energy

51. The strategy in the energy sector is to support power transmission, distribution and rural electrification in support of the APP. A loan for Rural Electrification, Distribution and Transmission to be executed by the Nepal Electricity Authority (NEA) is included in 1999. However, although substantial assistance has been provided to NEA in the past, it still suffers from high technical and nontechnical losses and its financial situation is not sustainable. The commercialization of NEA is critical to improving the efficiency and financial sustainability of the sector. Priorities include reduction in high nontechnical losses; and implementation of NEA's commercialization strategy including strengthening of management capabilities, pursuing public-private partnership in generation and distribution, and ensuring increased autonomy for NEA. Compliance with the financial covenants of ADB loans is a prerequisite for sustainability, commercial viability, and future ADB assistance. Modalities will be sought for more effective and efficient delivery of electricity in rural areas through co-operatives or similar entities. ADB, through TA and project support, will continue to work with NEA to strengthen its capacity to deal effectively with environmental and social issues related to energy development projects.

52. Consistent with the new COS, ADB will work with the Government to formulate a well-defined institutional, policy, and legal framework for private sector participation in hydropower development, and in developing modalities for effective public/private partnership. An ADTA project is planned in 1999 to support institutional development in the power sector. Also, during 1999 the Rural Electrification, Distribution and Transmission Project will be processed. The project will focus on (i) institutional development of NEA, (ii) rural electrification, and (iii) the establishment of distribution district profit centers in NEA. A PPTA project is also planned in 2001 for Rural Renewable Energy to complement program initiatives in the environmental sector, and APP initiatives.

¹⁵ Loan 1237-NEP: *Microcredit for Women*, for \$5 million, approved on 24 June 1993.

¹⁶ TA 3121-NEP: *Watershed Rehabilitation and Management*, for \$600,000, approved on 15 December 1998.

2. Transport

53. Adequate provision for operation and maintenance of existing roads and facilities continues to be a key policy and institutional issue, and is the focus of ADB's strategy in the sector. The strategy in the road sector also seeks to promote private sector investments in major roads, where feasible. ADB interventions will also be planned in the context of efforts to develop subregional cooperation, especially in developing the road network to enhance linkages to trade and market opportunities.

54. Road transport along the east-west highway in the country provides the only connection between the eastern and western parts of the country and to the international trade route through India via Calcutta. The recently completed PPTA for the Fourth Road Improvement Project¹⁷ (loan for 2001) includes segments for rehabilitation of the vital east-west highway. Moreover improvement of the east-west highway will facilitate transport and trade across the border with Nepal's most important trading partner, India. A PPTA on subregional road connection proposed for 2002 will prepare a project improving road trade and transport links to the rest of the world. These projects and ADB's involvement in the road subsector will be subject to the performance of the ongoing road project, on the capacity of the Department of Roads and the reactivation of the previous delegation of authority to the Director General, Department of Roads, for contract variation approvals. ADB will generally only support road improvement; any proposed new road construction will have to be justified, including the introduction of cost recovery measures.

3. Industry and Finance

55. The strategy in the finance sector is based on the realization that improvements in financial intermediation and a deepening of the financial sector are urgently needed to enhance resource mobilization and to facilitate private sector development. One important reason why some developing countries such as Nepal experience very low rates of growth is that their financial systems are underdeveloped. Where the legal and regulatory system is weak, borrower information is incomplete and expensive to come by, it is hard for lenders to effectively raise financial resources and channel them to borrowers with the most productive investment opportunities. Moreover, scarce and costly information in combination with high transaction costs entices prudent lenders to restrict provision of financial services to low risk clients, mostly in urban areas. Further, the absence of the profit motive in Government directed and protected credit programs does not encourage lenders to fund projects that will produce high growth for the economy. ADB's intervention in the financial sector will focus on promoting an effective financial system in support of economic growth, on broadening access to financial services both in urban and rural areas, and on supporting private sector development. The task involves substantial economic and sector work.

56. Insufficient domestic resource mobilization and restricted access to financial services is a significant factor obstructing industrial development and the establishment of new business. The industrial base in Nepal remains weak. The manufacturing sector is small, accounting for less than 10 percent of GDP. ADB is preparing a corporate governance intervention scheduled for 2001 to facilitate the creation of an enabling environment for private sector participation in the economy.

¹⁷ TA 2969-NEP: *Fourth Road Improvement*, for \$775,000, approved on 24 December 1997.

57. As part of the task of improving corporate and financial governance, two small scale TAs were approved at the end of last year.¹⁸ They are now under implementation and will prepare the policy reform agenda, investment plan and technical assistance needs for the Corporate and Financial Governance Sector Development Program. An ADTA included in the 1999 TA program is to assist the Government in the implementation of the policy reform agenda of the Sector Development Program. In 2001, the Sector Development Program will include a piggybacked ADTA for Institutional Support for Corporate and Financial Governance. The processing of this Sector Development Program is to be closely coordinated with the International Monetary Fund (IMF) and World Bank programs with Nepal Rastra Bank (the Central Bank) and with the government-owned commercial banks.

C. Social Infrastructure and Environment

1. Education

58. ADB assistance to the education sector will be consistent with the Government's priorities by focusing on basic and primary education, including lower secondary education. While access to primary education (grades 1 to 5) has improved dramatically, the efficiency of primary education is low with high repetition and dropout rates. There are considerable disparities in access by gender, and by geographic location. The quality of education needs to be improved through teacher training, curriculum development, and better school management, maintenance and supervision. To complement the efforts of a consortium of donors financing the Second Basic and Primary Education Project, ADB will concentrate on improvements in teacher training for basic education. The project preparatory TA is included in the 1999 program. A loan is programmed for 2001. In secondary education, ADB's primary focus will be on technical assistance to lower-secondary education (grades 6 to 8). Investments are needed to improve quality, expand and upgrade physical facilities and to develop teacher training. A PPTA for a Secondary Education II Project is planned in 2001.

59. Given the high primary school dropout and high adult illiteracy rates (especially amongst women), the expansion of nonformal education is essential. Nonformal education is effective in providing other life-related knowledge and basic skills. The Government has taken initial steps to facilitate and coordinate nonformal education by forming a National Council for nonformal education, and establishing district nonformal education committees under each District Development Committee. However, there is still a need to improve the quality of public and private partnership. If there are improvements in meeting the sector criteria for ADB involvement as enunciated in the COS, ADB assistance for nonformal education could include (i) developing a long-term policy and strategy framework for nonformal education; (ii) institutional building to strengthen national, regional, and district coordination and implementation; (iii) quality control; and (iv) aid agency coordination to mobilize financing.

¹⁸ TA 3135-NEP: *Financial Sector Regulation and Governance*, for \$150,000, approved on 22 December 1998; and TA 3136-NEP: *Improvement of Disclosures and Corporate Governance*, for \$150,000, approved on 22 December 1998.

2. Health

60. Since weak institutional capacity and governance are the major bottlenecks in the health sector, ADB's strategy will concentrate on addressing structural and management issues. Under its Second Long Term Health Plan (1997-2017) concluded in April 1997, the Ministry of Health has developed an appropriate policy framework to address structural and institutional constraints. However, more work needs to be done to improve public health sector performance, allocation efficiency, management, and quality of care, and to increase coverage of the most cost-effective interventions. ADB's proposed ADTA in 2002 will coordinate closely with all donor efforts and will be limited to (i) defining roles and responsibilities of Government (central and local levels), private sector and NGOs in the sector; (ii) developing district and village level health services with increased autonomy and authority; (iii) enhancing management of district hospitals, primary health care centers and sub-centers, and personnel, and logistics; (iv) delineating responsibilities for curative and preventive/promotive services; and (v) promoting public-private mix in health sector financing.

3. Urban Development

61. There is an urgent need to address urban environment issues. Protection of the environment is particularly critical to sustainable economic development in Nepal. All major economic sectors and potential areas of economic growth, including agriculture, hydropower and particularly tourism depend directly on sustainable management of natural resources. Poor waste management and lack of air pollution controls in urban and tourist areas are adversely affecting people's health and the potential for tourism development. It will be critically important to involve more directly community groups and the private sector in resolving these issues. Future assistance will depend on progress in institutional development of the Kathmandu Metropolitan City to establish effective and sustainable delivery mechanisms for urban services. ADB will consider involvement in solid waste management and sanitation in collaboration with local communities and the private sector, air and water pollution monitoring in cooperation with NGOs, and introduction of policy measures and economic instruments for better environmental management in urban development with specific reference to sustainable tourism development. An Urban Environment Improvement Project will be prepared under a 1999 PPTA, with a loan planned for 2002. The loan will be supported with an advisory TA to strengthen the capacity for urban environment improvement.

4. Water Supply and Sanitation

62. Progress in human development is a prerequisite for more efficient and sustainable investment in broader based development. Access to safe water supplies and sanitation has demonstrated an immediate and substantial impact on women and children in terms of time saved in fetching water and looking after sick family members suffering from water-borne diseases. This allows women more time to participate in development and income generating activities, and improves the prospects for children to remain in school. ADB will continue to support community initiatives in small towns to develop water supply facilities to be maintained by local communities or private enterprises. A PPTA in 2000 will be provided to prepare the Fifth Rural Water Supply and Sanitation Sector Project, intended to develop community based water supply projects in rural areas. Public sector financing will be extended under the proposed Small Towns Water Supply Project, proposed for 2000. Progress in implementing reforms is crucial to sustaining future sector investments. In this regard, award of a private sector management contract for urban water supply and sewerage services in Kathmandu Valley, under World Bank assistance in 2000 will be an important milestone for further processing of ADB assistance for

the Melamchi Water Supply Project in 2000. Likewise, the licensing and control of groundwater use in Kathmandu Valley is a further prerequisite for processing this project. If improvements in water distribution are achieved under the private sector management contract, further assistance for Melamchi Water Supply Distribution may be provided through a loan in 2002.

5. Environment

63. ADB will provide a more focused approach to assisting the Government in strengthening environmental protection by emphasizing urban and peri-urban environmental issues. There are several projects with major environmental objectives including the Melamchi Water Supply (investment project), Ecotourism project planned for 2001 (PPTA in 2000), Rural Infrastructure Sector Development, Melamchi Water Supply Distribution, and Urban Environment Improvement projects. Opportunities will be explored to introduce environmental components into the design of ADTAs e.g., Agriculture Sector Review, Institution Building for Crop Diversification, Institutional Strengthening of the Department of Roads, and Support for the Preparation of the Tenth Five-Year Plan, as well as PPTAs and projects including Crop Diversification, Corporate and Financial Governance, Fourth Road Improvement Project, Third Irrigation, and Rural Renewable Energy.

64. Building on the achievements of an advisory TA to strengthen the Ministry of Population and Environment (MOPE),¹⁹ follow-up assistance will be provided through a TA cluster starting in 2000.²⁰ The TA cluster will comprise three interrelated TAs (including a TA expected to be cofinanced) that will assist the Government to implement strategic environmental programs prepared under the advisory TA. These include (i) implementation of the strategic environmental framework of MOPE, which involves among other activities, further capacity building for environmental regulation, policy formulation, and monitoring; (ii) strengthening of environmental legislation, stakeholder participation programs, and environment awareness programs; and (iii) implementation of an integrated environmental management program that will strengthen traditional command-and-control regulation of pollution in Kathmandu Metropolitan City to improve environmental management capabilities. The TA cluster is expected to provide, among other benefits, a firm institutional base required to implement the proposed Urban Environment Improvement Project.

D. Governance Dimensions of ADB Operations

65. As mentioned in paras. 38 to 44, a major difficulty in achieving the new country strategy for Nepal is the lack of efficiency, predictability, transparency, and accountability in key governmental and market institutions. Capacity building for improved governance will be a critical success factor for achieving the COS's overarching goal of a sustainable reduction in poverty. Achieving the required level of capacity building will take precedence over levels of assistance. Progress toward formulating and carrying out institutional strategies will be a prerequisite for further ADB lending.

66. ADB will support initiatives to implement decentralization through policy and institutional measures to strengthen local administrations including village development committees and district development committees, which will plan and implement development activities to

¹⁹ TA 2847-NEP: *Institutional Strengthening of the Ministry of Population and Environment*, for 600,000, approved on 22 August 1997.

²⁰ The total cost of the TA cluster is estimated at \$3,000,000. It is expected that ADB will finance \$1,000,000 of the cost, and the remainder will be co-financed.

ensure ownership and better serve local needs. Working with other stakeholders, ADB will support Government efforts to implement the institutional development strategies endorsed by the 1992 Administrative Reform Commission and the Ninth Plan. An ADTA has started in 1999 for the formulation of an action plan for civil service reform,²¹ a key priority of the Government. Issues to be addressed include reduction in the number of ministries (and nonessential staff), improved remuneration, effective human resource planning, performance planning, reduced staff turnover, and better enforcement of financial and other regulations, including those on corruption. The loan, under which the action plan will be implemented, will be processed in 2000.

67. While civil service reform will be an important element in ADB efforts to improve governance, future ADB assistance will also be linked to tangible progress toward achieving greater transparency and accountability in national procurement, bidding procedures, and customs administration to ensure compliance with ADB guidelines and policies on anticorruption.²² Improvements are needed in enforcing contracts and property rights. Allowing international accounting and auditing firms to practice in Nepal will help improve corporate governance and promote an environment more conducive to private sector participation.

68. ADB through an ADTA, proposed for 2001, will also support improvements in tax administration, and corporate and financial governance, including regulatory and institutional reforms aimed at encouraging increased competition and higher standards in accountancy, audit, and legal services. Training and advisory services will be provided to improve (i) enforcement in key regulatory agencies; (ii) record keeping; and (iii) interdepartmental coordination so as to increase investment efficiency, reduce investor risk, and better protect individual rights. A loan for Corporate and Financial Governance is expected to be processed in 2001.

69. Political interference in the civil service, reflected in the unusually high rates of professional staff turnover, is a particular concern as it affects staff morale and further weakens the institutional capabilities of the civil service, thereby directly reducing the effectiveness of ADB assistance. Progress in addressing this issue will be closely monitored during the period of COS implementation. ADB support will also depend on tangible progress in the timely publication of performance and expenditure reports by government agencies and state enterprises, and in achieving greater transparency and competition in national procurement and bidding procedures based on ADB's guidelines and policies on anticorruption.

70. ADB is also currently preparing a Nepal Governance Strategy Study. The Study will look at governance challenges, issues, and prospects in Nepal, particularly in the areas of civil service reform, decentralization, accountability, institutions dealing with corruption, service delivery of line agencies, and privatization and state enterprise reform. The study will establish the priorities for future ADB programming, and would be reflected in future CAP documents.

71. The Governance Strategy will take into account the support that other donors are providing for complementary and vital governance improvements. For example, UNDP's Participatory District Development Program, launched in November 1995, is helping 40 District Development Committees to establish information centers that will maintain data on sectoral issues, settlements, and land issues. The data will also be used to help the District Development Committees to improve coordination among elected bodies, sectoral agencies and

²¹ TA 3117-NEP: *Formulating an Action Plan for Civil Service Reform*, for \$630,000, approved on 14 December 1998.

²² Asian Development Bank. 1998. *Anti-Corruption Policy*. Manila: ADB.

communities; and to help select programs for funding. In addition, UNDP is designing a judicial strengthening program to help improve judges' technical skills, reduce the backlog of cases, and improve record-keeping and coordination of law enforcement agencies.

E. Gender Dimensions of ADB Operations

72. In line with the emphasis of the Ninth Plan on elimination of gender inequality, the COS has adopted a holistic approach to address systematically key constraints at the policy, institution, sector, and project levels. The gender strategy for Nepal includes (i) assistance to policy support, capacity building, and awareness raising, and (ii) gender analysis of proposed projects.

73. ADB assistance will emphasize women's empowerment in the development process, consistent with ADB's policy on gender and development.²³ ADB has appointed a gender and development specialist at NRM to further enhance these efforts in the field. Future interventions will aim at addressing the multiple constraints women face, particularly limited access to and control over productive resources, low educational attainment, and low representation in the decision-making process. Interventions will be planned and formulated to enhance economic opportunities and status of women, for example in rural microfinance, nonformal education, and water supply and sanitation projects.

74. Mainstreaming of gender issues and gender sensitization will be promoted at all levels. Moreover, empowerment at the stakeholder level will be the focus of the new strategy. Women can be empowered when economic opportunities are preceded by social mobilization/preparation, often with literacy programs. Positive group dynamics have been noted in a number of water supply projects where drinking water groups were formed. These projects have the added advantage of lessening women's work burden and helping to reduce morbidity and mortality.

F. Private Sector Operations

75. Under the new COS, ADB's strategy for private sector development will involve a twofold approach consisting of (i) the promotion of an enabling environment for private sector activities through the public sector window, and (ii) direct investment in private sector companies using a variety of forms such as loans, equity, cofinancing and guarantees through the private sector window.

76. There is an urgent need to develop an enabling environment for the private sector, which is still lacking in Nepal. ADB's primary target for the next three years will therefore be to support the Government's efforts to establish transparent policies and basic mechanisms for corporate and financial governance, which are essential for sustained private sector development.

77. In addition, ADB will continue to assess specific investment opportunities in such projects that meet key investment criteria such as commercial viability, catalytic effect and development impact. In particular, those investments that not only meet these criteria but also supplement and contribute to the promotion of such enabling policy initiatives will be accorded priority in view of the promotion of public-private partnership.

²³ Asian Development Bank. 1998. *Policy on Gender and Development*. Manila.

78. These specific investments will be provided to (i) financial sector projects; (ii) social and industrial infrastructure projects; and (iii) in a limited number of cases, industry, tourism and other sectors. Although ADB receives various queries from private sector sponsors, there are no firm projects in the current pipeline that satisfy the above investment criteria. However, future opportunities will be positively and carefully explored.

IV. Regional Cooperation

79. ADB will build on bilateral partnerships to further enhance growth potential through regional cooperation between Bangladesh, Bhutan, India, and Nepal. The preference is to initially proceed with the approach based on project level initiatives involving bilateral and trilateral linkages. ADB aims to address constraints identified under past regional cooperation initiatives and to continue consultations with governments and other stakeholders on the modalities for pursuing economic cooperation under the South Asia Growth Quadrangle initiative. ADB will continue to involve Nepal in regional technical assistance activities to disseminate information about regional best practices, particularly in relation to governance, institutional development, poverty reduction, financing and provision of social services, and private sector development. Potential areas of cooperation include multi-modal transport and communication, energy (particularly hydropower development), trade and investment facilitation and promotion, natural resource utilization and environmental management, and tourism.

80. The establishment of a better road network in the region will improve the access to markets and trade opportunities including ADB's recent assistance in providing support for the upgrading of the north-south transport corridor in West Bengal through a PPTA for West Bengal North-South Corridor.²⁴ It would have strong subregional linkages and benefits. It would improve Nepal road connections to the Indian road system in West Bengal and with the north-south corridor from Kakarbita in Nepal and Siliguri on the border in India, to the port of Haldia that will be developed in India. The proposed Fourth Road Improvement Project will also include segments for rehabilitation and improvement of the east-west Highway in Nepal, which will facilitate transportation to the border with India. A PPTA is also included in the 2002 program to look into the possibility of a Subregional Roads Connection.

81. Further support is being envisaged through a TA for an inland waterway in West Bengal (in 2000). ADB is also planning a regional technical assistance in 2000 to examine the potential of nontradable and service sectors for broadening the subregional initiatives among South Asian countries. Development of the Mahakali Basin will also be a potential area of cooperation between the Governments of India and Nepal in water resources management. ADB is working closely with the Chambers of Commerce and Industries of the four countries to strengthen their advocacy role in subregional cooperation and to promote closer cooperation among the private sectors groups in these countries. Further assistance will be planned to develop the policy and institutional framework needed to realize potential benefits from regional cooperation with project-level initiatives involving bilateral or trilateral linkages.

²⁴ TA 3142-IND: *North-South Corridor Development in West Bengal*, for \$1 million, approved on 23 December 1998.

V. Donor Activities and Aid Coordination

82. Nepal continues to rely heavily upon external financing. Foreign assistance financed 60 percent of the development expenditures in FY1998, and grants and foreign loans have remained at around 6 percent of GDP since FY1992. Domestic resource mobilization continues to be a critical issue for which tax reforms and improvements in tax administration are required.

83. Among multilateral institutions, ADB and the World Bank are the major donors in Nepal (see Appendix 3 for details). Among bilateral donors, Japan continues to be the largest. In recent years, these three institutions have accounted for almost 60 percent of total external assistance. United Nations agencies [UNDP, World Food Program, and United Nations Children's Fund (UNICEF)] are also active in Nepal. World Bank assistance is directed to natural resources, energy, industry, trade, and transport. The new World Bank strategy in Nepal has introduced performance based lending. The strategy is similar to ADB's strategy: poverty reduction by promoting broad-based economic growth that will include investments in agriculture, small-scale enterprises, and physical and social infrastructure. Japan's assistance is primarily for humanitarian assistance and health. The other major bilateral donors are Denmark, Germany, the United Kingdom, the US, and Switzerland. These donors provide assistance across a number of sectors, making donor coordination essential.

84. ADB closely coordinates its activities with other donor agencies to develop a common understanding in all sectors in which it operates. The APP provides a positive model in the formulation of a long-term perspective plan for the agriculture sector that involves all major stakeholders, including the donor community. Similar approaches are emerging in other key sectors including education, health and power. ADB will continue to use a shared approach to improve the effectiveness of external assistance and its contribution to economic and social development. In addition to regular bimonthly meetings of the Nepal Donors Group in Kathmandu, 12 thematic/sector subgroups have been established. These also meet regularly, generally bimonthly or quarterly. ADB is an active participant in 11 of these groups and chairs 2 of the subgroups, namely, (i) agriculture, rural development and rural water supply; and (ii) energy and power. The Government is also represented in a number of the subgroups. During Country Programming Missions and project preparation missions, donor meetings are held to share information on ADB's operations in the country and this is increasing also the case with other major donors. Where practical, meetings of the thematic/sector subgroups are scheduled to coincide with the visits of important missions. The next Nepal Donor Forum, last held in 1996, is scheduled for March 2000 in Paris.

85. Increasingly the aid community is collectively calling the Government's attention to issues of good governance and institutional reforms as immediate and crucial priorities to ensure better development performance, and use of external funds. To maximize the impact of external resources, further collaboration and cooperation in economic and sector work, policy formulation, institutional analysis, and improvement are necessary. Improved collaboration will be particularly important in power development, water resource management, and the delivery of education and health services. In the FY2000 budget, the Government announced its intention to prepare a Foreign Aid Policy with the aim of improving the effectiveness of aid and strengthening its role in aid coordination. This move has been strongly supported by the donor community. The policy is expected to be finalized and presented to the Nepal Donor Forum in March 2000.

VI. Cofinancing and Catalyzing External Resources

86. ADB actively seeks opportunities for cofinancing/parallel financing to provide comprehensive development assistance with high quality. In the last three years, a total of about \$248 million cofinancing was obtained for five projects from the Export Credit Agency, the International Finance Corporation, the Nordic Development Fund (NDF), the Norwegian Agency for International Cooperation (NORAD), the Overseas Economic Cooperation Fund (OECF), the Australian Agency for International Development, OPEC Fund for International Development (OPEC Fund), and the Canadian Agency for International Development. During the program period, cofinancing possibilities amount to about \$200 million from bilateral and multilateral sources for the Melamchi Water Supply Project. The leverage ratio of cofinancing achieved during the last three years (1997 to 1999) is expected to be 0.13:1, and the expected leverage ratio during the program period is 0.86:1. (It is projected that around \$200 million cofinancing will be provided for the Melamchi Water Supply Project alone, with ADB financing of only \$50 million).

87. The proposed Rural Electrification, Distribution and Transmission Project (1999) has attracted strong interest from the OPEC Fund. ADB is coordinating cofinancing commitments for the Melamchi Water Supply Project from NDF, NORAD, OECF, OPEC Fund, and the World Bank. The Small Towns Water Supply and Sanitation Project is a candidate for OPEC Fund cofinancing, and the Finnish Aid Agency and Gesellschaft für Technische Zusammenarbeit also have expressed interest in the Project. The OPEC Fund may also be interested in cofinancing the Fourth Road Improvement Project. Parallel financing by the United Kingdom's Department for International Development (DFID) is also a possibility. DFID is also considering collaborating with ADB in the APP and its implementation and monitoring, civil service reforms, and in other areas such as the Secondary Education II Project and possible cooperation in capacity building in the Department of Roads. The World Food Programme also indicated its interest to work closely in the Rural Infrastructure Sector Development Project. Opportunities for private sector financing through cofinancing in ADB projects as well as direct investment and equity participation will continue to be actively pursued.

88. In keeping with the principle of "shared approach" in development, ADB's Country Programming Missions conduct regular donor coordination meetings with other external assistance agencies in Nepal and share ADB's operational experience. In 1999 the Country Programming Mission also conducted a donor coordination meeting with the assistance of NRM, to share experiences and discuss and coordinate future programs.

VII. ADB's Operational Program

89. ADB's annual lending for public sector projects to Nepal has fluctuated considerably, because of the relatively small program and the lumpiness of some of the projects (power sector projects in particular). Average annual lending from 1994 to 1998 was \$87.6 million, just above the average indicative planning figure (IPF) of \$80 to \$85 million during the period. In 1999 the IPF was reduced to \$78 million because of the scarcity of ADF funds.

90. The proposed lending program has been prepared taking into consideration the new COS. In 1998, four loans, namely, Second Agricultural Program Loan, Community Groundwater Irrigation Sector, Rural Microfinance, and an engineering loan for Melamchi Water Supply, with the total amount of \$105 million, were approved. For 1999, ADB lending program will comprise one firm project for \$50 million, for Rural Electrification, Distribution and Transmission. Delays in

the implementation of the Melamchi Water Supply (Engineering) loan have caused the Melamchi Water Supply loan to slip to 2000. Similarly, the Corporate and Financial Governance Sector Development Program has a number of policy measures and issues for which the Government still needs to give its firm commitment prior to loan processing.

91. The proposed program for 2000-2002 is formulated on the basis of the 1998 Country Assistance Plan, the 1998 CPRM, and the 1999 Country Programming Mission, and is consistent with the strategic thrust of the new COS. The major focus is on the agriculture sector, and sectors that support agricultural growth and rural development have been given high priority including support to physical and social infrastructure, governance, and environment. ADB interventions will be most effective using the COS criteria for involvement consisting of stakeholder involvement, sectoral road maps, civil service reform, progress in improving governance (including anti-corruption measures), and progress in strengthening the policy and institutional environment in the sectors of involvement.

92. In line with ADB's policy on ADF allocation, the new COS proposes that future lending to Nepal be linked to progress in addressing the major country performance issues that will improve the environment for both private and public investments. This is to ensure that future levels of ADB investments will be commensurate with the necessary development of the policy and institutional environment of the country to generate and sustain the desired development impact. Five key areas have been identified and performance standards will be used for further monitoring and evaluation of achievements (see para. 44). The progress and achievement in these areas will guide the annual IPF.

93. Average performance in these key areas would be consistent with an IPF in the range of \$70-80 million at the current level of ADF availability (excluding overprogramming). Poor performance would result in a lower IPF or even no lending in a year. Good performance would indicate achievement of a policy and institutional environment conducive to the generation and sustainability of the desired development impact from higher ADB investment. The proposed lending program in Appendix 4 is for an average of about \$120 million annually (including overprogramming) based on the good-performance lending scenario. The pipeline is based on the good-performance scenario for two reasons: (i) it is premature to imply the country's expected performance at this stage when consultation with the Government on the specific performance indicators is ongoing and (ii) using the higher figure for planning purposes ensures the availability of a strong pipeline of potential substitute projects in the event a sector cannot meet the criteria for intervention. However, actual lending levels will depend on Nepal's achievements in the key performance areas and also in meeting the criteria for intervention and sector involvement. The TA program is envisaged to be about \$5 million annually.

94. The proposed lending program for 2000-2002 comprises 11 loans for \$350 million (the project profiles for the year 2000 are in Appendix 6). The projects have been designed to improve economic growth, reduce poverty, increase human development, improve environmental management, and address key governance issues in the public and private sector. The sectoral focus of the program is consistent with the objectives of ADB's operations in Nepal and assists in meeting the Government's development priorities and commitment to sector reform, ADB's role as a long-term development partner, and the assistance provided by other donor governments and agencies. The program has a narrower sectoral focus than in the past, linkages between projects to achieve overarching goals such as those of the APP, and higher priority for sectors where ADB is in a position to contribute to institutional and policy reforms.

Table 2: Lending and Technical Assistance Program, 1998-2002

A. Public Sector Lending Program (number of loans; amount in \$million)										
	1998 (Actual)		1999		2000		2001		2002	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Lending Program ^a	4	105	1	50	4	115	4	125	3	110
ADF	4	105	1	50	4	115	4	125	3	110
OCR	-	-	-	-	-	-	-	-	-	-
Lending Pipeline ^b			1	50	4	115	4	125	3	110
ADF			1	50	4	115	4	125	3	110
OCR	-	-	-	-	-	-	-	-	-	-

B. Technical Assistance Program (number of TAs; amount in \$'000)										
	1998 (Actual)		1999		2000		2001		2002	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Technical Assistance Program ^a	9	4,395	10	5,100	9	5,500	8	5,150	7	5,000
Technical Assistance Pipeline ^b			10	5,100	9	5,500	8	5,150	7	5,000

^a The Program is comprised of the firm projects. The IPF under the good-performance scenario is used for the 2001-2002 programs.

^b The Pipeline consists of the Program (firm projects) and standby projects.

95. The sectoral allocation of the 2000-2002 program by loan amount is social infrastructure 56 percent, transport 17 percent, agriculture 13 percent, industry and finance 8 percent, and multisectoral 6 percent. Regarding project classification by loan amount, about 12 percent of the loan program has economic growth as the primary strategic development objective, while human development and poverty account for 14 percent, and loans with economic growth and cross-cutting concerns account for 74 percent (Appendix 5).

96. The overarching focus of ADB's TA program is on institutional strengthening and capacity building needed to develop more effective sectoral institutions, the strategic approach of the new COS. Timely preparation of high quality projects is also programmed. The TA program for 2000-2002 currently includes 24 TAs (8 PPTAs and 16 ADTAs) totaling about \$15.7 million. Details of the Loan and TA program are provided in Appendix 4.

VIII. Economic and Sector Work Program

97. The economic and sector work (ESW) program forms the basis for ADB'S support of policy reform, capacity building, and institutional strengthening in Nepal. Three studies—an assessment of the progress of the Agriculture Perspective Plan, institutional development in the power sector, and an urban sector study—will provide guidelines for future ADB interventions in the agriculture, energy, and urban development sectors. Moreover, ADTAs will help develop the institutional capabilities in these two important sectors. ADB ADTA assistance will also support institutional and policy analysis at the sector level in literacy and skills training, and water supply and sanitation. These efforts will require working more closely with all stakeholders, not just the executing agency, to build support for study findings, recommendations, and implementation. Governance in the public and private sectors is also a key area for the ESW program. A governance strategy will be prepared, an action plan for civil service reform will be developed, and an ADTA on corporate and financial governance will

assist the Government in meeting conditions for a program loan in this sector. A study on the impact of previous economic reforms and a private sector strategy will help in the design of ADB projects that aim to support policy reforms and private sector development.

98. Sector strategies with clearly identified institutional and policy reform agendas, will be prepared in consultation with all stakeholders and implemented in a well-coordinated manner to ensure higher returns from future ADB investments. The APP provides the basis for the sectoral “road maps” in agriculture as the power sector master plan and urban sector study do in the energy and urban development sectors. Ongoing TAs in corporate and financial governance will help develop road maps for the private sector. Recommendations relating to preconditions for effective ADB assistance – and other important, but less urgent, policy and institutional reforms – will be reflected in program/project planning and design.

99. ADB will work and cooperate closely with interested donors in undertaking sector work to assist in developing consistent approaches to key policy issues particularly in promoting private sector development in power sector and human development including health and education services. ADB is prepared to make staff available to participate in, and contribute to, sector policy and planning initiatives led by other donors. Institutional strengthening and internal capacity building is to be pursued throughout the period.

100. ESW also provides a detailed assessment of the country’s macroeconomic performance. The Country Economic Review was revised and circulated in January 1999. The report will be updated on an annual basis. ADB will also continue to participate in the IMF’s consultation with the Government.²⁵ Economic updates will be prepared on a needs basis. These reports will support ADB’s discussions with the Government on the implementation of the performance-based lending features of the COS. An ongoing study of the evolving Asian financial crisis details the potential impact on Nepal and formulates alternative policy responses.

IX. Local Cost Financing

101. Shortage of counterpart funds is not a serious problem in Nepal as it was in earlier years of ADB operations. In FY1999 only one project received insufficient budgetary allocation. However, the Government has assured ADB that adequate funding would be provided, and the funds were provided. The low level of domestic savings continues to be a significant constraint on development efforts. The Government still does not allocate adequate funds for operation and maintenance expenditures and this issue is being addressed by ADB Country Portfolio Review Missions and policy dialogue for new projects. ADB’s program in Nepal includes a large proportion of agriculture and social infrastructure projects that have small foreign exchange components, so a high percentage of local cost financing is warranted, particularly for projects that address poverty, human development, gender, and environmental concerns. However, the 1999 Country Programming Mission informed the Government that the scarcity of ADF resources means that the Government’s contribution to total project costs will have to be more than 20 percent, as an indication of strong commitment and ownership, with or without other cofinancing.

²⁵ The IMF conducts annual consultation missions with the Government as stipulated in article IV of the IMF’s Articles of Agreement.

NEPAL
COUNTRY PERFORMANCE INDICATORS

Item	FY1994	FY1995	FY1996	FY1997	FY1998	FY1999
ECONOMIC INDICATORS						
I. Income and Growth						
1. GDP per Capita (US dollars, current)	207	219	220	234	222	224
2. GDP Growth (% in constant prices)	7.7	2.7	5.6	4.9	2.6	3.3
Agriculture	7.6	(0.3)	4.4	4.1	1.0	2.4
Industry	9.0	4.0	8.3	6.4	0.2	4.4
Services	7.7	6.0	5.8	4.6	5.8	3.9
(percent of GDP)						
II. Savings and Investment (current market prices)						
1. Gross Domestic Investment	22.4	25.2	27.3	25.3	20.7	17.3
2. Gross National Saving	16.9	17.4	15.6	16.0	11.9	12.9
(annual percent change)						
III. Money and Inflation						
1. Consumer Prices	9.0	7.6	8.1	7.8	4.0	12.7
2. Money Supply (M2)	19.6	16.1	14.4	11.9	21.9	18.5
(percent of GDP)						
IV. Government Finance						
1. Total Receipts	10.7	12.5	12.7	12.7	12.5	12.2
2. Expenditure	16.6	17.3	18.3	17.8	18.5	18.3
3. Overall Surplus/Deficit (-) including grants	(5.8)	(4.8)	(5.6)	(5.1)	(6.0)	(6.1)
V. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	(16.2)	(21.0)	(22.0)	(25.3)	(20.8)	-
2. Current Account Balance (% of GDP)	(5.8)	(8.2)	(12.1)	(9.7)	(9.2)	-
3. Export (\$) growth (annual percent change)	3.5	(9.7)	1.9	10.2	11.9	-
Exports (\$ million)	392	354	361	397	445	-
4. Import (\$) growth (annual percent change)	21.8	21.7	5.8	21.7	(12.4)	-
Imports (\$ million)	1,048	1,276	1,350	1,643	1,440	-
VI. External Payments Indicators						
1. International Reserves (\$) (end of period)	718	702	609	647	712	-
- months of imports of goods and services	6.7	5.5	4.5	4.2	5.2	-
2. External Debt Service (% of exports of goods & services)	5.2	5.6	6.0	4.5	6.1	-
3. External Debt (% of GDP)	51.2	51.6	51.4	47.1	54.4	-
Memorandum Items:						
GDP (current prices, NRs. billion)	199	219	249	281	297	335
GNP (current prices, NRs. billion)	203	224	252	285	303	341
Exchange Rate (NRs per US\$, annual average)	49.3	50.0	55.2	57.0	61.9	67.9

Source: Central Bureau of Statistics, *National Accounts of Nepal, 1999*; Ministry of Finance, *Economic Survey 1998-99*.

NEPAL
COUNTRY PERFORMANCE INDICATORS

	1985	1990	Latest Year
POPULATION INDICATORS			
Total Population (millions)	16.2	17.9	22.0 (1999)
Annual Population Growth Rate (% change)	2.1	2.1	2.4 (1999)
SOCIAL INDICATORS			
Total Fertility Rate (births per woman)	6.3	5.6	5.0 (1996)
Maternal Mortality Rate (per hundred thousand live births)	-	-	539 (1996)
Infant Mortality Rate (below 1 year; per '000 live births)	152	107	75 (1997)
Life Expectancy at Birth (years)	45	54	57 (1997)
Female	45	53	57 (1997)
Male	48 (1981)	55	58 (1997)
Adult Literacy (%)	24 (1981)	40 (1991)	48 (1997)
Primary School Enrollment (% of school age population)	75	103	110 (1995)
Female	47	77	72 (1995-96)
Secondary School Enrollment (% of school age population)	25	31	37 (1995)
Female	12	18	31 (1995-96)
Child Malnutrition (% of under age 5)	-	70 (1989-95)	47 (1990-97)
Population Below Poverty Line (%)	-	-	45 (1995-96)
Income Ratio of Highest 20% to Lowest 20%	4.3 (1984-85)	-	5.9 (1996)
Population with Access to Safe Water (%)	28 (1980-85)	-	71 (1990-97)
Population with Access to Sanitation (%)	-	-	20 (1995)
Public Education Expenditure as % of GNP	2.6	2.0	2.6 (1997)
Public Health Expenditure as % of GDP	0.8	0.7	0.9 (1997)
Human Development Index	0.273 (1987)	0.170	0.463 (1997)
Human Development Ranking	114 (1987)	152	144 (1997)
ENVIRONMENTAL INDICATORS			
	1980	1990	Latest Year
Energy Efficiency of Emissions			
GDP per unit of energy use (1987 \$ per kg oil equivalent)	12.6	-	6.4 (1995)
Traditional fuel use (% of total energy use)	94.8	-	88.9 (1995)
Carbon dioxide emissions (total metric tons)	0.5	-	1.5 (1993)
(per capita metric tons)	0.04 (1989)	0.07 (1992)	0.1 (1993)
Water Pollution			
Emissions of organic water pollutants (kg/day)	19,000	-	29,000 (1993)
Industry share of emissions or organic water pollutants	-	-	-
Wood	-	-	1.5 (1993)
Primary Metals	-	-	1.9 (1993)
Pulp and Paper	-	-	5.5 (1993)
Chemical	-	-	3.4 (1993)
Food and Beverages	-	-	46.5 (1993)
Textiles	-	-	38.0 (1993)
Land Use			
Cropland (% of land area)	16	-	21 (1995)
Permanent Pasture (% of land area)	13	-	12 (1994)
Forest area (thousand sq. km.)	-	-	48 (1995)
Annual deforestation (sq. km.)	-	-	548 (1990-95)
Annual deforestation (average % change)	-	-	1.1 (1990-95)
Nationally protected areas (% of total land area)	6.8 (1985)	7.9	8.1 (1994)
Threatened species			
Mammals	-	-	23 (1994)
Birds	-	-	23 (1994)
Higher Plants	-	-	21 (1994)

Sources:

World Bank (WB), *World Development Report 1998*, United Nations Development Programme (UNDP), *Human Development Report 1999*, Ministry of Finance, *Economic Survey 1998-99*, *Nepal Human Development Report 1998*, *A Compendium On Environment Statistics 1998*, Nepal, World Resources, *A Guide to the Global Environment 1996-97*.

NEPAL

PORTFOLIO PERFORMANCE

**Table 1 : Implementation, Disbursement Performance and Postevaluation Results
Public Sector Projects only
(as of 31 December 1998)**

A. Project Portfolio	Net Loan Amount \$ million %		Rating (No.) ^a											
			Total		Implementation Progress				Development Objectives					
			No.	%	HS	S	PS	U	HS	S	PS	U		
Agriculture and Natural Resources	211.3	38	11	52			11				2	8		1
Energy	212.3	38	2	10	1	1					1	1		
Finance and Industry	-	-	-	-										
Social Infrastructure	76.2	14	6	29			6					5		1
Transport and Communications	61.6	11	2	10			2					2		
Others/Multisector	-	-	-	0										
Total	561.5	100	21	100	1	20	0	0	3	16	1	1		

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	-	505.5	505.5
(2) Disbursed amount (\$ mn, cumulative, active loans only)	-	222.7	222.7
(3) Percentage disbursed [(2)/(1)] (%)	-	44.1	44.1
(4) Disbursements (\$mn, active loans only, latest year)	-	101.0	101.0
(5) Disbursement ratio (%) ^b	-	28.0	28.0

C. Net Transfer of Resources ^c (\$ million)	OCR	ADF	Total
Net transfer in 1995	-0.1	37.7	37.7
Net transfer in 1996	6.4	49.4	55.8
Net transfer in 1997	4.1	78.1	82.2
Net transfer in 1998	13.2	84.1	97.3

D. Post-Evaluated Projects	1968 - 1977		1978 - 1987		1988 - 1998		1968 - 1998			
	No.	%	No.	%	No.	%	No.	%		
1. Postevaluation Rating (as of 31 December 1998)										
Rated Generally Successful (GS)	8	72.7	8	40.0	-	-	16	50.0		
Rated Partly Successful (PS)	1	9.1	6	30.0	1	100.0	8	25.0		
Rated Unsuccessful (US)	2	18.2	6	30.0	-	-	8	25.0		
No Rating	-	-	-	0.0	-	-	0	0.0		
Total	11	100.0	20	100.0	1	100.0	32	100.0		
2. Postevaluation Rating by Sector 1968-98 (as of 31 December 1998)	GS		PS		US		NR		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	10	62.5	6	75.0	5	62.5	-	-	21	65.6
Energy	3	18.8	-	-	1	12.5	-	-	4	12.5
Finance and Industry	-	-	-	-	1	12.5	-	-	1	3.1
Social Infrastructure	-	-	2	25.0	1	12.5	-	-	3	9.4
Transport and Communications	3	18.8	-	-	-	-	-	-	3	9.4
Others/Multisector		0.0		0.0		0.0		-	0	0.0
Total	16	100.0	8	100.0	8	100.0	-	-	32	100.0

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

^b Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

^c Includes private sector projects for countries with private sector operations.

NEPAL
PORTFOLIO PERFORMANCE

**Table 2: Status of Project Implementation
Public Sector Projects Only
(As of 31 December 1998)**

Sector ^a	Project Title	Net Loan Amount (\$ million)		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date (mm/yy)		Physical Progress (% Complete)	Cum Contract Awards (\$ million)	Cumulative Disbursement (\$ million)	Project Performance Rating ^b	
		OCR	ADF			Original	Revised				Implement Progress	Development Objective
AGR	1 Irrigation Management Transfer	-	12,598	Sep-94	Jun-95	Jun-02	-	12	1,763	2,281	S	S
AGR	2 Rural Infrastructure Development	-	11,838	Jun-96	Sep-96	Jun-03	-	12	1,992	1,206	S	S
AGR	3 Second Agriculture Program	-	50,238	Jan-98	Mar-98	Dec-00	-	-	25,432	24,538	S	S
AGR	4 Rural Microfinance	-	19,995	Dec-98	May-99	Jun-05	-	-	0	0	S	S
AGR	5 Rajapur Irrigation Rehabilitation	-	17,056	Oct-91	Apr-92	Jun-98	Dec-00	42	15,627	8,024	S	S
AGR	6 Second Irrigation Sector	-	23,894	May-96	Sep-96	Dec-02	-	30	7,111	7,149	S	S
AGR	7 Community Groundwater Irrigation Sector	-	30,839	Feb-98	Mar-99	Jul-05	-	2	0	0	S	S
AGR	8 East Rapti Irrigation	-	10,418	Nov-87	Sep-88	May-95	May-98	95	10,071	9,902	S	HS
AGR	9 Upper Sagarmatha Agricultural Development	-	13,765	Oct-91	May-92	Jun-00	-	53	3,839	3,904	S	U
AGR	10 Third Livestock Development	-	16,871	Sep-96	Mar-97	Jul-03	-	6	3,149	1,155	S	S
AGR	11 Microcredit for Women	-	3,801	Jun-93	Dec-93	Jun-00	-	67	2,566	2,828	S	HS
SOC	12 Second Tourism Development	-	16,711	Jul-96	Dec-96	Dec-01	-	18	2,111	0,912	S	S
SOC	13 Melamchi Water Supply (Eng)	-	5,134	Nov-98	Apr-99	Dec-00	-	-	0	0	S	S
SOC	14 Primary Education Development	-	16,546	Dec-91	May-92	Jun-98	Jun-99	70	12,065	10,783	S	PS
SOC	15 Secondary Education Development	-	9,904	Nov-92	Aug-93	Jun-99	-	71	5,126	5,27	S	S
SOC	16 Kathmandu Urban Development	-	8,862	Jun-93	Feb-94	Dec-98	-	61	6,114	5,347	S	S
SOC	17 Fourth Rural Water Supply and Sanitation Sector	-	19,065	Sep-96	Jan-97	Jun-02	-	41	9,139	8,472	S	S
ENE	18 Seventh Power	-	57,714	Jan-90	Sep-90	Aug-95	Dec-98	86	54,33	52,002	HS	HS
ENE	19 Kali Gandaki "A" Hydroelectric Power	-	154,605	Jul-96	Dec-96	Jul-01	-	20	97,419	51,951	S	S
T&C	20 Third Road	-	35,717	Sep-95	Jan-96	Jun-01	-	50	30,38	19,383	S	S
T&C	21 Tribhuvan International Airport Improvement	-	25,93	Jan-97	Jul-97	Dec-01	-	17	17,066	7,614	S	S
	Total	-	561.5						305.3	222.7		

^a Sector:

AGR: Agriculture & Natural Resources

ENE: Energy

SOC: Social Infrastructure

T&C: Transport and Communications

^b HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

NEPAL
OVERALL EXTERNAL ASSISTANCE
(in \$ million)

By Major External Source	Past 3 Fiscal Years ^a (Annual Average)		FY1999 Program ^a	
	Loan/Credit	TA/Grant	Loan/Credit	TA/Grant
	\$ million		\$ million	
A. Multilateral Assistance				
ADB	125.0	5.1	54.7	3.8
EC	-	16.3	-	-
FEC AND NDF	5.7	-	-	-
IFAD	2.8	-	-	-
OPEC Fund	6.2	-	-	-
UNDP	-	3.5	-	-
UNFPA	-	11.7	-	-
UNICEF	-	18.3	-	-
UNIFEM	-	-	-	0.1
WFP	-	13.8	-	-
World Bank	49.2	0.6	12.5	-
SUBTOTAL (A)	189.0	69.3	67.2	3.9
B. Bilateral Assistance				
Australia	-	2.6	-	-
Belgium	-	-	2.2	-
Canada	-	4.5	-	2.8
China, People's Republic of	-	4.6	-	6.3
Denmark	-	27.4	-	59.5
Finland	-	9.1	-	1.9
France	0.8	0.7	-	-
Germany	-	21.7	-	50.4
India	-	0.1	-	-
Japan	61.8	43.2	-	42.7
Korea, Republic of	4.3	0.3	-	-
Kuwait Fund	-	-	5.0	-
Netherlands	-	2.1	-	5.7
Norway	-	-	-	2.4
Saudi Fund for Dev.	3.6	-	-	-
Switzerland	-	7.0	-	4.7
United Kingdom	-	24.9	-	2.6
USA	-	34.7	-	17.0
SUBTOTAL (B)	70.6	182.7	7.2	196.1
TOTAL (A+B)	259.6	252.0	74.4	200.0
Memo Items:				
External Assistance as percentage of Regular Expenditure	61.6	59.8	16.0	43.0
External Assistance as percentage of Development Expenditure	55.5	53.8	16.1	43.1

^a Grants/Loans agreements for which have been signed.

Source: Programs Division, October 1999

NEPAL
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002

	Dev't Objectives ^a		Responsible Division	Year of PPTA	PROJECT COST (\$ million)			
	Primary	Secondary			TOTAL	Bank (ADF)	Government	Cofinancing
2000 FIRM LOANS								
Agriculture and Natural Resources								
1 Crop Diversification	POV	GAD	AWAR	1998	20.0	15.0	5.0	-
Subtotal					20.0	15.0	5.0	-
Social Infrastructure								
2 Melamchi Water Supply (Investment Project)	HD	ENV	AWWU	-	270.0	50.0	5.0	167.0
3 Small Towns Water Supply and Sanitation	POV	GAD	AWWU	1998	36.0	30.0	6.0	-
Subtotal					306.0	80.0	11.0	167.0
Others								
4 Civil Service Sector Development	ECO	HD	PW1	1998*	25.0	20.0	5.0	-
Subtotal					25.0	20.0	5.0	-
Total					351.0	115.0	21.0	167.0
2001 LOAN PIPELINE								
Finance and Industry								
1 Corporate & Finc'l Governance Sector Devt Program	ECO	-	IWFI	1997	36.0	30.0	6.0	-
Subtotal					36.0	30.0	6.0	-
Transport and Communications								
2 Fourth Road Improvement	ECO	POV	IWTC	1997	72.0	60.0	12.0	-
Subtotal					72.0	60.0	12.0	-
Social Infrastructure								
3 Basic Education	HD	GAD	AWEH	1999	24.0	20.0	4.0	-
4 Ecotourism	HD	ENV	AWWU	2000	18.0	15.0	3.0	-
Subtotal					42.0	35.0	7.0	-
Total					150.0	125.0	25.0	-
2002 LOAN PIPELINE								
Agriculture and Natural Resources								
1 Rural Infrastructure Sector Development	POV	ENV	AWAR	2000	36.0	30.0	6.0	-
Subtotal					36.0	30.0	6.0	-
Social Infrastructure								
2 Urban Environment Improvement	HD	ENV	AWWU	1999	36.0	30.0	6.0	-
3 Melamchi Water Supply Distribution	HD	ENV	AWWU	-	95.0	50.0	20.0	25.0
Subtotal					131.0	80.0	26.0	25.0
Total					167.0	110.0	32.0	25.0

^a ECO = Economic Growth; ENV = Environmental Protection; GAD = Gender and Development ; HD = Human Development; and POV = Poverty Reduction.

- ADTA

NEPAL
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
2000 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Rural Infrastructure Sector Development	AWAR	PPTA	600.0	-	600.0
2 Skills Training for Women Beneficiaries	NRM	ADTA	200.0	-	200.0
3 Agriculture Sector Review	AWAR	ADTA	800.0	-	800.0
4 Institution Building for Crop Diversification	AWAR	ADTA	600.0	-	600.0
Subtotal			2,200.0	-	2,200.0
Social Infrastructure					
5 Fifth Rural Water Supply & Sanitation Sector	AWWU	PPTA	500.0	-	500.0
Subtotal			500.0	-	500.0
Energy					
6 Institutional Development in the Power Sector	IWEN	ADTA	500.0	-	500.0
Subtotal			500.0	-	500.0
Others					
7 Support in the Preparation of the Tenth Plan	PW1	ADTA	500.0	-	500.0
8 Strengthening National Statistical System	EDSD	ADTA	800.0	-	800.0
9 Capacity Building for Environmental Management	ENVDP/WOD	ADTA	1,000.0	-	1,000.0
Subtotal			2,300.0	-	2,300.0
Total			5,500.0	-	5,500.0
2001 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Third Irrigation	AWFN	PPTA	600.0	-	600.0
Subtotal			600.0	-	600.0
Energy					
2 Rural Renewable Energy	IWEN	PPTA	600.0	-	600.0
Subtotal			600.0	-	600.0
Finance					
3 Institutional Support for Corporate and Financial Governance	IWFI	ADTA	800.0	-	800.0
Subtotal			800.0	-	800.0
Transport and Communications					
4 Institutional Strengthening of Department of Roads	IWTC	ADTA	600.0	-	600.0
Subtotal			600.0	-	600.0
Social Infrastructure					
5 Secondary Education II	AWEH	PPTA	600.0	-	600.0
6 Melamchi Water Supply Distribution	AWWU	PPTA	150.0	-	150.0
Subtotal			750.0	-	750.0
Others					
7 Regional Trade Facilitation (Growth Quadrangle)	PW1	ADTA	1,000.0	-	1,000.0
8 Strengthening National Planning Commission's Capacity on Economic Planning and Management	PW1	ADTA	800.0	-	800.0
Subtotal			1,800.0	-	1,800.0
Total			5,150.0	-	5,150.0
2002 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Capacity Building in the Ministry of Forestry and Soil Conservation	AWFN	ADTA	600.0	-	600.0
2 Institutional Strengthening of Ministry of Local Development	AWAR	ADTA	600.0	-	600.0
Subtotal			1,200.0	-	1,200.0
Transport and Communications					
3 Subregional Roads Connection	IWTC	PPTA	600.0	-	600.0
Subtotal			600.0	-	600.0
Social Infrastructure					
4 Health Sector Institutional and System Reforms	AWEH	ADTA	800.0	-	800.0
5 Strengthening Urban Infrastructure Improvement	AWWU	ADTA	800.0	-	800.0
Subtotal			1,600.0	-	1,600.0
Others					
6 Agriculture Census	EDSD	ADTA	600.0	-	600.0
7 Establishment of Training Capability	COPP	ADTA	1,000.0	-	1,000.0
Subtotal			1,600.0	-	1,600.0
Total			5,000.0	-	5,000.0

NEPAL
LENDING PROGRAM BY TYPE AND SECTOR, 2000-2002

Classification	2000 (Firm)		2001-2002	
	No.	%	No.	%
I. By Type				
A. Economic Growth	0	0.0	1	14.3
B. Projects Directly Aimed at Social Concerns	3	75.0	5	71.4
C. Projects Directly Aimed at Environmental Concerns	0	0.0	0	0.0
D. Economic Growth-oriented Projects with Social and/or Environmental Concerns	1	25.0	1	14.3
Total	4	100.0	7	100.0
By Sector				
A. Agriculture and Natural Resources	1	25.0	1	14.3
B. Energy	0	0.0	0	0.0
C. Finance	0	0.0	1	14.3
D. Transport and Communications	0	0.0	1	14.3
E. Social Infrastructure	2	50.0	4	57.1
F. Others/Multisector	1	25.0	0	0.0
Total	4	100.0	7	100.0

NEPAL

PROJECT PROFILE				
1. Project Name: Civil Service Sector Program			2. Sector/Subsector: Others	
3. Dev. Objective: Primary: ECO Secondary: HD				
4. Rationale: Overcoming institutional weaknesses particularly in public sector management will be critical in Nepal's efforts to break out of the poverty trap. The Program will seek to introduce sustained effort for civil service reform and improvement in the effectiveness of the public service.			5. Beneficiary Participation in Formulation: All relevant stakeholders including the government, political parties, civil society, the private sector and donors will be consulted.	
6. Objectives and Scope: The Program will seek to introduce comprehensive civil service reform at all levels of government. It will pay particular attention to strengthening mechanisms for accountability, upgrading the quality of public expenditure management, improving the arrangement of civil service cadres, and ensuring that local governments have adequate revenues to perform new functions.				
7. Estimated Cost & Financing Plan (\$): Loan Project Cost (\$m)				Remarks The Program is being prepared through a technical assistance to prepare an action plan for civil service reform.
Financing (Source)	FC	LC	Total	
Bank			20.0	
Cofinancing				
Borrower			5.0	
Total			25.0	
8. Estimated Benefits and Beneficiary Groups: The Program will benefit the entire country by making the civil service more efficient and effective, and assisting local governments to provide needed services.				
9. Executing Agency: Ministry of Finance			10. Project Implementation Period: Start: 2000 End: 2004	
11. Environment Category: C			12. Processing Year: 2000	

NEPAL

PROJECT PROFILE				
1. Project Name: Melamchi Water Supply (Investment) Project			2. Sector/Subsector: Social Infrastructure/Water Supply and Sanitation	
3. Dev. Objective: Primary: Secondary:				
4. Rationale: During the dry season, most of the population in Kathmandu receives water for only one or two hours per day, yet the population is growing at 4.5 percent per annum. The Project will provide a long-term solution to the shortage of water supplies in Kathmandu Valley.			5. Beneficiary Participation in Formulation: Beneficiary and NGO participation in planning and implementation. Equitable benefits to be ensured.	
6. Objectives and Scope: The Project will bring 170,000 cu m/day of water into Kathmandu Valley from the Melamchi River catchment. Project components include headworks, 28 km tunnel, 15 MW hydropower plant, water treatment plant, bulk distribution via pipelines and reservoirs, and distribution rehabilitation and expansion.				
7. Estimated Cost & Financing Plan (\$): Loan Project Cost (\$m)				Remarks
Financing (Source)	FC	LC	Total	The Project is supported by ADB's technical assistance on Urban Water Supply Reforms in Kathmandu Valley (TA 2998-NEP) and World Bank's technical assistance for private sector management of the urban water supplies in Kathmandu Valley. The Project is being prepared through a Bank-funded \$5 million engineering loan (Loan 1640-NEP(SF) approved in November 1998. Norway and Sweden have indicated financing of \$39 million, but another \$25 million is being sought from these sources to cover the expected higher estimated costs of tunneling.
Bank			50.0	
Cofinancing				
NORAD/Nordic			44.0	
OECD			45.0	
World Bank			50.0	
Private Sector			28.0	
Borrower			53.0	
Total			270.0	
8. Estimated Benefits and Beneficiary Groups: The Project is estimated to benefit two million people living in urban areas of Kathmandu Valley with an improved safe, adequate, and reliable water supply. The welfare of the people is expected to improve in terms of health, livelihood, education and economies.				
9. Executing Agency: Ministry of Housing and Physical Planning			10. Project Implementation Period: Start: 2001 End: 2005	
11. Environment Category: A			12. Processing Year: 2000	

NEPAL

PROJECT PROFILE				
1. Project Name: Crop Diversification Project			2. Sector/Subsector: Agriculture	
3. Dev. Objective: Primary: Poverty Secondary: WID				
4. Rationale: The incidence of poverty in the far-western region is estimated at more than 70 percent. ADB's previous Secondary Crop Development Project generated a substantial positive impact on the production of secondary crops, and incomes in the mid-western region. The Project will seek to replicate well-performing extension and training activities in the mid- and far-western regions to promote the production and marketing of secondary crops with more emphasis on crop diversification where farmers are engaged in subsistence-oriented food crop production. Another important objective is to strengthen institutions related to agricultural extension services at the central and district levels.			5. Beneficiary Participation in Formulation: Farmer groups will fully participate in the design of the Project using groups formed under the Secondary Crop Project, and farmer stakeholders in new districts.	
6. Objectives and Scope: The Project will (i) strengthen extension and marketing services in the proposed Project area; (ii) support farmers' social awareness raising programs; (iii) provide credit and technical support for seed multiplication, small-scale irrigation development, and nursery establishment; and (iv) support project management including the provision of buildings, equipment and consulting services.				
7. Estimated Cost & Financing Plan (\$): Loan Project Cost (\$m)				Remarks The Project is being prepared through a technical assistance.
Financing (Source)	FC	LC	Total	
Bank			15.0	
Cofinancing				
Borrower			5.0	
Total			20.0	
8. Estimated Benefits and Beneficiary Groups: Farmers in 18 relatively poor districts in the mid- and far-western regions will benefit from the introduction of secondary crops, and reduced poverty levels.				
9. Executing Agency: Department of Agriculture			9. Project Implementation Period: Start: 2000 End: 2004	
11. Environment Category: O			12. Processing Year: 2000	

NEPAL

PROJECT PROFILE				
1. Project Name: Small Towns Water Supply and Sanitation			2. Sector/Subsector: Social Infrastructure/Water Supply and Sanitation	
3. Dev. Objective: Primary: ENV Secondary: POV			5. Beneficiary Participation in Formulation: Beneficiary consultations have been made through community consultations, surveys, NGO coordination and workshops.	
4. Rationale: Providing water supply and sanitation to the small towns which are future urban growth centers, will help improve the health profile of the people especially the urban poor. It will also foster economic growth and social development, which in the long run, help mitigate the urban environmental degradation in the large urban centers of the country.				
6. Objectives and Scope: The scope will include water supply improvements in about 30 towns based on subproject criteria as well as institutional strengthening. It will also include substantial sanitation component comprising upgrading of latrines, installation of septic tanks, and health and education campaign.				
7. Estimated Cost & Financing Plan (\$): Loan Project Cost (\$m)				Remarks
Financing (Source)	FC	LC	Total	
Bank			30.0	
Cofinancing				
Borrower			6.0	
Total			36.0	
8. Estimated Benefits and Beneficiary Groups: Women and children will benefit from less time and energy consumed carting water to their homes and the cost of water to their families will also be reduced. Better health should also result from improved hygiene and sanitation.				
9. Executing Agency: Ministry of Housing and Physical Planning			10. Project Implementation Period: Start: 2000 End: 2005	
11. Environment Category: B			12. Processing Year: 2000	

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2000-2002)
PIPELINE UPDATE**

NEPAL

June 2000

NEPAL
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002

	Dev't Objectives ^a		Responsible Division	Year of PPTA	PROJECT COST (\$ million)			
	Primary	Secondary			TOTAL	Bank (ADF)	Government	Cofinancing
2000 FIRM LOANS								
Agriculture and Natural Resources								
1 Crop Diversification	POV	WID	AWAR	1998	11.0	11.0	0.0	-
Subtotal					11.0	11.0	0.0	-
Finance								
2 Corporate and Financial Governance	ECO		IWFI	1997	10.0	10.0	0.0	-
Subtotal					10.0	10.0	0.0	0.0
Social Infrastructure								
3 Small Towns Water Supply and Sanitation	POV	WID	AWWU	1998	35.0	35.0	0.0	-
Subtotal					35.0	35.0	0.0	0.0
4 Melamchi Water Supply	HD	ECO	PW1	1998*	203.8	60.0	5.0	138.8
Subtotal					203.8	60.0	5.0	-
Total					259.8	116.0	5.0	138.8
2000 STANDBY LOAN								
Social Infrastructure								
1 Melamchi Water Supply (Investment Project)	HD	ENV	AWWU	-	270.0	60.0	-	212.0
Total					60.0	60.0	0.0	-
2001 LOAN PIPELINE								
Transport and Communications								
1 Fourth Road Improvement	ECO	POV	IWTC	1997	72.0	60.0	12.0	-
Subtotal					72.0	60.0	12.0	-
Social Infrastructure								
2 Melamchi Water Supply (Investment Project)	HD	ENV	AWWU	-	270.0	60.0	-	212.0
3 Basic Education	HD	GAD	AWEH	1999	24.0	20.0	4.0	-
4 Ecotourism	HD	ENV	AWWU	2000	18.0	15.0	3.0	-
Subtotal					312.0	95.0	7.0	212.0
Total					384.0	155.0	19.0	212.0
2002 LOAN PIPELINE								
Agriculture and Natural Resources								
1 Rural Infrastructure Sector Development	POV	ENV	AWAR	2000	36.0	30.0	6.0	-
Subtotal					36.0	30.0	6.0	-
Social Infrastructure								
2 Urban Environment Improvement	HD	ENV	AWWU	1999	36.0	30.0	6.0	-
3 Melamchi Water Supply Distribution	HD	ENV	AWWU	-	95.0	50.0	20.0	25.0
Subtotal					131.0	80.0	26.0	25.0
Total					167.0	110.0	32.0	25.0

^a ECO = Economic Growth; ENV = Environmental Protection; GAD = Gender and Development ; HD = Human Development;

POV = Poverty Reduction and WID = Women in Development

ADTA

NEPAL
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
2000 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Skills Training for Women Beneficiaries	PW1	ADTA	200.0	-	200.0
2 Agriculture Sector Performance Review	AWAR	ADTA	600.0	-	600.0
Subtotal			800.0	-	800.0
Finance					
3 Corporate and Financial Governance Institutional Support (cluster)	IWFI	ADTA	3,000.0	-	3,000.0
Subtotal			3,000.0	-	3,000.0
Social Infrastructure					
4 Secondary Education II	AWEH	PPTA	600.0	-	600.0
Subtotal			600.0	-	600.0
Energy					
## Efficiency Improvements and Restructuring in the Power Sector	IWEN	ADTA	800.0	-	800.0
Subtotal			800.0	-	800.0
Others					
## Institutional Support for Civil Service Reform	PW1	ADTA	1,500.0		1,500.0
## Company, Insolvency and Secured Transactions Law Reform	OGC	ADTA	250.0		250.0
9 Strengthening National Statistical System	EDSD	ADTA	770.0	-	770.0
Subtotal			2,520.0	-	2,520.0
Total			7,720.0	-	7,720.0
2001 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Third Irrigation	AWFN	PPTA	600.0	-	600.0
2 Institutional Strengthening of Rural Financial Institutions	AWAR	ADTA	300.0	-	300.0
Subtotal			900.0	-	900.0
Energy					
3 Rural Renewable Energy	IWEN	PPTA	600.0	-	600.0
Subtotal			600.0	-	600.0
Finance					
4 Institutional Support for Corporate and Financial Governance	IWFI	ADTA	800.0	-	800.0
Subtotal			800.0	-	800.0
Transport and Communications					
5 Institutional Strengthening of Department of Roads	IWTC	ADTA	600.0	-	600.0
Subtotal			600.0	-	600.0
Social Infrastructure					
6 Community-based Water Supply and Sanitation	AWWU	PPTA	500.0	-	500.0
7 Melamchi Water Supply Distribution	AWWU	PPTA	150.0	-	150.0
8 Nonformal Education	AWEH	PPTA	600.0	-	600.0
9 Secondary Education II	AWEH	PPTA	600.0	-	600.0
Subtotal			1,850.0	-	1,850.0
Others					
7 Regional Trade Facilitation (Growth Quadrangle)	PW1	ADTA	1,000.0	-	1,000.0
8 Strengthening National Planning Commission's Capacity on Economic Planning and Management	PW1	ADTA	800.0	-	800.0
Subtotal			1,800.0	-	1,800.0
Total			6,550.0	-	6,550.0
2002 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Capacity Building in the Ministry of Forestry and Soil Conservation	AWFN	ADTA	600.0	-	600.0
2 Institutional Strengthening of Ministry of Local Development	AWAR	ADTA	600.0	-	600.0
Subtotal			1,200.0	-	1,200.0
Transport and Communications					
3 Subregional Roads Connection	IWTC	PPTA	600.0	-	600.0
Subtotal			600.0	-	600.0
Social Infrastructure					
4 Health Sector Institutional and System Reforms	AWEH	ADTA	800.0	-	800.0
5 Strengthening Urban Infrastructure Improvement	AWWU	ADTA	800.0	-	800.0
Subtotal			1,600.0	-	1,600.0
Others					
6 Agriculture Census	EDSD	ADTA	600.0	-	600.0
7 Establishment of Training Capability	COPP	ADTA	1,000.0	-	1,000.0
Subtotal			1,600.0	-	1,600.0
Total			5,000.0	-	5,000.0

NEP: Rural Infrastructure Sector Development (US\$800.0) earlier proposed for 2000 has been deferred.

NEP: Support in the Preparation of the Tenth Plan (US\$500.0) earlier proposed for 2000 has been deferred.

NEP: Institutional Support for the Ministry of Population and Environment, Ph. 2 (US\$1,000.0) earlier proposed for 2000 has been deferred.

NEP: Water Supply and Sanitation Sector Strategy (US\$100.0) earlier proposed for 2000 has been deferred.