

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2001-2003)**

NEPAL

December 2000

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank (ADB) for Nepal covering the three-year period 2001-2003. 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 2000, in close consultation with the Government of Nepal, and other stakeholders, including nongovernment organizations. The CAP was discussed with the Board of Directors in October 2000. 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 1 Dececeber 2000)

Currency Unit	–	Nepalese Rupee/s (NRe/NRs)
NRs1.00	=	\$0.013385
\$1.00	=	NRs74.896

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

ABBREVIATIONS

ADB	-	Agriculture Development Bank of Nepal
ADF	-	Asian Development Fund
ADTA	-	Advisory Technical Assistance
APP	-	Agriculture Perspective Plan
CAP	-	Country Assistance Plan
COS	-	Country Operational Strategy
DANIDA	-	Danish International Development Agency
DFID	-	Department for International Development
ESW	-	economic and sector work
GDP	-	gross domestic product
IPF	-	indicative planning figure
MOFSC	-	Ministry of Forests and Soil Conservation
MWCSW	-	Ministry of Women, Children and Social Welfare
NDF	-	Nordic Development Fund
NEA	-	Nepal Electricity Authority
NGOs	-	nongovernment organizations
NORAD	-	Norwegian Agency for International Cooperation
NPC	-	National Planning Commission
NRM	-	Nepal Resident Mission
OECF	-	Overseas Economic Cooperation Fund
PPTA	-	Project Preparatory Technical Assistance
SAGQ	-	South Asia Growth Quadrangle
TA	-	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. FY2000 ends on 15 July 2000.
- (ii) In this report, "\$" refers to US dollars.

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NEPAL

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 barely kept pace with its expanding population. In FY2000, gross domestic product (GDP) per capita was less than \$245, making Nepal one of the poorest countries in South Asia (economic, population, social and environmental indicators are provided in Appendix 1). 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 consequent dependence on foreign assistance; (v) inadequate institutional capacity for development management; and (vi) poor governance.

2. Growth in total output, as measured by GDP at factor cost, reached 5.9 percent in FY2000, the highest annual growth rate in six years and about equal to the 6 percent growth rate projected under the Ninth Five-Year Plan (FY1998-FY2002). The higher overall growth was led by a recovery in agriculture, which grew by 5.0 percent compared with 2.7 percent growth in FY1999. The recovery in the agriculture sector is attributed to a favorable monsoon and wider usage of fertilizer, which led to a strong recovery during the first half of the current fiscal year. The industrial sector also performed well growing at 8.3 percent for the year, driven by an 11.8 percent expansion in manufacturing.

3. Consistent with an economy that is dominated by agriculture, the labor force participation rate is high and the unemployment rate is low. About 86 percent of the population aged 15 and over is economically active, with 73 percent of them employed in agriculture.¹ The unemployment rate for the country as a whole is less than 2 percent, but the rate in urban areas is more than 7 percent. The rate of underemployment is, however, quite high. Another challenge is providing gainful employment to the additional 300,000 economically active population that enter the labor market every year.

4. Domestic revenue collection in FY2000 was substantially lower than budgeted, remaining at the previous year's level of less than 11 percent of GDP, although revenue collection increased by 21 percent compared to FY1999. The introduction of the value added tax (VAT) in November 1997 was meant to be the centerpiece of an overall tax reform. However, weak administration as a result of key vacancies in the VAT Department has delayed its full implementation, despite the Government's announced commitment to the full implementation of the VAT during the FY2000 budget speech.

5. The FY2000 budget deficit remained stable compared to FY1999, at 3.9 percent of GDP. This is because development expenditures were reduced in part to compensate for the revenue shortfall, which had the effect of making up for the poor revenue performance. Development expenditures rose by 17 percent, a significant improvement over the marginal decline the previous year, but far short of the 20 percent envisaged in the budget. Foreign grants and loans

¹ Central Bureau of Statistics. 2000. *Report on the Nepal Labour Force Survey 1998/1999*. Kathmandu. This nationwide survey is the first to apply internationally consistent definitions of economic activity, and as such the results more accurately reflect Nepal's labor market situation than previous census and survey data. However, due to differences in definitions, it is difficult to compare the changes in the country's workforce over time.

financed about 50 percent of development expenditures in FY2000. The dependency on foreign resources is expected to continue with foreign loans and grants again expected to cover 55 percent of budgeted development expenditures in FY2001.

6. Government military expenditures have declined over time in total, as a share of GDP, and in comparison to social expenditures. In 1985, \$51 million was spent on defense, compared to \$37 million in 1998. Defense expenditure as a percentage of GDP in 1998 decreased to 0.7 percent, from 1.5 percent in 1985, compared with the global average of 4.2 percent of GDP. Defense expenditure per capita also decreased in this period from \$3 to \$2, compared with \$229 per person on average worldwide and \$38 per person in South Asia.² Military expenditures as a percentage of combined health and education expenditures in Nepal contracted from 42 percent to 24 percent between 1985 and 1998. As a percent of total expenditures, military spending fell from 6.2 percent to 5.1 percent in this period.

7. The budget for FY2001 was presented to the Parliament in May 2000, two months earlier than in previous years. In his budget speech, the Finance Minister stated, "The foremost goal of our entire development endeavor and of this budget is to achieve the prime objective of poverty reduction as envisaged by the Ninth Plan." However, a focused poverty reduction strategy is not yet in place, but will be formulated in this fiscal year with ADB assistance. The budget has a total outlay of NRs82.4 billion (\$1.2 billion) in FY2001, representing an increase of 35.8 percent over the revised estimate of NRs 60.7 billion (\$876 million) for FY2000. The fiscal deficit is expected to be about 5 percent of GDP. Development expenditures are projected to grow by 45 percent, to be financed mainly by foreign grants, which are projected to more than double. Domestic revenue estimates are also optimistic with a projected growth rate of 25 percent. The budget speech also emphasized the need for raising the efficiency of the civil service and calls for a freeze on hiring until after the completion of restructuring of ministries. However, increases in civil service salaries will be implemented before the restructuring, putting more pressure on scarce domestic resources in the short run. Financial sector reform and private sector development also feature prominently within the budget statement.

8. Broad money (M2) increased by about 22 percent in FY2000 compared with 21 percent in the previous year. The influx of foreign assets and growth in domestic credit to the private sector generated the increase in the money supply. Money growth is somewhat high given projections for GDP growth and inflation, but the comfortable foreign exchange reserve position means the current peg with the Indian rupee is sustainable. Because of the relatively open border and the exchange rate peg to the Indian rupee, inflation in Nepal generally follows India's inflation rate. Inflation was a low 3.3 percent in FY2000, compared to the 11.3 percent increase in prices during the previous year. The increased agricultural production due to favorable weather throughout South Asia kept the prices of food items in check. The slower growth in food prices—which increased by only 1 percent on average in Nepal—helped to counteract rising fuel, electricity, and water prices. Given a favorable monsoon, Nepal should continue to experience relatively moderate inflation.

9. As in the previous year, Nepal experienced a slight current account deficit in FY2000. The dollar value of imports expanded by 20 percent with aid-related imports recovering from the contraction of the previous year. However, strong export growth, particularly to India, led to a current account deficit of only 4.5 percent of GDP. By the end of FY2000 Nepal had \$981 million in foreign exchange reserves, an increase of 24 percent over the previous year, and enough to

² The International Institute for Strategic Studies. 1999. *The Military Balance 1999/2000*. Oxford: Oxford University Press. Dollar values of expenditures are at constant 1997 prices and exchange rates.

cover about 6 months of imports. External debt as a percent of GDP had been rising, but the trend has reversed itself in the last two years. At the end of FY2000, external debt was less than 48 percent of GDP, compared with the nearly 51 percent of GDP in FY1999. The debt service ratio has also fallen and, due to the concessional nature of Nepal's external debt, was at a manageable level of 5.3 percent of exports during the year.

10. Macroeconomic indicators published by the Nepal Rastra Bank for FY2000 show an increase of 16 percent in domestic revenue collection compared to FY1999, but rising expenditures (15 percent). Foreign grants increased by 21 percent and substantially financed the budget deficit, which remained stable at 3.9 percent of GDP. Foreign trade surged in FY2000, with exports growing by 42 percent and imports by 20 percent in rupee terms compared to FY1999. Foreign exchange reserves of the overall banking system remained sound at almost \$1.0 billion, enough to cover about six months of imports. The rate of inflation declined to 3.3 percent during FY2000 compared to 11.3 percent in FY1999.

11. 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 majority government elected in 1999 raised expectations of reform, but progress to date has been limited. The increase in VAT registrations is a promising sign, but key vacancies in the VAT department need to be filled soon to improve administration, clear the filing backlog, initiate collection visits, and intensify audit activity. These changes are necessary if the Government is to achieve its ambitious revenue target. The Government also recently raised prices of kerosene, diesel, and electricity and removed all subsidies on fertilizer. Despite vocal public protests against these measures and a special parliamentary session called by the opposition to review the price increases, the Government has so far stood firm in its decisions. However, if the country is to achieve the levels of sustained growth necessary to lift it out of its poverty, the Government needs to take advantage of its majority position to pursue a broad-based reform agenda, with financial sector reform and governance reform forming the core of this agenda. Reform in these areas will require sweeping changes to the financial and governance architecture and the way in which business and government is conducted in Nepal. To remedy the serious defects in the financial and governance environment, and to implement the reforms in a sustainable manner will require a high level of commitment and ownership by the Government and concerned stakeholders.

B. Poverty Assessment

12. In Nepal, about 42 percent of the population lives below the national poverty line of NRs4,400 (\$77) per capita per annum, which is based on minimum caloric intake, housing, and other nonfood standards.³ However, this figure varies widely across the country. While only 23 percent of the urban population do not have sufficient incomes to meet basic consumption needs, 44 percent of the rural population fall below the standard. Geographically, the incidence of poverty in the Midwestern and Far Western development regions greatly exceeds the national average, as does the rate in the mountain districts.⁴ It would take about NRs530 per person per year to completely lift all of the poor out of poverty in the country, but about NRs815 per person for those living in the mountain districts.

³ Based on these standards, 42 percent is the Government's official poverty rate used in the Ninth Plan.

⁴ Nepal is divided into three geographic regions: the terai (flat plains), middle hills, and mountains.

13. Income distribution in Nepal is becoming increasingly unequal over time. 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 than in the hills (income distribution is 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. Region-wise, the worst income distribution is found in the central region (Gini coefficient of 0.66).⁵

14. Due to a lack of comparable data, it is difficult to assess the trends in the poverty rate over time, but there does not appear to have been any reduction in poverty in the last 20 years, despite increases in life expectancy. In fact, because of the rising population, there are indications that the absolute number of the poor has almost doubled during this period.⁶ Many factors have constrained reduction of poverty and income inequality, including (i) inequitable land distribution, (ii) caste and gender bias, and (iii) erratic and low economic growth (leading to low employment generation) along with high population growth. Initiatives to reduce poverty and income inequality need to address these closely interrelated factors.

15. Taking a broader view of human deprivation than the simple income measure, Nepal ranked 144th out of 174 countries in the United Nations Development Programme's (UNDP's) 2000 *Human Development Report*. The people in the poorest regions of the country also have the lowest access to education and basic health services, highest rates of infant mortality, and highest rates of child malnutrition. Poverty undermines efforts at promoting human development, since it prevents many parents from sending their children to school. The current literacy rate among individuals age 6 and above is 38 percent (52 percent for men and 24 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.

16. The Government's Ninth Five-year Plan, FY1998-FY2002 (Ninth Plan), has an overarching goal of poverty reduction, with a target of reducing the poverty rate by 10 percentage points by the end of the plan period. To achieve this goal, the Ninth Plan incorporates interventions to promote broad-based growth of the economy with targeted programs for poverty reduction. Implementation of the Ninth Plan has been slow during its first two years such that it is now important to set investment priorities for the remainder of the planning period. Monitoring is another important area that needs to be developed further, particularly in the case of targeted programs, to help maximize the poverty reduction impact of Government investments.

⁵ Central Bureau of Statistics. 1996. *Nepal Living Standards Survey Report*. Kathmandu.

⁶ Nepal South Asia Centre. 1998. *Nepal Human Development Report*. Kathmandu.

C. Assessment of Socio-Environmental Performance

1. Gender Issues

17. Women in Nepal are deprived and severely underprivileged in rural areas. Nepal ranks 119th among 143 countries in UNDP's 1998 gender development index (GDI), published in 2000. The maternal mortality rate of 539 per 100,000 live births is one of the highest in the Asia and Pacific region. The gender empowerment measure, which reflects women's participation in economic, political and professional spheres was 0.191 in 1996 for Nepal, well below the average of 0.367 for developing countries in that year.⁷ 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. Women are treated unequally under inheritance laws. Women also suffer from trafficking and domestic violence. While women have made substantial gains in education, and the female literacy rate has risen from 4 percent in 1971 to 24 percent in 1996, the gender gap in terms of the percentage of graduates at various educational levels is rising. Efforts have been made by the Government to close the gender 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 reduced, if not eliminated.

18. The National Planning Commission (NPC) and the Ministry of Women, Children and Social Welfare (MWCSW) are the two organizations responsible for mainstreaming gender issues. The NPC has a women's division mandated to review programs and projects from a gender perspective. The MCWSW, created in 1995, is the lead agency and focal point for women's development with a mandate to coordinate gender activities of sectoral line ministries. MCWSW 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. MCWSW is currently reviewing all laws and planning to draw up a new Family Code and Juvenile Code. MCWSW recently launched a women empowerment program called *Jagriti* (awakening) in all 75 districts of the country with a focus on women's social and economic development. This is the first time that the Government has allocated a separate budget advancing the interests of women, demonstrating a strong of national commitment

2. Human Development

19. Social indicators in Nepal remain weak. However, for countries starting from a low level of human development, Nepal recorded one of the fastest rates of progress in its human development index from 1975 to 1998, with an absolute change of 0.183 (or 63 percent, as reported in UNDP's 2000 *Human Development Report*). Some improvement has been made over the past decade with a reduction in the total fertility rate from 5.3 in 1981 to 4.6 in 1996, and infant mortality rate from 156 per 1,000 live births in 1974 to 75 per 1,000 live births in 1998. These figures 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 16 percent of households have sanitary facilities.

⁷ The latest UNDP Human Development Report did not rank Nepal.

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.

20. Reducing the incidence of poverty, slowing the population growth rate, and achieving good governance are three crucial issues in human development in Nepal. Spending on social services (education, health, and drinking water) has increased as a share of total spending during the 1990s. In FY2000, social service expenditures accounted for 23.9 percent of total expenditures and are budgeted to increase their share slightly to 24.5 percent in FY2001. Public expenditure on education at 2.4 percent of GDP in FY2000 was still below the average in countries with low levels of human development. Public expenditure on health also remains at a low level accounting for 0.9 percent of GDP in FY2000.

21. The Government has ratified the UN Convention on the Rights of the Child and has taken steps to eliminate child labor. The Labor Act of 1992 and the Children's Act of 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.

22. Out of 6.23 million children aged 5-14 years, some 42 per cent (2.6 million) regularly work while 37 per cent do not work and attend school and about 21 per cent are idle or otherwise engaged. The number of working children is higher among girls, whose work participation rate is estimated at 48 per cent, which compares with 36 per cent for boys. While the proportion of economically active children declined from 1981 to 1991, boys benefited more than girls did from this transition, as indicated by the increased school enrolment of boys. Of all working children, some 61 percent go to school. A much higher proportion of girls do not go to school. The mountain zones have the highest work participation rate of children (52.2 percent) followed by the middle hills (45 percent) and terai (36 percent). With regard to the development regions, the highest work participation rate is found for the Midwestern development region (50 percent), followed by the Far Western region (49 percent).⁸

23. Although Nepal has long had laws prohibiting all forms of slavery, a system of bonded laborers based on debt obligations to a landlord—known as Kamaiyas—continued to be practiced, mainly in several Western districts. Despite a lifetime of work, these debts are seldom repaid, and the obligation to work is passed on to the debtor's descendants. In 1993, the Government estimated that approximately 14,000 families were bonded laborers and more recent estimates place that figure as high as 40,000 families. On 17 July 2000, the Government announced the decision to outlaw the practice of bonded labor, emancipating the Kamaiyas and waiving their debt obligations that kept them bound to their landlords. Under the new restrictions, keeping a laborer against his or her will is an offense punishable by 3 to 10 years in prison.

3. Environment

24. 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

⁸ Central Department of Population Studies, Tribhuvan University and International Program on the Elimination of Child Labor (IPEC). 1998. *Report on Child Labor Situation in Nepal*. Kathmandu.

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, including 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.

25. 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 and Nepal Environmental Policy and Action Plan, which were prepared in 1988 and 1993, respectively. In addition, a comprehensive process to establish and operationalize an Environmental Impact Assessment system was undertaken. In 1993 the Environment Protection Council was created and the Ministry of Population and Environment was established in September 1995. The Environment Protection Act was approved at the beginning of 1997 and, more recently, the Environment Protection Regulations were approved by the Cabinet.

26. 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.

D. Governance: Sound Development Management

27. 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 strong 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.

28. Nepal has many of the formal prerequisites of modern, democratic governance. 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. The Civil Service Act was amended in 1998 to overcome existing problems.

29. However, effective implementation of other elements of governance is weak and often lacks efficiency, transparency, and accountability in the administrative system. Allegations of corruption at many levels continue, and corruption is a key constraint to effective delivery of essential services. Inadequate governance and the unsustainable financial performance of public agencies and state-owned enterprises are a major drain on limited public resources. While the Government has a policy of promoting investment to develop a robust market economy, 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, limited skills, particularly in district treasuries, and limited attention to implementation capacity. Public service performance has in the past suffered from the excessive number of ministries, inadequate remuneration of civil servants and resulting corruption, poor record keeping, excessive staff transfers, and interpretation of rules and regulations to serve vested interests of senior officials and politicians.

30. 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 for 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. Previous governments indicated their intention to proceed with a comprehensive civil service reform but initiated limited concrete action in this regard. The current Government has indicated its strong commitment to introduce meaningful civil service and governance reforms. It has already reduced the number of ministries, and has indicated that it will also introduce governance reforms in the area of anti-corruption and reducing political interference in the civil service. 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. 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.

E. Implementation Assessment

1. The Portfolio

31. Asian Development Bank (ADB) operations in Nepal began in 1968. As of 31 December 1999, ADB had provided 90 loans for a total amount of about \$1.6 billion (excluding \$59 million for five loans and equity investments 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 212 technical assistance projects (TA) (131 advisory and 81 project preparatory) for \$90.0 million have been provided over the same period. The sectoral focus of TAs has been agriculture (55 percent), energy (10 percent), and social infrastructure (10 percent).

32. As of 31 December 1999, there were 20 ongoing ADB projects in Nepal with a net loan amount of \$530.9 million. A cumulative total of \$332.4 million in contracts (61 percent of the net loan amount) has been awarded and \$293.2 million (or 54 percent of the net loan amount) disbursed as of 31 December 1999. Contract awards and disbursements in 1999 amounted to \$27.8 million and \$70.5 million respectively. The disbursement ratio excluding program loans was 23.0 in 1999 compared to 24.7 in 1998. This compared favorably to the ADB-wide ratio of 17.6 and 19.8 respectively. The sectoral distribution of ongoing loans was agriculture (37 percent), energy (38 percent), transport and communications (11 percent), and social infrastructure (14 percent). Details of the ongoing loans are provided in Appendix 2.

33. As of 30 June 2000, 70 out of the 90 public sector loans in Nepal have been closed and 35 loans or 50 percent of the total have been postevaluated. These postevaluated projects were approved during the period 1970 to 1988 and were completed by 1996. Of the 35 postevaluated projects in Nepal, Project/Program Performance Audit Reports (PPARs) rated 19 projects (54 percent) generally successful, 8 projects (23 percent) partly successful, and 8 projects (23 percent) unsuccessful (Table 1). The performance of ADB-financed projects in Nepal compares unfavorably with Bank-wide performance and other South Asian⁹ countries, but is somewhat better than the performance of Group A countries.¹⁰ While the percent of projects rated generally successful is on par with South Asia as a whole, the share of unsuccessful 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.

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

Country	Total No. of Projects	Generally Successful (%)	Partly Successful (%)	Unsuccessful (%)
Bank-wide	558	56.5	31.9	11.3
Group A countries	90	45.6	30.0	23.3
Other South Asia	144	50.0	39.6	10.4
Nepal	35	54.0	23.0	23.0

34. The 1999 Country Synthesis of Evaluation Findings¹¹ 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.

⁹ Includes Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

¹⁰ 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.

¹¹ Operations Evaluation Office. *Country Synthesis of Evaluation Findings in Nepal*, October 1999.

2. Issues in Project Implementation

35. Nepal's portfolio disbursement ratio with program loans during the period 1997 to 1999 improved and exceeded the ADB-wide ADF average in all three years. The performance in these years was 21.8, 28.0 and 21.2 compared to the ADB-wide ADF average of 17.9, 20.1, and 18.8 respectively. As of 31 December 1999 implementation progress on 19 of the 20 ongoing loans was rated satisfactory in the respective Project Performance Reports. One loan was rated partially satisfactory.

36. 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. In addition, 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. 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. Issues such as frequent transfer of project staff, inadequate staffing of some projects, inadequate allocation of counterpart funds, lack of compliance with loan covenants, inadequate budgetary provision for operation and maintenance budgets, and poor project implementation and impact continue to limit the development impact of the portfolio, although improvements are being made in some of these areas.

37. 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 assistance¹² 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.¹³ 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.

38. The 1999 Country Portfolio Review Mission (CPRM) held in November 1999 reviewed progress achieved by the Government in implementing the 1998 CPRM Action Plan and noted four critical actions that were outstanding, relating to (i) a resurgence in premature transfer of key project personnel, (ii) inadequate staffing of some loan and TA projects, (iii) inadequate allocation of counterpart funds for two projects, and (iv) preparation of a public works manual. Other issues raised concerned the need for cancellation of loan savings (spring-cleaning), and slow implementation of public works projects. General issues considered, in addition to those mentioned in para. 35 included (i) delays in recruitment and fielding of consultants, (ii) non-compliance with key loan covenants, (iii) lack of compliance with ADB procurement guidelines, (iv) inadequate provision of operation and maintenance requirements, (v) a lack of ownership of TAs and loans, and (vi) the need for more frequent and comprehensive ADB review missions. The Nepal Resident

¹² 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.

¹³ 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.

Mission (NRM) has been following up on the implementation of the Action Plan of the 1999 CPRM. Of a total of 17 actions, 4 were completed, 7 are in process, two are not yet due, and 4 were not complied with.¹⁴ Otherwise, implementation of the Action Plan has been satisfactory.

39. The 1999 CPRM was joined by World Bank officials as observers, and it proposed that in view of the many common implementation issues that have adversely affected the portfolios of both agencies, a joint country portfolio review be conducted in 2000. The joint mission will place less demands on Government staff resources, and would allow both multilateral institutions to develop complementary efforts and provide consistent advice to the Government and EAs regarding needed policy reforms and structural changes to improve portfolio performance. The Government and World Bank agreed to this approach and a joint review mission was conducted from 31 July to 11 August 2000.

40. Another important ADB initiative to improve project implementation is an 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 new concepts in contracting.

41. 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

A. The COS

42. A Country Operational Strategy (1999 COS) was adopted in 1999 to guide ADB's operations during the next 3-5 years. The overarching objective of the 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 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 1999 COS.

43. The 1999 COS emphasizes that to maximize and sustain the development impact of investments, capacity building 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

¹⁴ The actions not complied with were no transfers of project managers for at least two years, a shortfall in counterpart funds for two projects, inadequate staffing on two projects, and failure to maintain an imprest turnover ratio of 2.

development strategies, with clearly identified road maps for sector development. Five divisions have completed road maps for their concerned sectors, and for sectors without road maps, sector strategies are being prepared. Improved Government and ADB monitoring and supervision will be needed in implementing these road maps as a criterion in annual country programming. The ADB will take necessary measures to ensure satisfactory compliance with loan covenants during project implementation.

44. Continued ADB support to particular sectors/subsectors will require demonstrated progress in strengthening the sectoral policy and institutional environment. To the extent possible, longer-term technical assistance (cluster TAs) 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 has been introduced. The country program focuses on up to 10 sectors/subsectors including (i) agriculture, (ii) irrigation, (iii) roads, (iv) power, (v) finance, (vi) basic education (including secondary and nonformal education), (vii) ecotourism, (viii) water supply and sanitation,¹⁵ (ix) environmental improvement, and (x) watershed rehabilitation and management.

45. Promising results have been shown in previous ADB projects involving NGOs and community groups in project implementation. Increasing cooperation and consultation with local groups are also potentially important in improving the effectiveness of project identification and design activities. However, it is also important to recognize the limited capacity and capabilities of local groups. A long gestation period may be necessary for these groups to be viable and sustainable. ADB policy documents¹⁶ specify modalities for further collaboration with NGOs in ADB operations, including programming, country-level work, lending and TA activities, and policy and institutional development. These policies are consistent with the Government's approach to implementing the Ninth Plan.

B. Progress in Implementation

46. In implementing the 1999 COS, 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. The progress and achievement in these areas will guide the annual indicative planning figure (IPF).

47. 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. However, actual

¹⁵ Given the number of donors already involved in the health sector, and the need to focus on fewer sectors, ADB's involvement in the health sector is limited to urban development and water supply and sanitation projects which contribute to improved health conditions, particularly for children (see. paras. 63 and 64).

¹⁶ Asian Development Bank. 1998. *Cooperation between the Asian Development Bank and Nongovernment Organizations*. Manila: ADB.

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 \$4-5 million annually.

48. During the 2000 Country Programming Mission, ADB discussed with the Government the detailed set of quantitative and qualitative indicators for possible use in the performance assessment. The Mission and the Government undertook a preliminary performance assessment, and NRM subsequently began regular follow-up assessment meetings with the Government. The latest performance assessment in July 2000 in the five key areas concluded that recent performance has been at an average level consistent with the average annual IPF of around \$80 million. In future, progress reports will be prepared jointly by ADB and the Government and included in the annual Nepal Country Assistance Plan. ADB and the Government also agreed during the Mission that, in line with the COS emphasis on building effective institutions, the Government will prioritize action to strengthen institutions in its various programs, including using ADB advisory technical assistance (ADTA) for this purpose.

C. Poverty Partnership Agreement

49. ADB's new Poverty Reduction Strategy¹⁷ identifies poverty reduction as the overarching goal of the institution. Accordingly, the strategic objectives of economic growth, human development, sound environmental management, and improving the status of women will all be pursued in ways that contribute most effectively to poverty reduction. The strategy also sets out the specific measures through which the new strategic orientation and goal rationalization will be implemented. ADB and the Government will enter into a Poverty Reduction Partnership Agreement—an agreement that will outline the actions that both sides will take to address poverty in the country—by the end of 2000.

50. In view of the fact that the World Bank and International Monetary Fund, as well as other donors, also require poverty reduction strategic partnerships with the Government, ADB has discussed with the Government and the World Bank and International Monetary Fund the need to coordinate these efforts and assist the Government in preparing a single comprehensive poverty reduction strategy. After completing the ongoing poverty situation analysis, and discussion with a broad range of stakeholders at a Public Forum, the Government will formulate its Poverty Reduction Plan (strategy). The Poverty Reduction Plan will help set priorities for the remainder of the Ninth Five-Year Plan (1998-2002), and will provide an overall framework to coordinate the poverty reduction efforts of the various donors. A country-specific Poverty Reduction Strategy based on the Government's Poverty Reduction Plan will then be prepared by ADB. The ADB's Poverty Reduction Strategy will differ from the Government's Poverty Plan by incorporating key elements of the COS including a focus on fewer sectors than the Government's Plan, criteria for sector intervention, and performance-based allocation. The ADB Poverty Reduction Strategy will essentially update the COS as necessary to better address poverty reduction in the Nepal portfolio, and to identify more core poverty interventions. This is a longer term process that will also be further examined during forthcoming programming missions. The Poverty Partnership Agreement will operationalize ADB's Poverty Reduction Strategy in the form of an annual agreement outlining a three-year rolling agreement (analogous to the Country Assistance Plan) between the Government and ADB.

¹⁷ See "Fighting Poverty in Asia and the Pacific: the Poverty Reduction Strategy of the Asian Development Bank," R179-99, October 1999.

III. SECTOR STRATEGIES

A. Agriculture

1. Agriculture and Rural Development

51. Agriculture is the dominant sector in the country, accounting for about 40 percent of GDP and about 73 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, averaging 2.8 percent per year over the last six years. This is attributable to (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) weak institutions and poor Government service delivery that have led to ineffective public interventions, largely stifled private initiatives, and lack of beneficiary participation in project design and implementation. The second tranche of the ongoing **Second Agriculture Program Loan** was approved on 28 June 2000. Under the Program, the Government has made significant progress in liberalizing its agriculture sector over the last two years by expeditiously implementing the agreed reform measures. The progress of these reform measures, particularly the deregulation of the fertilizer trade, has already begun to contribute to improved agricultural performance in Nepal, for instance, by increasing the private sector's role in the fertilizer trade, and fertilizer supplies. Efforts will be made in future agricultural projects to increase the poverty focus, and involvement of NGOs, the private sector and beneficiaries in project planning and implementation, to improve project performance and beneficiary impacts.

52. Under the 1999 COS, ADB's assistance will concentrate on priority subsectors in line with the policy directions of the Agriculture Perspective Plan (APP), and where growth potential and positive impact on the rural poor are likely to be high. Given the level of poverty in rural areas, interventions in the agriculture sector will be one of the major focal points of the Poverty Reduction Strategy. To assist in focusing interventions in the sector, 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. ADB's future sector strategy for agriculture, rural development and poverty reduction in Nepal will in part be based on this assessment. The study will also examine ways of improving the effectiveness of institutions in the sector, a key priority of the Nepal COS. Projects in the sector would concentrate on the continuation of institutional reforms, crop production, irrigation, rural roads, rural electrification, and rural microfinance. A project preparatory technical assistance (PPTA) is planned in 2003 for an integrated agricultural development project that would directly address rural poverty and encourage greater private sector participation to improve agricultural production.

53. Consistent with the APP agricultural growth and poverty alleviation strategy, ADB's ongoing **Rural Infrastructure Development Project** 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 August 2000. Based on the outcome of this review, including an assessment of institutional capacity, ADB will provide a PPTA in 2001 to prepare a detailed investment proposal for a **Rural Infrastructure Sector Development Project** in 2002. An ADTA is then planned for institutional strengthening of the Ministry of Local Development in 2002.

54. The **Microcredit for Women Project** is contributing to rural poverty alleviation, and rural microfinance is a priority area for further ADB assistance. An ADTA to conduct a portfolio audit

of the Agricultural Development Bank of Nepal is planned for 2001, and PPTAs are provided for rural finance development in 2002 and a women empowerment project in 2003 to support the poverty reduction thrust of the planned program in the agriculture sector.

2. Forestry and Natural Resources

55. In the area of forestry and natural resources, ADB assistance will focus on activities to maintain environmental sustainability and social viability with the active involvement of local communities, NGOs, and the private sector. ADB will support the Government's efforts to enhance sound watershed management in the hill areas with a **Watershed Management and Rehabilitation Project** in 2003. An ADTA for capacity building of the Ministry of Forest and Soil Conservation will also be provided in 2002 to improve the Government's capacity to monitor the country's forest resources, and strengthen capacity in preparation for the loan in 2003. A PPTA is planned for 2001 to prepare the **Third Irrigation Sector Project** as standby for 2003. Both the Watershed Management and Third Irrigation Projects would contribute to direct poverty reduction and other development interventions.

B. Infrastructure

1. Energy

56. The strategy in the energy sector is to finance power transmission, distribution and rural electrification (the latter in support of the APP strategy for promoting economic growth and poverty reduction). A loan for **Rural Electrification, Distribution and Transmission** to be executed by the Nepal Electricity Authority (NEA) was approved in 1999, and ADB has emphasized to the Government the need to fulfill the conditions for loan effectiveness, particularly concerning the financial viability of the NEA. 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 cooperatives or similar entities.

57. Consistent with the 1999 COS, ADB will work with the Government and other donors 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, including possible restructuring of NEA. An ADTA project is planned in 2000 to support **Efficiency Improvements and Restructuring of the Power Sector**. A **Rural Renewable Energy** PPTA is provided in 2001, and a Rural Electrification II Project TA is included in the 2002 program. ADB has informed the Government that the TA program would only be processed if the Rural Electrification, Distribution and Transmission Project is made effective in 2000.

2. Transport

58. ADB's strategic objectives in the transport sector are to (i) continue to improve the existing core network, (ii) ensure adequate funding for operation and maintenance of existing transport facilities, (iii) support subregional linkages (iv) institutional strengthening, and (v) promote private sector participation (including the civil aviation subsector). These objectives will contribute to achieving the sectoral goal of promoting economic growth and thereby alleviating poverty.

59. 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 Project**¹⁸ (loan for 2001) includes proposed investments to improve the existing road network including vital segments of the east-west highway that will facilitate transport and trade across the border with Nepal's most important trading partner, India. This Project will also introduce a road maintenance fund to provide adequate provision for operation and maintenance, to protect the existing asset base. These efforts will be continued in the **Fifth Road Improvement Project**, for which a PPTA will be prepared in 2003. A PPTA on subregional road connection proposed for 2002 will prepare a project improving road trade and transport links with adjacent countries. Two ADTAs in 2001 will assist in the institutional strengthening of the Department of Roads, and the Civil Aviation Authority of Nepal. The Civil Aviation Authority of Nepal was established under the ongoing **Tribhuvan International Airport Improvement Project**,¹⁹ to focus on introducing greater commercialization in the sector. 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. Finance and Industry

60. The Government has emphasized the need for financial sector development as one of its policy priorities to stimulate economic growth, but has yet to introduce specific reforms in the sector. ADB's policy dialogue with the Government has focused on streamlining legislation and regulatory responsibilities, removing existing distortions, and building the management and oversight capacity of regulatory agencies and information providers. Key agencies for initial interventions in corporate governance include the Securities Board, the Company Registrar, and the Institute for Chartered Accountants of Nepal. Policy discussion has emphasized raising the level of transparency and information disclosure through improved accounting and auditing standards. For the financial sector, ADB will coordinate with the World Bank and International Monetary Fund on strengthening the Central Bank's capacity to regulate nonbank financial institutions. Reform of the large state-owned development banks is envisaged for a later stage of the process once an appropriate regulatory environment is established. Reform of the Agricultural Development Bank of Nepal will be considered in the broader context of rural finance reform, which will take as its institutional focus the commercialization and financial viability of the Agricultural Development Bank of Nepal and the Rural Microfinance Development Center. ADB's intervention in the financial sector will focus on promoting an effective financial

¹⁸ TA 2969-NEP: *Fourth Road Improvement*, for \$775,000, approved on 24 December 1997.

¹⁹ Loan 1512-NEP(SF): *Tribhuvan International Airport Improvement Project*, for \$40.0 million, approved on 23 January 1997.

system in support of economic growth and poverty reduction, on broadening access to financial services both in urban and rural areas, and on supporting private sector development.

61. As part of the task of improving corporate and financial governance, a loan is proposed in 2000, and would be supported by a cluster of five ADTAs and PPTA²⁰ for **Institutional Support for Corporate and Financial Governance** to be implemented over a three year period. Each of the five TAs will focus on specific aspects of the reform program, including accounting, regulation, legal reforms, information technology, and rural finance. In addition, a 2000 ADTA will help to reform company and insolvency laws as a foundation for further reforms in the sector.²¹ The processing of the reform program is being closely coordinated with the International Monetary Fund and World Bank programs in the Nepal Rastra Bank (the Central Bank) and with government-owned commercial banks. A follow-up cluster TA to provide further institutional support for the long-term assistance program for corporate and financial governance is planned for 2003.

C. Social Infrastructure and Environment

1. Education

62. ADB assistance to the education sector will be consistent with the Government's priorities by focusing on primary and secondary education, and nonformal education, and will improve human development as part of the Poverty Reduction Strategy. 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. A loan for a basic education project is included in the 2001 program. In secondary education, ADB's primary focus will be on technical assistance to secondary education, in cooperation with other donors in the sector. Investments are needed to improve quality, expand and upgrade physical facilities and to develop teacher training. An ADTA for institutional and capacity building in secondary education to assist the new Department of Education is planned for 2001, with a loan for a **Secondary Education II Project** planned for 2002.

63. 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 will include a PPTA in 2002 for a **Nonformal Education Project** in 2003.

²⁰ It is expected that the Bank will finance \$3.3 million as a grant under the TA.

²¹ TA 3461-NEP: *Company Insolvency, and Secured Transactions Law Reform*, for \$250,000, approved on 27 June 2000.

2. Urban Development

64. 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** has been prepared under a 1999 PPTA, with a loan planned for 2002. A **Kathmandu Valley Urban Improvement Project** PPTA is planned in 2002, with a loan in 2003.

3. Water Supply and Sanitation

65. Access to a clean water supply and good sanitation has an immediate and substantial impact on the population, especially for women through time saved in fetching water and for children through decreases in water-borne disease and related fatalities. Improvements in access to clean water allow women more time to participate in income-generating activities and promote healthy growth of children. 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 water supply and sanitation sector strategy is under preparation by the Government and due for completion in July 2000. ADB will prepare its strategy for future assistance in this sector based on the Government's strategy, and in consultation with other donors in the sector. Building on previous projects in the sector, a PPTA in 2001 will be provided to prepare a **Community-Based Water Supply and Sanitation Sector Project** for 2002, intended to develop community-based water supply projects in rural areas. 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**, a 2000 project.

4. Environment

66. 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 a number of projects in the pipeline with strong environment components, including the **Melamchi Water Supply Project** in 2000 and the **Ecotourism Project** in 2001. In 2002, the **Rural Infrastructure Sector Development, Urban Environment Improvement, and Community-Based Water Supply and Sanitation Sector Projects** have environmental considerations. In 2003, the **Kathmandu Valley Urban Improvement, and the Watershed Management and Rehabilitation Projects** will address environmental concerns.

67. A long-term program will be needed to achieve meaningful environmental improvements, so further support for capacity building for environmental improvement is planned for 2003, possibly to complement the Melamchi Project.

68. In the tourism sector, ADB's strategy is to promote public and private partnerships in environmental improvement to enhance rural tourism, and to stimulate income generation and poverty reduction in rural areas. In addition to the **Ecotourism Project** in 2001, an ADTA for a tourism sector review is planned in 2003 to identify means of further improving the quality of the industry, and particularly its environmental quality.

D. Governance Dimensions of ADB Operations

69. A significant constraint in implementing the country strategy for Nepal is the lack of efficiency, predictability, transparency, and accountability in key government 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 be emphasized rather than levels of assistance. Progress toward formulating and carrying out institutional strategies will be a condition for further ADB lending.

70. 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. Within this context, an ADTA was approved in 1999²² and has been under implementation to formulate an action plan for civil service reform, a key priority of the Government. An additional ADTA is programmed for 2000 for capacity building to prepare for a program loan in 2001, under which the action plan will be implemented. Issues to be addressed under the loan include developing an internal capability for leading reform, improving the efficiency of the civil service, reducing corruption, enhancing staff competence, and improving the performance of key ministries. Public awareness campaigns will also be developed to create a more accountable and inclusive society with broader public participation. Civil society participation in promoting more transparency, better information disclosure by the Government, and social auditing of civil service performance will be emphasized. A cluster ADTA beginning in 2001 will also be provided to support the reform program. ADB has emphasized that this operation is a cornerstone of ADB's Nepal strategy in the 1999 COS. Institutional support for fiscal decentralization, a related component of the civil service reform process, is also planned for 2003.

71. ADB will support initiatives through its projects 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 ensure ownership and better serve local needs.

72. 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.²³ Improvements are needed in enforcing contracts and property rights. Allowing

²² TA 3117-NEP: *Formulating an Action Plan on Civil Service Reform*, for \$630,000, approved on 14 December 1998.

²³ R89-98. *Anti-Corruption Policy*. 11 June 1998.

international accounting and auditing firms to practice in Nepal will help improve corporate governance and promote an environment more conducive to private sector participation. An ADTA is planned in 2002 to establish a government training capacity to train accountants throughout the civil service.

73. ADB through a cluster ADTA and TA loan in 2000 (see para. 60), 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.

74. Erosion of the civil service's independence by successive administrations, 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 by ADB. 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.

75. 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 Country Assistance Plan (CAP) documents.

76. 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 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

77. In line with the emphasis of the Ninth Plan on elimination of gender inequality, the 1999 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.

78. ADB assistance will emphasize women's empowerment in the development process, consistent with ADB's policy on gender and development.²⁴ ADB has 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 demanding physical labor in agricultural and household pursuits, 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 agriculture, rural microfinance, nonformal education, and water supply and sanitation projects. A PPTA in 2003 for a women empowerment project is included in the program.

79. 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, to contribute to reduction of women's poverty levels. 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 Development

80. ADB's Private Sector Development Strategy seeks to (i) support the development of enabling conditions for business, (ii) generate business opportunities in ADB-financed public sector projects, and (iii) catalyze private investment through direct financing and guarantees. ADB's strategy in Nepal to enhance the private sector's contribution to enhanced growth and poverty reduction focuses most immediately on the promotion of an enabling environment for private sector activities through ADB's public sector operations, and on generating opportunities for private sector participation in public sector projects. To develop the enabling environment for the private sector, impediments to development and growth of Nepal's private sector must be removed, to improve governance, transparency and efficiency in the corporate and financial sector. ADB's primary target for the next three years is to support the Government's efforts to establish transparent policies and basic mechanisms for corporate and financial governance, including support for streamlining legislative and regulatory frameworks, capacity building for regulation, supervision and enforcement, and improvements in information disclosure and accounting /auditing standards. ADB's **Corporate and Financial Governance Project** in 2000 supports these efforts, laying the groundwork for future private sector operations and growth in business activity.

81. With respect to private sector operations, ADB began its involvement in direct investments in the private sector in Nepal in 1989. Since then, three equity investments and five loans have been approved, amounting to \$53 million. While ADB will continue to assess specific investment opportunities in such projects that demonstrate commercial viability, catalyze private investment, and have development impact, those investments that not only meet these criteria but also complement and support such enabling policy initiatives will be accorded priority. In addition, as public-sector projects in the pipeline develop, opportunities for private sector participation and building public-private partnerships will be fully explored.

²⁴ R74-98. *Policy on Gender and Development*. 11 June 1998.

IV. REGIONAL COOPERATION

82. 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 (SAGQ) 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.

83. 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**,²⁵ and an ADTA to establish public private ventures in the corridor.²⁶ A loan for the **West Bengal Transport Development Project** is planned for 2001. 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 Kakarbhitta in Nepal and Siliguri on the border in India, to the port of Haldia, which is under development in India. The proposed **Fourth Road Improvement Project** in 2001 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 road connection.

84. Further support is being envisaged through a TA for an inland waterway in West Bengal (in 2002). 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 Nepal and India in water resources management. ADB is working closely with chambers of commerce and industry 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. An ADTA is proposed in 2001 for regional trade facilitation and an ADTA for a tourism sector review in 2003 that will include review of subregional cooperation to develop the sector.

85. As another building block for SAGQ subregional cooperation, ADB is considering assistance in the environment sector. Development of an SAGQ initiative to ascertain shared environmental problems and concerns within the macro basin-upper watershed ecosystem of the SAGQ is being considered. The first stage of this initiative may take the form of bilateral cooperation. Under such an arrangement, Nepal and Bhutan might cooperate on identification

²⁵ TA 3142-IND: *North-South Corridor Development in West Bengal*, for \$1,000,000, approved on 23 December 1998.

²⁶ TA 3445-IND: *Establishing a Public Private Joint Venture for the West Bengal North-South Economic Corridor*, for \$150,000, approved on 25 May 2000.

of upper watershed environmental management issues, for instance, with Bangladesh and India cooperating on identification of the basin (lower watershed) environmental management issues.

V. DONOR ACTIVITIES AND AID COORDINATION

86. Nepal continues to rely heavily upon external financing. Foreign assistance financed 50 percent of the development expenditures in FY2000, and grants and foreign loans have remained 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 being implemented.

87. 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 have accounted for about 55 percent of total external assistance. United Nations agencies (UNDP, World Food Program, and United Nations Children's Fund) are also active in Nepal. World Bank assistance is directed to the financial sector, natural resources, energy, industry, trade, and transport. The World Bank strategy in Nepal now uses performance based lending. Their approach is similar to ADB's strategy, addressing 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 also targeted at poverty reduction largely through programs supporting enhanced agricultural productivity, regionally balanced income generation and infrastructure development, and expansion of social services. The other major bilateral donors are Denmark, Germany, Switzerland, the United Kingdom, and the United States. These donors provide assistance across a number of sectors, making donor coordination essential.

88. ADB closely coordinates its activities with other donor agencies to develop a common understanding in all sectors in which it operates. The APP is a model for preparing 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, 13 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 the subgroups: (i) agriculture, rural development and rural water supply; and (ii) energy and power. During Country Programming Missions and project preparation and operational missions, donor meetings are held to share information on ADB's operations in the country and this is also increasingly the case with other major donors. Where practical, meetings of the thematic/sector subgroups are scheduled to coincide with important missions. The Nepal Donor Forum was held in Paris, France from 17-19 April 2000, at which the Government outlined its priority programs and discussed these with the donors, receiving broad support for the programs.

89. Collectively, the aid community is calling more regularly 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. The policy objectives, presented to the Nepal Donor Forum, have received strong support from the development community. In addition, the donor community is coordinating with the Government on their shared interest in the comprehensive poverty reduction strategy being prepared in 2000.

VI. COFINANCING AND CATALYZING EXTERNAL RESOURCES

90. ADB actively seeks opportunities for cofinancing to provide high quality and comprehensive development assistance. The major sources of cofinancing for Nepal are still official funding. From 1997-1999 a total of \$24.6 million was obtained for four projects from the Australian Agency for International Development, OPEC Fund for International Development (OPEC Fund), and the Canadian Agency for International Development.

91. The 2000 Country Programming Mission in February 2000 had extensive discussions with the donor community in Nepal (in addition to a broad spectrum of stakeholders), and confirmed that significant potential exists for cofinancing, primarily for the Melamchi Project, a 2000 loan. Initial commitments for the **Melamchi Water Supply Project** amount to about \$200 million from bilateral and multilateral sources, compared to ADB financing of \$60 million for the project. Donors include the Japanese Bank for International Cooperation, the OPEC Fund, the Nordic Development Fund, the Norwegian Agency for International Cooperation, the Swedish International Development Agency, and the World Bank. During the Country Programming Mission, the British Department for International Development (DFID) expressed strong interest in finding areas for coordinated efforts, particularly for the **Secondary Education II** and **Fourth Road Improvement Projects**.

92. The World Food Program and German Gesellschaft für Technische Zusammen are interested in possibly cofinancing the **Rural Infrastructure Sector Project**. During a cofinancing mission to Japan, the Japanese Bank for International Cooperation expressed interest in cofinancing the **Ecotourism, Rural Infrastructure Development, and Urban Environment Improvement Projects**, in addition to the **Melamchi Water Supply Project**. Apart from donor interest in cofinancing specific projects, further collaboration is expected with a number of donors. The Japanese International Cooperation Agency has expressed interest in cooperation on agricultural productivity improvement, rural income generation, urban environment improvement, and basic water supply and sanitation, particularly for the **Basic Education** and **Melamchi Water Supply Projects**. Potential areas for cooperation with the Danish International Development Agency include secondary education, urban environment improvement, and civil service reform. Collaboration with DFID is expected in agriculture and rural livelihood development (crop diversification and the agriculture sector performance review), civil service reform and the implementation and monitoring of the APP. Cofinancing opportunities will be followed up with the assistance of NRM. In addition, opportunities for private sector financing through cofinancing in ADB projects and direct investment and equity participation continue to be investigated.

VII. ADB'S OPERATIONAL PROGRAM

93. ADB's annual lending to Nepal for public sector projects has varied considerably, because of the relatively small program and the lumpiness of some of the projects (power sector projects in particular). The annual indicative planning figure for Nepal is set at \$70-\$80 million.

The proposed lending program during 2001-2003 consists of 11 projects totaling \$270 million, or an average of about \$90 million per year, with some overprogramming. Average annual lending from 1995 to 1999 was \$95 million, just above the average indicative planning figure (IPF) of \$80 to \$85 million during the period (the lending pipeline and technical assistance program is given in Appendix 4).

94. The proposed lending program has been prepared within the framework of the proposed ADB Nepal Poverty Reduction Strategy, the 1999 COS, and the performance indicators being developed under the performance based allocation approach. In 1999, one loan, the Rural Electrification, Distribution and Transmission for an amount of \$50 million was approved, as a result of delays in processing of the Melamchi Water Supply Project and Corporate and Financial Governance Program loans because of the need for additional policy dialogue and project preparation. For 2000, the ADB lending program consists of four firm projects, namely Crop Diversification, Small Towns Water Supply and Sanitation, Corporate and Financial Governance, and Melamchi Water Supply with a total value of \$116 million. While lending to Nepal is normally around \$80 million annually, delays in implementation of the Melamchi Water Supply Project loan and processing of the Corporate and Financial Governance Program Loan led to the processing of only one loan in 1999 for \$50 million (Rural Electrification), for an average lending level in 1999/2000 of \$88 million.

95. The 2000 TA program will be for one PPTA and 7 ADTAs totalling about \$5.2 million, including one cluster ADTA that will be implemented over a period of three years, with the value of the individual TAs in the cluster being shown in the year that they are approved. Consistent with the focus of the COS on building effective institutions, ADTAs predominate in 2000.

Table 2: Lending and Technical Assistance Program, 1999-2003

A. Public Sector Lending Program (number of loans; amount in \$million)										
	1999 (Actual)		2000		2001		2002		2003	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Lending Program ^a	1	50	4	116	4	110	4	80	3	80
ADF	1	50	4	116	4	110	4	80	3	80
OCR	-	-	-	-	-	-	-	-	-	-
Lending Pipeline ^b			4	116	5	130	4	80	4	105
ADF			4	116	5	130	4	80	4	105
OCR	-	-	-	-	-	-	-	-	-	-

B. Technical Assistance Program (number of TAs; amount in \$'000)										
	1999 (Actual)		2000		2001		2002		2003	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Technical Assistance Program ^a	11	4,510	7	4,420	11	8,650	11	7,300	8	5,750
Technical Assistance Pipeline ^b	11	4,510	8	5,220	11	8,650	11	7,300	8	5,750

^a Comprised of firm loans.

^b The Pipeline consists of both firm and standby projects.

96. The lending program for 2001-2003 is formulated on the basis of the 1999 Country Assistance Plan, the 1999 CPRM, and the 2000 Country Programming Mission, and is consistent with the strategic thrust of the 1999 COS. The projects have been designed to reduce poverty, improve economic growth, increase human development, improve

environmental management, and address key governance issues in the public and private sector. The major focus is on the agriculture sector, and sectors that support agricultural growth and rural development have been given high priority including support for poverty reduction, physical and social infrastructure, governance, and environment. The sectoral focus of the program is consistent with (i) the objectives of ADB's operations in Nepal and will assist in meeting the Government's development priorities and commitment to sector reform, (ii) ADB's role as a long-term development partner, and (iii) 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. All of the projects at least in part address cross cutting concerns. About 64 percent of the lending program is for social infrastructure, while 18 percent is in agriculture, and 9 percent each for transport and communications, and others.

97. Core poverty and poverty intervention projects constitute 86 percent of the number of projects (see Appendix 5). The projects have been identified to directly reduce poverty, contribute to other development interventions, increase human development, improve environmental management, address key governance issues in the public and private sector, and assist in building effective institutions (see Appendix 6 for profiles of 2001 projects). Actual resource allocation will depend on performance in the five key country specific areas mentioned in para. 45, progress in implementing policy and institutional reforms, absorptive capacity as measured by annual portfolio disbursement, and an assessment of Nepal's debt repayment capacity. This is to ensure that future levels of ADB investments will be commensurate with the necessary policy and institutional environment of the country to generate and sustain desired development impact.

98. The focus of the TA program is on institutional strengthening and capacity building needed to develop more effective sectoral institutions, the strategic approach of the 1999 COS, and project preparation. The TA program for 2001-2003 includes 30 TAs with a total value of \$21.7 million. The TA program for 2003 will be further refined during 2000, based on the results of planned sector strategy studies in several sectors. An annual average of four PPTAs is planned for the TA program to prepare the proposed four firm loans programmed for each year. The TA program is envisaged to be about \$7 million annually, although this will vary in individual years.

VIII. ECONOMIC AND SECTOR WORK PROGRAM

99. The economic and sector work program forms the basis for ADB's support of policy reform, capacity building, and institutional strengthening in Nepal. Four studies in 1999 and 2000—an assessment of the progress of the Agriculture Perspective Plan, institutional development in the power sector, an urban sector study, and an irrigation sector analysis—will provide guidelines for future ADB interventions in the agriculture, energy, and urban development sectors. Governance in the public and private sectors is also a key area for the economic and sector work program. A governance strategy will be prepared, an action plan for civil service reform will be finalized, and the proposed cluster ADTA on corporate and financial governance will assist the Government in strengthening institutions in this sector. The Poverty Reduction Partnership Agreement will also be prepared. Sector work will also be undertaken to complete sector strategies in sectors where these do not exist, such as the transport and water supply and sanitation sectors, and sectoral road maps will subsequently be prepared. ADB will also prepare a private sector strategy to increase the private sector development impact.

Building on ongoing donor assistance and to assist in improving the planning process, ADB will also provide ADTA support in 2001 to NPC for preparation of the Tenth Five Year Plan. Further ADTA support for the Central Bureau of Statistics will also be provided in 2002 to support the analysis of the agriculture census.

IX. LOCAL COST FINANCING

100. Shortage of counterpart funds is not a serious problem in Nepal as it was in earlier years of ADB operations. In FY2000 only one project received insufficient budgetary allocation. However, the Government has assured ADB that adequate funding would be provided as required. The low level of domestic savings continues to be a significant constraint on development efforts. The Government is still constrained to allocate adequate funds for operation and maintenance expenditures and this issue is being addressed by ADB CPRMs 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 2000 Country Programming Mission reminded 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.

NEPAL
COUNTRY PERFORMANCE INDICATORS

Item	1995	1996	1997	1998	1999	2000 ^a
Economic Indicators						
A. Income						
GDP per Capita (\$, current prices)	219.0	220.0	234.0	226.0	227.0	243.0
GDP Growth (%)	2.7	5.6	4.9	3.2	3.9	5.9
Agriculture	-0.3	4.4	4.1	1.0	2.7	5.0
Industry	4.0	8.3	6.4	2.3	4.2	8.3
Services	6.0	5.8	4.6	6.4	5.2	5.9
B. Saving and Investment						
	(Percent of GDP)					
National Saving	17.4	15.6	16.0	16.2	16.9	17.1
Domestic Investment	25.2	27.3	25.3	24.8	20.2	20.9
C. Money and Inflation						
	(Annual percent change)					
Consumer Prices	7.6	8.1	8.1	8.4	11.3	3.4
Money Supply (M2)	16.1	14.4	11.9	21.9	20.9	16.4
D. Government Finance						
	(Percent of GDP)					
Revenue (including grants)	12.5	12.7	12.7	12.3	11.6	12.3
Expenditure (including net lending)	16.1	17.1	16.5	16.9	15.5	16.1
Overall Surplus/Deficit (-)	-3.6	-4.4	-3.9	-4.6	-3.9	-3.9
E. Balance of Payments						
Merchandise Trade Balance (% of GDP)	-21.0	-22.0	-25.3	-20.5	-15.3	-17.2
Current Account Balance (% of GDP)	-7.8	-11.7	-9.4	-8.7	-3.4	-3.9
Export (\$) growth (%)	-9.7	1.9	10.2	11.9	18.2	33.5
Import (\$) growth (%)	21.7	5.8	21.7	-12.4	-10.3	27.2
F. External Payments Indicators						
International Reserves (\$ million)	699.0	606.0	647.0	712.0	791.0	-
(months of import of goods and services)	5.5	4.5	4.2	5.2	6.3	-
Debt Service Ratio	5.6	6.0	4.5	6.1	6.1	5.3
External Debt (% of GDP)	55.0	50.3	53.5	53.8	50.9	47.8
Memorandum Items:						
GDP at Market Prices (NRs millions)	219975.0	248913.0	280513.0	300793.0	339384.0	376433.0
Gross National Product (NRs millions)	223992.0	252479.0	285173.0	306817.0	350264.0	390051.0
Average Exchange Rate (NRs per \$)	50.0	55.2	57.0	61.9	67.9	68.8
Midyear Population (millions)	20.1	20.5	21.0	21.5	22.0	22.6

^a Preliminary estimates.

GDP = gross domestic product; - not available

93.0 95.0 96.0 97.0

	499565.0	667772.0	768128.0	890485.0	GDP
	(55374.5)	(77109.1)	(74276.1)	(71091.4)	
	(23951.8)	(38639.0)	(37764.5)	(22347.2)	
	(11.1)	(11.5)	(9.7)	(8.0)	
	(4.8)	(5.8)	(4.9)	(2.5)	

NEPAL
COUNTRY PERFORMANCE INDICATORS

	1985	1990	Latest Year	
POPULATION INDICATORS				
Total Population (millions)	16.2	17.9	22.6 (2000)	Gov't figure (latest figure)
Annual Population Growth Rate (% change)	2.1	2.1	2.4 (1999)	Gov't figure (latest figure)
SOCIAL INDICATORS				
Total Fertility Rate (births per woman)	5.3 (1981)	5.1 (1991)	4.6 (1996)	ADB Women in Nepal
Maternal Mortality Rate (per hundred thousand live births)	-	-	539 (1990-96)	NESAC 1998
Infant Mortality Rate (below 1 year; per '000 live births)	156 (1974)	128	75 (1998)	MOF Economic Survey
Life Expectancy at Birth (years)	45	54	58 (1998)	HDR 2000
Female	45	53	58 (1998)	HDR 2000
Male	48 (1981)	55	58 (1998)	HDR 2000
Adult Literacy (% of age 10 and above)	24 (1981)	40 (1991)	38 (1996)	NESAC 1998
Primary School Enrollment (% of children age 6-10)	75	103	114 (1995)	NESAC 1998
Female	47	77	94 (1995)	NESAC 1998
Secondary School Enrollment (% of children age 11-13)	25	31	48 (1995)	NESAC 1998
Female	12	18	36 (1995)	NESAC 1998
Child Malnutrition (% of under age 5)	-	70 (1989-95)	47 (1990-98)	HDR 2000
Population Below Poverty Line (%)	-	-	42 (1996)	Gov't figure
Income Ratio of Highest 20% to Lowest 20%	4.3 (1984-85)	-	5.9 (1987-98)	HDR 2000
Population with Access to Safe Water (%)	28 (1980-85)	-	71 (1987-98)	HDR 2000
Population with Access to Sanitation (%)	-	-	16 (1990-98)	HDR 2000
Public Education Expenditure as % of GNP	1.7	1.7	2.3 (2000)	MOF Economic Survey
Public Health Expenditure as % of GDP	0.8	0.7	0.9 (2000)	MOF Economic Survey
Human Development Index	0.273 (1987)	0.170	0.474 (1998)	HDR (various years)
Human Development Ranking	114 (1987)	152	144 (1998)	HDR (various years)

Sources: ADB, *Women in Nepal*; United Nations Development Programme (UNDP), *Human Development Report 2000*; Ministry of Finance, *Economic Survey 1999-2000*; Nepal South Asia Centre, *Nepal Human Development Report 1998*.

NEPAL
COUNTRY PERFORMANCE INDICATORS

ENVIRONMENTAL INDICATORS	1980	Latest
Energy Efficiency of Emissions		
GDP per unit of energy use (1995 \$ per kg oil equivalent)	1.5	3.7 (1997)
Traditional fuel use (percent of total energy use)	94.2	90.9 (1996)
Carbon dioxide emissions (total metric tons)	0.5	1.6 (1996)
" (per capita metric tons)	0.0	0.1 (1996)
Water Pollution		
Emissions of organic water pollutants (kg/day)	18,692.0	32,544 (1996)
Industry share of emissions of organic water pollutants		
Wood (percent)		1.7 (1997)
Primary Metals (")		1.5 (1997)
Pulp and Paper (")		8.1 (1997)
Chemical (")		3.9 (1997)
Food and Beverage (")		43.3 (1997)
Textiles (")		39.3 (1997)
Land Use and Deforestation		
Forest area (thousand sq. km.)	64 (1964)	48 (1996)
Average annual deforestation (sq. km)		548 (1990-95)
" (percent change)		1.1 (1990-95)
Rural population density (people per sq. km of arable land)		668 (1996)
Arable land (percent of land area)	16.0	20.3 (1997)
Permanent cropland (")	0.2	0.5 (1997)
Biodiversity and Protected Areas		
Nationally protected areas (sq. km '000)		11.1 (1996)
Percent of total land area		7.8 (1996)
Mammals (number of threatened species)		28 (1996)
Birds (")		27 (1996)
Higher plants (")		20 (1997)
Reptiles (")		5 (1996)
Amphibians (")		0 (1996)
Urban		
Urban population (millions)	0.9	2.6 (1998)
Percentage urban	7.0	11 (1998)
Per capita water use (l/day) - Kathmandu		80.0
Wastewater treated (percent) - Kathmandu		0.0
Per capita solid waste generation (g/day) - Kathmandu		.5 (1994 est.)
Air Pollution - ranges of 24 hour averages (1993)		
City population ('000) - Kathmandu Valley	363.5	661.8 (1993) ^{a/}
Total suspended particulates (micrograms per cubic meter)		87 - 430 (1993) ^{b/}
Lead		0.18 - 0.53 (1993) ^{c/}
Sulfur dioxide (")		17 - 77 (1993) ^{b/}
Nitrogen dioxide (")		11 - 49 (1993) ^{b/}

^{a/} 598.5 unadjusted.

^{b/} 13 sites in the Kathmandu Valley.

^{c/} 9 sites in the Kathmandu Valley.

Sources:

A Compendium on Environment Statistics 1998 - NEPAL, Kathmandu
 2000 World Development Indicators, World Bank
 1998-1999 World Resources: A Guide to the Global Environment
 RETA 5555: Data on Environmental Indicators for Participating DMCs
 Human Development Report 2000

NEPAL

PORTFOLIO PERFORMANCE

**Table 1 : Implementation, Disbursement Performance and Postevaluation Results
Public Sector Projects only
(as of 31 December 1999)**

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	196.1	37	10	50	-	9	1	-	-	1	8	1	-
Energy	201.6	38	2	10	-	2	-	-	-	-	2	-	-
Finance and Industry	-	-	-	-	-	-	-	-	-	-	-	-	-
Social Infrastructure	72.6	14	6	30	-	6	-	-	-	-	5	1	-
Transport and Communications	60.7	11	2	10	-	2	-	-	-	-	2	-	-
Others/Multisector	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	530.9	100	20	100	-	19	1	-	-	1	17	2	-

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	-	481.2	481.2
(2) Disbursed amount (\$ mn, cumulative, active loans only)	-	217.6	217.6
(3) Percentage disbursed [(2)/(1)] (%)	-	45.2	45.2
(4) Disbursements (\$mn, active loans only, latest year)	-	67.4	67.4
(5) Disbursement ratio (%) ^b	-	21.2	21.2

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
Net transfer in 1999	5.0	45.9	50.9

D. Post-Evaluated Projects 1. Postevaluation Rating (as of 31 December 1999)	1968 - 1977		1978 - 1987		1988 - 1999		1968 - 1999	
	No.	%	No.	%	No.	%	No.	%
Rated Generally Successful (GS)	8	66.7	11	50.0	-	-	19	54.3
Rated Partly Successful (PS)	1	8.3	6	27.3	1	100.0	8	22.9
Rated Unsuccessful (US)	3	25.0	5	22.7	-	-	8	22.9
No Rating	-	-	-	-	-	-	0	0.0
Total	12	100.0	22	100.0	1	100.0	35	100.0

2. Postevaluation Rating by Sector (as of 31 December 1999)	GS		PS		US		NR		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	10	52.6	6	75.0	5	62.5	-	-	21	60.0
Energy	5	26.3	-	-	1	12.5	-	-	6	17.1
Finance and Industry	-	-	-	-	1	12.5	-	-	1	2.9
Social Infrastructure	-	-	2	25.0	1	12.5	-	-	3	8.6
Transport and Communications	4	21.1	-	-	-	-	-	-	4	11.4
Others/Multisector	-	-	-	-	-	-	-	-	-	-
Total	19	100.0	8	100.0	8	100.0	-	-	35	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 Excludes equity investment operations.

Source : Programs (A), CTD (B & C), OEO (D)

NEPAL
PORTFOLIO PERFORMANCE

Table 2: Status of Project Implementation
Public Sector Projects Only
(As of 31 December 1999)

Sector ^a	Loan Number	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Physical Progress (% Complete)	Cum Contract Awards (\$ million)	Cumulative Disbursement (\$ million)	Project Performance Rating ^b	
			OCR (\$ million)	ADF (\$ million)			Original (mm/yy)	Revised (mm/yy)				Implement Progress	Development Objective
AGR	1113	1 Rajapur Irrigation Rehabilitation	-	16.787	Oct-91	Apr-92	Jun-98	Dec-00	87	16.179	12.49	S	S
AGR	1114	2 Upper Sagarmatha Agricultural Development	-	12.489	Oct-91	May-92	Jun-00	-	67	7.024	6.105	PS	PS
AGR	1237	3 Microcredit for Women	-	3.767	Jun-93	Dec-93	Jun-00	-	90	3.328	3.603	S	HS
AGR	1311	4 Irrigation Management Transfer	-	12.344	Sep-94	Jun-95	Jun-02	-	42	2.147	2.318	S	S
AGR	1437	5 Second Irrigation Sector	-	23.46	May-96	Sep-96	Dec-02	-	30	11.855	10.963	S	S
AGR	1450	6 Rural Infrastructure Development	-	11.554	Jun-96	Sep-96	Jun-03	-	29	3.062	2.375	S	S
AGR	1461	7 Third Livestock Development	-	16.474	Sep-96	Mar-97	Jul-03	-	30	3.877	2.622	S	S
AGR	1604	8 Second Agriculture Program	-	49.605	Jan-98	Mar-98	Dec-00	-	-	25.432	24.538	S	S
AGR	1609	9 Community Groundwater Irrigation Sector	-	30.069	Feb-98	Mar-99	Jul-05	-	2	0.23	0.687	S	S
AGR	1650	10 Rural Microfinance	-	19.506	Dec-98	May-99	Jun-05	-	1	0	0.25	S	S
		Subtotal	-	196.055						73.134	65.951		
SOC	1141	11 Primary Education Development	-	16.392	Dec-91	May-92	Jun-98	Jun-99	93	13.255	12.991	S	PS
SOC	1196	12 Secondary Education Development	-	8.038	Nov-92	Aug-93	Jun-99	Jun-00	93	5.888	6.136	S	S
SOC	1240	13 Kathmandu Urban Development	-	8.094	Jun-93	Feb-94	Dec-98	Oct-99	98	7.728	7.269	S	S
SOC	1451	14 Second Tourism Development	-	16.322	Jul-96	Dec-96	Dec-01	-	28	3.989	1.938	S	S
SOC	1464	15 Fourth Rural Water Supply & Sanitation Sector	-	18.783	Sep-96	Jan-97	Jun-02	-	64	13.726	13.542	S	S
SOC	1640	16 Melamchi Water Supply (Eng)	-	4.991	Nov-98	Apr-99	Dec-00	-	49	3.729	1.709	S	S
		Subtotal	-	72.62						48.315	43.585		
ENE	1452	17 Kali Gandaki "A" Hydroelectric Power	-	151.875	Jul-96	Dec-96	Jul-01	-	48	98.198	78.98	S	S
ENE	1732	18 Rural Elect., Distribution & Transmission	-	49.734	Dec-99	-	Jun-05	-	-	-	-	S	S
		Subtotal	-	201.609						98.198	78.98		
T&C	1377	19 Third Road	-	35.206	Sep-95	Jan-96	Jun-01	-	82	32.375	29.441	S	S
T&C	1512	20 Tribhuvan International Airport Improvement	-	25.457	Jan-97	Jul-97	Dec-01	-	45	17.533	10.236	S	S
		Subtotal	-	60.663						49.908	39.677		
		Total	-	530.947						269.555	228.193		

Note: Excluding loans closed in 1999 with disbursements of \$3.136 million and cumulative disbursements of 65.04 million

^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 ^a

in \$ million

External Source	1996/97 - 1998/99 3 Years (Annual Average)		1999/2000	
	Loan/Credit	TA/Grant	Loan/Credit	TA/Grant
A. Multilateral Assistance				
ADB	129.76	4.82	50.00	4.23
EU	-	9.96	-	23.04
IFAD	2.82	-	-	-
OPEC	3.43	-	-	-
UN Group (UNDP, UNFPA, UNICEF, WFP)	-	38.75	-	-
World Bank Group (IDA, IBRD)	53.41	0.64	59.82	-
Subtotal (A)	189.42	54.17	109.82	27.27
B. Bilateral Assistance				
Australia	-	2.60	-	-
Belgium	0.73	-	-	-
Canada	-	0.93	-	2.89
China, People's Republic of	-	6.71	-	13.73
Denmark	-	45.53	-	-
Finland	-	6.90	-	11.51
France	0.85	0.65	-	-
Germany	-	36.00	-	21.00
India	-	0.09	-	-
Japan	51.12	36.58	-	72.12
Kuwait	1.67	-	-	-
Netherlands	-	3.96	-	3.88
Norway	-	-	-	25.11
Saudi Fund	3.61	-	-	-
South Korea	4.32	0.26	-	-
Switzerland	-	4.89	-	4.27
United Kingdom	-	16.23	-	1.96
United States	-	34.82	-	-
Subtotal (B)	62.3	196.2	0.0	156.5
Total (A + B)	251.7	250.3	109.8	183.7
Memo Items:				
External Assistance as % of Current Expenditures in 1999/2000 was 57.7%.				
External Assistance as % of Capital Expenditures in 1999/2000 was 59.5%.				

^a Data based on the dates of agreements signed between the Government and the donors.

Source: Foreign Aid Coordination Division, Ministry of Finance

NEPAL
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name		Poverty Classification ^{a*}	Crosscutting Operational Priority ^{b*}	Responsible Division	Year of PPTA	PROJECT COST (\$ million)			
						TOTAL	Bank (ADF)	Government	Cofinancing
2001 FIRM LOANS									
Social Infrastructure									
1	Basic Education	PI	HD	AWEH	1999	24.0	20.0	4.0	-
2	Ecotourism	PI	ENV	AWWU	1999	24.0	20.0	4.0	-
	Subtotal					48.0	40.0	8.0	-
Transport and Communications									
3	Fourth Road Improvement	PI	PSD	IWTC	1997	60.0	50.0	10.0	-
	Subtotal					60.0	50.0	10.0	-
Others									
4	Civil Service Reform Program	ODI	GG	PW1	1998 ^{c/}	25.0	20.0	5.0	-
	Subtotal					25.0	20.0	5.0	-
	Total					133.0	110.0	23.0	-
2001 STANDBY LOAN									
Social Infrastructure									
5	Urban Environment Improvement	PI	ENV	AWWU	1999	24.0	20.0	4.0	-
2002 LOAN PIPELINE									
Agriculture and Natural Resources									
1	Rural Infrastructure Sector Development	CPI	ENV	AWAR	2001	24.0	20.0	4.0	-
	Subtotal					24.0	20.0	4.0	-
Social Infrastructure									
2	Urban Environment Improvement	PI	ENV	AWWU	1999	24.0	20.0	4.0	-
3	Community-Based Water Supply and Sanitation Sector	PI	HD	AWWU	2001	24.0	20.0	4.0	-
4	Secondary Education II	PI	HD	AWEH	2000	24.0	20.0	4.0	-
	Subtotal					72.0	60.0	12.0	-
	Total					96.0	80.0	16.0	-
2003 FIRM LOANS									
Agriculture and Natural Resources									
1	Watershed Management and Rehabilitation	PI	ENV	AWFN	1998	36.0	30.0	6.0	-
	Subtotal					36.0	30.0	6.0	-
Social Infrastructure									
2	Kathmandu Valley Urban Improvement	ODI	HD	AWWU	2002	36.0	30.0	6.0	-
3	Nonformal Education	PI	HD	AWEH	2002	24.0	20.0	4.0	-
	Subtotal					60.0	50.0	10.0	-
	Total					96.0	80.0	16.0	-
2003 STANDBY LOANS									
4	Third Irrigation Project	PI	ENV	AWFN	2001	30.0	25.0	5.0	-

^{a/} CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^{b/} ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development

^{c/} ADTA

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

NEPAL
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003^{a/}

Sector/Project Name		Responsible Division	Type of TA	Amount (\$'000)		
				Bank	Others	Total
2001 TECHNICAL ASSISTANCE PROGRAM						
Agriculture and Natural Resources						
1	Third Irrigation	AWFN	PPTA	600.0	-	600.0
2	Rural Infrastructure Sector Development	AWAR	PPTA	800.0	-	800.0
3	Portfolio Audit of ADBN	AWAR	ADTA	500.0	-	500.0
	Subtotal			1,900.0	0	1,900.0
Energy						
4	Rural Renewable Energy	IWEN	PPTA	600.0	-	600.0
	Subtotal			600.0	0	600.0
Transport and Communications						
5	Institutional Strengthening of Department of Roads	IWTC	ADTA	600.0	-	600.0
6	Institutional Strengthening of CAAN	IWTC	ADTA	250.0	-	250.0
	Subtotal			850.0	-	850.0
Social Infrastructure						
6	Community-Based Water Supply and Sanitation Sector	AWWU	PPTA	500.0	-	500.0
7	Institutional and Capacity Building in Secondary Education	AWEH	ADTA	600.0	-	600.0
	Subtotal			1,100.0	0	1,100.0
Others						
8	Institutional Support for Corporate and Financial Governance ^{b/}	IWFI	ADTA	2,100.0	-	2,100.0
9	Support in the Preparation of the Tenth Plan	PW1	ADTA	500.0	-	500.0
10	Regional Trade Facilitation (Growth Quadrangle)	PW1	ADTA	1,000.0	-	1,000.0
11	Institutional Strengthening for Civil Service Reform ^{b/}	PW1	ADTA	600.0	-	600.0
	Subtotal			4,200.0	-	4,200.0
Total				8,650.0	0	8,650.0
2002 TECHNICAL ASSISTANCE PROGRAM						
Agriculture and Natural Resources						
1	Rural Finance Development	AWAR	PPTA	800.0	-	800.0
2	Capacity Building in the Ministry of Forestry and Soil Conservation	AWFN	ADTA	600.0	-	600.0
3	Institutional Strengthening of Ministry of Local Development	AWAR	ADTA	600.0	-	600.0
	Subtotal			2,000.0	0	2,000.0
Transport and Communications						
4	Subregional Roads Connection	IWTC	PPTA	600.0	-	600.0
	Subtotal			600.0	0	600.0
Energy						
5	Rural Electrification II	IWEN	PPTA	600.0	-	600.0
	Subtotal			600.0	0	600.0
Social Infrastructure						
6	Kathmandu Valley Urban Improvement	AWWU	PPTA	600.0	-	600.0
7	Nonformal Education	AWEH	PPTA	600.0	-	600.0
	Subtotal			1,200.0	0	1,200.0
Others						
8	Support the Analysis of Agriculture Census	EDSD	ADTA	600.0	-	600.0
9	Establishment of Training Capability	COPP	ADTA	1,000.0	-	1,000.0
10	Institutional Support for Corporate and Financial Governance ^{b/}	IWFI	ADTA	700.0	-	700.0
11	Institutional Strengthening for Civil Service Reform ^{b/}	PW1	ADTA	600.0	-	600.0
	Subtotal			2,900.0	0	2,900.0
Total				7,300.0	0	7,300.0
2003 TECHNICAL ASSISTANCE PROGRAM						
Agriculture and Natural Resources						
1	Women Empowerment	AWAR	PPTA	800.0	-	800.0
2	Integrated Agricultural Development	AWAR	PPTA	800.0	-	800.0
	Subtotal			1,600.0	0	1,600.0
Transport and Communications						
3	Fifth Road Improvement	IWTC	PPTA	600.0	-	600.0
	Subtotal			600.0	0	600.0
Social Infrastructure						
4	Tourism Sector Review	AWWU	ADTA	150.0	-	150.0
	Subtotal			150.0	0	150.0
Others						
5	Institutional Support for Fiscal Decentralization	PW1	ADTA	500.0	-	500.0
6	Capacity Building for Environmental Improvement	ENVD/PWOD	ADTA	1,000.0	-	1,000.0
7	Institutional Support for Corporate and Financial Governance ^{c/}	PW1	ADTA	1,100.0	-	1,100.0
8	Institutional Strengthening for Civil Service Reform ^{b/}	IWFI	ADTA	800.0	-	800.0
	Subtotal			3,400.0	0	3,400.0
Total				5,750.0	0	5,750.0

a/ Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization fit in with the ADB-wide annual resource envelope.

b/ Cluster TA to be implemented over a 3-year period

c/ First project of the second cluster TA.

FIRM LENDING PROGRAM, 2001-2003
BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR

Classification	2001		2002-2003		2001-2003		2001-2003	
	No.	%	No.	%	No.	%	Amt.	%
I. By Poverty Classification*								
A. Core Poverty Intervention	-	-	1	14.3	#VALUE! #####		20	7.41%
B. Poverty Intervention (Non-core)	3	75.0	5	71.4	8 #####		230	85.19%
C. Other Development Interventions	1	25.0	1	14.3	2 #####		20	7.41%
Total	4	100.0	7	100.0	#VALUE! #####		270	100.00%
II. By Crosscutting Operational Priority*								
A. Environment	1	25.0	3	42.9				
B. Gender and Development	-	-	-	-				
C. Good Governance	1	25.0	-	-				
D. Human Development	1	25.0	4	57.1				
E. Private Sector Development	1	25.0	-	-				
F. Regional Cooperation	-	-	-	-				
Total	4	100.0	7	100.0				
III. By Sector								
A. Agriculture and Natural Resources	-	-	2	28.6	#VALUE! #####		65	24.07%
B. Energy	-	-	-	-	#VALUE! #####		0	0.00%
C. Finance and Industry	-	-	-	-	#VALUE! #####		0	0.00%
D. Social Infrastructure	2	50.0	5	71.4	7 #####		135	50.00%
E. Transport and Communications	1	25.0	-	-	#VALUE! #####		50	18.52%
F. Others/Multisector	1	25.0	-	-	#VALUE! #####		20	7.41%
Total	4	100.0	7	100.0	#VALUE! 100		270	100%

This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

NEPAL

PROJECT PROFILE																					
1. Project Name: Basic Education	2. Sector/Subsector: Social Infrastructure/ Education																				
3. Poverty Classification: ^{a/} * PI	4. Crosscutting Operational Priority ^{b/} * HD																				
5. Rationale and Objectives: Despite significant improvements in access to basic education in Nepal in the last two decades, both access and quality of basic education remain a constraint to achieving the goal of universal education to improve human development as part of the poverty reduction strategy. A multi-donor intervention in basic education is under implementation. To complement this intervention, in close cooperation with the donors, the ADB plans to make interventions for strengthening the capacity for and improving teacher competencies, and for increasing access for the socially, economically, and geographically disadvantaged groups. This intervention will be based on the feasibility report of the TA currently being implemented and will include capacity building, policy dialogue, pre-service and in-service training of teachers and special measures to improve access for the disadvantaged groups.	6 Beneficiary Participation in Formulation: The project will be prepared after consultations with the beneficiaries and other stakeholders, such as teachers, community groups, private individuals associated with education, NGOs, institutions and concerned government officials.																				
7. Scope: The broad objectives of the project will be to: (i) to promote more equitable access to basic education for poor people living in remote areas, and for girls and other disadvantaged groups; (ii) improve the quality of basic education (particularly primary education) through improved pre-service and in-service teacher training; and (iii) strengthen government capacity for policy-making, planning and managing the delivery of more efficient and better quality basic education services, particularly in the area of basic teacher training.																					
8. Estimated Cost & Financing Plan (\$): Loan Project Cost (\$m) <table border="1"> <thead> <tr> <th>Financing (Source)</th> <th>FC</th> <th>LC</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Bank</td> <td></td> <td></td> <td>20.0</td> </tr> <tr> <td>Co-financing</td> <td></td> <td></td> <td>-</td> </tr> <tr> <td>Borrower</td> <td></td> <td></td> <td>4.0</td> </tr> <tr> <td>Total</td> <td>0.0</td> <td>0.0</td> <td>24.0</td> </tr> </tbody> </table>	Financing (Source)	FC	LC	Total	Bank			20.0	Co-financing			-	Borrower			4.0	Total	0.0	0.0	24.0	Remarks: The project will be prepared based on the recommendations of a technical assistance being provided for the purpose.
Financing (Source)	FC	LC	Total																		
Bank			20.0																		
Co-financing			-																		
Borrower			4.0																		
Total	0.0	0.0	24.0																		
9. Estimated Benefits and Beneficiary Groups: It is expected that the project will lead to a well-defined policy for recruitment of teachers, strengthening the capacity of the teacher training institutions, ensure that eventually all teachers have the basic training and establish a mechanism for in-service training and that this training will not only improve teacher capability but also sensitize teachers to the needs of the disadvantaged students. The project will contribute to poverty reduction and improve access for disadvantaged groups. The beneficiary groups will be identified during project preparation based on the recommendations and the findings of the TA.																					
10. Executing Agency: Ministry of Education	11. Project Implementation Period: Start: End:																				
12. Environment Category: C	13. Processing Year: 2001																				

a/

b/

*

CPI = Core Poverty Intervention; PI - Poverty Intervention; ODI= Other Development Interventions
 ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development;
 PSD = Private Sector Development
 This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

NEPAL

PROJECT PROFILE																							
1.	Project Name: Ecotourism	2.	Sector/Subsector: Social Infrastructure/ Environment																				
3.	Poverty Classification: ^{a/} PI	4.	Crosscutting Operational Priority: ^{b/} *																				
5.	Rationale and Objectives: There is a need to promote new tourist destinations keeping in view the environmental, sociocultural, ecological, economic, and financial considerations. West Himalaya region, including Lumbini, Jumla and Dolpa areas, has a rich history and significant archaeological ruins but is the least developed region. Ecotourism development of the region will impact positively on the environment by catalyzing the proper management of natural resources, and will contribute to poverty reduction in rural areas.	7.	Beneficiary Participation in Formulation: Consultation with potential beneficiaries and other stakeholders, including workshops, will be made during PPTA implementation and will be continued during the processing of the Project.																				
7.	Scope: The objective of the Project is to address the poverty, gender, and environmental issues within the context of tourism development. It will develop ecotourism in west Himalaya and midhill areas; upgrade domestic airports, infrastructure and services, and strengthen air communication; and improve environmental protection and infrastructure in the Tansen-Lumbini area.																						
8.	Estimated Cost & Financing Plan (\$): Loan Project Cost (\$m) <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Financing (Source)</th> <th>FC</th> <th>LC</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Bank</td> <td></td> <td></td> <td>20.0</td> </tr> <tr> <td>Co-financing</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Borrower</td> <td></td> <td></td> <td>4.0</td> </tr> <tr> <td>Total</td> <td>0.0</td> <td>0.0</td> <td>24.0</td> </tr> </tbody> </table>	Financing (Source)	FC	LC	Total	Bank			20.0	Co-financing				Borrower			4.0	Total	0.0	0.0	24.0	Remarks: The project will be prepared based on the recommendations of a technical assistance being provided for the purpose.	
Financing (Source)	FC	LC	Total																				
Bank			20.0																				
Co-financing																							
Borrower			4.0																				
Total	0.0	0.0	24.0																				
9.	Estimated Benefits and Beneficiary Groups: The Project is expected to improve environmental protection and management of important tourism destinations, and improve domestic airports' infrastructure and services. There will be reduction in poverty by diversifying the benefits of tourism throughout the country and by providing access to the areas. Women will particularly benefit through access to education, employment in cottage industries, and managing tourism-related sites and services.																						
10.	Executing Agency: Ministry of Tourism and Civil Aviation	11. Project Implementation Period: Start: 2002 End: 2007																					
12.	Environment Category: B	13. Processing Year: 2001																					

a/

b/

*

CPI = Core Poverty Intervention; PI - Poverty Intervention; ODI= Other Development Interventions

ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development;

PSD = Private Sector Development

This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

NEPAL

PROJECT PROFILE																							
1.	Project Name: Civil Service Reform Program	2. Sector/Subsector: Others																					
3.	Poverty Classification: ^{a/} ODI	4. Crosscutting Operational Priority: ^{b/} * HD																					
5.	Rationale and Objectives: Fiscal problems, corruption, low staff productivity and morale, and performance and service issues all contribute to poor performance of the civil service in Nepal. Overcoming these institutional weaknesses particularly in public sector management will be critical in Nepal's efforts to break out of the poverty trap. The overall goal of the civil service reform program is to establish a more results- and people-oriented civil service, which would contribute towards promoting higher economic growth and reducing poverty.	7. Beneficiary Participation in Formulation: All relevant stakeholders including the Government, political parties, civil society, the private sector and donors will be consulted.																					
7.	Scope: The objectives of the civil service reform program are to (i) develop an internal capability within the Government to lead and undertake a reform agenda, (ii) improve efficiency of the civil service, (iii) improve governance and eliminate corruption in the government, (iv) enhance staff competence, and (v) establish processes for improving performance in key ministries. The reforms would focus on freeing up resources to enhance pay and to increase the proportion of operating expenditures in the regular budget. A second step will include actions to reduce corruption, develop leadership and management qualities of senior civil servants, to recruit talented staff into the service. Coupled with appropriate tools and materials provided through a larger operating budget, civil servants should be better equipped to perform well. The third step would be to inject into ministries a robust but simple performance improvement process to assist them to provide better services.																						
8.	Estimated Cost & Financing Plan (\$): Loan Project Cost (\$m) <table border="1"> <thead> <tr> <th>Financing (Source)</th> <th>FC</th> <th>LC</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Bank</td> <td></td> <td></td> <td>20.0</td> </tr> <tr> <td>Co-financing</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Borrower</td> <td></td> <td></td> <td>5.0</td> </tr> <tr> <td>Total</td> <td>0.0</td> <td>0.0</td> <td>25.0</td> </tr> </tbody> </table>	Financing (Source)	FC	LC	Total	Bank			20.0	Co-financing				Borrower			5.0	Total	0.0	0.0	25.0	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																				
Co-financing																							
Borrower			5.0																				
Total	0.0	0.0	25.0																				
9.	Estimated Benefits and Beneficiary Groups: The reform program will benefit the whole country by developing a results – and people-oriented civil service that will be better able to achieve the Government's objective of poverty alleviation through effective implementation of priority programs. Overall welfare levels will improve as a result of improved service delivery. Rural inhabitants, who constitute the majority of the poor in Nepal, will be particularly benefited from improved service levels.																						
10.	Executing Agency: Prime Minister's Office	11. Project Implementation Period: Start: 2001 End: 2005																					
12.	Environment Category: C	13. Processing Year: 2001																					

^{a/} CPI = Core Poverty Intervention; PI - Poverty Intervention; ODI= Other Development Interventions

^{b/} ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development

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