



Country Operations Business Plan

Nepal
2007–2009

CURRENCY EQUIVALENTS

(as of 15 September 2006)

Currency Unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.014
\$1.00	=	NRs73.60

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

ADF	–	Asian Development Fund
CPM	–	country programming mission
CPN/M	–	Communist Party of Nepal, Maoist
CPRM	–	country portfolio review mission
CSP	–	country strategy and program
DFID	–	Department for International Development of the United Kingdom
GDP	–	gross domestic product
IDTA	–	institutional development technical assistance
IMF	–	International Monetary Fund
IPF	–	indicative planning figure
JBIC	–	Japan Bank for International Cooperation
MfDR	–	managing for development results
MTS II	–	medium-term strategy II
NDF	–	Nepal Development Forum
NPC	–	National Planning Commission
NRM	–	Nepal Resident Mission
OECD	–	Organisation for Economic Co-operation and Development
PPTA	–	project preparatory technical assistance
PRS	–	poverty reduction strategy
SPA	–	seven-party alliance
TA	–	technical assistance

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. For example, FY2006 ends on 15 July 2006.
- (ii) In this report, "\$" refers to US dollars.

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I. CURRENT DEVELOPMENT TRENDS AND ISSUES

A. Recent Political and Social Developments

1. Nepal experienced dramatic political developments in April 2006. A mass uprising throughout the country, led by the seven-party alliance (SPA) and backed by the Communist Party of Nepal, Maoist (CPN/M), compelled King Gyanendra's government to resign and reinstate the dissolved House of Representatives on 24 April 2006. The Parliament convened swiftly, and a new interim coalition Government of the SPA took office.¹ As a first step toward peace negotiations with CPN/M, on 30 April 2006 the Parliament unanimously passed a decision to hold elections to a constituent assembly. The assembly would draft a new constitution for Nepal to reflect the democratic aspirations of the people. This was followed by another historic proclamation by the Parliament on 18 May 2006, declaring itself Nepal's sovereign authority, curtailing the monarchy's powers and privileges, including its command over the army, and declaring Nepal a secular state.

2. In the wake of these historic political changes, CPN/M declared a unilateral ceasefire for 3 months effective 26 April 2006, which was quickly reciprocated by the new Government with an indefinite ceasefire, paving the way for a peace dialog. The initial round of peace talks between the Government and CPN/M on 26 May 2006 agreed on a 25-point ceasefire code of conduct, under which both sides agreed to refrain from violence, facilitate public service delivery and development activities, and seek international monitoring of the ceasefire. On 16 June 2006, the SPA, led by Prime Minister Koirala, and CPN/M, led by its chair, P. K. Dahal (alias "Prachanda"), held a summit, during which a landmark eight-point agreement was signed. The agreement stipulates the drafting of an interim constitution, forming an interim government with CPN/M's participation, dissolving the Parliament, dismantling CPN/M's parallel local committees, requesting the United Nations (UN) to manage and monitor both armies' weapons, and declaring a date for the constituent assembly elections soon. The agreement augurs well for the peace process and provides a clear road map for the political process.

3. A committee comprising the SPA, CPN/M, and civil-society representatives has prepared a draft interim constitution and submitted it to the Government and CPN/M peace negotiation teams. While the draft interim constitution incorporates many aspects of the aspirations of the April 2006 movement, a number of issues, including the status of monarchy, process for constituent assembly elections, and structure of an interim legislature, need further clarification. The SPA and CPN/M are expected to deliberate on these and finalize the interim constitution soon.

4. Following a UN mission from 27 July to 3 August 2006, the Government and CPN/M reached an understanding on the management of arms and armies of both parties in the conflict and submitted separate requests to the UN on 9 August for its assistance in five key aspects of the peace process: (i) monitoring the human rights situation, (ii) enforcing a ceasefire code of conduct, (iii) confining CPN/M combatants and their weapons within designated cantonment areas, (iv) ensuring that the Government army remains inside its barracks, and (v) holding constituent assembly elections. The UN has responded positively, and upon a clear agreement on the issues, particularly weapons management, the peace process can be expected to gain further momentum.

¹ The SPA appointed G. P. Koirala, President of Nepal Congress, as the Prime Minister on 27 April 2006. A 7-member cabinet was formed on 2 May 2006, expanded to 18 members on 22 May 2006, and to 21 on 11 June 2006, representing six of the seven parties in the SPA.

5. These developments promise lasting peace and stability. The Government has finally acceded to CPN/M's key demand—elections to a constituent assembly to frame a new constitution—and the SPA and CPN/M have taken unprecedented steps to resolve the conflict peacefully. The people's strong aspirations for peace, democracy, and a better life put the SPA and CPN/M under intense pressure to achieve them.

6. The transition, however, will be challenging and carries significant risks. Locally, in several places CPN/M is jostling for control of the political and development "space". The political process ahead—particularly agreeing on a process and modality for constituent assembly elections, and for disarmament, demobilization, and reintegration of the insurgent forces to ensure free and fair elections—will be complex and challenging.

B. Economic Assessment and Outlook

7. The finance minister presented the budget for FY2007 to the Parliament on 12 July 2006. The budget's macroeconomic framework targets a gross domestic product (GDP) growth rate of 5% in FY2007, compared with an average of 2.7% in the past 3 years. Inflation is forecast at about 6.0%, compared with an average of 5.3% in the past 3 years and 8.0% in FY2006. Other macroeconomic indicators are generally sound and projected to strengthen in FY2007. The budget reflects the Government's commitment to initiate post-conflict reconstruction, rehabilitation, and reintegration of rebel forces into mainstream politics and the development process if the peace talks succeed. The Government is committed to transfer large resources to support major social and economic transformation to reduce rural poverty. The moderately expansionary budget will support the nascent peace process. The FY2007 budget targets are ambitious, and its achievements will depend critically on the continuation of the peace process, and effective implementation of development activities. The International Monetary Fund (IMF) has responded favorably to the FY2007 budget.

8. The total expenditure outlay is 32% higher than the annual average increase of less than 10% in the past 3 years. Domestic revenue is targeted to increase by 18% over that of FY2006. The target is ambitious given the actual average growth of only 10% in the past 3 years. Foreign assistance is expected to increase sharply by 72%, compared with average growth of 23% in the past 3 years. The budget deficit is also projected to increase sharply to 3.0% of GDP from 1.8% in FY2006, and will be financed by increased domestic and external borrowings.

9. Recurrent expenditures are estimated to increase by over 20%, compared with an increase of 12% in FY2006, despite significantly reduced allocations for security and royal palace expenditures, mainly because of higher debt service payments, allowances to civil servants, and allocations for the constituent assembly elections expected to be held in April 2007. More significantly, the capital budget increased sharply by 56%, compared with an increase of only 5% in FY2006, reflecting improvement in the outlook for accelerated development activities. The bulk of the capital budget has been allocated for rural development, including social sectors (education, health, and rural water supply and sanitation), rural infrastructure (mainly rural roads), and a doubling of block grants to village development committees. The allocation for pro-poor expenditures in FY2007 is about 40%, an increase of 6% over last year.

10. The recent political breakthroughs and the improvement in security could yield significant dividends for the economy over the next few years. With sound macroeconomic management, effective functioning of all local party committees to oversee development, expansion in development expenditures, strong focus on improving governance, and continuing reforms, the

economy is likely to rebound. GDP growth could reach 4% in FY2007 and then quickly to over 6% in the medium term. However, the most critical risks relate to the peace talks: failure to sustain the ceasefire and resolve the issues of weapon management would undermine economic performance and poverty reduction. Bad conditions and higher world oil prices also threaten economic growth. Detailed economic and social indicators are in Appendixes 3 and 4.

C. Consistency of the Business Plan with the Country Strategy and Program

11. The political context has changed dramatically since the Country Strategy and Program (CSP) for 2005–2009 was prepared in 2004. The underlying causes of the conflict and poverty, however, remain unchanged. The CSP was built on a thorough assessment of the conflict and its implications for development and poverty reduction. The CSP adopted a medium- to long-term perspective to help reduce poverty and achieve the Millennium Development Goals, taking into account the constraints posed by the conflict. The assessment suggested that the root causes of the conflict lie in deep-seated social exclusion; large social, economic, and regional inequalities; lack of opportunity; poor governance; and unmet public expectations. The CSP is fully aligned with the Tenth Plan which is also the Government's Poverty Reduction Strategy (PRS). However, it also recognizes that the conflict and political instability pose serious challenges to development, and that restoring peace and stability is critical to accelerate development and poverty reduction. The CSP therefore aims to help the Government reduce poverty by addressing these issues. The CSP also has a conflict-sensitive implementation strategy embedded in it to ensure effective and safe implementation of ADB's operations and achieve the intended development results. This approach has been effective in guiding ADB field operations. The CSP is appreciated by the Government and other development partners.

12. The new Government proposes a two-track approach: restore peace and democracy while reviving the economy. It recognizes that failure to respond to popular expectations and deliver tangible development results could jeopardize recent gains and undermine the peace process. Therefore, while the overall reform and development agenda will continue to be broadly guided by the policies and priorities of the Tenth Plan/PRS, the Government is focusing on rural reconstruction, effective public service delivery, and quick development impacts through decentralization, empowerment of local communities, and wider replication of "good practices" in community-based approaches to development. Rural infrastructure and income- and job-generating projects; rehabilitation and demobilization of conflict-affected communities; reconstruction of destroyed public assets and infrastructure; and basic social services such as education, health, and water supply and sanitation have been identified as the key areas for investment. The Government has appealed to the donor community for budget support in view of the fiscal stress and the budget's expansionary stance. The budget aims to respond quickly to people's expectations as well as development needs and priorities.² The Government, however, quickly indicated that given the fragile political environment and its priority agenda of restoring peace and democracy, it will be difficult to undertake complex reforms, especially those involving major institutional restructuring and short-term legislative actions.

13. The recent political changes have improved the environment for implementing the CSP. Security has significantly improved, facilitating the movement of people and goods across the country and expanding the "development space". The development space can be expected to increase with the ceasefire continuing and agreement on the management of weapons.

² FY2007 has a budgetary gap of NRs31 billion for financing capital expenditures. The gap is expected to be financed by increased domestic borrowing and loans and grants from the international community.

14. The political changes since April have not altered the policy and strategic development implications for addressing the root causes of conflict and poverty. The Government is considering a reconstruction and rehabilitation program following a peace accord to help build peace, restore service delivery, and revive economic activity throughout the country. The peace accord will allow long-term strategic development objectives to be addressed effectively. The CSP is fully aligned with these efforts and thus remains relevant.

D. Donor Harmonization

15. Aid coordination and harmonization of government-donor practices have become particularly important. Donor coordination remains effective with regular meetings of the local donor group, various thematic groups, and the Basic Operating Guidelines Group to assess the evolving political and security situation and its implications for development activities. These groups share experience in field operations and discuss operational and sectoral issues and approaches. A separate donor group was formed this year to pilot the principles for good international engagement. During the donor meeting in Paris in March 2005, the Organisation for Economic Co-operation and Development-Development Assistance Committee (OECD-DAC) and the Government agreed to pilot these principles in Nepal. ADB has been actively participating in all these initiatives. However, given the Government's focus on peace talks and other political issues, the donor group feels engagement on these principles should not be a priority. In line with the Rome and Paris declarations, ADB has stepped up harmonization through country-level joint action plans with the Department for International Development of the United Kingdom (DFID) and the German Agency for Technical Cooperation to facilitate coordination and collaboration in key areas of assistance. ADB has also significantly enhanced collaboration with the World Bank through frequent operations coordination meetings, to achieve strategic alignment and synergies in program formulation and implementation. At the implementation level, ADB, the World Bank, and the Japan Bank for International Cooperation (JBIC) have been conducting joint portfolio performance reviews with the Government since 2001. In 2006 country program review mission (CPRM) along with ADB, the World Bank and JBIC, major bilateral donors, i.e., DFID, Danish International Development Agency (Danida), Finnish Department for International Development Cooperation (Finnida), and Norwegian Embassy (Norad), participated as observers. A number of cofinancing agreements have been reached with various bilateral development partners for ongoing and future projects, with significant collaboration on important institutional and policy reforms.

16. There is still significant room to better harmonize government-donor practices. While harmonizing local procurement procedures has made significant progress, harmonizing international procurement procedures remains challenging and constrains ADB's participation in sector-wide/program-based approaches (SW/PBAs) with other donors. Several donor agencies have adopted SW/PBAs to implement programs and projects, where donors' assistance is pooled through joint financing arrangements, providing budgetary support to Government priorities for earmarked activities and budget items. Progress in SW/PBAs is monitored through periodic joint reviews that include all donors and the Government. ADB's participation in such an approach would be useful for the development of specific sectors as well as for furthering donor harmonization. In sectors where SW/PBAs are adopted as a development model, ADB's project modality is posing a constraint to providing effective and harmonized assistance. Close and stronger government-donor engagement is also needed on development effectiveness as stipulated in the Paris Declaration. While managing for development results (MfDR) is a key instrument for development effectiveness, most donors in Nepal are unaware of it. ADB is working with donor partners to be more focused on harmonizing support for capacity building of weak institutions. ADB is also taking the lead in involving other donors in the Government-led

MfDR process. This will improve development effectiveness and enhance absorptive capacity for development assistance.

17. The Government informed the country programming mission (CPM), undertaken from 24 July to 2 August 2006, of its intention to hold a Nepal Development Forum (NDF) in early 2007. This should provide a major platform for the Government and the development partners to assess the progress of development and reform and to discuss the way forward.

II. PORTFOLIO MANAGEMENT ISSUES

A. Portfolio Performance

18. After a continuous deterioration since 2001, financial performance of Nepal portfolio improved markedly in 2005. Contract awards increased to \$69.6 million in 2005 from \$38.2 million in 2004, while disbursement increased to \$43.7 million in 2005 from \$22.0 million in 2004. Accordingly, the contract award ratio increased sharply to 15.2% in 2005 from 7.0% in 2004, while the disbursement ratio improved to 7.7% in 2005 from 4.4% in 2004. Further, resource transfer to Nepal turned positive (\$2.9 million) for the first time in 4 years. A more intensive engagement with the executing agencies, more focused bimonthly project manager's meetings, high-level policy dialogue with the Government, and a special operations review mission helped address key implementation issues such as delayed procurement, consultant recruitment, and policy actions.

19. Despite improvement in financial performance, the overall portfolio performance of Nepal remains very weak. To address the poor portfolio indicators, NRM prepared a portfolio management strategy paper in January 2006 outlining key determinants of performance along with actions to improve it. The strategy paper's two-phased approach aims to improve portfolio performance—target a disbursement ratio of 11% in 2006 (\$60 million) and reach an ADB-wide average disbursement ratio of 20% in 2007. The portfolio management strategy aims to improve net resource transfer of up to \$15 million in 2006 from \$2.9 million in 2005, and reduce the proportion of projects at risk to 20% in 2006 from 30% in 2005.

20. During the first half of 2006, \$21.8 million worth of contracts were awarded and \$25.4 million disbursed, or 73% and 99% of the semiannual targets. In line with the portfolio management strategy paper, the outcomes were achieved through a number of actions, including (i) intensive monthly meetings of individual projects to address specific implementation issues; (ii) more focused bimonthly meetings co-chaired by the Ministry of Finance Secretary and the NRM Country Director; (iii) frequent review missions for field monitoring of project activities with time-bound action plans; and (iv) detailed review of “at risk” and “potential problem” projects. The number of projects “at risk” has reduced to 26% compared to 30% in 2005 as pending loans approved in 2004 were declared effective.

21. ADB's project implementation experience, despite challenging environment, shows that the CSP's conflict-sensitive approach has been effective. NRM's latest assessment³ of the impact of the security situation on the 23 ongoing ADB-assisted projects suggests that the environment has improved: 13 (57%) projects are not seriously affected, 10 (43%) moderately affected, and none highly affected. A similar assessment in mid-March 2006 showed 13 projects (57%) were not seriously affected, 8 (35%) moderately affected, and 2 (8%) quite affected. Although the environment has improved following the ceasefire and initiation of peace talks,

³ The latest assessment was conducted in September 2006.

achieving portfolio performance targets will remain challenging especially till the country's critical political issues are resolved.

22. In view of the risks involved in the peace process, ADB will continue to adopt a conflict-sensitive approach to ensure that its assistance is implemented safely and effectively. ADB will also continue to conduct regular conflict impact assessments and undertake annual spring-cleaning of its active portfolio.

23. The Government of Nepal, together with ADB, World Bank and Japan Bank for International Cooperation conducted a joint Nepal Portfolio Performance Review (NPPR) during 4–8 September 2006. The review (i) critically examined the country portfolio performance as measured by key indicators; (ii) discussed government procedures and policies to strengthen portfolio performance and contribute to enhanced development impact; (iii) conducted dialogue on the CSP's implementation; (iv) assessed progress in implementing the 2005 NPPR Action Plan; and (v) prepared an action plan to reflect the findings of the review.

24. The 2006 portfolio review had an expanded role—in addition to the portfolio issues, the review monitored whether ADB's portfolio has been effectively contributing to the CSP outcomes and discussed the necessary corrective actions for achieving better results. In this regard, the preparation and finalization of the Sector Results Profiles (SRPs) were an important output of the review within a results-based portfolio review process. As an important step in implementing MfDR in SARD's operations, SRPs have been prepared for sectors in which ADB provides significant assistance in all SARD DMCs. The SRPs include the objectives, inputs, outputs, outcomes, and impacts along with monitoring indicators for each sector. In line with the SARD strategy and action plan, SRPs of the priority sectors of Nepal—(i) transport and communication, (ii) energy, (iii) education, (iv) agriculture and rural development, (v) finance and governance, and (vi) water supply, sanitation and urban development have been prepared.

25. A proactive stance on 'spring cleaning' of Nepal's portfolio led to cancellations of loan savings amounting to \$25.8 million in 2004 and \$17.6 million in 2005. In 2006 alone, in addition to \$23 million already cancelled, a further \$19 million loan cancellation has been identified and confirmed with the Government.

26. On procurement management, the Government has endorsed the procurement bill in August 2006 which has been tabled to the parliament for discussion and approval. The act aims to harmonize procurement procedures with international standards and make them more transparent. The act lays out a mechanism to establish a public procurement monitoring office to supervise, monitor, and regulate all public purchases in government offices to ensure uniformity of the procurement procedures.

B. Results-Based Performance Monitoring and Evaluation

27. The Nepal CSP is ADB's first pilot results-based CSP. It includes a framework that defines the results sought by the Government and that ADB is helping to achieve. The framework comprises monitoring indicators and provides a basis for evaluation and midcourse adjustments. The CSP's results framework was enhanced in October 2005 (Appendix 1) in close collaboration with the Government by defining key monitorable tracking indicators, prioritizing development results (outputs and outcomes ADB would help achieve), and aligning the overall results framework and monitoring indicators with the Government's monitoring framework.

28. The National Planning Commission (NPC) and some key line ministries such as those of finance, education and sports, and local development have led in mainstreaming MfDR in public sector management. The Government has taken some encouraging steps to develop rudimentary but core elements of results-based management for planning, budgeting, implementation, and monitoring. The Medium-Term Expenditure Framework has been fully adopted and sector business plans for key line ministries developed to implement the key elements of the Tenth Plan (2002–2007). The poverty monitoring unit of NPC has been upgraded to a division, with more autonomy, better institutional capacity, and human resources, to monitor progress in achieving the PRS. The Government has, among other things, started poverty-based resource allocation to local bodies, and is strengthening the monitoring and evaluation system in key ministries to streamline results management. The Government has prepared a district poverty monitoring and analysis system for development interventions and their local impact. While steps are being taken to implement MfDR nationally, they are yet to be institutionalized and translated at sectoral and local levels. The Government's weak institutional capacity for results management at different levels poses a risk to the implementation of these approaches. There is a need to effectively link macro-, meso-, and micro-level initiatives in the results-based planning and implementation process. Government efforts need to be significantly strengthened to operationalize the mechanisms of MfDR, focusing more on longer development outcomes and impacts rather than on immediate inputs and outputs, particularly at the sectoral and local levels. Given the Government's weak institutional capacity, long-term capacity building is needed to implement MfDR at all levels.

29. ADB is thus helping the Government through two technical assistance (TA) projects to (i) assess MfDR readiness; develop an MfDR strategy; adopt MfDR as a public sector management practice; institutionalize MfDR approaches within NPC, some key line ministries such as those of physical planning and works, and local development, and three district development committees; and (ii) strengthen their monitoring and evaluation systems and capacity. The NPC has been engaged in ADB's MfDR community of practice—a virtual learning network. ADB is also supporting the Government's participation in OECD-DAC's joint venture on MfDR. Two case studies on Nepal are being published in the OECD-DAC's MfDR sourcebook. ADB is collaborating with other key donor partners in supporting the Government's efforts to reorient its reform and development agenda to achieve results and harmonize donor practices, particularly results monitoring and evaluation, as a key part of their overall assistance.

30. Implementation of the results-based CSP has just started and is challenging, but developments have been encouraging. First, design and monitoring frameworks of ongoing projects have been prepared to replace existing project frameworks to align them better with the CSP's results framework. Second, annual sector targets for country results profiles have been prepared in consultation with lead sector specialists to assess progress in specific sectors. The sector results are linked to the CSP's results framework.

III. COUNTRY PERFORMANCE AND ASSISTANCE LEVELS

31. In view of the political transition, ADB's assistance program should be more responsive and flexible to meet the Government's short-term development needs and priorities while remaining within the CSP's framework. The country program will therefore need to be shorter—1–2 years. The proposed medium- to long-term program is tentative and will remain under review to ensure proper sequencing and political relevance. In particular, the 2008–2009 program will be closely reviewed with the Government against the evolving political and economic context during the forthcoming country program confirmation mission and the CPM. The current country program includes some sector and program loans in relevant areas. A

higher level of program lending may be needed to respond to more harmonized sector-wide approaches by donors and to the Government's reconstruction program, and to support macroeconomic stability. However, the program loan reform conditions should be fully cognizant of the prevailing political context, pragmatic, focused, and fully owned by the Government.

32. If a peace accord is reached, Nepal will seek a large amount of reconstruction and rehabilitation assistance. ADB, along with other key donors, will likely be requested to provide the bulk of financing. ADB will thus need to respond adequately. It is already in dialogue with the Government and key donor partners to explore ways to develop a fully coordinated program of assistance that can deliver effective and quick results. The program would focus mainly on rehabilitation of damaged infrastructure and internally displaced people, rural reconstruction, and eradication of the root causes of underdevelopment and conflict. Although the country has not suffered massive physical destruction, infrastructure has been damaged or neglected, livelihoods have been heavily affected, and institutions weakened, especially at the local level. Since ADB's future assistance program focuses on rural areas and poverty, it would be consistent with such a program and could be easily adjusted. Donor coordination and harmonization will be critical at this stage to avoid duplication and to use Government institutions as far as possible, while strengthening them.

A. The 2006 Program

33. ADB's assistance in 2005 included three new TA projects and one supplementary TA for \$2.16 million against the country program, comprising three firm loans for \$113 million and eight TA projects for \$3.2 million. Most of the loans and TA projects that could not be processed in 2005 were carried over to 2006.

34. ADB is processing the country program for 2006 in close consultation with development partners. ADB continues to be cautious in its operations, assessing the political and security situation at every major project-processing milestone, continuing its conflict-sensitive approach, and coordinating operations closely with other development partners.

35. The indicative planning figure (IPF) for the 2006 lending program is \$163.1 million. The 2006 lending program includes four projects, viz. the Road Connectivity Sector Project I (\$55.2 million), Rural Finance Sector Development Cluster Program I (\$64.7 million), Education Sector Cluster Program (subprogram. 1, \$32 million), and Commercial Agriculture Development Project (\$18 million) totaling \$169.9 million, of which \$83.9 million in the form of Asian Development Fund (ADF) grant financing (Appendix 9). The total is \$6.8 million above the 2006 IPF of \$163.1 million. However, this is consistent with the biennial allocation of the PBA policy. The average lending to Nepal in 2005-2006 would be about \$85 million, which is well below the \$117 million lending level indicated in the CSP. The 2006 country program also comprises a substantial proportion, over 50% or \$86 million, as program assistance to allow ADB to support the FY2007 budget reform and development priorities strongly endorsed by the World Bank and IMF. The World Bank's proposed lending to Nepal in 2006 is \$250 million, including Poverty Reduction Support Credit II.

36. The 2006 nonlending program comprises four project preparatory TA (PPTA), four institutional development TA (IDTA), and one supplementary TA projects amounting to \$3.65 million financed under technical assistance special fund and Japan special fund, and four TA projects of \$2.07 million financed under trust funds. In response to the Government's request, a supplementary TA to the ongoing Economic Policy Network TA to help prepare a long-term vision, which would be basis for the Nepal Development Forum, and a standby PPTA for the

Rural Reconstruction and Rehabilitation Project programmed for 2007 have been included in the 2006 nonlending program (Appendix 10).

37. The Government confirmed its agreement on the 2006 program, and the program's relevance.

B. Indicative Lending and Grant Program

38. An indicative lending program of \$108 million ADF financing is planned for Nepal in 2007 against the IPF of \$70 million for 2007 and \$8 million carried over from 2006. The remaining \$30 million for the 2007 program is proposed to be sourced from loan savings from canceled ongoing projects and from increased cofinancing, which will be explored.

39. The biannual ADF allocation for Nepal in 2007–2008 has been set at \$129.3 million. The Government expressed serious concern about the sharply lower IPF of \$70 million for Nepal in 2007 relative to the indicative assistance levels proposed in the CSP, i.e., \$117 million per year.

40. The annual IPF for 2008–2009 is similar to that of 2007, but the actual allocations are tentative. The actual lending program for Nepal in 2008–2009 will be subject to the results of the 2007 CPA and ADF availability. In view of political situation and outlook over the next three years, during which a new constitution, parliament and at least three different governments are expected to assume office, and the uncertainties associated with the peace process, it was agreed with the Government not to specify detailed annual country programs beyond 2007 at this stage. Thus, the 2008–2009 program only indicates annual priority projects without specific allocations for each. It has been also agreed with the Government that the delivery of the program will however, depend on ADF resource availability and the political and security situation. The Government has also requested Management to consider reallocation of the significant loan savings from cancellations in recent years. ADB will also continue to pursue cofinancing opportunities with its development partners.

41. With the above provisos, the tentative country program for 2007–2009 comprises nine firm and two standby loans (Appendix 5) and aims to reduce poverty by supporting institutional and policy reforms and operations in road transport, rural and urban infrastructure (water supply, waste management), energy, education, financial sector, reconstruction and rehabilitation, public finance and economic management, and agriculture. The program is in line with the Medium-Term Strategy II⁴ (MTS II, 2006–2008) priority sectors and subsectors. Although civil aviation is not a MTS II priority and is among the sectors from which ADB intends to exit, exclusion of the Civil Aviation Sector Development Project is not advisable at this stage, considering the importance of air transportation for connectivity and supply of basic essentials to remote areas without other alternative access, the positive impacts of ADB's previous assistance to the sector and Nepal's reliance on tourism. Appendix 7 summarizes preliminary information on the proposed lending program for 2007.

42. Nepal qualifies for up to 50% of grants under ADF IX (2005–2008). Grants may be allocated to either stand-alone projects or to blended projects with both loan and grant financing with distinct grant-funded activities. Accountability obligations under grant financing have been fully discussed with the Government, and the latter expressed firm commitment to such obligations. ADF grant financing will allow the Government to pursue its poverty reduction agenda much more effectively in one of the least developed countries of the world.

⁴ Medium-Term Strategy II (2006 – 2008) was approved on 10 March 2006.

C. Indicative Nonlending Program

43. The proposed nonlending program for 2007–2009 comprises 15 PPTAs, 8 IDTAs and 3 economic, thematic and sector works (Appendix 6). The IPF for the TA program is envisaged to average about \$3.5 million–\$4 million per annum and will be supplemented by cofinancing and trust funds. The nonlending program focuses on building the capacity of sector institutions. A more strategic approach in developing TA has been adopted to shift the focus from small and ad hoc TA projects to fewer cluster TA projects, focusing on implementation capacity and project preparation. Appendix 8 summarizes preliminary information on the proposed nonlending program for 2007.

D. Summary of Changes to Lending and Nonlending Program

44. As a result of economic and political changes, the lending program for 2007–2009 required adjustments in volume and delivery. Factors such as reduction in the total IPF, the Government's priorities in the changed political context, project preparedness, and record of performance of projects implemented in the related sector were considered in revising the forward program.

45. For 2007, the lending amount for the Rural Electrification and Renewable Energy Project has been revised down from \$60 million to \$30 million, and a loan of \$30 million for the Rural Reconstruction and Rehabilitation Project has been added. The Civil Aviation Sector Development Project and Kathmandu Valley Water Distribution, Sewerage, and Urban Development Project have been postponed from the 2008 program to 2009. The Community-Based Water Supply and Sanitation Sector Project II, programmed for 2008, and Decentralized Rural Infrastructure and Livelihood Project II, Decentralized Community-Based Water Management Project, Education Sector Program II, Rural Finance Sector Development Cluster Program (subprogram 2) have been deferred to after 2009. The Community-Based Highland Livestock Project has been dropped from the pipeline.

46. The Government has also requested ADB's support for the proposed public-private West Seti Hydroelectric Project in 2007. The ambitious project involves sale of power to India. While financial needs assessment is still not complete, ADB contribution at this stage is tentatively estimated at about \$50 million–\$60 million. Given that there is still significant uncertainty in reaching financial closure on the Project, it has not been included in the pipeline yet. If realized, this would be Nepal's largest hydropower project to date, but also an important regional cooperation project. Depending on progress in the peace talks and NDF, ADB along with other donors may be requested to provide post-conflict assistance beyond the reconstruction and rehabilitation project planned for 2007. While ADB is committed to provide such assistance, no new assistance has been included in 2008–2009 program, since timing is difficult to predict and the resource requirements are not known already. However, ADB is undertaking background work to assess rehabilitation and reconstruction needs, which will help guide 2008–2009 programming.

47. The nonlending program for 2007–2009 has also been adjusted to reflect the modified lending program and to accommodate priority Government requests for institutional and sector capacity development in the changed context. The PPTA for the Financial Sector and Small and Medium-Sized Enterprise Development Program has been dropped and replaced by the Inclusive Financial Sectors Development Program in 2009. The PPTA for the Community-Based Highland Livestock in 2008 has been substituted by Sustainable Rural Livelihoods and

Watershed Management in the Highlands of Nepal. The IDTA for Capacity Building in Renewable Energy Institutions, programmed for 2007, has also been dropped and replaced by the Energy Efficiency TA for the same year. Additional TA projects—Land Tenure Policy; Capacity Building of the Peace Secretariat; Development of the Environment Master Plan; Water Supply, Sanitation, and Quality Management in Emerging Towns; and Governance Reform and Decentralized Service Delivery—have also been introduced.

Results-Based Country Strategy and Program Framework

Table A1.1: Pillar I: Broad-Based Economic Growth

Medium-term Goals ^a	CSP Strategic Focus		Tracking Indicators	Baseline FY02/10 th Plan	FY03	FY04	FY05	Milestones/ Targets FY2007	Monitoring	Data Source	Sources of Information	
	Intermediate Outcomes ^b	Intermediate Indicators ^c										
<ul style="list-style-type: none"> • Achieve annual average growth rate of 6.2% during 2002–2007 	<ul style="list-style-type: none"> • Improved connectivity of different parts of the country, particularly of the rural areas, to markets and livelihood opportunities • Improved economic status of less developed regions and rural areas • Strengthened financial intermediaries • Improved business environment 	<ul style="list-style-type: none"> • Expanded national road network 	<ul style="list-style-type: none"> • Length of additional SRN constructed (km) 	113	93	98	125	1,025	Yearly	DOR	DOR, 2005	
			<ul style="list-style-type: none"> • Length of additional SRN paved/sealed 	190	188	90	12	1,764	Yearly	DOR	DOR, 2005	
		<ul style="list-style-type: none"> • Increased number of districts connected through road network 	<ul style="list-style-type: none"> • Number of district HQs connected by roads 	60	61	61	61	70	Yearly	DOR	DOR, 2005	
		<ul style="list-style-type: none"> • Enhanced air transport services 	<ul style="list-style-type: none"> • Number of additional domestic airports with year-round services (paved) 	4	6	0	1	15	Yearly	CAAN	CAAN, 2004	
		<ul style="list-style-type: none"> • Improved access of communications services to VDCs 	<ul style="list-style-type: none"> • Number of tele centers (e-service) in VDCs 	0	15	4	5	1,500	Yearly	NITC	NITC, 2005	
		<ul style="list-style-type: none"> • Affirmative policies for regional development 	<ul style="list-style-type: none"> • Implementation of Regional Development Strategy 						Regional development strategy incorporated in the 11 th Plan (2007)	5 yearly	NPC	NPC
				<ul style="list-style-type: none"> • Improved corporate and financial governance 	<ul style="list-style-type: none"> • Initiation of power sector restructuring and NEA unbundling in Nepal 					Off-grid rural electrification of the rural areas started NERC established. Electricity generation, transmission and distribution function separated and streamlined	Yearly	NEA

Medium-term Goals ^a	CSP Strategic Focus		Tracking Indicators	Baseline FY02/10 th Plan	FY03	FY04	FY05	Milestones/ Targets FY2007	Monitoring	Data Source	Sources of Information
	Intermediate Outcomes ^b	Intermediate Indicators ^c									
			• Streamlined registration and licensing of firms	37	37	37		Completed	Yearly	MOIC	NPC, 2005
			• Enhanced financing services					Completed by FY2008	Yearly	ADB	ADB TA3580-NEP Report 2003,T-2.9
			• Improved legal environment					Promulgation of CFG laws (FY2006)	Yearly	MOF	MOF
			• NRB, SEBO, & CRO strengthened					Completed by FY2006	Yearly	NRM	MOF
• Achieve annual average agricultural growth of 4.1% by 2007	• Increased agricultural production • Increased agricultural income and employment opportunities of rural people • Increased commercialization of agriculture • Strengthened rural financial services	• Improved access to key inputs, outputs, and markets • Expanded rural road network	• Length of additional local roads constructed (km)	2,361	905	840	934	FY2010 21,000	Yearly	DoLIDAR	NPC, 2005
		• Increased access to year-round irrigation	• Additional area under year-round irrigation (ha)	4,71,005	4,379	6,358	6,599	FY2010 46,200	Yearly	DOI	NPC, 2002 MOWR, 2005
		• Increased rural electrification ratio	• Proportion of households electrified (cumulative %)	40	43	48	49	60	Yearly	NEA	NPC, 2005
		• Increased cash crop and livestock production	• Cash crop/total agriculture GDP ratio	32	32	29	30	FY2010 32	Yearly	DOA	NPC2002/M OAC2003-04/ MOF, 2005
			• Total marketable surplus of the agricultural produce (MT '000)	800	76	213	400	FY2010 627	Yearly	DOA	MOA 2003-04-05
			• Livestock (total agriculture GDP ratio)	32.4	30.82	32.82	32.83	FY2010 41.5	Yearly	DLS	CBS2002/ 10 th Plan/ A1995

Medium-term Goals ^a	CSP Strategic Focus		Tracking Indicators	Baseline FY02/10 th Plan	FY03	FY04	FY05	Milestones/Tar gets FY2007	Monitoring	Data Source	Sources of Information
	Intermediate Outcomes ^b	Intermediate Indicators ^c									
		• Expansion of rural credit availability	• Rural Microfinance Development Center Disbursements (NRs million)	66	137	119	321	432	Yearly	RMDC	RMDC Annual Report 2005
			• ADBN Disbursements (NRs million)			2,294	2,702	3,106	Yearly	ADBN	ADBN2005
			• ADBN NPL level.			37	34	24	Yearly	ADBN	ADBN2005

— = not available, ADBN = Agriculture Bank of Nepal, CAAN – Civil Aviation Authority of Nepal, CBS = Central Bureau of Statistics, CRO = Chief Registrar's Office, DoLIDAR = Department of Local Infrastructure Development and Agricultural Roads, DOI = Department of Irrigation, DOR = Department of Roads, DLS = Department of Livestock Services, GDP = gross domestic product, ha = hectare, mt = metric tones, MOF = Ministry of Finance, MOIC = Ministry of Industry and Commerce, NEA = Nepal Electricity Authority, NERC = Nepal Electricity Regulatory Commission, NITC = Nepal Information Technology Centre, NPL = non-performing loans, NRB=Nepal Rastra Bank, NRs = Nepalese Rupees, RMDC = Rural Microfinance Development Centre, SEBO = Securities Board and VDCs = village development committees.

^a Strategic goals of the Tenth Plan.

^b Achievement of these outcomes is combined responsibility of the Government and its development partners, including ADB, the civil society, private sector, and other development agencies.

^c Indicators to track success of implementation towards expected outcomes. Baseline, targets, and indicators for monitoring progress have been identified and will be updated regularly.

Table A1.2: Pillar II: Inclusive Social Development

Medium-term Goals	CSP Strategic Focus		Tracking Indicators	Baseline FY02/10 th Plan	FY03	FY04	FY05	Milestones/ Targets FY2007	Monitoring	Data Source	Sources of Information
	Intermediate Outcomes	Intermediate Indicators									
<ul style="list-style-type: none"> • Improve the availability and quality of social infrastructure and services 	<ul style="list-style-type: none"> • Improved access to and quality of basic education • Increased access to vocational training • Improved access to clean drinking water and sanitation 	<ul style="list-style-type: none"> • Increased enrollment and improved performance of students 	<ul style="list-style-type: none"> • Net enrollment ratio in primary school (%) 	81.1	82.4	84	87	90	Yearly	MOES	MOES
			<ul style="list-style-type: none"> • % of learning achievement at grade 5 			52.4	57	59	Yearly	MOES, ASIP	MOES
		<ul style="list-style-type: none"> • Increased proportion of trained teachers 	<ul style="list-style-type: none"> • Proportion of trained teachers (%) 	16.2	17.4	30.5	45	100	Yearly	MOES	NPC, 2005
		<ul style="list-style-type: none"> • Improved access to vocational training 	<ul style="list-style-type: none"> • Number of persons trained in vocational skills ('000) 	3.8	4.6	5	5	7.1	Yearly	MOES	MOES
		<ul style="list-style-type: none"> • Improved access to clean drinking water and sanitation 	<ul style="list-style-type: none"> • Proportion of people served with clean drinking water (%) • Percentage of households with sanitation facilities (%) 	71.6	72.8	73.5	75.5	83	Yearly	MPPW	NPC, 2005
				20	26.2	39	46.3	50	Yearly	MPPW	NPC, 2005
<ul style="list-style-type: none"> • Promote social and economic inclusion of women and the disadvantaged by removing social, legal, economic, and other constraints 	<ul style="list-style-type: none"> • Increased economic and social benefits to women and excluded groups 	<ul style="list-style-type: none"> • Increased participation of women and disadvantaged groups in development projects 	<ul style="list-style-type: none"> • Proportion of ADB-assisted projects intervention with women and disadvantaged groups (%) 	—	—	68		70	Yearly	Staff calculation	ADB

Medium-term Goals	CSP Strategic Focus		Tracking Indicators	Baseline FY02/10 th Plan	FY03	FY04	FY05	Milestones/ Targets FY2007	Monitoring	Data Source	Sources of Information
	Intermediate Outcomes	Intermediate Indicators									
		<ul style="list-style-type: none"> Increased representation of women and disadvantaged groups in civil service 	<ul style="list-style-type: none"> Number of women, <i>dalits</i> and <i>janjatis</i> in civil service 	8,008	—	8,042		10,000	Yearly	MOGA	NPC, 2005
		<ul style="list-style-type: none"> Increased participation of women and disadvantaged groups in labor force 	<ul style="list-style-type: none"> Proportion of women teachers in primary school (%) 	21.4	22.1	21.1	30	32 (FY2006)	Yearly	MOES	NPC, 2005

— = not available, ASIP = Annual Strategic Implementation Plan, MOES = Ministry of Education and Sports, MOGA = Ministry of General Administration, MPPW = Ministry of Physical Planning and Works and NPC = National Planning Commission.

Table A1.3: Pillar III: Good Governance

Medium-term Goals	CSP Strategic Focus		Tracking Indicators	Baseline FY02/10 th Plan	FY03	FY04	FY05	Milestones/ Targets FY2007	Monitoring	Data Source	Sources of Information	
	Intermediate Outcomes	Intermediate Indicators										
<ul style="list-style-type: none"> Promote people-centered and inclusive governance Enhance quality and efficiency of public services Promote decentralization 	<ul style="list-style-type: none"> Enhanced local participation Enhanced participation and empowerment of excluded groups Enhanced capacity of local organizations Sound local management and greater resource transfers 	<ul style="list-style-type: none"> Implementation of affirmative action measures 	<ul style="list-style-type: none"> Number of applications from women, <i>dalits</i> and <i>janjatis</i> for civil services position ('000) 	24.6	55.2	38.2	43.6	50	Yearly	MOGA	NPC, 2005	
		<ul style="list-style-type: none"> Progressive devolution of services delivery responsibilities 	<ul style="list-style-type: none"> Measures to promote inclusion and decentralization 				Civil Service Ordinance promulgated	Local Service Act to be promulgated in FY2006			MOGA	MOGA
			<ul style="list-style-type: none"> Number of districts with full devolution 					14 in FY06	Yearly	MLD	MLD	
			<ul style="list-style-type: none"> Number of DDCs with citizen charters 	—	43	54	75	Completed	Yearly	MLD	NPC, 2005	
		<ul style="list-style-type: none"> Increased development resources to local bodies 	<ul style="list-style-type: none"> Number of schools transferred to community 	—	90	1,500	2,233	2,000 in FY06	Yearly	MOES	NPC, 2005	
			<ul style="list-style-type: none"> Proportion of conditional grant in total development budget (%) 	1.6	2.1	2.0		3	Yearly	MLD	NPC, 2005	
		<ul style="list-style-type: none"> Increased share of internal resources to total development budget of the districts 	<ul style="list-style-type: none"> Number of complaints to CIAA 	2,522	3,966	3,732		5,000	Yearly	CIAA	NPC, 2005	

Medium-term Goals	CSP Strategic Focus		Tracking Indicators	Baseline FY02/10 th Plan	FY03	FY04	FY05	Milestones/ Targets FY2007	Monitoring	Data Source	Sources of Information
	Intermediate Outcomes	Intermediate Indicators									
<ul style="list-style-type: none"> • Prevent corruption • Enhance government accountability and transparency 	<ul style="list-style-type: none"> • Strengthened anticorruption institutions • Transparent allocation of budget 	<ul style="list-style-type: none"> • Increased number of corruption cases prosecuted and convicted 	<ul style="list-style-type: none"> • Number of cases prosecuted/convicted 	162	211	183		500	Yearly	CIAA	NPC, 2005
			<ul style="list-style-type: none"> • Legislation on anti-money laundering promulgated 					To be promulgated in FY2006	Yearly	MOF	MOF
		<ul style="list-style-type: none"> • Anticorruption institutions strengthened 	<ul style="list-style-type: none"> • Monitoring of income declaration established and random checks conducted 					NVC to develop monitoring mechanism in FY2006			
		<ul style="list-style-type: none"> • Technical audit agencies established and made operational 	<ul style="list-style-type: none"> • National Vigilance Center established and Technical Audits conducted 		Established	8	13	35 in FY2006	Yearly	OPMCS	OPMCS
			<ul style="list-style-type: none"> • Project-based social audits conducted in districts 				37	37	MLD to monitor public hearing by local bodies from FY2006		MLD

— = not available, CIAA = Commission for Investigation of Abuse of Authority, DDCs = district development committees, MOF = Ministry of Finance, MOGA = Ministry of General Administration, MLD = Ministry of Local Development, NPC = National Planning Commission and OPMCS = Office of the Prime Minister and Council of Ministers.

Table A1.4: Pillar IV: Mechanisms To Deliver Results

Medium-term Goals	CSP Strategic Focus		Tracking Indicators	Baseline FY02/10 th Plan	FY03	FY04	FY05	Milestones/ Targets FY2007	Monitoring	Data Source	Sources of Information	
	Intermediate Outcomes	Intermediate Indicators										
<ul style="list-style-type: none"> Enhance efficient and effective utilization of resources 	<ul style="list-style-type: none"> Improved management of public spending Strengthened country ownership and commitment Enhanced development effectiveness of ADB operations 	<ul style="list-style-type: none"> Clear prioritization of government projects and programs 	<ul style="list-style-type: none"> Proportion of projects under P1, P2, and P3 (%) 	NA	P1 - 59%	P1 - 72.5			Yearly	NPC/MOF	NPC, 2005	
		<ul style="list-style-type: none"> Improved development impact 	<ul style="list-style-type: none"> Promulgation of Procurement Law 					Draft law prepared	Law enacted	Yearly	ADB	ADB
		<ul style="list-style-type: none"> Aligning and harmonizing procurement procedures 	<ul style="list-style-type: none"> Harmonized standard bidding documents 					Draft SBD prepared	Finalize and use the SBD	Yearly	ADB	ADB
			<ul style="list-style-type: none"> Use of results framework in key line ministries 						2	Yearly	ADB	ADB
		<ul style="list-style-type: none"> Institutionalization of RBM practices in key line ministries 	<ul style="list-style-type: none"> Number of districts completing and updating DPPs 	—	52	52			75	Yearly	MLD	NPC, 2005
<ul style="list-style-type: none"> Improve service delivery 	<ul style="list-style-type: none"> Enhanced institutional capacity of public bodies and civil society institutions Increased role of private sector and civil society in service delivery Strengthened public/social audit system at local level 	<ul style="list-style-type: none"> Increased number of quality district plans prepared 	<ul style="list-style-type: none"> Grant allocation to DDC bodies on poverty based formula (NRs million) 	810	810	842.5		900	Yearly	MLD	NPC, 2005	
			<ul style="list-style-type: none"> Proportion of ADB supported projects being implemented in partnership with NGOs and CBOs 	—	—	64	64		64	Yearly	ADB	ADB
		<ul style="list-style-type: none"> Proportion of ADB supported projects being implemented in partnership with private sector 						13	13	Yearly	ADB	ADB

— = not available, CBOs = community based organizations, DDCs = district development committees, DPPs = district periodic plans-, MOF= Ministry of Finance, MLD = Ministry of Local Development, NGOs = non-government organizations, SBDs = standard bidding document and RBM = results based monitoring.

PROGRESS TOWARD THE MILLENNIUM DEVELOPMENT GOALS AND TARGETS

Goals and Targets	Country Status
<p>Goal 1: Eradicate Extreme Poverty and Hunger</p> <p>Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 per day.</p> <p>Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.</p>	<p>The percentage of people below the national poverty line is estimated to have decreased from 42% in 1996 to 31% in 2005.</p> <p>Given the progress in the poverty reduction in recent years, the target is likely to be achieved.</p> <p>The prevalence of underweight children under 5 years of age was reduced from 57% in 1990 to 53% in 2002.</p> <p>The proportion of the population below the minimum level of dietary energy consumption was reduced from 49% in 1990 to 47% in 2000.</p> <p>Despite persistent food insecurity situation in hill and mountain areas, the target may be achieved by replicating successful programs.</p>
<p>Goal 2: Achieve Universal Primary Education</p> <p>Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete primary schooling.</p>	<p>The net enrollment rate in primary school improved from 64% in 1990 to 84% in 2005.</p> <p>The proportion of pupils starting grade 1 and reaching grade 5 increased from 38% in 1990 to 76% in 2005.</p> <p>The literacy rate of 15–24-year-olds improved from 56.2% in 1995 to 73.0% in 2005.</p> <p>Despite some improvements over the last decade, it will be difficult to achieve the target because of the low primary education completion rate.</p>
<p>Goal 3: Promote Gender Equality and Empower Women</p> <p>Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels of education no later than 2015.</p>	<p>The ratio of girls to boys in primary and secondary education increased from 66% in 1995 to 86% in 2005, and from 56% in 1995 to 82% in 2005, respectively.</p> <p>The ratio of literate females to males (15–24 years of age) increased from 56% in 1995 to 73% in 2005.</p> <p>The proportion of seats held by women in Parliament increased from 3% in 1990 to 6% in 2000.</p> <p>In view of the consistent improvement, meeting the target seems realistic and possible.</p>
<p>Goal 4: Reduce Child Mortality</p> <p>Target 5: Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate.</p>	<p>The under-5 mortality rate (per 1,000 live births) decreased from 118 in 1995 to 82 in 2005.</p> <p>The infant mortality rate (per 1,000 live births) was reduced from 79 in 1995 to 61 in 2005.</p> <p>Given the substantial progress in under-5 mortality over the last three decades and the Government's supportive programs in place, the target is likely to be achieved.</p>

Goals and Targets	Country Status
<p>Goal 5: Improve Maternal Health</p> <p>Target 6: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.</p>	<p>The maternal mortality ratio (per 100,000 live births) decreased from 539 in 1995 to 415 in 2000.</p> <p>The percentage of deliveries attended by skilled medical personnel increased from 7% in 1990 to 20% in 2005. 80% of deliveries take place at home without skilled birth attendants.</p> <p>Although there has been improvement in maternal mortality ratio and percentage of deliveries attended by skilled personnel, the target is unlikely to be met considering the slow improvement.</p>
<p>Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases</p> <p>Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.</p> <p>Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.</p>	<p>HIV prevalence among people 15–49 years of age increased from 0.29% in 2000 to 0.50% in 2005. The contraceptive prevalence rate improved from 24% in 1990 to 39.0% in 2000.</p> <p>Reliable data are not available, but the increasing detection cases indicate that the target is not likely to be met.</p> <p>The number of malaria cases (per 100,000 people) decreased from 115 in 1992 to 78 in 2005.</p> <p>The number of tuberculosis cases (per 100,000 people) decreased from 420 in 1995 to 280 in 2005.</p> <p>Malaria persists as a significant health challenge. Progress has been slow as drug resistance and malaria incidence increase among infants. Unless urgent measures are taken, the target is not likely to be achieved.</p>
<p>Goal 7: Ensure Environmental Sustainability</p> <p>Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.</p> <p>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.</p> <p>Target 11: By 2020, achieve a significant improvement in the lives of at least 100 million slum dwellers.</p>	<p>Forest area as a share of total land area decreased from 37% in 1990 to 29% in 2005.</p> <p>Progress is mixed. Environmental policies and programs have been put in place, but reliable data are lacking to assess their impacts.</p> <p>The proportion of the population with access to improved water source increased from 46% in 1990 to 81% in 2005.</p> <p>Although the trend and many programs in this area indicate positive development, deteriorating water supply services in Kathmandu valley are likely to make meeting the targets difficult.</p> <p>The urban population with sustainable access to basic sanitation increased from 34% in 1990 to 81% in 2005.</p> <p>Given rapid urbanization, conflict-induced urban migration, and slow progress in sanitation, the target is unlikely to be met.</p>

Sources: National Planning Commission (NPC). United Nations Development Program (UNDP). 2005 *Nepal MDGs Progress Reports 2005*. Kathmandu; Central Bureau of Statistics. 1996. *NLSS Report*. Kathmandu; World Bank. 2004. *World Development Indicators 2004*. Washington D.C; UNDP. 2004. *Human Development Report 2004*. New York. UNDP. 2006. *An Assessment of the Implementation of the Tenth Plan/PRSP*. Nepal. NPC.

COUNTRY POVERTY AND SOCIAL INDICATORS

Item	Period			
	1985	1990	Latest Year	
A. Population Indicators				
1. Total Population (million)	16.2	17.9	25.3	(2005) ^a
2. Annual Population Growth Rate (% change)	2.1	2.1	2.3	(2005)
B. Social Indicators				
1. Total Fertility Rate (births/woman)	5.9	5.3	3.7	(2000-2005)
2. Maternal Mortality Rate (per 100,000 live births)	—	850.0 (1991)	415.0	(2000)
3. Infant Mortality Rate (below 1/1,000 live births)	115.4	102.1	61.0	(2005)
4. Life Expectancy at Birth (years)	50.9	53.6	61.6	(2003)
Female	50.0	52.9	62.0	(2003)
Male	51.6	54.2	61.2	(2003)
5. Adult Literacy (%)	26.5	30.5	48.6	(2003)
Female	9.8	14.0	34.9	(2003)
Male	42.7	47.5	62.7	(2003)
6. Primary School Net Enrollment (%)	—	61.0	71.0	(2003)
7. Secondary School Gross Enrollment (%)	25.2	33.1	50.5	(1997-2000)
8. Child Malnutrition (% below age 5)	69.1 (1975)	57.0 (1990)	53.0	(2000)
9. Population Below Poverty Line (international, %) ^b	—	—	37.7	(1990-2003)
10. Population with Access to Improved Water Sources (%)	—	69 (1990)	81	(2005)
11. Population with Access to Improved Sanitation Facilities (%)	—	12 (1990)	39	(2005)
12. Public Education Expenditure (% of GDP)	2.7	2.0	3.4	(2000-2002)
13. Human Development Index	0.42	0.42 (1990)	0.52	(2003)
14. Rank/Total Number of Countries	114/130 (1987)	152/173 (1990)	136/177	(2005)
15. Gender-Related Development Index	—	0.33 (1995)	0.51	(2003)
16. Rank/Total Number of Countries	—	148/163 (1995)	106/177	(2003)
C. Poverty Indicators				
1. Poverty Incidence	—	42 (1996)	31.0	(2004)
2. Proportion of population below poverty line				
Urban	—	23 (1996)	9.6	(2004)
Rural	—	44 (1996)	34.6	(2004)
Mountain	—	56 (1996)	32.6	(2004)
Hills	—	41 (1996)	34.5	(2004)
Terai	—	42 (1996)	27.6	(2004)
3. Poverty Gap	—	11.75 (1996)	7.55	(2004)
4. Poverty Severity Index	—	4.67 (1996)	2.7	(2004)
5. Inequality (Theil L Index)	—	—	—	
6. Human Poverty Index	—	—	38.7	(2004)
Rank	—	—	74	(2004)

— = not available; GDP=gross domestic product.

^a Central Bureau of Statistics estimate.

^b \$1 a day at 1985 international prices, adjusted for purchasing power parity.

Sources: United Nations Development Programme (UNDP). 2005. *Human Development Report*. New York; Central Bureau of Statistics. 2005. *Nepal Living Standards Survey Report*. Kathmandu; UNDP and National Planning Commission. *Millennium Development Goals – Progress Report*. 2005. Kathmandu.

INDICATIVE ASSISTANCE PIPELINE FOR LENDING PRODUCTS, 2007–2009

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)					
						OCR	ADB		Total	Gov't.	Co- financing
							Loans	Grants			
2007 Firm Loans											
Energy											
Rural Electrification and Renewable Energy I	GI	ECG	SAEN	2004	50.0	30.0		30.0	10.0	10.0	
Subtotal					50.0	30.0		30.0	10.0	10.0	
Education											
Education Sector Cluster Program (subprogram. 2)	GI	ISD/GAD	SANS	2005	8.0		8.0	8.0	0.0	0.0	
Subtotal					8.0		8.0	8.0	0.0	0.0	
Finance											
SME Business Environment Development Sector Program	GI	ECG/REG/ PSD	SAGF	2003	21.0	15.0		15.0	0.0	6.0	
Subtotal					21.0	15.0		15.0	0.0	6.0	
Transport and Communications											
Improving ICT Accessibility for Public Service Delivery	GI	ECG	SATC	2006	61.3	25.0		25.0	6.3	30.0	
Subtotal					61.3	25.0		25.0	6.3	30.0	
Multisector											
Rural Reconstruction and Rehabilitation ^a	GI	ECG	NRM	2006	56.0	30.0		30.0	6.0	20.0	
Subtotal					56.0	30.0		30.0	6.0	20.0	
Total					196.3	100.0	8.0	108.0	22.3	66.0	
2007 Standby Loans											
Law, Economic Management and Public Policy											
Governance Reform and Decentralization Cluster Program (subprogram. 1)	GI	ECG/GOV/ ISD	SAGF	2006	46.3	30.0		30.0	6.3	10.0	
Total					46.3	30.0		30.0	6.3	10.0	

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance
2008 Firm Loans^b				
Law, Economic Management and Public Policy Governance Reform and Decentralization Cluster Program (subprogram. 1)	GI	ECG/GOV/ISD	SAGF	2006
Transport and Communications North-South Fast Track Road Connectivity	GI	ECG/ISD	SATC	2006
2008 Standby Loans^b				
Transport and Communications Civil Aviation Sector Development	GI	ECG/ISD/PSD	SATC	2007
Water Supply, Sanitation, and Waste Management Kathmandu Valley Water Distribution, Sewerage, and Urban Development	GI	ISD	SAUD	2006
Total^c	\$100 million			

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance
2009 Firm Loans^b				
Transport and Communications				
Civil Aviation Sector Development	GI	ECG/ISD/PSD	SATC	2007
Water Supply, Sanitation, and Waste Management				
Kathmandu Valley Water Distribution, Sewerage, and Urban Development	GI	ISD	SAUD	2006
2009 Standby Loans^b				
Agriculture and Natural Resources				
Decentralized Rural Infrastructure and Livelihood II	GI	ECG/ISD/GA D	SANS	2008
Education				
Education Sector Cluster Program (subprogram. 3)	GI	ISD/GAD	SANS	2007
Total^c	\$100 million			

— = not available, ADB = Asian Development Bank, ADF = Asian Development Fund, CAD = Capacity Development, ECG = Sustainable Economic Growth, ENV = Environment Sustainability, GAD = Gender and Development, GI = general intervention, GOV = Governance, Gov't = Government, ISD = Inclusive Social Development, MT = Multitheme, OCR = ordinary capital resources, PSD = Private Sector Development, REG = Regional Cooperation, SANS = Agriculture, Natural Resources, and Social Services, SAEN = Energy Division, SAGF = Governance, Finance, and Trade Division, SATC = Transport and Communication Division.

^a Financing to be sourced from possible loan savings identified during August 2006 spring cleaning.

^b As noted in para. 40 of the Country Operations Business Plan, the individual project/program size (amount) is not mentioned for the 2008 and 2009 country program.

^c IPF for 2008 and 2009 are notional at this stage. Government expressed serious concern on the sharp decline in the IPF to \$70 million, from \$117 million indicative assistance level proposed in the CSP. In response to Government's concern, all efforts will be made to maximize the reallocation of loan savings and cofinancing opportunities, thereby increasing the overall resources available for the period – hence the indicative total \$100 million of lending products.

Source: Asian Development Bank estimates.

INDICATIVE ASSISTANCE PIPELINE FOR NONLENDING PRODUCTS AND SERVICES, 2007–2009

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2007 Firm							
Agriculture and Natural Resources							
1. Land Tenure Policy	SANS	ID	TASF	300.0			300.0
2. Rural Reconstruction and Rehabilitation ^a	NRM	PP	TASF	400.0			400.0
Subtotal				700.0			700.0
Education							
1. Education Sector Cluster Program (subprogram. 3)	SANS	PP	tbd	450.0			450.0
Subtotal				450.0			450.0
Energy							
1. Energy Efficiency through Loss Reduction	SAEN	ID	TASF	400.0	tbd	200.0	600.0
Subtotal				400.0		200.0	600.0
Transport and Communications							
1. Civil Aviation Sector Development	SATC	PP	tbd	750.0			750.0
Subtotal				750.0			750.0
Water Supply, Sanitation, and Waste Management							
1. Secondary Towns Integrated Urban Environmental Improvement	SAUD	PP	tbd	450.0	tbd	200.0	650.0
Subtotal				450.0		200.0	650.0
Law, Economic, Management, and Public Policy							
1. Economic Policy Network II	NRM	ID	TASF	500.0			500.0
2. Capacity Building of the Peace Secretariat	NRM	ID	TASF	500.0	tbd	500.0	1,000.0
3. Capacity Building in Anticorruption Institutions	SAGF	ID	TASF	400.0			400.0
4. Quarterly Economic Update	NRM	ETSW	—	—			—
Subtotal				1400.0		500.0	1,900.0
Total				4,150.0		900.0	5,050.0
2007 Standby							
1. Decentralized and Community-based Water Management Project	SANS	PP	tbd	600.0	tbd	200.0	800.0
Total				600.0		200.0	800.0

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2008 Firm							
Agriculture and Natural Resources							
1. Decentralized Rural Infrastructure and Livelihood II	SANS	PP	tbd	600.0	tbd	100.0	700.0
2. Decentralized and Community-based Water Management Project	SANS	PP	tbd	600.0	tbd	200.0	800.0
3. Development of the Environment Master Plan	SANS	ID	TASF	400.0	tbd	300.0	700.0
4. Sustainable Rural Livelihoods and Watershed Management in the Highlands of Nepal	SANS	PP	TASF	500.0	tbd	200.0	700.0
Subtotal				2,100.0		800.0	2,900.0
Water Supply, Sanitation, and Waste Management							
1. Water Supply, Sanitation, and Quality Management in Emerging Towns	SAUD	PP	tbd	600.0	tbd	200.0	800.0
Subtotal				600.0		200.0	800.0
Law, Economic, Management, and Public Policy							
1. Strengthening Capacity for Managing for Development Results	NRM	ID	TASF	600.0	tbd	250.0	850.0
2. Governance Reform and Decentralized Service Delivery	SAGF	ID	TASF	500.0	tbd	500.0	1,000.0
3. Quarterly Economic Update	NRM	ETSW	—	—			—
Subtotal				1,100.0		750.0	1,850.0
Total				3,800.0		1,750.0	5,550.0

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2009 Firm							
Agriculture and Natural Resources							
1. Agribusiness	SANS	PP	TASF	450.0	tbd	100.0	550.0
2. Empowerment of Women and Excluded Groups	SANS	PP	tbd	450.0	tbd	300.0	750.0
Subtotal				900.0		400.0	1,300.0
Education							
1. Skills for Employment II	SANS	PP	TASF	500.0	tbd	100.0	600.0
Subtotal				500.0		100.0	600.0
Energy							
1. Rural Electrification and Renewable Energy II	SAEN	PP	tbd	500.0			500.0
Subtotal				500.0			500.0
Finance							
1. Inclusive Financial Sectors Development Program	SAGF	PP	tbd	500.0			500.0
Subtotal				500.0			500.0
Transport and Communications							
1. Road Connectivity Sector II	SATC	PP	tbd	600.0	tbd	200.0	800.0
Subtotal				600.0		200.0	800.0
Water Supply, Sanitation, and Waste Management							
1. Community-based Water Supply and Sanitation Sector II	SAUD	PP	tbd	400.0	tbd	200.0	600.0
Subtotal				400.0		200.0	600.0
Law, Economic, Management, and Public Policy							
1. Quarterly Economic Update	NRM	ETSW	—	—			—
Subtotal				—		—	—
Total				3,400.0		900.0	4,300.0

— = not available, ADB = Asian Development Bank, ETSW = Economic, Thematic, and Sector Work, ID = Institutional Development, NRM = Nepal Resident Mission, PP = Project Preparatory, SANS = Agriculture, Natural Resources, and Social Services, SAEN = Energy Division, SAGF = Governance, Finance, and Trade Division, SATC = Transport and Communication Division, TASF = Technical Assistance Special Fund, and tbd = to be determined.

^a The TA will be financed from possible TA savings identified during August 2006 spring cleaning and the actual TASF/JSF allocation for 2007 is \$3.75 million. Source: Asian Development Bank estimates.

PRELIMINARY SUMMARY INFORMATION ON PROPOSED 2007 INDICATIVE LENDING PRODUCTS

Project Name	Description
Rural Electrification and Renewable Energy	<p>Goal and Purpose The electrification ratio in Nepal is 20% nationally and only 5% in rural areas. This project will extend electricity supply to more rural people. It will develop off-grid rural renewable energy where feasible. Provision of electricity supply will reduce poverty and disparities between rural and urban standards of living. The project will reinforce and develop distribution in existing service areas.</p> <p>Components and Outputs The project will provide rural electrification by extension of the integrated grid; strengthen the distribution network of the Nepal Electricity Authority (NEA) or, after any restructuring, its successor companies; and develop rural renewable electricity supply for remote off-grid communities. Only renewable energy that is practical, feasible, sustainable, and cost-effective will be financed. The project will finance rural electrification and strengthen the distribution system.</p> <p>Expected Results The project will improve electrification ratios and make electricity available to about 800,000 to 1 million more rural people. It will strengthen distribution in existing service areas to supply load growth.</p>
SME Business Environment Development Sector Program	<p>Goal and Purpose The long-term goal is to help structurally transform Nepal's SME economy. Policy adjustment and investments will improve Nepal's competitive and absolute advantage, to be reflected in increased exports and business activity, market access, and foreign investments; higher productivity; deepened industrial structure; and dispersed higher incomes and employment.</p> <p>Components and Outputs The objectives are (i) to improve the policy and business environment to enhance competitive advantage, which cannot be induced by macro measures at the SME level; (ii) at a micro and firm-oriented level, to reduce the information and transaction costs for SMEs for higher absolute trade advantage relative to competitors; and (iii) to develop capacity to channel risk capital to SME exporters.</p>

Project Name	Description
	<p>The SDP consists of (i) a program loan supporting policy reforms and business environment development, (ii) a project loan for capacity building of SMEs, (iii) a PRG with Government counter-guarantee for foreign investment (to be finalized during appraisal), and (iv) a TA grant to support Government implementation of the SDP.</p> <p>Expected Results:</p> <ul style="list-style-type: none"> • Apex Export Support Board with a secretariat established at the Ministry of Industry, Commerce and Supplies • Implementation of streamlined registration requirements of firms enhancing competitiveness • Broadened investment regulations for capital market development, in line with need for enhanced competitiveness and market access • Established export promotion industries and special export zones under international labor standard rules • Financial and risk backing of market focused transfer of knowledge and skills to Nepal
Improving Information and Communication Technology (ICT) Accessibility for Public Service Delivery	<p>Goal and Purpose</p> <p>The project will help the Government take advantage of ICT to make it more efficient, transparent, and accountable, and to deliver better public services. The ICT reform measures are (i) opening up of telecoms and internet service markets to competition, and (ii) tariff restructuring and rebalancing. The project will also help (i) strengthen government agencies' capacity to electronically provide public services, and (ii) build the regulatory authority's capacity to adapt to a new regulatory environment.</p> <p>Components and Outputs</p> <p>The project includes (i) networking of government agencies (central and district) and installing of applications for delivery of public services; (ii) establishment of a national e-government coordinator that will coordinate ICT policies, standards, and practices for government work; (iii) establishment of community e-centers that will facilitate access to Government services in remote areas; (iv) strategic investment for telecoms lines (wire or wireless) that will facilitate connection of remote areas to backbone; and (v) capacity strengthening of government agencies, including the regulatory authority. The project may create regional hubs in the far western and western <i>terai</i> areas to provide basic, mobile, and value added of about 1,000 villages and integrated broadcasting and telecommunication services to the surrounding rural areas. Computer literacy programs will be included. The project will also improve optical fiber connectivity between Nepal and neighboring countries.</p> <p>Expected Results</p> <p>The expected results of the project include (i) provision of better Government and public services, (ii) better rural access to Government and public services, and (iii) economic growth in the rural areas.</p>

Project Name	Description
Rural Reconstruction and Rehabilitation	<p>Goal and Purpose The project aims to improve the living conditions and well-being of people in conflict-affected areas by restoring basic social infrastructure, community and public services, and livelihoods. The project will support income-generating activities by providing rural roads, water supply and sanitation, community development, and institutional infrastructure.</p> <p>Components and Outputs The key components of the project will comprise (i) rehabilitation and construction of rural roads; (ii) rehabilitation of damaged institutional structures (district headquarter buildings, village development committees, and public schools); (iii) water supply and sanitation facilities; and (iv) construction of micro-hydropower.</p> <p>Expected Results The project is expected to help the Government meet people's immediate needs. It will provide livelihood support and create the groundwork for rural economic recovery. It will create jobs of about 300,000 person-days and reduce rural poverty. The project-processing mission will determine the specific results and deliverables.</p>
Governance Reform and Decentralization Cluster Program (subprogram. 1) (Standby)	<p>Goal and Purpose The goal is to support inclusive poverty reduction. The objective is to extend basic public service outreach to local levels and to improve effectiveness and accountability of public service delivery.</p> <p>Components and Outputs The program will build on the lessons of the Governance Reform Program approved in 2001, the Public Sector Management Program approved in July 2003, and the Corporate and Financial Governance Program approved in 2000. Outputs include (i) a diagnostic study of the institutional environment, systems, and procedures for service delivery and monitoring; (ii) detailed design; and (iii) pilot-testing and training.</p> <p>Expected Results Results include conducive policies, effective institutions, enhanced institutional capacity, and greater service outreach after extensive consultation with and the participation of stakeholders. Deliverables include a policy framework, sequencing of reforms, and detailed implementation action plans for government and public service institutions at the central district and village levels. Likely reforms include service performance standards and management, delegation of accountability and authority to the frontline, affirmative action for social inclusion, job classification for specialized civil servants, rightsizing the civil service, and improving the effectiveness of anticorruption institutions. Anticorruption activity will also be supported through an attached advisory TA.</p>

**PRELIMINARY SUMMARY INFORMATION ON PROPOSED 2007 INDICATIVE
NONLENDING PRODUCTS**

Project Name	Description
Land Tenure Policy (IDTA)	<p>Goal and Purpose The goal is to improve land tenure policies, the use of the planning process, and, in particular, decision-making relating to the use of land resources to optimize the benefits to agriculture and other related sectors. The purpose includes the provision of services to strengthen institutions involved in the formulation of land tenure policies and in land-use planning.</p> <p>Components and Outputs The project will comprise three major components:</p> <ul style="list-style-type: none"> • Assessing the land tenure and land use (legal, institutional, and customary framework) and their impact on productivity and profitability of rural investments • Strengthening the institutions in charge of land tenure and land use • Proposing land policy adjustments that would promote increased productivity and profitability of agriculture <p>Expected Results The assessment on land tenure will recommend mechanisms to strengthen land tenure security, in terms of outreach, cost, and effectiveness of different mechanisms, as well as the economic and non-economic impact of such measures. Particular emphasis will be on the impact on women, conflict-affected groups, and excluded groups.</p>
Education Sector Cluster Program (subprogram. 2) (PPTA)	<p>Goal and Purpose The project aims to review and consolidate the current education sector policy in light of progress made in each subsector and changes in the socioeconomic. The project will identify areas for strengthening and developing the education sector. The project will focus on institutional capacity building for education planning and management, development and monitoring of quality standards, result-based performance monitoring, good governance in education, transparency, and accountability.</p> <p>Components and Outputs To be determined.</p> <p>Expected Results Expected results will be a framework for strengthened management and institutional capacity, improved planning and management of resources in education, enhanced capacity for result-based performance monitoring, efficient and transparent devolved education management for school education, and a coherent sector development policy for education. The project will also lay the foundation for long-term ADB assistance in education within the framework of a sector-wide approach.</p>

Project Name	Description
Energy Efficiency through Loss Reduction (IDTA)	<p>Goal and Purpose High losses in the Nepal Electricity Authority's (NEA) system are an ongoing problem. NEA's losses totaled 24.8% in 2005, increasing from 22.9% in 2003, significantly higher than the covenanted (20.0%) in ADB's loan, which is under implementation. Despite many studies, system losses have not been reduced. The TA will analyze the root causes for technical and nontechnical system losses.</p> <p>Components and Outputs The TA will develop a comprehensive time-bound loss-reduction plan addressing the findings and recommendations of a root-cause analysis for technical and nontechnical system losses. The TA will identify the physical investment need for the next 5 years to reduce system losses to be included as a component of the ADB's loan, which is under preparation.</p> <p>Expected Results Reduction in system losses to agreed 20% in the next 5 years</p>
Civil Aviation Development Project (PPTA)	<p>Goal and Purpose The project will address the deficiencies of civil aviation in general, including the development needs of international and regional airports; and air transport service in the country, in terms of safety and feasibility. It will facilitate private involvement in financing, ownership, operation, rehabilitation, maintenance, and management of airports.</p> <p>Components and Outputs The project will improve the international and strategic regional airports, and help the Government implement the reform action plan identified under the civil aviation sector study.</p> <p>Expected Results The TA will prepare the investment component for airport improvement that is in accordance with International Civil Aviation Organization standards, economically viable, and environmentally and socially responsible. The project will consist of investment and institutional development components.</p>
Secondary Towns Integrated Urban Environmental Improvement (PPTA)	<p>Goal and Purpose Following the framework and precedents to be established under the first Urban and Environmental Improvement Project, which covers nine secondary towns surrounding Kathmandu, the TA will facilitate sustainable urban management, in identified urban growth centers outside Kathmandu, by addressing critical urban development and environmental improvement needs. The TA will also focus on the institutional strengthening of concerned municipalities and urban poverty reduction measures in identified secondary towns.</p>

Project Name	Description
	<p>Components and Outputs The TA will be implemented in three phases: (i) analyze urban-based regional economic growth potential spearheaded by high-growth (or high-growth potential) secondary towns (about 6–10 secondary towns that are urban growth centers outside Kathmandu will be included in the TA); (ii) formulate urban growth strategies for identified secondary towns; and (iii) prepare an investment project proposal for facilitating urban-based regional economic growth, while maintaining and improving the environment of these secondary towns and surrounding rural areas. The investment project will cover the provision of basic urban infrastructure and services—such as water supply; solid waste management; human waste management; drainage or flood control; urban road, urban transport, or traffic management; and urban land management—and include targeted poverty-reduction measures, such as support for small urban enterprises and community facilities. Monitoring and control mechanisms and related institutional strengthening measures will be proposed, too.</p> <p>Expected Results The TA will prepare a project that is suitable for ADB financing. The TA will also prepare a proposal that is suitable for JFPR financing, which is to be integrated administratively under the ADB-financed project.</p>
Economic Policy Network II (IDTA)	<p>Goal and Purpose The TA will focus on expanding, strengthening, and sustaining the economic policy network established under ADB TA-NEP 4288, Establishing Economic Policy Network (EPN), with active participation of stakeholders in the public and private sectors to address contemporary issues and concerns, and support implementation of the Government's poverty reduction strategy. In particular, the TA will support bringing more sectors under the EPN process, including local and regional stakeholders in the economic policy network process, and adopting modalities needed to sustain the network. These goals will be realized through an innovative partnership arrangement among senior policy makers, local bodies, community based organizations, non-government organizations, donors, academic institutions, leading private sector entrepreneurs, opinion makers, and other experts.</p> <p>Components and Outputs The scope of the TA will cover (i) expanding the institutional framework for economic policy dialogue and analysis to include more sectors, (ii) developing an institutional framework for economic policy dialogue and information dissemination at the local and regional levels, (iii) providing assistance for policy research and analysis, and (iv) facilitating the adoption of modalities needed to sustain the network.</p> <p>Expected Results The TA expects enhanced institutional policy framework for additional sectors.</p>

Project Name	Description
Capacity Building of the Peace Secretariat (IDTA)	<p>Goal and Purpose The TA will help strengthen the Peace Secretariat, mainly by building staff capacity and supplying office equipment, to help the Government restore peace and democracy. ADB will closely coordinate with other donor agencies while responding to the assistance request of the Peace Secretariat.</p> <p>Components and Outputs Building capacity of staff, supplying office equipment and learning resources, and providing specific consultancy inputs. Details are to be decided after consultation with Peace Secretariat and donor agencies.</p> <p>Expected Results Enhanced institutional capacity of the Peace Secretariat to support the peace process</p>
Capacity Building in Anticorruption Institutions (IDTA)	<p>Goal and Purpose The overall goal of the TA is to help strengthen anticorruption institutions to reduce corruption.</p> <p>Components and Outputs Tentatively, the TA will (i) review of the existing anticorruption strategy, legal framework, modalities, institutional composition, and tools to ascertain how anticorruption efforts can best be furthered and integrated; (ii) strengthen the skills base and technical capability of relevant anticorruption institutions [such as the Commission for Investigation of Abuse of Authority (CIAA) and National Vigilance Centre(NVC)]; and (iii) widely disseminate the results of the work of these institutions to raise public awareness.</p> <p>Expected Results The expected results of the TA are (i) increased ability of the CIAA, NVC, and others to do their work more effectively (as measured by, for example, shorter periods to process claims of corruption and of misuse of authority; increase in public awareness of the work of these institutions in the public sector); and (ii) eventual reduction of institutionalized corruption in the public sector. The deliverables include (i) clear and realistic work plans of the anticorruption institutions and (ii) greater skills in these institutions.</p>
Decentralized and Community-Based Water Management Project (PPTA, standby)	<p>Goal and Purpose The project goal is to promote inclusive economic growth, poverty reduction, and sustainable management of water and land resources. Its specific objective is to improve agricultural productivity and sustainability by improving access to irrigation, focusing on marginal and smallholders with little access to irrigation, through community-based and/or private minor or micro irrigation, with strong, demand-driven stakeholder involvement and a decentralized approach.</p>

Project Name	Description
	<p>Components and Outputs The project will comprise (i) developing community-based or private minor or micro irrigation for the poor (including groundwater and surface water systems with water-harvesting techniques); (ii) renovating minor farmer-managed irrigation systems through local bodies; (iii) sustaining the institutionalization of irrigation management transfer of a limited number of government-managed irrigation systems; and (iv) policy and institutional strengthening of water resources management and irrigation service delivery, including operation of integrated water resources management in priority river basins. Community-based irrigation interventions will include (i) establishment/strengthening of water user associations, (ii) provision of credit (for minor/micro irrigation) and/or irrigation infrastructure, and (iii) agricultural extension and rural livelihood enhancement support.</p> <p>Expected Results The project will reduce poverty through (i) increased agriculture production, (ii) more jobs, (iii) improved food security, and (iv) community empowerment. The project will protect the natural environment by reducing pressure on forests and non-irrigated lands. Policy and institutional framework for IWRM and irrigation service delivery will be improved, sustaining natural resources management in the selected river basins, and reducing the Government's recurrent budget for operation and maintenance of existing irrigation schemes.</p>

Source: Asian Development Bank

ASSISTANCE PIPELINE FOR LENDING PRODUCTS, 2006

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)					
						OCR	ADB		Total	Gov't.	Co- financing
							Loans	Grants			
2006 Firm Loans											
Agriculture and Natural Resources											
Commercial Agriculture Development	GI	GOV/GAD/PSD	SANS	2002	22.5		18.0	18.0	4.5	0.0	
Subtotal					22.5		18.0	18.0	4.5	0.0	
Education											
Education Sector Cluster Program (subprogram. 1)	GI	ISD/GAD	SANS	2005	42.0	30.0	2.0	32.0	10.0	0.0	
Subtotal					42.0	30.0	2.0	32.0	10.0	0.0	
Finance											
Rural Finance Sector Development Cluster Program ^a	GI	ECG/GOV	SAGF	2004	74.7	56.0	8.7	64.7	10.0	0.0	
Subtotal					74.7	56.0	8.7	64.7	10.0	0.0	
Transport and Communications											
Road Connectivity Sector I	GI	ECG	SATC	2004	80.0		55.2	55.2	14.8	10.0	
Subtotal					80.0		55.2	55.2	14.8	10.0	
Total					219.2		86.0	83.9	169.9	39.3	
2006 Standby Loans											
Energy											
Rural Electrification and Renewable Energy	GI	ECG	SAEN	2004	50.0	30.0		30.0	10.0	10.0	
Total					50.0	30.0		30.0	10.0	10.0	

— = not available, ADB = Asian Development Bank, ADF = Asian Development Fund, CAD = Capacity Development, ECG = Sustainable Economic Growth, ENV = Environment Sustainability, GAD = Gender and Development, GOV = Governance, ISD = Inclusive Social Development, MT = Multitheme, OCR = ordinary capital resources, PSD = Private Sector Development, REG = Regional Cooperation, SANS = Agriculture, Natural Resources, and Social Services, SAEN = Energy Division, SAGF = Governance, Finance, and Trade Division, SATC = Transport and Communication Division.

^a Of the total \$64.7 million, \$49.9 million is the IPF allocation and additional \$14.8 million is proposed to be allocated from the cancellations of the ongoing Public Sector Management Program Loan and reutilization of the loan savings as requested by the Government and subject to Management's approval.

Source: Asian Development Bank estimates.

ASSISTANCE PIPELINE FOR NONLENDING PRODUCTS AND SERVICES, 2006

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2006 Firm							
Finance							
1. Capacity Building in Rural Finance Institutions	SAGF	ID	tbd	500.0	TBD	100.0	600.0
Subtotal				500.0		100.0	600.0
Transport and Communications							
1. Improving ICT Accessibility for Public Service Delivery	SATC	PP	tbd	600.0			600.0
2. Preparation of Civil Aviation Sector Strategy	SATC	ID	TASF	150.0			150.0
3. North-South Fast Track Road Connectivity	SATC	PP	tbd	850.0			850.0
4. Capacity Building in Road Feasibility Study and Construction and Contract Management	SATC	ID	TASF	300.0			300.0
Subtotal				1,900.0			1,900.0
Water Supply, Sanitation and Waste Management							
1. Kathmandu Valley Water Distribution, Sewerage, and Urban Development	SAUD	PP	TASF	400.0	CFWS/ Denmark	560.0	960.0
2. Enabling the Private Sector to Undertake Poverty Focused Water Distribution and Strengthening of Institutional Reforms in Kathmandu Valley	SAUD	ID	TASF	150.0	PRF	570.0	720.0
				550.0		1,130.0	1,680.0
Law, Economic, Management, and Public Policy							
1. Governance Reform and Decentralization Cluster Program (Subprog. 1)	SAGF	PP	tbd	500.0			500.0
2. Economic Policy Network I (Supplementary) ^a	NRM	ID	TASF	200.0			200.0
3. Quarterly Economic Update	NRM	ETSW	—	—			—
Subtotal				700.0			700.0
Total				3,650.0		1,230.0	4,880.0
2006 Standby							
1. Rural Reconstruction and Rehabilitation	NRM	PP	TASF	400.0			400.0
2. Capacity Building in Anticorruption Institutions	SAGF	ID	TASF	400.0			400.0
Total				800.0			800.0

— = not available, ADB = Asian Development Bank, ETSW = Economic, Thematic, and Sector Work, ID = Institutional Development, NRM = Nepal Resident Mission, PP = Project Preparatory, SANS = Agriculture, Natural Resources, and Social Services, SAEN = Energy Division, SAGF = Governance, Finance, and Trade Division, SATC = Transport and Communication Division, TASF = Technical Assistance Special Fund, and tbd = to be determined.

^a The TA is expected to be funded by TA savings.

Source: Asian Development Bank estimates.