

## FINDINGS FROM CAPE NEPAL 2004

### A. Portfolio (1988–2003)

- 48 loans approved (amounting to \$1.4 billion)
  - ✓ 42 project investment loans
  - ✓ 6 program loans
    - 3 agriculture sector loans
    - 1 industry sector loan
    - 2 thematic loans
- 167 technical assistance grants (amounting to \$74.5 million)
  - ✓ 50 PPTA (\$21.2 million)
  - ✓ 117 ADTA (\$53.3 million)

### B. Trends in Portfolio Performance

- **Lending Program.** Large amount of over-programming and slippage<sup>1</sup> in terms of actual loan approvals vs. firm loans in annual lending program.
  - ✓ Resulted in the transfer of resources significantly below that of the indicative planning figure (IPF).
  - ✓ Overall, the balance of the lending program reflects the priorities and recommendations of various Country Operational Strategies<sup>2</sup> (COSs). However, there appears to be a declining emphasis on rural and agriculture sectors in the operating program.
  - ✓ Expectations about the sector balance for the 1999–2004 COS period was that the lending program would continue to support the implementation of the Agriculture Perspective Plan, but the focus seems to have been lost in the 4 years since the COS was prepared.
  - ✓ For the 2000–2003 COS period, only 25% of lending was for projects related to agriculture and roads and out of this only 8% of lending was for agriculture sector projects.
  - ✓ Given the past history of annual slippage in the approval of firm projects in the early 1990s, the potential for year-to-year slippage should continue to be a matter of significant concern.
  - ✓ The analysis of a sample of 37 completed and ongoing projects approved between 1988 and 2000 was carried out.
    - Most projects were selected and designed within the priorities of the 3 COS periods; had a positive development impact; and were or are being relatively successfully implemented and incorporated important crosscutting issues.
    - There is a general indication that institutional governance issues delay or impede implementation, but most were at least partly successful and some were outstanding. However, the effect was as positive as it might have been in terms of implementation efficiency.
    - The overall effect of ADB's lending program was positive in terms of social, environmental, economic, and direct poverty impact.

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<sup>1</sup> Projects approved in the loan pipeline but implementation is postponed to another year.

<sup>2</sup> Country Operational Strategies covering the periods 1988–1992, 1993–1998, and 1999–2003 were used to aid in the analysis for the CAPE.

- **Sector Performance.** Projects within the priority sectors identified in the COSs generally had a higher degree of success than low-priority sectors. This may be because ADB has more experience and a longer history in designing projects of this kind than projects in new sectors (e.g., tourism or urban development). The program had relative success in projects related to water supply and sanitation, and agriculture, in terms of implementation efficiency, reaching the desired target group, and fostering social equity and economic growth. Transportation and education projects also performed relatively well but these projects were constrained by institutional problems and lack of innovativeness in project design. The impact of energy projects in Nepal's overall economic growth was also significant.
  - **Lending Modalities.** Sector loans were more successful than either project or program loans.
- **Non-lending Program.** Total approved ADTA was about 2.5 times the PPTA level.
    - ✓ Average annual level of ADTA approvals declined consistently from \$4.0 million yearly (1988 COS period) to just under \$3.0 million during the 1999 COS period.
      - The decline in approvals resulted from a sharp decline in ADTA to agriculture and natural resources (from \$1.8 million during the 1988 COS period to \$260,000 during the 1999 COS period).
      - The decline in ADTA approvals was directed at addressing the priority needs identified during the 1999 COS period.
    - ✓ PPTA approvals increased from an average of \$0.9 million yearly during the 1988 COS period to \$2.2 million yearly during the 1999 COS period.
      - The agriculture sector received bulk of PPTA approvals.
      - However, the agriculture sector's share of approvals declined from 56% (during the 1988 COS period) to 34% during the 1999 COS period.
      - Increased PPTA allocations reflect the concern expressed in the 1999 COS study on past weaknesses in project design and the need for more project preparatory resources to facilitate increased stakeholder participation in project design processes and allow more intensive fieldwork to better understand local needs.
    - ✓ There is a fairly high degree of success for most PPTAs as almost all resulted in a subsequent project. But deficiencies are noted in many preparation exercises. Thus, there is a need for a better focus on project design.
    - ✓ **Economic and Sector Work.** Economic and sector work financed by ADTAs was good, particularly in the agriculture sector through policy reforms and a series of more clearly focused and better designed/implemented projects. Economic and sector work in other sectors also contributed to improved policies and clearer view of sector priorities and directions.
    - ✓ **Project Design.** Projects showed a high degree of success when the project design included a mechanism for beneficiary participation.

## C. Strengths and Weaknesses of the Country Program

### 1. Program Strengths

- The ability of Government and ADB to improve on past performance and build on successes, especially in certain key sectors (e.g., water supply and sanitation, agriculture, and roads).

- The willingness of the Government and ADB to tackle difficult policy and institutional issues in some major productive sectors.
- Nepal was able to initiate and complete most of the projects it started in the past 15 years despite facing difficult circumstances and limited human, institutional, and financial resources.

## 2. Program Weaknesses

- Past experience in project implementation was either not adequately taken into account, or promising implementation models and experiences were not followed up. The absence of clear and shared visions (shared by the Government, ADB, and other key stakeholders) on ultimate sector development objectives. This hampered the effective delivery of assistance to strengthen key development and market institutions.
- The overestimation on the part of ADB staff of the ability of government staff and agencies to understand institutional, crosscutting, and policy concerns and be able to do something about them. This resulted in loans containing conditions that could not be met. Inadequate attention was also given to building broad-based support for policy reforms that adversely affected some interest groups.
- The propensity to spread investment too thinly over too many sectors.

## D. Lessons

The analysis generated the following lessons learned:

- a CSP can only be successful when the strategy and country program are consistent;
- a clear and well-defined strategy is crucial to achieving this consistency;
- a clear and well-defined country program can be developed within the Nepalese context, according to experience over the study period;
- the analysis indicates that projects that actively consider the crosscutting priorities of ADB and the Government in their design have a greater chance of success than projects that do not;
- a sound institutional base is generally required for effective projects;
- a sector approach and long-term assistance are needed for institution building;
- a project's success is most likely if the project design is based on a proven development model;
- the executing agency, the Government, and ADB must show sound governance and commitment to ensure effectiveness of project implementation and ultimate project success for difficult and complex projects;
- the conditions for disbursement in either project or program loans should be reasonable and attainable to avoid stalled implementation; and
- a range of benefits can be generated from large-scale projects, concomitant with the size of investment, but these projects can also generate challenges of a similar size.

## E. Implications for Future ADB Strategies and Programs

The following implications for future ADB strategies and programs in Nepal were identified:

- (i) **Need for a Well-Focused Program.** Since the role of a CSP is to provide clear and

explicit guidance for the programming of ADB investment and other activities, the CSP should be sharply focused and be easily understood and acted upon by ADB.

(ii) **Need for Flexibility.** Notwithstanding the need for a well-defined, sharply focused strategy, the current situation in Nepal calls for a large degree of flexibility in the strategy. There are many unknowns in the current environment that makes the task of formulating a robust strategy that is valid for up to 5 years difficult.

(iii) **Sector Focus.** The next strategy is strongly recommended to be clearly focused on sectors and investments that are already proven to be successful and that will, additionally, contribute directly to the improvement of incomes of socially and regionally disadvantaged groups. In terms of particular sectors that should receive priority in future strategies, the report underscores the importance of road transport to the country's economy and in furthering the well-being of its people. In addition, given the relative dearth of road transport projects in the CAP over the last 15 years, a stronger emphasis on road or rural infrastructure projects is thus recommended.

(iv) **Modality Focus.** The analysis undertaken during the evaluation shows a higher rate of success than average for sector loans and a lower rate of success than average for program and project loans that contain a large number of conditions. On this basis, it is recommended that whenever possible, sector loans should be preferable to simple investment loans. Furthermore, sector development programs (of which there has so far only been one in Nepal) are a preferable modality to simple program loans.

(v) **Large-Scale Projects.** This CAPE does not recommend completely excluding large-scale projects from a future strategy. It will, however, be important to ensure that possible large-scale projects are in conformity with the future strategy.

## F. CAPE Recommendations for the Government of Nepal

(i) **Ownership of and Direction for the Future Country Strategy and Program.** The Government must take ownership of the CSP and the CSP preparation process. It must clearly be made known to ADB consultants and personnel preparing the CSP what its points of view, policies, and constraints are and what it wants the CSP to emphasize. It needs to be active in providing guidance and feedback to the CSP preparation team. The Government's development priorities and directions are spelled out in the Tenth Plan, and the Government must ensure that these policies and directions are incorporated into the CSP.

(ii) **Clear Presentation of Priorities, Policies, Issues, and Procedures.** During consultations on the next CSP, government representatives should ensure that their concerns, as expressed during the Participatory Stakeholders' Workshop, are raised and communicated to ADB's CSP preparation team in a constructive manner. Raising these issues at the time of CSP preparation is critical, so that they can be addressed in the strategy and guidance can be provided to future country programming and project formulation missions.

(iii) **Enhanced Monitoring of Ongoing and Completed Projects.** Few mechanisms are available to the Government to monitor the implementation or operation of its projects. Moreover, monitoring is considered a low-priority expense. In the long run, this attitude is counterproductive and will surely cost the country substantial sums in lost resources. Consideration should be given to establishing a small monitoring unit in one of the key ministries (perhaps the Ministry of Finance or the Planning Commission), to monitor the implementation

and operation of development partner-financed projects, so that problems can be quickly brought to the attention of the responsible decision makers in the Government and ADB.

(iv) **Operation and Maintenance Financing.** Significant strides were made in addressing the issue of operation and maintenance (O&M) financing for completed projects. However, O&M financing was still raised as an issue during the Participatory Stakeholders' Workshop, and it clearly continues to be a significant concern. In a similar vein to the recommendation made regarding monitoring, the ultimate parties to suffer from poor O&M are the Government and the country. Resources allocated to project implementation will be lost if completed projects are not maintained. Sustainability should thus be an issue and a consideration on the part of the Government from the time that a project is identified and should continue to be such after a project has been physically completed.