



Not for Quotation: Work-in-Progress

Title: Country Assistance Program Evaluation for Nepal
—Evaluation Approach Paper

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A. Introduction

1. This Country Assistance Program Evaluation for Nepal (the CAPE) is an update of the first CAPE that was completed in September 2004. The current Country Strategy and Program (CSP), which covers the period 2005 to 2009 is ADB's first pilot results-based CSP. It identifies the Government's intended results and impact to which ADB will contribute and the outcomes to be achieved during the implementation of this CSP. The Nepal Country Partnership Strategy (CPS) mid-term review has been circulated for interdepartmental review, and the CPS for 2010 to 2014 will be prepared in 2009. Therefore, to enable providing inputs to the CPS preparation, it is timely to conduct the CAPE starting August 2008. The proposed schedule for the CAPE is given in para. 47.

2. The CAPE will assess operations not covered in the 2004 CAPE, subsequent and ongoing ADB support to Nepal, and update previous findings, particularly for the operations ongoing at the time. Indicators of this results-based CSP will be the basis for evaluating the CSP's achievements, keeping in mind the in-country situations that may have affected results achievements. The CAPE will also obtain inputs from the Sector Assistance Program Evaluation (SAPE) on Agriculture and Natural Resources (ANR), which is conducted separately. In addition, it will take into account the priorities and issues raised by the CPS mid-term review. The CAPE's objectives, approach and methodology are discussed in Section D of this evaluation approach paper.

B. Nepal's Socioeconomic Performance and Development Strategy

3. Nepal is one of the poorest countries in the world with about 31% of its 26.4 million people living below the poverty line.¹ The country is characterized by small landholdings, rapid population growth (2.3% annually),² and a fragile ecology, which make poverty persist in many parts of the country. Past insurgencies in Nepal have hampered the achievement of development results. Previous Governments³ have initiated peace negotiations, which have not been effective. After several attempts, compromise agreements were eventually reached that

¹ Ministry of Finance. 2007. *Economic Survey 2007*. Kathmandu.

² ADB. 2007. *Basic Statistics 2007*. Manila.

³ The first peace negotiations in July 2001 was initiated by the elected Government of Prime Minister Deuba but broke down in November 2001, leading to the imposition of a state of emergency. The second initiative was made by the Chand Government (appointed by the palace), which conducted two rounds of negotiations during April–May 2003. The subsequent Thapa Government (also appointed by the palace), resumed negotiations for the third time in August 2003, but it too was unsuccessful.

led to the historic Constituent Assembly (CA) elections in early 2008. The 575 elected⁴ members of the CA (representing various ethnic minorities and political parties with the Party of Nepal, Maoists (CPN/M) winning 230 of the 601 CA seats) will draft a new constitution⁵ and serve as Parliament. However, political analysts⁶ have identified several post-election bottlenecks that need to be overcome, for instance, the need to address concerns related to ethnicity and regionalism. In addition, since the people did not give a clear majority of the mandate to any single political party in the CA elections,⁷ there would be the issue of establishing a balance of power within the new government.

4. The Maoists were expected to lead the new government as they won most seats in the April 2008 elections. However, Nepal's former Maoist rebels have abandoned efforts to form the country's next government. This decision and the alliance of rival parties follow their failure for the presidential election held on 21 July 2008. The Maoists' presidential candidate, Ramraja Prasad Singh, lost a run-off in the constituent assembly to Nepali Congress party candidate Ram Baran Yadav. The vote to elect the president was the first major decision by the assembly since lawmakers decided to abolish the 239-year-old monarchy and declare a republic, part of a peace process that ended a decade-long civil war with Maoist insurgents. Nepal will face challenges in implementing its policies and getting all parties and civil society to work together towards a new era.

5. The insurgency situation and consequent political instability coupled with the poor performance of the agriculture sector⁸ have contributed to the declining GDP growth from 2003/04 to 2006/07. Inflation rate in Nepal heightened to 8% in 2005/06 from an average of 4.4% in the previous three years, and declined to 6.6% in 2006/07. The investment climate remains unfavorable due to the fragile law and order situation and infrastructure deficiencies. The country's current account surplus decreased to 1.1% of GDP in 2006/07 as compared to around 2% annually from 2002/03 to 2005/06 (Table 1). In view of the unstable economic environment in the country, the Government adopted macroeconomic policies that aimed to prevent from further economic decline. The Government's macroeconomic management has helped steer the country through conflict and low growth periods.

6. About 80% of Nepal's population lives in rural areas where poverty incidence is at 34.6%.⁹ As noted in the Government's Tenth Plan for fiscal year (FY) 2002–2007 (Poverty Reduction Strategy Paper), the level and intensity of poverty is closely linked to the pace and pattern of economic growth in the rural and urban areas and economic/income generating opportunities generated with such growth. Rural areas normally lack access to basic social and economic infrastructure (education, health, roads, drinking water, and markets). Remote districts and regions are far away from the centers of economic activity and are the most neglected. It appears that Nepal's poverty situation may be traced to a combination of the country's difficult topography, limited infrastructure base, low rates of productivity improvement

⁴ The remaining 26 seats for the 601-member CA are to be nominated by the interim Government.

⁵ Under the terms of the 2006 peace deal, it was agreed that the future of the monarchy would be decided by a democratically elected constitutional body, or constituent assembly, which would decide the country's future by devising a new constitution.

⁶ Based on analyses from S. Chandrasekharan (<http://www.southasiananalysis.org>); Shobha Gautam (<http://www.fesnepal.org>); Rabintra Mishra (<http://www.bbc.co.uk>); and Gopal Siwakoti (<http://www.rediff.com>).

⁷ Although the CPN/M won the largest number of seats in CA elections (220 seats), the party only cornered less than 50% of the total votes cast.

⁸ The agriculture sector is the main driver of Nepal's economy, contributing about 36% to GDP and employs about 60% of the labor force.

⁹ According to Nepal's Poverty Reduction Strategy Paper Review (2005/2006), poverty incidence in rural areas is at 34.6% and 9.6% in urban areas.

in agriculture, weak governance, unequal pace of rural and urban growth, widespread poverty, and deeply rooted social exclusion that also fueled insurgency in the country.

Table 1: Selected Economic Indicators

Economic Indicator	Fiscal Year				
	2002/03	2003/04	2004/05	2005/06 ^R	2006/07 ^P
Per capita GDP (\$, current prices)	261.0	293.0	328.0	350.0	383.0
GDP Growth, constant prices (% change per year)	3.9	4.7	3.1	2.8	2.5
CPI (% change per year)	4.8	4.0	4.5	8.0	6.6
Overall Fiscal Surplus/(Deficit) (% of GDP)	2.8	2.8	3.1	3.0	2.5
Export growth (% change per year)	6.4	8.0	8.9	2.6	0.0
Import growth (% change per year)	15.8	9.6	9.7	16.3	7.0
Current account Surplus (% of GDP)	2.4	2.7	2.0	2.2	1.1
Total Outstanding Foreign Debt (% of GDP)	45.4	43.4	37.3	36.2	32.6
Exchange Rate (NRs/\$, average)	75.0	74.4	70.6	74.4	70.9

CPI = consumer price index, GDP = gross domestic product, NRs = Nepali Rupees, P = preliminary, R = revised.
Source: Ministry of Finance. 2007. *Economic Survey Fiscal Year 2006/2007*. Kathmandu.

7. Despite low income levels, steady progress has been noted in terms of the country's achievement of the Millennium Development Goals (MDG) targets, as shown in Table 2.

Table 2: Selected Development Indicators

Development Indicator	Previous Value	Latest Value
Poverty incidence (% below poverty line)	42.0 (1996)	31.0 (2004)
Primary school net enrollment (%)	64.0 (1990)	86.6 (2006)
Enrollment ratio of girls to boys (%)		
Primary	63.0 (1990)	98.0 (2006)
Secondary	46.0 (1990)	87.0 (2006)
Under-5 mortality (per 1,000 live births)	145.0 (1990)	61.0 (2006)
Maternal mortality (per 100,000 live births)	515.0 (1990)	281.0 (2006)
People living with HIV (ages 15–49, in %)	0.3 (2000)	0.5 (2005)
Forest area as share of total land area (%)	37.0 (1990)	29.0 (2005)

Sources: United Nations Development Programme.

8. The Tenth Plan's poverty reduction strategy is built on four pillars: (i) broad based economic growth; (ii) social sector development including human development; (iii) targeted programs including social inclusion, in order to bring the poor and marginalized groups into the mainstream of development, together with targeted programs for the ultra poor, vulnerable and deprived groups (who may not adequately benefit from the first two pillars); and (iv) good governance. The Government's recently adopted the Three-Year Interim Development Plan (TYIDP) that aims to generate change among the people by reducing unemployment, poverty, and inequality and contributing the establishment of durable peace.¹⁰ Through the TYIDP, the Government targets an economic growth rate of 5.5% at the end of the plan period (FY 2010) from 2.5% in FY 2007, thereby reducing the proportion of the population living below the poverty line from 31% to 24% by FY 2010. To help achieve these goals, the TYIDP's priority areas include: (i) physical infrastructure (through physical reconstruction and rehabilitation with conflict-affected people provided with relief for re-integration); (ii) investments (to support development through the inclusion of excluded groups); (iii) revitalizing the national economy

¹⁰ National Planning Commission. 2008. *Three-Year Interim Development Plan (2007/08–2009/10)*. Kathmandu.

(through increased investments in physical infrastructure supporting agriculture, tourism, and industry); and (iv) increased investments in education, health, water supply and sanitation for enhancing the quality of human resources.

9. As noted in the 2001 Poverty Partnership Agreement between the Government and ADB, the Government's paramount goal is to reduce the incidence of poverty in the country to less than 10% of the population by FY 2017. Other key goals for FY 2017 include (i) increasing life expectancy from 56.1 to 68.7 years, (ii) increasing the adult literacy rate from 40% to 100%, (iii) increasing annual economic growth to 8.3%, and (iv) bringing down population growth from 2.3% to 1.5%. The Government and ADB agree that accelerated broad-based economic growth coupled with continued reduction in population growth and the expansion of opportunities for the poor and the marginalized groups to participate in the development process are essential to reducing poverty in Nepal. To achieve such growth, there is a need for social and economic infrastructure development. Thus, the Government and ADB will work together to facilitate broad participation in the development process which is carefully structured so that participants recognize trade-offs and arrive at a broad-based consensus on change. Development initiatives will be designed to improve equity between the poor and the better-off, rural and urban populations, women and other vulnerable groups and those who have not been disadvantaged.

C. Findings from the 2004 Nepal Country Assistance Program Evaluation¹¹ and other OED Evaluation Studies for Nepal

10. **Portfolio and Sector Performance.** The analysis of 37 projects implemented in Nepal from 1988 to 2003 showed that, overall, most projects (i) were selected and designed within the priorities of the country strategy, (ii) had a positive development impact, and (iii) were relatively successfully implemented, incorporating important cross-cutting issues. The overall effect of ADB's lending program was positive in terms of social, environmental, economic, and direct poverty impact but was not so in terms of implementation efficiency. The CAPE also noted that implementation in the agriculture, transport, and water supply and sanitation sectors were relatively efficient and addressed most of ADB's strategic priorities. However, the CAPE observed that there appears to have been a general tendency for institutional and governance issues to impede efficient project implementation. A number of factors that constrain the effective and efficient implementation of projects were also identified including (i) deficient project design, (ii) complex implementation and institutional arrangements, (iii) conditionality inclusion for further implementation; (iv) lengthy procedures in addressing implementation problems; and (v) ongoing insurgency and unstable political environment.

11. **Strengths and Weaknesses of the Country Program.** Program strengths include (i) the ability for the 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); (ii) the willingness of the Government and ADB to tackle difficult policy and institutional issues in some major productive sectors; and (iii) the ability of the Government 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. Program weaknesses identified include (i) the absence of clear and shared visions (shared by the Government, ADB, and other key stakeholders) on ultimate sector development objectives hampered the effective delivery of assistance to strengthen key development and market institutions; (ii) the overestimation on the part of ADB staff of the ability of government staff and agencies in

¹¹ ADB. 2004. *Country Assistance Program Evaluation for Nepal*. Manila. The summary of the findings of the 2004 Nepal CAPE can be found in Appendix 1.

understanding institutional, crosscutting, and policy concerns that resulted in loans containing conditions that could not be met and inadequate attention was also given to building broad-based support for policy reforms that adversely affected some interest groups; and (iii) the propensity to spread investment too thinly over too many sectors.

12. **Stakeholder Performance.** The performance of the Government, ADB, and beneficiaries was also examined as part of the evaluation exercise. Government performance was mixed. Past analyses cited a large number of deficiencies on the part of the Government (as a whole) and executing/implementing agencies (in particular). However, significant achievements were noted by the CAPE particularly in reforming fundamental policies in the agriculture sector and improvements in the enabling environment for private sector development. In addition, improvements in project design and implementation performance were also noted for projects implemented in the irrigation and livestock subsectors, water supply and sanitation, and road and rural infrastructure sectors through efforts initiated by the Government. On the other hand, ADB performance appears to be constrained by limited resources allocated to project preparation and supervision. When project design included a mechanism for beneficiary participation, projects showed a high degree of success in achieving its goals through efficient implementation and project sustainability. Thus, there is merit in incorporating beneficiary consultation and participation into the project design and implementation process.

13. **Lessons.** Lessons from the evaluation include the following: (i) a CSP can only be successful when the strategy and country program are consistent; (ii) a clear and well-defined strategy is crucial to achieving this consistency; (iii) a clear and well-defined country program can be developed within the Nepalese context, according to experience over the study period; (iv) 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; (v) a sound institutional base is generally required for effective projects; (vi) a sector approach and long-term assistance are needed for institution building; (vii) a project's success is most likely if the project design is based on a proven development model; (viii) 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; (ix) the conditions for disbursement in either project or program loans should be reasonable and attainable to avoid stalled implementation; and (x) 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.

14. **Implications for Future Strategies and Programs.** The following implications for ADB's future strategies and programs in Nepal were identified: (i) the CSP should be sharply focused and well-defined; (ii) the strategies should have a large degree of flexibility to account for the evolving economic and political situation in the country; (iii) the strategies should be clearly focused on sectors and investments that have already proven to be successful and could contribute directly to the improvement of incomes of disadvantaged groups; (iv) sector loans proved more successful than either project or program loans and sector development programs are preferable to simple program loans; and (v) large-scale projects can have significant environment and social impact, hence, should be included in future strategies.

15. **Recommendations for the Government of Nepal.** The CAPE highlighted the need for the Government to (i) take ownership of the CSP and CSP preparation process by taking a more proactive role in providing guidance and feedback to the team preparing the CSP; (ii) make a clear presentation of its priorities, policies, issues, and procedures so these can be

addressed in the CSP; (iii) enhance the monitoring of ongoing and completed projects; and (iv) address issues related to operation and maintenance financing for completed projects.

16. **Summary of findings, key issues, lessons, recommendations, and/or follow-up actions from past OED evaluation studies for Nepal** (Appendix 2) were derived from (i) 2008 special evaluation study (SES): *Effectiveness of ADB's Capacity Development Assistance: How to Get Institutions Right* that involved Nepal as one of its country case studies; (ii) 2007 SES: *Long Term Strategic Framework: Lessons from Implementation (2001–2006)*; (iii) 2004 project performance audit report (PPAR) of L1604-NEP(SF): *Second Agriculture Program*; (iv) 2004 PPAR of L1011-NEP(SF): *Seventh Power Project*; (v) 2004 PPAR of L1196-NEP(SF): *Second Education Development Project*; (vi) 2000 *Country Synthesis of Evaluation Findings in Nepal*; and (vii) 1995 special study: *Effectiveness of Bank assistance for Capacity Building in Nepal*.

17. The SES on the *Asian Development Fund VIII and IX Operations (December 2007)* that included Nepal, concluded that in Nepal, ADB had mixed experiences regarding its coordination and harmonization with development partners. There was competition for projects and lead positions. However, the adoption of sector wide approaches (SWAp) in the education and health sectors was expected to lead to broader coordination.

D. ADB's Country Strategies and Programs

18. ADB's initiatives for Nepal are guided by various strategy papers and programs and aimed to assist the country in achieving a sustainable reduction in poverty. These strategies and programs are developed in support of the Government's own development plans. ADB's strategies and programs for Nepal from the period 2002–2004 to 2008–2010 can be found in Appendix 3. The more recent strategies and programs are summarized below.

19. **Country Operations Business Plan (2008–2010).**¹² The country operations business plan (COBP) for the period 2008–2009 continued to emphasize the overarching objective of the CSP 2005–2009 of achieving sustained poverty reduction. The political and security situation in Nepal has evolved since the preparation of the CSP 2005–2009 in 2004 but its underlying objectives remained relevant given that the causes of poverty in the country are still unchanged and since Nepal will remain in a conflict environment until lasting peace is achieved. ADB's strategy for Nepal will continue to involve careful monitoring of the peace process and following a conflict sensitive approach in its operations. The conflict-sensitive implementation strategy adopted in CSP 2005–2009 aimed to facilitate effective and safe implementation of ADB's operations during the conflict period.

20. ADB's lending program for Nepal for the 2008–2010 period focuses on the following sectors as these are deemed crucial in addressing acute poverty: (i) agriculture, (ii) education, (iii) energy, (iv) finance, (v) public policy, (vi) transport and communications, and (vii) water supply, sanitation, and waste management. The emphasis of ADB's non-lending activities in the country will be on (i) providing support to strengthen the institutional capacity of the Government and (ii) preparing the future lending program. However, ADB's assistance program to Nepal would need to retain maximum flexibility given the economic challenges and volatile political environment.

¹² ADB. 2007. *Country Operations Business Plan: Nepal 2008–2010*. Manila. The annual updates of CSPs have been replaced with a Country Program Strategy mid-term review report and the annual indicative rolling country business plans (COBP) effective August 2006.

21. **Country Operations Business Plan (2007–2009).**¹³ In view of Nepal's political transition and given the Government's emphasis on reconstruction and rehabilitation in its development programs, the focus of ADB's CSP for the period 2005–2009 remains relevant. However, in view of the political situation and outlook over the next three years and the uncertainties associated with the peace process, it was agreed with the Government not to specify detailed annual country programs beyond 2007. Thus, the 2008–2009 program only indicates annual priority projects without specific allocations for each. It was also agreed with the Government that the delivery of the program will depend on ADF resource availability and the political and security situation. ADB's assistance to Nepal for the period 2007–2009 presents a shorter but more responsive and flexible program while remaining aligned with the CSP's framework. The tentative lending program supports institutional and policy reforms in road transport, rural and urban infrastructure (specifically in water supply and waste management), energy, education, finance, reconstruction and rehabilitation, economic management, and agriculture. The non-lending program focuses on capacity building 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.

22. **Country Strategy and Program (2005–2009).**¹⁴ The overarching objective of the CSP for the period 2005–2009 is to help the Government address the root causes of conflict, in addition to achieving sustained poverty reduction by fostering more inclusive processes of broad-based growth, social development, and good governance. The CSP adopted a medium- to long-term perspective to help reduce poverty and achieve the MDGs while recognizing that the conflict situation and political instability in the country present bottlenecks that impede development.

23. The CSP's cross-cutting initiatives include: (i) supporting the creation of an enabling environment for increased private sector participation and investment by fostering better policy, and more effective implementation of policies and regulatory reform in key sectors; (ii) addressing gender, ethnic, and caste discrimination through policy reform, targeted investments, and the mainstreaming of equal opportunity measures in key sector investments; (iii) improving social, environmental, and resettlement assessment policies, procedures, and practices as these relate to investment projects; and (iv) tapping benefits from regional cooperation initiatives in the areas of transport connections and trade facilitation, energy, tourism, and communications with neighboring countries. The CSP is fully aligned with the Government's Tenth Plan (which is also Nepal's Poverty Reduction Strategy). All lending products for the country involve poverty intervention projects. ADB's assistance program for Nepal for the period 2005–2009 will prioritize inclusive social development through the (i) development of rural areas, (ii) improvement of basic social services and infrastructure, (iii) women empowerment, (iv) private sector development, and (v) improvement of governance in the public and private sectors. Special emphasis is given to project design to ensure the project's primary objectives are fully in line with the aforementioned priorities and are results oriented.

24. As mentioned in para. 1, this is ADB's pilot results-based CSP. Given the emphasis on achieving development results, CSP identified (i) the results sought by the Government and that ADB is helping to achieve, (ii) the expected outcomes of the program implementation period, (iii) mechanisms and indicators for monitoring progress toward achieving these outcomes, and (iv) a

¹³ ADB. 2006. *Country Operations Business Plan: Nepal 2007–2009*. Manila.

¹⁴ ADB. 2004. *Country Strategy and Program 2005–2009; Nepal*. Manila.

basis for evaluating success of the strategy. The CSP includes a results framework that serves as a management tool in delivering development results. Appendix 4 presents the CSP's results framework (the original and the revised versions).

25. The Government took steps in developing core elements of results-based management for planning, budgeting, implementation and monitoring. It also initiated a poverty-based resource allocation for local governments and taken initiatives in strengthening the monitoring and evaluation system in key ministries to align with a results-based management system. A district-level poverty monitoring and analysis system was also established to effectively assess development interventions and their impact.

26. **CSP (2005–2009) draft Midterm Review.**¹⁵ Since the drafting of ADB's CSP for Nepal (2005–2009), the country's political landscape has changed considerably. The constituent assembly (CA) elections held on 10 April 2008 were generally peaceful with 61% voter turnout and the CPN/M won the largest number of seats. Despite these achievements, however, the peace process still faces difficult challenges.

27. During the CSP period, the Government's sound macroeconomic policies helped preserve the country's macroeconomic stability. Continued prudent policy perspective, particularly in addressing emerging challenges caused by new fiscal pressures, higher food and fuel prices, and the chronic fuel and power shortages is important to ensure future macroeconomic stability.

28. The dramatic decline of poverty incidence (from 42% in 1996 to 31% in 2004) was driven by growth in per capita consumption and income (each averaging 4.5% per annum), supported mainly by increased remittance inflows, higher agricultural wages, increased connectivity, greater urbanization, and a decline in the dependency ratio. Progress in human development has also been quite remarkable. However, the socioeconomic disparities are widening. The Nepal Living Standards Survey shows that income inequality increased significantly (the Gini coefficient rose from 34.2% in 1996 to 41.1% in 2004). Moreover, the 11% decline in poverty was unevenly distributed geographically and across caste, ethnic and minority groups.

29. Broad based growth, along with inclusive development, is crucial during transition and will remain the basis of ADB's strategy. To ensure development impacts and to support the peace process, ADB operations must maximize inclusiveness while fostering higher growth. ADB will maintain social inclusion in alignment with Nepal's Three-Year Interim Development Plan. ADB will aim for greater inclusion of disadvantaged groups in its operations.

30. **ADB's Assistance Portfolio in Nepal.** Nepal has been one of ADB's development partners since its establishment in 1966.¹⁶ ADB's assistance portfolio in Nepal is funded by the Asian Development Fund (ADF) except for the private sector that has been funded by the Ordinary Capital Resource (OCR) since 1990. From 2004 to 2007, ADB approved seven loans¹⁷ amounting to \$196.0 million and nine grants totaling \$195.9 million, out of which 25% are multi-sector projects,¹⁸ 23% are in agriculture, 21% are in transport and communications, 17% are in

¹⁵ Draft NEP CSP (2005–2009) circulated for interdepartmental review end of May 2008.

¹⁶ ADB's assistance to Nepal began in 1968. From 1968 to 2007, ADB approved \$2.3 billion to finance 111 loans; nine grant projects amounting to \$195.9 million; 270 technical assistance projects amounting to \$127.6 million; and private sector loans and equity investments totaling \$58.6 million.

¹⁷ ADB had no lending activities in Nepal in 2007.

¹⁸ These multi-sector projects cover agriculture and natural resources, transport and communication, water supply, sanitation and waste management.

finance, 13% in education and 1% in health (Table 3). During the same period, ADB also approved 39 technical assistance (TA) amounting to \$18.9 million (Table 4). ADB's lending and non-lending assistance programs to Nepal are shown in Appendix 5.

Table 3: Total ADB Loans and Grants to Nepal, by Sector (2004–2007)

Sector	Number		Approved Amount (\$ million)		Total Amounts of Loans and Grants	% Share
	Loans	Grants	Loans	Grants		
Agriculture and Natural Resources	3	2	70.0	19.0	89.0	23
Education	2	1	50.0	2.0	52.0	13
Finance	1	1	56.0	8.7	64.7	17
Transport and Communications	1	2	20.0	64.2	84.2	21
Health, Nutrition, and Social Protection	-	1	-	2.0	2.0	1
Multisector*	-	2	-	100.0	100.0	26
Total	7	9	196.0	196.0	391.9	100

Note: Multisector projects cover agriculture and natural resources; transport and communications; and water supply, sanitation, and waste management.

Source: Central Operations Services Office.

Table 4: Total Technical Assistance to Nepal, by Sector (2004–2007)

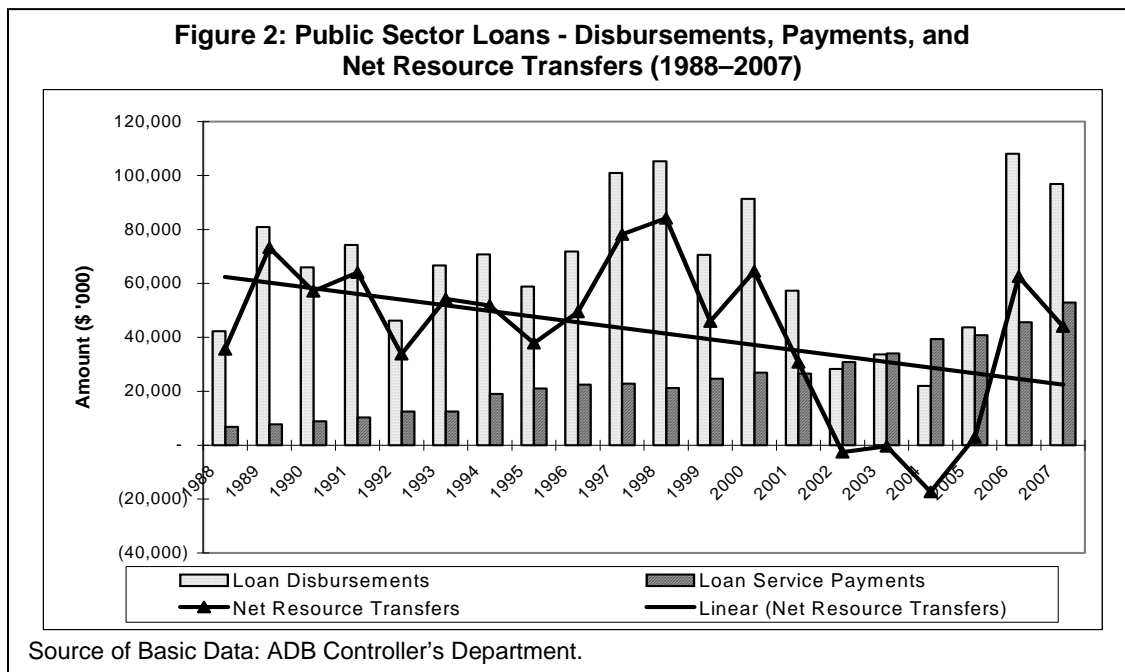
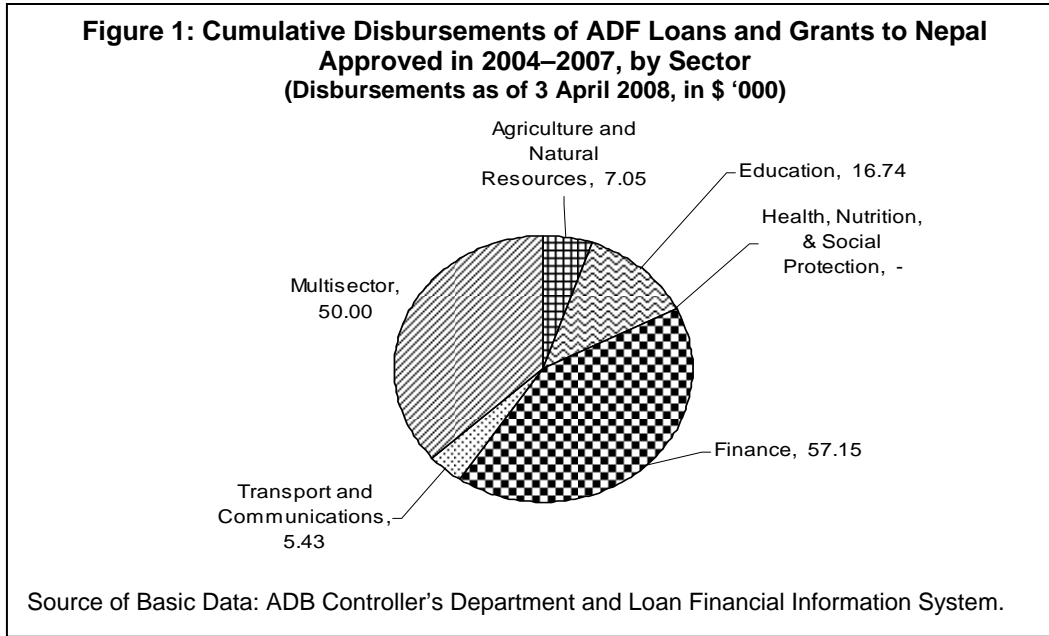
Sector	Number	Approved Amounts	
		(\$ million)	% Share
Agriculture and Natural Resources	4	1.4	7
Education	5	1.5	8
Energy	5	2.1	11
Finance	1	0.5	3
Health, Nutrition and Social Protection	1	0.7	4
Law, Economic Management, and Public Policy	7	3.0	16
Transport and Communications	7	3.6	19
Water Supply, Sanitation, and Waste Management	5	5.0	26
Multisector*	4	1.2	7
Total	39	18.9	100

Note: Multisector projects cover agriculture and natural resources; energy; law, economic management, and public policy; transport and communications; and water supply, sanitation, and waste management.

Sources: Central Operations Services Office; Loans, TAs, Grants and Equity Approvals database.

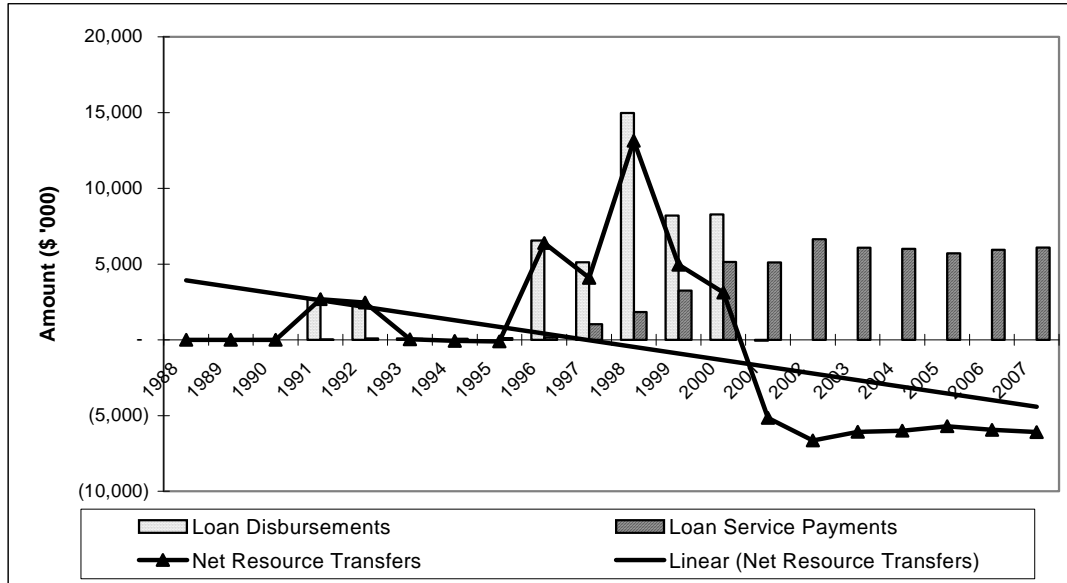
31. As of April 2008, cumulative disbursements of loans (ADF) and grants to Nepal approved from 2004 to 2007 amounted to \$136.4 million (Figure 1). The total disbursed amount is 34.8% of the total portfolio. In terms of sector distribution, projects focusing on finance had the highest disbursements (\$57.2 million) followed by multisector projects (\$50.0 million).

32. Two public sector program loans were approved in 2006. The fast disbursement of these loans during the last two years (2006–2007) helped reverse the negative net resource transfer from ADB to Nepal recorded from 2002 to 2005. Nepal had been experiencing a favorable net transfer of resources annually from 1988 until 2001. However, a negative net transfer of resources was recorded from 2002 to 2005 (Figure 2 shows the disbursements, payments and net resources transfers of public sector loans). It appears that the performance of these loans was significantly affected by the volatile political situation as well as the generally unstable economic environment in the country during that period.



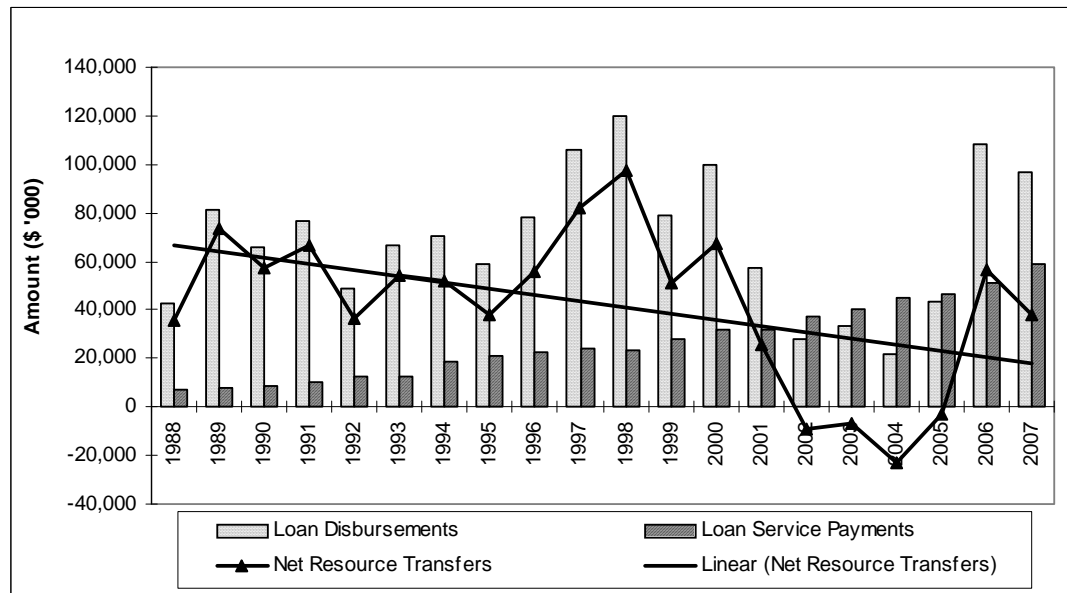
33. Within the private sector, ADB approved a total of five loans and equity investments to Nepal from 1988 to 2007 amounting to \$58.6 million. All of these loans and equity investments have been fully disbursed, with only one loan having been fully repaid as of 31 March 2008. The rest of the loans and equity investments are either still being repaid or were restructured. Unlike the public sector loans, the negative net resource transfers never picked up since 2001. This is mainly because of the absence of new loans and equity investments since 1997 vis-à-vis the full disbursement of all approvals by 2000. Figures 3 and 4 show the disbursements, payments and net resource transfers of private sector loans, and both public and private sector loans, respectively.

Figure 3: Private Sector Loans - Disbursements, Payments, and Net Resource Transfers (1988–2007)



Source of Basic Data: ADB Controller's Department.

Figure 4: Public and Private Sector Loans - Disbursements, Payments, and Net Resource Transfers (1988–2007)



Source of Basic Data: ADB Controller's Department.

34. **Objectives and Scope.** The CAPE will (i) update the evaluation of ADB's program in Nepal conducted in 2004; (ii) assess ADB's strategy and program in Nepal; (iii) assess the operations during the last five years, particularly the years covered by the current CPS (2005–2009) period against its results-based framework as revised in the mid-term review; (iv) assess how the country strategy and ADB's operations responded to the needs of a state qualified as

fragile; and (v) provide findings and forward-looking lessons to assist in the preparation of the next CPS of 2010–2014.

35. **Approach and Methodology.** The CAPE will be generally based on the [CAPE Guidelines](#) (February 2006).¹⁹ Keeping in mind the changing political landscape in Nepal, when deemed necessary, the CAPE will also apply an approach that will respond to country contexts, development issues, and emergent needs. This may entail some modifications of the CAPE guidelines template. A preparatory phase, which included an Operations Evaluation Mission (OEM) in Nepal for consultations and close collaboration with the Nepal Resident Mission (NRM) and relevant government institutions was conducted during 2–11 June 2008, guided by a draft proposed evaluation approach paper. This OEM's objectives were to (i) strengthen the approach and methodology of the CAPE; (ii) identify appropriate consultants for the CAPE; (iii) propose the schedule for the CAPE; and (iv) produce a revised/final draft Evaluation Approach Paper that will be circulated to SARD and NRM for comments.

36. The OEM for the CAPE, planned for August 2008 will be guided by the Evaluation Approach Paper that has been approved by OED management and has incorporated the comments from SARD and NRM. It will also refer to the approved NEP CPS Midterm Review. The OEM will be conducted by the CAPE team and results of the OEM and preliminary findings of the CAPE will be presented to the NRM and relevant government officials. The CAPE report will be drafted, circulated for OED peer review, and presented to SARD for inputs and comments prior to the interdepartmental circulation.

37. Data collection and information gathering for the CAPE include the following processes and techniques: (i) literature and desk reviews that are available from ADB, the Government or independent sources; (ii) interviews of professionals associated with or knowledgeable about ADB-funded; (iii) interviews of professionals associated with or knowledgeable about ADB-funded; (iv) semi-structured meetings with civil society organizations (CSOs), development partners, and private sector representatives; (v) key informant interviews with beneficiaries and a range of people influenced by ADB operations; and (vi) observations in the field from selected project sites.²⁰ The CAPE will use secondary data and available statistics for quantitative assessment of development trends.

38. The CAPE will identify and assess key issues (related to relevance, effectiveness, efficiency, sustainability and other effects) of a selected ADB assistance, covering the main or core sectors in which ADB is engaged in Nepal: (i) agriculture and natural resources;²¹ (ii) transport and communications; (iii) finance; and (iv) education. Within each sector, the CAPE reviews the major program thrusts of ADB's assistance. Each program thrust includes a combination of completed and ongoing projects and programs, associated TAs, economic and sector work, policy dialogue, and donor coordination. A sector assistance program evaluation (SAPE) for the agricultural and natural resources in Nepal is being prepared separately by OED. The findings, lessons and recommendations of this SAPE will be incorporated in the CAPE. In addition, the CAPE will examine ADB's support on governance related interventions.²² Brief profiles of the above sectors and theme are provided in Appendix 6.

¹⁹ The CAPE methodology is covered in Chapter II of these guidelines, and is not repeated in this approach paper.

²⁰ Local security conditions and travel advisory will be considered in the selection of project site visits.

²¹ OED is conducting a Sector Assistance Program Evaluation (SAPE) for Nepal's agriculture and natural resources sector. The SAPE will evaluate links between ADB's assistance and the country's socioeconomic performance and identify opportunities for improving program performance.

²² Since 2000, ADB has approved three loans totaling \$72.3 million from the ADF. Nine TA projects totaling \$8.85 million have been approved to support reforms to corporate and financial governance public sector governance.

39. The CAPE will assess the overall performance against the Nepal CPS results framework at design stage and its revised version at midterm review stage. In assessing the loan and TA portfolio, the CAPE will use information derived from the portfolio management indicators, contextual information synthesized from project and TA performance reports, and other sources of information and records available in ADB Headquarters and NRM. It will also focus on assessing outcomes. In addition, it will draw pertinent information from OED's Annual Report on Portfolio Performance for the Year Ending 31 December 2007.

40. Within the main program thrusts, the CAPE will cover various facets and roles of ADB's assistance in Nepal including the following: (i) economic and sector work; (ii) thematic studies and initiatives; (iii) non-lending services, such as: policy dialogue, development partner coordination, harmonization, and fostering ownership and participation, and; (iv) reported results (outputs and outcomes) based on portfolio performance data. The CAPE will also take into account country contexts and development issues.

41. The CAPE will search for answers to questions²³ relevant to the following:

- (i) Assessment of ADB's country strategy and operations: (a) relevance of ADB's assistance program and strategy; (b) responsiveness and performance of ADB; and (c) results and contributions to development.
- (ii) Development effectiveness of ADB sector operations.
- (iii) Lessons, good practices and future strategy.

42. The detailed questions are given in Appendix 7. These questions are meant to guide the CAPE, which will be refined to reflect the issues and concerns identified during the OEM.

43. The CAPE's features that differ from the 2004 Nepal Cape, among others, are:

- (i) Involve an assessment and rating of the performance of ADB's operations in key sectors (i.e., a bottom-up approach) and an assessment and rating of ADB's overall contribution to development results at a national level (i.e., a top-down approach). A combination of the top-down and bottom-up approaches is then used to derive an overall performance assessment of ADB. This performance assessment and rating will generally follow the [CAPE Guidelines](#) (Appendix 2 of the CAPE Guidelines) of February 2006.
- (ii) Highlight the analytical work and avoid presenting repetitive information.
- (iii) Include a section on private sector development and how the public and private sectors could work effectively.
- (iv) Carefully assess the socio-economic and particularly the political landscape of the country, as well as the development assistance needs that have changed considerably since the previous CAPE.
- (v) With the changes in the country as well as in ADB vis-à-vis the core operational areas of Strategy 2020 and ADB's transformation to 2020 operational goals, has there been a change of the country's strategy and a change of modality in ADB's assistance in Nepal? This will be assessed by the CAPE.
- (vi) This CSP (2005–2009) is the first pilot results-based CSP. Therefore the CAPE will assess the achievements against the targets set in the results framework. It will also review how the results framework has contributed to managing ADB's operations in Nepal. If not, what were the reasons, and how this could be improved.

²³ These questions are based on the list of questions used by the Philippines CAPE.

- (vii) Examine whether recommendations from the previous CAPE have been incorporated in the CSP, and if not what are the reasons. The CAPE will provide practical and implementable recommendations.
- (viii) Assess cross-cutting themes such as governance, capacity building, partnering and harmonizing with development partners as well as aligning with the country's system.

44. The CAPE will also look into Nepal's development constraints taking into account ERD's RETA 6397: *Strengthening Country Diagnosis and Analysis of Binding Development Constraint in Selected DMCs*, which included Nepal. This RETA highlights the private sector and aims to enhance the development impacts of the DMCs' own interventions and ADB's lending and non-lending operations in the DMCs. The expected outcome is improved DMC capacity to undertake development diagnostic studies and formulate development plans or poverty reduction strategies targeting the binding constraints. Hence, ADB will also improve its understanding of binding constraints, which will contribute to better formulated rationale for ADB's intervention in its DMCs.

45. The CAPE process encourages interactions between the CAPE team and ADB operations staff in the respective sectors, and also with the CPS team, government staff, executing agencies, and other stakeholders. The CAPE process promotes participation, dialogue, information sharing, and dissemination of findings.

46. The CAPE team will be led and managed by a Principal Evaluation Specialist (the team leader), supported by an economist from OED, two international consultants and three local consultants (two in Nepal and one at ADB Headquarters). The SAPE on ANR will provide substantial input to the CAPE, particularly on issues related to the sector as well as rural connectivity and poverty reduction. The terms of reference for the consultants are given in Appendix 8.

E. Proposed Schedule²⁴

47. The following schedule for the CAPE is proposed:
- | | |
|--|--------------------|
| Operations Evaluation Mission (OEM) Stage II | II/III August 2008 |
| OED's Internal Review | II October 2008 |
| Presentation to get feedback from RD | I/II November 2008 |
| Interdepartmental Draft | II December 2008 |
| Editor's Review | I February 2009 |
| Director General's Review for Approval | III March 2009 |

cc. R. Adhikari, Director, OED2; H.S. Hettige, OEOD; A. Anabo, OED1.

²⁴ The proposed schedule will be subject to the Government's concurrence to the OEMs, OED's staffing situation, and ability to recruit and field consultants on time. OEM Stage I and circulation of the draft evaluation approach paper for the review of SARD and NRM have been conducted and completed on time as planned. Comments received from SARD and NRM have been incorporated in this proposed evaluation approach paper.