

MANAGEMENT RESPONSE ON THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR NEPAL

1. On 24 September 2004, the Director General, Operations Evaluation Department, received the following response from the Vice President (Operations 1) on behalf of Management.

2. The Nepal Country Assistance Program Evaluation (CAPE) was prepared by Operations Evaluation Department (OED) at the same time that the Nepal Country Strategy and Program (CSP) for 2005-2009 was prepared by the South Asia Department (SARD). The CSP team benefited from the views and recommendations made by the CAPE team as feedback was provided to the Nepal Country Team at various stages of the preparation of the CAPE. Management wishes to express its appreciation to OED for undertaking the CAPE exercise at the same time that the new CSP (2005-2009) was being prepared. Real-time feedback of lessons learned from an independent evaluation team have enriched the CSP preparation process. The main findings of the CAPE, and from other self- and independent evaluations of ADB experience in Nepal, have provided a robust set of lessons that should be learned in future interventions.

3. Management concurs with several important lessons and recommendations made in the CAPE. Management agrees that there is a need for sharper focus and more flexibility in the strategy and program, that sector lending is an appropriate assistance modality, that there needs to be more emphasis on transport and rural infrastructure, that mega-projects need to be carefully designed, that beneficiary participation enhances project quality, and that closer project monitoring is clearly warranted. These recommendations have been fully taken into consideration in preparing the new CSP (2005-2009). The incorporation of these lessons and recommendations in the CSP was reinforced by the latter's results-based nature.

4. The CAPE expresses concern that previous strategies were too general, and that this contributed to a lack of sufficient focus in past country program. Management considers that while a certain lack of programmatic focus is acknowledged and is to be remedied in the future, this is not necessarily a reflection of flaws in the strategy, but of the nature of poverty in Nepal and ADB's partnership role in the country. The fact that poverty is pervasive implies that interventions are required on a number of fronts to spur broad-based growth and address social development constraints. Moreover, since ADB is one of Nepal's important development partners, the Government requested assistance to achieve its development objectives in areas it considered ADB could contribute to effectively. ADB's assistance also enable the Government to catalyze critical resources from other donors. However, Management does appreciate that having clearer strategies help sharpen the focus ADB's assistance. In this regard, it may be noted that the new CSP (2005-2009) has a significantly sharper focus on conflict related development and poverty reduction.

5. The CAPE recommends that sector loans would be preferable to simple investment loans, and that conditionality-based loans should be used with caution. It is Management's experience that certain sectors, such as education and power, have sector programs and reform agendas which merit support. The choice of assistance modality must be based on the degree to which sector strategies, suitable investment programs, adequate implementation capacity, reasonable sector governance and suitable reform agendas are in place. Almost a third of lending in the pipeline in the CSP (2005-2009) is for sector operations and ADB will continue to move in this direction.

6. The CAPE expresses concern about large-scale projects, arguing that while ADB is an appropriate source of finance for these initiatives, they must be well prepared, and fully consistent with the country strategy and address poverty reduction. It is Management's view that the past mega-projects, particularly in power, have eased critical bottlenecks to socio-economic development and were a major contributor to Nepal's economic growth in the 1990s. Experience in Nepal has also shown that the greater constraints on mega-projects are inadequate institutional capacity to effectively implement such projects in the political and security context. It is Management's view that mega-projects implemented thus far were consistent with the country strategy. Management concurs that more careful attention must be paid in the future to assessing and building institutional capacity to implement projects of such scales, and that political and security risks must be carefully assessed to ensure successful implementation.

7. The CAPE expresses concern about slippage. The slippage in processing in the agricultural and rural sector was mainly due to the security situation. Management wishes to note that concerns about slippage in processing projects were addressed in formulating the new CSP that allows projects to be implemented in a conflict environment.

8. The CAPE expresses concern that the approach adopted to address governance in the areas of private sector development and public sector management, may have been inferior to an approach that focused more on reforming sector institutions in the areas in which ADB has had investment operations. Management wishes to note that all investment operations, and particularly those in recent years, have involved strong measures of support for sector-specific institutional and policy reform. Accordingly, support for broader governance reform has been designed to complement and improve the effectiveness of sector-specific interventions.

9. Management concurs with the CAPE recommendations to the Government that they take greater ownership and provide better guidance for the future direction of the CSP; that it make clearer presentation of its priorities, policies, issues and procedures; that it boost project monitoring; and that more secure financing be provided for project Operations and Maintenance (O&M). Regarding Government guidance in preparing the new CSP, Management wishes to note the commendable Government-driven process of preparing the Tenth Plan (which is also Nepal's poverty reduction strategy), and the continuous Government engagement and ownership of the CSP. While Government ownership of lending and nonlending operations has increased over time, it is acknowledged that more work needs to be done to ensure full government ownership in the future. ADB has provided capacity-building support to improve project implementation, monitoring, and O&M. However, a major lesson learnt is that durable institutional change takes time, particularly when the initial institutional capacity is weak, and is further complicated by lingering political instability and adverse security situation.

10. While the CAPE provides helpful insights and useful recommendations, Management wishes to express certain concerns:

- Methodological Concerns: the CAPE analysis was not based on a systematic framework which defines development objectives to which ADB should have contributed. Instead, the development effectiveness of the past strategy and program was defined on the basis of total lending in each sector and the project rating system. Also, the basis for reaching sector-specific judgments about the payoffs to past ADB operations is not clear. The manner in which projects in different sectors were ranked (Appendix 6) is the basis for which conclusions about the impacts of investments in different sectors were realized. This ranking is subjective, and is not based on the findings reported in PCRs or

audit reports (which didn't include such rankings). Subjective ranking of projects, some 20 years after the fact, cannot substitute for a clear understanding of what was achieved within the realm of knowledge, constraints and opportunities available at the time these projects were undertaken. Since ADB is such an important development partner to Nepal, it would have been preferable to specify development outcomes, establish monitoring indicators in the different sectors defined by specific benchmarks and targets, and examine the extent to which ADB did, or did not contribute to progress made. It is noteworthy that the new results-based CSP (2005-2009) for Nepal establishes a basis for a significantly vigorous and objective basis for evaluating CSPs.

- Conflict and Political Instability: The CAPE looks back and draws its findings over a long period of time during which Nepal enjoyed a high degree of internal stability. Nepal now finds itself engulfed in conflict and political instability. These factors have become challenging constraints to poverty reduction. The CAPE is virtually silent on how this came about, and how these factors should be addressed. Exclusion—social, geographic and economic—is a major concern of Government and all development partners including ADB, and is a root cause of Nepal's present volatile situation. However, the CAPE did not address the influence of the political and security situation on the implementation of past strategies and offered no significant insights into how future strategies could be prepared in the politically unstable and conflict situation, especially when it is clear that the conflict could persist over the medium term.

OED Comment on Management Response to the Country Assistance Program Evaluation for Nepal

Following the 29 September 2004 meeting of the Development Effectiveness Committee of the Board of Directors, at which the committee considered the Country Assistance Program Evaluation for Nepal and Management's response to the report, OED issued the following comment on the Management response.

"OED is pleased to note that the country strategy and program (CSP) preparation considered the CAPE process and findings useful. OED is also pleased to note that Management concurs with most of the important lessons and recommendations.

"Regarding Management's concern on methodology, it would be preferable to have a CAPE based on a comparison of achievements against the benchmarks of precise quantitative targets, but such an approach will only be feasible when CSPs are prepared on a results oriented basis with clearly defined development objectives and associated and systematic performance indicators. OED is pleased to note that CSPs are now being prepared in this way and looks forward to future evaluations of these.

"As indicated in para.3 of the CAPE for Nepal, the evaluation was conducted at three levels, (i) relevance of the country operational strategy (COS); (ii) alignment of country programming activities with COS priorities, and (iii) effectiveness of projects, programs, and technical assistance in delivering the COS priorities. Thus an integrated approach was taken, one level linking with the next. The analysis at the project/program level was based on findings of project completion and post evaluation reports for 24 projects, supplemented by additional analysis by the evaluation team of these projects and of a further 13 projects which were more recent approvals, most of which were still ongoing. The rankings provided in this supplementary work were strictly indicative. They were used to gauge rough trends and not to provide rigorous rating or comparison of individual projects.

"The analysis in much evaluation work is both quantitative and qualitative, and the conclusion drawn from the analysis is a matter of judgement. It would be wrong to characterize this as purely subjective.

"The CAPE was prepared with knowledge of and in the context of past stability and current instability of Nepal, but the purpose of the program evaluation was neither to dwell on reasons for this nor how to solve this in the future. The CAPE notes, however, that too many unknowns exist in the current environment to be able to prescribe a robust strategy that will be valid for up to 5 years, and thus flexibility to change or adapt the strategy will be needed."