

## 4. OVERVIEW OF ADB'S ASSISTANCE PROGRAM FOR NEPAL

### A. Trends in Overall Development Assistance to Nepal

Nepal's limited domestic resource mobilization is liberally supplemented by foreign assistance, both bilateral and multilateral. While the country has emerged as the largest per capita development assistance recipient in South Asia, it has yet to experience sustained economic growth, reduction in poverty incidence, or improvement in human development indicators relative to its South Asian neighbors. This outcome has led both the Government and aid community to raise questions about the effectiveness of foreign assistance in Nepal. In the case of ADB, this outcome has led to a shift in the focus of the overall assistance program. But in order to understand how this shift in focus is to lead to more rapid progress in reducing poverty incidence in Nepal, it is first necessary to place ADB's poverty reduction assistance program into the wider context of overall development assistance to the country.

Total development assistance disbursement has increased at an annual average growth rate of about 15% in nominal rupee terms over the past 2 decades, rising from NRs1,340 million in 1980 to NRs17,524 million in 2000 (Table 4.1). While the largest share of assistance has gone to infrastructure (transport, electric power, and communication), the share of the social services sector has increased significantly over time, rising from less than 10% in 1980 to more than 33% in 2000. Currently, social services ranks second only to infrastructure—a position formerly occupied by agriculture, the latter declining in both relative and absolute importance. Within the social sector, the shares of education and health have increased considerably from 1980 to 2000. However, the social priority sectors have yet to receive the share of foreign assistance designated in the 20/20 Compact.

**Table 4.1: Disbursement by Sector of Foreign Development Assistance**  
(NRs million, percentage shares in parentheses)

Sector	1980	1985	1990	1995	2000
Agriculture, Irrigation and Forestry	220.6 (16.5)	1,053.1 (39.3)	1,489.7 (23.2)	3,462.4 (30.8)	3,209.8 (18.3)
Transport, Power and Communication	908.8 (67.8)	969.7 (36.2)	2,679.1 (41.7)	4,574.7 (40.7)	8,159.3 (46.6)
Industry and Commerce	76.6 (5.7)	191.8 (7.2)	656.6 (10.2)	480.3 (4.3)	298.5 (1.7)
Social Services	1,24.0 (9.3)	435.3 (16.3)	1,555.8 (24.2)	2,680.1 (23.8)	5,794.0 (33.1)
Education	22.2 (1.7)	101.9 (3.8)	184.6 (2.9)	1,318.8 (11.7)	1,960.1 (11.2)
Health	29.6 (2.2)	1,41.5 (5.3)	109.6 (1.7)	416.3 (3.7)	1,050.3 (6.0)
Drinking Water	38.5 (2.9)	56.1 (2.1)	240.6 (3.7)	374.2 (3.3)	1,372.1 (7.8)
Others <sup>a</sup>	33.7 (2.5)	1,35.8 (5.1)	1,021.0 (15.9)	570.8 (5.1)	1,411.8 (8.1)
Others <sup>b</sup>	10.5 (0.8)	26.6 (1.0)	45.9 (0.7)	51.7 (0.5)	62.3 (0.4)
<b>Total</b>	<b>1,340.5</b> <b>(100.0)</b>	<b>2,676.5</b> <b>(100.0)</b>	<b>6,427.1</b> <b>(100.0)</b>	<b>11,249.4</b> <b>(100.0)</b>	<b>17,523.9</b> <b>(100.0)</b>

<sup>a</sup> Local development, other social services, tourism, labor, hydrology, meteorology, and others.

<sup>b</sup> Statistics, administrative reforms, planning, and contingencies.  
Source: Ministry of Finance 2001. *Economic Survey*.

The increase in the percentage share of social services relative to agriculture in part reflects the emphasis on social sectors stipulated in the 20/20 Compact, but may also have resulted from increasing disenchantment with large-scale assistance to agriculture, given lack of any significant increase in productivity or decrease in agriculture's dependence on monsoon rainfall. In any case, in the absence of analysis of the relative contributions of the various sectors to economic growth, it is difficult to deduce the extent to which the various sectors have contributed to achieving national growth objectives.

From a technical point of view, the sectoral composition of foreign development assistance does not quite reflect the priorities of the Ninth Plan. However, from a broader perspective, the bulk of development assistance has in one way or another gone to poverty reduction, if the ultimate purpose of infrastructure development is seen as that of increasing agricultural productivity and rural incomes.

## B. ADB Assistance to Nepal

Since it began lending operations in Nepal in 1969, ADB has been one of Nepal's major development partners, and its primary focus has always been poverty reduction. As of December 2001, Nepal had received 97 loans totaling \$1.9 billion (excluding 5 for the private sector), and 223 technical assistance (TA) grants for a total of \$101.3 million. While ADB has been active in seven different sectors, agriculture has claimed 42% of all loans and 50% of TA grant funding (Table 4.2). The energy sector ranks second in total loan funding, followed by transport and communications.

**Table 4.2: Sectoral Distribution of ADB Loans and Technical Assistance Grants**

Sector	Loans			Technical Assistance Grants		
	No.	\$ million	(%)	No.	\$ million	(%)
Agriculture and agro-industry	51	788.5	41.5	112	50.9	50.3
Energy	12	395.9	20.8	20	10.2	10.1
Industry and nonfuel minerals	3	70.1	3.7	6	1.5	1.5
Transport and communications	13	270.7	14.2	13	4.8	4.7
Social infrastructure (i.e., education, and water supply and sanitation )	14	327.3	16.4	30	8.8	11.1
Finance	1	7.3	0.4	8	5.2	5.1
Others (Tourism)	3	57.3	3.0	34	17.5	17.2
<b>Total</b>	<b>97</b>	<b>1,917.14</b>	<b>100.0</b>	<b>223</b>	<b>101.3</b>	<b>100.0</b>

Source: Staff estimates (as of end-December 2001).

As for social infrastructure, education, and water supply and sanitation have received the bulk of both loan and TA funding. Together, these 2 subsectors have accounted for \$327.3 million in loans and \$8.8 million in TA grants. In the agriculture sector, agriculture support services, and irrigation and rural development have accounted for \$615.9 million in loans. Thus, in terms of sectoral distribution, ADB assistance overall has been devoted to poverty reduction.

### C. Shifts in Focus of ADB's Country Operational Approach for Nepal Over Time<sup>9</sup>

In 1992, ADB formally adopted poverty reduction—a major concern since its lending operations began in 1969—as one of its strategic development objectives. The following year, ADB approved a Country Operational Strategy (COS) for Nepal, the goal of which was poverty reduction. This was to be achieved through

- (i) broad-based economic growth,
- (ii) support to basic social services and environmental protection, and
- (iii) private sector development.

The experience gained in implementing the 1993 COS showed that while past ADB assistance had created assets, sustainability and development impact had been limited. In particular, the progress achieved appeared to be not commensurate with investment levels, since poverty incidence remained high, progress in improving human development indicators had been slow, and the strengthening of institutions and policy improvements fell well below the achievements that had been anticipated. Overall, implementation of the 1993 COS led to five lessons learned as follows:

- (i) ADB would need to consult more widely with stakeholders in order to develop partnerships;
- (ii) Institutional strengthening efforts needed to reflect longer-term sector development needs;
- (iii) loan covenants relating to policy, institutional, and financial issues were seen as being essential for effective project implementation;
- (iv) ADB interventions would not be sustainable in the absence of an appropriate institutional environment; and
- (v) good governance and elimination of corruption would be critical to delivery of public services, and needed to be explicitly considered in designing all ADB interventions.

The above experience led to a new COS being adopted in 1999 that was to guide ADB's operations during the next 3–5 years.<sup>10</sup> The overall objective of the 1999 COS was that of achieving sustainable reduction in poverty via

- (i) generation of productive employment opportunities and increased rural incomes resulting from faster and broad-based economic growth;
- (ii) equitable improvements in basic social services to enhance human development resulting in a slowing of population growth; and
- (iii) protection and improvement of the environment in order to sustain the gains achieved.

A major difficulty in achieving these objectives was the lack of efficiency, predictability, transparency, and accountability in key development and market institutions. Thus, the building of effective institutions needed for implementing socioeconomic development in a market economy was the strategic approach of the 1999 COS.

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<sup>9</sup> This section is condensed from the discussion of the Country Operational Approach for Nepal contained in ADB's *Country Assistance Plan: Nepal, 2000-2002*, pp. 10-11.

<sup>8</sup> *Building Effective Institutions: Country Operational Approach for Nepal*, Asian Development Bank, July 1999.

Five of the approaches' key elements were to be emphasized in achieving ADB's operational objectives and in the building of effective institutions in Nepal. The first of these was good governance. This was seen as requiring policy and institutional reforms that would strengthen key institutions as they moved toward facilitating greater participation by the private sector. The second key element was that of implementing the Government's decentralization initiative, including support for local administrations. The third, fourth, and fifth elements were private sector development, gender equity, and subregional cooperation.