

# Nepal

A Partnership for Inclusive Development



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Asian Development Bank



The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in white serif font centered within a dark blue square.

ADB

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A Partnership for  
Inclusive Development

Development Effectiveness Brief

Asian Development Bank

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Note: In this report, “\$” refers to US dollars.

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Photo on Page 20: Melamchi Water Supply Project  
Photo on Page 24: Nepal Resident Mission  
Photo on Page 26: Dil Bhusan Pathak

# Contents

Nepal Selected Development Indicators	6
Nepal and ADB: A Partnership for Inclusive Development	7
ADB's Contribution to Inclusive Development and Poverty Reduction	10
Agriculture: A New Direction	11
Human Capital: Education and Skills Development	13
Energy: Meeting the Growing Need	16
Transport: Linking a Diverse Country	17
Urban Development: Water and Institutional Strengthening	19
Governance and Public Management: Policy Reform and Capacity Building	22
Improving Operational and Organizational Effectiveness	23
Looking Ahead: Future Challenges and Goals	25

# Nepal

## Selected Development Indicators

### Non-MDG

Population in millions (2013)	27.2
Annual population growth rate (%) (2001 – 2011)	1.4
Adult literacy rate (%) (2011)	56.5
Population in urban areas (%) (2011)	17.0

### MDG

Population living on less than \$1.25 PPP a day (%) (2010)	24.8
Population living below the national poverty line (%) (2011)	25.2
Under-5 mortality rate per 1,000 live births (No.) (2013)	54
Population using an improved drinking water source (%) (2013)	85
Net enrollment in primary education (%) (2013)	95.3
Population using an improved sanitation facility (%) (2013)	62

MDG = Millennium Development Goal, PPP = purchasing power parity

#### Sources:

United Nations Development Programme and National Planning Commission. 2013. Millennium Development Goals – Progress Report. Kathmandu; National Planning Commission. 2011. Poverty in Nepal (2010/11). Kathmandu; Central Bureau of Statistics. 2011. Nepal Living Standards Survey. Kathmandu; Central Bureau of Statistics. 2011. National Population and Housing Census. Kathmandu; estimates by ADB's Nepal Resident Mission.

# Nepal and ADB

## A Partnership for Inclusive Development

Despite the decade-long (1996-2006) civil conflict and the complex political transition since then, Nepal has made notable economic and social progress. Annual real gross domestic product (GDP) growth averaged 4.4% during 2008-2013. Nominal per capita GDP grew from \$498 in 2009 to \$713 in 2013. Poverty has declined sharply—from 42% in 1996 to 31.0% in 2004, and 25.2% in 2011 (based on the national poverty line).<sup>1</sup> Nepal is on track to meet more than half of the Millennium Development Goals (MDGs) by 2015.

However, Nepal continues to face major regional, rural-urban, and social disparities. Poverty is still high in the rural areas and among socially disadvantaged groups. Gender inequality is still high, with the country ranking low at 102 out of 148 countries in the gender inequality index in 2012. Although there has been some progress in important areas such as gender parity in primary and secondary school enrollment, much more needs to be done.

Nepal has the potential to achieve higher and more inclusive growth. Although one of the smallest countries in South Asia, Nepal is endowed with rich natural resources and is home to immense diversity in terms of geography, ethnicity, religion, language and caste. Its key sectors of comparative advantage include hydropower, tourism, and agriculture and agribusiness, among others. Nepal can also benefit significantly from regional economic cooperation and integration with the large and fast growing neighboring economies. Further, the era of peace, ushered in by the peace agreement of 2006,

**Despite the decade-long (1996-2006) civil conflict and the complex political transition since then, Nepal has made notable economic and social progress.**



**Nepal has the potential to achieve higher and more inclusive growth**

<sup>1</sup> According to the international poverty line of \$1.25 per day (PPP), poverty fell from 68.0% in 1996 to 24.8% in 2010.

**Table 1: Loan and Grant Approval and Disbursements**

Loan and Grant Approval (\$ million)							
	1966-2007	2008	2009	2010	2011	2012	2013
OCR	2.0	-	-	-	-	-	-
ADF	2,442.5	139.3	336.0	262.5	270.0	103.8	376.0
Total	2,444.5	139.3	336.0	262.5	270.0	103.8	376.0
Disbursements (\$ million)							
	1966-2007	2008	2009	2010	2011	2012	2013
OCR	2.0	-	-	-	-	-	-
ADF	1,600.4	127.1	199.5	111.4	208.8	89.7	159.4
<b>Total</b>	<b>1,602.4</b>	<b>127.1</b>	<b>199.5</b>	<b>111.4</b>	<b>208.8</b>	<b>89.7</b>	<b>159.4</b>

(The loan and grant approval does not include the \$52.81 million non sovereign approvals)

Source: Asian Development Bank

provides an opportunity to refocus on accelerating inclusive economic growth and development.

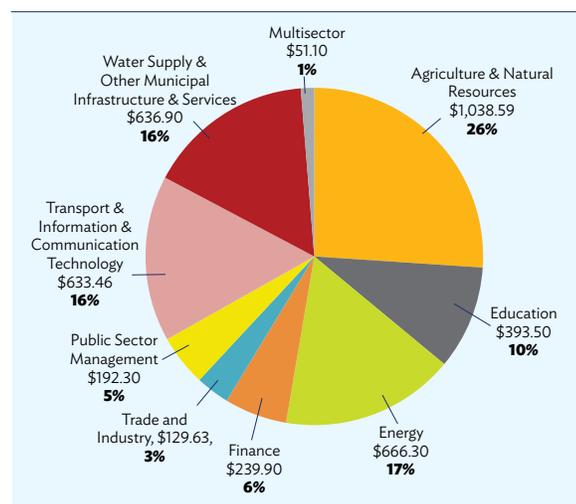
The Asian Development Bank (ADB) is seen as a reliable development partner of Nepal through good times and bad—the conflict years, the fragility of the early days of a fragile peace, and now to the coming era of lasting peace and stability. Its current commitments of development assistance to Nepal make up about 23% of all foreign aid commitments to the country.

ADB's partnership with Nepal goes back to 1966, when ADB was established with Nepal as a founder member. ADB renewed its development partnership through its new country partnership strategy (CPS, 2013–2017), prepared in close consultation with the government and other stakeholders including the private sector, civil society, and other development partners (DPs). The CPS seeks to contribute to achieving the higher, sustainable, and inclusive economic growth objective of the government's approach paper for its new Three-Year Plan (2014–2016).

**Over the years, ADB has provided assistance in several sectors, including agriculture and natural resources, transport and information and communication technology, energy, water supply and other municipal infrastructure and services, education and finance.**

**Figure 1: Cumulative Sector-wise Distribution of ADB Portfolio in Nepal**

as of 31 December 2013 (Total: \$3.98 billion)



Source: Asian Development Bank

Over the years, ADB has provided assistance in several sectors, including agriculture and natural resources, transport and information and communication technology, energy, water supply and other municipal infrastructure and services, education and finance. Since its first assistance in 1969 and up until 31 December 2013, ADB has provided to Nepal 167 loans and grants totaling \$3.98 billion—128 sovereign Asian Development Fund (ADF) loans totaling \$3,108.38 million, 5 non-sovereign loans totaling \$49.55 million, and 34 ADF grants totaling \$823.75 million (Table 1). A summary of cumulative lending by sector is presented in Figure 1. Over the same period, ADB approved 362 technical assistance (TA) projects totaling \$180.26 million.



As of 31 December 2013, ADB’s active portfolio of 37 ADF projects and programs in the country amounted to \$1,553.75 million.<sup>2</sup> The sector-wise distribution of the ongoing portfolio is summarized in table 2.

**Table 2: Sector-wise Distribution of the Ongoing Portfolio**

Sector	Number of Projects	Amount (\$ million)
Agriculture and natural resources	9	212.31
Education	2	85.00
Energy	5	305.22
Finance	2	77.72
Public sector management	1	21.0
Trade and industry	1	15.0
Transport and information and communication technology	8	310.18
Water supply and other municipal infrastructure and services	7	476.31
Multi sector	2	51.00
<b>Total</b>	<b>37</b>	<b>1553.74</b>

In addition, there were 24 ongoing TA projects amounting to \$32.78 million.

Nepal is also benefiting from the South Asia Subregional Economic Cooperation (SASEC) initiative, a flagship ADB-supported program initiated in 2000, with the participation of Bangladesh, Bhutan and India besides Nepal. The SASEC program has been promoting subregional economic cooperation and integration among the four countries through specific investment projects in the areas of trade facilitation (through custom modernization and transport connectivity), power development, and trade, and tourism development.

“ADB is a good champion of regional cooperation,” says Under Secretary at Ministry of Finance Kailash Raj Pokharel. The results of SASEC are becoming gradually visible, he says, and ADB is helping to move the agenda forward. ADB plays a unique and very helpful role in promoting such cooperation, Pokharel observes.

**Nepal is also benefiting from the South Asia Subregional Economic Cooperation (SASEC) initiative, a flagship ADB-supported program initiated in 2000.**

**The roads go a long way toward removing the remoteness of the hill towns, making life easier for rich and poor alike**

<sup>2</sup> This includes 19 ADF loans amounting to \$990.50 million and 28 grants amounting to \$563.25 million.

# ADB's Contribution to Inclusive Development and Poverty Reduction

ADB assistance has helped improve the lives of millions of people in Nepal. Between 2008-2012, 91,000 children have benefited from ADB support to the education sector and more than 122,000 teachers have been trained since 2004. ADB-assisted hydropower stations account for 30% of the country's generation capacity. About 120,000 households have been directly connected to electricity and greenhouse gas emissions have reduced by 2,445 tons of carbon dioxide equivalent per year. ADB assistance has helped build or improve 1,362 kilo meters (km) of national highways and district and rural roads, benefiting 6.8 million people. More than 300,000 households have a supply of improved drinking water through ADB assistance. Nearly 140,000 hectares of land has been improved through irrigation facilities, drainage, and flood management (Table 3).

ADB has consistently promoted gender equality and social inclusion in development, and is putting more efforts into building institutional capacity at all levels, including local governments. As Nepal continues its journey to political stability and economic prosperity, ADB also supports good governance. With Nepal identified as the fourth most vulnerable country in the world to climate change effects, ADB has supported the government's efforts to formulate relevant policies, build institutional capacity, learn from international best practices, and ensure environmental safeguards at the project level. ADB has supported institutional strengthening and capacity building at national and sector levels to understand, analyze, and integrate the risks of climate change while preparing plans, policies, and programs.

Climate change mitigation measures and environmental safeguards form part of all ADB-supported projects and programs in Nepal. ADB also helped assess the capacity building needs of government agencies and supported training for relevant staff. Given Nepal's vulnerability to climate change and earthquakes, all new projects and

**Table 3: Development Results of ADB-Supported Operations in Nepal, 2004-2012**

Sector/Output	Outputs Delivered
<b>Education</b>	
Classrooms built or upgraded (number)	780
Teachers trained (number)	122,947
Students benefited from completed school improvement programs or direct support (number)	91,222
<b>Energy</b>	
Total installed capacity (megawatt)	204
Transmission lines installed or upgraded (kilometers)	105
Distribution lines installed or upgraded (kilometers)	2,522
New households connected to electricity (number)	119,000
Greenhouse gas emission reduction (tons of carbon dioxide equivalent per year)	2,445
<b>Finance</b>	
Microfinance loan accounts opened/ end borrowers reached (number)	818,820
<b>Transport</b>	
National highways and provincial, district, and rural roads built or upgraded (kilometers)	1,362
Beneficiaries from road projects (number)	6,753,193
<b>Water</b>	
Water supply pipes installed or upgraded: length of network (kilometers)	11,179
New households served with water supply (number)	313,922
Wastewater treatment capacity created (cubic meters)	7,665
New households served with sanitation (number)	94,440
Land improved through irrigation services, drainage, and flood management (hectares)	139,745

Source: ADB project completion reports

programs are screened for their possible impact on the environment and the risk of natural disasters. Climate change mitigation or disaster risk mitigation measures are built in wherever applicable.

ADB also promotes good governance, gender equality and social inclusion, and institutional strengthening wherever it can. Of the projects approved between 2010 and 2012, 74% supported governance and/or capacity development, 68% supported gender mainstreaming, 47% supported

environmental sustainability, 42% supported private sector development, and 16% supported regional cooperation and integration.

A Validation Report of ADB's Country Partnership Strategy (CPS, 2010–2012) for Nepal rated the performance of the CPS as “successful and showed improvement over the previous CPS.”

The validation report notes that despite a challenging country context, Nepal has registered considerable progress, and there are signs that ADB support has made a positive contribution to many of these achievements. Macroeconomic performance has been broadly positive and poverty incidence has declined sharply. Inclusion remains a key priority of the government's development strategy and various policies are helping to bridge the gender gap and reach ethnic minorities. In the education sector, for example, the Gender Parity Index has reached 0.99 in net enrollment rate at all levels of school education. Since the development partners provide half of development spending (about 5% of GDP) and since ADB provides a quarter of that, there is reason to believe that ADB's support has contributed to positive macroeconomic and social development performance.

## Agriculture: A New Direction

Despite its fluctuating growth over the years, the agriculture sector has remained Nepal's economic mainstay, contributing a third of the GDP. Also, the vast majority of people in rural areas remain dependent on agriculture for their livelihood. Nepal has made progress in raising incomes, with per capita income in the agriculture sector increasing by 10% between 2009 and 2011.

ADB is recognized as a lead DP in the sector, with its assistance strategy and programs aimed at raising agriculture productivity and incomes to address poverty and inequality.

Following its support for preparing the government's Agriculture Perspective Plan (APP) in 1995, ADB helped the government in 2013 in formulating its new 20-year Agriculture Development Strategy (2014 – 2034) (ADS), in collaboration with 12 other DPs. The ADS focuses on promoting more effective approaches to increase agricultural incomes; strengthening infrastructure to enhance connectivity, productivity, and profitability; encouraging private



**ADB has supported commercialization of agriculture both through irrigation and road connectivity**



**Padma says the new road built under the ADB-assisted project has made it easier for him and other vegetable producers and wholesalers in Dahachowk village to transport vegetables to the markets**

sector investment; and meeting the emerging challenge of climate change. The experience of the APP and the lessons learned will help set the direction for the strategies to be adopted under the ADS. The thrust of the ADS will be on agricultural transformation in line with the country's transformation from an economy primarily based on agriculture to one that derives most of its income from services and industry.

In the past, ADB supported crop intensification to increase agricultural output and raise rural incomes. Now, increasingly, ADB is supporting commercialization of outputs, including processing, storage, trade, and transport. Vegetables grown in the hills are easily available in cities in the plains. Mushrooms and tomatoes grown in villages around Kathmandu are sold in many parts of the country. Tea and coffee are exported. Thus, helping establish viable value chains to tap the new opportunities has become the focus of ADB operations.

Irrigation and road connectivity both play a crucial role in this increasing commercialization. They provide essential support to economic transformation in rural areas, based on which value chains are expanded. Strengthening water user associations (WUAs) is another feature of ADB assistance

to sustain infrastructure and drive the process of agriculture development. For instance, on terraced farms in the hills of far eastern Nepal, ADB supported Community Managed Irrigated Agriculture Sector Project (approved in 2004, funded by an ADF loan of \$20 million) has made all the difference to small and medium farmers. Near the small town of Kabeli Bazaar, farmers grow rice, potatoes, onions, squashes, and other vegetables on land irrigated under a scheme that repaired and improved an old system of canals and field channels. "We have gone from one crop a year to three," says Kamal Bhandari, a member of the local WUA. "Before this, we did not have enough food for the whole year," says Kamal, who has a family of five. "Now we have enough, and are able to sell our surplus."

Half-way across the country, in the village of Dahachowk, in Kathmandu valley, Gyanu Giri grows tomatoes that end up not just in Kathmandu city, but also in the more distant towns of Pokhara, Bharatpur, and Butwal. Gyanu also grows cauliflowers and other vegetables, but it is the tomatoes that fetch the most money. She learned to grow these through a women farmers' group. When she started, she could only sell locally, to shops in her own village. Now she sells to a wholesaler, who buys all her produce at a price driven by more lucrative markets further afield. She is able

to sell more, for a fair price, and does not have to go from shop to shop selling small amounts.

Gyanu started with one small field but, with the greater demand, has now expanded to three. Last year, she made 30,000 rupees (\$307), from each field, she says. “It was a good year,” she says, smiling with satisfaction. “No-one believed I could earn so much.” She used to make barely 5,000 rupees (\$52) in a year when she used to sell her products locally.

Padma Lal Ghising, the wholesaler who buys from Gyanu and other small farmers like her, set up a center in the village about two years ago, when construction began on a new road connecting Dahachowk to a major highway. Padma leased 47 ropanis<sup>3</sup> (2.35 hectares) of land, hired 30 workers, and started the dealership as well as his own farming. Six months later, the new road was ready, replacing the old unpaved path and tremendously easing traffic.

Today, Padma grows tomatoes, mushrooms, spinach, cauliflowers, and squashes for markets in Kathmandu valley, the hills of western Nepal, and the plains of the terai region. “The land is productive, there is plenty of sunlight, and transport to markets has become easy,” he explains.

As the market has expanded way beyond local shops in the village, production has also grown substantially, with tomato and mushroom fields sprouting up all over. Padma and other dealers are able to absorb all of the supply and take some from other villages as well.

The new road that is driving the increased production and greater prosperity is one of several built under the ADB-supported Rural

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Reconstruction and Rehabilitation Sector Development Project approved in 2007, funded by an ADF grant of \$50 million.

## Human Capital: Education and Skills Development

With about 450,000 youths entering the labor market every year, Nepal needs to accelerate economic growth through gainful employment. ADB has long supported this sector, in partnership with the government and other DPs.

Since 2006, ADB has adopted the sector-wide approach (SWAp) through the Education Support Cluster Program and the School Sector Program to support the government’s Education for All and School Sector Reform Plan, respectively. In doing so, ADB’s focus has been on the implementation of policy reforms to realize the objectives in the areas of access and equity, efficiency and quality of education, and institutional capacity building.

Over the years, ADB has supported the education with projects and programs such as the Primary Education Development Project (completed in 2000,

**ADB, along with other development partners, helps the government make education accessible to all children**



<sup>3</sup> A ropani is a traditional measure of land in Nepal’s hills; 1 hectare is equal to 19.965 ropani.

**Maiya Bishankhe, now employed as a driver for the Nepal Electricity Authority (NEA), was trained under ADB-assisted Skills for Employment Project**



funded by an ADF loan of \$15.8 million); Secondary Education Support Program (SESP, completed in 2011, funded by an ADF loan of \$30 million); and the Teacher Education Project (completed in 2010, funded by an ADF loan of \$22.7 million).

ADB, along with other DPs, helps the government make education accessible to all children, encourage children to complete primary and secondary education, improve the quality of teaching, and build institutional capacity in managing schools.

Nepal has made tremendous progress in ensuring primary education for its children. The net enrollment ratio in primary school (grades 1-5) increased from 72.4% in 2004 to 95.3% in 2013. As many girls as boys are now entering primary school.

However, the efficiency and quality of Nepal's school education need further improvement. About 70% of children who enter grade 1 do not make it to grade 10. The pass rate for grade 10 is only 40% in public schools, compared with 85% in private ones. Yet, 85% of all children attend public schools. The government plans to tackle these problems in coming years, and ADB is committed to support the strengthening of secondary and higher education in Nepal. The ADB-assisted School Sector Program

is contributing significantly to the government's comprehensive School Sector Reform Plan in implementing key policy and institutional reforms. The reform initiatives have contributed to a highly decentralized school education system, under which schools are managed by school management committees. The committees' core members are elected from among the parents and are entrusted with functions such as school development, teacher recruitment, financial management, and transparency and accountability.

Another assistance that strengthened the workforce was the Skills for Employment Project (SEP, completed in 2012, funded by an ADF loan of \$25 million). The project forms part of Nepal's technical and vocational education and training (TVET) program. ADB has been one of the main partners of the government in improving the TVET sector for several decades. The SEP also supported design and implementation of TVET activities and policy reforms, including developing a regulatory and institutional framework to bring diverse TEVT programs and their service providers into one integrated national system. By including women and members of marginalized groups, the project also promoted gender equality and social inclusion.

Maiya Bishankhe, now employed as a driver for the Nepal Electricity Authority (NEA), was trained under this project. Maiya has travelled a great distance in the past year and a half. She has gone from being an abandoned wife and domestic helper to becoming a self-confident, self-reliant woman with a steady income. She has an unusual job for a woman – doubly so for a woman from the traditionally marginalized Dalit<sup>4</sup> community.

It was a training scheme that changed Maiya's life. Among the 80,000 people helped by the SEP, she received thorough theoretical and practical training in driving and taking care of a vehicle.

At the Gyanodaya School, near Kathmandu, teacher Gita Rizal explains that every teacher has received 10 months of training in teaching. Gita, who teaches at the primary level, has benefited from the Teacher Education Project, which trains primary school teachers. Under this project, also supported by ADB, 99% of all primary public school teachers in permanent

## **ADB also supports the government's initiative to provide scholarships to children from poor families and marginalized groups such as Dalits, to encourage them to enroll in schools.**

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ADB also supports the government's initiative to provide scholarships to children from poor families and marginalized groups such as Dalits, to encourage them to enroll in schools. Most students go on to study further, say the teachers.

Another aspect of ADB assistance is to improve school buildings to reduce their vulnerability to earthquakes. ADB is a key DP in the Nepal Disaster Risk Reduction Consortium, launched by the



**Under the Teacher Education Project, 99% of all primary public school teachers in permanent positions have been trained to improve their teaching skills**

<sup>4</sup> Dalits are people who have been suffering from caste and untouchability-based practices and religious, social, political and cultural discrimination, and form 13% of Nepal's population.

government in 2009. The consortium assesses structural and operational vulnerability, strengthens buildings to withstand possible tremors, raises awareness, and builds capacity. The consortium aims to improve 700 school buildings and reconstruct 280 in Kathmandu valley by 2015. So far, 61 schools have been strengthened through retrofitting. Earthquake safety and preparedness training is conducted in schools considered vulnerable.

## Energy: Meeting the Growing Need

Nepal faces an acute energy shortage. A steady and adequate supply of power is needed to improve people's quality of life and is crucial to commercial and industrial activity. Nepal's energy deficit constrains growth in manufacturing and services. This, in turn, limits employment opportunities as well as overall economic development.

In a country with abundant water resources for hydropower development, ADB has helped finance small and medium-scale hydropower plants to meet the growing and unfulfilled demand for electricity.

The Kali Gandaki 'A' and Khimti hydropower projects, both supported by ADB, supply almost 30% of all energy generated in the country annually.

In 1999, when ADB approved the \$50 million (ADF) Rural Electrification, Distribution, and Transmission Project, less than 15% of Nepal's people had access to electricity and that also mostly in towns and cities. In rural areas, limited access and frequent outages hampered irrigated agriculture and small-scale industry. The project, which was completed in 2008, provided new connections to 119,000 rural households, benefiting 860,000 people. Currently 67.26% people have access to electricity in Nepal.

The project also strengthened the transmission network and distribution systems. Another important aspect of the project was institutional capacity building, particularly within NEA. The project has helped NEA improve both the quantity and quality of power supply, reduce transmission and distribution losses, and introduce internal financial and other reforms.

In 2009, ADB approved the \$65.3 million Energy Access and Efficiency Improvement Project, which aims to promote clean energy, increase access to power, and build institutional capacity. This ongoing

**ADB-assisted projects supply almost 30% of all energy generated in the country annually**





**Transport infrastructure is key to economic growth and inclusive, equitable development**

project includes support for a financial restructuring of the NEA, improved revenue collection, effective tariff regulation, and loss reduction to ensure the long-term financial sustainability of the energy sector.

Two years later, in 2011, ADB approved the \$75 million Electricity Transmission Expansion and Supply Improvement Project, which is helping to make power supply more reliable and strengthen distribution systems through improved connectivity between generation and load centers.

Nepal relies mostly on run-of-the-river hydropower projects to meet its electricity requirement. These projects produce less energy during the dry season, when demand tends to be at its highest. As a result, at peak times of the year, power generation can meet only half the demand, even though this demand itself is still very low. The demand is likely to rise as industrial and commercial growth picks up, increasing the gap. It is estimated that Nepal will need nearly 3,000 megawatts (MW) of additional generation capacity by 2028 to meet demand. To address this problem, ADB approved the 140 MW storage-type Tanahu Hydropower Project in 2013.

One way to meet the peak season demand could be through subregional cooperation and power trade, with Nepal exporting energy when a surplus is available and importing it during the dry season. The ADB-initiated SASEC program promotes trade in energy, in part through public-private partnerships, and ADB's support to restructuring the NEA, and expanding and strengthening transmission networks in Nepal can facilitate cooperation with neighboring countries.

## **Transport: Linking a Diverse Country**

Transport infrastructure is key to economic growth and inclusive, equitable development. Lack of access to markets keeps farmers dependent on subsistence agriculture rather than switching to more profitable cash crops or investing in processing facilities for farm produce like milk, for example. The lack of roads also limits poor families' access to basic health and education facilities as well as to employment opportunities. Poor connectivity, especially in hilly

and mountainous terrain, has caused geographic inequality in Nepal. Many of the country's indigenous communities live in remote hilly areas poorly connected to hospitals, schools, or markets.

ADB helps build new roads and upgrade old ones; improve airport infrastructure and institutional capacity to manage air traffic; and, through the SASEC program, facilitates cross-border trade.

Under the Road Network Development Project (completed in 2010, funded by an ADF loan of \$46.0 million) and the Road Connectivity Sector I Project (approved in 2005, funded by an ADF grant of \$55.2 million), ADB helped build or upgrade 613.5 km of roads linking the hills to the plains, remote villages to schools and hospitals in towns and cities, and small and medium farmers to markets all over the country. An ADB assessment of the project found it has significantly reduced travel times and costs; increased traffic along the new or upgraded roads; and given villagers easy access to hospitals, schools, and markets.

The project was considered sustainable, in large part because ADB strengthened the capacity of government institutions, consultants, and contractors to effectively and efficiently build, operate, and manage road projects.

In Taplejung Bazaar, a town in the hills of far eastern Nepal, local businessman Yadav Shrestha

## **The roads go a long way toward removing the remoteness of the hill towns, making life easier for rich and poor alike. Women who wanted a safe childbirth previously paid 250,000 rupees to be flown to hospital by helicopter.**

says the newly upgraded pucca (paved) road has made it possible for him to take his wife for regular chemotherapy at the Bharatpur Cancer Hospital, more than 400 km away in the terai. He drives his wife, Janani Shrestha, to the hospital every three weeks for the life-saving treatment. "This would not have been possible on the old kachcha (unpaved) road," he says. The newly upgraded road connects Taplejung Bazaar with Birtamod on the East-West Highway that leads on to Bharatpur.

The roads go a long way toward removing the remoteness of the hill towns, making life easier for rich and poor alike. Ram Kumar Karki, secretary of the Taplejung Chamber of Commerce, says women who wanted a safe childbirth previously paid 250,000 rupees to be flown to hospital by helicopter. The poorest women might not have had that option at all, even with a complicated pregnancy. Now, by road from Taplejung Bazaar to the hospital in Dharan costs about 15,000 rupees.

**ADB has helped build or upgrade 613.5 km of roads linking the hills to the plains, remote villages to towns and cities, and small and medium farmers to markets all over the country**



“We cannot express the benefit we have got from the road,” says another member of the Chamber of Commerce, Bikas Gautam. Before this, there was only a gravel road, which was often closed by landslides, leading to food shortages even in the district headquarters of Taplejung Bazaar. Even when the road was open, it took 3 days to get to the larger market town of Birtamod. Now the same journey takes only 8 hours.

## Urban Development: Water and Institutional Strengthening

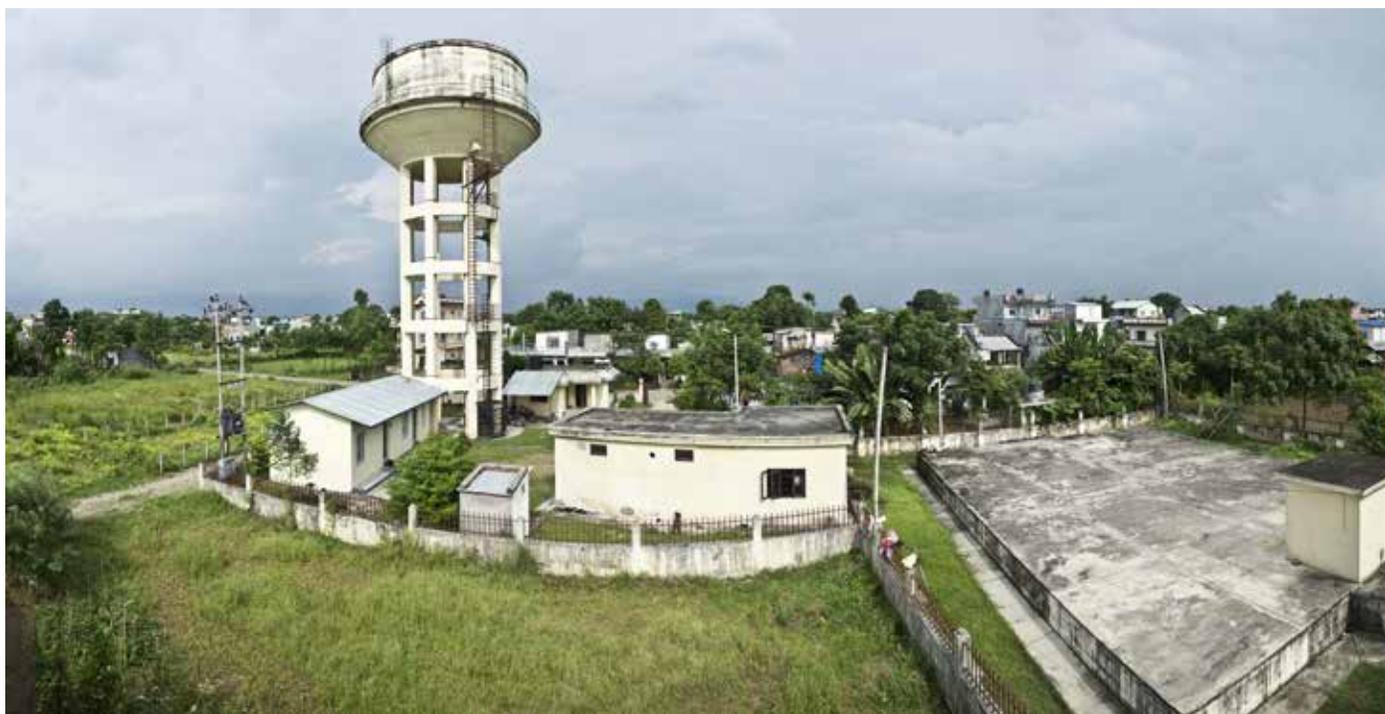
Internal displacement due to the 1996-2006 conflict and the development process have both brought new migrants to Nepal’s towns and cities, straining the existing infrastructure. Nepal’s urban population is only 17% but grew 3.4% compared to the overall growth rate of 1.4% between 2001 and 2011. It is estimated that the urban population will reach 24% by 2017 and 32% by 2027. The government is faced with the enormous challenge of providing sufficient clean water supply and managing the solid and wastewater generated in these growing urban areas.

**Urban sector development is essential to promote higher economic growth. Access to a steady supply of safe water, and efficient solid and wastewater management are essential for improving the quality of life of the country’s citizens.**

Urban sector development is essential to promote higher economic growth, as urban centers are sources of growth and employment, through the establishment of businesses, and manufacturing and service industries. Access to a steady supply of safe water, and efficient solid and wastewater management are essential for improving the quality of life of the country’s citizens.

ADB is investing in urban water and sanitation infrastructure, and overall urban environment improvement in key cities. A key component of ADB’s support in the urban sector is institutional strengthening to ensure the sustainability of creating assets. In Kathmandu Valley and other municipalities,

**ADB-supported initiatives helped provide 2.7 million people with access to clean water supply**





### **Workers at the tunnel construction site of the Melamchi Water Supply Project**

ADB supported regulatory reforms to allow the separation of asset ownership from management, the establishment of an independent regulatory commission for water tariffs, and the setting up of autonomous water operator companies.

Between 2010 and 2012, ADB-supported initiatives helped provide 2.7 million people with access to clean water supply, install sewer lines and established waste water treatment facilities to treat over 7,000 cubic meters of wastewater per day. Among these initiatives were the Small Towns Water Supply and Sanitation Sector Project (completed in 2009, funded by an ADF loan of \$35 million) and the Urban and Environmental Improvement Project (completed in 2011, funded by an ADF loan of \$30 million).

In May 2013, ADB approved the Kathmandu Valley Wastewater Management Project, an \$80 million ADF loan to modernize and expand wastewater network and treatment facilities in the Kathmandu Valley. The project builds on two previous projects – Melamchi Water Supply Project (approved in 2008, funded by an ADF loan of \$120 million) and Kathmandu Valley Water Supply Improvement Project (approved in 2011, funded by an ADF loan of \$80 million). The Melamchi Water Supply Project will bring 170 million liters of water per day into the

### **The Melamchi Water Supply Project will bring 170 million liters of water per day into the valley, in addition to the current 100 million liters per day, critical to easing water supply shortages in Kathmandu.**

valley, in addition to the current 100 million liters per day, critical to easing water supply shortages in Kathmandu.

In Bharatpur municipality, the gateway to the world heritage site of Chitwan National Park, the ownership of assets and liabilities of the water supply system supported by ADB was transferred from the Nepal Water Supply Corporation to an autonomous Water Supply Management Board since August 2012. The Board is solely responsible for the operation and maintenance of the water supply system, providing supply connections to households, collecting tariffs from users, and repaying the loans and interest to the municipality. The existing tariff is sufficient to meeting all costs for operation and maintenance and debt serving within the design period of 20 years.

Sita Syambo is among 29 households served by 13 public taps. Syambo's family shares a tap with one other household. The community asked for these public taps. Her husband, Manik Lal Syambo, was among those who contributed their labor to lay the pipeline.

The Syambos run a shop in the neighborhood. Before the public taps were built, Manik Lal wasted 2-3 hours a day of valuable work time cycling to and from a nearby temple to fetch water from a public tap there.

Far from Bharatpur, in the foothills of the famous Annapurna range of the Himalayas, Bod Raj Lamichhane chairs the Lekhnath Small Town Water Supply and Sanitation Users Committee, which serves 15 wards (neighborhoods) in and around Lekhnath municipality. The Committee is responsible not just for water supply, but also for billing and collecting water charges, minimizing water leakages, ensuring good water quality, and promoting good hygiene practices in the community. Each ward is represented on the user committee. The executive committee has nine members, at

least three of them women, in accordance with the committee's constitution.

The active involvement of women is crucial, says user committee member Bimala Pahari since it is women who use water in homes. "The first person to open a tap in a household is always a woman," Bimala notes. So the user committee trains women to monitor the quality of water and raise awareness in their wards about good practices.

Bimala remembers a time not so long ago when she would wake up at mid-night, and then again at five in the morning, to go and stand in a queue at a public tap along with other women and some children as well. One tap was shared by 90-100 households. People bathed and washed clothes in the dirty waters of a canal.

Now, most households in the area receive water in their homes, for an average 14 hours a day. "Since this water came to Lekhnath, we can breathe easy," Bimala says. This has reduced women's drudgery

**Thanks to ADB-assisted water supply project, women like Laxmi Thapa just have to turn the tap in their yard when they want water**



and freed up time they can put to better use. With more time and easier access to water, many women are growing fruits and vegetables to supplement their family income.

Until three years ago, Lakshmi Thapa made six trips a day from her hillside home to a public tap down in the valley. It took her only 10 minutes to go down, but 20 minutes to climb back up again, and this time with a full *gagri* – a metal container for water – on her back. Now, she just turns a tap in her yard when she wants water.

This household tap has also made it much easier for her to water her small vegetable garden. She grows spinach, mostly for home use, and bananas, which she sells. “It is so much easier now that I don’t have to fetch water up the hill for all this,” she says. With three extra hours every day to spend gainfully, she also works in other people’s fields on a daily wage basis.

## Governance and Public Management: Policy Reform and Capacity Building

ADB, in collaboration with other DPs, has been supporting the government’s efforts to strengthen public financial management (PFM), procurement, fiduciary oversight, and transparency and accountability systems at the national and sub-national levels. Weaknesses in these areas are a key impediment to development effectiveness. In this context, the ADB-assisted Governance Support Program (GSP, funded by an ADF grant of \$106.3 million)—implemented in coordination with 13 other DPs—supported the government’s Local Governance and Community Development Program (LGCDP)<sup>5</sup>. The LGCDP—with the support of GSP and assistance of the other DPs—had a significant development impact at the local level.

An evaluation conducted in September 2012 found the LGCDP had achieved significant social mobilization in the five years since its inception. This is largely through the efforts of more than 3,700 social mobilizers, half of them women, in the country’s Village Development Committees (VDC) and

municipalities. An increasing number of citizens now take part in consultations organized through Ward Citizen Forums, at the VDCs’ ward level. Women and socially excluded groups are increasingly brought into the political process by Citizen Awareness Centers, which are active in nearly every VDC in the country. An estimated 88,000 citizens have received training under the LGCDP to build capacity in procurement management, gender and social inclusion, PFM, and social mobilization strategies, among others. Systems and procedures have been put in place to reduce fiduciary risks, and to facilitate citizens’ engagement in holding local governments and contractors accountable to effective public works and service delivery. By 2012, the program had supported more than 25,000 community projects, including the construction of birthing centers and community halls as well as skills development schemes for disadvantaged groups. Link roads have made health, education, and other essential services more accessible to the rural population, and have opened up economic opportunities.

Also, under the ongoing Strengthening Public Management Program, ADB is helping to strengthen PFM systems at the sub-national level and the government’s overall public procurement systems and regulations. The program is also providing support to align Nepal’s anticorruption mechanisms with the United Nations conventions. The program is funded by ADB’s ADF grant of \$21 million, and cofinancing of \$ 4 million from United Kingdom’s Department for International Development.

ADB has also been providing assistance for strengthening governance at sector and project levels. In line with the requirements of ADB’s Second Governance and Anticorruption Action Plan 2006, governance risk assessments, particularly related to PFM, public procurement, and corruption, have been carried out at the country, sector, and project and program levels. Risk management plans have been prepared, implemented, and monitored to address the risks identified. The governance assessments have consistently highlighted the need to continue to support policy reforms, institutional capacity strengthening, streamlined business processes in public sector management, and inclusive governance processes.

<sup>5</sup> LGCDP is a nation-wide program to promote community-level social mobilization and build capacity to implement local development programs, while also promoting the accountability of local governments to the effective delivery of local public services. LGCDP particularly mobilizes women and other disadvantaged groups to actively participate in local and community development activities, monitors and evaluates the quality of services and projects, and reduces fiduciary risk in the process. The program was implemented through the Ministry of Federal Affairs and Local Development, and supported by 13 other DPs besides ADB.

# Improving Operational and Organizational Effectiveness

Since the mid-1990s, Nepal has faced conflict, post-conflict fragility, and prolonged and disruptive political transition. These difficulties have adversely affected all development activities in the country, and the government’s portfolio performance faced a number of challenges.

As of 31 December 2013, ADB’s active portfolio comprised 37 investment projects with a total commitment of \$1,553.75 million, of which \$688.2 million (44%) was awarded and \$456.6 million (29%) disbursed. A relatively low proportion of awarded contract indicates that many projects have been approved with limited readiness of implementation.

Although project implementation has been gradually improving in the recent years, the progress has been slow. The recent trend of contract awards and disbursement is shown in figure 2.<sup>6</sup>

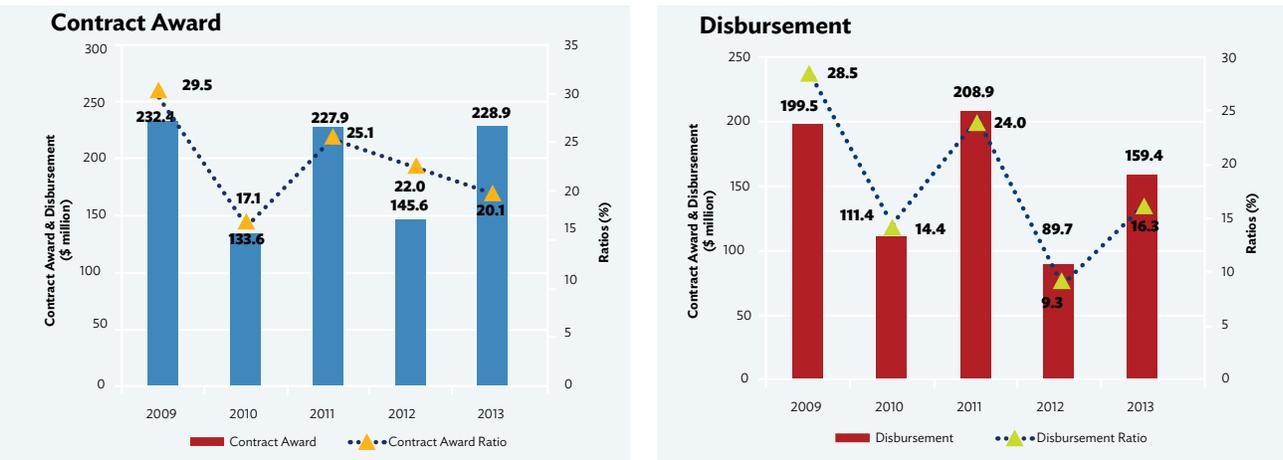
Key constraints for portfolio performance include: (i) inadequate selectivity and focus in project portfolio; (ii) low project readiness at approval;

(iii) limited project implementation capacity (procurement, implementation management, financial management, and audit); (iii) low performance of consultants and contractors; and (iv) limited safeguards monitoring and documentation.

The new CPS (2013–2017) places a strong emphasis on improving implementation or portfolio performance. A holistic portfolio performance improvement plan is embedded in the CPS, including four key aspects: (i) improving readiness of new projects; (ii) enhancing performance of ongoing operations with a systematic approach of (a) capacity monitoring and training; (b) implementation performance monitoring and troubleshooting for procurement and execution; and (iii) pursuing generic reforms for public procurement, public financial management, human resource management and other thematic areas.

Despite the continued improvement observed in the portfolio performance in Nepal over the past 10 years, the systemic and overall project implementation

**Figure 2: Contract Award and Disbursement Achievement of ADB-assisted Projects over the Years**



Source: Asian Development Bank

<sup>6</sup> Year 2012 was challenging due to the security problems for half of the year, followed by uncertainties and difficulties associated with timely budget release and a concern on reduced oversight mechanisms due to the dissolution of the Constitutional Assembly. In 2013, Nepal portfolio improved.



**ADB conducts quarterly and annual portfolio performance review meetings with all implementing and executing agencies**

and portfolio management issues, relating to (i) quality at entry, (ii) human resources, (iii) public financial management, and (iv) public procurement management, continue to constrain the portfolio performance improvement. ADB is working with the Government of Nepal and other key development partners through the Nepal Portfolio Performance Review to address these systematic issues.

There has been a marginal improvement in both the average time for projects to be signed after approval and to be declared effective after signing, owing to relatively better political environment, close follow-up with the Government and less strict covenants for declaring effectiveness of projects. However, the startup compliance rate is still an issue in the Nepal portfolio. It is found that the average time taken by projects to achieve 25% contract award and 10% disbursement for the ongoing loans and grants are 2.4 years and 2.3 years, respectively (as of end 2012).

ADB conducts quarterly and annual portfolio performance review meetings with all implementing and executing agencies to identify and address project implementation bottlenecks. ADB also plays a prominent role in the annual NPPR process led by the government and attended by several other development partners—to agree upon and

undertake reforms to address systemic project implementation and development effectiveness problems. Through the ongoing Portfolio Management Capacity Enhancement TA, ADB is now providing training on procurement and consulting services to the staff of executing and implementing agencies at central and regional levels. For this, ADB prepares a systematic training calendar for each year.

ADB has sharpened project-related oversight, with a focus on procurement, project management, financial management; and accountability mechanisms in collaboration with other development partners.

ADB has also been working closely with private sector actors, Federation of Contractors' Association of Nepal (FCAN) and Society of Consulting Architectural and Engineering Firms (SCAEF), in particular. ADB regularly organizes Business Opportunity Seminars by inviting FCAN, SCAEF, and other private sector organizations. In view of weak capacity of the contractors and consultants, ADB has been further supporting the capacity development activities of government agencies through the Public Procurement Monitoring Office—by engaging the Nepal Administrative Staff College.

# Looking Ahead: Future Challenges and Goals

Nepal has a high development potential with comparative advantages in hydropower generation, tourism, high value agriculture, and modern service industries. However, the country faces major challenges because of prolonged political transition, inadequate infrastructure, weak governance, limited institutional capacity, and vulnerability against natural disasters and climate change. To achieve higher and more inclusive growth, the country needs to substantially scale up the quantum and quality of public capital expenditure from 3.1% of GDP in FY2013 to at least 6-8%.

The government's approach paper for the Three-year Plan (2014–2016) aims to achieve accelerated, broad-based, inclusive, and sustainable economic growth with clear priorities and directions to address these challenges. ADB's new CPS (2013–2017) will support these objectives by pursuing faster growth through investments in infrastructure, particularly energy, transport, and urban infrastructure and services. ADB will seek to broaden access to economic opportunities through projects and programs in education and skills development; water and sanitation; and irrigation and other rural infrastructure.

First, the CPS places particular emphasis on building the institutional capacities of core infrastructure and service delivery agencies to improve portfolio performance and capital expenditure capacity. For this purpose, ADB will enhance its focus on improving readiness of new investment projects, and building capacities in terms of sound sector and project planning, implementation, and operation and maintenance. Improved public sector management including PFM, public procurement, and anti-corruption will be institutionalized in this context.

Second, ADB will pursue leveraging its operational effectiveness and impacts through "Finance ++" initiatives. The first "finance +" will pursue leveraging ADB operations with cofinancing by public and private sector sources. ADB will also support the increased private sector investments,

with facilitation of improved private sector business environment and exploration of specific investment opportunities that can be catalysed through its non-sovereign operations. This will be augmented by the second "finance +" through provision of knowledge solutions based on the lessons and best practices gained from its operations in the Asian region.

Third, the CPS places emphasis on meeting the country's particular needs for ensuring inclusive growth, by creating the much needed employment opportunities, and ensuring the outreach of social services and developmental impacts to socially disadvantaged and marginalized groups amongst its diverse population. To this end, ADB will continue supporting skills development and education to help Nepal improve the quality of its work force. GESI and good governance systems will be mainstreamed throughout all development initiatives and institutionalized within the concerned development and service delivery organizations.

**Nepal has a high development potential with comparative advantages in hydropower generation, tourism, high-value agriculture, and modern service industries.**



**ADB's country partnership strategy for Nepal was prepared in close consultation with the government and other stakeholders**

Fourth, ADB's development operations will be pursued with strong partnership with DPs, civil society organizations and other stakeholders. During the implementation of the CPS, ADB will continue to pursue harmonized approaches in sector and project operations with DPs—through the various aid coordination groups and forums—in accordance with the principles of the Paris Declaration.

ADB's partnership with Nepal is about working jointly with the government toward building sound institutional capacities to accelerate and sustain

growth while delivering the fruits of growth and job opportunities to the poor, in particular, to disadvantaged and socially and economically backward groups. It is also to build resilience of the nation against the risks of natural calamities and climate change. These are critical to consolidate and sustain the path to higher growth and living standards for the common people, including all the children who hold the key to building future Nepal, thereby meeting the Nepali people's aspiration for lasting peace, prosperity, and stability.



## Development Effectiveness Brief

### Nepal

Nepal was a founding member of the Asian Development Bank (ADB) in 1966. Over the years, ADB has provided assistance in several sectors, including agriculture and natural resources, transport and information and communication technology, energy, water and sanitation, urban development, education, finance, and governance. ADB has consistently promoted gender equality and social inclusion in development, and is putting more efforts into building institutional capacity at all levels, including local governments. Climate change mitigation measures and environmental safeguards form part of all ADB supported projects and programs in Nepal. As Nepal continues its journey to political stability and economic prosperity, ADB also supports good governance.

#### About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to approximately two-thirds of the world's poor: 1.6 billion people who live on less than \$2 a day, with 733 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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