25 Years
On the Ground

ADB–NEPAL
PARTNERSHIP FOR INCLUSIVE DEVELOPMENT

ASIAN DEVELOPMENT BANK
25 Years
On the Ground

ADB–NEPAL
PARTNERSHIP FOR INCLUSIVE DEVELOPMENT

ASIAN DEVELOPMENT BANK
Message

I am pleased to learn that Asian Development Bank (ADB) will be marking the 25th Anniversary of the establishment of Resident Mission in Kathmandu and bringing out a publication entitled “25 years of Nepal-ADB Partnership on the Ground”

Over these years, ADB has been a trusted multilateral development partner in our endeavor for the socioeconomic development. ADB assistance has provided essential building blocks for the country, in terms of infrastructure, human capital, and institutions. It is encouraging to note ADB’s assistance in development and management of power sector of Nepal including Kali Gandaki Hydropower Project and Tanahun Hydro. ADB’s assistance to road sector development is equally appreciated. It has been instrumental in driving the important growth agenda including social inclusion, sanitation, water supply and environment and regional integration. Nepal has benefitted by the Bank’s South Asian Sub-regional Economic Co-operation (SASEC) program targeted to integrate energy and tourism market through better connectivity of transmission ways, roadways, railways and airways. ADB’s assistance extended to agriculture sector including long-term Agriculture Perspective Plan is noteworthy.

We are in the final stage of transition to democracy; and working to have democratic constitution promulgated through Constituent Assembly. People’s aspirations are high. Transformation potentials of Nepal’s natural and human resources will usher Nepal in a new era of peace and prosperity with broad based and inclusive economic growth. In this process, we expect ADB to remain an important partner for higher socio-economic development.

I am confident that the publication will highlight some of the achievements of the partnership between Nepal and ADB. I would like to take this opportunity to thank ADB for its support and hope that this partnership will further grow as Nepal strives to expedite socio economic development within a democratic framework.

Jay Nepal!

Sushil Koirala
Prime Minister
Government of Nepal
Message

I am pleased to congratulate the Asian Development Bank (ADB) Nepal Resident Mission on the occasion of the 25 years of the opening of its office in Kathmandu, Nepal. Back in 1989, ADB opened its country office in Kathmandu to deliver ADB’s growing assistance to Nepal more efficiently and effectively. I am glad to say that the Nepal Resident Mission has continued to play a key role in strengthening the working relationship between ADB and the Government of Nepal, improved communication with other agencies, and helped build a relationship of trust.

ADB has been an effective and key development partner, supporting Nepal in our socioeconomic progress over the last 45 years. As of 31 December 2014, Nepal has received 172 loans and grants totaling around $4.31 billion, accounting for almost a quarter of all foreign assistance to Nepal and making ADB one of the largest development partners. The Government of Nepal appreciates ADB’s support to key sectors of the economy, including infrastructure and agriculture development; access to education, safe drinking water and proper sanitation; and improved governance and promotion of inclusive development.

The Government of Nepal has set a goal to graduate Nepal from the Least Developed Country status to Developing Country status by 2022. It is an ambitious goal, however, given the progress made in raising income per capita, and the impressive progress in human capital and economic fronts, we believe that the goal is within our reach. Apart from the concerted efforts of government agencies to strengthen economic fundamentals and bring about meaningful structural transformation in industry and high productivity in agriculture and services, achieving Developing Country status will also require productive utilization of development assistance and knowledge sharing by reliable development partners such as ADB.

We are glad to note that ADB’s country partnership strategy for Nepal (2013–2017) also lays specific and targeted focus on these sectors. Indeed, the CPS has rightly aligned its priorities to the government’s medium and long-term plans by focusing resources to address binding constrains to inclusive and sustainable growth.

I would like to thank the ADB for its continued support to Nepal’s development and congratulate ADB for coming out with this commemorative 25th anniversary publication documents Nepal–ADB partnership in key sectors in the last two and half decades.

Ram Sharan Mahat
Minister for Finance
Government of Nepal
The partnership of the Asian Development Bank (ADB) with the people and the Government of Nepal goes back to 1969 when ADB first provided technical assistance for an air transport development project. A major milestone in ADB’s affiliation with Nepal was achieved in 1989 when ADB opened a resident mission in Kathmandu. This enabled ADB to work more closely with, better appreciate, and understand the development needs, challenges, and opportunities of our government partners and stakeholders in Nepal. Over the 25 years since, ADB has significantly scaled up its development assistance for Nepal.

Nepal has made meaningful socioeconomic progress over this period. Poverty has substantially declined and we have seen notable improvements in key human development indicators. Nepal is on track to meet more than half of the Millennium Development Goals by 2015. These have been achieved while tackling a challenging political transition, which, once completed, is expected to open the door toward peace and prosperity.

Nepal still faces challenges to achieving stronger growth and reducing poverty and inequality. Poverty remains high in the rural areas and among socially disadvantaged groups. Accelerating infrastructure investment in energy, roads, urban amenities, and irrigation; strengthening governance; reforming the labor market; and promoting employment opportunities for all will put Nepal on a path to inclusive and sustainable growth.

Under ADB’s country partnership strategy for Nepal (2013–2017), ADB will help the country accelerate economic growth and create quality jobs by building physical and human capital, commercializing agriculture, and improving governance and the environment for business to flourish. Mainstreaming gender and social inclusion, ensuring environmental sustainability, and promoting regional cooperation and private sector development are also priorities of the strategy.

On behalf of ADB, I would like to take this opportunity to express my deepest appreciation to the Government of Nepal, development partners, and all stakeholders for their strong cooperation and support with our development work. I would also like to emphasize ADB’s unwavering commitment to support Nepal’s development by deepening our partnership and maximizing our joint efforts to provide the people of Nepal with a better future.

Takehiko Nakao
President
Asian Development Bank
On behalf of the Government of Nepal, I wish to congratulate and offer best wishes to all staff members of ADB in Nepal on the commemoration of the Nepal Resident Mission’s 25th year.

Nepal is one of the founding members of the Asian Development Bank. The opening of ADB’s Resident Mission in Kathmandu in 1989 symbolized ADB’s commitment to poverty reduction in Nepal. As we mark the 25th anniversary of the opening of the mission in Kathmandu, it is a time not only to reflect on fruitful past collaboration but also to look to the future of this important relationship between the Government of Nepal and ADB for the country’s development and socially inclusive economic growth. We look forward to many more years of productive collaboration between ADB and Nepal.

ADB assistance to Nepal has been effective in many areas including energy, transport, education, agriculture, irrigation, water and other municipal infrastructure and finance, among others. I am pleased to note that ADB’s new country partnership strategy for Nepal is aligned with the government’s plans and priorities and has accorded high priority in addressing bottlenecks in infrastructure, human capital, governance, gender empowerment and social inclusion and the creation of enabling environment to attract private investments.

I am pleased to note that ADB will adopt a finance++ strategy in Nepal to increase official and commercial cofinancing, and generate and apply knowledge solutions to improve project design, implementation, asset maintenance, and overall institutional development. I am also delighted to note that in recent times ADB has consolidated its assistance in key sectors, in line with Nepal’s priorities and ADB’s own areas of strength.

I appreciate and acknowledge the efforts of ADB to work together with the Government of Nepal to improve overall portfolio performance and disbursement.

I would like to take this opportunity to express my deepest appreciation to ADB for their strong cooperation and support to Nepal’s development work.

Suman Prasad Sharma
Secretary
Ministry of Finance
Government of Nepal
Message

Let me take this opportunity to commemorate the 25 years of on-the-ground partnership between Nepal and the Asian Development Bank (ADB) since the establishment of the Nepal Resident Mission in 1989. This period has been eventful for Nepal having been witness to a people’s movement to restore democratic rule, a period of economic reforms and high economic growth, a decade of civil conflict followed by a comprehensive peace agreement, and a post conflict political transition to promulgate a new constitution. Nepal continues to make marked efforts to complete this process toward social and political reconciliation.

It has been a privilege for ADB to partner with Nepal in its dramatic and challenging journey. Over the years, the Government of Nepal has combatted poverty and reduced regional and social disparities which were the root causes of the civil conflict. It has also developed energy, transport, urban and irrigation infrastructure; built human capital through education and skills development; and improved governance. ADB has been responding to the country’s evolving needs by providing critical support in all of these areas. Thanks to the efforts by all, Nepal has seen a substantial reduction in poverty and is poised to achieve a majority of its Millennium Development Goals by 2015.

With the political transition nearing completion, Nepal and ADB are working together to accelerate and sustain rapid economic growth and job creation. Our partnership emphasizes building essential institutions to scale up investments in key sectors; fostering official and private sector cofinancing and knowledge solutions; and pursuing thematic priorities such as gender and social inclusion, governance, private-sector development, environmental sustainability, and regional integration. The government has committed to laying out a sound strategic framework in its Nepal Development Vision 2030 and a medium-term development plan to graduate from Least Developed Country status by 2022.

This publication provides an overview of the effectiveness of ADB’s programs in Nepal, along with its underpinning strategic directions. I hope that government officials, development practitioners, civil society members, and the academia among many others will read this publication. I thank and congratulate all of ADB’s partners and Nepal’s development stakeholders on this occasion, and look forward to a continued and fruitful partnership in the years ahead.

Wencai Zhang
Vice President
Asian Development Bank
Message

For more than 45 years, the Asian Development Bank (ADB) has worked alongside Nepal to promote economic development and improve the lives of its people. That effort entered a new stage in November 1989 when ADB opened its Nepal Resident Mission in Kathmandu. Since then, the resident mission has been a crucial point of contact between ADB headquarters and Nepal. Among its many frontline development roles, the resident mission helps design, process, and oversee the implementation of an increasing number of projects. Over the years, ADB has responded to Nepal’s changing development needs and has aligned its programs of assistance with the country’s priorities.

This publication commemorates 25 years of the establishment of the Nepal Resident Mission and provides an overview of how ADB’s operations in Nepal have evolved since the initiation of the first project in 1969. I hope it will help readers look back at the historical process of the country’s development and the contributions made through the partnership between Nepal and ADB. The publication is also forward-looking as it outlines the course of future development driven by a strengthened partnership with the objective of helping to achieve the people’s aspiration for a bright future blessed with prosperity.

As of December 2014, ADB’s portfolio in Nepal consisted of 39 investment projects and programs amounting to some $1.78 billion in commitments. These cover six sectors: energy, transport, urban infrastructure, finance and public management, education, and agriculture and water resources. The results of these investments are clearly visible. Today, clean energy makes up a substantial proportion of the total energy generation capacity; access to energy for households has improved considerably; road and air transportation networks have expanded; and water supply and sanitation in rural settlements and urban centers have improved along with access to primary education. Investments in irrigation and agriculture have provided better livelihoods for rural communities and governance and community participation have become stronger.

Building on these achievements, the Government of Nepal and ADB are working closely to ensure that ADB provides assistance with higher readiness, efficiency, effectiveness, and sustainability. Following its country partnership strategy (2013–2017), ADB will emphasize building the institutional capacities of sector agencies to enhance project implementation performance; focus on the most critical development constraints in infrastructure and human capital; and pursue emerging opportunities such as private infrastructure investments and regional cooperation and integration. The country’s long-lasting challenges in the areas of gender, social inclusion, and climate change will also be addressed. This publication highlights these challenges and how ADB endeavors to deliver not just financial assistance but also knowledge solutions and practical advice.

I would like to thank the Government of Nepal for working with ADB as a trusted and reliable partner. We are proud of the 45-year partnership with Nepal and the 25 years in which ADB has been on the ground, and look forward to many more years of productive and effective collaboration.

Hun Kim
Director General, South Asia Department
Asian Development Bank
Nepal has always been a very important developing member for the Asian Development Bank (ADB). This is the 25th year of the ADB–Nepal partnership on the ground, marking 2 and a half decades of close cooperation at the country level to promote socioeconomic development and reduce poverty.

Today, Nepal is at an important crossroad. After going through a decade-long civil conflict, political turmoil, people’s movement to restore democratic rule, and a comprehensive peace agreement, the country is nearly completing the challenging political transition process. It is heartening to see the sincere efforts being made by all people involved to complete the complex process of social reconciliation. Despite this challenge, Nepal has been able to maintain macroeconomic stability while reducing poverty and achieving most of the Millennium Development Goals. This shows the strong commitment of the people to establish lasting peace and prosperity, and resilience to overcome difficulties.

I feel fortunate and honored to be in Nepal as country director as we celebrate the 25th year of establishing the resident mission. We are still facing challenging and intriguing tasks ahead worth dedicating our efforts and wisdom collectively. The country has to address huge infrastructure deficits by substantially enhancing investments and implementation capacities; develop highly skilled and educated human capital; accelerate structural transformation by developing competitive industries that can create higher value and jobs; tap the great opportunities for regional integration with neighboring markets; improve and decentralize governance while empowering most vulnerable people; and establish a clear vision, strategy, and roadmap for the country's future.

This commemorative publication features the partnerships that we have established in many villages, districts, and municipalities of Nepal across all regions, and across many sectors including agriculture and natural resources, education and skills development, energy, transport, and urban facilities. I hope this publication can also be a guide for those involved in development work to learn from the implications of our work and how these can be used to address the tasks ahead.

I would like to thank the people and the Government of Nepal, development partners, and all the stakeholders for the great support for and collaboration with us to deliver development results. We look forward to further deepening our partnership to work together for nation building in a country endowed with nature’s beauty, a rich and diverse culture, and hospitable people.

Kenichi Yokoyama
Country Director, Nepal Resident Mission
Asian Development Bank
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Abbreviations

ADB  Asian Development Bank
ADBL  Agriculture Development Bank, Ltd.
ADBN  Agriculture Development Bank of Nepal
ADS  Agriculture Development Strategy
AusAID  Australian Agency for International Development
CAAN  Civil Aviation Authority of Nepal
CADP  Commercial Agriculture Development Project
CMIASP  Community Managed Irrigated Agriculture Sector Project
CPS  Country Partnership Strategy
CSO  civil society organization
CTEVT  Center for Technical Education and Vocational Training
DCA  Department of Civil Aviation
DDC  District Development Committee
DFID  Department for International Development of the United Kingdom
DOR  Department of Roads
DRILP  Decentralized Rural Infrastructure and Livelihood Project
DWSS  Department of Water Supply and Sanitation
EFA  Education for All
EWH  East-West Highway
GACAP  Governance and Anticorruption Action Plan
GDP  Gross Domestic Product
GESI AP  Gender Equality and Social Inclusion Action Plan
GESI  Gender Equality and Social Inclusion
GON  Government of Nepal
HIMALI  High Mountain Agribusiness and Livelihood Improvement Project
HVC  high value crop
ICT  information and communication technology
JFPR  Japan Fund for Poverty Reduction
KRA  key results area
LGAF  local governance and accountability facility
LGCDP  Local Governance and Community Development Program
LRN  Local Roads Network
MDGs  Millennium Development Goals
MOFALD  Ministry of Federal Affairs and Local Development
MWSP  Melamchi Water Supply Project
NBTI  National Banking Training Institute
NEA  Nepal Electricity Authority
NGO  non-governmental organization
NRB  Nepal Rastra Bank
NRM  Nepal Resident Mission
NRO  Nepal Resident Office
OPEC  Organization of Petroleum Exporting Countries
PBT  peace-building tool
PFM  public finance management
PPP  public-private partnership
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>RFSDCP</td>
<td>Rural Finance Sector Development Cluster Program</td>
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<tr>
<td>RMDC</td>
<td>Rural Microfinance Development Center</td>
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<tr>
<td>RMP</td>
<td>Rural Microfinance Project</td>
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<tr>
<td>RNDP</td>
<td>Road Network Development Project</td>
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<tr>
<td>RRRSDP</td>
<td>Rural Reconstruction and Rehabilitation Sector Development Project</td>
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<tr>
<td>SASEC</td>
<td>South Asia Subregional Economic Cooperation</td>
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<td>SDC</td>
<td>Swiss Agency for Development and Cooperation</td>
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<td>SEP</td>
<td>Skills for Employment Project</td>
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<td>SFDB</td>
<td>Small Farmer Development Bank</td>
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<tr>
<td>SFDP</td>
<td>Small Farmer Development Project</td>
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<td>SPMP</td>
<td>Strengthening Public Management Program</td>
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<td>SRN</td>
<td>Strategic Roads Network</td>
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<td>SSRP</td>
<td>School Sector Reform Plan</td>
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<tr>
<td>STFP</td>
<td>Subregional Transport Facilitation Project</td>
</tr>
<tr>
<td>STWSSP</td>
<td>Small Towns Water Supply and Sanitation Project</td>
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<tr>
<td>SWAp</td>
<td>sector-wide approach</td>
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<tr>
<td>TEP</td>
<td>Teacher Education Project</td>
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<tr>
<td>TEVT</td>
<td>technical education and vocational training</td>
</tr>
<tr>
<td>TIA</td>
<td>Tribhuvan International Airport</td>
</tr>
<tr>
<td>UN WOMEN</td>
<td>United Nations Entity for Gender Equality and the Empowerment of Women</td>
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<tr>
<td>VDC</td>
<td>Village Development Committee</td>
</tr>
<tr>
<td>WSS</td>
<td>water supply and sanitation</td>
</tr>
<tr>
<td>WUA</td>
<td>Water User Association</td>
</tr>
<tr>
<td>WUSC</td>
<td>Water Users and Sanitation Committee</td>
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</table>

**TERMS**

**Dalit**

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.

**Janajati**

‘Aadibasi/Janjati’ means a tribe or community having its own mother language and traditional rites and customs, distinct cultural identity, distinct social structure and written or unwritten history.

**Madhesi**

People of plains origin who live mainly in the Terai and have languages such as Maithili, Bhojpuri, Awadhi, Urdu and Hindi as their mother tongue are considered Madhesis.

**time poverty**

working long hours and having no choice to do otherwise

**MEASUREMENTS**

<table>
<thead>
<tr>
<th>Unit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>GWh</td>
<td>gigawatt hour</td>
</tr>
<tr>
<td>ha</td>
<td>hectare</td>
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<tr>
<td>km</td>
<td>kilometer</td>
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<tr>
<td>km²</td>
<td>square kilometers</td>
</tr>
<tr>
<td>m</td>
<td>meter</td>
</tr>
<tr>
<td>m²</td>
<td>square meter</td>
</tr>
<tr>
<td>MW</td>
<td>megawatt</td>
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**CURRENCY**

For the purposes of this report, $ = US dollars and NRs = Nepalese rupees

NRs 1 = $0.0098

$1 = NRs 101.368
ADB–Nepal: A Partnership for Inclusive Development

**Country Overview**

Nepal is a low income country but one with significant economic growth and development potential. Its 2014 population is estimated at 27.6 million. When the Asian Development Bank (ADB) began providing assistance to Nepal in 1969, the population was only 11 million. When ADB opened its Nepal Resident Office, in 1989, the population was approximately 18 million. The population at the last census, in 2011, was 26.5 million. Even with the currently modest growth rate of 1.4% per annum that figure is expected to exceed 36 million by 2050.

The former Kingdom of Nepal became a Federal Democratic Republic in 2008 when the 240-year-old monarchy was abolished by the Constituent Assembly, elected in April 2008. Since the end of the 10-year long civil conflict (1996–2006), Nepal has been undergoing a political, economic, and social change, while a long-aspired new

**Table 1: Country Overview: Selected Socioeconomic and Development Indicators, Nepal**

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Population distribution (2011)</td>
<td>Terai: 50%. Hills: 43%. Mountains: 7%. Urban: 17% (4.5 million, of which 24% is in Kathmandu)</td>
</tr>
<tr>
<td>Annual population growth rate (2001-2011)</td>
<td>1.4 %</td>
</tr>
<tr>
<td>Median age (2011)</td>
<td>21.6 years (20.7 male, 22.5 female)</td>
</tr>
<tr>
<td>Gender ratio (2011)</td>
<td>91.6 males to every 100 females (male ratio decreased 8.2 since 2001)</td>
</tr>
<tr>
<td>Adult literacy rate (15 years and above) (2013 estimate)</td>
<td>62.2% (75.2% male, 51.9% female)</td>
</tr>
<tr>
<td>Gross national income per capita, (current $) (2013)</td>
<td>730</td>
</tr>
<tr>
<td>Population below national poverty line (2011)</td>
<td>25.2%</td>
</tr>
<tr>
<td>Gross domestic product (2013)</td>
<td>US$19.3 billion</td>
</tr>
<tr>
<td>Human Development Index (2013)</td>
<td>0.540</td>
</tr>
<tr>
<td>Form of Government</td>
<td>Federal Democratic Republic (since 2008), with President, Prime Minister, and unicameral Constituent Assembly.</td>
</tr>
<tr>
<td>Total Area</td>
<td>147,181 km² (885 km East-West, 193 km North-South)</td>
</tr>
<tr>
<td>Administrative units</td>
<td>5 development regions, 75 districts, 3,276 village development committees, 191 municipalities.</td>
</tr>
</tbody>
</table>

**Millennium Development Goals (MDGs):**

| Population living on less than $1.25 PPP per day (2010) | 24.8% |
| Population living below national poverty line (2011) | 25.2% (highest in western districts and among Dalits, Janajati, and Muslims) |
| Under-5 mortality rate (2013) | 54 out of 1,000 live births |
| 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% |

PPP = purchasing power parity

constitution is being written. Despite these challenges, the country achieved impressive socioeconomic progress in the past decade, but much more remains to be done to create more economic and employment opportunities, reduce still high poverty, and address inequality and social exclusion in Nepali society, especially involving women and disadvantaged castes and ethnic groups.

Administratively, the republic is divided into five development regions: Eastern, Central, Western, Mid-Western, and Far-Western. Each region is divided into administrative District Development Committees (DDCs, 75 total) and Village Development Committees (VDCs 3,276 total), and each VDC has from five to nine wards. There are also 191 municipalities, of which urban Kathmandu, in the Central Region, is the largest. Some of these designations and numbers may change with a new constitution.

Landlocked Nepal is characterized by a difficult, largely mountainous terrain. In recent years extensive strategic road networks and rural roads have begun to link formerly remote and isolated localities to markets and the outside world. Numerous domestic airports are scattered throughout the countryside, though Tribhuvan International Airport (TIA) in Kathmandu is the only international field. ADB has assisted in the construction and upgrading of many roads and airfields, including upgrading TIA, and preparations for a second international airport at Bhairahawa in the Terai. Some of the rural hinterland still remains isolated, however, and accessible only on foot and by pack animals. On the other hand, telecommunications have increased markedly in the past decade, and mobile phones are now ubiquitous. Electric power is a challenging issue: production is far below demand despite immense hydropower potential. Here, again, ADB is heavily involved, having built the large 144MW Kali Gandaki-A Hydropower Project in 2004, and contributing significantly to the forthcoming 140MW Tanahun Hydropower Project, scheduled to come online in 2017.

The following brief history is indicative of many opportunities and challenges that the ADB–Nepal development partnership has responded to over the years.
A Chronology of the ADB–Nepal Partnership

1966  
ADB founded. Nepal–Asian Development Bank Partnership Begins  
Nepal’s partnership with the Asian Development Bank (ADB) began in 1966 when ADB was established with Nepal as a founder–member.

1969  
First Asian Development Bank Development Assistance to Nepal  
ADB’s first assistance to Nepal was a $6.01 million Asian Development Fund concessional loan for an Air Transport Development Project in 1969. Since then (to 2014), ADB has provided a total of $4.3 billion in loan and grant assistance to Nepal. During the first 23 years of assistance (1966–1989, the period before its representative office was established in the country), ADB approved a total of $740 million in loans for projects in agriculture (supporting agricultural credit, irrigation development, livestock development, hill agriculture, and crop intensification); forestry (hill forest development); transport (strategic roads and civil aviation development); energy (small-scale hydropower); education (technical and vocational training); and integrated rural development through several multisector initiatives. It was a relatively modest start, compared with how large ADB’s assistance has eventually become. Since those first few years, aid to each of these sectors has grown, and new development sectors have been added.

1989  
Nepal Resident Office Opens  
At first, ADB operations were managed directly from ADB headquarters in Manila, with frequent visits by ADB officials, professional staff, and consultants to Kathmandu and project sites. Then, on 22 November 1989, what is now known as the Nepal Resident Mission (NRM) was opened in Kathmandu as a small Nepal Resident Office (NRO).

1989–1999  
First Years of Assistance under Nepal Resident Office  
ADB’s first Nepal resident representative (later called country director) was assisted by one national staff responsible for finance and administration, an administrative assistant, and a few maintenance and security staff. An international staff person soon joined, and as the basic functions and responsibilities of the office were regularized and gradually expanded, other national and international staff were added. Initially, the NRO was a liaison office representing ADB in Nepal. Its main roles were to supervise and monitor ADB–financed projects, while project development, administration, and monitoring were handled from ADB headquarters in Manila.

When the NRO first opened, Nepal’s development needs were high, but the nation’s ability to capitalize on major development investments was low. And though government expenditure was rising, domestic resource mobilization was stagnant. The country’s National Planning Commission, in its Approach to the Eighth Plan (1992–1997), clearly described Nepal’s development weaknesses, noting that many development projects supported by ADB and others in the aid community did not fully attain their objectives.
Against this background, a new national strategy was developed by the Government of Nepal (GON, earlier called His Majesty’s Government). The Eighth Plan promoted a decentralized approach to development, where government would become a facilitator providing a workable policy environment, while bureaucratic impediments would be minimized and private sector initiatives encouraged.

Special attention in the Eighth Plan was focused on developing the nation’s hydropower potential as a basis for enhanced industrial and agricultural development. Thus, after considerable preparation, in 1996, ADB approved a $160 million loan to fund Nepal’s first large hydroelectric development, the 144MW Kali Gandaki-A Project. The project took almost eight years to complete, significantly boosting the national power grid capacity. Today, considered one of ADB’s flagship undertakings, it is still the largest single hydropower source in the country, supplying more than 20% of Nepal’s current power delivery.

Nationally, this project placed ADB firmly in the minds of the Nepalese by increasing access to electricity, while locally it provided many new job opportunities during construction. It also contributed several much-appreciated small infrastructure developments such as local roads, schools, water supply, a fish hatchery, and a health facility in the project area.

It was within the changing development environment of the Eighth Plan that ADB and other international aid agencies began to rapidly increase their Nepal portfolios. During the 1990s ADB allocated several hundreds of millions of dollars in assistance to agriculture, energy, social infrastructure, tourism, and transport. But given the country’s landlocked situation, difficult terrain, weak-to-nonexistent transport and communication infrastructure, poorly developed resource base, and weak capacity of public institutions, progress was slow.

2000–2009
Nepal Resident Mission’s Second Decade of Assistance

Several key turning point events occurred during the decade of the 2000s, positively impacting the ADB–Nepal Partnership.

Starting in 1996, Nepal became embroiled in a civil conflict that severely interfered with development assistance. By the early 2000s, as the intensity of the conflict increased, many essential infrastructures were damaged and social, political and economic conditions and communication nationwide were seriously impaired. Rural projects suffered, since it became difficult to implement them in the interior parts of the country where project and government staff could not safely travel. As a result, many aid agencies, while maintaining partnership relations with their central and district government counterparts, had to work in the rural areas primarily through nongovernment organizations (NGOs), community-based organizations, and consultants.

During the civil conflict, poverty reduction became a daunting goal. The conflict adversely impacted on rural livelihoods, led to loss of life, caused out-migration, shattered local government and security infrastructures, and restricted movement of people and goods.

“During the civil conflict, poverty reduction became a daunting goal. The conflict adversely impacted on rural livelihoods, led to loss of life, caused out-migration, shattered local government and security infrastructures, and restricted movement of people and goods.”
adversely impacted rural livelihoods, led to loss of life, caused out-migration, shattered local government and security infrastructures, and restricted movement of people and goods. But while the crisis exposed deep-seated social, economic, gender, ethnic, and geographic inequalities within Nepalese society, it also presented an opportunity to more clearly define the challenges and address the fundamental problems that had long hindered development and contributed to more inclusive development.

Simultaneously, in anticipation of an end to the conflict, the government, ADB, and other development partners made major changes to their respective development strategies, so that by 2006—when the Peace Accord was signed and an all party government was in place—more effective rural development could be pursued.

One of ADB’s first milestone events of the decade was approval of a $120 million loan for a much needed urban drinking water project for Kathmandu Valley. After several contractual setbacks the Melamchi Water Supply Project is now scheduled for completion in 2016.

The next milestone event in ADB’s relationship with Nepal was the elevation of the Nepal Resident Office (NRO) to Resident Mission (NRM) status. This, in turn, brought substantial changes to ADB’s Nepal operations. Already, since the late 1990s, a small project administrative unit was functioning in Nepal to supervise and monitor ADB-financed projects with help from Manila headquarters. In 2004, a programming unit was added to undertake economic policy and sector work, participate in aid group coordination, formulate ADB’s country operational strategy and program, and facilitate loan and technical assistance processing. The NRM was now also responsible to ensure not only that ADB’s investments reflected the government’s development strategies and goals, but also that these were implemented according to ADB guidelines, standards, and agreements. In the realm of day-to-day country activities, and with a growing portfolio, NRM had a distinct advantage over ADB headquarters in supervising development assistance in country. Thus, headquarters became more willing to devolve local responsibilities directly to the resident mission.

One of the NRM’s first programming responsibilities came in 2004 with the preparation of ADB’s 5-year country partnership strategy (CPS, 2005–2009), which set out ADB’s key priorities in relation to the government’s plans. Prior to this, country operational strategies used to be prepared by ADB headquarters staff. To prepare it, NRM staff had to understand the government’s key priorities and determine the country’s needs by documenting how development was evolving, the macro-economic situation, the poverty situation, the sectors needing most attention, what other development partners were doing and, not least, the development priorities of the local people. Hence, the first Nepal CPS was prepared in close consultation with government counterparts and clearly identified sectors priorities and how to proceed. All CPSs since have been formulated building on this process.

After the Peace Accord of 2006, as access and security in the hinterland were no longer issues, emphasis on infrastructure development in all sectors increased. In the transport sector, for example, strategic roads were improved to enhance linkage to district centers and improve cross-border trade. Under the agriculture sector, rural roads were developed and upgraded to link isolated areas to markets and essential services. Also in agriculture, there was a perceivable switch from traditional rural development encouraging crop and livestock production to a more commercial approach, encouraging value chain improvements, developing produce collection and production centers and wholesale market structures with national and international linkages. As a

“There is a need to break the vicious cycle of social exclusion, chronic poverty, and low growth that fuels social and political tensions by making the development process more broad-based and inclusive. Addressing these inequalities and attaining high economic growth are vital to improving living conditions and to achieving a lasting solution to the conflict.”

— ADB’s country partnership strategy, 2005–2009
result of project assistance in both the transport and the agriculture sectors, the expanding strategic and rural road networks are supporting better marketing internally and more import and export trade regionally, in standard crops like maize, wheat and rice; in high value fruits and vegetables; and in coffee, tea, and spices.

2010–2014
Recent and Current Activities and Challenges
Despite the disruptions of the decade-long civil conflict and the complex political transition since 2006, Nepal has made notable economic and social progress. Literacy is up. Remittances from overseas employment are high. Poverty has sharply declined. More children than ever are enrolled in schools. Gender equality and social inclusion have improved, though more remains to be done. Roads have been built to give outside access to many previously isolated rural communities. Trade and transport networks by land and by air are increasing, nationally, regionally and internationally. Communication networks span the countryside. Energy sources are increasing from large hydropower projects like the new ADB-financed Tanahun Hydropower Project, and from small, renewable sources like wind and solar. Regional trade and economic cooperation has improved. Domestic airports dot the land, and a second international airport is being developed in the Terai. And Nepal is on track to meet more than half of the Millennium Development Goals (MDGs) by 2015.

In the sector descriptions that follow this brief history of the NRM, many achievements are more specifically described. ADB has financed many of the development projects and programs, and
ADB recognizes, however, that Nepal continues to face major rural–urban and regional social disparities, and there are many other challenges to face. The risks of climate change and environmental degradation are high. Issues of peace-sensitive development following so closely after the end of the civil conflict are being promoted. The hydropower capacity of the country is still low, though the potential is high, a number of new power generating projects are being undertaken, and power transmission and distribution are being upgraded. Poverty is still high in rural areas, especially among socially disadvantaged groups. Gender inequality is still high in many localities, with the country ranking relatively low at 98 out of 187 countries in the Gender Inequality Index of 2013. Haphazard urbanization is rampant, with growing rural–urban migration as incomes of the rural population rises. And, while there has been some progress in important areas such as gender parity in primary and secondary school enrollment, more must be done. Indeed, though progress is clearly evident, many challenges remain, and are being addressed by ongoing ADB-financed investments.

ADB assistance continues to support Nepal to reach for higher and more inclusive growth and to capitalize on the nation’s unique assets. The current era of peace, reconciliation, and planning has provided opportunities for both the government and ADB to refocus aid assistance to accelerate inclusive economic growth and development. That process is ongoing: Each CPS is adjusted so that core sectors and thematic drivers meet the needs of the time, in alignment with the government’s medium-term development plans.

The current country partnership strategy (2013–2017) enumerates the five sectors and five thematic drivers that guide ADB’s development priorities, as below:

<table>
<thead>
<tr>
<th>Development Sectors</th>
<th>Thematic Drivers</th>
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<tbody>
<tr>
<td>• Energy</td>
<td>• Private Sector Development</td>
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<tr>
<td>• Transport</td>
<td>• Governance</td>
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<tr>
<td>• Water and Other Urban Infrastructure and Services</td>
<td>• Regional Cooperation and Integration</td>
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<td>• Education</td>
<td>• Gender Equality and Social Inclusion</td>
</tr>
<tr>
<td>• Agriculture, Natural Resources, and Rural Development</td>
<td>• Environmental Sustainability</td>
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The first three sectors—Energy, Transport, and Water and Other Urban Infrastructure and Services—are

Helping villagers set up businesses means there are local jobs for those who might otherwise be forced to the cities or overseas, keeping rural villages vibrant and prosperous.

“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.”

— ADB Development Effectiveness Brief: Nepal, 2014
25 years on the ground: ADB–Nepal Partnership for Inclusive Development

Table 2: Loan and Grant Approvals to Nepal, December 1969-2014 ($ million)

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</thead>
<tbody>
<tr>
<td>Loans</td>
<td>740.16</td>
<td>417.97</td>
<td>474.70</td>
<td>532.60</td>
<td>258.75</td>
<td>154.00</td>
<td>44.80</td>
<td>330.50</td>
<td>325.00</td>
<td></td>
<td>3,433.38</td>
</tr>
<tr>
<td>Grants</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>495.65</td>
<td>107.60</td>
<td>116.00</td>
<td>59.00</td>
<td>45.50</td>
<td>-</td>
<td>996.50</td>
</tr>
<tr>
<td>Combined Totals</td>
<td>740.16</td>
<td>417.97</td>
<td>474.70</td>
<td>532.60</td>
<td>754.40</td>
<td>262.50</td>
<td>103.80</td>
<td>376.00</td>
<td>325.00</td>
<td></td>
<td>4,257.13</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank Loan Financial Information System (LFIS). In addition to the sovereign loans indicated here, ADB also awarded nonsovereign loans (to the private sector) worth $49.55 million. No loans were granted in 2007 or 2008, and no grants were awarded before 2006.

considered core sectors, where the bulk of ADB’s attention will be placed during the CPS period. The rest of the financial envelope will be earmarked for Education and Agriculture, Natural Resources, and Rural Development sectors.

Over the 44 years from ADB’s first project financing in 1969 to the end of 2014, ADB has provided 172 loans and grants totaling $4.3 billion to Nepal. They include 133 sovereign Asian Development Fund loans totaling over $3.4 billion, five nonsovereign loans totaling nearly $50 million, and 34 Asian Development Fund grants totaling almost $1 billion more (Table 2). Over the same period, ADB approved 367 technical assistance projects totaling $184.1 million. Figure 1 presents a summary of cumulative lending to date by sector.

On this figure, four sectors account for 75% of ADB’s portfolio—agriculture and natural resources (23%); energy (21%); water and other urban infrastructure and
services (16%); and transport (17%). The rest of ADB-financing has supported projects in education (8%), finance (6%), public sector management (4%), trade and industry (4%) and information and communication (1%).

In 2013, NRM’s 24th anniversary year, the office moved to new and larger quarters in the modern Metro Park building on a busy boulevard called Uttar Dhoka (“north gate”, across from the former Royal Palace). This has allowed NRM to expand its services in comfortable surroundings. NRM now has 43 staff plus few contractual staff and consultants.

The ADB–Nepal partnership remains strong and the future looks promising. This partnership was most recently reconfirmed through the formal CPS (2013–2017). The CPS was prepared in close consultation with the government and other stakeholders, including partners in the private sector, civil society, and other realms. It aims to assist the Government of Nepal to achieve the higher sustainable and inclusive economic growth objectives laid out in its most recent Three-Year Plan (2014–2016).

A few key ADB-assisted projects to follow during the next few years are these: the completion of the Melamchi Water Supply Project, addressing the chronic water shortage in Kathmandu valley; the completion of the large 140 MW Tanahun Hydropower Project, adding significantly more electricity to the national grid; the inauguration of the nation’s second international airport at Bhairahawa in the Terai, which will have significant impacts on the burgeoning tourism industry; and the expansion of Nepal’s association with the South Asia Subregional Economic Cooperation (SASEC) initiative, to further enhance the nation’s role in regional and world trade. All are future milestones.
25 years on the ground: ADB–Nepal Partnership for Inclusive Development
AGRICULTURE, NATURAL RESOURCES, AND RURAL DEVELOPMENT
Overview

Nepal is a low-income country with still high poverty rate, weak socioeconomic indicators, and low Human Development Index rating. The rural population is around 20 million (2011 census), or over 70% of the total population (which has already reached over 27 million). Although the situation is changing, agriculture remains the principal economic activity, currently contributing around one-third of GDP and providing employment to about 75% of households. It was higher in the past. Yet, this sector suffers from underdevelopment and low productivity.

In this landlocked agrarian country, only about 20% of the total area is cultivable. Farming is dependent upon fragile lands and rugged terrain. Monsoon rains upon which production depends are erratic. Extension services are weak. Limited rural infrastructure constrains sector development. To compound the situation, in some localities, including in the poor western hill districts and the Terai lowlands, farm labor during peak agricultural seasons has become scarce due to internal and international labor migration.

As the conflict (1996-2006) particularly affected rural areas, it had a disproportionately large effect on the agricultural portfolio at a time when agricultural employment was on the decline. Despite many problems, however, some sectors of the economy, including agriculture, are beginning to recover and improve.
During the conflict, many changes in the country’s development strategy occurred, including the rise of community-based groups and local NGOs who took on much of the responsibility for delivering development in the rural areas. After the peace agreement in 2006 and a transition period emphasizing reconciliation, rehabilitation, and reconstruction, other important changes have occurred in the development strategy. Nepal has achieved gains in poverty reduction, for example, despite the dearth of agricultural labor. Today, the poverty level stands at around 25%, a significant improvement over 42% one and a half decades ago. Much of the change has been driven by increased remittance income, as thousands of youth, mostly from poor rural areas, go abroad each year to work in the Gulf and Southeast Asian countries. It is estimated that over 3.5 million Nepalese are currently working abroad, sending remittances back home, and accounting for around 28% of Nepal’s GDP.

The largest subsectors in agriculture are cereal grains, horticulture, and livestock. There has been a decline in cereal production and a rise in horticulture crops, especially vegetable and fruit cash crops, indicating the increasing importance of agricultural commercialization. There has also been a rise in cross-border trade in the cash crop economy, with India, Bangladesh, and Bhutan in particular. Similarly, the livestock subsector is becoming more commercial in outlook, especially the raising of cattle, goats, pigs, and chickens and the marketing of milk, meat, and eggs. Infrastructure development, such as expansion of the rural road network has helped make this possible by opening more market access for local farmers. In the past, lack of roads inhibited agricultural marketing, but now with the farm-to-market and other rural and strategic road building, the scene has changed. As of 2011, approximately 51% of the population lived within 30 minutes’ walk from a paved road, and 80% were within 30 minutes’ walk of a motorable dirt road. Despite these improvements, however, Nepal’s road density is still the lowest in South Asia.

Given the dependency of the country’s agriculture on monsoon rains, irrigation is important for increasing production, in both the lowland Terai and in the hills. Considerable irrigation infrastructure development has occurred over the past several decades, along with the transfer of irrigation management responsibilities to local farmer communities.
Agriculture investments have been guided by the Agriculture Perspective Plan (1995–2015), which ADB helped prepare. The Agriculture Perspective Plan, however, needs updating, given significant changes in the sector environment involving both trade and governance, along with climate change threats becoming real, and the visible and dual impacts of labor migration and urbanization. Until recently, the prevailing approach to agricultural development has been supply-driven with scant attention to commercialization, marketing, and trade. Associated social issues have also been problematic in this sector, with notable gender inequalities and the marginalization of disadvantaged groups, who make up a large proportion of the rural farming population.

In 2010, ADB provided technical assistance to the government to formulate a new 20-year Agriculture Development Strategy (ADS) in collaboration with twelve other development partners.1 The new strategy aims to significantly transform the agriculture sector and, by extension, other overlapping sector development. The implementation of ADS promises to make the agriculture sector more productive, competitive, inclusive, and sustainable, commercially viable, and resilient to climate change impacts. The new strategy’s vision is “a self-reliant, competitive, sustainable, and inclusive agriculture sector that contributes to economic growth, improved livelihoods, and food and nutrition security.”


1 International Fund for Agriculture Development; European Union; Food and Agriculture organization; Swiss Agency for Development and Cooperation; Japan International Cooperation Agency; United States Agency for International Development; Danish International Development Agency; World Food Program; World Bank; Department for International Development of the UK; Australian Agency for International Development; and UN Women
Asian Development Bank’s Role in the Agriculture Sector

Agriculture is a key sector in ADB’s Nepal program. Since the beginning of the ADB–Nepal partnership, ADB has helped shape and implement the development objectives of the government, specifically the Agriculture Perspective Plan (1995–2015) and the new 20-year Agriculture Development Strategy (2015–2035). ADB provided major technical assistance to formulate both of these landmark long-term strategies.

From the late 1980s into the 2000s, successful development models evolved that entailed a high degree of beneficiary participation in project design as well as beneficiary involvement in operations and maintenance after implementation. Agricultural productivity grew, as did employment opportunities, especially for the poor and disadvantaged.

ADB’s country operational strategies during the 1990s and into the 2000s reflect the government’s priorities. The civil conflict, however, seriously challenged development implementation, especially in the poor rural areas where agricultural aid was most needed. Five focal points guided ADB strategies during this period, in line with the national objectives: (i) sustainably improving agricultural production; (ii) sustainably increasing incomes and employment, particularly for poor, excluded, and vulnerable groups; (iii) commercializing the sector; (iv) advancing gender equality and social inclusion; and (v) strengthening public institutions.

During the conflict, both government policy and the ADB country strategy followed a conflict-sensitive approach to development that included: (i) simplified project design with a manageable set of objectives; (ii) greater community participation in project design to create community ownership; (iii) inclusiveness and poverty orientation by ensuring that the socially and ethnically marginalized could work on and benefit from projects; and (iv) transparency and accountability regarding the flow of funds. ADB was at the forefront of working in conflict areas, as was its willingness to take a participatory approach to working with local communities to serve the rural areas well. Project designs were simplified based on the needs of different regions.

The Tenth Five Year Plan’s Poverty Reduction Strategy (2003–2007) set out three major objectives for the agriculture sector: (i) reduce poverty by increasing production, productivity, and income from agriculture, and contribute to food and nutritional security; (ii) contribute to sustainable production and growth by adaptive research and development of technology to be used in agriculture, while protecting and using agrobiodiversity and balance in the environment by reducing pollution from the use of external...
inputs; and (iii) develop internal markets and promote export opportunities by promoting agro-based industries and commercial enterprises with the participation of cooperatives and the private sector.

Projects implemented during the Tenth Plan period saw an increase in commercialization of crop and livestock production, along with the introduction of modern technology, rural transport links, and improved farmers’ access to modern inputs and credit. For industry and exports, investment was stimulated by streamlining the regulatory processes, amending labor laws, and reforming property rights that had impeded private sector development.

It was well recognized that the lack of opportunity for advancement in rural areas contributed to endemic poverty, which fueled the conflict. Increasing agricultural productivity, food security, and diversifying economic opportunities were—and continue to be—keys to rural development, as stated in ADB’s country partnership strategies. During 1997–2007, for example, ADB provided $1,078.1 million to Nepal, of which agriculture received over 21% ($228 million), the most for any sector, almost equal to the $249 million from all Nepal’s other development partners combined. Of that amount, over 90% was allocated to three subsectors: irrigation (22%, or $50.6 million); agricultural production and marketing (36%, or $82.7 million); and agriculture and rural sector development (32%, or $73.7 million). About half of the remainder was allocated to livestock (9%, or $21.4 million). The livestock subsector is discussed below under Agricultural Commercialization.

The government’s current Thirteenth Plan continues to keep agriculture the top priority, followed by infrastructure development and tourism. It is clear that ADB’s contribution to agriculture will continue to be strong, especially with the Agriculture Development Strategy in place.

**Irrigation subsector**

ADB’s first involvement in the agriculture sector began in 1970 with small investments to jute development and the first of several agricultural credit projects. Then in 1971, ADB funded a $4.5 million loan for its first investment in the irrigation subsector. Over the next few decades, several landmark projects were funded. The first three were the Kankai Irrigation Project located in the eastern Terai funded with a $11 million ADB loan;

Taken together, these three irrigation projects improved agricultural output and farm incomes over a total area of 32,800 hectares. Each included most or all of the usual irrigation construction and rehabilitation works, including river diversion weirs, intake structures, distribution canals, drainage, flood control measures, service roads, and farm-to-market roads. The overall objectives were to increase agricultural production and farm income; halt loss of irrigation land caused by river capture, river bank erosion and flooding; reduce environmental degradation through less reliance on forest produced for system repairs; and strengthen the institutional base and technical capabilities of the existing farmer organizations.

The Kankai Project was unique in that it also encouraged massive migration and rapid settlement in the eastern Terai by impoverished farmers from the nearby hills. It was important both for its effect

ADB has supported commercialization of agriculture both through irrigation and road connectivity.
on poverty reduction and in reducing environmental pressures in the hills. Each project also helped rehabilitate and strengthen pre-existing traditional farmer-managed irrigation systems. At Rajapur, this included the 8,000 ha Budhi Kulo, one of the largest farmer-managed systems in Asia.

In the 1980s, while the first two of these projects were running and the Rajapur project was in the inception stage, the agriculture sector employed around 90% of the economically active population and accounted for more than 50% of the country’s GDP. Since traditional agriculture depends highly upon erratic rainfall, these early irrigation projects were designed to help remedy the situation.

In 1994, the ambitious Irrigation Management Transfer Project (IMTP) was financed by an ADB loan of $12.9 million. It was implemented from 1994 to 2004, in 11 subprojects across 10 Terai districts. By then, irrigation development was receiving high priority by the government and ADB, in line with a mutual approach to agriculture development. The intent was to increase cropping intensity and crop yields, encourage a shift to more profitable cropping patterns and, as the name implies, transfer many of the watercourse management responsibilities back to the local farmers. The Eighth Five Year Plan (1992–1997), the Agriculture Perspective Plan of 1995 to 2015, and ADB’s own country strategy emphasized the need to improve agriculture performance by ensuring that operation and maintenance responsibilities be turned over to users whose capacity has been developed.
The first of the IMTP’s two components was Establishing Sustainable and Effective Water User Associations (WUAs), through which farmers work collectively to operate and maintain their irrigation systems by mobilizing their own resources to achieve reliable, equitable, and timely water supply and distribution. Members of the IMTP’s 14 large WUAs received training on social mobilization, organization establishment, and management along with gender awareness, conflict resolution, resource mobilization, construction quality control, water distribution and management, and the collection of irrigation user fees.

The project also promoted the role of women in irrigation development and management. Out of 6,414 members of the project’s 14 WUAs, 20% were women and 8% were Dalits, and user group executive committees included about 9% female and 3% Dalit. About 20% of the training participants were women. While these numbers are not as high as some of ADB’s more recent rural development projects have achieved, at the time they were considered significant accomplishments.

The IMTP’s second component, Rehabilitation and Improvement of Irrigation and Drainage Facilities, included emergency maintenance and flood damage repair, essential structure maintenance, overall system improvement, and various other engineering functions. The project increased total irrigation coverage across the 11 subproject sites by 29%, to a total 45,563 ha.
The Rural Reconstruction and Rehabilitation Sector Development Project (RRRS DP, 2007–2012) was designed and implemented almost immediately after the Comprehensive Peace Accord of 2006 formally ended the decade long civil conflict. The program addressed some key concerns arising out of the conflict regarding poverty reduction goals and strategies, and project implementation methods.

The overall RRRSDP aimed to support the government’s key agenda of achieving inclusive growth for sustainable poverty reduction. It consisted of a policy component (the program) and an investment component (the project). The objectives of both were crucial to attaining sustainable peace and development.

The objective of the program component was to improve the policy environment for inclusive growth. It focused on greater economic and social inclusion, good governance, and accelerated service delivery in rural infrastructure through improved policies, regulations, and institutions.

The objective of the project component was to reconstruct and rehabilitate rural infrastructures, some of which had suffered major damage during the conflict. A main intent was to invest in improved connectivity, achieve enhanced economic and employment opportunities, and attain greater access to markets and social services for rural communities. Total cost of the program component was $82.8 million. The cost of the project component was $78.4 million at appraisal but was later raised to $108.6 million through additional financing by other development partners. ADB’s contribution was $100 in grants ($50 million to each component).

Program outputs
The program component had three key outputs: enhanced poverty reduction and inclusive development; improved and inclusive governance and decentralization; and strengthened support for rural infrastructure development. It included support to government policy initiatives to promote economic and social inclusion and to encourage private sector participation in infrastructure development. It also included drafting regulatory frameworks on national resettlement policy, to make them compatible with international best practices and consistent with the government’s existing policies.

It was under the RRRSDP program component that the government approved the interim guidelines for enhancing the poverty reduction impact of road projects prepared with ADB technical assistance. These guidelines helped road officials understand the direct and indirect poverty linkages of road investment, and, in another sign of their success, consultants are referring to these guidelines in conjunction with the government’s Environmental and Social Management Framework, 2007, while carrying out initial environmental examination and environment impact assessment.

The government also approved the Rural Infrastructure Development Strategic Action Plan in 2007. This action plan gave added vigor to post-conflict reconstruction and rehabilitation of infrastructure in rural areas. Among the infrastructure development aspects of the RRRSDP was significant enhancement to connectivity through rural road construction. During the first year of the project, the Department of Local Infrastructure Development and Agricultural Roads, of the Ministry of Federal Affairs and Local Development (MOFALD), revised its manual on developing rural and agriculture roads. This manual was later replaced by the

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**FLAGSHIP CASE STUDY**

**Rural Reconstruction and Rehabilitation Sector Development Project**

The project’s Mustang road has shortened traveling time. Before, it used to take us 3 days from Thangchung to district headquarters at Jomsom. Now it is a lot nearer, only a 4 to 5 hour ride.

— Chiring Dorje of Bheigaaw, Mustang

During the project period, the Ministry of Agriculture Development approved and implemented its ministry-wide gender strategy, resulting in an inclusion-friendly environment, which in turn gave rise to major policy initiatives in the area of gender equality and social inclusion.

Project results
The project component was implemented in 20 districts (country-wide, in all five development regions) that had not previously received support for rural infrastructure development from any major development partner. This component had important results in five categories:

(1) Improved Rural Roads—including 43 rural roads constructed or upgraded with a total length of 826 km, and 15 bridges.

(2) Community-based supplementary rural infrastructure developed and improved—including construction of 364 rural water supply schemes and 524 other infrastructures (e.g., foot trails and trail bridges, market centers and community buildings, primary schools, health posts, micro-irrigation subprojects, and others). It also supported construction of rural community water supply schemes in an additional 18 districts covered by Decentralized Rural Infrastructure and Livelihood Project (DRILP).

(3) Enhanced equity, employment, and income opportunities for the poor and disadvantaged—including community empowerment outputs, such as formation of over 600 building groups and almost 600 village infrastructure user committees, with women’s representation of 52% in at least 75% of them. Another 170 self-help groups were formed with 69% women representation, of which 15% were Dalit and 46% were Janajati; 22,614 beneficiaries attended awareness and orientation trainings; and almost 3,000 attended livelihood enhancement skill trainings from the poor and disadvantaged populous (almost evenly attended by women and men).

(4) Strengthened institutional capacity of the MOFALD, the Department of Local Infrastructure Development and Agricultural Roads, DDCs, and communities—including relevant received in technical, social, financial, and safeguard training. Additionally, construction quality testing laboratories were established in selected project districts and requisite equipment and vehicles provided, partly in support of a sector-wide approach to rural road maintenance.

(5) Improved Project Management—including the provision of consulting services at central and district levels to meet the project’s technical, social, and financial planning; design and implementation requirements; and other aspects of project management. Consultant inputs were also given on civil engineering topics, plus environment, resettlement, and gender and social inclusion issues, and manuals and implementation guidelines were prepared on rural roads, accounting, initial environmental examination, and resettlement planning.

In April 2014, an ADB mission to Manang District met with beneficiaries of the RRRSDP, including traders, retailers, local transport operators, farmers and political party representatives. Collectively, the local beneficiaries said that the road constructed from district headquarters at Chame to upper Manang has not only saved them time and made it easier to come to the district headquarters, and out to other districts and other parts of the country, but has also significantly increased farm-gate prices of vegetables and fruits. The beneficiaries add that the project has also lowered transportation costs for consumable goods, prices of other essential items, and time to access health services, and agree that it is having positive impacts on local living conditions.

Source: ADB
The Decentralized Rural Infrastructure and Livelihood Project (DRILP, 2004–2017) is in its second phase of implementation. Phase 1 ran to 2011 and Phase 2 extends it to 2017. The project is funded by a $58 million ADB loan and a $7 million grant, cofinanced by the OPEC Fund for International Development and Swiss Agency for Development Cooperation, and counterpart (government and beneficiary) inputs. The combined cost is $134.05 million.

DRILP is being implemented in 18 poor and conflict affected districts in the Eastern, Western, Midwestern and Far Western Development Regions. The poverty level in some localities is much higher than the national average. The project impacts over 3 million local people in these districts: Taplejung, Solukhumbu, Ramechhap, Okhaldhunga, Lamjung, Gorkha, Myagdi, Baglung, Jajarkot, Dolpa, Humla, Jumla, Kalikot, Mug, Baitadi, Bajhang, Bajura and Darchula.

Because of Nepal’s mountainous terrain and difficult weather conditions, road and trail networks in the hinterland are the most common modes of transportation. Pervasive poverty in the hill and mountain districts is linked to low of road connectivity, which along with high transport costs discourages individual mobility and the movement of goods and services, hampering economic opportunities and adversely affecting economic potential. Many communities have long depended on foot trails and mule tracks for transport. Isolated from motor roads they have often faced limited access to food supplies, health and education facilities, markets, and other essential services.

DRILP is designed to address these problems and alleviate many of these constraints. It is primarily concerned with constructing new or upgrading existing rural connectivity to increase access to markets and public services, and reduce poverty. It improves local livelihoods by providing direct employment in the project with the adaptation of labor-based construction and a participatory approach. And it provides employable life skills training that leads to better employment as well as the potential to invest in small business opportunities.

In villagers’ eyes some of the most important project outputs are the construction of new roads and the rehabilitation and upgrading of existing ones, as well as construction of new trail bridges in eight districts, all of which are opening up access to previously remote locations. In two districts, Solukhumbu, and Mug, roads now connect the district headquarters to the outside for the first time. And in Dolpa District, limited vehicle traffic has for the first time been introduced between headquarters and the district airport, though the headquarters town of Dunai is still not connected to the outside by road.

DRILP implementation at the local level is done by the DDCs through village development committees, village works and road construction committees, and community-level building groups. These are overseen at the district level by road and road maintenance committees. Local participation in these committees and groups has significantly increased, including the involvement of women and members of disadvantaged groups in leadership positions.

Community infrastructure subprojects are implemented by beneficiaries through local building groups. They and the VDC contribute to the costs by providing building materials, land, and other in-kind contributions. Skill training is being given to members of the building groups, who are also encouraged to create savings and credit cooperatives, through which they can borrow to invest in microenterprises or other productive assets.

The project assures that women, Dalits, and other disadvantaged groups are engaged and assisted by it. At least 50% of target beneficiaries overall are women.

**Key Targets by Project Completion in 2017**

- Poverty reduction: Reduce poverty level from 60% in the 18 project districts to 45% by 2015, and to 20% by 2020.
- Rural livelihoods improved: Increase economic opportunities by at least 25%, and more diverse income opportunities created for 200,000 households by 2015. Assure that building groups have at least 40% women members (consisting entirely of locals, with equal pay for men and women laborers, and no child labor).

Community infrastructure investments are to reflect community priorities, including those of the poor and disadvantaged.
• Rural transport infrastructure: Build 605 km of rural and village roads, and another 200 km rehabilitated; and build 8,755 trail bridges.

Results Achieved as of 2014
The project results are incomplete, but what has been done so far clearly reveals progress toward achieving the project goals and targets.

• Poverty reduction: Household incomes have increased by 7.6% (average) project-wide.
• Livelihood enhancements: The project has already generated 8.6 million person-days of employment on roads, trail bridge works, and maintenance (41% women, 23% Dalit, 48% other disadvantaged groups), toward overall poverty reduction. Equal wages are paid to adult women and men for all project related employment.
• Road works: 357 kilometers of new road have been constructed, 191 km have been upgraded, and 707 km of road maintenance is completed, providing employment opportunities, increasing road use freight volume, and lowering both person and freight transport costs.
• Trail bridge works: 251 trail bridges have been constructed in eight districts (totaling 17,023 meters, averaging approximately 68 meters in length), for enhanced ease and efficiency of travel.
• Community infrastructure: 280 subprojects have been completed (including school buildings, health posts, small irrigation schemes, community water supply schemes, microhydro schemes, village roads and trails, and rural market places), providing increased access to essential social, economic, health and education services.
• Social inclusion and capacity building: 53% women and 44.5% disadvantaged group members now occupy key positions on village works road construction committees, and 46.1% women and 54.2% members of disadvantaged groups are in key positions in building groups.

There are now tentative (qualitative) indications that fewer local laborers are leaving home to seek employment across the border in India; that life skills training is leading to an increase in small, local entrepreneurship investments; and that earnings from project-based employment are being used to invest in overseas remittance labor opportunities, even further increasing household incomes.

Beautician Parbati
Encouraged by activities of the project in her district, Parbati Neupane took the challenge and went for 3 months training as a beautician. She had never attended vocational training before, and though nervous at first, she did well.

After graduation, she returned to her community and invested 11,000 rupees (about $110) to open a beautician center and cosmetic shop alongside one of the upgraded project roads. There she gives advice to local women about what cosmetics are suitable for oily, dry and normal skin. She is especially busy during marriage season, helping brides with their makeup.

Parbati’s life has changed tremendously since the day she went for training. She makes a good living and sets a confident example advising other women about starting small businesses. Pārbati says, “Without confidence it is difficult to start any business and confidence develops through more practice.”

Animal Health Worker Dhruba
The villagers call Dhruba Adhikari “Doctor Sah’b” for the veterinary services he provides. During the first phase of DRILP, Dhruba attended animal health worker training to learn basic veterinary services. When he returned home, Dhruba took a NR130,000 loan from a local merchant to open a veterinary shop near the road. It didn’t take long for his services to become widely known, earning him enough to pay back the loan.

At first, he visited door-to-door to make villagers aware of animal health issues and the services he could provide. When not busy with customers and their livestock he studies reference books to enhance his knowledge and develop confidence. For difficult cases he consults with veterinary doctors at the district or regional center, often by phone. As a result, the locals trust him and his business is prospering. The project has turned his life around, and given him and his family a good future. He believes that hard work and determination, patience, and perseverance are important assets for any businessman.

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In 1998 and again in 2004, two more important irrigation projects went online. The first was the Community Groundwater Irrigation Sector Project (1998–2008), funded by a $30 million ADB loan. It was implemented in districts of the central and eastern Terai. Unlike the IMTP, however, this new project specifically targeted small, poor farmers holding less than a hectare of land through participatory, demand driven, and integrated group shallow tube well development. It also emphasized the development of sustainable infrastructure, climate change mitigation and adaptation, human development, regional cooperation and integration, public–private partnership, and good governance. The project significantly increased year-round irrigated areas and cropping intensity, with total farm output rising proportionately.

Access to markets and public services were improved in about 300 village development committees (VDCs) with the construction of 241 kilometers of farm-to-market roads. And 7,334 farmer groups were able to access credit services specifically designed for small farmers.

In 2004, the Community Managed Irrigated Agriculture Sector Project (CMIASP, 2004–2014) was funded with a $20 million ADB loan, and cofinancing by the Organization for Petroleum Exporting Countries (OPEC) Fund for International Development, and counterpart (government and beneficiary) inputs. The CMIASP was designed to promote inclusive economic growth and reduce poverty in the rural areas of the central and eastern regions. It was premised on active participation of farmers, both to underscore the value of the demand-driven approach, requiring farmers to both collectively demand assistance and participate in the planning and implementation. Local NGOs were engaged in the social mobilization. It also successfully sought to involve multiple stakeholders with the Department of Irrigation as the lead implementing agency, and it enhanced the Department of Agriculture’s district-level capacities for agriculture extension and livelihood programs.

The CMIASP continued the landmark work of the IMTP, to rehabilitate farmer-managed irrigation systems, but with stronger emphasis on a participatory approach and enhancing the human capital of women and other disadvantaged groups. It also improved local WUA mobilization, infrastructure development, and agriculture production. More broadly, it strengthened policies, plans, institutions, and operational mechanisms for more responsive service delivery and sustained impacts.

In pursuit of gender equality and social inclusion, the CMIASP promoted at least 33% women’s participation in 111 WUAs, ensuring gender and disadvantaged group participation, including training in institutional management and operation of the system with optimized water allocation. The project also assisted the Department of Irrigation and the Department of Agriculture to implement a gender action plan; required all training activities to include gender actions; and facilitated gender mainstreaming by establishing gender focal points, such as requiring all data to be gender-disaggregated and requesting all NGOs contracted to the project to include at least 50% women in their field staff. By that time, village women were playing active roles in planning, implementing, and managing irrigation systems, boosting their self-confidence and improving their social status.

The CMIASP’s overall outcomes include implementing 111 irrigation sector projects covering a total area of 15,6776 hectares. Nearly 180,000 farmers benefited by improved water accessibility. Average cropping intensity at the end of the project was expected to increase from the pre-existing 171% to 205%. A crop cutting survey in the project areas has indicated
a 62% increase in paddy production, 46% increase in wheat, 35% in maize, 67% in potatoes, and 282% in vegetables.

**Rural roads development**
The most important project implemented with ADB financing under this subsector was the Rural Reconstruction and Rehabilitation Sector Development Project (RRRSRP, 2007–2012). The RRRSDP was implemented almost immediately after the end of the civil conflict, and was designed to address key concerns arising out of the conflict regarding poverty reduction goals and strategies, social inclusivity, physical connectivity, and project implementation methods.

The RRRSDP was almost entirely funded by grants from ADB and three other international development partners, as well as from counterpart (government and local beneficiary) inputs. It had two big components: a policy program ($82.8 million) and a project ($108.6 million), for a total of $191.4 million. The RRRSDP positively impacted an estimated 2.4 million beneficiaries in 20 districts with more employment, better access to markets and social services, increased incomes, more equity and inclusivity, and greater economic prospects for the future.

The RRRSD Project and another project with major infrastructure development inputs—the Decentralized Rural Infrastructure and Livelihood Project—have, together, had major impacts on agricultural development and rural road connectivity in Nepal. Both are highlighted as exemplary agriculture sector case studies.

The popular Decentralized Rural Infrastructure and Livelihood Project (DRILP, 2011–2017), was funded by $134.05 million in loans and grants from ADB ($58 million loan and $7 million grant), OPEC/ OPEC Fund for International Development ($20 million loan) and SDC ($14.96 grant), plus counterpart inputs (equal to $34.09 million, from central government, local government, and local beneficiaries). DRILP is being implemented in 18 poor, conflict-affected, remote hill and mountain districts. It was designed to increase local access to social services and economic opportunities, especially markets and employment by extending rural infrastructure to enhance connectivity with new construction or rehabilitation of district and village roads (farm-to-market roads), improvements to main foot paths and trail bridges, and subprojects including school buildings, health posts, small irrigation, water supply, micro-hydropower projects, and market places).

DRILP is also noted for its strong support for gender equality and social inclusion. For example, many women became closely involved in road-building groups, many as laborers and some in leadership positions. And all received wages equal to those of men.

The combined results of the two infrastructure projects, RRRSDP and DRILP, are significant and far-reaching. Together they have impacted 5.4 million people in 38 of Nepal’s 75 districts. They have raised the incomes of millions of households by providing altogether 24.4 million person-days of employment on project development works. Many of the poor households have moved up on the poverty reduction scale. Under the road infrastructure developments of both projects combined, 1,374 km of new and upgraded roads have dramatically increased rural connectivity, giving local residents better, faster access to essential public services (schools, health posts, and markets). And, not least, gender equity and social inclusion of disadvantaged and marginalized caste and ethnic groups have improved, given their more active participation in community development activities (planning, implementation, and monitoring), and access to equitable employment on road and subproject works.

“With the road there’s a great benefit in weight carrying capacity for trade. Before, one mule could hardly carry six or seven kg of goods, and all my mules together could only handle 32 kg. Now, a buses and trucks can carry up to 500 tons on the same road, same distance. It’s a great difference in efficiency and lower costs.”

— Wangdi Gurung,
Vehicle owner, Mustang district
The Commercial Agriculture Development Project (CADP, 2006–2014) was funded by an $18 million Asian Development Fund grant, and implemented in 11 districts (5 hill, 5 Terai, and 1 mountain) of Nepal’s Eastern Development Region. It was designed to: improve the efficiency of marketing and processing high value crops such as vegetables, fruits, tea, and spices; increase public and private investment in commercial agriculture; include poor and semi-commercial stakeholders in commercial agriculture; and make market information available to farmers. This project also oversaw the creation of the Commercial Agriculture Alliance, an innovative new mechanism for agriculture development led by the private sector.

The project outcome will be improved efficiency of production, marketing, and processing of high value crops such as vegetables, fruits, tea, and spices, within the project area, which included one mountain district, Taplejung, the five hill districts of Dhankuta, Ilam, Panchtar, Terhathum, and Udayapur, and the five Terai districts Jhapa, Morang, Saptari, Siraha, and Sunsari. The project’s 11 districts were selected on the basis of favorable agroclimatic patterns, an existing entrepreneurial base, and successful cases of commercial agriculture, along with road connectivity, proximity to Bangladesh and Indian markets for agricultural products, potential for growth of the rural economy and for advancement of women’s status, and its potential for replication to other regions of Nepal.

The project team expected to reduce by targeting poor areas and expanding economic opportunities for the rural poor, catalyzing private sector investment in agriculture, and strengthening the capacity of local institutions. A focus was on helping farmers become more knowledgeable, capable, and competitive in the market chain to secure improved incomes. Investment in local infrastructure was provided in the form of collection and storage centers, cool stores, access to market information, and agribusiness product improvement technology. Traders and processors were assisted to improve the quality and regularity of supply of products purchased by them and to encourage their investment in the market chain through linkages to farmers.

The project results were: (i) enhanced commercial agriculture investments by farmers, traders, and processors in developing community-based market infrastructure, including collection, storage and cooling centers, and related investments in pest management and farm technologies, agroprocessing equipment, and the promotion of high value crops, to add value to agricultural products; (ii) assistance to project stakeholders, small farmers and others, through training and market awareness to develop or strengthen income generating activities and join the Commercial Agriculture Alliance; (iii) development of improved market information systems, including information on value-adding activities, processing technologies and timely dissemination of market trends; (iv) increased capacity of project partners through trainings on topics such as market development, postharvest marketing, market-chain improvement, and other aspects of agribusiness; and, (v) implementation support to the Project Management Unit and the Commercial Agriculture Alliance.

By the numbers, the project benefited 1,582,855 individuals of which 51% were women; approved 76 infrastructure subprojects (market and collection centers, storage facilities, greenhouse nursery, and other, along with 9 small irrigation schemes and 22 farm-to-market roads). The vast majority of subprojects included high value crop promotion, while others highlighted quality control, product testing,
and agroprocessing (technology and equipment). Over 23,300 households started income generating activities; 749 commercial stakeholders were oriented on gender, social mobilization, social inclusion and environment management; 17 group or cooperative based market information systems were established and assisted in operations and maintenance; and numerous trainings were conducted for District Agriculture Development Office (DADO) staff. And, at the end of the project the Commercial Agricultural Alliance had over 500 active members (farmer groups, cooperatives, individual traders, and processors).

The project has been highlighted as exhibiting good results for gender equality and social inclusion. During the armed conflict rural women’s lives were heavily impacted as male family members left home seeking employment in urban areas, and abroad. Women took on greater responsibilities for household food security and farm management. They also sought more employment as both unskilled and skilled, as laborers, and as entrepreneurs and decision makers in commercial agriculture enterprises. As a result, they emerged after the conflict with useful knowledge and proficiency, and better socioeconomic status. Many developed keen interest in producing high value crops and pursuing more commercial agriculture, so when this project was implemented they were eager to join.

The CADP was demand driven with a strong social inclusion component to help women and other disadvantaged farmers, both subsistence and semicommercial, to more strongly pursue producing high value crops for the market. The project’s Gender Action Plan encouraged up to 50% women’s involvement in the project and other commercial agriculture activities.

“This project has brought together key stakeholders—farmers, traders and processors—to work toward improving productivity, marketing, and processing of high value crops.” Kenichi Yokoyama, ADB Country Director for Nepal, noted. “In doing so, the project has established value chains and accelerated the process of agricultural commercialization in the region.”

Participants in the Commercial Agriculture Development Project are enthusiastic about the profits they earn from their produce. Kamal Bhandari, a newly commercialized small farmer from an eastern hill village that also benefited from the ADB-funded Community Managed Irrigated Agriculture Project, boasts: “We have gone from one crop a year to three. Before this, we did not have enough food for the whole year. Now we have enough, and are able to sell our surplus.”

Anita Upreti of Katahardanda village in the eastern Terai district of Jhapa never dreamed that a small village farmer could live a comfortable life. Farming, she thought, was laboring all day in the hot sun or the pouring rain, and barely making enough to feed the family. After participating in the ADB-funded Commercial Agriculture Development Project, however, she knows better. “When my husband and I migrated from the mountains to this village, we had only 14,000 rupees (about $140) cash in hand, and nothing else. Today, we have a house, a shop, farmland and other assets,” says Anita. And “Now we have a stable income from selling the vegetables we produce on the farm (and) we have been able to give a better education to the children.”

Her husband, Giri Raj Upreti, says that they could not have become successful entrepreneurs without the help of the local agriculture cooperative, of which he was a founding member. “We realize the importance and the benefits of working through organized groups like the cooperative... Because of the cooperative... we don’t need to borrow from businessmen at punitive interest rates.” Banding together has helped subsistence farmers better access support, such as training on high value crops, integrated pest management, marketing and processing.

**CADP PROJECT RESULTS**

**DATES**

**BENEFICIARIES**
- Over 1.5 million beneficiaries (51% women) in 11 districts of the Eastern Development Region.

**ENTERPRISE**
- 23,379 households started income generating activities.
- 50% involvement of local women in commercial agriculture.

**ECONOMICS**
- Area covered by high value crops (HVC) up by 9% (from 154,740 to 168,458 ha).
- HVC cropping intensity up from 10% to 19%.
- Value of HVC traded up from NRs9,803 million to NRs15,460 million.
- Public and private investment in HVC up from NRs1,763 million to NRs2,489 million.
- Annual growth rate of HVC production up from 5.6% (135,000 metric ton) to 6.6% (146,869 metric tons).
- Export of HVC up by 26% (from 54,475 metric tons to 68,376 metric tons).

**CAPACITY ENHANCEMENT**
- Commercial Agricultural Alliance established, with over 500 active members (farmer groups, coops, individual traders and processors).
- 17 group or cooperative based market information systems established.
- 749 commercial stakeholders oriented on gender, social mobilization, social inclusion, and environment management.
- commercial HVC producers have greater access to neighboring country markets.

**INFRASTRUCTURE**
- 76 subprojects constructed (market and collection centers, storage facilities, greenhouse nursery, 9 small irrigation, 22 farm-to-market roads, and other).
The Building and Benefits of Local Roads

Without access to markets, agriculture remains at subsistence levels. Without adequate physical access, remote hill and mountain communities remain isolated and poorly connected to essential services.

The impact of a road is easy to see in any remote village where there was none before. Before the road, every commodity not produced locally was carried in on a porter’s back.

One villager in Darbang had good reasons to praise the construction of the road in his area. “Roads are necessary for the development of any area or the nation as a whole,” said Anil Bishwakarma (Dalit), at a handicapped mobile repair center in Darbang. “It is easier to carry goods in vehicles than physically by humans or animals.”

“An additional benefit is the access vehicles can give in a medical emergency,” he continued. “I’ve known people to have died, or suffer in other ways because they couldn’t get to a hospital in time. Now, with the road, time and distance are shortened and travel is easier, especially considering the physical topography and challenging environment.”

ADB’s assistance to rural infrastructure development and specifically to Nepal’s Local Road Network (LRN) improves transport connectivity and facilitates economic activity and trade in some of Nepal’s most remote and poorest districts. The government gives high priority to extending the rural roads network to improve farmer access to agricultural inputs and markets, and to basic services. Since 1996, ADB has financed three projects in the agriculture sector with a strong rural roads agenda:

• Rural Reconstruction and Rehabilitation Sector Development Project (2007–2012), working in 20 districts: 43 roads built or upgraded (826 km).
• Decentralized Rural Infrastructure and Livelihood Project (2004–2017), working in 18 districts: 357 km of roads constructed and 191 km upgraded.

Each of these projects has also helped to increase freight and passenger transport while cutting transport costs and time, and has mainstreamed gender equality and the social inclusion of disadvantaged groups.

The total length of LRN roads is estimated at around 40,000 km, of which only about 18,000 km are motorable. One difficulty in estimating LRN roads is the number of non-engineered village roads, built and maintained at the local level. At the district level, the LRN, including farm-to-market and other minor roads, is the responsibility of the DDDC through village development committees, village works and road construction committees and community-level building groups. At the central level, the Department of Local Infrastructure Development and Agricultural Roads in the Ministry of Federal Affairs and Local Development looks after the LRN.

**Building Roads Through Sector Wide Approach**
ADB works with the government and six other donors on rural transport infrastructure following a sector-wide approach (SWAp). A SWAp is a coordinated approach to development that joins government, donors, and other stakeholders within a sector to a set of integrated and coordinated operating principles rather than to specific policies or activities. It addresses both private and public sector issues, broadens policy dialogue, and more clearly focuses program and project direction, streamlining and economizing the development process. Along with ADB, the other members of the rural transport infrastructure SWAp are the United...
Kingdom’s Department for International Development (DFID), the German Agency for International Cooperation, Japan International Cooperation Agency, SDC, the World Bank and the World Food Programme.

Agriculture and Livestock Commercialization
One of the key new approaches of the 2000s was agricultural commercialization, which encouraged and empowered farmers, especially women and members of poor and disadvantaged groups, to produce secondary and high value crops (HVCs) as cash crops for the market. Diversification and commercialization required the establishment and reformation of policies and institutions, and new approaches to strengthen public–private partnerships at the commercial end of the value chain. A number of alliances were formed between ADB projects and private firms for improving market linkages and reducing transaction costs for goods and services between farm and market. Others linkages were established between farmers and agroenterprises to ease market exchanges by improving demand for produce and the reliability of supply. And a number of projects supported the local development of private service providers through training and the provision of start-up capital and equipment.

A key initiative taken by ADB and the government during this period was the Commercial Agriculture Development Project (CADP, 2006–2014), funded by an $18 million ADB grant. The CADP was designed to promote the production of cash crops along with value chain enhancements, and increased public and/or private investment in commercial agriculture. This project ultimately impacted over 1.5 million beneficiaries in 11 districts of the Eastern Development Region. Thousands of households started income-generating activities. The Commercial Agricultural Alliance was founded during the project and was joined by farmer groups, cooperatives, individual traders, and processors. A market information system was developed. And dozens of small infrastructure subprojects were constructed to aid in the commercialization of agriculture. And for long-term sustainability, subregional markets for Nepal’s high value produce have opened up in neighboring India, Bangladesh, and Bhutan.

“The project support of 2.7 million rupees (about $26,600) for infrastructure development (construction of market sheds, store rooms, office building, compound wall, and procurement of necessary equipment) has tripled our capacity to collect, store, grade, and sell vegetables, particularly tomatoes, followed by ginger, chili, and beans. The assured market has greatly motivated farmers from the surrounding four VDCs to grow vegetables year-round and sell at competitive prices (tomatoes at NRs30/kg now, compared with NRs15/kg before). This has been possible because traders from the Terai and even India come directly to the market, as it is located along the Dharan–Dhankuta road. And the farmers get higher prices due to minimized roles of intermediaries in trading vegetables.”

—Dhanjaya Chapagai, progressive farmer and chairperson of Dhankuta’s Guthitar Agriculture Wholesale Market Expansion and Management Committee.

The impacts of CADP and other commercial agriculture enterprise development projects, like the Raising Incomes of Small and Medium Farmers Project described below, have potential long lasting consequences, with significant prospects for poverty reduction and increasing inclusivity. Those impacts are further described in the accompanying CADP case study.

Another ongoing agriculture development project, called Raising Incomes of Small and Medium Farmers Project (2010–2018) has also been making notable progress in
the commercialization of agriculture in ten hill and Terai districts of the Midwestern and Far Western Development Regions. This project is funded by a $20.1 million grant through the Ministry of Agriculture Development as executing agency and, jointly, the Department of Agriculture, Agro-Enterprise Center, and the Nepal Rastra Bank (the central bank) as the implementing agencies.

The Raising Incomes of Small and Medium Farmers Project seeks to increase production of high value crops (HVC) by small and medium farmers through reduction of market and business risks by establishing an agribusiness grant facility for building HVC value chains, formulating business plans for producing and adding value to HVCs, and ensuring effective and efficient project management.

To accomplish these goals, it is expected that, by 2017, participating farmers will have increased their returns by 30% from high value commodities, and that at least 200 HVC enterprise grants and 30 farm cooperatives with HVC supply grants will have been dispersed. Furthermore, it is anticipated that the proportion of women’s cash income contributing to family welfare will increase by 60% over 2011 levels. Also, by 2017 that HVC value chain grants will have been dispersed to help raise performance targets for private sector participation. Already (as of August 2014), 655 grant applications and/or business plans had been received, and 54 agribusiness grant facility subprojects awarded. Another 111 concept notes have been approved and the submission of full proposals have been requested for review.

Under post-harvest enterprise development, to add value to HVC production, grants to farmer cooperatives, grants for value chain infrastructure development, and grants to marketing committees for improvement or development of market infrastructures...
will have been distributed, and at least 30 medium-sized enterprises for HVC processing will have been implemented, including at least 10 of them female-owned. Subprojects providing input to at least 800 affiliated farmer groups (with up to 16,800 members) have been targeted for implementation. Supply agreements for at least 800 farmer groups are expected to be party to supply agreements between primary producers and post-harvest value chain actors (traders and processors). And service providers will assist in the preparation of at least 400 eligible business plans and investment proposals. In all these developments, and in the strengthening of resource and training centers, there is strong emphasis on female and disadvantaged group representation and participation. Special attention in developing subprojects and enterprise investments is being paid to the involvement of women, and to women-headed households as beneficiaries.

One of the earliest examples of commercialization in the agriculture sector was the ADB financed Community Livestock Development Project. This project, funded by a $20 million loan, ran from 2003 to 2010. Even before its inception, however, private and cooperative dairies were common in Nepal, and the poultry industry was almost entirely privately owned. Private dairies were successful in influencing the Dairy Development Corporation to consult them when setting the milk price. This, in turn, encouraged private sector development, as the Dairy Development Corporation came to depend upon purchasing milk from farmer cooperatives.

The Community Livestock Development Project continued and strengthened the trend toward commercialization. It supported the establishment of 78 retail milk centers and 28 milk-chilling centers, and trained 805 livestock market contractors. This project gave continuity to the earlier Third Livestock Development Project’s initiatives in meat production and hygienic meat processing, by supporting 13 small slaughter sheds or slabs and 88 hygienic meat shops. Ten live animal markets were established or strengthened, and 288 enterprises were created supporting 2,449 jobs. Privatization of the Pokhara Milk Supply Scheme was a major accomplishment. And, besides private dairies, 1,564 milk producers’ cooperatives are now operating in 59 of Nepal’s 75 districts.

Beneficiary Voices:
Beneficiaries of the livestock project have had good things to say about it. T. R. Sharma, president of Rural Awareness Forum, Baglung, observed: “People who previously had no means of earning a living are now making good money by rearing goats and buffaloes. Not only can they sell the milk and earn a living, but they also have a source of protein. So the program keeps expanding.”

B. R. Bhatta of a District Milk Producers’ Cooperative has expressed the need to build new storage facilities and to link livestock development programs to agroindustry. He said: “We need to look into developing milk-processing industries like cheese and sweets factories to utilize the milk during excess production.”

In the decade since 2006, the ADB–Nepal partnership has moved forward with other important project initiatives in the commercialization of agriculture. Among the most notable is an innovative high mountain development project approved for implementation in 10 districts along Nepal’s northern border. The High Mountain Agribusiness and Livelihood Improvement Project, popularly known as ‘HIMALI’ (2011–2017), was funded by a $20 million ADB grant to improve the rural household livelihoods in high mountain districts by stimulating sustainable agribusiness development, providing agribusiness grant assistance to eligible business plans, facilitating farmer participation in value addition to their agricultural products, and strengthening linkages with markets.
The HIMALI project has assisted in (i) increasing the number of commercially viable and sustainable mountain agribusinesses and farmer group enterprises; (ii) strengthening value chain linkages through advisory services to develop business plans and agribusiness development grants to implement plans; and (iii) rehabilitating and strengthening district facilities to improve capacity to meet demand for improved crop and livestock genetics, post-harvest quality services, and technology demonstrations as public–private partnerships.

By mid-2014, for example: (i) several hundred business proposals had been received and many had received subproject grant assistance to proceed, including some led by women; (ii) over a hundred agreements had been signed with commercial and semicommercial entities; and; (iii) various agribusiness trainings had been held involving thousands of participants. In addition, infrastructure development included (i) construction of research labs and service centers; (ii) training hall and dormitory facilities; staff quarters; fencing; and (iii) construction or rehabilitation of district agriculture and livestock offices. Other infrastructure inputs are under development, including collection and processing centers, agribusiness parks, slaughterhouse and cold store facilities, access roads, tracks, and bridges.

The high mountain districts HIMALI project is very popular in the valley of Thak Khola of Mustang District, as it directly benefits horticulture and livestock production. Suk Prasad Sherpa of Tukche said: “I took a loan to start an apple orchard, and was further supported by the HIMALI project for expansion. I recently leased three ropanis of land for that. I have already invested about 1.2 million rupees (about $11,800) in the nursery, including a storehouse for saplings. Today, I produce five to six thousand apple saplings that are

“I saw a vehicle for the first time in my life after the construction of the road in Mugu. I earned about $700 by working in the road construction. I bought clothes and various food items for my children with the money. I also bought gold ornaments for myself.”

— Hiradevi Rawal (20)
Shree Nagar, Mugu
in demand by local farmers, and there is a huge future demand. We are known for our quality saplings, which assures us regular customers.”

And a farmer of nearby Syang village described the project managed by the Syang Khola Community Agriculture Cooperative, Ltd. “As a member, I received 28 improved cows through a grant from the HIMALI project. They now produce about 130 liters milk per day, so I can begin supplying milk to the Mustang Dairy in Syang. Meanwhile, the cows produce healthy milk not only for myself and my family, but I make money by selling it to other villagers and in the market. Previously we used to use powdered milk, which isn’t as nutritional as organic cow’s milk. Cow farming also produced organic manure, which I use to grow vegetables to sell in the market. I also supply rich dung for organic manure to other farmers. All this has allowed me to stabilize my income.”

The HIMALI Project and other agriculture projects highlighted here have been designed to assure environmentally sustainable and inclusive economic growth, gender equity and social inclusion mainstreaming, and private sector development. Each has positively impacted household production and productivity, income and savings, employment, food security, environmental factors and capacity development for partner agencies in the government, the private sector, community-based organizations, and local and national NGOs. Empowered women and members of disadvantaged and marginalized groups have gained significant awareness of their rights, and awareness of the drive for gender equality and social inclusion has been strengthened. A partnership mentality has been nurtured and policy dialogue has improved enabling environment for development led by the private sector. And in the case of agricultural roads, better connectivity and the development partner coordination is seen.

The New Agriculture Development Strategy

Following the 2006 Peace Accord, sustaining the peace, building the economy, conducting elections, and formulating and adopting a new constitution became the main challenges faced by Nepal. It was also during this post-conflict time that the government and ADB began placing greater emphasis on infrastructure development and the diversification and, especially, the commercialization of agriculture. It was also a time when social inclusion and gender equality were being mainstreamed, and some local women became recognized and respected for their catalytic roles in local development.

Since the mid-1990s, however, it was becoming apparent that several serious issues challenging the agriculture sector development needed closer examination and innovative solutions. They included the necessity to go beyond subsistence-based production, the troubling impacts of climate change, lack of access to extension services and inputs, shortage of agriculture infrastructure, high agriculture-based rural poverty, limited connectivity with which to aggressively pursue marketing and commercialization, and limited level playing field for private sector investment. All of these factors, collectively, constrained agricultural transformation.

During the 2000s, these issues received considerable attention, and eventually became the basis for developing the new Agriculture Development Strategy (ADS, 2015–2035). Since 2010, ADB provided technical assistance to the government for the preparation of the ADS, along with 12 other donor organizations. In June 2013, the final report of the ADS was released. Its rationale is based on a thorough assessment of current and past performance of the agriculture sector and on the experiences, best practices, and lessons learned from recent past innovative programs and projects.
The ADS is built upon the preceding 2 decades of experience, best practices and lessons learned, and it looks forward over the next 2 decades, 2015 to 2035, during which significant changes and improvements to agriculture sector are expected to occur. The ADS envisions: “A self-reliant, sustainable, competitive, and inclusive agriculture sector that drives economic growth and contributes to improved livelihoods and food and nutrition security.” In it, the agriculture sector goes beyond the domain of any one central agency such as the Ministry of Agriculture Development to operate, instead, on a broader scale that encourages intersectoral interactions between this ministry and other ministries and agencies that deal with:

- crops, livestock, forestry and fisheries;
- irrigation and agricultural and rural infrastructure; and
- production, trade, processing, and marketing.

The leading stakeholders in these endeavors include farmer organizations, cooperative organizations, and private sector organizations (NGOs and others).

To achieve its vision, the ADS will accelerate agriculture sector growth through four strategic components related to governance, productivity, profitable commercialization, and competitiveness. It will promote social and geographic inclusiveness; natural resources and economic sustainability; development of the private and cooperative sectors; and connectivity to market infrastructures with agricultural roads, collection centers, packing houses, market centers. The government, ADB, and Nepal’s other development partners will also strive to enhance information infrastructures and power infrastructure, including rural electrification and renewable and alternative energy development. Overall, the ADS strives to ensure food and nutrition security, poverty reduction, agricultural trade competitiveness, and higher and more equitable income, with farmers’ rights ensured and strengthened.

**Long-Term Impacts**
These agriculture sector projects have directly enhanced the lives of millions of rural residents in the project areas, and others who will benefit from their outcomes. This is especially true of the additional road connectivity infrastructure developed through the Rural Reconstruction and Rehabilitation Sector Development Project and Decentralized Rural Infrastructure and Livelihood Project. Connectivity of rural residents significantly increased employment opportunities, hence addresses poverty reduction; and it increases access to agricultural markets as well as such essential services as schools and health services. Overall, the future looks good for small and medium rural entrepreneurs who are taking advantage of the establishment of good markets for high value produce, especially as that produce is now being marketed subregionally in neighboring India, Bangladesh, and Bhutan.

Residents of many project areas are also enjoying faster access to cleaner, safer water supply, resulting in significant time saved and better household health. The voices of women and of other disadvantaged groups are amplified, as equity and inclusion have been raised through their increased and continuing participation in community development activities and self-help groups.

And, not least, capacities at department and ministry levels have been raised in development planning and project implementation, so that with the experience gained on the projects in this sector will aid future initiatives to run more smoothly and effectively. These projects also provide replicable models of development success.
Since the 1950s, educational development has been one of the most important priorities for Nepal. Over the years, many commissions have been formed to discuss it, plans written to improve it, and projects and programs launched to meet the needs and aspirations of the people. Many goals have been set and achievements reached, including a rise in literacy (currently at 66%, up from 54% in 2001) and a dramatic reduction in poverty (from 42% in 1996 to 25% in 2011). In addition, primary school enrollments are high and gender parity has been achieved, fulfilling the ‘Education for All’ goals and the 2015 Millennium Development Goals (MDGs). Enrollments of disadvantaged children (Dalit, Janajati, Madhesi and Muslim) are up, school reform and restructuring have occurred, curriculum has been updated and enhanced, and there are more and better teachers. Nonetheless, challenges still exist, such as lingering non-enrollment (nearly 10% of all 6–24 year olds have never attended school). Also, school dropout rates need to come down, and lingering illiteracy, though reduced, still needs further attention. Each of these issues varies by region, between rural and urban, and according to social identity (gender, caste and ethnicity).
Education is a key to literacy, poverty reduction, and inclusive socioeconomic development. An early milestone was the government’s National Education Systems Plan of 1971, which guided educational development for several decades. Another milestone was implementation of the Basic and Primary Education Program (1992–2003) that built on the World Conference on Education for All of 1990, and ultimately led to Nepal’s Education for All National Plan of Action 2003.

The international Education for All (EFA) program identified six goals to address the learning needs of all children, youth, and adults by 2015. When Nepal adopted the EFA, it added another goal to ensure the rights of indigenous people and linguistic minorities to basic primary education through mother tongue. The EFA goals are in line with the MDGs, specifically MDG2: Achievement of Universal Primary Education, and MDG3: Promotion of Gender Equality and Empowerment of Women, all by 2015.

In mid-20th century Nepal, literacy was barely at 5%, and there were only a few thousand students (mostly from elite classes and urban) and a few hundred schools of any kind. Today (not counting early childhood and pre-primary enrollments) there are over 1.8 million students enrolled in basic education (grades 1–8), and almost 900,000 in secondary education (grades 9–12). Schools are categorized into two types: Community-Based Schools (community or government managed public schools; over 29,500), and Institutional Schools (private; over 4,700). There are also over 800 religious schools.

Since the 1990s, Nepal has implemented a series of school education reforms with the goal of free basic and secondary education for all. Significant progress has been made, particularly in access and equity. As noted, gender parity has been achieved at all levels of school education. And, the provision of scholarships, school meals and free textbooks under the School Sector Reform Program (SSRP, 2010–2016) has helped raise enrollments rates. By 2004, for example, 80% of eligible children were enrolled at the primary level (grades 1–5), and by 2013 that figure had reached slightly over 95%. And while enrollments at higher levels are lower, they are steadily increasing.

Since the National Education Systems Plan of 1971, Nepal has established a number of policies, plans and strategies that have guided education sector planning and action. Besides the 2003 Education for All National Plan of Action, the 2007 Interim Constitution entitles each citizen free education up to the secondary level, the SSRP introduced a sweeping reform agenda, and the 2012 Technical Education and Vocational Training Policy revitalized the importance of marketable technical skills training. These directives illustrate the government’s recognition of the key role of education in national development. Since 2006 the allocation from the national budget for education has averaged more than 16%, the highest for any sector, though it dropped slightly to 13.92% for fiscal year 2015.
ADB has been a major development partner in the education sector since 1990. The ADB–Nepal partnership is committed to enhancing educational access and equity nationwide, and of improving the efficiency and quality of schooling in line with the both the EFA goals and the MDGs. Since the 1990s, the government and ADB have worked together for: (i) significant educational policy reforms, (ii) increased basic education opportunities for all, (iii) higher levels of education attainment and performance, (iv) enhanced teacher education, (v) improved and expanded school infrastructures, and (vi) strengthened technical education and vocational training of marketable skills.

The adoption of the National Education Systems Plan of 1971, during the Fourth Five Year Plan period (1970–1974), was one of the government's earliest and far reaching initiatives in education development. From 1977 to 1990, Nepal's heightened concern with the education sector attracted ADB support with one loan each for technical education, science education and vocational training, totaling $24 million. Then, in the early 1990s, both the government and ADB shifted some major priorities in education. At that time, though technical education and vocational training (TEVT) had been a prominent theme in education, the government moved to a much needed basic education focus in order to increase the literacy rate (about 35% in early 1990s) and raise the number of students completing secondary education (at that point less than 8% of the post school age population). To make this shift, the government requested ADB assistance to finance improvements to the quality and efficiency of both primary and secondary education.


More recently, ADB has financed three education sector programs between 2006 and 2011, along with significant support to the national School Sector Reform Program (SSRP, 2009–2016). All of these projects and programs have been driven in part by overarching concerns for the principles of gender equality and social inclusion, and all of them benefited from application of the SWAp involving ADB and eight other development partners, to assist the government’s overall school education improvement goals.

Primary education support
In 1991 the Primary Education Development Project (1991–2000) was financed by a $19.5 million ADB loan. It had two components: Education Program Development and Education Facility Development. The Education Program component included teacher and management personnel training, institutionalization of the training program, and support to a bachelor’s degree program in primary education. Altogether, 42,000 primary school teachers were trained, along with headmasters, resource persons and school supervisors. The Bachelor of Education degree program began in 1998, in Kathmandu, with an initial enrollment of 48 students.

Under the project’s educational facilities component, the National Center for Education Development was established as the apex teacher training agency in 1993,
and in 1996 nine primary teacher training centers were built across the country, each capable of handling over a thousand trainees at a time. Over 2,000 classrooms and about 1,000 primary schools in the Western and Midwestern Development Regions were also constructed or rehabilitated under this project.

**Secondary education support**

Two projects in secondary education were funded in the 1990s and 2000s. They were the Secondary Education Development Project (1992–2000), with a $12.6 ADB loan and cofinancing by DFID, and the follow-up Secondary Education Support Project (2002–2010) funded by a $30 ADB loan with cofinancing by the Danish International Development Agency. The main objectives both projects were to improve the quality and efficiency of secondary education nationwide, and thereby produce middle-level human resources and qualified entrants into higher secondary education (grades 11–12).

Both projects were consistent with government development plans, from the Eighth Five Year Plan (1992–1997) to the Tenth Five Year Plan (2002–2007), and with the concurrent change of focus away from skills development and TEVT to basic education. Since these were both pro-poor projects, they were implemented in some of the poorest districts of Nepal.

The first of these projects, the Secondary Education Development Project (1992–2000), had five components: (i) enhancing teacher effectiveness; (ii) improving curriculum and textbook development; (iii) improving the student assessment system; (iv) providing learning materials, equipment, and civil works; and (v) strengthening planning, management, and evaluation.

Secondary Education Development Project outputs included: updated curricula and textbooks; the training of 17,512 teachers, 2,623 head teachers and 135 education managers and supervisors; improved student assessment criteria prepared for the School Leaving Certificate (SLC); and distribution of science equipment, library books, and other learning materials. In addition, building
extensions and renovations were completed; secondary and higher secondary education perspective and action plans were formulated; benefit monitoring and evaluation and policy research studies were done; curriculum task forces in core subjects were formed; and a publishing unit was established at the national Curriculum Development Center.

The Second Education Support Project (2002–2010), provided continuity to the first one with these four components: (i) more equitable access to an improved learning environment, (ii) improved curriculum, continuous assessment, and accessible instructional materials, (iii) improved and sustainable system for the education, development, and management of teachers, and (iv) improved institutional capacity and management.

This project benefited 91,200 students and resulted in building or upgrading 780 classrooms in some of Nepal’s poorest districts. New textbooks and improved teaching materials in support of an enhanced curriculum were also supplied, and a number of research studies including SLC examination reform were also carried out; and 60,000 scholarships for poor and minority children were provided. And, in a major change to the structure of school education in Nepal, a national curriculum framework was adopted under the Second Education Support Project by which school education was restructured and standardized into two levels: basic education (grades 1–8) and secondary education (grades 9–12).

**Teacher Education**

In 2001, ADB financed the Teacher Education Project (TEP, 2001–2009), with a $19.3 loan. During implementation of the Primary Education Development Project (1991–2000), the government and ADB identified poor quality classroom teaching as one of the key reasons for overall low efficiency of basic education in Nepal, as manifested by low student learning achievements and high dropout and grade repetition rates. It therefore became imperative that the quality of classroom teaching be improved, as a vital ingredient to effective and quality education. Poor teaching stems from lack of emphasis on teacher training, inadequate teacher training curriculum and teaching methods, and weak management capacity.

With these conditions in mind, the government requested ADB to provide technical assistance in 1999 to develop a primary teacher development project commensurate with the need: the TEP.

The TEP aimed to establish an effective and sustainable teacher education system with the specific objectives to improve the quality and coverage of teacher training by building institutional capacity for a teacher training system encompassing pre-service, in-service, and recurrent training of primary school teachers, and to improve access for girls and other disadvantaged groups.

The TEP had four components: (i) building an effective and sustainable system for teacher education, (ii) developing an

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Maiya Bishankhe, now employed as a driver for the Nepal Electricity Authority, was trained under ADB-assisted Skills for Employment Project.
effective teacher education curriculum and materials, (iii) providing teacher and management training, and (iv) educating teachers to better serve the needs of girls and other disadvantaged groups.

**Teacher Education Project Outputs**
The TEP outputs included enhanced institutional capacity for the National Center for Education and Development and Nepal’s primary teacher training centers, including various trainings to 159 staff of the National Center for Education and Development; a new teaching resource center was built and stocked with appropriate resource access and utilization aids; a teacher management information system was developed; and a network of training institutes was established for in-service and pre-service training. By the end of the project, 66 alternative training providers were giving in-service training programs and 99 private primary teacher training centers were providing pre-service training. Almost 120,000 primary school teachers, 600 officials and 3,000 primary school principals received in-service training; and 15,000 potential teachers received pre-service training.

Under the project’s gender equality and social inclusion plan, trainers, teachers, administrators and community members were sensitized to the extent and nature of discrimination, and provided ways to minimize discrimination and enhance self-esteem among girls and children from disadvantaged groups. In addition, 2,500 scholarships for pre-service training were given to females and members of disadvantaged groups in 22 districts (50% were Dalit women).

**Technical Education and Vocational Training**
In 1976, ADB provided its first technical assistance on TEVT, followed by the small $4.2 million loan to fund the Vocational Education Project (1977–1986). Then, shortly after completion of the project, in 1989, ADB funded another project called the Technical Education and Vocational Training Development Project (1989–1998), with a $11.8 million loan, and cofinancing from the Swiss Agency for Development and Cooperation (SDC). In 1995, during implementation of the Technical Education and Vocational Training Development Project, ADB provided technical assistance specifically on employment promotion and training. This led into the preparation of a subsequent project emphasizing marketable skills training.

Almost a decade later, in 2004, ADB revitalized its support to TEVT following rejuvenation of this subsector in the government’s Ninth and Tenth 5-Year Plans (1997–2002, and 2002–2007, respectively). These plans were made during the decade long civic conflict that began in 1996 when it was recognized that one of the underlying causes of the conflict was lack of employment and employable skills. In 2004, the government and ADB designed the Skills for Employment Project (SEP, 2004–2012), which was implemented under a $20 million loan. SEP refocused ADB’s assistance on strong support of marketable technical skills training to enhance employment opportunities.

The TEVT Development Project has had a substantial effect on the education of women, Dalits, and other disadvantaged people have received quality demand driven, market-oriented, short-term skills training.
Poverty’s Dual Dimensions
Relevance to TEVT

Poverty has two dimensions: (1) income too low to lead a dignified life and (2) low capability, restricting citizens’ options to lead a life of their choice. Conventional antipoverty measures in many developing countries focus on income and basic needs, but have failed to reduce powerlessness and the negative attributes associated with it. But according to the 2004 UN Human Development Report, “By contrast, the empowerment approach—with its stress on enhancing individual entitlements, capabilities, right and freedom—is one of the four pillars of human development and effectively reinforces the other three: equity, productivity, and sustainability.” — Based on T.N. Sharma in TEVT Development Journal (2010)
“What is the use of education that does not give us a job?” – Kamal Subedi, Dang

In November 2004, ADB approved $20 million for the Skills for Employment Project (SEP, 2005–2012), administered by Nepal’s Council for Technical Education and Vocational Training (CTEVT). This project gave women, Dalits, and other disadvantaged people quality demand driven, market-oriented, short-term skills training. During the design process, development partners, relevant government agencies, and nongovernment organizations (NGOs) were widely consulted.

This project was an important adjunct to ADB’s broader support in the sector. Early project implementation was slow, however, due to the complex nature of the project and limited experience of the national professionals. The government and ADB then consulted with the Swiss Agency for Development and Cooperation (SDC) for technical assistance, and the SDC contributed grant money, a chief technical advisor and a TEVT policy advisor. Thereafter, the project proceeded well.

The SEP was designed and implemented during the height of the civil conflict, a time when the nation’s high unemployment rate and lack of opportunities for economic and social mobility were considered its primary causes. The project’s main results were in training, capacity building, and policy development, with strong gender and social inclusion policies.

Key project results include the following, in each of the three project components:

**Component 1. Increasing access to market oriented, short-term training:**
- 59,129 candidates completed market-oriented, short-term training, largely from disadvantaged groups, especially women and Dalits.
- After graduation, 61% of the trainees were employed within 1 year, half of them within 3 months.
- Full or partial stipends were awarded to 26,977 (45.6%) of the trainees, which helped the very poor participate.

**Component 2. Capacity strengthening:**
- Capacity development trainings and support were given to the key agencies serving the TEVT subsector—the Council for Technical Education and Vocational Training (CTEVT), Department of Labor, Department of Cottage and Small Industries, and Cottage and Small Industries Development Board, and the personnel of TEVT public and private training providers.
- 37 new curricula were developed and 26 were revised by the curriculum development division of CTEVT, following labor market analyses and in close consultation with training providers and employers.
- 400 supervisors and managers were trained in needs assessment, beneficiary targeting, post-training support, use of the training management information system, and skills testing; and 800 trainers were trained on training delivery approaches.
- Training halls and other physical infrastructure were refurbished in 10 districts.

“By providing scholarships, essential infrastructure, improved teaching, and relevant curriculum for the job market, this project eliminated some of the economic, educational, social and cultural barriers that girls face.”
— Kenichi Yokoyama, ADB Country Director for Nepal
Component 3. Supporting policy development, articulation, and implementation:

- The Technical Education and Vocational Training Policy was approved in 2012, focusing on expanding opportunities for TEVT services, promoting access and inclusion of marginalized groups, establishing a national vocational qualification career path framework, assuring curriculum quality and establishing technical schools and licensing trainers, and establishing a TEVT fund for sector investment.

Under the motto “New Skills, New Lives,” trainees graduating from TEVT programs are finding employment in a wide variety of fields. Some women graduates have built careers in occupations once reserved for men. Sumitra Shrestha, once a weaver, took the challenge, enrolled in a TEVT school, and studied to become a plumber. Now, with a salary five times higher than she used to earn, she can afford to send her son to a good school. Shrestha says, “You have to be willing to work hard to be a plumber and it can be dangerous working on construction sites. But it is skilled labor, the pay is good, and the work is secure.” Skills training will continue to be a high priority focus of ADB assistance to education, with the aims of creating jobs, raising incomes, promoting self-confidence, and increasing economic productivity.

“You have to be willing to work hard to be a plumber and it can be dangerous working on construction sites. But it is skilled labor, the pay is good, and the work is secure.”

Sumitra Shrestha, senior plumber
“Nepal is vulnerable to natural disasters, and earthquakes pose a major threat to the large number of children studying at schools...” — T.R. Timsina, Acting Principal, TP Vidhyashram Higher Secondary School, Pulchowk

The Problem
Nepal is one of the 20 most disaster-prone countries in the world, for earthquakes, floods, landslides, windstorms, and others risks. It is ranked 11th in terms of vulnerability to earthquakes, and 30th in terms of vulnerability to floods. Most building is done without reference to risk, and therefore highly vulnerable to disasters. School buildings are no exception.

How is the problem being met?
In 2009, the Government of Nepal launched the Nepal Disaster Risk Reduction Consortium to coordinate and fund disaster preparedness and risk reduction.

The consortium’s school safety component is led by the Ministry of Education and ADB. In response to safety concerns the consortium plans to retrofit 700 schools buildings and reconstruct 280 more in the Kathmandu Valley by the end of 2015. They also conduct awareness and disaster preparedness trainings for students and teachers, and the engineers and builders of schools. Through the consortium, the capacity of the government to more effectively manage school safety is being strengthened.

Who is helping?
Consortium members comprise 11 partners, including aid agencies, United Nations organizations and international nongovernment organizations, and it receives special assistance from Nepal’s National Society for Earthquake Technology, the Nepal Red Cross Society, and the United Nations Children’s Fund.

“Safe schools are critical, not only for children who rely on these structures to learn and develop, but also for society as schools are the doorway to development and social cohesion.” — Kenichi Yokoyama, ADB Country Director for Nepal

EFA program SWAp beginning in 2004, and prior to that ADB’s investment program supported the same goals. To develop the SSRP SWAp, ADB provided the initial technical assistance to undertake extensive policy discussions, after which it was implemented with ongoing ADB support.

ADB’s GESI program is closely entwined with both the EFA and the SSRP. The Gender and Vulnerable Communities Action Plan was also updated during this period and is supported by donor partners to promote scholarship programs for girls, especially Dalits, at primary and secondary school levels. Also associated with the SSRP, in 2012, a national multisectoral nutrition plan was adopted by the government. And to highlight and implement social protection strategies, ADB supplied the technical assistance that led to drafting the National Social Protection Framework. Simultaneously during this period, recruitment of better qualified female and Dalit teachers increased, teaching standards improved, gender parity in enrollments was achieved, and new curricula was implemented to better meet the needs of the labor market.

Even given the achievements and innovative approaches of the EFA, the
The ‘Education for All’ campaign (EFA) began at the World Conference of Jomtien, Thailand, in 1990 and was further strengthened by the World Education Forum on Education for All held in Dakar, Senegal, in 2002. Recognizing the difficulties of instituting an EFA program in a country like Nepal, however, the Dakar Forum adopted the Dakar Framework for Action entitled ‘Education for All: Meeting our Collective Commitments’. It lists six major EFA goals to achieve by 2015, and strategies for achieving them. The intent is to ensure that no country is left behind for lack of technical capacity or resources.

In 2003, as a national priority, Nepal adopted Education for All National Plan of Action, with one added goal (number 6 below) reflecting the nation’s ethnic, social and linguistic diversity.

**Nepal’s Seven Education for All Goals**

Nepal’s National Plan of Action sets seven EFA goals to be achieved by 2015:

1. Expanding and improving comprehensive early childhood care and education, especially for the most vulnerable and disadvantaged children.
2. Ensuring that by 2015 all children, particularly girls, the disabled, children in difficult circumstances, and those belonging to ethnic minorities, have access to free and compulsory primary education of good quality.
3. Ensuring that the learning needs of all young people and adults are met through equitable access to appropriate learning and life skills programs.
4. Achieving a 50% improvement in levels of adult literacy by 2015, especially for women, and equitable access to basic and continuing education for all adults.
5. Eliminating gender disparities in primary and secondary education by 2015 and achieving gender equality in education by 2015, with a focus on ensuring girls’ full and equal access to and achievement in basic education of good quality.
6. Ensuring the rights of indigenous people and linguistic minorities to basic and primary education through their mother tongues.
7. Improving all aspects of the quality of education and ensuring excellence of all so that recognized and measurable learning outcomes are achieved by all, especially in literacy, numeracy, and essential life skills.

**Nepal’s Education for All Goals and the U.N. Millennium Development Goals**

Nepal’s EFA program seeks to cover the learning needs of all children, youth, and adults by 2015. Two of the EFA goals are similar to two of the eight Millennium Development Goals, also for 2015. These are MDG2: achievement of universal primary education, and MDG3: promotion of gender equality and empowerment of women. Nepal is very close to achieving MDG2, and has already achieved the gender parity of MDG3.

ENERGY
Overview

Hydroelectric power provides most of the electricity in Nepal. The government’s energy policy has focused on developing the country’s large, economically exploitable hydropower potential as a clean source of energy to enhance economic activities in rural and urban areas, and to generate revenue for exporting energy. It is estimated that Nepal has a hydropower potential of 83,000 megawatts (MW), of which about half, or 44,000 MW, is considered economically viable. But the vast bulk of this power source remains untapped.

Currently, only 44% of the nation’s households have grid access to electricity, and there are also small but important off-grid sources. The per capita electricity consumption of 102 kilowatt hours per year is one of the lowest in the world and South Asia. Only 65% of the country’s households have access to electricity, 56% through the national grid and 9% through off-grid solutions. The installed capacity is 762 megawatts (MW), well below the peak demand of 1,095 MW. Thus, there is a huge gap between electricity supply and demand, which results in severe electricity shortages and frequent power cuts—a major constraint to inclusive economic growth.
With the expected commissioning of six hydropower projects with a combined capacity of 732 MW in the next 3 to 6 years and more than 1,500 MW of additional capacity being developed, a wet season supply surplus is anticipated by 2018. The current, limited power evacuation network needs further expansion now, to clear the current transmission and distribution bottleneck to meet domestic power demand as well as power trade with neighboring countries. This is being addressed by forthcoming transmission and distribution projects.

To achieve the 25% electrification target through off-grid solutions, the government has enacted policies and plans such as the Rural Energy Policy 2006, the Subsidy Policy for Renewable (Rural) Energy 2009–2013, the Renewable (Rural) Energy Subsidy Delivery Mechanism 2013, and the Delivery Mechanism of Additional Financial Support to Micro/Mini Hydro Project 2011. Targeted grants (subsidies) and exemption of renewable energy projects from certain licensing requirements have been set up, coordinated, and implemented under the government’s National Rural and Renewable Energy Program for off-grid renewable energy. The program is supported by ADB and other development partners.

For national electrical power generation and distribution, the government-owned Nepal Electricity Authority (NEA) is the responsible agency. For cross-border trading, however, a separate power trading company is being considered. Currently, there is one cross-border connection from western Nepal into India of around 100 MW capacity, a larger cross-border connection with a capacity of 1,000 MW is being built in eastern Nepal, and a third transmission line from central Nepal is being planned. These activities will help improve subregional power exchange between Nepal and India.

In the near term, power trading between Nepal and India will be mainly imports from India. In the medium term, as more power projects come on line, some export of wet season surplus power is likely. And in the long term, power trading will be mainly year-round exports to India as a surplus is developed and the high voltage transmission network is expanded. The energy linkages between Nepal and India will eventually form part of the interconnected South Asia Subregional Economic Cooperation (SASEC) power systems.

In addition to the high-profile, high-power output of hydroelectricity projects, Nepal is also ramping up support for alternative mini-grid renewable energy systems, including mini-hydro, wind and solar generation, especially for hard-to-reach rural communities.

Adequate power supply is sorely needed to improve quality of life, support new economic activities and employment by enhancing commercial and industrial output, and to increase social services nationwide. Energy is one of the backbones to socioeconomic progress nationwide.

Asian Development Bank’s Role in the Energy Sector

Among all the development partners assisting in the development of Nepal’s energy sector, ADB has been the leading partner. A main focus of the current country partnership strategy (CPS, 2013–2017) is making Nepal’s energy sector a key driver of inclusive economic growth. Hence, the CPS places high priority on developments in the energy sector, to assure energy security at home and develop energy projects for export. The energy sector includes power generation and transmission and distribution for large hydropower projects on the national grid, as well as development of smaller alternative and renewable energy projects, off-grid. Other development partners providing support to Nepal’s energy sector include the World Bank, the European Commission and European Investment Bank, the Japan International Cooperation Agency, Kreditanstalt für Wiederaufbau, and the governments of Norway and Denmark.

At first, ADB invested in small-scale renewable energy projects from the early 1970s to the 1990s. ADB’s first large scale hydropower investment came in 1990, with approval of a private sector loan of $51 million loan for development of the 60 MW Khimti Hydropower Project (1996–2000) in the midhills east of Kathmandu. This project was cofinanced by the International Finance Corporation/World Bank, Norwegian Agency for Development Cooperation, Nordic Development Fund, and Export finance.
The Kali Gandaki-A Hydropower Project (1996–2003) was funded by a $160 million ADB loan and a matching loan from the Japan Bank for International Cooperation. It was designed to ease the acute power supply shortage in the country through the addition of an urgently needed power generating plant. The 144 MW run-of-the-river project in Syangja District of west Nepal was completed in 2003. It immediately addressed the problem by harnessing some of Nepal’s huge untapped hydropower potential. It supported the government’s least-cost development program to expand electricity generation, enhance power supply reliability, and alleviate the power shortage.

**Project Results**

Today, the decade-old 144 MW Kali Gandaki-A Project is still Nepal’s largest electricity producer. It contributes significantly to the country’s energy needs by producing an annual average of 842 GWh of renewable energy cost-effectively, with minimal environmental and social impacts. In addition, the project included two 132 kV transmission lines, one to Butwal in the Terai (39.1 km) and one to Pokhara (65.5 km) in the hills, with a Pokhara substation.

As a timely response to a large challenge, this flagship project brought the growing ADB–Nepal partnership to the attention of the Nepalese people, both nationally as a major contributor to the national power grid, and locally by improving the living conditions of thousands of rural dwellers. They gained access to electricity, short- and long-term employment, and community infrastructure developments (e.g., roads, school, water system). Affected families were compensated and resettled.

“As a funding agency, ADB’s role is very important for Nepal. We have needed resources and technical support, and they have been providing it. This is very important, particularly in energy, in hydropower. It started in 1996 with Kali Gandaki-A, still the largest hydropower project in Nepal.”

— R.P. Thanju, NEA

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**KALI GANDAKI-A PROJECT FINANCING**

<table>
<thead>
<tr>
<th>Financier</th>
<th>Amount ($million)</th>
</tr>
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<td>ADB</td>
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<tr>
<td>JBIC</td>
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<tr>
<td>GON/NEA</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>452.8</strong></td>
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**KALI GANDAKI-A HYDROPOWER PROJECT RESULTS**

**DATES**


**BENEFICIARIES**

- Electricity consumers country-wide gained access to electricity through extensions to the national grid, and installation of 104.6 km of transmission lines
- About 3,000 rural households near the project electrified
- Communities near the project site gained rural road access

**JOBS**

- 4,500 local laborers employed during construction

**EDUCATION**

- School for disadvantaged Bote (fisherman caste) children founded

**ECONOMICS**

- Skills training and microcredit provided
- Fish hatchery established for local fishery

**HEALTH**

- Rural electrification reduced reliance on polluting diesel for commercial use, and on kerosene for household lighting
- Community water supply system installed

**CULTURAL PRESERVATION**

- Temple renovation and pilgrimage site protection

**CAPACITY BUILDING**

- General capacity building with NEA national and project staff
- First full social and environmental impact assessment conducted in Nepal
The project contributes 350 GWh units of energy annually to the national power grid. It was the first in a series of steps to encourage public–private partnerships (PPP) as a preferred model for hydropower expansion and led the way toward more PPP initiatives that followed.

In the mid-1990s, as demand for electricity steadily increased and an emerging energy crisis became obvious, ADB embraced the energy sector more robustly with a $160 million loan to construct the large 144 MW Kali Gandaki-A Hydroelectric Project in west Nepal. This run-of-the-river project was a major milestone in ADB’s contribution to energy development in Nepal and remains, today, the largest single source of electricity to the national grid. The Kali Gandaki project was built during the decade of civil conflict beginning in 1996, and was successfully commissioned in 2002, despite the security issues involved. The project has been characterized as cost-effective, environmentally sustainable, and socially acceptable.

The ADB-funded 144 MW Kali Gandaki-A Hydropower Project is Nepal’s largest electrical power producer—cost-effective, environmentally sustainable, and socially acceptable. The newly approved 140 MW Tanahun Hydropower Project will further boost Nepal’s hydropower output.

It was not long until ADB began to assist in the transmission and distribution of electrical energy. Nepal’s Ninth Plan (1997–2002) gave high priority to electrify the rural areas, which required an expansive transmission and distribution network. In line with the plan, in December 1999, ADB approved a $50 million loan for implementation of the Rural Electrification, Distribution, and Transmission Project (1999–2008). It was cofinanced by the OPEC Fund for International Development. Over the next decade, ADB continued financing transmission and distribution through several similar projects designed to significantly enlarge the national grid.

The project reflected government objectives and was in line with ADB’s operational strategies for the sector—to promote more commercial orientation and increased private sector involvement, to stimulate the economy, and to improve governance and efficiency in the power sector. It proceeded in several parts, by expanding the grid in the eastern, central, and western development regions.

The project delivered more efficient evacuation of power from hydropower plants, expansion of electricity supply coverage in rural areas to handle increased loads and new consumers, transmission and distribution system strengthened by new transmission lines and the construction or upgrading of substations. A transmission system in the Kathmandu Valley was developed, and a connection to the grid to India was also installed. In addition, institution building activities with NEA were also implemented. The project also added 1,150 km of new 11 kV transmission lines, 117 km of 33 kV lines, and 1,314 km of low voltage transmission lines to the transmission and distribution system. Nine new substations were built, 11 others upgraded, and 694 low voltage distribution transformers and higher voltage transformers were installed.

With these additions to the system, an estimated 119,000 new consumers were connected to the grid in 22 districts (13 in the hills, nine in the Terai), and 28 electrification schemes in 27 districts were upgraded. Altogether, 240 village development committees (VDCs) were electrified, connecting 154,000 rural households (860,000 residents).

In November 2009, ADB approved a loan for $65.3 million to fund the Energy Access and Efficiency Improvement Project (2009–2014). The project
facilitated access to clean energy by focusing on the installation of more transmission lines and substation work associated with the Middle Marsyangdi and (lower) Marsyangdi hydropower projects in the midhills. Transmission lines were also expanded in the Terai, along with construction or improvement to grid substations, and other technical works.

Power system expansion was further stimulated 2 years later, in November 2011, when ADB approved the $75 million Electricity Transmission Expansion and Supply Improvement Project (2011–2017). This project was designed to help make power supply more reliable and further strengthen transmission and distribution systems through better connectivity between generation and load centers.

Thus, during this period following the start of the Kali Gandaki-A Hydropower Project in 1996 until 2014, ADB was heavily involved in increasing access to electricity across the nation, by the installation of thousands of kilometers of transmission lines and new or upgraded distribution substations. And, like all hydropower associated projects funded by ADB, it also included a capacity building component for NEA.

Building the Capacity of the Nepal Electricity Authority
From the very beginning of its investment in Nepal’s energy sector, ADB has provided capacity building assistance to Nepal Electricity Authority (NEA). That assistance was ramped up considerably with construction of the Kali Gandaki-A Hydropower Project in 1996. It included technical assistance to strengthen the agency’s institutional, operational and financial performance, including improved cost recovery to promote efficiency in power consumption, and its social and environmental responsibilities.

ADB has made significant investments in strengthening transmission and distribution networks in the country through its various loans, grants and technical assistances since 1972.
During the follow-up Rural Electrification, Distribution, and Transmission Project (1999–2009), ADB helped the NEA improve operational efficiency by shifting to a more commercial orientation. This included the installation of a new nationwide computerized billing system covering 15 of the larger distribution branch offices accounting for more than two-thirds of its revenue. In addition, some NEA district distribution operations were leased to independent operators. The agency’s overall financial performance was improved with introduction of a semiautomatic process for more frequent tariff revisions.

The NEA’s Environment Division has also embraced institutional strengthening to ensure that environmental and social issues are adequately addressed in the design, construction, operation and monitoring of all power development projects. The Kali Gandaki-A Project pioneered the use of environmental impact assessments and comprehensive socioeconomic development planning, using methods that have since been adopted nationwide.

Besides the generation and the transmission and distribution of electricity, ADB works closely with the NEA to develop overall capacity with institutional strengthening and policy reforms. In 2014, ADB funded capacity development technical assistance to NEA in support of energy sector management and reforms being implemented to, in part, facilitate NEA’s financial restructuring and management reforms. Those reforms fall into four priority areas:

- regulatory and tariff reforms, to attract investment for hydropower and ensure sustainability;
- financial restructuring and management reforms, to assure NEA’s financial and operational sustainability and increase investor confidence in the sector;
- facilitating investments through public–private partnerships (PPP); and
- overall institutional capacity development, to enhance operational policies and procedures, function effectiveness, corporate governance, community benefit sharing and safeguards practices, and human resources.

The technical assistance is also designed to strengthen the Electricity Tariff Fixation Commission’s capacity to review retail tariff adjustment petitions proposed by NEA and to improve the commission’s readiness to become the new Nepal Electricity Regulatory Commission (NERC) under the Nepal Electricity Act 2009 and NERC Act 2009. It also assists in development of a Power System Master Plan (2008) with emphasis on electricity generation planning and distribution.

In February 2014, ADB once again demonstrated its strong commitment to the energy sector by addressing the need of beneficiaries nationwide, by approving a $150 million loan for construction of a new 140 MW hydropower project. The Tanahu Hydropower Project (2013–2020) is located on the Seti River in Tanahun District of western Nepal about 150 km west of Kathmandu. A key element in the
design of this project was the national policy guided by the National Water Plan of 2005, which advocates developing large storage type hydroelectric generation units to meet peak energy demand and earn revenue by exporting surplus energy. The hydropower project is a storage type unit, second only in Nepal to the much older and smaller 60 MW Kulekhani–I system.

The project is financed by a $150 million loan from ADB, with cofinancing from the Japan International Cooperation Agency and the European Investment Bank.

The project has four objectives: (i) production of 140 MW of electricity, which will increase ADB’s contribution to the national power grid to 344 MW in 2020; (ii) extensive transmission line expansion; (iii) implementation of more rural electrification and community development; and (iv) facilitating an updated reform and restructuring plan for NEA.

**Renewable Alternative Energy**

ADB also facilitates other current and ongoing initiatives of the government in energy development and delivery, including support to micro and/or mini hydropower production, and targeted grants and exemptions, coordinated and implemented under the government’s Rural and Renewable Energy Program, for off-grid renewable energy. Multiple development partners support this national program.

As part of this initiative, in June 2014, ADB handed over a pilot project on wind–solar hybrid energy to the Ministry of Environment’s Alternative Energy Promotion Center. The wind–solar system was installed in Dhaubadi village of Nawalparasi District in December 2011, providing electricity to 46 rural households. The project was based on an energy systems planning approach, whereby two sets of small wind turbines and two solar panels were installed, enough to provide 43.6 KWh per day to satisfy local need.

“The project (in Nawalparasi) is now providing electricity services to 46 rural households of Dhaubadi. This was the pilot for the hybrid wind and solar system in Nepal. The success of this project has demonstrated that it is indeed viable to provide reliable energy access to rural Nepal through solar–wind hybrid systems as one of the clean energy options.”—Kenichi Yokoyama, ADB Country Director for Nepal

The electricity from the Dhaubadi mini-grid helps villagers save time and money spent on firewood. It eases a hard life by improving overall household productivity, and it allows children to study after dark.

On the first day they had electricity in the house, Dhaubadi villager Ekmarya Thapa Magar ran around her garden with joy. She no longer had to work in the dark, using polluting kerosene lamps. “I used to rush home before dusk from the field to cook meals and to do the household chores in daylight. But now I don’t have to hurry to finish work, because with electricity I can manage more work,” she says. It is an energy efficient, time-saving, healthy environment solution to age-old energy poverty.

The pilot project in Dhaubadi village was developed under ADB’s $3.8 million Regional Technical Assistance Program for Effective Development of Distributed Small Wind Power Systems in Asian Rural Areas for which the Alternative Energy Promotion Center was the implementing agency in Nepal. This regional technical assistance is part of ADB’s ‘Energy For All’ initiative, which supports increasing access to energy in remote rural areas in Nepal, and in Sri Lanka, Pakistan, and the Maldives.

ADB is also supporting the government to scale up similar initiatives in other rural areas of the country under a South Asia Subregional Economic Cooperation (SASEC) Power System Expansion Project.

“I used to rush home before dusk from the field to cook meals and to do the household chores in daylight. But now I don’t have to hurry to finish work because with electricity I can manage more work.”

— Ekmarya Thapa Magar
Dhaubadi
Regional Energy Cooperation

In 2014, ADB approved SASEC Power System Expansion Project (2014–2021). ADB’s $180.5 million financing is the largest ever in the energy sector. Besides ADB, the SASEC project is also supported by the European Investment Bank, the Government of Norway, and the Scaling Up Renewable Energy Program under the Climate Investment Fund. The project will help Nepal overcome its crippling power shortage, and will also provide surplus power to export to neighboring India. The main objectives of the SASEC project are: (i) scaling up the on-grid and off-grid renewable energy supply, (ii) facilitating cross-border power exchange, (iii) increasing access to renewable energy in rural areas, and (iv) building capacity for on-grid and off-grid power sector development.

Under the SASEC initiative, substantial upgrade and expansion of transmission and distribution lines and substations will be facilitated in Nepal, allowing the transfer of up to 2,000 MW of power to main load centers in the Kathmandu Valley. As well as meeting domestic needs, this network expansion will give Nepal the ability to export at least 1,200 MW of electricity to India, after a new 400 kV cross-border transmission line to India is complete. With six new hydropower plants due to come on line by 2020, Nepal expects to have a substantial wet season supply surplus for export by 2018. The SASEC Power System Expansion Project is expected to be completed by the end of 2021, and is in full accord with Nepal’s Rural Energy Plan of 2006.
**Long-Term Impacts**

ADB’s role in the energy sector has had significant ramifications. Currently, the combined output of the ADB-financed 144 MW Kali Gandaki-A Hydropower Project (1996–2003) and the 60 MW Khimti Hydropower Project (1996–2000) account for 29% of all electrical energy generated in Nepal annually. More recently, ADB has helped Nepal reform and overhaul the power sector, and new energy sector assistance is now aiding the government’s target of providing grid power to 75% of the population, with off-grid energy for the remaining 25% by 2027. The ADB-financed 140 MW Tanahu Hydropower Project, now being initiated, will add significantly more to the national grid.

ADB has also contributed significantly to the establishment of the essential electricity transmission and distribution system. According to NEA data and ADB plans, of the nation’s 2,640.16 km of completed transmission lines to date, ADB has funded the implementation of 1,358 km, or 51.4% of the total. Furthermore, of the 1,915 km of transmission lines now under construction, ADB has funded installation of 436 km, or 22.8%. And, of 4,083 km transmission lines planned for future installation, 386 km, or 9%, will be under ADB funding. The convenience to Nepal’s population of these installations is significant. All figures are calculated in circuit kilometers.

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**Figure 2: Asian Development Bank’s Contribution to Nepal’s Current Total Power Grid (to 2014)**

| Source: Asian Development Bank |

**Figure 3: Asian Development Bank’s Contribution to Nepal’s Total Circuit Kilometers of Transmission Lines Completed (to 2014)**

| Source: Asian Development Bank |

**Figure 4: Asian Development Bank’s Contributions to Transmission Lines under Construction**

| Source: Asian Development Bank |

km = kilometer; MW = megawatt
TRANSPORT
Overview

Nepal is a landlocked country, more than 70% of which is hilly and mountainous. For centuries it was remote, isolated, and dependent on human and animal labor for its transport needs. Before 1956, people accessed the Kathmandu Valley primarily by foot, though starting in the early 20th century, a small road network existed within the valley for the few automobiles imported by the elites and hauled over the Mahabharat mountain range from the Terai by teams of porters.

The first motor road to the outside was the Tribhuvan Rajpath (highway), built with Indian assistance and opened in 1956, linking Kathmandu with the Terai. Bus service carried passengers between Kathmandu and Hetauda, and on south a few miles to Amlekhganj, where they could board the old Nepal Government Railway to Birgunj on the Indian border. Today, by comparison, both strategic and rural roads crisscross the country and roads are now the predominant mode of transport, accounting for 90% of the movement of passengers and goods in the country.

Air transport developments also began early, when the first rough airfield was opened in Kathmandu in 1949. It saw limited traffic until well into the
1950s. Gradually, air transport developments came, especially after the original Gaucher airfield was renamed and inaugurated the Tribhuvan Airport in 1955. In 1959, Nepal’s first Civil Aviation Act was passed, followed by statutory regulations governing Nepal’s early civil aviation. In 1964, after further upgrading, the Kathmandu airport was renamed Tribhuvan International Airport (TIA). By then, the importance of TIA as the primary air link with the outside world was obvious.

Domestic airports were also being constructed, some in quite remote districts, to serve local needs and a growing foreign tour, trek, and mountaineering clientele. Today, the domestic sector links many district with Kathmandu and other cities including the regional Pokhara airport in the midhills, and main urban centers in the Terai.

Efficient transport and improved access and connectivity are among the keys to economic development and poverty reduction. Investment in ground and air transport increases domestic, regional, and international connectivity—without which inclusive growth is impaired.

**Strategic roads subsector**

The nation’s Strategic Road Network (SRN) includes national highways and feeder roads. The East–West Highway (EWH), which is the SRN backbone, runs the length of Nepal across the Terai, with north–south highways linking major towns. These roads serve large portions of the population. The feeder roads are major highways to district headquarters and places of national importance (tourism, industry, power generation, pilgrimage.

The Nepalgunj-Kohalpur road is considered one of the best in Nepal both in terms of quality and design and has facilitated increased trade.
When the Public Roads Act was passed in 1974, the SRN consisted of 15 highways and 52 feeder roads. Now there are over 20 highways and nearly 200 feeder roads. The Department of Roads (DOR) within the Ministry of Physical Infrastructure and Transport manages the SRN from the central level.

The SRN has opened up the country to the mass movement of people, trade, and commerce and plays an important role in meeting the nation's poverty reduction goals. It is strongly endorsed by the government, and by ADB and other development partners. But despite its growth and coverage, Nepal's road density is the lowest in South Asia, at 14 km per 100 km² and less than 1 km per 1,000 people.

Prior to the First Five Year Plan (1975–1980), there were approximately 600 km of roads in Nepal. By 1989, when the ADB Nepal Resident Mission was established, there were around 2,900 km of paved roads; 1,600 km of gravel roads; and 2,500 km of earthen fair-weather or seasonal roads. Of the 25,115 km of roads today, approximately 30% are paved; 24% are graveled; and 46% are unpaved. Over 60% of the SRN is in the Terai, dominated by traffic along the EWH. In 2011, 80% of the population lived within 30 minutes' walk of a motorable dirt road, and around 50% were within 30 minutes of a paved road. One of the goals of the DOR is to link all district headquarters to the SRN. Two remain to be connected: Dunai in Dolpa District and Simikot in Humla. Forty-eight percent of the SRN is paved, 90% of which is in good or maintainable condition. The remainder, plus 15% of the feeder roads, needs rehabilitation or reconstruction.

Roads in the Kathmandu Valley also pose challenges, especially to sustainable urban development. The population growth rate in the valley was 6.1% per year between 2001 and 2011, compared with the national average of 1.35%. The result is growing need for both public and private transport. The large number of motor vehicles in urban areas and their dependence on fossil fuels contributes to greenhouse gas emissions and air pollution. These are some of the challenges facing the roads subsector.

As in other sectors, there are opportunities in this subsector for PPP development. Following the public infrastructure build–operate–transfer policy (2002), the DOR has been planning a Kathmandu–Terai fast track road, but progress has been slow due to lack of interest from the private sector, and the necessary development of standard regulations, guidelines, and documents has yet to happen.

The DOR is responsible for SRN management, planning, and monitoring, and for traffic safety. To improve road network maintenance and to assure asset sustainability, there are also two other responsible agencies—the Roads Board Nepal and the Department of Transport Management—both of which require further enhancements and capacity building. Roads have not been adequately maintained in recent years, due to inadequate funding through the DOR and for the Roads Board Nepal. Nepal also needs to develop a national road safety plan and form a national road safety committee to address increased road accidents on its roads.
Air transport subsector
More than ever before, the nation’s rapid population growth, increasing mobility among the urban and rural populations, and the rise of tourism have given the air transport subsector a high development priority. Nepal has 48 airports, 43 of which are short take-off and landing strips for small planes. Another four are regional airports and one, Kathmandu’s Tribhuvan International Airport (TIA), is international. The TIA also serves as a major domestic hub. In 2011, TIA handled, on average, 217 domestic flights and 62 international flights per day. In 2013, the TIA handled an estimated 3.1 million international passengers, a figure which is projected to almost triple to 7.5 million by 2017. Domestic passenger volume is also expected to increase from 1.54 million in 2013 to an estimated 1.94 million by 2017. Both the domestic and international terminals are currently operating beyond capacity.

The air transport subsector has seen substantial growth in other ways from the 1970s to now. A Civil Aviation Training Center was opened in 1975. A new TIA terminal facility was inaugurated in 1989, followed by upgrades and expansions during the next 2 decades. In 1992, a liberal aviation policy was passed and private sector involvement in domestic air transport was encouraged. In 2006, the policy was updated and made more comprehensive. In 1998, the Civil Aviation Authority of Nepal (CAAN) was established to replace many of the functions of the then Department of Civil Aviation (DCA). CAAN

ADB is supporting safety enhancement at the Lukla Airport, one of the busiest air destinations in the nation, especially during the trekking and mountaineering seasons.
is mandated as the autonomous and financially independent entity for managing and operating airport facilities in Nepal, thus taking over many of the functions of the DCA; but not, for example, DCA’s responsibility for authorizing and permitting bilateral air service agreements internationally.

There are many challenges to this sector, including inadequate airside facilities (runways, taxiways, aprons, etc.), most of which are not up to international safety standards. Most small domestic airports are unpaved and lack terminal facilities, modern communication and navigation systems, and weather equipment. There is clearly a need for further, urgent air transport sector development.

To address the need for international airport expansion, a major overhaul is being planned for the construction of a new combined domestic and international terminal complex in Kathmandu. In addition, the domestic airport at Bhairahawa in the Terai will be upgraded to an international standard to meet growing international tourism needs, as well as expanded domestic requirements as a regional facility. To address current domestic air traffic issues, a liberal, open-sky approach now functions under the revised Aviation Policy of 2006 with numerous private airlines now in service. And the most recent Three Year Plan is upgrading the busy Pokhara and Bhairahawa regional airports, and paving 22 other domestic airfields, many of which serve major business, trade, and tourism activities.

Tourism plays an important part of Nepal’s air transport plans and strategies, and is part of the rationale for placing it alongside the transport sector in the Ministry of Culture, Tourism, and Civil Aviation. The air transport sector activities also intersect closely with Nepal’s regional and international trade.

**Information and communication technology subsector**

Nepal’s first telephone service dates to 1936, when an archaic open wire trunk-line service was installed to link with India. In 1952, the first public telecommunications service was introduced, with a limited 100-line manual magneto telephone exchange and a few World War II surplus wireless sets. Efforts to provide wider telecom services took place only after the formation of the Department of Telecommunications, which eventually became the Nepal Telecommunications Corporation in 1975. Since then, the growth of information and communication technology (ICT) has seen considerable investment, with great potential for expansion. From 2009 and 2012, for example, tele-density rose from nearly 19% to 65%, and from 2010 to 2012, Internet usage increased from just under 3% to almost 20%, and is still rising. Private sector investment in ICT is high. The Nepal Telecommunications Authority was established in 1998 as the key agency in this sector. Its operations are currently guided by the Ten-Year Master Plan for the Development of the Telecommunications Sector (2011–2020).

**Subregional cooperation and coordination in the transport sector**

In the strategic roads and the ICT subsectors, recent developments in subregional cooperation are attracting the considerable attention of government and its development partners. These developments are linked to the South Asia Subregional Economic Cooperation (SASEC) initiative begun in 2001. SASEC is a platform for strengthening cross-border connectivity, transport upgrades and trade facilitation, customs modernization, ICT “information highway” developments, energy, and other sectors. The six South Asian nations involved in this initiative are Bangladesh, Bhutan, India, the Maldives, Nepal, and Sri Lanka.
Asian Development Bank’s Role in the Transport Sector

In ADB, the transport sector works through three subsectors: strategic roads, air transport, and information and communication technology (ICT).

**Strategic roads subsector**

ADB’s earliest involvement in road building in Nepal began in the 1970s with financing for the 80 km Hetauda–Narayangarh Road Project (1972–1979) in the central Terai. It was followed by a Feeder Roads Project (1983–1996) and a series of three Road Improvement Projects from 1986 to 2002. In the first quarter century of ADB’s investment in roads, from the mid-1970s through the 1990s, loans for roads totaled $173 million. That investment included assistance for strategic road development, and road components on nine other projects in other sectors. During the 1980s alone, about one quarter of Nepal’s total road development expenditure was financed by ADB.

Some early ADB road projects focused on developing highways and feeder roads—the strategic road network (SRN), under the Department of Roads (DOR) in the Ministry of Physical Infrastructure and Transport. Rural and village roads make up the Local Road Network (LRN), locally managed by District and Village Development Committees (DDCs and VDCs) and their subcommittees. At the center, the LRN is overseen by the Department of Local Infrastructure Development and Agricultural Roads in MOFALD. The LRN is discussed in the agriculture sector.

Early on, the largest strategic road was the East–West Highway (EWH) being built across the Terai and supported by funding...
from ADB and several other development partners. Feeder roads were also being connected to the SRN, along with roads to international border crossings. Urban roads also link to the SRN.

About half of ADB’s loan assistance from the 1970s to the 1990s was for hill roads, both strategic and rural, mostly to upgrade and seal them for all-weather use in the eastern and far western hills. Their impacts were soon evident with an increase in both passenger bus and truck transport. In the eastern hills, for example, it was a time when farmers were beginning to expand into cash cropping and livestock production, both of which were encouraged by road development. Then, in the 2000s, ADB financed important projects in agricultural commercialization and further road work to support it. Roads were becoming increasingly important to rural residents for accessing value-added processing centers, agricultural inputs, and markets. The growing road network had positive impacts on rural livelihoods, especially of disadvantaged groups, particularly women and Dalits.

During the 2000s, road transport development was given high priority by the government and in ADB’s CPS (2005–2009) and, despite difficult political conditions and other constraints, road projects were considered highly relevant to the success of Nepal’s overall development. This was also a time when Nepal joined the SASEC initiative, described below, which expanded interest in cross-border trade and transport developments.
In support of SRN development, ADB financed five important projects from 2001 to present. They are the: the Road Network Development Project (RNDP); the Sub-regional Transport Facilitation Project; Road Connectivity Sector–1 Project; the Subregional Transport Enhancement Project; and the SASEC Road Connectivity Project.

The decade-long RNDP (2001–2010) addressed the government’s request for institutional capacity strengthening to improve the road maintenance efficiency of the national road network; to upgrade feeder roads and district access roads to enable more effective communication; to strengthen connectivity to agricultural production centers, social services, and public facilities; and to address poverty reduction. The project was financed by a $46 million ADB loan, with other financial inputs by DFID and the government. One component of the project addressed the need to upgrade a 140 km portion of the EWH with asphalt strengthening, to support both domestic trade and an emerging interest in subregional trade and transport. Two components dealt with feeder and district road upgrades and construction. Other components focused on performance-based road maintenance along a 281 km section of the EWH as well as road safety and axle load control, and poverty reduction (through project employment and longer-term project benefits).

Project beneficiaries included residents, passengers, freight haulers, merchants, and other business persons along 10 project road work sections in the Terai and hills. Several thousand of the poorest and most disadvantaged persons in the project areas benefited from employment and other long term developments stimulated by the project’s road improvements. Nearly 9% of the poor households graduated to non-poverty status. Road use increased, while time spent in accessing essential services and markets decreased, as did vehicle operating costs, and road safety measures and maintenance were implemented.

The RNDP served as a model for subsequent road development projects.

Following closely on the RNDP, the Subregional Transport Facilitation Project (STFP, 2004–2010) continued to support the nation’s cross-border trade and transport interests and was the first of several projects associated with the SASEC initiative, of which Nepal was a member. STFP was originally funded by a $20 million ADB loan, followed in 2012 by an additional grant of $15 for follow-on technical assistance. It focused on Nepal’s cross-border trade relations with India and was designed to help integrate the national economy into the broader regional and world markets. It had three objectives: better transport facilities, greater efficiency and effectiveness of trade management, and upgraded governance capacity.

By 2010, STFP had achieved the following results: (i) access road construction and upgrading of the highway linking Birgunj to Bhairahawa and the international customs depot on the Nepal–India border of the Western Development Region; (ii) construction of an inland clearance depot at the Kakarbhitta gateway on the Nepal–India border of the Eastern Development Region; and (iii) introduction of a customs inspection service for vehicles and cargo at all border points.
The Road Network Development Project (RNDP, 2001–2010) was funded by a $46 million ADB loan, with other financing by the United Kingdom’s Department for International Development (DFID) for targeted activities related to feeder road work and poverty intervention activities. The project began during difficult times, at the height of the civil conflict of 1996 to 2006, and despite some unrest and delays early on, it successfully completed 4 years after the Peace Accord.

The RNDP was designed knowing that efficient transport and improved access are keys to economic development and poverty reduction. When it was evaluated upon completion (at the end of the decade), it was rated highly relevant, efficient, and sustainable.

In financing the RNDP, ADB responded to the government’s request for help to: (i) strengthen the EWH to support domestic trade and promote subregional activities in Nepal; (ii) improve feeder roads to all-weather maintainable standards to enable effective communication and serve major agricultural production centers and other socioeconomic facilities; (iii) construct a new access road connecting a district headquarters town to the national road network; and (iii) strengthen institutional capacity to preserve and enhance the efficiency of the SRN by timely maintenance.

The project’s main objective was promoting economic growth in the project areas. The three principal outcomes were these: (1) increased efficient movement of goods and people, (2) improved access of the poor to markets and social services, and (3) expansion of local employment opportunities. The project proceeded under six components (a seventh was cancelled as unneeded). The results include the following, each with continuing positive impacts:

- **East–West Highway (EWH) strengthening.** Of a total 140 km of EWH roadway, 93 km were fully strengthened by asphalt overlay.

- **Feeder and district road upgrades.** Forty nine km of feeder and district roads in the hills, and 89 km in the lowland Terai were improved to all-weather paved standard, and another 39 km of road sections in the hills were constructed, for a total of 177 km of road improvement under this component, along with one road bridge.

- **Feeder road construction.** A feeder road of 62.5 km in length was completed in the hills linking Sankhuwasabha district’s headquarters town (Khandbari) to the national road network.

- **Performance-based road maintenance.** A 5-year road maintenance program was developed (with 2 years of financing by ADB) and 281 km of selected road sections were maintained along the EWH through performance-based maintenance contracts; and the government prepared an annual road maintenance plan under the project.

- **Road safety and axle load control.** Ten portable axle load weigh bridges were procured and provided to five DOR division road offices across the Terai, for installation to control vehicle overloading; axle load measurements were made along project roads and at selected cross-border locations (following ADB’s Road Safety Guidelines for Asia and Pacific Region); road safety civil works were completed at selected

### ROAD NETWORK DEVELOPMENT PROJECT FINANCING

<table>
<thead>
<tr>
<th>Financier</th>
<th>Amount ($million)</th>
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<tbody>
<tr>
<td>ADB</td>
<td>46.0</td>
</tr>
<tr>
<td>DFID</td>
<td>9.6</td>
</tr>
<tr>
<td>GON</td>
<td>13.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>69.5</strong></td>
</tr>
</tbody>
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**ADB = Asian Development Bank, DFID = Department For International Development of the United Kingdom; GON = Government of Nepal**
accident-prone areas (“black spots”); training and public awareness programs on road safety were conducted by the DOR; and the government approved a heavy vehicle management policy under the project.

- **Poverty reduction.** Four hundred households (200 from each of two road sections) were selected from among the very poor, socially disadvantaged people affected by project activities to receive training in increased agricultural production, animal husbandry, pig farming, and planting along road corridors. Local NGOs also established savings and credit schemes, conducted local income generating activities, provided skills training, and employed poor and socially excluded people in project labor employment. The NGOs providing these services were directly recruited by the DOR to implement poverty intervention activities of the project.

**Project-Affected Households and Persons**

Overall, some outputs had short-term impacts, but most have resulted in positive, long-term benefits. Residents and other road users benefited from the longer-term socioeconomic opportunities that the project’s road building and upgrading brought. In addition, the 1,440 households (9,278 persons) directly affected by the project through loss of land, structures, and/or trees due to the project’s acquisition of land for road works were all compensated as per the project resettlement plan.

**Long-Lasting Impacts**

The long-term benefits of the RNDP’s road construction, upgrading, and maintenance works are (i) increased employment opportunities in the project areas; (ii) other new or expanded opportunities associated with road improvements arising after project implementation such as new private enterprises and services established; (iii) savings in vehicle operating cost for both passenger and freight traffic; and (iv) decreases in travel time to markets and public services (education, health, etc.).

The percentages noted below are averages across all nine project road segments, in both the Terai lowlands and hills. Some figures have been rounded.

- Household incomes increased by over 26%; household expenditures decreased by nearly 2%; agricultural incomes rose by about 7%; and increase in employment opportunities along some road segments were as high as 23% to 37%. On two hill road segments alone, approximately 2,000 unskilled laborers were employed through 73 road-building groups.
- The percentage of poor people graduating to non-poor status rose by almost 9% (based on a sample survey of 450 households), and other very poor persons also saw improved living standards, though still under the poverty line.
- On 613.4 km of roads improved, there averaged a 36% decrease in time to access economic and social services.
- Annual average daily passenger and freight movements increased by nearly 3% and 14%, respectively, and the year-round flow of passengers increased by 42%.
- Motorized vehicle ownership increased by 89%; average vehicle operating costs were reduced by nearly 31%; and average travel time of different types of vehicles was reduced by 139%.
- The volume of marketed agricultural produce increased by 6.5%, and both freight and passenger rates decreased by nearly 31% and 49%, respectively.
- Travel time to the nearest health services and education facilities decreased by 24%.

These more qualitative findings are also indicative of the success of this project: considerable growth in rural enterprise occurred due to increased market access and improvement in access to agricultural input supplies; and off-farm employment and labor mobility increased due to such new enterprise developments as stores and shops, restaurants, motor vehicle workshops, and agriculture product collection centers and trade.
“Before the construction of the Khurkot bridge, people and cargo had to first come to the capital city of Kathmandu and then travel to the Terai districts, a journey that was time consuming, costly, and cumbersome.”

Region; (iii) improved customs handling with an automatic system of customs cargo clearance and management, and installation of ten wide-area networks; and (iv) institutional capacity building involving the Department of Customs and the Nepal Intermodal Transport Development Board.

The Road Connectivity Sector—1 Project (2007–2013) was developed in response to the Government’s emphasis on expanding transport facilities to remote areas and linking them to the SRN. It was funded by a $55.2 million ADB grant, with cofinancing from OPEC and the Government of Nepal. The principal objectives of the Road Connectivity Sector – 1 Project were to reduce poverty by lowering the isolation of remote rural communities and enhancing access of the disadvantaged to basic services and new employment opportunities. The project stimulated local economic growth, social development, poverty reduction through improved access to markets, employment opportunities and skills training, greater access to government services, education and health facilities (including HIV prevention services), and capacity building in the Department of Roads.

One of the significant infrastructures constructed under the project was the Khurkot Bridge over the Sunkoshi River east of Kathmandu. This 100 meter long $1.8 million bridge has substantially improved connectivity between the hill districts of Ramechhap, Dolakha and Sindhupalchowk with the Terai.

At the time of its inauguration, the Khurkot Bridge was considered a major accomplishment of the project, and received considerable press coverage and supportive observations.

“Before the construction of the Khurkot bridge, people and cargo had to first come to the capital city of Kathmandu and then travel to the Terai districts, a journey that was time consuming, costly, and cumbersome. The opening of the bridge has connected Ramechhap and Dolakha districts directly to Terai for the first time..."
by road networks,” said Umeshananda Misra, Project Director in the Department of Roads.

And Kenichi Yokoyama, ADB Country Director for Nepal, called the Khurkot Bridge a true “symbol of development,” one that enhances connectivity and mobility, both of which “are vital for local economic development and poverty reduction.”

In 2010, the Subregional Transport Enhancement Project (2010–2015) was started, funded by a combined ADB loan and grant totaling $49 million. Its purpose is to further improve the country’s strategic road network with over 200 km of construction, to provide north-south linkage to the East-West Highway in eastern Nepal, and to improve major international trade corridors in the country in conjunction with customs systems enhancement in several locations. The project significantly expands connectivity with remote areas and enhances capacity of major international trade corridors to more effectively link with their primary markets in India and, through India, with Bangladesh and Bhutan.

The rationale behind this and similar projects is that poor connectivity is a major development constraint for Nepal. Inadequate feeder roads exacerbate remote area isolation, and links to internal markets and beyond to neighboring countries is limited. North-south connectivity could further encourage international trade with neighboring countries. There is also heavy traffic congestion along major international trade corridors, especially along the EWH and border area roads.

To address these challenges, the government has been implementing its Priority Investment Plan (2007–2016) and a customs modernization plan. The road sector development strategy under recent Three Year Interim Plans stresses improving roads in the dense border settlements and increasing accessibility to the remote areas. It also intends to develop the EWH as the

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**South Asia Subregional Economic Cooperation Initiative (SASEC)**

SASEC was set up in 2001, bringing together Bangladesh, Bhutan, India, the Maldives, Nepal, and Sri Lanka in a project-based partnership to promote regional prosperity by improving cross-border connectivity, boosting trade among member countries, and strengthening regional economic cooperation. SASEC focus areas were initially transport and communication, energy and power, tourism, environment, trade, and private sector development. The focus has now narrowed to energy, transport, and trade facilitation.

The SASEC vision is to increase trade and cooperation within South Asia; create linkages to East and Southeast Asia; ensure fast and least-cost cross-border movement of goods, people, and business; and improve opportunity and quality of life for the people of the subregion.

Since 2001, SASEC countries have implemented 30 regional projects worth more than a total of $5 billion in the energy, transport, trade facilitation, and information and communication technology (ICT) sectors. SASEC helps countries strengthen transport ties by road, rail, and air, and to create the conditions necessary to provide reliable energy and boost intraregional trade. ADB serves as SASEC program Secretariat.

**The Rationale for Regional Cooperation, Transport and Trade**

Regional cooperation and integration has vast potential for accelerating economic growth, reducing poverty and economic disparity, raising productivity and employment, and strengthening institutions. It improves a poor country’s potential for growth with expanded trade and joint investment with its neighbors, strengthens transport and information connections, and enhances information and communication technology. In South Asia, regional cooperation and integration narrows development gaps between developing member countries. Building closer trade integration, intraregional supply chains, and stronger financial links with neighbors that are advancing more rapidly allows smaller, slow growth countries to speed their own expansion. Regional cooperation and integration is a key building block for developing regional markets for goods and services and to ensure they remain unobstructed through close cooperation in policy formulation and regulatory design. (ADB, Strategy 2020)
Asian Highway, to serve as a regional trade route capable of promoting broader South Asian development.


The SASEC Road Connectivity Project (2013–2015) is the most recent (ongoing) project in this subsector. It is financed by a $75 million ADB loan and is designed to continue improving connectivity within Nepal, and between Nepal and its neighbors. It includes building an alternate route through the eastern Terai districts of Saptari and Sunsari, to assure year-round passage over the Koshi River adjacent to the India border. The repair of three feeder roads in the hills, the building of capacity among government roads staff, and the implementation of a gender equality and social inclusion (GESI) plan are also on the project agenda.

The ADB-financed South Asia Tourism Infrastructure Development Project (2009–2017), described below, also has significant subregional growth impacts, in both transport and tourism development.

**Air Transport Subsector**

ADB's very first development assistance to Nepal was a small grant in 1968 followed by a $6 million loan to fund the Air Transport Development Project (1969–1982). Since then, ADB has maintained an important presence in Nepal's air transport subsector.

In the mid-1970s as international and domestic air traffic was steadily increasing in Nepal, ADB began funding a series of loans and grants to rehabilitate and expand Tribhuvan International Airport (TIA) in Kathmandu. The funding came in several phases beginning with a $10 million loan in 1975 to finance the first Tribhuvan International Airport Project, followed by another $10.1 million in 1978 for the Second Tribhuvan International Airport Project with supplementary financing to it in 1986 for $10.25 million and in 1988 for another $8 million. Altogether, ADB invested $38.35 million in this series of four projects.

Although ADB’s air transport sector does not include tourism, the transport and tourism investments were soon interacting closely with each other (and continue to do so). Air transport contributes to tourism (much like it also interacts with trade) in ways that make it inevitable that discussions of ADB’s roles in the air transport subsector are sometimes heavily influenced by tourism project developments, sectoral plans, and associated infrastructural development needs.

During the 1990s, for example, ADB supported two very similar national tourism infrastructure development projects that had significant air transport infrastructure components. One was the Tourism Infrastructure Development Project (1992–1998) followed by the Second Tourism Infrastructure Development Project (1996–2004). Together, they were financed by ADB loans totaling $27.6 million. The accomplishments of the Second Tourism Infrastructure Development Project indicate fundamental linkages between transport and tourism. Its objectives included improved services within the tourism sector and the marketing of Nepal as a popular tourist destination, both of which necessitated air transport infrastructure development and facilities upgrading.

Among other components, for example, the Second Tourism Infrastructure Development Project improved runways, upgraded passenger facilities, improved
navigational aids and communication, and provided fire and rescue equipment at six domestic airports across the country. The project built the capacity of the staff of both the Department of Tourism and Department of Civil Aviation. It also provided essential equipment and consulting services for project management and public educational activities, and engineering and construction supervision at domestic airports, many of which served as tourism destinations. Thus, in these projects and in others, the agendas of the two sector closely intersected.

Meanwhile, in 1997 ADB financed the Tribhuvan International Airport Improvement Project (1997–2002) through a $27 million loan. This project built on a long history of ADB’s phased development of TIA, which began in the mid-1970s. ADB–financed air transport projects from the mid-1970s through the 1990s improved and lengthened runways and taxiways, and the developed international terminal infrastructure—roles that ADB continues to play to the present time.

Besides addressing development activities in the face of rapidly increasing tourism arrivals at TIA, during this same period, ADB also supported project activities for the equally fast-growing export-oriented industries, especially around the marketing of garments and carpets internationally, and around horticulture and high-value fruits regionally. ADB also assisted with the commercial orientation and financial autonomy of the air transport sector by facilitating the creation of the new CAAN. To help with the creation of CAAN in 1998, ADB provided a $500,000 technical assistance grant for transition advisory services and capacity building assistance.

CAAN was established to replace some of the functions of the DCA. Today, CAAN is an autonomous and financially independent entity for managing and operating the domestic civil air transport facilities, while the DCA retains its role in the international sector, especially as the government’s representative in bilateral air transport agreements.

Private sector investment was also stimulated at this time, including the establishment of private airlines as well as private sector participation in airport operations.
services, and management assistance to private construction contractors. The Tribhuvan International Airport Improvement Project also addressed critical capacity, safety, and institutional management issues pertaining to TIA’s role as the only international airport and gateway for the vast majority (around 90%) international tourists visiting Nepal.

In 2006, ADB funded a $150,000 technical assistance grant to develop a Civil Aviation Sector Strategy for Nepal. A 10-year master plan for the development of TIA was created, and projects to implement the strategy were identified.


The domestic Air Transport Capacity Enhancement Project (2009–2016) was financed with a $70 million ADB loan and a $10 million grant. The Air Transport Capacity Enhancement Project is designed to enhance safety and capacity at Tribhuvan International Airport in Kathmandu, the busiest airport in the country, and at three domestic airports with tourism significance at Lukla, Rara, and Simikot. Lukla Airport is especially important during the trekking and mountaineering seasons, when it becomes one of the busiest air destinations in the nation. Lukla is located in Solukhumbu District of the Eastern Development Region. Rara and Simikot Airports are located in the Mugu and Humla districts, respectively, in Nepal’s Midwestern Development Region. Although these are remote domestic airfields, their importance to current and future economic development and tourism cannot be overstated. At these three small airports, the Air Transport Capacity Enhancement Project is addressing basic safety and operational improvements by improving visual approach aids, communication equipment, and weather equipment.

At Kathmandu’s TIA, the project has far larger but equally important objectives.

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Besides improvement to safety and operational standards, they include accommodating rapidly increasing passenger volumes. To accomplish this, the project is reconfiguring and upgrading airfield side infrastructure through new taxiways, extended runways and a runway safety area, a new international apron (about 80,000 m²); an uninterrupted power supply system for essential airfield and security area lights; rehabilitated and expanded communication navigation surveillance and air traffic management infrastructure; and upgraded airport fire and rescue systems.

In addition, through the Air Transport Capacity Enhancement Project, ADB is helping improve air transport sector procedures with a 3-year capacity development program to bolster the organizational and management capacity of CAAN. Simultaneously, Nepal is developing a new Civil Aviation Act that will be instrumental in improving overall aviation sector performance.

The concurrent air transport project is the subregional South Asia Tourism Infrastructure Development Project (2009–2017; ongoing), financed by ADB loans and grants totaling $57.5 million, with OPEC cofinancing. The project is designed to develop and improve subregional tourism-related infrastructure in Nepal, India and Bangladesh. A major component of the project is upgrading Bhairahawa’s Gautam Buddha Airport in the Terai to international standard, to accommodate increasingly high international passenger volumes, especially for tourism.

In March 2014, ADB announced an additional $30 million in financing for the project, to better accommodate the Bhairahawa airport upgrade. At the same time the Asia Clean Energy Fund added $3 million, and the government added another $17.7 million, bringing the estimated overall project cost to $97.2 million.

The additional financing supports changing the airport upgrade design from the originally designated regional international airport to a full-fledged international airport that will accommodate wide body aircraft. This scaling up will add 400 meters to the runway development plan, lengthening it to 3,000 meters. The project will also overlay the existing 1,500-meter runway for use as a parallel taxiway, will construct a new 15,169 m² terminal building, and will install more advanced navigational aids, essential equipment, airport safety lighting, and improved drainage.

After completion, the Gautam Buddha (International) Airport at Bhairahawa will serve as an alternate international air transport point for Nepal in the event of poor weather conditions or in case natural calamity shuts down Kathmandu’s TIA—the only other international airport in the country. The new international airport is expected to serve 760,000 passengers by 2030, over one third of whom will visit Lumbini, Lord Buddha’s birthplace over 2,500 years ago. Lumbini, about 20 km west of Bhairahawa, is noted for its archaeological and religious significance, and as an international Buddhist pilgrimage destination.
URBAN INFRASTRUCTURE
Overview

Since the 1970s, Nepal has undergone significant urban growth. And though it is the least urbanized country in South Asia, it is the fastest urbanizing, with an urban growth rate of about 6% per year since the 1970s. The 2011 census counted an urban population of 4,523,820, expected to reach 24% of the nation’s population by 2017, and 32% by 2027. One unforeseen effect of rapid urban growth has been rise of urban poverty, from 9.2% in 2003 to 15.5% at the 2011 census. Urban growth in Nepal is a result of the emergence of new towns, expansion of existing urban areas, and rural-to-urban migration.

Internal displacement due to the decade-long civil conflict, which ended in 2006, was a major impetus to rural migration. At the same time, the predominantly agricultural economy has undergone a structural shift increasingly dependent on urban and industrial services. The political instability of the past 2 decades, the weakening of the investment climate, and the associated lack of economic and employment opportunities, however, have caused a mass exodus from Nepal to take up overseas employment. As a result, Nepal’s economic growth (rural and especially urban) has also become increasingly impacted by the outmigration of a
young workforce—mostly young men—and the inflow of remittances. Nearly 3.5 million Nepalese are working abroad in India, in other Asian countries and in Middle east Gulf states. For 2014, remittances are estimated to be about US$5.5 billion, which is close to the size of the current annual national budget.

The National Urban Policy of 2007 defines an urban settlement as a population of 5,000 and over. According to the 2011 census, Nepal’s urban population of 4.5 million people was approximately 28% higher than a decade earlier (3.2 million) and 67% growth since 1989 (1.5 million), the year that ADB’s resident mission was established in Kathmandu. Between 2001 and 2011 the population of Kathmandu Valley alone grew by 6.6%, a growth rate that poses major challenges to urban planning and management. Due to haphazard development, municipal infrastructures have not kept pace with the rapid growth rate. The results can be seen in the transport subsector by traffic congestion and high levels of air pollution, and in water supply, sewerage, and solid waste management services, which are often weak and insufficient. External factors, such as the effects of climate change, worsen attempts to maintain environmental sustainability and increase the urban population’s vulnerability to natural hazards.

The 2011 census lists 58 municipalities (nagarpalika), though that number has increased significantly since then. Now, with the addition of new municipalities the number has reached 191.

The National Urban Policy of 2007 recognized the nation’s dramatic urban growth and related workforce absence issues, and promoted a balanced urban structure, highlighting sustainable environmental issues and the effective urban management necessary to strengthen national economic growth. The government is intent on improving quality of life and achieving higher and more socially inclusive economic growth in the many fast growing urban centers.

The Local Self Governance Act of 1999 provides the overall legal framework for a decentralized governance structure. It sets out the powers, functions, and duties of municipalities and urban service delivery and delineates ownership and utilization of natural resource assets. The 1999 act and the Local Bodies Financial Administration Regulations of 2007 have further established municipalities as autonomous institutions with a central role in urban development.

The government considers urban centers to be catalysts for economic development, linking the country across north–south and east–west access and transport corridors. Guidance on water supply and sanitation developments is found in the National Urban Water Supply and Sanitation Sector Policy of 2006, and in the Water Supply Corporation Act (amended in 2007) and more currently in the most recent Three-Year Plan (2014–2016). The government also encourages private investment in the management of urban water and sanitation assets and services, some of which has been accomplished in the Kathmandu Valley. The Water Supply Management Board Act of 2006 places emphasis on the involvement of local bodies and institutions with emphasis on gender sensitive and socially inclusive water users’ and sanitation committees. The Department of Urban Development and Building Construction is the lead sector agency overseeing urban planning and development.

“The Government of Nepal considers urban centers as catalysts for economic development, linking the country across north–south and east–west access and transport corridors.”
Asian Development Bank’s Role in Nepal’s Urban Infrastructure Sector

ADB has been the largest development partner in the sector. In the 30 years since its first water supply project in 1984, ADB has financed over $711 million in loans and grants to the sector. Its largest intervention has been the Melamchi Water Supply Project. The CPS (2013–2017) reflects government plans, and the policies and acts noted above. ADB works closely with the relevant government departments in this sector, including the Department of Urban Development and Building Construction; for the transport subsector with the Department of Transport Management; and for water supply and sanitation with the Department of Water Supply and Sewerage.

Transport subsector
Rising urban population and the increasing number of vehicles in Kathmandu have resulted in serious traffic congestion, road accidents, environmental degradation, and poor public transport operation and services. Rising dependence on private transport, especially cars and motorcycles, and the import of fossil fuels, have had adverse impacts on air quality, placing serious strains on the country’s energy supplies, and contributing to high and unhealthy levels of greenhouse gas emissions. The public transport system in the Kathmandu Valley is exclusively provided by the private sector, but is typically overcrowded and relies on substandard vehicles. One exception is the cooperative public transport organization known as Sajha Yatayat, which provides efficient and affordable public transportation to Kathmandu Valley commuters.

To address public transport issues, in 2011 ADB approved a $20 million loan for the Kathmandu Sustainable Urban Transport Project, scheduled for completion in 2017. The project is designed to improve public transport management and operations, and build capacity and restructure the Department of Transport Management. Electric or low emission vehicles financed through the Town Development Fund may be introduced, including the reintroduction of a modernized trolleybus service on major arterials of the city.

The project is implementing an improved traffic management system to reduce central city congestion; an awareness program for improved driving behavior and environmental and safety aspects of transport; and enhanced inner city walkability, especially in the historic quarter. Air quality is also being monitored with assistance from the Ministry of Environment in line with the national Air Quality Monitoring Action Plan. And there are plans for infrastructure improvements like pedestrian bridge repair, redevelopment of the old bus park, and construction of parking lots in the city center.
Water supply and sanitation subsector

At the last census (2011), the proportion of the population with access to improved drinking water sources (protected from outside contamination) was 87% in urban areas (84% in rural Nepal), though only 12% have access to a high level water supply. The population using improved sanitation facilities was 62% (91% urban, 55% rural). To cope with the often-poor water supply situation, many citizens in Kathmandu extract deep groundwater using electric pumps, or water tanker delivery services. The residents of Terai towns and cities depend on groundwater and shallow wells, sources that are often contaminated by bacteria, and in some areas by arsenic.

ADB involvement in the urban water supply and sanitation subsector places considerable emphasis on water-related health and development issues in line with Nepal’s National Urban Policy of 2007 and the Urban Water Supply and Sanitation Policy of 2009. The latter states that access to safe drinking water and sanitation services is fundamental to improving public health. It is also aligned to meet the national poverty reduction objectives.

The National Urban Policy of 2007 highlights historical imbalances and the haphazard nature of Nepal’s urban development. It views urban centers as catalysts for economic growth. But it also flags for urgent attention the increasing weaknesses in urban development, including poor sanitation, environmental degradation, and lack of services to the urban poor. The policy proposes building the capacity of municipalities to plan and manage integrated local development, beginning with the preparation of urban master plans. Private sector involvement and investment in infrastructure development are also encouraged.

ADB’s support to Nepal’s water supply sector began in 1984, with the first of four loan projects, and lasted up to 2002, for a total of $64 million in loans. By the early 2000s, ADB had gained considerable experience in this sector.

In 1990, in the midst of that period, the people’s movement and the restoration of democracy brought significant political liberalization and a focus on decentralization to Nepal. But the decade of civil conflict from 1996 to 2006 made
the delivery of development aid difficult. Adaptations to the conflict, however, contributed to the rise of new actors and new modalities for the delivery of development assistance. The private sector made progress working with development agencies, as did local NGOs and community-based organizations including local resource user groups. Important new working methods developed in close association with demand-led community-based organizations that encouraged participatory approaches urged community members to take ownership of local development initiatives and allowed scarce resources to be used optimally and sustainably.

Rural to urban migration increased at a rapid pace in the late 1990s, partly due to the conflict. As urban centers along major national highways began to grow, it was soon obvious that drinking water supplies and sanitation were inadequate in terms of coverage, quality, and quantity. In response, in 2000, the government initiated its 15-year Small Towns Water Supply and Sanitation Development Plan, and requested ADB’s assistance in preparing projects to implement it. The first was the Small Towns Water Supply and Sanitation Sector Project (2000–2009), described in detail here as a flagship case study.

The ambitious $464 million Melamchi Water Supply Project was also begun in 2000. It also included several associated institutional development initiatives. In 2002, ADB approved $29.2 million for the Urban and Environment Improvement Project (2002–2011), which was followed in 2003 by a $23.3 million loan for the Community-Based Water Supply and Sanitation Sector Project (2003–2011). Each of these is described below.

There have also been several technical assistance grants to the sector since 2009, totaling another $72.6 million.
In addition to their focus on water supply and sanitation (WSS), all WSS projects in the 2000s continued ADB’s special emphasis on gender equality and social inclusion, as well as environmental sustainability, especially in the face of climate change.

The Small Towns Water Supply and Sanitation Project (STWSSP, 1st phase: 2000–2009), financed by a $34.3 million ADB loan, was implemented in 29 small towns over 12 districts, benefiting almost 600,000 people with the delivery of new, improved water supply and sanitation infrastructure. During implementation, several thousand laborers were employed to install new community and private water taps, public latrines, and surface drainage systems. These improvements resulted in better access to essential water supplies and hygienically safer sanitation facilities. Convenient access to safe water has resulted in significant time savings, positively affecting family and community life, personal health and hygiene, and local microenterprise development. And with the sanitation improvements, health care costs have gone down, due to reduction in water borne diseases. The details are given in the accompanying case study.

While these tangible STWSS Project outputs are significant, other more qualitative long-term impacts have become evident, including increased individual and community self-confidence and capacities. By participating in project planning, implementation, maintenance, and cost sharing through community-based water user and sanitation committees (WUSCs), local residents are empowered with new knowledge and feelings of local ‘ownership’, assuring sustainability. And, as household water supply is a major responsibility of women, the fact that they make up 33% of WUSCs project-wide is also notable.

The STWSSP is now entering its third phase, with another 14 small towns being

“We used to face various health problems because of unsafe tube well water. But now with the installation of the new tap, we get safe water for drinking. We also have a toilet at home which has made our lives much easier and helped to maintain health and hygiene in the community.”

— Rudra Rana Tharu
Shivanagar
The Small Towns Water Supply and Sanitation Project (STWSSP, 1st phase, 2000–2009), was funded by an ADB loan of $34.3 million. It was the first of several projects designed by ADB in response to a request for projects to fulfill the government’s 15-year Small Towns Water Supply and Sanitation Development Plan (2000–2015).

The STWSSP 1st phase built on considerable success in previous ADB-financed water supply and sanitation (WSS) infrastructure projects and relied on strong community participation. ADB’s previous four WSS projects were widely lauded for benefitting millions of poor throughout the country, and for the degree of sophistication in project design. Beneficiary participation on projects had steadily increased since the first water supply project in 1984, based on a simple, effective model of local involvement.

The new STWSS Project was planned to provide water supply, limited drainage, and sanitation facilities in 29 small towns spread over 12 districts across the country. It followed a demand-driven, interactive approach designed to ensure the participation of local water users’ groups and local NGOs in town project design, preparation, implementation, operation, and maintenance. The small towns were selected based on a set of criteria including the willingness of local water user associations to participate and to share 50% of the capital cost for water supply facilities. These agreements came about through open and transparent meetings of community members, especially women, where project objectives and potential costs and benefits were explained.

The Ministry of Physical Planning and Works was the project executing agency and the Department of Water Supply and Sewage (DWSS) was the implementing agency.

The objectives of the STWSS Project were to improve the health and quality of life of the people living in project towns by constructing water supply, drainage, and sanitation facilities and providing health and hygiene education; to support community participation by developing the institutional capacity of community water users and sanitation committees (WUSCs) and requiring water users to make cash or in-kind contributions to cover some project costs; and to promote community water quality monitoring.

The project had four components:

**Component 1. Public awareness campaign and health and hygiene education.** This included a community health and hygiene awareness program, strengthened community participation and town project ownership, and the construction of on-premise sanitation facilities.

**Component 2. Water supply and sanitation facilities.** This component included the construction of water supply schemes, basic storm water drainage, and sewerage systems with communal septic tanks and public latrines.

**Component 3. Technical Support to Water User and Sanitation Committees.** This component delivered technical and financial training to WUSC members and staff and established technical support centers in each of the five regional offices under the DWSS to provide post-construction fee-based services to WUSCs.

**Component 4. Project implementation assistance.** Under this component, the project delivered consulting services for project implementation support and activities such as town project feasibility studies, engineering designs, construction supervision, and training. It also covered vehicles and office equipment and the project’s incremental administrative expenses.

The project’s overall objective was poverty reduction through broad-based, labour-absorbing economic growth. The project’s emphasis on gender equality and inclusion was especially strong, since water supply projects target women as the traditional water carriers and users. The project facilitated the representation of women in WUSCs at 33% (higher in some instances), actively promoting women’s empowerment. Women’s participation in WUSCs enhanced their awareness and knowledge of sustainability in town projects, water quality issues, and family health and hygiene. Many women also rose to positions of leadership in the WUSCs, enhancing their own self-confidence and social roles.
Small Towns Water Supply and Sanitation Project Results

The project outputs included WSS services for 570,000 people in participating towns. Piped water supply systems were installed in 29 towns, for a total of 834 km of water pipes. Private water systems were installed in 76% of households, while the remaining 24% have access to 3,493 improved or newly installed community water taps. These systems have increased local water supply per capita, with full coverage of the service areas and water treatment to meet the drinking water standards of Nepal.

All water user associations were registered as per the Water Resources Act of 1992. Given the strength of participation and commitment by the communities and an average water tariff collection of 95%, they are likely to be sustained.

In many instances, even the very poor helped pay for associated fees by their donation of labor and constructions materials (sand, stones, etc.). During the course of the project, a revolving fund program was established to help those who could not otherwise pay some or all of the fees. This was accomplished in partnership with the United Nations Human Settlements Programme (UN-Habitat) and the government’s Town Development Fund. For example, of 12,161 participating poor households, 10,022 constructed latrines through partial subsidy and cost sharing.

Public awareness campaigns were conducted for 70,306 beneficiaries, with 73% female participation, to create awareness among local people on the project modality, including financing arrangements, roles of stakeholders, importance of women’s representation in decision making, significance of safe drinking water, and appropriate use and maintenance of household latrines.

The health and hygiene education program was comprised of both school and community health and hygiene education. It focused training in latrine construction, solid waste management, and animal waste management. NGOs provided the health and sanitation training to 3,133 community stakeholders and leaders, of which 58% were women.

A significant reduction in the incidence of waterborne diseases has led to healthcare cost savings. Hand washing practices, the use of toilets, and bathing habits in town project areas improved, and the average consumption of water for drinking and cooking increased by 21%, from 299 liters per day per household before the project to 363 liters per day after the project.

Four project towns were declared free of open defecation, with an increased number of households using private latrines and the new public toilets. Water supply and sanitation improvements and positive health and hygiene impacts have contributed to increased economic activity in the 29 project towns.

Improved access to WSS facilities also significantly reduced hardship and saved time for small town residents, especially women and children, who previously had to walk long distances to fetch water. Household time saved by the new water supply installations is as high as 4 hours per day in some districts. The human energy savings by easier, quicker access to water has improved the nutrition and health of children and mothers. Women and children have more time to devote to more meaningful endeavors such as schooling, childrearing, maintaining household and personal hygiene, and earning income. Reliable and convenient water supply was also found to be instrumental in promoting kitchen gardening, livestock keeping, and the operation of small enterprise activities and trade.

Long-Term Qualitative Benefits

The STWSS Project result with perhaps the most long-term sustainability and the most far ranging significance—tried here for the first time in Nepal—was the introduction of a cost-sharing mechanism combined with community participation in small town development. The project achieved a beneficiary contribution of 50% of the total capital cost of constructing water supply systems. As a result of lessons learned, and impressed by the positive example of the STWSSP, residents of other towns requested similar projects. The project was pioneering and innovative in demonstrating new, effective, and replicable development practices involving multiple stakeholders.

Nepal’s Urban Water Supply and Sanitation Policy of 2009 is also based largely on the experiences and lessons learned from the STWSSP.
selected as project participants. On the popularity and success of the STWSS Project, the former project director Tiresh Khatri said, “Its users have benefited greatly, so much so that many other towns want to join. So, when applications were solicited for the third phase, 80 towns applied for the 14 available slots. The STWSSP is also very much linked with the development of the Urban Water Supply and Sanitation Policy of 2009.”

The Melamchi Water Supply Project (MWSP, 2000–2016) was designed to bring abundant water to Kathmandu. The Kathmandu Valley, comprised of Kathmandu, Patan and Bhaktapur and several smaller towns, hosts the country’s single largest urban economy and is critical to Nepal’s economic growth. Water is central to the well-being of the population and the key to its productive capacities. Over the past few decades, however, the people of the valley (now over 2.5 million) have suffered from inadequate and unreliable clean water supplies and have resorted to bottled water, tanker truck deliveries, rainwater collecting or drilling wells, which has contributed to diminishing aquifers, increasingly polluted wells, and public health problems. Inadequate water supply and inferior water quality directly harm public health, especially of the poor.

To address these challenges, in December 2000, ADB financed the Melamchi Water Supply Project (MWSP) with a loan of $120 million. After adjustments and increased financing, the long-running MWSP is now estimated to cost the equivalent of $464 million in 2000 prices—ADB’s largest ever investment in the WSS sector, and second only to the Kali Gandaki–A Hydropower Project. After some unanticipated delays, the MWSP is expected to be completed by 2016.

Manoj Sharma, senior urban development specialist in ADB’s South Asia Department, said, “Once completed, the Melamchi tunnel will be a lifeline for the people of the Kathmandu Valley. The tunnel will not only bring the people of Kathmandu more clean water, but also support other downstream water supply and wastewater projects in the Kathmandu Valley.”

MWSP delays were caused by political and economic uncertainties, changes in project design, and more recently, the

“By participating in project planning, implementation, maintenance, and cost sharing... local residents are empowered with new knowledge and feelings of local ‘ownership’, assuring sustainability.”
need to find a new contractor to complete the 27.5 km tunnel construction. The first Melamchi tunnel contract was terminated in September 2012 due to unsatisfactory performance, but rebidding secured a new tunnel contractor in July 2013, with a completion date of 30 September 2016. When finished, the tunnel will deliver 170 million liters of water per day from the Melamchi River to Kathmandu.

The project is funded by the Government of Nepal and development partners including ADB, Japan International Cooperation Agency, Nordic Development Fund, and OPEC.

The project has four components. The first is infrastructure development—the construction of access roads, construction depots and the like, and the tunnel. The second is social and environmental support—including a social development program designed to mitigate project impacts and improve local living conditions through buffer zone development, rural electrification, health, education, income generation, and community development in the project’s 14 affected VDCs in the Sindhupalchok district.

The third component is institutional reforms—bringing changes in overall implementation strategy and a streamlined approach to management. For this, an additional $15 million loan was approved in 2003 to fund the Kathmandu Valley Water Services Sector Development Program (2003–2009). Under the program, three key institutions were created: the Kathmandu Valley Water Supply Management Board, to control water and wastewater assets within the Kathmandu Valley; the Water Supply Tariff Fixation Commission, responsible for economic regulation of the sector; and the Kathmandu water management company. Computerized billing and accounting systems have also been installed.

The fourth component is labeled “other project implementation support”—to implement improvements to the Kathmandu Valley water transmission and distribution network. This is supported by an $80 million ADB loan to run the Kathmandu Valley Water Supply Improvement Project (2011–2017). The project will take water from the treatment plant to valley households and reduce water leakage losses. In 2013, ADB approved another $80 million loan for implementation of the Kathmandu Valley Wastewater Management Project (2013–2019). The project is designed to expand and rehabilitate the sewerage network and build wastewater treatment plants to deal with more than 90 million liters of wastewater per day in the Kathmandu Valley.

During the course of the project, a number of laws have been amended or enacted to allow for the implementation of the sweeping, institutional reforms and other implementation support including private sector participation. This level of institutional reform in the urban water sector has few parallels in South Asia.

The Urban and Environment Improvement Project (2002–2011) was funded by a $29.2 million ADB loan. The project aimed to bring about sustainable development in nine municipalities, eight of which were outside of Kathmandu. It was the first decentralized urban development project aimed primarily at urban areas outside of the valley, consistent with the Local Self-Governance Act of 1999. Under the project, overall quality of urban life, especially personal hygiene and environmental sanitation, were expected to improve.

“Once completed, Melamchi tunnel will be a lifeline for the people of the Kathmandu Valley. The tunnel will not only bring the people of Kathmandu more clean water, but also support other downstream water supply and wastewater projects in the Kathmandu Valley.”
The Urban and Environment Improvement Project's components were municipal institutional strengthening and revenue mobilization, the provision of urban and environmental infrastructure, the provision of supplementary urban facilities, community development, and project implementation assistance. It was designed in support of the government's priorities to provide urban and environmental infrastructure and services, reduce poverty, decentralize authority, and strengthen municipal institutional capacities.

The project was designed during the civil conflict, at a time when it was difficult to keep pace with the rapid growth of the urban sector and the increasing demand for infrastructure and services for people in urban areas. It had become apparent that uncontrolled physical development, inadequate drinking water and sanitation services, deterioration of the environment, poor public services, and security issues were affecting urban life, particularly in some urban hill and Terai districts of the Central Development Region.

**Urban and Environment Improvement Project’s results**

(1) Institutional strengthening of municipalities. Capacity building in urban management and revenue mobilization was accomplished, including preparation of municipal action plans, training in revenue mobilization, strengthened house tax and customer databases, and computerized tax and service fee collection systems were introduced. Urban mapping using geographic information systems (GIS) technology was also introduced.

(2) Provision of urban and environmental infrastructure. Nearly half of the project investments were in sanitation and wastewater management, followed by drinking water supply. At project completion,
almost 50 km of sewer lines and 15 wastewater treatment plants were installed, and 4,719 households were connected to sewers. Water supply systems were implemented in five of the eight municipalities, and several water supply subprojects were prepared. A total of 359 km of pipeline was laid and 20,842 households benefited from increased water services.

(3) Provision of supplementary urban facilities. Bus parks were improved in five municipalities, and vegetable and meat markets were established at several sites, which increased revenue to the municipalities. Small urban community facilities, including public toilets, recreation parks, ghats (cremation sites), and other public infrastructures were constructed in several of the municipalities.

(4) Community development. A total of 18,126 people participated in health and sanitation awareness events and others received training in health education and sanitation, hygiene, and environmental improvement; 34,000 information, education, and communication materials were distributed; and 143 mass communication events were held. These activities enhanced health, education and environmental awareness, especially among poorer groups and school children. The participating municipalities received a community development program that especially addressed the needs of poorer residents. These included new and rehabilitated water supply facilities, construction of school and community toilets and other small community buildings, maintaining irrigation schemes, establishing waste collection containers, constructing household sanitation facilities, and constructing foot trails. Altogether, 1,288 small community infrastructure subprojects were completed, and a total of 3,330 participants received training in income generation techniques.

(5) Project implementation assistance. This result is comprised of various consulting assignments and incremental administration costs, including contracting local NGOs to conduct the community development program, and individual consultants for other functions.

The Community-Based Water Supply and Sanitation Sector Project (2003–2011), funded by a $23.3 million ADB loan, was implemented in 21 of the nation’s poorest, most isolated, and most conflict-affected districts in the Western, Midwestern and Far Western regions. The project had many similarities with our flagship case study, the Small Towns Water Supply and Sanitation Project. The project had design features similar to the STWSSP, and was specifically designed to rectify historical inequities in access to water supply and sanitation facilities.

The project had two components. One was for rural water supply and sanitation activities—including community mobilization and capacity building for sustainability, construction of community water supply and sanitation facilities, a health and hygiene program, and a gender, caste, and ethnic minority program. The project’s proactive, participatory, and transparent community mobilization activities were especially strong, some of
them in the most conflict-affected districts of western Nepal. And special attention was placed on the participation of women and socially excluded castes and ethnic groups.

The other project component promoted institutional strengthening—including the capacity of DDCs to provide water and sanitation facilities, and to support the national decentralization policy. It also built capacity in the Department of Water Supply and Sewerage of the then Ministry of Physical Planning and Works.

**Project Results**

Today, 507 water supply subprojects in 21 districts are in operation, benefiting a population of 640,165; 40% of households served by these 507 completed subprojects have experienced reduced poverty. A total of 44,163 household latrines were constructed (21% for ultra poor households with partial subsidy, 23% partially funded through a sanitation revolving fund, and the remainder on their own), and 355 school latrines were constructed.

A study of 28 completed subprojects reported increase in water consumption at household level and reduction in time spent in fetching drinking water; 690 water user and sanitation committees (WUSCs) were registered across the 21 project districts; and 1,827 school teachers and 6,925 WUSC members were trained in health and hygiene. The project assured equal representation in WUSC membership without discrimination by gender, caste or ethnicity. Female participation in the WUSCs was 3,214 out of a total membership of 6,264, or 52%, far exceeding the government's 33% target. In addition, project-wide, the WUSC included 19% Dalit and 14% ethnic minority membership. WUSC training packages focusing on gender, caste, and ethnic minority issues were prepared, trainings were provided, and awareness campaigns were carried out at district and community levels for almost 24,000 beneficiaries, mostly women.

The project's gender equality and social inclusion achievements were considered a highly significant, and a model for other communities and projects to follow.
To maximize health impacts, the project contracted local NGOs to provide training and support to 21 DDCs, participating VDCs, and community leaders in planning, monitoring, and evaluating sanitation and hygiene improvements, following guidelines set out for a basic sanitation package. At the beginning of the intervention, training was provided to the staff of local NGOs, community health volunteers, and WUSC members. A total of 21,031 participants received training under the awareness program on hygiene, health, and sanitation.

For local bodies capacity training, 607 DDC staff members across project districts received subproject administration training, and standards, manuals, formats, and technical guidelines—including guidelines for rural water supply and sanitation—were developed for their use. To further strengthen DDC capacity under the component to ‘provide water supply and sanitation services’, all 21 DDCs signed contracts with 174 local NGOs to assist with project implementation, especially on community level training and awareness campaigns. DDC staff and stakeholders received training to develop their own skills and to enhance their capacity to work with local NGOs and communities using a participatory, demand-driven approach. The project organized district-level orientations for DDCs and NGOs in all participating districts, and a total of 607 staff of DWSS, DDCs, and NGOs received training on the project’s community-based approach; on gender, caste, and ethnic minority issues; and on health and hygiene awareness.


The project also supported the Ministry of Physical Infrastructure and Transport in adopting the institutional changes required by the devolution of functions to the DDCs, and enhanced the capacity and confidence of the DWSS to take on new roles and responsibilities assigned under the government’s decentralization policies. Given that many of these activities were begun while the civil conflict was still on, and access by government officials to the remote rural areas were difficult, the devolution of project functions to DDCs and the use of local NGOs was necessary and it strengthened local participation and built local leadership in development activities.

Long-Term Impacts
Access to safe and adequate water supply and to appropriate sanitation facilities is vital to the good health of a community. ADB’s investments in this sector have positively affected the lives of millions of urban and town dwellers. From 2000 to present, ADB has invested over $380 million in urban water supply and sanitation projects. Add another $64 million for projects that ADB financed from 1984 to 2002, and the total reaches nearly $450 million. This includes the large Melamchi Water Supply Project that, when finished in 2017, will have a major positive impact on the lives of Kathmandu Valley residents and on the business and industrial community. All of these are worthy investments, providing essential services to their urban beneficiaries.

Assistance to the urban transport subsector also promises positive impacts, in part by helping the government address some of the serious challenges of traffic congestion and pollution. This, like water supply and sanitation, also offers clear benefits to people in the project areas. Given the rapid growth of Nepal’s urban centers, all of these projects and associated assistance to the government to enhance the lives of its urban dwellers will have payoffs far into the future.

“The project’s proactive, participatory, and transparent community mobilization activities were especially strong, some of them in the most conflict-affected districts of western Nepal.”
25 years on the ground: ADB–NepAl pArtNership for iNclusive DevelopmeNt
Overview

Finance and financial accountability are at the heart of all development endeavors. Rural microfinance, in particular, is a crucial ingredient to achieving the development aims of the government, development partners, NGOs, and a citizenry intent on reducing poverty in the rural areas. Microfinance and/or microcredit programs in Nepal have had an especially effective impact on poverty reduction, and on promoting gender equity and inclusiveness.

Today, Nepal’s rural microfinance sector comprises many formal lending institutions for the poor, with broad coverage across the land. But, it wasn’t always so. Traditionally, the poor had virtually no formal access to credit. Nepal’s rural poor lived under circumstances of geographical diversity, practicing age-old methods of farming and often suffering from underemployment, isolation, poor connectivity, and the social exclusion of women and marginalized castes and ethnic groups. The poor turned to the usual sources of borrowing to cover household or community needs; such informal cultural institutions as small mutual aid societies, rotating credit associations, friends, neighbors, and moneylenders. But these sources were limited and often discriminatory—not suited to the pursuit of economic or personal growth. They provided nothing in the way of skills development or other assistance to individuals or groups seeking to invest in agro-based (or other) microenterprise development.

This bleak situation began to change during the 1960s, with the opening of Nepal’s first formal microfinance institutions. In the 1960s, over 95% of the population of over 10 million lived in rural areas and depended on subsistence agriculture. Many were severely isolated with no means of accessing public services, like banks (or schools and health facilities, nor roads to conveniently reach them). In 1963, to remedy the lack of financial services in rural areas, the government founded the first cooperative bank, followed in 1967 by its successor, the more broad-based Krishi Bikas Bank—the Agricultural Development Bank of Nepal (ADBN).

ADBN was established to provide accessible credit to individuals, groups, cooperatives, and business entities in order to enhance production and productivity in agricultural and other nonformal rural enterprises. The main targets for its services were rural, poor individuals and groups. For 3.5 decades, ADBN managed nearly all donor-assisted agricultural credit programs and projects.

In the late 1970s, ADBN piloted an even more ambitious microcredit initiative, the community-based Small Farmer Development Program, which operated from local offices in the rural areas. SFDP was fully operational from 1981 to 1992. During that time, it became well known for revolutionizing microfinance in rural Nepal by mobilizing small farmer groups around common economic activities and production resources, providing credit to enable these groups to undertake income-generating activities, and giving training and technical assistance to ensure effective results. Overall, SFDP was considered highly successful, and several of Nepal’s development partners invested in projects using its services.

Over time, however, SFDP suffered from sustainability issues and, upon further scrutiny, it became clear that ADBN itself was in trouble—plagued with inefficient management, poor supervision, and a poor repayment record, which undermined its financial stability.
The need and demand for microfinance programs remained high and was growing, but the fundamental institution through which such programs functioned was financially and managerially unhealthy. It lacked diversification, innovation, and a supportive infrastructure, all of which were considered crucial for sector growth and efficiency.

By 1989, ADB and other development partners pointed out the need for serious institutional changes in ADBN and throughout the larger national finance sector. In time, ADBN's senior management began implementing a series of reforms, some of which were accomplished. Many, however, were stymied by political interference, staff union concerns, client opposition, and an inefficient internal management style. Reform continued slowly, and well into the early 2000s, effective institutional restructuring occurred.

Meanwhile, other microfinance institutions were emerging as demand from rural areas increased. The more formal microfinance institutions were licensed and supervised by the central bank (Nepal Rastra Bank), while semi-formal microfinance institutions operated under special legislation at lower levels of service. In 1998, an important new addition to the microfinance subsector, the Rural Microfinance Development Center (RMDC), was created with ADB assistance. The RMDC became the apex institution dedicated to providing wholesale funding to smaller intermediary microfinance institutions nationwide.

This was a crucial time in the history of the finance sector and microfinance subsector reforms. Assistance in designing necessary reforms came from several of Nepal’s bank-based development partners. For example, the World Bank helped restructure state-owned commercial banks. The International Monetary Fund helped reengineer and strengthen the central bank. And ADB played a key role in the rural and microfinance subsector.

In 2001, after careful examination of the issues, SFDP was restructured to become the Small Farmer Development Bank (SFDB), functioning as a wholesale microfinance bank providing financial and technical support services to borrowers through its subsidiary the Small Farmer Cooperatives, Ltd. In 2004, the Bank and Financial Institution Act was passed, abolishing all prior acts related to financial institutions including the ADBN Act of 1967. The following year, ADBN was incorporated as a public limited company, redesigned to operate as a category ‘A’ commercial bank, and renamed Agricultural Development Bank, Ltd. (ADBL). The government then divested almost total ownership in it by selling 49% of its shares to private investors. Then, to be fully accountable to its investment partners, ADBL management improved internal governance, strengthened management, and significantly improved the bank’s financial health.

The series of reforms and restructuring of the finance sector and microfinance subsector since 2000 reflected the goals outlined in concurrent national development plans, especially the Tenth Five Year Plan (2003–2007) that introduced the comprehensive Poverty Reduction Strategy.

There are now 12 microfinance development banks nationwide, plus 16 financial cooperatives, and 45 financial NGOs. The demand for microfinance services countrywide is strong, and growth in this subsector is high. What started small in the 1960s—to provide microcredit services in remote rural areas as a means to alleviate poverty and uplift the poor has become a major success story.
ADB’s finance sector investments in Nepal began in 1970 with the 5-year Agricultural Credit Project, the first of a series of six agricultural credit projects. By the time the Sixth Agricultural Credit Project was finished in 1996, ADB had financed over $118 million in credit to the sector, some of it through the SFDP of ADBN. ADB’s role in supporting the microfinance subsector from the 1990s on has made a significant impact on the sector’s health and sustainability, as a reflection of the government’s finance sector strategic plans.

In the 1990s, when it seemed that the much-needed reforms to the finance sector were slow to be implemented, ADB pursued alternative means to provide rural microfinance services, through several projects and a program designed in partnership with the government. Over the long term, the lessons learned from working with the government on microfinance in the rural areas during the 1990s and early 2000s informed the restructuring that took place later in the 2000s. It took well over a decade, but ADB’s experience in the microfinance subsector influenced the preparation of the Microfinance Policy of 2008, and much of the groundwork for the forthcoming new Microfinance Act. Two ADB-financed projects and one program
were of great importance to this. They were the Microcredit Project for Women of 1993 to 2002, the Rural Microfinance Project of 1998 to 2007, and the Rural Finance Sector Development Cluster Program Subprogram–1 from 2006 to 2012, and its follow-on Subprogram–2, which is ongoing.

ADB led the development of the Microcredit Project for Women (1993–2002) with a $3.6 million loan and grants totaling another $1 million. Norway financed another $3 million, and the remainder of the $11.163 million project costs came from the government, participating banks, local NGOs, and beneficiaries. Participating banks were the Nepal Bank Limited and Rastriya Banijya Bank. The beneficiaries were thousands of hill and Terai residents of the 182 participating rural VDCs in 12 districts and from five towns.

The premise of the project was that providing microcredit to low income individuals gave them the means to become self-sufficient through entrepreneurship. It was designed to issue small loans to women’s groups to help them facilitate savings and use credit to invest in microenterprises, eventually lifting their families out of poverty. The objective was to enhance the socioeconomic status of women, promote their greater participation and integration in national development, and contribute to poverty reduction. This was done by providing credit, skills training, and other support to the women through self-help groups. The project was facilitated by the Women’s Development Division of the Ministry of Local Development with local assistance by NGOs.

The project had three components: (i) group formation and training of women beneficiaries, (ii) institutional support to selected NGOs (many of which became qualified financial intermediaries) and (iii) the provision of credit to women.

The project’s major achievements are listed below. The project:

- impacted 41,684 women beneficiaries (over twice the anticipated target) through the formation of 6,512 self-help groups;
- trained 26,600 women in financial services, enterprise selection, and business finance;
- trained 21,360 women in vocational skills, income-generating activities and management, the majority of whom were also introduced to new technologies and to improved traditional technologies;
- supplied credit services to about 13,280 women;
- assisted 82 out of 1,811 self-help groups (involving 10,282 women) to become federated as savings and credit cooperatives;
- involved and helped develop 38 partners comprised of 29 local NGOs and nine savings and credit cooperatives that eventually became financial intermediary NGOs; and
- documented nearly NRs 20 million (just under $200,000) generated by group savings.

Two aspects of the project became important steps forward in the provision of rural microcredit nationally. One was the concept of group formation and group-based lending, to get around the problem of women’s lack of collateral for credit. This concept had been successfully tried by the Small Farmers Development Project (SFDP) in the 1980s. But as adapted for the Microcredit Project for Women, local self-help groups were federated into more formal local savings and credit cooperatives.

The project’s basic women’s group formation and credit lending functions operated like this: First, the local financial intermediary NGOs identified communities with poor rural women from households with small land holdings (0.5 ha in the hills, 0.6 in the Terai) as

“Rural microcredit in Nepal is not only reducing poverty, but also empowering women and breaking down gender barriers.”
potential borrowers. To begin with, only two members in a group could take loans, but after successful repayment, more could apply. The representative of the financial intermediary associated with each group gave members a pre-credit orientation, and some minimal assistance to borrowers. Loan amounts ranged from NRs 5,000 (about $50) to NRs 20,000 (about $200) at an annual interest rate of 20% (10% flat), for 1 year each. The majority of loans were for livestock investments (primarily water buffalo); others financed vegetable farming, small stores, cottage industries and other on-farm and non-farm income-generating microenterprises. Vocational skills and management trainings were provided through the project’s outreach program. Loan appraisal was carried out by group members and center leaders, with NGO staff verifying the information and periodically visiting the client enterprises being funded.

A second unique aspect of the project was the use of local NGOs as social mobilizers and financial intermediaries. Following the restoration of democracy in 1990, the number of NGOs working in local development rose dramatically. On the Microcredit Project for Women, selected NGOs were first engaged as project facilitators, assisting the local Women Development Division staff. Then, through a process including relevant training as social intermediaries and credit agents, many of them qualified to become full-fledged financial intermediary NGOs, for facilitating microcredit services. Ultimately 29 NGOs and nine savings and credit cooperatives graduated to become financial intermediary NGOs and financial intermediary-saving and credit cooperative, respectively. By the end of the project, after advanced training in business and financial management, they were eligible for wholesale loans from the newly established Rural Microfinance Development Center (RMDC), which was a major development on the overlapping Rural Microfinance Project.

Microfinance is a powerful tool for alleviating poverty. By involving poor and low income households in financial services such as savings and credit, payment services, money transfers, and insurance, they are better able to plan and implement productive microenterprises for economic development. But, besides raising the status, roles, and lives of participating women, the project helped enact the Financial Intermediary Societies Act of 1999, its bylaws and amendments. SFDP’s transition to a microfinance bank (SFDB), and the restructuring of the Agriculture Development Bank of Nepal into the Agriculture Development Bank Ltd (ADBL), were also major transformations facilitated under the project.

In 1997, ADB financed the Rural Microfinance Project (RMP, 1998–2007), while the somewhat similar Microcredit Project for Women was ongoing. The RMP was designed and implemented after the government requested ADB to finance another project targeting the rural poor with financial and technical services under the government’s then-new Agricultural Perspective Plan (1995) and other reforms being planned in the rural finance sector. The RMP cost $30.2 million, of which ADB financed 59% with a $17.8 loan. The remainder came from the government, participating commercial banks, beneficiaries, and the implementing agency. At first, it worked in 10 mid-hill and Terai districts, and was later expanded to 26 districts.

A primary objective of the RMP was to improve the socioeconomic status of women and increase employment opportunities by improving women’s access to financial services and microenterprise development through the provision of a revolving line of credit to finance farm and off-farm economic
enterprises. Much like the Microcredit Project for Women, the RMP helped mobilize women and improve their skills and capabilities, assessed local investment opportunities for them, and supported their access to markets.

The RMP also provided capacity building and institutional strengthening to the Nepal Rastra Bank (NRB), and it helped establish the Rural Microfinance Development Center, Ltd. (RMDC). That latter was a major achievement of far reaching significance to microfinance programs in Nepal. Until the formation of the RMDC, a number of financial institutions have been licensed by the NRB to operate in various parts of the country, but there was no wholesale lending agency in the microfinance sector. The RMDC filled this gap, as a public company mandated to operate as the apex development bank for promoting and developing the rural finance sector by supporting of smaller, less financially able microfinance institutions.

Today, RMDC credit is available through affiliate partners to the largest number of poor and disadvantaged households in the country (mainly women living below the poverty line) in 67 of Nepal’s 75 districts. It works through a network of 186 partner organizations, including 141 cooperatives, 24 financial intermediary NGOs, 11 microfinance development banks, and 10 other development banks implementing microfinance programs for the poor.

The RMP’s three components and their results are these:

Component 1. Rural microfinance for agriculture and microenterprise activities. This component’s activities reached about 400,000 people, through 58 microfinance entities under the RMDC, which extended about 1,200,000 subloans to microenterprises (close to 3 times the initial target). This achievement was possible due to the strong commitment of the RMDC and its partner
implementing organizations to promote social mobilization, and the encouraging responses from sub-borrowers. Credit was made available through a revolving Rural Microfinance Development Fund totaling about $20.2 to on-lend to the implementing microfinance institutions. The average size of the sub-loans to local borrowers was around NRs 3,000 (about $30), and the recovery rate was 100%, which still continues. The loan term for first time borrowers was 2 years, which could be raised to 3–5 years on subsequent loans.

Over 364,378 sub-borrowers participated in capacity building programs (trainings, workshops, and exposure visits), which motivated local borrowers (mainly women) to form self-help groups and participate in a variety of economic development and microenterprise initiatives. Thus, rural microcredit in Nepal is not only reducing poverty, but also empowering women and breaking down gender barriers. Collectively, they mobilized over $21 million (far outpacing a target of $2 million). During the project period, RMDC disbursed a total of $36.4 million in loans (almost double appraisal target).

Component 2. Group formation and strengthening. Work on this component was conducted by the partner implementing agencies, by providing sub-borrowers training in topics lumped broadly into two categories: group strengthening, and income-generating and skills development. Trainings included topics such as social awareness, women’s empowerment and economic participation, and basic bookkeeping and accounting. Altogether, RMDC’s partner implementing agencies trained 364,378 sub-borrowers in 12,585 training programs. These activities increased the credit absorption capacity of the borrowers and helped build a sense of ownership.

Component 3. Institutional strengthening. The project strengthened the NRB, the RMDC, and the implementing agencies through improved management strategies and operating procedures, including staff training at all operational levels. The RMDC, committed to strengthening the capacity of participating microfinance institutions, sponsored on-site trainings in group dynamics, financial management, business planning, microfinance principles and practices, credit management, and participatory rural appraisal. For developing and installing appropriate operating systems and practices, the RMDC hired field consultants who came to be known as the “barefoot bankers” (highly skilled, with previous experience in the microfinance sector).

Altogether, 10,140 implementing agency staff participated in capacity building programs. And because 45 of the 58 partner implementing agencies were newly established, the RMDC served as an incubation center for them.

Beginning in 2006, ADB financed the Rural Finance Sector Development Cluster Program (RFSDCP), in two phases: Subprogram–1 (2006–2012) and Subprogram–2 (2010–2014). The RFSDCP was organized using the cluster approach to development, which provided a flexible approach to a very complex reform agenda. This program is undoubtedly one of the most important initiatives supported by ADB in the finance sector. Its accomplishments in the first 6 years under Subprogram–1 represent the culmination of slightly more than a quarter century of funding, support, and technical assistance to Nepal’s finance sector, especially in rural microfinance.

Subprogram–1 accomplishments fall into six categories: (i) preparing a microfinance regulatory and supervisory framework, (ii) restructuring ADBL for privatizing, (iii) restructuring and privatizing SFDB, (iv) establishing the National Banking Training Institute (NBTI), (v) strengthening the debt recovery tribunal, and (vi) strengthening microfinance credit information services.
Specific results include the development of women-friendly lending products and financial services. The RFSDC program has extended the credit outreach of ADBL to 180,000 accounts (24% women), and the credit outreach of SFDB has increased to 335,000 accounts (37% women). Growing access to finance in the hills and mountain areas by upgrading women self-help groups into cooperatives has resulted to 142,514 accounts (63% women). The project provided support to build the capacity of 175 women cooperatives to develop need-based skills and entrepreneurship, and has provided wholesale loans amounting NRs 4.5 million (about $44,400). At the policy level, inclusive finance has been integrated in the training courses conducted by ADBL and staff trained on inclusive finance principles and practices.

**Long-Term Impacts**

The financial sector and the rural poor of Nepal have benefited incalculably from ADB’s long and substantial involvement in the finance sector and microfinance subsector. ADB's support in the finance sector has focused on developing an enabling environment for the rural finance sector through policy, legal, regulatory, and institutional reforms to make financial services more accessible to the poor and rural areas. As a consequence, the poor and women—who, in the past, had virtually no chance of getting a bank loan and whose traditional means of borrowing were to usually too ephemeral to encourage them to invest in a new economic enterprise—now have relatively easy access to credit for microenterprise development. In place of the physical collateral they typically do not possess, they now rely on social collateral through community groups to anchor loans. Recovery rates are high and the microfinance system is remarkably stable. Over time, ADB’s work to improve the microfinance subsector has proven effective in reinvigorating peoples’ prospects for getting out of poverty and enhancing their livelihoods. The rural population now faces a brighter financial future because of it.
The establishment of the Rural Microfinance Development Center, Ltd. (RMDC) in 2008 was a major achievement under the Asian Development Bank-financed Rural Microfinance Project (RMD). Before that, a number of financial institutions had been licensed by the Nepal Rastra Bank to operate in parts of the country, but there was no wholesale lending agency in the microfinance sector. The RMDC filled this gap, as a public company mandated to be the apex development bank for promoting and developing the rural finance sector by supporting smaller, less financially able microfinance institutions.

RMDC’s chief executive officer, Shankar Man Shrestha, has described the start of RMDC like this: “When RMDC began its journey... there were very few microfinance institutions (MFIs) in the country through which it could reach out to the poor with quality microfinance service. Most of the current large MFIs were in the form of small, social organizations and microfinance was a completely new domain for them. Recognizing this gap, RMDC had to give its utmost focus on promotion and development of quality MFIs in its beginning years.”

Founded in 1998, RMDC began lending support to smaller microfinance institutions in 2000, along with group mobilization and institutional capacity building. It started small, but by the end of the project, operations were being implemented in 57 districts. Today, RMDC credit is on-lent through affiliate partners to the largest number of poor and disadvantaged households in the country (mainly women living below the poverty line), in 67 of Nepal’s 75 districts. It works through a network of 186 partner organizations including 141 cooperatives, 24 financial intermediary NGOs, 11 microfinance development banks, and 10 other development banks implementing microfinance programs.

RMDC’s 2012/2013 Annual Report says that it has disbursed a total of $8.85 million (NRs 8.85 billion) in loans through its microfinance institution partners to around 1.5 million families. The RMDC’s loan recovery rate is a high 99%, and RMDC partner shares comprise nearly 70% of the entire microfinance industry’s business in Nepal.

The following story best illustrates how the RMDC and its affiliates function, and their significant impact of empowerment to poor rural women and women’s groups:

**Funding a Microcredit Revolution**

_Rural microcredit is not only reducing poverty in Nepal; it also empowers women and breaks down gender barriers._

Against the backdrop of the Himalayas, 50 members of the Lamidanda Village Women’s Self-Help Center, all wearing blue saris and traditional ornaments, are gathered at a member’s home for a group meeting. As local officials and visitors look on, they recite their group oath, resolving not to discriminate against members of disadvantaged castes, to spend wisely, to save, and to abstain from alcohol and tobacco. They then get down to business.

“Namaste, sisters,” says Mana Kumari Shrestha, 37. “I need to borrow 4,000 rupees” (about $40). When asked by the coordinator why she needs additional funds after borrowing NRs 18,000 (about $180) previously, “I need some money to pay my children’s school
“We have been encouraged by the microfinance success stories and the loan repayment rate of 99%. We should be able to replicate this model on a wider scale,” says Raju Tuladhar, a Kathmandu-based ADB officer responsible for the microfinance sector.

Success stories
Ask around, and you’ll hear similar local success stories. For example, Sanjamaya Lama, a 41-year-old widow, is coping with a relatively small loan. “I took about 18,000 rupees (about $180) and used some of it to rear goats and buffaloes,” she says. “The rest is invested in my children’s education.” To pay it back, she says: “We make some income. And I also got work at a construction site. No worries—I will have no problem saving so that I can pay it back.”

And, Sabita Lama, who runs a café beside a busy highway, says “Being part of the group has not only honed our community, or team spirit, it has also trained me to speak before a group and deal with strangers properly. I feel good, more confident.” With the support of a loan and working with her husband, Sabita now makes NRs1,000 (about $10) daily.

Access to microcredit through an RMDC affiliate, like the Center for Self-Help Development, has given the women of Lamidanda and thousands like them in other communities, a new lease on life.
The ADB-financed Rural Finance Sector Development Cluster Program was implemented in two phases, as Subprogram–1 (RFSDCP–1, 2006–2012) and Subprogram–2 (RFSDCP–2, 2010–2014). RFSDCP–1 was financed by an $8.7 million ADB grant, plus $2.77 from the government for a total of $11.47 million. The second phase of the program, RFSDCP–2, is financed by a $60.4 million ADB loan plus grants totally $12.4 million. This case study focuses on the substantial accomplishments of RFSDCP–1, in facilitating major changes to microfinance subsector banking.

The RFSDCP–1 was designed to address fundamental weaknesses in Nepal’s rural finance sector resulting from extensive politicization, repressive policies, interference in loan collection, and market distortions. The main significance of this program was its role in overseeing a comprehensive reform agenda which saw the Agricultural Development Bank of Nepal (ADBN) restructured into a commercial bank and renamed the Agricultural Development Bank, Ltd. (ADBL); the subsidiary Small Farmer Development Program (SFDP) restructured as the Small Farmer Development Bank (SFDB); and government divestment of the Grameen Bikas Banks, allowing them to become autonomous financial service providers.

The following results were achieved under the program’s five components:

**Component 1. Creating a favorable policy environment.** The program provided institutional support to the Nepal Rastra Bank (NRB, the central bank) in its role as regulator over rural finance institutions. This included divestment of government shares in ADBL and SFDB and the promotion of private ownership in them, phasing out insolvent rural finance institutions, and discontinuing interest rate ceilings to financial institutions.

**Component 2. Facilitating institutional restructuring and reforms.** The program facilitated three sets of reforms:

(a) to ADBL, by financial restructuring, divestment of government shares, completion of internal changes and improvements, upgrading the management information system, developing a business plan, attaining viable commercial operations, and establishing anticorruption measures;

(b) to the SFDB, by pursuing its restructuring plan in association with its cooperatives under the Small Farmer Cooperatives, Ltd. (SFCLs), to adequately supplement ADBL’s efforts at satisfying the credit needs of small farmers that other commercial banks do not consider viable; and

(c) to the Grameen Bikas Bank of Nepal, primarily by divestment of the five regional Grameen Bikas banks from the NRB, which enables them to function as autonomous financial service providers.

**Component 3: Develop a supportive legal and regulatory framework.** The program improved supervision and regulation of rural finance institutions and cooperatives, including debt recovery.

**Component 4: Sector capacity building.** The program oversaw the establishment of the National Bank Training Institute as an autonomous, private training academy under auspices of the Nepal Banker’s Association.

**Component 5: Supporting product and process innovations.** The program assisted in the development of an action plan for crop insurance and remittance services (which were not fully completed primarily due to lack of infrastructure).

The reforms and restructuring accomplished by Subprogram–1 were consistent with the aim of the Government of Nepal to comprehensively reform and develop the rural finance sector in the quest to further the national
poverty reduction goals for poor rural farmers through self-employment generation and microenterprise development.

**Long-term impacts**
This program has been a catalyst spurring the essential reforms and restructuring of Nepal’s microfinance subsector. Its activities have impacted millions of the rural poor as potential borrowers and depositors in ADBL, as clients of small farmer development cooperatives under the newly designed Small Farmer Development Bank and of other cooperatives serving remote communities, and of the remote branches of the Grameen Bikas Bank. In short, it has impacted millions who, only a few decades ago, had virtually no access to microcredit.

In the even longer term, the experiences gained from this and other ADB-financed microfinance projects have influenced the development of the government’s new Microfinance Policy and the pending Microfinance Act, which will ultimately impact future generations of small rural householders in their efforts to escape poverty, by using credit to invest in ways that will improve their livelihoods. And, the founding of the National Banking Training Institute stands as a finance sector development success story with potential impacts reaching far into the future of the finance sector.

**National Banking Training Institute**

The National Banking Training Institute (NBTI) was founded in 2009 with support of the ADB-financed Rural Finance Sector Development Cluster Program (RFSDCP). It serves as Nepal’s national level apex banking and finance academy. It was established under the aegis of Nepal Bankers’ Association, and is a member of the Asia Pacific Association of Banking Institutes.

NBTI’s purpose is to raise the professional standards of the Nepal banking and financial sector. Its vision is to be a catalyst for (i) the establishment of banking standards, financial services, and rural finance proficiency; (ii) the development of a nation-wide system of training and awards for achievement of these standards; and (iii) recognition of these awards as the equivalent of those from other professional bodies.

Its four areas of operation are training, research, its academic program, and consulting.

**Training.** NBTI caters to the needs of the financial industry (banking, finance, management development), and rural and microcredit institutions. Training categories include customer services, loans, trade finance, credit, treasury functions, management development programs, compliance and internal audit, and executive education. Between 2009 and December 2013, NBTI conducted over 240 trainings and workshops, for over 6,000 individuals, establishing its position as the leading training institution in Nepal’s banking and financial sector. In also conducts special programs around the country on topics such as: remittance operations, project financing, risk management, corporate governance, credit management, and debit and/or credit card and ATM management.

**Academic program.** As a degree-granting institution with affiliations and accreditations, NBTI presents cutting-edge programs and joint programs with foreign institutes. Its diploma course focuses on industry-specific skills, including communication, customer service, financial processes and products, technology and data management, and personality and behavioral skills development.

**Research.** NBTI relates to the financial sector on areas of professional development, industry trends, financial and economic indicators, microcredit, cooperatives, and new technologies.

**Consulting.** NBTI provides innovative solutions, knowledge, and tools, to solve complex industry issues.

The NBTI is governed by a board of directors representing the Nepal Rastra Bank (central bank), commercial banks, and the Rural Microcredit Development Center. It maintains close promotional relationships with 21 other banking institutions, and with the Asian Development Bank as a grant partner. It recently shortened its name to National Banking Institute; website: http://nbi.com.np.

Sources: N.H.Dhakal, ‘Case Study of National Banking Training Institute, Nepal’ (ADB, 2014) and the NBI at nbi.com.np.
PUBLIC SECTOR MANAGEMENT AND GOVERNANCE
Overview

Since passing the Peace Accord of 2006, which ended a decade of civil conflict, Nepal has been going through a difficult period of political transition. The past decade has seen frequent changes of government, the lack of local elections, and strong differences among political parties, leading to slow progress in drafting a new constitution. Much of what the government and its development partners now face is rooted in the political, social, and economic causes of the civil conflict. While there are striking variations at district and regional levels, generally speaking, the challenges to progress today reflect those causes, including poverty, illiteracy, unemployment, poor transport connectivity, limited access to essential services (health, education, etc.) particularly in remote rural areas, and widespread social inequities (exclusion of women, and of disadvantaged and marginalized caste and ethnic groups). While the situation appears onerous, it is important to point out that many government acts and policies have been passed and development programs and projects designed and implemented to mitigate the problems. Some notable progress has been made—poverty has been reduced; illiteracy has decreased; new economic opportunities have opened up (largely through labor migration abroad); public participation and community involvement in local affairs have increased (but need further strengthening); and gender equality and social inclusion are being mainstreamed nationally (though not without difficulty).

Atop all of the challenges is a persistent concern with weak governance at both central and local levels and with problems of public finance management (PFM). In a nation
where poverty reduction is a major concern (as laid out in the Poverty Reduction Strategy of 2002), the necessity for strengthening governance processes at all levels is primary. As it seems clear that the new constitution will be designed to support some form of federated democracy, the need to strengthen governance processes at the local levels is of paramount importance.

In particular, national and subnational PFM systems are considered deficient and unreliable in many ways. Budget delays and poor performance are key areas of concern, including approval, release, implementation, reporting, and auditing. Internal audits, for example, do not comply with international standards, and external audits are weak. Consequently, concern with fiduciary risk is high.

Within the PFM system, procurement has been especially problematic and there is a widespread perception of corrupt practices, especially by collusion, intimidation, and extortion at all levels. Early on, the government addressed some of the inherent problems in the Financial Procedures Act 1999 and the Financial Procedures Rules of 2007, and more recently with development of the Public Finance Management Reform Program in 2009. Since then it has gone even further, by establishing a Public Procurement Monitoring Office, and by standardizing procurement processes with an electronic bidding system. Other reforms include installation of an integrated financial management information system, and capacity development of the relevant offices and agencies including the Comptroller General’s Office.

At the local level, the legal and regulatory framework for decentralization and local governance policy is guided by the Local Self-Governance Act (1999) and Regulations, the Local Body Finance and Administration Regulations (2007), and the government’s White Paper on Local Development Self-Governance (2007). Over the past decade, considerable devolution of central government responsibilities to subnational government entities (local bodies: DDCs, VDCs, and municipalities) has occurred, including financial resources and associated PFM responsibilities and authority. This, in turn, has heightened the need for capacity building at local levels, especially in governance in general and financial management in particular. Typically, local bodies earn about one-third of their revenue from local taxation and service fees, while most or all of the remaining two-thirds comes through grants from the central authorities. Thus, the responsibility and accountability of local bodies to manage local public finances has increased. But, while rules and regulations exist to guide them, the ability of local bodies to manage PFM functions (procurement, for example) is not yet well established, increasing the potential for fiduciary risk.

To address these issues, in 2008, the government established its Local Governance and Community Development Program (LGCDP). Now in its second phase (2013–2017), LGCDP aims to: (i) strengthen governance and service delivery; (ii) oversee and reform financial management, especially fiscal transfers and associated issues on fiduciary risk; (iii) enhance local development with socioeconomic and infrastructure improvements for better public services delivery; (iv) increase social mobilization, especially the engagement and empowerment of women and disadvantaged groups; and (v) promote and ensure community participation in financial and development planning, implementation, and monitoring. ADB, along with other development partners, is financing and assisting with the implementation of LGCDP objectives and outcomes.
Asian Development Bank’s Role in Nepal’s Public Sector Management and Governance

In the quarter century since ADB opened its first resident office in Nepal in 1989, and particularly since it formally became the Nepal Resident Mission (NRM) in 2002, ADB has been deeply concerned about development member country governance and public sector (particularly finance) management. Over the years, the ADB Nepal country program has supported the government’s plans and strategies for good governance and public sector management, while highlighting the need for stronger institutional capacity and policy reforms, especially to streamline business processes, improve overall finance management performance, reduce fiduciary risks, encourage private sector involvement, and promote community-based inclusive processes including participatory approaches in local development.

Improving governance and fighting corruption are critical to reducing poverty, which is the overarching mission of ADB. Governance is one of three pillars of ADB’s poverty reduction framework (alongside pro-poor sustainable economic growth, and social development). In 1995, ADB became the first multilateral development bank to adopt a governance policy that applied to all its operations. And it adopted an anticorruption policy in 1998.

In Nepal since the mid-2000s, ADB has provided assistance to strengthen governance in line with the strategic framework for action that guides ADB’s governance and anticorruption work, namely ADB’s Second Governance and Anticorruption Action Plan (GACAP-2, 2006). The GACAP-2 framework outlines a risk-based approach to managing governance and fighting corruption, and determines how to focus efforts in three priority areas in the sectors where ADB operates: (i) improving public financial management; (ii) strengthening procurement systems; and (iii) combating corruption. GACAP-2 targets improvements in: (i) country-level partnerships and strategies (CPS) for social and economic development, (ii) program and project-level design, (iii) program and project-level administration and management; and (iv) institutional skills, capacities, and operating practices.

In applying the framework, ADB works with the representatives of each of its developing member countries across the Asia and Pacific region to design and deliver quality projects and programs to meet their unique needs, in line with national development policies, plans, and strategies.

Each national GACAP-2 program begins with in-depth assessments at country-, sector- and project-levels to identify potential reform and institutional capacity building needs. In Nepal, those assessments were carried out at the country-level on public financial management, procurement and combating corruption (completed in 2009), at the sector level on urban development and rural infrastructure (in 2009), and at the project level on 21 projects comprising agriculture (4), urban
infrastructure (5), finance (2), transport (3), governance (4), education (1), and energy (2) (in 2010). The assessments identified critical areas for action and made recommendations for building leadership, encouraging management and staff to focus on project supervision, improving accountability, delegating responsibility, improving in-house skills and capacities, and increasing access to experts.

GACAP-2 actions and outcomes in each country are then categorized in terms of four key results areas (KRAs):

**KRA-1:** Improve identification and management of governance, institutional, and corruption risks in country strategies and programs, midterm country strategy and programs reviews, and annual country portfolio reviews.

**KRA-2:** Strengthen governance and anticorruption components in program and project design—Under KRA-1 and -2, the three governance themes critical to development assistance effectiveness and poverty reduction are: public finance management (PFM), procurement, and combating corruption. These themes apply to national and subnational levels of government (Nepal's local bodies: DDCs, VDCs and municipalities). ADB bases its support on host national demand, the role of other donors, and its own comparative advantage and expertise. Basically, it supports DMC-led, long-term, program-based approaches.

**KRA-3:** Strengthen program and project administration and portfolio management—KRA-3 addresses the management of finances, procurement, and corruption risks during implementation. This requires an appropriate mix of skills and resources and the flexibility to introduce new risk management mitigation measures as the situation demands. ADB specifies ways

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## Local Governance and Community Development Program’s Local Governance and Accountability Facility

An innovative special feature of the Local Governance and Community Development Program (LGCDP) is its Local Governance Accountability Facility (LGAF). This semi-autonomous support mechanism engages citizens and civil society organizations with local government bodies by strengthening the ‘downward accountability’ of local authorities, especially given their increased financial management responsibilities and accountability. It operationalizes LGCDP’s information, education, and communication functions.

### Objectives

LGAF provides grants and capacity development assistance to civil society organizations (CSOs) including community-based organizations, NGOs, media organizations and networks for easy and inclusive access to public services, and to CSOs involved in monitoring local public finance management (PFM). Its objectives are to:

- develop citizen capacity, especially of women and disadvantaged, to increase local governance transparency and accountability;
- support CSOs advocating for easy and equitable access to better public services;
- support citizen engagement in monitoring local governance and tracking financial transactions;
- improve coordination and linkages among citizens and between civic organizations and local bodies; and
- provide feedback to local governance bodies, and upward, regarding citizen participation and downward accountability in local governance.

LGAF provides grants to CSOs for activities such as social audits, public hearings, citizen report cards, client satisfaction surveys, corruption surveys, public expenditure reviews, gender-sensitive and inclusive planning and budgeting, and other advocacy and monitoring activities. It also provides financial support and technical assistance to small citizen groups that do not have the capacity or legal status to meet the requirements of the main CSO grants.

### Citizen Rights to Information

Each citizen’s ‘Right to Information’ is guaranteed in the Interim Constitution of Nepal (2007, Article 27), which states that “[e]very citizen shall have the right to demand and obtain information on any matters of concern to himself or herself or to the public, “and in the Right to Information Act (2007, Section 3), which clearly states that “[e]very citizen shall have access to the information held in the public bodies.”

Sources: LGCD Program documents re: LGAF and information, education, and communication (Government of Nepal, 2008).
to pursue and strengthen due diligence, oversight and management of programs and projects, and their documentation.

**KRA-4: Improve organizational structure, human resources, and access to expertise**—Actions under KRA-4 are designed to strengthen management oversight and leadership; change incentive systems to reward good project administration and supervision; demonstrate clear accountability and responsibility for compliance functions (as specified in governance and anticorruption policies, project administration instructions and operations manuals); introduce new ways to acquire and apply information and knowledge; and increase access to experts in the region. The development of staff resource planning guidance is highlighted, so that directors general can adopt a flexible and needs-based approach to the main issues of servicing governance, institutional development, and corruption prevention functions, and can divert resources from nonpriority areas to priority areas, as identified by the preliminary assessment by GACAP-2.

Under the aegis of the GACAP-2 framework, ADB works with the government and its development partners to implement development changes in governance, reforms in PFM (specifically to avoid fiduciary risk), and measures to combat corruption. The government, in turn, developed its flagship Local Governance and Community Development Program (LGCDP), which ADB and other donor agencies have helped finance.

LGCDP has been operating in two phases, Phase–1 (2008–2012) and Phase–2 (2013–2017). The basic program was developed during the early post-conflict transition period. LGCDP was built upon the realization that the conflict was driven by issues of entrenched economic and social inequities, that the country had been without elected local governments since 2002, and that the forthcoming new constitution was
expected to adopt a federal system of governance. It was also understood that demand-based local involvement was keenly sought across the country. During the conflict, when security issues largely prevented government and donor agency staff from accessing many rural areas, local leadership through NGOs and community-based organizations emerged in the absence of functional local government bodies. This provided subsequent development initiatives with a new set of local actors and experiences.

Given these indications and with special attention to the themes of social inclusion and people’s participation, local governance reform and economic growth, in 2008, ADB and 11 other development partners helped finance LGCDP. ADB took the lead role by financing the largest part with a $106 million grant, 29% of the first phase LGCDP budget. Other partners were the Canadian International Development Agency (CIDA), Danish Ministry of Foreign Affairs, the United Kingdom’s Department for International Development (DFID), Norwegian Ministry of Foreign Affairs, Swiss Agency for Development Cooperation (SDC), and six United Nations organizations: United Nations Development Programme, United Nations Capital Development Fund, United Nations Children’s Fund, United Nations Population Fund, United Nations Volunteers, and United Nations Women.

With implementation of LGCDP’s second phase in 2013, three more development partners joined the funding pool: Japan International Cooperation Agency, United States Agency for International Development, and the European Commission. The program is being implemented nationwide in all districts, VDCs, and municipalities. The executing agency is MOFALD.

ADB’s support to LGCDP Phase–1 came with its $106.3 million grant to the Governance Support Program, Subprogram–1 (GSP–1, 2008–2013). Additional support to LGCDP Phase–2 came in 2013 with a $21 million grant for a new Strengthening Public Management Program (SPMP, 2013–2015). GSP–1 and SPMP are described in turn, with more details on GSP–1 GIVEN in the accompanying case study.

The Governance Support Program, Subprogram 1 (GSP–1) followed the cluster approach, to best handle long-term governance reforms. It sought to achieve three outcomes: (i) enhance demand-side governance by actively engaging citizens and communities with local governmental bodies to enhance the accountability of public service delivery; (ii) enhance supply side governance by

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**How the Asian Development Bank Views Governance**

ADB’s definition of governance begins as “the manner in which power is exercised in the management of a country’s economic and social resources for development” (Webster’s Dictionary). ADB’s main concern is “directly with the management of the development process, involving both the public and the private sectors. It encompasses the functioning and capability of the public sector, as well as the rules and institutions that create the framework for the conduct of both public and private business, including accountability for economic and financial performance, and regulatory frameworks...” ADB also notes that a key responsibility of government is to ensure “that the benefits of economic growth are equitably distributed across society” and that government has “the capacity to provide citizens with an acceptable level of public services, in an effective and efficient manner.”

The key elements of good governance are: accountability (building government capacity), participation (participatory development processes), predictability (legal frameworks and their implementation), and transparency (implying information openness).

For a more fine-tuned analysis, ADB examines a nation’s governance according to the following indicators: fiscal Balance (revenue vs. expenditure), tax revenues (in support of public services), total government revenues (from all sources), total government expenditures (to cover both public services and capital costs), with special attention to expenditures on health, education, welfare and social security; business start-up procedures and timing, and perceptions of corruption.

Sources: ‘Governance: Sound Development Management’ (ADB, 1995) and ‘Key Indicators for Asia and the Pacific (ADB, 2012).’
The Governance Support Program, Subprogram—1 (GSP–1, 2008–2013) in support of the Local Governance and Community Development Program (LGCDP) was funded by a $106 million grant from ADB, plus significant inputs by the Canadian International Development Agency and the Government of Nepal.

About ADB’s support to the LGCDP, for GSP—1, Gambhir Bhatta, senior governance specialist in ADB’s South Asia Department observed that “the grant will support the government’s move to improve local service delivery through strong local bodies and engaged and strong community organizations. In the medium term, this is expected to bring good local governance, and ultimately, inclusive development.”

Among its most important design functions, was GSP–1’s support to the involvement of women and disadvantaged caste, ethnic, and minority groups in the local governance process, by mainstreaming gender equality and social inclusion (GESI), including new ways of monitoring local finances by incorporating GESI indicators.

It was also expected to (i) administer safety nets and social assistance programs to the poorest people; (ii) budget grants to education, health, and agriculture sectors; and (iii) test coordination with other districts.

The GSP–1 had three formal outcomes with the following results:

**Outcome 1. That citizens and communities be actively engaged with local government bodies and hold them accountable.** This was the demand-side agenda from the local level (citizens and civil society organizations within the DDCs, VDCs, and municipalities).

**Results**
The capacity of communities, particularly of disadvantaged groups, was increased to better articulate their needs, access resources, engage in local planning and governance processes, and hold local bodies accountable. Citizens and community groups were empowered through a transformational social mobilization program involving over 3,700 mobilizers (50% women) through the ward citizen forums and community awareness centers established under the LGCDP. The social mobilization program engaged nearly 1 million people (over 60% women and members of disadvantaged groups) in local planning and governance processes through 40,000 community groups. Ultimately, following a participatory process, 90% of the local bodies prepared their annual plans for fiscal year 2013.

Under this output, the participation by women and disadvantaged groups in local planning and other governance processes increased significantly empowering citizens to demand more efficient public service delivery, transparency, and accountability from local government bodies. This outcome was strengthened by an effective information, education, and communication campaign. Public awareness of the functions of local bodies, budget information and of how to register vital events and obtain citizenship certificates was significantly raised.

**Long-term results**
These outputs were directly associated with the LGCDP’s local governance and accountability facility (LGAF). They rested on every citizen’s ‘right to know’, mandated by the Right to Information Act of 2007, which says that “every citizen shall have access to the information held in the public bodies.” The ‘downward accountability’ of local authorities was strengthened as citizens and civil society organizations more closely monitored local public finance management and other governance functions, including the delivery of public services. Local governance transparency and accountability were increased as citizen capacity and involvement increased.
**Outcome 2. That better management of resources and delivery services be performed inclusively and equitably by capable local bodies.** This was the supply-side agenda generated by officers and staff of the local bodies (DDCs, VDCs, and municipalities).

**Results**
Access to financial resources increased, enabling local government bodies to better assist community groups, civil society organizations, and individuals in inclusive development activities. Grants from the central government to the local bodies helped them undertake more development activities and infrastructure projects, which helped them to meet local priority public service needs.

Over 55,000 community infrastructure projects were built, benefiting 3 million households. Over the first phase of the LGCDP (2008–2012) government grants increased by an annual average of 23% to VDCs, 24% to DDCs, and 61% to municipalities. LGCDP grants to local bodies increased by 38%. And LGCDP special grants were provided to 133 selected civil society organizations in 75 districts to assess local body performance regarding use of government grants, compliance with policies and guidelines, and community monitoring.

Appropriate measures were established to build capacity in all levels of the local body service delivery system. LGCDP used a supply-driven approach to train 60% of local body officials on policies and guidelines (40% were women). Grants were provided to all districts and municipalities to prepare and implement their own capacity development plans. More than 90,000 people (27% women) were trained under these plans. Guidelines and manuals to streamline the program were prepared, as well as policy frameworks and operation manuals on social and environmental safeguards. More than 55% local bodies complied with ADB’s social and environment safeguard measures by 2013.

Local body service delivery mechanisms and processes were fine-tuned, including installation of auditing systems in VDCs and municipalities, preparation of a public financial management handbook for VDCs, the introduction of accounting software with simplified formats and training for VDCs, and other efficiency measures. The customary ad hoc system of grant allocation from central to local bodies is now regularized, made transparent, and run according to minimum conditions and performance measures. This has created a healthy competition between local bodies to improve performance and thereby increase their funding, resulting in better all round planning. Thirty-five percent of all grants must now be allocated for projects prioritized by women, children, and disadvantaged groups.

**Outcome 3. That policy and national institutional framework for devolution and local self-governance be strengthened.** This outcome was focused at the central level on the Ministry of Federal Affairs and Local Development (MOFALD) and the line agencies.

**Results**
A key output at the ministry level was creation and implementation of a Gender Equality and Social Inclusion (GESI) action plan. Under this plan, which established a GESI unit headed by an undersecretary, GESI was mainstreamed in all ministry operations including affirmative action, and all GESI focal persons in central line agencies were oriented on GESI policy and strategy. Important GESI policy outputs were then implemented, such as a requirement that, hereafter, 25% of capital grants are allocated to women and disadvantaged groups and that representation in all committees include 33% women. In addition, gender-responsive budgeting and planning was operationalized in 38% of DDCs. A decentralization policy framework to increase effective, transparent, and accountable local governance was also created.
improving the management of resources and the equitable and inclusive delivery of services; and (iii) strengthen the policy environment to promote the further development of national institutional frameworks for decentralization, devolution, and community development.

GSP–1 supported the LGCDP and Nepal’s long-term development needs and the strategic priorities set out in the Three-Year Interim Plan for 2008–2010. That plan emphasized promoting participation, empowerment, and socially inclusive and gender-responsive service delivery. The Governance Support Program–1 was also in line with ADB’s CPS for 2005–2009, which focused on transparency and accountability in public service delivery.

A key focal point of GSP–1 was gender equity and mainstreaming at every level of governance and development. The basic premise of the program’s gender equality and social inclusion (GESI) action plan is that LGCDP has strong potential to have positive impacts nationwide on the lives and involvement of women and members of disadvantaged groups. It sought to strengthen the demand side of government and development by increasing local access to development planning, implementation, and monitoring through social mobilization, community involvement, and local institutional strengthening.

The intended outcomes of GSP–1 were met, sometimes well over target. They were:

(1) **To actively engage local citizens and communities with local government bodies and hold them accountable.** These demand-side outcomes were generated from citizens and local community groups at the local levels in the DDCs, VDCs, and municipalities. Residents, particular women and disadvantaged groups, were encouraged to articulate their needs, access resources, engage in local planning,
Public Sector Management and governance processes, and monitor local body actions and activities.

(2) To promote better management of resources and delivery services inclusively and equitably by capable local bodies. These supply-side outcomes were generated from within the local governing bodies as the DDCs, VDCs, and municipalities accessed fiscal resources, and enhanced public service delivery to the local communities.

(3) To strengthen the policy and national institutional framework for devolution and local self-governance. The most significant output at the national level was establishment of a GESI unit within the ministry and mainstreaming GESI in all ministry operations. Out of this, policies were created requiring that 25% of capital grants be allocated to women and disadvantaged groups and that all committees include 33% women representation.

The subsequent Strengthening Public Management Program (SPMP, 2013–2015) for LGCDP Phase 2 was funded by a $21 million ADB grant, with additional funding from the European Commission and the United Kingdom’s Department for International Development (DFID). It continued the work started under LGCDP Phase–1 and GSP–1, but with further emphasis on PFM, given the known weaknesses and fiduciary risks at national and local levels. Its objectives were to further the facilitation of sound public financial management, continue the decentralization process, strengthen local governance structures, and further encourage more demand-side community development.

While many of Nepal’s economic and social development objectives have been achieved over the past decade, the transition to a new political, social, and economic order has been slower than expected. To continue to gain and keep public trust and facilitate the ongoing peace process, further attention to poverty reduction and improving social indicators is needed, including longer life expectancy, lower maternal and child mortality, higher literacy and school enrollment rates, along with improvement to the delivery of public goods and services especially to the poor and disadvantaged. SPMP was designed with these factors in mind, and with the knowledge that Nepal still ranks low on governance indicators, exacerbated by gaps in PFM at all levels. Therefore, key elements in SPMP include the further strengthening of budget and fiscal management and the reduction of fiduciary risk, along with improvements to the public procurement system, and streamlining business processes in public sector management. It was well recognized that a comprehensive and integrated approach to PFM reforms was needed at the national and local government levels as prerequisites to achieving sustained improvements in public service delivery, to meet the overarching goals of development effectiveness and poverty reduction.

SPMP objectives include (i) implementing the government’s Public Financial Management and Fiduciary Risk Reduction Action Plan; (ii) facilitating further reforms to assure transparency, economy, and efficiency of public procurement processes; and (iii) facilitating reduction of fiduciary risks in public institutions by strengthening the capacity of anticorruption and accountability institutions. SPMP reflects the priorities of the government’s latest Three Year Interim Plans (2012–2014 and 2014–2016) and ADB’s Country Partnership Strategies (2010–2012 and 2013–2017). SPMP is ongoing, and is expected to further the important process of improving governance and public sector management.
GENDER EQUALITY AND SOCIAL INCLUSION
Since the founding of the ADB’s Nepal resident mission office in 1989, special attention has been paid to realizing increasingly high levels of gender equality and social inclusion (GESI) in projects and programs. ADB’s long-term strategic framework, Strategy 2020, includes “promoting gender equity” as one of its five drivers of change, and most ADB-supported projects now have GESI action plans. ADB and the government’s targeted programs and affirmative action policies have progressively enabled women and disadvantaged groups to gain access to resources and socioeconomic assets and to participate in decision making, in many cases well above their previous roles in society.

A great deal has been accomplished to promote inclusive development in the 25 years of the NRM and the ADB–Nepal development partnership. Nonetheless, a great deal has yet to be realized.

Background
Among the greatest barriers to full equity and inclusion of women are the patriarchal norms and values still practiced in Nepal, especially in rural areas. Lingering inequitable practices impact women’s abilities to realize personal and economic growth.

Progress
Working together with ADB and other development partners, the government has made progress in promoting GESI and making inclusive development a key priority. ADB’s partnership assistance to Nepal in mainstreaming GESI is based on its own 1998 agency-wide Gender and Development Policy, which replaced earlier guidelines on addressing the role of women in development. It marked a shift from targeted interventions in selected sectors to a gender mainstreaming approach that recognized gender as an issue that influences all development activities. The policy’s gender mainstreaming guidelines are now ADB’s principle framework for all gender and development activities. The guidelines have contributed greatly to the development of gender-responsive policy reforms in Nepal, to increased institutional capacity on GESI, and to promoting and strengthening the integration of GESI in project design.

A Driver of Change for Social Inclusion
Gender equality and social inclusion are critical for enhanced development outcomes, such as poverty reduction, economic growth, higher living standards, and development effectiveness. Engaging women, caste and ethnic groups, minorities, and persons with disabilities in development processes, enhancing their access to assets and resources, building their capacity to exercise their voice and breaking multiple sociocultural barriers for their full engagement in development process is essential for equitable distribution of development benefits...

Inclusion remains a key priority of both ADB and the Government of Nepal’s development strategies and policies that are aimed towards bridging the gender gap and reaching excluded groups and minorities.
ADB Support

In 2004, following the 1998 Gender and Development Policy guidelines, ADB launched one of its most important and far-reaching initiatives to mainstream GESI in Nepal through the Gender Equality and Empowerment of Women Project (2004–2013). A main feature of the project was confronting existing barriers to economic self-sufficiency among the very poor and most marginalized, by promoting policy changes nationally and enabling strategies locally. In the loan agreement with Nepal were several covenants that ultimately led to far-reaching policy enactments. They include adoption of the Domestic Violence Act (2005); the national Gender Equality Act (2006) that was specifically designed to eliminate many discriminatory provisions against women in existing laws; the National Women’s Commission Act (2007); and the National Dalit Commission Act (2011). These acts and their bylaws represent landmark legislation in support of GESI nationwide.

Nepal’s inclusive policies are in line with international commitments made by the government including ratification of the Child Rights Convention (1990); the Convention on the Elimination of all Forms of Discrimination against Women (1991); and International Labour Organization’s Convention 169 on the Rights of the Indigenous and Tribal People (2007). At the national level, the Interim
Constitution of 2007 grants all Nepalese the fundamental rights to freedom and equality, and Article 13(3) specifically prohibits government discrimination against anyone based on gender, race, caste, ethnicity, language, religion, or ideological conviction. Other acts, policies, and plans also promote GESI as a key element. They include the amended Civil Service Act (2007), the National Plan of Action for Combating Gender-based Violence (2010), the Caste-Based Discrimination and Untouchability Act (2011), the Three Year Interim Plan (2014–2017), and gender responsive budgeting.

**Gender Equality and Social Inclusion Action Plans**

With ADB-assisted projects and programs GESI is a dominant theme. ADB recently adopted the Gender Equality and Women’s Empowerment Operational Plan (2013–2020) that provides strategic directions and a guiding framework for moving the gender equity agenda forward. The plan emphasizes a shift in focus from quality-at-entry to improvement in the implementation and monitoring of projects and programs for better, more long-lasting, and more effective gender equality results. It also emphasizes conducting pilot initiatives to tackle more difficult and sensitive issues such as violence, time poverty, and empowerment.

All ADB projects and programs are categorized as having a gender equity theme and an effective gender mainstreaming design. A gender equity theme and effective gender mainstreaming are accounted for through the development and monitoring of Gender Equality and Social Inclusion Action Plans (GESI APs). The GESI AP is the key GESI mainstreaming tool. Each project provides specific activities, targets, and quotas to help facilitate participation by women and the disadvantaged, and their involvement in realizing the benefits of project activities. GESI APs provide project and program assurances and are included in loan covenants requiring compliance by all executing and implementing agencies.

Each of ADB’s seven current development sectors ranked according to GESI compliance. The current sector ranking is: 42% for agriculture and natural resources, 27% for urban infrastructure, 11% for education and skills development, and 5% each for transport, energy, finance, and governance. Continuous effort is being given to improving the quality of GESI assessment carried out during initial project and program preparatory technical assistance, by which quality GESI APs closely aligned with project outputs and with realistic GESI targets and performance indicators. All are integrated into the design and monitoring framework. At the same time, GESI APs are outlined in each project administrative manual, and adequate resources such as skilled staff and budget are increasingly being ensured.

**Thematic Priority**

ADB’s new Nepal country partnership strategy of 2013–2017 has placed GESI as one of the key thematic priorities seeking to achieve higher sustainable and inclusive economic growth in line with government’s Approach Paper for its new Three Year Plan (2014–2016). The CPS aims for GESI mainstreaming in sector investments by: supporting evidence-based policy and regulatory reforms; addressing gender equality and promoting women’s empowerment; strengthening institutional capacity for GESI mainstreaming; working with community-based groups of different social profiles; and tracking GESI-related results.
25 years on the ground: ADB–Nepal Partnership for Inclusive Development
CLIMATE CHANGE AND ENVIRONMENTAL SUSTAINABILITY
Nepal’s climate is changing with serious implications for development

What does it mean?
Nepal is considered the fourth most climate-vulnerable country in the world, increasingly affected by extreme and chaotic weather, shifting rainfall patterns, rising temperatures, melting glaciers, unanticipated floods and droughts, changes in growing seasons, and high levels of air pollution. All are connected, all affect agriculture, and all impact standards of living.

The government estimates that 1.9 million people in Nepal are highly vulnerable to climate change, and that 10 million more are increasingly at risk. More than 80% of the population depends on subsistence farming. Due to reliance on natural resources, climate change puts food, shelter, and even cash income at risk. Peoples’ hard-won gains in poverty reduction will erode without the knowledge and support to help them adapt and protect themselves from risk. This requires managing natural resources in more sustainable ways than ever before.

What’s being done about it?
Environmental sustainability is one of ADB’s key drivers for change. Attention to the impacts of climate change on the environment guides ADB’s expert services and investments in climate-sensitive policy, planning, implementation, and monitoring in the most climate-sensitive sectors and vulnerable communities. What is needed is not revolutionary. It’s just common sense planning toward outcomes that are useful to the government and its development partners in all sectors.
ADB is administering the following sets of initiatives, which the government has initiated to address climate change and environmental sustainability:

(1) Pilot Program for Climate Resilience, of which ADB is financing these components:
- Mainstreaming climate change risk management in development (2012–2017); working with seven public infrastructure agencies to develop policies and programs to promote climate resilience and risk management planning in project design.
- Building climate resilience of watershed in mountain ecoregions (2014–2018); helping 100 communities in west Nepal better manage water and land in inclusive and integrated ways with participatory watershed management techniques.

(2) Scaling Up Renewable Energy Program, of which ADB is financing these components:
- Support for Small Hydropower Development Project (2013–2017); to create a loan program to aid local private banks to lend to small hydropower developments.
- Rural Electrification through Renewable Energy Project (2013–2017); to increase sustainable off-grid electricity access from small-hydro, wind, and solar systems.

In addition ADB has provided technical assistance focusing on community-based vulnerability assessment, risk mapping and adaptation planning; climate data digitization and downscaling of climate change projections; knowledge management and regional cooperation; and regional economics of climate change in South Asia. ADB also assisted in the preparation of the government’s new Agriculture Development Strategy (2015–2035), which addresses the risks and opportunities that climate change presents in agriculture.
ADB and Japan often partner to support projects using financial resources from the Japan Fund for Poverty Reduction (JFPR). The JFPR seeks especially innovative initiatives for grants, to help the most vulnerable individuals and groups in communities in Asia and the Pacific. This region is home to 60% of the world’s poor.

In Nepal, JFPR projects have brought basic, small-scale economic and social services to the poor, assisted local NGOs to promote poverty reduction and social development, strengthened the development capacities of many community-based organizations, and assisted distressed and victimized women and children. Some projects are very local, while others have a regional orientation, like one that brings clean, renewable energy to poor women’s households in Bhutan, Nepal, and Sri Lanka. Reducing poverty and improving the lives of the poor and marginalized is the main objective of JFPR funding.

Helping Victimized Women and Children in Remote Mountain Villages
Since 2009, a $2 million JFPR project entitled Establishing Women and Children Service Centers has had special meaning to abused and victimized women and children in seven mountainous rural districts in west Nepal. The project was designed to reduce their vulnerability and helplessness in the face of rape, domestic violence, polygamy, child abuse, child marriage, and human trafficking. To assist them, Women and Children Service Centers have been constructed in the districts. The police have been trained to provide professional help to the victims and the centers are run by female police officers. As a result, the number of cases brought to the attention of the police has increased, the number of crimes has decreased, and women and children who report such crimes are being reintegrated into their communities. The Prime Minister was so impressed that he recently created over a thousand new positions for police women to staff more such centers.

Bringing Socioeconomic Services to the Poor in the Terai
Another JFPR project called Supporting Poor and Disadvantaged Farmers in Nepal’s Mid- and Far-Western Terai received $800,000 to provide better access to basic socioeconomic services for poor and disadvantaged farmers in five lowland districts. The project helps local nongovernmental and community-based organizations improve and expand their social awareness programs. It works with the government’s crop diversification project to increase farmer incomes by promoting production and marketing of agricultural crops. Over 37,000 members of labor and women’s groups and almost 1,500 group leaders were trained on starting income-generating enterprises. The project achieved at least 35% women’s membership in self-help groups at each site, enhancing self-confidence and household incomes.
Close to a decade has passed since the Comprehensive Peace Accord of 2006 ended Nepal’s decade-long civil conflict that so seriously disrupted political and social life, the economy, and development. Among the factors that fueled the conflict are political disorder, poverty, social inequality, and exclusion, and other socioeconomic disparities. Nepal and its development partners know the importance and the difficulties of addressing these issues and transitioning from conflict- to peace-sensitivity.

Building capacity for peace and development requires development policies and practices that are sensitive to the root causes of conflict, for they can still undermine the peace if not carefully addressed. Better ways of understanding the local context and of engagement in complex fragile environments are prerequisites to determining the peace-sensitive approaches to development. To that end, ADB and other donors have designed a peace-building tool (PBT) that addresses development-fragile and conflict-affected situations. Its purpose is to support the post-conflict, ‘peace-sensitive’ approach adopted by ADB’s country partnership strategy for Nepal.

The PBT provides a flexible matrix or ‘peace filter’ through which to analyze project design and monitor results responsively. The matrix considers risks associated with social conflict, possible peace-building opportunities, and makes recommendations while examining seven areas of concern—the post-
conflict environment; decision making and implementation structures; peace building structures; social, economic, and geographic issues; and security.

Since 2010, the PBT has been used to sensitize development officials, agency and project staff, and local community groups. It has helped some 20 ADB-supported community projects through the wider participation of local stakeholders, more effective delivery of project activities, and greater ownership of the intended outcomes. PBT has helped identify specific local peace-building indicators, incorporating innovative ideas and suggestions, and implementing approaches contributing to social cohesion and inclusion.

The PBT has influenced highway project design, for example, by engaging locals and addressing their demands and needs. It has guided urban developers and locals, working together to select the most geographically suitable and socioeconomically appropriate locations. It has sensitized local leaders and project beneficiaries to the most effective personal characteristics that strengthen peace-sensitivity, including inclusive decision-making and participatory planning, transparent accounting, effective information flow, and attention to safety and security. PBT trainees from one district expressed pride in their VDC secretary for being “exceedingly consultative” by involving the locals in decisions that impact the community at large.

By bringing representatives from various communities together to learn the PBT approach to conflict- and peace-sensitivity, participants in a recent training better understood the similarities and differences that exist in disparate districts. “We thought we were the only ones suffering from the underlying issues,” said a representative from Rolpa District after attending PBT training. “But learning from other districts with different dynamics of fragility is an opportunity to enhance our knowledge on the nature of fragility.” And an engineer on a rural road project in Kavre District pointed out that “since we face day-to-day challenges for project implementation, this peace building tool is very useful in the community to alert us to potential disputes and to find common approaches to resolve them.”

For further reading see: ‘A Peacebuilding Tool for a Conflict-Sensitive Approach to Development’ (ADB, 2012; online at adb.org/publications) and ‘Building Local Capacity on Peace-Sensitive Development in Nepal’ (ADB, 2014). ADB’s approach to peace-building is consistent with the Principles of Fragile States and Institutions (Organisation for Economic Co-operation and Development, 2007) and the Paris Declaration on Aid Effectiveness (Organisation for Economic Co-operation and Development, 2005).
Looking Ahead

Future Challenges and Goals

Nepal has the potential for more rapid economic growth and development, considering its natural resource endowments (hydropower, varying climate zones for high-value agriculture production, and natural beauty for tourism); its strategic geographic location between two large and fast growing economies, and its young population. Nepal has achieved high economic growth rates in the past, especially during the brief pre-conflict period (1992–1996) when it registered an average GDP growth rate of nearly 6%, following market-oriented economic reforms. However, the sustenance of the growth momentum was short-lived, with economic reforms disrupted by political instability, then by the decade-long civil conflict, and finally by the prolonged post-conflict political transition.

However, with progress, albeit slow, toward the promulgation of a new constitution, Nepal is on the threshold of transitioning to a new political, social, and economic order. The new government formed in February 2014 has shown a strong intention to initiate a “second round of economic reforms” by introducing a wide range of policy and legislative reforms to improve the investment climate and accelerate economic growth. The environment for economic cooperation with India has also significantly improved, leading to the landmark signing of a Power Trade Agreement in October 2014, and power development agreements on major hydropower projects subsequently. These developments will help Nepal regain the growth momentum imperative for more rapid poverty reduction. Moreover, the government has set a goal for the country to graduate from Least Developed Country (LDC) status to Developing Country status by 2022, for which the economy needs to grow by over 9% per year. Despite the notable socioeconomic progress (a sharp reduction in poverty from 42% in 1996 to 25% in 2011 and significant improvements in certain human development indicators) in the past decade, the country remains challenged by wide socioeconomic disparities across population groups and geographic regions. There is, therefore, a need for the country’s economic progress to be more inclusive, providing equal economic and employment opportunities to the poor and vulnerable.

Various studies have identified the key constraints impeding Nepal’s inclusive economic growth—inadequate infrastructure; a low level of human capital; ineffective labor laws and an inefficient labor market; slow structural transformation (i.e. a slow transformation of agriculture into a high productivity and value-added sector with forward linkages with manufacturing industries); and weak governance and limited institutional capacity, largely associated with the political instability. These have suppressed economic activities, especially in the industry sector, resulting in large-scale labor out-migration and an economy dependent on remittance income.

The government’s development plans and policies, particularly the Thirteenth Plan (FY2014–FY2016), are aimed at achieving higher, inclusive, and sustainable economic growth by addressing these critical constraints. ADB will strive to support the government in achieving these development objectives and the medium-term goal of graduating from LDC status. As set out in its country partnership strategy (CPS, 2013–2017), ADB will help achieve a higher and more inclusive economic growth through:

“There is a need for the country’s economic progress to be more inclusive, providing equal economic and employment opportunities to the poor and vulnerable.”
25 years on the ground: ADB-Nepal Partnership for Inclusive Development

- Increased investments in infrastructure, particularly energy, transport, agriculture, and urban infrastructure and services, to create and expand industries, businesses, and employment opportunities. ADB will also support policy, regulatory, and institutional reforms (including public–private partnerships) necessary to catalyze private sector investment, promote regional cooperation and integration, and sustain the development impact of such investments.

- Support for investments in and reforms of the education sector (including school education, technical education, and vocational training, and higher education in technology); water supply and sanitation; and rural infrastructure, to build a much needed skilled workforce and broaden access to economic and employment opportunities. To this end, ADB will support achievements in education by improving its quality, outreach in higher education, and teacher management.

- Promotion of social protection by mainstreaming and institutionalizing gender and social inclusion (GESI) and good governance systems into all development initiatives and disaster risk management, in order to reduce the vulnerability of socially disadvantaged and marginalized groups among the country’s diverse population, and enhance their access to basic services.

To enhance the efficiency and impact of its assistance programs and projects in these areas, ADB will pay special attention to four strategic approaches. First, ADB will strive to build the institutional capacities of the government’s key planning, infrastructure, and service delivery agencies to improve their project implementation and capital expenditure capacity. For this, ADB will proactively support: (i) strengthening budget formulation, approval, and execution processes; (ii) advancing preparatory actions to develop a shelf of ready-to-implement projects; (iii) reforming and streamlining public procurement processes; and (iv) enforcing stronger project and contract management practices.

Second, ADB will leverage its operational effectiveness and impacts through its “finance +” and “finance ++” initiatives. “Finance +” will leverage ADB operations with cofinancing from public and private sector sources. ADB will also support increased private sector investments, by facilitating an improved private sector business environment and exploring specific investment opportunities that can be catalyzed through its nonsovereign operations. This will be augmented by “finance ++”: knowledge transfers based on the lessons and best practices gained from its operations in the Asian region.

Third, ADB’s development operations will be pursued with strong partnerships with other development agencies, civil society organizations, and relevant stakeholders. During implementation of the CPS, ADB will continue to pursue harmonized approaches in sector and project operations with other development partners—through aid coordination groups and forums—in line with the principles of the Paris Declaration.

And finally, ADB will support Nepal toward its long-term development aspiration of graduating to a developing or middle-income country by helping formulate a clear and widely shared long-term development vision, strategy, and roadmap. Such a vision and strategy are needed to drive the process of a meaningful structural transformation—transforming low productivity agriculture into a high productivity and high value-added sector; promoting manufacturing industries with close linkages with the agriculture sector and that produce other competitive products; and promoting accelerated, employment-oriented growth. The proactive pursuit of industrialization, deeper integration with the neighboring economies, legal and regulatory clarity, appropriate institutional frameworks and capacity building, national priority projects with high readiness in key sectors, and strengthened monitoring and evaluation (that makes implementing agencies fully accountable) could be at the heart of such a vision and strategy.
25 Years on the Ground: ADB–Nepal Partnership for Inclusive Development

This publication commemorates the 25 years of the opening of the Nepal Resident Mission, and provides an overview of how ADB’s operation in Nepal has evolved 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.

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.