

Nepal: Delivering Assistance in a Challenging Environment

- This **second country assistance program evaluation**¹ (CAPE) for **Nepal** assesses the performance of ADB **strategies** and **assistance programs** in the country during 2004–2008 and ADB's support on key sectors not covered by the 2004 CAPE.

Background

The Asian Development Bank (ADB) faced a challenging social, political, and economic environment in Nepal during the CAPE period of 2004–2008. The preoccupation of the Government of Nepal with fighting the insurgency affected its implementation ability and limited its capacity to make policy decisions or formulate and implement development programs and projects. The absence of locally elected bodies and weak local capacity were additional key constraints on development in Nepal.

Sustaining peace, formulating and adopting a new constitution, conducting elections, and building the economy are some of the main challenges being faced by Nepal. Nepal has opportunities and incentives to expand hydropower, tourism and services, and export-oriented industries, but civil conflict, political instability, poor governance, and weak structural reforms continue to hinder economic growth. Political instability (including governance issues), infrastructure deficits, and labor market disruptions have created an unfavorable investment climate and are binding constraints on market-led growth. Large external and internal migrations have taken place. External migration has created large incoming remittances, which have financed Nepal's growing balance of payment and helped to reduce poverty, particularly in urban areas.

Summary of Findings

ADB's performance in terms of strategic positioning, institutional performance, and contribution to development results for the evaluation period was "successful", but on the borderline, indicating areas for

improvement. The actual and expected performance of ADB operations vis-à-vis key sectors reveals "partly successful." However, as many of the projects in the sector portfolio are active, the rating on sector performance may change over time. Implementation efficiency, timely completion, and sustainability of project and program outcomes were identified as key weaknesses. Hence, the overall rating for ADB's assistance during the evaluation period is "partly successful".

Issues related to project implementation go beyond political instability and conflict. While conflict, security concerns, and transport strikes have been important reasons for implementation delays, other factors persistently affecting project implementation are design deficiencies; start-up delays; frequent changes of project officials; and constraints on budgets, institutional capacity, and project monitoring and evaluation.

The evaluation determined that ADB's country strategy and operational plans for Nepal were appropriate to the conditions prevailing in the country, very responsive to the conflict, and supportive of the Government's development priorities.

The results-based approach introduced by ADB's 2005–2009 Country Strategy and Program (CSP) has been useful to the Government and ADB as it tried to identify links to the results sought by the Government to which ADB will contribute. There is still a lot of scope for further improvement, particularly in terms of reporting on outcomes, ADB contribution, and adding the results of ADB's technical assistance (TA) operations. Moreover, on the Government's side, mainstreaming the tested approach and internalizing it will be fundamental for continued success and sustainability.

ADB's strategic direction was to help the Government address fundamental problems, such as exclusion, lack of connectivity in rural areas, and institutional weaknesses. These were addressed by channeling support through civil society organizations (CSOs) and local communities. During this challenging phase, as prevailing lawlessness and insecurity made it more difficult for ADB to establish direct contact with local communities, CSOs have filled the niche. The role of CSOs for building consensus among political parties and warring factions at the local level, as well as for social mobilization and raising awareness within the community, was essential. While working with CSOs and local communities was a useful approach, the capacity limitations of local service providers meant that more systematic and effective monitoring and evaluation of their performance and prompt follow up actions would have improved project implementation and given opportunities to learn lessons for the future.

ADB spread its assistance widely to poor and excluded people to develop rural infrastructure, provide universal education and rural finance, and stimulate agriculture production and marketing. Though early results are encouraging, the sustainability of such rural infrastructure as roads and irrigation is unclear as there is no certainty of a maintenance regime. In addition, the efficiency and sustainability of ADB-funded infrastructure projects were affected not only by the conflict but also by infrastructure policy, institutional, and capacity constraints, particularly the lack of reform, and by low public investment.

ADB's support to the Education for All Program for primary education using the sector-wide approach by partnering with development partners has so far been successful. The lessons and experiences gained from the implementation of ADB assistance to the Government's school sector reform program will be invaluable for planning further actions towards the fully fledged adoption of school sector reform.

ADB has provided considerable assistance to improve the legal and judicial system in Nepal through the drafting of many important laws. However, the weakness is in the effective implementation of these laws. Political instability created further difficulty in addressing weak governance and corruption.

Sustaining economic growth and poverty reduction momentum will be challenging in the coming years. There is a pressing need for post-conflict support to assist the Government in strategizing and policy making in all areas related to binding constraints on development, as Nepal is going through a critical time

of post-conflict recovery. Economic and sector work would be useful in the area of cooperatives (rules, regulations, supervision), remittances, quality assurance and sustainability in local community-driven development works. This can be achieved by providing cluster TA under the ADB Nepal Resident Mission (NRM) that could respond to the country's urgent requests. More delegation to NRM together with necessary additional resources is needed.

While the strategic focus of the CSP was relevant in 2004, it needs to be fine-tuned for the future, taking into account the country's binding constraints, Government's priorities, and ADB's long-term strategic framework 2008–2020 (Strategy 2020).

Recommendations

- **Infrastructure-Led Inclusive Growth.** Continue to support transport, power, and water supply in rural areas and selected cities, and irrigation and water resource management to address infrastructure deficits hindering inclusive growth, with increased attention to policy and institutional reforms to achieve long-term effectiveness and sustainability.
- **Governance, Capacity Development and the Results Framework.** Continue to promote good governance and build the capacity of key public institutions, both local and central, to improve the delivery of public goods and services, broaden inclusiveness, and enable results-based management for better development results of ADB assistance.
- **Private Sector Development and Regional Cooperation.** Assist in removing key policy and institutional constraints on inward investment, public-private partnership, trade, and mobilizing financial resources. Increase regional cooperation and integration to allow Nepal to benefit from economies of scale and market access, accelerate trade, and promote tourism.

Feedback

When these *Learning Curves* were prepared, **ADB Management's Response** and the **Chair's Summary of the Development Effectiveness Committee Discussions** were not available for disclosure to the public. The study was completed in June 2009.

¹ ADB. 2009. *Country Assistance Program Evaluation for Nepal: Delivering Assistance in a Challenging Environment*. Manila. Available: <http://www.adb.org/Documents/CAPES/NEP/CAP-NEP-2009-19/CAP-NEP-2009-19.pdf>