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DEVELOPMENT EFFECTIVENESS BRIEF

NEPAL

SUPPORTING INCLUSIVE AND ACCELERATED GROWTH

MARCH 2018

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NEPAL

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MARCH 2018



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Photo on the front cover:

Children on the way to school in Lekhnath, Pokhara, in western Nepal (photo by Samir Jung Thapa)

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NEPAL: ACCELERATED GROWTH FOR ALL

Non-MDG

Population in millions, 2017	28.8
Annual population growth rate, 2017 (%)	1.4
Adult literacy rate, 2016 (%)	64.0
Population in urban areas, 2017 (%)	20.1

MDG

Population living on less than \$1.9 a day, 2010 (%)	15.0
Population living below the national poverty line, 2011 (%)	25.16
Under-5 mortality rate per 1,000 live births, 2016 (number)	39.0
Population using an improved drinking water source, 2016 (%)	95.0
Net enrolment in primary education, 2015 (%)	96.6
Population using an improved sanitation facility, 2016 (%)	62.0

MDG=Millennium Development Goals, PPP=purchasing power parity

Sources:

Central Bureau of Statistics. 2014. National Population and Housing Census 2011 (Population Projection 2011-2031). Kathmandu; Central Bureau of Statistics. 2016. Annual Household Survey 2015/16. Kathmandu; United Nations Development Programme. 2017. Human Development Report 2016. New York; Department of Education, 2015. School Level Education Statistics of Nepal (Consolidated Report 2015). Bhaktapur; World Bank.

World Development Indicators database. <https://data.worldbank.org/> (accessed 13 February 2018).

NEPAL AND ADB: A PARTNERSHIP FOR INCLUSIVE AND ACCELERATED GROWTH

Nepal is a land-locked country of 28 million people located between the world's two most populous countries. It borders India on three sides and the People's Republic of China (PRC) on the fourth. A country with a rich diversity of cultures and vast differences in terrain, Nepal has had a turbulent history. A conflict that lasted 10 years ended in 2006 with a peace accord, followed by a prolonged transition from a monarchy to a federal democratic republic.

A major milestone was achieved in 2015 with the adoption of a new constitution. The local government elections and the first ever elections to State Assemblies and the Federal Parliament in 2017 marked crucial steps for the country in the transition towards federalism as enshrined in the 2015 Constitution.

With a per capita gross domestic product (GDP) of \$851 per annum, Nepal is currently classified as a least developed country, but the government is pursuing accelerated growth to raise this status to that of a lower middle-income country by 2030, with a per capita gross national income of at least \$1,026.

Growth slowed to 3% in fiscal year 2015 and an even lower 0.01% in 2016 after two devastating earthquakes (April and May 2015), trade disruption with India (2015–2016), and a poor monsoon (2016). Growth in external remittances, which make up about 25% of GDP, has been declining in recent years. Considering the probable setback to economic growth because of floods in 2017, ADB projects GDP growth of 4.9% in FY 2017 and 5.5% in 2018. These growth projections hinge on assumptions of accelerated spending on reconstruction and greater investments in infrastructure with the country's new federal system.



■ A major milestone was achieved in 2015 with the adoption of a new constitution. The local government elections and the first ever elections to State Assemblies and the Federal Parliament in 2017 marked crucial steps for the country in the transition towards federalism as enshrined in the 2015 Constitution.

Poised for growth. Nepal is currently classified as a least developed country, but the government is pursuing accelerated growth to raise this status to that of a lower middle-income country by 2030 (photo by Narendra Shrestha).

2 Development Effectiveness Brief: Nepal

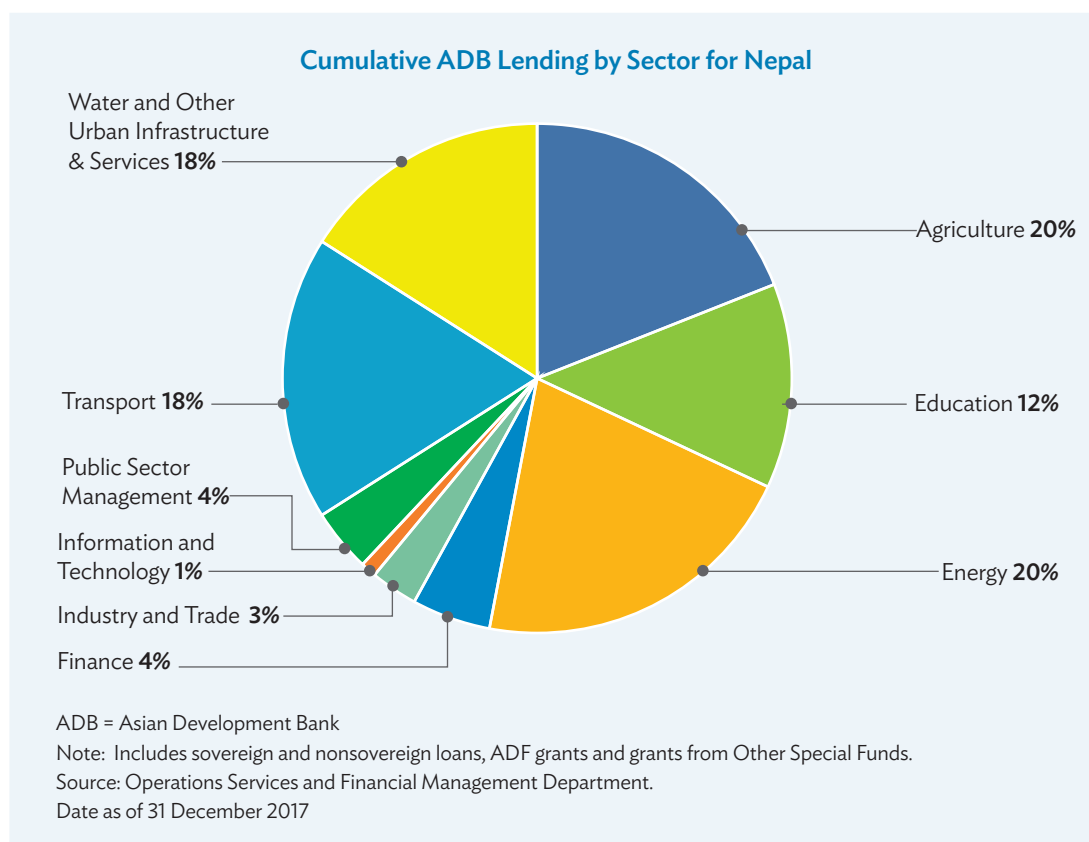
The government, supported by ADB, has for many years strongly promoted inclusive growth. Nepal has made impressive progress toward gender equality and social inclusion, but much remains to be done. Social inclusion brings indigenous peoples, Dalits,¹ and other disadvantaged groups into the ambit of development.

This focus on inclusive growth has helped reduce poverty and raise literacy levels. Gender and social disparities have decreased. As Nepal completes its political transition, it is poised to bring greater development to its people. However, the past two fiscal years (2015 and 2016) remain a grim reminder of the fragility of the absolute poor. The earthquake of 2015 is estimated to have pushed 3% of the population below the poverty line.

Nepal is a founder member of ADB, having joined in 1966, the year ADB was set up. Since then, ADB has approved assistance totaling \$5.23 billion for Nepal. In fiscal 2016, ADB was Nepal's second largest development partner in terms of disbursements, after the World Bank Group. ADB contributed \$217.68 million to Nepal's development.

In the past few years, ADB has consolidated its portfolio of projects and programs to support the government's efforts to build infrastructure, develop human capital, and transform agriculture. Institutional capacity building, gender equality, and social inclusion remain cross-cutting themes that are emphasized in all ADB-supported projects and programs in the country. In addition, ADB has helped build the institutional capacity of several government agencies to mitigate the effects of climate change and reduce the risks of natural disasters.

The current ADB portfolio consists of 34 active projects and programs amounting to \$2.3 billion. In 2017, ADB also approved nine technical assistance packages totaling \$6.75 million.



¹ Dalits are people who have traditionally suffered from caste- and untouchability-based prejudice and practices.

ADB'S CONTRIBUTION TO INCLUSIVE GROWTH AND POVERTY REDUCTION

In partnership with the government and other stakeholders, ADB has helped reduce poverty, raising the incomes of subsistence farmers, socially excluded Dalit and indigenous communities, and women. ADB-supported projects have helped reduce poverty in rural areas by assisting farmers produce more crops; expanding services for the socially excluded Dalits and indigenous communities; and providing technical and vocational education to women.

ADB assistance has helped build, upgrade, or maintain 1,600 km of all-weather roads; provided an improved source of drinking water to nearly 600,000 people in 29 small towns; and raised the incomes of 1.6 million people employed in agriculture, including 23,000 subsistence farmers.

More than 15,000 young women and men are gainfully employed because of the ADB-supported Skills Development Project. This includes 10,909 people from disadvantaged groups (more than 68% of the total) and 5,055 women (about 31%).

More than 100 schools that had been retrofitted before the terrible earthquakes of 2015 survived those tremblers when many others fell. Not only were the schoolchildren able to continue their education, their families also received temporary shelter in some of these buildings. An emergency project, approved after the earthquakes, is rebuilding schools with earthquake-resistant technology. The schools include stronger construction and engineering specifications that are designed to help the structures withstand future earthquakes.

More than 100 schools that had been retrofitted before the terrible earthquakes of 2015 survived those tremblers when many others fell.



ADB and Nepal partnership. ADB has helped reduce poverty, raising the incomes of subsistence farmers, socially excluded Dalit and indigenous communities, and women (photo by Samir Jung Thapa).

Table: Development Outputs of ADB-Supported Projects, 2010–2016

SECTOR	OUTPUTS ACHIEVED
ENERGY	
New rural households connected to electricity	119,000
Distribution lines installed or upgraded	2,522 km
TRANSPORT	
Use of roads built or upgraded in the first full year of operation	1,662,617 average daily vehicle-km
Roads built or upgraded	1,883 km
Expressways and national highways	148 km
Provincial, district, and rural roads	1,735 km
Rural Roads	1,696 km
Urban Roads	187 km
WATER	
Households with new or improved water supply	246,424
Rural households	134,499
Urban households	111,925
Households with new or improved sanitation	60,734
Waste water capacity added or improved	7,665 m ³ /day
Water supply pipes installed or improved	7,038 km
Land improved through irrigation, drainage, and/or flood management	1,276 hectares
EDUCATION	
Students benefiting from new or improved education facilities	988,486
- female students	471,597
- male students	516,889
Students educated and trained under improved quality assurance system	3,881,635
- female students	1,890,955
- male students	1,990,680
Teachers trained with quality or competency standards	142,117
- female teachers	37,859
- male teachers	104,258
Teachers trained with quality or competency standards, TVET	1,060
AGRICULTURE AND NATURAL RESOURCES	
Land with improved agricultural output	32,800 hectares
Additional irrigation coverage	45,563 hectares
Improved rural roads	826 km
FINANCE	
Microfinance loan accounts opened/end borrowers reached	512,765
- female account holders	381,074
- male account holders	131,691
REGIONAL COOPERATION AND INTEGRATION	
Cross-border cargo volume facilitated	212,065 tons/year

km = kilometers, m³/day = cubic meters per day, TVET = technical and vocational education and training

Sources: ADB project and/or program completion reports issued in 2010–2016, staff estimates, and ADB Strategy, Policy and Review Department.

Poverty in Nepal is largely a rural phenomenon, which is closely associated with limited access to finance. Only 34% of Nepal's total population had access to formal financial services in 2014. ADB helps the government increase access to finance for poor and disadvantage groups by expanding financial services in rural areas. The Rural Finance Sector Development Cluster Program (2010-2015) promoted rural income and self-employment opportunities by developing a network of community-based small farmers' cooperatives, especially in the remote hills and mountain areas. The program provided access to finance for over half a million rural households, and 74% of the recipients were women.

The ongoing Disaster Risk Reduction and Livelihood Restoration for Earthquake Affected Communities Project (2015-2019) is helping nearly 15,000 households through microfinance institutions as well as savings and credit cooperatives. This assistance is crucial to help rebuild lives after the devastating earthquakes in 2015.

As Nepal's development needs have changed, so has the nature of ADB's assistance. ADB has in the past 5 years consolidated its support to focus on building much-needed infrastructure, particularly in the energy, transport and urban services sectors; strengthening capacity in public sector institutions; and developing human capital through skills development and technical training. ADB's assistance in agriculture now focuses largely on adding value. ADB also supports projects that promote clean energy, sustainable transport, and integrated water management.

Weak governance and problems with public financial management are factors that affect the effectiveness of development assistance and have been areas of concern as Nepal has gone through its extended transition to democracy and a federal system. ADB has supported the government's efforts to strengthen governance and public financial management at all levels. In a federal structure, acceptable standards and processes are particularly important at the local level. The long-overdue local elections that were held in 2017 will help to strengthen the processes already established by the government in recent years.

ADB assistance includes a policy-based grant to strengthen public management, approved in 2012; the Local Governance and Community Development Program (LGCDP), including the Local Governance and Accountability Facility; the Governance Support Program; and more flexibility in procurement requirements so long they meet acceptable standards. Policy and advisory technical assistance on Strengthening Subnational Public Management aided the government in the fiscal decentralization required under the country's new constitution.

Gender equality and social inclusion have been mainstreamed as cross-cutting themes in all ADB-supported projects and programs. This has helped ensure that women, socially excluded communities, and the poor share project benefits; institutionalize gender and social inclusion within executing and implementing agencies by developing sector-specific gender equality and social inclusion guidelines and mechanisms; and increase the capacity of projects to monitor and track gender equality and social inclusion results.

Other important aspects of ADB's work in Nepal include strengthening governance and public financial management, and applying social and environmental safeguards to the projects it supports. Given Nepal's vulnerability to climate change, ADB supports climate change adaptation, better natural disaster management, and a reduction in risks. ADB helps fund projects that promote watershed conservation. ADB supported government in drafting "National Pollution Control Strategy and Action Plan" in 2016/17.



Gender equality and social inclusion have been mainstreamed as cross-cutting themes in all ADB-supported projects and programs. This has helped ensure that women, socially excluded communities, and the poor share project benefits.

RAPID URBANIZATION AND THE NEED FOR INFRASTRUCTURE SUPPORT

ADB has helped improve urban management and resource mobilization, including the preparation of municipal action plans, training in revenue mobilization, better house tax and customer databases, and the introduction of computerized tax and service fee collection systems.

Nepal has a rapidly growing urban population, with a growth rate of 6% per annum, far above the national average of 1.4%. Most of this growth has been unplanned and has put severe pressure on urban services, including drinking water, sanitation, roads, and drainage.

The initial impetus for migration from rural to urban areas came because of the civil strife, which lasted from 1996 to 2006, but continued after that because of a lack of gainful employment in rural areas. While less than a quarter of the population now lives in towns and cities, this figure is projected to rise to one-third by 2027. Meanwhile, urban poverty rose from 9.2% in 2003 to 15.5% in 2011.

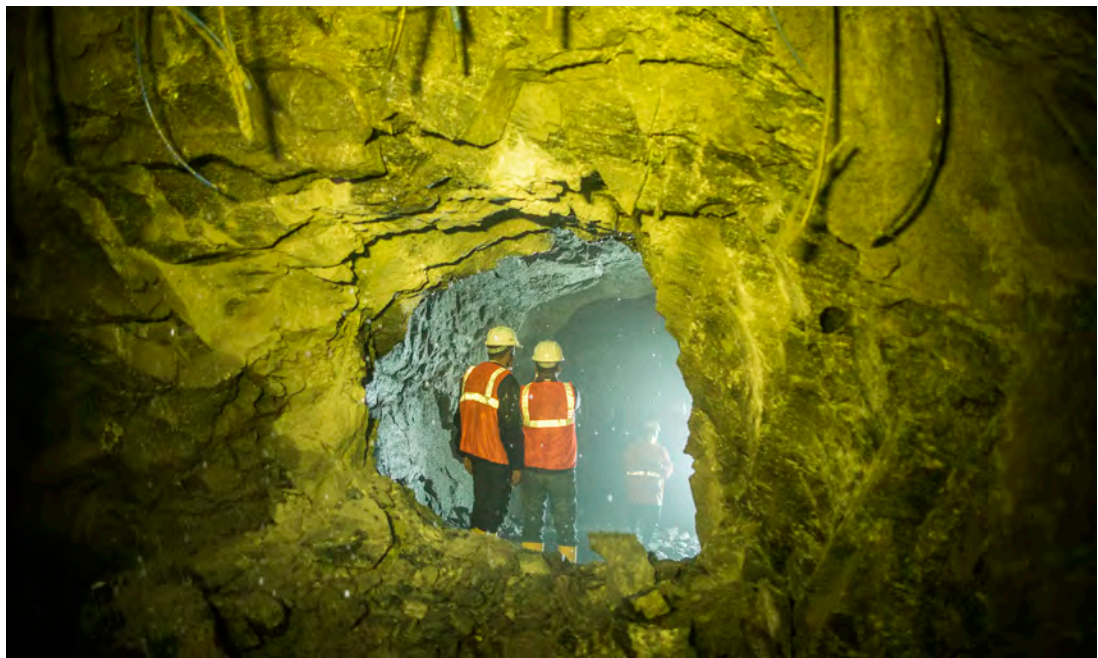
ADB has supported Nepal's urban development sector since its first urban water supply project, approved 33 years ago in 1984. ADB continues to support projects that provide easy access to clean drinking water in more than 30 towns. It also helps to provide sanitation, drains, and roads.

As of 31 December 2016, ADB had seven active projects in the sector, including the Melamchi Water Supply Project (loans totaling \$145 million) to bring a steady supply of drinking water to Kathmandu Valley. After delays in the past, this project has picked up pace and is expected to deliver improved water supply services to residents in the capital city and its environs in 2018.

The Melamchi project is complemented by the \$80 million Kathmandu Valley Water Supply Improvement Project, which focuses on improving water transportation, storage, and distribution systems. This project also supports institutional development and governance in the water sector in Kathmandu Valley.

Support to improved water supply.

The Melamchi project is complemented by the \$80 million Kathmandu Valley Water Supply Improvement Project, which focuses on improving water transportation, storage, and distribution systems (photo by Samir Jung Thapa).



**Improved roads bring multiple benefits.**

Better road conditions connect people to opportunities and services (photo by Narendra Shrestha).

An important component of ADB assistance to urban development is the institutional strengthening of municipalities. ADB has helped improve urban management and resource mobilization, including the preparation of municipal action plans, training in revenue mobilization, better house tax and customer databases, and the introduction of computerized tax and service fee collection systems.

Two water supply and sanitation projects implemented in 29 small towns have brought easy access to clean water to an estimated 600,000 people. This has raised health standards and reduced women's traditional burden of fetching water from long distances. One notable feature of these projects was the high level of community participation, including the active involvement of women in water user committees.

The \$52.75 million Third Small Towns Water Supply and Sanitation Sector Project has added 14 new towns to the earlier 29.

The \$44.8 million Integrated Urban Development Project (IUDP) focuses on building or upgrading roads, drainage systems, and solid waste management in three towns, and water supply in a fourth.

Nepalgunj, a town in the plains in the southern part of the country, was once prone to waterlogging. The IUDP has created drainage facilities and built roads to provide easier travel within the town.

Rehan Rai plies a motorized rickshaw. A few years ago, the condition of the road was so bad that nobody wanted to travel along it, he said. Incomes were low, rickshaws were often damaged by the water, and there were many accidents. With the improved condition of the road, Rai says his income has increased about 1.5 times.

In another part of Nepalgunj, 20-year-old Tarranum Darji walks with a slight limp along a road built under the project. Darji, who suffered from polio as a small child, remembers walking 2 km to school from her home when she was younger. "During the monsoon season, the water would come up to my knees," she said. "I would have to remove my crutch and carry it all the way as I hopped on one leg to school." But those days are behind her – there is no more waterlogging, she said, even during the monsoons, and the road makes travel easy.

A RELIABLE SUPPLY OF ENERGY AS AN ENGINE OF GROWTH

■ ADB is the leading development partner for Nepal in the energy sector and aims to help make power a key driver of economic growth in the country.

Nepal, with abundant water resources, has huge hydropower potential, but underinvestment means much of this potential remains unrealized. The country's total installed capacity is only 967 megawatts (MW), well below the peak demand of 1,095 MW. Nepal's per capita energy consumption is a mere 102 kilowatt-hours per year, among the lowest in the world. Only 84.9% of households have access to electricity, and industry and business opportunities are constrained by the shortfall in supply.

ADB is the leading development partner for Nepal in the energy sector and aims to help make power a key driver of economic growth in the country. In terms of commitments, ADB was Nepal's top development partner in this sector, according to the government's Development Cooperation Report 2015/2016. ADB's commitment of \$1,806.18 million for ongoing projects and programs accounted for 55.3% of total commitments to the energy sector by all of Nepal's development partners. This was followed by the World Bank Group with \$391.25 million.

The ADB-supported Kali Gandaki-A hydroelectric project, commissioned in 2002, remains the largest single source of electricity to the national grid, producing about one-third of all hydroelectric power in the country. The older 60 MW Khimti Hydropower Project, commissioned in 2000, led the way to public-private partnerships in the energy sector.

Reliable supply of energy.

The ADB-supported Kali Gandaki-A hydroelectric project, commissioned in 2002, remains the largest single source of electricity to the national grid, producing about one-third of all hydroelectric power in the country (photo by Samir Jung Thapa).



Under its Energy for All initiative, ADB is pilot testing an innovative business model for mini-grids. Under this initiative, 35 kilowatt-peak (kWp) of solar power has been installed with increased role of private sector for providing energy services to local businesses and households in three remote rural communities in Khotang and Okhaldhunga districts.

Most of the country's energy projects rely on run-of-the-river hydropower, with little or no storage capacity, leading to shortages in the dry winter season when demand is at its highest. An important facet of ensuring energy security therefore is facilitating cross-border trade with India, importing during the dry season and exporting at times of surplus. To this end, ADB supports the construction of high-capacity transmission lines, in the first instance to import energy and later to be able to export it.

The sector has also suffered from institutional capacity constraints. Under the \$53.55 million Energy Access and Efficiency Improvement Project, approved in 2009, ADB helped in the financial restructuring of the Nepal Electricity Authority.

In rural areas, limited access, and frequent outages hamper irrigated agriculture and small-scale industry. Completed in 2008, the \$50 million Rural Electrification, Distribution, and Transmission Project, provided new connections to 119,000 rural households, benefiting 860,000 people.

The ongoing \$66.65 million Electricity Transmission Expansion and Supply Improvement Project aims to increase the reliability of energy supply and strengthen the end-country transmission infrastructure needed for cross-border trade. The Chapali substation built under this project has played a key role in ending load shedding in the Kathmandu Valley. Occasional interruptions still occur, but the planned 10-12 hours a day of power shutdowns are now just a memory.

The project has reduced power interruptions and voltage fluctuations in other parts of Nepal as well, said Laxmi Raj Joshi, Supervisor of the Kohalpur substation in southern Nepal. The new transmission lines will also allow import of electricity from India.



Ensuring energy security.

The ongoing Electricity Transmission Expansion and Supply Improvement Project aims to increase the reliability of energy supply and strengthen the end-country transmission infrastructure needed for cross-border trade (photo by Narendra Shrestha).

Boom in business.

“There has been no load shedding recently and I can run my business throughout the day and even at night,” says Bharat Khadayat (photo by Madhup Shrestha).



The effects of this and other projects are already being felt. “With 24-hour uninterrupted electricity, my daughter can study and do her homework even at night. I can also open my shop till late evening. Earlier this was not possible as we would have light just for few hours during the day,” says Ganga Shahi, from Amlokhiya, Kailali in far-west Nepal.

The uninterrupted supply of power is also having positive effects on business. “There has been no load shedding recently and I can run my business throughout the day and even at night,” says Bharat Khadayat who owns a photocopy and printing shop in Bhurigaon in Banke district in mid-west Nepal. “Earlier, I could open my shop just for 1 or 2 hours every day and I even thought of closing down. Now I am making good profit, and am even thinking of expanding my business” he adds.

**Harnessing wind and solar power.**

Small scale, off-grid power systems are well suited to many communities in remote, mountainous areas of Nepal (photo by Madhup Shrestha).

CONNECTING WITHIN AND WITHOUT

Connectivity within Nepal and with its neighbors in South Asia is essential to trade, tourism, economic growth, and social development. In a land-locked country where 70% of the terrain is mountainous or hilly, road and air links are the two means of travel and trade. Road transport accounts for 90% of all movement of passengers and goods.

Roads connect isolated villages in the hills and mountains of Nepal with health centers and schools, markets for their produce, banking and credit facilities, and employment opportunities. In the plains of the Terai, roads create connectivity within Nepal, with neighboring India, and – through India – with the rest of South Asia and the world. Road and air links give Nepal access to ports in India and, potentially, other countries in the region.

ADB has been active in the roads sector since 1969, investing about \$500 million to build, upgrade, or maintain 1,600 km of roads. In the northern hills, the \$55.2 million Road Connectivity Sector I Project played a significant role in raising incomes, health standards, and education levels. A Project Performance Monitoring Study showed that the incidence of poverty declined by 21% during the life of the project, from 2006 to 2015. The improved connectivity contributed to a 102% rise in per capita income in the project area. It also boosted the tourism industry, which has grown considerably, with a corresponding increase in hotels, lodges, and home-stays.

■ ADB has been active in the roads sector since 1969, investing about \$500 million to build, upgrade, or maintain 1,600 km of roads.



Connectivity facilitates trade.
Road and air links give Nepal access to ports in India and, potentially, other countries in the region (photo by Narendra Shrestha).

Facilitating cross-boarder trade.

With the opening of the Kohalpur-Nepalgunj road, linking Nepal to the Indian border, transport has becoming quicker and cheaper (photo by Samir Jung Thapa).



Nepal stretches from east to west more than it does from north to south, looking like a rectangle on the atlas. The East-West Highway, built with support from ADB and several other development partners, runs along the length of the country. ADB provided its assistance as part of the South Asia Subregional Cooperation (SASEC) program. The highway connects not just east and west, but also the hilly and mountainous north with the plains in the south. Once linked to this major artery through feeder roads and smaller highways, any town or village in the north is also linked to the national capital, Kathmandu, and to markets in both Nepal and India. The ongoing Subregional Transport Enhancement Project (STEP) is providing this connectivity, as well as building roads to the Indian border to ease trade. ADB is supporting this project with \$24.5 million in grant assistance and another \$24.5 million as a loan.

Sanjay Kumar Jain exports Himalayan herbs to India by truck from a warehouse located between Nepalgunj and Kohalpur, towns that have been linked to the border by a 22.3 km stretch of road built under STEP. Jain sources the herbs in the Karnali area of northwestern Nepal, transporting them to Nepalgunj and then on to India.

“We use the road for everything,” said Jain, Executive Director of Bahubali Herbal Essence and Extracts. “Nothing can be done without the road.”

“India is a big market for us,” he said. The herbs are used in traditional Indian Ayurvedic medicines, as essential oils in aromatherapy, and as to add flavor in cooking.



**Better roads
bring economic
opportunities.**

Businessmen are able to load more goods onto their trucks as the road conditions improve (photo by Narendra Shrestha).

Jain's family has been in this business for 30 years. With the opening of the Kohalpur-Nepalgunj road, linking Nepal to the Indian border, transport has become quicker and cheaper. Before that, travel on the Nepal side of the border was so slow that Jain was not able to turn around a truck the same day after its return from India. Now, because the road is so much better, he is also able to load more goods onto each truck.

ADB is also helping upgrade Nepal's only international airport, the Tribhuvan International Airport in Kathmandu, which serves as the entry point for high-end tourists. ADB assistance is helping to improve the international airport's capacity to handle the growing number of passengers and raise safety standards. ADB is also helping upgrade two domestic airports that support tourism.

An important aspect of ADB's support to the transport sector has been institutional capacity development, starting with the \$46 million Road Network Development Project which ran from 2001 to 2010. Apart from building and upgrading roads, this project also strengthened the capacity to maintain the national road network.

HUMAN CAPITAL: SCHOOLING AND SKILLS DEVELOPMENT

■ The emergency project is rebuilding schools, government buildings, and roads, with 43% of the funds going to school reconstruction. The project is rebuilding 152 schools in eight earthquake-affected districts.

ADB has been a major development partner for Nepal in the education sector for many years, with a focus on equitable access and high-quality school education. With support from several multilateral and bilateral donors, school enrollments and retention rates have improved, including those for girls and for children from poor families and disadvantaged groups. Teacher training has improved the quality of education.

After the earthquakes in 2015, the ADB Board approved an emergency assistance project focused on rebuilding schools. ADB has also expanded its support to technical and vocational education and training.

ADB's current assistance includes three active projects: the Earthquake Emergency Assistance Project (\$193.06 million), Supporting School Sector Development Plan (\$115 million), and Skills Development Project (\$20 million). The emergency project is rebuilding schools, government buildings, and roads, with 43% of the funds going to school reconstruction. The project is rebuilding 152 schools in eight earthquake-affected districts.

ADB handed over the newly reconstructed Shree Kali Devi Primary School in Kavre District to the community on 18 December 2017. The April 2015 earthquake had badly damaged the school. Prior to the construction of the new buildings which are earthquake resistant and disabled-friendly, students were taking classes at temporary makeshift classrooms. "If the new buildings were not constructed, the school would have to be closed as the number of students was dwindling," says Prem Lal Shrestha, the school's head teacher. "But now, we are confident students will come back as parents also feel the new buildings are safe."

Quality infrastructure facilitates better learning.

The newly reconstructed Shree Kali Devi Primary School in Kavre district is earthquake resistant and disabled-friendly (photo by Madhup Shrestha).





Skills training is changing lives.

Ishwori Sarki began working for a construction company after graduating from the Balaju School of Engineering and Technology as a qualified mason (photo by Bikas Rauniar).

ADB's previous assistance to schools included retrofitting 160 schools to make them resistant to earthquakes under the School Safety Program, supported in partnership with the Government of Australia. More than 100 of these schools survived the quakes with little or no damage.

ADB is among nine financing partners that support the School Sector Development Plan. The Plan aims to improve the equity, quality, efficiency, governance, and management of school education in Nepal. Its sector-wide approach enables this program to leverage the entire school sector budget for greater efficiency and effectiveness of public resources. The other eight development partners supporting the program are the United Nations Children's Fund (UNICEF), Global Partnership for Education, European Union, Government of Finland, Japan International Cooperation Agency, Government of Australia, Government of Norway, and World Bank.

A grant of \$20 million supports the Skills Development Project, which provides technical and vocational education and training to young women and men through several centers. The project pays special attention to training women and members of disadvantaged groups. For women, it includes training in both traditional and not-so-common sectors.

Ishwori Sarki is one of the women who has confidently stepped into what was until recently a male-dominated area of work. Secured by a safety line atop a bamboo scaffold, she builds an outer wall on a house in Kathmandu. Expertly trowelling bricks, the 27-year-old mother of two is the only woman on the job site.

Sarki began working for a construction company after graduating from the Balaju School of Engineering and Technology as a qualified mason. "When I worked in handicrafts, I used to earn just NPR 5,000 (about \$46) a month. Here at this company my salary is NPR 15,000 (about \$136)," she said with justifiable pride.

Sunita Lama works as a beautician at a parlor just outside Kathmandu's famous Buddhist shrine of Swayambunath. She received training under the Skills Development Project more than a year ago. That training changed her life. "I now earn good money and am saving up to buy my own parlor," she says. The work has brought her self-confidence as well as extra money for herself and her family of four. "At the moment my husband earns a bit more than me, but in the future I will earn more," she said with assurance.

AGRICULTURE: RAISING INCOMES

■ ADB has supported agriculture, natural resources, and rural development since the early 1970s. In recent years, ADB assistance in the sector has focused on water management in river basins, irrigated agriculture, and commercialized agriculture and livestock management.

Despite the country's rapid urbanization, 80% of Nepal's population continues to reside in rural areas, and agriculture remains the principal economic activity, contributing about one-third to GDP and providing employment to about 75% of all households. Rural poverty in 2011, at 27.4% was higher than the national average and almost double that of urban poverty. With rugged terrain, a fragile ecology, a high dependence on rain, and poor rural infrastructure, productivity and incomes are low. As a result, many poor farmers barely eke out a living.

ADB has supported agriculture, natural resources, and rural development since the early 1970s. In recent years, ADB assistance in the sector has focused on water management in river basins, irrigated agriculture, and commercialized agriculture and livestock management.

Until 2010, investments were guided by the government's Agriculture Perspective Plan, prepared with support from ADB. In 2010, ADB provided technical assistance to formulate a new 20-year Agriculture Development Strategy 2015–2035(ADS) in collaboration with 12 other development partners. This strategy is designed to make agriculture more productive, competitive, inclusive, sustainable, commercially viable, and resilient to climate change impacts.

Two active projects help small and medium farmers diversify into high-value crops in 20 districts. These are the \$20.1 million Raising Income of Small and Medium Farmers Project (RISMFP); and the \$20 million High Mountain Agribusiness and Livelihood Improvement Project, known in Nepal as HIMALI.

Making agriculture more productive.

With lower costs, higher yields, and better prices, former subsistence farmers are finally earning a reasonable income by producing enough crops to sell in the market (photo by Samir Jung Thapa).



Both projects, supported with grants, encourage small and medium farmers to commercialize their agricultural practices, elevating them from previous subsistence farming. The projects establish market linkages and provide capital for farming inputs and technology. ADB's co-investment of \$20 million for around 1,150 agribusinesses under the two projects has leveraged \$24 million in investments from farmers and agroentrepreneurs.

HIMALI has created 8,600 new jobs through agribusiness in one of South Asia's poorest and most remote areas in the Hindukush Himalayas. With support from the project, women from marginalized communities have become self-employed support and have also created employment opportunities for others.

In 10 districts in southwestern Nepal, the RISMFP is supporting the commercialization of 10 agricultural products, including potato, banana and honey. For the potato value chain, the project involves in vitro seed production, tissue culture, field farming of high-yielding plantlets, small harvesters and other forms of mechanisation, cold storage facilities, agriculture extension, and link-ups with wholesale buyers.

Farmers participate actively through cooperatives and farmers' groups. Nongovernment organizations train the farmers to commercialize their crops.

"Before the project, I farmed rice. In a year, I got only one crop," said Jeevan Kandel, chairperson of a farmers' group near Nepalgunj. "Now I plant potatoes, rice, and maize, and harvest three crops a year." Not only that, the potato seeds bring a higher yield. "I always thought a potato is just a potato, but now I know there are 25 to 30 different varieties."

Part of the reason for the higher yields is the mechanization supported by the project. "I had never seen implements like these," Kandel said, marveling at small harvesters and tractors.



Higher yields mean better income.

Improved technology in farming is helping farmers in mid-west and far-west Nepal to harvest three crops a year (photo by Narendra Shrestha).

Happy farmer.

Ram Kumari Tharu, a farmer from a traditionally disadvantaged indigenous community, is using her earnings to improve her house, converting it into a “permanent” structure of bricks and mortar (photo by Narendra Shrestha).



With lower costs, higher yields, and better prices, former subsistence farmers are finally earning a reasonable income by producing enough crops to sell in the market. Potato prices in the Terai fluctuate from season to season and year to year. The price this year has been half that of last year, but even so farmers are making a profit, Kandel said. With new cold storage facilities, they are also able to wait until prices rise again.

Krishna Bikram farms a small irrigated plot of land along with his wife Manju. “We used to harvest one crop of rice, that too if we had a good monsoon,” Bikram said. “Now, thanks to the potato value chain and irrigation, we earn three times as much as we did before.” The couple are using the extra income to provide a better education for their children.

Ram Kumari Tharu, a farmer from a traditionally disadvantaged indigenous community, is using her earnings to improve her house, converting it into a “permanent” structure of bricks and mortar. Her two children are still in school. When they are older, she hopes they can get a university education. Before the project, she farmed just enough rice and corn to feed the family, while her husband worked in India as a daily wage laborer. He looked for work there every year, Tharu said, and spent 2 to 4 months away from the family to supplement their meagre income. “But he does not need to go away any more,” Tharu said. There is enough work for both of them on their own small plot of land.

IMPROVING OPERATIONAL EFFECTIVENESS AND SERVICES

In 2017, Nepal portfolio continued the 2016 momentum of record high performance, and achieved \$435.9 million as contract award and \$275.4 million (with program loans) as disbursement.

Portfolio performance has demonstrated steady improvement in recent years, although challenges remain in timely contract award, contract management, capacity of project management teams and disbursement.

Nepal continues to face fundamental problems due to its prolonged political transition, critical capacity and governance constraints, as well as physical problems like difficult terrain in remoteness.

Consistent efforts have been made to progressively address risks and constraints through regular country and tripartite portfolio review meetings co-chaired by the Ministry of Finance and ADB, joined by line ministries. Project and sector level review missions and meetings, along with multi-donor forum of Nepal Portfolio Performance Review meetings are also held. ADB's Implementation Risk Mitigation Action Plan, prepared in 2015, now covers all the infrastructure projects it supports in the country. Apart from regularly monitoring the action plan, ADB also trains government staff to implement it.

ADB has taken several measures that are now showing results in the form of improved portfolio performance. These include better project design, a more rigorous results-based approach, and improved monitoring during project implementation.

■ Nepal continues to face fundamental problems due to its prolonged political transition, critical capacity and governance constraints, as well as physical problems like difficult terrain in remoteness.



Improving operational effectiveness.

ADB and the Ministry of Finance organize quarterly portfolio performance review meetings to address challenges in timely contract award, contract management, and disbursement (photo by Pushparaj Subedi).

FUTURE CHALLENGES AND GOALS

■ ADB sees energy development as a strong engine of growth, driving industry and commerce as well as improving quality of life. The transport sector, too, remains important as connectivity is essential for trade, tourism, and access to health and education services.

Nepal is set to achieve higher levels of growth in 2017 and 2018, but continues to face challenges. Nepal remains vulnerable to natural disasters, as seen by floods in August 2017. Weak institutional capacity in public sector bodies also constrains growth. The higher growth projections are also predicated on accelerated earthquake rehabilitation and could be adversely affected by the floods of 2017.

The transition to a federal structure is still under way, although elections were completed by January 2018. Elections to local bodies were held in 2017 after 20 years, promising better governance at the grassroots level.

Other challenges remain in overcoming infrastructure constraints to development, increasing equitable access to education, promoting good governance, and ensuring effective public-sector management.

In line with government priorities, ADB will continue to support accelerated and inclusive growth through its focus on building infrastructure, developing human capital, and transforming agriculture. The bulk of ADB assistance will go to the transport, energy, and urban services sectors. ADB will follow a more strategic agenda in agriculture and natural resources, supporting value chains in commodities in which Nepal has comparative advantage. ADB will support the development of human capital through its support to schools (mainly infrastructure) and the skills development project. To make development truly inclusive, ADB will retain its focus on building institutional capacity, promoting gender equality, and bringing about social inclusion.

ADB sees energy development as a strong engine of growth, driving industry and commerce as well as improving quality of life. The transport sector, too, remains important as connectivity is essential for trade, tourism, and access to health and education services. As a fast-increasing urban population puts increasing pressure on basic services, ADB will build on earlier drinking water projects to now also support the construction of roads, drainage, and sanitation facilities. ADB is also helping upgrade airports, essential to both trade and tourism.

Projects and program bring growth and prosperity only when they go beyond the planning stage to effective implementation. ADB will therefore continue to work with Nepal to build sound institutional capacities for sector planning, high project readiness during project design, effective implementation, and sustainable asset management.

Development Effectiveness Brief: Nepal

Supporting Inclusive and Accelerated Growth

Poverty in Nepal is largely a rural phenomenon, which is closely associated with limited access to finance. Only 34% of Nepal's total population had access to formal financial services in 2014. Nepal was a founding member of the Asian Development Bank (ADB) in 1966. Over the years, ADB has provided assistance in several sectors, including infrastructure development, agriculture, transport, energy, water and sanitation, urban development, and education. 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 and environmental safeguards and good governance form part of all ADB supported projects and programs in the country.

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 a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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



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