

**Report No. 19850**

**NEPAL**

**Country Assistance Evaluation**

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*Operations Evaluation Department*

## Abbreviations and Acronyms

ADB	Asian Development Bank
BOP	Balance of Payments
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CECI	Canadian Center for International Studies and Corporation
CIAA	Commission of Investigation of Abuse of Authority
DEI	Development Effectiveness Index
ESAF	Enhanced Structural Adjustment Facility
ESW	Economic and Sector Work
FIAS	Foreign Investment Advisory Service
GDF	Global Development Finance
GDP	Gross Domestic Product
GNP	Gross National Product
HMG	His Majesty's Government of Nepal
ID	Institutional Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IRIS	Center for Institutional Reform and the Informal Sector
LIL	Learning and Innovation Loan
MW	Megawatt
NCP	Nepali Congress Party
NEA	National Electrical Authority
NGO	Non-Governmental Organization
NTC	Nepal Telecommunications Corporation
NWSC	Nepal Water Supply Corporation
OED	Operations Evaluation Department
PAR	Performance Audit Report
PBD	Planning and Budgeting Department
PFP	Policy Framework Paper
PHN	Population, Health, and Nutrition
SAARC	South Asian Association for Regional Cooperation
SAL	Structural Adjustment Loan
SAR	South Asia Region
SDR	Special Drawing Rights
T&V	Training and Visit
TA	Technical Assistance
UNCED	United Nations Conference on Environment and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WDI	World Development Indicators

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## MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

### *NEPAL - COUNTRY ASSISTANCE EVALUATION*

Nepal's per capita income and social indicators are among the lowest in the world. It is a land-locked, resource-poor, and largely agrarian country. Rugged terrain makes communication and transport difficult. A legacy of elitist rule, weak public management, poor infrastructure, unskilled labor, and sparse public social services are major constraints to development. On the positive side, Nepal is located in between two large potential markets, it is an attractive tourist destination, and has extensive hydroelectric potential.

In 1991, the government began implementing a broad strategy to reduce poverty by stimulating market-oriented private sector growth and expanding access to basic social services. Good progress was made in liberalizing the price and trade regime, maintaining stability, and increasing access to primary education. GDP grew an average of 5 percent between 1990 and 1997. However, the sustainability of these results in uncertain and progress in other areas was poor. Estimates indicate a decline in growth to 2.3 percent in 1998; per capita growth in agriculture in the 1990s was stagnant; stability in the financial sector is at risk; exports are overly concentrated on carpets and garments; public revenues are inadequate and expenditures unprioritized; only 0.5 percent of Nepal's hydroelectric potential has been developed; education quality is low; access to health services scarce; and more than half the people still have no access to safe water. While the overall strategy pursued by the government and supported by the Bank remains relevant to reducing poverty in Nepal, this limited progress in advancing the reform agenda has resulted in an increase in the number of poor by over a million people since 1990.

Bank financial assistance in the 1990s consisted of investments in agriculture, infrastructure, power, and the social sectors. As a consequence of a poor enabling environment, Bank projects had limited impact on their broader objectives; suffered from a range of implementation problems; and there are serious doubts about their sustainability. Frequent changes in key decisionmakers due to political instability, inadequate management, and lack of counterpart funds undermined project implementation and sustainability. Poor donor coordination, political interference into projects, and alleged corruption further complicated the environment for public investment. The private sector investment response in the 1990s was also limited. Key factors behind this include the absence of critical infrastructure; low investor confidence due to political instability; the presence of inefficient public enterprises in key sectors; lack of access to investment finance; difficult access to markets in India; and the perception of a corrupt environment.

Bank performance in Nepal in the 1990s was unsatisfactory. In retrospect, the Bank should have done more to help address fundamental institutional and policy constraints to create an enabling environment for (i) cost-effective and sustainable public investment; and (ii) much greater private sector activity. No agreed policy framework was in place after 1995; no policy loans were made in the 1990s; the Bank did not actively engage in policy dialogue in key areas, including agriculture, the financial sector, or privatization; civil service and public expenditure reforms were not pressed after 1995. The Bank changed country directors six times between 1990 and 1997 and relatively low attention was paid to Nepal by the respective country department. The dropped Arun III power project generated wide negative publicity for the Bank, affected relations with the government, and consumed substantial Bank staff efforts and financial resources.

Future Bank assistance should include: (i) a strategy for improving public sector management; (ii) close monitoring of the structural and social policy environment; (iii) a strategy for donor coordination to further the reform agenda; and (iv) initiatives to develop rural infrastructure, with emphasis on management by non-governmental, private, and autonomous public entities.

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## 1. Nepal's Development Strategy In The 1990s

1.1 *Background.* Nepal is one of the ten poorest countries in the world, with a per capita income of US\$210. It has a largely agrarian economy, with over 40 percent of GDP attributable to agriculture (compared to an average of 29 percent in South Asia) and over 80 percent of the people relying on agriculture for their livelihoods. Nepal is landlocked, has limited mineral resources, and has a very rugged terrain that makes transport and communication difficult. Ninety percent of its people live in 4,000 villages scattered across the country. Close proximity to India has limited Nepal's ability to pursue independent trade and industrial policies in the past. Weak public management, a low skills base, political instability, and the recent emergence of an armed insurgency hamper development progress. On the positive side, Nepal's closest neighbors—India and China—are two of the largest potential markets in the world; Nepal has abundant water resources, extensive hydroelectric potential, and is an attractive tourist destination.

1.2 *Limited early progress.* After the end of Nepal's self-imposed isolation in the early 1950s, initial development plans focused on public sector manufacturing, import substitution, and infrastructure development, mainly in the Katmandu valley. These efforts yielded economic growth that only just exceeded population growth through the 1970s. Expansionary fiscal policies in the early 1980s to accelerate growth failed to stimulate a supply response and resulted in a macroeconomic crisis by 1985. In 1986, Nepal launched a stabilization and adjustment program (supported by the Bank/IMF) aimed at restoring prudent fiscal and monetary policies and setting the economy on a sustainable growth path. By the late 1980s, stability was restored and liberalization of the trade and industrial regime had begun.

1.3 *Broad strategy adopted in the 1990s.* In 1990, the partyless Panchayat system was ended and in May 1991, a new democratically elected government began implementing a broad set of reforms aimed at reducing poverty through market-oriented growth and social sector investments to develop human capital. The strategy was supported by an IMF facility (Oct 1992); substantial grants and loans from bilateral donors and the Asian Development Bank; and the Bank's country assistance strategy (CAS), as outlined below. Main elements of the program were (i) promoting efficient private sector activity; (ii) gradual withdrawal of the public sector from commercial and industrial activity; (iii) prudent macroeconomic policy; (iv) improved public sector management; (v) development of Nepal's limited resource base; (vi) public investment in human capital, power, and infrastructure; (vii) decentralization of decision-making; and (viii) environmental protection. Growth sectors were expected to be agriculture, manufacturing, tourism, and hydropower.

1.4 *Halting progress on reform agenda.* Good progress was made toward these objectives in the early 1990s, due to both a committed Nepali government and liberalization in India. Price controls on most products were removed, industrial licensing eliminated, quantitative barriers removed, tariffs consolidated and reduced, convertibility on the current account allowed, and interest rates liberalized. Public enterprise reform and privatization commenced and public expenditure on health and education increased. However, in 1994, the incumbent government lost support and there has since been a succession of five unstable coalition or minority governments, none lasting for more than a year and a half. None of the successive governments radically altered the direction of economic policy, allowing most market-oriented initiatives to remain in place. However, the fragility of successive governments slowed advancement of the reform agenda.

1.5 *Positive early results, although of questionable sustainability and inadequate to reduce poverty.* Results of market reforms and human capital development measures of the early 1990s are visible. Exports - driven by carpets and garments - grew an average of 20 percent per year in the 1990s and increased as a share of GDP from 10 percent in 1990 to 22 percent in 1996. Manufacturing grew 12 percent a year and credit to the private sector doubled from 13 percent of GDP in 1990 to 25 percent in 1996. Inflation was maintained around 10 percent and the external and fiscal deficits (after grants) restricted to 8 percent and 6 percent of GDP respectively. Gross primary enrollment rose from 80 percent in 1985 to 110 percent in

1993. Between 1990 and 1997, GDP grew an average of 5 percent a year. However, as discussed below, the sustainability of these results is uncertain and they in themselves have not been enough to make a dent in Nepal's pervasive poverty. Estimates indicate a decline in GDP growth to 1.9 percent in 1998. Income distribution worsened, with the Gini coefficient rising from 0.24 in 1985 to 0.34 in 1996 (UNDP). Illiteracy decreased from 77 percent in 1980 to 64 percent in 1995, but remains among the highest in the world. Life expectancy is the lowest in SAR. Less than half the people have access to safe water, compared to a 77 percent average in SAR. The total number of poor has risen by over a million people since 1996.

## 2. Bank Objectives And Assistance

2.1 *Bank objectives.* Bank strategy in the 1990s, as reported to the Board in CAS documents, aimed to support most elements of the government's broad poverty alleviation strategy. Objectives were to help: (i) maintain macroeconomic stability; (ii) increase investment in human resources; (iii) improve public resource management; (iv) stimulate the private sector; (v) improve infrastructure; (vi) increase agricultural productivity; and (vii) develop hydroelectric potential. The Bank also sought to help preserve Nepal's natural resource base and better integrate women into development. Lessons from the past incorporated into the strategy to improve project performance included enhancing donor coordination, strengthening project implementation capacity, and including NGO participation. OED's view is that these objectives remain appropriate to reducing poverty in Nepal. However, as discussed below, not enough progress was made toward them to have set Nepal on a more advanced and sustainable course in reducing poverty.

2.2 *Lending operations since 1990.* Lending to Nepal in the 1990s was lower than in the past and consisted largely of infrastructure and agriculture investment operations. Between FY90 and FY98, 13 projects were approved, worth SDR 387 million in commitments. This volume was considerably lower than that of the prior nine years (FY81-89), during which 34 projects were approved for SDR 631 million. Sector distribution by commitment in the 1990s was 39 percent infrastructure, 34 percent agriculture, 15 percent social sectors, and 12 percent power sector (a distribution similar to that of the preceding nine years). There are presently 15 active projects in the portfolio, of which 47 percent are at risk or potentially at risk. IFC has had a limited portfolio in Nepal, having approved 8 investments to date, mainly in tourism and power.

2.3 *Policy interventions and ESW.* Policy Framework Paper (PFP) agreements between the Bank, IMF, and government were in place until 1995. In early 1996, a PFP was discussed but no agreement was reached and no framework has been in place since the lapse of the last ESAF agreement in 1995. The 1996 CAS's lending triggers were partly based on PFP targets and became meaningless when the PFP failed to materialize. The IMF plans to initiate ESAF discussions later in 1998, but no dates have been specified as yet. No policy-based loans were made in the 1990s. Preparation of the Arun III power project included conditions on expenditure prioritization and civil service reform. No further action was taken by the Bank after the project was dropped in 1995. The Bank did not engage in significant policy dialogue in the financial sector, agriculture, or privatization after the end of the SAL II operation in 1992. Since FY90, the Bank completed 18 formal ESW reports. Topics included secondary education, fiscal reform, infrastructure development, civil service reform, water supply and sanitation, agriculture, and overall economic progress. FIAS produced diagnostic studies on the foreign investment environment in FY97 and FY93.

2.4 *Performance of completed projects.* Between FY90 and FY98, 26 projects exited the Bank's Nepal portfolio, accounting for US\$604 million in net disbursements (1996 US\$). Of this amount 82 percent supported projects with satisfactory outcomes. This percentage exceeds Bank-wide and SAR outcomes of 76 percent satisfactory over the same period as well as the 67 percent satisfactory ratings for all completed projects in Nepal prior to FY90. However, performance is declining: 93 percent of projects approved between 1981 and 1985 were satisfactory, compared to 66 percent of projects approved between 1986 and 1993. Among projects completed in the 1990s 27 percent of original commitments were cancelled, the

highest in the region. Average completion delay per project was 31 months, compared to 27 in Pakistan, 25 in Bangladesh, and 20 in Sri Lanka. Institutional development impact ratings were 28 percent substantial, somewhat below SAR and Bank-wide averages of 31 percent and 38 percent respectively, but higher than pre-1990 ratings in Nepal of 23 percent substantial. Sustainability of projects in Nepal indicate a markedly low performance, with only 16 percent of projects being likely to be sustainable, compared to SAR and Bank-wide averages of 55 percent and 59 percent respectively. The average Development Effectiveness Index for projects in Nepal was the lowest in SAR (see Annex Table 18). Bank performance ratings for identification, appraisal, and supervision were close to SAR averages. As discussed below, however, ratings for Borrower performance in preparation, implementation, and compliance were well below regional and Bank-wide norms.

### **3. The Bank's Contribution To Development**

3.1 *Macroeconomic stability maintained, although fragile.* Despite frequent government changes after 1994 and limited policy involvement of the Bank and IMF, macroeconomic stability was largely maintained in the 1990s, due to tight fiscal and monetary policies, stability in India, and large aid inflows. However, sustainability is uncertain due to weak fiscal revenues; increasing donor fatigue (see below); and the vulnerability of the market for carpets and garments, which account for 85 percent of merchandise exports.

3.2 *Limited progress in the financial sector.* Two major public-controlled banks have a 70 percent share of the financial sector; interest rate spreads are high at 6 – 10 percent; and the formal sector is estimated to account for just 16 percent of total credit (the rest being met by informal lenders). Poor portfolio quality and high loan to deposit ratios in the dominant banks threaten stability in the system. The FY92 SAL II contained conditions to re-capitalize and restructure the banks, but the restructuring measures did not take place and there was subsequently no further activity. In effect, by enabling the re-capitalization of the two banks without ensuring their reform, the Bank facilitated postponement of reforms in the banking sector.

3.3 *Unsustainable interventions in agriculture.* In agriculture (the largest sector in the Bank's portfolio), four out of nine completed projects had unsatisfactory outcomes, just two had substantial ID impact, and only one was considered likely to be sustainable. According to evaluations, the impact of research and extension projects was limited because they did not respond to farmers needs, the T&V system was unsuited to the hills, and there were weak linkages between research and extension and poor motivation in public agencies. In irrigation, early projects failed to yield reliable water systems, mainly because they did not involve farmers in the project or ensure appropriate cost-recovery mechanisms. Later projects incorporated these lessons and emphasized beneficiary involvement, cost-recovery, and private irrigation schemes. Results of these efforts remain to be seen. The FY89 SAL contained conditions to open the fertilizer market to private traders. However, political resistance frustrated these efforts and no further action was taken. Overall, although over 80 percent of the people depend on agriculture for their livelihoods, annual growth in the sector was just 2.6 percent in the 1990s, only marginally above the rate of population growth.

3.4 *Undeveloped power generation capacity.* Bank contributions in power included construction of the Marsyangdi power plant, establishment of the Nepal Electricity Authority (NEA), and TA to screen and rank power sites. However, the 400MW Arun III project, under preparation since the early 1980s was dropped in 1995 due to its expected adverse fiscal impact, lack of implementation capacity, and the withdrawal of other donors. After this, the Bank supported efforts to create an environment for private development of hydropower and improve the electricity distribution network. Private investors have responded to the liberalized regime – for example, IFC is participating in two projects that will increase capacity by nearly 100MW. However, uncertain access to markets in India and inefficiencies in NEA appear to be key remaining constraints for the power sector in Nepal. Until India's electricity market is rationalized, including privatization of utilities and removal of subsidies, the risk of major investment in hydropower is

high. Only limited progress was seen in strengthening NEA. Poor service, price controls, and the high costs that it incurs increase the risks for private investors and are key obstacles to expanding local access to electricity. To date, only 293 MW out of Nepal's estimated 43,000MW economically viable hydro-power potential has been developed and 85 percent of the people remain without access to electricity.

3.5 *Slow progress in the health sector.* The Bank had one project in the health sector, the FY94 Population and Family Health (PHN) project. A health sector review, expected in FY99 will be the first ESW of the 1990s. Slow progress in preparing the PHN project reflected the government's view that adequate grant funding was available in the sector, making it reluctant to borrow from the Bank. The Bank's position was that other donors were failing to address critical institutional and policy constraints. However, the Bank's efforts have not addressed some of these constraints. At present, more than 40 percent of health expenditures are allocated to tertiary health care. The PHN project lagged in its first three years after effectiveness until mid-1997, when the Bank threatened to cancel the project. The government then made some key managerial appointments and restrained from interfering in project activities and the project is now expected to achieve its objectives. The experience indicated the extent to which project success relies on government commitment to achieving project objectives.

3.6 *Effective contribution in primary education, although limited impact in other areas.* Seven Bank projects were under implementation in education in the 1990s: three in basic and four in higher education. An ESW report in FY95 addressed major constraints to improving access and quality in secondary education. With strong government commitment, the Bank's projects in primary education had a significant impact on moving the agenda forward and expanding primary school coverage. However, despite Bank efforts, the prospects of rationalizing budgetary allocations and management in higher education remain poor due to lack of will among university management and political leaders. In secondary education, the need to move two university grades to secondary education is recognized as important by the government, but efforts have been frustrated by poor cooperation between agencies as well as anticipated adverse political impacts.

3.7 *Weak utility and poor project design hampered water supply interventions.* Three Bank-financed projects or components of projects aimed to increase safe water coverage. Projects suffered from inadequate engagement of user groups; excess government interference; lack of cost recovery mechanisms; and insufficient capacity in the public water utility to meet its investment and operational responsibilities. Efforts to build capacity in the utility saw little progress and an ongoing water supply project was recently amended to contract out some of the utility's operations. An FY97 rural water project is attempting to overcome some of these obstacles by creating a new social fund-type institution to manage demand-driven construction of safe water schemes. At present, less than 50 percent of the people have access to safe water, well short of the 75 percent target established by the government and the Bank in the early 1990s.

3.8 *Some progress in transport, although sustainability a concern.* In transport, Bank assistance focused on building and maintaining the core road network. Progress was made, although implementation was slow due to cumbersome decision-making processes and lack of technical and managerial expertise in the construction industry. As in other investment operations, sustainability remains a central concern. Neither Bank project was considered likely to be sustainable due to uncertain government commitment and lack of results-oriented maintenance spending. Bank-financed TA helped develop a Priority Investment Plan that provides a strategic framework for investment in the sector and made some gains in strengthening capacity in the Department of Roads. With strong government demand, the Bank now has on-going and proposed pilot projects to help develop road construction and maintenance capacity at the district level. Other donors are active in building roads at the community level. One key lesson learned by the Bank and government in the 1990s was that basic, low quality roads built with labor-intensive processes best suit Nepal's needs, given fiscal constraints and low volumes of traffic, rather than the higher standard roads previously. At present, many villages remain several days walk from the nearest road and poor transport remains a major constraint to growth and greater access to basic social services in Nepal.

3.9 *Effective contribution in telecom.* While overall telephone coverage in Nepal continues to be low, some progress was seen in the sector. Two Bank projects were active in the 1990s and a further is presently being prepared. Under the FY85 Telecom IV project, all physical targets were exceeded and the project helped establish a telephone network covering 73 of Nepal's 75 districts. The on-going FY92 Telecom V project aimed to further expand coverage, improve quality, and establish the grounds for privatization. To date, some 240,000 new lines have been added (compared to SAR estimates of 140,000) and the project is on target to achieve all its objectives. Most importantly, the public telecom company has consistently maintained good cost-recovery levels and is financially sustainable. Relative success in telecom is partly attributed to the presence of committed high-level officials in the sector; restrained interference into management of the utility; and the same set of officials consistently working in the sector.

## 4. Outcome: Unsatisfactory

4.1 *Slow progress toward objectives.* The broad poverty reduction strategy adopted by the government and supported by the Bank in the 1990s remains relevant to reducing poverty in Nepal. However, while advances were made toward some of the key intermediate objectives—particularly in liberalizing the price and trade regime, maintaining macroeconomic stability, and expanding access to primary education—on balance progress in implementing the strategy has been poor. Outcomes in most areas of Bank assistance—agriculture, the financial sector, power, health, education quality, water supply, transportation, and public sector management—were unsatisfactory. Nepal saw good GDP and export growth between 1990 and 1996, due to the liberalization and stability in India and the impact of international garment quotas that caused manufacturers to locate in Nepal. However, there has been insufficient progress in removing fundamental institutional and policy constraints to help consolidate this progress and as a result Nepal is presently in a precarious position: growth is declining; export markets are threatened; and there are serious concerns as to the sustainability of the macroeconomic position.

4.2 *Inadequate private supply response.* In the long-term, the success of the strategy being pursued by the government and supported by the Bank depends on a strong private sector supply response—in agriculture, power, tourism, or manufacturing—that will generate employment and income earning opportunities and increase public revenues. In the 1990s, this response was largely limited to carpets and garments—both of which have vulnerable markets. Agro-processing, which is likely to be a key link between the predominantly subsistence production of the present and a modern manufacturing sector, has not emerged. Agriculture, which remains the mainstay of the majority, has stagnated and the vast potential for power generation has not been exploited. The absence of critical infrastructure and low investor confidence due to political instability are key factors behind this outcome. Other factors deterring investment include the presence of inefficient public enterprises in key sectors (i.e. banking, aviation, fertilizer); lack of access to investment finance due to the inefficient banking system and low savings; difficult access to markets in India; uncertain legal recourse for businesses; remaining anti-export biases in the trade regime; insecure property ownership rights; and the perception of a corrupt political environment.

## 5. Institutional Development Impact: Modest

5.1 *Some achievements, although limited efforts in public sector management after Arun III.* Nearly all Bank investment operations contained components to help build the administrative capacity of public agencies concerned. Institutional development impact ratings in completed projects, at 28 percent substantial, were considerably higher than in Sri Lanka (14 percent) and Bangladesh (16 percent) and above the 23 percent among projects completed prior to 1990. An agenda for civil service reform was prepared in FY93 and fiscal expenditure studies were produced in FY92 and FY94 as part of the preparation for Arun

III. However, after cancellation of the project, the Bank lost its leverage and the agenda was not aggressively pursued. A public expenditure review is planned in FY99 to re-establish a dialogue with the government. Meanwhile, the same problems that afflicted Nepal's public sector in 1990 remain today. Expenditures are over-stretched and unprioritized, revenues are low, and budgeting is increasingly unrealistic. The civil service, in turn remains "politicized, demoralized, uninspired, inefficient and ineffective" (ADB, 1998). Inadequate project administration remains a central cause of poor outcomes in Bank-financed operations. A key requirement to improve the performance of public institutions is reforming civil service staffing procedures. Efforts to strengthen existing agencies through training and expatriate counterparts have been consistently undermined by conditions that encourage high turnover, low motivation, and poor performance. Politicization of public agencies, overlapping ministries and agencies, and poor coordination among them further undermine public service delivery. Extensive efforts to decentralize decision-making authority, led by UNDP, have been frustrated by central political resistance that prevents financial resources going to the district level.

## 6. Sustainability: Uncertain

6.1 *Poor project sustainability.* Only 16 percent of projects completed in Nepal in the 1990s are likely to be sustainable, compared to an SAR average of 55 percent and a Bank-wide average of 59 percent. This poor result raises serious questions as to the value of Bank-financed investments. Main causes of low sustainability include inadequate fiscal management, a low emphasis on operation and maintenance, lack of beneficiary involvement, ineffective public administration, and wavering commitment on the part of the government. While Bank projects have increasingly involved beneficiaries in projects, these other major problems persist. To promote project sustainability, one approach will be to rely on community groups and NGOs to build and operate infrastructure through social fund-type interventions – in cases where this is possible. In the longer-term, progress in expenditure management and civil service reform, stronger political determination, and growth in public revenues will be essential to ensure sustainable public investment.

6.2 *Over-dependence on external aid, lack of export diversification, potential banking crisis.* On a broader level, the sustainability of Nepal's current position is threatened by a number of factors. External aid financed 60-80 percent of Nepal's annual development budgets in the 1990s and accounted for over 10 percent of GDP. As the bulk of external assistance is on grant and concessional terms, Nepal's debt service position has not reached unsustainable levels: the debt service ratio in the 1990s was between 8 percent and 11 percent, compared to the 20 percent point considered unsustainable. However, the growing sense of aid-fatigue among official donors raises the possibility of reduced aid levels, with consequent implications for Nepal's development budget. Improved performance in implementing projects is likely to be needed to ensure continued high aid flows. Export diversification, particularly by taking advantage of recently improved access to SAARC markets, will also be essential to promote sustainability. The financial sector is under strain due to the lack of liquidity, bad portfolios, and poor lending practices of the two big banks. A close review and steps to address these circumstances are clearly warranted.

6.3 *Poverty is the main threat to the environment, although sources of growth are also threats.* It is apparent that each of the major expected sources of growth—agriculture, hydroelectric power, tourism, and manufacturing—all pose some threat to the environment. Rapid urbanization of a few centers in the Terai and Katmandu valley has also created high pollution indexes. However, poverty poses the biggest threat to land degradation and deforestation. Due to the absence of alternative energy sources, forests account for about 80 percent of Nepal's total energy consumption. UNCED estimates that 11 percent of the forest land is in a degraded state while another 26 percent has less than 40 percent crown cover. Community-based efforts under an on-going Bank-financed forestry project are reported to be helping reverse the decline in forest cover in parts of the hills. In general, the Bank was fairly diligent in the 1990s in building in safeguards in its projects to prevent depletion of natural resources and this emphasis will have to be maintained.

## 7. Bank Performance: Unsatisfactory

7.1 *Limited policy focus in a poor policy environment.* In retrospect, in the 1990s, the Bank focused too much on implementing its investment projects in infrastructure, agriculture, and power in a very difficult environment and not enough on helping ensure the presence of a conducive policy environment to support both sustainable public investment as well as much greater private sector activity. In seven out of nine projects evaluated since 1994, the sector policy environment was considered to be not supportive of project implementation. After 1995, Nepal had no agreed macro framework with the Bank or IMF; no policy-based loans were made in the 1990s; despite a succession of investment projects, policy involvement in agriculture was low; civil service and fiscal management reforms were not pressed after Arun III; dialogue in the financial sector and privatization lapsed for a good part of the 1990s; and dialogue in health and higher education was largely ineffective. As a consequence, of the poor environment, while most completed Bank-financed projects had satisfactory outcomes, (i) the contribution of these interventions toward their broader objectives was limited; and (ii) the sustainability of benefits created is highly questionable.

7.2 *General low level of activity.* Along with gaps in the policy dialogue, there was a generally low level of Bank activity in Nepal in the 1990s. The number of ESW reports was low, with only one report and the CAS produced in the last three years. Lending between FY90-98 was 40 percent below that of FY81-89 and only one project was approved between FY95 and FY98. Arun III seems to have monopolized the attention of senior staff and the Resident Mission until 1995. There are views among Bank staff that integration of Nepal into the same department as India in 1995 led to the neglect of Nepal as internal incentives encouraged Bank staff to work on India. Combining the three SAR divisions into two is also thought to have resulted in a loss of institutional memory when staff working on Nepal left the department. The country director for Nepal changed six times in the 1990s. Since 1997, this situation has improved with the establishment of an independent country department for Nepal and location of the country director in the field. Bank activity in the social sectors was constrained by the government's reluctance to borrow and the presence of numerous other donors in these areas.

7.3 *Narrow Bank focus in agriculture.* In agriculture, in particular, Bank assistance tended to focus at the project-level rather than on stimulating broader changes necessary to create an enabling environment for agricultural growth and diversification. Interventions concentrated on improving public research and extension to intensify traditional food-crop production (rice, maize, and wheat) and until recently on large public sector irrigation schemes. The need for a much more diverse production of cash crops in the hills due to their topography and a range of micro-climatic variations was not emphasized. After the FY89 SAL II, the Bank took no measures to help rationalize food, fertilizer, or interest rates subsidies that distort market production incentives. The critical obstacle to agricultural growth and diversification represented by lack of rural roads was also not fully integrated into the Bank's agriculture strategy. Until road access improves, access to markets and inputs, linkages with agro-industry, and the inflow of food will remain limited.

7.4 *Controversial performance under Arun III.* The dropped Arun III project generated wide negative publicity for the Bank, strained relations with the government for a period thereafter, and consumed substantial Bank staff efforts and financial resources. The two-phase 400 MW project was a high risk and only marginally viable operation. The proposed first phase would have increased generation capacity by 200 MW at an estimated cost of 15 percent of Nepal's development expenditures between FY94 and FY00. There were high risks that the government would be unable to sustain local tariff increases necessary to keep the project viable; to mitigate the social and environmental impacts of the project; and to prevent crowding out of social expenditures. The project would also have pre-empted the current alternate strategy involving smaller projects that help build local technical capacity. These issues were highlighted by interest groups in a public campaign against the project. Given the high level of risk and the only marginal benefits likely to accrue from the project, the Bank canceled the project in 1995.

7.5 *Uncoordinated aid along with aid fatigue.* Poor donor coordination is an issue that has frequently arisen in the design and implementation of projects in Nepal. In 1996, there were 52 major donors in Nepal, including 20 multilateral and 15 bilateral donors. In water and sanitation, there were 26 different donors, disbursing 6 percent of total aid. The audit of the SAL II project found that “jurisdictional disputes” between UNDP and IDA over the provision of TA to improve expenditure management resulted in the initiative being dropped. According to a 1998 Netherlands Development Organization evaluation of its aid program, “several donor agencies were sometimes involved in the same area, hardly knowing what each other was doing”. Recently, key donors have warned of reduced aid flows in the absence of improvements in public sector management in Nepal. In May 1998, Japan threatened to cut its aid budget by more than 10 percent in the absence of improvements in project management and budgeting. In July, a visiting ADB director suggested that assistance to Nepal may be reduced due to poor project performance and increased competition for ADB resources from regional countries. UNDP has expressed similar sentiments.

7.6 *Positive efforts to integrate gender issues.* Nepal is one of few countries where life expectancy for women is lower than that of men. Legal and social discrimination includes restricted access to property and credit. Both the government and the Bank have been aware of the need to integrate women into development and taken steps to do so. For example, government policy is to provide free textbooks for girls through grade five, two years more than for boys. The Bank’s agriculture projects aimed to increase women’s access to extension services and irrigation, while water supply projects directly benefited women by reducing time spent on collecting water. Bank projects also emphasized the recruitment of female teachers, health workers, and extension agents to help improve women’s access to these services. However, while Nepal does not have strict religious restrictions on women, progress in integrating women into development is constrained by cultural traditions. As an example, parliamentary opponents of a bill to confer equal property rights on women claim that the bill will “destroy the social fabric.” Lack of rural infrastructure is a major constraint to women’s development, causing extensive amounts of their time to be spent collecting firewood and water.

7.7 *Sparse but sound economic and sector work.* As indicated above, Bank ESW in Nepal was relatively sparse and no work was done in several key sectors, including health or agriculture (a 1997 ADB study filled this void). Nevertheless, the ESW that was produced was of good quality. As examples, the FY97 Economic Update provides a comprehensive view of what Nepal needs to do to change its poor record to date. The FY94 infrastructure strategy paper elucidated a clear set of priorities that remain relevant to date. Good quality reports in fiscal management were produced in FY92 and FY94 in support Arun III. The main issue has been the lack of follow-through on the recommendations of the various reports.

7.8 *Good move toward participatory operation.* During the 1990s, Bank operations made significant efforts to better include beneficiaries in projects. In irrigation, extension, forestry, and rural water supply, Bank projects abandoned the failed earlier top-down approaches in favor of participatory project design and implementation. Preparation of the current CAS has included broad consultations with stakeholders, including through a village immersion program for Bank staff and the country director.

7.9 *Bank costs driven up by Arun III and PHN project.* Bank cost indicators do not indicate major deviations from norms, with the exception of the PHN and dropped projects. Average completion costs per project between FY90-97 was 2.1 staff years, compared to 1.8 in Sri Lanka, 2.8 in Pakistan, and 3.00 in SAR. A notable outlier in preparation costs was the FY94 PHN project discussed above, which commenced preparation in the early 1980s and took 1,024 staff weeks to prepare, compared to an average of 130 staff weeks per project in the PHN sector. Average time spent on supervision per project in Nepal was 0.35 staff years, compared to 0.4 in SAR. However, the average cost per dropped project was US\$423,000, compared to US\$147,000 in SAR. This figure was driven up by the dropped Arun III project, which cost the Bank over US\$2 million. Average cost of an ESW report was US\$187,000, compared to US\$178,000 in SAR.

## 8. Borrower Performance: Unsatisfactory

8.1 *Some achievements, especially between 1991 and 1994.* Strong commitment by the government between 1991 and 1994 resulted in significant progress in liberalizing the trade and price regime and removing regulatory barriers to investment. In addition, macroeconomic stability was maintained throughout the 1990s (albeit buttressed by high levels of aid). Consistent commitment by successive governments was also seen in primary education. More recently, in 1998, the government has shown determination to improve the revenue situation by implementing a value added tax, despite vocal opposition from parts of the business community. However, in the 1990s, commitment was not consistent across sectors, implementation of policy reforms slowed after 1994, and performance in project implementation has been very poor.

8.2 *Poor performance in projects.* Among projects completed in the 1990s, Borrower preparation was satisfactory in just 40 percent (compared to an average of 81 percent in SAR); implementation performance was satisfactory in only 38 percent (70 percent in SAR); and compliance with loan covenants was satisfactory in 52 percent (70 percent in SAR). Lack of commitment, shown through failure to provide counterpart funding or appoint key staff was a key factor behind implementation delays and poor sustainability. Lack of political will to proceed with reforms in fiscal management, banking, privatization, and civil service staffing is also apparent. Evaluations also indicate that projects suffered from mis-directed political interference into project activities.

8.3 *Fluctuating ownership of reforms.* The relatively short time span of each government since 1994 is widely seen as a key factor behind slow progress in advancing the overall poverty reduction agenda. In the past four years, there have been 5 different prime ministers, while 121 different members of parliament have become ministers at some point. While none of the successive governments reversed market-oriented reforms, some initiatives such as privatization and reduced subsidies to public enterprises have slowed down. Reports from the Bank and other donors indicate that frequent changes of government and senior civil service officials had a critical negative impact on project implementation, on the performance of the civil service in general, and on the ability to implement long-term and difficult policy reforms.

8.4 *Corruption is an issue.* There is a widespread view that corruption and unaccountability in public institutions causes a leakage of public funds and results in adverse political interference into development projects. A study commissioned by the Bank and conducted by IRIS on corruption in rural works found that corruption was endemic and widespread, with estimates of amounts being siphoned at over 50 percent. A key question to be answered is to what extent corruption in Nepal deters potential local and foreign private sector investors. At the national level, Nepal has two anti-corruption agencies – the Auditor General’s Office and the Commission of Investigation of Abuse of Authority (CIAA), tasked with collecting evidence and prosecuting cases of alleged fraud. These institutions, however, have lacked either the teeth or the will necessary to succeed in these tasks. The CIAA has lost all 25 of the corruption cases it filed with the Supreme Court, due to lack of evidence. Sustainable progress against corruption will require reforms in the civil service that enable better remuneration and motivation of public service employees. In his speech at the 1998 Annual Meetings, the Governor for Nepal stated that his government was “committed to addressing the problem of corruption” and requested cooperation of the Bank in dealing with the issue.

## 9. Implications For Bank Assistance

9.1 *Business as usual will not work.* For Nepal to progress more rapidly toward sustainable growth and poverty reduction, new measures are required to improve the quality of its public investments and to expand private sector activity. The upcoming CAS should include:

- *An investment lending program conditioned on improvements in public sector management.* Bank-financed investments are likely to continue to be unsustainable and have limited impact on their broader objectives in the absence of real improvements in the performance of the civil service, expenditure management, and governance. It is recommended that: (i) clear lending triggers be established and strictly adhered to; (ii) intensive dialogue and ESW focus on these issues; and (iii) adaptable program lending where strong government commitment is required for its continuation be utilized.
- *Close monitoring of the structural and social policy environment.* An emphasis should be placed on defining and realizing a conducive policy environment for increased private sector activity and improved access to social services. ESW should support reform in the financial sector, an improved competitive environment through privatization of key enterprises, and intra-sectoral re-orientation of public expenditures toward basic social services. A monitorable policy framework agreement between the Bank, IMF and government should be re-established.
- *A strategy for donor coordination to further the policy reform agenda.* Recent unilateral warnings by key donors of reduced aid flows reflect a growing consensus that in the absence of key policy changes, donor assistance to Nepal will continue to fall short of its potential impact. The Bank should take a lead in coordinating the donor approach to help build government ownership and advance essential reforms.
- *Initiatives in rural infrastructure, using non-traditional approaches where possible.* Poor infrastructure, particularly in rural areas, remains an immediate constraint to growth and wider access to basic social services. Given current weaknesses in public sector management, the Bank should work with the authorities and other donors to develop a multi-faceted strategy to build and maintain infrastructure by strengthening capacity at the central level as well as promoting management by non-governmental, private, and autonomous public entities. A greater use of LILs to help develop these approaches would facilitate rapid expansion of the infrastructure development program as government ownership improves.

## 10. Current CAS

10.1 The current CAS incorporates lessons of the Bank's past experience in Nepal and reflects broad stakeholder consultation. The strategy emphasizes: (i) beneficiary and private sector participation in project implementation; (ii) closer cooperation with donors to bring about improved governance; and (iii) linkage of lending levels to improvements in public sector management, financial sector reform, privatization, decentralization, and governance. These priorities conform to the recommendations made in this CAE. The CAS matrix provides a good set of outcome indicators that will support future evaluation of the assistance strategy. The CAS could spell out more clearly the respective priority areas of major donors.

### Reflections of a former Resident Representative in Nepal

The Bank has never done that well in Nepal—it is a very difficult place to obtain results and requires a kind of stamina and clarity of vision that we never really deployed in Nepal's case . . . . Where I felt we were weakest, apart from our unwillingness to confront the Government when it mattered, was in our reluctance to get to grips with institutional and capacity problems—and our unwillingness to choose a few strategic areas/issues and to concentrate our efforts on them. Both of these things are necessary if we are to see the translation of good policy ideas and project designs into action, and if we are to see positive action sustained over time. I always felt that we had the potential to be very effective in Nepal, provided that we decentralized authority to the field, put key international staff in the Resident Mission, funded supervision and policy dialogue first and new lending as a residual, and kept our nerve. I still think this; that we can be the agency that really counts in Nepal—and can live up to the expectations of the Nepalese, who continue to give us the benefit of the doubt. *Nigel Roberts (former Resident Representative in Nepal), commenting on a draft of this CAE, November 1998.*

**ANNEXES**

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**Annex B: References**

*The research for the Nepal CAE was conducted between July and September 1998. The CAE draws on performance audit reports; project/implementation completion reports; staff appraisal reports; President's memorandum; supervision reports; policy framework papers; country assistance strategies; and interviews with past and present Bank staff. Other references include:*

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# Report from CODE

## Committee on Development Effectiveness

### Nepal: Country Assistance Note

On December 9, 1998, the Committee on Development Effectiveness (CODE) reviewed a Country Assistance Note (CAN) for Nepal (CODE98-69), prepared by the Operations Evaluation Department (OED). The Committee expressed appreciation for the excellent report which provides useful background information about the Bank's performance in Nepal in the 1990s. Although most speakers reserved their comments until the upcoming Board consideration of the Nepal CAS \*on Tuesday, December 15, 1998, several key points were made.

The CAN reports that the Bank's performance in Nepal in the 1990s was unsatisfactory and examines the reasons. In OED's view, the Bank should have done more to help address fundamental institutional and policy constraints to create an enabling environment for (1) costeffective and sustainable public investment; and (2) much greater private sector activity. The CAN notes that no agreed Policy Framework Paper was in place after 1995. No policy loans were made in the 1990s. The Bank did not actively engage in policy dialogue in key areas, including agriculture, the financial sector, or privatization. Civil service and public expenditure reforms were not pressed after 1995. The Bank changed

country directors six times between 1990 and 1997 and at **times, relatively low attention was paid to Nepal by the country department.** The dropped Arun III **power** project generated wide **negative publicity** for the Bank, affected relations with the government, and consumed substantial Bank staff and financial resources. The CAN also reports that borrower performance was unsatisfactory for a number of reasons including lack of commitment and political will to proceed with needed reforms, and widespread corruption , and lack - of accountability in public institutions.

The Committee stressed that the Bank's relationship with Nepal should not be "business \* as usual". It endorsed OED's recommendations and welcomed management's concurrence and acknowledgment that a ."business as usual" approach would not work.

In particular, OED recommends that the current CAS should include a strategy for donor coordination to further the reform agenda. CODE stressed that the Bank should take a lead role in helping the government to rationalize donor assistance requests. It welcomed management's assertion that the current CAS recognizes the need to improve donors' effectiveness through more cooperation and less competition and proposes steps to achieve this.

The Committee emphasized the importance of a participatory approach to enhance borrower ownership of and commitment to reforms. It was pleased to hear from management that extensive consultations with the Nepalese people indicate that they are ready to take ownership and participate in the fight against corruption and inefficient use of public funds in their communities. An important aspect of the current strategy is to

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bring resources closer to the people to mobilize and empower communities.

Noting OED's recommendation that the Bank's lending program should be conditioned on improvements in public sector management, the Committee stressed the need for capacity building in the civil service. It welcomed management's statement that capacity building is an integral part of the proposed strategy. The Committee noted management's statement that in providing technical assistance for capacity building, the Bank must pay adequate attention to existing local capacities and institutions.

The Committee agreed with OED recommendation that an emphasis should be placed on defining and realizing a conducive policy environment for increased private sector activity and improved access to social services. It noted management's assertion that the Bank was taking steps to address this issue through initiatives such as a major public expenditure review and an increased pace of work in the financial sector.

Jan Piercy  
Chairperson

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**TABLE 1: NEPAL: KEY ECONOMIC INDICATORS, 1990 - 1996**

<i>Indicator</i>	1990	1991	1992	1993	1994	1995	1996	Average 1965- 1979	Average 1980- 1989	Average 1990- 1996
GDP growth (annual %)	4.7	6.3	4.0	3.8	8.2	3.4	5.3	2.3	4.1	5.1
GNP per capita growth (annual %)	2.2	3.5	1.3	1.1	5.4	0.8	1.8	0.0	1.4	2.3
GNP per capita, Atlas method (current US\$)	210	210	200	200	200	210	210	98	173	206
GNP per capita, PPP (current international \$)	820	870	920	950	1020	1060	1090		595	961
Population growth (annual %)	2.5	2.6	2.6	2.7	2.7	2.8	2.7	2.2	2.6	2.7
Agriculture, value added (% of GDP)	51.6	48.6	45.9	43.3	43.1	41.8	42.0	67.6	56.0	45.2
Manufacturing, value added (% of GDP)	6.1	6.9	9.0	9.0	9.5	9.5	9.7	3.9	5.2	8.6
Services, etc., value added (% of GDP)	32.1	33.6	33.3	35.4	35.2	35.5	35.3	22.3	29.8	34.3
Exports of goods and services (% of GDP)	10.5	11.8	16.0	18.1	23.9	24.2	22.5	7.7	11.4	18.1
Imports of goods and services (% of GDP)	21.1	23.1	26.3	27.7	31.6	34.6	37.1	11.1	20.1	28.8
International tourism, receipts (% of total exports)	28.7	28.8	19.3	23.2	17.8	11.0	13.0		18.5	20.3
International tourism, growth in number of arrivals	6.3	14.9	14.0	-12.0	11.2	11.0	11.3		4.7	8.1
Manufactured exports (% of merchandise exports)	83.5	80.7	82.8	84.3	..	98.8	..	27.2	52.7	86.0
Current account balance (% of GDP)	-8.4	-9.3	-7.9	-7.9	-5.6	-7.8	-12.8	-0.3	-5.8	-8.5
Resource balance (% of GDP)	-10.6	-11.3	-10.3	-9.6	-7.7	-10.4	-14.6	-3.4	-8.7	-10.6
Agriculture, value added (annual % growth)	5.8	2.2	-1.1	-0.6	7.6	-0.3	4.4	0.8	3.6	2.6
Manufacturing, value added (annual % growth)	9.8	17.7	32.0	6.2	12.3	2.0	5.0		4.0	12.1
Services, etc., value added (annual % growth)	3.4	9.9	6.4	7.2	7.2	5.6	6.4		5.0	6.6
Exports of goods and services (annual % growth)	2.6	25.6	49.2	25.1	39.6	0.2	0.5		6.4	20.4
Aid (% of central government expenditures)	70.7	74.3	73.9	60.7	75.8	58.9	46.0	40.6	58.6	65.8
Aid (% of GNP)	11.6	12.0	12.3	9.5	10.9	9.7	8.9	4.8	9.6	10.7
Aid (% of gross domestic investment)	64.1	58.8	59.1	41.8	49.6	42.5	38.8	30.4	49.9	50.7
Aid per capita (current US\$)	22.9	23.5	22.0	17.9	21.6	20.3	18.2	5.7	16.3	20.9
World Bank Aid (% of total aid)										
Money and quasi money (M2) as % of GDP	29.7	30.8	30.2	32.3	33.7	35.8	36.2	12.7	25.4	32.7
Money and quasi money growth (annual %)	18.5	22.7	20.7	24.8	18.1	15.6	12.2	17.8	19.6	18.9
Inflation, consumer prices (annual %)	8.2	15.6	17.1	7.5	8.3	7.6	9.4	6.9	10.8	10.5
Credit to private sector (% of GDP)	12.8	13.7	13.7	14.9	18.6	22.8	24.6	3.7	9.9	17.3
Domestic credit prov. by banking sector (% of GDP)	28.9	29.2	28.2	29.2	29.9	34.6	36.0	6.3	25.8	30.8
Gross domestic savings (% of GDP)	7.9	9.6	10.8	13.5	14.7	13.0	8.6	6.3	10.7	11.2
Gross domestic investment (% of GDP)	18.4	20.8	21.2	23.1	22.4	23.4	23.2	9.7	19.4	21.8
Gross international reserves in months of imports	5.5	6.2	6.7	7.8	6.9	5.0	4.5	10.0	5.2	6.1
Private investment (% of GDFI)	53.1	61.9	64.7	68.4	68.2	68.8	67.8	71.2	57.3	64.7
Total debt service (% of exports goods and services)	15.4	12.6	10.4	9.0	7.7	7.7	7.7	2.0	7.4	10.1
Overall budget deficit, including grants (% of GDP)	-6.8	-8.2	-6.7	-6.0	-3.7	-4.6	-5.1	-2.3	-6.2	-5.9
Expenditure, total (% of GDP)	17.2	18.9	16.8	17.0	14.7	17.5	20.1	10.8	17.4	17.5
Current revenue, excluding grants (% of GDP)	8.4	8.6	8.7	8.3	9.5	10.7	12.2	6.6	8.5	9.5
Tax revenue (% of GDP)	7.0	6.8	6.6	6.8	7.7	9.1	10.4	5.6	7.0	7.8
Trade (% of GDP)	31.6	34.9	42.3	45.7	55.5	58.8	59.6	18.9	31.6	46.9
Foreign direct investment, net inflows (% of GDI)	0.9	0.3	0.5	0.7	0.8	0.8	1.9	0.0	0.1	0.8
Illiteracy rate, adult total (% of people 15+)	74.4	..	..	..	..	72.5	..	84.2	78.5	73.4
Immunization, DPT (% of child. under 12 months)	80.0	74.0	72.0	68.0	77.0	65.0	..	6.0	36.0	72.7
Life expectancy at birth, total (years)	53.6	..	54.6	..	..	56.3	56.8	43.2	48.7	55.3
Mortality rate, infant (per 1,000 live births)	101.2	..	96.0	..	..	87.6	84.8	160.8	120.3	92.4
Safe water (% of population with access)	..	44.0	..	..	..	48.0	..	5.0	17.2	46.0
Sanitation (% of population with access)	20.0	..	..	..	..	20.0	..		0.5	20.0
School enrollment, primary (% gross)	108.0	108.0	111.0	110.0	..	..	..	55.7	83.0	109.3
Population density (people per sq km)	131.3	134.7	138.3	142.0	146.0	150.0	154.1	84.2	114.2	142.3
Urban population (% of total)	8.9	9.2	9.5	9.7	10.0	10.3	10.6	4.5	7.6	9.7

**TABLE 2: KEY ECONOMIC INDICATORS: NEPAL AND COMPARATOR COUNTRIES, 1992-1996**

<i>All figures are annual averages for the period 1992-1996</i>	<b>Nepal</b>	South Asia	India	Pakistan	Sri Lanka	Banglad.	EAP	Indonesia	Malaysia	Thailand	Mauritius	Ethiopia	Low inc. excl China & India
GDP growth (annual %)	<b>4.8</b>	6.4	6.4	4.8	5.2	4.2	10.4	7.6	8.6	8.0	5.0	5.2	3.6
GNP per capita growth (annual %)	<b>2.0</b>	4.0	4.4	1.4	3.4	3.2	9.0	5.8	6.2	6.4	3.6	3.4	0.0
GNP per capita, Atlas method (current US\$)	<b>204</b>	336	334	446	644	236	718	900	3524	2408	3272	108	308
GNP per capita, PPP (current international \$)	<b>1008</b>	1433	1384	1508	2094	918	3080	2860	8904	5748	8088	440	1143
Agriculture, value added (% of GDP)	<b>43.2</b>	29.0	29.6	25.6	24.0	31.0	20.3	17.4	14.6	11.0	9.8	59.3	34.0
Industry, value added (% of GDP)	<b>22.0</b>	27.6	28.8	24.8	25.6	17.6	43.0	41.0	43.2	39.0	32.8	9.3	25.2
Manufacturing, value added (% of GDP)	<b>9.6</b>	17.8	18.6	17.0	15.4	9.8	32.3	23.2	31.6	28.4	23.2	5.5	12.2
Services, etc., value added (% of GDP)	<b>34.6</b>	43.2	41.8	49.6	50.4	51.6	36.8	41.6	42.2	50.2	57.4	31.3	41.0
Exports of goods and services (% of GDP)	<b>21.0</b>	12.2	11.2	16.4	34.2	12.4	26.5	26.8	87.6	38.4	59.4	10.2	26.4
Imports of goods and services (% of GDP)	<b>31.6</b>	15.4	13.6	20.2	44.0	20.0	26.8	24.6	87.8	43.6	64.4	19.8	32.4
Manufactures exports (% of merchandise exports)	<b>88.7</b>	76.5	74.5	83.6	71.7	83.5	70.6	51.0	71.8	70.8	68.8	1.5	
Trade (% of GDP)	<b>52.4</b>	28.0	24.8	36.8	78.0	32.6	53.0	51.6	174.8	82.2	123.8	30.6	58.8
Agriculture, value added (annual % growth)	<b>2.0</b>	3.6	4.2	4.4	0.8	1.4	4.4	3.0	2.2	3.6	2.0	3.4	3.2
Industry, value added (annual % growth)	<b>8.2</b>	7.8	7.8	5.6	6.8	7.2	14.4	9.8	11.2	10.0	5.4	8.4	
Manufacturing, value added (annual % growth)	<b>11.4</b>	8.6	8.8	5.4	9.0	7.6	15.0	11.0	13.0	10.0	6.0	11.2	
Services, etc., value added (annual % growth)	<b>6.4</b>	7.0	7.0	5.2	6.0	6.0	8.2	7.2	8.2	7.8	6.2	7.0	
Exports of goods and services (annual % growth)	<b>22.8</b>	12.0	13.2	3.4	8.8	17.8	13.5	8.4	14.2	11.6	5.6	13.8	5.6
Imports of goods and services (annual % growth)	<b>22.8</b>	12.2	13.2	10.6	8.8	10.2	15.0	11.0	15.0	11.8	3.4	5.0	5.0
Aid (% of central government expenditures)	<b>63.2</b>		3.8	9.3	19.0			6.0	0.2	3.2	3.2	101.0	
Aid (% of GNP)	<b>10.2</b>	1.4	1.0	1.8	5.2	5.8	1.0	1.2	0.0	0.4	0.6	18.6	8.6
Aid (% of gross domestic investment)	<b>46.4</b>	7.3	2.8	9.8	20.4	39.0		3.2	0.0	1.2	2.6	133.2	43.0
Aid per capita (current US\$)	<b>20.0</b>	4.8	2.4	8.4	33.0	12.8	5.8	8.8	0.6	12.6	23.2	18.8	23.6
Commercial energy use (kg of oil equivalent per capita)	<b>26.5</b>	218.0	244.5	235.0	116.8	61.8	609.0	404.0	1628.8	739.5	388.8	21.0	140.3
Electric power consumption (kwh per capita)	<b>36.3</b>	277.5	311.8	295.3	190.3	51.5	519.8	226.8	1676.5	1023.3		22.3	189.0
Electricity production from hydroelectric sources (% of total)	<b>94.0</b>	23.5	20.5	41.3	90.8	7.3	19.5	17.0	14.3	6.8		87.5	52.5
Gross domestic savings (% of GDP)	<b>12.4</b>	20.6	22.2	15.8	15.4	7.6	36.4	32.2	37.6	35.8	24.0	5.6	13.2
Gross domestic investment (% of GDP)	<b>22.4</b>	23.4	24.6	19.8	25.4	15.0	36.8	30.0	38.2	40.8	28.6	15.2	19.4
Gross domestic fixed investment (% of GDP)	<b>21.4</b>		23.6	18.0	25.2	15.0		27.6	38.2	40.6	27.2	15.2	
Gross international reserves in months of imports	<b>6.2</b>		5.0	1.8	3.8	5.2		3.0	4.3	5.0	4.2	5.0	
Total consumption, etc. (% of GDP)	<b>87.6</b>	79.4	77.8	84.2	84.6	92.4	63.6	67.8	62.4	64.2	76.0	94.4	86.8
Private consumption, etc. (% of GDP)	<b>79.2</b>	68.6	67.2	71.8	74.4	78.4	51.4	59.4	49.8	54.2	64.4	83.6	72.6
Private investment (% of GDFI)	<b>67.6</b>	61.3	62.5	52.6		57.6	54.8	63.8	66.2	79.2	68.2	57.8	60.6
Current account balance (% of GDP)	<b>-8.6</b>		-1.4	-4.0	-5.2	-3.0		-2.0	-6.0	-6.6	-2.2	-5.4	
Foreign direct investment, net inflows (% of GDI)	<b>1.2</b>	2.2	1.4	4.4	4.4	0.0	10.6	6.2	17.6	3.4	2.0	0.6	9.2
Resource balance (% of GDP)	<b>-10.6</b>	-3.4	-2.4	-3.8	-10.0	-7.4	-1.0	2.2	-0.4	-5.0	-5.0	-9.6	-7.6
Total debt service (% of exports of goods and services)	<b>8.6</b>	24.2	27.2	27.4	9.0	14.4	14.4	33.2	8.2	13.0	8.0	24.6	17.8

Source: World Development Indicators

<i>All figures are annual averages for the period 1992-1996</i>	<b>Nepal</b>	South Asia	India	Pakistan	Sri Lanka	Banglad.	EAP	Indonesia	Malaysia	Thailand	Mauritius	Ethiopia	Low inc. excl China & India
Overall budget deficit, including grants (% of GDP)	<b>-5.4</b>	-6.8	-6.0	-7.3	-7.2			1.0	1.8	2.4	-1.2	-6.5	
Expenditure, total (% of GDP)	<b>17.4</b>	17.6	16.4	24.0	27.4		12.0	16.2	25.0	15.8	22.6	18.0	
Current revenue, excluding grants (% of GDP)	<b>9.8</b>	13.8	13.2	18.5	19.6		10.3	17.6	27.2	18.6	21.4	11.5	
Military expenditure (% of central government expenditure)	<b>6.3</b>		13.0	26.5	15.8	9.5		8.0	11.3	16.5	1.5	15.0	
Credit to private sector (% of GDP)	<b>19.2</b>	25.0	25.4	27.2	24.0	20.4	84.2	51.4	117.3	115.4	43.8	17.8	17.6
Lending interest rate (%)	<b>13.0</b>	15.3	17.0		14.6	14.6	16.6	20.2	8.6	16.0	19.0	13.0	21.3
Domestic credit provided by banking sector (% of GDP)	<b>31.6</b>	49.0	50.8	53.0	35.4	30.4	87.2	50.4	122.0	114.4	61.8	50.6	36.4
Inflation, consumer prices (annual %)	<b>10.0</b>		9.4	10.8	11.0	3.4		8.8	4.2	4.8	7.2	5.6	
Money and quasi money (M2) as % of GDP	<b>33.6</b>		44.8	40.8	30.4	34.2		42.0	80.0	73.0	69.2	41.4	
Money and quasi money growth (annual %)	<b>18.4</b>		16.8	19.6	17.4	12.8		22.8	22.3	15.4	14.4	13.8	
Export duties (% of exports)	<b>1.4</b>	0.0	0.0	0.0	0.3			0.0	1.2	0.0	1.2	3.0	
Import duties (% of imports)	<b>9.6</b>	26.8	29.6	25.8	11.0		6.3	3.8	3.8	8.0	16.4	15.0	
Tax revenue (% of GDP)	<b>8.2</b>	10.6	10.0	13.5	17.4		9.0	15.4	20.8	16.6	18.4	8.0	
Taxes on goods and services (% of current revenue)	<b>39.8</b>	37.4	30.8	32.0	51.2		26.5	29.8	23.2	40.2	24.2	23.5	
Taxes on income, profits and capital gains (% of current rev.)	<b>10.0</b>	14.2	20.8	15.0	13.6		34.0	49.2	34.6	29.6	12.8	26.0	
Taxes on international trade (% of current revenue)	<b>28.0</b>	24.6	23.4	25.8	20.4		14.8	4.6	13.2	16.6	38.2	21.5	
International tourism, expenditures (% of total imports)	<b>8.2</b>	2.4	1.2	4.8	3.0	3.2	3.0	3.8	3.0	4.2	6.2	1.4	4.0
Arrivals/population	1.6	0.3	0.2	0.3	2.1	0.1	2.4	2.1	34.9	10.6	36.4	0.2	0.9
International tourism, receipts (% of total exports)	<b>16.8</b>	6.2	7.4	1.2	5.4	0.8	7.2	10.2	4.4	11.2	17.0	5.0	4.0
International tourism, number of arrivals (growth)	<b>7.1</b>	5.0	6.6	0.0	-10.9	8.2	11.1	14.5	1.0	2.2	4.2	5.5	12.4
Public spending on education, total (% of GNP, UNESCO)	<b>3.0</b>	3.0	4.0		3.0	2.0	3.0	1.3	5.3	4.0			
Pupil-teacher ratio, primary	<b>39.0</b>	61.7	63.7	50.0	28.7		24.0	23.0	20.0	19.3	21.0	29.0	40.0
School enrollment, primary (% gross)	<b>110.5</b>	98.0	100.3	71.5	110.0	92.0	115.0	114.3	91.0	92.0	106.3	27.0	80.5
Health expenditure per capita (current US\$)	<b>9.0</b>				12.0	5.0		17.0	85.0	111.0			
Illiteracy rate, adult female (% of females 15+)	<b>86.0</b>	64.0	62.0	76.0	13.0	74.0	24.0	22.0	22.0	8.0	21.0	75.0	55.0
Illiteracy rate, adult male (% of males 15+)	<b>59.0</b>	38.0	35.0	50.0	7.0	51.0	9.0	10.0	11.0	4.0	13.0	55.0	36.0
Illiteracy rate, adult total (% of people 15+)	<b>73.0</b>	51.0	48.0	62.0	10.0	62.0	17.0	16.0	17.0	6.0	17.0	65.0	46.0
Immunization, measles (% of children under 12 months)	<b>67.7</b>	83.0	85.7	66.0	85.0	92.0	89.7	89.3	81.3	76.7	84.5	25.3	61.0
Life expectancy at birth, total (years)	<b>56.0</b>	61.3	62.0	62.7	72.7	57.7	68.0	64.0	71.6	69.0	70.7	48.3	55.7
Mortality rate, infant (per 1,000 live births)	<b>89.7</b>	77.0	69.3	91.0	16.7	80.3	41.5	52.3	12.0	35.3	18.3	113.3	91.0
Safe water (% of population with access)	<b>48.0</b>	77.0	81.0	60.0	46.0	81.5	84.0	62.0	89.0	81.0	98.0	27.0	
Sanitation (% of population with access)	<b>20.0</b>	29.0	29.0	30.0	52.0	35.0	30.0	51.0	92.5	78.5	100.0	10.0	
Population density (people per sq km)	<b>146.0</b>	255.4	307.4	164.0	276.2	906.2	106.6	105.4	59.8	114.8	546.6	55.5	38.4
Population growth (annual %)	<b>3.0</b>	2.0	2.0	3.0	1.0	2.0	1.0	2.0	2.0	1.0	1.0	1.8	2.6
Urban population (% of total)	<b>10.0</b>	26.0	26.6	33.8	22.0	17.8	30.6	34.2	52.8	19.6	41.0	15.0	27.6

Source: World Development Indicators

**TABLE 3. NEPAL: DEBT INDICATORS**

	1990	1991	1992	1993	1994	1995	1996
Concessional debt/Total debt (EDT) (%)	89	91	92	93	92	95	96
Current account balance (US\$m)	-305	-344	-275	-296	-225	-343	-569
Debt service (TDS)/Exports of goods and services (XGS) (%)	15	13	11	9	8	8	8
Exports of goods and services (XGS) (US\$m)	463	529	651	775	1,072	1,206	1,111
Foreign direct investment, net inflows (US\$m)	6	2	4	6	7	8	19.2
Grants, excluding technical cooperation (US\$m)	143	142	158	146	170	171	146
Gross national product (GNP) (US\$m)	3,695	3,770	3,540	3,840	4,123	4,484	4,521
Imports of goods and services (MGS) (US\$m)	766	868	933	1,081	1,302	1,555	1,686
Interest (INT)/Exports of goods and services (XGS) (%)	6	6	5	4	3	3	3
Interest (INT)/GNP (%)	1	1	1	1	1	1	1
Multilateral debt/Total debt (EDT) (%)	77	79	80	79	78	81	82
Reserves (RES)/Imports of goods and services (MGS) (months)	6	6	7	8	7	5	5
Reserves (RES)/Total debt (EDT) (%)	22	26	29	35	32	27	26
Short-term debt/Total debt (EDT) (%)	2	1	0	1	3	1	1
Technical cooperation grants (US\$m)	109	117	127	146	143	143	145
Total debt (EDT)/Exports of goods and services (XGS) (%)	354	335	277	259	217	199	217
Total debt (EDT)/GNP (%)	44	47	51	52	56	54	53
Workers' remittances, received (US\$m)	61	65	54	66	70	101	78

**TABLE 4: NEPAL: STRUCTURE OF EXPORTS****A. MAJOR EXTERNAL TRADING PARTNERS (Share of Exports)**

	FY91	FY92	FY93	FY94	FY95	FY96	FY97
Germany	37%	43%	48%	42%	37%	34%	33%
USA	19%	23%	21%	29%	29%	28%	26%
India	21%	10%	10%	13%	19%	20%	24%
Sri Lanka	1%	6%	5%	1%	0%	0%	0%
Switzerland	7%	5%	4%	4%	3%	2%	2%
Belgium	2%	2%	2%	2%	2%	2%	1%
Canada	0%	1%	1%	1%	1%	0%	0%
UK	2%	1%	1%	2%	2%	1%	1%
Bangladesh	0%	0%	0%	0%	0%	2%	2%
Italy	2%	1%	1%	1%	2%	2%	2%
Germany+USA+India	77%	76%	79%	85%	84%	82%	82%
Exports to SAARC Countries	23%	18%	15%	14%	19%	22%	26%

**B. MAJOR EXPORTS BY COMMODITY (Share of Total Value)**

		FY92	FY93	FY94	FY95	FY96	FY97
Carpets		59%	62%	58%	54%	52%	54%
Readymade Garments		26%	24%	35%	37%	35%	33%
Pulses (lentils)		9%	7%	1.0%	0.4%	2.4%	2.9%
Woolen goods		1.8%	2.3%	1.8%	1.4%	0.9%	1.3%
Goatskin		1.6%	1.4%	1.1%	2.5%	2.2%	1.6%
Towels		0.0%	0.2%	0.2%	0.5%	1.4%	2.1%
Nigerseeds		1.1%	1.3%	0.8%	0.6%	2.7%	1.6%
Carpets+Garments		84%	86%	93%	91%	87%	87%

**C. SOURCE OF EXPORTS BY DEVELOPMENT REGION**

	FY91	FY92	FY93	FY94	FY95	FY96	FY97
Eastern Development Region	2%	5%	1%	1%	4%	12%	17%
Central Development Region	98%	98%	98%	99%	96%	87%	83%
Western Development Region	0.0%	0.1%	0.2%	0.1%	0.0%	0.0%	0.0%
Mid-Western Development Region	0.8%	1.7%	1.4%	0.2%	0.0%	0.5%	0.2%
Far-Western Development Region	0.0%	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%

<b>TABLE 5. NEPAL: POVERTY TRENDS</b>						
<i>Year</i>	<i>Percent of population below the poverty line</i>			<i>Estimated number of poor (million)</i>	<i>Average annual increase (%)</i>	<i>Source</i>
	Rural (%)	Urban (%)	Nepal (%)			
1977	37.2	17	36.2	5.5		NPC
1986	43.1	19.2	41.4	7.2	3.4%	MPHBS
1996	46.6	17.8	44.6	9.2	2.8%	NLSS

**TABLE 6. COMPOSITION OF EXTERNAL AID DISBURSED TO NEPAL IN 1996**

<b>A. SHARE OF TOTAL AID DISBURSED, BY SECTOR (1996)</b>		
<i>Sector</i>	<i>Percent of Total</i>	<i>Number of Donors</i>
Agriculture, Forestry, and Fisheries	14%	23
Area Development	7%	23
Communications	5%	9
Development Administration	2%	12
Disaster Preparedness	2%	2
Economic Management	3%	7
Education	14%	25
Energy	11%	14
Health	8%	25
Humanitarian and Relief	4%	13
Industry	1%	8
Natural Resources	9%	18
Social Development (incl. water and sanitation)	6%	26
Trade (incl. tourism)	1%	7
Transport (roads and air)	14%	10
<b>B. SHARE OF LOANS VS. GRANTS (1996)</b>		
<i>Aid Terms</i>	<i>Share</i>	
Percent Loans	34%	
Percent Grants	66%	
<b>C. NUMBER AND SHARE OF DONORS, BY DONOR TYPE (1996)</b>		
<i>Donor Type</i>	<i>Number of Donors</i>	<i>Share of Disbursements</i>
Multilateral Donors	20	46%
Bilateral Donors	15	49%
INGOs	17	5%
TOTAL	52	100%
<b>D. MAJOR INDIVIDUAL DONORS IN 1996 (Share of total disbursements)</b>		
<i>Donor</i>	<i>Share of Total</i>	
Asian Development Bank	18%	
Japan	16%	
IDA	16%	
UN System (excl. IDA)	11%	
Denmark	6%	
UK	6%	
USA	5%	
Germany	4%	
Others	16%	

**TABLE 7: SECTORAL DISTRIBUTION OF AID TO NEPAL, 1993 - 1996**

	<i>Disbursements in 000US\$</i>				<i>Percentage share</i>				
	1993	1994	1995	1996	1993	1994	1995	1996	Average 1993-1996
Transport (roads and air)	52,269	93,528	69,410	53,869	14%	20%	16%	14%	16%
Agriculture, Forestry , and Fisheries	61,279	76,686	55,293	53,937	16%	16%	13%	14%	15%
Energy	32,406	56,284	30,010	44,286	8%	12%	7%	11%	10%
Natural Resources	43,808	41,320	34,419	35,280	11%	9%	8%	9%	9%
Education	23,878	31,587	39,435	54,302	6%	7%	9%	14%	9%
Health	33,825	33,059	27,120	30,558	9%	7%	6%	8%	7%
Area Development	22,599	22,783	24,913	26,037	6%	5%	6%	7%	6%
Social Development (incl. water and sanitation)	28,307	29,566	15,939	22,011	7%	6%	4%	6%	6%
Humanitarian and Relief	22,336	17,614	36,699	16,572	6%	4%	9%	4%	6%
Communications	8,489	21,578	29,417	18,643	2%	5%	7%	5%	5%
Economic Management	11,629	22,582	21,171	13,545	3%	5%	5%	3%	4%
Industry	20,041	8,528	17,573	4,778	5%	2%	4%	1%	3%
Disaster Preparedness	14,678	10,746	18,651	6,492	4%	2%	4%	2%	3%
Development Administration	6,447	7,980	7,963	7,183	2%	2%	2%	2%	2%
Trade (incl tourism)	925	2,848	3,193	4,294	0%	1%	1%	1%	1%
<b>TOTAL AID DISBURSED TO NEPAL</b>	<b>382,916</b>	<b>476,689</b>	<b>431,206</b>	<b>391,787</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**TABLE 8: WORLD BANK ACTIVITIES IN NEPAL BY SECTOR, FY90 - FY98**

<i>Project Name</i>	<i>Status</i>	<i>Sub-Sector</i>	<i>Commitment \$m</i>	<i>FY</i>	<i>Outcome</i>	<i>Sustainability</i>	<i>ID</i>	<i>Completion Delay (months)</i>	<i>Percent Cancelled</i>
<b>AGRICULTURE</b>									
Agricultural Extension and Research	Completed	Research & Extension	17.50	FY81	Satisfactory	Uncertain	Modest	37	18%
Hill Food Production	Completed	Research & Extension	8.00	FY81	Unsatisfactory	Uncertain	Modest	37	30%
Bhairawa-Lumbini Groundwater	Completed	Irrigation	16.00	FY83	Satisfactory	Likely	Substantial	24	0%
Second forestry project	Completed	Forestry	18.00	FY84	Unsatisfactory	Unlikely	Negligible	31	80%
Agricultural Extension 2	Completed	Research & Extension	7.20	FY85	Satisfactory	Uncertain	Modest	37	19%
Narayani Irrigation 3	Completed	Irrigation	24.50	FY86	Unsatisfactory	Unlikely	Negligible	6	42%
Sunsari Morang Irr. 2	Completed	Irrigation	40.00	FY87	Satisfactory	Uncertain	Modest	6	9%
Third rural development project	Completed	Integrated RD	19.10	FY87	Unsatisfactory	Unlikely	Negligible	5	76%
Mahakali Irrigation II	Active	Irrigation	41.30	FY88	No Risk				
Hill Community Forest	Active	Forestry	30.50	FY89	Potential Risk				
Bhairawa Lumbini III	Active	Irrigation	47.20	FY90	No Risk				
Sunsari Morang Headworks	Completed	Irrigation	28.00	FY93	Satisfactory	Uncertain	Substantial	0	1%
Irrigation Sector Development	Active	Irrigation	79.80	FY98	No Risk				
Agricultural Research and Extension	Active	Research & Extension	24.30	FY98	Potential Risk				
<i>ESW: Agriculture Sector Review</i>					<i>FY90</i>				
<b>EDUCATION</b>									
Second education project	Completed	Technical Education	14.30	FY82	Satisfactory	Uncertain	Substantial	43	21%
Primary education project	Completed	Basic Education	12.78	FY84	Satisfactory	Likely	Negligible	napl	45%
Earthquake Emergency Schools	Completed	Basic Education	22.80	FY89	Satisfactory	Likely	Modest	47	9%
Agricultural Manpower Dev	Completed	Technical Education	8.40	FY85	Unsatisfactory	Uncertain	Modest	43	7%
Engineering Education	Active	Technical Education	11.40	FY89	Potential Risk				
Basic & Primary Education	Active	Basic Education	30.60	FY92	No Risk				
Higher Education	Active	Higher Education	20.00	FY94	At Risk				
<i>ESW: Critical Issues in Secondary Education and Options for Reform</i>					<i>FY95</i>				
<b>POWER</b>									
Karnali Preparation	Completed	Hydro Power	11.00	FY84	Satisfactory	Uncertain	Not rated	24	1%
Marsyangdi Hydro Power	Completed	Hydro Power	107.00	FY84	Satisfactory	Uncertain	Modest	6	25%
Tech Assist (Pancheswar) 3	Completed	Hydro Power	14.40	FY88	Unsatisfactory	Uncertain	Modest	24	1%
Power Efficiency Improvement	Active	Hydro Power	65.00	FY92	Potential Risk				
<b>INDUSTRY</b>									
Industrial Development	Completed	Industry	7.50	FY85	Satisfactory	Uncertain	Modest	18	7%
Cottage & Small Industries 2	Completed	Industry	10.00	FY86	Unsatisfactory	Unlikely	Negligible	napl	49%
<i>ESW: Non-Financial Public Enterprises Sector Report</i>					<i>FY91</i>				

*Includes all projects that were effective between FY90 and FY98 and formal ESW completed since FY90.*

<i>Project Name</i>	<i>Status</i>	<i>Sub-Sector</i>	<i>Commitment \$m</i>	<i>FY</i>	<i>Outcome</i>	<i>Sustainability</i>	<i>ID</i>	<i>Completion Delay (months)</i>	<i>Percent Cancelled</i>
<i>ESW: Employment and the Labor Force: The Coming Crisis</i>				FY95					
<b>BROAD POLICY REFORMS</b>									
Structural Adj. 2	Completed	Multisector	60.00	FY89	Satisfactory	Uncertain	Modest	napl	0%
<i>ESW: Maintaining Structural Reforms and Managing Public Resources</i>				FY90					
<i>ESW: Relieving Poverty in a Resource Scarce Economy</i>				FY91					
<i>ESW: 1997 Economic Update: The Challenge of Accelerating Economic Growth</i>				FY98					
<b>PUBLIC SECTOR MANAGEMENT</b>									
Second technical assistance project	Completed	Public Sector Management	6.00	FY83	Satisfactory	Likely	Substantial	47	5%
<i>ESW: Public Resource Management in a Resource Scarce Economy</i>				FY92					
<i>ESW: Civil Service Reform: An Agenda for Action</i>				FY93					
<i>ESW: Fiscal Restructuring and Public Resource Management in the 1990's</i>				FY94					
<b>OIL AND GAS</b>									
Petroleum Exploration Promotion	Completed	Oil & Gas	9.20	FY82	Satisfactory	Uncertain	Modest	61	29%
<b>HEALTH</b>									
Population and Health	Active	PHN	26.70	FY94	Potential Risk				
<b>INFRASTRUCTURE</b>									
Telecommunications 4	Completed	Telecommunications	22.00	FY85	Satisfactory	Likely	Substantial	49	6%
Telecoms V	Active	Telecommunications	55.00	FY92	No Risk				
Highway 3	Completed	Transportation	47.50	FY85	Satisfactory	Uncertain	Substantial	61	8%
Road Flood Rehabilitation	Completed	Transportation	15.50	FY88	Unsatisfactory	Uncertain	Modest	37	22%
Arun 3 Access Road	Completed	Transportation	32.80	FY89	Not rated	Not rated	Not rated	napl	100%
Road Maint and Rehabilitation	Active	Transportation	50.50	FY94	No Risk				
Multimodal Transit	Active	Transportation	23.50	FY98	No Risk				
Municipal Dev & Housing Recon.	Completed	Urban Development	41.50	FY89	Unsatisfactory	Uncertain	Modest	6	49%
Urban Water and Sanitation Rehab	Active	Water Supply and Sanitation	60.00	FY91	At Risk				
Rural Water and Sanitation	Active	Water Supply and Sanitation	18.30	FY97	No Risk				
<i>ESW: Water Supply and Sanitation Sector Issues Paper</i>				FY93					
<i>ESW: Expenditures in the Road Sector</i>				FY93					
<i>ESW: Infrastructure Development</i>				FY93					
<i>ESW: Selected Issues in Infrastructure Development</i>				FY94					

*Includes all projects that were effective between FY90 and FY98 and formal ESW completed since FY90.*

**TABLE 9: OED PROJECT PERFORMANCE RATINGS FOR NEPAL**

Sector/Subsector	No	Total disbursed (1996 US\$)	Percent of total	Percent SAT (by no.)	Percent SAT (by amt)	Percent LIK Sust.	Percent SUB ID	Percent SAT Bank Ident.	Percent SAT Bank Appr.	Percent SAT Bank Superv.	Percent SAT Borr. Prep.	Percent SAT Borr. Impl.	Percent SAT Borr. Compl.	Percent ARPP DO SAT at exit
Lending to Nepal, exit years 1990-97	26	604	52%	64%	<b>82%</b>	16%	28%	94%	73%	74%	40%	38%	52%	89%
Lending to Nepal, exit years 1977-89	27	565	48%	63%	<b>67%</b>	44%	23%	74%	74%	51%	napl	napl	napl	97%
All lending to Nepal (1977 -1997)	53	1,169	100%	64%	<b>74%</b>	26%	29%	93%	72%	69%	38%	44%	43%	93%
<b>PROJECTS EXITING THE PORTFOLIO BETWEEN 1990 AND 1997</b>														
<i>By Sector</i>														
Agriculture	9	165	27%	56%	<b>77%</b>	15%	31%	89%	78%	89%	27%	33%	71%	80%
Education	4	62	10%	75%	<b>83%</b>	54%	29%	83%	83%	100%	83%	100%	84%	100%
Electric Power & Other Energy	3	147	24%	67%	<b>89%</b>	0%	0%	100%	100%	11%	0%	0%	0%	100%
Industry	2	16	3%	50%	<b>59%</b>	0%	0%	59%	59%	59%	100%	59%	59%	59%
Multisector	1	68	11%	100%	<b>100%</b>	0%	0%	100%	0%	100%	0%	0%	0%	100%
Oil & Gas	1	10	2%	100%	<b>100%</b>	0%	0%	100%	100%	100%	napl	napl	napl	100%
Public Sector Management	1	9	1%	100%	<b>100%</b>	100%	100%	100%	100%	100%	napl	napl	napl	100%
Telecommunications	1	28	5%	100%	<b>100%</b>	100%	100%	100%	100%	100%	100%	100%	100%	100%
Transportation	3	74	12%	50%	<b>81%</b>	0%	81%	100%	81%	100%	100%	81%	100%	100%
Urban Development	1	24	4%	0%	<b>0%</b>	0%	0%	100%	0%	100%	napl	0%	100%	0%
<i>By Approval Period</i>														
FY81 - FY85	15	354	59%	80%	<b>93%</b>	20%	41%	97%	93%	68%	48%	54%	50%	97%
FY86 - FY93	11	249	41%	40%	<b>66%</b>	10%	11%	90%	45%	83%	30%	21%	54%	78%
<i>SAR Region Countries</i>														
Bangladesh	42	2,577	10%	74%	<b>80%</b>	40%	16%	90%	61%	70%	81%	52%	40%	94%
India	91	17,652	68%	69%	<b>77%</b>	59%	35%	89%	68%	82%	82%	74%	78%	87%
Pakistan	44	4,193	16%	70%	<b>69%</b>	51%	29%	87%	72%	73%	79%	68%	57%	94%
Sri Lanka	26	1,042	4%	75%	<b>73%</b>	61%	14%	93%	61%	73%	91%	66%	69%	94%
SAR Region	235	26,082	100%	71%	<b>76%</b>	55%	31%	89%	68%	79%	81%	70%	70%	89%
<i>Other Regions</i>														
AFR Region	582	24,453	17%	55%	<b>64%</b>	30%	25%	85%	66%	74%	65%	59%	52%	78%
EAP Region	308	31,372	21%	83%	<b>89%</b>	81%	50%	93%	80%	84%	92%	84%	81%	97%
ECA Region	126	15,648	11%	78%	<b>77%</b>	63%	44%	91%	83%	89%	86%	73%	66%	88%
LCR Region	312	38,516	26%	71%	<b>73%</b>	64%	40%	87%	65%	75%	78%	65%	69%	93%
MNA Region	176	11,067	8%	69%	<b>72%</b>	46%	30%	84%	68%	79%	75%	63%	62%	93%
Bank-wide	1739	147,139	100%	68%	<b>76%</b>	59%	38%	89%	71%	79%	80%	70%	68%	90%

**TABLE 10. FACTORS INFLUENCING PROJECT OUTCOMES (AMONG PROJECTS EVALUATED SINCE 1994)**

ID	Project Description	Outcome	Sust.	ID Impact	Cofinanc. Perform.	Perform. of Contract/ Consult	Macro Policies/ conditions	Sector Policies/ conditions	Govt commitment	Appoint. of Key Staff	Counterpart Funding	Impl. Agency Mgmt	Impl. Agency Staffing
C1478	Marsyangdi Hydro Power	SAT	LIK	MOD	SUP	SUP	NOT SUP	NOT SUP	NOT SUP	NOT SUP	SUP	NOT SUP	NOT SUP
C1515	Highway 3	SAT	UNC	SUB	NOT SUP	NOT SUP			SUP	SUP	NOT SUP	SUP	SUP
C1535	Industrial Development	SAT	UNC	MOD		NOT SUP	SUP		SUP		SUP	SUP	
C1570	Agricultural Extension 2	SAT	UNC	MOD				NOT SUP	NOT SUP		NOT SUP	SUP	NOT SUP
C1588	Telecommunications 4	SAT	LIK	SUB	SUP	SUP		SUP	SUP				
C1814	Sunsari Morang Irr. 2	SAT	UNC	MOD		SUP	NOT SUP	NOT SUP	SUP	NOT SUP	NOT SUP	NOT SUP	NOT SUP
C2046	Structural Adj. 2	SAT	UNC	MOD	NOT SUP	NOT SUP	NOT SUP		NOT SUP	NOT SUP		NOT SUP	NOT SUP
C2047	Earthquake Emerg Schools	SAT	LIK	MOD		SUP			SUP	SUP	NOT SUP	SUP	SUP
C2430	Sunsari Morang Headworks	SAT	UNC	SUB		SUP		SUP	SUP	NOT SUP	NOT SUP	SUP	SUP
C1534	Agricultural Manpower Dev	UNSAT	UNC	MOD	SUP	SUP	NOT SUP	NOT SUP	NOT SUP	SUP	NOT SUP	SUP	SUP
C1696	Cottage & Small Indust 2	UNSAT	UNL	NEG	NOT SUP				NOT SUP		NOT SUP	NOT SUP	NOT SUP
C1715	Narayani Irrigation 3	UNSAT	UNL	NEG		NOT SUP	NOT SUP	NOT SUP	NOT SUP	NOT SUP	NOT SUP	NOT SUP	NOT SUP
C1902	Tech Assist (Pancheswar) 3	UNSAT	UNC	MOD	SUP	SUP	NOT SUP	NOT SUP	NOT SUP	NOT SUP	SUP	NOT SUP	NOT SUP
C1922	Road Flood Rehabilitation	UNSAT	UNC	MOD		SUP		NOT SUP	NOT SUP	SUP	NOT SUP	NOT SUP	SUP
C1988	Munic. Dev & Housing	UNSAT	UNC	MOD	NOT SUP	NOT SUP			NOT SUP	NOT SUP	NOT SUP	NOT SUP	NOT SUP

Source: OED PIF Database of projects evaluated since 1994. Supportive (SUP) = Positive, Substantial, High. Non Supportive (NOT SUP) = Negative, Negligible, Modest.

**TABLE 11. ACTIVE PROJECTS IN NEPAL (as of July 1998)**

Proj. Name	FY	Risk Status	Task Manager Name	Major Sector	Approval Date	Loan \$m	Cofinance \$m	Cofinancers
MAHAKALI IRRIG. II	1988	No Risk	MYINT	Agriculture	6/15/1988	41.3		
HILL COMMUNITY FORES	1989	Potential Risk	HILL	Agriculture	5/30/1989	30.5	7.4	DANIDA (\$6.9m), UNDP (\$0.5m)
ENGINEERING EDUC.	1989	Potential Risk	PANTH	Education	6/22/1989	11.4	12.5	CIDA (\$4m), Swiss (\$8.5m)
BHAIRAWA LUMBINI III	1990	No Risk	MYINT	Agriculture	5/29/1990	47.2		
URB WATER & SAN REHAB	1991	At Risk	LEGRAIN	Water Supply and Sanitation	5/7/1991	60	3.4	UNDP (\$3.4m)
POWER EFF IMPROVEMEN	1992	Potential Risk	CEYHAN	Electrical Power and Other Energy	3/26/1992	65	14.7	France (\$5.1m), Germany (\$4.2m), Nordic DF (\$5.4m)
BASIC & PRIMARY EDUC	1992	No Risk	JERIA	Education	4/21/1992	30.6	63	ADB (\$20.2m), DANIDA (\$10m), Grant Facility/PHRD - Japan (\$1.6m), Japan (\$13.4m), UNDP(\$7m), UNICEF (\$10.8m)
TELECOMS. V	1992	No Risk	CRUZAT	Telecommunications	5/12/1992	55	37.5	DANIDA (18m), Finnish IDA (\$11m), Japan (\$8.5m)
HIGHER EDUCATION	1994	At Risk	SINCLAIR	Education	#####	20		
POPULATION & HEALTH	1994	Potential Risk	DUZA	PHN	4/12/1994	26.7		
ROAD MAINT.& REHAB.	1994	No Risk	HOBAN	Transportation	3/15/1994	50.5	16.2	UK (\$12.4), Swiss (\$2.8), UNDP (\$1m)
RURAL WS& SANITATION	1997	No Risk	LEGRAIN	Water Supply and Sanitation	9/3/1996	18.3		
AGRI RES & EXTENSION	1998	Potential Risk	SEREJSKI	Agriculture	8/26/1997	24.3		
IRRIG SECTOR DEVT	1998	No Risk	MYINT	Agriculture	#####	79.8		
MULTIMODAL TRANSIT	1998	No Risk	HANSEN	Transportation	#####	23.5		

**TABLE 12: COMPARATIVE LENDING INDICATORS AMONG COMPLETED PROJECTS**

<i>Indicator</i>	<b>Nepal</b>	Sri Lanka	Bangladesh	Pakistan	India	SAR Region	Bank-Wide
No. of projects (exit years 1991 - 1996)	<b>25</b>	26	42	44	91	235	1739
Net amount disbursed (1996\$m)	<b>576</b>	1,049	2,577	4,193	17,652	26,082	147,139
Average completion delay (months)	<b>31</b>	20	25	27	42	27	21
Percent of commitments cancelled (%)	<b>27%</b>	20%	23%	10%	25%	23%	15%
Average project size (before cancellations) (\$m)	<b>23.7</b>	40.3	61.4	85.4	202.0	100.0	81.4

Source: OED

<b>TABLE 13. PERFORMANCE OF ACTIVE PROJECTS IN NEPAL</b>					
	<i>Number of projects</i>	<i>Amount</i>	<i>Share of amount</i>	<i>No Risk</i>	<i>At or Potentially At Risk</i>
All Active Projects	15	584	100%	53%	<b>47%</b>
<i>By Sector</i>					
Agriculture	5	223	38%	60%	<b>40%</b>
Education	3	62	11%	33%	<b>67%</b>
Power	1	65	11%	0%	<b>100%</b>
PHN	1	27	5%	0%	<b>100%</b>
Telecommunications	1	55	9%	100%	<b>0%</b>
Transportation	2	74	13%	100%	<b>0%</b>
Water Supply and Sanitation	2	78	13%	50%	<b>50%</b>
<i>By Approval FY</i>					
FY88 - FY92	8	341	58%	50%	<b>50%</b>
FY93 - FY98	7	243	42%	57%	<b>43%</b>

Source: QAG, as of July, 1998

**TABLE 14. BANK ASSISTANCE COST INDICATORS**

	Average Completion Cost (SYs per project)	Average completion cost (\$ per project)	Supervision intensity: (Direct cost inputs/ No. of projects under supervision in \$)	Supervision intensity: (SY inputs/No. of projects under supervision in SYs)	Average staffweeks per dropped project (SWs)	Average cost per dropped project (\$)	Cost per ESW report (\$)
<i>Period</i>	<i>Average FY90-FY97</i>	<i>Average FY90-FY97</i>	<i>Average FY90-FY98</i>	<i>Average FY90-FY98</i>	<i>Average FY92-FY98</i>	<i>Average FY92-FY98</i>	<i>Average FY90-FY98</i>
Bank-wide	2.3	328,084	52,252	0.32	32.5	89,304	133,477
Africa	2.2	313,679	55,934	0.34	30.4	79,558	111,726
South Asia	3.0	401,453	57,888	0.40	57.0	147,242	178,087
Bangladesh	4.5	555,583	65,427	0.51	51.5	110,162	166,422
India	2.9	385,584	53,823	0.43	61.3	154,032	287,610
<b>Nepal</b>	<b>2.1</b>	<b>280,491</b>	<b>51,537</b>	<b>0.35</b>	<b>146.8</b>	<b>423,845</b>	<b>187,304</b>
Pakistan	2.8	389,809	55,265	0.39	39.0	117,010	119,703
Sri Lanka	1.8	273,163	44,103	0.27	34.4	89,029	133,774

Source: PBD

**TABLE 15. LEVEL OF ESW: NEPAL AND REGIONAL COUNTRIES**

<b>Economic and Sector Reports (#)</b>									
	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	Total FY90- FY97
Bank-wide	371	343	395	379	332	368	340	265	2793
Africa	135	127	155	142	113	145	126	89	1032
South Asia	28	32	31	29	25	22	25	31	223
Bangladesh	9	6	6	3	4	4	9	8	49
India	9	4	9	8	5	5	2	10	52
<b>Nepal</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>7</b>	<b>3</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>18</b>
Pakistan	6	12	10	8	5	6	7	6	60
Sri Lanka	1	7	3	1	5	5	5	5	32
<b>Direct Costs (\$000)</b>									
	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	Total FY90- FY97
Bank-wide	37,818	37,888	42,657	54,825	56,618	54,866	46,898	41,233	372,802
Africa	12,500	12,078	13,247	18,574	14,053	17,194	16,994	10,662	115,301
South Asia	3,536	4,651	4,190	4,382	5,417	5,850	2,705	8,982	39,713
Bangladesh	1,339	654	984	517	958	1,269	861	1,574	8,155
India	1,324	1,874	1,665	1,463	1,568	2,146	230	4,686	14,956
<b>Nepal</b>	<b>409</b>	<b>235</b>	<b>288</b>	<b>887</b>	<b>749</b>	<b>0</b>	<b>40</b>	<b>763</b>	<b>3,371</b>
Pakistan	374	1,095	747	1,229	491	822	1,043	1,380	7,182
Sri Lanka	39	793	318	59	1,313	1,038	231	489	4,281
<b>Direct Costs per Economic and Sector Report (\$000)</b>									
	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	Total FY90- FY97
Bank-wide	102	110	108	145	171	149	138	156	133
Africa	93	95	85	131	124	119	135	120	112
South Asia	126	145	135	151	217	266	108	290	178
Bangladesh	149	109	164	172	240	317	96	197	166
India	147	468	185	183	314	429	115	469	288
<b>Nepal</b>	<b>204</b>	<b>78</b>	<b>288</b>	<b>127</b>	<b>250</b>	<b>NAPL</b>	<b>40</b>	<b>763</b>	<b>187</b>
Pakistan	62	91	75	154	98	137	149	230	120
Sri Lanka	39	113	106	59	263	208	46	98	134

**TABLE 16: LIST OF FORMAL ESW ON NEPAL, FY90-FY98**

**FY98**

17034 ER 11/11/97 Nepal - 1997 Economic update: the challenge of accelerating economic growth

**FY97**

**FY96**

(15508 CAS 04/30/96 Nepal - Country assistance strategy)

**FY95**

14580 SR 06/09/95 Nepal - Employment and the labor force : the coming crisis

12243 SR 08/26/94 Nepal - Critical issues in secondary education and options for reform

**FY94**

12281 ER 03/17/94 Nepal - Fiscal restructuring and public resource management in the nineties

11800 SR 02/01/94 Selected issues in infrastructure development - Nepal

**FY93**

12063 SR 06/01/93 Civil service reform : an agenda for action - Nepal

11479 SR 02/01/93 Water supply and sanitation sector issues paper - Nepal

10988 SR 01/01/93 Nepal - Expenditures in the road sector

11565 SR 12/01/92 Nepal - Infrastructure development

**FY92**

10324 ER 03/01/92 Nepal - Public resource management in a resource scarce economy

**FY91**

9076 SR 01/01/91 Nepal - Nonfinancial public enterprises sector report

8635 ER 08/01/90 Nepal - Relieving poverty in a resource-scarce economy

**FY90**

8352 ER 03/30/90 Nepal - Maintaining structural reforms and managing public resources

7693 SR 03/01/90 Nepal - Agricultural sector review

**TABLE 17: BANK MANAGEMENT FOR NEPAL: 1990 - 1997**

<i>Year</i>	<i>Vice President</i>	<i>Country Director</i>	<i>Country Operations Division Chief</i>	<i>Resident Representative</i>
1990	Attila Karaosmanoglu	Shinji Asanuma	Yukon Huang	Nigel Roberts
1991	Attila Karaosmanoglu	Jochen Kraske	Yukon Huang	Nigel Roberts
1992	Attila Karaosmanoglu	Ann Hamilton	Yukon Huang	Nigel Roberts
1993	D. Joseph Wood	Ann Hamilton	Fred Kilby	Joe Manickavagasam
1994	D. Joseph Wood	Ann Hamilton	Fred Kilby	Joe Manickavagasam
1995	D. Joseph Wood	Heinz Vergin	Pradeep Mitra	Joe Manickavagasam
1996	D. Joseph Wood	Robert Drysdale	Luis Ernesto Derbez	Joe Manickavagasam
1997	Mieko Nishimizu	Hans Rothenbühler	Luis Ernesto Derbez	Hans Rothenbühler (CD)
1998	Mieko Nishimizu	Hans Rothenbühler	Roberto Zaghera	Hans Rothenbühler (CD)

**Table 18: Development Effectiveness Index - Nepal and Other SAR Countries, Exit FY90-98**

<i>Country</i>	<i>DEI</i>	<i># of projects</i>	<i>SD</i>
<b>Nepal</b>	<b>5.84</b>	<b>19</b>	<b>1.74</b>
Bangladesh	6.16	39	1.70
Pakistan	6.21	45	1.72
India	6.24	94	1.86
Sri Lanka	6.24	23	1.28
SAR	6.24	227	1.74
BANK	6.43	1666	1.87

*Notes:*

- the figures refer to the period ARPP exit fiscal year 1990-1998;
- averages and standard deviations are computed by project (that is, not weighted by disbursements);
- the Development Effectiveness Index (DEI) ranges between 2 ( a project with highly unsatisfactory outcome, unlikely sustainability, and negligible institutional development impact) and 10 (a project with highly satisfactory outcome, likely sustainability, and substantial institutional development impact);
- projects with less than marginally unsatisfactory outcome score 6 or less in the DEI scale (no matter what ratings they get on sustainability and ID impact); conversely, projects with more than marginally satisfactory outcome score 6 or more in the DEI scale).

*Source: OED, 1998 ARDE*