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INDEPENDENT EVALUATION GROUP
NEPAL COUNTRY ASSISTANCE EVALUATION
APPROACH PAPER

Country Background

1. ***Country characteristics.*** Nepal, with a population of 27.6 million people (2006 data) and area of 140,800 square kilometers, is a landlocked, largely mountainous country that stretches from the flat river plain of the Ganges to the mountains of the Himalayas. It is bounded by two giant and nascent economic superpowers, India and China. The country has few natural resources, and agriculture is its main economic activity. The largest share of the population, 48.4 percent, live in the Teraï, or plains, in the south, 44.3 percent live in the hill districts, and 7.3 percent live in the mountains. There is steady migration from the impoverished hill and mountain areas to the Kathmandu valley and the Teraï region abutting India. The population is ethnically and linguistically diverse with 103 different ethnic and caste groups in two main groups: the Tibetan-Nepalese, historically the larger and dominant group, although they now constitute only 43 percent of the population, and the Indo-Nepalese.

2. ***Political background and recent developments***. Nepal has been under a hereditary monarchy for most of its modern history. A brief experience with multiparty democracy in 1959–1960 ended with King Mahendra suspending Parliament, banning political parties, and promulgating a new constitution establishing the *panchayat* system to consolidate direct rule. A constitutional monarchy and multiparty democracy were established in 1991 after popular protests, but political fragmentation and unstable and unproductive coalition governments created considerable political instability, and between 1991 and 2005 there were 12 governments.

3. A Maoist insurgency started in 1996 in Rolpa and Rukum districts (mid-Western region), the most remote and least developed areas of Nepal, as a low-intensity conflict and progressively spread to all parts of the country. The Maoists used guerilla warfare techniques to attack government facilities and officials and elites with the aim of establishing a peoples' republic and changing the constitution. In the first years of the insurgency, the government used the existing law and order framework to address the security problem. The intensity of the conflict escalated sharply after a state of emergency was imposed in November 2001 and the Royal Nepal Army was mobilized to counter the insurgency. Progressively, most parts of rural Nepal went under the control of Maoist activists, although the district headquarters remained mostly under the control of the state.

4. In 2002, the King dismissed the Parliament and began appointing prime ministers by royal decree. With no improvement of the political situation, the King formally suspended democratic rule and assumed absolute power in February 2005. Then, in November 2005, the Seven Party Alliance and the Maoist rebels formed an alliance against the King, and after popular protests in April 2006, forced the King to restore

Parliament. An interim government was formed. After a comprehensive Peace Agreement was signed between the Seven Party Alliance and the Maoists in November 2006, the latter joined the coalition government and the interim Parliament. The elections for a Constituent Assembly to draft a new constitution and serve as a transitional legislative body were successfully held in April 2008. The Maoists, who won the largest number of seats (220 out of 601), are expected to lead the transition government. The first meeting of the Constituent Assembly abolished the 239-year-old monarchy and established the Federal Democratic Republic of Nepal.

5. Although the successful election for a Constituent Assembly is a very positive development, Nepal is going through an extremely fragile peace transition and the political and security situation remains uncertain. Extended, unedifying haggling over formation of a government suggests the consensus-based approach to the constitutional process will be hard to implement. Building a lasting peace and delivering on the change voters called for requires all parties to cooperate under a Maoist-led government, in particular to deal with issues scarcely yet addressed, such as security, land and local government reform, and reestablishment of law and order in some districts.

6. ***Economic performance***. Nepal's economy has experienced a marked slowdown in growth during the 2000s, averaging only slightly more than 3 percent annually. With the population expanding by nearly 2.3 percent annually, per capita incomes have improved little during this period. Political insecurity, adverse external shocks, and slow progress on key structural reforms largely explain this performance. Transportation, construction, and services have provided the main sources of growth, while the primary sector (agriculture and timber) grew in line with the overall economy, and industry, hampered by labor unrest and work interruptions due to the civil conflict, lagged seriously behind at 1 percent per annum in real terms. Agriculture, which accounts for over one-third of GDP, grew at an annual average rate of 3.3 percent in real terms from 1996 to 2006 much below the over 6 percent objective of the 1995 Agriculture Perspective Plan. Investment in agriculture has remained low. Financial liberalization has not led to an increase in the availability of credit for farmers. Public investment in the sector has been much lower than projected, and transport connections to remote agricultural markets remained weak. Inequality in land ownership also acted as a constraint to agricultural growth. Manufacturing accounted for just 7 percent of GDP in 2006 and is concentrated in a few sectors that produce mainly for export markets. Annual manufacturing growth rates only averaged 1.9 percent in real terms during the 1996–2006 period, indicating poor competitiveness of these sectors on world markets. In addition, export-oriented manufacturing has weak backward linkages into the rest of the economy, further limiting the sector's impact on overall growth. Foreign capital inflows, mainly in the form of remittances and aid, have made possible a substantial acceleration in the growth of domestic consumption, which in turn has led to a significant reduction of poverty incidence in both rural and urban areas over the 1996–2004 period (More than one-half of the poverty reduction is attributed to workers' remittances, which have

dramatically increased over the period).[1] Although export earnings fluctuated widely, they remain unchanged on average. Capital inflows grew at a rate sufficient to finance import growth of about 15 percent and support modest increases in foreign exchange reserves. Thanks to Nepal's currency peg to the Indian rupee, fluctuations in inflation closely follow trends in India, with the annual rate currently in the high single digits. More generally, Nepal's economic relationship with India is a key factor in its development. Sixty to 70 percent of Nepal's trade is with India and its trade deficit with India is US$1.1 billion, or 9 percent of GDP, and about 50 percent of Nepal's overall trade deficit in 2007. In addition, along the border, there is a considerable volume of unrecorded trade in goods and exchange of labor and services. Currently, about 70 percent of the Nepalese labor force working abroad works in India.

7. ***Economic policies.*** Significant shifts in macroeconomic policy have taken place since the early 1990s, with broad-based economic liberalization replacing inward-looking protectionist policies. Growth was supported throughout most of this period by prudent fiscal and monetary policies. Revenue mobilization improved through adoption of a new value-added tax, better tracking of large-taxpayer compliance, and tighter controls over customs revenues. Expenditure remained relatively constant as a share of GDP, and overall deficits were financed without difficulty. Nevertheless, government finance remains structurally weak. Domestic revenue mobilization, which increased from 12.3 percent of GDP in FY95 to 13.8 percent in FY07, remained low. Social expenditure, which constitute one-third of the central government expenditure, increased from 5.9 percent of GDP in FY98 to 8.1 percent in FY07. Military and police spending also rose from 1.7 percent of GDP to 2.8 percent over the same period because of the intensification of the conflict after 2001, but remained low by regional standards. As social and security expenditures have increased and the government has sought to limit domestic borrowing to around 1.5 percent of GDP, capital spending declined from 7.5 percent of GDP in FY98 to around 5 percent in FY07. The fiscal deficit, which averaged around 4.5 percent of GDP during these years, has been financed by a combination of foreign aid at a very low cost (about two-thirds of the deficit) and domestic borrowing (about one-third). Financial sector liberalization led to a rapid growth in commercial banking with a significant increase in the number of banks, but such growth remained confined to urban areas, and rural banking expanded minimally. Emigration rapidly converted remittances into the largest single source of foreign currency. Most external debt, currently equivalent to 46 percent of GDP, was contracted on concessional terms. However, due to its variable and negligible export growth, Nepal remained at high risk of debt distress until a recent upgrade to moderate risk (Joint Bank-Fund Debt Sustainability Assessment, May 2008). Moreover, the government eventually will need to absorb additional liabilities estimated at around 8 percent of GDP, resulting from the sizeable liabilities accumulated in the state-owned banking and enterprise sectors (SOEs). Government's efforts in state-owned commercial banks have focused on improving

[1] With an estimated 1 million workers abroad in 2004 (primarily in India, the Gulf, and East Asia), remittance inflows soared from 3 percent of GDP in FY95/96 to 12 percent in FY03/04. The share of households receiving remittances has also increased from 24 percent to 32 percent over the same period. The increase in remittances is responsible for more than one-half (6.2 percentage points) of the overall reduction in poverty headcount between FY95/96 and FY03/04. Since 2004, the share of remittances in the GDP further increased to 16 percent (US$1.4 billion) in 2006.

performance by bringing in outside management prior to possible privatization. Reform of public financial management has included adoption of a new Procurement Law and a Medium-Term Expenditure Framework (MTEF). Nepal has an elaborate system of budgetary financial controls, although enforcement is potentially an issue. A core aim of the MTEF is to redirect public spending toward social and infrastructural needs, but transparency may be affected by uneven reporting (notably from the state enterprise sector), significant amounts of off-budget spending, and deficiencies in the system of cash management.

8. ***Social development.*** Nepal is the 12th poorest country in the world and the poorest in South Asia with a GNI per capita (Atlas method) of US$320 in 2006. It is plagued by substantial inequality by caste/ethnicity, gender, and geographic location. Despite the conflict and slow growth, remarkable progress on social well-being is reported over the past 10 years: poverty incidence declined from 45 percent in 1996 to 31 percent in 2004; net primary school enrollment increased from 69 percent in 1995 to 89 percent in 2007; maternal mortality rate decreased from 539 per 100,000 in 1996 to 281 in 2006 and the infant mortality rate from 79 per 1,000 in 1996 to 48 in 2006; and access to potable water increased from 70 percent in 1995 to 77 percent in 2006. As a result, Nepal is likely to meet the primary enrollment and gender-related Millennium Development Goals (MDGs) and is on course to meeting the health MDGs related to child and possibly maternal mortality. Despite its challenging political and governance context, Nepal outperformed several countries in the region including Bangladesh, India, and Pakistan on the health-related MDGs. The MDGs related to access to safe water has been reached both for rural and urban areas. However, child malnutrition remains high, with stunting at 43 percent in the mid-2000s, and underweight and wasting has not improved over the past 15 years (they hover at 45–55 percent and 10–15 percent, respectively).

9. Per capita consumption increased on average by more than 42 percent between 1996 and 2004, but this was accompanied by raising inequality as measured by expenditure per capita, with the Gini coefficient increasing from 34.2 to 41.4. Inequality, which was already large, increased along the upper half of the distribution of both consumption and income. Rural areas were considerably poorer than urban areas and the gap widened over time. In 2003/04, poverty incidence was much higher in rural areas (34.6 percent in rural areas compared to 9.6 percent in urban areas). Also, average real per capita consumption in Dalit, Janajati, and Muslim households remains significantly lower that of high-caste households even after accounting for the effects of households' other characteristics (size, occupation, number of children, and education level of household head, land ownership, receipt of remittances, and residential and geographic characteristics). Various factors contribute to and exacerbate inequality and social exclusion in Nepal, among them: differential access to education and other basic services, traditional attitudes toward women and caste and ethnic differences, unequal access to economic assets, weak governance and discriminatory policies, and spatial differences such as those between rural and urban localities. These factors not only pose severe challenges to poverty reduction but also exacerbate social tensions and sustain conflict.

The World Bank's Strategy and Program

10. The Independent Evaluation Group (IEG, then OED) prepared in 1998 a Country Assistance Evaluation (CAE) of World Bank assistance in the 1990's. Bank assistance in that period consisted of investments in agriculture, infrastructure, power, and the social sectors. The poor enabling environment was found to have limited the impact of Bank-supported projects on their broader objectives. The projects suffered from a range of implementation problems and, in many instances, provided benefits with limited or no sustainability. Frequent changes in key decision-makers due to political instability, inadequate management, and lack of counterpart funds undermined project implementation and sustainability. Poor donor coordination, political interference in projects, and alleged corruption further complicated the environment for public investment. The private sector response in the 1990s was also limited by, among other things, 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. The outcome of the Bank's program in Nepal in the 1990s was rated *unsatisfactory*. The assessment concluded that the Bank should have done more to address fundamental institutional and policy constraints to create an enabling environment for cost-effective and sustainable public investment and much greater private sector activity where: 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; and civil service and public expenditure reforms were not pressed after 1995. IEG stressed the need to focus future Bank assistance on: a strategy for improving public sector management; close monitoring of structural and social policy environment; a strategy for donor coordination to further the reform agenda; and initiatives to develop rural infrastructure, with an emphasis on management by nongovernmental, private, and autonomous public entities.

11. CODE discussed the CAE ahead of the December 1998 Nepal Country Assistance Strategy (CAS) presentation. Since then a CAS Progress Report was presented to the Board in November 2002, moving from the low-case lending scenario to the base-case in support of an emerging coalition of key reformers. A new CAS for Nepal covering FY04–07 was discussed by the Board in November 2003. Although a CAS Progress Report was to be presented in 18 months or earlier, depending on political developments, no other written strategy document was presented to the Board until an Interim Strategy Note (ISN) covering FY07–08 in February 2007. This was followed by an Information Note entitled "Towards Implementing the World Bank's Interim Strategy on Nepal through an Integrated Program of Donor Support" presented to the Board in August of the same year. The 2007 ISN indicates that the Board of Directors was kept informed of country developments by oral briefings from management.[2] Also, a Technical Briefing was held in December 2007 to inform Executive Directors on developments in Nepal ahead of the submission on December 6 of four new IDA grants, totaling US$252.6 million (doubling the undisbursed balance). These were Poverty Alleviation Fund II (US$100 million), Additional Financing for Education for All (US$60 million), Irrigation

[2] March 2005, December 2005, and August 2006.

and Water Resources Management (US$50 million), and Road Sector Development (US$42.6 million), all of which were approved.

12. The 2003 CAS was fully aligned with Nepal's first Poverty Reduction Strategy Paper (PRSP) adopted in May 2003. It was structured around four pillars: broad–based economic growth, social sector development, social inclusion and targeted programs, and good governance. The 2007 ISN did not change the strategy but adjusted it to country political developments, in particular, the prospect of a peaceful transition brought about by the end of the Maoist insurgency and the restoration of democracy in April 2006. The goals of the Bank assistance program over FY04–08 remained broadly aligned with the 2003 PRSP: focus on improving governance by bringing resources to grassroots levels and improving development effectiveness, but increase emphasis on growth and inclusion. Among the key components of the 2003 CAS was a series of Poverty Reduction Support Credits (PRSCs; about 30 percent of the base-case lending scenario) complemented by sector investment operations. The CAS was seeking greater coordination with other donors through better alignment with the government's PRSP. This included developing Sector-Wide Approaches (SWAps) in education and health and joint supervision work with other donors.

13. Total commitments during the period under review amounted to US$830 million versus US$1,095 million planned, with US$757 million of investment lending versus US$815 million planned and US$73 million of policy lending versus US$280 million planned. The Bank portfolio was quite diverse and included telecommunication, transport, energy, financial sector, social development, and poverty alleviation projects. The lending program was supported by a significant amount of analytical and advisory activities (AAA).

Country Assistance Evaluation: Approach and Methodology

14. As with all CAEs, the primary objective of the Nepal CAE will be to evaluate the outcome of the Bank's assistance program. This assessment, based on IEG country assistance evaluation methodology, will apply the standard evaluation criteria of relevance, efficacy, efficiency, and sustainability. The CAE will discuss and assess: the relevance of IDA objectives and instruments; the extent to which these objectives were achieved (efficacy); how they were achieved (efficiency); and the institutional development impact of the Bank's assistance and resilience to risks of development benefits. The CAE will also assess the role played by the Bank in achieving the country program outcomes (contribution/attribution) in the context of government's development goals. It will also draw lessons for application in future Nepal CASs.

15. Given the country's transition situation and the political, economic, and policy uncertainties, the CAE will cover a shorter period than usual and focus on a set of goals structured around the four pillars of 2003 Poverty Reduction Strategy Paper. The CAE will evaluate the Bank's country assistance program over the FY04–08 period as described in the FY04–07 CAS (November 2003) and the FY07–08 INS(January 2007). As needed, the CAE will also refer to FY98–03 CAS. Prior to the mission, the team will prepare a comprehensive desk review and interview headquarters staff to firm up the

evaluative questions and the selection of sectors and topics for further evaluative work. The CAE will review all lending and AAA since FY03, relying on self- and independent evaluation, country, sector, and thematic work. IEG-IFC will prepare a Country Evaluation Note (CEN) as an input to the CAE in reference to the outcomes of IFC investments and technical assistance activities in Nepal (see Box 1).

Box 1. IFC Activities in Nepal

IFC objectives. The 2003 CAS stated that IFC was to provide support to export-oriented manufacturing, private investment in telecommunications and power, financial market development, and the growth of small and medium enterprises (SMEs). Due to political uncertainties, IFC planned to focus on technical assistance rather than investments in Nepal, mainly through the South Asia Enterprise Development Facility (SEDF). The SEDF was to coordinate with the World Bank's efforts in the financial sector and aimed to help increase SME access to financing and business development services, improve the business environment, develop linkages with larger enterprises, and help introduce best practices and new products for SME lending. SEDF also was to work with selected business associations in the agribusiness and tourism sectors. An SEDF staff member was to be located in the Kathmandu office to manage these programs.

IFC investments. There were no IFC investments in Nepal during the review period although between FY75 and FY01, IFC invested US$71.8 million in eight operations, and mobilized US$36 million in participation loans. During this period, IFC's commitments were predominantly in power (80.2 percent), followed by tourism (11 percent), extractive industries (8.4 percent), and the financial sector (0.4 percent). IFC's last investment in Nepal was approved and committed in FY01, in the leasing sector.

IFC advisory services. IFC undertook seven advisory services during the review period with total donor funding of US$2.4 million. Advisory services were aimed at facilitating investments in air transport, improving corporate business practices, developing SMEs, developing the financial sector, and providing diagnostics reviews of the business enabling environment.

Main Issues: Focus of the Evaluation

16. In accordance with the four pillars of the Bank assistance over the review period, the evaluation will examine progress in achieving the following CAS outcome objectives as stated in Annex B10 of 2003 CAS document:

a) *Broad-based economic growth*: (i) establishing outcome-focused public budgeting and monitoring; (ii) identifying the magnitude of the financial problems afflicting the state-owned enterprises and devising a strategic action plan; (iii) reforming the labor laws in ways designed to increase flexibility in employment; (iv) liberalizing business support services to lower costs; (v) increasing public capacity for trade policy formulation and implementation; (vi) improving the Central Bank's effectiveness in performing regulatory and supervisory functions; (vii) privatizing or liquidating the two main state-owned commercial banks, Nepal Rastra Bank (NBL) and Rastriya Banijya Bank (RBB); (viii) improving the enabling environment for factor (land, credit, labor, and water) and output markets; (ix) increasing agricultural productivity and farm incomes; (x) reducing the portion of the main road network in poor conditions while increasing the share of the population with close access to roads; (xi) introducing a private phone operator in the Eastern region; (xii) improving power company efficiency while increasing private sector participation in the sector; and (xiii) increasing by 30,000 the number of households in remote areas served by micro-hydropower.

- Approximately one-third of total fiscal expenditure was off-budget at the time of CAS formulation and the need for formulating an MTEF was identified. Pro-poor spending, broadly defined, constituted just over half of total central government expenditure. Monitoring and evaluation of physical implementation and expenditure impact was virtually nonexistent. Financial controls and auditing were fragmentary, and corruption alleged to be widespread. To what extent has the MTEF become an effective instrument for increasing both the volume and impact of public spending on reducing poverty? To what extent have Bank-supported fiscal reforms, such as the MTEF, the increased role of SWAps, decentralized spending, and improved tracking made the budget a more effective instrument for accelerating economic growth and reducing poverty?
- How effective were the Bank's substantial efforts, in lending and in AAA, to assist the government in cleaning up massive nonperforming loans, sanctioning well-to-do defaulters, and upgrade management in the two major state-owned commercial banks? What was the impact on the financial sector deepening? Were the applied resources proportionate to the range and magnitude of Nepal's key development constraints, taking into account the expected role of other donors as well as the Bank's own comparative advantages?
- What was the Bank's understanding of the sources of rural growth? To what extent were the Bank's instruments aligned with this understanding and appropriate for rural poverty alleviation?
- To what extent were the Bank's planned and implemented instruments for stimulating faster agricultural growth proportionate and relevant to the sector's role in the economy?
- To what extent has the Bank's support for rural roads, power, and telecommunications networks contributed to rationalizing the development of these services and increasing rural people's access to them?
- There were no specific outcome objectives defined in the CAS documents in the areas of environment and natural resource management. However, environmental policies were considered a cross-cutting theme in the country assistance program and Bank involvement was to focus on helping the government articulate an effective strategy for environmental conservation and management and capacity building. Based on a planned Country Environmental Analysis, the Bank would determine possible outcome objectives and appropriate instruments to reach them. To what extent has the Bank contributed to the identification and analysis of environment and natural resource management issues as they have grown in importance? To what extent has the Bank formulated and introduced measures to address these issues in its country program? To what extent have environment and natural resource management considerations been

incorporated into the design and implementation of Bank programs in other sectors, such as transport, roads, irrigation and drinking water, and urban and industrial development?

b) *Social development*: (i) 25 percent of public schools under community management providing socially inclusive and higher quality education; (ii) efficient and timely textbook distribution system in place, as measured by all primary school children having books at the beginning of the school year; (iii) progress is made towards financial sustainability of universities; (iv) essential health care services implemented in 25 districts at least half with low health indicators; (v) extending rural water supply to an additional 10 percent of the population; and (vi) extending coverage of sanitation services to an additional 5 percent of the rural population.

- Did the Bank's support to improving access to social services, in particular to the decentralization and involvement of communities in the management of services, in primary education, health, and rural water sectors, help achieve the outcomes sought?
- To what extent did the Bank's support in education lead to better learning outcomes?
- To what extent did the Bank's support to promoting effective management and financial sustainability of academic institutions contribute to enhanced quality and relevance of higher education?
- To what extent did the Bank's support in the health sector help improve health outcomes? Did Bank support to primary health care help to improve the heath status of the poorest?
- To what extent did Bank lending in rural water help improve access of rural population to safe water and sanitation services?

c) *Social inclusion*: Under this pillar, the objectives of the CAS were to protect vulnerable groups who had been marginalized from the development process, by in particular: (i) reducing out of school primary aged children (primarily Dalits, girls and disadvantaged Janajati groups) by 50 percent; (ii) increasing public funds used by disadvantaged rural groups for services; and (iii) putting in place effective affirmative action policy and implementing system for improving the diversity of civil service. In addition, gender and social inclusion was considered a key cross-cutting theme of the country assistance program. In particular, the second pillar on social sector development simultaneously focused on improving service delivery to the poor and disadvantaged in primary, secondary, and tertiary education, enhancing basic health care services in under-served populations, and improving quality of and access to sustainable rural drinking water and sanitation.

- To what extent was the Bank's strategy for social inclusion relevant and realistic, given Nepal's limited administrative capacity and sharp caste and ethnic divisions? To what extent was the strategy planned in collaboration with other key donors? To what extent was the Bank strategy based on relevant and sound analysis of key issues, particularly related to the ongoing conflict and other critical political economy issues?

- To what extent have implementation approaches adopted by the Bank—targeted programs, community-driven development (CDD), local participation, capacity building, and strengthening decentralization—proved to be resilient and central to achieving the objectives in this area?
- To what extent have implementation approaches—targeted programs, CDD, local participation, capacity building, and decentralization—proved to be resilient in conflict-torn areas and good practice with respect to IDA's policies, such as the 2001 Operational Policy on "Development Cooperation and Conflict and Fragile States—Good Practice in CASs"? To what extent was the Bank's approach on inclusion consistent with other Operational Policies, such as for Indigenous Peoples and Gender and Development?
- To what extent did the Bank achieve its stated objectives: improved equity and better service delivery for disadvantaged groups in education, rural water supply, and health; increased fiscal transfers to the poor and marginalized groups; improved inclusion in civil service for disadvantaged groups; and enhanced capacity of the poor and the disadvantaged to participate in development? To what extent has the Bank's assistance contributed to strengthening institutions and regulatory frameworks for enhancing sustainable social inclusion? To what extent were implementation progress and relevant outcomes effectively monitored?

d) *Good governance*: (i) substantially advancing decentralization as designed in the Local Self Governance Act; (ii) establishing clear delineation of responsibilities between Ministers and civil service to ensure autonomy and accountability of civil service; and (iii) improving accountability and transparency.

- To what extent did the Bank's support help to advance decentralization as designed in the Local Self Governance Act? Particularly regarding fiscal decentralization?
- At decentralized levels of service delivery, were appropriate fiduciary controls and monitoring systems in place to ensure that increasing central government budget transfers to decentralized levels reached targeted beneficiaries, were used for the intended purpose, and had the expected impact? To what extent was the Bank's direct support at local levels consistent with its support to government decentralization efforts?
- Should the Bank continue its focus on providing investment funding for development or shift toward also supporting short-term peacekeeping needs?
- To what extent did the Bank's support contribute to enhancing civil service efficiency and accountability? Particularly through greater autonomy and accountability?
- At the central level, how has the Bank's policy advice on tightening fiduciary controls affected the discretion public employees have to

conduct unauthorized or illicit fiscal transactions? How has passage of a new Procurement Law in 2007 begun to impact how public procurement is conducted? What are its strengths and weaknesses?

17. In addition to the four pillars of the country assistance program, the evaluation will consider several questions related to **donor alignment and harmonization**. Over the past 20 years, Nepal has been highly dependent on aid. Over the past 5 years, aid per capita increased from US$14 to about US$19, and aid accounted for 40 percent of central government expenditure in 2006. Aid flows from bilaterals have increased while aid from IDA and the Asian Development Bank, historically the largest multilateral aid providers, decreased. Japan is the largest bilateral donor, followed by the United Kingdom, United States, Germany, and Denmark.[3] The share of IDA in total aid disbursements was only 5 percent in 2006 (OECD/DAC data). The Bank and donors in general have been struggling (individually and collectively) to make development aid more effective. The struggle has intensified with the conflict, and donors have responded differently to the challenge of making aid work in a conflict-afflicted country, particularly after the 2005 coup.[4] Donor coordination improved significantly in the early 2000s with government's stronger leadership through a Foreign Aid Policy endorsed by the development partners during the 2002 Nepal Development Forum. The return to democracy and fragile peace transition that began in 2006 led initially to a lot confusion and some disintegration of donor coordination.

- How effectively did the Bank's program mobilize aid resources in support of the country assistance strategy?
- How effective was the Bank program in promoting aid coordination in line with the Paris Declaration on Aid Effectiveness and the Principles for Good Engagement in Fragile and Conflict Situations?

CAE Process: Outputs and Timetable

18. The CAE will be carried out under the general supervision of Ali Khadr (Senior Manager, IEGCR). The CAE team will be led by Claude Leroy-Themeze (Senior Economist, IEGCR). Peer reviewers are Rene Vandendries (IEGCR), David Steeds (QAG), Robert Chase (SDV), Gary Milante (DECRG); and an external reviewer, Clare Lockhart (Director, Institute for State Effectiveness). The CAE team plans to visit Nepal in September 2008. The CAE is expected to be delivered to CODE in April 2009.

[3] There is not official data on aid from India and China that is known as substantial, in particular in some specific sectors.
[4] See "Nepal Case Study," in "Donors and the 'Fragile States' Agenda: a Survey of Current Thinking and Practice,"" by Overseas Development Institute, 2006.