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NEPAL:

COUNTRY PROGRAM SNAPSHOT

October 2013

RECENT ECONOMIC AND SECTOR DEVELOPMENTS

Summary

Nepal's economic development remains contingent on political developments. Political volatility and uncertainty continue to hamper growth-oriented fiscal policies while the private sector has adopted a wait-and-see position. Over the short term, the scheduled elections – whether they are held and achieve a modicum of consensus – will be a major test. Over the medium term, increased political stability should be followed by structural reforms to tackle enduring sources of fragility, including financial sector consolidation, public financial management reform, governance improvements, and a strategy to address the gradual erosion of Nepal's external competitiveness.

Political instability has clouded the outlook in FY13 and remains the principal source of vulnerability going forward. The delayed adoption of a full budget in FY13 has depressed public spending and affected investor sentiment, while agricultural activity has suffered from a weak monsoon. Overall economic growth is estimated to have dipped to 3.6 percent, with average inflation just under the double-digit mark.

Despite the drawbacks, Nepal's fundamentals remain healthy. Despite a large – and growing – trade imbalance, the current account remained in surplus, thanks to the countervailing impact of remittances, which have continued to grow robustly (albeit at a slower pace than in past years). On the fiscal side, the combined effect of low spending and continued impressive revenue growth has allowed the government to draw down its overall stock of debt.

A critical source of weakness in past years, the financial sector has rebuilt strength. All key indicators of financial sector health – credit-deposit ratio, exposure to real estate, non-performing loans (NPLs) – have registered significant improvements, on the back of resolute policy interventions by the Nepal Rastra Bank (NRB; the central bank) and accommodative monetary policy. Further consolidation is needed, however, with key policy actions still pending or in progress, and the need possibly to adopt a tighter monetary stance in coming months.

Whether and how well Nepal manages the political transition process will be a major determinant of economic progress going forward. With considerable uncertainty still surrounding the elections scheduled on November 19 – whether they will be delayed and how consensual the outcome will be – political developments will drive the outlook. If elections are held successfully, both public and private investments are expected to pick up.

Important initiatives to improve the governance environment have been taken, which could be amplified further. In past months the government has taken substantive steps to address major bottlenecks to public expenditures and private sector development. These include de facto streamlining of the budget preparation/adoption process, which could be further institutionalized, high profile anti-corruption initiatives (as part of a broader effort to strengthen PFM), and the establishment of the Investment Board Nepal, which appears poised to approve transformational projects in coming months.

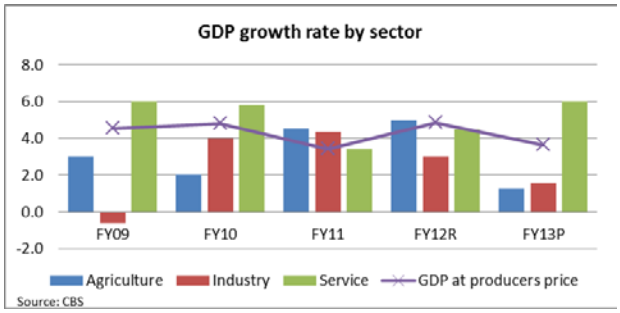
For FY14, the baseline scenario is a gradual return to trend with higher growth and sustainable fiscal expansion. If elections are held on time and the result achieves broad consensus, macroeconomic projections point to a gradual return to trend with economic growth returning to 4-4.5 percent and inflation remaining in single digits. The government of Nepal has ample scope to increase spending, while maintaining overall fiscal sustainability targets, an opportunity that ought to be put to good use by boosting capital spending.

While important psychologically and for specific sectors of the economy, the Nepalese rupee's depreciation is not expected to hold back growth or threaten macroeconomic stability. Nepal does not share the significant internal weaknesses of the Indian economy (twin current account and fiscal deficits) and it has important buffers against currency shocks, most notably strong remittance inflows. That said, specific sectors of the economy will suffer. Of particular concern are: (i) the financial health of

major state owned enterprises, and (ii) possible inflationary pressures, which will need to be managed proactively. While a revision of the peg with India may eventually be warranted, the report concurs with Nepali policy makers that this is not the time – when markets are unstable – to move impulsively; instead, such a major policy shift should be based on clear policy objectives and in-depth analysis of likely economic outcomes, including the long term impact on Nepal's trade competitiveness.

Growth

The overall growth rate for FY13 is estimated to have been 3.6 percent, down from 4.9 percent in FY12. This weak performance is essentially due to historically low levels of activity in both the agriculture and industrial sectors, which grew respectively at only 1.3 percent and 1.6 percent in FY13. For agriculture, this was the weakest performance of the past five years and for industry an improvement only relative to FY09, when industrial output contracted. By contrast, services growth reached 6 percent, accounting for over 80 percent of total GDP growth.



Low agricultural output reflected adverse climatic shocks as well as undersupply of key inputs. The agriculture sector, which accounts for 34.4 percent of gross value-added, grew by just 1.3 percent in FY13, compared to 5.0 percent and 4.5 percent in FY12 and FY11. The impact of an unfavorable monsoon was compounded by shortages in chemical fertilizers during the peak planting season as public procurement of fertilizers to be provided at subsidized prices was affected by delays in budget adoption, and informal cross border trade was unable to fill the gap. Beyond its impact on overall economic growth, the poor performance of the agricultural sector is bound to have adversely impacted the incomes and consumption of some of the poorest segments of the population.

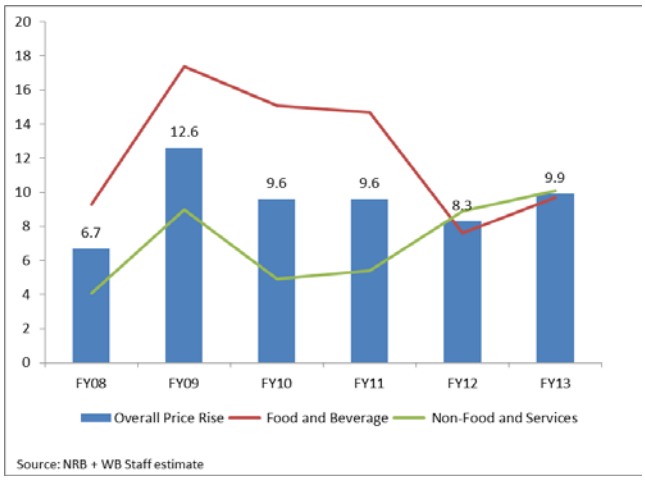
Industrial output performed marginally better than the last two years, as structural bottlenecks were compounded by weak public demand and political uncertainty. Industrial growth in FY13 was a lackluster 1.6 percent, down sharply from 4.3 percent and 3.0 percent in FY11 and FY12. Manufacturing activity growth slowed to 1.8 percent (from 3.6 percent the previous year) as unresolved structural bottlenecks were compounded by political uncertainty. While construction activity picked up from FY12 (1.6 percent vs. 0.2 percent growth) when the real estate bubble burst, it remained constrained by delays in budget execution, low levels of public spending on capital projects, restrictions on bank lending to the real estate sector, and investor nervousness over possible further price corrections.

The services sector, which accounts for an ever-growing share of total value added, was an outlier with a healthy 6.0 percent increase over the 4.5 percent and 3.4 percent of the preceding years. Within the sector, wholesale & retail trade (+9.5 percent), hotels & restaurants (+6.8 percent), transport, storage & communications (+6.7 percent), and financial intermediation (+6.6 percent) saw considerable growth in FY13, whereas it was more muted in the remaining sub-sectors, real estate and public/community services. Services growth has been unaffected by the deceleration in remittance growth in FY13, possibly because of lag effects.

Inflation

Inflation rose to 9.9 percent in FY13, reversing a trend of steady decrease since FY09. The rise was well above the NRB's initial target of 7.5 percent (and mid-term revised targets of 9.5 percent). It remained near or above 10 percent until mid-March this year and moderated only in the last four months of the fiscal year because of seasonal trends, similar movements in Indian prices, and the ability of firms to mobilize inventories. "Cost-push" factors kept prices high in FY13: a disappointing harvest prompted a

surge in imported food (volumes of rice and vegetables from India grew by 98 percent and 76 percent); food prices rose by 9.7 percent, from 7.6 percent in FY12; and non-food prices also increased to 10 percent from 9 percent the year before. Structural factors – supply side rigidities – were the main drivers: higher fuel and gas prices that raised transport costs, and the onset of the rupee's depreciation against major convertible currencies, that drove up costs of imported goods, and domestic production via imported inputs and raw materials.

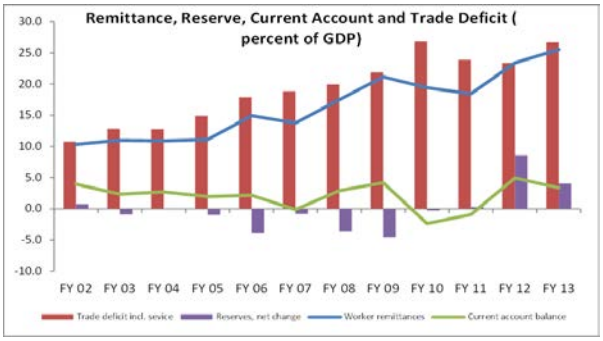


Trade

Nepal's trade balance continued to deteriorate, to a record 27.1 percent, in FY13, with adverse developments in both exports and imports. Export growth decelerated to a mere 3.6 percent, from 15.4 percent in FY12, while imports growth rose to 20.6 percent compared to 16.5 percent the previous year.

Growing remittance transfers are both a driver of import growth and a lifeline. Workers' remittances grew by 20.9 percent in FY13 on top of the remarkable 41.8 percent increase in the previous year (in local currency terms). As a result, officially recorded private transfers amounted to over 25.5 percent of GDP in FY13 and 79.4 percent of the total merchandise import bill (over four times the oil import bill). Private transfer volumes are 13 times higher than official grant assistance received by the government. While contributing to Nepal's staggering import growth (via demand for imported consumer goods and food), private transfers are also a lifeline allowing Nepal to finance its trade deficit and maintain its current account balance.

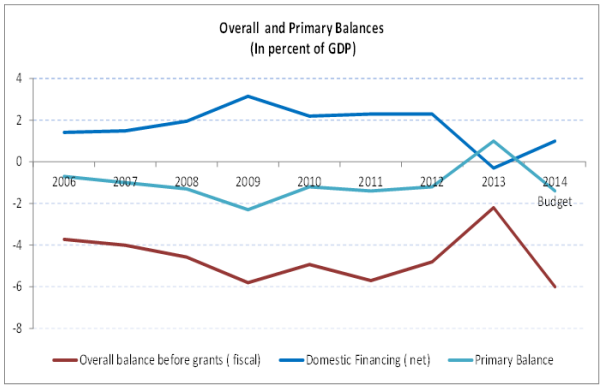
The current account remained in surplus in FY13, although by a smaller margin than in FY12. With a modest net surplus in services trade (0.45 percent of GDP) and stable net income receipts (0.77 percent of GDP), the current account surplus recorded in FY13 (3.3 percent of GDP) is almost entirely attributable to net current transfers (29.3 percent of GDP). Transfers also account for the steady build-up in gross official reserves from USD 4.3 billion to USD 4.98 billion between FY12-13. Import coverage remained at a comfortable 7.6 months of imports, up from 7.2 in FY12.



Fiscal Sector

Nepal experienced a (real) fiscal contraction in FY13. Significant delays in budget approval (a full budget was adopted only in the fourth quarter) depressed public spending, which grew modestly in nominal terms (by 1.75 percent on a cash basis, excluding "financing" expenses) and declined in real terms. Recurrent expenditures, which accounted for 71 percent of total government spending, grew by a modest 1.55 percent in nominal terms, while capital expenditures recorded a 2.7 percent increase. As a result, public expenditure as a share of GDP declined marginally from 19.7 percent in FY12 to 19.4 percent in FY13. Actual spending was significantly below budgeted amounts, reaching 90.5 percent of plan for recurrent expenditures and only 81 percent for capital expenditures, reflecting both some degree of fiscal responsibility (moderate recurrent spending) as well as Nepal's chronic inability to upgrade its public infrastructure, despite having ample fiscal space to do so.

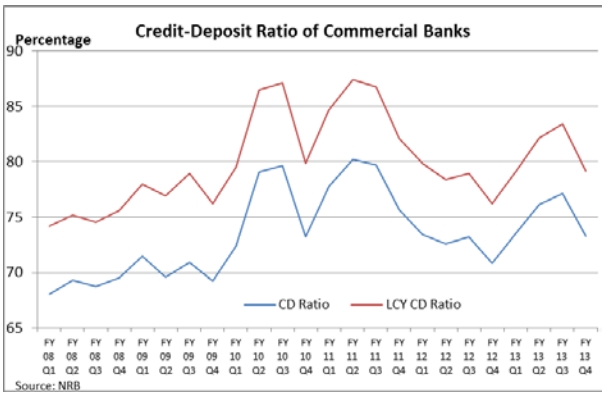
Strong revenue growth shrank the overall budget deficit (after grants) to its lowest level in years. After grants, the budget balance ended up in a deficit position equivalent to 1.1 percent of GDP – against a deficit of 1.45 percent and 3.7 percent in the preceding fiscal years. Given limited alternative spending opportunities, the government chose to channel domestic borrowing to draw down previous debt.



Financial Sector

The financial year ended with a significant easing of liquidity pressure, rising profits, declining non-performing loans (NPLs), and an improved capital position. However, only once the results of ongoing stress tests and in-depth diagnostics of financial sector institutions are known will it be possible to confirm that risks from real estate and other credit exposure and vulnerability to potential loss of depositor confidence have been substantially lowered.

After increasing sharply at the end of FY12 and in the first three quarters of FY13, liquidity pressures eased. The overall credit-to-deposit ratio of commercial banks (local currency) reached a peak of 83.4 percent in Q3 before declining back to 79.2 percent (as deposits grew sharply in the last quarter in synch with public spending). This is still significantly above 76.2 percent in Q4 of FY12 as credit grew faster than deposits (21.7 percent vs.17.7 percent). Overall risk declined as only three commercial banks (9 percent market share) recorded CDRs in excess of 90 percent, compared to seven (17 percent of market share) the previous fiscal year.

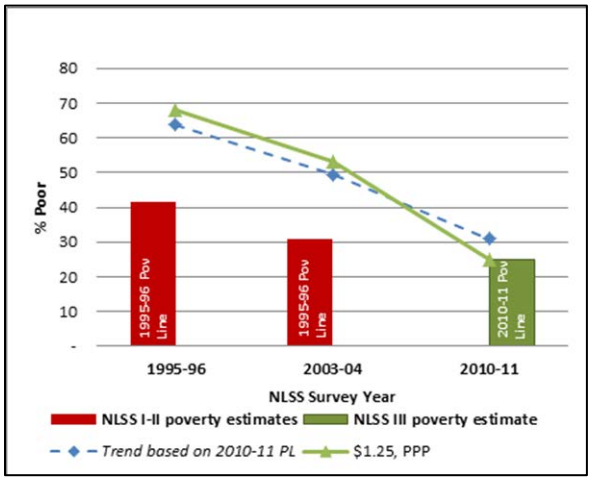


Real estate exposure has decreased to historically low levels. Total exposure to real estate declined y-o-y from 17.1 percent to 14.9 percent of the total loan portfolio between the last quarters of FY12 and FY13 (as overall portfolio outstripped real estate credit growth – Figure 14). As a result, in FY13 only six commercial banks (16 percent of the system) had exposure in real estate in excess of 20 percent as opposed to 13 banks (33 percent of the system) in the previous fiscal year. None of the banks today have real estate exposure in excess of 25 percent.

Poverty Trends

The "Nepal paradox" lives on, with impressive progress on poverty reduction and human development despite modest economic performance. Nepal has been reducing poverty at an impressive rate of 2.5 percentage points per year since 2004; it has already reached the first MDG of halving extreme poverty and could effectively eradicate poverty within the next decade at the current pace. It has also made substantial progress in reaching key MDG milestones and human development outcomes. At the same time, not all regions and ethnic groups have benefitted equally. While measures of consumption and access to services have improved across the country, progress has been slower for historically underprivileged regions and ethnic groups. Moreover, urban areas have witnessed a drop in average real per capita consumption relative to five years ago, potentially signaling the failure of urban areas to act as engines of growth.

Nepal has met the MDG target of halving the proportion of people living on less than US$1.25 per day. The number of poor has declined substantially since the mid-1990s. In 1996, 68 percent of the population lived under US$1.25 (on purchasing power parity) per day; by 2011 this had fallen to 24.5 percent. The pace of poverty reduction accelerated sharply in the last decade—from 1.5 percentage point per year during 1996-2004 to 2.5 percentage points during 2004-2011. This amounts to a 40 percent higher rate of poverty reduction than that achieved by another remarkable performer, Bangladesh (1.8 percentage point reduction per year during 2005-10). Nepal progressed from being the poorest nation in South Asia in 1990 to the third-poorest today, having overtaken both India and Bangladesh. Should poverty reduction be maintained at this pace, poverty may be entirely eradicated within the next decade.



Nepal's modest growth has been pro-poor, although the bulk of poverty reduction was due to a reduction in inequality. Both growth and reduced inequality contributed to the large observed decline in poverty between 2004 and 2011. With regard to the contribution of growth, the results of growth- inequality decompositions show that if every person in Nepal had enjoyed the same growth in consumption as the average for the whole economy, poverty reduction would have been limited to just 8 percentage points instead of 18 percentage points. Indeed, the additional 10 percentage points can be attributed to a reduction in inequality.

Most of the poverty reduction has occurred in rural areas. Despite increasing urbanization, four out of five Nepalis still live in rural areas, where 92 percent of the poverty reduction that occurred between 2004 and 2011 took place. The rest came from a population shift from rural to urban locations, with a coincident lowering of poverty.

The main contributors to the reduction have been farm and off-farm incomes in rural areas. Between 2004 and 2011, the bottom 40 percent of the population made 80 percent of its income gains from just three sources: farm incomes (34 percent), non-farm wage incomes (26 percent) and remittance receipts (20 percent). Consequently, rising agricultural incomes, which increased by around 3 percent per capita per year, played a major part in driving poverty reduction.

Remittances, which accelerated in the post-conflict period, also played a key role. Nepal is the world's largest recipient of foreign remittance in proportion to GDP among countries with populations larger than 10 million. The proportion of households receiving remittances (internal or external) rose from 23 percent in FY96 to 32 percent in FY04 and jumped to 56 percent in FY11. Among recipients, the share of remittances in total household income amounted to close to one-third. Model-based, counter-factual analysis at the household level shows that without migration, poverty incidence would jump by 16 percentage points (from 19.3 percent to 35.3 percent) for households with internal migrants and by one- quarter (to 32 percent) for those households with migrants abroad.

Remittance inflows have helped, indirectly, to grow the rural economy. Counterfactual analysis only measures the direct net contribution of remitted cash to household consumption. But remittances also support the expansion of non-agricultural incomes of the poor through spillover effects on the local economy. Nearly 18 percent of Nepal's poverty reduction came from people moving out of self-employment or wage jobs in agriculture to taking unskilled wage jobs in non-agriculture or finding self-employment in the trade sector.

There have also been major improvements in several non-consumption-based indicators of welfare. Most of the multidimensional indicators

of poverty have improved sharply. Particular progress was achieved on: “children out of school”, “time to primary school”, “safe deliveries”, “access to electricity” and “access to telephones”. Moreover, the proportion of poor experiencing multiple or simultaneous deprivations declined from 46 percent in 1996 to 6 percent in 2011.

Inequality has remained low and stable over the long term. Consumption inequality in 2011 was estimated at 30 percent (Gini), slightly below its 1996 level. Every expenditure class enjoyed a rise in per- capita consumption, with the poorer experiencing the greater increase, slightly lowering the country’s overall inequality. Income inequality is higher, at 48 percent (Gini). Both consumption and income inequalities vary similarly across geographic regions.

Health

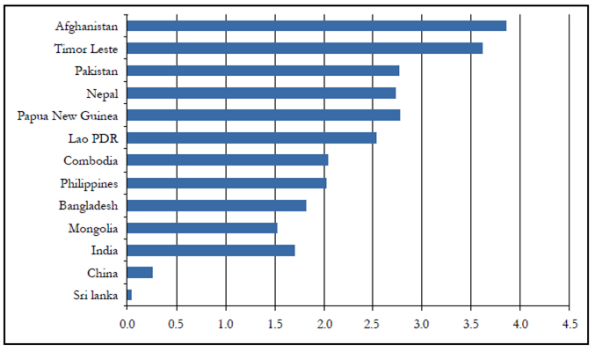
Nepal has made rapid progress in reducing child (under 5) mortality, with the rate falling from 141 (per 1000 live births) in 1990 to 54 in 2011. While it may not reach the MDG target by 2015, it also recorded substantial gains in maternal and reproductive health. Maternal mortality (per 100,000 live births) declined significantly from 850 in 1990 to 170 in 2013 (close to the government target of 134, corresponding to a two-thirds reduction). The share of births attended by skilled health staff has risen from a mere 7 percent in 1990 to 50 percent coverage in 2013. Almost 85 percent of women who delivered in the last five years had attended one or more antenatal care visits, while only 15.4 percent attended one or more visit(s) in 1990.

However, Nepal is off-track on the nutrition MDG target: Malnutrition and under-nutrition remain widespread, with close to 41 percent (2011) of children under five years characterized as stunted (a modest reduction from 60 percent in 1990).

Education and Jobs

Nepal has achieved substantial progress in access to education. Primary school enrollment is close to universal and primary completion is at a high 77.9 percent. Moreover, girls have increasingly gained access to schooling: the gender parity index for net enrollment rate is almost 1 at primary, basic and secondary levels. And for these girls, the completion rate is higher than for their male classmates (84.5 compared to 83.9).

The results of the census conducted in June 2011 revealed a young, rural and (better) educated country. According to the census, Nepal’s population stands at 26.5 million, significantly below estimates and extrapolations that had placed it at above 30 million. This discrepancy is explained by a significant decline in population growth – from an average of 2.25 percent per year in the decade 1991-2001 to 1.35 percent per year over 2001-2011,– with a large decline in the fertility rate. Today more than half of the total population is under 25 years of age. Nepal’s population remains overwhelmingly rural with the rate of urbanization rising only slowly to 17.7 percent3 today. However, it is better educated with overall literacy registering an increase of more than 10 percentage points in the past decade to reach 66 percent.



Source: ILO, LABORSTA, Economically Active Population Estimates and Projections database (5th edition, revision 2009).

Nepal’s labor force expanded rapidly in recent years, but it remains informal and modestly productive. Between 2001 and 2011, Nepal’s total economically active population (aged15-59 years) grew by 32 percent, from 12.6 million to 16.6 million. Employment remains highly informal and the small formal sector (5.8 percent of the employed) is overwhelmingly male (98.5 percent). While recent significant gains in human development—particularly in education—may pay-off only in the medium term, labor productivity has grown by a modest 0.56 percent annually, on average, between 1999 and 2008.

THE WORLD BANK IN NEPAL

A Country Partnership Strategy (CPS) for fiscal years 2014-17 is under preparation. The last Country Assistance Strategy (CAS) covered FY04-07, and was followed by several Interim Strategy Notes (in 2007, 2009, and 2011), due to the transitional nature of Nepal's political situation. Moving to a CPS is considered appropriate, given positive development results despite the conflict and political transition and the need for longer-term strategic support. The new CPS will focus on two pillars—(i) increasing economic growth and competitiveness; and (ii) promoting human resilience while addressing vulnerability—while also seeking, in a crosscutting manner, to enhance governance, accountability and citizens' empowerment. There will also be some ten specific outcomes for Bank Group contribution. Given Nepal's fluid political situation, the CPS has been developed through extensive consultations with key stakeholders, including political parties, who are remarkably aligned around Nepal's development priorities.

The current International Development Association (IDA) portfolio comprises of 19 active projects with a net commitment of about US$1.53 billion. Cumulative disbursements as of August 31, 2013, were US$805 million (about 52.6 percent of net commitments). In addition, there are three regional projects with net commitments of US$240 million of which about US$11.5 million (about 4.8 percent of net commitments) have been disbursed. Of the three projects, a third regional project, Nepal India Regional Trade and Transport project (US$99 million), was approved at end-June 2013. The portfolio also includes three active trust fund projects with commitments above US$5 million each. The total commitment of these three projects is US$87.5 million.

Total disbursements have significantly improved and nearly tripled from US$59 million at end- March 2013 to about US$180 million at the end of FY13. The disbursement ratio improved from 9 percent to 26.2 percent during the same period, putting Nepal well above South Asia region averages and also exceeding the projected annual disbursement ratio of 23 percent. Despite its fragile country context, Nepal has maintained a relatively stable track record in disbursements, better than similar IDA countries.

Lending performance exceeds the memorandum of understanding for FY13. A total of US$415.3 million in new commitments across seven projects has been approved in FY13, which is the highest recorded commitment for Nepal in one fiscal year. Out of these four are additional financing projects, two are new projects and one is a Development Policy Credit. Several strategic pieces of analytical support have been completed or are nearing completion, including a poverty assessment including mapping, a human development report, thematic reports on food security and nutrition, and an Operational Risk Assessment for Public Finance Management.

While these are positive developments, project implementation remains a serious challenge. The Nepal portfolio faces chronic issues of frequent staff turnover, weak fiduciary capacity, and delays on account of safeguards issues for infrastructure projects. While two problem projects were upgraded during FY13, at start of FY14, three other projects became problem projects. Diligent portfolio monitoring driven by the Country Office has led to improvements in performance. A Portfolio Action Plan, agreed with the Ministry of Finance, is being monitored through monthly meetings to resolve issues such as staff turnover and weak financial management capacity. Going forward, we will continue to maintain a focus on implementation, especially with rising commitment levels. The first Portfolio Monitoring Meeting for FY14 with the Ministry of Finance and other key line ministries was held in July.

IDA 16 Program and Pipeline

Under IDA16, Nepal's indicative allocation is about US$634 million (with a grant/credit share of 45 to 55 percent). In FY12, only about 70 percent of the FY12 IDA allocation was used, but the FY13 program made up for this shortcoming and delivered 110 percent of the FY13 IDA resources. For FY14, IDA expects to be able to deliver on the rest of the IDA16 allocations within the first two quarters.

INTERNATIONAL FINANCE CORPORATION

Nepal, a fragile and conflict affected state, is a priority country for the International Finance Corp. (IFC). Since 2008, IFC has been working closely with Nepal's private sector through investments and advisory services. To boost private sector growth, IFC works to promote private investment in infrastructure, tourism, financial markets, transportation, and trade finance. In recent years, IFC has also begun assisting the Government of Nepal improve the investment climate; improve access to finance; and support the growth of sustainable agriculture. IFC's current committed loan portfolio is US$49 million and the total fund for IFC Advisory Services is US$10.7 million. IFC has 13 projects underway (eight on financial markets, one on manufacturing and four on infrastructure) in Nepal.

In line with the World Bank Group (WBG) CAS, IFC promotes sustainable private sector development through its advisory and investment operations. Shortage of electricity is a key growth constraint. Through investment and technical advice, IFC has been helping unlock barriers for new infrastructure projects, particularly in hydropower, to help meet Nepal's growing needs. Nepal energy has been identified as a key area for support for the WBG .IFC and the International Bank for Reconstruction and Development (IBRD) are jointly working to deliver transformative hydropower projects in the short, medium and long term through a joint business plan that focuses on a medium and large sized projects as well as cross border transmission lines. The major existing projects in investment are in aviation, energy financial markets and small and medium enterprise (SME) ventures. Pipeline investments include agribusiness, energy, and financial markets. The total committed exposure in investments was US$49 million as of mid-June 2013. A significant expansion of the investment program is anticipated (FY14 Investment Services program targeted at US$90 million over six projects, versus a FY13 Investment Services program of US$20 million and six projects).

Active advisory programs focus on (i) improving the investment climate through regulatory reform, public-private dialogue and unlocking investments in key sectors, (ii) sustainable business advisory focusing mainly on agribusiness and SMEs by engaging directly with the private sector firms in sector value chains, as well as SME ventures and (iii) access to finance. IFC supported improvements in government-to-business services, business regulations, and investment policies, such as cutting the time and cost of business registration and easing licensing processes.

IFC is supporting aviation, agri-business and tourism sectors through advisory support and actual investments in both equity and debt. IFC has been supporting private sector firms and reach farmers through their supply chains to help them increase revenues and expand access to growth markets by strengthening their business and financial acumen and modern methodologies to enable them to adapt to climate change impacts. IFC invests in commercial banks and venture funds that provide loans to micro, small, and medium enterprises, which employ an estimated 1.75 million people and account for a fifth of the country's GDP. This is aimed to facilitate growth of small and medium enterprises in Nepal, helping enhance their financing options through a supportive financial infrastructure, including institutions, financial product development, and improved payment regulations. Financial institutions are also provided advice on how to diversify their products for low-income households.

World Bank Portfolio in Nepal

NEPAL: AGRICULTURE AND FOOD SECURITY PROJECT

Key Data:

Approved: February 11, 2013
Effective: April 30, 2013
Closing: March 31, 2018
PDO and IP ratings: Satisfactory

Financing (US$m)			
Financier	**Financing**	**Disbursed**	**Undisbursed**
TF Grant	46.5	4.0	42.5
Govt.	11.5		
Total Cost	58.0		
As of August 31, 2013			

Agriculture research site, Jumla, Far West Nepal

Introduction. On June 7 2011, the Government of Nepal received a competitive grant of US$46.5 million from the Global Agriculture and Food Security Program (GAFSP) to implement the Agriculture and Food Security Project (AFSP). The GAFSP was established in April 2010 at the request of the Group of 20 (G20) to help countries make lasting improvements through sustainable investment in agriculture and food security. Seven countries and the Bill and Melinda Gates Foundation have pledged about US$1.1 billion over 3 years, with US as the largest donor. The World Bank is the administrator for GAFSP as well as the supervising entity for AFSP. The AFSP is a multi-sector project executed by the Ministry of Agriculture Development to tackle food and nutrition security. It is the first project in Nepal that brings together two ministries – Agriculture and Health – to increase agricultural productivity and improve access to and utilization of nutritious food. The project targets 19 hill and mountain districts of Mid-western and Far-western regions of Nepal where the prevalence of low birth weight babies is reported at 14 per cent. Forty-six per cent of the children under five are stunted and 32.6 per cent underweight. While the overall poverty rate for Nepal is 25 per cent, it increases to 45 per cent in the project area.

Project Development Objectives: The goal is to enhance food and nutritional security of targeted communities in selected locations of Nepal. Key expected outcomes of the project are: i) increased productivity of targeted crops and livestock products, and ii) access to and utilization of nutritious food to nutritionally vulnerable groups (pregnant and nursing mothers and children between 6 to 24 months age).

Project description: The project comprises three components: Technology development and adaptation; Technology dissemination and adoption; and Food and nutritional status enhancement**.** The project aims to reach 162,500 beneficiaries, including 45,000 pregnant and nursing women.

Results Achieved: The project just began implementation and as yet it is too early to see results. However, since the project became effective on April 30 2013, a memorandum of understanding has been signed between the Ministry of Agriculture Development and the main implementing partners – Ministry of Health and Population and Nepal Agriculture Research Council. The project is receiving support from the World Bank's Development Impact Evaluation Initiative to design and implement an impact evaluation to measure impact of project interventions.

Key partners: Food and Agriculture Organization (FAO) of the United Nations.

NEPAL: BUILDING RESILIENCE TO CLIMATE-RELATED HAZARDS PROJECT

Key Data:

Approved: January 15, 2013
Effective: June 20, 2013.
Closing: Nov. 30, 2018
PDO and IP ratings: Satisfactory

Financing (US$m)			
Financier	**Financing**	**Disbursed**	**Undisbursed**
IDA	31	0.0	31
Govt.	0.3		
Total Cost	81.8		
As of August 31, 2013			

Introduction: Nepal is prone to a range of hydro-meteorological (hydromet) hazards such as floods and droughts, the frequency and intensity of which are expected to increase with climate change. The poorer sections of the country – namely women and rural populations – are typically the worst-affected and have the least capacity to deal with such risks. A well-functioning hydromet network, forecasting and early warning system is crucial for strengthening resilience to such risks. The existing network is mainly manual, with limited real time data collection, transmission and storage, and there is no system for issuing authoritative warnings for weather-related disasters to government authorities, key user groups, or communities at risk. Improved agro- meteorological information is also an urgent priority for the agricultural sector. The Building Resilience to Climate-Related Hazards Project is one of five projects financed through the Nepal Pilot Program for Climate Resilience under the Strategic Climate Fund.

Project Development Objectives: The project's main objective is to enhance government capacity to mitigate climate-related hazards by improving the accuracy and timeliness of weather and flood forecasts and warnings for climate-vulnerable communities and to support development of agricultural management information system services to help farmers mitigate climate related production risks.

Project description: The project has four components. The Department of Hydrology and Meteorology under the Ministry of Science, Technology and Environment will implement three components, namely, (i) institutional capacity strengthening within the Department, (ii) modernization of hydro- meteorological observation networks and forecasting, and (iii) enhancement of Department's service delivery system. The Ministry of Agricultural Development will implement the fourth component, namely, (iv) creation of an agriculture management information system.

Results Achieved: By establishing multi-hazard information and early- warning systems, upgrading and modernizing the hydromet observation network, and strengthening the capacity of responsible institutions, the accuracy and timeliness of weather forecasts will be increased. Reliable operation of an authoritative public weather service providing meteorological and hydrological warnings and forecasts, including for extreme and high impact events, will be developed. A sustainable agriculture management information system will be developed and piloted in 25 districts and an end-to-end early warning system for water related hazards will be piloted in two river basins with a potential for future scaling up.

Key partners: IFC, Asian Development Bank, ICIMOD and WMO.

NEPAL: IRRIGATION AND WATER RESOURCES MANAGEMENT PROJECT

Key Data:

Approved: Dec. 6, 2007; Sept. 29, 2008 AF
Effective: April 24, 2008; Jan. 30, 2009 AF
Closing: June 30, 2014
PDO and IP ratings: Satisfactory

Financing (US$m)			
Financier	**Financing**	**Disbursed**	**Undisbursed**
IDA	64.24	43.3(68%)	20.5(32%)
Govt.			
Total Cost			
As of August 31, 2013			

Irrigation canal at Bigante irrigation, Pokhara

Introduction: Two-thirds of Nepal's population is engaged in the agriculture sector, which contributes 36 percent toward the nation's total GDP. In view of its potential to alleviate poverty and promote economic growth, the government has accorded the agriculture sector a top priority, second only to hydroelectric power generation. With only about 28 percent of the total agricultural land under year-round irrigation, there is a scope for both expanding the area under irrigation and improving water delivery and management efficiency. The recently completed Agriculture Development Strategy, funded under a multi-donor initiative (including the Bank), also attests to the importance given to irrigated agriculture.

Project Development Objectives: The Irrigation and Water Resources Management Project aims to improve agriculture productivity and the management of selected irrigation schemes as well as to enhance institutional capacity for integrated water resources management. The primary beneficiaries are water users of 134 farmer-managed irrigation systems covering about 20,000 ha, mainly in the hill regions. The project also targets the irrigation management transfer in four agency-managed irrigation systems and essential structural improvements covering about 23,000 ha. Through the agriculture component of the project, the project aims to ensure efficient integration of water resources and crop production to derive full benefits from investments in irrigation.

Project description: The project has four main components: (i) irrigation infrastructure development and improvement; (ii) irrigation management transfer to water user associations in the *Terai* (the southern plain); (iii) institutional and policy support for integrated water resources management; and (iv) integrated crop and water management.

Results Achieved: Out of 134 schemes, 74 have been completed, and the rest are near completion. Infrastructure work and institutional strengthening activities are also progressing well. Water user association strengthening is in progress. Agricultural yields have seen an average increase of 25-30 percent in project areas. Activities planned under the regular integrated crop and water management program are also progressing well.

Current project status: The government has requested an additional financing of US$50 million to rehabilitate and modernize an additional 80 schemes, strengthen water user assocuations, update the Water Resource Information System at the central level, and consolidate the gains made in agriculture. The Bank recently restructured the project and provided a one-year extension (to June 2014) suggesting the task team to conduct an independent assessment of the project. This has recently been concluded through an independent assessment team from the Food and Agriculture Organization (FAO). Based on the recommendations of the assessment team, the IDA team will start preparing for additional financing with delivery planned for this fiscal year.

NEPAL: PROJECT FOR AGRICULTURE COMMERCIALIZATION AND TRADE

Key Data:

Approved: June 4, 2009; Nov. 15, 2012 AF
Effective: Nov. 13, 2009, March 18, 2013
Closing: June 30, 2018
PDO and IP ratings: Satisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA	60.0	8.3	51.2 (86%)
Govt.	2.2		
Beneficiaries	19.6		
Total Cost	81.8		

As of August 31, 2013

Introduction: Nepal's mountainous landscape and infrastructure gaps have weakened linkages in the food value chain, exacerbating the challenges in agricultural growth and food security. Its entry into the World Trade Organization (WTO) presents new opportunities for market integration provided the competitiveness of the agriculture sector could be significantly enhanced. It is strengthening emerging commodity value chains, and providing local and international access to markets by forging backward and forward linkages in selected value chains.

Project Development Objectives: The project aims to improve the competitiveness of project-supported smallholder farmers and agribusinesses within selected commodity value chains by (i) helping farmers to engage in profitable market- oriented production; (ii) creating and strengthening industry-wide partnerships among producers, traders, processors, and other stakeholders; and (iii) strengthening the national system of sanitary and phytosanitary and food quality management.

Project description: Component (ii) includes the provision of matching grants to commodity value chain actors mainly for technology support and agribusiness development. The project also supports the identification of commercially-viable value chains and preparation of commodity specific value chain development plans for the promotion of high value commodities. Component (iii) aims to increase the ability of farmers and agribusinesses to respond to sanitary, phytosanitary and food-quality standards to meet domestic and international market requirements.

Results Achieved: To date, 126 cooperatives, 66 farmers groups, 55 private firms and 8 producers associations have benefitted. Almost 40 percent of the existing 40,000 beneficiaries are women and members of marginalized communities. There has been significant increase in volume, sales and productivity of the selected commodities value chains. Procurement of laboratory equipment for the Departments of Food Technology and Quality Control, Livestock Services, Agriculture, with associated food analysis training programs, has improved these departments' monitoring and quality control capacities.

Current project status: Overall performance is stable. Disbursements are low as the project follows a results-based approach with grant payments triggered once agreed milestones are achieved under the sub-projects. For disbursements to accelerate, the sub-projects need to accomplish certain milestones, which may require a longer time.

Key partners: None

NEPAL: MODERNIZATION OF RANI JAMARA KULARIYA IRRIGATION SCHEME

Key Data:

Approved: July 5, 2011
Effective: November 30, 2011
Closing: September 30, 2016
PDO and IP ratings: Satisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA Credit/ Grant	4.3	8.5 (21%)	32.7 (79%)
Govt.	5.0		
Total Cost	48.0		
As of August 31, 2013			

Introduction: The Rani Jamara Kulariya Scheme (the Rani Scheme) is one of the most prominent Farmer Managed Irrigation Schemes in Nepal, with a cultivable command area of 14,300 ha (the project area), of which about 11,000 ha is currently being irrigated. It is located in the Terai area of Kailali District in the Far Western Development Region, one of the least developed regions in the country. The scheme, developed by the farmers (mostly from the indigenous Tharu community) from 1896 onwards, constitutes three independent traditional irrigation systems constructed, operated, and managed by the farmers. Each of the systems draws water from the Karnali River (a tributary of the Ganga River) and has an extensive canal infrastructure, with three branch and 41 sub-branch canals that have a total length of about 230 km.

Project Development Objectives: The project aims to improve irrigation water delivery to, and management in, the Rani Jamara Kulariya irrigation scheme, through improving the performance of the irrigation systems and strengthening community-based irrigation management.

Project description: Bank support for the Rani Scheme is proposed in two phases. The ongoing phase one focuses on modernization of the higher-order irrigation infrastructure (especially intakes and feeder and branch canals), enhancing the capacity of the water user associations to operate and maintain the improved or new irrigation infrastructure, and the preparation and initiation of an agricultural development program. Phase 2 will mainly focus on the modernization of the lower-order irrigation infrastructure (sub-branch and tertiary canals and water courses), continuation of the water user association support program, and implementation of a comprehensive agricultural improvement program.

Results Achieved: It is too early to describe the results of the project interventions as none of the works has been fully completed. The project results will eventually be measured against such indicators as (i) irrigation service delivery by service providers (water user associations) assessed as satisfactory by water users (measured in percentage of water users); (ii) resources generated by water users for the operation and maintenance of the modernized irrigation systems (measured in percentage of required resources); (iii) increase in irrigated crop yields of main crops rice, wheat, and maize (in about 40 percent of the command area at the head of the canal systems; measured in tons/ha); and (iv) number of female and male water users (defined as member of the water user association) provided with improved water delivery services.

Current project status: Except for a few packages, all major procurement has been completed. Implementation of a number of contracts is progressing well, especially on Command Area Protection work (see photo). All civil works contracts will be in place by the start of the next construction season in December 2013, so good progress is expected during FY14.

Key partners: None.

NEPAL: ZOONOSIS CONTROL PROJECT

Key Data:

Approved: April 30, 2012
Effective: July 5, 2012
Closing: March 31, 2014
PDO and IP ratings: Satisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
TF Grant	10.0	2.8	7.2
Govt.			
Total Cost	10.0	2.8	7.2

As of August 31, 2013

Livestock workers culling avian flu infected birds

Introduction: Like other countries in Asia, Nepal risks the spread of infectious disease, like avian influenza, that transmits from animals to humans. Ensuring that this risk is mitigated will help to protect and increase livestock productivity and strengthen the livelihoods base for food-insecure communities.

Project Development Objectives: The Zoonosis Control Project aims to enhance Nepal's capacity for the prevention and control of infectious diseases that transmit between animals and humans (zoonoses), under a One Health approach.

Project description: Building on the avian influenza prevention and control mechanisms developed under the IDA-financed Avian Flu Control Project (AICP), this project aims to expand the scope to key zoonotic diseases under a One Health approach, with particular emphasis placed on the country capacity for overall coordination, preparedness, and prevention by strengthening the capacities of the Department of Livestock Services and the Department of Health Services. The project will also develop early warning mechanisms to mitigate livestock disease risks induced by climate change. The project includes four components: (i) animal health, (ii) climate sensitive disease risk mitigation, (iii) human health, and (iv) communication. The direct beneficiaries of the project are the farmers and rural population whose livestock is affected by zoonotic diseases and who depend on livestock for their livelihoods, food security and nutrition.

Results Achieved: In its first year, the project has been able to show tangible results, particularly in the area of disease surveillance, preparedness and ability to contain highly pathogenic diseases. Since the termination of AICP in July 2011 there have been an additional 60 outbreaks of avian influenza; the project has been successful in controlling and containing these outbreaks, without any report of human fatality.

Current project status: The government-wide delay in the release of the budget for FY2012/13 (due mainly to a political impasse) slowed down project implementation. Even so, over the last year, the project team completed preparatory work that helped in expediting implementation. Except for one or two packages all major procurements are in progress. Implementation of a number of contracts are progressing well, especially the renovation of quarantine facilities and upgrading of laboratories. In order to respond to the government's request to allow claims for compensation due to recent outbreak, the project is being restructured to accommodate this request.

Key partners: None.

NEPAL: KABELI TRANSMISSION PROJECT

Key Data:

Approved: May 10, 2011
Effective: September 21, 2011
Closing: June 30, 2015
PDO and IP ratings: Satisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA	38.0	6.6 (17%)	29.9(83%)
Govt.	7.8		
Community	1.94		
Total Cost	47.69		

As of August 31, 2013

Introduction: Nepal has rich hydropower resources that could potentially support export of hydropower to other countries in the region. However, it is facing energy crisis of unprecedented severity (up to 18 hours/day load shedding in dry seasons) due to generation shortages and transmission bottlenecks. IDA funding will help development of the transmission facility to evacuate the hydropower potential in the Kabeli River corridor, where about a dozen private power generation projects are in various stages of development. One of them is the Kabeli A Hydropower Plant, 37.6 megawatts (MW), which is under preparation for IDA/IFC financing, with a Board date in FY14.

Project Development Objectives: The project aims to support the addition of transmission capacity to the Integrated Nepal Power System, and to provide access to electricity and cooking fuel to communities in the area of the Kabeli 132 kilovolt (kV) transmission line.

Project Description: The project has three components: (i) construction of a new 132 kV transmission line in eastern Nepal, with associated substations; (ii) construction of low-voltage distribution lines and associated infrastructure to provide access to electricity; and (iii) provision of on-grid electricity to communities in the area of the transmission line, as well as provision of off-grid electricity and cooking fuel through to selected communities for which grid extension under the second component is not a feasible option. The first and second components are under implementation by the Nepal Electricity Authority, while the third is being implemented under the Alternative Energy Promotion Center.

Results Achieved: Thirty-five solar home systems, three institutional solar systems and 25 bio-gas plants have been provided under the third component. No results in others components as the project components are under implementation.

Current project status: The main contract for supply and construction of the transmission line became effective in October 2011. Due to initial mobilization delays, the line survey was not completed until March 2013. The final alignment avoids dense forest areas as far as possible. Upon completion of the line survey, the base line information in the Initial Environment Examination and Social Impact Assessment reports needs to be updated; the existing Environmental Mitigation Implementation Plan and Resettlement Action Plan also needs to be updated to reflect actual site conditions. Yet to be prepared is the livelihood training plan, as a part of the rehabilitation program for project affected communities. The Nepal Electricity Authority is hiring a safeguards adviser for regular and periodic third-party review of safeguard activities, and construction supervisors to assist the authority with transmission-line construction activities. The land for sub-stations has been acquired and civil works started. The progress of electrification program for the affected communities has been slow.

Key partners: None

NEPAL: POWER DEVELOPMENT PROJECT

Key Data:

Approved: May 22, 2003; June 18, 2009 AF
Effective: March 25, 2004; November 19, 2009
Restructurings February 15, 2008; Dec. 21, 2012
Closing: Dec. 31, 2013 (revised)
PDO and IP ratings: Moderately Unsatisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA	123.45	113 (85%)	20 (15%)
Govt.	36.70		
Communities	1.90		
UNDP	3.95		
Total Cost	166.00		

As of August 31, 2013

Introduction: Nepal is facing an energy crisis of unprecedented severity (up to 18 hours/day load shedding in dry seasons) due to generation shortages and transmission bottlenecks. Its power system is also characterized by high system losses (26 percent) and low levels of access in rural areas.

Project Development Objectives: The project aims to build capacity to manage the development of Nepal's hydropower potential in a prudent and sustainable manner; increase access to electricity services in rural areas; and improve the supply and accountability of electricity.

Project Description: The project as originally approved had three components: (i) establishment of a Power Development Fund, implemented by the Department of Electricity Development; (ii) a Micro Hydro Village Electrification Program, implemented by the Alternative Energy Promotion Centre; and (iii) support of the Nepal Electricity Authority (NEA). The project was first restructured in 2008 to cancel the Project Development Fund component, which aimed to finance the development of private sector small hydropower projects but was not successful; hence funds were reallocated to the other two components. Additional financing of US$91.7 million was approved in May 2009 to address a power crisis by rehabilitating generation capacity, strengthening the transmission system and expanding distribution. As part of a second restructuring in December 2012, the closing date was extended to Dec 2013 and US$42.5 million of IDA funding was cancelled. An Implementation Action Plan was agreed for completion of the remaining scope of work by December 31, 2013. Some of cancelled transmission lines are critical to power sector development in Nepal, and so on government request, the Board in June 2013 approved additional financing for the ongoing Nepal-India Electricity Transmission and Trade Project to continue the support to these transmission lines.

Results Achieved: Access provided to 74,000 rural households through off-grid microhydro schemes and 45,000 through grid. Loss reduction of 1.6 percent in nine distribution centers and 6 percent in Kathmandu Valley.

Current project status: Construction of transmission line and substations is on track. That said, procurement valued at about US$5.9 million has not been completed for (i) supply of goods and materials for the Ramechhap Rural Electrification Project; and for (ii) the last lot for material supply remaining under the Kathmandu Valley Distribution System Reinforcement project. These two activities will not be completed and associated funding will be cancelled. The Bank received on February 18, 2013, a **complaint** from local residents regarding construction of eight towers on the Khimti-Dhalkebar transmission line, affecting 122 households. The Electricity Authority stopped associated construction work for more than 1.5 years, and is addressing the complaint with revised compensation package and consultation and communication actions, in close coordination with the Bank. On July 10, 2013, the Accountability Counsel, a US-based NGO, filed a complaint related to the Bank's Inspection Panel.

Key partners: UN Development Program

NEPAL: KALI GANDAKI A HYDROPOWER PLANT REHABILITATION PROJECT

Key Data:

Approved: May 15, 2013
Effective: Not yet effective
Closing: June 30, 2017
PDO and IP ratings: Not yet rated

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA Credit	27.3	0.0	27.3 (100%)
Govt.	3.1		
Total Cost	30.4		

As of August 31, 2013

Introduction: Kali Gandaki A is a 144 MW run-of-river plant. It is the largest single hydroelectric facility in Nepal, supplying about 25 percent of total generation as well as six hours per day of peaking capacity. It is located on the Kali Gandaki River in Syangja district, below the confluence of Kali Gandaki and Andhi Khola rivers. The Asian Development Bank (ADB) funded the original plant, which cost US$453 million and was commissioned in 2002. After 10 years in operation, the plant's available generation capacity has sharply deteriorated, due to sedimentation, erosion and cavitation of the power turbines (from silt and floating debris). There are safety management improvement issues, as well as a need to finalize the Operations Manual for the head works, including the dam.

Project Development Objectives: The project aims to improve the reliability of power supply from the plant, through rehabilitation and safety measures, as well as to improve the government's response capacity in case of an energy crisis.

Project Description: The project has four components: (i) civil works (US$9.1 million); (ii) electro-mechanical works (US$16.6 million); (iii) technical assistance and capacity-building (US$4.7 million); and (iv) contingent emergency response (financing would be reallocated into this component if an emergency response were required). The rehabilitation program aims to improve the safety management of the dam; decrease the total quantity of sediment entering the powerhouse; reduce the cavitation in the turbine in the dry season; and improve plant safety by improving the operation of the main inlet valves as well as by repairing the control systems.

Results Achieved: The project was approved by the Board on May 15, 2013 and is yet to be declared effective.

NEPAL: NEPAL-INDIA ELECTRICITY TRANSMISSION AND TRADE PROJECT

Key Data:

Approved: June 21, 2011; June 24, 2013 AF
Effective: September 29, 2011
Closing: December 31, 2016
PDO and IP ratings: MS, MS

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA Credit	138.0	10.68 (7.7%)	124.78 (92.3%)
Govt.	30.0		
Others	69.9		
Total Cost	237.9		
As of August 31, 2013			

Introduction: Nepal has rich hydropower resources that could potentially support export of hydropower to other countries in the region. However, it is facing energy crisis of unprecedented severity (up to 18 hours/day load shedding in dry seasons) due to generation shortages and transmission bottlenecks. While the government is seeking both public and private investments in hydropower generation and transmission facilities, this project complement the government strategy to address the electricity shortages through import of electricity from India. It will also enable export surplus hydropower to India in the long term.

Project Development Objectives: The development objectives are to: (a) establish cross-border transmission capacity between India and Nepal of about 1,000 MW to facilitate electricity trade between the two countries; and, (b) increase the supply of electricity in Nepal by the sustainable import of at least 100 MW.

Project Description: The project has three components: (i) the design, construction and operation of approximately 130 km of 400 kV double circuit north-south cross border transmission line between Muzaffarpur in India and Dhalkebar in Nepal (DM; this line will be implemented by two companies in Nepal and India without World Bank financing or oversight); (ii) the design, construction and operation of approximately 285 km of 400 kV double circuit east-west transmission line for the Hetauda-Dhalkebar-Duhabi (HDD) segment, together with concomitant substations in Nepal. The Dhalkebar substation will receive electricity through the north-south transmission line under component (i) above; (iii) technical advisory services (a) for the Owners' Engineer for Nepal Electricity Authority for overseeing component (ii) of the project, (b) for preparation of a transmission system master plan for future transmission system development in Nepal, (c) for strengthening the institutional capacity of the Electricity Authority's transmission business, including to increase cross-border transmission links, and (d) for the Ministry of Energy and the Nepal Electricity Authority to develop understanding of the concepts of benefit-sharing in export-oriented hydroelectric projects.

Results Achieved: Given the nature of the project, results will accrue after the transmission line is commissioned.

Current project status: A contract was awarded in February 2013 for supply and installation of towers for HDD 400 kV transmission line and is now under implementation. The check survey for the right-of-way is nearing completion, and consultation with and compensation to project-affected persons will follow before construction begins. The Owner's Engineer has been mobilized and is providing support to Electricity Authority on design of the substations. Bidding documents for three substations are under review by the Bank. Procuring of conductors for the transmission line is under tendering. Procurement for supply and installation of the DM line (not financed by the Bank) is under progress with bids under evaluation. In June 2013, the Board approved US$39 million in additional financing to provide continued support to implementing the critical transmission lines cancelled from the Power Development Project.

NEPAL: PUBLIC FINANCIAL MANAGEMENT Multi-Donor Trust Fund

Key Data:

Approved: December 2010
Closing: June 30, 2015
PDO and IP ratings: N/A

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA Credit	10.2	3.59 (35%)	6.61 (65%)
Govt.			
Total Cost			
As of August 31, 2013			

Introduction: PFM is a key element of the government's strategy for strengthening public service delivery and ensuring inclusive and broad-based development form a central part of the public financial management (PFM) process. The PFM agenda has also been a top priority for Nepal's development partners to promote efficient and effective public service delivery. As part of this effort, an multi-donor trust fund to support PFM was established in December 2010.

Project Development Objectives: The project aims to strengthen the performance, transparency and accountability in public financial management in Nepal.

Project description: The trust fund has four components: (i) strengthening PFM systems and capacities (including by implementing a Single Treasury Account, raising public sector accounting standards, and strengthening the Public Expenditure and Financial Accountability Secretariat); (ii) enhancing accountability in PFM (by strengthening the Office of the Auditor General and strengthening the use of social accountability); (iii) deepening knowledge related to PFM (by undertaking analytical work for knowledge dissemination; ongoing analytical works include a Public Expenditure Tracking Survey in the education sector and an Operational Risk Assessment); and (iv) program management and administration.

Results Achieved: The key results expected are: (1) improved resource management as a result of strengthened PFM systems and processes; (2) increased awareness and oversight of government PFM processes; and (3) better knowledge of value for money challenges and PFM governance gaps, contributing to improved design of PFM interventions at the country and sector levels.

Current project status: Under the first component, the Treasury Single Account (TSA) has been successfully implemented in 75 districts, covering about 99 percent of the budget, and capturing around 99 percent of budgeted expenditures and 97 percent of the receipt transactions of the central government. Key areas of concern are frequent staff turnover, delays in recruiting consultants for implementing public sector accounting standards, and delays in starting-up the Public Expenditure and Financial Accountability assessment. Under the second component, efforts to strengthen the Office of the Attorney General are on track, moving it toward a risk-based approach, and building upon the benefits of a recent visit to the UK's National Audit Office. Under the third component, the project is extending grants to civil society organizations to create awareness about PFM. In addition, an analysis of how audit recommendations are implemented in Nepal was completed in 2012, and the education Public Expenditure Tracking Study is on schedule and will be completed in 2013. An Operational Risk Assessment on PFM Reform concluded in August 2013.

Current partners: Australia's AusAID, The UK Department for International Development (DFID), Denmark, Norway. (Potential partners include the EU, Sweden).

NEPAL: COMMUNITY ACTION FOR NUTRITION PROJECT (SUNAULA HAZAR DIN)

Key Data:

Approved: June 26, 2012
Effective: August 24, 2012
Closing: June 30, 2017
PDO and IP ratings: Moderately Satisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA Credit	40.0	2 (5%)	37.2(95%)
Govt.	0.0		
Total Cost	40.0		
As of August 31, 2013			

Introduction: Being part of the Scaling-Up Nutrition movement, the Government of Nepal has realized the need to address malnutrition across multiple sectors, and has developed and endorsed a Multisectoral Nutrition Plan for the country. The Plan envisages an equal role of nutrition-sensitive and nutrition- specific interventions in realizing the nutrition goals during the first 1,000 days of a child's life. Motivated by this initiative, the Bank has extended support to the implementing agency through the Sunaula Hazar Din project to address the community-wide risk factors that contribute to malnutrition.

Project Development Objectives: The project aims to inculcate attitudes and practices known to improve the nutrition of women of reproductive age and children under the age of two, thereby creating demand for nutrition-related services and products. These services and products will be provided through existing public- and donor-funded programs, and, to a limited extent, through the project directly.

Project description: The Ministry of Federal Affairs and Local Development implements the project and will roll-out a social mobilization initiative through a community-driven Rapid Results for Nutrition Initiatives (RRNIs), where each ward in a selected Village Development Committee (VDC) will commit to a series of pre-defined nutrition-relevant goals, each to be met within a 100-day period. The achievement of the goals will be the responsibility of RRNI teams (one for each ward), supported by a coach who will support all RRNI teams in one VDC. The RRNI approach will be rolled out in a sequenced manner across the 15 project districts. An impact evaluation is built into the project design.

Results Achieved: The project is in its early stage of implementation, the delay being partly due to program complexity and partly due as well to FY2012/13 government-wide delays in approving the budget for all new programs. The RRNI approach was introduced in two VDCs last fiscal year and is in the mid-period of the sub project cycle. The lessons learned from this pilot will be incorporated into a final operations manual.

Current project status: Baseline survey instruments and the detailed impact evaluation design are being finalized. As baseline data are not expected to be available until end-2013, targets will be reviewed after the baseline survey results have been obtained. The process of hiring a firm for training and backstopping coaches and social mobilizers has started, in parallel to the Ministry of Federal Affairs and Local Development recruiting coaches through NGOs. The former activity will be financed by a Bank-executed trust fund.

Key partners: None

NEPAL: POVERTY ALLEVIATION FUND PROJECT 2

Key Data:

Approved: Dec. 2007; June 2011 AF; June 2013 AF2
Effective: March 2008; Oct. 2011 AF
Closing: Dec. 31, 2017
PDO and IP ratings: Satisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA Credit	245.0	138.8 (57%)	104.5 (43%)
Govt.	30.5		
Total Cost	275.5		
	As of August 31, 2013		

Introduction: The Poverty Alleviation Fund was established about eight years ago, with the first project operating in six pilot districts. To date, PAF has successfully reached out to vulnerable groups, especially those who are disadvantaged due to gender, caste, ethnicity or physical isolation, in 40 districts (some special programs have been conducted in additional districts). PAF has made agreements with 22,178 community organizations for implementing various sub-projects, and these organizations have also started to build federations, an organizational network, and co-operatives. Additional financing will increase coverage in eligible Village Development Committees in the 40 districts that PAF has not yet covered, and expand to 15 additional districts. This expanded effort will also focus on delivering technical assistance for scaling-up activities and providing market linkages to graduating community organizations and support to those that have already engaged in wider organizational forms.

Project Development Objectives: The project aims to improve living conditions, livelihoods and empowerment among the rural poor, with particular attention to groups that have traditionally been excluded by reasons of gender, ethnicity, caste, and location.

Project Description: The project has four main components: (i) small-scale community infrastructure, to provide capacity-building support and sub-grants to community organizations for local infrastructure projects (e.g., micro irrigation, footbridges, drinking water, etc.); (ii) sustainable income generation, to provide capacity-building support and sub-grants to community organizations for income-generation activities; (iii) product development, market linkages and pilots, to support those community organizations that are more advanced; and (iv) capacity-building and institutional strengthening, to support the formation and development of community organizations and the creation of cooperatives and market alliances.

Results Achieved: Good results have been achieved in improving infrastructure, income-generating activities and improved citizen participation in community decision-making. Monitoring results indicate that 68 percent of households have obtained a minimum income increase of 15 percent (in real terms). Improvements in key welfare outcomes (such as per capita consumption, incidence of food insecurity, and school enrollment rate among 6-15 year-olds) were also clearly linked to PAF interventions in an impact evaluation survey conducted in 2010. Overall, PAF has reached over 550,000 poor households, and 74 percent of the direct beneficiaries are female.

Current project status: A second additional financing was approved June 5, 2013, and the Financing Agreement was signed on July 8, 2013.

Key partners: The International Fund for Agricultural Development (IFAD) has provided US$4 million, and is expected to provide an additional US$5 million as additional financing.

NEPAL: SECOND HNP AND HIV/AIDS PROJECT

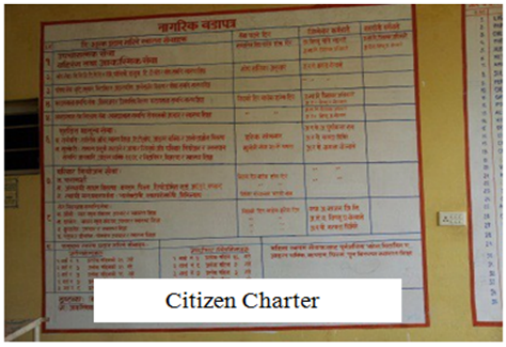
Key Data:

Approved: April 20, 2010
Effective: October 4, 2010
Closing: July 15, 2015
PDO and IP ratings: Satisfactory, Moderately Satisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA	129.15	69 (55%)	58 (45%)
Govt.	489.80		
Other DPs	908.38		
Total Cost	1527.3		

As of August 31, 2013



Introduction: In 2004, donors moved to a Sector-Wide Approach (SWAp) in the health sector to reduce transaction costs to the Government of Nepal. IDA, DFID and AusAID are currently pooling funds. The SWAp aims to address key challenges, including: (i) access, social inclusion and equality in health service utilization; (ii) making better progress on the MDG targets for nutrition and HIV/AIDS, which are not on track; (iii) sector governance and accountability; (iv) coordination across ministries concerned with water, sanitation and hygiene, nutrition and road safety (which all impact health status); and (v) maintaining gains in reducing maternal mortality and increasing Vitamin A and immunization coverage.

Project Development Objectives: The project aims to enable the government to increase access to essential health care services and their utilization by the poor and the underserved, specifically by raising the percentage of pregnant women receiving iron and folic acid to 87 percent, children being fully immunized to 90 percent, and skilled attendance at birth to 35 percent by the end of the project.

Project description: The project, through the SWAp format, supports the Nepal Health Sector Program II, which aims to increase access to and utilization of quality essential health services, reduce cultural and economic barriers to accessing health care services, and improve health system to achieve universal health coverage, all in close partnership with non-state actors. The government has assumed a responsibility to achieve these goals by extending and sustaining coverage of essential health care services including reproductive health, child health, communicable and non-communicable disease control, curative care, oral health, eye care, environmental health and rehabilitation of disabled people. The program ensures free health care to all who access services in public health facilities at district hospitals, primary care centers, and health posts. It has two elements: health service delivery, and health systems strengthening.

Results Achieved: Nepal has made good progress on key results indicators. Two-out-of-three results indicators already exceed targets: coverage of skilled birth attendance has reached 46 percent (against a target of 35 percent) and iron folic acid coverage has increased to 91 percent (against a target of 87 percent). Immunization coverage has remained at 86 percent since the last reporting period. Progress has also been made in exclusive breastfeeding and vitamin A supplementation for children under five. Nutritional status of children under five has improved, with a decline in stunting from 49 percent in 2006 to 41 percent in 2011 and in underweight status from 39 percent to 29 percent. The joint planning and review process is partly credited for cushioning the sector from the budget unpredictability that Nepal went through in 2012-13. Joint Annual Reviews and Annual Work Plan and Budget discussions are improving and have become more results-focused, and the quality of budget preparation has improved.

Current project status: There are areas where performance is lagging, requiring more attention in the coming year (e.g. contraceptive prevalence rate, equity of access to quality services, vacant positions). Further, procurement complaints are being filed, and an investigation by the Integrity Vice Presidency is underway. A detailed fiduciary risk assessment has recently been concluded, indicting a high-risk environment.

Key partners: In addition to IDA, DFID, AusAID, Germany's KFW and GAVI SWAp partners supporting the government program under pool financing arrangement.

NEPAL: BIOGAS PROGRAM

Key Data:

Approved: May 3, 2006
Effective: May 3, 2006
Closing: July 31, 2015
PDO and IP ratings: Satisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
CDCF	7.00	1.98 (28%)	5.02 (72%)
Govt.			
Total Cost			

As of August 31, 2013

Introduction: Nepal's energy profile is characterized by a heavy reliance on traditional biomass, which contributes to 87 per cent of the total energy consumption. Decentralized renewable energy solutions for cooking and lighting reduce dependence on traditional biomass energy, protect the environment by reducing greenhouse gas emissions, and contribute to regional balance and sustainable economic development.

Project Development Objectives: The project's goals are to reduce global greenhouse gas emissions and to increase access to modern household cooking fuel from renewable energy sources.

Project description: The project promotes household biogas digesters and biogas stoves to households with one or two cattle through capacity enhancement of the private sector to carry out feasibility analysis, installation and after sales services of the biogas plants. The digesters enable the households to substitute firewood and fossil fuels with biogas from animal waste and human excreta. The project consists of four bundles, which have all been registered successfully as a Clean Development Mechanism under the United Nations Framework Convention on Climate Change (UNFCCC). The World Bank, as Trustee of the Community Development Carbon Fund, signed an Emission Reduction Purchase Agreement on May 3, 2006, to purchase 1 million tCO_2e from this project and later amended on November 30, 2012.

Results Achieved: Installed biogas plants implemented under the Project are fully operational and expected to fulfill the commitment to deliver 1 million emission reductions by 2015. A total of 59,998 biogas plans have been installed as part of the project, and 95 percent are reported to be operational as per sample surveys conducted by third parties. A total of 327,843 emission reductions have already been delivered to the Community Development Carbon Fund after successful verification. Additional 284,531 emission reductions are currently under verification and are likely delivered in the first quarter of FY14.

Current project status: Nine monitoring reports have been prepared to date. Four verifications were successfully concluded and accepted by the Clean Development Mechanism Executive Board for issuance of total 278,506 tCO2e of Certified Emission Reductions. The remaining five monitoring reports are currently being reviewed for issuance of total 329,168 tCO2e. These reports have been published through the UNFCCC website, and are in the process of verification, followed by the submission of the request for issuance. The Bank expects to pay for an additional 284,531 emission reductions generated from the Project (2009 - 2012) during FY14. This will take disbursements to 61 percent.

Key partners: KfW, Netherlands, Nepal Biogas Promotion Association, Biogas Sector Partnership-Nepal.

[1] Central Bureau of Statistics, Government of Nepal, 2013.

NEPAL: ROAD SECTOR DEVELOPMENT PROJECT

Key Data:

Approved: December 6, 2007; AF June 2, 2011
Effective: February 21, 2008; AF July 8, 2011
Closing: June 30, 2015
PDO and IP ratings: Moderately Satisfactory, MU

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA Credit/Grant	117.6	79.2 (68%)	37.3 (32%)
Govt.	58.5		
Total Cost	176.1		

As of August 31, 2013

RSDP is providing all-weather connectivity to remote district headquarters

Introduction: Nepal has the second lowest road network density in the region. Only two-fifths of the population has access to paved roads within a 20-minute walking time. The substantial lack of accessibility to economic centers and social services in the remote areas is seen as one of the main impediments to poverty reduction and economic development. By 2016, the Government of Nepal aims that 86 percent of the population live within two hours (plain districts) or four hours (hilly districts) walking distance to a paved road. Connection of all district headquarters with all-weather roads has been one of the key elements of the Road Sector Priority Investment Plan of 2007. The Road Sector Development Project has been designed in this backdrop to support the Strategic Roads Network.

Project Development Objectives: The project seeks to provide all season road access to the residents of beneficiary districts, reducing travel time and improving access to economic centers and social services.

Project description: The project targets to connect eight remote district headquarters in the Mid-Western and Far-Western Regions of Nepal. The original project was approximately US$43 million with additional financing of US$75 million at end-2010. The components are: (i) Road Development (utilizing 83 percent of the funding); and (ii) Institutional Strengthening and Policy Reform.

Results: Progress towards the achievement of project goals has been moderately satisfactory. Results of a socioeconomic impact study report (October 2011) show that two results indicators have surpassed targets for roads under the original project scope. A survey carried out in December 2011 showed that 11.3 percent of paved Strategic Road Network roads are now in poor condition; the target was to reduce this to 15 percent. Achievements viewed against two project indicators will be fully assessed through a final socio-economic impact study (planned in 2014). Intermediate results indicators under the Road Development Component are most likely to be achieved. All intermediate results indicators under the Institutional Development Component are likely to be achieved except one: the road asset management tools used for prioritization of road maintenance and upgrading works. The Bank team has been working with the project team to update the road inventory and conditions of roads, which will provide the key inputs for the implementation of road asset management tools.

Current project status: The Road Sector Development Project was one of the best performing projects in the Nepal portfolio. It became a problem project as performance deteriorated substantially in recent months after the untimely transfer of key project officials. Performance slowed in almost all areas including implementation of road works, social and environmental safeguards, and financial management. The Bank raised concerns with senior government officials and the situation has started to improve. Despite this temporary setback, the project is expected to achieve its physical output targets. All major road works contracts are now procured and are under implementation.

NEPAL: RURAL ACCESS IMPROVEMENT AND DECENTRALIZATION PROJECT

Key Data:

Approved: June 21, 2005; AF December 17, 2009
Effective: August 16, 2005; AF July 14, 2010
Closing: December 31, 2013
PDO and IP ratings: Moderately Satisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA Credit/Grant	77.0	52.8 (69%)	23.1 (31%)
Govt.	9.0		
Total Cost	86.0		

As of August 31, 2013

The project is upgrading rural roads with low cost surfacing

Introduction: Approximately 83 percent of Nepal's population lives in rural areas. Nepal's topography and geology, combined with a rural population distribution, significantly complicate efforts to provide all weather connectivity to many rural communities. Improving connectivity throughout Nepal is a key consideration for ensuring that economic growth is inclusive. Access to markets, social services, and assistance during emergency events directly depends on the quality of road transport infrastructure available to rural communities. The project has been designed to enhance physical access for rural populations to social and economic services and facilities. The project covers 30 districts (out of 75 districts in Nepal), which are widely dispersed. Then original project outlay of the Bank support was approximately US$43 million. The project received additional financing (US$55 million) at the end of 2009.

Project Development Objectives: The project aims to improve utilization of rural transport infrastructure and services by residents of participating districts in order to provide enhanced access to social services and economic opportunities.

Project description: the project has two components: (i) A Rural Transport Infrastructure Component (that accounts for 84 percent of funds); and a (ii) Capacity Building and Advisory Services Component. The project target is to upgrade approximately 1,200km of rural roads to all season standards with low-cost surfacing. It is also developing approximately 150km of trails into dry-season roads. The project is supporting the construction of trail bridges (in collaboration with other donors) and few drivable bridges. The second component is supporting a range of activities that include the preparation of District Transport Master Plans, development of e-bidding systems, development of asset management systems, and the development of management information system modules.

Results: The project's progress towards achieving its goals is moderately satisfactory. The results of an impact study (conducted on completed roads in 20 districts under original project scope) show that values of main indicators have surpassed end-of-project targets. The final assessment of results indicators will be made once the impact and socio-economic monitoring study of roads under the additional financing is completed. The Rural Access Improvement and Decentralization Project has made a study plan and the study will be completed before the project completion of date in December 2013. The project is expected to achieve all the output indicators except one: the upgrade of dry-season trails into dry-season standard roads. This activity had been delayed due to the procurement problems faced during the procurement of design consultants.

Current project status: The project is expected to achieve almost all of its output targets. Procurement of all roadwork contracts is complete and road works are ongoing.

Key partners: While there are no partners under the project, DFID and the Swiss Agency for Development and Cooperation are active in the rural roads sector.

NEPAL: BRIDGES IMPROVEMENT AND MAINTENANCE PROGRAM

Key Data:

Approved: June 28, 2012
Effective: December 20, 2012
Closing: December 15, 2017
PDO and IP ratings: Moderately Satisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA Credit/Grant	60.0	14.4 (25%)	43.9 (75%)
Govt.	9.0		
Total Cost	69.0		

As of August 31, 2013

The Program is funding maintenance of small bridges and their construction

Introduction: The existing bridge stock in Nepal is over 35-40 years old and in urgent need of rehabilitation and maintenance. There are still many gaps in the Strategic Roads Network caused by lack of bridges contributing to a substantial lack of physical access to economic centers and social services, particularly in remote areas. Nepal's topography and geology also complicates efforts to provide adequate transport infrastructure. The lack of physical access is seen as one of the root causes of the conflict high level of poverty incidence in remote areas. The Bridges Improvement and Maintenance Program has been designed by the government to address these issues.

Project Development Objectives: The project aims to provide safe, reliable and cost effective bridges on Nepal's Strategic Roads Network.

Project description: The project supports the government's initiative under the Program for Results lending instrument (the Bank's first such advance through IDA, and the first infrastructure project to use this instrument). The overall program outlay is outlay is US$150 million and the Bank's share is roughly 40 percent. The scope of the project encompasses three primary activities: (i) planning, technical design and quality control of bridges; (ii) major and minor maintenance of existing bridge assets; and (iii) new bridge construction.

Results: The program plans to finance major maintenance of 330 bridges, minor maintenance of 95 bridges and new construction of 121 bridges. It also plans to support the development and management of the Bridges Maintenance System and the development and operation of a new approach to addressing grievances. The Bridges Improvement and Maintenance Program has just started operations. Two of the three results indicators will be assessed at the mid-term of the project. The other indicator is a disbursement-linked indicator (DLI).

Current project status: The program had delayed start up due the non-fulfillment of certain conditions, mainly due to last year's political impasse and resulting delays in announcement of a full budget by the government. The program encountered teething problems, such as delays in streamlining budget allocation procedures and delays in the procurement of technical support consultants. That said, there are a number of achievements. They include: the development of a five-year bridge-by-bridge plan program to help guide the achievement of physical disbursement-linked indicators, continued progress on realizing the Action Plan, full adaptation of the Bridges Maintenance System for the prioritization of Program bridges, the revision, and approval of the Environmental and Social Management Framework that included bridge related issues. An impact evaluation has been designed and funding secured.

Key partners: None. Recently DFID has expressed an interest to join the Program, and discussions are underway.

NEPAL: SOCIAL SAFETY NET PROJECT

Key Data:

Approved: September 29, 2008; AF May 26, 2010
Effective: January 28, 2009; AF October 6, 2010
Closing: September 30, 2013
PDO and IP ratings: Satisfactory, Moderately Satisfactory

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA	64.47	51.95 (80%)	13.28 (20%)
Govt.			
Total Cost			

As of August 31, 2013

Introduction: Nepal frequently faces food crisis in some parts of the country largely on account of weather conditions and natural disasters. The Social Safety Net Program is an emergency response project to address the 2008 food crisis by providing immediate relief to food insecure households (and some flood hit households), to build resilience of the vulnerable people in the medium-term, and build government capacity to provide safety nets in the long-term.

Project Development Objectives: The project aims to enable the government help highly food-insecure households to access more nutritious food in the short-term and also to create opportunities for improved agriculture production in food-insecure districts in the long run.

Project description: SSNP takes a holistic approach through its components focusing on (i) immediate relief to food insecure households through food- and cash-for-work programs; (ii) medium-term response by supporting subsidization of transportation of seeds and fertilizers to food-insecure districts and the development of seed varieties that are better suited to food-insecure areas; and (iii) a longer-term approach through strengthening of the government's cash transfer systems and piloting new approaches to improving the nutritional status of women and children. The Ministry of Federal Affairs and Local Development is the key implementing agency, with various components implemented by Department of Agriculture, the National Agricultural Research Council, and the Poverty Alleviation Fund, and technical support from World Food Program

Results: Since its initiation, the project has supported over 3 million people. Under the food and cash- for-work program over 34,000 metric tons (MT) of food has been distributed and US$3.2 million has been disbursed as cash. Over 98 percent of the supported households are reported to have increased their ability to meet their food needs. In addition, since 2010, the Nepal Agriculture Research Center has produced over 129.38 MT of breeder seeds and 1,654 MT of foundation seeds, including seeds of varieties that are better suited to food-insecure areas. A total of 11,214 MT of fertilizers and 783 MT of seeds of improved varieties of paddy, wheat and maize have been made available in remote districts of the country. To date, the project has directly benefitted over 168,263 individuals, of whom 58 percent are estimated to be women. Some progress has also been made on components that support systems strengthening for cash transfers and on the Community Challenge Fund for nutrition.

Current project status: Most of the components are near completion with over 87 percent of project funds now disbursed. Pilot projectss to test approaches for improving the cash transfer and safety net systems in Nepal have recently started implementation. This is an important strategic area and the government has requested a one-year extension to enable completion of the pilot activities. The project will require a restructuring to cancel about US$5.3 million and allow revisions in the project targets and results matrix.

Key partners: World Food Program

NEPAL URBAN GOVERNANCE AND DEVELOPMENT PROGRAM: EMERGING TOWNS PROJECT

Key Data:

Approved: May 10, 2011
Effective: October 2, 2011
Restructuring: February 23, 2013 (Level II); Level I under approval
Closing: July 31, 2006
PDO and IP ratings: Moderately Unsatisfactory, MU

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA	25.0	5.00 (21%)	1920.00%
Municipalities	2.1		
GIZ	3.0		
Govt.	5.0		
Total Cost	35.1		

As of August 31, 2013

Tansen is a town in the Himalayan foothills. Amar Narayan Temple is an important landmark and place of gathering for devotees in Tansen. The contract has been signed for conservation work.

Introduction: The project marks the re-engagement of the World Bank in the urban sector in Nepal after an absence of more than 10 years. It aims at developing a sustainable approach for strengthening the planning, implementation, and revenue-raising capacity of six emerging towns (each 30,000-70,000 population) located in the Western and Eastern regions of Nepal. The municipalities have been selected based on their growth potential and their strategic location along the North-South transport corridors (highways).

Project Development Objectives: The original goal was to improve delivery and sustainable provision of basic services and priority infrastructure in the participating municipalities. A project restructuring (submitted to the Board on July 8) realigns the goal to improving the institutional capacity of the municipalities, helping them better plan, implement and fund urban development activities.

Project description: The project has three components: (i) strengthening municipal planning capacity through provision of grants to the municipalities; (ii) provision of financing for municipal infrastructure sub-projects to improve municipal capacity to implement infrastructure investments; and (iii) institutional development and project management support to the participating municipalities and project agencies.

Results Achieved: The project experienced significant implementation delays in its first year. There has been recent progress with the preparation of the municipal sub-projects. Two municipal sub-projects are ready to enter the construction phase, and procurement notice for a third sub-project has been published. The appraisal for two sub-projects will be completed in July 2013 and Detailed Project Reports for all municipal sub-projects are expected to be ready by September 30, 2013. The municipalities have utilized the municipal grants to carry out small works such as road upgrading, with at least 35 percent of these grant resources earmarked towards activities benefiting women and the disadvantaged groups.

Current Project Status: The project has experienced significant implementation delays since approval. Proactive measures have been taken to address the shortcomings including: (i) establishing effective institutional and coordination mechanisms, (ii) finalizing the pipeline to advance preparation of the municipal infrastructure sub-projects, (iii) building implementation capacity of the Project Coordination Office and the Town Development Fund, which provides loans to municipalities for infrastructure projects, and (iv) provision of adequate staffing in the Project Coordination Office. The recent project restructuring has been completed to realign the outcomes and results framework to the institutional capacity of the municipalities. It also proposed a reduction in project scope with a cancellation of $6.6 million for the municipal infrastructure sub-projects to reflect the lower than expected borrowing and implementation capacity of the municipalities. In line with the new project objective, the restructuring proposes to fund enhanced institutional development support for the six municipalities.

Key Partners: GIZ (parallel financing to phase out in June 2014).

NEPAL: ENHANCED VOCATIONAL EDUCATION AND TRAINING

Key Data:

Approved: April 21, 2011
Effective: August 23, 2011
Closing: October 30, 2015
PDO and IP ratings: Moderately Satisfactory, MU

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA	50.0	6.79 (14%)	41.60 (86%)
Govt./Community	10.9		
Total Cost	60.9		

As of August 31, 2013

Introduction: With a growing youth population and rising unemployment, the Government of Nepal is implementing programs to improve access to technical education and vocational training for the poor and disadvantaged youth. This first IDA technical and vocational training project contributes to government's programs by reaching out to more than 70,000 youth, adopting appropriate targeting tools and other inclusive processes.

Project Development Objectives: The Project's goal is to expand the supply of skilled and employable labor by increasing access to quality training programs, and by strengthening the technical and vocational education and training system in Nepal.

Project description: The project consists of the following components: (i) Strengthening technical education and vocational training regulatory activities and capacity building; (ii) Strengthening technical education; (iii) Support for short-term training and recognition of prior learning; and (iv) Project management and monitoring and evaluation. The project is providing short-term training, stipends to students for technical education, and performance-based or matching grants to technical institutes. The project also has provisions for certifying existing skills gained through informal methods, and for creating a larger pool of trainers in the country.

Results Achieved: After a significant start up delay, all project components are now moving ahead. Progress in the key performance indicators include short term training of 7,000, testing and certification on preexisting skills of over 2,000 youths by the National Skills Testing Board, and 60 institutions have been selected for support through matching and/or performance grants.

Current project status: A total of 203 skills test managers, 520 lead and assistant trainers, and 2,506 skills test assessors have been trained. The Council for Technical and Vocational Education has initiated work on the establishment of a Training Management Information System, an online system for affiliation of training providers, and examination evaluation. About 1,865 students are currently receiving scholarship support, while around 1,500 will be selected this year. Voucher-based financing support is being provided to 1,350 youths who are undergoing short-term training. A decentralized, operational management information system is currently being used as the main tool for project monitoring. This is a problem project. Despite the progress noted, disbursements remain very low. Agreement has been reached with the government to restructure the project, focusing on the reallocation of funds across components, and substantial cancellation of funds.

Key partners: None.

SOUTH ASIA: NEPAL INDIA REGIONAL TRADE AND TRANSPORT PROJECT

Key Data:

Approved: June 28, 2013
Effective: September 10, 2013
Closing: December 31,2019
PDO and IP ratings: Yet to be rated

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA	99.0	_	99 (100%)
IFC	2.0		
Govt..	0.0		
Total Cost	101.0		

As of August 31, 2013

Birgunj, Nepal – Raxaul, India Border

Introduction: Nepal is a geographically small landlocked country and its transport infrastructure is poor, leaving many communities with limited access to local and international markets. As a consequence, transport costs are high and Nepal is almost completely dependent on India for transit routes. Despite its proximity and deep economic relations with India as well as China, Nepal's trade outcomes have been poor. Accordingly, there is an urgent need to improve export competitiveness and reduce the cost of imports.

Project Development Objectives: The Nepal-India Regional Trade and Transport project (NIRTTP) is designed to decrease transport time and logistics costs for bilateral trade between Nepal and India and transit trade along the Kathmandu-Kolkata corridor for the benefit of traders by reducing key infrastructure bottlenecks in Nepal and by supporting the adoption of modern approaches to border management.

Project description: The project components are: (i) modernize transport and transit arrangements between Nepal and India; (ii) strengthen trade-related institutional capacity in Nepal; and (iii) improve select trade-related infrastructure, which entails expanding and upgrading the Narayanghat-Mugling road section, building a container freight station in Kathmandu, and upgrading the inland container depots at Birgunj and Bhairahawa. The project is a joint Bank and IFC project, and it is the first regional IDA project in trade and transport in South Asia. One of the innovative designs of the project is its corridor approach (i.e. the Kathmandu-Kolkata corridor), which focuses implementation efforts on one particular geographical area while addressing multiple sources of congestion. The Bank and the Government of Nepal have also developed an elaborate system to collect data to monitor the performance of the corridor and measure the efficiency of the supply chains according to three main dimensions: costs, time and reliability.

Results: The expected outcome is a reduction of transport time and logistics costs for Nepal's international trade to be achieved through reductions in (a) time associated with meeting regulatory requirements for import, export and transit activities, (ii) border crossing time at Raxaul-Birgunj border post, and (iii) total time between cargo offloading at Kolkata to arrival at Birgunj by road and rail and Birgunj to Kathmandu for trucks. Reducing trade costs will deliver significant benefits for consumers and traders, and will impact positively on export competitiveness including through lowering the costs of intermediate goods and raw materials. Lower trade costs would also be reflected in lower retail prices for consumers.

Current project status: The project was declared effective on September 10, 2013.

Key partners: IFC, DFID, GTZ

NEPAL: SECOND HIGHER EDUCATION PROJECT

Key Data:

Approved: February 22, 2007
Effective: July 27, 2007
Closing: January 15, 2014
PDO and IP ratings: Moderately Satisfactory, MS

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA	60.0	47.9 (80%)	15.94%
Govt./Community	17.4	12.1	
Total Cost	77.4		

As of August 31, 2013

Introduction: Higher education in Nepal is provided by nine universities and four health academies, governed by separate Acts. The Ministry of Education and the Ministry of Health and Population are the focal ministries for universities and health institutions. IDA has been a key partner supporting higher education through the First Higher Education Project, the Engineering Education Project, and the Second Higher Education Project.

Project Development Objectives: The Second Higher Education Project aims to (i) enhance the quality, efficiency, and relevance of higher education through a set of systemic reforms and incentives to selected institutions; and (ii) improve access for academically qualified students from disadvantaged groups in higher education and higher secondary education.

Project description: The project has four components: (i) Reform grants and research funding; (ii) Student financial assistance; (iii) Higher secondary education; and (iv) Strengthening system capacity. The first component includes incentive grants, performance grants, and matching grants to participating universities and colleges. Student financial assistance seeks to overcome the constraints being faced by meritorious girls and disadvantaged groups. The second component supports higher secondary education to permit better functioning of universities by phasing out Proficiency Certificate Level programs from universities and colleges. The third component seeks to enhance the capacity of the University Grants Commission and the Ministry of Education to improve the quality of higher education through monitoring and evaluation, policy analysis and reviews. The project is supporting higher education policy reforms in the area of autonomy, quality assurance and accreditation, poverty targeting, and the development of a higher education policy.

Results: Key achievements include autonomy for four university campuses affiliated with the Tribhuvan University and decentralization of 49 campuses. Nine institutions have already received accreditation. Twenty-one new market relevant programs have been introduced under Tribhuvan University, with 15 papers published in refereed journals and 36 in professional journals. Girls' share in higher education enrolment has risen to 46 percent while the educationally disadvantaged *dalits' and janjatis*' share has risen by over 16 percent. Enrolment in project supported Higher Secondary Schools has reached 208,468, with gender parity achieved, and enrolment share of extremely disadvantaged groups rising to over 7 percent. Over 8,300 needy students have received scholarships. Targets have already been surpassed in all of the above result areas. The Proficiency Certificate Level has been phased out from the Tribhuvan University. And the Higher Education Management Information System has been developed. Significant progress has also been made towards developing the Higher Education Policy, with the first draft expected in 2013.

Current project status: The project, closing in January 2014, is maintaining a steady pace and is expected to accomplish most of its objectives. Strong ownership and commitment from the government to continue with institutionalization of the reforms is reflected in the recent request for continued higher eeucation support from IDA. A request for extension of closing date has been received, which is being reviewed. The government has also requested a follow on project.

Key partners: None

NEPAL: SCHOOL SECTOR REFORM PROGRAM

Key Data:

Approved: September 22, 2009; AF May 15, 2013
Effective: December 23, 2009; AF yet to be effective
Closing: July 15, 2016
PDO and IP ratings: Moderately Satisfactory, MS

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA	230.0	122.3 (53%)	107.2 (47%)
GPE Trust Fund	120.0	102.9 (86%)	17.1 (14%)
Govt.	1885.0		
Other donors	366.0		
Total Cost			

As of August 31, 2013

Introduction: The School Sector Reform Program is a government initiative that aims to enhance access to and improve the quality of education. It covers Grades 1–12 as well as Early Childhood Education and Development and non-formal education. The School Sector Reform Program focuses on basic education to achieve the education MDGs by 2015. It is being implemented through a Sector Wide Approach, with financial contributions from the government and a dozen development partners, including the World Bank.

Project Development Objectives: The project aims to support the government's School Sector Reform Program to increase access to and improve quality of school education, particularly basic education (Grades 1-8), especially for the marginalized groups.

Project description: The three main components of the program focus on (i) Basic education (Grades 1-8), (ii) Secondary education (Grades 9-12), and (iii) Strengthening institutional capacity. The program finances both the recurrent and the development expenditures for school education, focusing on School Sector Reform Program's three pillars of enhancing access, promoting inclusion, and improving quality. It supports the following areas for the three pillars referenced above: (a) Basic education, including childhood education and development and literacy, and lifelong learning; (b) Secondary education which includes technical education and vocational training; and (c) Institutional capacity strengthening for delivery and monitoring of educational services and products. The key policy reforms being supported include increased community management of schools, public private partnership for improved delivery of textbooks, and improved learning outcomes through establishment of a standardized student assessment system.

Results: The program has made good progress across its four performance indicators: (a) net enrollment rate (NER) for basic education, (b) basic education completion rate, (c) gender parity index (GPI) for basic education, and (d) the completion of learning assessment for grade 8 students. Starting from a baseline of 73 percent, the NER for basic education has increased to 87.5 percent, surpassing the end of program (2013/14) target of 85 percent. Similarly, the completion rate for basic education has reached 60.8 percent. Nepal has achieved gender parity in net enrollment for basic and secondary education with a GPI in NER of .99 at both levels. The assessment of learning outcomes for grade 8 students has been completed and the draft final report is publically available. Achievement tests for Grades 3 and 5 have also been administered.

Current project status: Original IDA financing was for five years (2009-2013). In June 2013, the Board approved US$100 million in additional financing to support the three original components and fill the financing gap in the remaining two years of the government's School Sector Reform Program. It will also support key quality, governance and accountability challenges in the school system.

Key partners: SWAp pooling partners: ADB, AusAID, Denmark, EU/DFID, Finland, Norway, UNICEF, and Global Partnership for Education. Parallel financing was provided by Japan, USAID, UNESCO, and WFP.

NEPAL: EMERGENCY PEACE SUPPORT PROJECT

Key Data:

Approved: May 6, 2008
Effective: September 19, 2008
Closing: June 30, 2014
Restructurings: June 2010, June 2012
PDO and IP ratings: Satisfactory, MS

Financing (US$m)

Financier	Financing	Disbursed	Undisbursed
IDA Credit	50.0	31 (62%)	17.0 (38%)
Govt.			
Other donors			
Total Cost			

As of August 31, 2013

Introduction: A Comprehensive Peace Agreement from November 2006 and a 23 Point Agreement in December 2007 included provision of allowances to individual Maoists in cantonments and relief and rehabilitation to families of the conflict-affected. It was in this context that the Bank responded to a request from the government to provide urgent support to the peace processes.

Project Development Objectives: The project aims to contribute to the peace process by providing interim cash transfers and services to eligible conflict-affected groups, and by increasing transparency and accountability in benefit delivery. It is expected that 14,800 families and 4,700 widows of those deceased in the conflict will receive cash interim relief; 25,000 conflict-affected and their family members will receive employability services, and at least half will be placed in the job market.

Project description: The project has three components: (i) rehabilitation support to conflict-affected families and individuals; (ii) building the capacity of key institutions in support of the peace progress; and (iii) project management. Rehabilitation support includes provision of employment and self-employment services and psychosocial counseling services to conflict-affected people.

Results: The Ministry of Peace and Reconciliation has successfully completed a pilot for delivery of employability services in 12 districts covering 3,030 conflict-affected persons, with a job placement rate of around 60 percent. The first phase of the implementation covers 43 districts and 11,740 people. The second phase will cover 18 more districts and another 10,000 conflict-affected people. The Ministry is currently finalizing the guidelines for psychosocial counseling services. The project is facing challenges in identifying beneficiaries for psychosocial services and may not be able to reach many beneficiaries. With regard to cash transfers, 96 percent of the families of the deceased (14,200) and 98 percent of widows (4,620) have received cash benefits, against a target of 95 percent.

Current project status: The project implementation is stable and it is expected to reach most of its targets. About US$7 million may not be utilized by closing date mainly due to delays in launching the psychosocial counseling services, and partly due to budget delays in FY13 and exchange rate gain since approval. Project restructuring is planned by end-September 2013 to cancel associated amounts.

Key partners: International Organization for Migration is providing technical assistance to the psychosocial counseling component.