Nepal: Country Snapshot

The World Bank Group

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COUNTRY SNAPSHOT

RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Nepal is entering the new fiscal year from a solid vantage point. Economic growth has picked up significantly in FY14, reaching 5.2 percent, its highest rate in six years. The government's fiscal position is sound, thanks to impressively high and stable revenue growth and broadly prudent management of expenditures. Total public debt has fallen to historically low levels. External trade imbalances are more than compensated for by private inflows. As a result, reserves are accumulating steadily. Finally, low interest rates afforded by relatively loose monetary policy have not translated into major inflationary pressures. On the political and policy fronts as well, there have been positive developments. Following successful constituent assembly elections held in 2013, the new government has articulated a vision for economic development that is both ambitious and sensible.

The opportunities created by these positive developments need to be leveraged, and herein lies the challenge. A number of key issues are:

- **The enabling environment has improved significantly with a stable government and a clear economic policy vision, but consistent implementation will be key**. First, the broad vision outlined in the Budget Speech needs to be distilled into concrete, implementable and time-bound plans. This implies significant technical background work as well as some resolute effort at prioritization. Second, the gains toward greater political stability and policy continuity remain fragile; the constitutional debate is still ongoing and its resolution would trigger a new electoral cycle (although unlikely in FY15). The decision-making process remains slow and haphazard and must be streamlined so that key policies can be implemented with speed and certainty.
- **Nepal's fiscal position is auspicious but the flipside of impressive revenue growth is modest spending**. The targets are ambitious enough but counterproductive if actual spending does not follow suit. The public expenditure chain, particularly for capital projects, needs to be streamlined urgently.
- **Finally, economic growth, if it is to be sustained at higher levels and deliver good local jobs for Nepal's youth, needs to be delinked from exogenous fluctuations in weather patterns or remittance flows.** While agricultural output has expanded significantly in FY14, this has been largely on account of favorable weather patterns. These gains can be easily reversed. Investments in irrigation and resolute implementation of the new Agriculture Development Strategy (which lays out a plan for increased modernization and commercialization) are top priorities. More generally, improving the investment climate is paramount. Developing access to reliable energy is the first obvious priority.
- **Overall economic growth was stronger than anticipated in FY14, but this growth spurt is unlikely to stick.** Economic growth reached 5.2 percent, explained almost entirely by (i) better than anticipated agricultural performance, and (ii) significant expansion of wholesale and retail trade services, boosted by record remittance inflows. What is significant about these two drivers is that their performance is determined exogenously. Fluctuations in agricultural output remain dependent on rainfall patterns, whereas the services sector – specifically the trade subsector – closely responds to patterns of private inflows. While remittances are expected to grow significantly in the coming fiscal year, overall growth may be depressed by poor agricultural prospects and the impact of a late monsoon in the key paddy planting season.

Box 1: Economic Ups and Downs: FY 2014

FY2014 Ups and Downs	
Upside	• Economic growth rebounded driven by expansion in agriculture output, construction activity and services sector growth • Impressive domestic revenue growth was sustained, thanks to VAT, excise and non-tax revenues • A comfortable fiscal position allowed Nepal to "graduate" from moderate to low risk of debt distress • A sharp increase in remittance resulted in a large current account surplus, ample liquidity in the system and low lending rates
Downside	• The growth acceleration in FY14 was largely 'exogenous' and may not be sustainable, which would be required for Nepal to graduate from least developed countries (LDC) status by 2022 • Industrial sector performance remained lackluster, with the performance of manufacturing at a six-year low. • In spite of the favorable interest rate environment, private investment growth (both domestic and foreign) has ebbed • Inflation moderated but remains high, and inflationary expectations remain a risk • Export growth remained low in spite of more conducive exchange rates

Recent economic developments

Economic growth has picked-up significantly in FY15, reflecting favorable exogenous developments. The better-than-anticipated rate of GDP growth (5.2 percent) was essentially on account of strong performance in the agricultural sector (reflecting clement weather) and services on the back of record inflows of remittance transfers. On the downside, however, Nepal's industrial sector expanded at tepid rates and private investment growth has slowed despite an exceptionally favorable interest rate environment. The medium-term challenge, therefore, appears to be finding endogenous sources of growth that can be sustained and generating domestic employment for Nepal's youth.

Much can be done in the short term to revive investments. The public sector has a key role to play by boosting public infrastructure and providing the right environment for latent private sector investment to materialize. The first step will be to unlock the budget. While running a budget surplus can be considered a fortunate problem to have, it nonetheless comes at a cost in terms of missed opportunity and wasted time to grow the national economy, which is dramatically under-capitalized. The government has outlined a broadly good vision in the Budget Speech and other documents to accelerate the country's development by removing binding constraints to private sector activity. The political and external environments are also conducive to making decisive progress. But the outcomes will only materialize if such intentions are translated into action. FY15 will be a test-year from that standpoint.

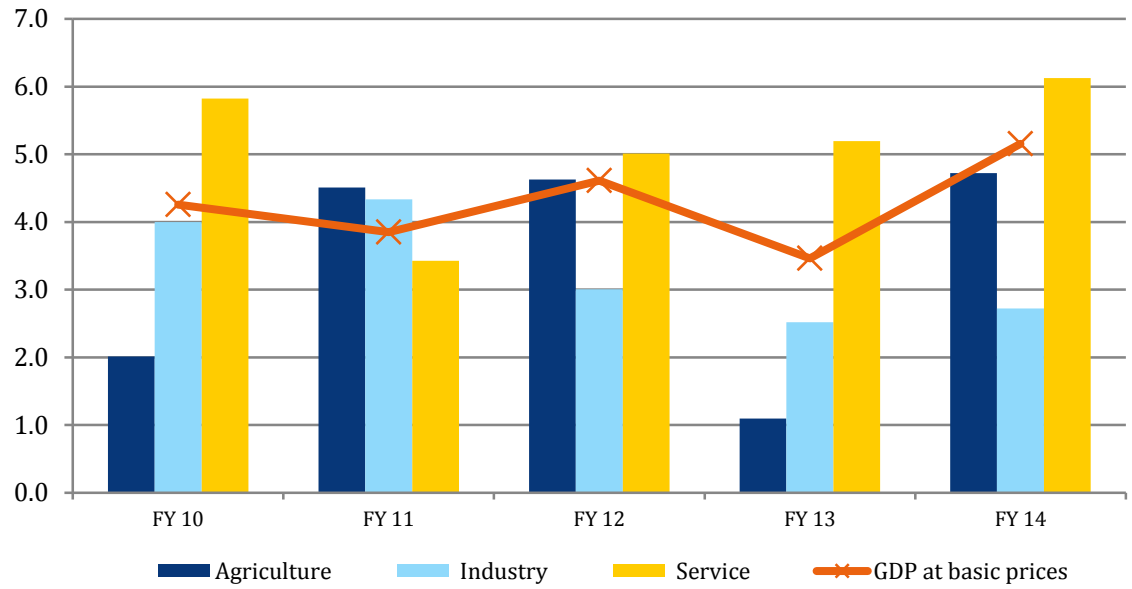
Economic growth

Growth in FY14 increased by 1.7 percentage points from 3.5 percent in FY13, reflecting both (i) a base effect after a disappointing FY13 performance, and (ii) the impact of positive developments in agriculture and the services sector. The agriculture and services sectors grew at 4.7 percent and 6.1 percent respectively, accounting jointly for 92 percent of total GDP growth. In both cases, this was the strongest performance in the past six years. By contrast, industrial growth remained anemic at 2.7 percent, explaining the decline in

industry's contribution to overall GDP growth from 11.5 percent in FY13 to eight percent in FY14 as well as the corresponding fall in the sector's share of total GDP from 15.2 percent to 14.8 percent. (

Figure 1) Some symbolic lines were crossed in the past two fiscal years: the services sector now accounts for more than 50 percent of total value added, while industry has fallen below 15 percent.

Figure 1: GDP growth driven by services and agriculture

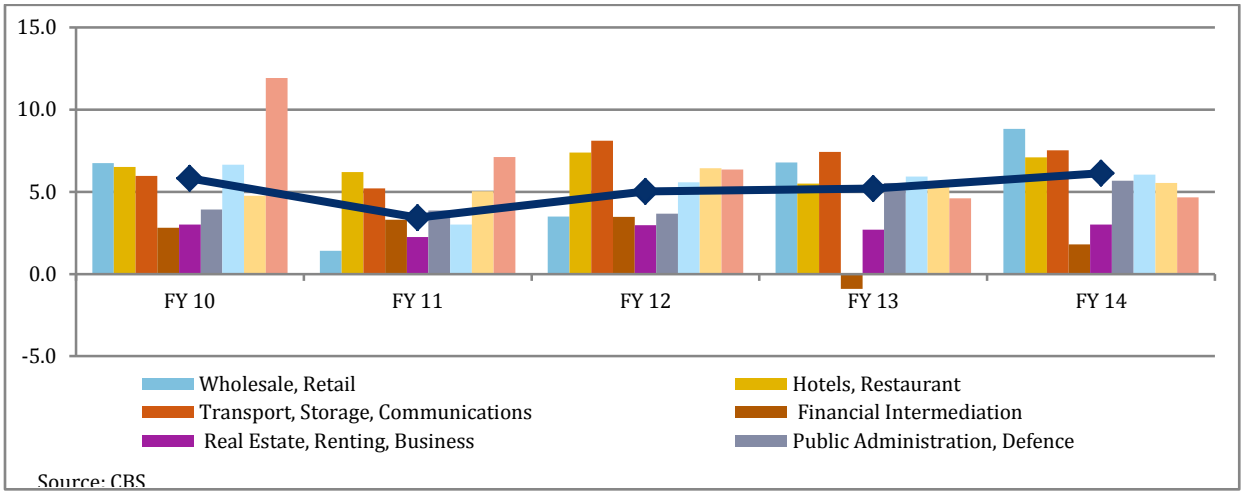


Source: CBS

Bumper crops for Nepal's three major staples drove a significant expansion of agricultural output. Overall agricultural production expanded by 4.7 percent in FY14 compared to 1.1 percent in FY13. Paddy production increased by 12 percent in FY14 compared to a significant drop of 11.2 percent in FY13. Similarly, maize and wheat production also recorded increases of 10 percent and six percent respectively in FY14 (up from -8.3 percent and two percent in FY13). Poultry production declined significantly (-5.9 percent in FY14 compared to robust expansion in previous years) largely due to an outbreak of bird flu.

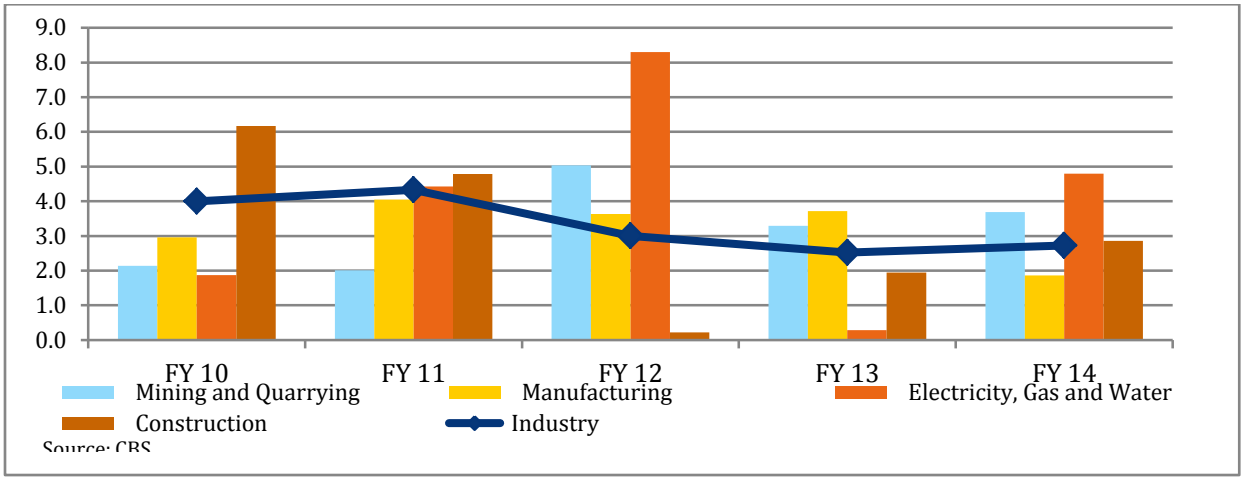
The services sector expanded rapidly in FY14, reflecting the surge in inward remittance transfers and associated consumption. Overall, the sector grew at 6.1 percent, up from 5.2 percent the previous year and at a six-year historic high. As a result, the share of services in total value added increased to 51 percent. Almost all sub-sectors experienced high growth, but the largest gains were in wholesale and retail trade (8.8 percent, up by two percentage points from FY13), hotels and restaurants (7.1 percent, up from 5.5 in FY13) and financial intermediation (1.8 percent, up from -0.9 percent in FY13). In turn, this good performance can be attributed to a significant extent to the surge in remittance inflows, which grew by 15 percent from FY13 in dollar terms (from already very high levels), and 25 percent in Nepalese rupee terms. Increased tourist arrivals also contributed. As a result, the wholesale and retail trade subsector – at 13.2 percent of total value added – is twice as large as the manufacturing subsector and almost on par with industry as a whole.

Figure 2: Services sector growth decomposed



Industrial sector performance remained lackluster, with manufacturing at a historic low. In FY14, industrial sector growth improved marginally to 2.7 percent, still well below the rates recorded between FY10-12 (3.8 percent on average with a peak of 4.3 percent in FY11) and possibly suggestive of structural decline. The manufacturing sector is estimated to have expanded at 1.9 percent – down from 3.7 percent in FY13 and at a five-year low. This poor overall performance reflected a decline in the production of sugar, paper, soap, biscuit, aluminum products, processed tea and concrete. As a result, the share of manufacturing in total GDP fell from eight percent of GDP in FY04 to 6.6 percent of GDP a decade later. Renewed financial sector health together with strengthened supervision by the NRB boosted residential lending, while higher levels of public capital expenditure contributed to the recovery in the construction sector. Electricity, gas and water grew by 4.8 percent compared to 0.3 percent in FY13, owing to the increase in electricity generation by 8.8 percent in FY14 compared to 1.9 percent in FY13.

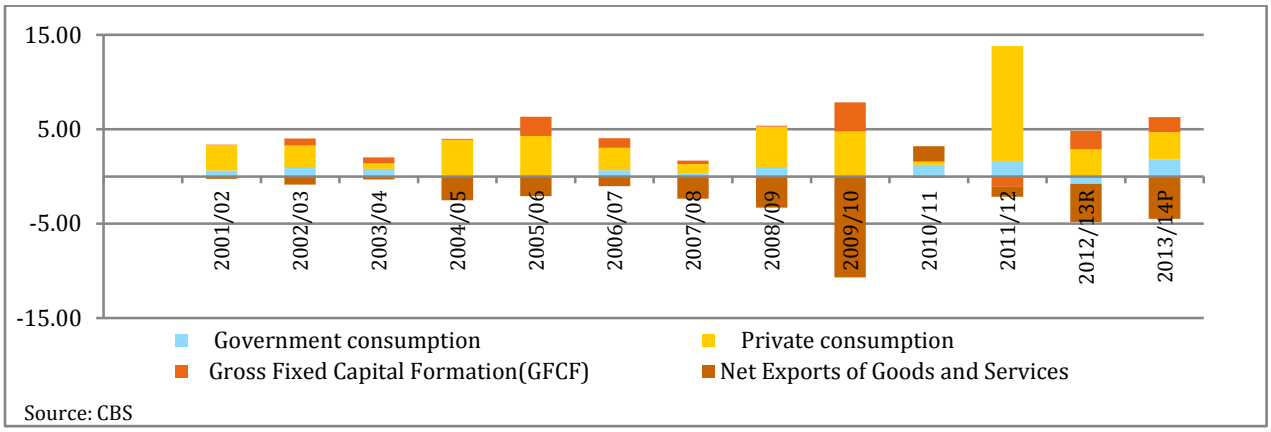
Figure 3: Industry – Manufacturing slows down as other sectors fill the gap



Economic activity continues to be driven by consumption, while weaknesses in investment compromise Nepal's long-run growth potential. In FY14, final consumption amounted to 91.1 percent of GDP (with domestic consumption expenditure at 63 percent), while grossed fixed capital formation stood at only 23.1 percent. Large remittance inflows and a significant increase in recurrent spending by the government translated into significant consumption growth (Figure 4). Government consumption recorded a

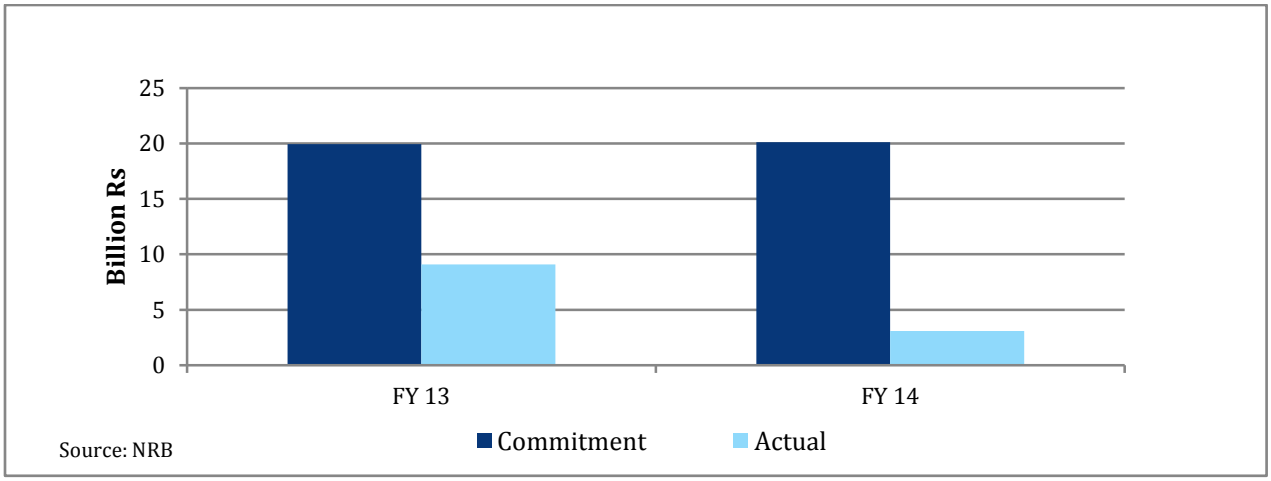
sharp increase of 18 percent – compared to negative 6.9 percent in FY13 – while private consumption grew by 3.4 percent (78 percent of GDP). Although public investment increased in volume by 17.9 percent in FY14 compared to 8.5 percent decline in FY13, government gross fixed capital formation (GFCF) remained low as a share of output, increasing from 4.2 percent in FY12 to 4.7 percent in FY14.

Figure 4: Consumption over investment increasingly dominates GDP on the demand side



Private investment growth declined despite low interest rates. Ample liquidity in the system and an accommodative monetary policy contributed to keep interest rates low (91-day T-Bill rate at 0.02 percent in mid-July 2014). The political environment improved, yet private GFCF growth fell to 6.1 percent (from 16.7 percent the previous year), while private sector credit growth slowed to 18.3 percent in FY14 compared to 20.2 percent in FY13. As a share of GDP, growth in total credit to the private sector declined from just under 10 percent in FY13 to 9.2 percent in FY14. Banks cite the dearth of ready bankable projects as a reason for weak credit growth. Inflows of Foreign Direct Investment (FDI) also have declined sharply to 3.1 billion rupees (a meager 0.5 percent of GDP) compared to 9.1 billion rupees in FY13 (a 65 percent drop). A puzzle is the discrepancy between investment commitments – both domestic and foreign – that increased sharply, and actual realizations. In FY14, some 20.1 billion rupees were committed as FDI of which only 15 percent materialized. A possible explanation for this discrepancy is the concentration of interest into the hydropower sector and corresponding obstacles to reaching closure on actual investment deals.

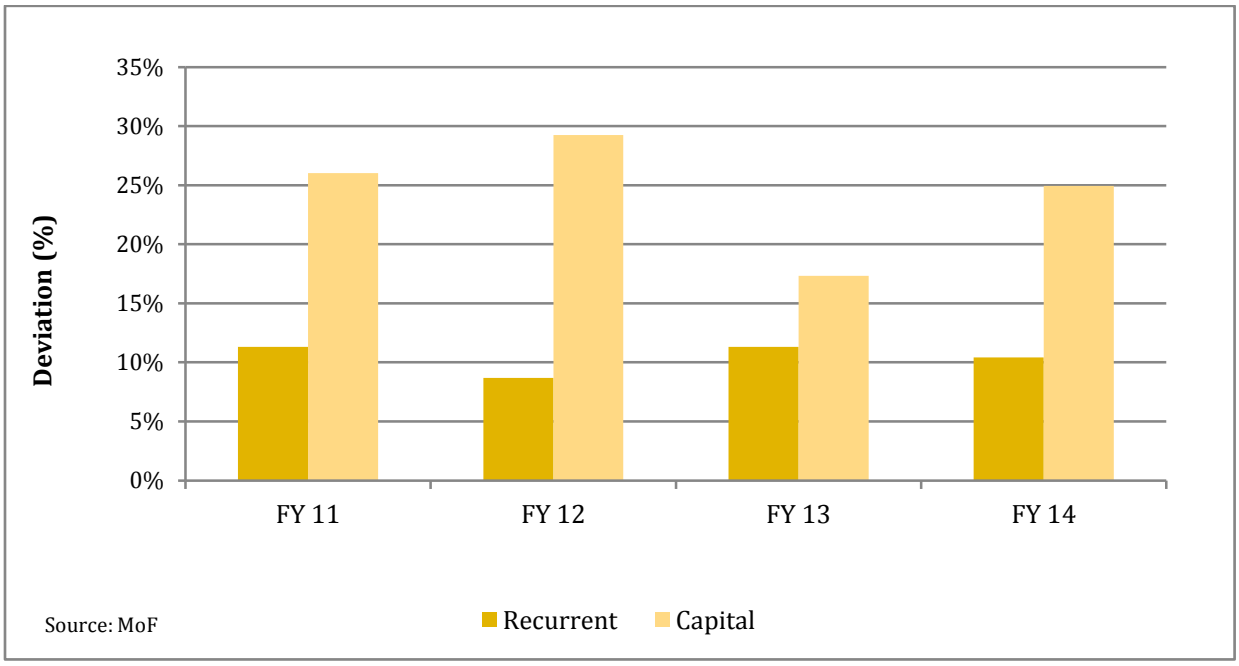
Figure 5: FDI realization falling way short of commitments



Though government spending grew in absolute terms, it remained low relative to the potential afforded by healthy fiscal balances. Public spending grew significantly – by 26 percent – in FY14. This sharp increase represented to some extent a catch-up after a difficult year in FY13, as well as high levels of recurrent spending. Indeed, recurrent expenditure grew considerably – by 28 percent – to make up 70.4 percent of total expenditure. Capital expenditure also grew significantly – by 17 percent – though from a low base. As a result, public expenditure as a share of GDP, which had declined to 21.2 percent in FY13, increased to 23.3 percent in the past fiscal year.

Structural bottlenecks to faster capital spending remain. These cannot be attributed solely to delays in budget approval. In FY14, the budget was adopted on the first day of the fiscal year, but significant deviations between planned[1] and realized expenditure remained.(Figure 6) Actual recurrent spending was only 89.6 percent of appropriated amounts, and the capital expenditure was 75 percent. As a result, the share of capital expenditure out of total expenditure declined from 16.1 percent in FY11 to 14.2 percent in FY14. Though, as government officials point out, the new Government Financial Statistics budget classification may have resulted in labeling as recurrent a share of expenditure that actually went to capital formation, these discrepancies do not overshadow the bottom-line assessment: at 3.3 percent of GDP, capital spending remains extremely low relative to country needs, fiscal capacity and the government's own target of 4.4 percent. The decreased volume of land purchase (by almost 50 percent relative to FY13) is indicative of difficulties surrounding land acquisition for infrastructure projects, while slow growth in expenditure for civil works (11.2 percent) is also reflective of broader bottlenecks to scaling-up infrastructure works significantly (in contrast to vehicle purchases, which grew by almost 250 percent).

Figure 6: Large deviations remain between planned and actual expenditures, particularly for capital

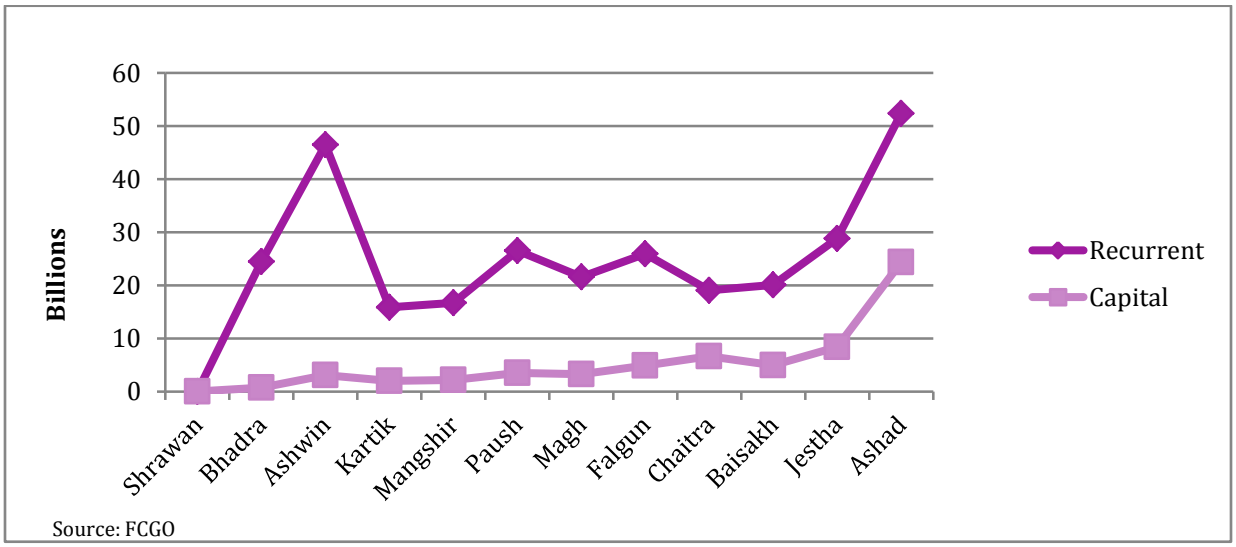


As in previous years significant bunching of expenditures happened toward the end of the fiscal year. Some 43 percent (180 billion rupees, including financing) of total public expenditure took place in the last

[1] Estimate based on original planned amount presented in the budget speech. In the mid-year budget review, the government revised and lowered its spending targets from NRs 517 billion to NRs 479 billion, which was 92.6 percent of the original budgeted amount.

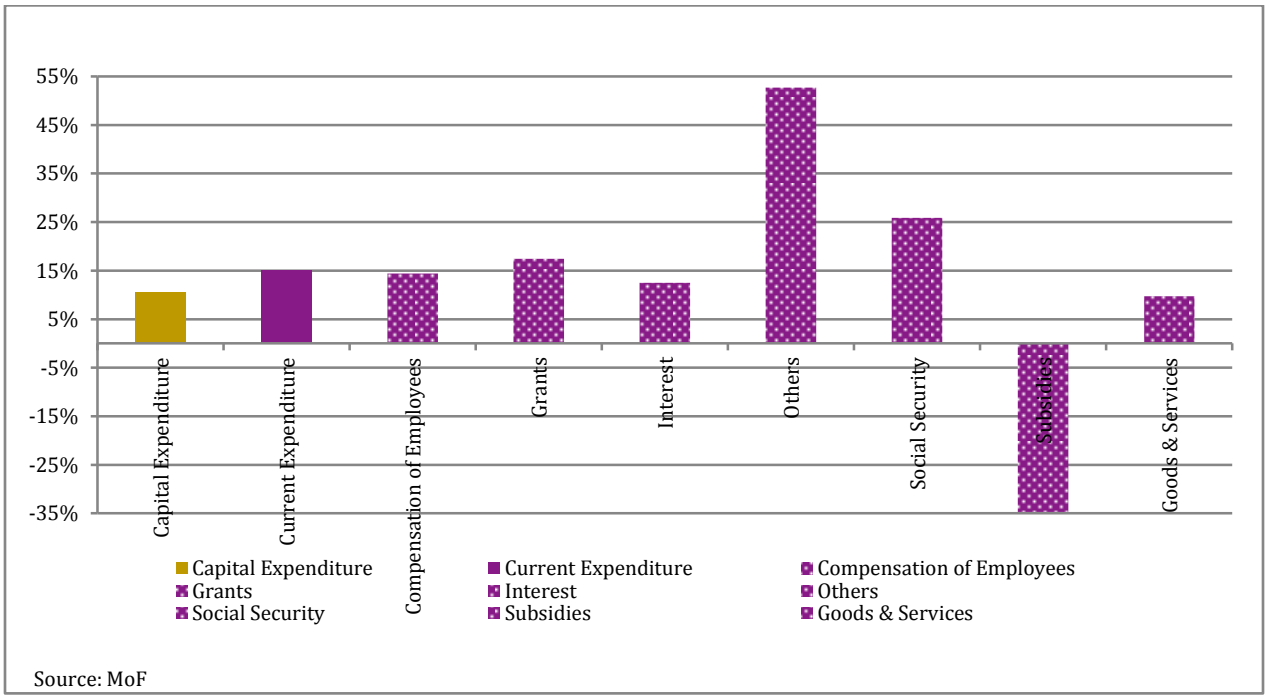
three months of the fiscal year (Figure 7), while almost 60 percent (37.6 billion rupees) of total capital spending took place in the last quarter (38 percent in the last month).

Figure 7: Capital expenditure remained concentrated at the end of the fiscal year



The faster rate of absorption of recurrent spending *vis-à-vis* capital means that the relative balance between the two is getting increasingly biased. The growth rate of recurrent spending has been increasing steadily in recent years (by 15.1 percent on average over the past four years) driven by salaries, social security, "others" [revenue refund and judicial refund], and grants to autonomous government agencies and local bodies. By contrast the average growth rate of capital spending over the past four years was 10.6 percent (Figure 8).

Figure 8: Expenditure Average Growth Rates (4 years average, nominal)

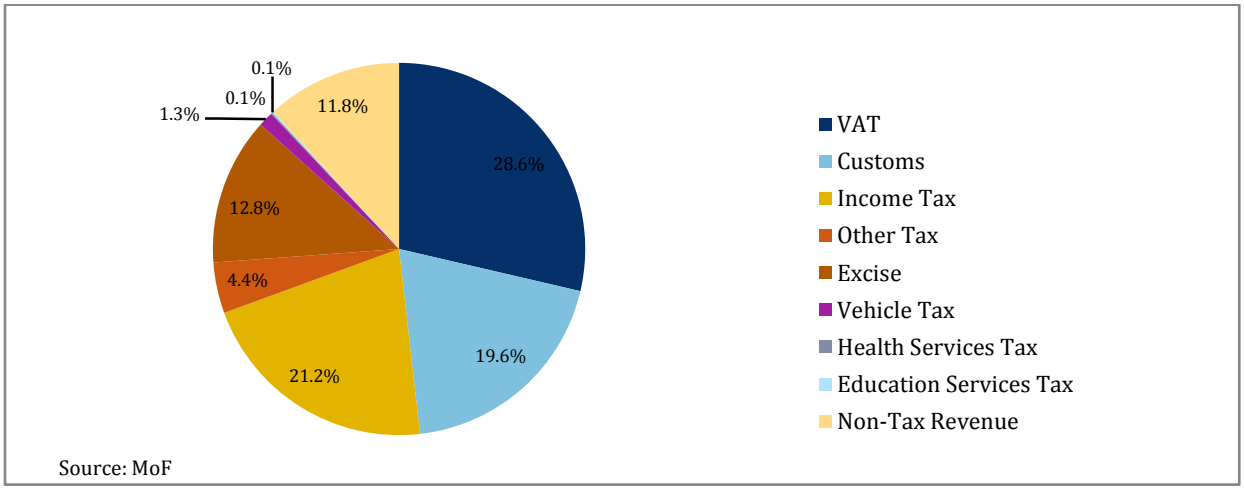


In the medium term, recurrent spending growth may need to be reined in. Recurrent spending growth has overshot the expansion of capital spending (by a wide margin) – though not the growth in tax revenues (at a high 20.8 percent average over the past 3 years). Significant increases in civil service compensation (18 percent increase in FY14 with additional allowances) are set to continue in FY15 and could eventually create inflationary pressures. Moreover, the ambitious reform agenda that the government has laid out in the budget document (such as the restructuring of state-owned enterprises) will require cash injections to cover unfunded liabilities and restore the companies' financial health before private investors can be attracted. While expanding capital investment significantly is needed to boost growth, unchecked increases in recurrent outlays may over time constrain the government's fiscal maneuverability.

Domestic revenue mobilization has continued to perform exceptionally well, though slowing down somewhat. Once again the government managed to meet the very ambitious targets it had set for itself, with total revenue growth of 19.8 percent slowing marginally from 23.2 percent in FY12 and 21.1 percent in FY13 but remaining very high by any standard (including regional). Total revenue as a share of GDP reached 18.4 percent in FY14 (from 14.7 percent four years ago) with tax revenues alone at 16.2 percent of GDP.

In FY14, there was a shift in the composition and drivers of revenue growth. It was relatively less driven by customs and income tax and more by VAT, excise and non-tax revenues. Income tax growth slowed to 17.2 percent (from 25.1 percent in FY13), reflecting the deceleration in income tax growth from private limited companies and government corporations (despite higher growth in income tax collected from individuals). Similarly, the growth rate of property tax collection fell to negative 12.5 percent in FY14 from 49 percent the previous year. Finally, a deceleration was also observed in the growth rate of custom revenues (to 20.6 percent in FY14 from 31.2 percent in FY13). The gap was partially filled by VAT, excise and non-tax revenues, which grew at 21.7 percent, 25.3 percent and 14 percent respectively in FY14. The good VAT performance was on account of import VAT, tourism VAT and VAT from telephone, insurance and air travel. Non-tax revenue growth was driven mostly by property income and interests, dividends and rents paid by public enterprises as well as royalties from hydropower projects.

Figure 9: Revenue composition in FY 14



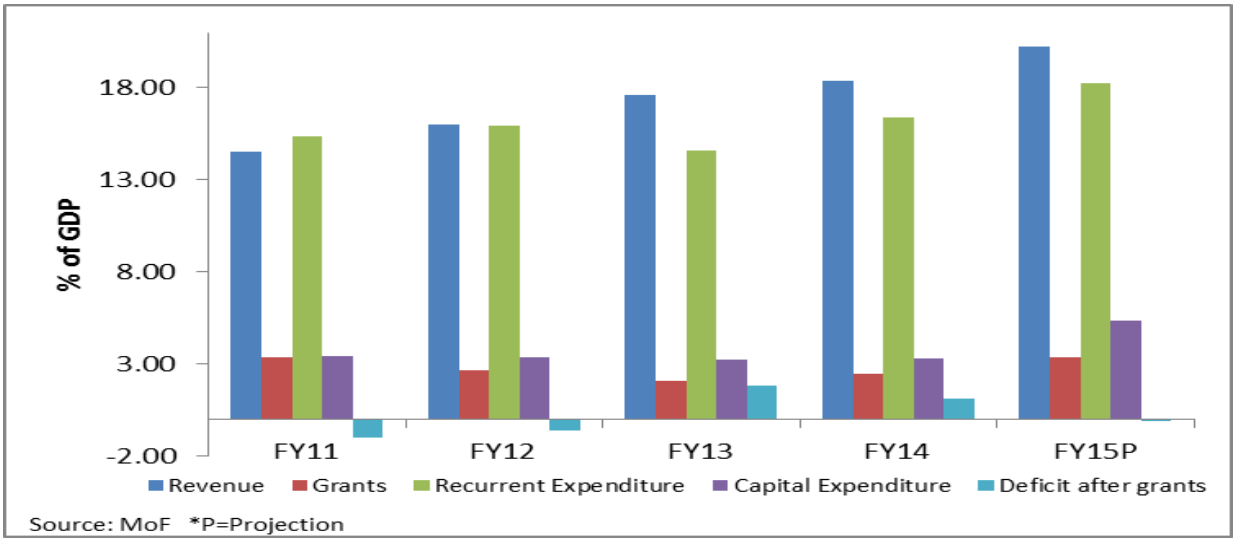
Source: MoF

Deficit and Debt

Continued impressive revenue growth along with low budget execution has resulted in a strengthening of Nepal's fiscal position. Over the course of the past four fiscal years, the country has moved from a position of modest budget deficit to surplus. While FY11 and FY12 saw modest fiscal deficits

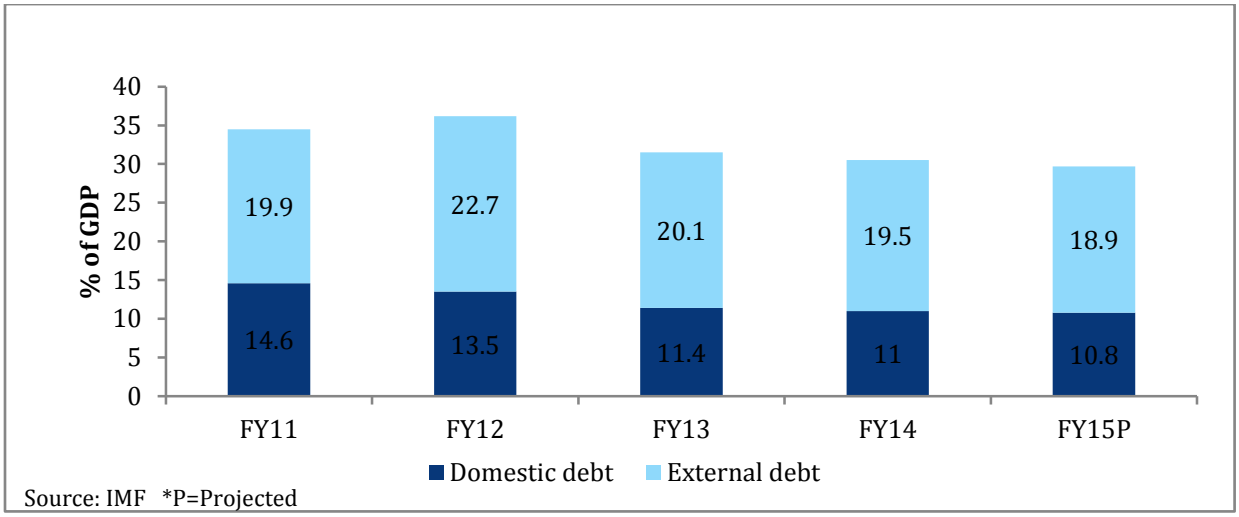
(after grants) of 0.97 percent and 0.63 percent of GDP respectively, this was followed by surpluses of 1.84 percent and 1.11 percent of GDP in the following two fiscal years. Therefore, the main challenge for the country (an enviable one) is not to preserve fiscal equilibrium, but to in fact use its significant fiscal space to support sustainable growth.

Figure 9: From modest deficit to surplus



With the treasury running in surplus, the government borrowed less than half of the planned amount internally. Although the government had planned to raise some 44 billion rupees from the domestic market in FY14, it only borrowed about 20 billion as the treasury was running into surplus. Half of that amount was raised via T-bills in the last month of the fiscal year, even though the cash was not needed. Given the low interest rate on government securities (at mid-July 2014 the weighted average 91-day treasury bills rate declined to 0.02 percent from 1.19 percent a year before) one might actually wonder why the government did not use fresh capital to retire high interest-bearing debt from the past, which would have further strengthened the country's debt outlook and helped maintain a yield curve (to be used as a benchmark for commercial entities considering the issue of debentures).

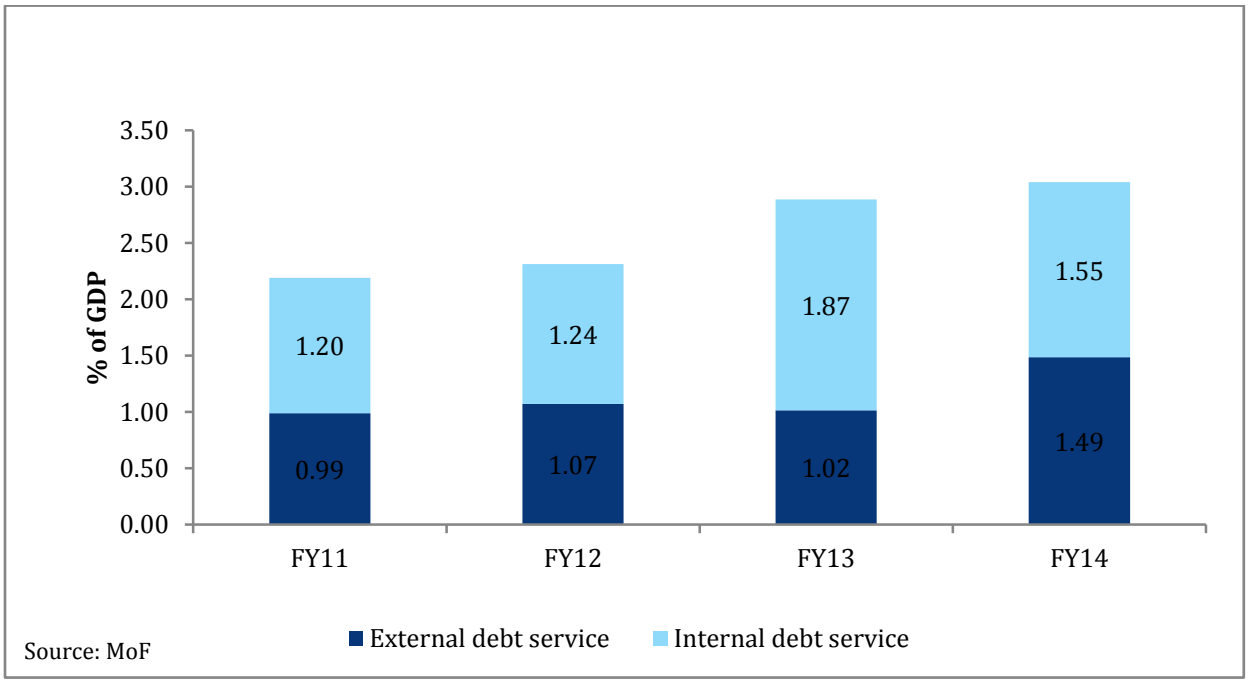
Figure 10: Public debt stock



The stock of public debt has reached historical lows (relative to GDP) and Nepal is now relatively safe from risk of debt distress. Public debt, as a share of GDP, has fallen dramatically from around 60 percent of GDP a decade ago to about 47 percent in FY08 and further to 30.5 percent in FY14. Moreover, out of total public debt, the bulk is contracted externally (about 64 percent of the total) on highly-concessional terms. Domestic debt declined from 14.6 percent of GDP in 2011 to 11 percent of GDP in FY14. Reflecting these developments, as well as updated assumptions, the most recent joint World Bank/International Monetary Fund *Debt Sustainability Analysis* (DSA) revised its assessment of Nepal's vulnerability to debt distress from "moderate" to "low."

Debt service remains low. Even though debt service payment has gradually increased from 2.19 percent of GDP in FY11 to 3.04 percent of GDP in FY14, it still is well within the capacity of the government to handle without crowding out other important expenses. External debt service payment accounted for roughly half of total debt service obligations in FY14.

Figure 11: Debt service obligations[2]: rising modestly and still largely affordable



The growing level of quasi-fiscal liabilities is cause for concern. Any efforts to restore the fiscal health of public enterprises, as would be required for state divesture in the first place, would call for significant cash injections from the state as well as provisions for currently unfunded liabilities to be covered in the future. At any rate, financial transparency would be greatly enhanced by replacing the current practice of implicit subsidies to state-owned enterprises (SOEs) by transparent transfers. This would not be insignificant from a budgetary perspective. Alone, the Nepal Oil Corporation and Nepal Electricity Authority are making combined losses estimated at the equivalent of 1.5 percent of GDP per year. Nepal Oil Corporation requires frequent bail-outs in the form of government-guaranteed loans from the Employee Provident Fund, Citizens Investment Trust and other entities to cover its purchases of petroleum products (and honor its debts with its Indian supplier). Besides, the oil corporation's outstanding loans have accumulated to 1.75 percent of GDP. Similarly, Nepal Electric Authority's outstanding loans from the government amount to 3.5 percent of GDP.

[2] Including both interest and amortization payments

Civil service pension liabilities, currently at 1.25 percent of GDP, are small by regional standards but currently unfunded.

Box 2: Nepal now at low risk of debt distress

The most recent *Debt Sustainability Analysis*, undertaken by the IMF and the World Bank, suggests that Nepal is at a "low" risk of debt distress, compared to the previous assessment of "moderate" risk. The change reflects Nepal's solid fundamentals, as well as reduced estimates of the cost of a potential financial sector shock and increase in the discount rate. Even though macroeconomic assumptions remain broadly in line with the previous DSA, key differences include:

(i) A moderately improved GDP growth outlook

(ii) Higher revenue gains over the long term, reflecting good performance to date and continued emphasis on revenue administration reforms as well as higher external grants

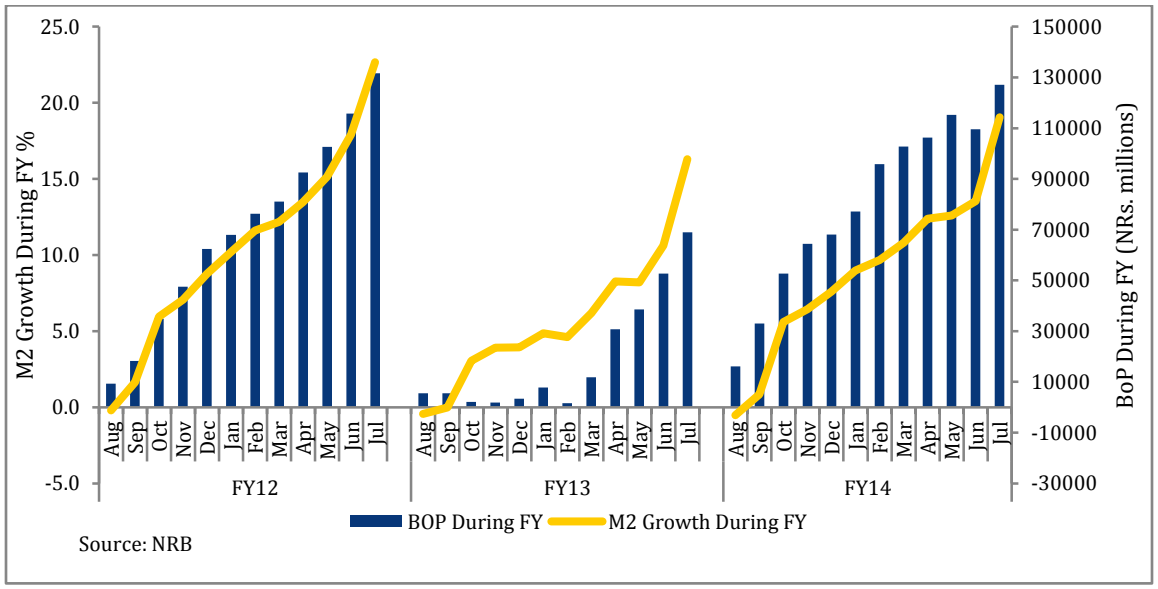
(iii) A larger share of the deficit financed by domestic resources

(iv) A movement of the current account from a sizable surplus to moderate deficit over the medium to long term

(v) A rise in the grant element of foreign borrowing on account of the upward revision of the discount rate to five percent

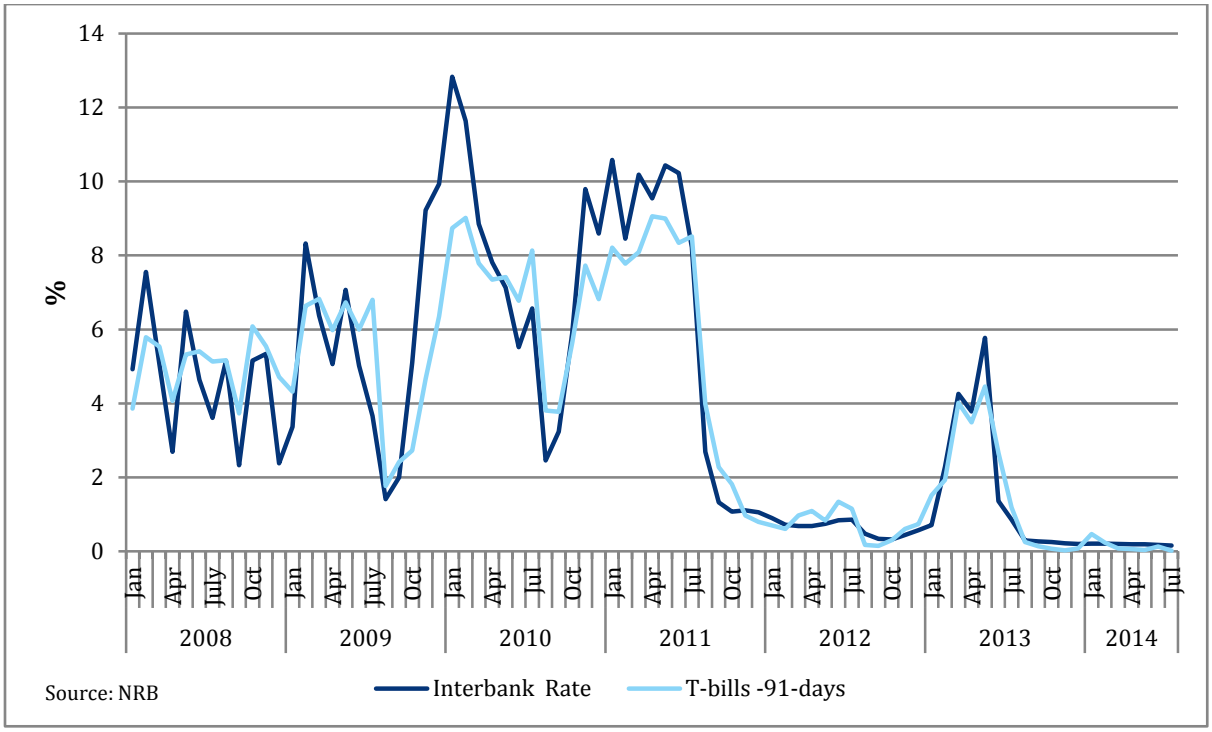
The Nepal Rastra Bank opted to maintain a fairly loose monetary stance in FY14, presumably to boost credit, though the response has been muted. Broad money supply increased by 19.1 percent, (compared to 16.4 percent in FY13) above the 16 percent target set for FY14. The increase reflected the sharp growth in net foreign assets (27.2 percent in FY14 compared to 18 percent in FY13), driven by the spectacular rise in remittance inflows. It more than made up for slower growth in net domestic assets (14.6 percent from 15.6 percent in FY13). Multiple rounds of reverse repo auction – totaling 602.5 billion rupees – were carried out in FY14 to soak up excess liquidity.

Figure 12: Annual Money Supply Growth & BoP



The accommodative monetary stance and lower interest rates did not translate in commensurate credit growth. Net claims on the government, non-financial government enterprises and financial institutions declined by 16.4 percent, 8.5 percent and 19 percent respectively between FY13 and FY14, reflecting the government's comfortable fiscal position. Meanwhile, private sector credit grew by 18.3 percent (down from 20.2 percent the previous year). On balance, domestic credit growth slowed to 12.6 percent in FY14 from 17.2 percent in FY13, despite historically low interest rates. In mid-July 2014, the weighted average T-Bill (91 days) rate stood at 0.02 percent while the weighted average interbank rate among commercial banks was at 0.16 percent. Likewise, the average base rate of commercial banks stood at 8.36 percent (mid-June) ranging from 5.22 to 11.33 percent.

Figure 13: Interest rates historical lows



High monetary growth did not translate into rising inflation. At 9.1 percent, year-on-year average inflation for FY14 was lower than in FY13 (9.9 percent) but once again above the target set by the central bank (8.5 percent). In contrast to the previous year, when both food and non-food prices kept inflation high, non-food price inflation declined in FY14 to an annual average of 6.8 percent (down from over 10 percent in FY13), while prices of food grew substantially (at an annual average of 11.6 percent). In particular, annual average inflation for cereal grains was higher than in FY13 (up two percentage points to 11.1 percent) as was that of meat and fish (by 3.8 percentage points to 18.2 percent). The highest increase, however, was for vegetables, with annual average inflation quadrupling relative to FY13 to 20.5 percent – reflecting to some extent a similar sharp rise in vegetables prices in India.

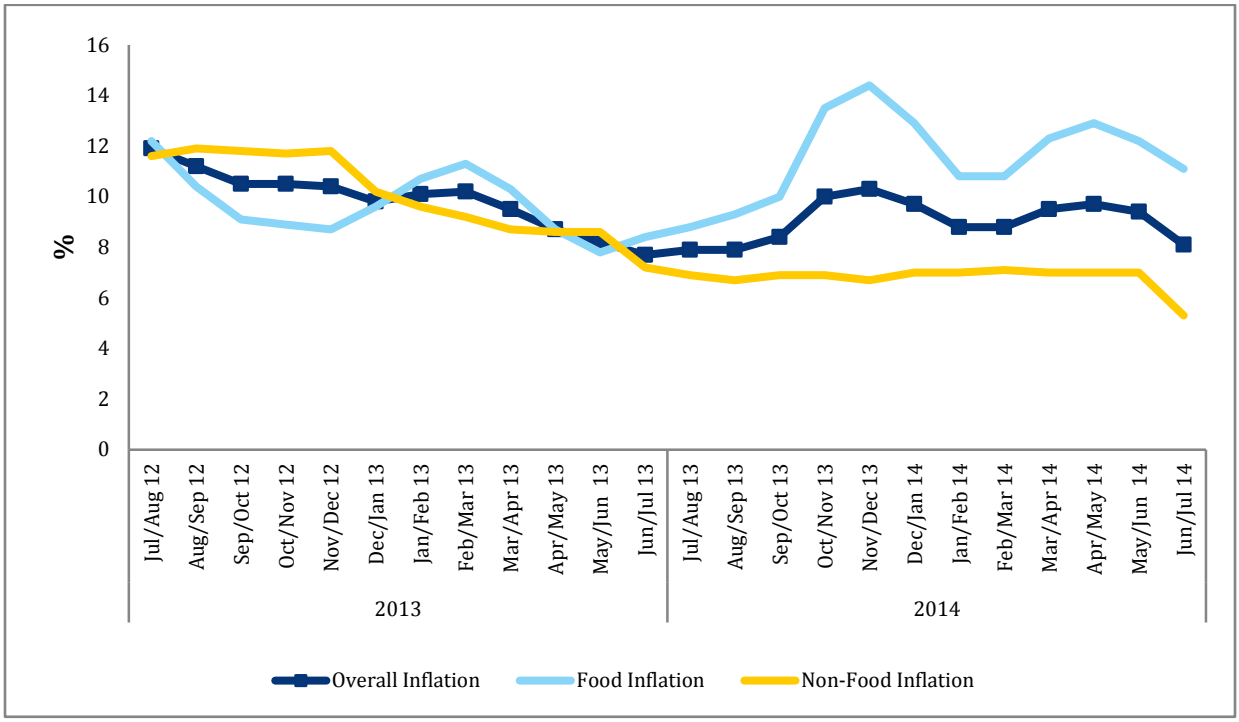
The apparent paradox between the good harvest and high food prices indicates the presence of market distortions. Inefficiencies in the food distribution systems and overall poor access to markets for producers may have contributed to prices staying elevated, while higher prices for petroleum products (administered fuel prices were increased in March 2014, triggering a spark in food prices shortly thereafter) may have caused transportation costs to ripple on wholesale and retail prices.

Table 1: Nepal-India Inflation Correlation Coefficient (January 2012-July 2014)

CPI	0.36463
Food Overall	**0.443246**
Cereal Grains & Products	0.783414
Vegetables	0.57448
Fruits	0.747541
Meat & Fish	0.255348

Source: NRB, Central Statistics Office of India and WB Staff estimates

Figure 14: Y-O-Y Inflation



Despite some improvement in exports, Nepal's trade balance continued to deteriorate. Export growth accelerated significantly in FY14, reaching 5.1 percent compared with a 2.8 percent decline in FY13. Total exports, however, remained at a meager 5.2 percent of GDP, marginally up by 0.1 percentage points relative to the previous year. They remained massively outweighed by the import bill, which grew by 14 percent, up from 10.9 percent in FY13. At $7.1 billion in FY14, imports were seven times larger than exports ($1.02 billion), accounting for 36.1 percent of GDP (compared to 32.3 percent in FY13). For the fourth consecutive year, the value of petroleum imports alone exceeded the total value of Nepal's exports, by some $326 million in FY14. The trade deficit grew to $6.1 billion, equivalent to 30.9 percent of GDP.

The growth in total exports was partially explained by a surge in pashmina, readymade garments and woolen carpets exports to third countries (other than India). Pashmina exports grew by 12.8 percent, while exports of readymade garments and woolen carpets increased by 22.2 percent and 8.6 percent,

respectively. Possible drivers include the relative weakening of the rupee against the dollar and also, to some extent, a catch-up effect after a poor FY13 showing.

Table 2: Export growth in key products to third countries

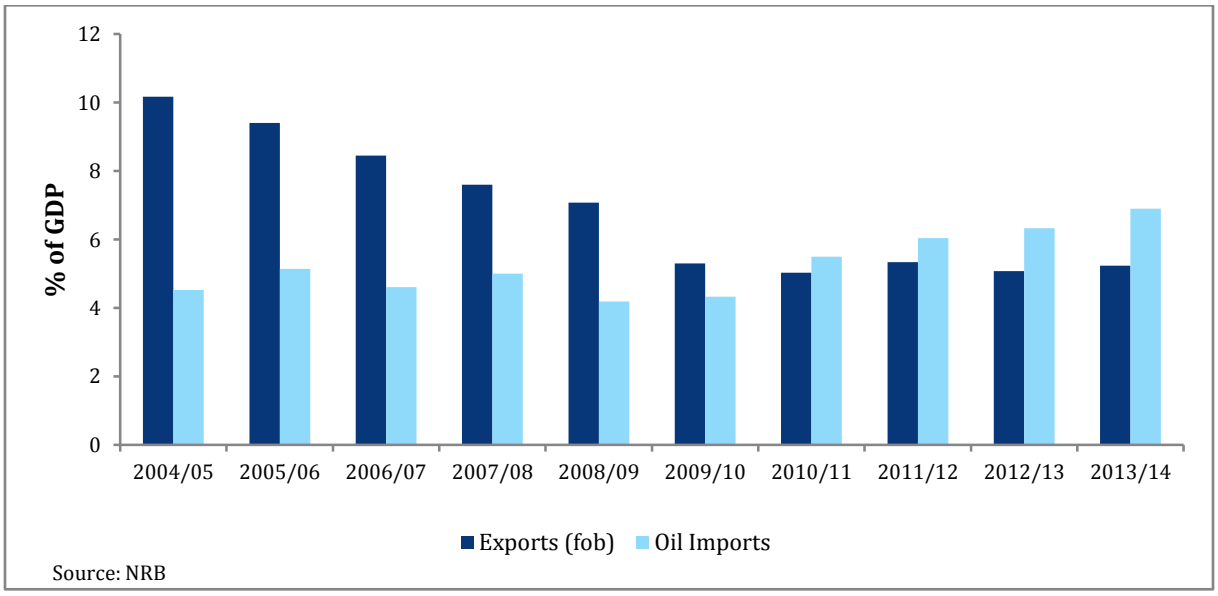
	2012/2013	2013/2014
Pashmina	-52.8%	12.8%
Readymade Garments	-29.1%	22.7%
Woolen Carpets	-19.3%	8.6%

Source: Nepal Customs

The bulk of Nepal's exports continued to flow to India. With the exception of woolen carpets exports ($75 million), the following top five exports were to India in light manufacturing products, namely: zinc sheets ($62.9 million), textiles ($58.8 million), polyester yarn ($52.5 million), juice ($45.1 million) and jute goods ($43.8 million). The ability for Nepal to produce such products and sell them on the Indian market suggests vastly unexploited potential to tap into the formidable market of over half a billion people just south of Nepal's border.

The top import was petroleum products – reflecting Nepal's chronic energy deficit – followed by gold and silver (taken together). At $1.36 billion, petroleum products are, by a wide margin, the main import item. At $252.5 million and $129.4 million respectively, imports of gold and silver, taken together, were larger than the next biggest item, vehicles and spare parts ($335.6 million). This striking fact exemplifies the extent to which imports are skewed toward final consumption or savings rather than productive investments. While significant growth in imports of hotrolled steel (84 percent) can be explained to some extent by the uptick in construction activity, it is harder to account for the growth of key inputs into production given lackluster industrial performance. For instance the growth in imports of crude soyabean oil and crude palm oil (24.5 and 9.2 percent) could be attributable to tariff jumping to take advantage of higher duties levied in India. The India-Nepal Trade Agreement of 2009 provides duty free export of up to 100,000 metric tons annually of vegetable oil to India from Nepal.

Figure 15: Oil imports have overtaken total exports



Over the years, Nepal's trade has become increasingly concentrated on the Indian market. The trade deficit with India grew by 17.1 percent to stand at -$4.2 billion. While exports to India increased to 4.3 percent in FY14 from a decline of -5.3 percent in FY13, it is only 3.08 percent of GDP. On the other hand, imports from India that increased by only 2.4 percentage points to 15.3 percent in FY14 amount to 21.5 percent of GDP.

As in previous year, Nepal's massive trade deficit was more than compensated for (and to some extent allowed by) surging inflows of remittances. The balance of payments surplus reached $1.3 billion (or 6.6 percent of GDP), growing at a whopping rate of 65.1 percent, while the current account was positive by $915 million (a 41 percent increase from the previous year). This healthy position was overwhelmingly on account of remittance growth, with total private transfers reaching a record high of $5.5 billion. Equivalent to some 28.2 percent of GDP, these transfers are larger than the total deficit in the balance of goods, services and income. To a much lesser extent, a 27.1 percent increase in grants and 4.9 percent increase in pensions further assisted the positive current account position.

The financial account surplus declined by $35.3 million, but contracted at a slower rate than in previous years. The sharp decline of -68.5 percent ($70.7 million) in foreign direct investment to a paltry $32.5 million (from $103.3 in FY13) drove the overall decline in financial transfers.

Figure 16: Trade Balance

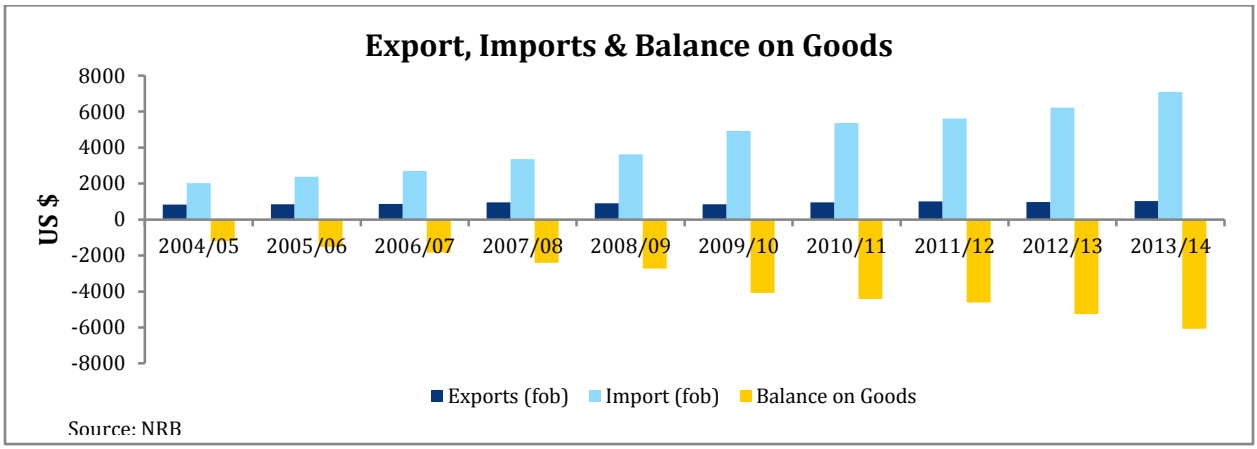
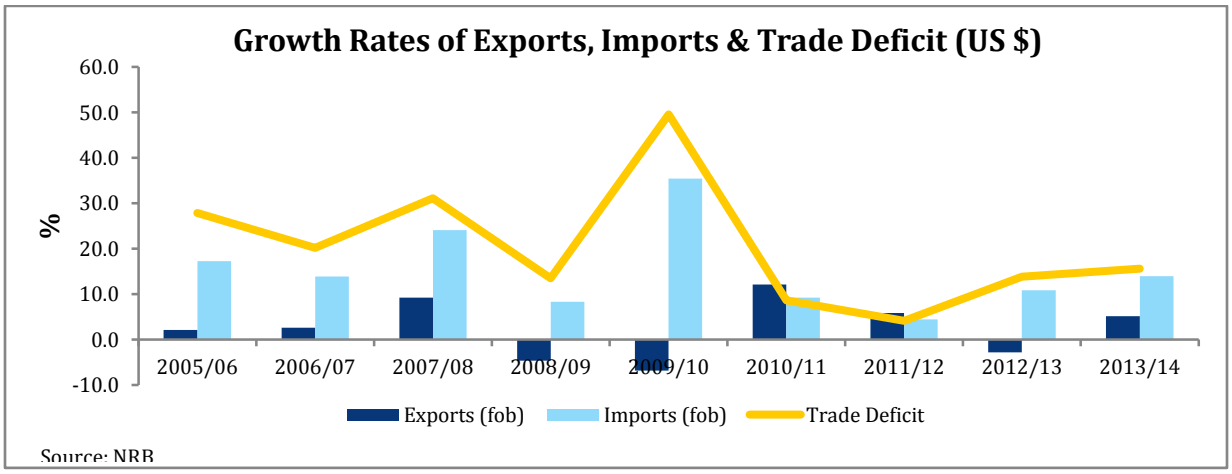


Figure 17: Export, Import & Trade Balance Growth Rate



The large trade deficit reflects poor competitiveness. It does not pose a significant macroeconomic challenge. Thanks to remittances, Nepal can afford the imports it consumes and to some extent the massive import bill is nothing but a reflection of that additional disposable income. Moreover, rising imports are not necessarily bad in and of themselves. When they consist of key productive inputs or capital goods, imports can spur and support economic activity and be a significant source of technological spillovers. However, this does not appear to be the case in Nepal, where imports are dominated by consumer products such as vehicles and spare parts, gold and silver, medicine and petroleum products. A more relevant concern is the double failure of Nepal's firms to exploit the opportunities provided by India's vast market to export their goods and services or to capture a greater share of the purchasing power provided by remittance inflows.

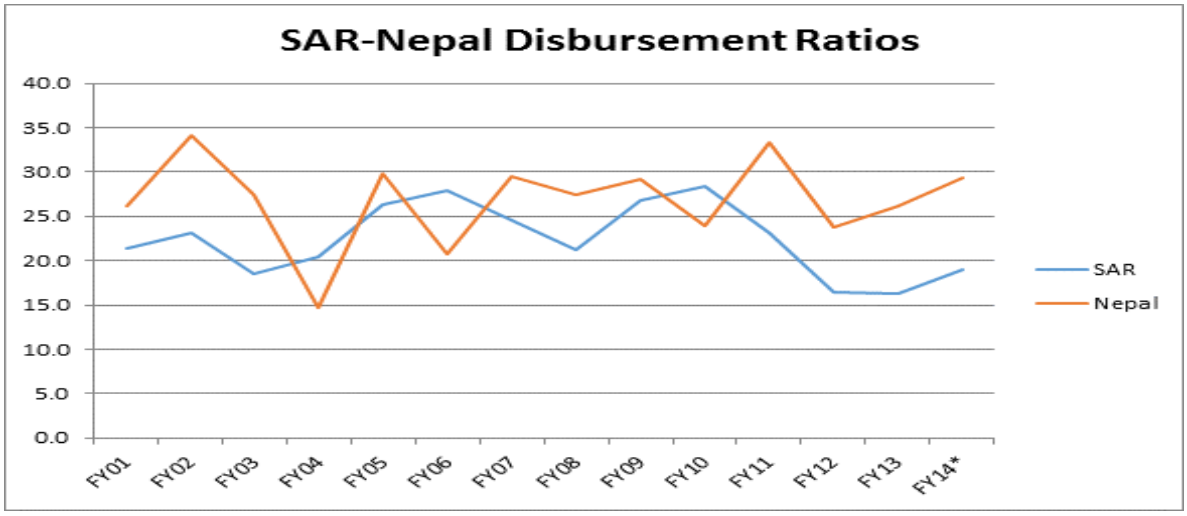
World Bank Program

Portfolio and Programs

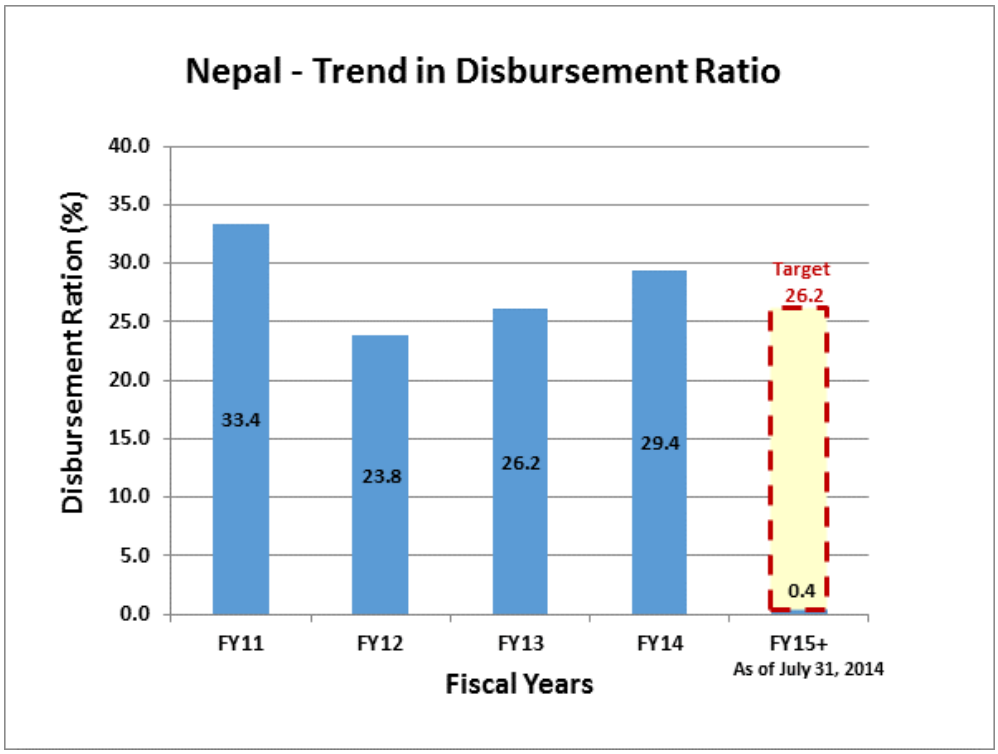
The current portfolio comprises 19 active projects with a net commitment of about $1.37 billion (this includes 17 active IDA projects with a net commitment of about $1.29 billion and two active Trust Fund projects of $5 million and above, with a net commitment of $77 million. Current cumulative International Development Association disbursements are $568.47 million (about 46 percent of net commitments) and cumulative trust fund disbursements are $11.32 million (about 15 percent of net commitments). In addition, there are three regional projects with net commitments of $240 million, of which about $30 million (12 percent of net commitments) have been disbursed (see table). Seven IDA projects and one Trust Fund Project amounting to $463 million closed in FY2014.

Disbursements

Recently, disbursements have significantly improved, from $83.37 million in December 2013 to $221.05 million as of the end of FY2014. The disbursement ratio improved from 8.5 percent in December 2013 to 29.4 percent in FY2014, which was above the regional average of 19 percent and Bank-wide average of 20.8 percent. Nepal has exceeded the annual target of 25 percent disbursement ratio during FY2014. In terms of breakdown between IDA and TF portfolio, the IDA portfolio (comprising 19 projects) achieved a ratio of 30.4 percent (total disbursement $202.90 million), and the TF portfolio (comprising three projects) achieved a ratio of 21.1 percent (total disbursement $18.16 million). The following chart compares Nepal disbursement ratio with the South Asia region:



Following chart illustrates Nepal's disbursement ratio trend of five fiscal years:



Overall, despite its fragile country context, Nepal has maintained a relatively stable track record in disbursements, better than similar IDA countries. During the past four years, disbursements averaged about 28 percent (FY11 had an exceptional ratio of 33.4 percent). This good progress is due to rigorous and proactive follow up by the country management unit (CMU) and the task teams, portfolio review meetings with the Ministry of Finance, and subsequent follow-ups and timely payment actions by the Bank.

Audit Reports: As of July 2014, 36 out of 38 audit reports required for FY2012/13 audits were received. Two audit reports that were overdue by July 2014 were later received in August 2014. However, one report was not acceptable. Task teams and the CMU are regularly following up on overdue reports and there has been progress in their submission compared with previous years.

Knowledge Products: Several key strategic pieces of technical assistance, analytical and advisory services, and economic and sector work have been undertaken or are nearing completion, including the Country Partnership Strategy (2014-18), policy notes for the new government, thematic reports on food security and nutrition, mapping local service delivery, a competitive industries (CI) diagnostic, non-lending technical assistance (NLTA) for hydropower scale-upl, Second Public Expenditure and Financial Accountability (PEFA) Assessment, and a report on the observance and standards of codes (ROSC) in accounting and auditing.

Challenges: While these are positive developments, portfolio quality and implementation progress remain a challenge in Nepal. Currently, there are 10 projects at risk, which comprise about 53 percent of the portfolio. Five of them are actual problem projects. Generic implementation issues affecting the portfolio include: (i) delays in approval of work plans that include procurement plans; (ii) frequent turnover of project staff; (iii) weak safeguard capacity; (iv) weak procurement and financial management capacity; and (v) weak monitoring and evaluation capacity.

Portfolio Initiatives in FY15 In order to improve the overall quality of the IDA and TF portfolios, the following initiatives are being undertaken:

- Bi-annual joint portfolio reviews with the Ministry of Finance and project authorities (the most recent one was held on September 4, 2014 at the Ministry of Finance);
- Coordinating the annual Nepal Portfolio Performance Review (NPPR) led by the Ministry of Finance with participation by other development partners and an overall objective to address generic implementation issues (the most recent one was held on April 23, 2014);
- Intensive follow-ups with project officials by task teams on implementation issues;
- Proactive actions such as restructuring and cancellation of funds;
- Active follow-up by task teams on high value contracts;
- Assessment to explore how to best integrate generally accepted accounting principles (GAAP) into overall project design;

Development of IDA Portfolio FY2010-2014*

Fiscal year	2011	2012	2013	2014	2015*
Number of Projects	17	18	19	21	19
Net Commitments ($ million)	**1,259**	**1,346**	**1,534**	**1,592**	**1,374**
Undisbursed Balance ($ million)	**806**	**693**	**740**	**719**	**718**
Number of Problem Projects	3	**2**	**5**	**5**	**5**
Disbursement Ratio (%)	**33**	**24**	**26**	**29**	**26 (projection)**

Trust Fund (TF) portfolio: As of July 31, 2014, The Trust Fund (TF) portfolio consists of 15 active TFs (recipient executed), with a total commitment amount of about $228.23 million, out of which $140.92 million has been disbursed (about 62 percent of net commitments). There are three operations supported by the Multi-Donor Trust Fund (MDTF) for Public Financial Management (PFM) supporting the areas of cash management, strengthening of the audit function and strengthening the social accountability system.

IDA 17 Program and Pipeline: Under IDA17, Nepal's indicative allocation is about $928 million, a 45-percent increase over the IDA16 allocation. In FY12, only about 70 percent of the IDA allocation was used, but the FY13 pipeline was programmed to make up for the shortcoming and delivered 110 percent of the FY13 IDA resources. For FY14, the rest of the IDA16 allocations, including funds from cancellations, have been allocated. In addition to the increase in Nepal's IDA financing envelope, there have been changes in the composition of the financing. Under IDA16, Nepal received grants and credits at a 45-55 ratio due to its moderate levels of debt distress. A recent joint IMF-World Bank debt sustainability analysis assessed Nepal's risk of debt distress to be low. Given this improvement in its debt-distress rating, Nepal's financing under IDA17 will be on a credit-only basis. The pipeline planning for under IDA17 for FY2015 is as follows:

S.No.	Project	Amount (in USD million)	Amount (Other Sources)	Approved Date	Status
Quarter 1					
1	Kabeli A Hydro Electric Project	46.0		1-Jul-14	Approved
Quarter 2					
2	SREP - Supported Extended Biogas Project		7.9	27-Aug-14	On Track
3	Grid Solar and Energy Efficiency	80.0		6-Nov-14	On Track
4	Higher Education Reforms Project	80.0		11-Nov-14	On Track
5	Financial Sector Stability DPC2	50.0		15-Dec-14	On Track
6	Business Models for Private Sector-Led Off-Grid Energy Access		8.0	16-Dec-14	On Track
TOTAL		256.0	15.9		

International Finance Corporation (IFC)

Nepal is a priority country for 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 to make doing business easier.

Shortage of electricity is a key concern for the private sector and a top economic concern nationwide. 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. IFC is also supporting aviation, agri-business and tourism sectors through advisory support and actual investments in both equity and debt. Nepal energy has been identified as a key area for support. 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.

IFC works closely with the government of Nepal and the private sector to help improve the enabling environment for doing business. We support 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. We also help identify and support transformative investment projects. IFC has helped the government of Nepal launch e-portal of licenses, and automate the Office of Company Registrar to make it easier to start a business.

The IFC also works with regulators, private sector clients, and donors to support private sector growth through public-private platforms like the Nepal Business Forum, which has proven to be an effective tool to resolve most challenges faced by the private sector in a post conflict environment.

IFC has been supporting private sector firms and reaching 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, all intended 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 (MSMEs), which employ an estimated 1.75 million people and account for a fifth of the country's GDP. IFC advisory programs facilitate growth of small and medium enterprises (SMEs) in Nepal, helping enhance their financing options through a supportive financial infrastructure including institutions, financial product development and improved payment regulations. It also advises financial institutions on how to diversify their products for low-income households.

Multilateral Investment Guarantee Agency (MIGA)

MIGA currently has no exposure in Nepal. Recently cancelled guarantees were in the hydropower sector. MIGA therefore has room to expand the provision of political risk guarantees in the country. Like IFC, MIGA gets constrained by a challenging legal framework for foreign investment, poor governance and accounting practices, the absence of competitive bidding to award infrastructure projects, and the lack of an adequate framework and limited capacity to support private-public partnerships.

Nepal Road Sector Development Project

Key Dates:
Board Approval: (original) December 6, 2007; AF (1): November 23, 2010; AF (2): June 2, 2011
Effective: (original) February 21, 2008; AF (1): April 11, 2011; AF (2): July 8, 2011
Closing: June 30, 2015

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	176.6		
Borrower	58.5		
Co-financing			
Total Bank Financing	117.6	89.32	27.98
IDA	117.6	89.32	27.98
IBRD			
Trust Fund			

Project Background:

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 walk. 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 for 86 percent of the population to live within two hours (in the plain districts) or four hours (in 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 against this backdrop to support the Strategic Roads Network.

Project Development Objective and Brief Component Description:

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. The project aims to connect eight remote district headquarters in the mid-western and far-western regions of Nepal. The original project outlay was approximately $43 million with additional financing of $75 million. The components are: (i) road development (utilizing 83 percent of the funding); and (ii) institutional strengthening and policy reform.

Results Achieved:

A survey carried out in 2012 showed that the amount of paved roads in poor condition had been reduced to 11.3 percent, below the target of 15 percent.
All major contracts, barring contracts linked to road, are now completed. Seven district headquarters except one are now connected as a result of the completion of these contacts.
The U.K. Department for International Development (DFID) has recently agreed to finance the road safety related works under the project through a Global Road Safety Facility trust fund.

Key Partners:

Department of Roads, U.K. Department for International Development

Nepal Bridges Improvement and Maintenance Program

Key Dates:
Board Approval: June 28, 2012
Effective: December 20, 2012
Closing: July 15, 2017

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	69.0		
Borrower	9.0		
Co-financing			
Total Bank Financing	60.0	14.44	44.45
IDA	60.0	14.44	44.45
IBRD			
Trust Fund			

Program Background:

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 (SRN) 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 complicate efforts to provide adequate transport infrastructure. The lack of physical access is seen as one of the root causes of the high level of poverty incidence in remote areas. The Bridges Improvement and Maintenance Program (BIMP) has been designed by the government to address these issues.

Program Development Objective and Brief Component Description:

The project aims to provide safe, reliable and cost-effective bridges on Nepal's Strategic Roads Network. It 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/program to use this instrument). The overall program outlay is $150 million and the Bank's share is roughly 40 percent. The scope of the program 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 Achieved:

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.

However, the last review proposed three remedial actions as a condition for IDA's support of the program, including a management change. The government has taken steps to fulfil the proposed actions.

Key Partners:
Department of Roads

Nepal Strengthening the National Rural Transport Program

Key Dates:
Board Approval: December 23, 2013
Effective: April 2, 2014
Closing: July 15, 2019

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	175.4		
Borrower	63.9		
Co-financing (DFID)	11.51		
Total Bank Financing	100	5	94.88
IDA	100	5	94.88
IBRD			
Trust Fund			

Project Background:

Over the past decade, poverty has reduced significantly in rural areas of Nepal, where 83 percent of the population lives. In order to maintain this positive trend and to achieve significant development gains, it is necessary to continue the effort to improve transport connectivity in rural areas. Nepal's topography and geology, combined with rural population distribution, significantly complicate efforts to provide all-weather transport links to many rural communities. Improving connectivity throughout Nepal is key to ensuring that economic growth reaches rural areas. The project has been designed to enhance physical access to markets and social and economic services, as well as assistance during emergency events. Initially, 33 districts are eligible to participate under the project, which covers more than half of the total population of Nepal. It is the third IDA operation to support Nepal's rural transport sector in the past 15 years

Project Development Objective and Brief Component Description:

The objective is to enhance the availability and reliability of transport connectivity for rural communities in participating districts. Components call for institutional strengthening and technical assistance ($19.7 million) and civil works ($155.7 million). The first will fund (i) institutional strengthening and technical assistance; (ii) beneficiary monitoring of physical works of the project; and (iii) an impact study of selected project interventions. The other component will support districts in upgrading or rehabilitating rural transport infrastructure, and maintaining rural transport infrastructure.

Results Achieved:

Establishment of project offices (both premises and staffing).

Mobilization of the International Labor Organization (ILO), which is helping the government with the implementation of the maintenance sub-component.

Completion of initial inventory and conditions surveys of potential project roads in the districts.

Initiation of the development of the comprehensive investment plan.

Key Partners:

Ministry of Federal Affairs and Local Development, U.K. Department for International Development

Nepal Enhanced Vocational Education and Training

Key Dates:
Approved: April 21, 2011
Effective: August 23, 2011
Closing: October 30, 2015

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	60.9		
Borrower	10.9		
Co-financing	0.0		
Total Bank Financing			
IDA	39.50	13.6	25.06
IBRD			
Trust Fund			

Project Background:

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 programs by reaching out to more than 75,000 youths, who will get access to short-term skills training, technical education, and opportunities for certifying their existing skills adopting appropriate targeting tools and other inclusive processes. However, initial delays in the commencement of key activities in the first two years led to restructuring of the project in December 2013, with partial cancellation of funds amounting to $10.5 million.

Project Development Objective and Brief Component Description:
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. It consists of four 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.
For now, the project is providing short-term training stipends to students for technical education, and performance-based and/or matching grants to technical institutes. It also has provisions for certifying existing skills gained through informal methods, and for creating a larger pool of trainers in the country.

Results Achieved:
About 63 percent of graduates from supported programs have been gainfully employed for at least six months after the completion of training.
More than 9,321 youths have been tested and certified on pre-existing skills by the National Skills Testing Board.
The share of girls, Dalits and disadvantaged Janjatis enrolled in supported institutions has increased to 54.3 percent.
A total of 345 skills test managers, 1,191 lead and assistant trainers, and 4,570 skills test assessors have been trained.
Some 2,564 students have received or are receiving scholarship support, and around 26,888 youths have received short-term training through results-based and voucher-based modalities.

Key Partners:
Ministry of Education, Council for Technical Education and Vocational Training

Nepal School Sector Reform Program

Key Dates:
Board Approval (original): September 22, 2009, AF May 15 2013
Effective: December 23, 2009, (AF): September 3, 2013
Closing (original): December 15, 2014, (AF): July 15, 2016

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	2481.0		
Borrower	1885.0		
Co-financing (Donors)	366.0		
Total Bank Financing	230.0	165.69	65.41
IDA	230.0	165.69	65.41
IBRD			
Trust Fund			

Project Background:

The School Sector Reform Program (SSRP) 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. SSRP focuses on basic education to achieve the education Millennium Development Goals 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. Original IDA financing was for five years (2009-2013). In June 2013, the Board approved $100 million in additional financing.

Project Development Objective and Brief Component Description:

The project aims to support the government's SSRP to increase access to and improve quality of school education, especially for marginalized groups. 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 the SSRP's three pillars of enhancing access, promoting inclusion and improving quality. The key policy reforms 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 Achieved:

Starting from a baseline of 73 percent, the net enrollment rate (NER) for basic education has increased to 86.30 percent, surpassing the end of program target of 85 percent. The completion rate for basic education has reached 63.8 percent. Nepal has achieved gender parity in net enrollment for basic and secondary education. The assessment of learning outcomes for grade 8 students has been completed and the final report has been made publicly available.

Key Partners:

Ministry of Education, Asian Development Bank, AusAID, Denmark, European Union, U.K. Department for International Development, Finland, Norway, UNICEF, Global Partnership for Education, Japan, USAID, UNESCO World Food Program.

Nepal Kabeli Transmission Project

Key Dates:
Board Approval: May 10, 2011
Effective: September 21, 2011
Closing: June 30, 2015

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	47.69		
Borrower	7.8		
Co-financing (Community)	1.94		
Total Bank Financing			
IDA	38.0	11.04	25.69
IBRD			
Trust Fund			

Project Background:

Nepal has rich hydropower resources that could potentially support export of hydropower to other countries in the region. However, it faces an 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 exploit 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 receives IDA/IFC financing, with a Board date in FY14.

Project Development Objective and Brief Component Description:

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. 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 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:

The first section of 34 km is expected to be commissioned by September 2014, and this would enable transfer of 22 MW of electricity generated by the private hydropower generator. Thirty-five solar home systems, three institutional solar systems and 25 bio-gas plants have been provided under the third component. 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.

In the past five months, 65 foundations for transmission line have been completed and with 10 more under progress. The land for sub-stations has been acquired and civil works started. However, the progress of the electrification program for the affected communities has been slow. Due to initial delays, the project is not expected to be completed by the project closing date. The project is planned for restructuring by November 2014 to extend the closing date.

Key Partners:

Ministry of Energy, Nepal Electricity Authority, Alternative Energy Promotion Center

Nepal Kali Gandaki A Hydropower Plant Rehabilitation Project

Key Dates:
Board Approval: May 15, 2013
Effective: December 31, 2013
Closing: June 30, 2017

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	30.4		
Borrower	3.1		
Co-financing			
Total Bank Financing			
IDA	27.26	1.0	26.88
IBRD			
Trust Fund			

Project Background:

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 the Kali Gandaki and Andhi Khola rivers. The Asian Development Bank (ADB) funded the original plant, which cost $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 Objective and Brief Component Description:

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. The project has four components: (i) civil works ($9.1 million); (ii) electro-mechanical works ($16.6 million); (iii) technical assistance and capacity-building ($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:

Procurement for four major activities have been completed contracts for all major activities has been signed. There have been implementation delays which are being discussed with the Nepal Electricity Authority (NEA) management to accelerate implementation.

Key Partners:

Ministry of Energy, Nepal Electricity Authority

Nepal-India Electricity Transmission and Trade Project

Key Dates:
Board Approval: (original) June 21, 2011; AF: June 24, 2013
Effective: (original) September 29, 2011; AF: December 31, 2013
Closing: December 31, 2016

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	237.9		
Borrower	30.0		
Co-financing (Others)	69.9		
Total Bank Financing			
IDA	138.0	20.59	116.45
IBRD			
Trust Fund			

Project Background:

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 complements the government strategy for addressing the electricity shortages through import of electricity from India. It will also enable the export of surplus hydropower energy to India in the long term.

Project Development Objective and Brief Component Description:

The development objectives are to establish cross-border transmission capacity between India and Nepal of about 1,000 MW to facilitate electricity trade between the two countries; and increase the supply of electricity in Nepal by the sustainable import of at least 100 MW. The project has three components: (i) the design, construction and operation of an approximately 130 km of 400 kV double circuit north-south cross border transmission line between Muzaffarpur in India and Dhalkebar in Nepal; (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. ; and (iii) technical advisory for preparation of a transmission system master plan for future transmission system development in Nepal, for strengthening the institutional capacity of the Electricity Authority's transmission business, including to increase cross-border transmission links, and 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. A contract was awarded in February 2013 for supply and installation of towers for the HDD 400 kV transmission line and is now being implemented. The check survey for the right-of-way has been completed. Procurement for all major substations, conductors and transformers under the project has been completed.

Key Partners:

Ministry of Energy, Nepal Electricity Authority

NEPAL KABELI A Hydroelectric Project

Key Dates:
Board Approval: July 1, 2014
Effective: Not yet effective (legal agreement not yet signed)
Closing: December 30, 2019

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost			
Borrower			
Co-financing (Others)			
Total Bank Financing			
IDA	46.0	0.0	0.0
IBRD			
Trust Fund			

Project Background:

While Nepal is endowed with a huge theoretical hydropower potential of about 84,000 MW and economically viable potential of 43,000 MW, the installed hydropower generation capacity as of July 2013 was merely 746 MW . Similarly, 75 percent of the population of Nepal is estimated to have access to electricity (grid and off-grid) according to the 2013 Census, however, service is not necessarily available due to shortage of supply, with load shedding of up to 18 hours per day in grid-covered areas in the dry season. WBG, Asian Development Bank, U.K. Department for International Development (DfID) and other development partners are jointly working on a transformational engagement for Nepal to meet its immediate power needs and develop its hydro assets to become the engine of growth for this country which is currently in a political transition and to enhance regional integration. Among other things, this program comprises short term strategy to develop power for domestic use – Kabeli A Hydroelectric Project (KAHEP), 37.6 MW, with a local sponsor group. KAHEP is consistent with the joint IDA/IFC Country Partnership Strategy for Nepal (FY14-16), which stresses the importance of increased supply of electricity and improved access to reliable and affordable electricity to increasing economic growth and competitiveness. It is also consistent with the government's strategy to deal with the current energy crisis and to attract private investments in hydropower in Nepal. It is a part of the Nepal Hydro Transformational Engagement of WBG, and has been proposed for financing by IDA and IFC, including IFC–Canada Climate Change Program (CCCP). If successful, the project will demonstrate the viability of future hydro power projects through proper public-private financing arrangements and attract investors and financiers to the country and the sector.

Project Development Objective and Brief Component Description:
The project development objective is to add hydropower generation capacity to supply the NEA grid through public private investments. KAHEP has three components: (i) the KAHEP component ($102.6) with IDA, IFC and CCCP funding in credit terms to construct the hydropower project including a diversion dam, intake, settling basins, a headrace tunnel, a semi-underground powerfhouse and a tailrace canal; (ii) the Ministry of Energy component ($2 million), with IDA funding in grant terms (as negotiated) to support implementation and compliance; and (iii) the Investment Board Nepal (IBN) component, with IDA funding in grant terms (as negotiated).

Results Achieved:

The negotiated Financing Agreement as well as Project Agreement have not yet been signed. The project was negotiated in FY2014 while Nepal was still eligible for IDA grant, and the project as negotiated has a $6 million IDA financing in grant terms for Technical Assistance. As of July 1, 2014, Nepal will not be eligible for IDA grant under IDA17 allocations. This issue has not yet been resolved and the Bank and government are in negotiation to find a solution to this issue.

Key Partners:

Kabeli Energy Limited, Ministry of Energy, Investment Board of Nepal, Hydroelectricity Investment and Development Company Limited

Strengthening Regional Cooperation for Wildlife Protection

Key Dates:
Board Approval: April 7, 2011
Effective: Bangladesh: June 29, 2011; Nepal: July 20, 2011
Closing: Bangladesh: December 31, 2016; Nepal: May 31, 2016

Financing in million US Dollars (as of September 12, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	39.0		
Borrower			
Co-financing			
Total Bank Financing			
IDA	3 (Nepal) 36 (Bangladesh)	1.32(Nepal)	1.68(Nepal)
IBRD			
Trust Fund			

Project Background:

The Strengthening Regional Cooperation for Wildlife Protection project complements ongoing national and regional efforts to protect natural habitats and biodiversity conservation by focusing attention on the control of illegal trade in wildlife and trans-boundary wildlife conservation issues. The project was an outcome of the Global Tiger Initiative, but focuses on stabilizing and, if possible, increasing the population and habitats of critically endangered fauna in South Asia. Each project phase is designed that each participating country would attain regional or cross-boundary goals and also address national priorities. Nepal and Bangladesh are participating in Phase I while Bhutan has joined Phase II.

Project Development Objective and Brief Component Description:
The project development objective (PDO) is to assist the participating governments to build or enhance shared capacity institution, knowledge and incentives to collaborate in tackling illegal wildlife trade and other selected regional conservation threats to habitats in border areas. The Bangladesh program is $36 million and comprises the following components: (i) capacity building for addressing the illegal trans-boundary wildlife trade ($8.3 million); (ii) promoting wildlife conservation in Asia ($23.5 million); and (iii) project coordination and communication ($4.6 million). The Nepal program is $3 million and comprises the following components: (i) capacity building for addressing the illegal trans-boundary wildlife trade ($0.9 million); (ii) promoting wildlife conservation in Asia ($1.6 million); and (iii) project coordination and communication ($0.2 million).

Results Achieved:

Setting up the South Asian Wilderness Enforcement Network (SAWEN) Secretariat and drafting the SAWEN statute
Institutional capacity building for the SAWEN Secretariat under the Nepal project (APL 1) as well as a Bank-supported Institutional Development Fund (IDF) grant to be signed shortly.
Substantive discussion of the draft SAWEN statute at the SAWEN meeting held in late August 2014 towards national ratification in coming months.
Implementation of eight sub-projects in Nepal, including one to address cross-border human-elephant conflict.
Creation of Nepal's Wildlife Crime Control Bureau at the central level and 19 district-level units.
Use of spatial monitoring and reporting tools (SMART) to fight wildlife crime.
India signed bilateral Memoranda of Understanding (MOUs) with Bangladesh, Bhutan and Nepal on cross-border cooperation

Key Partners:
Bangladesh: Ministry of Environment and Forests, Bangladesh Forest Department; Nepal: Ministry of Forests and Soil Conservation, Department of National Parks and Wildlife Conservation, Department of Forests, National Trust for Nature Conservation

Nepal Agriculture and Food Security Project

Key Dates:
Approved: February 11, 2013
Effective: April 30, 2013
Closing: March 31, 2018

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	58.0		
Borrower	11.5		
Co-financing			
Total Bank Financing			
IDA			
IBRD			
Trust Fund (GAFSP)	46.5	5.25	41.25

Project Background:

On June 7, 2011, the government of Nepal received a competitive grant of $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 $1.1 billion over three years, with the United States as the largest donor. The World Bank is the administrator for GAFSP as well as the supervising entity for AFSP, which 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 percent, while 46 percent of the children under five are stunted and 32.6 percent underweight. Overall, poverty rate for Nepal is 25 percent, but it increases to 45 percent in the project area.

Project Development Objective and Brief Component Description:

The goal is to enhance food and nutritional security of targeted communities in selected locations of Nepal. Food security will be realized through increased food availability, made possible by increasing productivity of agriculture, both crop and livestock. Nutrition security will be realized through improved dietary intake made possible by promotion of diversified diets, and improved feeding and caring practices for pregnant and nursing women and children up to two years of age. 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 six to 24 months old). The project comprises three components: (i) technology development and adaptation; (ii) technology dissemination and adoption; and (iii) food and nutritional status enhancement. It aims to reach 162,500 beneficiaries, including 45,000 pregnant and nursing women.

Results Achieved:

In the first year of the project, the National Agriculture Research Council (NARC) produced a total of 2.21 MT of breeder seeds and 33.53 MT of foundation seeds of cereal and legumes.
About 64 on-station and 96 on-farm trials have been conducted, with about 46 Integrated Crop Management (ICM) practices, 32 Integrated Disease Management (IDM) practices and 87 Integrated Pest Management (IPM) technologies tested.
NARC research stations have also tested and introduced draught tolerant, pest tolerant, and nutrient enriched varieties of grains (rice, wheat and maize). At least two varieties of wheat are in the process to be released by the end of 2014.
NARC also is at advanced stage of on-farm validation of four improved production practices for goats and three improved production practices for poultry. Once validated, these practices will be delivered to project farmers.
The project works with the U.N. Food and Agriculture Organization to provide technical support and assistance.

Key Partners:
Ministry of Agriculture Development, Ministry of Health and Population, Nepal Agriculture Research Council, U.N. Food and Agriculture Organization

Nepal Building Resilience to Climate Related Hazards

Key Dates:
Approved: January 15, 2013
Effective: June 20, 2013
Closing: November 30, 2018

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	31.3		
Borrower	0.3		
Co-financing			
Total Bank Financing			
IDA			
IBRD			
Trust Fund	31.0	6.07	24.93

Project Background:

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 Objective and Brief Component Description:

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. The project has four components: (i) institutional capacity strengthening within the department, (ii) modernization of hydro- meteorological observation networks and forecasting, (iii) enhancement of the department's service delivery system, and (iv) creation of an agriculture management information system.

Results Achieved:

The Department of Hydrology and Meteorology under the Ministry of Science, Technology and Environment has completed the procurement process for hiring a System Integrator (SI) firm and a firm for designing its headquarters. The Ministry of Agriculture Development has signed a Memorandum of Understanding (MOU) with the National Agricultural Research Council (NARC) to collaborate on preparation of agro-weather advisories

A government delegation did a study tour to India in July 2014 facilitated by the World Bank to the (i) International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) in Hyderabad; (ii) India Meteorological Department in New Delhi; and (iii) National Center for Medium Range Weather Forecasting (NCMRWF) in Noida to learn about the delivery of weather and climate-related services in the agriculture sector.

However, the hiring of international consultants and firms crucial for the project may suffer due to recent 14-point circular from the Chief Secretary that has stringent conditions on international hiring.

Key Partners:

Ministry of Agricultural Development, Department of Hydrology and Meteorology, Asian Development Bank, International Finance Corporation

Nepal Public Financial Management Multi-Donor Trust Fund

Key Dates:
Approved: December 2010
Effective: December 2010
Closing: June 30, 2015

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	17.68	6.87	10.81
Borrower			
Co-financing			
Total Bank Financing			
IDA			
IBRD			
Trust Fund (MDTF)	17.68	6.87	10.81

Project Background:

Public financial management (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 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, a multi-donor trust fund to support PFM was established in December 2010. Australia, Denmark, the U.K. Department for International Development, Norway and the European Union have contributed to the trust fund. The Swiss Development Cooperation (SDC) has recently signed the administrative agreement with the Bank.

Project Development Objective and Brief Component Description:

The project aims to strengthen the performance, transparency and accountability of public financial management in Nepal. The trust fund has four components: (i) strengthening PFM systems and capacity (including by implementing a Single Treasury Account (TSA), 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), and (iv) program management and administration.

Results Achieved:

The TSA system has been rolled out across all 75 districts in Nepal with effect from July 2013 and operates on an on-line basis.

More than 13,700 out of a total of around 14,000 bank accounts have been closed as Financial Comptroller General Office (FCGO) works to shut down those no longer required due to the TSA. This has saved the government about $2 million.

The FCGO web publishes monthly and quarterly budget execution reports that contain budget and variance information. It also produces and disseminates daily budgetary status containing information on aggregate revenue, expenditures, and budget surplus/deficit.

Nepal's financial reporting standards have been aligned with international standards. Project consultants reviewed the Office of the Auditor General (OAG) Quality Assurance Handbook and delivered workshops to senior management and to audit staff on quality assurance.

Key Partners:

Office of the Auditor General, Public Expenditure Financial Accountability Secretariat, Financial Comptroller General's Office, Program for Accountability in Nepal, Canadian Centre for International Studies and Cooperation, Australia, U.K. Department for International Development, Denmark, Norway

Nepal Irrigation and Water Resource Management Project

Key Dates:
Board Approval(original): December 6, 2007; AF I: September 29, 2008; AF II: December 23, 2013
Effective (original): April, 24, 2008; AF I January 30, 2009; AF II: April 10, 2014
Closing (original): June 30, 2015; (AF1): June 30, 2015; (AF2): June 30, 2018

Financing in million US Dollars (As of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	127.34		
Borrower (GON)	5.0		
Borrower (WUAs)	8.1		
Co-financing			
Total Bank Financing			
IDA	114.24	54.9	59.24
IBRD			
Trust Fund			

Project Background:

Two-thirds of Nepal's population is engaged in the agriculture sector, which contributes 36 percent towards the nation's total Gross Domestic Product (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 developed Agriculture Development Strategy funded under a multi-donor initiative (including the Bank), also emphasizes the need for irrigated agriculture.

Project Development Objective and Brief Component Description:

The Irrigation and Water Resources Management Project (IWRMP) aims to improve agriculture productivity and the management of selected irrigation schemes and to enhance institutional capacity for integrated water resources management. The primary target group of beneficiaries of the project is the water users of the selected irrigation schemes that will rehabilitate and/or modernize about 214 farmer managed irrigation schemes (FMIS) covering a total command area of 23,360 hectares. This includes 134 schemes from the main phase (April 2008 to June 2014) and 80 from additional financing (July 2014 to June 2018). The project also targets the irrigation management transfer in four agency-managed irrigation systems (AMIS) and essential structural improvements at about 39,500 ha (23,000 ha through the original project and 16,500 through additional financing (AF). It aims to ensure efficient integration of water resources and crop production to derive full benefits from investments in irrigation. The project will directly support Water and Energy Commissions Secretariat to develop four River Basin Management Plans for Gandaki, West Rapti, Karnali and Babai river systems. The project has four main components: (i) irrigation infrastructure development and improvement; (ii) irrigation management transfer to water user associations in the Terai (plains); (iii) institutional and policy support for integrated water resources management; and (iv) integrated crop and water management.

Results Achieved:

IWRMP's first phase ended in June 2014 with 84 sub-projects completed out of 134 planned and 49 substantially completed. In December 2013, the project secured an additional financing of $50 million to complete the outstanding schemes and scale up the best practices achieved.
Productivity of key agricultural crops has increased in a range of 25 percent to 45 percent with corresponding increase in cropping intensity.
A total of 32 stations of Babai, West Rapti and Karnali River Basin have been equipped with telemetry system – nine are hydrological stations and 23 are meteorological stations.

Key Partners:

Ministry of Agriculture Development, Department of Irrigation, Water and Energy Commission

Nepal Poverty Alleviation Fund II

Key Dates:
Board Approval: (original) December 6, 2007; First AF: June 2, 2011, Second AF: June 5, 2013
Effective: (original) March 19, 2008; First AF: October 11, 2011; Second AF: October 4, 2013
Closing: (original) June 30, 2014; (AF1): December 31, 2014; (AF2): December 31, 2017

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	309.2		
Borrower	30.5		
Co-financing(Beneficiaries)	14.7		
Co-financing(IFAD)	9.0	4.0	5.0
Total Bank Financing	245	162.8	82
IDA	245	162.8	82
IBRD			
Trust Fund	10	10	0

Project Background:

The Poverty Alleviation Fund (PAF) was established around eight years ago, operating in six pilot districts. To date, PAF has successfully reached out to vulnerable groups – especially those disadvantaged due to gender, caste, ethnicity or physical isolation – in 40 districts (some special programs have been conducted in an additional 15 districts). PAF also has demonstrated significant commitment to the strengthening of community organizations (Cos) and their capacity to manage finances and activities, including creation of networks and cooperatives to support marketing and production of products. The majority of CO members (around 80 percent) are women.

Project Development Objective and Brief Component Description:

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. 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:

PAF is now operating its regular program in 40 districts and is in the process of expanding into 15 more districts with the second additional financing. It has mobilized and made agreements with 21,958 community organizations (COs) for implementing various sub-projects.The project has directly benefited 608,483 households and has indirectly benefited an additional 56,460 households through PAF-financed infrastructure sub-projects.
Monitoring results indicate that 66 percent of households have obtained a minimum income increase of 15 percent (in real terms).

Key Partners:

Poverty Alleviation Fund, International Fund for Agricultural Development

Nepal Rural Water Supply and Sanitation Improvement Project

Key Dates:
Board Approval: May 29, 2014
Effective: Not yet Effective
Closing: June 30, 2020

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	90.0		
Borrower	10.5		
Co-financing			
Total Bank Financing	72.0	0.0	72.0
IDA	72.0	0.0	72.0
IBRD			
Community	7.5		

Project Background:
The Joint Monitoring Program (JMP) database notes that Nepal has achieved the Millennium Development Goal (MDG) target for access to improved water supply but is off target for access to improved sanitation. The true situation in rural areas may be worse, as surveys conducted by the National Management Information Project (NMIP) show that 44 percent of the existing rural water systems are in need of repairs or rehabilitation. A report published by the Ministry of Urban Development in May 2011 estimated that about 5.5 million people have inadequate water service and 16 million lack adequate sanitation facilities. The national target is for universal access to water and sanitation by 2017. The project supports efforts to adopt an inclusive, community driven approach in which local communities play the lead role in planning, design and implementation of schemes, as well as in the operation and maintenance of services. The project also aims to support the long term sustainability of water supply systems in selected districts.

Project Development Objective and Brief Component Description:

The development objectives of the project are to: (i) increase sustainable access to improved water services and promote improved sanitation and hygiene practices in rural areas; and (ii) develop and implement a long-term support mechanism to promote the sustainability of water supply schemes in selected districts. The components of the project are (i) increasing access to improved water supply and sanitation and hygiene practices, (ii) district level institutional strengthening, (iii) technical assistance/capacity building and project management, and (iv) contingency emergency response.

Results Achieved:

Retroactive financing provided to 45 schemes is expected to benefit nearly 32,000 people across the country with improved water supply and sanitation.

Key Partners:
Ministry of Urban Development, Rural Water Supply and Sanitation Fund Development Board

Nepal Social Safety Net Project

Key Dates:
Board Approval: September 29, 2008; AF May 26, 2010
Effective: (original) January 28, 2009; (AF): October 6, 2010
Closing: September 30, 2014

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	59.15	52.37	7.83
Borrower			
Co-financing			
Total Bank Financing			
IDA	59.15	52.31	7.74
IBRD			
Trust Fund			

Project Background:

Nepal faces frequent food crises in parts of the country, largely due to weather conditions and natural disasters. The Social Safety Net Program (SSNP) is an emergency response project to address food crises by providing immediate relief to food insecure households (and some flood-hit households), building the resilience of vulnerable people in the medium-term, and building government capacity to provide safety nets in the long-term.

Project Development Objective and Brief Component Description:

The project aims to enable the government to help highly food-insecure households to access more nutritious food in the short- term and create opportunities for improved agriculture production in food-insecure districts. Components focus 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 Achieved:

Since its inception, the project has supported more than three million people, directly benefiting some 168,263 individuals, more than half of them women.

Under the food and cash- for- work program, more than 34,000 metric tons (MT) of food has been distributed and $3.2 million has been disbursed as cash.

Since 2010, the Nepal Agriculture Research Center has produced more than 129.38 MT of breeder seeds and 1,654 MT of foundation seeds, including 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.

Pilot projects to test approaches for improving the cash transfer and safety net systems in Nepal have recently started implementation, including a branchless banking pilot in three districts (Baglung, Banke and Surkhet) and a nutrition pilot in four districts (Rautahat, Sindhuli, Sarlahi, Ramechap).

Key Partners:

Ministry of Federal Affairs and Local Development, Poverty Alleviation Fund, Department of Agriculture, National Agricultural Research Council, World Food Program

Nepal Urban Governance and Development Program: Emerging Towns Project

Key Dates:
Board Approval: May 10, 2011
Effective: October 2, 2011
Closing: July 31, 2016

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	28.55		
Borrower	5.0		
Co-financing (GIZ) (Municipalities)	3.0 2.1		
Total Bank Financing	18.45	8.14	9.89
IDA	18.45	8.14	9.89
IBRD			
Trust Fund			

Project Background:

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 Objective and Brief Component Description:

The original goal was to improve delivery and sustainable provision of basic services and priority infrastructure in the participating municipalities. A project restructuring in July 2013 realigned the goal to improving the institutional capacity of the municipalities, helping them better plan, implement and fund urban development activities. 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:

Following the restructuring, 10 of the 16 municipal sub-projects are under implementation and the remaining six are under procurement.

The municipalities have utilized the municipal grants to carry out small works such as road upgrading, with at least 35 percent of the grant resources earmarked toward activities benefiting women and disadvantaged groups.

Key Partners:
Ministry of Urban Development, GIZ of Germany (until June 2014)

Nepal Modernization of Rani Jamara Kulariya Irrigation Scheme

Key Dates:
Board Approval: July 5, 2011
Effective: November 30, 2011
Closing: September 30, 2016

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	48.0		
Borrower	5.0		
Co-financing			
Total Bank Financing	43.0	15.2	26.5
IDA	43.0	15.2	26.5
IBRD			
Trust Fund			

Project Background:

The Rani Jamara Kulariya Scheme (the Rani Scheme) is one of the most prominent farmer managed irrigation schemes (FAMI) 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 in the country. The scheme, developed by the farmers (mostly from the indigenous Tharu community) from 1896 onwards, constitutes three independent traditional irrigation systems that they construct, operate manage. Each system 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. The project has been designed to modernize the scheme.

Bank support is proposed in two phases. The first, currently under implementation, mainly focuses on modernization of the higher-order irrigation infrastructure (especially intakes and feeder and branch canals), as well as the preparation and initiation of an agricultural development program. The proposed second phase would mainly focus on the modernization of the lower-order irrigation infrastructure (sub-branch and tertiary canals and water courses) and implementation of a comprehensive agricultural improvement program.

Project Development Objective and Brief Component Description:

The objective is to improve irrigation water delivery and management in the project area by better performance of the irrigation systems and strengthening community-based irrigation management. These activities seek to build resilience through more efficient water delivery and management against water-induced hazards such as droughts, floods and changes in water availability during the agricultural seasons. The project also supports the agricultural development that will result in a modest increase in yields, especially in the upper part of the command area.
The project comprises four components: (i) scheme modernization; (ii) strengthening Water Users Associations (WUAs); (iii) agricultural production support; and (iv) project management.

Results Achieved:

Construction of 10 of 15 feeder canal structures and intake structures that which will regulate irrigation water to the Rani, Jamara, and Kulariya branch canals has occurred.
Graveling of sections of roads is providing better access to the project area, while about 17 km of river bank protection is near completion.
Training of WUA leaders and members has begun, as well as agricultural activities such as demonstrations; block production of cereals, oil seeds, legumes, potato, vegetables, and fruits; establishment of fruit nurseries; construction of a seed storage facility, and establishment of farmers field schools.

Key Partners:

Ministry of Agriculture Development; Department of Irrigation

Nepal-India Regional Trade and Transport Project

Key Dates:
Board Approval: June 28, 2013
Effective: September 10, 2013
Closing: December 31, 2019

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	101.0		
Borrower			
Co-financing	2.0		
Total Bank Financing	99.0	8.18	92.48
IDA	99.0	8.18	92.48
IBRD			
Trust Fund			

Project Background:

Nepal is a geographically small landlocked country nestled between India and China, the two most populous and among the most rapidly growing economies. Its territory is mostly mountainous/ hilly 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. Sharing an approximately 1,800 km border and 26 border points, India is often considered Nepal's 'natural' trading partner. The port complex of Kolkata-Haldia in India has been serving as Nepal's access to the sea and is a major transit point for Nepal's third-country trade. India also provides a large market for Nepali goods and services, and is Nepal's largest trading partner, with about 60 percent of Nepal's trade going to or coming from India. Despite its proximity and deep economic relations with India as well as China, Nepal's trade outcomes have been poor. Since 2007, exports have been stagnant while imports have increased by more than 50 percent, suggesting an urgent need for an action plan to improve export competitiveness, particularly by focusing on reducing inefficiencies and bottlenecks that increase the cost of exports on regional and international markets. Enhancing trade competitiveness is one of six priorities of the government of Nepal's development plan. The Nepal Trade Integration Strategy (NTIS) 2010 seeks to enable inclusive growth in Nepal through enhancing the competitiveness of Nepal's exports and reducing the cost of trade.

Project Development Objective and Brief Component Description:

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 by reducing key infrastructure bottlenecks in Nepal and supporting the adoption of modern approaches to border management. 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 also have 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 Achieved:

A procurement consultant, trade facilitation and logistics adviser and project manager have been appointed in the Project Coordination Unit (PCU) of the Ministry of Commerce and Supplies (MoCS).

The ministry's team visited ports in Kolkata and Mumbai to begin a study on transshipment after the appointment of a transshipment advisor. Preparatory work has started to computerize the Customs Transit Document (CTD) in harmonization with India.

A Department of Transport Management (DOTM) has launched a campaign aimed at increasing public awareness of road safety, including a workshop, five videos and distributed stickers for public transport showing clear messages on road transport safety.

Key Partners:

Ministry of Commerce and Supply, Ministry of Physical Infrastructure and Transport, International Finance Corporation

Nepal Project for Agriculture Commercialization and Trade (PACT)

Key Dates:
Board Approval (original) June 4, 2009; AF: November 15, 2012
Effective Date (original) November 13, 2009; (AF) March 18, 2013
Closing Date (original) June 30, 2015; (AF) June 30 , 2018

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	81.85		
Borrower (GoN)	2.23		
Co-financing (Beneficiaries)	19.62		
Total Bank Financing	60.0	16.26	44.32
IDA	60.0	16.26	44.32
IBRD			
Trust Fund			

Project Background:

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 Objective and Brief Component Description:

The Project for Agriculture Commercialization and Trade (PACT) aims to improve the competitiveness of project-supported smallholder farmers and agribusinesses within selected commodity value chains by helping farmers engage in profitable market-oriented production, and creating and strengthening industry-wide partnerships among producers, traders, processors, and other stakeholders. It also seeks to strengthen the national system of sanitary, phytosanitary (plant health) and food quality management.
The components are (i) supporting agriculture and rural business development, which includes the provision of matching grants to commodity value chain actors mainly for technology support and agribusiness development; and (ii), increasing the ability of farmers and agribusinesses to respond to sanitary, phytosanitary and food-quality standards to meet domestic and international market requirements.
PACT also supports the rehabilitation of the Kalimati fruits and vegetable market, and has proposed rehabilitation and construction of several other central and regional markets for flowers, fruits, vegetables and livestock across the country.

Results Achieved:

PACT has so far supported more than 126 cooperatives, 66 farmer groups, 55 private entrepreneurs and eight producer associations, reaching out to some 40,388 direct beneficiaries, of which over 40 percent are women.

Under the project's competitive matching grant program, two new windows have been developed to better respond to emerging demands and enhance the support to project objectives: (i) micro grants of up to $10,000 support the integration of smallholders and micro enterprises in emerging value chains; and (ii) medium-size grants of up to $100,000 are specifically geared to strengthening backward/forward linkages between different actors of the same value chain in any given region (such as linking dairy processors with milk cooperatives and dairy farmers).

Key Partners:

Ministry of Agriculture Development, InfoDev

Nepal Second HNP and HIV/AIDS Project

Key Dates:
Board Approval: April 20, 2010
Effective: October 4, 2010
Closing: July 15, 2015

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	1527.3		
Borrower	489.80		
Co-financing (Others)	908.38		
Total Bank Financing	129.15	98.91	29.25
IDA	129.15	98.91	29.25
IBRD			
Trust Fund			

Project Background:

In 2004, donors moved to a sector-wide approach (SWAp) in the health sector to align donor support with the government of Nepal's priority and also reduce transaction costs to the government. The International Development Agency (IDA), U.K. Department for International Development (DFID), AusAID, KfW of Germany and GAVI, the Swiss-based vaccine network, 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 Millennium Development Goal targets for nutrition and HIV/AIDS, which are not on track; (iii) sector governance and accountability; and (iv) maintaining gains in reducing maternal mortality and increasing vitamin A and immunization coverage.

Project Development Objective and Brief Component Description:

The project aims to enable the government to increase access to essential health care services and their utilization by the poor and the underserved. Its targets are to increase the percentage of pregnant women receiving iron and folic acid to 87 percent, with 90 percent of children being fully immunized and skilled attendance at 35 percent of births.

With components of health service delivery and health systems strengthening, 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 the health system to achieve universal health coverage.

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.

Results Achieved:

Two of the three results indicators exceed targets: coverage of skilled birth attendance has reached 46 percent, and iron folic acid coverage has increased to 91 percent.

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.

Key Partners:
Ministry of Health, DFID, Australia, KfW and GAVI

Nepal Community Action for Nutrition Project (Sunaula Hazar Din)

Key Dates:
Approved: June 26, 2012
Effective: August 24, 2012
Closing: June 30, 2017

Financing in million US Dollars (as of July 31, 2014)

Financing source	Total amount	Disbursed	Undisbursed
Total Project Cost	40.0	2.04	37.97
Borrower			
Co-financing			
Total Bank Financing			
IDA	40.0	2.04	37.97
IBRD			
Trust Fund			

Project Background:

As 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 community-wide risk factors that contribute to malnutrition.

Project Development Objective and Brief Component Description:

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. 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:

Four sub-projects of 100 days each were completed as pilots in September 2013.

More than 800 sub-projects were initiated in the first cycle in 10 districts.

Key Partners:
Ministry of Federal Affairs and Local Development