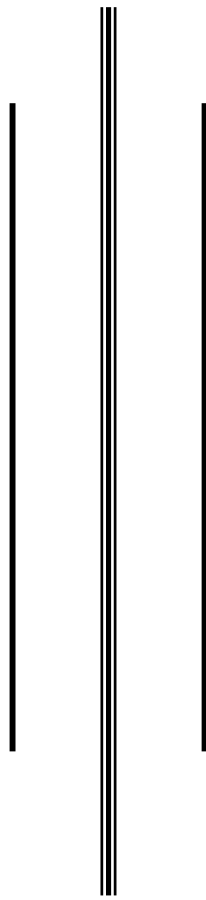


**ASIAN DEVELOPMENT BANK
AND
NEPAL**



NEPAL RASTRA BANK

Research Department
Kathmandu
Nepal

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PART I

ADB : An Introduction

1. Introduction

The Asian Development Bank (ADB) is a multilateral financial institution owned by 63 members, 44 from Asia and the Pacific region and 19 from other parts of the world. Established in 1966, ADB's overarching goal is to reduce poverty in the Asia and Pacific. The two largest shareholders of ADB are Japan and USA, each accounting for about sixteen percent of the total subscribed capital.¹ To achieve the goal of reducing poverty in member countries, ADB supports activities in its developing member countries (DMCs) to promote pro-poor economic growth, inclusive social development and good governance. Under its Long-term Strategic Framework (2001-2005), ADB takes into account in its activities three crosscutting themes: private sector development, regional cooperation and environmental sustainability.²

Since its establishment, ADB has maintained its role as a catalyst in promoting the development of the most populous regions of the world. ADB usually extends its loans and equity investments to the developing member countries (DMCs) for their socio-economic upliftment. It also provides technical assistance for planning and executive development projects and programmes and for advisory services. ADB also works for the promotion and facilitation of public and private capital for development. Thus, ADB bears distinguishing features of its "Asia-ness". About 60 percent of its staffs and share capital come from Asia. Its Headquarters is located in the Philippines, one of the emerging economies of Asia.

2. Functions and Visions of ADB

The sole purpose of ADB is to foster economic growth and cooperation in the Asia and Pacific and to contribute to the acceleration of the process of socio-economic development of the developing member countries in the region, collectively and individually. To fulfill the above mentioned purpose, the ADB shall have the following functions:

¹ <http://www.adb.org/Documents/Brouchers/ADB and Nepal/adborg100. asp>.

² [http://www.adb.org/Documents/Fact-sheets \(A Fact Sheet Nepal and ADB\)/Nep. asp](http://www.adb.org/Documents/Fact-sheets (A Fact Sheet Nepal and ADB)/Nep. asp).

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- To promote investment in the region of public and private capital for development purposes,
- To utilize the resources at its disposal for financing development of the developing member countries in the region, giving priority to these regional, sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole, and having special regard to the needs of the less developed member countries in the region,
- To meet requisites from members in the region to assist them in coordination of their development policies and plans with a view to achieve better utilization of their resources, making their economies more complementary, and promoting the orderly expansion of their foreign trade, in particular, intra-regional trade,
- To provide technical assistance for the preparation, financing and execution of development projects and programmes, including the formation of specific project prospects,
- To co-operate, in such manner as the ADB may deem appropriate, within the terms of this agreement, with UN, its organs and subsidiary bodies including, in particular, the Economic Commission for Asia and the Far East (ESCAP), and with public international organizations and other international institutions, as well as national entities whether public or private, which are concerned with the investment of development funds in the region, and to interest such institutions and entities in new opportunities for investment and assistance.

ADB's vision is to make the Asia and the Pacific region free of poverty. Its mission thus is to help its developing member countries in reducing poverty and improving the quality of life of the people through various measures. Its strategic agenda includes sustainable economic development, inclusive social development, and governance for effective policies and institutions. However, ADB's policy agenda encompasses a wide range of issues such as the regulatory framework for poverty reduction, economic growth, trade and investment regimes, role of private and public sectors, pricing and tariffs, cost recovery, good governance, decentralization, beneficiary participation, and social and environment issues and concerns. Furthermore, ADB also supports developing member country governments to create enabling conditions for business; generate business opportunities in ADB-financed public sector projects; and catalyze private investments through direct financing, credit allocation and enhancement and risk investigation.

3. ADB's Assisting Fields and Activities

In consolidating its poverty reduction efforts, ADB in November 1999 adopted its "Poverty Reduction Strategy". ADB had identified sustainable economic growth, social development, and good governance as the three pillars of its "Poverty Reduction Strategy". The strategy aims at targetting at least 40 percent lending towards poverty reduction. The Japan Fund for Poverty Reduction (JFPR) was established in May 2000 as a trust fund in support of the Poverty Reduction Strategy" of ADB. The JFPR is a grant facility from Japanese Government to finance pilot, innovative, participatory, and direct poverty reduction projects. The Government of Japan contributed initially 10 billion yen on a grant basis to the JFPR in 2000; an additional contribution of about US\$ 65 million was also announced in early 2001.³

ADB's lending both for public and private sector operation for DMCs in 2002 amounted to US\$ 5,676 million for 80 loans in 71 projects, compared with US\$ 339 million for 76 loans in 60 projects in 2001. The largest borrowing DMC is India (US\$ 1,184 million or 21 percent of the total), followed by Pakistan, People's Republic of China (PRC), Indonesia and Vietnam.⁴ The transport and communication sector received the largest shares (28.0 percent) of the ADB's total lending followed by energy, finance, social infrastructure, agriculture, etc. Similarly, a total of 324 technical assistance grants amounting to US\$ 179.0 million was approved by ADB in 2002. The largest recipient of countries in terms of technical assistance grant were Indonesia, Afghanistan, India and People's Republic of China.

ADB recognizes economic growth as an important avenue for overall socio-economic development and reduction of poverty. Along with the economic growth, social development is considered equally important for sustainable socio-economic development and improving the welfare and quality of life for the People of Asia and the Pacific⁵ ADB is thus broad-based development institution that promotes policy and institutional reform, regional cooperation and private sector development. ADB's strategies outline a multifaceted set of development approaches, centering on an overarching goal of supporting sustainable development. In other words, sustainable growth aims at socially and environmentally sustainable development, thereby, reducing poverty.

³ ADB; Information Sheet: Nepal and ADB, Kathmandu, February 2002, np.

⁴ ADB, Annual Report, Highlights - 2002 Asian Development Bank, Manila, 2003, p. 35.

⁵ ADB, Social Development (broucher), Asian Development Bank, Philippines, 1994, pp. 1-2.

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ADB is also committed to gender's and development as part of the sustainable development for Asia and the Pacific region. ADB first adopted a policy on Women in Development (WID) in 1985. ADB's approach to WID was to implement a range of activities within the regular operational programme that emphasize women as a special target group.⁶ In 1992, ADB policy on WID gained reinforcement and momentum by being included as one of the five Strategic Development Objectives (SDOs) alongside economic growth, poverty reduction, human development including population planning and sound management of natural resources and the environment. This elevated women into the mainstream of ADB's development agenda. ADB also recognizes that "overall development programmes that include measures to expand women's economic opportunities and increase their income, promote improvements in women's health and education, result in greater economic efficiency and decreased level of poverty."⁷

Micro-finance provides an effective way of empowering women, who constitute a significant proportion of the poor population among the DMCs. As such, ADB has been supporting micro-finance development in Asia and the Pacific region. In April 1998, an interdepartmental task force on microfinance at the ADB prepared an interim Action Plan on microfinance⁸ and it had reviewed its microfinance operations for 1988-1998.⁹ The number of projects and the total amount of loans for microfinance have increased promisingly over the years. The early microfinance projects in general were (i) focused on microcredit delivery, (ii) allowed subsidized interest rates, (iii) paid little attention to financial viability, and (iv) poorly targeted. However, such lending operation of ADB through its programme in recent years supports a wider array of institutions, goes beyond credit services to promote voluntary savings, emphasizes market oriented interest rates, and pays more attention to financial viability compared to the earlier projects.¹⁰

Investment in human development, a vital part of overall development, is one of the ADB's strategic objectives. Educated, skilled, innovative and healthy human resources are the principal contributors to economic growth. Human development refers not only to education and skills development, but also investments in areas

⁶ ADB, Policy on Gender and Development, Asian Development Bank, Manila, May 1998, p. vii.

⁷ World Bank, Advance Gender Equity: From Concept to Action, World Bank, Washington D.C., 1995, pp. 5-6.

⁸ ADB, Finance for the Poor: Microfinance Development Strategy, Asian Development Bank, Manila, 2002, p. 42.

⁹ Dingcong, Clarence, G. Review of Asian Development Bank's Microfinance Portfolio, Asian Development Bank, Manila, March 25, 1999.

¹⁰ ADB, Finance for the Poor: Microfinance Development Activities, p. 21, op. cit.

such as health and population, water supply, sanitation, and urban and rural development activities. ADB also calls for effective institutions that may help implement socio-economic development within a market economy framework.¹¹ Supporting government's initiatives in decentralization is an important cross-cutting elements of ADB's strategy in Nepal and other Asian countries. ADB promotes private enterprises to play an important role in the economic development of its DMCs. The DMCs are increasingly adopting policies more conducive to efficient operations of private enterprises. ADB's Charter mandates it to promote investment of private capital in the Asia and the Pacific region for development and empowers it to invest in equity, provide loan without government guarantees, and guarantees loans and facilitated financing to enterprises.¹²

The demand for private capital has increased considerably in the region, influenced by the financing needs of large infrastructural development programmes as well as the capitalization needs of financial institutions. While Official Development Assistance (ODA) continues to be an important element of development strategies of ADB, it is inadequate to meet the DMCs', growing capital needs. Thus, attracting private capital has become a strategic objective of many DMC governments.¹³ ADB is in a unique position to assist its DMCs in mobilizing international private capital. ADB has been directly supporting private sector projects through its 'private sector' window since 1983.¹⁴ Currently, ADB's Private Sector Operations Department (PSOD) is playing a catalytic role in mobilizing private capital for its DMCs.

ADB is also pursuing an expanded programme of cooperation with NGOs with a view to strengthening the effectiveness, sustainability and quality of development services it provides.¹⁵ The objective behind ADB's cooperation with NGOs is to make use of NGOs experience, knowledge, and expertise in ADB operations. Usually, ADB's cooperation with NGOs is determined by country-specific factors. Also, ADB's mechanism for cooperation with NGOs will varies according to the type of NGO, the issue or interest in question. Criteria for the identification of NGOs with which ADB would cooperate are, among others, legal status, legitimacy, representativeness, responsibility, credibility, transparency, competence, and

¹¹ Action Aid/CPWF, A Brief Review of Foreign Aid in Nepal, Action Aid and Citizen Poverty Watch Forum, Kathmandu, March 2002, p. 40.

¹² ADB, Private Sector Operations: Strategies Directions and Review, Asian Development Bank, Manila: 2001, pp. 1-2.

¹³ ADB, Private Sector Operations: Catalyzing Private Investments Across Asia and the Pacific, Asian Development Bank, Manila, June 2002, p. 1.

¹⁴ Ibid, p. 2.

¹⁵ ADB, Cooperation between Asia Development Bank and Non-governmental Organization, Asian Development Bank, Manila, 1999, pp. 16-17

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institutional capacity.¹⁶ In February 2001, ADB established the NGO Centre at its Headquarters, in Manila, the Philippines. The NGO Centre aims at finding new ways of working with NGOs with an integrated manner.

ADB identifies regional cooperation as a major objective in its funding Charter. ADB supports regional partnerships, such as the South Asian Association for Regional Cooperation (SAARC), and sub-regional cooperation such as the South Asia Growth Quadrangle (SAGQ) in enhancing the growth potentiality of the region, subregion, and individual DMCs. ADB's approach to regional/subregional cooperation is to start with project level initiatives involving bilateral and multi-linkages. ADB usually assists its DMCs to address constraints identified under regional cooperation spirit and initiatives, and to continue consultations among themselves and with other shareholders on the method for pursuing economic cooperation under its South Asian Sub-regional Economic Cooperation (SASEC) program.

ADB recognizes poverty as a major cause for environmental degradation in its DMCs. Thus, ADB has recognized Asia as vulnerable to natural as well as man-made disasters. At the World Summit for Sustainable Development in September 2003, ADB had issued a joint-statement with due stress on its continuous support and commitment to promote sustainable development in its DMCs. ADB also commits to implement the agenda including an environmental policy focusing on the poverty - environment nexus.

Besides, ADB provides with various policy support programmes which encompass a wide range of issues, such as regulatory framework for poverty reduction, growth, trade and investment strengthening the role of private and public sectors, pricing and tariffs, cost recovery, good governance, decentralization, beneficiary participation, and socio-environmental issues and concerns. It also supports with involuntary resettlement projects (IRP) in order to avoid or minimize the negative consequences of involuntary resettlements. Resettlement measures in ADB-assisted projects are usually built around a project - specific strategy and form an integral part of project design.

4. Further Responsibilities of ADB

In early 2001, ADB formulated the Long-term Strategic Framework (LTSF) to provide a roadmap for translating poverty reduction strategy into action during 2001 to 2015. To quote the President of ADB "there is strong empirical evidence that pro-poor sustainable economic growth, the first pillar of ADB's poverty reduction strategy, is indispensable for a steady decline in the incidence of poverty.

¹⁶ ibid, p. 18.

Such growth creates employment and income for all and increases public revenues that can be involved in poverty reduction efforts."¹⁷ Besides, social development and good governance are the second and third pillars of ADB on its poverty reduction drive in the forthcoming decades. Social development enhances human capabilities through various means on behalf of the poor of the Asia and Pacific region. Likewise, good governance is a precondition for economic management as elsewhere in the developing countries of Asia and the Pacific. ADB confirms that developing Asia is growing faster, despite the global security and economic uncertainties and increasing concerns about the periodicity of deflation. ADB is in agreement with the international community in endorsing the Millennium Development Goals (MDGs).¹⁸ ADB also participated in the United Nations International Conference on Financing for Development (UNIFCD), during which a consensus was reached to build a new global alliance for financing development and an agreement was signed to better measure, monitor, and manage development outcomes. ADB intends to work closely with bilateral as well as multilateral development agencies recognizing the need for a broad coalition of development partners in reducing poverty in the Asia and Pacific region. Furthermore, ADB assists DMC governments to create an enabling environment for private sector development. ADB participates directly in financing private sector projects so as to assist commercial investors and lenders. ADB's main instruments for providing help to its DMCs are in the form of policy advice, loans, technical assistance, grants, and private sector loans and equity investments.



¹⁷ ADB, ADB Review Annual Meeting held in Manila, Asian Development Bank, Manila, 2003, p. 5.

¹⁸ ADB, Annual Report, 2002: Highlights, Asian Development Bank, Manila, 2003, pp. 1-2.

Part II

Asian Development Bank's Role in Nepal's Development

Nepal Resident Mission of ADB

1. Background – Nepal and the Asian Development Bank

The Asian Development Bank (ADB) was established in 1966 through a multilateral agreement ratified by 31 countries¹⁹ as a development finance institution to promote the development of the Asia and Pacific region. ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries (DMCs) reduce poverty and improve their living conditions and quality of life. ADB provides development assistance to its DMCs in the form of policy advice, long-term loans, technical assistance grants, guarantees, and equity investments aimed at economic and social development.

Nepal is a founding member of ADB. Development partnership between Nepal and ADB began in 1968 with a technical assistance grant, followed by a concessional loan of US\$6 million in 1969 for air transport development. Since then, the development partnership has expanded to many important areas of Nepal's development needs, including important policy reforms, development of infrastructure facilities, agriculture and rural development, and development of the social sectors. ADB has evolved as a key development partner of Nepal since 1968 and continues to support reforms and provide policy advice, technical assistance, and development financing.

2. ADB's Development Assistance Strategy for Nepal

While ADB's strategy for development assistance to Nepal has evolved since its operation began in 1968, it has remained focused on helping the government to reduce widespread poverty – Nepal's key development priority and challenge. Following the Asian Economic Crisis in 1997, ADB rededicated itself to poverty reduction in Asia and the Pacific and adopted a Poverty Reduction Strategy in

¹⁹ The number of member countries has grown to 63 currently, of which 44 are in Asia and the Pacific.

1999, with poverty reduction as its overarching goal. In 2001, ADB also approved a Long-Term Strategic Framework (2001-2015) and a Medium-Term Strategy (2001-2005) embodying the Poverty Reduction Strategy. These set out operating principles for reducing poverty, and have sharpened the poverty reduction focus of ADB's development assistance to its DMCs including Nepal.

ADB's current Country Operational Strategy (COS) prepared in 1999 seeks to achieve sustainable reduction in poverty through generation of productive employment opportunities and increased rural incomes resulting from faster and broad-based economic growth, equitable improvements in basic social services to enhance human development, and good governance. In addition, private sector development, gender equity, and subregional cooperation are identified as other cross-cutting themes of the COS. ADB undertakes country programming exercise annually to review with the government and other stakeholders its three-year rolling assistance program comprising loans and TA grants, and to ensure that the assistance program is in line with the COS objectives.

3. ADB's Development Assistance to Nepal

3.1 Economic Growth

3.1.1 Agriculture

Given that about 80 percent of Nepal's population live in the rural areas and depend on agriculture for livelihood, ADB's development assistance has focused on agriculture and rural development as the key to achieving higher and broad-based economic growth, essential for poverty reduction. In this respect, ADB assisted the government in the formulation of the Agriculture Perspective Plan in 1995 that aims to attain a higher and sustainable agriculture growth by addressing policy and structural weaknesses and commercializing the agricultural sector. ADB's assistance in the agricultural sector is focused on implementation of the APP, and has been in the form of technical assistance, policy reforms, and various investment projects in irrigation, rural roads, rural credit, livestock, and crop diversification. ADB has supported critical policy reforms such as the deregulation of fertilizer trade that has significantly improved the supply of chemical fertilizers, liberalization of the foodgrain market through rationalization of the operation of Nepal Food Corporation, and promotion of community-based shallow tubewell (STW) irrigation through rationalization of subsidies and promotion of private sector participation in the supply and maintenance of STW irrigation systems. In view of the problem of sustainability of large-scale government-managed irrigation systems in the past, ADB's assistance in the irrigation sector has been increasingly focusing on development of small-scale farmer-managed irrigation systems and promotion

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of joint management (between farmer groups and the government) of larger irrigation systems that were previously government-managed. Assistance for the development of the rural finance sector, a key input identified in the APP, includes reforming the Agriculture Development Bank, establishment of a proper institutional and regulatory framework for promoting microcredit delivery to the rural poor, and microcredit projects focused on women and the poor. ADB has also been assisting in enhancing the production of high-value crops (such as vegetables, lentil, and spices) and livestock products through community-based participatory approaches, decentralized and farmer-oriented research and extension services, and dissemination of information on new technology through farmer groups.

3.1.2 Infrastructure

ADB considers infrastructure development as critical for achieving stronger economic growth and poverty alleviation, and has supported the development of Nepal's power and transport sectors, in particular. Assistance in the power sector has focused on power generation (the Kali Gandaki 'A' Hydroelectric Project, Nepal's largest hydropower plant with an installed capacity of 144 MW), expansion of the transmission and distribution network, and rural electrification. Enhancing the efficiency of the sector is a key sector strategy of ADB, and substantial support is being provided to strengthen the Nepal Electricity Authority as a commercially viable institution. In addition, ADB has helped in paving the way for private sector participation and investments in hydropower generation through its support for the Khimti Hydropower Project in 1995. In the transport sector, ADB has been providing significant and continued support for improvement and expansion of the strategic road network and feeder roads, providing access to the remote parts of the country. In addition, expansion of the rural road network is currently a key area of ADB's assistance to promote agriculture development by providing market linkages for agricultural inputs and outputs, and to provide access to the rural population to basic services such as health, education, and water supply. Given its support for the civil aviation sector from the very beginning, ADB has been instrumental in developing Nepal's air transport sector. Development and improvement of the Tribhuvan International Airport and upgradation of various domestic airports across the country have significantly contributed to the development of Nepal's tourism industry.

3.1.3 Finance and Private Sector Development

Private sector development has a central focus in ADB's operation in Nepal as it is key to achieving stronger economic growth. ADB recognizes that private sector growth in Nepal is constrained by the lack of credible systems for enforcing

contracts and other property rights, transparent and credible accounting and financial reporting systems, and an effective regulatory and supervisory system for good governance in the financial sector. Therefore, ADB's assistance for private sector development seeks to create an enabling environment through enhancement of corporate and financial governance for promoting private investments. In this regard, the ongoing ADB-assisted Corporate and Financial Governance Project has been supporting the government in establishing transparent policies and institutional and legislative framework for improved corporate and financial governance, which are most essential for increased private sector investments. ADB is also currently supporting the government to prepare an investment project for helping Nepal's small and medium scale enterprises to improve productivity and access to potential markets, especially export markets, through provision of project financing and dissemination of information on markets and technology.

3.2 Human Development

Investing in people, a vital part of development, is one of ADB's strategic objectives. Educated, skilled, innovative, and healthy people are the principal contributors to increased productivity and economic growth. Recognizing the need to increase the level of human capital in Nepal, a large part of ADB's assistance focuses on human development through efficient delivery of basic services such as education, rural and urban water supply and sanitation, and urban management. Given the overall goal of poverty reduction, the geographical focus of ADB's assistance has been rural areas with community groups as prime targets in planning and delivering these basic services. ADB has also actively supported policy reforms and institution building at the national level. ADB's assistance in the education sector, including the ongoing Teacher Education and Secondary Education Support projects, are focused on increasing the rural population's access to basic (primary and lower secondary) education and improving the quality and efficiency of the education system through teacher training, curriculum development, and better school management, maintenance, and supervision.

ADB's assistance in water supply and sanitation is aimed at addressing the wide gender disparity in the level of human development and improving the health conditions of rural and urban population that have no access to safe water and basic sanitation facilities. The continued assistance for rural water supply and sanitation development, including the recently approved Community-Based Water Supply and Sanitation Project, has sought to improve the quality of life of women and children through development of low-cost water supply and sanitation schemes, implemented, operated, and maintained by the beneficiary communities

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to ensure sustainability. ADB's support also includes improving urban water supply services through strong public-private partnerships under the ongoing Small Towns Water Supply, Melamchi Water Supply, and Kathmandu Valley Water Supply Sector Services Development projects.

3.3 Good Governance

Weak governance is a serious impediment to Nepal's development and effective utilization of external assistance. A key element of ADB's program of assistance to Nepal is support for improving governance and development administration. The ongoing Governance Reform Program has been helping the government to establish a civil service that is results and people-oriented and gender responsive, improving the efficiency of the civil service and contributing to high economic growth and poverty reduction. In addition, ADB-assisted projects have generally promoted decentralization of project planning and implementation, service delivery, and operation and maintenance of project facilities to local governments and beneficiary communities with encouraging results of more effective development impact and sustainability of benefits. ADB-assisted projects have also been promoting a participatory development approach wherein key stakeholders are given an opportunity to influence and share control over development initiatives that affect them, including decisions and resources that are part of these initiatives. These participatory approaches are being increasingly and widely adopted during the design and implementation of ADB-assisted projects and programs. Participatory approaches have been successfully applied in sectors such as agriculture, rural water supply, roads, and microfinance.

ADB is also supporting governance and public sector management reforms under the Public Sector Management Program (PSMP) approved in 2003. The PSMP's main objective is to help the government to implement the Tenth Plan through improved expenditure management, revenue generation, reform of state-owned enterprises (SOEs), and improved public sector and corporate governance. SOE reform is a core component of the program, helping the government to privatize or liquidate non-performing SOEs, developing a medium-term strategy for further SOE reforms, and improve corporate governance in the existing SOEs. The program also includes support to the government for developing a consistent and fair labor compensation policy for SOEs.

3.4 Gender and Development

The wide gender disparity in Nepal is a major development concern. Many women, particularly those who reside in rural areas, are deprived and severely underprivileged. Disadvantaged castes and ethnic communities show even greater

discrimination against women in terms of access to education, health care, and economic opportunities, contributing to higher levels of poverty. ADB firmly believes that women's contribution to Nepal's development and poverty reduction requires women's empowerment as a crucial element of economic and political change. Empowerment of women is essential in the spheres of governance, economic growth, and human development.

ADB has been addressing gender disparity in Nepal through policy support, capacity building, awareness raising, and gender analysis of proposed projects and programs. ADB's assistance emphasizes gender empowerment in the development process, consistent with ADB's Gender and Development Policy approved in 1998. ADB-assisted projects and programs seek to promote women's economic opportunities and status in agriculture, microfinance, education, and water supply and sanitation projects. Mainstreaming of gender issues and gender sensitization are also being promoted at all levels and, in particular, through the policy-based lending such as the ongoing Governance Reform Program.

3.5 Subregional Cooperation

Regional economic cooperation is identified as a major objective in ADB's founding charter. Building on its successful role in promoting regional economic cooperation in the Great Mekong subregion, ADB is seeking to promote such cooperation in the South Asia region to further enhance the growth potential of Nepal and the region. Regional cooperation is fundamental to Nepal's development, and as a land-locked country faced with the constraints of the rugged terrain and a small domestic market, Nepal stands to gain significantly from regional cooperation. ADB therefore launched the South Asia Subregional Economic Cooperation (SASEC) in 2000 to facilitate the South Asia Growth Quadrangle (SAGQ) initiative among Bangladesh, Bhutan, India, and Nepal. ADB has been facilitating close consultations among the SAGQ countries through technical assistance support to identify, prioritize, and prepare subregional cooperation investment projects in the potential areas of transport and communication, energy, trade and investment, natural resource and environment management, tourism, and information and communication technology.

The SASEC consultation process has already resulted in a number of important initiatives that should lead to tangible subregional cooperation activities, including joint investments. These include initiation of preparation of a proposed ADB-assisted Transport Facilitation Project for Nepal that will improve road linkages with the neighboring countries. A Subregional Transport Corridor Efficiency Study is also underway to identify infrastructure and institutional impediments to efficient

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movement of goods and people within the subregion. Other similar studies are underway to prepare a SASEC Tourism Development Plan to develop the subregion as a tourism hub, an Air Quality Management Plan, and an action plan to remove non-tariff barriers to facilitate trade and investments in the subregion. In addition, ADB is seeking to provide support for strengthening and facilitating the South Asia Association for Regional Cooperation (SAARC) process for broader regional economic cooperation.

3.6 Resource Transfer to Nepal

ADB's assistance to Nepal mainly consists of concessional lending for public sector projects from the Asian Development Fund (ADF), ADB's soft lending window, technical assistance grants, and private sector loans. As of 31 December 2003, ADB had approved 104 ADF loans for Nepal totaling US\$2.1 billion. About 39 percent of the total lending was for agriculture, followed by social infrastructure 20 percent, transport and communication 13 percent, energy 19 percent, industry 3 percent, industry and finance 0.4 percent, and others 5 percent. Of these 81 loans have been closed, and a total of about US\$1.3 billion disbursed to date. Currently, there are 23 ongoing loans with a total loan amount of US\$790million. ADB has also provided a total of US\$111 million in grants for 237 technical assistant projects to date. These were mainly for project preparation, policy advice and reforms, and institutional strengthening and capacity building. In addition, five private sector loans totaling US\$59 million and three equity investments amounting to US\$3 million have been provided.

Through its concessional lending, ADB has been transferring substantial resources to Nepal. For instance, ADF disbursement during 1996-2001 averaged US\$83 million per annum while principal and service charge repayments averaged (US\$24) million, resulting in a net resource transfer of US\$59 million per annum. Net resource transfer has, however, turned negative in the recent years due to the low level of disbursements, an adverse impact of the prevailing security situation on project implementation.

3.7 Looking forward

ADB reviews its strategy for development assistance to its DMCs after every 3-5 years to realign its future development assistance strategy with the evolving country situation and the government's own development plans and priorities, and to incorporate lessons from past implementation experience for more effective development impact. ADB is currently preparing a new Country Strategy and Program (CSP) for Nepal for 2005 – 2009 in view of the significant political and socio-economic changes in recent years, including the escalation of the Maoist conflict, its impact on and implications for the country's economy and development,

and the announcement of the government's Tenth Plan (FY2003 – FY2007) embodying a national poverty reduction strategy. Preparation of the CSP is underway with consultations with the government, stakeholders, and beneficiaries at the local level. Assessment of key sectors and cross-cutting development issues, including the nexus between conflict and development, are underway. Taking into account of the changed development setting, the new CSP will help the government to effectively achieve the poverty reduction objective in the face of continued political instability and the worsening conflict.

While identifying ways to address poverty more effectively, the CSP will also need to consider ways to help Nepal restore peace as the conflict has imposed serious constraints on the country's economy, rural livelihoods, and development and poverty reduction efforts. It is now well understood that the deep-seated geographic, social, and ethnic inequalities within the Nepali society – inequalities that are very much interlinked with poverty – are one of the root causes of the conflict. Finding effective ways to help the government promote a socially inclusive development process and address those factors contributing to conflict in the first place is a key challenge for the new CSP and ADB's development assistance to Nepal in the coming years. In this respect, the CSP process is seriously considering ways to strengthen ADB's operational program in Nepal in terms of more effective community and beneficiary participation in all stages of project design and implementation, mainstreaming the concerns of poor women, disadvantaged ethnic and caste groups in development projects and policy support, and more balanced social, economic, and regional development.

ADB remains fully committed to helping Nepal in its development and poverty reduction efforts. However, the level of ADB's assistance to Nepal in the coming years will largely depend on Nepal's performance in the areas of macroeconomic management, social sector development, governance, and portfolio management. Based on Nepal's performance in these areas, the level of loan assistance to Nepal is expected to be in the range of US\$80-90 million annually over the next three years. The level of technical assistance grants for the same period is expected to be about US\$4 million annually. Loan assistance to Nepal is entirely from ADB's concessional funds (ADF) with a repayment period of 32 years, a grace period of 8 years, and a service charge of 1 percent during the grace period and 1.5 percent thereafter. In order to qualify for higher levels of ADF allocation, Nepal will need to demonstrate stronger efforts in policy reforms and institutional improvement.



ADB and Agriculture

Dr. Champak P. Pokharel*

1. Introduction

ADB started lending to Nepal since 1969. Presently, ADB has turned out to be the largest multilateral donor to Nepal and its support covers various important sectors including agriculture. As per HMG/N source book, the total multilateral commitment of foreign assistance (loan and grant) to the country through HMG budgetary channel was \$ 350.32 million (Rs 26.9 billion) in fiscal year 2002/03. In that assistance, \$83.8 million (23.9 per cent) was from ADB. Among the multilateral sources, the contribution of ADB accounted almost half (48.5 per cent). ADB has also been helping Nepal by providing technical assistance in various fields.

The main emphasis of ADB being the poverty alleviation in Asia, agriculture has remained an important component in ADB loan strategy in the region. First ADB lending in agriculture in Nepal started from jute development in 1970. More than 40 percent of the ADB lending in past in the country has gone to agriculture as a support to the HMG/N priority sector for the poverty alleviation in the country. Thus, ADB has been a close ally and long time partner in the development process of Nepal and agriculture has been the largest beneficiary of the assistance. As such, ADB shares both the success and failure in the development efforts to the sector in the country.

2. Level of Lending: Agriculture vs Other Sectors

The total loan approved by ADB, so far, was \$ 1.96 billion for 99 projects. 81 loan projects have already been completed and 18 are on going. The highest share in the loans provided has been in agriculture and natural resources covering almost 40.2 percent (Table 1). This is almost twice the HMG/N allocation percentage of the development expenditure in the sector in past. By number, the agricultural loan projects count about half the total loan projects. This reveals that agriculture had received highest priority in the ADB loan assistance. However, currently, specifically from the Ninth Plan (1997-2002), the emphasis has shifted towards

* Dr. Pokharel is a Senior Economist.

social and energy sector, doubling the share in them while in agriculture it has been reduced to less than half. As ADB was the major initiator of the design of the 20 year Agriculture Perspective Plan (APP) implemented since 1997, the support emphasis shifted away from agriculture in ADB loan has been an interesting aspect for the development economists in the county. Even if all the rural transportation support is counted to agriculture, the share will still be only about 20 percent, half the historical average. However, in the recent country strategy, this trend has been reversed in support of APP priority components (explained later).

Table 1: Total Loan Portfolio Approved since 1969 by ADB and Agriculture

Sector	Status Since 1969			Ongoing Loan Projects		
	Total Loan Amount (Million \$)	Loan per cent by Amount	Number of Projects	Ongoing Loan Amount (Million \$)	Loan per cent by Amount	Number of Projects
Agriculture and Natural Resource	788.5	40.2	51	118.0	17.5	7
Social Infrastructure	371.4	18.9	16	252.6	37.5	5
Transport and Communication	270.7	13.8	13	50.0	7.4	1
Energy	395.5	20.2	12	198.9	29.5	2
Finance	7.3	0.4	1	8.0	1.2	1
Industry and Non fuel minerals	70.1	3.6	3	-	-	-
Others	57.6	2.9	3	46.2	6.9	2
Total	1961.5	100	99	673.8	100	18

Source: ADB/NRM, *Background Paper for the Country Portfolio Review Mission (internal document)*, Noember. 2003.

3. Loan Disbursement and Agriculture

The statistics of closed loan of the bank shows that the total loan disbursed to Nepal in all the sectors was \$ 1.1 billion by June 2003. It is estimated to be 56 percent of the total loan approved for the country. However, the disbursement rate is slightly higher (62 per cent) in agriculture. Despite various efforts, the rates have not improved significantly. Rather it has fallen slightly in the recent years. While ADB bureaucracy is not simple in quick hiring of consultants and settlements of claims, the low absorption capacity, legal complicacies in expenditure procedure and bureaucratic delays in prompt claims in the HMG/N part are the major problems for the less loan disbursements. For the last few years, the security has also been an additional problem in implementing program at the field level, thereby affecting the expenditure and hence, the disbursement, adversely. Availability of counterpart fund which used to be one of the causes of low disbursement is not a problem for ADB projects in agriculture any more as they belong to P1 category (highest priority projects) in the budget qualifying for the automatic release of the allocated fund.

4. Sub-component Loans in Agriculture

Under agriculture, the Bank credit covered broad based poverty alleviation related components like crop, livestock, forestry, irrigation and rural credit (Table 2). Major ones by share were credit (25.2 per cent) and irrigation (17.0 per cent). Agriculture was the major emphasis also in the integrated projects. In some agricultural projects, rural roads were also included as they form an important part of agricultural development.

Table 2: Credit Disbursement in Major Components under Agriculture

	Amount Million (\$)	Percentage
Credit	122.4	25.2
Crop	35.1	7.2
Fishery	9	1.9
Forestry	35.4	7.3
Irrigation	82.9	17.0
Livestock	15.6	3.2
Multiple	185.9	38.2
Total	486.3	100

Source of Basic Data: ADB NRM (Data on closed loan sectors)

5. ADB TA and Agriculture

ADB TA has been an integral part of the country assistance and focus is generally on studies and institutional strengthening in areas related to the loan components. Technical assistance committed by different donors for 2002/03 was \$ 104.7 million. In this, ADB accounted 15.4 percent. ADB provides almost two fifth (41.8 per cent) of the total TA through the multilateral sources (data from technical and other assistance, MOF, 2002).

Nepal has received \$ 84.7 million in the form of ADB TA, so far, and constituted more than 190 projects. In that, agriculture sector has received \$ 47.65 million. It accounts to more than half (56 per cent) of the TA received by the country. Agriculture sector has already received 104 TAs by June 2003 (Table 3). Besides the support to HMG/N programs, ADB TA in recent period has been provided also to non-government sectors (NGOs) specifically for their institutional support. This can be viewed as a positive welcome move in strengthening the capacity in the private sector.

The list of the projects financed indicates that the TA by ADB in agriculture has generally been well chosen. The TA covered also the very important areas like

agriculture strategy study, pricing policy study, the design of APP (agricultural perspective plan), supporting Independent Analytical Unit (IAU) in the implementation monitoring of APP, design of PRSP (poverty reduction strategy paper/Tenth Plan), agriculture sector performance review, institutional reforms in agriculture, strengthening rural finance, etc. These studies have significant impact in the agricultural planning and policy reforms in the country.

Table 3: TA Assistance by Sector Since 1969

	Amount (Million \$) at Current Price	Percentage by Amount
Agriculture and Natural Resource	47.7	56.3
Social Infrastructure	6.2	7.3
Transport and Communication	4.7	5.5
Energy	9.6	11.3
Finance	0.6	0.7
Industry and Non fuel minerals	1.5	1.8
Others	14.5	17.1
Total	84.7	100.0

Source of Basic Data: ADB NRM (TA spending by sectors)

6. Trend of Real Resource Flows in Agriculture

HMG/N statistics reveals that the total use (flow) of the foreign assistance in agriculture over the last five years (1997-2001) is about Rs 3.7 billion at 2002/03 price. It is about 19 percent percent of the total assistance disbursed in the country. ADB share in it has remained about 30 percent.

The trend of resource flow from ADB in agriculture has been analyzed by converting the resource flows in constant rupees at the price of 2002/03 by using consumer price index (CPI) and then to equivalent US \$ by using the exchange rate of 2002/03. The analysis showed that the real resource flow had a fluctuating trend over the last decade. For the analysis, an average situation over 5 year's interval has been used (Table 4). It is seen that the flow of real resource has substantially declined in agriculture after 1996, the starting of the Ninth Five Year Plan and the implementation of APP. One of the causes of the decline in the flow during the Ninth Plan period was the lacking HMG in meeting the conditionality of the second agriculture program loan (SAPL). It is also important to see that the decline in the resource flow in agriculture has been sharp compared to non-agriculture sector.

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**Table 4: Average Flow of Loan Amount per Year by ADB
at 2002/3 Price***

	1970/71 -74/75	1976/77- 80/81	1981/82- 85/86	1986/87- 90/91	1991/92- 95/96	1996/97- 2000/01
Overall						
Million NRS	475.8	1218.8	2169.8	4143.1	6154.2	3482.4
Million \$	6.2	15.8	28.2	53.8	79.9	45.2
Agriculture						
Million NRS	271.9	408.3	1018.5	2357.1	2863.2	1285.8
Million \$	3.5	5.3	13.2	30.6	37.2	16.7

* Estimated average annual flow for the project year converted to NRs at constant price of 2002/3 (by using the then exchange rates and CPI) and then converted to 2002/3 \$ (by using 2002/3 exchange rate of 1\$= NRs 77.0)

Source of Basic Data: ADB NRM (Net loan amount of the closed loan sectors)

7. Performance of ADB Projects in Agriculture

Overall project performance in agriculture in the country is not impressive when perceived from outside. Despite the implementation of APP, the growth in the sector is low around 3 percent. Being one of the long time helper and largest donor in the sector, ADB also has to share these shortcomings from global perspective. Even in the ADB internal evaluation of her financed projects, the performance has remained mixed. Among the 31 projects internally evaluated by ADB based on their broad performance indicators, only about 45 percent remained successful, 38 percent partially successful and 10 percent unsuccessful (Table 5). The weak performance in the sector could be related to weak performance of the implementing agencies, weak monitoring and evaluation in the implemented projects, inadequate attention to local conditions and capacity enhancement need while designing project, weak participation of beneficiary and inadequate higher level local staff strength for regular monitoring and interaction with the government from the ADB local office.

**Table 4: Project Rating in Agriculture Loan Projects Completed
(as of July 2003)**

	Project Rating as per Project Performance Report or Project Completion Report	Percentage of Total Rated
Successful	3	9.6
Generally successful	11	35.5
Partly successful	12	38.7
Unsuccessful	5	16.1
Total Rated	31	100
Total not rated	13	
Total projects completed, so far	44	

Source of Basic Data: ADB Background Paper for the Country Portfolio Review Mission, NRM, November, 2003

8. Project Period Extension and Agriculture

Project period delays or time extension has also been a significant problem in the loan portfolio of the government. Agriculture sector is also reported to be one of the problematic areas in this regard and ADB is not an exception. In the recent years, the average project completion delays in ADB projects is reported to be more than 15 months and agriculture sector is expected to be much higher. Extension of a project makes a loan more costly as it would have tendency to increase the administrative cost unnecessarily, on one hand, and delays in receiving the benefits, on the other. While there are considerable problem related to legislative, administrative and procurement aspects in borrowers' front, monitoring and persuasion strength at the ADB local office is also felt inadequate when perceived from outside.

9. ADB and Agriculture Policy Reforms in the Country

ADB has played lead role in encouraging agricultural policy reforms in the country. This process has been supported by various studies and credit programs of ADB. Particularly, scraping of untargeted subsidy, enhancing private sector participation in agriculture and role to creating competitive market are more pronounced. Policy reforms brought in after the implementation of APP in most of the areas has been contributory, though they are not remained unquestioned in small farm irrigation component such as shallow tubewell (STW). ADB together with other donors have been keen in not letting the reversal of the previously achieved policy reforms. In general, this has been taken positively by the intellectuals in the country

10. ADB Recent Country Strategy /Program Update and Agriculture

ADB has planned for Nepal an additional loan of \$ 321 million and a TA of \$ 12 million for the period 2004-2006. This amounts to \$107 million of loan and \$ 4 million of TA per year. The allocation of the planned credit is an increase by about 7 percent in the previous allocation level. Including the stand-by loans, the loan support components included under agriculture are: (i) commercial agriculture development, (ii) ecotourism, (iii) rural infrastructure development, (iv) community managed irrigation, (v) community ground water irrigation, and (vi) agriculture business development. The allocation under these components is \$120 million (37 per cent of the total allocation). In addition, rural access roads, rural finance and rural electrification are also proposed under other headings. The allocation under these over the next three years is \$70 million.

It is to be noted that except ecotourism, the above-emphasized components are directly APP related and it must be considered as a positive move towards intensifying APP implementation. Considering all those components but ecotourism under agriculture as per APP spirit, the proposed total allocation becomes \$190.2 million (59.2 per cent of the total allocation). However, actual implementation has to be seen to see how the subcomponents under the components are addressed. The TA is to focus mainly on institutional strengthening on the proposed loan project areas and it should be considered as a reasonable emphasis.

11. National Leaderships in the Programs and Projects

ADB has followed the view that in the design of the important plans in the country, the lead should be taken by the nationals themselves. For example, in the design of APP and PRSP supported by ADB, Nepali nationals were chosen as the team leader. This notion seems to be followed in other sectors as well. This has served as a built in approach in incorporating country perspectives in the programs designed under ADB assistance. Another benefit is that the plans were approved and implemented by the government with out much difficulty. This approach of ADB has been taken very positively in the intellectual arena in the country.

12. Loan Conditionality and Agriculture

Agricultural loan conditionality has not been controversial, in general. However, the second agriculture program loan (SAPL) has received more criticism, nationally. Though the reality has not been formally studied, national intellectuals felt that it had been harsh towards the implementation speed of APP. As the government could not meet the conditionality of the loan, many of the APP priority projects related to minor irrigation, ground water, agricultural roads etc., were affected due

to lack of fund release. Similarly, ADB subsidy removal stand on STW under SAPL is taken as creating imbalance between surface scheme and STW.

13. Some Suggestions and Conclusion

Suggestion

- **Needs More Focused Statement Addressing APP in the Country Strategy**

ADB Country Strategy and Program Update (2004-6) seems to have overlooked the need for directly addressed statement to APP in the strategies and activities though the components emphasized under agriculture in it are majorly APP related, except eco tourism. While some others like JAPAN, and DFID are straight forward to it. Though, one could argue that the wording does not matter much so long as the programs are there, sometimes the wordings will also be helpful in giving a push and continuity to the future programs on the major themes.

- **Attention is Needed on Agriculture Decade**

HMG Tenth Plan has declared Tenth and Eleventh Plan Period (2002-12) as agriculture decade for intensifying the implementation of APP. Some how, HMG has not been able to communicate this important message to the important donor like ADB as her CAS does not address the agriculture decade issue. Though ADB is not an exception to it, giving attention to this aspect will be helpful in implementing PRSP agriculture component in right spirit.

- **Need to Play Lead Role in Intensifying APP Implementation.**

APP implementation has remained much weaker than planned. For surprise, ADB has remained neutral regarding the slow progress in the APP implantation. The resource shortage in APP components, focusing on right priorities and the cease of IAU has remained unaddressed by any major donors, so far. As the design of APP occurred on the ADB prime initiative, ADB should play more persuasive role on donor's side to keep APP implementation on track.

- **Need for Upgrading Local Staff Strength**

The local professional staff strength in ADB Nepal Resident Mission Office has been increased successively from 2 prior to 1995 to 8 by now. However, most of them being of young cadre, the strength needs to be upgraded at the analytical level to strengthen the high level professional contact between ADB and the government. As ADB has grown to be one of the largest donor, there is need to possess an adequate analytical strength to deal with the current economic data within the ADB local office itself. This should be viewed with priority in important sectors like agriculture.

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- **Differentiate the Technology Choice Issue and Subsidy Issue**

APP has emphasized Shallow tube well in Terai as a technological choice based on its advantage of good potential, controlled irrigation management and high cost effectiveness. However, the government and the donors have mixed up the technological issue of irrigation with the subsidy issue in dealing the irrigation policy. While surface irrigation is almost fully subsidized, STW subsidy was lifted with the interpretation of STW as a private good. This led to reduction in the installation of STW, considerably. ADB is also considered to be a partner of this policy as it had put the removal of the subsidy on STW as one of the conditionality under SAPL during Ninth Plan. While subsidy is market distorting in general, partiality in technology though imbalanced subsidy for common output is an equally serious issue for an effective utilization of national resources from macro perspective. In the context of irrigation being one of the important candidates for increasing foreign loans at present, attention of large donors like ADB has to go to the issue of the potentiality of economizing irrigation investment through alternate technology.

- **Evaluation of the Overall Programs**

ADB has already invested a large amount of money in agriculture in Nepal. While ADB makes internal assessment for most of the projects, and CAS is also discussed with the government, it is suggested that an independent joint assessment of the overall programs be carried out in a regular interval in a formal way by involving independent team of Nepalese and external people. This will help in further improving the understanding between the donor and the borrower and the needs for programs change for future. Information generated will help creating right debate and discussion on the development track and prospects. While providing additional credit has merit in helping the present generation to develop, we should also answer the future generation that the projects chosen were correctly identified and correctly billed to the right generation. Transferring the burden to future generation by subsidizing the present generation should be strongly discouraged.

- **Implementation Aspects**

Institutional strengthening, more emphasis on M and E, emphasis on the participation of the beneficiary and consultation in project design, adequate establishment of the project office, intensive and adequate professional interaction of the ADB staff with the government are some important areas for attention in further improving the quality of the program implementations. Also adequate

institutional follow-up programs should be emphasized. While the costs of the follow-up institutional programs are small, the impact on success will be high.

- **Initiate Debt-relief to Appropriate Cases for Positive Reforms**

Nepal's debt burden is rising fast. Numbers of projects have been less effective also in agriculture to follow donors' own evaluation and shortcomings identified are not necessarily on borrowers part all the times. ADB is also not an exception to this. The projects where causes of failure (including natural disorder to terrorist violence) were not the fault of the borrowing country alone should be a candidate of partial debt relief and large donors alike ADB and World Bank should initiate this in favor of the poor country like Nepal. However, such relief should be linked to positive reforms to be brought in future.

Conclusion

ADB has been helping to Nepal for more than three decades and presently it has turned out to be the largest donor. In Nepal, agriculture being the most important sector for poverty alleviation has rightly received the largest share in the ADB loan portfolio for the country. ADB has helped in both the areas of policy/programs formulation to project implementation in the sector. The share in agricultural loan had decreased for some years in the past, but it has picked up again and the allocations are in the priority areas of APP. It is good news for agriculture sector. Other side of the coin is that, despite the helps, the progress in agriculture has remained slow. Getting foreign assistance may be good news. But, given the slow growth in the sector, it has negative side of increasing the foreign debt, too. As long-term loans are to be paid by future generation, being too much dependent on loan by present generation should be discouraged and revenue capacity of a project should also get high attention while approving loan. Also, the subsidized consumption by transferring the debt to future generation should be discouraged.

In Nepal, institutional aspects related to monitoring and evaluation, project screening, and implementation are weak. Agriculture sector is not an exception to it. Thus, in future, in addition to project implementation, the institutional strengthening in the above areas should get equal attention. Policy maker should grasp that credits are needed but getting more credit is not necessarily a sign of success or improvement in itself unless the loans are spent in a wise manner. ADB loans are generally soft, but considering the rise in foreign exchange rates, it is not necessarily cheap all the times. Thus, it is not wise to look for external loans even for the projects that can be funded from internal sources, particularly in the situation when commercial banks in the country have large unused funds. In agriculture, there is also plenty of scope in channalizing the private sector investments. The country should explore for such possibilities, first. Bringing

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appropriate policy reform may substitute the need for external borrowing for investment in many cases.

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TLDP²⁰: A Case Study of ADB Supported Program

Dr. Bijaya Shrestha²¹

1. ADB and Nepal

The Asian Development Bank (ADB) is a multilateral development finance institution owned by 63 members, 44 from Asia and the Pacific and 19 from other parts of the globe. The overarching goal of ADB is to reduce poverty. To achieve this, ADB supports activities in its developing member countries to promote pro-poor economic growth, inclusive of social development, and good governance. Under its long-term Strategic Framework (2001–2015), ADB takes into account in its activities three crosscutting themes: private sector development, regional cooperation, and environmental sustainability.

ADB was established in 1966. Nepal was one of its 31 founding members. Nepal is the 24th largest shareholder in ADB among its regional members. Overall, Nepal is the 32nd largest shareholder (Number of shares held: 5,202, 0.149 per cent of total shares). ADB's principal tools are loans, guarantees, and technical assistance, which it mainly provides to government for specific projects and programs. Cumulative ADB lending to Nepal as of 31 December 2002 was US\$2.00 billion. Since joining ADB in 1966, Nepal has received 104 loans totaling \$2,011 million, of which 25 were active at the end of 2002.

Co-financing arrangements in 2002 amounted to US\$2.85 billion for 38 loan projects and US\$157.85 million in untied grant financing for 73 technical assistance projects and grant components of loan projects. Co-financing arranged for Nepal from January 1998 to 31st December 2002 comprised of the following of official loan: 6 loan projects co-financing of US \$ 278.70 million.

Agriculture is the major focus of ADB assistance to Nepal. Assistance under the Country Strategy and Program, ADB helps the Government achieve its agricultural and rural poverty reduction objectives, through support for strengthening market orientation; broad community participation at the grassroots level; and

* Third Livestock Development Project (TLDP) Program.

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decentralization in the areas of agribusiness, basic social infrastructure, rural access roads, communications, financial services, and remote area tourism. Breakdown of cumulative ADB lending to Nepal, as of 31 December 2002 shows the project for Agriculture and Natural Resources were 51 in number (39 percent of the total 104 loan projects).

2. Introduction on Livestock Sector of Nepal

Agriculture occupies a major sector in the national economy, contributing 40 percent of the GDP and employing 53 percent of the total Population (male: 48 percent and female: 60 percent according to the Population Census, 2001. In line with the overall framework of the Agricultural Perspective Plan (APP), the Tenth Plan highlights the importance of agricultural and rural growth for poverty reduction. The plan aims to raise agricultural production by 4.1 per cent per annum, through the commercialization of agriculture, promotion of agribusiness, diversification of production, improvement in irrigation facilities, and expansion of extension services.

Livestock raising is an important part of Nepalese farming system. Nepal has one of the highest livestock population per capita and per unit of cultivable land of any country in Asia. Livestock is an integral part of this economic activity. It provides nutrition for human consumption, draft power for plugging land and manure for the crops. It can be a ready source of fund if the products are marketed. The share of agriculture income in the household income is 61 percent (NLSS, 1996). Livestock contribute about a third of agricultural GDP. The Government's Agriculture Perspective Plan (1995-2015) aims to increase this to 45 per cent by the latter part of the period. Dairy and meat sub-sectors contribute and 60 and 15 percent of livestock GDP respectively.

Livestock is a fast growing agriculture sub-sector and is considered important in poverty reduction. It grew by an average of more than 3 per cent annually during the 1990s, accelerating from 1.6 per cent during the first half of the decade to 3.6 per cent in the second half.

Livestock has a huge potential for development in Nepal. Moreover it can be a major component for poverty alleviation and empowerment of women and disadvantaged caste/ethnic groups. It can be started with low capital investment and with simple trained manpower small market area/marketing network suffices. Business risk is lower in running these enterprises. *"The livestock sub-sector is one of the key entry points for programs to reach the rural poor and, if correctly oriented to small animals, its development favors disadvantaged groups, such as women and poor farmers," says Brian Fawcett, ADB Principal Project Economist.*

3. Challenges

Notwithstanding, having an enormous scope for developing livestock industries, many of the past programs are facing numerous problems and challenges.

- In the past the livestock sector was not given priority and increasing human population with growing demand for livestock products have resulted increased pressure on the land and forest. Improved fodder and forage availability is essential for improved livestock productivity.
- Though three fourth of the farmers hold the cattle and half hold the buffaloes in most of the cases they are kept not for commercial purposes but for draft power for plugging land and for manure.
- The milk productivity is very low. The average productivity per milch cow and milch buffalo is 397 kg and 830 kg respectively. This is ten to fifteen times less than for the developed countries.
- There is lean and flush season in the milk production due to breeding pattern and fodder availability.
- It is estimated that only ten percent of the milk production enters into the formal market collection.
- Effective delivery of animal health, breeding and husbandry services to the farmers has suffered due to lack of trained manpower, limited fund etc.
- High transaction cost associated with provision of credit and livestock insurance to the farmers has been a major constrained to the livestock development in Nepal in the past.
- Slaughtering operation represents weakest part of meat supply. All the meat animals are slaughtered in an unhygienic condition. It results in low quality meat production.

The Third Livestock Development Project supported by ADB is designed and implemented to address the problems related to Livestock development.

4. ADB assisted Livestock Development Projects

To assist the government in livestock development Asian Development Bank (ADB) has financed three livestock projects and recently approved Fourth Livestock Developed Project (2003 - 2010). The projects are as follows:

- First Project – Loan No. 445-NEP (SF)²²

²² Approved in 1979.

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- Second Project – Loan No. 745-NEP (SF)
- Third Project – Loan No. 1461-NEP (SF)
- The Fourth Livestock Project (2003 –2010)

The first project initiated the development of infrastructure development and second project focused on increasing the livestock production over a larger area.

The TLDP is participatory community focused program. It was designed to implement demand driven livestock development and marketing activities based on location specific potentialities. It is participatory in the sense that the beneficiaries and other stakeholders make decision on what and how they want to achieve. The project has also anticipated a significant participation of private sector in rendering services related to the livestock and establishing agro-processing and marketing outlet. The details of the program; objectives, program components, program activities, funding and impact are given in the later part of the paper.

5. The Fourth Livestock Development Project

The Asian Development Bank has approved Fourth Livestock Development Project for Nepal (US\$20 million loan to help increase livestock productivity in Nepal in December 22, 2003). District Livestock Service (DLS) is the executing agency for the project, due for completion in June 2010. The Fourth Livestock Project aims to help improve food security, nutrition, and incomes in Nepal. The program beneficiaries are expected to be 164,000 families in 48 districts of Nepal. The project will increase household incomes by about 50 per cent in the project areas, where almost half live below the poverty line. It will also give special attention to women's development, as more than 70 per cent of the female population is engaged in livestock rearing.

The total project cost is estimated at \$33 million, more than 60 per cent of which is covered by the ADB loan. It comes from ADB's concessional Asian Development Fund and carries a 32-year term, including a grace period of eight years. Interest is at 1 per cent per annum during the grace period and 1.5 per cent per annum subsequently. The Government will contribute \$5 million, the Rural Micro-finance Development Center (RMDC) and other micro-finance intermediaries will cover \$6.5 million, and the beneficiaries will add \$1.5 million to cover the total project cost.

It will focus on the development of profitable and sustainable livestock enterprises. The two important programs are intensive livestock production in 22 districts; and processing, marketing and commercialization of livestock sub-sector services in 22 focus districts as well as selected districts from the intensive production area. The

project includes a livestock pilot program for five higher altitude districts and capacity building for participating communities, organizations, and the Department of Livestock Services (DLS) to better support the project.

Micro credit for small enterprises will be made available to commercial banks through the Rural Micro finance Development Center (RMDC). Focus is given to the training. It is expected to include a high proportion of poorer families. More than 1,000 small enterprises will be created in at least 22 livestock commercial centers, existing live animal markets will be improved and new markets developed. The project will also provide credit for 370 new dairy outlets comprising chilling centers, small-scale and cottage dairies, and cold chain retail outlets.

6. The Third Livestock Development Project

The Third Livestock Development Project (TLDP) was awarded ADB certificate for exemplary contribution for improved project performance in 2000 and 2002. And the Third Livestock Development Project was designed to consolidate a highly participatory people centered project and uses concepts and methodological framework referred as System Learning Approach (SLA).

The TLDP represents a major shift in the approach to development of the sector and it has gained a considerable recognition for initiating a number of new direction and innovative activities in the development process. It has become benchmark for livestock sector. The TLDP is scheduled to complete on July 2004.

6.1 Objectives of LTDP

The primary goal of the project is to reduce the poverty in rural areas by improving nutrition, income and employment opportunities for farmers and resource poor people specially women through increased livestock productivity in a manner that is ecologically sustainable and socially equitable. The project will also support government initiative and policies to promote private sector participation in livestock sub-sector. The specific objectives are as follows:

- To improve livestock productivity,
- To develop alternative markets for livestock products,
- To strengthen the institutional capacity of District Livestock Service (DLS) and other related agencies to facilitates self sustainable growth of livestock sector,
- To expand the capacity of DLS to coordinate, manage and monitor for the execution of the project, and,

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- To establish Livestock Farmer's Group and to develop their capacity to plan, manage, monitor and evaluate their own process of development.

6.2 Expected Outcomes

It was expected that with the completion of the project 35,000 farmers families would be benefited of which two third will be poor. Another expected outcomes of the project were 30 percent increase in income and 20 percent increase in protein intake of the beneficiaries. It was expected to have positive impact on women (65,000 women) through the organization of specific women's groups and joint-membership in the farmer's groups.

Implementation

The TLDP has implemented it's activities in three phases from 1997 to 2002 with the coverage of 28 districts:

- **First Phase** (1997/98 to 1998/99): Five districts of Western Regions
- **Second Phase** (1999/2000): Four districts of Western Region and nine district in Central Region, and
- **Third Phase** (2000/01 to 2001/02): Three in Western, four in Far Western and three in Mid Western Region.

6.3 Financing

Total cost of the TLDP was US\$ 27.90 million of which ADB loan constituted about 62.9 percent. Of this, 37.1 percent was funded by HMG/N, beneficiaries and participating banks (refer Table 1 for further detail).

Table 1: Sources of Funding (Currency in Million US \$)

S. No.	Source	Foreign Exchange	Local Currency	Total Costs	Percent
1	ADB	10.95	6.60	17.55*	62.90
2	Aus. AID	0.55	0.20	00.75	2.70
3	HMG/N	0.00	3.80	3.80	13.60
4	Beneficiary	0.40	1.90	2.30	8.20
5	Participating Banks	2.00	1.50	3.50	12.60
	Total Cost	13.90	14.00	27.90	100.0

Note: A total of US \$ 3.5 million have been cancelled after the Mid Term Review of the project hence the total funding from the ADB was 14.05 US \$ million.

Source: DLS, TLDP, 2003, Annual Report 2002/2003.

6.4 Major Components

The major components of the projects were:

- Livestock productivity improvement through expansion of forage/feed, pasture, seed promotion, involvement of private sector in the delivery of animal health and provision of credit livestock and insurance,
- Expansion of Agro-processing and marketing through provision of credit, training and consulting services, and
- Institutional strengthening and organizational development through upgrading capability of DLS, formation of farmer's group and livestock association.

7. Major Achievement under Each Component

7.1 Livestock Productivity and Improvement

The project aims to transfer greater portion of government's responsibility for the delivery of services and input supplies to the private sector and encourage the public sector to concentrate on research, quality control, monitoring and regulation. So, to facilitate this transition and to improve livestock productivity the project has supported following programs.

Expansion of Forage, Feed and Pasture, Seed Production

The project has implemented forage and feed production activities in the communal land (including marginal land of forest), landslides, road-side and in the private land through the supply of pasture seed and the training facilities to the farmers. The private sector was also encouraged to produce the seeds of suitable varieties to meet the increasing demand. The major achievements under this activities are as follows:

- Some 50,515 farmers (44 per cent female) are involved in forage cultivation,
- Forage development in 8202 ha of land,
- 500 ha. of community forest land was developed for forage cultivation,
- Per annum seed production was 150 tons which meet one third of the total demand of the farmers,
- Roadside sowing in 2522 km road,

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- Establishment of Forage Development and Seed Unit in Pokhara to conduct pilot trails of seed production,
- The project has encouraged the small farmers already involved in vegetable seed production to produce seed giving them financial and technical supports,
- 2303 km of land has been established with Hedgerows²,
- Ten seed nursery were established in the private sector.

Delivery of Animal Health/Breeding and Husbandry Services

In the past effective delivery of these services through DLS were constrained by manpower shortage, equipment and resource limitation. Thus, the project initiated the process for establishment of private veterinary, breeding and the advisory services especially in those areas with good market access. Thirty para-vets of 10 district were trained and each was given the equipment (Basic AI and Clinical) worth of NRs. 143408.

Livestock extension and artificial breeding services were upgraded in the DLS, Livestock Centers and Sub-centers in the project areas not being served by private sector. Genetic potentiality of the cattle and buffaloes was increased through cross breed production through artificial insemination (AI) program. Till date, 79835 AI had been done. Similarly the program had rendered 2.11 million laboratory services and 11.2 treatment services in the project areas. There was marked increment in the buffaloes milk productivity per lactating animal (32 ,12, and 18 percent increment in phase I, II and III districts respectively).

8. Increased Access to Livestock Credit

Livestock development has been constrained due to high cost of transaction associated with provision of credit and livestock insurance. The project has initiated number of measures to make the credit and livestock insurance more accessible through the variety of credit facilities from different banks, banking agencies and financial intermediaries (Grameen Bank, Nirdhan, Farmers Associations, Cooperatives, different NGOs/CBOs, etc.). The share of credit component in total project cost was 40 percent. The project fund allocated for credit was designed to be made available to the farmers in the project districts through the participating banks and financial intermediaries. The project has played the pioneer role in involving NGOs/CBOs and farmers cooperatives for providing the credit. To date eight commercial/development banks, three NGOs/CBOs and eight saving

² Hedgerows are established to safe the edge of cultivable land from erosion, these fodder hedgerows also serve as easy and accessible source of nutrition for livestock.

cooperatives were working with project for delivery of credit. The participating commercial banks have established the mobile team to bring services to the village level in the regular basis.

Currently 8969 farmers have received the credit services worth of NRs 150 million through the banking agencies and financial intermediaries Grameen Bank, Nirdhan, Farmers Associations, Cooperatives different NGOs/CBOs, etc. Eighty percent of this has been reimbursed by Nepal Rastra Bank. In the livestock sector repayment is satisfactory and default is minimum (Refer Table 2).

Table 2: Total Credit Flow Till 2002/03

(Thousand Rs.)

Name of the Banks and Financial Institutions	Agreement Date	Total Credit Flow
1. Paschimanchal GBB, Butawal	2054/12/3	50971
2. Nepal Bank Ltd, KTM	2055/4	409
3. Rastriya Banijya Bank, Ktm	2055/7/24	15160
4. Nirdhan Utthan Bank, Ltd, Siddarthanagar	2055/7/3	19070
5. Siddartha Bikash Bank, Ltd, Butawal	2057/12/1	858
6. Malika Bikash Bank Ltd. Tikapur	2057/12/1	24577
7. Sudur Paschimanchal GBB, Dhanagadi	2057/12/2	12290
8. Everest Cooperative Institution, Pokhara	2058/2/12	397
9. Vyccu SCC, Nawalparasi	2058/2/12	217
10. Dev Adarsha Uvva club, Chitawan	2058/2/12	386
11. Grameen Jagarn Manch, Baglung	2058/2/12	139
12. Madhya Paschimanchal GBB, Nepalgunj	2058/3/1	886
13. Fishtail Cooperative Ltd. Pokhara	2058/4/10	168
14. Udaydev Multipurpose Cooperative, Kanchanpur	2058/6	828
15. Sewar Milk Producers Cooperatives Ltd, Tanahun	2058/9/10	973
16. Nawa Chetana SCC Ltd, Parbat	2058/9/12	8
17. Grameen Jagaran SCC Ltd.	2058/9/24	510
Total Credit Flow Till 2002/03		150931

Note: SCC: Saving and Credit Cooperative

GBB: Grameen Bikash Bank

Source: Department of Livestock Services/HMG, 2003, TLDP, Annual Report 2002/03, Harihar Bhawan, Lalitpur.

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The project assessment study (BPRC, 2003) reveals that credit target could not achieve the target. Only 36 percent of the target had been achieved due to non-involvement of ADB/N as participating banks which has national wide network and expertise in the related field. The interest charged by financial intermediaries and farmers cooperatives is also very high to support the net return thorough livestock enterprise in the Nepalese market situation. Similarly, the dalit households receiving loan is low least.

9. Impact of the Activities under this Component

There is an increase of about 65, 56 and 28 percent of cattle in the first, second and third phage of the project.

Visible positive effects of project intervention appear on forage and fodder crops. Because of increased fodder production dependency on straw sources for dry matter supply to the livestock has reduced to 73 percent as compared to the non-project districts (80 per cent). The program saw increased participation of farmers in forage production.

The management of cattle and buffaloes after the project intervention have shifted exclusively to stall feeding system minimizing the claimed negative impact of grazing animals in the soil conservation.

Livestock insurance scheme supported by the project through minimum financial support have shown some impact on the farmers. The farmers were encouraged to take loan because of insurance scheme, which minimizes the risk associated with livestock enterprises.

There is an increased kidding rate of goats by about 12 percent. Availability of improved varieties of forage seed increased. One third of the demand of the farmers is meet by the local production.

The impact assessment study has revealed that women's workload has been reduced considerably due to easy accessibility of the fodder.

10. Agro-processing and Marketing

The activities under this component are milk/meat processing and marketing a marketing of live animals. The sub-sectors under this component are:

Dairy Sector

The TLDP supports the promotion of small-scale milk processing units and milk producers' cooperatives though technical and financial assistance. By 2003, some 81 small-scale dairies emerged in the project districts, 2003 directly supported 42

of them supported by the project. Those dairies collect 25840 liters of milk per day from 9357 farmers and employ 355 people directly.

Under the partnership program, the project has supported 48 cottage and small-scale dairies being managed by farmer's cooperatives and entrepreneurs in 26 districts. The support includes provision of equipments for processing, transportation, cream separator, deep freezer, etc. By 2002/03, some 1100 farmers have been trained in dairy sub-sector among whom 133 were women. Similarly 102 dairy entrepreneurs were trained (7 female). It is reported 25 percent of them are involved in business.

Meat Sub-sector

Meat is important livestock product and its share in agriculture GDP is 14.4 percent. It is basic source of high protein and vitamin. Low per capita consumption of meat (10.1 kg. per year) against the basic requirement (14 kg. Per year) reflect under production of meat in Nepal (FAO, 2001). The method of meat production, processing, procurement and distribution is very crude and unhygienic. The TLDP addresses these problems. Construction of proper and hygienic slaughterhouses, training to the butcher in hygienic meat handling and encouragement of private partnership in establishing improved slaughter are the strategies of the project

By 2002/03, some 164 persons have been trained (17 female) in hygienic meat production, basic meat processing and product development. It is reported that 90 percent of them are involved in hygienic meat production and handling. Similarly 43 retailer (8 female) are assisted.

Large slaughterhouses are conceptualized and constructed with total investment of NRs. 239.9 million. Under the public private partnership, the project has provided equipment support worth of NRs 4 million to two slaughterhouses along with training on operation of plant, product development, marketing and recommendation of loan, etc.

Live Animal Marketing

Another important sub-component is to provide easy access to the farmers for live animal marketing. The project conducted a survey of major livestock market to identify barriers to efficient marketing and to propose plans and programs for efficient marketing. As per the recommendation of survey, the project initiated and supported live animal marketing centers in different project districts (Chitawan, Nawalparasi, Kapilbastu, Banke, Bardia, Kathmandu). Different equipments, holding sheds for livestock, office building, water supplies facilities are provided by

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the project. The project supported for the development of the sites in partnership program.

Impact of the activities under the component

The project has created local market for milk and other dairy products. It has helped to minimize milk holiday. More than two third of the milk production is supplied for market.

Increased production of milk has led to 39 percent increment of household consumption meaning improved nutritional status of the people in the project districts.

The project has institutionalized and expanded dairy training program in the directorate livestock extension and training.

The project intervention has increased 32, 12 and 18 percent in the buffalo milk productivity per lactating animal in phase I, II and III district respectively.

11. Institutional Strengthening and Organizational Support

Support and capacity building within the existing institutions can help improve service delivery. Infrastructure support, training etc. were provided to the farmers groups, NGOs/CBOs, district offices, regional directorate and the department and ministry itself. Thirteen officers of DLS have been trained at higher level academically. Similarly the staffs of DLS and line agencies were trained at national and international level. 151 persons (36 officers, 68 non-officers and 47 entrepreneurs have received international training related to participatory program planning, monitoring, community development, rural micro-finance development, conflict management etc. Similarly 1112 staffs and 1114 entrepreneurs have been given national training. On-site training has been given to more than 30,000 farmers.

Another focus of the project was farmers group development. Local institutional strengthening particularly in the form of groups and association development has been promoted by TLDP since its inception. The groups were provided guidance, manuals and training in group formation, operation and management. Well-established groups had been encouraged to form association which function as the focus for coordination of the participatory planning process and monitoring and evaluation of field level activities.

There are now some 1,174 farmers groups with total membership of 15, 312 among which 44 percent was female. Farmers groups in the pocket areas by commodities and types of groups given by Table 3.

Table 3: Farmers Groups in the Pocket Areas by Types of Groups and by Commodities (2002/03)

Commodity	Types of Groups				Types of Member			Percentage	
	Male	Female	Mixed	Total	Male	Female	Total	Male	Female
Cattle	59	3	49	111	1310	217	1527	86	14
Buffallow	106	41	231	378	4187	1304	5491	76	24
Goat	43	292	211	546	2252	4203	6455	35	65
Pig	6	30	50	86	457	581	1038	44	56
Poultry	1	19	13	33	165	322	487	34	66
others	2	3	15	20	208	106	314	66	34
Total	217	388	569	1174	8579	6733	15312	56	44

Source: DLS, 2003, TLDP Annual Report, 2002/2003.

The female membership is 44 percent. Proportions of female, male and mixed groups are 33, 18 and 49 percent respectively. At present no male groups are formed.

Male participation is higher in cattle and buffalo groups while female participation is higher in goat, pig and poultry groups. This is because cattle and buffalo program needs higher investment and larger collateral for loan demand, but female has less access to such collateral.

11.1 Partnership Program with NGOs/CBOs

Institutionalization of partnership with NGOs/CBOs in the department is one of the major achievements of the project. TLDP has initiated and became a pioneer for mobilizing the local NGOs/CBOs (48 NGOs/CBOs in 16 districts). Partnership programs with NGOs/CBOs reveals many successful examples of promising outcomes. It is reported that partnership program helps to expand the coverage of the program. DLS has institutionalized operational mechanism and developed the norms for execution of partnership program.

11.2 Welfare Fund

The program has also helped to mobilize local resources. Another unique feature of the TLDP is management of 'Welfare Fund' by farmers' groups. The farmers' groups in 19 districts are managing and using Rs. 24 million for livestock related

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income-generating activities and also in social welfare activities. There has been 41 percent increment in the welfare fund compared to base year.

11.3 Some Issues to be addressed

Despite substantial achievement, the program has not been able to attain some of its intended targets, which are as follows:

- Marketing of forage seeds through the farmers is not yet established in a sustainable manner. Distribution network is still dependent on project program. Declining productivity of the seeds was also reported.
- The program assessment study indicates a concealed unfair competition-taking place between privately established entities and technicians working for District Livestock Service Office (DLSO) and later are in advantageous position.
- The program has not been able to achieve its credit target (36 per cent only). It was stated that the Livestock Advisory Teams (LAT) were not more functional in involving banks and expanding private financial intermediaries.
- The existing interest rate is too high to gear up the livestock enterprise. The loan with lower interest rate is one of the potential attractions the government can provide with for rural farmers for the alleviation of poverty.
- With respect to approaching the institutions for loans dalits and janjatis were far behind. Besides social mobilization, some additional exercises needs to be performed to make these groups more confident in receiving and utilizing them.
- The decision of phasing out of cooperatives as self-sustainable farmer's institutions is untimely, as they have not acquired of self-operation. It needs special project efforts for developing financial and management skill amongst the farmers.
- Similarly, many of the farmers groups are still weak in respect to their empowerment. They are still dependent on District Livestock Service Office (DLSO) and Livestock Service Centers (LSCs).
- Though the cost of milk has been lowered to a considerable extent by the project intervention, it is still higher compared to the cost in India. The project further needs to explore avenues of making the production cost comparable

12. TLDP Impact on Women Empowerment

Investment on women is vital not only for social justice but also for achieving economic efficiency and growth (World Bank, 1995). *“Recognition of the need to improve status of women and to promote their potential role in development is no longer seen as human rights or social justice. While pursuit of gender equity remains strongly within the framework of fundamental human rights and gender justice, investment on women now also recognized as crucial to achieving sustainable development. Economic analyses recognize that low level of education, training poor health and nutritional status and limited access to resources not only depress women’s quality of life but also limits productivity and hinder economic efficiency and growth”* (ADB, 1998).

There is new-shared understanding within the development community that the development policies and the actions that fail to take the gender inequality into the account will have limited effectiveness in poverty reduction (World Bank, 2002). Not only the gender inequality exacerbates poverty, poverty also exacerbates inequality between the males and the females (World Bank, 2003).

Current ADB practice attempt to integrate gender issues in Banks policy on gender and development approach will be promoted in both technical assistance and loan operation. Gender issues were considered as an essential element of the project. Social strategies were built into the project to facilitate and to promote women involvement and insure tangible benefit to women. The assessment study of the effectiveness of the program documents that program implementation strategies has enhanced empowerment of women. The positive impacts are as follows:

- The female groups are at par with the male groups in all respects. About one third of the livestock groups are constituted from female members only. Moreover 569 mixed groups are functioning with female members in them more than 40 percent.
- The female groups are at par or even better managed with regularity/frequency of meetings, decision-making process and program formulation and implementation.
- About 505 of the female members of the women’s groups have been involved in some kinds of trainings or visit programs. This approach needs perpetuation and strong monitoring also to maintain gender role in the development process.
- More positive outcome with regard to incremental outcome is in the goat groups in which 65 percent of the members are female. The goat enterprise is

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expanding and animal exchange program is functioning well. There is an increased kidding rate in the goats by 12 percent in the program districts.

- The women in the project area have been found empowered in terms of increased mobility, and they are more assertive than they were before the group formation.
- Fodder and forage development activities have helped to lessen women's work burden and give them more time such as taking care of children and involve women in income generating activities because they have to spend relatively less time for collecting fodder and firewood. Moreover, the practice of stall-feeding the animals has been initiated in the project district as encouraged by the project. This has released also much of the time of women and children.
- The female has now equitable access to institutional credit. The program impact assessment report indicates that mean amount of credit for the female groups is bigger than for the male groups. The repayment rate is also higher amongst the female borrowers.
- The female members have now equitable access to income generated from the livestock enterprise. With increased women's income household expenditure on education, health, and personal goods of women have increased.

13. TLDP Impact on Poverty

Assistance under the country strategy and program, ADB helps the HMG/Nepal achieve its agricultural and rural poverty reduction objectives, through support for strengthening market orientation; broad community participation at the grassroots level; and decentralization in the areas of agribusiness, basic social infrastructure, financial services, etc. Inline with ADB, country strategy and program, the TLDP was designed to reduce poverty in the rural areas by improving nutrition, income and employment opportunities for the farmers and the resource poor people specially women through increased productivity. The project impact assessment report indicates positive impact on poverty alleviation through increased household income, nutrition and employment opportunities.

There is increase in income from livestock source over five years. The difference in income over five years when compared with income five years ago compounded at 7 percent. There was an incremental income of about Rs. 7,000.0 per annum per household. This is an obvious contribution of livestock. This is indicated by higher

share of livestock to total income (one third) in the project districts compared to the control groups (one forth).

More positive outcomes with regard to upliftment of the poor families are noticeable in the goat groups. The goat enterprise is expanding. It can be premised from the mean household income figure that majority of the direct beneficiaries have raised their income to the poverty line or above. The employment opportunities created by the project seem to be equitably oriented in reducing the poverty level. About 1200 people have been directly employed in various employment avenues.

Another positive impact of the project was reduction in the out migration of the people due to increased employment opportunities in the project districts. As for example under kharteri MCC, Syangja 35 persons from 55 household members from the cooperatives were working in India in the beginning of the project. Once the semi-commercial dairy farming initiated in the pocket area 10 out of 35 persons have been retained at home for raising dairy animals.

The project has achieved its target of covering 55,000 households, 15,312 directly by involving them in-groups. Thousands of farmers have benefited from all the project activities like market outlets, forage seed production and distribution, use of breeding animals, etc. More than 10,000 farmers have benefited by increased market outlets for milk.

The nutritional-status of the people in the project districts has been improved. The average annual consumption of milk per person was 410 ml. which is higher than national average and that of control group. It was estimated that there was about 40 percent increase in milk consumption per person. But the meat consumption per person does not seem to be improved.

14. TLDP Impact on Environment

In this project there was a strong component of forage development to back the sustainable development of livestock. Forage development was one of the most successful activities. Expansion of forage on community land, hedgerows, land - side areas, roadside and forest has contributed positively to protection of environment and conservation of resources. The management of cattle and buffaloes after project intervention has exclusively led to stall fed system. This has minimized the claimed negative impact of grazing animals on the soil conservation.

15. Concluding Remarks

The program has been successful in addressing the socio-economic problems of the poor segments of the communities through various income generation activities. Numbers of efforts have been initiated towards improving livestock

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productivity by reducing the cost of production; followed by entrepreneurship development. These efforts include social mobilization, gender mainstreaming, forage development, meat and dairy entrepreneurship, privatization of animal health services and Artificial Insemination Services (AIS) and credit arrangement NGOs/CBOs, Cooperatives and private public partnership development. Thus, TLDP is the best example of integrated package of services.

The project has also contributed to human resource development and building up institutional capability of department. Along with these regional training centers and animal breeding and AI center have been strengthened.

Women have been benefited by project through the organization of specific women's groups and their joint membership in farmer's groups (mixed groups). The female partnership increased to 44 percent from 25 percent at the beginning of the program.

The capability of DLS to design and implement program enhanced following process approach to the development and rigorous and effective monitoring and evaluation. The program has also helped to mobilize local resources for income generating activities.

The project has also been successful in transferring greater portion of government responsibility for the delivery of services and input supplies to the private sector. And after the program intervention public sector has been concentrated on research, quality control, monitoring, evaluation, etc. Financial and technical supports were given to the private sector.

The TLDP represents a major shift in the approach to development of the sector and it has gained a considerable recognition for initiating a number of new direction and innovative activities in the development process. It has become benchmark for livestock sector. The TLDP is scheduled to complete on July 2004. The time has come now that it's success stories and best practice be replicated in another districts of the country by adopting output oriented need model.

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Nepal: Poverty, Vulnerability and Social Protection

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1. Poverty in Nepal

1.1 Poverty Situation

As poverty is a multidimensional concept that covers a wide range of human conditions, one must explore various aspects of poverty in order to understand it fully. Besides looking into the ability of a household to meet basic consumption needs, poverty analysis must incorporate access to resources, which should encompass economic resources (such as land and capital), human development resources (such as education and health), and social resources (such as political influence). As no single indicator completely describes poverty, information from various indicators must be integrated to understand its true scope and extent. The most common poverty indicators are those based on consumption or income poverty measures.

The Nepal Living Standards Survey (NLSS) provided an estimate of the head-count index of poverty in Nepal both at the national and regional levels (CBS, 1996 and 1997). Based on this survey, the NPC estimated the incidence of poverty in Nepal to be about 42 percent. It was estimated that poverty in Nepal remained chronic and widespread with more than 9 million Nepali people living below the poverty line. Wide variations in poverty levels were identified based on rural-urban divide, geography, gender, and ethnic groups and occupational castes. The same data showed that poverty was estimated to be much more severe in rural areas. Besides, the incidence of poverty, the NLSS data also provided estimates for the intensity of poverty (as measured by poverty gap index) and severity of poverty (as measured by squared poverty gap index). At the national level, the intensity of poverty was estimated to be 0.12 and severity 0.05. Based on the above three poverty estimates, during the mid-1990s, poverty was much more rampant, deeper and more severe in rural areas. Similarly, poverty in the Mountain and the Hills was

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found to be more rampant, deeper and more severe (NPC, 2003). As for variation in poverty incidence, if any, across gender, based on the NLSS data set, there were evidences to suggest that “female-headed households in general, and widow-headed households in particular, are much more likely to be poor if there is no adult male present” (World Bank, 1999).

In the context of the mid-year evaluation of the Ninth Plan (1997-2002), in 2000, an exercise was undertaken based on which the poverty incidence for Nepal for the year 2001 was estimated to be 38 percent. This poverty estimate was calculated on the basis of economic growth in the last few years relative to the 1996 NLSS survey data. As this new estimate is not based on any survey, this is neither comparable with the 1996 survey, nor adequate to provide the basis for poverty analysis (NPC, 2003). The Central Bureau of Statistics (CBS) is currently conducting the second round of NLSS. The field survey is completed, however, the survey results are yet to be put in a form that can be analyzed for poverty analysis.

As for the human poverty situation in Nepal, the current situation in the country is characterized by low level of all aspects of Human Development Indicators (HDI) even by the South Asian standards. Despite noteworthy improvements in some of the social indicators over the last four decades or so, their levels are still low as the country started with very low values for those indicators. For instance, the HDI value for Nepal for 2003 (based on 2001 data) is 0.499 indicating a low level of human development even by South Asian standards (UNDP, 2003). All countries in South Asia are better placed than Nepal in terms of HDI value, except for Pakistan with a similar HDI value of 0.499. However, Pakistan’s GDP per capita (expressed in PPP US dollars) is significantly higher than the corresponding value for Nepal, for instance, US \$1,890 for Pakistan as against US \$1,310 for Nepal (UNDP, 2003). Based on this, it is disturbing to note that Nepal ranks at the bottom in terms of the social and human development ladder vis-à-vis its South Asian counterparts (See, Table 1).

Table 1: HDI Value for Nepal vis-à-vis South Asian Neighbors

HDI Rank / Country	Life Expectancy at Birth (years)	Adult Literacy (15+ years) (%)	Gross Enrollment Ratio (primary +tertiary..)	GDP per-capita (PPP US \$)	HDI Value (2001)
86 Maldives	66.8	97.0	79	4,798	0.751
99 Sri Lanka	72.3	91.9	63	3,180	0.730
127 India	63.3	58.0	56	2,840	0.590
136 Bhutan	62.5	47.0	33	1,833	0.511
139 Bangladesh	60.5	40.6	54	1,610	0.502
143 Nepal	59.1	42.9	64	1,310	0.499
144 Pakistan	60.4	44.0	36	1,890	0.499

Note: Data year: 2001.

Source: *Human Development Report 2003, UNDP 2003, New York.*

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In Nepal's case, poverty situation is made worse by several aspects of social exclusion such as those relating to caste, ethnicity and gender based discrimination. One major component of social exclusion is based on caste and ethnicity. For instance, the people belonging to the lower caste groups, ethnic minorities are poorer than the higher caste/ethnic groups. As expected, the lower caste groups are not only economically poor, but also severely deprived of opportunities in other human dimensions like social and cultural. Further, significant disparities in human development indicators are visible between the lowest caste groups and upper caste groups (NPC, 2003). Women who belong to the lowest caste groups are deprived in most aspects of life, for example, as reflected in a very low, only 7 percent of literacy rate among them in addition to a very poor level of other social indicators (NESAC, 1998). The other hard hit group of poor consists of the Dalits who are comprised of the lower occupational castes such as Kami, Damai, Sarki, Dhobi, etc.

1.2 Major Causes of Poverty

As highlighted earlier, in Nepal, poverty is mostly a rural phenomenon. Further, since agriculture plays a central role in the lives of the people in rural areas, low agricultural productivity in general and land ownership and land quality, in particular, are the principal determinants of rural poverty. Also, NLSS data suggested that poor not only have less access to land but also own less productive land that is suitable for rice cultivation (World Bank, 1999). In particular, in rural areas, the poorer households are consistently more deprived than others in terms of the quality of the land they cultivate and access to and use of inputs. Overall, the major causes of poverty can be identified as low economic growth in general and low agriculture growth in particular, low social and economic infrastructure, a relatively high population growth with consequent higher demand on fragile lands, low access to non-agricultural income, absence of good governance and deep-rooted social and cultural practices.

Moreover, the pattern of growth in Nepal has not been pro-poor. Much of this growth took place outside agriculture. During 1990-2002, the non-agricultural sector grew by an average rate of almost 6 percent in real terms while the corresponding growth rate in the agricultural sector was only 2.3 percent, which was about the same rate as population growth thereby indicating no perceptible improvement in rural per capita incomes.

Low social and economic infrastructure has been cited as one of the major causes of poverty in Nepal. The level of social and economic infrastructure in Nepal is low even by the South Asian standard, and the lack of schools, hospitals, roads, etc.,

has had a severe effect on poverty in Nepal, more so in the rural areas. The concentration of such services in and around urban areas and the lack of such services in most rural areas are reported to be one of the primary reasons for the prevalence and perpetuation of the rural poverty. The key infrastructure items that seem to have caused and perpetuated poverty are: health, education, water supply, rural roads and energy. Based on the available data on these key social and economic infrastructure items led to following general characteristics:

- the poor have in general less access,
- the access to 'quality' services in basic health and education is poor,
- use of alternative energy sources is very low.

Similarly, insufficient public expenditures on social services is another major determinant of poverty situation in Nepal. For instance, inadequate funding is one major problem in providing quality social services. Per capita public expenditures on social sectors are low, and have remained so due to high population growth. As Nepal has signed in to the 20/20 initiative, the government has set apart higher share of public expenditures on these social sectors since 1996/97, though the share is still quite below the internationally set norm at 20 percent. However, the problem is not only insufficiency but also inefficiency in utilizing the allocated amount of public expenditure on these sectors and low rates of absorptive capacity.

1.3 Poverty Trend

The first large-scale household-level survey was conducted in 1976/77, which indicated clear disparities between rural and urban sectors with poverty incidences in rural areas higher than in urban areas. Similarly, it was reported that the Western and Far-Western urban and rural areas of Nepal appeared significantly worse off than their respective urban and rural counterparts. The next large-scale survey, conducted during 1984/85, reported that poverty incidence was the highest in the Hills (50 percent), followed by the Mountains (44 percent), and the Terai (35 percent). As in the case of the 1976/77 study, the rural poverty incidence was much higher than the urban poverty incidence. In 1991, a large-scale survey confined only to rural areas, was conducted based on which the rural poverty incidence was estimated to be 34 percent in the Terai, 64 percent in the Hills and 64 percent in the Mountain. The study indicated that even though poverty incidence was higher among the landless and small farmers, it was not limited to them (NPC, 2003).

These poverty incidences are not directly comparable across surveys because of the differences in definitions of poverty line, methodology of surveys and area

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coverage. By applying the definitions of poverty line, income, and consumption employed in earlier surveys to the data for 1995/96, the World Bank re-calculated poverty estimates for comparing the poverty incidences over time (World Bank, 1999). Based on the World Bank study, a few tentative conclusions emerged, which suggested that poverty situation in Nepal did not appear to have improved during 1976-1996. Moreover, it suggested that during the same period the number of people living below the poverty line increased significantly. Further, these comparisons indicate that the deteriorating condition of poverty is mostly a rural phenomenon (NPC, 2003).

As for poverty and inequality, data on Gini coefficients indicated that the distribution of income became more unequal everywhere between 1984/85 and 1995/96. Similarly, data on the process of income concentration indicated that during 1984/85-1995/96, the share of the bottom 40 percent income group decreased in both rural and urban areas while the share of the top 10 percent income group increased (NPC, 2003).

1.4 Current Civil Strife and Poverty

During the last eight years or so, Nepal has increasingly been torn by civil unrest between government forces and radical left wing forces, *Maoists*, who had declared a people's war in 1996 with the aim of establishing a Marxist republic in place of the constitutional monarchy. Lately, the Maoists have grown into a major political/military force and claim to control large areas of the country, especially the remote areas of the hills and mountains. The struggle between the Maoists and the security forces has taken a nasty violent turn. Almost 9,000 Nepali people have been killed and consequently Nepal is in a state of civil war (although the government sources strongly deny it). In addition to the loss of lives, the Nepali people have witnessed widespread destruction of property and infrastructure, losses arising from stoppage of work, decline in most economic activities arising from a general sense of uncertainty and insecurity, sharp reduction in the service sector like tourism, disruption of most developmental activities, etc. Moreover, the agriculture sector is severely hit as it has been reported that in severely affected districts particularly in the mid-western region of Nepal, farming has virtually come to a stop. The security expenses have skyrocketed, which have raised regular government expenditure significantly thereby diverting the limited resources that could have been used for development purposes. Similarly, efforts at local governance that the government was making particularly since the mid-1990s through various decentralization and social mobilization programs are also under threat all of which have seriously eroded people's confidence in just about

everything thereby worsening Nepal's poverty situation. It is feared that it will take a long time for people to recover from its deadly impact (Sharma, 2003).

2. Objectives of Present Study and Outline

2.1 Objectives of Present Study

In view of Nepal's non-improving poverty situation, the overall objective of this paper is to examine the poverty and vulnerability situation and provide some preliminary thoughts on the role of social protection in alleviating poverty and managing the risks and vulnerability.

The specific objectives of the present study are:

- to examine Nepal's poverty situation and trend;
- to examine the relationship between poverty and vulnerability and the role of social protection interventions in the context of Nepal;
- to assist in identifying the high priority vulnerable groups that need additional assistance to better manage risks that they face; and
- to provide some suggestions on future course of actions in adopting a proper system of social protection interventions.

2.2 Outline of Present Study

The present study begins with an assessment of Nepal's poverty situation and trend. Next, it highlights some conceptual framework of the relationship between poverty, vulnerability and social protection interventions based on which it provides some preliminary ideas for preparing a country profile of vulnerabilities and risks. Next, it briefly reviews existing social protection interventions in Nepal that are aimed at reducing poverty and vulnerability. Finally, the study maintains that given the government's commitment towards poverty reduction in recent years, social protection interventions are vital in the present country scenario and a lot of work is needed in this area starting with a conceptual clarity as well as commitment on the part of the policy makers.

3. Poverty and Vulnerability

Poverty incidences alone convey the static nature of poverty only, and do not usually throw much light on the dynamic aspects of poverty. In particular, the head-count index of poverty does not examine the fluctuations in income, consumption and other indicators of well being, nor does it analyze the causes and effects of these fluctuations. Studies on panel household survey data have indicated that poverty is often a temporary phenomenon as several households frequently move into and out of poverty often due to transitory shocks such as sickness or loss of

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employment. Such fluctuations are the reasons that cause vulnerabilities among the affected individuals, households or communities. In this context, vulnerability is defined as the likelihood of welfare loss above a socially accepted norm, which is caused by uncertain events and the lack of appropriate risk management instruments. Besides, vulnerability depends on several individual characteristics. In general, an analysis of vulnerability should consider such factors as sources of risk, personal or household characteristics that determine exposure to risks, access to risk management instruments, and the timeframe over which the adverse impacts of a shock persist (World Bank, 2002).

In a country like Nepal, poor are exposed to several forms of risks against which they have very little protection. This is so because the poor are largely concentrated in rural areas most of which is part of informal sector, which does not provide protection against risks. Even among the poor, certain groups are exposed to greater vulnerability, such as, women, children, disabled, dalits and other disadvantaged groups, child workers, and conflict-affected groups. Therefore, one can easily detect the inter-linkage between poverty and vulnerability as these two states are mutually reinforcing. For instance, if certain intervention measures help mitigate risk of households, they will also help improve poverty situation significantly.

Box1

Working Concept of Household Vulnerability

A household is said to be vulnerable to future loss of welfare below some socially accepted norm(s) caused by risky events. The degree of vulnerability depends on the characteristics of the risk and the household's ability to respond to risk. Ability to respond to risk depends on household characteristic, notably their asset-base. The expected future outcome is defined with respect to some specified benchmark – a socially accepted minimum reference level of welfare (e.g., a poverty line, nutritional standards). Measurement of vulnerability also depends on the time horizon, a household may be vulnerable to risks over the next month, year, etc. Thus, households are vulnerable *to* suffering an undesirable outcome, and this vulnerability comes *from* exposure to risk.

Source: Heitzmann, Canagarajah and Siegel, June 2002, the World Bank

A review of literature has highlighted the following general principles of vulnerability as a concept (Alwang, Siegel and Jorgensen, 2001:1):

- vulnerability is a forward-looking concept and defined as probability of experiencing a loss in the future relative to some benchmark of welfare,

- a household can be said to be vulnerable to future loss of welfare and this vulnerability is caused by uncertain events,
- the degree of vulnerability depends on the characteristics of the risk and the households' risk response ability,
- vulnerability depends on the time horizon, and
- poor people are more vulnerable due to their limited access to assets and limited abilities to respond to risk.

In order to understand vulnerability, one has to examine the likelihood of experiencing loss in utility as a result of shocks – in terms of its nature, causes and impact. First, one needs to examine the particular factors that place individuals, households and communities at risk and/or perpetuate poverty. Also, one needs to analyze the extent to which the poor are vulnerable. This would, for example, require examining the movement of households into and out of poverty line and, also, the factors that determine these movements. However, all this is easier said than done as such measurement is usually confronted with several difficulties. The major difficulties of measuring vulnerability arise, for instance, due to lack of panel data; issues relating to incorporation of qualitative information into quantitative ones (so as to capture the additional sources of risk); and difficulties in measurement of probabilities of loss occurrence (given that vulnerability is a forward looking concept).

The shocks that cause vulnerabilities among households can be associated with a number of risky events like natural disasters, life cycle risks relating to birth, death, retirement, etc., socio-economic risks and lack of governance, political instability and others. Several studies have shown that poor are usually the most vulnerable to risks due mainly to lack of assets (land, financial, human, etc.) that are needed to manage risks they face. In order to protect themselves against income fluctuations, they must find ways to reduce vulnerability through such informal channels as self-protection or group-based relationships between households and/or communities. "This is where the role of social protection comes in. Social protection programs prescribe a way of reducing vulnerability of income fluctuations among poor; also foster long-run investments in human capital and sometimes, compensate those who are adversely affected by some policy changes" (World Bank, 2002). Thus in a country like Nepal, significant scope exists for an effective system of social protection measures so as to contribute significantly towards poverty reduction.

4. Poverty Reduction, Social Protection and Informal Sector

As is commonly known, poverty is expressed in terms of inadequate consumption, education, health and other indicators of well being. However, poverty is also associated with insecurity, uncertainty and fear for the future. This feeling of insecurity is caused by inability to cope with risk. Insecurity is that dimension of poverty where social protection policy has a direct role to play. Poverty reduction interventions usually focus on ways to improve the well being of poor households, its average level in particular. Social protection interventions attempt to reduce the variations/fluctuations of households' well being over time. Therefore, "policies promoting growth and increasing access to health and education services improve the average well being of the poor, policies that create opportunities for households to manage risk better, thus reducing the impact of shocks, fall under the purview of social protection" (World Bank, 2002:4). In this context, social protection simply means some kind of mechanisms used by a country/society to its citizens/members against some economic or social risks/disasters. Broadly, social protection is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income (Ibid.).

In Nepal, majority of poor households survive through engaging themselves in informal sector. Insurance markets are close to non-existing and institutional structure inefficient. Consequently, the role of social protection through formal mechanisms is severely constrained. In most cases, since the poor are largely isolated from markets and formal institutions, they have limited access to formal risk-mitigating instruments. For example, poor have quite limited access to formal credit mechanisms. An assessment of rural credit supply in Nepal has revealed that informal sources of credit overwhelmingly dominate the credit market such that close to 80 percent of the rural credit comes through informal channels (money-lenders) that usually incorporate very high interest rates. Further, the same study indicated that not much change has taken place in formal and informal sources of rural credit supply since 1969/70 (Acharya, Khatiwada, Aryal, 2002).

Moreover, the subsistence agriculture sector and significant proportion of self-employed labor force and unpaid family workers substantiate the prevalence and significance of the informal economy of Nepal. For instance, based on a 1998/99 survey, only 16 percent of labor force is estimated to be regular and paid employees in various sectors while 40.3 percent are engaged in self-employment. The proportion of unpaid family workers is very high at 43.3 percent of the total labor force (CBS, 1999). Similarly, close to 86 percent of women in Nepal work in

the informal economy and the majority of them work in a progressively feminized agriculture sector (ILO, 2002). In this scenario, one must look into informal mechanisms, in addition to the formal ones, and incorporate the role of existing programs like public works and also the programs that involve the use of community-based institutions.

In Nepal's informal sector, there are some standard institutions to perform various social and cultural activities that are intended to provide some kind of social protection to its members/citizens directly or indirectly. Examples of such type of informal social institutions include family, kinship, religious institutions, 'guthi', etc., which play a key role to manage the protection of society and individuals. In traditional societies like ours, the importance of these informal institutions is vital. Besides, there are formal institutions, which provide social protection to individuals and societies, for example, government, NGOs, local government, charity organizations and community trust.

One primary informal source of social protection constitutes family. Besides performing some cultural and religious rituals, family, as a primary social institution, also performs the role of social security provider. For instance, a family protects its members from disasters, diseases, sickness, dangers, etc. The prevalence of joint-family system in our society deserves its merit in terms of economic social and cultural value. It is because of the system of joint-family; the needs of elderly and children are taken care of within the family. There are instances when the risks associated with individual level of poverty and vulnerability gets mitigated through family supports.

Similarly, community serves as another major source of social protection through providing security to its members at the time of disaster, famine, sickness and other dangers. Examples of certain social activities that have social protection component include constructing canals, maintaining irrigation system, owning communal resource like land, etc. Historically, some of the ethnic communities were entitled to own a (tax-free) communal land known as 'kipat'. The 'kipat' system provided certain economic security to its members as the community also had an authority to look after forest, minerals, and water resources within their territory. In recent years, it appears that communities are increasingly and actively being involved in management of various forms of community resources like forest, irrigation system and water, for instance, through community forest user groups, irrigation management groups, and drinking water user groups, respectively.

5. A Profile of Risks and Vulnerabilities in Nepalese Context: Some Thoughts

Vulnerability can be structural or transitory in nature, which affects the appropriate nature of social protection interventions chosen. On the one hand, vulnerability can be caused by chronic poverty due to low income, assets, endowments, which are essential for risk management. On the other, vulnerability can be caused by several risks or shocks of short-term nature that most households experience on a regular basis. One study has decomposed vulnerability into several components of a risk chain: (i) the risk or risky events, (ii) the options for managing risk, or the risk responses, and (iii) the outcome in terms of welfare loss. As per the World Bank, vulnerability begins with a notion of risk. Risk is characterized by a known or unknown probability distribution of events. These events are themselves characterized by their magnitude, frequency, duration and history. Households can respond to risks through formal or informal means of risk management instruments as per their access to such instruments. Risk, combined with the household responses, lead to an outcome. Thus, the household is said to be *vulnerable from* the risk or *vulnerable to* an outcome. In general, policy makers are more interested examining the outcome of the risk and the process of risk response of households (Alwang, Siegel and Jorgensen, 2001, 2-3).

Identification of appropriate social protection interventions to assist the poor and vulnerable in managing or coping with risks requires preparation of a profile of vulnerabilities and risks. In simple term, a vulnerability profile should identify the major risks and the corresponding vulnerable groups that are affected by those risks, preferably in a priority order. This section of the present study has presented some preliminary work on preparing a profile of vulnerabilities and risks in the context of Nepal (See, Table 2). In particular, it examines the major categories of risks, with examples of specific risks and the corresponding vulnerable groups that are more likely to be affected by those risks. *First*, the major categories of risks were identified, such as, risks arising from natural disaster, lifecycle risks, socio-economic risks, etc. *Second*, the examples of risks pertaining to each of the risk categories were identified. Third, the vulnerable groups affected by those risks were identified (See, Table 2). The following subsections have elaborated these ideas.

5.1 Categories of Risks

5.1.1 Risks Related to Natural Disaster

Due to the topography of Nepal in addition to its economic and social development, the country has been facing the problem of natural disasters every year. These

kinds of disasters (mostly natural and occasionally manmade like fire) cause heavy losses of lives and property every year. The major disasters that affect Nepal's economy include flood, landslide, epidemic, earthquake, fire, avalanche, thunderbolt, windstorm and hailstorm. Based on the government estimates, during the period of 1983-1996, 15,859 died of natural disaster related events while hundreds of thousands of families were severely affected. Of these, flood and landslide were the major ones that cause heavy loss of lives, livestock, cropland and properties. In case of human life loss, epidemic appeared to be the major disaster during the 90s followed by flood and landslide, windstorm / thunderbolt / hailstorm and fire, respectively. Nepal is also vulnerable to seismic activities. For instance, in 1988, earthquake turned out to be the major natural disaster that killed 721 people and affected 66 thousand families (CBS, 1998). As per the latest figures of the HMG's Ministry of Home Affairs, in 2003 alone, almost 11,000 families were affected through various forms of natural disaster. As for loss of lives caused by natural disaster in recent years, during the period 1997-2003, a total of 5373 died with property damages worth of billions of rupees.

The major risks that arise from several forms of natural disaster include loss of food security, landlessness, loss of shelter, vulnerability to disease and loss of property. Similarly, such risks can give rise to forced migration, bonded labor, permanent disability, etc. (See, Table 2).

5.1.2 Life-cycle Risks

Life-cycle events like birth, childhood, working years and retired age may also cause severe forms of risks and vulnerability among the respective strata of population. For instance, during childbirth, the expectant mother and the newborn baby might be vulnerable to several risks like maternal death, birth injury, birth death, malnutrition, stunting, etc. Similarly, children face several forms of risks like early childhood diseases, malnutrition, low school attendance, exploitative childhood and violence. Among the children belonging to Dalits and other disadvantaged groups, greater risks of poverty and socio-economic exclusion is seen.

Table 2: Types of Risks and Vulnerable Groups

Categories of Risks	Examples of Risks	High Priority Vulnerable Groups affected by the Risks
<p>A. Environmental/Natural Disasters</p> <p>A1. Flood</p> <p>A2. Earthquake</p> <p>A3. Landslides</p> <p>A4. Flood caused by uncontrolled irrigational dams</p> <p>A5. Drought</p>	<p>a) Loss of food security</p> <p>b) Increased indebtedness</p> <p>c) Landlessness</p> <p>d) Loss of shelter</p> <p>e) Loss of livelihood</p> <p>f) Vulnerable to disease and death</p> <p>g) Loss of farming</p> <p>h) Bonded labor</p> <p>i) Forced migration</p> <p>j) Premature death / injury</p> <p>k) Property loss</p> <p>l) Permanent disability</p>	<p>i) Subsistence farmers across the country</p> <p>ii) People residing in the Hills and Mountain</p> <p>iii) People in southern region/Terai, across the Indian borders</p> <p>iv) Isolated Communities</p> <p>v) Forest workers</p>
B. Lifecycle Risks		
(i) Risks at Birth	<p>Maternal death</p> <p>Post-natal disease</p> <p>Child death / Infanticide</p> <p>Birth injury</p> <p>Preventable disease</p> <p>Malnutrition</p> <p>Stunting</p>	<p>Women in general who do not / cannot access adequate maternity care</p> <p>Infants</p> <p>In particular, women and infants belonging to lower caste groups</p>
(ii) Risks during Childhood	<p>Greater susceptibility to early childhood diseases / accidents</p> <p>Malnutrition</p> <p>Low school attendance</p> <p>Exploitative child labor</p> <p>Social/economic exclusion</p> <p>Higher risk of poverty</p> <p>Economic / sexual exploitation</p> <p>Violence against children</p> <p>Neglect of social, health and educational needs by family / government in case of disabled children</p> <p>Lack of housing security</p>	<p>Dalits Children</p> <p>Children belonging to lower caste groups mostly from rural areas</p> <p>Children in isolated areas</p> <p>Children in female-headed households</p> <p>Children in squatter households</p> <p>Displaced children in rural areas and those migrated to urban areas due to hardships</p> <p>Street children</p> <p>Children with disabilities</p>
(iii) Risks During Working Years	<p><u>Rural Areas</u></p> <p>Underemployment</p> <p>Income poverty</p> <p>Disruption of livelihood from natural disasters /civil unrest</p> <p>Loss of livelihood from injury /death</p> <p>Forced out-migration</p> <p>Business losses /failure arising from legal .financial insecurity / economic downturn /civil unrest</p> <p>Domestic violence</p> <p>Economic exploitation</p> <p><u>Urban Areas</u></p> <p>Unemployment</p> <p>Job / Income insecurity</p> <p>Sub-standard housing</p> <p>Wage exploitation</p> <p>Domestic violence</p> <p>Economic /other exploitation</p> <p>Non-compliance of minimum wage /occupational health and safety /social security benefits</p> <p>Extortion / harassment</p> <p>Business losses / failures arising from economic / legal insecurity</p>	<p><u>A. Rural Areas</u></p> <p>Subsistence farmers and landless day laborers in rural areas</p> <p>Day wage laborers</p> <p>Micro-enterprises</p> <p>Domestic servants</p> <p><u>B. Urban Areas</u></p> <p>Low pay migrant workers</p> <p>Domestic helpers</p> <p>Workers in construction /transport/carpet / garment industries</p> <p>School leavers</p> <p>Street vendors</p> <p>Home workers</p> <p>Micro enterprises</p>

(iv) Risks at Old Age	Loss of earnings Loss of family member's death / out-migration Lack/Withdrawal of family support Victimization by family members Absence of legal rights of elderly Lack of aged care facilitation Weakened family support system Low financial capacity to meet health-care Social exclusion Inadequate public support	Elderly living in joint / extended family Elderly living with spouse Elderly living alone
C. Socio/Economic and Other Risks (i) Economic Shocks (ii) Social/Civil Unrest (iii) Social/Economic Exclusion (iv) Political Instability (v) Child Labor	Unemployment Loss of remittance income Low education /health Low employment opportunities for women and dalits / disabled and other disadvantaged groups Loss of traditional support system Conflict affected injury / death Harassment / violence Extortion Forced migration Domestic violence	Consumers Producers Export industries Laborers Women Isolated communities Youths in rural areas Elderly in rural areas Children in rural areas
D. Conflict Induced Risks	Loss of security Conflict affected injury/death Violence Forced migration Extortion Exploitation of children/women Absence of law and order Forced recruitment by rebels Victimized by crossfire between rebels and security forces	Rural youths Rural women, children and elderly Isolated communities Subsistence farmers Day wage laborers Businesses

Particularly during the later half of the 1990s, Nepal achieved reasonable amount of progress in the area of education indicators such as literacy and primary school net enrollment ratio (NPC, 2003). However, the vulnerability of the primary school going children can be seen through a very low rate of completion. For instance, the rate of completion of primary education has always been very low with less than 50% of those starting in grade 1 reaching grade 5. Similarly, the student-teacher ratio at the primary school level is only 1:40. Also, children from geographically remote/isolated areas and disadvantaged socio-economic groups continue to remain more vulnerable given their lower literacy rate and low access to primary education. As the enrollment rates also vary widely according to ethnicity, income group and gender, children belonging to these communities are even more vulnerable.

Inadequate access to quality health services is another risk that children and others face. The government data indicate that in spite of significant progress in access to health, the current level of health status of the Nepali population is relatively low by international standards. For instance, Nepal's under-five child mortality rate of 91

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per thousand live births is higher than that of all SAARC countries excluding Pakistan. The situation is similar in the case of maternal mortality as well. In terms of life expectancy, Nepal actually ranks at the bottom in the SAARC region.

Elderly people face several forms of risks of which the major ones are: loss of earnings, loss of family members' death/outmigration, withdrawal of family support, absence of legal property rights, social exclusion, weakened family support system and lack of proper old age homes. For instance, the current civil code does not provide adequate safeguard to the fundamental rights of the elderly persons concerning their ownership of the assets earned by them. One study has reported that in Nepal, the number of elderly population is projected to double in the period of next two decades (IIDS, 2003). The same study has highlighted the problems and concerns of this ageing population.

5.1.3 Socio-economic and Other Risks

In the context of Nepal, another major category of risks include several socio-economic events like economic shocks, social/economic exclusion, political instability, child labor, etc. The major examples of socio-economic risks are those relating to unemployment, price hikes of daily consumption goods, risks occurring through recession, crop failure, loss of traditional support system, loss of remittance income, youth unemployment, etc. Similarly, children are vulnerable to several risks emanating from various forms of child labor, such as, bonded labor, exploitation, trafficking, domestic violence, forced migration, displacement, etc. Further, political instability and civil insecurity have caused several factions of agitating and frustrated young people who are, in recent times, increasingly resorting to street demonstration, violence and disorder.

5.1.4 Conflict Induced Risks

Nepal's current conflict situation has increasingly caused several forms of risks and induced vulnerabilities, which mainly include conflict affected injury and death, harassment, violence, extortion, forced migration, exploitation, forced recruitment of young people and feeling of insecurity and hopelessness. Unofficial estimates have indicated that tens of thousands of people have been displaced that mostly includes women and children of the victims of violence.

5.2 High Priority Vulnerable Groups

Once the risks are identified, a complete vulnerability profile for Nepal would require that each type of the (country specific) risks be assessed in terms of its severity, scope, frequency, impact areas and types of people affected. Further, both the types of risks and the corresponding vulnerable groups should be

prioritized in view of the resource constraints and selection of appropriate social protection interventions. As highlighted earlier, vulnerability mainly arises from two kinds of factors – chronic poverty and short-term risks/shocks thereby influencing the intervention measure(s) chosen. Along this line of thought, the following subsections present the characteristics of the major vulnerable groups in Nepal's case.

5.2.1 Rural Agricultural Workers

A majority of Nepal's workforce, whether self-employed or wage-employed depends on the informal economy for their subsistence. Out of the total labor force of 11 million, less than 0.4 million (3.6 percent) are employed in formal sector. Agriculture, the largest sector of the economy, to a large extent, is informal. Although agriculture sector's contribution to GDP has been decreasing over the years, it is still the largest contributor to the economy of Nepal. Nepal's agriculture is dominated by small-scale subsistence farming. Two-thirds of the households own less than one hectare of land on average while more than 40 percent own less than 0.5 ha. land, on average. This indicates that a considerable part of the rural agricultural workers in Nepal are quite vulnerable in sustaining their livelihood from agriculture. In addition, in Terai, the average size of landholding is much less while the land in Hills and Mountains are far less productive (Acharya, 2001).

Informal workers face a greater magnitude of vulnerability and exposed to higher risks compared to those involved in formal sector due to lack of security. One study has pointed out that rural agricultural workers are the most unprotected among Nepali workers (Sharma and Upadhyaya, 2003). The same study estimates that there are about 4-6 million self-employed rural agricultural workers in Nepal. In recent times, due to the current state insecurity and gradual erosion of informal protection mechanisms in rural Nepal, the vulnerability of such informal rural agricultural workers, both self-employed and wage-employed, has obviously worsened. Women in agriculture are much more vulnerable than their male counterparts for several reasons and in turn face multiple risk factors. Data indicate that more than 90 percent of the economically active women are engaged in agriculture even though women's contribution to agriculture is significant both in terms of their working hours and decision-making – they do not usually own the land they work for due to non-existent inheritance rights.

5.2.2 Dalits / Disabled and other Disadvantaged Groups

Vulnerability increases significantly among those groups who are excluded based on their caste, gender, class, occupation, etc. Exclusion based on caste is more common among such group as dalits. Based on 2001 Census, the estimated total

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Dalit population of Nepal was 2.06 millions. In addition to dalits, there are other disadvantaged groups, which include women, certain ethnic groups, communities living in remote areas, people living in abject poverty, displaced people and disabled. There are significant disparities between the disadvantaged groups and others in terms of health, education and empowerment indicators. For example, the disparities in health outcome indicators among some of the castes/ethnic groups for 1996 are shown in Table 3 (UNDP, 2002). Note that the *Dalits* are, by far, the most disadvantaged group in terms of all three indicators. They are also one of the groups with the lowest average level of education.

Table 3: Disparities in Health Outcomes by Castes/Ethnic Groups

Cast/ethnic group	Under 5 mortality rate	Infant mortality rate	Life expectancy
Dalits	171.2	116.5	50.8
Tamang	141.2	94.7	54.9
Limbu	133.5	93.2	55.2
Chettri	109.1	77.8	58.4
Brahman	69	52.5	61.4
Newar	74.9	56	63.2

Source: Nepal Human Development Report 2001, UNDP 2002.

5.2.3 Other Informal Workers

Other informal workers in Nepal's economy include street vendors, transport workers, home-makers, construction workers, hawkers, porters, loaders, un-loaders, domestic workers, etc. The total number of such informal workers is estimated to be quite large. For instance, as per the Nepal Labour Force Survey, the total number of construction workers was estimated as 344,000 out of which 162,000 were males, 123,000 females and 39,000 minors. Overall, the informal workers are much more vulnerable due to inadequate and irregular employment opportunities, uncertain/low wage rates, long and uncertain working hours and almost non-existent social protection schemes

One recent study has highlighted that there are virtually no social security mechanisms for Nepal's informal workers. Not only that in many cases, the regulation and policing of the informal economy by municipal authorities has actually restricted the activities and livelihood opportunities for the very poor (Sharma and Upadhyaya, 2003).

5.2.4 Conflict Affected People

One deadly impact of the conflict issue can be seen through the emergence and perpetuation of internally displaced people, which mostly consist of children and women. Although no official data on the conflict affected people are available at the moment, an educated estimate suggests that the total number could reach as high as a few tens of thousands of such victims when we include the spouses and children of those who died /injured /disappeared due to the on-going violence.

5.2.5 Child Laborers

The Nepali society has increasingly been facing the distressed situation of child labor in the forms of bonded child labor, domestic child workers, child porters, street/trafficked children, etc. Sources from ILO/Nepal reveal that in Nepal nearly one in every three children - 2.6 million of the country's 7.9 million children between the ages five and 14 - is a child laborer. The government figure for the year 1999 estimated that in Nepal there were a total of 4.7 million children aged 6 to 14 years of which 25.5 percent were economically active. 4.4 percent of the economically active children were employed in wage work and 40 percent of those wage workers (equivalently 83,000 children) worked in informal service sector largely comprised of domestic labor. One study has stated that most of the domestic child laborers are migrants from rural areas; almost half of them do not receive any salary and the majority of them work very long hours.

5.2.6 Women

The existing gender related inequalities in Nepali society are no mystery to anyone. Table 4 presents data on gender disparities for the year 2000 for some indicators, which clearly indicates that the Nepali women have very limited economic and political power (NPC, 2003). Table 4 indicates a significant gender disparity in the educational status. In fact, women lag behind men in terms of all the listed indicators except life expectancy.

Women's role in agriculture is vital as they mostly work long hours and carry the double burden of work in the family and farm. However, women's efforts are mostly taken for granted such that their contribution to income and economic well being of the family is hardly recognized.

Table 4: Gender Related Statistics (2001/02)

Indicator	Men	Women
Life expectancy (years)	61.8	62.2
Literacy rate (age 15+) (%)	62.2	34.6
Primary school net enrollment rate (%)	82	75
Representation in cabinet (%)	94.45	5.55
Representation in parliament (%)	94.15	5.85
Representation in upper house (%)	86.67	13.33
Representation in civil service (%)	91.45	8.55
Percentage of judges (%)	97.96	2.04
Percentage of teachers (%)	74	26
Land ownership (%)	89.16	10.83
Home ownership (%)	94.49	5.51

Source: *The Tenth Plan, 2003; CBS 2001.*

6. Existing Social Protection Programs in Nepal

According to the social protection literature of the Asian Development Bank, the policies and projects in social protection include five major kinds of activities, namely, those relating to labor markets, social insurance, social assistance, micro and area based schemes and child protection (ADB, 2001). Based on this classification, the following sub-sections briefly highlight the major aspects of the existing social protection arrangements in Nepal's context (also See, Box 2).

6.1 Labor market

As per the ADB definition, labor market policies and programs are designed to facilitate employment and promote the efficient operation of labor markets. As economic development proceeds, improvements in labor market operations are expected to reduce poverty, facilitate human development and address gender issues (ADB, 2001). In the context of Nepal, in the formal sector, the labor market programs with some form of social protection components are: labor standards, active labor market programs, affirmative action programs and bonded labor programs. Working conditions are regulated only for formal sector workers. There are quite a few active labor market programs designed to achieve the goal of poverty alleviation and human resource development. Examples of programs are: direct employment generating programs like promoting Small and Medium Scale Enterprises (SMEs), public works, skill development training programs, women development programs, etc.

Box 2: Existing Social Protection Programs in Nepal

A. Labor Market

- Labor Standards
- Active Labor Market Programs
- Affirmation Action Programs
- Bonded Labor Program

B. Social Insurance

- Road Injury Insurance
- Work Injury Insurance
- Citizens Investment Fund
- Civil Service Pensions
- Employees Provident Fund

C. Social Assistance

- Senior Citizen Allowance
- Food-for-Work Program
- Women's Programs
- Old Age Home

D. Micro and Area Based Schemes

- Welfare Funds
- Micro-finance
- Micro-insurance
- Traditional Family and Community Support Systems

E. Child Protection

- Child Support Programs
- Anti-child Labor Program
- National Master Plan of Action Against Trafficking

Similarly, some affirmative action programs are also in operation for those who suffer various forms of discrimination. The targeted groups under these programs include lower Hindu castes and ethnic minorities, Dalits and disabled (with a minimal coverage). As for Bonded Labor Program, the abolition of Kamaiya system in 2000 was a noteworthy step while studies have reported that similar bonded labor arrangements still exist in the country (Sharma and Koirala, 2002). The ILO has been attempting to address more recent concerns of bonded labor by establishing loan facilities through micro-finance institutions and several support services.

6.2 Social Insurance

Social insurance programs are designed to cushion the risks associated with unemployment, health, disability, work injury and old age. In general, social insurance programs include unemployment insurance, work injury insurance, disability insurance, sickness/maternity insurance, old-age insurance and life and survival insurance. In Nepal, even though in the formal sector some insurance schemes are prevalent, the social insurance scheme in the informal sector is virtually non-existing. The major examples of social insurance in formal sector are road injury insurance, work injury insurance, citizens' investment fund, civil service pensions and employees provident fund. Both the road injury insurance and work injury insurance have quite limited coverage.

In Nepal, a number of social insurance programs are in operation for quite sometime. For instance, pension plan constitutes an important element in the present social security program for the elderly particularly in the government sector. Recently, the government has initiated a program that provides limited amount of medical expenses to the elderly who need help for treatment. The Citizens' Investment Fund, introduced in 1990, is a voluntary age retirement savings program that provides investment services for members. The Employees Provident Fund provides benefits for old age, permanent disability and death of a Fund member. In addition, the government has designed Civil service pension scheme to provide benefits to the retired government employees.

An assessment of the labor market reveals that there is no provision of social security benefits in the informal sector. Consequently, a large section of the labor force, which is involved in the informal sector, has to depend largely on themselves and their families for subsistence in the old age (CBS- Nepal Labor Force Survey, 1999). This could be one of the reasons for a high labor force participation rate of age group 60 and above, which is 63.2 percent (75.1 percent for male and 51.2 percent for female).

6.3 Social Assistance (Public Safety Net) Programs

Social Assistance Programs are usually designed to provide protection to the most vulnerable groups who cannot access other means of adequate support. In general, such interventions include welfare and social services, cash or in-kind transfers, temporary subsidies and safeguards (ADB 2001). Public intervention in some form in the provision of safety nets, credit and insurance is rationalized for two reasons - poor have limited access to formal institutions for risk mitigation and coping and inadequate and costly informal instruments. Public safety net programs can provide welfare benefits in the short-run, however, in the long run, actions

should be taken so as to correct imperfections in credit and insurance markets. This is justified because available evidences indicate that market imperfections hurt poor people disproportionately (World Bank, 2002).

In Nepal, examples of social assistance programs are: Senior citizen allowance, widow allowance, food-for-work program, women's programs and old-age homes. Starting since 1995, the government has been providing monthly allowances to elderly people above 75 years of age and helpless widows above 60 years of age and disabled persons. Studies have reported that the program has been beneficial to a large extent, while there is need for enlarging the coverage (as the beneficiaries now are limited and confined only to a few districts). Recently government has initiated a programme of providing a limited amount of medical expenses to the elderly who need help for treatment though this is in an early stage of operation. However, evidences clearly indicate that much more needs to be done to provide adequate social protection to the retired people. As part of the food-for-work program, initiated in 1976, the government provides cash and in-kind payment to the poor in exchange for labor services applied to construction of rural infrastructure. This program is being widely supported despite some misuse of funds at local levels and extortion by Maoists, at times.

A few Old Age Homes have been established in different parts of the country mostly with the initiative of individuals and NGOs while some are receiving grants from the government. There is room for improvement and need to expand their coverage. The implementation modality follows the latest spirit of decentralization in the country. For instance, along the line of Local Self-Governance Act 1999, the DDCs, Municipalities and VDCs have been authorized to carry out programs for providing social security to the elderly, among others.

However, the implementation of above programs suffers from some key weaknesses. For instance, as the elderly people do not have legal safeguards regarding their asset ownerships, the small amount provided through elderly allowance will hardly assist their risk mitigation. Further, only a small percentage of elderly population have benefited from the social security programs in the formal sector although question of adequacy and coverage remains. A large section of elderly population does not have access to social security particularly in the informal sector.

6.4 Micro and Area Based Schemes

Micro and area based social protection schemes are expected to address the vulnerability issues at the community level, particularly, in areas of small-scale agriculture and the informal sector. In Nepal, several community based schemes

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with some form of social protection components are in operation, which mainly include welfare funds, micro-finance, micro-insurance and traditional family and community support systems. Besides, studies have reported that at the community level, some community initiatives, for instance in the form of Community Forest User Groups (CFUGs) have been quite successful in the sense that they have evolved to be most inclusive and most accessible institutions particularly in mid-west hill districts. As forest is the most important source of communal resources in many parts, large areas of forest are managed through communities as community forest. Similarly, several micro-finance arrangements have been quite successful particularly in significantly impacting the participants' living standards either directly (by financing profitable economic or employment activities for poor households) or indirectly (by providing access to more affordable forms of credit to smooth consumption patterns and respond to household emergency or crisis situation).

In recent times, a few cases of micro insurance schemes are known to exist particularly in the health sector. One study has reported that health micro-insurance has been introduced as an added benefit by the health institutions to their target beneficiaries. By 2002, there were about 10 organizations providing micro-insurance schemes in health sector. These organizations mainly followed three models of service provision, namely, Community Based Health Post (e.g., Lalitpur Medical Insurance/UMN), Health Cooperative (e.g., PHECT / Nepal) and Social Health Insurance (e.g., BP Memorial Hospital) (ILO, 2002:7). With a non-profit motive, all these models are being implemented through community based groups, NGOs, Cooperatives or business associations.

In developing countries, traditional support system is usually associated with support practices through families and extended families. Given that the family networks are still strong in Nepal's case, the social and cultural perceptions in relation to the roles and value of the family still override other factors (MWSW 2003, draft).

6.5 Child Protection

Child protection activities as part of social protection are designed to ensure the healthy and productive development of the future workforce of the country. A Social Protection strategy that seeks to integrate efforts to reduce risk and poverty at the same time must also consider the child labor issue. The major child protection programs in Nepal are child support programs, anti-child labor program and National Master Plan of Action against trafficking. The government has enacted a number of Laws that protect children's rights, namely, Labour Act 1992 and Labour Rules 1993, Children's Act 1992 and Regulation on Children 1995, and Child

Labour Act 2000. As for the prime implementing agency, Ministry of Women Children and Social Welfare along with the district and local bodies have been entrusted with the task of formulating, implementing and coordinating social welfare policies and programs for children. Besides, there are a number of NGOs and INGOs working for the welfare of children in addition to various bilateral and multilateral organizations. However, poverty situation/trend suggest that none of the laws, acts, plans and programs are working properly. The reasons of poor implementation may include poor implementation of existing laws and regulations, poor mechanism of monitoring system, lack of proper coordination among concerned government bodies as well as among NGOs, and lack of political commitments towards children's issues.

7. Concluding Remarks

The government of Nepal has adopted poverty alleviation as its main goal as reflected through both the Ninth Plan (1997-2002) and the current Tenth Plan (2002-2007). Further, social inclusion constitutes one of the four main pillars of the current Tenth Plan²³. Literature on social protection has stated that in addition to assisting individuals, households and communities to better manage risk, social protection provides support to the critical poor. The present study has maintained that in order to achieve the goal of poverty reduction an appropriate set of social protection interventions are crucial so as to assist the poor and vulnerable in managing and coping with their risks. In this effort, several policy reforms and programs and delivery mechanisms could be used such as those ranging from affirmative action programs to public work programs and government run programs to those operated through NGOs, CBOs and user groups. These programs may be adopted with necessary modifications in order to achieve the ultimate goal of poverty reduction.

Choice of appropriate social protection programs and policies to best contribute to achieving the government's goal of poverty reduction requires a systematic approach. The first step in determining an appropriate set of social protection interventions would be to identify the vulnerable groups of Nepal and the corresponding risks they face. Both the vulnerable groups and the risks ought to be prioritized simply to ensure an efficient allocation of resources to the extent

²³ The sole objective of the Tenth Plan (2002-2007) is to achieve a sustainable reduction in the poverty level from the current estimated level of 38 percent to 30 percent by the end of the Plan period. To achieve this goal, the Plan is based on a four pillar strategy, namely, broad based economic growth, social sector development, targeted programs for the backward and vulnerable groups and social safety nets, and good governance (NPC, 2003).

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possible. This study has provided some thoughts on the preparation of a vulnerability profile in case of Nepal so as to account for these issues. Having a consensus on these issues would not be easy, for instance, there can be plenty of debates about the high priority vulnerable groups and so forth. Consequently, a significant work is warranted in this area that would help the government choose the appropriate social protection interventions in conformity with its poverty reduction agenda. A conceptual clarity is required on all parts and so is the commitment at the policy level.

In recent years, NGOs, CBOs and other local organizations have emerged as a powerful institutional initiative such that their role in development, poverty alleviation and social protection has received wide recognition. Most NGOs specialize in the delivery of services, while some work with noble goals like empowerment of women, children, *Dalits*, ethnic groups. In general, compared to the government initiative, the NGO initiative has been assessed relatively positively due mainly to their participatory nature, poverty and gender sensitiveness and effectiveness of program implementation. Therefore, the government should strengthen its implementation aspect of poverty reduction interventions through greater mobilization of NGOs, CBOs, user groups and the private sector. However, given the ongoing conflict situation in the country, the activities of these organizations have been severely curtailed. Therefore, once the relevant social protection activities are identified, they should be further classified as to those needing immediate attention (for example, programs with major focus on displaced people as a result of conflict) and those that can wait sometime to be put into action (for example, labor standard programs).

Another major work warranted in this area would be to assess the capacity of government for an effective implementation of social protection interventions. The government's capacity to maintain an efficient and sustainable implementing system of social protection interventions depends critically on three key factors, namely, the government's financing capabilities, service delivery capabilities and monitoring and evaluating capabilities. Similarly, program details of the interventions measures should spell out the implementing modalities including the administering agencies to be involved in service delivery. Therefore, if the government is as committed as it maintains it is, this area of interventions requires significant amount of work ahead.

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Nepal's Partnership with ADB for Development

Dr. Bamadev Sigdel and Hem Prasad Neupane*

1. Foreign Aid and Economic Development

Foreign aid has occupied an important role in the process of economic development of developing countries. The importance of foreign resources in a nation's economic development goes back to the Second World War period. After the Second World War, foreign aid came into promises when war-torn countries of Europe were able to reconstruct their economies through aid. Similarly, South Korea, Iran, Thailand, and Malaysia were also able to achieve comparatively higher growth rate with the meaningful use of foreign aid.

Mobilization of resources through foreign aid is sine qua non for raising the rate of domestic savings and economic development. In the process of economic development, a country may be faced with the situation where its domestic savings are short of investment requirements and where its import needs are larger than its export capacity for the purpose of attaining target rate of economic development. By the use of foreign aid, capital-dearth developing countries could fulfill their desires of development filling the gap between saving and investment. Thus, foreign aid plays a supplementary role to mitigate resource gap (saving, investment and technology) problems for the majority of developing countries in the initial phase of development process.

The well-known aid experts assess the pros and cons of foreign aid to developing countries. Chenery and McEvans observe that "one of the principal means for poor countries to accelerate their development is by using external resources to supply additional inputs and to finance a higher rate of investment."²⁴ Chenery and Strout made an influential study which attempted to determine quantitatively how much external capital should be transferred to a developing country and what rate of the capital could be absorbed by them.²⁵ Thus, an attempt has been made to give a

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²⁴ Chenery, H.B.; McEvans A., Optional Pattern of Growth and Aid: The Case of Pakistan, The Pakistan Development Review, Pakistan, Summer, 1966, p. 209.

²⁵ Chenery Hollins B., and Strout Alan N., Foreign Assistance and Economic Development, The Economic Review, Vol. XV, USA, September 1966, pp. 679-733.

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theoretical justification to the nation that aid promotes growth in the recipient countries by increasing the supply of foreign exchange just as it does by supplementing savings, in their 'two-gaps' analysis. Economists like Rodan and Nurkse also advocated well-balanced and simultaneous investment in major sectors of the economy. Rodan even calculated the aid requirements for the underdeveloped countries in order to accelerate their economic development to a point where satisfactory rate of growth can be achieved on self-sustaining basis.²⁶ In this regard, Sundrum opines that "least developed countries suffer from these gaps, a domestic gap between savings and investment and a foreign exchange gap between imports and exports. When two gaps are unequal, the recommendation is for aid to fill the larger gap."²⁷ It is then argued that in many LDCs, the foreign exchange constraint is more severe than the savings constraint.

Many economists and development experts feel that there is no escape from foreign aid for the underdeveloped countries which suffer from a chronic shortage of resources if they want to achieve a significant level of development. In fact, foreign aid helps an underdeveloped economy to fill its savings as well as technology gap.²⁸ Yet, there are economists and social thinkers who interpret foreign aid as a kind of dependence which not only fails to help the recipient country but also weakens its desire and capacity to introduce the necessary changes in its economy and society which are needed for social transformation.

2. Commencement of Aid to Nepal with Reference to ADB

Nepal's first experience of foreign economic assistance was heralded by the Point Four Programme agreement signed on January 23, 1951.²⁹ The US Government's assistance of Rs 22,000.00 provided under President Harry Truman's Point Four Programme was soon followed by formal economic assistance from India in October of the same year. China and USSR came into Nepal's foreign aid scenario in 1956 and 1958 respectively. Nepal joined in the Colombo Plan in 1952, participated in the first Non-Aligned Conference in 1955 in Bandung and became a member of the United Nations and thus attracted the interest of the developed as well as developing countries in the economic development efforts.

²⁶ Khadka, Narayan, Foreign Aid, Poverty and Stagnation in Nepal, Bikas Publishing House, New Delhi, 1991, p. 84.

²⁷ Sundrum, R. M., Development Economies, John Wiley and Sons, London, 1984, pp. 312-313.

²⁸ Sigdel, Bama Dev, An Argument for Economic Assistance Programmes, in 'Everest Herald (Daily)', Kathmandu, May 19, 1996, p. 4.

²⁹ Sigdel, Bama Dev, Foreign Aid and Nepal: An Overview, in 'The Rising Nepal (Daily)', Kathmandu, February 14, 1996.

Moreover, the formation of "Nepal Aid Group" in 1976 further paved the way for the rapid increase of foreign aid to Nepal. This aid group comprises countries such as Australia, Canada, EEC, Japan, UK, USA and international donor agencies as ADB, World Bank and IMF, UNDP and OPEC. Other major donors for Nepal are People's Republic of China and India. The restoration of democracy in 1990 further fuelled for the growth of the quantum of foreign aid to Nepal.

There are five major multilateral agencies providing more economic assistance to Nepal. Of these, some of the UN affiliated agencies are supporting Nepal since the early fifties. The other multilateral agencies as ADB and IDA have been involved since the late 1960s and their assistance is obviously more confined with the soft loans.

ADB's assistance to Nepal began in December 1969 with US\$ 6.010 million loan assistance for air transport development project.³⁰ Since then ADB has been a partner in Nepal's uphill climbs towards economic and social development. It ranks as country's one of the biggest single source of external assistance.

3. Mission and Priority Areas of ADB's Assistance to Nepal

ADB is one of the major multilateral institutions which has supplied considerable amount of economic assistance over the decades. Previously, its priority in rendering assistance had been confined to the sectors as transport, agriculture and industry. From 1969 to 1982, Nepal's agriculture sector attracted major proportion of ADB's assistance (25.0 percent) followed by industry (23.0 percent), transport (19 percent), power (12.5 percent) and Integrated Rural Development (12.0 percent).³¹ Under agriculture sector, the ADB had financed projects such as Agricultural Development Irrigation Projects, Forest Development, Agriculture Credit, Fisheries Development, Agriculture Development, etc. Similarly, Construction of Warehouses and Supply of Chemical Fertilizers and Crop Intensification Programmes were also other areas of assistance made by ADB in the past.

Besides, the ADB had supplied loans for transport sector which constituted mainly air transport development, the first ADB project, and the expansion of the Tribhuvan International Airport for which loan was given in two phases; the first phase was approved in 1975 for US\$ 10 million and the second phase which was approved in 1978 for US\$ 10.1 million. Other sectors such as Integrated Rural Development and Chitwan Valley Development Projects were also considered for ADB's loans at that time. ADB had also assisted for operationalising irrigation

³⁰ Sigdel, Bama Dev, *op.cit.*, p. 4.

³¹ See, Khadka, Narayan, *op.cit.*, p. 313.

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projects, extension of science education and establishment of a paper industry in Nepal.

Nepal is a founding member of the ADB. Nepal's Finance Minister is the ADB's Governor for Nepal. In addition, ADB's Board of Directors consists of 12 members, including a member that represents Nepal together with Malaysia, Myanmar, Singapore and Thailand. The ADB has brought out its country operational strategy which aims at achieving substantial poverty reduction through: (i) generation of productive employment opportunities and increased rural incomes through faster, broad based and sustainable economic growth; (ii) improvements in the basic social services to upgrade human development; (iii) creation of environment for competitive private sector development; and (iv) good governance. ADB calls for effective institution that paves the way for the implement of socio-economic development within the framework of market economy. Supporting Nepalese Government's endeavours on decentralization, rural and infrastructural sector development is also an important element of ADB's development strategy for Nepal. Besides, improving social services, and infrastructure, women's empowerment, strengthening corporate and financial governance and governance reform in public sector are some of other areas of interest and cooperation of ADB in Nepal.

The overarching goal of ADB is to reduce poverty. To achieve this, ADB usually supports activities in its developing member countries including Nepal for the promotion of pro-poor economic growth, social development and good governance. Under ADB's Long-term Strategic Framework (2001-2015), ADB takes into account in its activities on three cross-cutting cooperation and environmental sustainability.³² ADB's operational strategy in 2001 focused on government reference and building effective institutions as a key part of reducing poverty in Nepal.

In October 2001, HMG/N and ADB signed a Partnership Agreement on Poverty Reduction (PAPR) which aimed at reducing poverty incidence from 38.0 percent to less than 10.0 percent by the end of 2017. ADB's current Country Strategy Paper (CSP) for Nepal covers the period 2002-2004. Accordingly, the CSP's thematic priorities for Nepal are "economic growth, human development, gender and development, good governance, private sector development, environmental protection and regional cooperation."

³² ADB, Nepal and ADB (Fact-Sheet), Asia Development Bank, Manila, December 31, 2001, p.

Presently, ADB has narrowed down its focus to specific sectors, and its involvement is now based on an assessment of specific criteria for reducing poverty, government commitment to necessary policy, institutional reforms, comparative advantages, and the mobilization of additional financing from official or private sector. ADB's operation in Nepal focus on agriculture and rural development, transport, energy; finance, education, water supply, sanitation and urban development, and environmental improvement. It would be worthful to recall that ADB had assisted HMG/N in 1995 to prepare the Agriculture Perspective Plan (APP) that provides a 20-year strategy for accelerating agriculture development in Nepal.

4. ADB and SAARC

ADB is prepared to assist under the Regional Economic Monitoring Unit (REMU) the initiatives of the Central Bank Governors under SAARC in developing and exchanging ideas on macro economy and especially financial policies. ADB is involved in sub-regional environmental cooperation. ADB is also assisting in the development of a SAARC protocol on air quality management agreement at the request of the SAARC on environment programm.

ADB can continue to do much for the future of South Asia including Asia. ADB should address meaningfully the plight of the poorest of the poor who live on the abject poverty, illiteracy and despair. And it could mediate to promote greater trade and investment within Asia and strengthening the private sector of the Asian economies. It could also work for the promotion of greater trade between developed and developing countries that must then be used for poverty reduction and economic development. The South Asian countries such as Bangladesh, India, Pakistan, and Sri Lanka have to some extent succeeded to fetch the fruits of globalization opening their economies through various means. South Asian countries are expecting more institutional support from ADB in institutional capacity building to improve governance, empower civil society, increase transparency, and increase openness.

Table 1

ADB's Lending in SAARC Countries
(Cumulative break down of December 31, 2002)

(US\$ Million)

Sector	Loan Amount	Percent
A. Sri Lanka		
Agriculture and Natural Resources	970.6	32.6
Social Infrastructure	517.0	17.3
Transport and Communication	493.8	16.6
Finance	446.0	15.0
Energy	421.8	14.1
Industry and Non-fuel Mineral	91.1	3.1
Multi-sector	39.7	1.3
Total	2,980.0	100.0
B. India		
Energy	3,891.8	33.9
Transport and Communication	3,419.2	29.4
Social Infrastructure	1,420.0	12.2
Finance	1,330.0	11.4
Multi-sector	1,200.0	10.3
Others	200.0	1.7
Industry and Non-fuel Minerals	175.9	1.5
Total	11,636.9	100.0
C. Nepal		
Agriculture and Natural Resource	788.5	40.4
Energy	432.4	22.2
Social Sector	311.7	16.0
Transport and Communications	270.7	13.0
Industry and Non-fuel Materials	75.1	3.8
Others	65.6	3.4
Finance	7.3	0.4
Total	1,951.3	100.0
D. Bhutan		
Social Infrastructure	33.1	32.6
Transport and Communication	19.3	19.0
Energy	17.5	17.2
Multi-sector	12.4	12.2
Finance	10.5	10.3

Agriculture and Natural Resources	7.8	7.6
Industry and Non-fuel Minerals	1.2	1.2
Total	101.8	100.0
E. Pakistan		
Agriculture and Natural Resources	3,392.7	27.0
Energy	3,062.0	24.4
Finance	1,943.0	15.5
Social Infrastructure	1,260.0	10.0
Transport and Communication	1,117.0	8.9
Industry and Non-fuel Materials	798.4	6.4
Others	650.0	5.2
Multi-sector	344.0	2.7
Total	12,567.1	100.0
F. Bangladesh		
Agriculture and Natural Resources	2,264.0	33.4
Energy	1,548.3	22.8
Transport and Communication	1,255.8	18.5
Social Infrastructure	1,081.4	15.9
Industry and Non-fuel Materials	262.5	3.9
Finance	217.6	3.2
Multi-sector	158.8	2.3
Total	6,788.4	100.0
G. Maldives		
Energy	30.3	39.0
Transport and Communications	25.7	33.1
Multi-sector	10.4	13.4
Social Infrastructure	6.3	8.1
Others	5.0	6.9
Total	77.7	100.0

Source: ADB, *A Fact Sheets of Maldives, Nepal, Bhutan, Pakistan, Sri Lanka, Bangladesh and India*, Asian Development Bank, Manila, December 31, 2002 (www.adb.org, 2002), various tables.

The SAARC countries as Bangladesh, India, Pakistan and Sri Lanka are the major loan recipient countries followed by Bhutan, Maldives and Nepal. By December 2002, these countries received US\$ 6,788.4 million, US\$ 11,636.9 million, US\$ 12,567.1 million, US\$ 2,980.0 million, US\$ 101.8 million, US\$ 77.77 million and US\$ 1,951.3 million respectively. Among the SAARC countries, Pakistan has succeeded to attract the major chunk of ADB's loan to the sector as agriculture and natural resources (27.0 percent) followed by energy (24.4 percent), finance (15.5 percent), and social infrastructure (10.0 percent). Similarly, India has attracted the lion's share of ADB's loan in energy sector (33.9 percent) followed by transport and

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communication (29.4 percent), social infrastructure (12.2 percent) and finance (11.4 percent). Bangladesh has attracted much of the ADB's loan in the sectors as agriculture and natural resources (33.4 percent) followed by energy (22.8 percent), transport and communication (18.5 percent), and social infrastructure (15.9 percent). Nepal attracted much of the portion of ADB's loan in the sectors as agriculture and natural resources (40.2 percent) followed by energy (22.2 percent), social sector (16.0 percent) and transport and communication (13.0 percent). The other SAARC countries as Maldives have failed to attract more loan assistance of ADB by the end of 2002 (See, Table No. 1).

5. Sectorwise Distribution of ADB's Assistance to Nepal

ADB is supplying considerable amount of loan assistance to Nepal over the decades. In 1970s and 1980s decades the priority sectors for Nepal were transport, agriculture, and industry. In the loan disbursement of ADB, agriculture occupied about 24.0 percent, transport about 18.5 percent and industry about 22.0 percent.³³ Similarly, between 1969 and 1982, the sectors as energy and education had attracted just 12.50 percent and 1.86 percent loan received from ADB.³⁴ The cumulative ADB's lending to Nepal by the end of 2002 stood at US\$ 2,011.0 million.

Table 2

Breakdown of Cumulative ADB's Lending to Nepal (As of December 31, 2002)

(In US\$ million)			
S.N.	Sectors	Loan Amount	In Percent (%)
1	Agriculture and Natural Resources	788.5	39.2
2.	Energy	432.4	21.5
3.	Social Infrastructure	371.4	18.5
4.	Transport and Communication	270.7	13.5
5.	Industry and Non-fuel Materials	75.1	3.7
6.	Others	65.6	3.3
7.	Finance	7.3	0.4
	Total	2,011.0	100.0

* Figures may not add due to rounding

Source: <http://www.adb.org/documents/fact-sheets/Nep.asp>, 2003.

The breakdown of cumulative ADB's lending to Nepal reveals that the loan aid is more confined with the sectors as agriculture, energy, social infrastructure, transport and communication. These sectors have absorbed 39.2 percent, 21.5

³³ Khadka, Narayan, Foreign Aid, Poverty and Stagflation in Nepal, Bikas Publishing House, New Delhi, 1991, p. 312.

³⁴ See, ibid, Table IV.8, p.313.

percent, 18.5 percent and 13.5 percent respectively of the total ADB's loan assistance disbursed by the end of 2002. The other sectors as industry and finance have failed to attract ADB's loan assistance. Among the SAARC countries Bangladesh, India and Pakistan have succeeded to attract more ADB's assistance in the sectors like transport and communication, finance and energy. But in the case of Nepal, these sectors have failed to attract more and more ADB's loan.

6. *Bilateral vs Multilateral Loan Aid to Nepal with Reference to ADB*

Nepal has been receiving bilateral as well as multilateral aid since 1951. In 1950s, 1960s and 1970s decades, the bilateral aid had predominant role and had contributed much for Nepal's development efforts. But in 1980s and 1990s decades, multilateral aid played crucial role for Nepal's development endeavours. As Nepal adopted open and liberal economic policies particularly after the late 1980s, since then multilateral aid also influxed more. Nepal had received Rs 3,094.3 million worth total loan from ADB in 1987/88 which gone up to Rs 12,044.0 million by the end of 2000/01. Multilateral loan played predominant role for the increase of more total loan in Nepal (especially by the multilateral donors as ADB, WB, OPEC Fund; etc.). ADB's loan to Nepal was Rs 786.9 million in 1987/88 which went up to Rs 3,781.1 million in 1992/93. In other words, ADB's loan contribution to the total loan received by Nepal in 1987/88 was just 25.4 percent which stood at 30.9 percent in 1992/93. The data further reveals that there is a significant increase in ADB's loan particularly in the early of 1990s. For example, ADB's loan to Nepal remained high for 1997/98 amounting to Rs 6,172.4 million and the on of the ADB in the total loan remained at 55.8 percent during that year. After 1997/98, there has been a decreasing trend of ADB's loan to Nepal. As a result, by 2001/02, ADB's loan stood at Rs 1,470.4 million, contributing just 19.0 percent to the total loan received by Nepal.

Table 3

Bilateral, Multilateral and ADB's Loan Aid to Nepal

(NRs Million)

Years	Bilateral Loan	Multilateral Loan	Total Loan	ADB's Loan	Percent to the Total*
1987/88	462.5	2,631.8	3,094.3	786.9	25.4
1988/89	507.8	3,680.9	4,188.7	1,790.8	42.7
1989/90	1,000.6	3,627.7	4,628.3	1,495.7	32.3
1990/91	1,602.8	2,757.2	4,360.0	1,221.7	27.8
1991/92	2,389.8	3,879.6	6,269.4	1,344.5	21.4
1992/93	1,307.6	4,654.1	5,961.7	1,847.6	30.9
1993/94	582.9	8,580.7	9,163.6	3,781.1	41.2
1994/95	717.3	6,595.0	7,312.3	1,971.2	26.9
1995/96	460.0	9,003.9	9,463.9	3,442.5	36.3
1996/97	850.7	8,192.9	9,043.6	3,431.3	37.9
1997/98	1,314.5	9,740.0	11,054.5	6,172.4	55.8
1998/99	584.0	11,285.9	11,852.4	4,511.5	38.0
1999/00	757.9	11,054.3	11,812.2	5,231.7	44.2
2000/01	586.7	11,457.3	12,044.0	2,844.0	23.6
2001/02	87.0	77,611.8	7,698.6	1,470.4	19.0

* ADB's loan aid in the net figure (borrowing)

Source: (i) MOF, *Economic Survey, 2002/03*, Ministry of Finance, Kathmandu, June 2003, Table 28, p. 17.

(ii) NRB, *Quarterly Economic Bulletin*, Nepal Rastra Bank, Kathmandu, Vol. XXXVII, Number 1 & 2, mid-October 2002/mid-January 2003, Table 43, pp.71-72.

The above data reveals the fact that Nepal has received loan for the implementation of various important projects in the different sectors of the Nepalese economy. The major ADB assisted projects in Nepal are namely Tribhuvan International Airport Development Project, Integrated Rural Development Project, Power Development Project, Hill Irrigation Development Project, Hetuda-Narayanghat Road Development Project, Chitwan Valley Development Project, Hill Forest Development Project, Narayani Irrigation Development Project, Integrated Rural Development Project, Education Development Project, Women's Empowerment Project, Community Livestock Development Project, etc. The ADB loans come from Asian Development Fund (ADF) on concessional basis, with the programme loan having a 24-year term and

the project loan a 32-year term, both including grace period of eight years. Interest for both is 1 percent per year during the grace period and 1.5 percent per year afterwards.³⁵

Technical assistance is also an integral part of ADB's cooperation. Nepal has received nearly US\$ 15.30 million worth of technical assistance from ADB in between 1969 and 1984.³⁶ Nepal has begun to receive ADB's technical assistance since 1968 onward. The first technical assistance of ADB was the dispatch of its advisors to Agricultural Development Bank/Nepal on September 3, 1968. Most of the projects undertaken by Agricultural Development Bank/Nepal have received technical assistance of ADB. According to the booklet published by ADB, between 1968 and 2002, ADB has already provided Nepal technical assistance worth US\$ 10.5 billion."³⁷

Table 4
ADB's Technical Assistance to Nepal by 2002
(In '000 US\$)

S.N.	Programmes	Amount
1.	Financial Sector Reform	150.00
2.	Community Drinking Water and Sanitation Project	750.00
3.	Teacher's Training Enhancement Project	500.0
4.	Women Empowerment Programme	450.00
5.	Privatization and Liquidation of SOEs	150.00
6.	Agricultural Development Programme	700.00
7.	Skill Development Programme	400.00
8.	Public Debt Management and Strengthening Programme	400.00
9.	Integrated Livestock Development	400.00

Source: *ADB News, Kathmandu, May 2002, p. 3.*

ADB's present technical assistance programme profile to Nepal shows that the socio-economic sectors such as Agricultural Development, Community Drinking Water and Sanitation, Women Empowerment Projects, etc., have recorded more assistance followed by Teacher's Training, Skill Development, Integrated Livestock Development Programme, etc. (See, Table No. 4). Besides, loan and technical assistance, Nepal had, in the past, also received concessionary credits as well as grants from ADB; target was also to help developing member countries of Asia. ADB's forthcoming assistance to Nepal would be confined more on "agriculture, energy, road, education and health followed by financial sector and governments

³⁵ *Spotlight (Weekly)*, Kathmandu, December 26, 2003, p. 24.

³⁶ Sigdel, Bama Dev, *op.cit.*, p. 4.

³⁷ *ADB News (Nepali)*, May 2003, p. 3.

administrative reforms, according to the Resident Representative of ADB/Nepal Mr. Sultan Hafeez Rahman's Interview.³⁸ ADB's assistance has indeed contributed significantly to the overall task of national development in Nepal.

7. Conclusion

Economic aid for Nepal commenced in 1950s decade with the US assistance followed by India, China and USSR. Nepal's joining in Colombo Plan, participating in the Non-Aligned conferences and becoming the member of the United Nations further paved the way for more foreign aid for Nepal. The formation of "Nepal Aid Group" in 1976 facilitated the rapid increase of foreign aid to Nepal. Nepal is receiving both bilateral and multilateral aid. Of the multilateral aid agencies, World Bank, ADB, EEC and OPEC Fund are providing more assistance for Nepal.

ADB's assistance to Nepal began in December 1969, with US\$ 6.010 million worth loan for air transport development project. In fact, ADB is one of the major multilateral institutions which supplied considerable amount of economic aid over the four decades. Up to 1982, Nepal's agriculture sector attracted the largest chunk of ADB's assistance followed by industry, transport, power and integrated development. ADB's operation in Nepal is mainly confined to the sectors as agriculture and rural development, transport, energy, finance, education, water supply, sanitation and urban development and environmental improvement projects.

The overarching goal of ADB's assistance to Nepal is to lessen the level of poverty under ADB's Long-term Strategic Framework (2001-2015). Presently, ADB has been focusing on specific sectors and its involvement in Nepal is now based on an assessment of specific criteria for poverty reduction, institutional reforms and private sector growth. Additionally, ADB assisted HMG/N to prepare APP in 1995.

It would be worthwhile to recall that South Asian countries are receiving more ADB's assistance for building their institutional capacity to improve governance, empowering society, increase transparency and enhancement of openness of the economy. The South Asian countries as Bangladesh, India, Pakistan and Sri Lanka are the major ADB's loan recipient countries followed by Maldives and the Nepal. Pakistan succeeded to attract the major chunk of ADB's loan to agriculture sector while India to energy sector. Bangladesh and Sri Lanka attracted more ADB's assistance in agriculture sector. Similarly, Nepal succeeded to attract more ADB's assistance in agriculture and natural resources followed by energy, social sector and transport and communication. The South Asian countries as Bhutan and

³⁸ Rajdhani (Nepali Daily), September 19, 2003.

Maldives are not benefiting that much from ADB's assistance as they have received low quantum of aid. As majority of South Asian nations are poor and underdeveloped, there is dire need of ADB's assistance for such nations at least for 2 to 3 decades. In this perspective, ADB can continue to do much for the future of South Asia. ADB should meaningfully address the plight of the poorest of the poor who live on the abject poverty, illiteracy and despair. ADB could mediate to promote greater investment and strengthen the private sector of the respective economies. It could also work for the promotion of greater trade and investment link between developed and developing countries that must then be used for poverty reduction and development.

Upto 1970s decade, bilateral aid played significant role for supporting Nepal's economic development. But in 1980s and 1990s decades, multilateral aid played crucial role for Nepal's development endeavours. Nepal's adoption of liberal economic policies particularly after 1980s drew more attention from donors. Since then, multilateral aid also influxed. Multilateral aid to Nepal was amounted for Rs 2,631.8 million in 1987/88 which increased to Rs 77,611.8 million in 2001/02. ADB's loan aid to Nepal was just Rs 786.9 million in 1987/88 which went up to Rs 1,470.4 million in 2001/02. Furthermore, there is a significant percentage share of ADB's loan to the total loan received by Nepal in between 1987 and 2002. ADB's loan to Nepal usually comes from Asian Development Fund (ADF) on concessional basis, with the programme loan having a 24-year term and project loan a 32-year term, both including grace period of eight years. Interest for both is 1 percent per year during the grace period and 1.5 percent per year afterwards.

Technical cooperation is also one of the most important components of ADB's assistance in Nepal. Nepal began to receive ADB's technical assistance since 1968. From 1968 to 2002, Nepal got ADB's technical assistance worth US\$ 10.5 billion. It's technical assistance programmes are confined to the disciplines such as financial sector reform, community drinking water and sanitation project, teacher's training enhancement project, women empowerment programme, privatization programme, agriculture development programmes, etc. The available information indicates that ADB's aid to Nepal in forthcoming years would come more in the sectors such as agriculture, road, energy, education, health, finance, etc.



Annex 1

ADB's Members

In 1966, when ADB was established, it had 31 members. Over the years its membership has grown to 63, both within and outside the Asian and the Pacific Region.

The members of ADB are the following:

Countries within Asia and the Pacific Region

- Afghanistan (1966)
- Australia (1966)
- Azerbaijan (1999)
- Bangladesh (1973)
- Bhutan (1982)
- Cambodia (1966)
- China, People's Republic of (1986)
- Cook Islands (1976)
- Fiji Islands (1970)
- Hong Kong, China (1969)
- India (1966)
- Indonesia (1966)
- Japan (1966)
- Kazakhstan (1994)
- Kiribati (1974)
- Korea, Republic of (1966)
- Kyrgyz Republic (1994)
- Lao People's Democratic Republic (1966)
- Malaysia (1966)
- Maldives (1978)
- Marshall Islands, Republic of the (1990)
- Micronesia, Federated State of (1990)
- Mongolia (1991)
- Myanmar (1973)
- Nauru (1991)
- Nepal (1966)
- New Zealand (1966)
- Pakistan (1966)
- Palau (2003)
- Papua New Guinea (1971)
- Philippines (1966)
- Samoa (1966)
- Singapore (1966)
- Solomon Islands (1973)
- Sri Lanka (1966)
- Tajikistan (1998)
- Taipei, China (1966)
- Thailand (1966)
- Timor-Leste (2002)
- Tonga (1972)
- Turkmenistan (2000)
- Tuvalu (1993)
- Uzbekistan (1995)
- Vanuatu (1981)
- Vietnam, Socialist Republic (1966)

Countries Outside the Asia and the Pacific Region

- Austria (1966)
- Belgium (1966)
- Canada (1966)
- Denmark (1966)
- Finland (1966)
- France (1970)
- Germany (1966)
- Italy (1966)
- The Netherlands (1966)
- Norway (1966)
- Portugal (2002)
- Spain (1986)
- Sweden (1966)
- Switzerland (1967)
- Turkey (1991)
- United Kingdom (1966)
- United States (1966)
- Luxembourg (2003)

Annex 2

Board of Governors

Updated: September 12, 2003

Article 28 of the ADB Chapter vests all the powers of the institution in the Board of Governors, which in turn delegates these powers to the Board of Directors, except for those powers reserved for the Board of Governors in the Chapter.

The Board of Governors meets formally once a year in ADB's Annual Meeting.

The 63 members of the ADB Board of Governors from the Asia-Pacific and from outside the region are as follows:

Member	Governor	Alternative Governor
Afghanistan	Ashraf Ghani	Vacant
Australia	Peter Costello, M.P.	Chris Gallus, MP
Austria	Karl-Heinz Grasser	Thomas Wieser
Azerbaijan	Farhad Aliyev	Avaz Alekperov
Bangladesh	Mr. Saifur Rahman	Mirze Tasadduq Hussain Beg
Belgium	Didier Reynders	Gino Alzetta
Bhutan	Lyonpo Wangdi Norbu	Sonam Wangchuk
Cambodia	Keat Chhon	Ouk Rabun
Canada	William Graham, PC, MP	Bruce Montador
China, People's Republic of	Jin Renging	Vacant
Cook Islands	Terepai Maoate	Kevin Carr
Denmark	Carsten Staur	Ole E. Moesby
Fiji Islands, The Republic of the	Jone Yavala Kubuabola	Savenaca Narube
Finland	Perti Majanen	Taisto Humimasalo
France	Francis Mer	Jean-Pierre Jouyet
Germany	Uschi Eid	Rolf Wenzel
Hong Kong, China	Henry Tang	Joseph Yam
India	Jaswant Singh	S.Narayan
Indonesia	Dr. Boediono	Burhaunddin Abdullah
Italy	Antonio Fazio	Lorenzo Bini Smaghi
Japan	Masajuro Shiokawa	Toshihiko Fukui
Kazakhstan	Yerbolat Askarbekovich Dossajev	Arman Galiaskarovich Dunayev

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Kiribati	Nabuti Mwemwenikarawa	Tebwe letaake
Kore, Republic of	Jin-Pyo Kim	Seung Park
Kyrgyz Republic	Bolot Abildaev	Sabyrbek Moldokulov
Lao People's Democratic Republic	Chansy Phosykhom	Phoupheth Khamphounvong
Luxembourg	Luc Frieden	Georges Heinen
Malaysia	Dato Seri Dr. Mahathir bin Mohamad	Tan Sri Dr. Samsudin bin Hitam
Maldives	Ismail Shafeeu	Riluwan Shareef
Marshall Islands	Brekson S. Wase	AmonTibon
Micronesia, Federate State of	John Ehsa	Lorin Robert
Mongolia	Chultemiin Ulaan	Ochirbat Chuluunbat
Myanmar, The Union of	Hla Tun	Draw Than Nwe
Nauru, Republic of	David Adeang	Ruston Kun
Nepal	Prakash Chandra Lohani	Bhanu Prasad Acharya
Netherlands	Gerrit Zalm	Agnes van Ardennevan der Hoeven
New Zealand	Michael Cullen	John Whitehead
Norway	Olav Kjorven	Age Grutle
Palau	Elbuchel Sadang	Marino Rechesengel
Pakistan	Shaukat Azia	Waqar Masood Khan
Papua New Guinea	Bart Philemon, MP	Koiari Tarata, CBE
Phillipines	Jose Isidro N. Camacho	Rafael Buenaventura
Portugal, Republic of	Maria Manuela Dias Ferreira Leite	Francisco Adelino Gusmao Esteves De Carvalho
Samoa	Misa Telefoni Retzlaff	Hinauri Petana
Signapore	BG Lee Hsien Loong	Lim Siong Guan
Solomon Islands	Snyder Rini	Shadrach Fanega
Spain	Rodrigo de Rato Y Figaredo	Juan Costa Ciliment
Sri Lanka	K. N. Choksy	Charitha Ratwatte
Sweden	Annika Soder	Gunilla Olsson
Switzerland	Oscar Knapp	Adrian Schlaepfer
Taipei, China	Fai-nan Perng	Susan S. Chang
Tajikistan	G. D. Boboev	H. K. Buriev
Thailand	Suchart Jaovisidha	Somchainuk Engtrakul

The Democratic Republic of Timor-Leste	Maria Madalena Brites Boavida	Aicha Bassarewan
Tonga	Siosua T.T. Utoikamanu	Aisake Eke
Turkey	Ibrahim H. Canakci	Aydin Karaoz
Turkmenistan	Yazguly Kakalyev	Seitbay Kandymov
Tuvalu	Bikenibeu Paeniu	Solofa Uota
United Kingdom	Valerie Amos	Hilary Benn, MP
United States	John W. Snow	Alan P. Larson
Uzbekistan	Rustan Azimov	Mamarizo Nurmuratov
Vanuatu	Sela Molisa, MP	George Andrews
Vietnam	Le Duc Thuy	Phung Khac Ke

Annex 3
Members and Shareholders

	% Shareholding*
Afghanistan	0.034
Australia	5.871
Azerbaijan	0.451
Bangladesh	1.036
Bhutan	0.006
Cambodia	0.050
China, People's Republic of	6.539
Cook Islands	0.003
Fiji Islands	0.069
Hong Kong, China	0.553
India	6.424
Indonesia	5.526
Japan	15.836
Kazakhstan	0.818
Kiribati	0.004
Korea, Republic of	5.112
Kyrgyz Republic	0.303
Lao People's Democratic Republic	0.014
Malaysia	2.763
Maldives	0.004
Marshall Islands	0.003
Micronesia, Fedederal States of	0.004
Mongolia	0.015
Myanmar	0.553
Nauru	0.004
Nepal	0.149
New Zealand	1.558
Pakistan	2.210
Papua New Guinea	0.095
Philippines	2.418
Samoa	0.003
Singapore	0.345
Solomon Islands	0.007
Sri Lanka	0.588

	% Shareholding*
Taipei, China	1.105
Tajikistan	0.291
Thailand	1.382
Timor-Leste	0.010
Tonga	0.004
Turkmenistan	0.257
Tuvalu	0.001
Uzbekistan	0.684
Vanuatu	0.007
Viet Nam	0.346
Total Regional	63.458
Austria	0.345
Belgium	0.345
Canada	5.308
Denmark	0.345
Finland	0.345
France	2.362
Germany	4.390
Italy	1.834
The Netherlands	1.041
Norway	0.345
Portugal	0.345
Spain	0.345
Sweden	0.345
Switzerland	0.592
Turkey	0.345
United Kingdom	2.072
United States	15.836
Total Nonregional	36.542
Grand Total	100.000

* Figures may not add due to rounding.

Annex 4

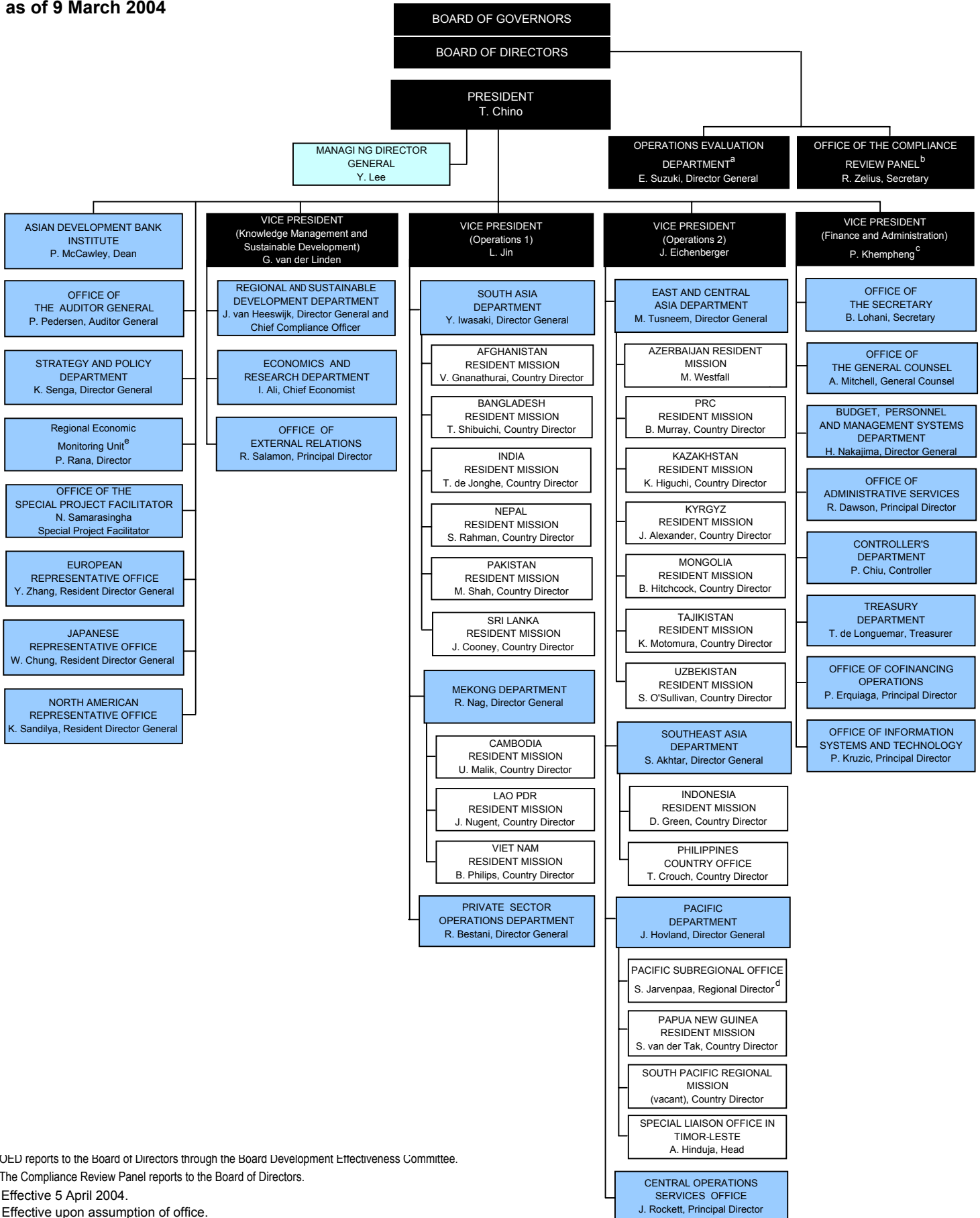
ADB Funded Projects in Nepal

Environment				
	PROJECT	TYPE	INITIAL	UPDATED
1	Urban and Environmental Improvement	LOAN	16 Aug 1999	15 Sep 2003
Agriculture and Natural Resources				
2	Community-Managed Irrigated Agriculture Sector Project	LOAN	11 Jun 2001	31 Mar 2004
3	Decentralized Rural Infrastructure and Livelihoods (formerly Second Rural Infrastructure Development)	LOAN	21 Mar 2000	26 Feb 2004
4	Community Livestock Development	LOAN	21 Nov 2002	22 Dec 2003
5	Crop Diversification	LOAN	1 Nov 1997	10 Nov 2000
6	Rural Microfinance Project	LOAN	1 Nov 1997	27 Jan 1999
7	Second Agriculture Program Loan	LOAN	1 Nov 1991	7 Dec 1998
8	Second Rural Infrastructure Development (formerly Rural Infrastructure Sector Development)	PPTA	21 Mar 2000	23 May 2003
9	Empowerment of Women	PPTA	11 Mar 2002	14 Jan 2003
10	Community Livestock Development	PPTA	21 Nov 2002	17 Dec 2002
11	Commercial Agriculture Development	PPTA	24 Apr 2002	14 Nov 2002
12	Community-Managed Irrigation Sector Project in Central and Eastern Basins	PPTA	11 Jun 2001	19 Oct 2001
13	Watershed Rehabilitation and Management	PPTA	1 Sep 1997	28 Jan 1999
14	Crop Diversification	PPTA	1 Nov 1997	10 Dec 1998
Energy				
15	Rural Electrification, Distribution and Transmission Project	LOAN	18 Feb 1999	27 Aug 2002
Transport and Communication				
16	Road Network Development	LOAN	1 Apr 1997	14 Dec 2001
17	Transport Connectivity Sector Project (formerly Rural Access Roads Networks)	PPTA	12 Mar 2004	12 Mar 2004
Social Infrastructure				
18	Kathmandu Valley Water Services Sector Development Program (Project Loan)	LOAN	11 Oct 2002	30 Mar 2004
19	Kathmandu Valley Water Services Sector Development Program (Program Loan)	LOAN	11 Oct 2002	30 Mar 2004
20	Skills for Employment Project	LOAN	15 Oct 2002	25 Mar 2004

21	Melamchi Water Supply Project	LOAN	22 Jun 2000	12 Jan 2004
22	Community-Based Water Supply and Sanitation Sector	LOAN	25 Oct 2001	1 Oct 2003
23	Secondary Education Support Project	LOAN	22 Aug 2000	23 Sep 2002
24	Teacher Education	LOAN	4 May 1999	12 Dec 2001
25	Small Towns Water Supply and Sanitation Sector	LOAN	1 Nov 1997	2 Nov 2000
26	Melamchi Water Supply (Engineering)	LOA	1 Nov 1997	7 Dec 1998
27	Skills for Employment Project (formerly Technical/ITC Education)	PPTA	15 Oct 2002	2 Dec 2003
28	Kathmandu Valley Water Management Support	PPTA	11 Oct 2002	1 Sep 2003
29	Community-based Water Supply and Sanitation Project	PPTA	25 Oct 2001	14 Mar 2002
30	Urban Environment Improvement	PPTA	16 Aug 1999	16 Feb 2001
31	Teacher Education	PPTA	4 May 1999	19 Dec 2000
32	Second Secondary Education Sector	PPTA	22 Aug 2000	6 Nov 2000
Finance				
33	Corporate and Financial Governance (Project Loan)	LOAN	13 Jan 1999	12 Jan 2001
34	Market Access and Productivity Growth for the Private Sector	PPTA	11 Mar 2003	30 Sep 2003
35	Information and Communication Technology for Improved Financial Service Provision Project	PPTA	20 Oct 2000	22 Mar 2001
Others				
36	Gender Equality and Empowerment of Women	LOAN	11 Mar 2002	25 Feb 2004
37	Public Sector Management Program Loan	LOAN	20 May 2002	10 Jul 2003
38	Governance Reform Program	LOAN	17 Oct 2001	23 Apr 2002
39	Promoting Pro-Poor and Gender Responsive Local Governance	PPTA	12 Feb 2004	2 Apr 2004
40	Ecotourism	PPTA	10 Aug 1999	12 Feb 2002

Organization Chart of ADB

ADB ORGANIZATION STRUCTURE
as of 9 March 2004



^a OED reports to the Board of Directors through the Board Development Effectiveness Committee.

^b The Compliance Review Panel reports to the Board of Directors.

^c Effective 5 April 2004.

^d Effective upon assumption of office.

^e Y. Iwasaki is head of the Unit.