Nepal is a country at a crossroads, emerging from a decade-long conflict that formally ended in November 2006 and now transitioning from conflict to peace and from a monarchy to a republic. Growth rebounded to 4.7 percent in fiscal year 2008 but the next few years are critical if Nepal is to build on this success, managing its transition while confronting long-standing development challenges at a time of global economic downturn.

Challenge

Over the last decade Nepal has made considerable progress toward reducing poverty, with the headcount poverty rate falling dramatically—from 42 percent to 31 percent—between FY95-96 and FY03-04. But there are wide discrepancies depending on geographic location, ethnicity, caste, and gender.

With gross domestic product (GDP) per capita of US$470 (estimated FY09), Nepal remains the poorest country in South Asia based on a number of indicators:

- Life expectancy at birth has increased, but at 63 years, it is still lower than its neighboring South Asian countries.
- Infant mortality rates are among the highest in the region.
- Due to high maternal mortality, life expectancy for women is lower than for men.
- Gender disparities are also common when it comes to literacy. Only 26 percent of Nepal’s women are literate, compared to 62 percent of men.
- Population growth has led to fragmented land holdings and the depletion of forest products upon which much of the rural population depends for its livelihood.
- Nepal’s population of 28 million is growing at two percent per year, and the ratio of population to arable land is one of the highest in the world.
**Approach**

The International Development Association (IDA) has made poverty reduction its main objective for its activities in Nepal. IDA assists Nepal in its development with IDA funds and analytical and advisory work. As of July 7, 2009, the Nepal portfolio consisted of 16 active IDA projects and seven recipient-executed trust funds with net commitments of US$872.4 million and US$30.8 million respectively. IDA’s program between June 2009–June 2011 builds on the areas that have shown to be the most robust during conflict and that are well suited to Nepalese conditions. The overarching goal is to promote the complementary processes of peace and development.

**Results Achieved with (IDA or IBRD) Support**

Over the last decade Nepal has made considerable progress toward reducing poverty, with the headcount poverty rate falling from 42 percent in FY1996 to 25 percent in 2010—in large part thanks to remittances. While there are wide discrepancies depending on geographic location, ethnicity, caste and gender, progress on a number of social indicators has been impressive:

- Net primary enrollment in schools has increased from 82 percent in 2002 to 92 percent in 2008. Gender parity ratio of girls to boys in primary education improved from 0.66 in 1995 to 0.98 in 2008.
- The maternal mortality rate was halved from 538 in 1996 to 281 in 2006 per 100,000. The infant mortality rate dropped from 79 per 1,000 live births in 1996 to 48 in 2006. Full immunization coverage rose from 43 percent to 83 percent of the total population during the same period.
- The Rural Water Supply and Sanitation Project increased the coverage of potable water from 71 percent in 2002 to 77 percent in 2006.
- Life expectancy at birth has increased to 63 years.
- Access to clean water in rural areas has increased from 77 percent to 85 percent of the population while access to sanitation has risen from 46 percent to 56 percent between 2007 and 2009.
- Clean water and better hygiene have helped reduce diarrheal disease morbidity among young children by at least 10 percent.
- Motorized and non-motorized trips by beneficiaries have increased by more than 20 percent and travel times have dropped from an average of 2.6 hours to 32 minutes—a 79 percent saving in time after implementation of projects.

**Education:** With funding and technical assistance from IDA, Nepal has moved toward community management of schools and improved the access to education. More than 9,000 schools have so far chosen a transfer to community management. At this rate, the goal of achieving community management for all public schools by 2015 appears attainable. Net enrollment at the primary level rose from 83.5 percent in 2003 to 91.8 percent in 2008. Gender parity improved from 83 percent to 98 percent during the same period. From 2003 to 2009, net primary enrollment rose from 84 percent to 92 percent. Gender parity improved from 83 percent to 98 percent during the same period. At the current rate, the goal of achieving community management for all public schools by 2015 appears attainable.

**Health:** Nepal’s health sector has seen impressive progress in the past few years. Infant mortality declined from 79 deaths per
1,000 live births in 1991-94 to 48 deaths in 2001-2005. An even more impressive decline was observed in under-five mortality, which declined by 48 percent from 118 to 61 deaths per 1,000 live births over the same period.

**Roads:** To help address this problem, the World Bank committed US$32 million in 2005 to improve rural roads to provide greater access to markets, schools, and health clinics. The Rural Access Improvement and Decentralization Project (RAIDP)—now active in 20 of 75 districts—focuses especially on remote, rural, and hilly areas of the country.

To date the project has rehabilitated and upgraded 540 kilometers of existing dry-season rural roads to all-season standard. Additionally the remote hill project districts have upgraded another 38 kilometers to dry-season standard. The project financed maintenance of about 3,500 kilometers of rural roads, constructed 102 trail bridges, and developed small community infrastructures.

A survey of five completed roads found an increase of more than 20 percent in motorized and non-motorized trips during the first year of operations. Similarly, travel time for road users was cut from an average trip time of 2.6 hours to 32 minutes.

**Poverty Alleviation:** The Poverty Alleviation Fund (PAF) was designed to address the root causes of Nepal’s conflict—poverty, inequality and lack of services. Recent studies show that Household Consumption in PAF districts has increased 23 percent. Food sufficiency has increased by up to 3.5 percent in some areas.

Household incomes have grown 18 percent. These households now have more to spare for the health and education needs of their children. For example, Household Expenditure on Child Education has grown by 54 percent. Under-five child mortality has decreased by 58 percent.

Nearly 16,000 households now have road access for the first time, and water supply, bridges, and sanitation have been provided for more than 32,000 households.

Through income-generating activities and community infrastructure projects, the PAF works with over 12,000 community organizations in 59 of Nepal’s 75 districts. Under the ongoing second phase of the project, the PAF will support activities in all 75 districts and around one million households will benefit by 2011.

**Bank Financing and Other Support**

The World Bank Group’s operations in Nepal began in 1969 with a credit for a telecommunications project from the International Development Association (IDA), the World Bank’s concessory lending affiliate. Active credits and grants total US$1.04 billion as of January 31, 2010.

**Education:** On September 22, 2009, the World Bank continued its support to the education sector, approving a US$130 million IDA credit to help meet Nepal’s Education for All goals. This School Sector Reform Program is the main vehicle for the implementation of a 15 year National Program of Action and World Bank funding will meet a slice of expenditures—both recurrent and development—covering all of school education. It was designed by the Government of Nepal with a focus on the three pillars of access, inclusion, and quality. The program is also supported by eight other
development partners who have pooled their resources with the Government of Nepal.

**Health:** The World Bank’s Second Health, Nutrition and Population (HNP) and HIV/AIDS Project (US$129.2 million), approved on April 20, 2010, supports the expansion and strengthening of these services with a focus on better reaching the poor and excluded segments of the society.

**Infrastructure:** To help address this problem, the World Bank committed US$32 million in 2005 to improve rural roads to provide greater access to markets, schools, and health clinics. The RAIDP focuses especially on remote, rural, and hilly areas of the country.

**Partners**

A large number of donors are active in Nepal and program coordination remains challenging.

Currently IDA, the UK’s Department for International Development, and AusAID of Australia are pooling funds to support the health sector program, and intend to expand access to, and increase the use of, essential health care services.

The Ministry of Finance meets with donors periodically to share information and promote coordination. In addition, donors meet frequently to exchange information and agree on joint approaches. At the operational level, coordination efforts are being consolidated and expanded. Joint portfolio reviews occur with the government and include action plans to improve performance.

The IDA team undertook consultations with a broad range of stakeholders in different regions of the country. The participants attending consultations in Pokhara, Biratnagar, and Nepalgunj included representatives from community organizations, political leaders,
civil society, program personnel and others. The group in Kathmandu included the private sector, government, civil society, academia, international and local non-governmental organizations (NGOs), politicians, youth, and donor agencies. As it implements its interim strategy, IDA is planning to expand its outreach to civil society groups and strengthen its public information services beyond Kathmandu.

**Moving Forward**

The broader governance and anti-corruption agenda is part of the focus on building the new state. IDA will support efforts to enhance transparency and accountability and strengthen citizens’ voice and engagement. This will include “demand” side approaches to building good governance from bottom-up and “supply” side capacity building of public agencies to respond effectively to the emerging demands. Social accountability tools and other non-lending technical assistance will be the core program in this area and will be largely supported by IDA-managed Governance Partnership Facility and other donor trust funds.

IDA will continue to enter into new commitments for a number of projects, many built on robust community engagement and others strengthening the foundations for future sustained growth. Strong dialogue, backed by analytical work carried out not just with the government, but also with a broad range of stakeholders, will continue, especially on the issues of inclusion, state building, and growth. Bank assistance will remain flexible in order to respond to opportunities as they arise.

IDA faces substantial risks working in Nepal and its program is designed to take those risks into account. To manage and mitigate the risks, the program is kept selective, simple, and flexible. It builds on existing strengths and successful projects (for example, the community management approach) and applies the ‘do no harm’ principle. IDA is also working closely with development partners on the development of joint approaches to deal with the fluid and complex country situation. At the same time, IDA’s own capacity to deal with fiduciary and other risks is being strengthened.

**Beneficiaries**

For years, Min Bahadur Magar, a 48-year old farmer in the remote Ramechhap district in eastern Nepal, had to borrow money from a local money lender—paying a 50 percent interest rate—to make ends meet.

Today his life has fundamentally changed. With training and money given by the World Bank-funded Poverty Alleviation Fund (PAF), Magar started a vegetable business. He now earns nearly US$100 a month from selling vegetables alone.

“I am able to feed my family all year round, and send all of my eight children to school.” said Magar. “Now I am borrowing from my community organization paying a small fee. Instead of collecting money, the man I used to borrow from comes over to buy vegetables.”

Balram Sunuwar, a farmer in the neighboring village, also received training and assistance from PAF and said this has turned his life around. “There were no resources available to assist a person like me before this program. I received training which enabled me to set up my own nursery.”
Narayan Adhikari, the chairman of community road user’s committee, said the road constructed with the assistance of the World Bank serves 25,000 people, and provides vital market access for its large farming population.

“Before, people used to buy all vegetable from the market in Pokhara,” he said. “Now almost every household has tomato farming, other vegetable farming, poultry farming and cattle farming. The young people who used to go to the Middle East are earning 10,000 to 12,000 rupees from vegetable farming due to easy access to market.”

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http://www.worldbank.org/ida