

NEPAL PORTFOLIO PERFORMANCE REVIEW NPPR 2007

BUDGET IMPLEMENTATION
AND
IMPROVING PORTFOLIO PERFORMANCE

AUGUST 30-31, 2007



Ministry of Finance
Government of Nepal

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NEPAL PORTFOLIO PERFORMANCE REVIEW (NPPR) 2007

BUDGET IMPLEMENTATION AND IMPROVING PORTFOLIO PERFORMANCE A GOVERNMENT OF NEPAL PERSPECTIVE

I. INTRODUCTION – BUDGET FY2007/08

Economic growth rate of 5 percent is the Budget target for fiscal year 2007/08, the first budget of the Eight Party Coalition Government. Towards achieving this target and building a prosperous, modern, federal and inclusive—all culminating into a new---Nepal, public spending of 21.23 percent of GDP financed by domestic revenue of 13 percent of GDP, domestic borrowing of 2.6 percent of GDP, and aid finance of 5.62 percent of GDP have been set aside. Past structural reforms and resources shift to social sectors are paying dividends. The recently concluded demographic and health survey shows improvements in all major health outcomes in addition to poverty reduction. But, to sustain this positive trend and meet Millennium Development Goals (MDG), in addition to social sector investments, investments in economic sector need to be increased - especially investments to expand connectivity and to increase beneficiaries' access to both social and economic capitals. However, such additional investment may not be within reach of our domestic resource envelope alone, as the country prepares to conduct Constituent Assembly elections, manage extra budgetary expenditures related to mainstreaming the political forces that were otherwise outside the systems and meet emergency basic needs of the people affected by Mother Nature's vagaries that have resulted into loss of life and property.

The Government of Nepal (GON) has maintained aggregate fiscal discipline against competing claims for additional resources from all quarters. Going by demand for resources from respective line ministries, Budget FY2007/08 is 40 percent lower than demand; domestic borrowing, as percent of GDP, is capped at levels of preceding fiscal years; while capital expenditure target increased after meeting ever increasing recurrent expenditure. Capital expenditure target increase by 2 percent of GDP seems feasible as normalcy returns to the country, absorption capacity of expenditure has crossed 90 percent of budgeted amount in FY2006/07; and, above all, more resources have been channeled through community owned and managed activities, a preferred implementation modality espoused by *Jan Andolan II*.

The stance of maintaining prudent fiscal policy does come with a choice; a trade off of choices between fiscal deficit and service deficit. Cognizant of these two choices' trade-off and its implications, GON has taken a mid path: while expanding pro-poor expenditures - doubling of expenditures since FY2000/01 - fiscal deficit has been maintained at below 3 percent of GDP. However, in absence of commensurate increase in foreign aid - the adherence to such tight fiscal discipline would limit quantum of peace dividend that could have been delivered in this fiscal year.



The active support from friends of Nepal has resulted into increase in commitment of foreign aid to 26 percent of FY2007/08 budget compared from 20 percent of aid funding in revised estimated expenditure of FY2006/07. Hence, the responsibility of delivery of Budget 2007/08 rests equally on the shoulders of the Government and development partners. And, we look forward to work together with our development partners in delivery of peace dividends to the people of Nepal.

II. ACHIEVEMENTS OF PAST BUDGET REFORMS

Robustness of systems in place has ensured fiscal and macroeconomic stability. This is not a small achievement considering weathering of several economic shocks, management of competing claims for resources against low levels of discretionary fund availability and management of extra budgetary spending coming from peace building activities. With the implementation of Medium Term Expenditure anchoring sector strategies, particularly in education and health sectors, government expenditures have gradually aligned to sound sector strategies and expenditure in these two sectors, as percent of GDP, have increased from 3.8 percent in FY2005/06 to budgeted amount of 5.05 percent in FY2007/08. Encouraged by these sector performances, Government has not only increased funding levels; but, as a policy, will push for more sector wide support arrangements with development partners.

The recently concluded Public Expenditure and Financial Accountability (PEFA) assessment led by the Government concludes that some features of well designed Public Financial Systems are in place. Particularly, the budget has become a credible policy tool having some sectors' policies and outcomes linked and reasonable control framework. But above all, in this fluid and testing time, public financial management systems have turned out to be resilient. However, this is not the time for complacency as the road ahead is full with difficulties and challenges abound.

At this moment, the key challenge that we face today is responding to the expectations of *Jan Andolan II* and accelerating growth to deliver peace dividends. The government has very little scope to maneuver for additional funds with increasing recurrent spending pressure, weak external assistance, self-restrained domestic borrowing levels; and, collections from current revenue efforts may not bridge funding gap. To sustain peace, deliver of peace dividends must be done in a meaningful and expeditious way. For this, the country needs to accelerate growth and improve service delivery requiring more investments in performing sectors; funds for which are in short supply.

Another area of budget challenge is to address disparities within regions, sectors and access to opportunities to meet demand from population at large. This challenge can be addressed only if existing institutions, central and local, are utilized to their potentials. This is another area that we would like to work with the development partners in the coming days. However, it would be a good gesture from development partners' side if assistance flows through government



systems, failure of which affects on accountability and governance systems; and, above all, policy coherence.

III. FOREIGN AID AND PORTFOLIO MANAGEMENT

Foreign aid plays important role in financing Nepal's socio-economic development efforts. Apart from its contribution to sustaining public investment, foreign aid is crucial to meeting the objective of poverty reduction, and achieving positive changes in peoples' lives after establishing sustainable peace as articulated in the Three Years Interim Plan (2007/08-2009/10). Recognizing the critical role that foreign aid occupies in the economy, the Foreign Aid Policy (FAP), 2002, seeks to analyze the processes, problems, and prospects of the foreign aid so as to maximize its impact and effectiveness in terms of achieving better development results and to meet increased aid requirements to help finance development activities.

Since 2006, GON has started to take the lead in reviewing the portfolio performance vis-à-vis with budget implementation. Until last year, the review was primarily focused on the portfolio financed by three development partners – the Asian Development Bank (ADB), the Japan Bank for International Cooperation (JBIC) and the World Bank, although a few other bilateral partners were invited as observers. As committed during 2006 review, the Nepal Portfolio Performance Review (NPPR) for 2007 has included bilateral partners such as, the DFID, as one of the core members of the NPPR process, in addition to three multilateral development partners, and the EU and other donors involved in SWAp are included as observers. GON is committed to involve other bilateral donors also as core member of NPPR process in the coming years, and develop NPPR process as one of the major platforms for donors-GON harmonization in budget and portfolio implementation. This initiative is in the spirit of adopting Paris Declaration of Aide Effectiveness and also in line with the Foreign Aid Policy, to harmonize the portfolio review process. The sole aim is to examine the generic implementation issues that affect the overall implementation of budget, and to agree on the action plan to rectify such issues so that overall implementation environment could be made more conducive, to achieve the overall aim of budget utilization and development impact thus yielding peace dividends to the people of Nepal.

Despite the flow of foreign resources in Nepal, the country has not been able to maximize the absorption capacity optimizing the gains that can be reaped from such assistance. As highlighted in the FAP 2002, the statement made therein that discrepancy between the results achieved from aid resources, and their potential for enhancement is still wide, still remains valid. The growth generated from the past investments have not been sound, fundamentals of overall economic environment continue to remain unstable, and institutional capacity on many fronts require substantial capacity building efforts to respond to rising public demands and development needs. The challenge for the Government is to promote ownership of development programs and projects – this requires commitment, change in mind set, and also cooperation of development partners to operate through the government system. As long as a few development partners work in parallel as a



competitor, it forces to undermine the capacity building in development and engenders several problems that include disharmony among staff that work in the government system and in the projects operated directly by development partners. There is a great deal of commitment and enthusiasm amongst civil servants that operate within the government system provided conducive environment is provided both by the Government and the development partners. Development partners are true friends of Nepal and their partnership can be tested only if they operate harmonizing with the government system and provide technical assistance for capacity building in specialized field such as, aid management, project management, procurement management, financial management, monitoring and evaluation of programs. Through harmonized approach of reviewing generic implementation issues during NPPR, GON hopes to circumvent its shortcomings and harness new ideas and innovations translated through Action Plan aiming to improve overall portfolio management, contributing to budget implementation.

IV. GOVERNMENT'S COMMITMENT TOWARDS BUDGET IMPLEMENTATION

The Budget Speech of 2007, apart from bringing out GON's annual policies and programs, has articulated several steps for effective implementation of those policies and programs. Some of the steps emphasized in the Budget Speech 2007 are: (1) It is mandatory for all line ministries to carry out progress review meeting on the 7th day of each month under the chairmanship of respective Minister; (2) There is an arrangement for secretary level review meeting held bimonthly in the MOF; (3) All ministries and constitutional bodies are now required to make their annual programs and plans public by mid August; (4) All agencies should ensure to obtain approvals of their work programs and ensure to issue necessary work instructions to their subordinate offices within the first trimester; and (5) Annual progress report and financial statement should be made public within the first four months after the end of the fiscal year by all ministries and constitutional bodies. These are some efforts directed towards strengthened monitoring of implementation of programs ensuring transparency of approved programs and financial accountability.

With regard to accelerating the implementation of local level policy and program, in this fiscal year, the budget authorization for unconditional block grants to local bodies have been issued directly by the Ministry of Finance on the first day of the Fiscal Year. In addition, to facilitate implementation of budget policies and programs in remote areas, provision has been made that the capital expenditures allocated for Karnali Zone and Bajura District will not be frozen until mid-November of the subsequent fiscal year.

The Ministry of Finance through the budget authorization letter to all of the line agencies has made several provisions for effective implementation of Budget programs and policies. The highlights of such authorization are summarized below:



A. Program Approval, Budget Allocation, and Authorization

All line agencies should provide budget authorization letter to the respective departments, offices, and projects by the first of August 2007 together with budget distribution, and also with program approval from the NPC in the case of development programs. Other than the annual approved programs of autonomous authorities such as, local bodies, Poverty Alleviation Fund, and Roads Board, budget authorization of all Priority 1 projects should be sent to the concerned agencies before first of August by obtaining program approval from the NPC. To keep the development programs on track, GON has made it necessary that any adjustment or program amendment in P 1 projects be done only after getting prior approval from the NPC.

In circumstances other than given below, no program approval will be granted after the first trimester if such an approval could not be obtained within this period:

- i. Agreement yet to be formalized with the concerned donor,
- ii. Additional release from the Contingency budget,
- iii. Belonging to special program of Contingency budget,
- iv. Rescue program of reconstruction, rehabilitation and conflict victims,
- v. Appropriation related to other than the Karnali zone and Bajura district of Seti zone, and
- vi. Hold on budget and other remaining budget of sub headings

B. Budget Release, and Implementation

The provision of budget release on the basis of physical progress for the P1 projects has been continued. Arrangement has been made to release budget equivalent to that of one trimester or appropriated amount for the first trimester whichever is higher with taking into consideration the last year's physical progress of the P1 projects. After the release of first installment, remaining budget will be released on the basis of physical progress. Likewise, line agencies have been made responsible to decide on budget release to those projects whose performance in the last FY was less than 50 per cent. Furthermore, provision has been made not to release any budget for capital expenditures if the associated program has not been approved and budget authorization was not received.

To ensure that foreign resources are received on a timely basis, the budget financed by donors and associated matching fund to be borne by the GON, have been held up in other than P1 projects, until the associated loan or grant is effective. For the effective expenditure tracking purposes, it is mandatory to submit the monthly expenditure statement of the direct payment and commodity assistance to the respective district treasury office. FCGO may hold up budget of the



offices failing to abide by this condition. As both the Procurement Act and Regulations are now into effect, all procurements are required to be done according to this new legal arrangement. To ensure that this has been followed properly, a separate monitoring office called Public Procurement Monitoring Office (PPMO) is also being established with the mandate of enforcing the provisions of both the Act and Regulations.

GON has made it mandatory that contract agreement must be completed by 15th January. The concerned ministries have been instructed to hold up the budget release of the agencies failing to do so without any genuine reason, or delaying to conduct such contract by more than 3 months of the program approval. In the case of necessity, the program changes of the development programs should be completed before 15th April. **To continue projects without any disruptions, GON from the current FY has allowed Multi-Year contract for the construction work of the projects which are developed within the MTEF framework.**

To ensure effective implementation of budget, line agencies are required to develop and implement time bound Action Plan for their year long performance activities. Finance Ministry will constantly monitor the performances and it may reallocate budget taking away from less performing projects to the better performing ones. Likewise, to make the public investment more effective, spending agencies are required to calculate unit cost of development programs and spend budget in the areas that potentially produce more benefits.

Similarly, line agencies are required to execute foreign aided projects on the basis of the Work Plan agreed with the concerning donor. Accordingly, reimbursement of the foreign loan or grant should be taken in the timely manner. All the Secretaries of the line ministries are requested to be careful about the unwarranted fiscal burden and its negative effect on cash flow of the GON if they fail to lodge reimbursement claims timely.

C. Expenditure, Virement, and Progress Reporting

To expedite projects/programs implementation at the local level, MOF has issued the budget authorization letter directly to the local bodies on the very first day of the Fiscal Year. This process will save time and the local bodies will be able to start spending on their activities from the beginning of the Fiscal Year. However, the central agency, MOLD will have the responsibility of maintaining fiscal accountability of unconditional grants received by local bodies, as well as of monitoring the progress of budget spending and preparing the financial statement of local bodies.



GON is strict that no virement can be made from capital expenditure to recurrent expenditure. To ensure timely implementation of project works, line agencies are requested not to seek source changes or virement after 15 April of the fiscal year.

Furthermore, to ensure proper utilization of foreign aid, no foreign trips, studies or participation in the workshops shall be allowed from the foreign loans against the Foreign Aid Policy 2002.

D. Provision Relating to Financial Responsibility

To make line agencies financially responsible, all ministries and constitutional bodies are required to make public their annual programs and action plan before 15th August of the fiscal year. Furthermore, the bases taken for the decision of contract award of the amount above Rs. 60 million should be published in the newspapers, and the annual progress as well as the financial statement of such projects shall be made public within the four months of the end of the particular FY. To make GON budget gender sensitive, gender impact assessment report of the projects costing above Rs. 50 million shall be made public.

To ensure the effective implementation of budget policies and programs, and of the P1 projects, as already mentioned earlier, all ministries are required to have monthly progress review meeting within the first 7 days of a month under the chairmanship of the respective minister. The progress report assessed from such meeting should be submitted to the MOF before the 10th day of each month. A bimonthly review meeting will be held at MOF under the chairmanship of Finance Minister in the presence of all the secretaries of GON.

Likewise, arrangement has been made that the budget authorization of the development programs issued from the ministries to the district level offices should be published in national level newspapers. Line agencies are required to ensure a monthly publication of the income and expenditure of their sister offices, and of grant receiving offices. The conditional and non conditional amount that goes to the local bodies shall be displayed in a hoarding board, so that the general public will know and can do public auditing too. Publishing the physical and financial progress of P1 projects has been made mandatory. The project descriptions such as the project name, cost estimate, work start date, tentative project completion date, bid amount, name and address of the contractor, expected outcome of the project, shall be displayed publicly on the construction site of the projects being implemented from the government and local bodies.



V. IMPLEMENTATION STATUS OF NPPR 2006 ACTION PLAN

The Attachment summarizes the implementation status of action plans that were agreed during NPPR 2006. This section highlights key progresses.

Government's Full Ownership of Portfolio Review

Portfolio review exercise forms an integral part of the budget review process, and since last year, this has been gradually internalized into the government's system. GON has prepared its road map for portfolio review. Learning by doing and through close collaboration with development partners, GON has been able to take the lead in annual portfolio review exercise. The outcome of this exercise will be fed into the government's Action Plan to improve the implementation environment. As a commitment made in 2006, GON has taken a lead in 2007 to make inclusive of other development partners in this portfolio review exercise thus achieving the overarching goal of portfolio review harmonization.

Mid-term Review of Portfolio

This initiative started with the mid-term review of FY2006/07 budget. A sample of few projects was selected for review of their performance, and the findings were incorporated into MOF review document. This was carried out in February 2007, and will continue every year. GON will summarize the findings of such review and will publicly disseminate through its website.

Thematic Recommendations

During NPPR 2006, discussions were held in working groups in three thematic groups – Results Based Reporting, Financial Management, and Procurement Management. Recommendations of the working groups were reconciled, and submitted to the Finance Secretary and other concerned line agencies for necessary action. These actions will also be reviewed in working groups discussing during the 2007 Review, and will be incorporated as part of the Action Plan that will move forward.

Procurement Management

As required by the Public Procurement Act 2007, it is now mandatory for all projects/programs to submit procurement plans together with the annual plans and budgets. MOF will closely monitor this requirement. Development partners such as ADB and World Bank, are also closely monitoring the compliance to this requirement, and in fact, as part of Project Readiness Filters, this will form an integral filter to assess the readiness for implementation for the first year of the Project.



Sectoral Plans

Preparing sectoral or business plans is now a priority for the government. This forms a basis for readiness to transit to a sector-wide approach (SWAp). So far, GON has prepared sectoral plans for roads, drinking water, agriculture, irrigation, health and education sectors. Draft plan is ready for rural electrification.

Financial Management

A good progress was made in financial management. GON has completed the draft assessment of Public Expenditure Financial Accountability (PEFA) indicators as per the guidelines of PEFA Secretariat. Final draft report has been widely circulated within the government system and to the development partners. Valuable comments have been received, and GON will soon incorporate these comments and finalize the Report. This will form a basis of setting Public Financial Management benchmarks. GON will also discuss the Action Plan for financial management improvement, and through a sector-wide approach, with cooperation from various development partners, will begin to implement the plan to upgrade the benchmarks from the current setting.

VI. CONCLUSION

The background paper provides a brief overview of FY2006/07 budget achievements, expectations of FY2007/08 budget, linkages between portfolio management, foreign aid and budget implementation, and then status of implementation of action plans that were agreed during NPPR 2006. GON has announced some policy measures in FY2007/08 budget that promote effective implementation thereby assuring a better transparency of information and monitoring of implementation at the Ministerial level. The challenge for the government is to test the translation of these policy announcements into actions. Barring some diversions on political agenda until the Constituent Assembly election is over, GON will aim to closely monitor the implementation of these policy announcements. With the harmonized approach of portfolio review and discussion on generic implementation issues, GON hopes for a better outcome of effective implementation of budget thus contributing the benefits of development to the public at large.

Output achievements from yearly public investment are critical to achieve Poverty Reduction Strategy (PRS) outcomes. Annual portfolio review initiative undertaken by GON will now be an annual event to be internalized within the government system. This harmonized approach is in line with the thrust of the Foreign Aid Policy of GON and the Paris Declaration on Aid Effectiveness. On GON side, there are several challenges that need to be addressed in order to improve environment for project implementation. On development partner's side, they also need to operate in the spirit of the Paris Declaration on Aid Effectiveness by aligning their assistance with the government system. It would be a good gesture from development partners' side if assistance flows through government systems, failure of which affects government accountability and ownership, and, above all, policy coherence.



This not only helps in transparency of all aid flows into the government system, but also contributes to enhancing government capacity for better utilizing the foreign aid. Global experiences reveal that operating through a parallel donor system would largely diminish the capacity building in the government system. Although our target will ideally be to achieve 100 percent budget utilization level, this does not happen, as reflected by historical records. With all concerted efforts, even if we aim to achieve at least 80 percent of the capital budget targets, it will be considered a great achievement for GON. This requires concerted efforts from all implementing agencies, creating conducive environment by policy makers for implementation, and commitment to deliver the agreed work programs within the budget year. Reciprocally, GON also expects prompt response from development partners working collaboratively with GON counterparts, by helping them in capacity building through regular monitoring, mentoring and correcting when mistakes happen unknowingly.

NEPAL PORTFOLIO PERFORMANCE REVIEW IMPLEMENTATION STATUS OF NPPR 2006 ACTION PLAN

Focus Area	Agreed Actions	Responsible Agencies	Performance Indicators	Target Dates/Revised dates	Implementation Status
1. Government's full ownership over portfolio review	<p>GON will review portfolios with a view to scaling up a broader review process focusing on results</p> <p>Harmonize Government's overall portfolio review with budget process</p> <p>Extend the portfolio review to include bilateral portfolios too</p>	MOF (lead),NPC	<ul style="list-style-type: none"> Government own and lead the portfolio performance review exercise. Carry out portfolio performance review (NPPR 2007) Portfolio review process becoming Government's regular planning, programming, budgeting and donor consultation process 	<p>September 2007</p> <p>Ongoing</p> <p>September 2007</p>	<p>Preliminary meeting held on 8 June 2007 at MOF, and a follow up meeting was held in August 2007 during the preparation of NPPR 2007.</p> <p>NPPR 2007 addressing this action and will continue.</p>
2. Mid-term review of portfolios	GON will conduct mid term progress review of sample projects, comprising good as well as bad performing portfolios. This will be done as a part of Mid-Term review of Budget	MOF (lead)	<ul style="list-style-type: none"> Mid-terms review report publicized 	March 2007	The review was done in February 2007, and was included in MOF Report.
3. Thematic Recommendations	GON will review the recommendations of three thematic discussions (Results Based Reporting, Financial Management, and Procurement Management) synthesize and prioritize them, and submit to the Finance Secretary for further action.	MOF	<ul style="list-style-type: none"> Form a Task Force to review the Thematic Group recommendations. Submit the proposal to the Finance Secretary for follow-up action 	<p>October 2006</p> <p>December 15 2006</p>	Follow-up in process. NPPR 2007 will review these actions again.

Focus Area	Agreed Actions	Responsible Agencies	Performance Indicators	Target Dates/Revised dates	Implementation Status
4. Procurement Management	GON will make mandatory to submit procurement plans for all P1 projects/programs together with the submission of annual plans to initiate FY 2006/07 budget discussion.	MOF (lead), NPC, Line Ministries	<ul style="list-style-type: none"> Procurement plans prepared for all P1 projects/programs 	Ongoing	Public Procurement Act 2007 clearly states the need for mandatory submission of Procurement Plans. This will be closely monitored by GON. ADB and World Bank are also monitoring these in their portfolio.
	GON will continue with public procurement reform with support from the development partners	Office of the Prime Minister and Council of Ministers (lead), MOF, MOLJ, FCGO	<ul style="list-style-type: none"> Procurement legislation enacted Public Procurement Monitoring Office (PPMO) established and functional immediately after the enactment of procurement legislation 	December 2006 March 2006	Public Procurement Act was approved on January 7, 2007. Public Procurement Regulations was approved recently in the third week of August. Establishment of PPMO is still pending, and necessary action for its establishment is underway.
5. Business Plans (Sectoral Plans)	Prepare "Business Plans" for Roads, Drinking Water, Rural Electrification, Agriculture, Irrigation, Health, and Education	NPC (lead), MOF, MOES, MOHP, MOAC, MOWR, MOLD, MHPP, AEPC	<ul style="list-style-type: none"> Business plans prepared for agreed sectors 	March 2007	Business Plans were prepared for roads, drinking water, agriculture, irrigation, health, and education sectors. For rural electrification, draft business plan has been prepared.

Focus Area	Agreed Actions	Responsible Agencies	Performance Indicators	Target Dates/Revised dates	Implementation Status
6. Financial Management	Carry out the Public Financial Management (PFM) Sector Work, and establish PFM High level Set of Monitoring Indicators, and prepare an integrated Financial Management Improvement Program	MOF/FCGO (lead), NPC, Support is requested from World Bank and other development partners	<ul style="list-style-type: none"> • Draft report prepared • Final Report prepared, and an Integrated Financial Management Improvement Program prepared 	February 2007 June 2007	The Public Financial Management Sector Work is now complete under World Bank's assistance. GON has also established PFM high level set of monitoring indicators as required by the PEFA Guidelines. Final report is now in process, and action plan for financial management improvement is also under discussion.
7. Implementation of Action Plan set in NPPR 06	GON will follow up and ensure that the actions set in the Action plan have been implemented	MOF	<ul style="list-style-type: none"> • Bimonthly review of the progress 	Ongoing	Follow-up actions regularly monitored. These will be reviewed during NPPR 2007.
8. Establishing a steering committee	GON will establish one steering committee at MOF to monitor the progress of the Road Map	MOF	<ul style="list-style-type: none"> • Bimonthly review of the progress and reporting to the Finance Secretary 	December 2006	Steering Committee has been formed. It comprises representatives from MOF, NPC and FCGO.

ATTACHMENT 1
WORLD BANK
BACKGROUND PAPER



NEPAL
PORTFOLIO
PERFORMANCE REVIEW
(NPPR) 2007

**ATTACHMENT TO
GON MAIN REPORT
(August 30-31, 2007)**

**Nepal Country Office
The World Bank
South Asia Region**

NEPAL PORTFOLIO PERFORMANCE REVIEW (NPPR) 2007

This background document for the Nepal Portfolio Performance Review (NPPR) 2007 is an attachment to the Government of Nepal's (GON) Main Document on "**Budget Implementation and Improving Portfolio Performance**" – the theme of discussion for NPPR 2007. It will be discussed during the NPPR scheduled for August 30-31, 2007. This year the GON plans to expand the portfolio review to a larger group inviting bilateral development partners to discuss generic implementation issues and to agree on Action Plan that leads to improving overall portfolio management, budget implementation and development impact.

This document summarizes the portfolio performance during FY2006/07¹ in projects funded by the World Bank. This will also include analysis of some key results that helped to improve project implementation environment over the past fiscal year, and then summarizes key issues that continue to affect the implementation.

I. SUMMARY OF FY2007 WORLD BANK PORTFOLIO PERFORMANCE: HIGHLIGHTS (see Box 1)

<i>Portfolio Size</i>	At the end of FY2007, 13 active projects represented an aggregate IDA commitment of US\$470.2 million (net of cancellations), and an undisbursed balance of about US\$293.4 million (62.4 percent).
<i>New Entries</i>	New entries in FY2007 (total IDA Grant US\$78.2 million) were (1) Avian Influenza Control Project (IDA Grant US\$18.2 million), and (2) Second Higher Education Project (IDA Grant US\$60.0 million). Additional financing of IDA Grant US\$25.0 million was provided to the Poverty Alleviation Fund Project.
<i>Exit</i>	One exit in FY2007: Road Maintenance and Development Project (Cr. 3293-NEP).
<i>Extensions</i>	Four extensions: (1) Telecommunications Sector Reform Project (by one year); (2) Community School Support Project (by one year); (3) Road Maintenance and Development Project (by six months); and (4) Financial Sector Technical Assistance Project (by one and half year).
<i>Projects at-risk</i>	At end-FY2007, there were four at-risk projects (31 percent of portfolio), of which three are classified as "actual problem projects" and one as "potential problem project". There is a net increase of one "at-risk project" as compared to the status ending FY2006. The Power Development Project continued to be in the actual problem status for 42 months. The Rural Water Supply and Sanitation Project is in the actual problem status for 10 months, and the Telecommunications Sector Reform Project for 2 months. The Avian Influenza Control Project is the potential problem project. The projects-at-risk for Nepal (31 percent) in FY2007 is higher than FY2006 (25 percent), and also higher than the South Asia average of 15 percent and the Bank average of 16 percent. Nepal has the riskiest portfolio in the South Asia Region.

¹ Fiscal Year: July 1 – June 30

<i>Net Commitments at-risk</i>	At end FY2007, 30 percent of the commitment amount is at risk; a decrease from 34 percent in FY2006. This compares with 16 percent regional average and 15 percent Bank average. In terms of net commitments, Nepal also has the riskiest portfolio in the South Asia Region.
<i>Average Project Age</i>	Average project age in FY2007 is 2.9 as compared to 2.8 in FY2006.
<i>Average Period for Project Effectiveness</i>	Two projects were effective in FY2007. On average, it took 1.7 months to reach effectiveness, compared to the corresponding average of 3.5 months in FY2006. The shortest time taken was 18 days for the Avian Influenza Control Project, and the longest was almost 3.0 months for the Additional Financing for Poverty Alleviation Fund Project. The latter was due to time taken by GON to send the legal opinion on the Financing Agreement. Both these projects were declared effective within 90-days period of the signing dates.
<i>Realism and Proactivity Indices</i>	Realism index remained stable at 100 percent since FY2002. But, the Proactivity index dropped to zero in FY2005 with no improvements in FY2006, and the index improved to 33 percent in FY2007.
<i>Disbursement Ratio</i>	FY2007 disbursements were US\$74.9 million (compared to US\$67.0 million in FY2006) with a ratio of 29.5 percent (compared to 20.7 percent in FY2006).
<i>Net Resource Transfer</i>	Loan repayments, including principal, interest and fees, by GON to IDA increased to US\$43.0 million in FY2007 as compared to US\$41.1 million in FY2006. The net resource transfer from the World Bank to GON in FY2007 was US\$32.0 million (compared to a transfer of US\$25.9 million in FY2006) – the improvements is due to improved disbursements in FY2007.
<i>Procurement Performance</i>	Average time between bid invitation and contract signing maintained at 4 months in FY2007.
<i>Audit Performance</i>	Percentage of audits received by due date improved to 20 percent in FY2007, as compared to 5 percent in FY2006. However, percentage of audits not completed at end of FY2007 was 9 percent as compared to 4 percent in FY2006.

Box 1

NEPAL: PORTFOLIO PERFORMANCE SCORECARD FOR INVESTMENT PROJECTS

	FY02	FY03	FY04	FY05	FY06	FY07
A. <u>PORTFOLIO STATUS</u>						
No. of Projects (end of FY)	8	10	9	12	12	13
Net Commitments[1] IDA Credits and Grants (US\$ million)	225	303	302	425	422	470
New Entries	1	3	3	4	0	2
Additional Financing to Existing Project	-	-	-	-	-	1
Projects Closed during FY	1	1	4	1	0	1
(of which, Projects Closed with Satisfactory Outcome in percent)	100	0	75	100	0	100
Average Project Age (Years)	3.7	3.2	1.8	1.7	2.8	2.9
B. <u>PORTFOLIO QUALITY</u>						
No. of Satisfactory Projects (end of FY)	7	8	8	11	9	9
No. of Projects at Risk (end of FY)	1	2	1	1	3	4
Actual Problem Projects (DO or IP = Unsatisfactory)	1	2	1	1	3	3
Potential Problem Projects (with more than two risk factors rated as unsatisfactory)	0	0	0	0	0	1
Realism	100	100	100	100	100	100
Proactivity	100	100	100	0	0	33
Mid-Term Reviews	1	1	0	1	1	4
Projects Restructured	1	1	1	0	0	0
Cancellations During the Year (US\$ million)	2.3	0.5	4.3	1.5	2.64	0
Number of Closing Date Extensions	3	4	2	1	0	4
Disbursement Performance:						
Disbursements (US\$ million)	38.0	27.2	26.0	80.7	67.0	75.0
Disbursement Ratio (net of adjustment lending)	34.1	27.4	14.7	29.8	20.7	29.5
Repayments (includes Interest and Fees) (USD million)	26.2	30.2	33.6	41.6	41.1	43.8
Net Resources Transfer (USD million)	11.8	-3.0	-7.6	39.1	25.9	31.2
Procurement Performance:						
Contract Awards Performance: Average Time between Invitation to Bid and Contract Award (months)	5	5	5	5	4	4
Audit Performance:						
Total No. of Audits Required	16	15	16	19	22	22
No. of Audits Received by end of FY	13	12	16	19	21	20
(of which Qualified %)	(2)	(3)	(4)	(2)	(18)	(2)
No. of Audits Received by due Date	3	2	6	4	1	4
No. of Audits Complied with Delay	10	10	10	15	20	16
No. of Audits not yet Complied with	3	3	0	0	1	2
Percent of Audits Received by end of FY	81	80	100	100	95	91
Percent of Audits Received by due Date	19	13	38	21	5	20
Percent of Audits not yet Complied with	19	20	0	0	5	9

C. NEPAL PORTFOLIO COMPARED TO SOUTH ASIA REGION AND BANK

	Project at Risk (percent)						Commitments at Risk (percent)					
	FY02	FY03	FY04	FY05	FY06	FY07	FY02	FY03	FY04	FY05	FY06	FY07
Nepal	13	20	11	8	25	31	24	26	25	18	34	30
South Asia	9	17	13	12	13	15	8	14	20	10	16	16
Bank wide	15	15	16	16	14	16	14	15	16	13	12	15

II. OVERVIEW OF FY2007 PORTFOLIO

Size and Composition: The WB's portfolio of active operations in Nepal at the end of FY2007 consists of 13 IDA credits/grants, with total commitments of about US\$473.2 million and net commitments of US\$470.2 million after cancellation of US\$3.00 million, and an undisbursed balance of about US\$293.4 million (62.4 percent). There were two new entries, one additional financing and one exit in the Nepal portfolio during FY2007. There were four extensions of closing dates during FY2007.

Portfolio Entry and Exit: New entries in FY2007 (total IDA Grant US\$78.2 million) were: (1) Avian Influenza Control Project (IDA Grant US\$18.2 million), and (2) Second Higher Education Project (IDA Grant US\$60.0 million). Additional financing of US\$25.0 million grant was provided to the Poverty Alleviation Fund Project. The one project that exited the portfolio in FY2007 was the Road Maintenance and Development Project. Although one project is scheduled to exit during the current fiscal year (FY2008), it is likely to be extended by one year. Three new operations - Second phase for the Poverty Alleviation Fund Project, Road Sector Development Project and Irrigation & Water Resources Management Project, and Additional Financing for the Education for All Project are expected in the first half of FY2008. Preparation of Access to Finance Project and Agriculture Commercialization and Trade Project are also in progress, and are also likely to enter into the portfolio in FY2008.

Net Resource Transfer: IDA net resource transfers to Nepal for the last six years since FY2002 are provided in Table 1. Net resource transfer was highest in FY2005, which was an improvement over previous three fiscal years. With a rise in repayments and decline in disbursements, a negative net transfer was recorded for the first time in FY2003. This trend continued in FY2004 with a negative net transfer of US\$7.6 million. However, including US\$74.9 million of disbursements under the PRSC I, net transfer returned to a positive level and amounted to US\$67.3 million. In FY2005, the net resource transfer turned positive with transfer of US\$39.1 million due to new entries in the portfolio and the improved disbursements. In FY2006, the net resource transfer slightly declined to US\$25.9 million as there were no new entries during the fiscal year. In FY2007, the net resource transfer improved to US\$32.0 million due to new entries in the portfolio and improved disbursements.

Age Profile: The current portfolio is relatively young, an average project age of two years and nine months.

Table 1
Disbursements, Loan Service Payments, and Net Resource Transfer

FY	Disbursements (USD million)	Repayments (USD million) ^{a/}	Net Resource Transfer (USD million)
2002	38.0	26.2	11.8
2003	27.2	30.2	-3.0
2004 ^{b/}	26.0	33.6	-7.6
2005	80.7	41.6	39.1
2006	67.0	41.1	25.9
2007	75.0	43.0	32.0

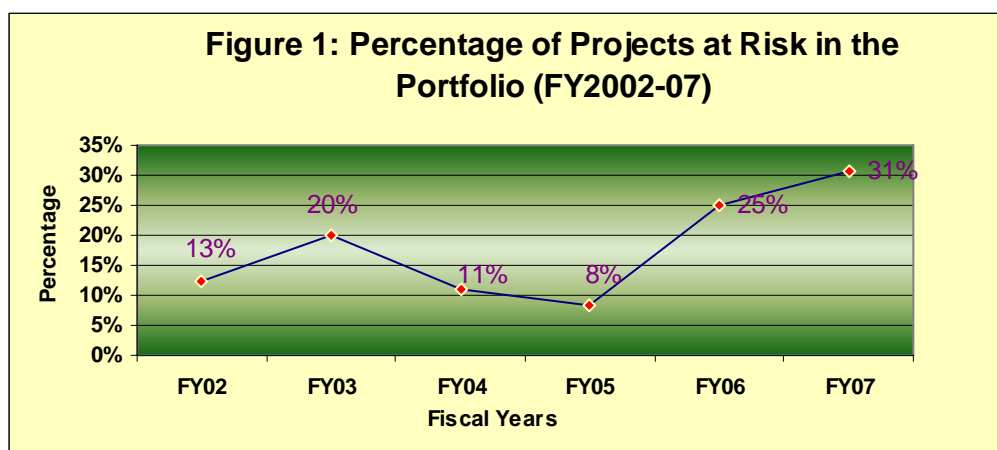
^{a/} Includes principal, interest and fees.

^{b/} Including disbursements under PRSC I, the net resource transfer is positive with US\$67.3 million transfer.

III. QUALITY OF THE PORTFOLIO²

3.1 Portfolio Performance Indicators

- ◆ **Projects at-risk.** Projects-at-risk for Nepal as a percent of the portfolio is 31 percent in FY2007, which is higher than the South Asia average of 15 percent and the Bank average of 16 percent. As of end of FY2007, there were three “actual problem projects” - Power Development Project (in problem status for 42 months), Rural Water Supply and Sanitation Project (10 months) and Telecommunications Sector Reform Project (2 months). The Avian Influenza Control Project is the “potential problem project”. In terms of riskiness, Nepal has the riskiest portfolio in the South Asia Region. As compared to FY2006, number of at-risk projects increased from three to four in FY2007 and in relative term increased from 25 percent to 31 percent in FY2007. As can be noted from Figure 1, proportion of at-risk projects is the highest in FY2007 when compared to past six years.



Key Issues in “at-risk” Projects

Telecommunications Sector Reform Project (Cr. 3581-NEP)

- (1) Draft amendment to the Telecommunications Act (prepared in 2004 to facilitate implementation of the new Telecommunications Policy) remained pending. Without the amendments, key policy measures to facilitate competition and regulations (licensing new service providers, interconnection, and tariffs) cannot be fully implemented as there is no concrete legal basis for implementing Nepal Telecommunications Authority (NTA) directives.
- (2) Limited institutional and human resource capacity within the Ministry of Information and Communications (MOIC) (including Frequency Management Division) and NTA remains a key challenge for the successful implementation of sector reforms. Given the Ministry of Finance (MOF) directive that project funds cannot be utilized to finance training, MOIC and NTA have limited access to funds for capacity building.

^{2/}

World Bank's Project Rating System is described in Annex 1.

Rural Water Supply and Sanitation Project (Cr.3911-NEP)

(1) *RWSS Sector M&E System yet to be in place:* Despite evidence at the grassroots that a demand-driven participatory approach is increasingly being taken up in the sector, it is difficult to assess how widely the sector policy is being adopted and implemented because of the absence of sector-wide monitoring by the Ministry of Physical Planning and Works (MOPPW). MOPPW has established a rural water supply and sanitation sector monitoring and evaluation unit within the MOPPW. The RWSS sector M&E Unit has been staffed and operational budget for the Unit has been approved from GON's own resources. The process of recruiting consultants to design and develop the RWSS sector M&E system is underway.

Box 2

Processing of the RWSSDF Draft Bill to be tabled to Parliament has been a very slow process, despite the fact that an earlier and this Government had granted in principle approval to a draft. Even after six months of formation of a steering committee to review the draft Bill, the work could not be completed. It was only after the mid-term review of the Project that the draft Bill received another, in principle, approval to be tabled to the Parliament. Since then, the draft prepared by the Fund Board and approved by MOPPW was again redrafted by the Ministry of Law Justice and Parliamentary Affairs. It would be beneficial if this process could be streamlined so that once the Government has made a decision in principle (in this case, twice), finalization of the draft could be done expeditiously. Sector experts could help design mechanisms to achieve sector objectives while legal experts could provide assistance to convert the sector reforms into a law consistent with the law of the land.

(2) *Weak Internal Management of the Board:* The internal management review carried out by an independent consultant for the Bank found that there are various areas where the Board and its Secretariat's effectiveness and efficiency could be improved. As follow-on to the discussions during the mid-term review (MTR), a technical advisor (consultant) has been hired to help the Board resolve some of its managerial issues as well as to prepare a strategic action plan for the future. This TA will also assist the Board to develop a strategic longer term technical assistance for the Board. Staff turnover at one level or another remains a challenge in maintaining staff continuity in the Board. Since the MTR, the Board is making efforts to improve its internal management.

(3) *Board as a regular sector institution:* Institutionalization of the Board as an autonomous regular body is another key issue. In the Development Credit Agreement, the Government agreed to table the Bill to Parliament within six months of its formation. This is still pending. The current status is that the Bill to promulgate the Rural Water Supply and Sanitation Fund has been revised by MOPPW; it has been re-approved, in principle, by the Cabinet to table it to the Parliament. MOPPW and the Ministry of Law Justice and Parliamentary Affairs (MOLJPA) are in an advanced stage of finalizing/processing the Bill to be tabled to the Parliament. The review of the draft Bill has been a slow process.



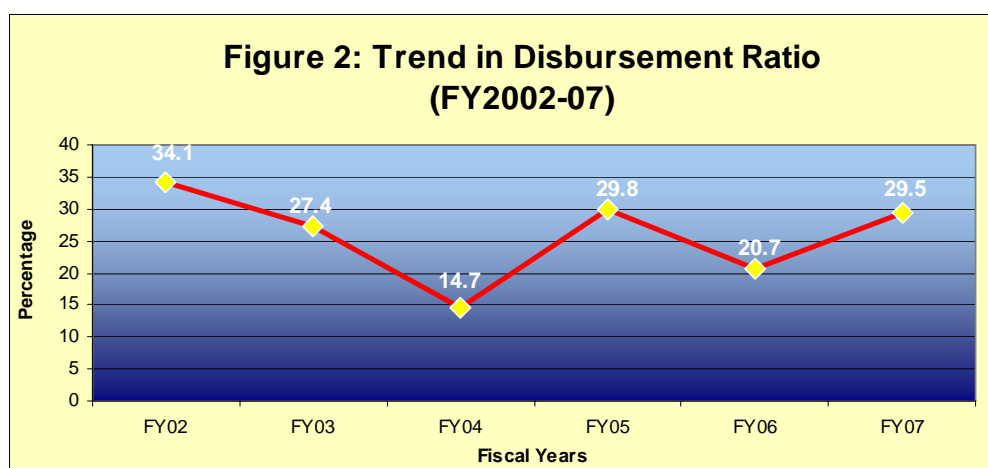
Power Development Project (Cr.3766-NEP/IDA Grant H0390-NEP)

- (1) The Power Development Fund (PDF) component has been the primary reason for this Project to remain in problem status for more than three years. Depending on the outcome of the negotiations with the winning bidder for the Kabeli-A Project, the Project is planned to be restructured in September 2007.
- (2) The financial performance of the Nepal Electricity Authority (NEA) remains weak to the point that it has been unable to meet the financial covenants. Due to difficult circumstances under which NEA is operating and given that its ability to meet the financial covenants is constrained by actions that are beyond its control, the Bank is revisiting the financial covenants in close consultation with the NEA Team.
- (3) NEA is required to prepare Financial Management Improvement Plan to address various deficiencies raised by the Auditors in FY2005/06 audit in which they have disclaimed their opinion due to poor financial management.

Avian Influenza Control Project (IDA Grant H2680-NEP)

- (1) Although the Project has provided for retroactive financing, and the Government did provide a small budget for the Project in FY2006/07, the Government did not use these funds because the Line Ministries were hesitant to spend any money until after the Agreement was actually signed and funds were deposited into the special accounts. Thus, Line Ministries did not spend any of this budget last fiscal year. Getting this emergency intervention to move has proven to be a challenge.
 - (2) The Project has a lot of front-loaded procurement which needs to take place in the first two years. Yet, the procurement capacity in both the project teams is extremely low. Thus, unless complemented by additional technical assistance this could become a serious bottleneck.
 - (3) Nepal has fortunately escaped an Avian Flu outbreak so far, which seems to have lulled many policy-makers and decision-makers into the complacent thinking that this is not a priority. Unless this complacency is overcome, and the project activities are implemented with the utmost seriousness, Nepal is unlikely to be prepared an outbreak which might be just around the corner.
- ◆ ***Net commitments at-risk.*** The commitments at-risk, however, decreased from 34 percent in FY2006 to 30 percent in FY2007. The regional average for FY2007 stands at around 16 percent and the Bank average is about 15 percent. The net commitments at-risk for Nepal are still the highest in the South Asia Region.

- ◆ **Disbursement ratio.** The disbursement ratio in FY2002 showed a significantly high ratio (34.1 percent) reflecting disbursements of a maturing portfolio with decreasing opening balance (undisbursed commitments). In FY2003, the disbursement ratio dropped to 27.4 percent, and in FY2004 to 14.7 percent. After a sluggish performance, the disbursement ratio rose to 29.8 percent in FY2005 which was a significant increase. About 61 percent of the FY2005 disbursements were from the two financial sector reform projects, given the large payments for the two commercial banks VRS programs. The disbursement ratio again dropped to 20.7 percent in FY2006, and improved to 29.5 percent in FY2007. Improved disbursement in FY2007 were due to a combination of factors that include a few ageing portfolio disbursing towards the end period, disbursements contributed by two SWApS in the education and health sectors, and a community driven Poverty Alleviation Fund Project. While disbursements could be better, various factors contributed to slow down in implementation - the country's political situation, frequent strikes and "bandhs", security concerns in terai districts, and slow procurement decisions - all these led to an adverse effect on implementation during this fiscal year. Nepal's disbursement performance in FY2007 was, however, higher than the regional average of 24.7 percent and the Bank average of 22.9 percent. Figure 2 illustrates the disbursement performance from FY2002 to FY2007.



- ◆ **Average age.** Average age of the portfolio dropped from 3.2 years in FY2003 to 1.8 years in FY2004 and 1.7 years in FY2005 and increased to 2.8 years in FY2006 and 2.9 years in FY2007. The drop in the average age is due to the retirement of earlier projects and the entry of new projects in the portfolio.
- ◆ **Quality at Entry.** All new projects that enter the portfolio are assessed against the Project Readiness Filter for Nepal agreed during 2005 and 2006 NPPR.
- ◆ **Quality at Exit.** During FY2004, four projects exited, out of which one was rated unsatisfactory. Projects exiting the portfolio with unsatisfactory outcome in FY2004 amounted to 25 percent. During FY2005, only one project exited which was rated "satisfactory". There were no exits in FY2006. In FY2007, only one project (RMDP) exited with "satisfactory" performance.



- ◆ ***Realism and pro-activity indices.*** The realism index remained stable at 100 percent since FY2002. The proactivity index also remained stable at 100 percent until FY2004. However, this index dropped to zero in FY2005 and FY2006. Proactivity index improved to 33 percent in FY2007 since the Health Sector Reform Program which was a problem project in FY2006 was upgraded in FY2007. Power Development Project and Telecommunications Sector Reform Project which were problem projects in FY2006 continued to be in the same status at FY2007 closing.

3.2 Mid-Term Review and Restructuring

In FY2007, four mid-term reviews were carried out for the Financial Sector TA Project, Financial Sector Restructuring Project, Education for All Project and Rural Water Supply and Sanitation Project. There was no restructuring.

IV. ANALYSIS OF POSITIVE INTERVENTIONS IN FY2007 THAT AFFECTED PORTFOLIO PERFORMANCE AND GENERIC IMPLEMENTATION ISSUES

4.1 Highlights of Positive Interventions in FY2007 That Affected Portfolio Performance

Harmonized Approach to Portfolio Management

The Government of Nepal's initiatives to harmonize portfolio reviews as part of an evolving partnership with various development partners is a step forward to address generic implementation issues. Challenges that surface during implementation can be resolved only if the GON takes full ownership of the review process and implements actions to improve implementation through changes at various levels: policy, planning and, above all, budget performance. Following last year's review, the GON prepared a Road Map for portfolio review that had three core objectives: (1) Harmonize portfolio reviews of development projects/programs with budget implementation; (2) Foster country ownership and accountability in project/program management; and (3) Improve overall portfolio performance by resolving generic implementation issues in a timely manner, thereby contribute to better budgeting and development impact. This has been a significant shift in reviewing the portfolio performance.

Problems on the ground are better understood by implementing authorities. Implementation problem can only be addressed appropriately if the implementing authorities are in the "driver's seat" – development partners, at the margin, can be their true partners in this endeavor and can provide necessary support and guidance only. According to the Road Map, GON has formed a steering committee chaired by the Joint Secretary of the Foreign Aid Coordination Division of the Ministry of Finance, with representation from MOF, FCGO and NPC, to provide oversight to the implementation of broad reform actions that contribute to a better implementation environment. Most of the generic issues are centered on three themes that were discussed during the 2006 Review – (1) Results-based monitoring and reporting, (2) Improved financial management and (3) Improved procurement management. A renewed effort to improve public procurement, financial management, project management and staffing is urgently needed to sustain effective project implementation. Implementation of the following actions, in addition to those cited above, would help strengthen overall budget performance:

- Medium-term Expenditure Framework (MTEF) process,
- Improving public expenditure management,
- Prioritization of expenditures at the program level, with clear links to outputs and outcomes,
- Advancing the cycle for budget discussion so that reprogramming, as per the allocated ceilings, can be completed before the fiscal year begins. Through timely budget discussions and reprogramming, a significant amount of processing time can be saved so that implementation can gear up during the first trimester. Develop a mechanism to avoid bunching implementation activities during the last trimester.
- Monitor effective implementation of the Procurement Law. Enactment of the Law has set a framework to harmonize procurement procedures with development partners.

Harmonized Approach to Applying Procurement Procedures

The passage of the Procurement Law in January 2007 was a significant achievement. However, real implementation of the Law is yet to take place due to one major pending action: the establishment of the Public Procurement Monitoring Office (PPMO) to provide oversight to procurement management and monitor implementation of the Act. In addition, a well-functioning Nepalese procurement system requires the establishment of a well articulated procedures, manuals and guidelines and sets of model bidding documents. Well-trained personnel to handle procurement matters is another pre-requisite for effective procurement management. Thus, the benefits of the procurement reform efforts initiated with the passage of the Procurement Law and the approval of the Procurement Regulations have yet to be observed. The World Bank and the Asian Development Bank have committed to continuing their support for procurement reform to develop government capacity and a harmonized approach to procurement. The core objective of having the country's Procurement Law is to apply the same procurement procedures for all development financed programs that fall under the budget purview.

Notable advancements provided by the new Procurement Act include:

- Adoption of a modern procurement law with provisions generally in line with the UNCITRAL model law;
- Creation of a Public Procurement Monitoring Office (PPMO) with responsibility and authority for setting procurement policy, monitoring practices and reporting on overall system performance;
- Initiation of training programs designed to establish core competencies in procurement; and
- Amendment of anti-corruption legislation to enable the imposition of harsher penalties (such as blacklisting) for acts of fraud and corruption and allow for bidders to report acts of corruption by other bidders or government officials.

The creation of the PPMO is a pre-requisite to continue reforms in public procurement. Implementation of the new Procurement Act is a core challenge in the public sector and will require the dedication of significant resources if the Act is going to successfully improve procurement practices across the public sector. The application of the OECD/DAC baseline indicators provides a profile of a procurement system that is in the midst of transition. The assessment covers four main areas: the legal and regulatory basis for procurement; the institutional architecture of the system; the operation of the system and the competitiveness of the national market; and the integrity of the procurement system. There is significant room for improvement in each area, with no one area standing out as particularly weak or strong.

Harmonized Approach to Financial Management

A guiding World Bank principle is to align as much as possible to country systems with some minor adjustments. Two SWAps in the education and health sectors are fully aligned with Nepal's country systems. Stemming from the Paris Harmonization Agenda which the Government of Nepal and most development partners operating in Nepal have signed – harmonization of financial management arrangements is already in practice in the education and health sectors. Even individual projects are harmonized with the government's financial management system, with a provision to improve financial management systems specific to the project through an action plan agreed between the Borrower and the Bank, if gaps are observed during the financial management assessment.

Until the overall country risk environment has improved, our strategy at the project level has been to harmonize with the country financial management system to the extent possible, but agreeing on a specific risk mitigation action plan to address gaps observed during the financial management risk assessment. Systemic reform in public financial management through implementation of the recommendations set forth by the recent Gap Analysis in the Accounting and Auditing Sectors and the Public Financial Management Benchmarking as per Public Expenditure and Financial Accountability (PEFA) Guidelines is a challenge. This may include ensuring placement of skilled staff, preparation of a financial management manual, arranging specific review mechanisms, promoting community audits for community level programs, arranging ex-post reviews etc. Over the next few years, significant improvements are not expected unless there is implementation of a program to strengthen the PFM system embracing a holistic but realistic reform management approach.

FY2007 demonstrated remarkable progress in establishing Public Financial Management (PFM) benchmarks against Public Expenditure Financial Accountability (PEFA) indicators to measure performance levels in public financial management. This benchmarking reveals the need for reforms in overall public financial management in order to gradually improve the current ratings. Following the conclusion of the benchmarking exercise and agreement on an action plan to move the indicators forward from the existing benchmarks, the GON will require support from its development partners, through an integrated sector-wide approach, to improve the overall PFM. An improved PFM framework is expected to have an overall positive impact on project implementation.

The completed Public Financial Management (PFM) review—jointly carried out by the GON and the Bank in close coordination with other development partners—and the establishment of PFM benchmarks will provide new opportunities for further strengthening PFM and procurement as an integrated system. The PFM review forms part of a comprehensive approach to supporting PFM reforms emphasizing country-led reform, donor harmonization and alignment around the Poverty Reduction Strategy (PRS) with a focus on monitoring and results.

The PFM work has put forward a four-point agenda to improve the contribution of public finances to assist Nepal's transition. This four-point agenda will support the four blocks of Nepal's development strategy. It will require appropriate sequencing, piloting, monitoring, evaluation, and adjustments as appropriate. The central themes of this agenda are the need to: (i) gradually scale up public expenditures and PFM performance as capacity is built; (ii) boost the use of monitoring systems and ex post evaluation as management tools to strengthen efficiency and accountability; (iii) simplify complex systems when possible; and (iv) ensure that external assistance meshes with these objectives.

Strengthening PFM systems require embracing a holistic but realistic reform management approach. One option to sequence the reforms is to define a series of platforms, each around one particular outcome. This series of platforms would provide a way to focus capacity to ensure synergies between reform efforts. In the short term, the priorities would be to maximize the credibility of the budget, simplify some processes, realize the analytical and policy potential of reporting, implement the Procurement Act, and strengthen tools to hold policymakers accountable of the budget and its outcomes. At the local level, a stronger commitment from the center to simplify guidelines, move toward block grants with fewer constraints, and provide support to local bodies is needed. Beyond this first platform, a more evidence-based approach (for budgeting) and a risk-based approach (for audits of both expenditures and taxes) should be envisaged. Progress in this area will be closely related to progress in other areas of good governance in the civil service and the overall environment.

Monitoring Based on Results

There has also been a major shift in managing reform programs towards result based strategy implementation. These have been implemented in the education and health

sectors through sector-wide approaches (SWAp) – while other sectors are in the process of developing a “Business Plan” in an effort to roll out a credible sector strategy. Although the implementation of the two SWAp has challenges, there has been remarkable improvement in the government’s capacity to effectively manage these two programs in close coordination and partnership with development partners. DFID, Danida, Finland, Norway and World Bank have been taking the lead to move towards a successful pooled funding approach to support the SWAp. The fact that the ADB and UNCEF are also joining this pooled funding in the education sector and that some other bilateral partners have indicated their interest in collaborating in the health sector is evidence of their success. Obviously, more efforts are required to make these efforts work more effectively; the only way to achieve this is to strengthen the country’s capacity to manage such programs. An overarching government performance framework should drive the result-based approach and create incentives for internal harmonization among government ministries/departments and within the portfolio of larger donors such as the ADB and the WB. GON’s move towards implementation of result-based sector strategy implementation seeks to create a dynamic management process with measurable and monitorable outputs for allocation of resources, as the first step in realization of PRS outputs. The challenge is not only to institutionalize the results-based sector strategy and its implementation, but also to ensure that there is overall donor harmonization of aid aligned with the PRS through the MTEF. This second generation reform, institutionalization of the implementation of a results-based sector strategy anchored by resources, is the challenge ahead.

4.2 Generic Implementation Issues that Affect Portfolio Management

Based on implementation experience of IDA portfolio over the past year, this section highlights the systemic implementation issues. Most of these issues are not new and have been discussed at various fora including previous portfolio reviews. The systemic implementation issues are centered around (i) continued political instability that affects the security situation; (ii) slow decision-making in the bureaucracy as a side effect of the high turn over at the Minister and Secretary level in line ministries; (iii) late submission and approval of both annual work programs and procurement plans; (iv) delays in procurement decisions, and (v) not complying with certain legal agreements signed with development partners (for example, the government’s policy to disallow the use of credit funds for training and capacity building after this has been agreed to in our legal agreement). The first two are related to exogenous factors beyond the control of implementing agencies. But, the latter three, if improved over time, can result in improved portfolio performance.

Continued Political Instability that Affect Security Situation

While the overall field environment appears to be slightly improving as compared to last year due to ongoing peace efforts of the eight parties and the entry of the Maoists into the interim government, a new security challenge emerged in FY2007. The security situation in the Terai has deteriorated with frequent strikes, bandhs and blockages. Thus, field visits and supervision in the Terai were reduced. Field project staff security was a concern in many projects. Implementation schedules of the following World Bank financed projects were affected: the Rural Water Supply Project, the Education for All Project, the Health Sector Reform Program, the Rural Access Improvement and Decentralization Project, the Power Development Project, the Office of the Attorney General Strengthening Project, and the Pension Reform Project. Political uncertainties in Nepal over the past few years also has had a major impact on implementation of the Power Development Fund Project, which relies heavily on private investment and therefore the overall investment climate.

Slow Decision Making as a Result of the High Turn-Over of Line Ministers and Secretaries

One side effect of political instability -- the high turn over of Ministers and Secretaries (or not filling up the positions of Secretaries due to delay in the amendment of the Civil Service Act or strikes by civil servants from time to time protesting against the Civil Service Act) -- has the overall effect of slowing decision making in project implementation. Such changes within the ministries and departments also result in staff transfers. Since capacity is an issue in many development projects, such transfers affect their functioning in a smooth manner. Frequent changes of staff have heavy costs --leading to either time delays, cost overruns or both. Decisions on various sectoral policies have been affected by such turnover at high levels.

Sectoral decisions, which include the enactment and amendment of rules and regulations and the autonomy of Boards, have had a bearing on project implementation. Delayed action on sectoral policies has affected implementation in the following World Bank-funded activities: (i) the Roads Board and Road Fund have not been fully operationalized (as a result of this, the Development Objective of the closed RMDP was rated "Moderately Satisfactory"); (ii) the approval of amendments to the telecommunications law have been substantially delayed which slowed the reform process (this action has been pending for last two years -- without this amendment, key policy measures to facilitate competition and regulations such as, licensing new service providers, interconnection and tariffs cannot be fully implemented); (iii) delays in the promulgation of new laws to enhance the enabling environment for the financial sector; (iv) delays in the promulgation of procurement regulations (this has been resolved just recently) and establishment of the PPMO; (v) delays in developing a rural water supply sector M&E system within the Ministry; (vi) delays in the appointment of Board members in the Poverty Alleviation Fund Board (this was ultimately resolved in June 2007 after almost a vacuum of about one year); and (vii) weak institutional arrangements in the Ministry of Health & Population to implement health sector reform.

Late Submission and Approval of both Annual Work Programs and Procurement Plans and Delays in Procurement Decisions

Line ministries, in general, have a practice of over programming while the Ministry of Finance, in general, has the role of reducing the requested budget as part of its function of setting priorities and ensuring fiscal stability. This often creates the need for many line agencies to resubmit the work program and budget as per the approved budget. Until and unless, line agencies are able to submit the revised work program (Form Number 2), the first trimester release cannot take place. Meeting this requirement, in practice, often leads to a loss of the first trimester's activities. One solution might be to advance the budget discussion by a few months so that the revision of work program and budget get completed before the budget is announced. If this could be achieved, there would be remarkable improvements in implementing the program. Benefits that could be achieved are the timely release of funds and the concomitant timely implementation of the work programs--thus avoiding the bunching of program implementation during the last trimester.

The Procurement Act now makes it mandatory to submit procurement plans with the annual work program when line agencies submit their budget request. Compliance of this requirement upfront would ensure timely implementation of programs as per the plan. Although these are being closely monitored in World Bank-financed projects, these often seem to be the missing factor in the budget's overall implementation. For example, the World Bank's ex-post procurement review last year found that appropriate procurement procedures (Bank guidelines as well as GON's Financial Administration Rules) were not followed in many projects. The quality of procurement documents prepared by various

agencies was frequently found to be unsatisfactory. Contract monitoring was weak in almost all projects. Finalization of the work program and preparation of annual procurement plans is often delayed which has a bearing in slow project implementation. The Bank observed delays in procurement decisions in several instances in many Bank financed projects – most due to lack of capacity, others due to fear of investigation by CIAA, and some due to delays on the part of the World Bank in responding to various procurement requests by the Government.

As per the new government procedure, fund release is tied up with Form No. 2 that is, reporting the physical progress as per set target. If achievements are less than 80 percent, that clearly affects timely fund release. Faithful implementation of this requirement by all agencies and close monitoring of compliance would certainly help to reduce implementation delays.

Another important area is that of weak monitoring and evaluation systems and/or the ineffective use of systems that are in place. This has inhibited the timely assessment of project outputs and impact. Actions agreed during supervision missions are not closely monitored within the system, hence resulting in slippage of agreed dates. Unless monitoring system is strengthened at all levels, project or sector performance cannot be evaluated. The government's focus and priority in strengthening the monitoring and evaluation systems should address the issue of timely measuring the project outputs and impact.

Are Autonomous Boards actually exercising their Autonomy?

The autonomy of various Boards, such as the Rural Water Supply and Sanitation Fund Development Board, Poverty Alleviation Fund Board, Roads Board and Nepal Telecom Authority, need to be strengthened. Although they are by and large independent legally, in practice many do not, or are not allowed to, exercise their autonomy. When it comes to issues such as setting of staff salaries, allowances, or other incentives, the Government expects these Boards to follow the government norms despite the fact that the Government itself in the first instance formed such autonomous agencies to be different from permanent civil servants. Rather than monitoring the cost effectiveness of such institutions, the Government has a tendency to compare the salary (inputs) to that of civil servants. On the other hand, Board members are often reluctant to exercise their legal authority, thereby reinforcing their dependence in practice. Moving from management through control to a practice of holding autonomous bodies accountable through monitoring of performance against agreed criteria is what needs to happen. Effective monitoring of functioning of various Boards and their results is, therefore, very important.

Enhancing Capacity at Various Levels

Inadequate capacity to implement sector reforms has remained a continuing challenge. The Government's policy not allowing the use of credit funds for training has constrained reform-oriented programs for capacity building. This has affected many projects where there are no options for grant financing for capacity building.

A harmonized approach to address development issues requires efforts in capacity building at all levels and for all sectors—whether it be technical, financial or procurement management. During project design, careful reviews are often undertaken for capacity needs and components are accordingly incorporated. Once the agreements are signed with development partners, there should be no restriction for using credit funds or grant funds for capacity building if there is a genuine business need that fits with overall program.

ANNEXES

PROJECT RATING ^{3/} SYSTEM

Project Specific Flags:

There are nine project-specific risk flags:

1. **Financial Management:** Appropriateness of arrangements for financial planning, budgeting, funds flow/ disbursement arrangements, internal control, accounting, financial reporting, and auditing.
2. **Counterpart Funds:** Sufficient funding available to a project/program on timely basis for successful implementation, meeting of acceptable financial performance targets by a project/program, and for revenue-earning entities, compliance with financial covenants of the legal agreements.
3. **Effectiveness Delays:** Elapsed time between Board approval and effectiveness of more than nine months for investment and more than three months for adjustment and emergency reconstruction operations (this flag is turned off three years after Board approval).
4. **Safeguards:** Implementation of the agreed safeguards mitigation/development plans.
5. **Monitoring and Evaluation (M&E):** Measure of whether an appropriate M&E system is in place, is being used by the Bank and Borrower, and the Bank is focusing on the development objective (outcomes) in ISR reporting, where possible.
6. **Legal Covenants:** Compliance of Borrower/implementing agency with the legal covenants (excluding financial covenants which are rated separately), including supplemental letters, taking into account the understandings with the Borrower as set out in the minutes of negotiations.
7. **Project Management:** Availability of qualified management with the necessary authority to implement project/program. Includes management of physical construction or the project/program coordination office, implementation of broad policy or institutional changes, or the managerial environment.
8. **Slow Disbursement:** Disbursement delays of 24 months or more for investment operations or 6 months or more for adjustment and emergency operations. Delay is calculated based on the initial or formally revised disbursement schedule for the project.
9. **Procurement Problem:** Performance of Borrower/implementing agency in carrying out efficient Bank-financed procurement, and how it affects speed of implementation. Includes compliance with agreed procurement schedules and quality/reliability of procurement administration.

^{3/} Each indicator is rated one of the following:

HS : Highly Satisfactory
MS : Moderately Satisfactory
S : Satisfactory

MU : Moderately Unsatisfactory
U : Unsatisfactory
HU : Highly Unsatisfactory

Non-project specific flags

There are 3 non-project-specific risk flags:

10. ***Long-Term Risk:*** Project with IP or DO rated MU, U or HU for any 24 months cumulative during the life of the project. This flag is removed when the project has been rated MS, S, or HS for IP and DO for the previous 24 months.
11. ***Country Environment:*** Located in a country with weak economic management (CPIA rating of less than 3.0 on a scale of 1 to 6). Once "flagged", the CPIA (Country Policy and Institutional Assessment) must exceed 3.5 for the flag to be removed. This flag also indicates countries which are in a conflict or post-conflict environment; and
12. ***Country Record:*** Located in a country with a net disconnect of 20 percent or more, or where net commitments associated with unsatisfactory projects (as rated by IEG) represent more than 40 percent of commitments for completed projects over the previous five years. In cases where the sample of Independent Evaluation Group (IEG) evaluations is too small, ICR data, data on mature projects, and experience of other donors is used to arrive at a robust conclusion. This flag also captures countries with less than satisfactory Country Assistance Evaluation (CAE) ratings by IEG in the prior five fiscal years.

Table- 1
NEPAL: FY2007 PORTFOLIO
(As of June 30, 2007)

(Figures in USD million)

SMU	IDA Credit/ Grant No.	Proj ID	Project Name	DO	IP	Key Dates				No. of Extension	Age (Yrs)	Commitment Amount				Total Disb	Undis- bursed	Disb Est (Org/Rev)	Disb Lag	ISR		
						Approval	Effective	Original Closing	Revised Closing			Original	Cancel- lation	Net	%					No.	Sta- tus	Date
GLOBAL INFORMATION/COMMUNICATIONS TECHNOLOGY																						
CITPO	3581-NEP	P050671	Telecommunications Sector Reform	MS	U	12/11/2001	05/01/2002	09/01/2007	09/01/2008	1	5.6	22.56	2.20	20.36	4%	14.85	9.03	22.60	34.20	15	A	05/03/2007
FINANCE AND PRIVATE SECTOR DEVELOPMENT																						
SASFP	3727-NEP	P071291	Financial Sector Technical Assistance	MS	S	12/19/2002	07/01/2003	06/30/2007	12/31/2008	1	4.5	16.00	-	16.00	3%	10.52	7.85	16.00	34.30	11	A	06/22/2007
	3864-NEP H0740	P084219	Financial Sector Restructuring	S	S	03/09/2004	07/15/2004	09/30/2009			3.3	68.50	-	68.50	15%	57.73	13.54	75.60	23.00	7	A	06/15/2007
	H1730			P093294	Economic Reform Technical Assistance	S	S	06/28/2005	11/28/2005	12/31/2008			2	3.00	-	3.00	1%	1.32	1.66	2.20	39.90	4
HUMAN SOCIAL DEVELOPMENT																						
SASHD	3808-NEP	P082646	Community School Support	S	S	06/30/2003	08/28/2003	09/30/2006	09/30/2007	1	3.0	5.00	-	5.00	1%	4.33	0.99	5.10	14.30	8	A	03/23/2007
	3956-NEP	P074633	Education for All	S	S	07/08/2004	08/27/2004	01/31/2010			4.0	50.00	-	50.00	11%	40.44	11.22	25.00	(61.80)	7	A	05/29/2007
	H2740	P090967	Second Higher Education			02/22/2007	07/27/2007	01/15/2014			0.4	60.00	-	60.00	13%	0.00	62.96	-	-			
	3980-NEP H1250	P040613	Nepal Health Sector Program	MS	MS	09/09/2004	02/25/2005	01/15/2010			2.8	10.00	-	10.00	2%	0.00	10.44	26.00	(17.40)	6	A	02/27/2007
												40.00	-	40.00	9%	30.53	10.02					
SUSTAINABLE DEVELOPMENT																						
SASDA	H2680	P100342	Avian Influenza Control	MS	MS	01/19/2007	03/27/2007	07/31/2011			0.4	18.20	-	18.20	4%	2.00	16.31	-	-	1	A	06/03/2007
SASDE	3766-NEP H0390	P043311	Power Development	S	MU	05/22/2003	03/25/2004	06/30/2009			4.1	50.40	-	50.40	11%	4.76	50.85	58.00	75.10	8	A	01/31/2007
	3911-NEP			P071285	Rural Water Supply & Sanitation II	MS	MU	06/01/2004	01/17/2005	08/31/2009			3.1	25.30	-	25.30	5%	9.69	17.17	12.80	11.00	5
SASDS	H0910	P081968	Poverty Alleviation Fund	S	S	06/01/2004	12/13/2004	02/01/2009			3.1	15.00	-	15.00	3%	11.32	3.75	8.40	(58.30)	7	A	06/20/2007
	H2580		Poverty Alleviation Fund Additional			11/14/2006	06/04/2007	02/01/2009				25.00	-	25.00	5%	2.00	23.58					
SASDT	H1710	P083923	Rural Access Improvement & Decentralization	S	MS	06/21/2005	08/16/2005	12/31/2010			2.0	32.00	-	32.00	7%	3.62	28.32	6.90	47.80	4	A	04/24/2007
13.0 TOTAL											2.9	473.16	3.00	470.16	100%	204.96	288.74	258.60	21%			

A = Archived C= Current

Table - 2
NEPAL: FY2006 EXIT
(As of June 30, 2007)

(Figures in USD million)

SMU	Credit No.	Proj ID	Name of Project	DO	IP	Key Dates				Age	Net Commit	Disb in FY	Cumulative Disb	Undisb Balance as of 06/30/07
						Approval	Effective	Original Closing	Revised Closing					
SASDT	3293-NEP	P045052	Road Maintenance and Development	MS	S	11/23/1999	02/21/2000	12/31/2004	12/31/2006	6.6	54.50	8.13	51.90	4.70

Table- 4
NEPAL: PORTFOLIO RISK FLAGS OF FY2007
(As of June 30, 2007)

SMU	Credit No	Project ID	Project Name	Risk Status	DO	IP	Total risk flags	Risk Flags													
								Project Specific									Non-Project Specific				
								Financial Management	Counterpart Funds	Effectiveness Delays	Safeguards	Monitoring & Evaluation	Legal Covenants	Management Problem	Slow Disbursement	Procurement Problem	Long Term Risk	Country Environment	Country Record		
GLOBAL INFORMATION/COMMUNICATIONS TECHNOLOGY																					
CITPO	3581-NEP	P050671	Telecommunications Sector Reform	Actual	MS	U	3.0														
FINANCE AND PRIVATE SECTOR DEVELOPMENT																					
SASFP	3727-NEP	P071291	Financial Sector Technical Assistance		MS	S	1.0														
	3864-NEP	P084219	Financial Sector Restructuring		S	S	2.0														
	H0740																				
	H1730	P093294	Economic Reform Technical Assistance		S	S	1.0														
HUMAN SOCIAL DEVELOPMENT																					
SASHD	3808-NEP	P082646	Community School Support		S	S	1.0														
	3956-NEP	P074633	Education for All		S	S	2.0														
	H2740	P090967	Second Higher Education				1.0														
	3980-NEP	P040613	Nepal Health Sector Program		MS	MS	2.0														
	H1250																				
SUSTAINABLE DEVELOPMENT																					
SASDA	H2680	P100342	Avian Influenza Control	Potential	MS	MS	3.0														
SASDE	3766-NEP	P043311	Power Development	Actual	S	MU	3.0														
	H0390																				
	3911-NEP	P071285	Rural Water Supply & Sanitation II	Actual	MS	MU	4.0														
SASDS	H0910	P081968	Poverty Alleviation Fund		S	S	1.0														
	H2580		Poverty Alleviation Fund Additional																		
SASDT	H1710	P083923	Rural Access Improvement & Decentralization		S	MS	1.0														
13.0 TOTAL							25.0	3.0	0.0	0.0	0.0	1.0	2.0	2.0	1.0	2.0	1.0	13.0	0.0		

Table - 5
Disbursement Updates of Ongoing IDA Portfolio in Nepal
(As of June 30, 2007)

(Figures in million)

Project ID No.	Credit No.	Name of Disbursing Projects	Approval Date	Effective Date	Current Closing Date	Last Disb. Date	Grace Period End Date	Special Drawing Rights (SDR)						US Dollars (USD)													
								Adj. Credit Amount	Total Disb.	% of Disb.	Undisb. Balance	Committed	Free Balance	Adj. Credit Amount	ERA*	Fiscal Years							% of Disb. vs ERA	Undisb. Balance	Committed	Free Balance	
																FY02	FY03	FY04	FY05	FY06	FY07	Total					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	
P045052	3293-NEP	Road Maintenance & Development (C)	11/23/99	02/21/00	06/30/07	06/11/07	10/31/07	40.10	36.99	92.3	3.11	0.00	3.11	54.50	56.60	7.87	6.25	6.14	7.67	10.04	8.13	51.90	91.7	4.70	0.00	4.70	
P050671	3581-NEP	Telecommunications Sector Reform	12/11/01	05/01/02	09/01/08	01/19/07		16.00	10.03	62.7	5.97	0.00	5.97	20.63	23.88	0.50	0.01	3.37	6.79	2.84	1.34	14.85	62.2	9.03	0.00	9.03	
P071291	3727-NEP	Financial Sector Technical Assistance	12/19/02	07/01/03	12/31/08	05/02/07		12.40	7.22	58.2	5.18	0.17	5.01	16.00	18.37	-	-	4.94	3.90	1.41	0.26	10.52	57.3	7.85	0.26	7.59	
P043311	3766-NEP	Power Development	05/22/03	03/25/04	06/30/09	06/04/07		36.80	3.20	8.7	33.60	0.63	32.97	50.40	55.61	-	-	0.00	0.30	0.75	3.71	4.76	8.6	50.85	0.96	49.89	
P082646	3808-NEP	Community School Support	06/30/03	08/28/03	09/30/07	03/01/07		3.60	2.94	81.7	0.66	0.00	0.66	5.00	5.32	-	-	0.82	1.05	1.25	1.21	4.33	81.3	0.99	0.00	0.99	
P084219	3864-NEP	Financial Sector Restructuring II	03/09/04	07/15/04	09/30/09	05/04/07		47.60	38.66	81.2	8.94	0.00	8.94	68.50	71.27	-	-	0.00	45.68	9.29	2.76	57.73	81.0	13.54	0.00	13.54	
P071285	3911-NEP	Rural Water Supply and Sanitation II	06/01/04	01/17/05	08/31/09	06/21/07		17.00	7.69	45.2	9.31	0.00	9.31	25.30	25.49	-	-	0.00	1.30	3.24	6.85	11.39	44.7	14.10	0.00	14.10	
P074633	3956-NEP	Education for All	07/08/04	08/27/04	01/31/10	05/03/07		34.50	27.09	78.5	7.41	0.00	7.41	50.00	51.66	-	-	-	5.60	16.34	18.50	40.44	78.3	11.22	0.00	11.22	
P040613	3980-NEP	Nepal Health Sector Program	09/09/04	02/25/05	01/15/10			6.90	0.00	0.0	6.90	0.00	6.90	10.00	10.44	-	-	-	0.00	0.00	0.00	0.00	0.0	10.44	0.00	10.44	
Credit Sub-total								214.90	133.82	62.30	81.08	0.80	80.28	300.33	318.64	8.37	6.26	15.28	72.29	45.17	42.76	195.92	61.5	122.72	1.22	121.50	
IDA Grant No.																											
P043311	H0390	Power Development	05/22/03	03/25/04	06/30/09	06/25/07		17.88	6.54	36.6	11.34	0.62	10.72	24.49	26.86	-	-	0.00	0.59	3.18	5.92	9.69	36.1	17.17	0.94	16.23	
P084219	H0740	Financial Sector Restructuring II	03/09/04	07/15/04	09/30/09	05/01/07		4.90	0.32	6.5	4.58	0.00	4.58	7.00	7.40	-	-	0.00	0.00	0.30	0.17	0.46	6.2	6.94	0.00	6.94	
P081968	H0910	Poverty Alleviation Fund	06/01/04	12/13/04	02/01/09	06/04/07		10.10	7.62	75.5	2.48	0.00	2.48	15.00	15.07	-	-	0.75	3.88	6.70	11.32	75.1	3.75	0.00	3.75		
P040613	H1250	Nepal Health Sector Program	09/09/04	02/25/05	01/15/10	03/09/07		27.30	20.68	75.7	6.62	0.00	6.62	40.00	40.55	-	-	-	5.60	11.16	13.77	30.53	75.3	10.02	0.00	10.02	
P083923	H1710	Rural Access Improvement & Decentralization	06/21/05	08/16/05	01/05/10	01/05/07		21.20	2.49	11.7	18.71	0.00	18.71	32.00	31.94	-	-	-	2.34	1.28	3.62	11.3	28.32	0.00	28.32		
P093294	H1730	Economic Reform Technical Assistance	06/28/05	11/28/05	12/31/08	06/08/07		2.00	0.90	45.2	1.10	0.00	1.10	3.00	2.98	-	-	-	1.00	0.32	1.32	44.3	1.66	0.00	1.66		
P081968	H2580	Poverty Alleviation Fund II	11/14/06	06/04/07	02/01/09	06/22/07		16.90	1.32	7.8	15.58	0.00	15.58	25.00	25.58	-	-	-	-	2.00	2.00	7.8	23.58	0.00	23.58		
P100342	H2680	Avian Influenza Control	01/19/07	03/27/07	07/31/11	06/22/07	11/30/11	12.10	1.32	10.9	10.78	0.00	10.78	18.20	18.31	-	-	-	-	2.00	2.00	10.9	16.31	0.00	16.31		
P090967	H2740	Second Higher Education	02/22/07		01/15/14			41.60	0.00	0.0	41.60	0.00	41.60	60.00	62.96	-	-	-	-	0.00	0.00	0.0	62.96	0.00	62.96		
IDA Grant Sub-total								153.98	41.19	269.90	112.79	0.62	112.17	224.69	231.66	0.00	0.00	0.00	6.94	21.85	32.15	60.94	26.3	170.72	0.94	169.77	
Grand Total (6 IDA Credits, 3 Blended (Credit+Grant) and 6 IDA Grants = 14 Projects)								368.88	175.01	47.4	193.87	1.42	192.45	525.02	550.30	8.37	6.26	15.28	79.23	67.02	74.91	256.86	46.7	293.44	2.16	291.28	
								0.01	-	0.00				29.67	20.92	10.71	1.47	-	-					0.00	0	0.00	
								193.88	1.42	192.46				38.05	27.19	25.99	80.70	67.02	74.91						293.44	2.16	291.28
								Opening Undisbursed Bal.		111.70	99.40	176.80	270.72	323.77	254.33												
								Disbursement Ratio (%)		34.1	27.4	14.7	29.8	20.7	29.5												
Program Lending																											
3830-NEP		Poverty Reduction Support Credit (C)	11/18/03	12/12/03	11/01/04	12/19/03		51.00	51.00	100.0	0.00	0.00	0.00	70.00	74.93	-	-	74.93	-	-	-	74.93	100.0	0.00	0.00	0.00	

* Exchange Rate Adjustment

Adjusted credit/grant amount in columns 8 and 14 are figures derived after cancellation from original credit/grant amount.

+ Utilization of Resources as of June 30, 2007.

Note:

- 1) All credits/grant are agreed in SDR denomination (equivalent US Dollar figure derived as per the SDR rate at the time of agreement).
- 2) The matrix presents the disbursement status of only ongoing portfolio and closed portfolio with disbursement period open. Projects which are already closed are not included in the matrix.
- 3) Undisbursed balances indicate the figures of only ongoing projects; undisbursed balances of closed projects are not included.
- 4) Fiscal Year : July 1 to June 30.

Extension of Closing Dates

Telecommunications Sector Reform Project (Cr.3581-NEP) extended for one year until September 1, 2008 - an extension letter was issued on August 31, 2006.

Community School Support Project (Cr.3808-NEP) extended for one year until September 30, 2007 - an extension letter was issued on September 14, 2006.

Road Maintenance and Development Project (Cr.3293-NEP) extended for 6 months until June 30, 2007 - an extension letter was issued on December 6, 2006.

Financial Sector TA Project (Cr.3727-NEP) extended for 18 months until December 31, 2008 - an extension letter was issued on June 21, 2007.

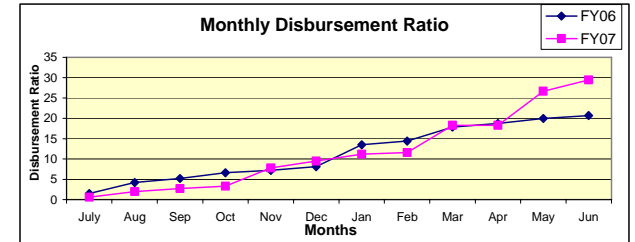


Table - 6
Disbursement Updates of Ongoing Trust Fund Projects and PPF in Nepal
(As of June 30, 2007)

Project ID No.	TF No.	Name of Disbursing Projects	Effective Date	Closing Date	Last Disb. Date	Grace Period End Date	US Dollars (USD)								
							Trust Fund Amount	FY05	FY06	FY07	Total	% of Disb.	Undisb. Balance	Committed	Free Balance
IDF Grant (2)															
P088693	53418	IDF Grant for Office of the Attorney General Inst. Streg.	04/26/04	10/25/07	06/21/07	02/25/08	204,000.00	20,000.00	12,294.42	84,308.14	116,602.56	57.2	87,397.44	-	87,397.44
P090563	54112	IDF Grant for Improving Nepal's Public Finance through Pension Reform and Capacity Building	10/19/04	10/18/07	06/04/07	02/18/08	312,000.00	20,000.00	4,483.17	127,196.43	151,679.60	48.6	160,320.40	-	160,320.40
DFID Grant (1)															
P071291	50593	DFID Grant for Financial Sector Technical Assistance	04/30/03	12/31/08	05/06/07		12,944,041.56	2,601,661.46	974,760.55	491,653.26	6,730,142.87	52.0	6,213,898.69	191,726.55	6,022,172.14
PHRD Grant (2)															
P087140	53743	PHRD Grant for the Preparation of Agricultural Commercialization and Trade Project	06/13/05	01/06/08	06/04/07	05/06/08	355,250.00	-	75,000.00	144,855.02	219,855.02	61.9	135,394.98	-	135,394.98
P082646	55146	Japanese Grant for the Implementation of the Community School Support Project	01/13/06	09/30/07	10/04/06	01/30/07	699,600.00	-	-	200,000.00	200,000.00	28.6	499,600.00	-	499,600.00
Total Disbursing Trust Fund Projects (5)							14,514,891.56	2,641,661.46	1,066,538.14	1,048,012.85	7,418,280.05	51.1	7,096,611.51	191,726.55	6,904,884.96
Project Preparation Fund (1)															
P095977	Q5710	Advance for Preparation of Proposed Road Sector Development Project	04/12/07	06/30/08			1,000,000.00	-	-	0.00	0.00	0.0	1,000,000.00	-	1,000,000.00
Total Ongoing PPF Project (1)							1,000,000.00	-	-	-	-	0.0	1,000,000.00	-	1,000,000.00

Note: 1) The matrix presents the disbursement status of only ongoing portfolio and closed portfolio with disbursement period open. Projects which are already closed are not included in the matrix.

2) DFID Grant for Financial Sector TA Project was agreed in Great Britain Pound denomination. The value of the Grant is GBP 6,860,000. The stated amount in column (7) is equivalent USD, which fluctuates according to exchange rate between GBP and USD

Cancellation of TF Amounts

Cancellation of USD 3,301.95 under IDF Trust Fund for Public Procurement Reform Project (TF51865) made in July 2006 with July 11, 2006 (Value Date) as per the Letter of Closure dated July 14, 2006.

Cancellation of USD 400.31 under IDF Trust Fund for Public Audit Reform Project (TF51913) made in July 2006 with June 19, 2006 (Value Date) as per the Letter of Closure dated July 14, 2006.

Extension of Closing Dates

PHRD Grant for the Implementation of the Community School Support Project (TF 055146) extended for one year until September 30, 2007 - an extension letter was issued on October 6, 2006.

IDF Grant for Office of the Attorney General Institutional Strengthening Project (TF 053418) extended for six months until October 25, 2007 - an extension letter was issued on April 20, 2007.

PHRD Grant for the Preparation of Agricultural commercialization and Trade Project (TF53743) extended for 6 months until January 6, 2008 - an extension letter was issued on June 13, 2007.

DFID Grant for Financial Sector TA Project (TF 050593) extended for 18 months until December 31, 2008 - an extension letter was issued on June 21, 2007.

Table - 7
NEPAL : MTRs AND RESTRUCTURING (FY2002-FY2007)

Credit No.	Project Name	Fiscal Years					
		FY02	FY03	FY04	FY05	FY06	FY07
Mid-term Reviews (8)							
3185-NEP	Basic & Primary Education II	*					
3293-NEP	Road Maintenance and Development		*				
3581-NEP	Telecommunications Sector Reform					*	
3808-NEP	Community School Support Project				*		
3727-NEP	Financial Sector Technical Assistance						*
3864-NEP & H0740	Financial Sector Restructuring						*
3911-NEP	Rural Water Supply and Sanitation						*
3956-NEP	Education for All						*
TOTAL MTR (8)		1	1	0	1	1	4
Restructuring (3)							
3185-NEP	Basic & Primary Education II	*					
3293-NEP	Road Maintenance and Development		*	*			
TOTAL RESTRUCTURING (3)		1	1	1	0	0	0

ATTACHMENT 2
ASIAN DEVELOPMENT BANK
BACKGROUND PAPER



2007 Nepal

Background Paper
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Asian Development Bank

ABBREVIATIONS

ADF	-	Asian Development Fund
APA	-	Audited Project Accounts
AFS	-	Agency Financial Statement
CFG	-	Corporate and Financial Governance
CGISP	-	Community Groundwater Irrigation Sector Project
CLDP	-	Community Livestock Development Project
CMIASP	-	Community Managed Irrigated Agriculture Sector Project
CBWSSSP	-	Community Based Water Supply Sanitation Sector Project
CDP	-	Crop Diversification Project
DOR	-	Department of Roads
DRILP	-	Decentralized Rural Infrastructure and Livelihood Project
EFA	-	Education for All
GEEW	-	Gender Equality and Empowerment of Women Project
GRP	-	Governance Reform Program
IP/IO	-	Implementation Progress /Impact Outcome
KVWSSD	-	Kathmandu Valley Water Supply Sector Development
KVWSSDP	-	Kathmandu Valley Water Supply Sector Development Project
LBFAR	-	Local Body Financial Administration Regulation
IPSAS	-	International Public Sector Accounting Standards
MOF	-	Ministry of Finance
MWSP	-	Melamchi Water Supply Project
NEA	-	Nepal Electricity Authority
NEPGRID	-	Nepal Power Grid Corporation
NERC	-	Nepal Electricity Regulatory Commission
NRT	-	Net Resource Transfer
PCR	-	Project Completion Report
PMU	-	Project Management Unit
PPAR	-	Project Performance Audit Report
PPR	-	Project Performance Report
PSMP	-	Public Sector Management
PWD	-	Public Work Directives
RE	-	Rural Electrification
RETDP	-	Rural Electrification, Transmission and Distribution Project
RNDP	-	Road Network Development Project
RMP	-	Rural Microfinance Project
SESP	-	Secondary Education Support Project
SFE	-	Skill for Employment Project
SRN	-	Strategic Road Network
SRP	-	Sector Results Profile
SSR	-	School Sector Reform
STWSSP	-	Small Town Water Supply and Sanitation Project
TAD	-	Technical Audit Division
TEP	-	Teacher Education Project
TEVT	-	Technical Education and Vocational Training
UEIP	-	Urban Environment Improvement Project
WUA	-	Water Users Association

NOTES

- (i) The fiscal year (FY) of the Government ends on 15 July.
(ii) In this report, "\$" refers to US dollars.

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EXECUTIVE SUMMARY

1. The main focus of the 2007 Nepal Portfolio Performance Review (NPPR) is to examine the 2006 portfolio performance in comparison with 2005. Further, in line with ADB's emphasis on achieving results in its operations, the NPPR will be results-focused—supporting ongoing implementation of the result-based country partnership strategy (CPS) for Nepal that was approved in September 2004. The NPPR will be utilizing the sector results profiles (SRPs) prepared to assess progress towards outputs and outcomes along with constraints and issues in each sector. The updated SRP will be consolidated into a country results profile (CRP).

2. The current portfolio of 27 projects consists of 23 loans with a net loan amount of \$686.8 million and four grants amounting to \$83.9 million. Major sectors are agriculture and rural development, energy, education, finance and governance, transport and communications, and water supply and urban development. There was substantial improvement in the financial indicators in 2006; (i) contract awards and disbursements improved to \$101.6 million and \$108 million, respectively, from \$69.6 million and \$43.7 million in 2005; (ii) the contract award ratio improved to 22% in 2006 compared to 15.2% in 2005, and the disbursement ratio improved to 20% from 7.7% in 2005. Significant improvement was also witnessed in the net resource transfer, which increased from \$2.9 million in 2005 to \$62 million in 2006, and in the reduction of number of the risk projects from 30% in 2005 to 17% in 2006.

3. The Portfolio Management Strategy Paper (PMSP) prepared in January 2006 remains the internal guiding document to address portfolio concerns. With ADB's operation in Nepal being guided by the CPS results framework, there is a need to preserve the achievements of 2006. This also becomes essential in view of the performance-based allocation system wherein portfolio performance is one of the key triggers that will collectively determine the availability of the ADB concessional resources. Thus, a detailed review on the likely achievement in 2007 along with project specific risks and actions proposed will be assessed during the review.

4. Key implementation issues include delays in project start up, lengthy internal government approval processes, frequent transfer of project staff ensuing from changes in political leadership, inadequate staffing, untimely release of government counterpart funds, and increasing average age of the portfolio due to loan extensions. Maintaining higher contract award and disbursement ratios is critical to sustaining a satisfactory level of net resource transfers. Government efforts need to be significantly strengthened to operationalize the mechanisms of Managing for Development Results (MfDR), focusing more on longer development outcomes and impacts rather than on immediate inputs and outputs, particularly at the sectoral and local levels. On the project implementation environment, the ceasefire in April 2006 significantly facilitated development activities enabling monitoring and supervision of project sites which was not possible during the insurgency, particularly in remote districts. While the conflict per se is not currently affecting project activities, the Terai unrest has had an enormous impact on projects being implemented in the Terai districts.

5. As agreed in the 2006 action plan, the Government has prepared a road map to harmonize the overall portfolio review with the budget process. Of the eight agreed action plans, three have been complied and five are ongoing. Actions that are pending or partly accomplished are harmonizing government's overall portfolio review with budget process, review of the recommendation that resulted from discussion on procurement management, financial management and result-based reporting, and preparation of sectoral business plan. The action plan for 2007 review incorporating the pending actions from the 2006 action plan will be prepared during the coming review.

I. INTRODUCTION

1. The NPPR will be conducted from 27–31 August 2007. The mission will be led by the Government through the Ministry of Finance (MOF) in conjunction with the Asian Development Bank (ADB), the Department for International Development (United Kingdom), and the World Bank (WB)¹. As committed in the 2006 action plan, the Government intends to extend the 2007 portfolio review to include bilateral portfolios. The Nepal Resident Mission is responsible for the mission on behalf of ADB. The mission's objectives are to; (i) assess the portfolio performance in terms of financial indicators; (ii) assess progress towards CPS outcomes through the SRP; (iii) discuss government procedures and policies to strengthen portfolio performance and contribute to enhanced development impact; (iv) assess progress in implementing the 2006 NPPR action plan; and (v) prepare an action plan to reflect the mission's findings. The findings of the NPPR will be an input to the midterm review of the Nepal CPS scheduled for 2008.

2. As agreed in the 2006 review and in the spirit of the Paris Declaration on Aid Effectiveness, the review this year continues to align with the governments' fiscal year. Thus, the mission is undertaking assessment of the portfolio performance to cover the period from January 2006 to June 2007.² In view of ADB's commitment to improve effectiveness of its operations through better MfDR, the NPPR this year continues to adopt a result-based approach. In this context, appraisal of the sector outputs and outcomes along with critical issues affecting the sector will be evaluated through the SRPs initiated during the 2006.

3. The PMSP, prepared in January 2006 remains the internal guiding document to address portfolio concerns. Although a lead time of 2–3 years from 2005 was deemed essential to reach the ADB wide average, performance in 2006 itself transcended the targets for all key financial indicators; contract awards, disbursements, and net resource transfers. Mindful of the important role played by two program loans, the challenge now is to preserve this level of achievement. This further becomes essential in light of the evolving political scenario enabling Nepal to deliver on its development strategies and contribute toward sustainable development. A detailed review on the likely achievement at the end of 2007 along with project specific risks and actions proposed will thus be assayed during the NPPR. Commitment from the Government to address the risk will be sought for achievement of the targets.

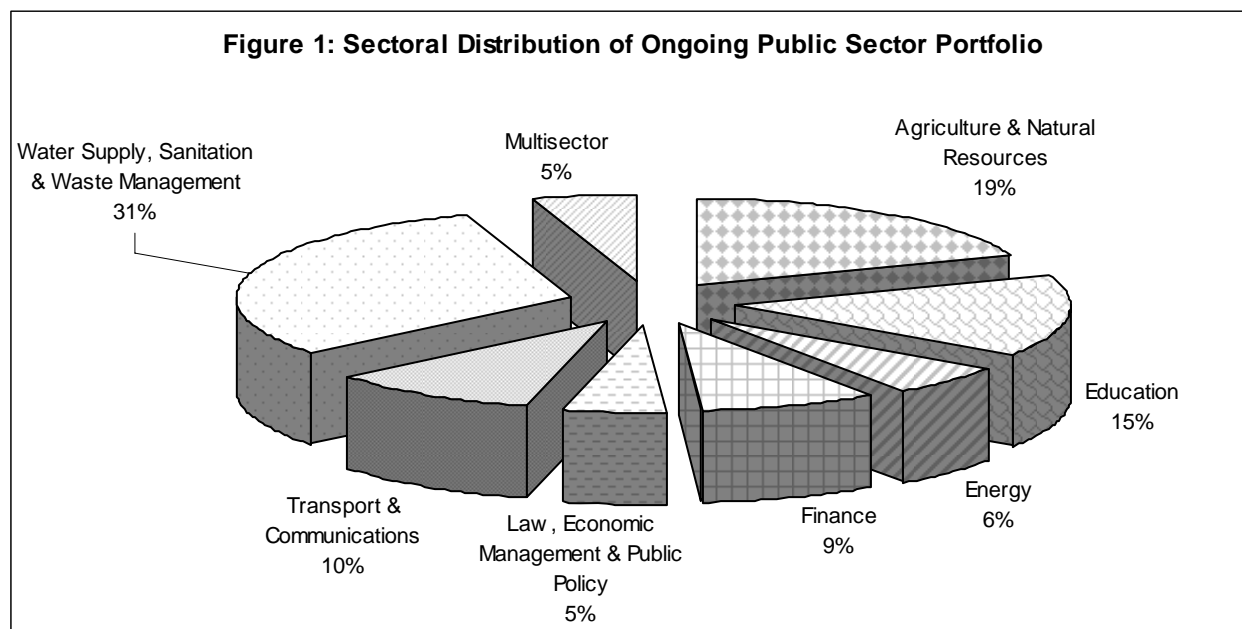
4. The Government continues to take ownership of the review process and will prepare a joint background paper reviewing the overall portfolio performance of the participating donors. This background document will be an attachment to the government's paper. As committed in the action plan, the Government has prepared a road map to harmonize the overall portfolio review with the budget process. The road map calls for the review process to gradually become an integral part of the Government's regular planning, programming, budgeting, and donor consultation process. In view of this, the Government intends to assess implementation of the immediate fiscal year budget performance towards outputs and results. Critical actions such as procurement management, preparation of business plans, and reviewing the recommendations of the thematic discussions (results-based reporting, financial management, and procurement management) have only been partly accomplished. Further, it is concerning that implementation issues highlighted in this background paper are issues that have been raised previously but continue to exist.

¹ The first joint Government/ADB/Japan Bank for International Cooperation/WB NPPR was carried out in August 2001. This is the first joint review with DFID.

² While detailed review will be done for the 2006 operation, performance in 2007 will be assessed through key indicators only. Review of grant portfolio (four projects) is being done as of June 2007.

II. 2006 PORTFOLIO PERFORMANCE OVERVIEW

5. ADB began lending to Nepal in 1969. ADB's cumulative lending to Nepal by the end of 2006, amounted to \$2.25 billion (111 public sector loans) from ADB's Asian Development Fund (ADF), of which 88 are now closed.³ On the grant portfolio, four grant projects amounting to \$83.9 million were approved in 2006.⁴ About \$1.49 billion (66%) of the approved loan amount has been disbursed. As of December 2006, there were 23 ongoing public sector loans (Annex 2) with a total net loan amount of about \$686.8 million. Sectoral distribution of the portfolio as of December 2006 is shown in Figure 1.



A. Loan Portfolio Performance

6. Selected indicators of loan performance for the last three years are presented in Table 1 (details in Annex 1A). Comparing the 2005 and 2006 indicators—14 show improvements (compared to 10 in 2005), 2 are unchanged (compared to 5 in 2005), and the other 10 show deterioration in performance (compared to 10 in 2005).

Table 1: Selected Loan Portfolio Management Indicators

INDICATORS	Nepal 2004	Nepal 2005	Nepal 2006	ADB wide 2006	REMARKS (Comparison of 2005 and 2006)
A. Start-up Compliance (months)					
1. Average Time: Approval to Signing	3.7	4.1	4.6	3.9	Deteriorated
2. Average Time: Signing to Effectiveness	5.3	6.2	6.5	4.5	Deteriorated
3. Average Time: Approval to Effectiveness	9.0	10.3	11.1	8.4	Deteriorated
4. Average Delay: PMU Establishment	-2.6	-2.0	-0.3	NA	Deteriorated
5. Consultant Recruitment	3.5	3.5	4.1	NA	Deteriorated

³ One loan—Jute Development was financed from the Ordinary Capital Resources.

⁴ Road Connectivity Sector Project, \$55 million; Rural Finance Sector Development Cluster Program, \$8.7 million; Commercial Agriculture Development, \$18 million; Education Sector Cluster Program, \$2.0 million

INDICATORS	Nepal 2004	Nepal 2005	Nepal 2006	ADB wide 2006	REMARKS (Comparison of 2005 and 2006)
B. Financial Performance					
1. Contract Award Achievement (%)	52	65	154.9	NA	Improved
-Contract Awards Ratio (%)	7.0	15.2	22.1	29.3	Improved
2. Disbursement Achievement (%)	57	60	180	NA	Improved
-Disbursement Ratio (%)	4.4	7.7	20	23.4	Improved
3. Net Resource Transfer (\$ million)	-17.3	2.9	62.5	1,967	Improved
4. IA Utilization Rate (%)	20.3	44.9	36.5	20.99	Deteriorated
-IA turnover Rate	1.4	1.8	1.5	1.6	Deteriorated
5. Submission of Audited Accounts					
-Not Complied (%)	9.1	7	0	22.7	Improved
-Partly Complied (%)	0	0	7.0	6.4	Deteriorated
C. Portfolio Performance					
1. Projects at Risk (<u>% of loans</u>)	26	30.4	17.4	10	Improved
(a) Problem Projects- IPand DO (PS/U)	22	30.4	17.4	7.2	Improved
(b) Potential Problem Projects	4	0	0	1.1	Unchanged
2. Risk Ratio (<u>% of loans</u>)					
(a) Project Implementation Delays	39	43	30	25.6	Improved
(b) Significant Disbursement Delays	39	44	34.8	30.8	Improved
(c) Environment or Social Problems	5	5	0	3.1	Improved
(d) Poor Compliance with APA and AFS	5	5	0	5.8	Improved
(e) Shortage of Counterpart Funds	9	4	9	3.7	Deteriorated
(f) Unsettled Cost overrun	0	0	0	1.5	Unchanged
D. Portfolio Supervision					
1. Proactivity Index (%)	75	33	71.4	61.4	Improved
2. Staff Intensity (staff-days/Project)	31	21	32	25.6	Improved

na: not available; IA= Imprest Account

a. Start-up Compliance

7. There was an increase of 0.8 months in the start-up compliance; the average time from approval to effectiveness increased from 10.3 months in 2005 to 11.1 months in 2006. However this was mainly due to the influence of loans approved prior to 2005 that suffered delayed effectiveness due to the cautious approach taken by ADB in view of the political scenario.⁵ Three loans that were approved in 2004—*Community Managed Irrigated Agriculture Sector (CMIASP)*, *Gender Equality and Empowerment of Women (GEEW)*, and *Skill for Employment (SFE)* were declared effective in 2006. These took an average of 17.4 months for effectiveness.

8. **Recruitment of Consultants:** The delay in the recruitment of consultants from 3.5 months in 2005 to 4.1 months in 2006 is an issue as timely recruitment of consultants is crucial to avoid start up delays of projects.⁶ Thus, the readiness filter, calls for the expression of interest for consultants' recruitment to be agreed and shortlist ready by the appraisal stage.

⁵ The Gender Equality and Empowerment of Women Project suffered delayed effectiveness due to delay in fulfillment of a loan effectiveness condition.

⁶ For recruitment of consultants and establishment of PMU, the due date is taken from the project performance reports which are based on the project documents. Rating also depends on the criteria set in covenants.

Further the request for proposal should be issued to the shortlisted consultants by the loan negotiation stage. Although advance actions on recruitment are provisioned under ADB loans, projects processed during 2006 did not initiate such action.

9. **Establishment of Project Management Units (PMU):** Despite all projects receiving highly satisfactory or satisfactory rating for establishment of PMUs, there has been deterioration with regard to the time taken for establishment. As shown in Table 1, PMUs in 2004 were established 2.6 months ahead of the due date while in 2005 it was established only two months ahead. The performance in 2006 dropped down to nine days before the due date. In order to not run the risk of delayed compliance, processing missions, through the readiness filter should ensure that PMUs with appointment of Project Manager are established by loan negotiation.

b. Financial Performance

10. **Contract Award:** Contract award performance in 2006 showed good improvement with a ratio of 22% (compared to 15.2% in 2005) although this was short of the ADB wide ratio of 29%. The contract award ratio in 2006 is the highest since 1998. At year end the achievement on contract award was \$101.6 million (155% of the target). The overall target in 2006 was 40% lower than the target of 2005 (\$106.3 in 2005 and \$65.6 million in 2006). The sharp increase in the contract award performance resulted from the *Rural Finance Sector Development Cluster Program (RFSDCP)* and the second tranche release of *Governance Reform Program (GRP)*, totaling \$50.8 million. These were not included in the initial projections.

11. Excluding GRP and RFSDCP, the achievement is only 77% of the annual target with a ratio of 11%. Cumulative contract awards for the 23 ongoing loans as of December 2006 amounted to \$281.6 million (39.3% of the net loan amount). Details of achievements by sector over the last 3 years are presented in Table 2. It can be seen that the performance of four sectors—Energy, Transport and Communication, Water Supply, Sanitation and Waste Management, and Multisector deteriorated. Projects that had an impact on these sectors are the *Kathmandu Valley Water Services Sector Development (KVVSSD)*, *Melamchi Water Supply (MWSP)*, *Rural Electrification Distribution and Transmission (REDTP)*, *Road Network Development (RNDP)*, *Subregional Transport Facilitation (STF)*, and the *Urban Environment Improvement (UEIP)*.

Table 2: Contract Awards/Commitment Achievement by Sector

(As of 31 December 2006)

Sector	2004			2005			2006		
	Proj.	Act.	%	Proj.	Act.	%	Proj.	Act.	%
Agriculture and Natural Resources	7.6	8.3	109.5	11.8	8.2	69.1	16.2	19.5	121
Education	4.2	3.6	85.6	4.2	4.6	108.9	7.4	13.7	185
Energy	15.7	18.9	120.5	11.8	10.9	91.6	6.1	4.0	65.5
Finance	0.0	0.0	0.0	0.0	0.0	0.0	2.0	40.2	2010
Law, Economic Management and Public Policy	9.0	0.0	0.0	24.0	0.0	0.0	0	10.6	-
Transport and Communications	17.6	1.0	5.4	29.6	29.6	99.9	7.3	1.5	21
Water Supply, Sanitation and Waste Management	18.2	6.3	34.5	21.9	14.3	65.3	23.3	9.9	42.5
Multisector	1.5	0.1	8.9	3.0	2.2	72.5	3.6	2.2	61
Total	73.8	38.2	51.7	106.3	69.6	65.5	65.6	101.6	154.9

12. **Disbursement:** Likewise, there was equally good performance on disbursements with the ratio increasing by more than 1.5 times (20% in 2006 from 7.7% in 2005). The disbursement performance in 2006 is the highest since 2001. Similar to the contract awards, the overall target on disbursement was 17% lower compared to its target in 2005. Cumulative disbursements for the ongoing loan portfolio as of end 2006 amounted to \$229.9 million (32% of the net loan amount).

13. As in the case of contract awards, the program tranche releases of GRP and RFSDCP played a decisive role in improving disbursement performance. Excluding these, the achievement is 95% of the annual target with a ratio of 10.5%. Performance against projections for the period 2004–06 by sector is presented in Table 3. Excluding the Energy, and Water Supply, Sanitation and Waste Management, there has been improvement in all the sectors. Eight Projects; CMIASP, *Crop Diversification (CDP)*, *Corporate and Financial Governance (CFG)*, *Community Based Water Supply Sanitation Sector (CBWSSSP)*, *Decentralized Rural Infrastructure Livelihood (DRILP)*, GEEW, *Kathmandu Valley Water Services Sector Development Project (KVVSSDP)* and KVVSSD have been flagged on disbursement for having disbursed less than 70% of their yearly targets.

Table 3: Disbursement Achievement by Sector

(As of 31 December 2006)

Sector	2004			2005			2006		
	Proj.	Act.	%	Proj.	Act.	%	Proj.	Act.	%
Agriculture and Natural Resources	8.6	8.9	103.2	10.0	9.3	93.5	14.8	15.2	102
Education	2.1	2.0	93.1	3.9	5.1	131.0	6.8	10.1	148.
Energy	3.8	2.3	61.5	8.5	11.0	129.3	11.9	13.0	109
Finance	0.6	0.5	78.5	1.0	0.2	16.8	2.0	40.6	2030
Law, Economic Management and Public Policy	9.0	0.0	0.0	24.0	0.0	0.0	0	10.6	-
Transport and Communications	3.6	3.4	93.1	12.3	7.5	60.9	10.3	10	97
Water Supply, Sanitation and Waste Management	9.9	4.6	46.1	10.7	9.8	91.9	12.7	7.0	55
Multisector	1.0	0.1	14.3	2.0	0.7	35.4	1.5	1.47	95
Total	38.6	22.0	57.0	72.4	43.7	60.3	60.0	108.0	180

14. **Net Resource Transfer (NRT):** Another pertinent financial indicator that improved was the NRT. The transfer of resources from ADB to Nepal increased to \$62 million from \$2.9 which is comparable to the performance of 2000. The transfer of resources had turned positive only in 2005 after being negative for three consecutive years.

15. **Imprest Account Turnover Ratio:** There is a need to focus greater attention on imprest account management as the indicator has deteriorated from 1.8 in 2005 to 1.5 in 2006. This does not compare well with the required ratio of 2.0 as the amount in the imprest account is determined by the six month disbursement projection and is slightly below the ADB wide ratio of 1.6 Except for CDP, *Rural Microfinance (RMP)*, RNDP, *Small Town Water Supply and Sanitation (STWSSP)*, and *Teacher Education (TEP)*, all remaining projects had a turnover ratio of less than 2.0.

16. **Submission of Audited Project Accounts/Financial Statements (APA/AFS):** Overall delay in submission of the accounts has improved with a decrease to 0.6 months in 2006 from 1.6 months in 2005. As of December 2006—nine of the 13 projects with due deadlines

submitted on time, three complied late (CFG, KVVSSDP, and *Secondary Education Support (SESP)*), and one remained partly complied. The partly complied status resulted from the UEIP which could not submit the APA for one of its implementing agency, Panauti Municipality as the Municipality building had been blasted by the insurgents.⁷

c. Portfolio Performance

17. **Project Ratings:** As of December 2006, the Project Performance Reports (PPRs) rated the ongoing loans (Annex 6). Overall there has been an improvement in the project ratings. All projects (CMIASP, GEEW, and SFE) that had received "unsatisfactory" rating in IP were upgraded while one (CFG) that had been rated as "unsatisfactory" in IO was upgraded to the "satisfactory" rating.

A. Implementation Progress:

- (i) **2006:** 9% were rated highly satisfactory, 78% satisfactory, and 13% partly satisfactory
- (ii) **2005:** 4% were rated highly satisfactory, 70% satisfactory, 13% partly satisfactory, and the remaining 13% unsatisfactory;

B. Impact/Outcome Achievement:

- (i) **2006:** 96% satisfactory, and 4% partly satisfactory
- (ii) **2005:** 91% were rated satisfactory, and the remaining 9% partly satisfactory.

18. **Projects at Risk:** The number of "at risk" projects was another indicator that showed improvement. As of year end 17% (4 projects) were classified as risk projects compared to 30% (7 projects) in 2005. This decrease was possible owing to the upgrading of the CFG, closure of a problem project—*Public Sector Management Program (PSMP)* and effectiveness of the pending loans. Currently, the GRP, KVVSSD, and MWSP are at risk as they have received partly satisfactory rating in IP. The REDTP has been classified as at risk due to the partly satisfactory rating in IO achievement.

19. **Provision of Counterpart Funds:** Provision of counterpart funds during 2006 has been highly satisfactory for all projects except for the GRP and MWSP where rating has respectively been "unsatisfactory" and "partly satisfactory". In 2005, only the GRP had been flagged as having insufficient counterpart funding. Despite this, provision of counterpart funding is generally not an issue for ADB funded projects.

20. **Compliance with Key Loan Covenants:** The effectiveness of ADB assistance in Nepal has been affected by non-compliance with loan covenants that are critical to effective project implementation. Annex 8 shows key covenants of the active projects by sectors that are due but have not been fully complied as of June 2007.⁸ Most of the covenants are related to projects that currently are or have been in the risk category—CFG, GRP, MWSP, and REDTP. On other projects, the provision of credit for the *Community Groundwater Irrigation Sector (CGISP)* is only partly complied while establishment of partnership with microfinance by Rural Microfinance Development Centre under the *Community Livestock Development (CLDP)* is also partly complied. Similarly, finalization of the Strategic Action Plan for Rural Infrastructure which is a sector covenant under DRILP has been pending. As indicated in Para 57, despite following up

⁷ The Municipality submitted the audited accounts on 13 April 2007.

⁸ Covenants with "ongoing" status have not been mentioned.

for timely compliance, submission of APA/AFS is a covenant that needs further improvement. Special attention must be given to compliance of covenants during implementation and both ADB and the Government need to carefully consider the significance, milestones, and implementability of covenants at the time of loan negotiations.

21. **Project Supervision:** In terms of loan supervision, the proactivity index⁹ has improved substantially increasing from 33.3% in 2005 to 71.4% in 2006 and is higher than the ADB average of 61.4%. The increase in the proactivity index was due to the effectiveness of three pending loans, upgrading of CFG, and closing of PSMP (Para 18). Meanwhile there has also been improvement in the staff supervision intensity increasing from 21 staff-days/project in 2005 to 31.9 in 2006. This is above the ADB wide average of 25.6. In 2006, 46 review missions were undertaken compared to 29 missions in 2005.¹⁰

d. Project changes

22. **Savings and Cancellations:** The Spring Cleaning Missions undertaken during 2006 identified savings of \$44 million from the ongoing portfolio which was reallocated to 2007 Nepal programming. From the active projects, savings were identified from CGISP, CBWSSSP, CFG, RMP, RNDP, STWSSP, and TEP. From the closed loans, \$15 million was contributed by the PSMP and \$0.5 from RIDP which was the undisbursed balance at loan closing.

23. **Loan Extensions:** ADB approved four loan extensions during 2006 by an average of 12.8 months for CGISP, GRP, RNDP, and STWSSP. As of end December 2006, 35% of the Portfolio (8 projects) incurred extensions compared to 26% in 2005 (6 projects). Average months of delay has particularly increased in the Agriculture and Natural Resources sector from 18 months in 2005 to 24 months in 2006 and in the Water Supply, Sanitation and Waste Management sector from no delay in 2005 to 19.5 months in 2006 (Annex 9).

B. Technical Assistance (TA) Portfolio Performance

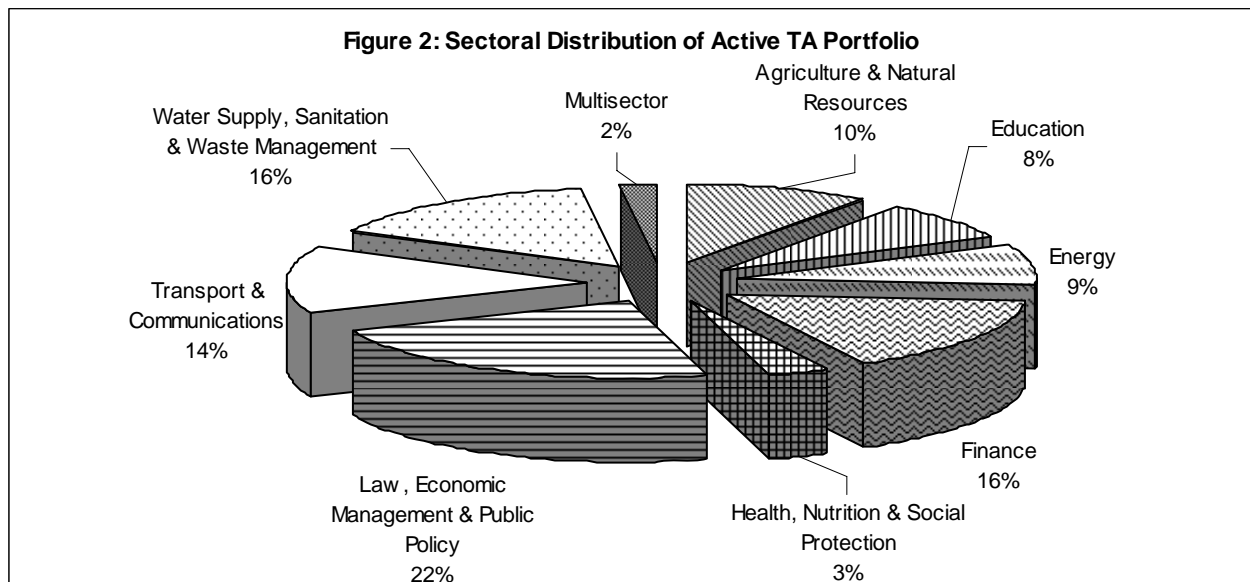
24. As of December 2006, there were 38 TAs amounting to \$31.7 million (Annex 3).¹¹ Of these, 19 were TAs that were physically complete but financially open. This compares with 25 TAs in 2005 where there were only five financially open but physically completed TAs. Performance indicators for the active TA portfolio are presented in Annex 1B. There has been an improvement in the start up time; the average time from approval to signing has decreased from 3.8 months in 2005 to 3.1 months in 2006 (compared to ADB wide average of 3.3 months). Similarly, the average time from signing to fielding of consultants has improved—decreasing to 4.0 months in 2006 compared to 4.3 months in 2005. However, the staff time given to TA supervision has further decreased in 2006 to 8.4 staff-days/project from 8.8 in 2005 and 11.4 in 2004. This is also lower than the ADB wide average of 9.7. Meanwhile the average time for submission of final reports has improved in 2006 with a decrease to 2.1 months compared to 3.1 in 2005.¹² Financial performance of the TA portfolio in 2006 remains similar to 2005—around 70% of the net TA amount was committed while 50% was disbursed (Annex 7). Sectoral distribution of the TA portfolio as of December 2006 is presented in Figure 2.

⁹ Proactivity index is the % of problem projects changed through upgrading, restructuring, closure, or cancellation during the last 12 month.

¹⁰ Includes only project review missions.

¹¹ Including three TAs from the Japan Fund for Poverty Reduction.

¹² Average time, from projected date of submission to actual date is based on the TA performance report which are based on consultants contract.



III. 2007 PORTFOLIO PERFORMANCE OVERVIEW

A. Performance of Key Loan Indicators

25. **Contract Award:** Compared to 2006, the ongoing loans as of June 2007 remained unchanged with 23 loans for a net loan amount of \$679 million. The 2007 PMSP aims to achieve a contract award ratio of more than 20%. The procurement target for the year is \$100.4 million. This is 53% higher than the target of 2006 but equal to the level of achievement in 2006. Contract awards as of June 2007 amounted to \$38.4 million, an achievement of 38% against the annual target resulting in a ratio of 11%. Against the half yearly target of \$62.57 million this represents an achievement of 61% (Annex 10). The current achievement of 38% against the annual target is similar to the achievement as of June 2006 wherein 33% of the annual target had been achieved.

26. **Disbursement:** Likewise on disbursements, the target for the year is to maintain the ratio of 20%. The disbursement target is \$88.61 million—47% higher than the target of 2006 but 18.5% lower than the achievement in 2006. Disbursements as of 30 June amounted to \$39 million, an achievement of 44% against the annual target with a ratio of 8%. Against the half yearly target, the achievement is 89% (Annex 10). Current performance of disbursements is also comparable to the performance as of June 2006 when the achievement was 42% of the annual target.

27. Considering the challenge to maintain the level of achievement of the previous year both contract awards and disbursements were scrutinized along with the potential risk factors that could hinder achievement. Projects that have the greatest influence on contract award performance are the RFSDCP, KVVSSDP/MWSP, STF, and UEIP. The STF, which holds 12% of the yearly target, is suffering delays due to slow progress in land compensation. A mission undertaken in August visited the project sites and assessed progress on land compensation. The Department of Roads (DOR) has assured the mission, that land compensation for all

categories of losses will be completed by 30 September¹³. However, this is subject to availability of additional funds of 491 million rupees apart from 70 million rupees that has been allocated under the 2007/2008 budget. For the RFSDCP, the \$16 million tranche release is subject to the full transfer of the \$40 million to Agriculture Development Bank Limited as well as compliance of the second tranche release conditions.¹⁴ Out of the 19 second tranche conditions, seven have been complied with, and 12 yet to be complied. On the UEIP, the transfer of Nepal Water Supply Corporation's (NWSC) properties is a precondition for contract award. Delays in amendment of the Water Supply Management Board 2006 Act risks award of water supply contracts worth approximately \$5 million.¹⁵ Finally, the award of the management contract and release of the second tranche under the KVVSSDP/MWSP has not progressed due to the ongoing restructuring process. Further details on the above and other slow moving projects are in Annex 11.

28. A risk factor impacting operation across all sectors, in recent months, is the increasingly intractable situation in the Terai. The agitation has mostly affected the movement and posting of project staffs, which has led to inadequate supervision and monitoring of projects. Constant strikes and threats to life have delayed construction works of road and agriculture projects. Furthermore, frequent strikes (*bandhs*) called by various political parties and groups is adversely affecting progress of most projects and discouraging or preventing site visits by both project staff and review missions (Para 34–36).

29. **Net Resource Transfer:** NRT as of 30 June is \$14 million with a repayment of \$25. Current estimates show that 100% achievement of 2007 disbursement target results in net resources of \$38 million. Thus to maintain the achievement of the previous year, the achievements in 2007 must exceed the target by a minimum of \$22 million. This seems possible only through program tranche releases under the loans being processed this year.

30. **Project Rating:** Compared to the 2006 ratings, the performance as of 30 June has deteriorated as the MWSP and KVVSSD were downgraded to partly satisfactory status on IO while the RFSDCP was downgraded from highly satisfactory to satisfactory status for IP. The STF, RFSDCP, and CMIASP have been classified as “laggard” projects for substantially deviating from the targets set.¹⁶ Further details are in (Annex 10).

- (i) IP: 4% were rated highly satisfactory, 83% satisfactory, and 13% partly satisfactory;
- (ii) DO: 87% were rated satisfactory, and the remaining 13% partly satisfactory.

31. **Projects at Risk:** As of 30 June there has been no change in the number of at risk projects, with 17.4% of the portfolio classified as “at risk”. However one problem project—GRP is physically complete after cancellation of its third tranche and financial closing is ongoing.

32. **Submission of APA/AFS:** All projects have submitted their APA/AFS for FY2005/2006. Of the 18 projects that were due for submission, 14 complied on time while there were delayed submissions for four projects— CFG, CBWSSSP, REDTP, and SESP.¹⁷

¹³ Land parcels; houses/structures; squatters/kiosks; and allowances (relocation etc.)

¹⁴ \$40 million was the first tranche release from ADB under the Program. As of 31 July, \$16 million has been transferred to ADBL.

¹⁵ After enactment of the amendment, Government has to transfer NWSC property in Hetauda and Bharatpur to their respective water management boards.

¹⁶ Defined as projects substantially deviating from plan, budget, or by other comparison.

¹⁷ For REDTP, there was delayed submission of the audited financial statements.

B. Grant Portfolio Performance

33. ADB's grant portfolio in Nepal comprises four grant projects of which two, RFSDCP and *Education Sector Cluster Program I*, have loan components as well (Annex 4). Contract award and disbursement targets for the year are \$7.04 million and \$2.48 million, respectively. Contract awards as of 30 June amounted to \$5.97 million, an achievement of 85% against an annual target of \$7 million. Against the half yearly target of \$5.10 million, this represents an achievement of 117%. Disbursements as of 30 June amounted to \$1.03 million, an achievement of 41% against an annual target of \$2.48 million and 201% against the half yearly target of \$0.51 million. Most grant projects approved during the year were declared effective within the standard 90-day limit for loan effectiveness except for the *Commercial Agriculture Development* (CADP). The grant, approved on 16 November 2006, was due for effectiveness on or before 24 May but was declared effective only on 6 August. The delay was caused owing to non compliance of effectiveness condition related to staffing.

IV. KEY PORTFOLIO PERFORMANCE ISSUES

A. Project Implementation Environment

34. The historic ceasefire in April 2006, the code of conduct and the peace talks significantly facilitated development activities in the second half of 2006. This enabled monitoring and supervision of project sites which was not possible during the insurgency, particularly in remote districts. While the conflict per se is not currently affecting project activities, the Terai unrest has had an enormous impact on projects being implemented in the Terai districts.¹⁸ Of the 25 projects currently being implemented, 18 are implemented in at least some of the Terai districts while projects activities of seven projects—CGISP, CLDP, CMIASP, CADP, GEEWP, RNDP, and, REDTP are concentrated in the 12 Terai districts of the Eastern and Central region.

35. The RNDP's largest component of pavement strengthening along the East West Highway is suffering implementation delays as construction works were in abeyance owing to the uncertain security situation. Another ADB assisted project affected by the unrest is the TEP where the implementation of the training programs has been set back. A paper presented by the implementing agency to ADB mission undertaken in June highlighted the unwillingness of potential teacher trainees to participate in the education training centre located in Terai, low morale of trainers to effectively conduct training, and unwillingness of internal monitors to visit the training spots. Likewise, the GEEW and its associated TA too are facing problems in establishment of district office, filling up of vacant positions and social mobilization in the Terai districts.

36. The ADB-assisted REDTP is another severely affected project. Owing to the situation, supervision activities and verification of the works from the division offices has not been possible. Both the CGISP and the CDP also witnessed delays due to the logistic problem ensuing from the situation. On the CGISP, the targeted construction of farm to market road could not be completed before the loan closing date of July 2007 while on the credit delivery component; the Participatory Financial Intermediaries faced problems in collection of repayments from the project beneficiaries. Likewise the CDP also witnessed delays in completion of agriculture market infrastructure due to major logistic problems for construction work.

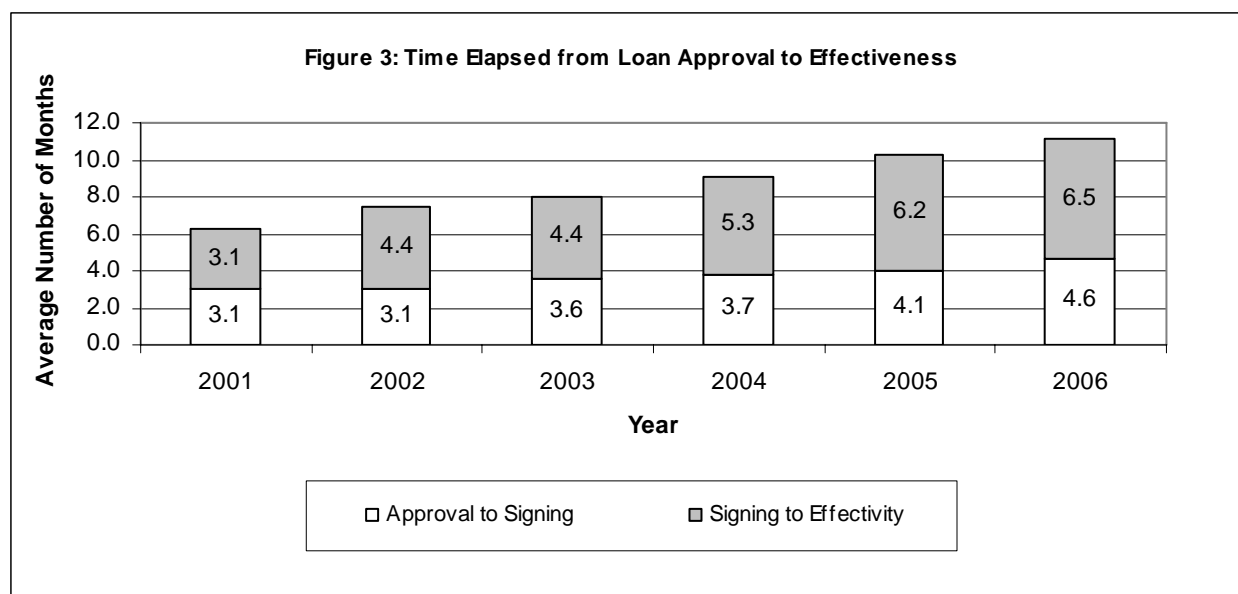
¹⁸ Also indicated as a constraint in the sector assessment.

B. Average Age of the Portfolio

37. The average age of the portfolio shows an increase over the years and is higher than the ADB average of 3.8 years.¹⁹ In 2006, the average age reached 4.2 years compared to 3.8 years in 2005 and 2.8 years in 2004. The increase in the number of loans with extension from two in 2004 to six in 2005 and eight in 2006 is concerning. This indicates the need for greater attention to ensure quality at entry of projects and closer monitoring and supervision during implementation. Common causes of implementation delays leading to loan extensions include; (i) lack of preparedness owing to start up delays; (ii) delayed effectiveness due to non-fulfillment of loan effectiveness conditions; (iii) project design flaws; (iv) impact of the political and security situation; (v) time consuming internal government approving procedures; and (vi) lack of coordination among ministries. From the ongoing projects, approximately 22% have reached six or more years of implementation compared to five years at project design (Annex 2).²⁰

C. Loan Signing and Effectiveness

38. The start up compliance indicators have been showing continuous decline over the last six years (Figure 3). The delay in effectiveness of five loans, approved in 2004, primarily caused the indicator to further decline in 2006 (Para 7). Four loans were declared effective in 2006 of which three were approved in 2004. The CMIASP was declared effective after 13.9 months of approval while the SFE took 15 months. Likewise, the GEEW took 23 months due to delay in fulfillment of a loan effectiveness condition. While overall there was an improvement in the start up of projects processed in 2006 there is scope for improvement. Of the six projects processed, five were declared effective within 90 days of approval while one project (CADP) suffered a delay of approximately five months (Para 33).



¹⁹ Average age of the portfolio is calculated from the date of approval of a project.

²⁰ CGISP has been implemented for a period of 8 years of, RMP–8 years, REDTP–7 years, CFG–6 years, and MWSP–5 years

D. Project Readiness

39. Project readiness filter was extensively discussed during the 2005 NPPR and agreement was reached with the Government to assess readiness of proejcts. The filter was streamlined to indicate the actions required at various stages of project preparation; design, fact-finding, appraisal, and loan negotiations (Annex 12). In this regard, projects approved in 2006 used the readiness checklist enabling timely effectiveness of most projects. Even so, the delay in effectiveness of CADP clearly indicates the need to further strengthen usage of the filter. Further, the delay in land compensation for STF provides a case of the adverse impact on implementation due to lack of adequate preparation during project design. In this regard, it is felt that ownership and implementation of the readiness filters from the Government also needs more attention. To ensure that this is not a donor driven agenda, the Government needs to undertake its independent assessment against the filters for validation. This will ensure that projects are fully ready for implementation before being approved.

40. In view of the fact that executing agencies (EA) are unable to take advance action due to lack of adequate budget, the Government process for advance action needs to be streamlined during the project preparatory stage. This will considerably decrease the start up delays faced by projects. In this context, an upcoming project—Improving Quality Water Supply, Sanitation and Urban Service Delivery in Emerging Towns Project has a component in the project preparation technical assistance to provide assistance for expediting project implementation.²¹ The component is expected to support advance actions, and includes (i) provision of training to implementing structures and potentially participating Community Based Organizations and Non Government Organizations (NGOs) for mobilization and planning phases, and (ii) preparation of standardized manuals and guidelines for planning and design.

E. Projects at Risk

41. Although the overall risk ratio for Nepal has decreased in 2006 (17.4% of the portfolio) the performance is yet to reach the ADB wide average ratio of 10% of the portfolio. With the closing of GRP, the number of projects will decrease from 4 to 3 projects. However, this decrease in the number of risk projects is being attained only through closure of the problem projects, which compromises the quality at exit of projects. For instance, the PSMP closed with an unsatisfactory rating in IP while the GRP closed with an unsatisfactory rating in IO. It is estimated that at year end approximately 15% of the portfolio will be classified as “at risk” which will be above the target of having less than 10% at risk projects. Currently four projects run the risk of being classified as such—KVVSSD, which is related to KVVSSDP that is already at risk and other three projects—STF, CMIASP, and RFSDCP. These run the risk of being classified as problem ones due to start up delays, slow implementation progress, and lack of project preparedness and readiness. All these require close attention and continuous monitoring to prevent them from falling into the risk category. Table 4 provides further details on the projects along with key issues.

Table 4: Projects “at risk”

Loan No.	Project “at risk”	Key Issue
<i>Projects Currently “at risk”</i>		
1732	Rural Electrification Distribution and Transmission line	Poor compliance with financial covenants and distribution loss reduction. Will remain at risk at year end.
1820	Melamchi Water Supply	Implementation progress rated partly satisfactory and Impact/Outcome achievement rated partly satisfactory.

²¹ Loan is pipelined for 2009.

Loan No.	Project “at risk”	Key Issue
1861	Governance Reform	Loan physically completed after cancellation of third tranche. Will be out of risk at year end after account closing.
2058	Kathmandu Valley Water Services Sector Development	Implementation Progress and Impact/Outcome achievement rated partly satisfactory.
<i>Projects that run the risk of being classified as Problem Project</i>		
2059	Kathmandu Valley Water Services Sector Development	Related to the Kathmandu Valley program loan which is at risk.
2097	Subregional Transport Facilitation	Classified as laggard project. Delay in contract award due to the issue of land compensation.
2102	Community Managed irrigated Agriculture Sector	Classified as laggard project. Slow implementation. Delay in engagement of NGOs and consulting firms.
2268	Rural Finance Cluster Development	Classified as laggard project. Fulfillment of conditions related to second tranche.

F. Weak Monitoring and Evaluation (M&E)

42. As ADB puts more emphasis on output and outcome monitoring, the need to strengthen monitoring mechanisms at the project level as part of the Project Performance Management System is vital. Nepal’s monitoring and analysis system has historically treated input monitoring as a standard administrative task and making a shift is imperative to fully integrate the results management agenda at the project level. However, owing to weak M&E systems along with lack of required expertise within the implementing agency to verify the reports submitted by consultants, timely and appropriate assessment of the project’s contribution toward attainment of outputs and outcomes is not accomplished. In this regard, establishment of baseline data, which is critical to assess contribution of a development intervention is often delayed and accomplished sometimes only after 2–3 years of implementation. The need to collect baseline project area data before project implementation was underscored in the Project Completion Report (PCR) of TLDP, as this would facilitate periodic monitoring and impact evaluation. Further, the PCR states the need to ensure that a monitoring system is established before the project begins, and staff are trained and assigned to implement the system with clear terms of reference.

G. Frequent Transfer of Project Staff

43. Of late a number of ADB projects are witnessing frequent change in Project Managers or Project Directors. Frequent change of key staff like the Project Director/Manager results in implementation delays with the disruption in the project momentum and loss of institutional memory. Notwithstanding the fact that changes may be inevitable, replacements in less than six months have taken place in some projects and this is a matter of concern. For instance, the Project Director of RNDP was replaced within approximately 7–8 months while in STWSSP the replacement was done within eight months. More recently, the Project Manager of DRILP has been replaced twice in less than six months. The issue of frequent transfer of staff was raised and addressed to a certain extent in the earlier NPPRs, but the issue persists. The NPPR will once again seek commitment from the Government to maintain continuity of key project staff for a minimum of two years as provisioned in the government regulation. In case of the UEIP, the

frequent change in deputed staff (also assuming the role of Mayor) at the municipalities has affected project implementation as there is lack of adequate guidance and back-up support.²² Land acquisition, in particular, which is one of the key project preparation elements of the readiness filter, is not getting the required priority owing to the frequent change of the deputed staff. The intensity of this matter was corroborated in a recently completed TA Completion Report, prepared for TA4275: Strengthening Project Implementation and Quality Assurance wherein transfer of the Chief of the EA was an issue that constrained the efficiency of the TA during its implementation.²³

H. Inadequate Staffing

44. Inadequate staffing is another pertinent issue impacting the performance of projects, especially those in remote districts. Despite the Government's commitment during loan negotiation to provide the required staff, pace of progress on this aspect is not encouraging. Issues identified with inadequate staffing are; (i) lack of motivation due to remoteness of districts; (ii) lack of commitment from concerned Ministry; (iii) tendency to avoid recruitment at the district level by District Development Committees (DDC) due to political influences; and (iv) staff transfer/promotions. The CBWSSSP faced initial project implementation delays due to shortages of staff for the Water User and Sanitation Units of the DDC. After a delay of more than six months, the project has obtained Cabinet approval for the required staff. In addition, the Project Manager for the GEEW was appointed only in June 2007 after a gap of six months since the loan was declared effective. SFE is another project that has not been able to speed up progress due to lack of full time Chief Executive Officer in the Council for Technical Education and Vocational Training (CTEVT) for almost eight months.²⁴

I. Project Administration Mission

45. With the improved security situation after the cease fire in April 2006, monitoring and evaluation geared up resulting in 32 project reviews compared to 22 reviews in 2005 and improvement in the staff supervision intensity (Para 21). Timely review missions along with appropriate composition of mission members has contributed to clearing up bottlenecks that arise during implementation. Certainly, review missions have the ability to gear up project performance and a number of PCRs have underscored its potency. Compared to seven projects that were flagged for project field missions, only one project, KVVSSD was flagged on review missions in 2006.²⁵

J. Procurement Management

46. The need to strengthen procurement management has been one of the key issues in portfolio reviews as it is a crucial factor influencing quality of a portfolio. Some of the key issues in procurement management are:

- i. **Delayed Decision Making:** There is an untoward delay in contract awards owing to government's prolonged internal procurement approval procedures (Para 37). This is often caused due to the tendency to seek approval from higher authorities, even when

²² UEIP is being implemented in nine municipalities. The staff is deputed from the Ministry of Local Development.

²³ During the TA period the Chief of NVC changed five times.

²⁴ CTEVT is the implementing agency of the project.

²⁵ Projects are flagged on review missions when the number of person-days is less than 10 in the last 12 months for projects with PS or U rating in overall rating of IP or IO, or less than 5 person-days for projects with HS or S ratings

- sufficient decision making authority is provided by the Law. The practice of forming additional subcommittees to review the bidding documents leads to a possibility of disclosing information and more representation on the procurement process. Furthermore, bidders become reluctant to extend their bid validity due to delayed decisions, which leads to rise in the cost of construction materials.
- ii. **Contradictory Regulations, Directives, and Bidding Documents:** Until the approval of the procurement regulation, Financial Administration Regulation (FAR) 1999, is still guiding the procurement process. FAR does not address the important procurement issues in detail and lacked clarity. Thus, the Public Works Directives (PWDs) were prepared including a few aspects of international best practice on procurement that were missing in the FAR. Consequently each government agency prepared its own bidding documents not necessarily consistent with the FAR and PWDs leading to confusion and ambiguity within the government agencies.
 - iii. **Weak Institutional Capacity:** Inadequate institutional capacity to undertake procurement efficiently is still the major challenge in streamlining the procurement process. Weak project and contract management capability and inability to recruit competent staff has resulted mainly due to poor incentives and limited opportunity to enhance capability and assured continuity of service. The absence of mechanisms to share knowledge has prevented the opportunity to learn from past experience, resulting in the repetition of errors and poor institutional memory. To address the issue of capacity, it is now mandatory for all ADB loans processed after October 2007 to undertake EA procurement capacity assessments. These assessments aim to define the capacity of the EA, identify where capacity is weak, define training requirements and link capacity to the degree of oversight applied by ADB in the procurement of goods, works and consulting services as defined by the procurement plan.
 - iv. **Collusion among Bidders:** Although difficult to substantiate, there are indications of collusion among bidders in civil works. There were some instances of use of force to bar potential bidders from participating in the bidding process resulting in the extension of bid submission date.
 - v. **Procurement Plans, Cost Estimates, and Variations:** In the absence of realistic procurement plans and its implementation, along with well prepared cost estimates problems are often encountered during implementation in terms of quality of work, time, cost, and arbitration.
 - vi. **Representations to Anti Corruption Body:** Due to lack of confidence on the part of procurement staff as well as rising tendency to make anonymous representations and consultations with anti corruption bodies, procurement processes are often delayed. Although corruption is an important issue, representation is not always based on the actual facts and is often guided by individual actions of the unsuccessful bidders.
47. The Public Procurement Law, 2007 provides principles and procedures to be applied in the procurement of works, goods, and services to promote efficiency, capacity building, accountability, and transparency in public procurement. However, there has been a substantial delay for approval of the Public Procurement Rules. The Government therefore needs to accord priority to the approval of the Rules. Web-based procurement as provisioned in the Act is an area that needs to be piloted with sufficient preparation to make it acceptable and comprehensible to all the stakeholders. In addition, the Public Procurement Monitoring Office is yet to be established despite a provision in the Act for its establishment within six months (by 13 July 2007) of promulgation of the Law.

K. Safeguards

48. In recent years, there has been some progress in the adoption of good practices in environmental management, resettlement, and addressing social concerns in development projects, particularly in large projects financed by international agencies. However, there have been problems during implementation, and therefore strong commitment is needed by the EAs to ensure they are fully implemented, are complied within the schedule, and with proper monitoring systems in place.

49. For most infrastructure projects, preparation/updating of resettlement plan and timely completion of land compensation and resettlement has been a major issue. While the resettlement plans/frameworks are prepared at the time of project appraisal, plans are rarely updated following the detailed design during implementation. The implementation of plans (e.g. land compensation) is often slow and problematic due to various reasons, such as (i) lack of national/agency policy on resettlement; (ii) no dedicated units/staff at EAs to look after resettlement issue; (iii) inadequate inputs of social specialists under project consultants; (iv) inadequate support from relevant authorities for land acquisition; (v) lack of updated land records; (vi) inadequate consultation with stakeholders; and (vii) unavailability of budget on time. Among these, unavailability of budget on time and lack of preparedness on the part of EA staff are two critical problems in land compensation. While ADB-financed projects require completion of land compensation before award of civil works contracts, in most cases land acquisition and compensation process starts only after bidding. In some cases, EAs lack awareness and start compensation only after the bid evaluation is complete. As a result, there is delay in contract awards. For smaller projects, it has been noted that EAs are not giving adequate attention to safeguard policies. For instance, in cases where beneficiaries are expected to make voluntary contributions of land for small structures that benefit the local communities, EAs often incorrectly assume that this eliminates the need to address resettlement issues in accordance with ADB's guidelines. This highlights the need for both processing as well as review missions to carefully review these issues on a regular basis, and ensure that EAs are fully briefed and aware of the requirements. All EAs must recognize the importance of implementing environmental mitigation measures and resettlement plans.

50. At the policy level, the National Planning Commission (NPC) has drafted a National Policy on Land Acquisition, Compensation and Resettlement in Development Project.²⁶ However, there has been a delay of almost a year to adopt this policy and establish an appropriate implementation mechanism within the Government ministries and agencies. Since most of the infrastructure projects tend to be delayed in the absence of a coherent national policy on resettlement, the adoption of this policy should be priority to expedite implementation of projects.

L. Technical Audit of Projects

51. Insufficient quality control of civil works in infrastructure projects is a matter of increasing concern in Nepal as it affects a project's sustainability. Poor quality leads to rapid deterioration of completed works, in turn leading to ineffective operation and high maintenance costs. In view of this, the Government's Technical Audit Division (TAD) in the National Vigilance Centre (NVC) of the Prime Minister's Office undertakes technical audits for key sectors. While it is encouraging that major infrastructure departments have started to conduct technical audits and a number of ongoing projects have an inbuilt requirement during project processing for

²⁶ Supported by ADB TA:4422 Preparation of National Resettlement Policy Framework

undertaking technical audit, the delay in adoption of the NVC/technical audit regulation affects the effective implementation and compliance of audit findings and recommendations for corrective measures. If the Government is fully committed to gradual improvement of quality of public sector infrastructure, it is imperative that it adopt the NVC/technical audit regulations for enforcing technical audit findings.

M. Non-Government Organizations

52. Although ADB is increasingly engaging with NGOs, from policy dialogue to project implementation, there are still issues and constraints that make partnership with NGOs a challenging experience. Lack of a clear NGO recruitment policy of the Government is one issue that constraints working with NGOs. Besides, the Government's current ceiling of Rs.100,000 for direct selection of NGOs makes it extremely difficult to recruit them for a reasonable work period. Hence, Government action to increase the threshold to a practical level would facilitate effective implementation. In addition, the Government needs to formulate specific guidelines to recruit NGOs in development projects and prepare stringent performance evaluation and monitoring criteria along with specific funds-flow mechanisms to facilitate involvement of NGOs in development projects.

53. Since most of the ADB-assisted projects are implemented in the rural areas, it is imperative to take the services of locally based NGOs for the sake of community ownership and accountability, even if one partners with a national NGO. However, the locally based NGOs lack trained human resources and sector specialization. Weak coordination between the national NGOs and locally based NGOs and lack of transfer of knowledge also creates problems in collaboration with NGOs. The locally based NGOs also tend to spread themselves thin by taking up any project that comes their way, which leads to inadequate monitoring and supervision. In view of this, there is a need to address capacity constraints and undertake rigorous selection process to ensure that involvement of the NGOs in ADB projects remains relevant as they fill significant gaps in the economic and social infrastructure of the country.

N. Performance of Consultants and Contractors

54. Close monitoring of the performance of consultants and contractors has become essential as the quality of their inputs in a number of ADB projects has not been up to the mark. Issues that arise with regard to the consultants are; (i) preparation of detailed design without sufficient surveys leading to variations at a later stage; (ii) replacement of manpower provisioned during design/agreement stage; (iii) lack of supervision and managerial skills; and (iv) lack of experienced skilled manpower. Likewise issues that arise on contractors are; (i) lack of experienced contractors, especially for the water supply sector; (ii) non-involvement of the lead firm during implementation; and (iii) lack of seriousness and dedication. In case of STWSSP, the missions undertaken from ADB have noted that in some town projects there were design deficiencies and no detailed work programs with major milestone prepared to monitor the contractor's work. With these critical shortcomings on part of the consultants, the Government is unable to take concrete remedial actions due to cumbersome redress mechanisms. With regard to the performance of contractors, although there is a law to blacklist the contractors after giving prior warning, it is not being seriously exercised. Thus, to ensure that intended project outputs are achieved within the project period, the Government needs to establish a mechanism to penalize the non performing entities and conduct systematic and detailed reviews on performance to improve portfolio.

O. Financial Management

55. The Government has conducted an assessment of the public sector accounting and auditing against international standards in Nepal.²⁷ The assessment will assist in implementation of a more effective public financial management through better quality accounting and public audit processes. Some of the actions identified for developing more competent financial reporting and greater transparency include; (i) development of comprehensive plans to adopt cash basis International Public Sector Accounting Standards (IPSAS); (ii) accounting laws and regulations to adopt IPSAS, Nepal Accounting Standards and applicable International Accounting Standards and International Financial Reporting Standards; (iii) need for code of conduct for Accountants; (iv) establish accountability of chief financial officer; (v) improvement in the corporate governance through more effective audit review committees; (vi) strengthening public accounts committee and other administrative processes for following up on issues raised in audit reports, and (vii) timelines and precision of financial statement reporting among others.

56. The Government has also initiated the amendment of the Local Body Financial Administration Regulation (LBFAR). The amendment of LBFAR was undertaken to harmonize the local procurement process with the recent enactment of Public Procurement Act and upcoming Public Procurement Regulation. Further, the thrust of the amendment is to facilitate the process of decentralization and devolution and ensuring improved financial management systems at the local level. The outcome of the amendment is intended to create a better project/program implementation environment at the local level with reduced fiduciary risk through appropriate funds flow mechanisms, accurate accounting systems, improved auditing practices, and increased approval authority.²⁸ In addition, it would develop capacity at the local level, promote a bottom up approach of development, and empower local communities. The Ministry of Local Development (MLD) has targeted to submit the amendment for Cabinet's approval by 30 August 2007.

P. Audit Effectiveness

57. Although overall delays in submission of the accounts has improved, there is a need to pay attention to the compliance rate (Para 16).²⁹ Table 5 depicts the compliance rate for the period 2004–2007. While the number of project complying as per due date improved marginally in 2007, the complied late status gives a discouraging picture. The SESP, in particular, is having delayed compliance each year owing to lack of adequate trained manpower. On the quality of audit reports provided by the EAs, it is found that they are generally satisfactory and meet the ADB requirements. Most of the audit observations made by OAG relate to Government's internal accounting procedures, and do not have implications on ADB's financing for the project. Observations commonly received are; (i) slow implementation of projects; (ii) lack of information on community contributions; (iii) delays in liquidating the advances; and (iv) non compliance with the FAR for contract variations.

²⁷ Supported by World Bank. The Government is reviewing the recommendations of the assessment.

²⁸ The Local Development Officer's threshold is proposed to increase from NRs. 700,000 to NRs. 5 million for approval of cost estimate and from NRs. 700,000 to NRs. 10 million for contract award. Likewise, for the District Technical Officer who currently has no authority, it is proposed that NRs. 2.5 million for cost estimate and NRs. 5 million for contract award be approved.

²⁹ Overall delay in compliance has been calculated based on the loan agreement.

Table 5: Compliance Rate of APA/AFS, 2002-2007

Year	Loans due for compliance	Complied %	Complied Late %	Partly Complied %	Not Complied %
2004	11	82	9	0	9
2005	14	71	21	0	7
2006	13	69	23	7	0
2007	14	77	22	0	0

Q. Loan Savings

58. During 2006, NRM took a “proactive” stance to free surplus loan proceeds that often arise in implementation so that resources can be freed up to finance new projects. The spring cleaning missions reviewed progress of all ongoing projects/programs and appraised resource requirements based on a revised implementation schedule. During 2004, loan saving of \$25.9 million was cancelled while \$17.6 million was cancelled in 2005. The cancellation of \$44 million in 2006 had a positive impact on the portfolio performance as the ratio increased from 18% to 20%. For 2007, a mission undertaken in May identified saving of \$11 million, mainly from projects that are due for closing in during the year.

R. Lesson Learned from Closed Projects

59. As of December 2006, PCRs have been completed for 84³⁰ of the closed loans and TCRs have been prepared for 36 TAs. PCRs for *Third Livestock Development* (TLDP), *Rural Infrastructure Development* (RIDP), and *Irrigation Management Transfer* (IMTP) were circulated in 2007. The TLDP and RIDP were rated as successful projects while the IMTP was rated as partly successful. In 2007, only three TCRs are programmed for circulation. Key generic lessons from the PCRs are highlighted below.

- i. Land acquisition needs to be addressed up front, before infrastructure construction starts. Designs should be modified if land acquisition is not likely.
- ii. Public auditing is an excellent approach for ensuring financial transparency
- iii. Continuity of project staff (particularly the Project Manager and other key staff) contributes significantly to successful project implementation.
- iv. The roles and responsibilities of institutions and other stakeholders involved in the planning, implementation, and post-implementation of projects should be clearly explained and agreed with concerned agencies at the design stage in order to avoid confusion and conflicts.
- v. Local institutions and offices should be given full authority for implementation of community-based rural infrastructure.
- vi. Greater involvement of stakeholders at different levels is necessary during project design. Local knowledge should be utilized, people’s needs should be analyzed, and their participation should be ensured in implementation and monitoring.
- vii. With regard to community-based rural infrastructure projects, the implementation team should be responsive, flexible, and capable of changing the project scope to address communities’ priorities if necessary

³⁰ Comprise 39 PCRs with ratings and 42 PCRs with no ratings. PCRs had no rating prior to 1995. Project Performance Audit Report has been prepared for 44 projects.

- viii. Despite the existence of conflict, development work is possible if community participation is high. The engagement of local NGOs can ensure that local people are better informed and mobilized.

S. Increased Attention to Technical Assistance Portfolio

60. While there has been improvement in the overall TA portfolio, there is a need to step up TA supervision, which shows a continuous decline in last three years. Further, in light of the staff resources the possibility of having an umbrella TA encompassing a number of stand alone TAs with small value needs to be explored. TAs in Nepal generally face inordinate implementation problems—commitments and disbursements generally lag behind, resulting in extensions, variations and changes in scope or implementation arrangements. Issues pertaining to TA administration are; (i) increased number of TAs; (ii) lack of adequate staff resources; (iii) lack of prioritization in staff workplans; (iv) lack of ownership from Government; (v) contract variations; (vi) statement of Expenditure limits in TAs; (vii) delays in closing of the TA account. It is anticipated that the policy paper on Enhancing the Impact of the ADB's Technical Assistance Program will take a strategic approach to TA management by focusing on the aggregate development impact of the ADB TA portfolio as a whole and the quality and relevant of individual TA Projects. The recently initiated procedure to streamline timely closure of TA accounts from Central Operations Services Office will also facilitate an improved TA portfolio.

T. Improvement in the Turnover Ratio

61. There is a need to maintain close monitoring of imprest fund operations, turnover ratios, replenishments, and timely submission of statement of expenditures by the IAs. For slow moving imprest accounts and/or advanced amounts not being utilized within a reasonable time, the imprest fund ceiling shall be reduced to the appropriate level in line with project activities and surplus fund should be returned to ADB. Special attention needs to be given to the planned activities of the projects along with an assessment of the absorption capacity of the IAs while approving the imprest advances. Projects that essentially run the risk of low turnover ratios in 2007 are outlined in Table 6.

Table 6: Projects that run the risk of low turnover ratio in 2007

Projects	Turnover ratio as of June 2007
Community Managed Irrigated Sector Development	0.29
Community Based Water Supply and Sanitation Sector	0.15
Decentralized Rural Infrastructure and Livelihood	0.56
Gender Equality and Empowerment of Women	0.00
Subregional Transport Facilitation	0.00
Urban Environment Improvement	0.67
Skill for Employment	0.05

V. RESULTS BASED MANAGEMENT

62. The NPC and some key line ministries such as those of finance, education and sports, and local development have led in mainstreaming MfDR in public sector management. The Government has taken some encouraging steps to develop rudimentary but core elements of results-based management for planning, budgeting, implementation, and monitoring. The Government has started poverty-based resource allocation to local bodies, and is strengthening the monitoring and evaluation system in key ministries to streamline results management. Following the poverty monitoring and analysis system at the central level, the Government has prepared a district poverty monitoring and analysis system for assessing development interventions and their local impact. While steps are being taken to implement MfDR nationally, they are yet to be institutionalized and translated at the sectoral and local levels. The Government's weak institutional capacity for results management at different levels poses a risk to the implementation of these approaches. There is a need to effectively link macro-, meso-, and micro-level initiatives in the results-based planning and implementation process. Government efforts need to be significantly strengthened to operationalize the mechanisms of MfDR, focusing more on longer development outcomes and impacts rather than on immediate inputs and outputs, particularly at the sectoral and local levels. Therefore, a long-term institutional and human capacity building of the Government is needed to implement MfDR at all levels.

63. ADB is thus supporting the Government through two TAs to; (i) assess MfDR readiness; develop an MfDR strategy; adopt MfDR as a public sector management practice; institutionalize MfDR approaches within NPC, some key line ministries such as the Ministry of Physical Planning and Works (MPPW), and the MLD, and four DDCs; and (ii) strengthen the monitoring and evaluation systems and capacity. MfDR readiness assessment of two ministries, one department, and one district development office has been completed, and strategies are being developed to institutionalize MfDR. ADB is collaborating with other key donor partners in supporting the Government's efforts to reorient its reform and development agenda to achieve results and harmonize donor practices, particularly results monitoring and evaluation, as a key part of their overall assistance.

64. In line with the CPS guidelines, the NPPR will monitor progress towards results at the sector and country levels through a bottom-up monitoring process. Thus, all review missions are now required to report on the achievement of the project outputs and outcomes through the Project Result Profiles (PRP). The inputs of the PRP will serve as an important data source for assessing the progress of each sector through the SRP. As part of this strategic process, the design and monitoring frameworks of all projects were revisited in 2006 to make the performance indicators more quantifiable and results-based.

65. Based on the SARD strategy and action plan, the SRPs were prepared for the priority sectors of Nepal, including (i) agriculture and rural development (ii) energy, (iii) education (iv) finance and governance (v) transport and communication, and (vi) water supply, sanitation and urban development. The SRPs will be consolidated into a CRP once they are finalized in collaboration with the Government. The CRP will provide a unified picture of ADB's operations in the country; the outcomes and outputs being targeted and progress achieved. A brief summary of the progress towards outputs and outcomes within specific sectors is provided below. Further details are in the Annexes 13–18.

A. Sector Progress—Agriculture and Rural Development

66. **Sector Outcomes:** The agriculture and rural development (ARD) sector comprises crop, livestock, irrigation, and rural roads sub-sectors. The outcomes sought by the Government for the ARD sector by the end of the Tenth Plan (FY2007) include: (i) increased agriculture growth and food security, and (ii) increased commercialization of agriculture. With regard to the first outcome, average annual agricultural growth by the end of the plan is estimated at 2.8%, which is almost 30% below the target of 4.1% due to unfavorable weather conditions, prolonged local conflicts and investment shortfalls. However, progress on the outcome relating to commercialization of agriculture has reasonably been on track by meeting the planned target of maintaining ratio of 32% between cash crop and total agricultural GDP (Gross Domestic Product). However, only about 70% of the targeted annual marketable surplus of 626,572 ton has been met; 85% of the targeted annual growth of milk and meat produced, processed and marketed; and 85% of the targeted ratio of 41.5% between livestock and total agricultural GDP attained.

67. **Sector Outputs:** On the policy and institutional aspects, almost all envisaged actions during early 2000 have been accomplished, though belatedly for few of them. The principal policy reforms included; (i) deregulation of milk price; (ii) approval of agriculture policy; (iii) approval of local infrastructure development policy; (iv) revision of irrigation policy and regulations; and (v) preparation of national water plan. These policies aimed towards participatory and decentralized provision of development services in partnership with NGOs and the private sector. The institutional reforms to operationalize these policies are; (i) devolution of ARD operations to local government institutions; (ii) decentralization of agriculture research functions to regional offices; and (iii) preparation of guidelines for partnership with NGOs and private sector. Nevertheless, the progress in terms of transforming these policy and institutional reforms into specific sector or sub-sector operations is still at an early stage.

68. On the physical outputs, there have been impressive achievements in formation of functional crop and livestock farmer groups and increasing area under year-round irrigation. The number of farmer groups for crops increased by 80% compared to the baseline of 7,508, while there was 20% increase in livestock farmer groups against the baseline of 6,632. Development of year-round irrigated area has exceeded the targeted of 465,402 ha by 2% mainly through groundwater irrigation. However, formation and strengthening of water user associations (WUAs) is lagging behind with surface irrigation.³¹ Likewise, construction of local/rural roads is only about 60% of the targeted 21,000 km.

69. Issues that constrained achievement in the ARD sector are:

- i. Nepal's agriculture is still highly dependent on weather conditions. The weather condition during the last four years remained extremely unfavorable for agriculture development.
- ii. Only about 66% of the total agricultural land (1,769,915 ha) is irrigated out of which 40% has year-round irrigation. Many surface irrigation projects are operating below their design capacity due to system deterioration caused by lack of operation and maintenance. The irrigated area of the existing schemes needs to be substantially enhanced with participatory irrigation with WUAs. New areas also need to be brought

³¹ One ADB-supported project still in the initial stage of implementation, and the other World Bank-supported project under appraisal.

- under irrigation through economic means such as groundwater irrigation in the Terai and micro-irrigation in the hills.
- iii. Agricultural growth remained low, partly due to declining profitability of cereals, which is still grown in about 65% of the cultivated land. This has gradually shifted farmers' preference to high value crops and livestock production in areas with favorable market conditions. Yet, much more effort is needed to enhance the productivity of cereals beyond subsistence level while promoting diversified agriculture. More effective provision of agriculture support services with decentralization is called for, along with concerted efforts to develop agriculture value chains, in partnership with private sector and NGOs.
 - iv. The decade long conflict followed by the Terai unrest constrained agriculture production as well and smooth implementation of development projects.
 - v. Implementation capacities of ARD sector departments are still weak, with the delivery mechanisms through local governance institutions and NGOs not yet made functional in a meaningful manner in many districts. Project implementation and monitoring in the ARD sector also suffered due to frequent transfer of project staff and absence of staff in the field offices.
 - vi. Participatory irrigation still needs to be institutionalized following the 2004 irrigation policy with a change in the attitude of staff to serve as facilitators along with actions to move towards decentralization.
 - vii. Investment in rural roads remained low due to shortage of budget. The existing rural roads remained abandoned, unfinished or rendered inoperable due to lack of operation and maintenance constraining farmers' access to inputs and outputs markets.

B. Sector Progress—Energy

70. **Sector Outcomes:** The expected outcomes of the energy sector are; (i) sustainable sector development through establishment of commercially operated sector companies and independent regulator; and (ii) improvement of power system network and expansion of rural electrification (RE). With regard to the first outcome, the pace of the reform is much slower than expected. Although legislation on power sector reform is expected to be approved by the Cabinet soon, it is likely to take time for enforcement. On the second outcome of construction of transmission and distribution system and expansion RE, overall progress is 50% and 75%, respectively.

71. **Sector Outputs:** On the policy aspect, required actions have been identified and some steps have been taken. These include; (i) drafting of legislation enabling the unbundling and corporatization of Nepal Electricity Authority (NEA) along with the establishment of Nepal Power Grid Corporation (NEPGRID) and the setting up of Nepal Electricity Regulatory Commission (NERC); (ii) enactment of these legislative initiatives; (iii) establishment and functioning of NERC; and (iv) preparation of NEA Board reform documents. While approval of the legislation by Cabinet is expected to be achieved soon, establishment of NEPGRID is not likely to take place until the political environment is more stable.

72. On the physical infrastructure aspect, i.e. strengthening of transmission and distribution system and augmentation of RE, overall progress is still lagging behind. However, following the resolution of land acquisition problem, which has been a critical pending issue, overall construction, is expected to accelerate. Construction of transmission and distribution lines is ongoing, and supply of equipment has been completed. Expansion of RE is underway with estimated progress of 75%.

73. Issues that constrained achievements in the energy sector are; (i) the political instability; and (ii) the poor financial position of NEA. Following actions need to be taken by the Government for the achievement of the targets.

- i. Approval of legislation to take apart the transmission business segment from NEA by the Cabinet, enacting the legislation and establishing NEPGRID as a corporate under Companies Act;
- ii. Approval of legislation to set up an independent regulator, NERC, by the Cabinet, enacting this legislative initiative, and establishing NERC;
- iii. Preparation of NEA Board reform documents including Board Charter, operating guidelines, committee structure, and rules;
- iv. Development of a financial restructuring plan for NEA; and
- v. Formalization of the grid code.

C. Sector Progress—Education

74. **Sector Outcomes:** The expected outcome of the education sector is an enhanced education attainment and improved livelihood for all children, particularly girls and disadvantaged groups. Primary and secondary education participation, including girls has improved. Survival rates in grade 5 and school leaving certificate pass rates have also improved. However, wide disparity exists between districts and social groups, with high drop outs and repetition among the poor and socially disadvantaged groups. Despite high demand for skills upgrade among school leavers, technical education and vocational training (TEVT) opportunities are yet to expand. Considerable challenges remain in increasing equity of access and in improving the quality and management efficiency of education at all levels.

75. **Sector Outputs:** The Government intends to expand basic education from grades 1 to 8, and secondary education from grades 9 to 12, with an ultimate goal of integrating the school system from grades 1 to 12 in a holistic manner. For this purpose, the Government is preparing a School Sector Reform (SSR) policy, program and financing framework. The first draft of the SSR Core Document was prepared. A national policy on TEVT has been submitted to Cabinet for its approval. The second phase on policy framework will begin after the approval of the national policy which is being discussed. In accordance with the decentralization policy, Government initiatives to channel funds through local bodies and transfer management responsibilities of schools to communities are continuing. Continuous progress was made in school facilities upgrade, provision of scholarships and school grants in the Education for All (EFA) and SESP. Further in-service and pre-service teacher training was provided under TEP. No tangible progress has yet been seen in TEVT under the SFE.

76. Issues that constrained achievement in the education sector are:

- i. Governance structures could not perform as envisioned because of the difficult social and political situation. Decentralization has been widely hampered by disruption, inadequate institutional capacity, ineffective communication, and absence of elected members
- ii. Monitoring and supervision at district and school level have been heavily constrained by the effects of the Terai unrest.
- iii. The capacity of local stakeholders to plan, implement, monitor and report on education activities has been over-estimated. Substantial improvements in capacity of school management committees and school monitoring and supervision are major challenges that need to be addressed on a priority basis to improve education quality

- iv. Quality issues include the appropriate deployment and redeployment of teachers. Teachers' allocations are not based on clear criteria and priorities or needs resulting in vast discrepancies in student teacher ratio. Moreover, there is no clear plan how to reduce the disparities and student teacher ratio. The same lack of clear criteria, prioritization, and overall plan applies to classroom construction.

D. Sector Progress—Finance and Governance

77. **Sector Outcomes:** Although implementation of governance reforms has been very challenging in recent years, several outcomes envisaged by the Government in the governance area have been achieved—albeit delayed. There have been some improvements in functional devolution of several core services to local governments and community. Gender mainstreaming programs have contributed to increased participation of women in the civil service. On the finance sector outcome of improved business climate and competitiveness, there is general improvement in the environment following the ceasefire and peace accord. With regard to the access to financial services for industry and service, the financial sector deregulation has made progress and the share of the financial sector in GDP grew by 11% during 2005–2006. The non performing loan to the total gross loan of commercial banks and the Agricultural Development Bank has decreased from 18.04% in January 2006 to 14.08% in January 2007.

78. **Sector Outputs:** Major achievements in governance include legal and institutional reforms. Several anti-corruption legislations have been approved by Parliament and a Bill on Amendments to Civil Service Act, tabled in the Parliament in 2006, was approved in August 2007. The NVC has been established and implementation of performance-based management system has been initiated in three line ministries. A computerized personal information system of civil servants has been established, linked to posts and payroll systems, and 'rolled out' to eight ministries. Further, an optical fiber connection is under construction within the central secretariat to enhance data connectivity. A computerized personal information system of government teachers has been established at the Ministry of Education and Sports. On the privatization of regional rural development banks, two out of five regional development banks were privatized.

79. Implementation of governance reforms has been adversely affected in 2007, and majority of reforms envisaged under GRP (as tranche 3 conditions) have not been fully completed.³² The main constraint to implementation of core governance reform is the significant political transition and the current challenges faced by the country. In the prevailing political context, it is very difficult for the Government to approve new governance laws and to implement major policy and institutional reforms, as envisaged by the GRP. The Government, however, agree that good governance will continue to remain a strategic priority for reducing poverty and improving service delivery in future.

E. Sector Progress—Transport and Communication

80. **Sector Outcomes:** The expected outcomes of the transport sector are; (i) increased capacity of the strategic road network (SRN); and (ii) improved mobility. With regard to the first outcome, it was expected that passenger vehicle-km would increase from 2,525 in 2005 to 3,960 in 2010. With regard to mobility, it was expected that population served within four hours walk to SRN in hilly areas and two hours walk to SRN in Terai area could be increased from

³² In June 2007, the Government and ADB agreed to close the Program.

62% in 2005 to 72% in 2010. The Government's effort in this regards has been in the right direction as the percentage in 2006 has increased to 65%.

81. **Sector Outputs:** On the policy and institutional aspects, most of required actions have been completed. These include; (i) approval of transport policy and heavy vehicle management policy; (ii) enactment of BOT Act; and (iii) establishment of Road Board. Currently, the guidelines on Enhancing Poverty Reduction Impact of Road Projects are in the final stage, and institutional strengthening of custom agency is ongoing. One critical output is the approval of SRN master plan which has been prepared in June 2004, but is yet to be finalized and adopted. The master plan is important in guiding the future development in the road sector.

82. On the physical infrastructure, the achievement of sector outputs has not been very encouraging. The condition of SRN is getting poorer, with maintainable condition roads of 84% only, compared to 92% in 2000. This shows that road maintenance is left behind, even after more than three years of establishment of the Road Fund. While establishment of the fund is important, without sustainable and sufficient fund for maintenance, the anticipated results would be far from achieved. Owing to the importance of the road fund, an assessment of its effectiveness would be timely. The progress in constructing new national roads lagged behind the national target, as cumulative progress during the plan period was 736 km against the target of 1,025 km by 2007. Similarly, progress on connecting additional ten district headquarters was also below target. Till date only 63 headquarters have been connected.

83. Issues that constrained achievement in the transport sector are:

- i. Although the decade long conflict is in the process of resolution, new forms of conflicts are emerging in different parts of the country. The country's security situation is still fragile, particularly in Terai districts. This has hampered smooth implementation of road projects, including ADB-financed RNDP and STF.
- ii. Implementation capacity of road agencies (DOR) is still weak. The procurement and supervision of civil works contracts often involve significant delays and problems. While provision of consultants has partly offset the issue of supervision in donor-financed projects, this is not a long-term solution until there are sufficient trained human resources and proper incentives for staff.
- iii. The road agencies seriously lack experience, commitment and capacity in handling social and environmental issues. Particularly, inability to timely complete land compensation delays award of civil works contracts. The recent example is STF, where procurement is almost at the final stage, but land compensation is yet to be completed thus preventing award of the contracts.
- iv. Inter-agency coordination is another issue. Most road projects involve land, forest, public utilities/services and the road agencies need to coordinate with many line ministries/agencies. However, such coordination has not been effective.
- v. Lack of road maintenance is a major issue. Whether the road fund can provide sufficient fund for maintenance and whether the available fund can be utilized in efficient manner, needs to be assessed.
- vi. There is lack of approved road master plan that guides activities within the sector.

F. Sector Progress—Water Supply, Sanitation and Urban Development

84. **Sector Outcomes:** The overall progress in attaining the sector outcome is very slow. Water supply coverage increased by 5% from 72% in 2002 to 77% in 2006 with an average increment of 1.3% per annum. Assessment of the trend over the last four years indicates that it

would be difficult to achieve the water supply coverage target (85%) of the Tenth Plan. However, progress in attaining the sanitation outcome is encouraging compared with water supply as the proportion of population with improved access to sanitation has increased by 26%, from 20% in 2002 to 46% in 2006.

85. **Sector Outputs:** The performance at the sector output levels is partly satisfactory. While there have been developments in attaining the planned policy and institutional reform, implementation of these reforms as well as physical infrastructures are behind schedule. Ongoing projects, though delayed, promote user-responsiveness and full/partial cost recovery in water supply and sanitation. Progress in urban areas is slower than in rural areas due to issues related to increased communities' need, procurement, and construction of civil works. Sector outputs targets for the physical infrastructures are not objectively defined by the government, which has constraints the assessment in terms of achievement of the sector outputs.

86. Major issues and constraints affecting the water supply, sanitation and urban development:

- i. There is slow implementation of the approved policy and strategy.
- ii. Weak coordination among agencies, weak political will and inadequate attention to the enabling environment has caused difficulties. This led to slow decision making and affected the prioritization of investment packages.
- iii. Department of Water Supply and Sewerage staff, contractor, and consultants lack sufficient experience for large-scale and complex water project management matters. This has caused delays in the implementation of STWSSP. By the end of sixth year of project implementation only 10 out of 29 small towns' projects have been completed.
- iv. The local government/municipalities and communities have limited capacity and capability to take required responsibilities. In addition frequent change in municipal operational mechanism has affected the service delivery of local government.
- v. Due to overlapping responsibility between MPPW and MLD, decision making is slow along with weak enforcement of institutional regulation, and inter-ministerial coordination.
- vi. Priorities of larger municipalities differ compared to smaller municipalities, which has rural requirements. This has delayed the prioritization exercise under the ADB supported UEIP. The need to select larger municipalities with high urban setting is essential for urban infrastructure project in future.
- vii. All water user associations (WUA) are required to register under the District Water Resources Committee. The benefit of registering WUAs is seen to be the granting of legal rights for the utilization of the water source. However, despite legal framework for water users licensing, disputes over use of source delays implementation of projects.

G. Policy Change and Reforms

87. The NPPR will also review the progress of milestones for policy changes and institutional reforms. Assessment on the status of the policy reforms will be an input to the Government's Immediate Action Plan for the subsequent year. Experience, particularly in the execution of advisory TAs show that policy changes envisaged under the TAs does not reach a logical conclusion wherein the policy is approved and implemented. Thus, commitment from the Government on adoption of the policy outputs for sustainability and contribution to development results is required. For instance, approval of the resettlement policy framework prepared under ADB TA is long due while the TA has already been closed. Likewise, adoption of the

NVC/technical audit regulations regulation has been pending since September 2005. Table 7 indicates status of few reforms under various sectors. Details are in the SRPs.

Table 7: Status of Policy Change and Reforms

Milestone	Status
Establishment of Nepal Power Grid Corporation, and Nepal Electricity Regulatory Commission in 2007.	While approval of legislation by the Cabinet is expected to be realized soon, establishment of NEPGRID as a separate corporation is not likely to take place until the political environment is more stable.
Establishment of 34 Distribution Profit Centers by 2007.	Six pilot distribution profit centers have been completed in 6 districts.
Computerized billing centers for 15 main branch offices by 2007.	Switching to live operation in 4 branches has been completed.
National curricula framework developed for grades 1-12 incorporated in school system and by 2007.	Approved in 2007.
School Sector Reform policy, program, and financing framework finalized and approved by 2009.	Initial draft prepared as of July 2007.
National Technical Education and Vocational Training Policy Development.	Policy on national technical education and vocational training submitted to the Cabinet and second phase on policy framework will start after the approval of the policy.
Amending Civil Service Act and Rules.	The Bill on Amendments to Civil Service Act tabled in Parliament in September 2006 and currently under review by parliamentary committee.
Governance Act 2004	Promulgated by Parliament in December 2006.
Acts and regulations conflicting with decentralization reconcile.	Draft prepared by Ministry of Local Development and sent to Ministry of General Administration for comments.
Developing procedures for annual random checks of asset declaration of public officials.	In preparation phase by National Vigilance Center.
Bank and financial Institution Act	The Cabinet approval for the amended BFIA will be sought by August 2007.
Guidelines on Enhancing Poverty Reduction Impact of Road Projects	The Guidelines are in the final stage and circulated to stakeholders.
By 2006, BOT Act, rules, regulation and guidelines enacted and approved	BOT Act was enacted in Aug 2006. Rules, regulation and guidelines have been developed.
Approval of Agribusiness Policy in 2005	Agribusiness Policy approved in 2006.
Preparing National Water Plan (including irrigation) in 2004	Irrigation Policy revised in 2004 and micro irrigation policy under preparation for approval in 2007.
National Water Quality Standard/Guidelines in place	Adopted in April 2006.
National Policy on Land Acquisition, Compensation and Resettlement	Not adopted. Delay of more than a year.

VI. NPPR ACTION PLAN

88. During the last NPPR (September 2006), the Government, ADB, JBIC, and the World Bank agreed on key actions aimed at improving portfolio performance. These include; (i) government's full ownership over portfolio review; (ii) mid-term review of portfolios; (iii) review recommendations of three thematic discussions; (iv) procurement management; (v) preparation of the business plan (sectoral plans); (vi) financial management, and (vii) increased commitment of donor partners.

89. A steering committee established to monitor the progress of the road map met on 2 August and discussed achievements and issues on the agreed actions. Progress on the actions agreed can be seen from Annex 19. Of the eight action plans, three have been complied and five are ongoing. Actions that are pending or partly accomplished are harmonizing government's overall portfolio review with budget process, review of the recommendation that resulted from discussion on procurement management, financial management and result-based reporting, and preparation of business plan. The committee noted continuity of generic issues relating to delays in annual program approval and its negative implications in budget release, late arrival of spending authorization at the field level and frequent transfer of project staff. These issues and remedial measure are expected to be discussed at length during 2007 NPPR. The action plan for 2007 NPPR incorporating the pending actions from the 2006 action plan will be prepared during the coming review.

NEPAL: Portfolio Management Indicators

Indicators	Unit	2004		2005		2006		ADB 2006	
I. Public Sector Loans									
A. Country Portfolio									
1. Active Loan Portfolio	No. \$mn	23	713.6	23	648.3	23	686.8	529	37349.6
(a) Project Loans	No. \$mn	20	638.4	20	576.4	19	561.4	441	29336.6
(b) Program Loans	No. \$mn	3	75.2	3	71.9	4	125.4	60	6,969.8
(c) DFI/Credit Loans	No. \$mn	-	-	-	-	-	-	13	532.8
(d) Combined Projects and DFI Loans	No. \$mn	-	-	-	-	-	-	15	510.4
2. Average Age of Active Loan Portfolio	Years		2.8		3.8		4.2		3.8
3. Inactive Loan Portfolio	No. \$mn	-	-	-	-	-	-	0	0
B. Start-Up Compliance									
1. Loans Approved During the Year	No. \$mn	5	110.0	-	-	2	86.0	71	6,821.3
2. Loans Not Yet Signed	No.		4		1		-		44
3. Loans Awaiting Effectiveness	No.		2		2		1		16
4. Average Time from Approval to Signing	Months		3.7		4.1		4.6		3.9
5. Average Time from Signing to Effectivity	Months		5.3		6.2		6.5		4.5
6. Loans that Became Effective more than 90 Days after Signing	No. %	11	64.7	14	70.0	16	72.7	287	61.2
C. Financial Performance									
1. Contract/Commitment Achievement	\$mn		38.2		69.6		101.6		6,372.8
2. Contract/Commitment Ratio ^a	%		7.0		15.2		22.1		29.3
3. Disbursement Achievement	\$mn		22.0		43.7		108.0		5,400.0
4. Disbursement Ratio ^b	%		4.4		7.7		20.0		23.4
5. Imprest Fund Turnover Ratio ^c	%		1.4		1.8		1.5		1.6
6. Submission of APA and AFS (PC & NC)									
(a) =< 6 months	No. %	-	-	-	-	1	7.7	77	22.4
(b) > 6 =< 12 months	No. %	1	9.1	1	7.1	-	-	17	4.9
(c) > 12 months	No. %	-	-	-	-	-	-	6	1.7
7. Loan Service Payments	\$mn		39.3		40.7		45.6		3,432.1
8. Net Resource Transfer	\$mn		(17.3)		2.9		62.5		1,967.6
D. Portfolio Performance									
1. Project Ratings									
(a) Highly Satisfactory (HS)	No. %	0	0.0	-	-	-	-	3	0.6
(b) Satisfactory (S)	No. %	18	78.3	16	69.6	19	82.6	479	90.5
(c) Partly Satisfactory (PS)	No. %	4	17.4	4	17.4	4	17.4	31	5.9
(d) Unsatisfactory (U)	No. %	1	4.3	3	13.0	-	-	16	3.0
2. Projects At Risk (no. of loans)	No. %	6	26.1	7	30.4	4	17.4	53	10.0
(a) Problem Projects (combined IP & IO) (PS & U)	No. %	5	21.7	7	30.4	4	17.4	47	8.9
(b) Potential Problem Projects	No. %	1	4.3	-	-	-	-	6	1.1
(c) Problem Projects									
(i) Implementation Progress (PS & U)	No. %	4	17.4	6	26.1	3	13.0	40	7.6
(ii) Impact and Outcome (PS & U)	No. %	2	8.7	2	8.7	1	4.3	16	3.0
3. Risk Ratios of Major Issues ^d									
(a) Project Implementation Delays	No. %	9	39.1	10	43.5	7	30.4	132	25.6
(b) Loan Utilization Delays	No. %	0	0.0	0	0.0	0	0.0	2	7.1
(c) Established, Staffed, and/or Operation of PMU/PIU	No. %	1	5.0	0	0.0	0	0.0	18	3.8
(d) Fielding of Consultants	No. %	1	4.3	0	0.0	0	0.0	29	5.6
(e) Environmental or Social Problems	No. %	1	5.0	1	5.0	0	0.0	14	3.1
(f) Poor Compliance with APA and AFS	No. %	1	5.0	1	5.0	0	0.0	27	5.8
(g) Poor Compliance with other Covenants	No. %	4	17.4	4	17.4	2	8.7	52	9.8
(h) Shortage of Counterpart Funds/Cofinancing	No. %	2	8.7	1	4.3	2	8.7	19	3.7
(i) Unsettled Cost Overrun	No. %	0	0.0	0	0.0	0	0.0	7	1.5
(j) Significant Disbursement Delays	No. %	9	39.1	10	43.5	8	34.8	163	30.8
(k) In Risk Sector or Country with History of Past Problems	No. %	8	34.8	8	34.8	11	47.8	69	13.0
(l) Project Fielded Missions	No. %	7	30.4	10	43.5	2	8.7	149	28.2
4. Overall Risk Ratio of the Portfolio ^e	%		17.8		18.7		13.5		12.3
E. Portfolio Supervision									
1. Proactivity Index ^f	No. %	3	75.0	2	33.3	5	71.4	27	61.4
2. Average Supervision Intensity (staffdays/project)	Days		30.9		20.8		31.9		25.6
3. Loans with Settled Cost Overruns	No.		0		0		0		5
4. Loans with Changes in Project Scope	No.		0		1		1		60
5. Loans with Changes in Implementation Arrangements	No.		3		4		2		81
6. Loans with Extensions	No.		2		6		8		154
7. Loan Cancellations	\$mn		25.9		17.6		43.966		423.03

NA = not available; na = not applicable

^a Contract/Commitment Award Ratio is defined as the ratio of Contract Awarded/Actual Commitment during the year over the value available for contract/commitment awards at the beginning of the year. The value of the contracts/commitments to be awarded/committed under newly approved loans during the period is/will be added to the opening balance of the value available for contract/commitment awards.

^b Disbursement ratio is the ratio of total disbursement in a given year/period over the net loan amount available at the beginning of the year/period plus the loan amounts of newly approved loans which have become effective during the year/period. Where: (i) "Total disbursement in a given year/period" refers to the confirmed disbursement for a particular year/period covered. (ii) "Net loan amount available at the beginning of the year/period" refers to all loans that were effective at the beginning of the year. (iii) "Loan amounts of newly approved loans which have become effective during the year/period" refers to all loans approved before and after the beginning of the year that have become effective after the beginning of the year.

^c The annualized turnover rate is computed as the ratio of total liquidation over the time-weighted average fund balance for 12 months.

^d % of problem-flagged projects (loans) to total no. of loans in various loan portfolio categories.

^e The weighted average of the 12 risk ratios.

^f % of problem projects changed through upgrading, restructuring, closure, or cancellation during the last 12 months.

NEPAL: TECHNICAL ASSISTANCE PORTFOLIO MANAGEMENT INDICATORS

Indicators	Unit	2004	2005	2006	ADB 2006
A. Country Portfolio					
1. Active TA Portfolio	No. \$mn	30 18.7	24 16.8	34 20.470	1009 857.349
(i) Advisory & Operational Technical Assistance (ADTA)	No. \$mn	20 12.0	17 11.4	24 13.040	522 394.796
(ii) Project Preparatory Technical Assistance (PPTA)	No. \$mn	10 6.8	7 5.4	10 7.430	215 175.482
(iii) Regional Technical Assistance (RETA)	No. \$mn	- -	- -	0 0.000	272 287.072
2. Average Age of Active TA Portfolio	Months	24.4	26.6	24.8	24.874
3. Physically Completed but not Financially Closed	No. \$mn	3 3.1	1 0.8	0 0.0	52 34.484
B. Start-Up Compliance					
1. Average Time from Approval to Signing of TA Letter/Agreement	Months	3.2	3.8	3.1	3.266
2. Average Time from Signing to Fielding of Consultants	Months	4.4	4.3	4.0	N.A.
C. Financial Performance					
1. Total Disbursement	\$mn	10.3	9.2	10.293	135.8
2. Total Undisbursed Balance	\$mn	8.5	7.6	10.177	0.5
3. Potential TA Savings ^a	\$mn	0.6	0.01	0.0	5.55
4. Cancellations of TA Funds ^b	\$mn	0.6	0.2	12.4 ^d	298.672
D. Portfolio Supervision					
1. Supervision Intensity (staff-days/project)	Days	11.4	8.8	8.4	9.7
E. TA Completion Reports (TCR)					
1. TCR Programmed	No.	6	2	2	211
2. TCR Circulated	No.	8 ^c	2	2	176
3. % Achieved	%	133.3	100.0	100.0	83.4

NA = not available; na = not applicable.

^a Undisbursed TA amount of physically completed TA but not financially closed.

^b Undisbursed amount of cumulative financially closed TAs.

^c Two TCRs were added to the program.

^d Excludes fully cancelled TAs.

NEPAL: LIST OF ONGOING LOANS BY SECTOR
(as of 31 December 2006)

Sector/Ministry/EA	Loan No.	Project Name	Sector Division	Loan Classification ^a		Net Loan Amount \$mn	Milestone Dates			Age (years)	
				Project/ Poverty	Operational/ Thematic		Approval	Signing	Effectivity		Orig/Revised Closing
Agriculture and Natural Resources											
1. Department of Irrigation, Kathmandu	1609(SF)	Community Groundwater Irrigation Sector	NRM	PI	HD	11.0	26 Feb 98	17 Nov 98	03 Mar 99	31 Jul 07	8.8
2. Nepal Rastra Bank	1650(SF)	Rural Microfinance	NRM	PPG	HD/GD	18.2	08 Dec 98	21 Feb 99	20 May 99	30 Jun 07	8.1
3. Department of Agriculture	1778(SF)	Crop Diversification	NRM	PI	HD/GD/PSD	10.3	09 Nov 00	24 Jan 01	23 Apr 01	31 Dec 07	6.1
4. Department of Livestock Services	2071(SF)	Community Livestock Development	NRM	CPI	GD/ECO	21.0	19 Dec 03	08 Apr 04	02 Dec 05	30 Jun 10	3.0
5. Department of Local Infrastructure Devt & Agri. Roads	2092(SF)	Decentralized Rural Infrastructure and Livelihood	NRM	TI	ECG/ISD	41.1	24 Sep 04	23 Dec 04	31 Oct 05	31 Oct 11	2.3
6. Ministry of Water Resources	2102(SF)	Community Managed Irrigated Agriculture Sector	SANS	TI	ECG/GOV/GAD	20.5	17 Nov 04	23 Dec 05	13 Jan 06	30 Sep 12	2.1
7. Dept. of Women Devt, Min. of Women, Children & Social Welfare	2143(SF)	Gender Equality and Empowerment of Women	SANS	TI	GAD/ISD	10.0	16 Dec 04	09 Jun 06	28 Nov 06	30 Jun 10	2.0
		Subtotal/Average				131.9					4.6
Education											
8. Ministry of Education and Sports	1840(SF)	Teacher Education	NRM	OTH	HD	18.6	24 Sep 01	28 Jan 02	09 May 02	30 Jun 08	5.3
9. Department of Education	1917(SF)	Secondary Education Support	SANS	PI	HD/GD	33.9	20 Sep 02	17 Jan 03	05 Aug 03	30 Sep 08	4.3
10. Ministry of Education and Sports	2111(SF)	Skills For Employment	NRM	TI	ISD/GAD	20.5	25 Nov 04	02 Feb 05	28 Feb 06	31 Mar 11	2.1
11. Ministry of Education and Sports	2277(SF)	Education Sector Program I	SANS	TI	ISD/CAD	30.7	01 Dec 06	28 Dec 06	-	31 Jan 10	0.1
		Subtotal/Average				103.7					2.9
Energy											
12. Nepal Electricity Authority	1732(SF)	Rural Electrification, Distribution and Transmission	SAEN	PPG	GI	41.2	21 Dec 99	13 Jul 00	14 Mar 02	30 Jun 07	7.0
		Subtotal/Average				41.2					7.0
Finance											
13. Ministry of Finance	1811(SF)	Corporate & Financial Governance	SAGF	PPG	GG	2.7	14 Dec 00	24 Jan 01	28 Nov 01	30 Jun 07	6.0
14. Ministry of Finance	2268(SF)	Rural Finance Sector Development	SAGF	GI	ECG, GOV	56.5	26 Oct 06	01 Nov 06	21 Nov 06	30 Jun 09	0.2
		Subtotal/Average				59.2					3.1
Law, Economic Management and Public Policy											
15. Ministry of General Administration	1861(SF)	Governance Reform Program	NRM	OTH	ECO	33.1	27 Nov 01	13 Dec 01	27 Dec 01	31 Dec 06	5.1
		Subtotal/Average				33.1					5.1
Transport and Communications											
16. Ministry of Physical Planning and Works	1876(SF)	Roads Network Development	NRM	PI	ECO	51.2	13 Dec 01	10 Dec 02	11 Mar 03	31 Dec 08	5.1
17. Ministry of Physical Planning and Works	2097(SF)	Subregional Transport Facilitation	SATC	GI	ECG/REG	20.5	04 Nov 04	19 Jan 05	10 May 05	01 Jul 10	2.2
		Subtotal/Average				71.6					3.6
Water Supply, Sanitation and Waste Management											
18. Ministry of Physical Planning and Works	1755(SF)	Small Towns Water Supply Sanitation Sector	NRM	PI	HD	32.8	12 Sep 00	18 Dec 00	16 Mar 01	30 Sep 08	6.3
19. Ministry of Physical Planning and Works	1820(SF)	Melamchi Water Supply	SAUD	PPG	HD/GG	139.7	21 Dec 00	24 Jan 01	28 Nov 01	31 Mar 07	6.0
20. Ministry of Physical Planning and Works	2008(SF)	Community-Based Water Supply and Sanitation Sector	NRM	CPI	HD/GD	23.8	30 Sep 03	09 Dec 03	01 Apr 04	31 Dec 10	3.3
21. Ministry of Physical Planning and Works	2058(SF)	Kathmandu Valley Water Services Sector Development Program	SAUD	OTH	GG	5.1	18 Dec 03	08 Apr 04	07 Dec 04	30 Jun 07	3.0
22. Ministry of Physical Planning and Works	2059(SF)	Kathmandu Valley Water Services Sector Development	SAUD	OTH	GG	10.5	18 Dec 03	08 Apr 04	07 Dec 04	30 Jun 11	3.0
		Subtotal/Average				211.9					4.3
Multisector											
23. Ministry of Physical Planning and Works	1966(SF)	Urban & Environmental Improvement	NRM	OTH	HD/GG/ENV	34.1	10 Dec 02	20 Jun 03	02 Oct 03	31 Mar 10	4.1
		Subtotal/Average				34.1					4.1
		Total/Average				686.8					4.2

^a Prior to 2001, PPR system recorded the Project Classification and Operational Priorities while loans approved after recorded the Poverty and Thematic Classifications.

CPI = core poverty intervention; ECO = economic growth; ENV = environmental protection; GD = gender and development; GG = good governance; GI = growth intervention; HD = human development; OTH = others; PI = poverty intervention; PPG = pro-poor growth; PSD = private sector development; REG = regional cooperation.

^b All loans approved from 2004 onwards followed the targeting and thematic classifications based on Staff Instructions on Updating the Project Classification System dated December 2004.

ECG = sustainable economic growth; GAD = gender and development; GI = general interventions; GOV = governance; ISD = inclusive social development; REG = regional cooperation; TI = targeted interventions.

NEPAL: ACTIVE TAs BY SECTOR
(as of 31 December 2006)

Sector/Ministry/EA	TA No.	Project Name	TA Type	TASU	Revised TA	Milestone Dates			Months Elapsed
					Amount (\$mn)	Approval	Signing	Expected Completion	from Approval to Signing
Agriculture and Natural Resources									
1. Department of Agriculture	3949	Commercial Agriculture Development	PP	SANS	0.700	28 Oct 02	06 Jan 03	30 Sep 06	2.3
2. Dept. of Women Devt, Min. of Women, Children & Social Welfare	4353	Promoting Pro-Poor and Gender-Responsive Service Delivery	AD	NRM	0.200	07 Jul 04	31 Aug 04	15 Dec 06	1.8
3. Ministry of Local Development	4397	Capacity Building in Rural Infrastructure Institutions	AD	NRM	0.400	24 Sep 04	07 Jan 05	31 Dec 07	3.5
4. Dept. of Women Devt, Min. of Women, Children & Social Welfare	4767	Capacity Building for Gender Equality and Empowerment of Women	AD	SANS	0.300	28 Feb 06	13 Jun 06	31 Dec 07	3.5
5. Department of Irrigation, Kathmandu	4774	Economic and Social Inclusion of the Disadvantaged Poor Through MIS	AD	SANS	0.450	20 Mar 06	26 May 06	31 Dec 07	2.2
6. Department of Irrigation, Kathmandu	9007	Farmer Support Organizations	JFPR	NRM	0.800	15 May 01		31 Dec 05	
7. Department of Irrigation, Kathmandu	9032	Productivity Water Association	JFPR	NRM	1.000	04 Aug 03		31 Mar 08	
8. Department of Agriculture, Kathmandu	9101	Improving the Livelihoods	JFPR	SANS	1.000			31 Jul 10	
		Subtotal/Average			4.850				2.6
Education									
9. Ministry of Education and Sports	4012	Skills for Employment	PP	SANS	0.520	04 Dec 02	19 Mar 03	31 Dec 06	3.5
10. Ministry of Education and Sports	4326	Education Sector Development Policy and Strategy (Supplementary)	AD	SANS	0.460	12 Apr 04	-	30 Sep 06	-
11. Ministry of Education and Sports	4754	Preparing the Education Sector Developing Program I	PP	SANS	0.600	21 Dec 05	23 Jan 06	20 Dec 06	1.1
		Subtotal/Average			1.580				2.3
Energy									
12. Nepal Electricity Authority	3552	Management Reforms and Efficiency Improvements for the Nepal Electricity Authority	AD	SAEN	0.800	27 Nov 00	15 Nov 02	30 Sep 06	23.6
13. Ministry of Water Resources	4492	Restructuring of Nepal Electricity Authority	AD	SAEN	0.400	18 Dec 04	17 Jun 05	31 May 06	6.0
14. Nepal Electricity Authority	4493	Rural Electrification and Renewable Energy	PP	SAEN	0.600	17 Dec 04	17 Jun 05	31 May 06	6.0
		Subtotal/Average			1.800				11.8
Finance									
15. Ministry of Finance	3580	Strengthening Corporate and Financial Governance	AD	SAGF	2.250	14 Dec 00	25 Jul 01	31 Dec 06	7.3
16. Agriculture Development Bank of Nepal	4259	Strengthening Selected Rural Financial Institutions	AD	SAGF	0.515	16 Dec 03	05 Mar 04	31 Mar 06	2.6
17. Ministry of Finance	4857	Capacity Building in Rural Finance	AD	SAGF	0.500	26 Oct 06	25 Dec 06	31 Dec 07	2.0
		Subtotal/Average			2.765				4.0
Health, Nutrition, and Social Protection									
18. Dept. of Women Devt, Min. of Women, Children & Social Welfare	4759	Reaching the Most Disadvantaged Groups in Mainstream Rural Development	AD	SANS	0.685	22 Dec 05	16 Feb 06	31 Jan 08	1.8
		Subtotal/Average			0.685				1.8
Law, Economic Management and Public Policy									
19. Ministry of General Administration	3622	Institutional Support for Governance Reforms	AD	NRM	1.525	18 Jan 01	22 Mar 01	30 Dec 06	2.1
20. Ministry of General Administration	4249	Strengthening Performance-Based Management	AD	NRM	0.275	12 Dec 03	02 Jan 04	31 Dec 06	0.7
21. National Vigilance Centre	4275	Strengthening Project Implementation and Quality Assurance	AD	NRM	0.600	18 Dec 03	21 Jan 04	31 Jul 06	1.1
22. Ministry of Finance	4288	Establishing Economic Policy Network	AD	NRM	0.200	18 Dec 03	05 Mar 04	31 Oct 06	2.6
23. Ministry of Population and Environment	4422	Preparation of National Resettlement Policy Framework	AD	NRM	0.150	28 Oct 04	-	30 Sep 06	-
24. Central Bureau of Statistics	4460	Strengthening National Accounts System	AD	NRM	0.350	03 Dec 04	24 Jan 05	14 Jun 07	1.7
25. National Planning Commission	4752	Regional Development Strategy	AD	NRM	0.760	21 Dec 05	31 Jan 06	31 Mar 07	1.3
26. Office of the Prime Minister & Council of Ministers	4834	Governance Reforms and Decentralization Cluster Program I	PP	SAGF	0.500	31 Aug 06	02 Nov 06	30 Nov 07	2.1
27. National Planning Commission	4905	Supporting Preparation of the 3-Year Interim Dev. Plan	AD	NRM	0.300	18 Dec 06	29 Dec 06	31 Aug 07	0.4
		Subtotal/Average			3.860				1.5
Transport and Communications									
28. Ministry of Physical Planning and Works	4347	Transport Connectivity Sector	PP	SATC	0.600	04 Jun 04	29 Jul 04	31 Jul 06	1.8
29. National Planning Commission	4760	Enhancing Poverty Reduction Impact of Road Projects	AD	NRM	0.350	03 Jan 06	21 Mar 06	31 Aug 07	2.5
30. Civil Aviation Authority of Nepal	4772	Preparation of Civil Aviation Sector Strategy	AD	SATC	0.150	20 Mar 06	-	31 Dec 06	-
31. Department of Roads	4825	Capacity Building in Road Feasibility and Construction and Contract Management	AD	SATC	0.300	10 Aug 06	07 Dec 06	31 Dec 12	3.9
32. High Level Commission for Information Technology	4833	Information and Communications Technology Development	PP	SATC	0.600	30 Aug 06	13 Oct 06	31 Jul 07	1.4
33. Ministry of Physical Planning and Works	4842	North-South Fast Track Road	PP	SATC	0.850	15 Oct 06	02 Nov 06	31 Jan 08	0.6
34. Ministry of Physical Planning and Works	3785	Road Network Development project	DFID	NRM	8.400				
		Subtotal/Average			11.250				2.1
Water Supply, Sanitation and Waste Management									
35. Ministry of Physical Planning & Works	4096	Kathmandu Valley Water Management Support	PP	SAUD	1.500	11 Apr 03	12 May 03	31 Dec 06	1.0
36. Ministry of Physical Planning & Works	4776	Enabling the PS to Undertake Poverty-Focused Water Distribution & Strn	AD	SAUD	0.720	28 Mar 06	31 Mar 06	31 Aug 07	0.1
37. Ministry of Physical Planning & Works	4893	Kathmandu Valley Water Distribution, Sewerage and Urban Dev.	PP	SAUD	0.960	13 Dec 06	-	31 Mar 08	-
		Subtotal/Average			3.180				0.6
Multisector									
38. National Planning Commission	4765	Operationalization of Managing for Development Results	AD	NRM	0.400	13 Feb 06	19 Apr 06	28 Feb 08	2.1
		Subtotal/Average			0.400				2.1
		Total/Average			31.670				3.1

NEPAL: LIST OF ONGOING GRANTS

S. No.	Grant No.	Project/Program	Approved Amount	Project Milestone Dates			Closing Original
				Approval	Signing	Effective	
1	0059	Rural Finance Sector Development	8.70	26-Oct-06	01-Nov-06	21-Nov-06	30-Jun-09
		Subtotal	8.70				
2	0063	Commercial Agriculture Development	18.00	16-Nov-06	23-Feb-07		30-Jun-13
3	0065	Education Sector Program	2.00	01-Dec-06	28-Dec-06	06-Feb-07	30-Jun-10
		Subtotal	20.00				
4	0051	Road Connectivity Sector	55.20	10-Aug-06	11-Sep-06	20-Nov-06	30-Jun-13
		Subtotal	55.20				
		Grant Portfolio Total	83.90				

NEPAL: FINANCIAL PERFORMANCE (LOANS) PROCUREMENT
(as of 31 December 2006)

Sector/ Loan No.	Project Name	Approval Date (1)	Net Loan Amount (2)	Cumulative Contract and Commitment		Annual Contract and Commitment			Remaining to be Awarded/ Committed as of 1 Jan 2006 ^a (6)	Contract/ Commit. Ratio ^b (7)	Date of 1st Contract (8)	Diff. between Date of 1st Contract and Approval Date (mos) (8-1)
				Amount (3)	% to Net Loan Amt. (3/2)	Projected (4)	Actual (5)	% Achieved (5/4)				
Agriculture and Natural Resources												
1. 1609(SF)	Community Groundwater Irrigation Sector	26-Feb-98	11.0	7.7	69.8	2.3	2.7	116.5	5.6	48.2	05-Jul-99	16.2
2. 1650(SF)	Rural Microfinance	08-Dec-98	18.2	15.4	84.6	4.3	6.5	150.3	8.7	75.0	13-Sep-99	9.2
3. 1778(SF)	Crop Diversification	09-Nov-00	10.3	9.6	92.9	2.4	2.7	114.5	3.0	89.4	16-Jul-01	8.2
4. 2071(SF)	Community Livestock Development	19-Dec-03	21.0	3.6	17.3	2.0	3.6	181.9	19.4	18.7	01-Dec-05	23.4
5. 2092(SF)	Decentralized Rural Infrastructure and Livelihood	24-Sep-04	41.1	1.2	3.0	1.2	1.2	105.0	37.0	3.3	27-Dec-05	15.1
6. 2102(SF)	Community Managed Irrigated Agriculture Sector	17-Nov-04	20.5	2.7	13.3	3.6	2.7	75.0	19.4	14.0	04-Aug-06	20.5
7. 2143(SF)	Gender Equality and Empowerment of Women	16-Dec-04	10.0	0.0	0.0	0.3	0.0	0.0	8.5	0.0	no contract yet	-
	Subtotal/Average		131.9	40.2	30.5	16.1	19.5	121.4				15.4
Education												
8. 1840(SF)	Teacher Education	24-Sep-01	18.6	10.4	56.0	3.7	3.9	103.6	10.0	38.7	16-Feb-02	4.8
9. 1917(SF)	Secondary Education Support	20-Sep-02	33.9	12.9	37.9	3.6	9.8	273.2	25.7	38.3	17-Nov-03	13.9
10. 2111(SF)	Skills For Employment	25-Nov-04	20.5	0.0	0.1	0.1	0.0	31.3	16.5	0.2	01-Jul-06	19.2
11. 2277(SF)	Education Sector Program I	01-Dec-06	30.7	0.0	0.0	0.0	0.0	0.0	30.7	0.0	no contract yet	-
	Subtotal/Average		103.7	23.3	22.5	7.4	13.7	185.3				12.6
Energy												
12. 1732(SF)	Rural Electrification, Distribution and Transmission	21-Dec-99	41.2	35.4	85.9	6.1	4.0	65.5	6.5	61.6	05-May-03	40.5
	Subtotal/Average		41.2	35.4	85.9	6.1	4.0	65.5				40.5
Finance												
13. 1811(SF)	Corporate & Financial Governance	14-Dec-00	2.7	3.6	130.4	2.0	0.0	0.0	-0.9	0.0	30-Aug-02	20.5
14. 2268(SF)	Rural Finance Sector Development	26/Oct/06	56.5	40.2	71.2	0.0	40.2	0.0	56.5	71.2	21-Nov-06	0.9
	Subtotal/Average		59.2	43.8	73.9	2.0	40.2	2061.3				10.7
Law, Economic Management and Public Policy												
15. 1861(SF)	Governance Reform Program	27-Nov-01	33.1	22.5	68.0	0.0	10.6	0.0	21.2	50.0	27-Dec-01	1.0
2002(SF)	Public Sector Management Program	08-Jul-03	19.7	19.7	100.0	0.0	0.0	0.0	0.0	0.0	11-Jul-03	0.1
	Subtotal/Average		52.8	42.2	79.9	0.0	10.6	0.0				0.5
Transport and Communications												
1450(SF)	Rural Infrastructure Development	27-Jun-96	10.8	10.5	97.7	0.0	0.1	0.0	0.1	98.4	01-Jun-96	-0.9
16. 1876(SF)	Roads Network Development	13-Dec-01	51.2	36.5	71.3	3.6	1.5	41.1	9.8	15.0	19-Jun-03	18.2
17. 2097(SF)	Subregional Transport Facilitation	04-Nov-04	20.5	1.3	6.6	3.7	0.0	0.0	16.4	0.0	02-Oct-05	10.9
	Subtotal/Average		82.4	48.4	58.7	7.3	1.5	21.0				9.4
Water Supply, Sanitation and Waste Management												
18. 1755(SF)	Small Towns Water Supply Sanitation Sector	12-Sep-00	32.8	25.0	76.1	8.9	7.4	83.4	14.5	51.2	02-Jul-01	9.6
19. 1820(SF)	Melamchi Water Supply	21-Dec-00	139.7	13.8	9.9	4.5	0.6	13.6	90.5	0.7	30-Nov-01	11.3
20. 2008(SF)	Community-Based Water Supply and Sanitation Sector	30-Sep-03	23.8	2.5	10.6	2.1	1.9	90.5	22.3	8.3	16-Jul-04	9.5
21. 2058(SF)	Kathmandu Valley Water Services Sector Development Program	18-Dec-03	5.1	2.5	49.1	2.5	0.0	0.0	2.6	0.0	08-Dec-05	23.7
22. 2059(SF)	Kathmandu Valley Water Services Sector Development	18-Dec-03	10.5	0.0	0.0	5.3	0.0	0.0	9.5	0.0	no contract yet	-
	Subtotal/Average		211.9	43.8	20.7	23.3	9.9	42.5				13.5
Multisector												
23. 1966(SF)	Urban & Environmental Improvement	10-Dec-02	34.1	4.6	13.4	3.6	2.2	61.5	24.5	9.0	01-Jan-04	12.7
	Subtotal/Average		34.1	4.6	13.4	3.6	2.2	61.5				12.7
	NEP Total/Average		717.3	281.6	39.3	65.6	101.6	154.9	458.9	22.1		13.1

^a The value available for contract awards excludes amount of interest during construction, unallocated amount and contingencies.

Negative ratios which are excluded in the totals were due to the following: (a) the overall cumulative contract/commitment at the end of the period is higher than the total value of contracts/commitment to be awarded/committed thus resulting to negative balance at the beginning of the year; and (b) such excess in contract/commitment values indicates the need for reallocation from the "Unallocated" category portion of the loan or cancellation

^b Ratio of contract awarded during the year over the value of available for contract awards at the beginning of the year. The value of the contracts to be awarded under newly approved and signed loans during the period is/will be added to the opening balance of the value available for contract.

NEPAL : FINANCIAL PERFORMANCE (LOANS) - DISBURSEMENT
(as of 31 December 2006)

Sector/ Loan No.	Project Name	Approval Date (1)	Net Loan Amount (2)	Cumulative Disbursement		Annual Disbursement		Disbursement Ratio ^a %	Advance/ Replenish- ment (7)	Imprest Account Disbursement ^b			Cumulative Disb. under Imprest Account		
				Amount (3)	% to Net Loan Amt. (3/2)	Projected (4)	Actual (5)			Achieved (5/4)	Liquidation (TWAFFB) (8)	Turnover Rate ^c (8/9)	Balance (9)	Amount (10)	% Utilized (10/3)
Agriculture and Natural Resources															
1. 1609(SF)	Community Groundwater Irrigation Sector	26 Feb 98	11.0	8.3	75.8	2.7	2.7	99.5	54.4	1.6	2.0	1.1	1.8	6.6	79.2
2. 1650(SF)	Rural Microfinance	08 Dec 98	18.2	16.4	90.2	4.3	6.6	154.8	82.9	6.5	6.7	0.9	7.8	16.1	98.3
3. 1778(SF)	Crop Diversification	09 Nov 00	10.3	8.7	84.3	3.4	2.3	69.5	61.3	1.6	1.6	0.7	2.3	7.1	80.9
4. 2071(SF)	Community Livestock Development	19 Dec 03	21.0	3.3	15.9	1.5	2.3	148.2	12.1	1.1	1.1	1.0	1.1	2.2	65.0
5. 2092(SF)	Decentralized Rural Infrastructure and Livelihood	24 Sep 04	41.1	1.4	3.4	0.8	0.4	52.5	1.1	0.4	0.4	1.0	0.4	1.4	99.1
6. 2102(SF)	Community Managed Irrigated Agriculture Sector	17 Nov 04	20.5	0.8	3.9	1.5	0.8	52.3	4.1	0.6	0.1	0.4	0.4	0.6	79.8
7. 2143(SF)	Gender Equality and Empowerment of Women	16 Dec 04	10.0	0.0	0.0	0.6	0.0	0.0	0.0	-	-	-	-	-	-
	Subtotal/Average		131.9	39.0	29.5	14.8	15.2	102.4		11.9	12.0	5.1	2.3	34.0	87.1
Education															
8. 1840(SF)	Teacher Education	24 Sep 01	18.6	8.8	47.2	3.6	2.9	80.4	23.8	2.8	2.9	0.9	3.2	8.7	98.5
9. 1917(SF)	Secondary Education Support	20 Sep 02	33.9	9.6	28.3	3.0	6.2	207.8	21.4	1.9	1.9	1.6	1.2	5.3	55.2
10. 2111(SF)	Skills For Employment	25 Nov 04	20.5	1.0	5.0	0.2	1.0	428.3	5.3	1.0	0.0	0.7	0.0	1.0	99.7
11. 2277(SF)	Education Sector Program I	01 Dec 06	30.7	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-
	Subtotal/Average		103.7	19.4	18.7	6.8	10.1	148.8		5.8	4.8	3.1	1.5	15.0	77.1
Energy															
12. 1732(SF)	Rural Electrification, Distribution and Transmission	21 Dec 99	41.2	26.4	64.0	11.9	13.0	109.5	48.8	-	-	-	-	-	-
	Subtotal/Average		41.2	26.4	64.0	11.9	13.0	109.5		-	-	-	-	-	-
Finance															
13. 1811(SF)	Corporate & Financial Governance	14 Dec 00	2.7	2.0	73.0	2.0	0.4	22.9	48.5	0.0	0.0	0.04	0.0	0.04	2.0
14. 2268(SF)	Rural Finance Sector Development	26 Oct 06	56.5	40.2	71.2	0.0	40.2	0.0	71.8	-	-	-	-	-	-
	Subtotal/Average		59.2	42.2	71.2	2.0	40.6	22.9		0.0	0.0	0.04	0.0	0.04	0.1
Law, Economic Management and Public Policy															
15. 1861(SF)	Governance Reform Program	27 Nov 01	33.1	22.5	68.0	0.0	10.6	0.0	52.5	-	-	-	-	-	-
2002(SF)	Public Sector Management Program	08 Jul 03	19.7	19.7	100.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-
	Subtotal/Average		52.8	42.2	79.9	0.0	10.6	0.0		-	-	-	-	-	-
Transport and Communications															
1450(SF)	Rural Infrastructure Development	27 Jun 96	10.8	10.8	100.0	0.0	0.2	0.0	120.9	0.0	-	-	-	5.3	49.4
16. 1876(SF)	Roads Network Development	13 Dec 01	51.2	19.2	37.6	10.0	9.5	95.3	24.1	4.1	3.1	1.5	2.1	7.7	40.0
17. 2097(SF)	Subregional Transport Facilitation	04 Nov 04	20.5	0.9	4.5	0.3	0.3	92.7	1.5	0.0	0.0	0.5	0.0	0.5	54.0
	Subtotal/Average		82.4	30.9	37.5	10.3	10.0	96.7		4.1	3.1	2.0	1.6	13.5	43.7
Water Supply, Sanitation and Waste Management															
18. 1755(SF)	Small Towns Water Supply Sanitation Sector	12 Sep 00	32.8	13.1	40.0	5.0	5.3	106.3	22.4	4.5	5.0	2.2	2.3	11.7	89.1
19. 1820(SF)	Melamchi Water Supply	21 Dec 00	139.7	7.8	5.6	1.3	1.4	109.7	1.1	1.2	1.8	1.4	1.3	3.4	43.2
20. 2008(SF)	Community-Based Water Supply and Sanitation Sector	30 Sep 03	23.8	2.7	11.3	1.9	0.2	12.3	1.2	0.2	0.2	2.4	0.1	2.7	99.1
21. 2058(SF)	Kathmandu Valley Water Services Sector Development Program	18 Dec 03	5.1	2.5	48.7	2.5	0.0	0.0	0.0	-	-	-	-	-	-
22. 2059(SF)	Kathmandu Valley Water Services Sector Development	18 Dec 03	10.5	0.5	4.9	1.9	0.0	0.3	0.05	0.0	0.0	0.5	0.0	0.5	98.4
	Subtotal/Average		211.9	26.6	12.5	12.7	7.0	55.1		5.9	7.0	6.5	1.1	18.2	68.6
Multisector															
23. 1966(SF)	Urban & Environmental Improvement	10 Dec 02	34.1	3.2	9.5	1.5	1.5	95.8	4.8	1.5	0.6	1.0	0.6	3.2	98.8
	Subtotal/Average		34.1	3.2	9.5	1.5	1.5	95.8		1.5	0.6	1.0	0.6	3.2	98.8
	NEP Total/Average		717.3	229.9	32.1	60.0	108.0	179.9	20.0	29.2	27.5	17.8	1.5	83.9	36.5

Disbursement ratio is defined as the ratio of total disbursement in a given year over the net loan available at the beginning of the year plus the loan amounts of newly approved loans which have become effective. "Net loan amount at the beginning of the year" includes all effective loans at the beginning of the year. "Loan amounts of newly approved loans which have become effective" includes loans approved before and after the beginning of the year that have become effective after the beginning of the year. Disbursement ratio for individual project as a performance indicator is less meaningful than average ratios of sector and country.

a

b Includes active and closed loans in previous years with fund balances/transactions during the past 12-month period.

c

Turnover ratio = The annualized imprest turnover rate is computed as the ratio of total liquidation over the time-weighted average fund balance (TWAFFB) for 12 months.

NEPAL: PROJECT PERFORMANCE RATING OF ONGOING LOANS
(as of 31 December 2006)

Sector/ Loan No.	Project Name	Project Ratings					Risk Factors Detail														
		Impact & Outcome (IO)	Impl. Progress (IP)	Potential Problem (PP)	At Risk (U+PS in IP or IO)+PP	Types	Implemen- tation Delays	Tranche Delays	Utilization Delays	Compliance with Loan Covenants	PMU & Staffing	Consultant's Fielding	Counterpart Funds	Cost Overrun	Submission of APA/AFS	Environmental/ Social	Disbursement Achievement	History of In Risk Sector	Mission Days Fielded	Total Flags	
Agriculture and Natural Resources																					
1. 1609(SF)	Community Groundwater Irrigation Sector Project	S	S	No	No	Project	Flag(PS)	-----	-----	S	S	S	HS	HS	HS	S	99.5	Flag	19	2	
2. 1650(SF)	Rural Microfinance Project	S	S	No	No	Project	S	-----	-----	S	HS	S	HS	HS	S	S	154.8	Flag	10	1	
3. 1778(SF)	Crop Diversification Project	S	S	No	No	Project	S	-----	-----	S	S	S	HS	HS	HS	S	Flag(69.5)	Flag	64	2	
4. 2071(SF)	Community Livestock Development Project	S	S	No	No	Project	S	-----	-----	S	S	Not Yet Due	HS	HS	S	S	148.2	Flag	8	1	
5. 2092(SF)	Decentralized Rural Infrastructure and Livelihood Project	S	S	No	No	Project	S	-----	-----	S	HS	HS	HS	HS	S	S	Flag(52.4)	Flag	54	2	
6. 2102(SF)	Community Managed Irrigated Agriculture Sector Project	S	S	No	No	Project	S	-----	-----	S	S	S	HS	HS	S	S	Flag(52.3)	Flag	36	2	
7. 2143(SF)	Gender Equality and Empowerment of Women Project	S	S	No	No	Project	S	-----	-----	No Covenant	No Input	No Input	NA	HS	S	S	No Covenant	Flag(0)	Flag	8	2
Education																					
8. 1840(SF)	Teacher Education Project	S	HS	No	No	Project	HS	-----	-----	S	S	S	HS	HS	HS	S	80.4		25	0	
9. 1917(SF)	Secondary Education Support Project	S	S	No	No	Project	S	-----	-----	S	HS	S	HS	HS	S	S	207.8		38	0	
10. 2111(SF)	Skills for Employment Project	S	S	No	No	Project	S	-----	-----	S	S	Not Yet Due	HS	HS	S	S	428.3	Not Yet Due	27	0	
11. 2277(SF)	Education Sector Program I	S	S	No	No	Program	-----	NYE	-----	Not Yet Due	-----	Not Applicable	NYE	-----	-----	-----	No Projection	Flag	NA	2	
Energy																					
12. 1732(SF)	Rural Electrification, Distribution and Transmission Proj	PS	S	No	Yes	Project	Flag(PS)	-----	-----	Flag(PS)	S	S	HS	HS	HS	S	109.5		27	2	
Finance																					
13. 1811(SF)	Corporate & Financial Governance Project	S	S	No	No	Project	Flag(PS)	-----	-----	Flag(PS)	S	S	HS	HS	S	S	No Covenant	Flag(22.9)	18	3	
14. 2268(SF)	Rural Finance Sector Development Cluster Program	S	HS	No	No	Program	-----	HS	-----	S	-----	S	HS	-----	-----	-----	No Projection	Flag	6	1	
Law, Economic Management and Public Policy																					
15. 1861(SF)	Governance Reform Program	S	PS	No	Yes	Program	-----	Flag(U)	-----	S	-----	S	Flag(U)	-----	-----	-----	No Projection	Flag	23	3	
Transport and Communications																					
16. 1876(SF)	Roads Network Development Project	S	S	No	No	Project	S	-----	-----	S	S	S	HS	HS	HS	S	95.3		55	0	
17. 2097(SF)	Subregional Transport Facilitation Project	S	S	No	No	Project	S	-----	-----	S	HS	S	HS	HS	S	S	92.7		12	0	
Water Supply, Sanitation and Waste Management																					
18. 1755(SF)	Small Towns Water Supply Sanitation Sector Project	S	S	No	No	Project	Flag(PS)	-----	-----	S	S	S	HS	HS	HS	S	106.3		23	1	
19. 1820(SF)	Melamchi Water Supply Project	S	PS	No	Yes	Project	Flag(U)	-----	-----	S	S	S	Flag(PS)	S	HS	S	109.7		13	2	
20. 2008(SF)	Community-Based Water Supply and Sanitation Sector F	S	S	No	No	Project	S	-----	-----	S	HS	S	HS	HS	HS	S	Flag(12.3)		33	1	
21. 2058(SF)	Kathmandu Valley Water Services Sector Development f	S	PS	No	Yes	Program	-----	Flag(U)	-----	S	-----	Not Yet Due	HS	-----	-----	-----	Flag(0)	Flag	34	3	
22. 2059(SF)	Kathmandu Valley Water Services Sector Development f	S	S	No	No	Project	S	-----	-----	S	S	Not Yet Due	HS	HS	S	S	Flag(0.2)		Flag(1)	2	
Multisector																					
23. 1966(SF)	Urban & Environmental Improvement Project	S	S	No	No	Project	S	-----	-----	S	HS	S	HS	HS	HS	S	95.8		38	0	
Total Project Rating At Risk Analysis:																					
IP	IO	Problem Projects (U+PS)		4(17.4%)																	
HS	2	0	Potential Problem (4 flags)				5	2	0	2	0	0	2	0	0	0	8	11	2	32	
S	18	22	At Risk (U+PS+PP)		4(17.4%)																
PS	3	1	At Categories (no. of loans)				23	0	23	19	23	23	19	19	19	19	23	23	23	237	
U	0	0	% of Flags				30.4	0.0	8.7	0.0	0.0	8.7	0.0	0.0	0.0	0.0	34.8	47.8	8.7		
			Risk Ratios				3.0	0.0	0.8	0.0	0.0	0.8	0.0	0.0	0.0	0.0	3.4	4.6	0.8	13.5	
Total No. of Loans	23	Overall Risk Ratio of the Portfolio		13.5%																	

HS = Highly Satisfactory; PS = Partly Satisfactory; S = Satisfactory; U = Unsatisfactory.

NA = Not available; NYE = not yet effective.

Definitions: Problem Projects are those PS and U projects in either IP or IO; Potential Problem project (PP) are those projects with four or more flags in IP; Projects At Risk is the total of Problem projects (PS+U) and Potential Problem (PP).

Risk Ratio is the percentage of risky or problem-flagged projects (loans) to total no. of loans in applicable categories of project, program, DFI, and combined loans. The greater the percentage is, the higher the riskiness of the issues to adversely impact overall quality of portfolio.

Overall Risk Ratio of the Portfolio is the weighted average of the riskiness ratios of the individual issues that are weighted by the number of the loans applicable categories to sum of all applicable loans in all major issues.

Note: If overall rating for IP or IO is PS or U, project is automatically "at risk" and flags are not counted in determining PP but will be flagged to indicate the If IP rating was override to upgrade the project rating to HS or S, project will not also be classified as a potential problem project.

Flag-in criteria:

- 1 Project Implementation Delays
 - 2 Program Implementation Delays
 - 3 Delay in Loan Utilization
 - 4 Poor Compliance with Covenants
 - 5 Established, Staffed, and Operating PMU/
 - 6 Fielding of Consultants
 - 7 Shortage of Counterpart Funds/Cofinancing
 - 8 Cost Overrun
 - 9 Poor Compliance with APA/AFS
 - 10 Environmental and/or Social Problems
 - 11 Significant Disbursement Delays
 - 12 In Risk Sector in a Country with History of Past Problems
 - 13 Project Field Missions
- Flag-in when rated PS or U for project implementation in current rating
- Flag-in when rated PS or U for tranche delays in current rating
- Flag-in when rated PS or U for loan utilization in current rating
- Flag-in when rated PS or U for covenants in current rating
- Flag-in when rated PS or U
- Flag-in when rated PS or U
- Flag-in when rated PS or U for counterpart funds/cofinancing in current rating
- Flag-in when rated PS or U for project cost in current rating
- Flag-in when rated PS or U for APA/AFS compliance in current rating
- Flag-in when rated PS or U in current rating
- Flag-in when the actual disbursement is <70% of the projection as of the cut-off date.
- If the cut-off date is within the quarter, the projected amount of the quarter will be prorated.
- Flag-in when 50% of sector portfolio in a country was previously rated as PS or U in IP or IO.
- Loans closed in the last 2 years will assume rating at the time of closing.
- Flag-in when number of mission days is less than 10 person-days in the last 12 months for projects with PS or U in overall rating of IP or DO, or less than 5 person-days for projects with HS or S ratings. Projects completed (with 100% project progress) require PCR missions within 2 years after completion, hence, no flag.

NEPAL: FINANCIAL PERFORMANCE (TAs) PROCUREMENT AND DISBURSEMENT
(as of 31 December 2006)

Sector/ TA No.	Project Name	Approval Date (1)	Net TA Amount (2)	Cumulative Contract/ Commitment		Uncommitted Balance		Cumulative Disbursement		Undisbursed Balance	
				Amount (3)	% to Net TA Amount (3/2)	Amount (2-3)	%	Amount (4)	% to Net TA Amt. (4/2)	Amount (2-4)	%
Agriculture and Natural Resources											
1.	3949 Commercial Agriculture Development	28 Oct 02	0.700	0.689	98.4	0.011	1.6	0.682	97.5	0.018	2.5
2.	4353 Promoting Pro-Poor and Gender-Responsive Service Delivery	07 Jul 04	0.200	0.176	87.8	0.024	12.2	0.069	34.7	0.131	65.3
3.	4397 Capacity Building in Rural Infrastructure Institutions	24 Sep 04	0.400	0.000	0.0	0.400	100.0	0.000	0.0	0.400	100.0
4.	4767 Capacity Building for Gender Equality and Empowerment of Women	28 Feb 06	0.300	0.290	96.7	0.010	3.3	0.037	12.5	0.263	87.5
5.	4774 Economic and Social Inclusion of the Disadvantaged Poor Through MIS	20 Mar 06	0.450	0.418	92.8	0.033	7.2	0.055	12.2	0.395	87.8
	Subtotal/Average		2.050	1.572	76.7	0.478	23.3	0.844	41.2	1.206	58.8
Education											
6.	4012 Skills for Employment	04 Dec 02	0.520	0.482	92.6	0.038	7.4	0.416	80.1	0.104	19.9
7.	4326 Education Sector Development Policy and Strategy (Supplementary)	12 Apr 04	0.460	0.417	90.7	0.043	9.3	0.358	77.8	0.102	22.2
8.	4754 Preparing the Education Sector Developing Program I	21 Dec 05	0.600	0.580	96.7	0.020	3.3	0.328	54.7	0.272	45.3
	Subtotal/Average		1.580	1.479	93.6	0.101	6.4	1.102	69.8	0.478	30.2
Energy											
9.	3552 Management Reforms and Efficiency Improvements for the Nepal Electricity Authority	27 Nov 00	0.800	0.776	96.9	0.024	3.1	0.720	90.1	0.080	9.9
10.	4492 Restructuring of Nepal Electricity Authority	18 Dec 04	0.400	0.338	84.4	0.063	15.6	0.099	24.8	0.301	75.3
11.	4493 Rural Electrification and Renewable Energy	17 Dec 04	0.600	0.489	81.6	0.111	18.4	0.489	81.6	0.111	18.4
	Subtotal/Average		1.800	1.602	89.0	0.198	11.0	1.309	72.7	0.491	27.3
Finance											
12.	3580 Strengthening Corporate and Financial Governance	14 Dec 00	2.250	2.194	97.5	0.056	2.5	1.905	84.6	0.345	15.4
13.	4259 Strengthening Selected Rural Financial Institutions	16 Dec 03	0.515	0.492	95.5	0.023	4.5	0.465	90.4	0.050	9.6
14.	4857 Capacity Building in Rural Finance	26 Oct 06	0.500	0.000	0.0	0.500	100.0	0.000	0.0	0.500	100.0
	Subtotal/Average		3.265	2.686	82.3	0.579	17.7	2.370	72.6	0.895	27.4
Health, Nutrition, and Social Protection											
15.	4759 Reaching the Most Disadvantaged Groups in Mainstream Rural Development	22 Dec 05	0.685	0.150	21.9	0.535	78.1	0.000	0.0	0.685	100.0
	Subtotal/Average		0.685	0.150	21.9	0.535	78.1	0.000	0.0	0.685	100.0
Law, Economic Management and Public Policy											
16.	3622 Institutional Support for Governance Reforms	18 Jan 01	1.525	1.515	99.3	0.010	0.7	1.503	98.6	0.022	1.4
17.	4249 Strengthening Performance-Based Management	12 Dec 03	0.275	0.264	96.0	0.011	4.0	0.247	89.9	0.028	10.1
18.	4275 Strengthening Project Implementation and Quality Assurance	18 Dec 03	0.600	0.535	89.2	0.065	10.8	0.440	73.4	0.160	26.6
19.	4288 Establishing Economic Policy Network	18 Dec 03	0.200	0.193	96.5	0.007	3.5	0.148	73.8	0.052	26.2
20.	4422 Preparation of National Resettlement Policy Framework	28 Oct 04	0.150	0.130	86.9	0.020	13.1	0.099	66.2	0.051	33.8
21.	4460 Strengthening National Accounts System	03 Dec 04	0.350	0.232	66.4	0.118	33.6	0.055	15.6	0.295	84.4
22.	4752 Regional Development Strategy	21 Dec 05	0.760	0.755	99.3	0.005	0.7	0.079	10.4	0.681	89.6
23.	4834 Governance Reforms and Decentralization Cluster Program I	31 Aug 06	0.500	0.000	0.0	0.500	100.0	0.000	0.0	0.500	100.0
24.	4905 Supporting Preparation of the 3-Year Interim Dev. Plan	18 Dec 06	0.300	0.000	0.0	0.300	100.0	0.000	0.0	0.300	100.0
	Subtotal/Average		4.660	3.624	77.8	1.036	22.2	2.572	55.2	2.088	44.8
Transport and Communications											
25.	4347 Transport Connectivity Sector	04 Jun 04	0.600	0.562	93.7	0.038	6.3	0.549	91.5	0.051	8.5
26.	4760 Enhancing Poverty Reduction Impact of Road Projects	03 Jan 06	0.350	0.256	73.1	0.094	26.9	0.095	27.2	0.255	72.8
27.	4772 Preparation of Civil Aviation Sector Strategy	20 Mar 06	0.150	0.136	90.5	0.014	9.5	0.083	55.0	0.067	45.0
28.	4825 Capacity Building in Road Feasibility and Construction and Contract Management	10 Aug 06	0.300	0.000	0.0	0.300	100.0	0.000	0.0	0.300	100.0
29.	4833 Information and Communications Technology Development	30 Aug 06	0.600	0.233	38.8	0.367	61.2	0.000	0.0	0.600	100.0
30.	4842 North-South Fast Track Road	15 Sep 06	0.850	0.000	0.0	0.850	100.0	0.000	0.0	0.850	100.0
	Subtotal/Average		2.850	1.186	41.6	1.664	58.4	0.727	25.5	2.123	74.5
Water Supply, Sanitation and Waste Management											
31.	4096 Kathmandu Valley Water Management Support	11 Apr 03	1.500	1.454	96.9	0.046	3.1	1.297	86.5	0.203	13.5
32.	4776 Enabling the PS to Undertake Poverty-Focused Water Distribution & Strn	28 Mar 06	0.720	0.283	39.3	0.437	60.7	0.034	4.7	0.686	95.3
33.	4893 Kathmandu Valley Water Distribution, Sewerage and Urban Dev.	13 Dec 06	0.960	0.000	0.0	0.960	100.0	0.000	0.0	0.960	100.0
	Subtotal/Average		3.180	1.737	54.6	1.443	45.4	1.331	41.9	1.849	58.1
Multisector											
34.	4765 Operationalization of Managing for Development Results	13 Feb 06	0.400	0.360	90.0	0.040	10.0	0.038	9.6	0.362	90.4
	Subtotal/Average		0.400	0.360	90.0	0.040	10.0	0.038	9.6	0.362	90.4
	Total/Average		20.470	14.397	70.3	6.073	29.7	10.293	50.3	10.177	49.7

Efficiency and change units in MOES and MOH to prepare and begin implementation of detailed plans for right sizing.	Partly Complied.
Government to develop procedures for, and conduct annual random checks of property, asset and income declarations.	Not Complied.
Government to submit whistleblower protection legislation.	Not Complied.
Government to submit anti-money laundering legislation.	Not Complied.
MOF, GRCU and MOAC to establish, announce and commence implementation of a performance management system with performance improvement plans and new service standards with necessary funding.	Partly Complied. Implementation initiated but facing difficulties and hindrance.
GRCU, MOF, MOES and MOH with the Nepal Administrative Staff College to design, conduct and evaluate appropriate management and in-service training linked to ministry-based performance improvement plans.	Partly Complied
MOGA to monitor and publicize results of annual service performance.	Not Complied

WATER SUPPLY, SANITATION AND WASTE MANAGEMENT

Loan No. 1820: Melamchi Water Supply; Physical Completion: 31 July 2007

Legislation shall be enacted to require the payment of a levy by the water consumers of Kathmandu Valley to the inhabitants of Melamchi, Yangri, and Larke Valleys for the payment of water taken from those valleys.	Not complied. This provision needs to be inserted in the Water Resources Act. Until WRA is enacted, KWSMB may enter into an agreement to ascertain the levy and pay to the concerned parties. Principle of levy was approved and notified, while detailed provisions are yet to be prescribed under the WRA
Consultative committee shall be established representing the inhabitants of the Melamchi Valley and shall include representatives of MWSDB, the Chairpersons of the affected village development committees, and the affected district development committees and (b) a Memorandum of understanding shall be signed between this consultative committee and the Borrower.	Not complied. Melamchi Consultative Group (MCG) could not be formed in the absence of Village Development Committees. Efforts are underway to form an acceptable committee, Helambu Sindhu Valley Development Committee (HSUVS) to act like MCG, which shall include representatives of major political parties and other stakeholder groups.
The Project Director and PMU division heads will be maintained in the positions for a minimum of three years during project implementation, and shall seek the Bank's concurrence for any change of those appointment.	Not Complied. The incumbent Executive Director is the 4th Executive Director appointed by the Govt. for this Project, without prior consultation with ADB.

Loan No. : Kathmandu Valley Water Services Sector Development Program; Physical Completion: 30 September 2008

The Borrower shall have conclusively determined, allocated and transferred, to the satisfaction of the Bank, the proper portion of the existing debts of the NWSC to the WA.	Not Complied. The asset transfer plan was prepared by consultants and is ready for discussion by NWSC.
The WA shall have approved the leasing of the assets of the water supply and wastewater systems in the Kathmandu Valley under an operating license to the WUO	Not Complied. The asset lease and operating license documents were finalized and are being reviewed by KVWSMB.
The WA shall have leased the assets of the water supply and wastewater systems in the Kathmandu Valley under an operating license to the WUO.	Not Complied. The asset lease document was finalized and is being reviewed by KVWSMB
The WUO shall have signed the Management Contract.	Not Complied. Management Contract is experiencing substantial delay.
The WUO shall have entered into the WUO Assumption Agreement with ADB and shall have assumed all the rights and obligations of the MWSDB, to the extent that they are applicable to the WUO, under the Program Agreement	Not Complied. The draft AA was sent to MOF through MPPW for approval
The WUO shall have entered into the WUO Subsidiary Loan Agreement with the Borrower, upon terms and conditions satisfactory to the Bank	Not Complied. The draft SLA was sent to MOF through MPPW for approval
Established, Staffed, and Operating PMU/PIU	Partly Complied

Key Loan Covenant Awaiting Compliance

Covenant	Status of compliance
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AGRICULTURE AND RURAL INFRASTRUCTURE**Loan No. 1609 Community Groundwater Irrigation; Physical Completion: 31 July 2007**

Provision of credit. [LA Schedule 6, Para 20,21,22 & 23].	Partly Complied. 9 PFIs have delivered \$3.1 million credit for STW and agriculture production. Due to slow credit delivery by CGISP PFIs, 1,666 of the farmers groups 10,010 farmer groups installed STWs by borrowing from NGOs and cooperatives involved in financial operation and by utilizing their group funds supplemented by raising additional funds from group members.
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Loan No. 2102 Community Managed Irrigated Sector; Physical Completion: 30 September 2012

The Borrower will proceed with policy and institutional reforms in the water sector in consultation with ADB. The specific actions include (i) finalizing integrated water resources management policy, (ii) defining the scope of revising legal framework for IWRM, (iii) defining the institutional framework to operate IWRM at national and river basin levels, and (iv) preparing long term national water plan. Sched 6, para. 13	Partly Complied. In process. WECS is continuing with the preparation of integrated water resources management policy etc with WB assistance. The TA for Micro-irrigation is helping with the preparation of policy & guidelines for non-conventional irrigation. A committee has been formed to proceed with the institutional development vision and strategy for DOI. A start has been made on preparing improved FMIS guidelines and manuals.
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Loan No. 2071 Community Livestock Development; Physical Completion: 30 September 2012

To achieve the required coverage for the livestock productivity activities mentioned under para. 10 above, RMDC shall establish partnerships with microfinance and other credit organizations as required. In project districts without qualified MFIs, RMDC shall identify at least five NGOs as potential MFIs within six months of the effective date, and provide them training to become MFIs (Sched. 6, para. 11).	Partly Complied. RMDC has not been able to identify NGOs for training and credit delivery only in some districts where MFIs are not readily available
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Loan No. 2092 Decentralized Rural Infrastructure and Livelihood; Physical Completion: 31 December 2006

The Borrower shall finalize the National Policy and Strategy for Rural Infrastructure by 31 December 2004. In so doing, it shall take into account the views of the donor community.	Partly Complied. The strategic action plan for transport system including suspension bridge has been drafted and is awaiting approval from MLD.
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ENERGY**Loan 1732: Rural Electrification, Distribution and Transmission; Physical Completion: 31 December 2008**

NEA will implement the Action Plan for non-technical loss reduction and will ensure the total system energy losses are less than 23% in FY2000, less than 22% in FY2001, less than 21% in FY2002 and less than 20% thereafter. Mid-term Review Mission amended the target to 23.4% by FY 2003 and to 22.0% by FY 2004	Not Complied. Total losses were 23.9% in FY2000, , 24.2% in FY2001, 24.8% in FY 2002, 23.7% in FY 2003, 22.9% in FY2004,24.83% in FY 2005, and 24.7% in Nov 2006.
NEA will make semi-automatic interim adjustments in its tariffs after every six months starting in FY2001 if necessary.	Partly Complied. While a semi-automatic tariff adjustment procedure has been approved in May 2001, the ETFC has not yet approved the detailed formula (a weighted consumer price index based) to be used for semi-automatic tariff adjustments.
NEA's tariffs shall be adequate to achieve a rate of return of at least 6% on net revalued fixed assets each year starting FY2001	Not complied ROR based on revalued fixed assets: FY 2001 = -0.1%; FY 2002 = -1.8% FY 2003 = -0.5%; FY 2004 = 2.8% FY 2005 = 3.8%; FY 2006 (unaudited) = 2.64%

NEA's tariffs shall be adequate to achieve a SFR of at least 23% starting FY2001.	Not complied. FY 2001 = 10.3 % FY 2002 = -13% FY 2003 = -4%; FY 2004 = 62.8% FY 2005 = 35.9%; FY 2006 (unaudited) = -13.38%
NEA shall achieve a debt service ratio of at least 1.2 times.	Not complied. FY 2001 = 1.8 times; FY 2002 = 1.3 times FY 2003 = 0.8 times; FY 2004 = 0.9 times FY 2005 = 0.8 times; FY 2006 (unaudited) = 0.78 months (provisional) = 0.8 times
NEA's total accounts receivable should not exceed the equivalent of NEA's sales revenue for 3 months.	Not complied FY 2001 = 2.5 mos.; FY 2002 = 2.9 mos. FY 2003 = 3.7 mos.; FY 2004 = 3.8 mos. FY 2005 = 3.5 mos.; FY 2006 (unaudited) = 3.6 mos.

EDUCATION

Loan No. 1840: Teacher Education Project; Physical Completion: 30 June 2008

Within three months of the Effective Date, MOES shall establish a Technical Committee, headed by Secretary, MOES and including representatives of MOF, NCED, DEC and at least three eminent teacher training and management experts. The Committee shall evaluate a shortlist of overseas training institutions compiled by the Chief Technical Advisor, and submit its final recommendations to the Bank for approval. Within six months of the Effective Date, the Committee shall develop criteria for the selection of candidates for overseas training. The criteria shall include guidelines for the encouragement of eligible female candidates. All candidates for overseas training shall be selected in accordance with these criteria. (LA, Sched. 6, para. 8)	Partly complied. The committee has been formed by the Ministerial level decision. However, in accordance with new Foreign Aid Policy, the Government has not allowed to use loan resources for foreign training. A mechanism has been established for institutional linkages with Asian Institute of Technology under Danida grant assistance to upgrade capacity building.
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FINANCE

Loan No. 1811 Corporate and Financial Governance; Physical Completion: 31 December 2006

LA S. 4.02. . . make available, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project and for the operation and maintenance of the Project facilities.	Partly Complied. MOF to provide adequate budget for the NJA..
S. 4.03. (a) cause competent consultants and contractors, to be employed to an extent and upon terms and conditions satisfactory to the Borrower and the Bank.	Partly Complied. Flawed procurement process for NJA was stopped by ADB. Severe delay in payments of consulting dues.
S. 4.04. ensure that the activities of its departments and agencies [are] coordinated in accordance with sound administrative policies and procedures.	Partly complied.
S. 4.07. (b) furnish quarterly reports on the Project.	Not complied.
Suspension: (c) failed to provide adequate budgetary support to the Accounting Standards Board and the Auditing Standards Board, or SEBO, or the NJA the opinion of the Bank, adversely affect the carrying out of the Project.	Partly Complied. Inadequate budget provided for NJA.
S. 6.01 MOF shall execute the Project with the assistance of the IAs and establish the PCMU in MOF and staff it in a manner and to a level acceptable to the Bank. MOF will convene meetings of the CFG Steering Committee and the IAs to coordinate all Project activities.	Partly Complied. PCMU and steering committee has not been active.
S 6.04. establish NJA and staff its organization. ...ensure adequate budgetary support to the NJA, gradually increase budgetary allocation for the judiciary.	Not Complied. Inadequate budget provided for NJA. Component closed.

S 6.05. By 30 June 2001, the Borrower shall issue a Gazette notification to bring into force the Judicial Fund Act 1986 to ensure adequate development budget for the judiciary.	Not complied. However notification in the current form not desirable since it does not support NJA or development of the judiciary.
S 6.14. PCMU to establish a benefit and monitoring evaluation system that shall: (a) establish performance parameters for the IAs; (b) involve civil society users of services; (c) independently monitor progress at the end of each year;	Not complied. PCMU has not undertaken initiative.
S 6.16. The Borrower shall hold stakeholder consultation workshops. The Borrower shall, in addition, hold regular meetings of the CFG Steering Committee.	Partly Complied. No Steering Committee meetings were held. However consultative meetings were frequently held.
S 6.17. The Borrower shall set up a system for measuring the performance of SEBO, NEPSE, CDS, CRO and NJA. Performance measurement will focus on the development impact, particularly capacity building and skills transfer. The monitoring shall be carried out on an annual basis.	Not Complied.

LAW, ECONOMIC MANAGEMENT & PUBLIC POLICY

Loan No. 1861: Government Reform Program Loan; Physical Completion: 15 June 2007

Agency designated under 18 to enforce compliance of annual audit of funds of all political parties.	Partly Complied. Enforcement of legislation by Election Commission faced difficulty due to confrontation between Government and major political parties. Changed political situation after April 2006 favors implementation of legislation.
Government to enforce compliance with legislation on property, asset and income declarations.	Partly Complied. NVC to monitor compliance of this legislation by public officials.
Cabinet secretariat to prepare rules of procedure for constitutional council.	Partly Complied. Draft rules prepared.
Cabinet to approve an affirmative action policy and program to increase representation of women service, including their percentage in senior positions.	Partly Complied. Policy approved in September 2004. Positive discrimination provisions in recruitment included in Bill on amendments to Civil Service Act in 2006.
Cabinet to submit amendments to Civil Service Act and have new regulations approved.	Partly Complied. Amendments on Civil Service Act yet to be approved by Parliament.
GRCU to establish gender sensitive, merit-based approach to recruitment and promotion.	Partly Complied. Included in Bill on amendment to Civil Service Act in 2006.
GRCU to prepare introduce a human resources succession plan for senior positions in the civil service including management development plans.	Partly Complied. Included in Bill on amendment to Civil Service Act in 2006.
GRCU to review and prepare new approaches to procedures and processes for handling grievance issues that are also sensitive to women.	Partly Complied. Included in Bill on amendment to Civil Service Act in 2006. In addition, MOGA has prepared Directives in Grievance Handling.
GRCU, MOF and MOAC with the Nepal Administrative Training modules design, conduct and evaluate appropriate management and in-service training linked to ministry-based performance improvement plans.	Partly Complied. On the job training provided by TA consultant. Training modules adopted by Nepal Administrative Staff College.
Cabinet to approve a policy and executive committee to approve detailed plans from MOES and MOH on right sizing.	Partly Complied. Rightsizing of MOES completed but no progress in rightsizing of MOHP.
Efficiency and change units in MOES and MOH to prepare and begin implementation of detailed plans for right sizing.	Partly Complied. Rightsizing of MOES completed but no progress in rightsizing of MOHP.
Government to develop procedures for, and conduct annual random checks of property, asset and income declarations.	Not Complied
Government to submit whistleblower protection legislation.	Not Complied
Government to submit anti-money laundering legislation.	Not Complied
MOF, GRCU and MOAC to establish, announce and commence implementation of a performance management system with performance improvement plans and new service standards with necessary funding.	Not Complied. Implementation initiated but facing difficulties and hindrance.
GRCU, MOF, MOES and MOH with the Nepal Administrative Staff College to design, conduct and evaluate appropriate management and in-service training linked to ministry-based performance improvement plans.	Partly Complied. Training adopted by Nepal Administrative Staff College.
MOGA to monitor and publicize results of annual service performance.	Not Complied
Cabinet to approve a policy and executive committee to approve detailed plans from MOES and MOH on right sizing.	Partly Complied. Rightsizing of MOES completed but no progress in rightsizing of MOHP.

Number of Ongoing Loans with Delays in Closing Date
Sector Breakdown

(Number of Loans)

Months	Agriculture & Natural Resources		Education		Energy		Finance		Industry & Trade		Law, Economic Management & Public Policy		Transport & Communications		Water Supply, Sanitation & Waste Management		Multisector		Country Total	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Over 12	1	2	-	-	1	1	1	1	-	-	-	-	1	-	-	2	-	-	4	6
10 - 12	1	-	-	-	-	-	-	-	-	-	1	1	-	1	-	-	-	-	2	2
7 - 9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0
4 - 6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0
0 - 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0
Total	2	2	0	0	1	1	1	1	0	0	1	1	1	1	0	2	0	0	6	8
Average Months of Delay^a	18.0	24.0	-	-	24.0	24.0	24.0	24.0	-	-	12.0	12.0	24.0	12.0	-	19.5	-	-	20.0	19.9

^a Based only on ongoing loans with delay or extension.

Source: LFIS

NEPAL: Portfolio Management Indicators

Annex 10

Indicators	Unit	2004	2005	2006	Jun-07
I. Public Sector Loans					
A. Country Portfolio					
1. Active Loan Portfolio	No. \$mn	713.6	23 648.3	23 686.8	23 679.1
(a) Project Loans	No. \$mn	638.4	20 576.4	19 561.4	19 563.9
(b) Program Loans	No. \$mn	75.2	3 71.9	4 125.4	4 115.2
(c) DFI/Credit Loans	No. \$mn	-	- -	- -	0 0
(d) Combined Projects and DFI Loans	No. \$mn	-	- -	- -	0 0
2. Average Age of Active Loan Portfolio	Years	2.8	3.8	4.2	4.7
3. Inactive Loan Portfolio	No. \$mn	-	- -	- -	0 0
B. Start-Up Compliance					
1. Loans Approved During the Year	No. \$mn	110.0	- -	2 86.0	0 0
2. Loans Not Yet Signed	No.	4	1	-	0
3. Loans Awaiting Effectiveness	No.	2	2	1	0
4. Average Time from Approval to Signing	Months	3.7	4.1	4.6	4.604
5. Average Time from Signing to Effectivity	Months	5.3	6.2	6.5	6.255
6. Loans that Became Effective more than 90 Days after Signing	No. %	64.7	14 70.0	16 72.7	16 69.6
C. Financial Performance					
1. Contract/Commitment Achievement	\$mn	38.2	69.6	101.6	38.408
2. Contract/Commitment Ratio ^a	%	7.0	15.2	22.1	11.01
3. Disbursement Achievement ^b	\$mn	22.0	43.7	108.0	39.063
4. Disbursement Ratio	%	4.4	7.7	20.0	8.2
5. Imprest Fund Turnover Ratio ^c	%	1.4	1.8	1.6	1.67
6. Submission of APA and AFS					
(a) =< 6 months	No. %	-	- -	- -	4 21.1
(b) > 6 =< 12 months	No. %	9.1	1 7.1	1 7.7	- -
(c) > 12 months	No. %	-	- -	- -	- -
7. Loan Service Payments	\$mn	39.3	40.7	45.6	25.01
8. Net Resource Transfer	\$mn	(17.3)	2.9	62.5	14.055
D. Portfolio Performance					
1. Project Ratings					
(a) Highly Satisfactory (HS)	No. %	0.0	- -	- -	0 0
(b) Satisfactory (S)	No. %	78.3	16 69.6	19 82.6	19.0 82.6
(c) Partly Satisfactory (PS)	No. %	17.4	4 17.4	4 17.4	4.0 17.4
(d) Unsatisfactory (U)	No. %	4.3	3 13.0	- -	0.0 0
2. Projects At Risk (no. of loans)	No. %	26.1	7 30.4	4 17.4	4 17.4
(a) Problem Projects (combined IP & IO) (PS & U)	No. %	21.7	7 30.4	4 17.4	4 17.4
(b) Potential Problem Projects	No. %	4.3	- -	- -	0.0 0
(c) Problem Projects					
(i) Implementation Progress (PS & U)	No. %	17.4	6 26.1	3 13.0	3 13.0
(ii) Impact and Outcome (PS & U)	No. %	8.7	2 8.7	1 4.3	3 13.0
3. Risk Ratios of Major Issues ^d					
(a) Project Implementation Delays	No. %	39.1	10 43.5	7 30.4	8 34.8
(b) Loan Utilization Delays	No. %	0.0	0 0.0	0 0.0	0 0
(c) Established, Staffed, and/or Operation of PMU/PIU	No. %	5.0	0 0.0	0 0.0	0 0
(d) Fielding of Consultants	No. %	4.3	0 0.0	0 0.0	1 4.3
(e) Environmental or Social Problems	No. %	5.0	1 5.0	0 0.0	0 0
(f) Poor Compliance with APA and AFS	No. %	5.0	1 5.0	0 0.0	0 0
(g) Poor Compliance with other Covenants	No. %	17.4	4 17.4	2 8.7	4 17.4
(h) Shortage of Counterpart Funds/Cofinancing	No. %	8.7	1 4.3	2 8.7	2 8.7
(i) Unsettled Cost Overrun	No. %	0.0	0 0.0	0 0.0	0 0
(j) Significant Disbursement Delays	No. %	39.1	10 43.5	8 34.8	11 47.8
(k) In Risk Sector or Country with History of Past Problems	No. %	34.8	8 34.8	11 47.8	11 47.8
(l) Project Fielded Missions	No. %	30.4	10 43.5	2 8.7	1 4.3
4. Overall Risk Ratio of the Portfolio ^e	%	17.8	18.7	13.5	16.0
E. Portfolio Supervision					
1. Proactivity Index ^f	No. %	75.0	2 33.3	5 71.4	3 50
2. Average Supervision Intensity (staffdays/project)	Days	30.9	20.8	31.9	21.6
3. Loans with Settled Cost Overruns	No.	0	0	0	0
4. Loans with Changes in Project Scope	No.	0	1	1	1
5. Loans with Changes in Implementation Arrangements	No.	3	4	2	0
6. Loans with Extensions	No.	2	6	8	10
7. Loan Cancellations	\$mn	25.9	17.6	44.0	11.1
II. Technical Assistance [TA]					
1. Active TA Portfolio	No. \$mn	18.749	24 16.799	34 20.470	31 19.825
2. Average Time from Approval to Signing of TA Letter/Agreement	Months	3.2	3.8	3.118	3.125
3. TAs Completed but not Financially Closed (potential savings)	No. \$mn	0.6	1 0.01	0 0.00	1 0.0826

NA = not available; na = not applicable

^a Contract/Commitment Award Ratio is defined as the ratio of Contract Awarded/Actual Commitment during the year over the value available for contract/commitment awards at the beginning of the year. The value of the contracts/commitments to be awarded/committed under newly approved loans during the period is/will be added to the opening balance of the value available for contract/commitment awards.

Disbursement ratio is the ratio of total disbursement in a given year/period over the net loan amount available at the beginning of the year/period plus the loan amounts of newly approved loans which have become effective during the year/period. Where: (i) "Total disbursement in a given year/period" refers to the confirmed disbursement for a particular year/period covered. (ii) "Net loan amount available at the beginning of the year/period" refers to all loans that were effective at the beginning of the year. (iii) "Loan amounts of newly approved loans which have become effective during the year/period" refers to all loans approved before and after the beginning of the year that have become effective after the beginning of the year.

^b

^c The annualized turnover rate is computed as the ratio of total liquidation over the time-weighted average fund balance for 12 months.

^d % of problem-flagged projects (loans) to total no. of loans in various loan portfolio categories.

^e The weighted average of the 12 risk ratios.

^f % of problem projects changed through upgrading, restructuring, closure, or cancellation during the last 12 months.

PROJECTS IMPACTING 2007 PERFORMANCE

	Net Loan	2007 Contract Award Target		Potential risk/Issue	Actions Proposed
		Projection	Achieved		
Loan 1966: Urban & Environment Improvement	34.66	7.18	1.67	The transfer of Nepal Water Supply Corporation's (NWSC) property is a precondition for contract award. After the enactment of the amendment, the Government has to transfer NWSC property in Hetauda and Bharatpur to their respective Water Supply Management Boards (WSMB). Both Bharatpur and Hetauda Municipalities have submitted formal proposal or the establishment of WSMB. Further, Hetauda Municipality has already published the bid notice for civil works of water supply scheme in the Municipality while the bid notice for Bharatpur Water Supply Scheme will be published soon.	The Ministry of Physical Planning and Works urgently needs to expedite amendment of the act and obtain Government approval for transfer of the NWSC property. The amended proposal has been submitted to the parliament and awaiting for the promulgation of Act. Delays in amendment of the Water Supply Management Board 2006 Act risks award of water supply contracts worth approximately \$5 million.
Loan 2097: Subregional Transport Facilitation	20.84	12.70	0.72	Land compensation has delayed award of the contracts.	Additional cash flow of 498 million rupees (65 m for Birgunj and 433 m for Bhairahawa) is required for completion of land compensation for the three road contracts, but only 70 million rupees has been allowed under the 2007/2008 budget. MOF must provide additional 491 million rupees by 31 August 2007 so that the land compensation can be completed by 30 September, contracts awarded by 31 October, and the mobilization advance provided to the contractors by 30 November 2007. If there is delay in release of funds by MOF, the achievement of contract awards and disbursement will not be achieved for this Project.
Loan 2102: Community Managed Irrigated Agriculture Sector				Project is facing implementation delays. The EA has not completed preliminary works such as engagement of local NGOs and consulting firms for social mobilization and survey and design for rehabilitation/construction of irrigation subprojects. This has led to extremely low performance non contract award and disbursement.	Engagement of NGOs and local consulting firms needs to be completed for all 14 first batch districts (covering 28 irrigation subprojects) by September, as agreed with the April special administration mission in order to achieve the target.
Loan 2268: Rural Finance Sector Development Cluster Program	56.79	16.15	0.00	In order to release the second tranche of \$ 16 million there is a need to transfer \$40 million to Agriculture Development Bank Limited and comply with the 19 loan conditions for release of second tranche.	As of 31 July 2007, \$16 million has been transferred to ADB, and the remaining balance of \$24 million has to be transferred. In addition, of the 19 second tranche conditions, seven have been complied with, and 12 are yet to be complied with. The outstanding covenants are mainly related to restructuring of Small Farmers Development Bank, decision on future direction of the technically insolvent Grameen Bikas Bank and the appropriate supervisory and regulatory framework of the Rural Financial Intermediaries among others. The Government needs to ensure compliance with the covenants for release of the second tranche amounting to \$16 million.
Loan 1820: Melamchi Water Supply	142.13	5.00	0.26	Melamchi Water Supply Project along with Kathmandu Valley Water Services Sector Dev. Program/ Project aim to award contracts worth \$16.20 million.	A Loan Review Mission was undertaken in July 2007. The Government has agreed to provide by 31 August 2007, a proposal on revised implementation arrangement. Thereafter the restructuring process will take place.
Loan 2058: Kathmandu Valley Water Services Sector Dev. Program	5.14	2.50	0.00		
Loan 2059 Kathmandu Valley Water Services Sector Development	10.64	8.70	0.00		
Loan 2143: Gender Equality and Empowerment of Women				To date the project has not achieved any contract awards.	The recent deputation of new full time project director will facilitate to overcome the start up delay in implementation. The project is in the process of submitting RFPs for NGOs hiring. However it is anticipated that only 40% of the targeted contract awards will be achieved.
Loan 2008: Community Based Water Supply and Sanitation Sector	24.19	3.75	0.47	As of 31 July, the Project has achieved only 28% of total projected contract awards and 53% of total projected disbursements.	While the process to engage NGOs in third and fourth batch districts are on track, the Project needs to ensure that recruitment process is completed by October 2007. There are approximately 81 NGO packages with an estimate of \$2 million. In addition the Project needs to complete the recruitment of regional and district based consultant by November 2007 amounting to approximately \$0.4 million.
Loan 2111: Skill for Employment		1.37	0.18	As of 31 July, the Project has achieved only 16% of total projected contract awards and 6% of total projected disbursements.	The low contract awards and disbursement is due to the slow progress made in procuring training providers to deliver skill related training packages developed by the Project. However, the Project is committed that it will be able to award the contracts and conduct training before the year end. This will facilitate the Project to meet 75% and 40% of projected contract award and disbursement by end of 2007. ¹

ADB had revised and increased the disbursement projection submitted by the EA from \$0.6 million to \$0.9 million.

PROJECT READINESS FILTER

Proposed Loan:

Key Control Area	Yes	No	N/A ¹	Indicators of achievement
Design Stage				
1. Clear strategic approach with linkage to government's development strategy and CSP				
2. Project is in government's priority 1 level				
3. Insitutional assessment undertaken to assess EA/IA capacity				
4. Action plan for land acquisition and resettlement discussed				
5. Focal Point for the loan appointed by the EA				
6. Draft project implementation and financial manual prepared				
7. Draft result monitoring mechanism developed with collection of baseline data				
8. Engineering design for first year of activity prepared				
9. Cofinancing arrangements explored				
Fact-finding				
10. Action plan for environment impact assessment and social impact assessment agreed				
11. Action plan for land acquisition and resettlement agreed				
12. TOR/RFP modality for consultant recruitment discussed				
13. Cofinancing arrangements confirmed				
14. Draft audit arrangement and Terms of Reference discussed				
Appraisal Stage				
15. Budget and funding for the 1st year of project implementation agreed				
16. Prepared procurement plan				
17. Prepared disbursement plan				
18. Bid documents for first year of project prepared (Civil works/goods)				
19. EOI for consultant recruitment agreed and shortlist ready				
Loan Negotiation stage				
20. Land acquisition committee established				
21. Finalised project implementation and financial manual				
22. Finalised results monitoring mechansim				
23. Project implementation unit established with appointment of Project Manager and key project staffs				
24. Request for Proposal issues to shortlisted consultants				
26. Draft Project Administration Memorandum prepared				
27. Project steering and coordination committees established				
28. Draft bidding documents submitted to ADB (Civil works/goods)				

¹. Not Applicable

Prepared by: _____

Position: Mission Leader

Date: _____

Reviewed by: _____

Position: Country Programs Specialist

**Sector Results Profile
Nepal: Energy Sector**

Sector Outcomes	
<p align="center">Outcome Targets</p> <p>1. Sustainable sector with commercially operated sector companies and independent regulator [by 2009].</p> <p>2. Improved transmission and distribution system [for load growth of 145 MW], and expansion of rural electrification (RE) [to cover 123,000 new connections by 2007].</p>	<p align="center">Progress as of July 2007</p> <ul style="list-style-type: none"> • Legislation on Nepal Electricity Authority (NEA) reform and establishment of Nepal Electricity Regulatory Commission (NERC) and Nepal Power Grid Corporation (NEPGRID) is expected to be approved by Cabinet soon. However, enforcement is likely to take time because of the political instability and the deteriorating financial position of NEA. • Construction of transmission and distribution system is ongoing, with overall progress of 50%. RE schemes are also under construction with overall progress of 75%.
Sector Outputs	
<p align="center">Output Targets</p> <p>Institutions Reformed and Strengthened</p> <p>1. Establishment of Nepal Power Grid Corporation (NEPGRID), and Nepal Electricity Regulatory Commission (NERC) in 2007</p> <p>2. Establishment of 34 Distribution Profit Centers by 2007</p> <p>3. Computerized billing centers for 15 main branch offices by 2007</p> <p>Infrastructure Created</p> <p>4. Transmission strengthening in Kathmandu Valley with 28.5 km of double circuit 132 kV by 2007</p> <p>5. Distribution strengthening with 1,070 km of 33 kV and 11 kV lines by 2007</p> <p>6. Construction of rural electrification schemes in 22 districts by 2007.</p>	<p align="center">Progress as of July 2007</p> <ul style="list-style-type: none"> • While approval of legislation by the Cabinet is expected to be realized soon, establishment of NEPGRID as a separate corporation is not likely to take place until the political environment is more stable. • Six pilot distribution profit centers have been completed in 6 districts. • Switching to live operation in 4 branches has been completed. • Construction of transmission line is ongoing. Construction of substation is expected to be started soon following the resolution of land acquisition problem which has been a critical pending issue for a long period. • Construction is ongoing, and delivery of all equipment and materials has been completed. • Procurement of all equipment has been completed. Construction is ongoing with progress estimated at 75%.
Sector Inputs	
<p align="center">TA and Loan Program</p> <p>Loan Program</p> <p>1. Loan 1732-NEP: Rural Electrification, Distribution and Transmission Project (Approved Dec 1999, closing June 2007, \$40.4 million)</p> <p>TA Program</p> <p>2. TA 4492-NEP: Restructuring of Nepal Electricity Authority (Approved December 2004, Closing May 2006, \$400,000)</p> <p>3. TA 4493-NEP: Preparing the Rural Electrification and Renewable Energy Project (Approved December 2004, Closing May 2006, \$600,000)</p>	<p align="center">Financial Disbursement as of July 2007</p> <ul style="list-style-type: none"> • \$ 4.4 million in 2007; cumulative \$ 30.8 million. • Cumulative \$ 146,000 • Cumulative \$ 497,712

**Sector Results Profile
Nepal: Education Sector**

Sector Outcomes	
Outcome	Progress as of July 2007
<u>National Outcome</u>	
1. Increased new entrants in Grade 1 with ECD (baseline 8% in 2001, and targets 60% in 2009 and 80% in 2015)	• 18.3 %
2. Increased net enrolment rate (NER) in primary level (baseline 81% in 2001 and targets 96% in 2009 and 100% in 2015)	• 87.4 %
3. Increased net enrolment rate (NER) lower secondary level (baseline 46.4% in 2003 and targets 53% in 2007 and 55% in 2008)	• 65%
4. Increased literacy gender parity index (15+years) (baseline 0.6 in 2001 and target 0.9 in 2007 and 1.0 in 2015)	• 0.72
5. Increased literacy rate 15+ (baseline 48% in 2001 and targets 66% in 2009 and 75% in 2015)	• 55%
6. Reduced Pupil Teacher Ratio at primary (baseline 39:1 in 2001 and targets 37:1 in 2009 and 30% in 2015)	• 45.2%
7. Percentage of learning achievement at grade 5 (baseline 40% in 2001 and targets 60% in 2009)	• 57%
8. Improved survival rates to grade 5 and 8 by 50% by 2009 from 45.7% in grade 5 in 1995 (grade 8 figures not available)	• Grade 5 with 8with 80.3% and Grade 8 with 64% (59% girls)
9. Increased in SLC pass rate (baseline 32.05% in 2003, 46.5% in 2005)	• 56%
10. Increased participation of girls and disadvantaged groups in primary and secondary education by 10% by 2009. (baseline 45% and 43% respectively in F/Y 2002)	• Primary 50%, lower secondary and secondary 44%
11. Increased opportunities for market oriented short-term training (MOST) by 25% from its 2003 level by 2011.	• Current technical education and vocational training (TEVT) capacity is 50,000 annually. No progress yet.
Sector Outputs	
Outputs	Progress as of July 2007
<u>National Output</u>	
Policy Reforms	
1. Approval of National Policy on Technical Education and Vocational Training	• Approved in 2004
2. Approval of National Policy on Teacher Training by 2004	• Approved in 2005
3. Grades 1- 12 incorporated in school system and national curricula framework (NCF) developed by 2007	• Approved in 2007
Institutional Reforms	
4. Management of public schools transferred to communities / local bodies	• 2,326
5. School Sector Reform policy, program, and financing framework finalized and approved by 2009	• Initial draft prepared as of July 2007
Physical Infrastructure Development	
5. Number of primary, lower secondary and secondary schools increased (baseline 26,638; 7,917 and 4,541 respectively in 2002)	• Primary 27,525, Lower Secondary 8,471 and Secondary 5,039
6. Teacher training centers expanded and strengthened	• 34 education training centers, 99 private primary teacher training centers and 60 alternative providers
7. Community learning centers for literacy programs expanded (baseline 20 in 2002)	• 11,341
8. Separate latrines built for girls to improve girls enrolment (7613 in 2002)	• 11,341

<p>Product or Service Up gradation</p> <p>9. Percentage of teachers trained increased (base line 14.7% for primary level teachers and 46.1% for secondary level teachers in 2001)</p> <p>10. Scholarships for girls and dalits children for their increased enrolments expanded (baseline 151568 for girls in 2002)</p> <p>11. Persons trained in vocational skills increased (baseline 3,800 in 2002)</p> <p><u>ADB Supported Outputs</u></p> <p>Policy Reforms</p> <ol style="list-style-type: none"> 1. Approving National Policy on Technical Education and Vocational Training (TEVT) by 2007 (Nepal output 1) 2. Approving National Policy on Teacher Training by 2004 (Nepal output 2) <p>Institutional Reforms</p> <ol style="list-style-type: none"> 3. Institutionalizing decentralized planning process for secondary education by 2004 4. Amalgamating Teacher Training Institutions into an apex institution— National Center for Educational Development (NCED) by 2004 (Nepal output 2 and 6) 5. Strengthening capacity of Council for Technical Education and Vocational Training (CTEVT) in curriculum development and accreditation by 2009 and 2008, respectively (Nepal output 1) 6. Strengthening capacity of NCED, Education Training Centers (ETCs) and other training institutions. Job-related competencies enhancement through domestic and international staff development programs, training of trainers (TOT), and teacher management training by 2008 (Nepal output 6). <p>Physical Infrastructure Development</p> <ol style="list-style-type: none"> 1. Rehabilitating 190 secondary schools, 40 toilets for girls, 10 hostels, 25 Secondary Education Development Units (SEDU), 7 mountain hostels, female teachers accommodation facilities by 2007 (Nepal output 5 and 8) 2. Upgrading selected TEVT Centers by 2009 (Nepal output 11) 	<ul style="list-style-type: none"> • 70% of primary level teachers and 67% of secondary level teachers • 6,35,380 girls and 6,59,668 dalits • 5000 persons provided vocational skills training • A policy on national technical education and vocational training was submitted to the cabinet and second phase on policy framework will start after the approval of the policy. • Approved in 2005 • Completed in July 2004, but further capacity development in planning and monitoring of Central and District personnel is required • Completed in June 2005. NCED is currently developing its overall vision and plans • Not yet started • Ongoing. 240 staff received in-country training against the project target of 102; International training could not be implemented because of the government's restriction on using loan for foreign training; However 9 staff participated in foreign training through other sources • 3,000 TOT completed against the target of 1,480; • 75% of the teacher training target completed • 2,900 Head Teachers received training against the target of 3,000 • Training capacity has increased about 40% since 2002 • Work is ongoing. 9 feeder hostels, 3 mountain hostels, 79 female teachers accommodation units completed under Secondary Education Support Project (SESP). Likewise, upgrade of 13 SEDUs started. However, establishment of 15 new SEDUs have been dropped from SESP. Likewise, under Teachers Education Project (TEP), construction of training resources center cum hosted building completed. Construction of visual studio at NCED has been completed. • Not yet started.
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<p>Product or Service Up gradation</p> <ol style="list-style-type: none"> Delivering short term skills training courses for formal and international labor market for about 60,000 by 2012 (Nepal output 11) Providing Community-based market oriented short term skills training courses to 20,000 people by 2012 (Nepal output 11) Developing teacher training curriculum and delivering to 107,000 teachers (in-service) and 15,000 (pre-service) by 2008 (Nepal output 9) <ol style="list-style-type: none"> Providing scholarships to 60,000 secondary students (70% girls) by 2009 (Nepal output 10) Gender concerns incorporated in teacher training curricula Gender concerns integrated in trainings 	<ul style="list-style-type: none"> Not yet started. However, 9 potential skills trades have been identified for overseas market. Not yet started. However, contract negotiation is underway for first ranked NGOs in five districts for undertaking training need assessment and identifying targeted beneficiary groups. 86,316 teachers received in-service training since 2003, 11,400 graduated from pre-service since 2003 Ongoing, but data on progress not available 2 of the training documents have incorporated gender concerns. NCED has included sessions on gender sensitivity in their training programs. Short term training on culture and gender sensitization provided to 6,500 district level officials and community members.
Sector Inputs (ADB only)	
<p style="text-align: center;">TA and Loan Programs</p> <p>Loan Programs</p> <ol style="list-style-type: none"> Teacher Education Project (\$18.8 million NLA) [9 May 2001 – 30 Jun 2008] Secondary Education Support Project (\$34.3 million NLA) [5 Aug 2003 – 30 Sep 2008] Skills for Employment Project (\$20.8 million NLA) [28 Feb 2006 – 31 Mar 2011] Education Sector Program I (\$31.06 million NLA) [1 Dec.2006 – 31 Jan 2010] Education sector Cluster Program I (\$2.0 million NGA) <p>TA Programs</p> <ol style="list-style-type: none"> Preparing Education Sector Development Program I (\$600,000), [23 Jan 2006 – 31 July 2007] Preparation of Education Sector Development Policy and Strategy (\$460,000), 12 Apr 2004 – 30 June 2007] 	<p style="text-align: center;">Financial Disbursement as of July 2007</p> <ul style="list-style-type: none"> \$10.2 million disbursed. \$8.5 million disbursed. \$1.0 million disbursed. \$15.4 million disbursed. \$0.19 million disbursed. \$0.460 million disbursed. \$0.420 million disbursed.

Sector Results Profile
Nepal: Finance and Governance

Sector Outcomes	
Outcome	Progress as of 2006
<p><u>Finance</u></p> <ol style="list-style-type: none"> 1. Business climate and competitiveness improved 2. Access to financial services for industry and service from financial sector institutions increased and health of financial sector institutions improved, 3. Increased in growth rate of industry and service 4. Increased share in GDP of industry and service 5. Increased in number of industry registered 6. Increased access to rural and agriculture credit: Base line Rs in Million 15814 in 2003 (10th Plan) Target Rs. in Million 100752 in 2007 (10th Plan) 7. Increased in capital adequacy ratio of the financial institutions 8. Decreased in Non performing assets ratio <p><u>Governance</u></p> <ol style="list-style-type: none"> 9. Improved right sizing of bureaucracy 10. Reduced corruptions 11. Improved service delivery through decentralization 12. Abolished number of positions in bureaucracy 13. Increased in number of corruption cases registered 14. Increased in number of corruption cases convicted 15. Increased in number of women benefited from training 16. Increased in number of women in civil service 17. Increased in number of applications from women Dalits and Janajatis in civil services 18. Increased in number of service delivery facilities transferred to local bodies: agriculture extension (district), health facilities, rural roads (Km) and schools 	<ul style="list-style-type: none"> • • General improvement of business environment following the cease fire and peace accord. • The financial sector deregulation progressed. The share of the financial sector in GDP grew by 11% during 2005-2006. The two largest commercial banks (Nepal Bank Limited [NBL] and Rastriya Banijya Bank [RBB]) made operating profits in 2006/2007, reduced their non performing loans. • 0.7% in industry and 2.1% in service • 22.2% in industry and 38.6 % in service • 8146 (Cottage and small 8103 and other 43) • Rs in Million 10432 (of ADB/N only) • Capital fund to risk weighted assets of commercial banks improved from -4.72% in January 2006 to -2.83% in January 2007. • Non performing loans to the total gross loan of commercial banks and the Agricultural Development Bank was decreased from 18.04% in January 2006 to 14.08% in January 2007. • • 7344 • 109 • 3474 • 8042 • 22310 women, 991 Dalits, 20289 Janajatis • 75 districts for agriculture extensions, 1303 health facilities, 12000 Km rural roads, 2091 Schools
Sector Outputs	
Output	Progress as of 2006
<p><u>National Output: Banking and Non-Banking</u></p> <p>Policy Reform</p> <ol style="list-style-type: none"> 1. Bank and financial Institution Act (BFIA) 2. Insolvency, secured transactions and merger act 3. Cooperative Act <p>Institutional Reform</p> <ol style="list-style-type: none"> 4. NRB restructured, rationalized and performance enhanced 5. Privatization of NBL and RBB 6. Assets Management Committee established 7. Debt recovery tribunal 	<ul style="list-style-type: none"> • • The cabinet approval for the amended BFIA will be sought by August 2007. • Draft prepared • Draft prepared • • Ongoing • Undergoing • Draft prepared and forwarded to MOF • Established

<p><u>National Output: Capital Market</u></p> <p>Policy Reform</p> <ol style="list-style-type: none"> 1. Stock Exchange Act 2. Security Board Act 3. Labor Act 4. Company Law 5. Liquidation, Merger and Bankruptcy Acts <p>Institutional Reform</p> <ol style="list-style-type: none"> 6. Automation of stock exchange 7. Accounting and auditing standard published 8. Investment and export procedure revised 9. Privatization and corporatization of NTC, NEA and RNA <p><u>National Output: Rural Microfinance</u></p> <p>Institutional Reform</p> <ol style="list-style-type: none"> 1. Regional Rural Development banks privatized <p><u>National Output: Governance</u></p> <p>Policy Reform</p> <ol style="list-style-type: none"> 1. Amending Civil Service Act and Rules 2. Governance Act 2004 3. Anti corruption strategy with rules 4. Procurement Act 5. Acts and regulations conflicting with decentralization reconciled 6. Local Service Act <p>Institutional Reform</p> <ol style="list-style-type: none"> 7. Developing procedures for annual random checks of asset declaration of public officials. 8. Recruitment and promotion system 9. Computerizing teachers' personnel information system (TPIS) <p>Products and service up gradation</p> <ol style="list-style-type: none"> 10. Coaching classes for women / dalits / janajatis to prepare for civil service entrance exams 11. Local bodies trained 12. Citizen Charter prepared in districts <p><u>ADB Supported Output: Corporate and Financial Sector</u></p> <p>Policy Reform</p> <ul style="list-style-type: none"> • Promulgation of <ul style="list-style-type: none"> -Bank and Financial Institutions Ordinance -NRB act -Company Ordinance -Insolvency Ordinance -Secured Transactions Ordinance -Securities Ordinance -NJA Ordinance, and -ICAN Act <p>Institutional Capacity</p> <ul style="list-style-type: none"> • Effective market oversight over listed companies • Improved accounting standards and norms 	<ul style="list-style-type: none"> • Amended • Ordinance • Draft prepared • Ordinance • Draft prepared • Undergoing • Implemented • Ongoing • NTC corporatized • Two out of five Regional Development Banks were privatized. One is to be privatized. • The Bill on Amendments to Civil Service Act tabled in Parliament in September 2006 • Governance Bill tabled in Parliament in 2006 • Adhered • Promulgated by Parliament in December 2006 • Amended 2005 • Draft sent to MOGA • In preparation phase by National Vigilance Center • Included in Bill on Amendments to Civil Service Act • Underway in Ministry of Education and Sports • 350 benefited • 2091 persons • 75 districts and 37 municipalities • Eight key economic laws were passed from 2002-2005. These include all targeted laws. Currently all ordinances are being considered by the parliament • Awareness campaigns reached 1000 stakeholders • About 200 legal professionals trained • SEBO issued key rules and regulations for market supervision. • ICAN obtained legal status and has issued IAS.
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<p>Other Specific Products/Services/Infrastructure</p> <ul style="list-style-type: none"> Expand commercial banking outreach to SME Establish Payment system (automation of clearing house) <p><u>ADB Supported Output: Rural Finance/Microfinance</u></p> <p>Policy Reform</p> <ul style="list-style-type: none"> Creation of a favorable rural finance (RF) policy environment through enacting supportive legal and regulatory framework. <p>Institutional Capacity</p> <ul style="list-style-type: none"> Restructure ADBL, SFDB, and Grameen Bikash Banks (GBBs) Capacity development of key RFIs . (December 2006) <p>Other specific products/services/infrastructure</p> <ul style="list-style-type: none"> Development of the crop insurance system (December 2009); pilot crop insurance scheme to be implemented in four districts (September 2007) Social mobilization and training support for 270,000 persons for skills development <p><u>ADB Supported Output: Governance</u></p> <p>Policy Reform</p> <ul style="list-style-type: none"> Legislation to strengthen anti-corruption measures (Nepal output 3) Amendment to Civil Service Act, including new provisions on affirmative policy to increase representation of women in senior positions and monetary benefits for day care needs of women employees (Nepal output 1) Tabling Whistleblower Protection legislation and Anti-Money Laundering legislation (Nepal output 3) <p>Institutional Reform</p> <ul style="list-style-type: none"> Developing capacity for leading reforms Establishment of anti-corruption unit in the Prime Minister's Office Piloting performance management system in three ministries Approving rightsizing plans in three ministries Developing procedures for annual random checks of asset declaration of public officials. (Nepal output 7) <p>Physical Infrastructure Development</p> <ul style="list-style-type: none"> Computerized personnel records of civil servants (Nepal output 9) Computerizing teachers' personnel information system (TPIS) (Nepal output 9) 	<ul style="list-style-type: none"> Study highlighted \$20m market in Katmandu for small business finance, Private clearing house operational 31 Mar 07 Bank and Financial Institutions Ordinance (BFIO) was enacted. (February 2006) The ADBL restructuring plan was adopted by the Government (July 2005). Two GBBs were privatized (December 2005). One is being privatized. Rural Microfinance Development Centre (RMDC) is providing capacity building support for development banks and microfinance institutions. To be implemented by Rural Finance Sector Development Cluster Program RMDC has provided training to 213,098 poor women. (July 2006) Parliament approved four anti-corruption legislation in 2002, i.e. CIAA Act, Corruption Prevention Act, Impeachment Act, and Special Court Act. Political Parties Act promulgated in 2002. Civil Service Ordinance promulgated in July 2005. Bill on amendments to Civil Service Act 1993 tabled in Parliament in Sept. 2006 Draft legislation on anti-money laundering under review of Cabinet. Administrative Reform Coordination and Monitoring Committee, Administrative Reform Committee, Governance Reform Coordination Unit, Efficiency Unit and Change Units established and implementing reforms National Vigilance Center established in February 2003 Rightsizing of Ministry of Agriculture and Cooperatives and Ministry of Education completed Performance Improvement Plans (PIP) implemented in pilot three ministries – MOAC, MOHP, and MOES Computerized PIS established, linked to posts and payroll systems, and 'rolled out' to eight ministries. Data being checked and updated
Sector Inputs (ADB only)	
TA and Loan Program	Financial Disbursement as of 2006
<p>Loan Program</p> <p>Loan 2268-NEP: Rural Finance Sector Development Cluster Program I (2006) - \$64.7 million</p> <p>Loan 1650-NEP: Rural Microfinance Project (1998) \$ 20 Million</p> <p>Loan 1811-NEP: Corporate and Financial Governance Project (2000) (proposed reduction by \$4.5 million) \$ 8.3 million</p> <p>Loan 1861-NEP: Governance Reform Program \$ 30 million</p> <p>TA Program</p> <p>TA 3580-NEP: Corporate and Financial Governance Project (2000) \$ 2.25 million</p> <p>TA 3622-NEP: Institutional Support for Governance Reform</p> <p>TA 4249-NEP: Strengthening Performance Based Management</p>	<p>\$40 million (policy loan).</p> <p>\$4 million/completed</p> <p>\$3 million</p> <p>Cumulative disbursement about \$22.5 million</p> <p>\$1.8 million</p> <p>Completed</p> <p>Completed</p>

Sector Results Profile
Nepal: Transport and Communications Sector

Sector Outcomes	
Outcome Targets	Progress as of July 2007
<p>National Outcomes</p> <ol style="list-style-type: none"> Economic growth by removal infrastructure bottleneck <u>Indicator:</u> Annual GDP growth rate of 5% by 2010 Poverty reduction by addressing regional divide through improving connectivity <u>Indicator:</u> Population below poverty line reduced to 24% in 2010 <p>Sectoral Outcome</p> <ol style="list-style-type: none"> Increased capacity of SRN <u>Indicator:</u> Annual passenger vehicles-km increased from 2,525 in 2005 to 3,960 in 2010 Improved mobility <u>Indicator:</u> Increased % of population served with 4 hrs walk in hills and 2 hrs walk in terai to SRN, from 62% in 2005 to 72% in 2010. 	<p>National Outcomes</p> <p>Annual GDP: 2.5%</p> <p>Population below poverty line: 31%</p> <p>Sectoral Outcome</p> <p>On track. In 2006, about 65% of population served with 4 hrs walk in hills and 2 hrs walk in terai to SRN.</p>
Sector Outputs	
Output Targets	Progress as of July 2007
<p>Policy and Institutional Reform</p> <ol style="list-style-type: none"> By 2002, Transport Policy approved By 2005, the Master Plan for SRN approved By July 2006, Heavy Vehicle Management Policy approved By 2006, BOT Act, rules, regulation and guidelines enacted and approved By 2007, Guidelines on Enhancing Poverty Reduction Impact of Road Projects approved By 2003, Road Fund Board established By 2010, institutional capacity of customs agency strengthened By 2012, DOR's capacity in contract management strengthened <p>Physical Infrastructure</p> <p>National Outputs</p> <ol style="list-style-type: none"> Increased % of maintainable roads in SRN, from 92% in 2000 to 95% in 2010 Increased the SRN by additional 1025 km during 2002-2007 Connected district HQs, from 60 in 2002 to 70 in 2007 <p>ADB Supported Outputs</p> <p>By 2007, complete:</p> <ul style="list-style-type: none"> periodic maintenance (pavement strengthening) of 140 km EWH, upgrading of 165 km feeder and district roads, performance-based maintenance contract of 200-300km of SRN <p>By 2010, improve</p> <ul style="list-style-type: none"> cross border roads at Padam (12.4km), and Bhairawa-EWH (29km) ICD at Kakarbita (ICD) and install ASYCUDA and equipments in cross borders facilities <ol style="list-style-type: none"> By 2013, complete improvement of 490km of priority roads 	<p>Progress as of July 2007</p> <ul style="list-style-type: none"> Transport Policy was approved in 2002 Master Plan for SRN: prepared in June 2004, to be approved in 2007. Heavy Vehicle Management Policy was approved in 29 Aug 2006 BOT Act was enacted in Aug 2006. Rules, regulation and guidelines have been developed The Guidelines are in the final stage and circulated to stakeholders. Road Board was established in December 2003 UNCTAD consultants were mobilized on 25 June 2007 Consultants are being recruited. <p>National Outputs</p> <ul style="list-style-type: none"> Maintainable conditioned roads reduced to 84% only. About 736km of SRN are being extended (FY03 – 113km; FY04 – 93km; FY05 – 98km; FY06 – 152km; and FY07 – will be 280km) Only 63 HQs have been connected <p>ADB Supported Outputs</p> <ul style="list-style-type: none"> EWH: completed 36km Feeder & district roads: 121km completed, one district HQ connected 250 km PBM: resealing completed, maintenance ongoing Cross border roads and facilities: procurement is ongoing Priority roads: detailed design and feasibility study are ongoing

Sector Inputs (ADB only)

TA and Loan Program	Progress as of 30 June 2007
1. L1876-NEP: Road Network Development Project (2003–2008; \$53 million)	<ul style="list-style-type: none"> • Cumulative contract awards: \$41.16 • Cumulative disbursement of \$ 26.61 (\$7.39 in 2007)
2. L2097-NEP: Subregional Transport Facilitation Project (\$20 million; 2005–2010)	<ul style="list-style-type: none"> • Cumulative contract awards: \$2.16 million • Cumulative disbursement of \$ 1.35 million (\$0.43 million in 2007)
3. G0051-NEP: Road Connectivity Sector Project (%55 million; 2006–2013)	<ul style="list-style-type: none"> • Cumulative contract awards: \$5.97 million • Cumulative disbursement of \$ 0.34 million (\$0.34 million in 2007)
4. TA 4760: Enhanced Poverty Reduction Impacts of Roads (\$350,000; 2006–2007)	<ul style="list-style-type: none"> • Cumulative contract awards: \$289,245 • Cumulative disbursement of \$ 207,059.93 (0 in 2007)
5. TA 4825: Capacity Building in Road Feasibility (\$300,000; 2006–2012)	<ul style="list-style-type: none"> • Cumulative contract awards: 0 • Cumulative disbursement of \$ 0 (0 in 2007)

Sector Results Profile
Nepal: Agriculture and Rural Development

Sector Outcomes	
Outcomes	Progress as of July 2007
<ol style="list-style-type: none"> 1. Increased agriculture growth and food security 2. Increased commercialization of agriculture 3. Increased annual agriculture growth by 4.1% (base line 2.2% in 2002) 4. Increased quantity of food sold (baseline 8,213 ton in 2002) 5. Increased number of districts served by Nepal Food Corporation (NFC) for food security (base line 32 in 2002) 6. Maintained 32% cash crop/total agriculture GDP ratio 7. Increased annual marketable surplus of agriculture produce to 626,572 ton. 8. Increased milk and meat produced, processed and marketed by 6%. 9. Increased livestock/total agricultural GDP ratio to 41.5% 	<ul style="list-style-type: none"> • 2.8 (annual average during the Tenth Plan: 2002 – 2007, and 0.7% for 2007) • 7,246 ton • 30 • 31.1% cash crop/total agricultural GDP ratio • 442,720 ton of annual marketable surplus of agriculture produce • Increased by about 5% • 35.5% livestock/total agricultural GDP ratio
Sector Outputs	
Outputs	Progress as of July 2007
<p><u>National Output</u></p> <p>Policy Reform</p> <ol style="list-style-type: none"> 1. Approving commodity policies for encouraging private investments 2. Approving Milk Pricing Policy for deregulation in 2003 3. Approving Agriculture Policy (with focus on commercialization of agriculture) in 2004 4. Approving Agribusiness Policy in 2005 5. Approving Local Infrastructure Development Policy (LIDP) 2003 6. Revising Irrigation Policy in 2003, and preparing microirrigation policy in 2007 7. Preparing National Water Plan (including irrigation) in 2004 <p>Institutional Reform</p> <ol style="list-style-type: none"> 1. Devolving agriculture operations to local government institutions in 2002 2. Decentralizing National Agriculture Research Centers (NARC) to Regional Agriculture Research Centers (RARC) 3. Preparing guidelines for partnership with NGOs and private sector in 2003 <p>Physical Development (by 2010)</p> <ol style="list-style-type: none"> 1. Increasing number of functioning farmers' groups for technology dissemination system and capacity development (baseline 7,508 for crop and 6,632 for livestock) 2. Constructing 21,000 local/rural roads 3. Increasing area under year-round irrigation baseline 465,402 ha in 2004 <p>Policy Reform</p> <ol style="list-style-type: none"> 1. Deregulating Milk Pricing Policy starting from western development region in 2002 (Nepal output 2) 2. Preparing Strategic Action Plan (SAP) for Rural Infrastructure by December 2004 (Nepal output 5) 3. Preparing Rural Infrastructure Sub-sector Policy (SP) for Gender by August 2005 (Nepal output 5) 4. Preparing Transport Master Plan (TMP) for 18 districts prepared by December 2005 (Nepal output 5) 5. Establishing Technical Audit Division in National Vigilance Center (NVC) and operating technical auditing in irrigation and rural roads sub-sectors (Nepal outputs 5 and 7) 6. Institutional reforms of Department of Irrigation (DOI), including the institutional development vision and action plan for decentralization (Nepal output 6) 	<ul style="list-style-type: none"> • Not yet developed • Approved in 2004 • Agriculture Policy approved in 2004 • Agribusiness Policy approved in 2006 • LIDP approved in 2004 • Irrigation Policy revised in 2004, and micro irrigation policy under preparation for approval in 2007 • National Water Plan approved in 2005 • Agriculture operations devolved to local government institutions since 2003 • Four RARC fully authorized to undertake decisions and research functions • Partnership guidelines approved in 2004 • Crop 13,802 and livestock 7,924 farmers group active • 4,738 km gravel and 7,649 km fair-weather roads constructed • 474,381 ha under year-round irrigation • Approved in 2004 • SAP for rural transport system was prepared in 2005 and waiting MLD's approval. • A NGO has been engaged to prepare SP for Gender. Draft Gender SP is expected by end 2007). • TMP for 74 districts prepared, and preparation of TMP for remaining 1 district is underway. • Technical Audit Division of NVC established in 2004, technical auditing regularly operated, with preparation of regulations under process. • DOI vision and action plan for decentralization under preparation by 2008.

<p>Physical Development</p> <ol style="list-style-type: none"> 1. Increasing 25,000 ton annual marketable surplus of agriculture produce (Nepal output 11) 2. Increasing 188,860 ton annual marketable surplus of milk and 34,875 ton of meat (Nepal output 11) 3. Rehabilitating 200 km of existing local roads (Nepal output 12) 4. Constructing 650 km of new local roads (Nepal output 11) 5. Increasing area under year-round irrigation 43,770 ha (Nepal output 13) <p>Social Development</p> <ol style="list-style-type: none"> 1. Increased % of women raising small ruminants from base year 2. At least 33% of women are in all user/beneficiary groups 	<ul style="list-style-type: none"> • 22,680 ton of annual marketable agriculture produced; further increase expected in 2007 • 111,447 ton of annual marketable milk and 29,806 ton of meat produced • Rehabilitation of 90 km Okhaldhunga-Phaplu road ongoing • 22 alignments are selected for new construction, and construction started on an alignment covering 41 km • 44,520 ha year-round irrigated area increased. • 80% group members raising small livestock are women • Crop-based farmer groups have 35% women • Irrigation water user associations have 44% women • Livestock groups have 45% women • Rural roads user groups have 40% women
Sector Inputs (ADB Only)	
TA and Loan Program	Financial Disbursement as of July 2007
<p>TA Program</p> <ol style="list-style-type: none"> 1. Strengthening Project Implementation and Quality Assurance (Dec 2003 – Dec 2006) for \$600,000 2. Promoting Pro-poor and Gender Sensitive Service Delivery (July 2004 – Dec 2006) for 200,000 3. Optimizing the Productivity of Poor Water user Associations (Aug 2003 – March 2007) for \$1,000,000 4. Economic and Social Inclusion of the Disadvantaged Poor through Micro-Irrigation (March 2006 – Dec 2007) for \$450,000 5. Capacity Building of Rural Infra. Institutions (Jan 2005 – Dec 2007) for \$400,000 <p>Loan</p> <ol style="list-style-type: none"> 1. Community Groundwater Irrigation Sector Project (March 1999 – July 2007) for \$11.02 million 2. Crop Diversification Project (April 2001 – Dec 2007) for \$10.3 million 3. Community Livestock Development Project (Dec 2005 – Dec 2011) for \$20.54 million 4. Decentralized Rural Infrastructure and Livelihood Project (Dec 2005 – Dec 2011) for \$40.20 million 5. Community Managed Irrigated Agriculture Sector Project (Jan 2006 – Jan 2012) for \$20.03 million 	<ul style="list-style-type: none"> • \$517,375 disbursed. • \$139,084 disbursed. • \$517,377 disbursed. • \$223,725 disbursed. • 27,988 disbursed. • Cumulative disbursement \$8.38 million (\$0.04 million in 2007) • Cumulative disbursement \$9.22 million (\$0.49 million in 2007) • Cumulative disbursement \$4.07 million (\$0.73 million in 2007) • Cumulative disbursement \$1.66 million (\$0.26 million in 2007) • Cumulative disbursement \$1.01 million (\$0.21 million in 2007)

Sector Results Profile
Nepal: Water Supply, Sanitation, and Urban Development

Sector Outcomes	
<p style="text-align: center;">Outcome</p> <ul style="list-style-type: none"> • Improved access to clean drinking water (% of population with safe water) Base year (2002): 71.6% By end of 2007: 85% By end of 2012: 90% By end of 2017: 100% • Improved access to sanitation (% of household with basic sanitation facilities) Base year (2002): 20% By end of 2007: 50% By end of 2012: 90% By end of 2017: 100% 	<p style="text-align: center;">Progress as of 2007¹</p> <ul style="list-style-type: none"> • Achievement by July 2003 – 72.8% • Achievement by July 2004 – 73% • Achievement by July 2005 – 75.5% • Achievement by July 2006 – 76.9% • Achievement by July 2003 – 26.2% • Achievement by July 2004 – 39% • Achievement by July 2005 – 46.3% • Achievement by July 2006 – 46.3%
Sector Outputs	
<p style="text-align: center;">Output Targets</p> <p><u>National Output</u></p> <p>Policy Reform</p> <ol style="list-style-type: none"> 1. National Water Plan Nepal (2002-2027) adopted 2. National Water Supply and Sanitation (WSS) Sector Policy 1998 revised 3. Rural WSS Sector Strategy and Action Plan adopted 4. Cost recovery policies in place starting January 2003 5. National Water Quality Standard/Guidelines in place by 2004 6. Sanitation component integral part of all new water supply projects <p>Institutional Reform</p> <ol style="list-style-type: none"> 7. WSS regulatory body(s) established <ol style="list-style-type: none"> a. Nepal Water Supply Regulatory Board b. Water Authority for Kathmandu Valley c. Water Supply Tariff Fixation Commission d. License to Water Utility Operator in Kathmandu Valley 8. Department of Water Supply and Sewerage restructured 9. Autonomous Rural Water Supply and Sanitation Fund Board established (under separate Act) <p>Physical Infrastructure Development</p> <ol style="list-style-type: none"> 10. Melamchi WSS Project completed by 2012. 11. WSS services upgraded to high level in 53 municipalities. 12. Existing water supply systems rehabilitated 13. New water supply systems constructed 14. Number of latrines built 	<p style="text-align: center;">Progress as of 2006</p> <p>Approved in 2005</p> <p>Amended in 2004</p> <p>Approved in 2004.</p> <p>Cost sharing/recovery approach adopted in small town water supply and sanitation projects (Loan 1755-NEP).</p> <ul style="list-style-type: none"> • Adopted in April 2006. • Water supply schemes and projects integrated sanitation components <p>Water Supply Management Board Act passed through ordinances in 2005.</p> <p>Not formed yet.</p> <p>Role and responsibilities of DWSS prescribed as facilitator in 2004 RWSS policy. Started to facilitate 21 district development committees to implement water supply and sanitation schemes through demand driven and participatory approach.</p> <p>Implementation progress is rated partly satisfactory because implementation delay is now estimated to be greater than 59% from the original appraisal schedule. Potable piped water expected to be provided by the Project to the Kathmandu Valley inhabitants by 2011.</p>

¹ Reported data are as of 15 July 2006.

<p>15. Existing sewerage systems cleaned, rehabilitated and extended</p> <p>16. New sewerage systems installed in the core areas and onsite sanitation promoted</p> <p>17. Solid waste management activities implemented</p> <p><u>ADB Supported Outputs</u></p> <p>Policy Reform</p> <ul style="list-style-type: none"> • A tariff policy ensuring full O&M cost recovery in the interim period, leading to partial capital cost recovery in a gradual manner adopted [Nepal output 4] • Rural WSS Sector Strategy and Action Plan adopted (Loan 2008-NEP) [Nepal outputs 2, 3] <p>Institutional Reform</p> <ul style="list-style-type: none"> • Nepal Water Supply Regulatory Board established by 15 July 2004 (Loan 2058-NEP) [Nepal output 7] • Water Authority (WA) for Kathmandu Valley established by 15 July 2006 (Loan 2058) [Nepal output 7] • Water Utility Operator established by October 2004 (Loan 2058-NEP) [Nepal output 7] • Performance-based management contract signed by 1 December 2004 (Loan 2059-NEP) [Nepal output 7] • Sector stakeholder group established (Loan 2008-NEP) [Nepal output 3] • Department of Water Supply and Sewerage restructured (Loan 2008-NEP) [Nepal output 3,8] <p>Physical Infrastructure Development</p> <ul style="list-style-type: none"> • Melamchi WSS Project completed by 2011 (Loan 1840-NEP) [Nepal output 10, 11] <ul style="list-style-type: none"> ➢ 26-km tunnel from Melamchi Valley to Kathmandu Valley by September 2006 ➢ Portable piped water available from 65 million liters per day (MLD) in 2000 to 170 MLD by 2006. a. Adit and access roads constructed/ upgraded (18-km main access, 25-km adit access roads (AARs) constructed and 29-km of existing access road upgraded) b. Water treatment plant constructed with a capacity of 170 million liters per day by 2006 c. Bulk distribution system of pipelines and reservoirs of 255 MLD capacity completed by 2006 d. Distribution network improved to deliver 24-hour water supply by December 2006 • 40 Small Towns WSS schemes completed by 2006 (Loan 1755-NEP) [Nepal output 5, 11, 14] Public Awareness Campaign (PAC) and Health and Hygiene Education completed. 	<p>Cost sharing/recovery approach adopted in Small Town WSS Project (Loan 1755-NEP).</p> <p>Approved by the Cabinet in 2004.</p> <p>Promulgated through an ordinance in April 2005. The Cabinet endorsed the ordinance on 4 June 2006.</p> <p>The WA has been formed and the first meeting was held on June 2005.</p> <p>In order to establish the WUO under the Companies Act, shareholding arrangement and shareholders' agreement have been signed. Kathmandu Upatayaka Khanepani Limited has been established.</p> <p>Established in 2004.</p> <p>Role and responsibilities of DWSS prescribed as facilitator in 2004 RWSS policy. Started to facilitate 21 district development committees to implement water supply and sanitation schemes through demand driven and participatory approach.</p> <p>Project progress is estimated at 30% against an elapsed loan period of 89% as of July 2006.</p> <p>Construction not started yet. Selection of the Private Operator (now called Management Contractor (MC) and the enactment of law establishing the Water Supply Tariff Fixation Commission are conditions prior to award of the civil works contract for construction of the tunnel. Due to continuous delays in the recruitment of MC, the scheduled start of construction of the diversion tunnel has been repeatedly revised. Construction not started yet.</p> <p>Main access roads. Construction of 9 bridges completed. Works on AARs are ongoing and targeted for completion by December 2006. Upgrading access roads construction (Jorpati-Sundarijal) completed by July 2005. Upgrading of remaining access roads has not started yet. Construction not started yet.</p> <p>Construction not started yet.</p> <p>World Bank has formally withdrawn from the Project. ADB has included Kathmandu Valley Urban Water Supply Project (\$30 million) in the lending program for 2008. Construction not started yet.</p> <p>Project progress estimated at 70% against a revised elapsed loan period of 84% as of July 2006. Schemes completed in 10 towns, and construction in 18 towns at various stages of completion as of July 2007. PAC training completed in 28 towns, and Health and Hygiene Education Training completed in 16 towns as of July 2006.</p>
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<ul style="list-style-type: none"> • 250 Rural WSS schemes rehabilitated by 2010 (Loan 2008-NEP) [Nepal output 12, 14] • 950 new Rural WSS schemes completed by 2010 (Loan 2008-NEP) [Nepal output 13, 14] • Sewerage pipe networks expanded and simple wastewater treatment plants established in 9 municipalities by February 2009 (Loan 1966-NEP) [Nepal outputs 13, 15, 16] • New water resources and water treatment plants, reservoirs and water distribution networks in parts 5 municipalities built by June 2009 [Nepal output 5, 12]. • 18 reed bed treatment plants installed by February 2009. [Nepal output 16] 	<p>Project progress estimated at 30% against an elapsed loan period of 51% as of July 2007. Implementation 393 schemes at various states and water users and sanitation committees formed as of July 2006.</p> <p>Project progress estimated at 23% against an elapsed loan period of 58% as of March 2007.</p> <p>Detailed design being prepared in 3 municipalities</p> <p>Detailed design of reed bed treatment plants are in the process of being finalized in three municipalities. Bid evaluation of 3 reed bed treatment plants in Hetauda municipality is ongoing.</p>
Sector Inputs (ADB only)	
TA and Loan Program	Financial Disbursement /Progress as of July 2007
<p>TA Program</p> <ul style="list-style-type: none"> • Kathmandu Valley Water Management Support (May 03 – Dec 06) \$ 1.5 Million Approved on 2003 (\$ 1.5 Million) • ADTA 4776-NEP: Enabling the private sector to undertake poverty focused water distribution (\$800,000) Approved on 2006. <p>Loan</p> <ul style="list-style-type: none"> • Melamchi Water Supply and Sanitation Project (Loan 1820-NEP) (\$137,386,000). Approved 21-Dec-00, Closing: 31 Mar 07 • Kathmandu Valley Water Services Sector Development Project (Loan 2059-NEP) (\$10.284 million). Approved 18-dec-03, closing: 30-Jun-11 • Kathmandu Valley Water Services Sector Development Program (Loan 2058-NEP) (\$5.044 million). Approved 18-Dec-03. Closing: 30-Jun-11 • Small Towns Water Supply and Sanitation Sector Project (Loan 1755-NEP) (\$34.970 million). Approved 12 Sept 2000. Closing 31-Dec-06 • Urban Environment Improvement Project (Loan 1966-NEP) (\$33.5 million). Approved 10 Dec 02. Closing 31-Mar-10 • Community Based Water Supply and Sanitation Sector Project (Loan 2008-NEP). (\$25.6 million). Approved 30-Sep-03, closing 31-Dec-10 <p>Pilot Demonstration Activity:</p> <ul style="list-style-type: none"> • Piloting School-led Water Supply and Gender sensitive Sanitation Project (\$50,000) 	<ul style="list-style-type: none"> • \$1.5 million • Disbursement of \$2,06,712 • Cumulative disbursement as of 31 July \$9.059 million (\$1.294 million in 2007) • Cumulative disbursement as of 31 July \$0.510 million (0.002 million in 2007) • Cumulative Disbursement as of 31 July \$2.476 million (\$0.0 million in 2007) • Cumulative Disbursement as of 31 July \$16.667 million (\$3.539 million in 2007) • Cumulative Disbursement as of 31 July \$4.034 million (\$0.809 million in 2007) • Cumulative Disbursement as of 31 July \$2.977 million (\$0.289 million in 2007) • Cumulative disbursement as of 31 July \$10,000.

NPPR: ROAD MAP ACTION PLAN

Focus Area	Agreed Action	Responsible Agencies	Performance Indicators	Target Dates/Revised dates	Remarks
1. Government's full ownership over portfolio review	<p>GON will review portfolios with a view to scaling up a broader review process focusing on results</p> <p>Harmonize Government's overall portfolio review with budget process</p> <p>Extend the portfolio review to include bilateral portfolios too</p>	MOF (lead),NPC	<ul style="list-style-type: none"> Government own and lead the portfolio performance review exercise. Carry out portfolio performance review (NPPR 2007) Portfolio review process becoming Government's regular planning, programming, budgeting and donor consultation process 	<p>September 2007</p> <p>Ongoing</p> <p>September 2007</p>	<p>Ongoing. Preliminary meeting held on 8 June 2007 at MOF. Next meeting will be held just one month before 2007 NPPR (27-31 August 2007).</p> <p>Currently tied up with the budget exercise.</p> <p>Being discussed with bilateral.</p>
2. Mid-term review of portfolios	GON will conduct mid term progress review of sample projects, comprising good as well as bad performing portfolios. This will be done as a part of Mid-Term review of Budget	MOF (lead)	<ul style="list-style-type: none"> Mid-terms review report publicized 	March 2007	Complied. The review was done in February and the report was distributed to development partners.
3. Thematic Recommendations	GON will review the recommendations of three thematic discussions (Results Based Reporting, Financial Management, and Procurement Management) synthesize and prioritize them, and submit to the Finance Secretary for further action.	MOF	<ul style="list-style-type: none"> Form a Task Force to review the Thematic Group recommendations. Submit the proposal to the Finance Secretary for follow-up action 	<p>October 2006</p> <p>December 15 2006</p>	Ongoing. However, follow up with line ministries have to be done as only some agencies have complied.
4. Procurement Management	GON will make mandatory to submit procurement plans for all P1 projects/programs together with the submission of annual plans to initiate FY 2006/07 budget discussion.	MOF (lead), NPC, Line Ministries	<ul style="list-style-type: none"> Procurement plans prepared for all P1 projects/programs 	Ongoing	Ongoing. MOF still need to verify whether line ministries have done this or not during forthcoming year's budget preparation. MOF also requested NRM to obtain procurement plan from ADB-assisted projects in Nepal in line with government fiscal year. NRM will initiate this exercise during 2008 contract awards and disbursement projections preparation and will request all its projects to submit procurement plans for 2008 and FY2007/08.

Focus Area	Agreed Action	Responsible Agencies	Performance Indicators	Target Dates/Revised dates	Remarks
	GON will continue with public procurement reform with support from the development partners	Office of the Prime Minister and Council of Ministers (lead), MOF, MOLJ, FCGO	<ul style="list-style-type: none"> Procurement legislation enacted Public Procurement Monitoring Office (PPMO) established and functional immediately after the enactment of procurement legislation 	December 2006 March 2006	HOR approved the Public Procurement ACT on 31 Dec. 2006 and Public Procurement Regulations will be approved by the cabinet on 30 June and will establish PPMO by 15 July
5. Business Plans (Sectoral Plans)	Prepare "Business Plans" for Roads, Drinking Water, Rural Electrification, Agriculture, Irrigation, Health, and Education	NPC (lead), MOF, MOES, MOHP, MOAC, MOWR, MOLD, MHPP, AEPC	<ul style="list-style-type: none"> Business plans prepared for agreed sectors 	March 2007	Ongoing. Business plans prepared for roads, drinking water, agriculture, irrigation, health, and education sectors. For rural electrification—draft business plan has been prepared.
6. Financial Management	Carry out the Public Financial Management(PFM) Sector Work, and establish PFM High level Set of Monitoring Indicators, and prepare an integrated Financial Management Improvement Program	MOF/FCGO (lead), NPC, Support is requested from World Bank and other development partners	<ul style="list-style-type: none"> Draft report prepared Final Report prepared, and an Integrated Financial Management Improvement Program prepared 	February 2007 June 2007	Complied. FCGO prepared assessment of PEFA indicators set by PEFA secretariat which is to be endorsed by MOF by 31 August 2007. FCGO has initiated Integrated Financial Management Information System (IFMIS).
7. Implementation of Action Plan set in NPPR 06	GON will follow up and ensure that the actions set in the Action plan have been implemented	MOF	<ul style="list-style-type: none"> Bimonthly review of the progress 	Ongoing	Ongoing. MOF has already requested the concerned line ministries to take actions and is following up. However the progress is not encouraging
8. Establishing a steering committee	GON will establish one steering committee at MOF to monitor the progress of the Road Map	MOF	<ul style="list-style-type: none"> Bimonthly review of the progress and reporting to the Finance Secretary 	December 2006	Complied. Steering Committee has been formed; however the meeting has not been commenced yet. MOF is tentatively planning to hold meeting in June and will request development partners for participation