

NEPAL: COUNTRY ASSISTANCE STRATEGY**CHAIRMAN'S CONCLUDING REMARKS****Meeting of the Executive Directors****November 18, 2003**

The Executive Directors discussed the Country Assistance Strategy for Nepal and appreciated its open and frank assessment of the severe challenges facing the country.

Directors welcomed the continued progress being made in the implementation of the wide range of reforms, particularly in the areas of governance, public expenditure management and improving service delivery. Nevertheless, Directors noted with concern the continued fragile security situation, political uncertainty, the breakdown of democratic processes, and how these pose formidable challenges to implementing the Poverty Reduction Strategy (PRS). Directors urged the Government to continue to address these concerns especially with regard to negotiating a resolution to the civil conflict and restoring democratic processes in the country. They stressed that failure to address these problems will directly limit Nepal's ability to reduce poverty and undermine the case for programmatic support.

Directors were generally supportive of the CAS, and its results orientation and its linkage to performance. They welcomed the Bank's intensive engagement in the country, and noted the strong focus on governance and stressed that greater attention be given to issues of corruption and the inability to provide basic services in rural and remote parts of the country. Some Directors however, expressed concern about the proposed level of support given the range of the base case and about the appropriateness of the PRSC instrument given the country's circumstances, particularly on the fiduciary capacity side. They suggested that there was still a need to err on the side of caution, especially with regard to non-investment lending. Directors also urged that a mechanism be put in place that would consistently and objectively evaluate implementation progress that is taking place on the ground.

Some Directors stressed the need for more quantitative intermediate monitoring indicators and benchmarks as the country's own PRS policy framework evolved and deepened. They emphasized that more work needs to be done in terms of strengthening capacity—especially with regard to monitoring and evaluation, absorption capacity as well as overall debt sustainability. Directors welcomed the ongoing analytical work on social and gender issues with a view to a deeper understanding of the institutional underpinnings of caste, ethnic and gender-based economic and social exclusion in Nepal.

Directors noted the substantial risks associated with the proposed strategy, with some suggesting that the risks associated with the insurgency, political situation and overall implementation may have been underestimated in the document. Nevertheless, there was general consensus that it was even a greater risk for the international community to withdraw support to Nepal entirely and risk the potential of a serious breakdown of state institutions. In this connection, Directors also noted the need for an appropriate division of labor between the Bank and the ADB.

Finally, Directors noted the broadening ownership of the Government to the reform efforts and more importantly leadership with regard to the donor coordination efforts.