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**INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY**

PERFORMANCE AND LEARNING REVIEW

OF THE

COUNTRY PARTNERSHIP STRATEGY

FOR

NEPAL

FOR THE PERIOD FY14-FY18

February 21, 2017

**Bangladesh, Bhutan, and Nepal Country Management Unit
South Asia Region**

The International Finance Corporation

The Multilateral Investment Guarantee Agency

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	MVA	Megavolt Amperes
ASA	Advisory Services and Analytics	MW	Megawatt
AusAID	Australian Aid	NBL	Nepal Bank Limited
BIMP	Bridges Improvement and Maintenance Program	NPRR	Annual Nepal Portfolio Performance Review
CA	Constituent Assembly	NPR	Nepalese Rupee
CAR	Capital Adequacy Ratio	NRA	National Reconstruction Authority
CBS	Central Bureau of Statistics	OAG	Office of Auditor General
CCS	Compliance Cost Saving	ODF	Open Defecation Free
CEM	Country Economic Memorandum	PACT	Project for Agriculture Commercialization and Trade
CPF	Country Partnership Framework	PAF	Poverty Alleviation Fund
CPS	Country Partnership Strategy	PCA	Prompt Collective Actions
CRW	Crisis Response Window	PDNA	Post Disaster Needs Assessment
CSO	Civil Society Organization	PEFA	Public Expenditure and Financial Accountability
DFAT	Department of Foreign Affairs and Trade	PFM	Public Financial Management
DFID	Department for International Development	PforR	Program-for-Results
DLI	Disbursement Linked Indicator	PLR	Performance and Learning Review
DPC	Development Policy Credit	PPMO	Public Procurement Monitoring Office
EU	European Union	PPP	Public Private Partnership
FAM	Finance and Markets	PRAN	Program for Accountability in Nepal
FCR	Feed Conversion Ratio	RBB	Rastriya Banijya Bank
FIG	Financial Institutions Group	RBF	Results Based Finance
FIRST	Financial Sector Reform and Strengthening Initiative	REDD	Reduced Emissions from Deforestation and forest Degradation
FSAP	Financial Sector Assessment Program	ROW	Right of Way
FY	Fiscal Year	RSDP	Road Sector Development Project
GAVI	Global Alliance for Vaccines and Immunization	SAWI	South Asia Water Initiative
GDP	Gross Domestic Product	SARTI	South Asia Regional Trade and Investment
GoN	Government of Nepal	SCD	Systematic Country Diagnostic
GTFP	Global Trade Finance Program	SDC	Swiss Agency for Development and Cooperation
HNP	Health, Nutrition and Population	SME	Small and Medium-sized Enterprise
ICD	Inland Clearance Depot	SORT	Systematic Operations Risk Rating Tool
IDA	International Development Association	SPCR	Strategic Program for Climate Resilience
IDPG	International Development Partnership Group	SWAp	Sector Wide Approach
IFC	International Finance Corporation	TAC	Trade and Competitiveness
IPF	Investment Project Financing	TTV	Telecoms, Media, Technology and Venture Investing
ISN	Interim Strategy Note	TF	Trust Fund
JICA	Japan International Cooperation Agency	UN	United Nations
KM	Kilo Meter	UNESCO	United Nations Educational, Scientific and Cultural Organization
LTF	Long Term Finance	UNICEF	United Nations International Children's Emergency Fund
MAS	Manufacturing, Agribusiness and Services	USAID	United States Agency for International Development
MDTF	Multi Donor Trust Fund	US	United States
MIGA	Multilateral Investment Guarantee Agency	VDC	Village Development Committee
MT	Metric Ton	WBG	World Bank Group
MOF	Ministry of Finance	WFP	World Food Program

**COUNTRY PARTNERSHIP STRATEGY – PERFORMANCE AND LEARNING REVIEW
FOR NEPAL**

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I. INTRODUCTION

1. **This Performance and Learning Review (PLR) reports on the mid-term progress in implementing the World Bank Group (WBG) Country Partnership Strategy (CPS) for Nepal for the period of Fiscal Year (FY) 14-18.** The current CPS constitutes a major shift in WBG support away from short-term, post-conflict assistance provided through Interim Strategy Notes (ISNs) in FY2007, FY2009 and FY2011, towards long-term foundations for inclusive and sustainable growth. It was prepared at a time of optimism when elections were held peacefully end-2013, the two largest parties had come together to pursue a common economic and development agenda, and deep political and social divisions appeared to be abating. The CPS focuses on two pillars: (i) increasing economic growth and competitiveness by expanding hydroelectric power generation, enhancing transport connectivity, and improving the business environment; and (ii) promoting inclusive growth and opportunities for shared prosperity through enhancing productivity of the agriculture sector and enabling equal access to education, health care, skills development and social protection. Cutting across these two pillars, the WBG engages in strengthening institutional governance and capacity, mainstreaming gender and citizen engagement, and helping Nepal address its vulnerabilities to climate change impacts and mitigate the effects of natural disasters.

2. **The two pillars and cross-cutting themes of the CPS remain valid, with the WBG on track to achieve many outcome targets although it is encountering significant implementation challenges.** In the first two years of implementation, Nepal experienced two exogenous shocks – the devastating earthquakes in 2015 and trade disruptions leading to a fuel crisis late 2015 to early 2016. These shocks underlined the need to diversify energy source, enhance connectivity, increase versatility of agriculture production, improve education and health care facilities, have better social protection systems, and enhance disaster response capacity and preparedness. The political instability and trade disruptions also underlined the criticality of inclusive growth and shared prosperity, to consider gender and geographic disparities, and citizen engagement. The CPS is guided by the principles of balancing risks and rewards, and recognizes the significant implementation risks including weak capacity of government institutions, governance weaknesses, political fragility, and post-conflict environment. As such, its two pillars and cross-cutting themes remain applicable to the evolving country context. While delays were experienced in the preparation and implementation of lending and non-lending activities, the WBG is on track to achieve the targets set out in the outcome areas of energy, financial sector and investment climate, agriculture, and education. In the other areas, the targets may only be partially achieved.

3. **Nepal faces fragility and government capacity constraints that need to be taken into account as the country pursues longer-term development.** Nepal's vulnerability to natural disasters was demonstrated by the devastating earthquakes in 2015, as well as the increasingly frequent landslides during the monsoon season. Its fragile political environment and institutional governance context were magnified during the drafting and promulgation of the new constitution that establishes Nepal as a federal state and during the trade disruptions. Nepal's economy is also vulnerable to the risk of decline in remittances due to the current low oil prices. Such a decrease in remittances may affect the balance of payment position in the medium term, and the decreasing opportunities abroad heighten the need to create domestic jobs especially with an increasing number of youths entering the job market. The severity of Nepal's weak institutional capacity is underlined by the continued under-utilization of government's capital expenditure and ineffective public project management (*e.g.* frequent transfer of officials, weaknesses in procurement and contract management, inattention to financial management requirements, weak inter-agency coordination, inadequate application of social safeguard measures). In particular, the energy sector has many problem projects, including WBG-supported ones.

4. **The evolving country context necessitates adjustments in the WBG support.** Nepal is expected to receive an increase in IDA resources under IDA18, including financing from the Exceptional Risk Mitigation Regime that will help strengthen Nepal’s resilience. The WBG has launched a risk and resilience assessment on fragility, conflict, and vulnerability, which will serve as the basis for Nepal’s eligibility for the IDA18 Exceptional Risk Mitigation Regime. The WBG intends to scale up engagement in institutional governance focusing on fiscal devolution and formation of a federal structure; economic sustainability and job creation; and earthquake reconstruction and disaster preparedness through a combination of lending and analytical work. To address institutional governance and capacity issues, policy reform engagements will be intensified, which include development policy credits for fiscal management and energy sector reform, as well as continuation of the financial sector stability policy operations. To strengthen fiduciary management, the WBG will support public financial management, which will be central to and integrated into results-based operations (*e.g.* in human development sectors). Building on experience, the WBG will intensify its effort to provide high impact support through policy engagements and results-based operations. Moreover, to enhance the effective use of its resources, the World Bank will apply more stringent remedial measures for non-performing operations. Given the urgency of building Nepal’s resilience against emerging areas of fragility and vulnerability (*e.g.* related to political environment, reduction in remittances, weak capacity, natural disasters), the Systematic Country Diagnostics (SCD) will be advanced to start in the second-half of FY17. The next Country Partnership Framework (CPF) FY2019-22 is expected to be prepared in FY18.

II. MAIN CHANGES IN COUNTRY CONTEXT

i) New or Emerging Country Development Issues

5. **Nepal’s political landscape is characterized by frequent changes.** Nepal has witnessed momentous changes: the signing of the 2006 Comprehensive Peace Agreement ending the decade-long, Maoist-led civil conflict; the former rebels securing a majority in the first Constituent Assembly (CA) and leading the government in 2008; and the abolition of the monarchy in 2008. Political uncertainty has been the norm in post-conflict Nepal following the signing of the 2006 Peace Agreement, characterized by frequent government changes. Since the Board discussed the current CPS in May 2014, the Prime Minister has changed three times, most recently in August 2016. The government is likely to change again in mid-2017 as part of the power-sharing agreement among the coalition partners.

6. **The transition to a federal democratic government is a new source of uncertainty.** A new constitution was promulgated in 2015 outlining the transition to a federal democratic state and replacing the Interim Constitution of 2008. The new constitution remains highly contested among key population groups. It outlines the transition to a new federal republic, including provisions to hold parliamentary, provincial and local elections by early 2018. It demarcates seven provinces and identifies several commissions to further determine the details for the functioning of a democratic federal state (such as the number of representatives to Parliament, which would be the basis for the elections in 2018). There is uncertainty regarding the timeframe to establish the new federal republic given the magnitude of necessary changes. These include amendments of over 400 existing acts, restructuring the civil service at the three levels of government (national, provincial, and local), and determining the division of labor between various levels of government.

7. **During the first half of the CPS period, Nepal experienced two exogenous shocks - earthquakes and external trade disruptions - that had devastating impacts on its people and the economy.** Two major earthquakes hit Nepal in April and May of 2015, resulting in approximately 8,700 deaths and 25,000

injured, and about 10 million people (over one-third of the country’s population of 28 million) were affected by damage and destruction of homes and key infrastructure. The Post Disaster Needs Assessment (PDNA) estimated physical damages and economic losses to be around US\$7 billion and reconstruction needs to total US\$6.7 billion. The estimated losses are equal to 100 percent of the combined annual public and private capital investment in FY14. In response to earthquake rehabilitation needs, a new aid compact emerged (para. 30).

8. **The trade disruptions following the promulgation of the new constitution exacerbated the post-earthquake impacts.** From September 2015 to January 2016, Nepal experienced cross-border trade disruptions along its southern borders —its largest trade route—resulting in an acute fuel crisis and shortages of essential supplies. The entire economy was affected, including key sectors such as tourism, construction, agriculture, and transportation, as well as earthquake reconstruction efforts. Government offices and businesses were operating at below capacity with workers unable to commute to work. Industrial and commercial activities slowed to a standstill due to shortages of energy and raw materials, while agricultural production was affected by lack of fertilizers and other supplies. Nepalis across the country experienced worsening conditions and hardships in their daily lives, with wage earners especially affected by the increase in prices of goods. The trade disruptions underlined Nepal’s economic vulnerability, including energy constraints and reliance on imports.

ii) **Recent Economic Developments and Outlook**

Table 1: Key Economic Indicators

(Annual percent change unless noted otherwise)

	FY2013	FY2014	FY2015	FY2016	FY2017 f	FY2018 f
Real GDP growth, at constant market prices	4.1	6.0	2.7	0.6	5.0	4.8
Private Consumption	2.9	4.1	2.9	-0.6	5.0	4.5
Government Consumption	-6.6	10.1	7.3	-5.4	11.0	11.0
Gross Fixed Capital Investment	16.8	11.4	19.6	-12.2	12.6	6.0
Exports, Goods and Services	10.3	18.4	7.5	-3.2	13.6	8.9
Imports, Goods and Services	14.2	21.0	9.5	3.5	10.1	5.9
Real GDP growth, at constant basic prices	3.8	5.7	2.4	0.8	5.0	4.8
Agriculture	1.1	4.5	0.8	1.3	3.5	3.0
Industry	2.7	7.1	1.5	-6.3	4.0	4.0
Services	6.2	6.0	3.8	2.8	6.3	6.2
Inflation (Consumer Price Index)	9.9	9.1	7.2	9.9	9.0	8.0
Current Account Balance (% of GDP)	3.1	4.8	3.8	4.1	0.3	-1.6
Fiscal Balance (% of GDP) ^a	0.5	0.6	-1.0	0.3	-1.1	-1.4
Debt (% of GDP)	32.2	28.5	25.6	25.1	25.9	26.3

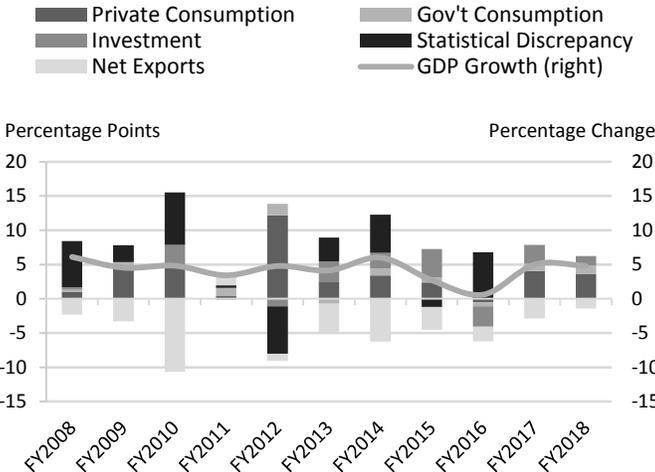
Sources: Central Bureau of Statistics (CBS), Nepal Rashtra Bank (NRB), Ministry of Finance (MoF) for history and World Bank (WB) staff for forecasts.

Notes: a – fiscal balance includes net lending, f=forecast.

9. **Nepal’s economy is recovering from the two exogenous shocks.** After the earthquakes, economic growth slowed to 2.7 percent in FY15 and further declined to 0.6 percent in FY16 due to slow post-earthquake reconstruction activities and trade disruptions, the lowest growth in 14 years. However, the economy is recovering to previous level and is projected to grow by about 5 percent in FY17 (Table 1). The recovery is based on an increase in agricultural productivity following favorable weather conditions

in 2016 after two years of sub-optimal rainfall and a rise in post-earthquake reconstruction activities. Inflation has moderated (10.5 percent (y/y) in July 2016), after a spike in early-2016 to 12 percent due to the trade disruptions. Despite severe trade disruptions, trade balance remained stable at 30 percent of GDP. While imports rebounded quickly following the end of the trade disruptions, they were still lower than previous years and exports have not returned to their pre-trade disruption level and trade deficit measured as share of GDP remained the same. The trade deficit was offset by remittances, whose growth rate declined and yet accounted for almost 30 percent of GDP in FY16. Fiscal deficit is expected to widen following a fiscal surplus of 0.3 percent of GDP¹ in FY16 when the post-earthquake spending did not materialize. The government’s recurrent expenditure is expected to grow with an increase in earthquake-related cash assistance and measures to increase civil servants’ compensation, social protection, and pensions.

Figure 1: Contributions to GDP Growth



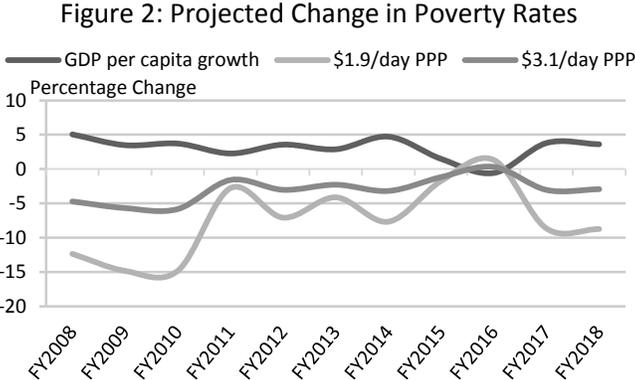
Source: CBS and WB staff estimates and forecasts

10. **Nepal’s economy remains vulnerable, given its high reliance on remittances, reliance on agriculture, weak investment climate, and slow capital formation, both public and private** (see Figure 1). Overall, macroeconomic and fiscal management has been prudent, providing stability for Nepal to recover from the two exogenous shocks and to achieve average growth of approximately 5 percent (with exception of post-earthquake and trade disruption period) despite the political instability. Yet, the economy is vulnerable and weak. Remittances have driven consumption-based growth. With oil and commodity prices expected at present lower levels and potential slower global economic growth, there is an increased risk of decline in remittances. Such a decline will adversely affect Nepal’s economic growth, fiscal, and external accounts. Moreover, with less economic opportunities for Nepalis abroad, the country faces the challenge of creating jobs at home, especially with a growing youth population. Agriculture, an important contributor to the economy accounting for 32.8 percent of GDP in 2015, has performed below potential. It is largely dependent on weather, and offers limited opportunities for entrants into the labor market in its current value chain status. Nepal continues to be trapped in a low-investment and low-growth equilibrium as described in the CPS, and the potential for economic growth through private investment has yet to be realized due to constraints in investment climate, infrastructure deficit, and poor

¹ Net lending included.

governance. Addressing the low-investment and low-growth equilibrium is crucial to signal to domestic and international investors of the economic opportunities, and to increase foreign direct investment, which is less than 0.2 percent of GDP, compared to South Asia’s average of 1.8 percent of GDP in 2015. Regional connectivity, if strengthened, would have important economic benefits for Nepal, particularly through regional energy trade and improved infrastructure and institutions to reduce the cost of trade. A Power Trade Agreement was signed between Nepal and India, followed by Project Development Agreements for energy exports to India from hydropower projects in Nepal. Nepal is participating in regional efforts to strengthen the supply chain routes and infrastructure along Bangladesh, Bhutan, India, and Nepal (BBIN) corridor, which would unlock Nepal’s trading potential.

iii) Poverty and Shared Prosperity



Source: CBS and WB staff estimates and forecasts.

11. **While Nepal made significant progress in reducing poverty, these gains may be reversed.** Poverty has been on a declining trend with the poverty headcount ratio at \$1.90 per day (2011 PPP) decreasing from 46.1 percent in 2003 to 15 percent in 2010.² The incidence of poverty varies by geography, ethnicity and gender. The earthquakes impacted certain regions more than others, and it is estimated that an additional 0.7 to 1.0 million people have fallen back into poverty in the earthquake affected areas.³ With the trade disruptions, slow and limited reconstruction and livelihood support following the earthquakes, and stretched household coping mechanism, a large portion of the 45 percent of total population that were considered vulnerable⁴ may have been pushed below the poverty line, reversing the poverty gains. Furthermore, a decline in remittances may also contribute to an increase in the number of poor. Overall, the earthquakes and trade disruptions appear to have disproportionately affected the poor and vulnerable, as seen in Figure 2, where despite the economic recovery, the percentage of poor is estimated to have increased and thus contributed to an increase in inequality. The next round of the National Living Standard Survey expected in 2017/2018 will provide data to substantiate the poverty trends.

² According to Nepal’s national poverty line, 25.2 percent of the population live in poverty. The national poverty line established in 2010/11 represents the expenditure required to meet the minimum food and non-food needs, and has historically been measured using Nepal Living Standard Survey. It is the primary benchmark for poverty monitoring, as well as identifying and targeting the poor in Nepal.

³ 2015 Post Disaster Needs Assessment.

⁴ Households with more than 10 percent probability of falling back into poverty are considered “vulnerable” households in *Moving up the Ladder*, World Bank 2016.

III. SUMMARY OF PROGRAM IMPLEMENTATION

i) Portfolio Performance

12. **World Bank lending volume remained at the same level although lending operations were affected by the earthquakes and trade disruptions.** Under IDA17, Nepal is expected to deliver approximately US\$1,201 million (US\$901 core IDA and US\$300 million from Crisis Response Window (CRW) for emergency needs following the 2015 earthquakes) (see Annex 4). Financing has been on a credit-only basis as Nepal's risk of debt distress was assessed to be low. The portfolio consisted of 17 IDA projects with net commitments of US\$1.45 billion in FY14, which remained relatively stable at 18 IDA projects with a combined net commitment of US\$1.58 billion by end-December 2016. In the aftermath of the earthquakes and trade disruptions, only one energy technical assistance project was approved, but four operations were granted closing date extensions in FY16. In FY17, US\$640 million (US\$590 core IDA and US\$50 million from IDA Crisis Response Window) is expected to be committed (see Annex 4). The lending instruments have been diversified, with more results-based financing to support Nepal's longer-term development needs and help achieve results in the government's own program (see Box 1).

13. **Implementation remains a challenge across the portfolio given the weak governance and institutional capacity.** Out of 18 IDA-financed investment projects, six projects are in problem status⁵ and five are in potential problem status⁶. These projects constitute about 60 percent of total commitments. As of end-December 2016, US\$108 million or about 13.7 percent was disbursed (compared to end-FY17 target of 29.4 percent), which is largely due to the Earthquake Housing Reconstruction Project. Implementation has been hampered by government coordination issues and slow counterpart decision-making processes, frequent rotation of project counterparts, poor financial management, prolonged procurement processes, challenges in contract management, and quality at entry and project preparedness issues. Public investment in general is characterized by low capital expenditure and spending in the last trimester. Of all the sectors, the energy portfolio⁷ has had the weakest performance, with slow implementation progress and low disbursement⁸. This is mainly due to weak governance and institutional capacity, and the WBG has encountered issues such as prolonged forestry clearance processes, and ambiguity in right-of-way compensation processes, delays in the procurement processes, and weak financial management oversight. The Inspection Panel case on the transmission line under the Power Development Project that closed in 2013 is a representative legacy of these issues. The Board discussed the Management Report in 2016, and nearly all the items in the Action Plan in the Management Report have been completed.

⁵ Problem status refers to those projects which are rated unsatisfactory (U or MU or HU) in the progress towards achievement of Project Development Objective and/or the Implementation Progress in an archived Implementation Status and Results Report (ISR).

⁶ Problem projects include two energy projects, Strengthening National Rural Transport Project, Project for Agriculture Commercialization and Trade, and Rural Water Supply and Sanitation Project. Other projects at risk are mostly community-level engagement programs such as Poverty Alleviation Fund Project, Community Action for Nutrition Project and Rural Water Supply and Sanitation Project as of end-December 2016.

⁷ The energy portfolio comprises of one regional project plus five projects with a total commitment of about \$376 million in IDA financing as well as IFC investments and represents about 20 percent of the portfolio. In addition, there are several trust-funded alternative energy projects.

⁸ Two projects in energy - Kabela-A Hydroelectric Project (Joint IDA/IFC operation) and Kali Gandaki Rehabilitation Project – are in problem status. Two other projects - the Grid Solar and Energy Efficiency Project, and Nepal-India Electricity and Trade Project – are in potential problem status.

14. **Strengthening the public financial management system and the Office of the Auditor General (OAG) has been an important priority.** While Nepal's Public Financial Management (PFM) system is largely well designed, critical gaps in the budget execution and oversight processes have resulted in raising fiduciary concerns over the spending of public money and, ultimately, the ability of the government to improve the level of service delivery to the people. Systemic issues in PFM systems that are impacting the Bank portfolio include delays in the submission of the audited financial statements and material issues, especially ineligible expenditures, in the audit reports. While the World Bank continues to strengthen PFM systems and the capacity of the OAG office, addressing fiduciary issues, notably refund of ineligible expenditures is a prerequisite for engagement in the sectors. This has helped improve the PFM systems in the health and education sectors. The World Bank will continue to implement this strategy across the portfolio.

Box 1. Experience with Results-based Financing

Results-based financing with the use of the PforR instrument and with the incorporation of disbursement-linked indicators (DLIs) in investment projects are yielding positive results in Nepal. The Bridges Improvement and Maintenance Program (BIMP) is the World Bank's first infrastructure PforR project. The PforR project supports the government's initiative to provide safe, reliable, and cost-effective bridges as part of Nepal's Strategic Roads Network. The BIMP has also contributed to making the government's planning and implementation system more accountable and result-oriented. The BIMP's positive experience may be attributed to simple and robust program design, and proactive World Bank team support to manage safeguard, fiduciary and technical risks. In addition, the DLIs have changed the focus of the engagement with the government from inputs to outputs and outcomes. In the Higher Education Reforms Project, progress is being monitored through the achievement of seven DLIs related to reforms aimed at improving the quality, relevance, and efficiency of selected institutions. Based on the BIMP experience with the PforR instrument, the government has started considering its use in other sectors, including in education and health. Likewise, DLIs are being incorporated in other new investment interventions such as a program to enhance the social protection system.

15. **There is a need to reconsider support for community-managed interventions.** In the absence of state presence during conflict, the WBG provided basic services in education, rural drinking water, nutrition and livelihood through community-managed activities. However, these community-managed activities have had limited scalability, have encountered misuse of funds per the OAG annual reports including investigation by the Commission for the Investigation of Abuse of Authority that reported on corruption, and have experienced increasing local political interference. Overall, they have missed the expected project outcomes and targets and there is a need to review continued support for such activities that increases institutional reputation risk and where the government is less willing to utilize IDA credits for such programs.

16. **IFC focused on energy, financial inclusion, agribusiness and tourism.** In the energy sector, IFC is working closely with IDA on the joint Kabeli-A Hydroelectric Development Project. In addition, IFC is working on the ground-breaking 216 MW Upper Trishuli 1 hydropower project. However, as noted in paragraph 13, projects in the energy sector have experienced considerable delays. The construction of the Kabeli-A Hydroelectric Development Project has yet to start after two-and-a-half years of Board approval, while the Upper Trishuli 1 hydropower project has been three years in development due to delays in government approval process. The Project Development Agreement for Upper Trishuli 1, a key prerequisite to start construction, was approved by the government in December 2016. To help enhance financial inclusion, IFC has supported banks and venture funds that finance small and medium-sized enterprises (SMEs), provided trade finance products, and engaged in advisory services in the financial sector. In agribusiness, IFC supported a poultry feed company, and in tourism IFC helped to fill the

financing gap for the construction of a new lodging facility. To support an environment for increased private sector engagement, IFC through the joint Global Practice on Trade and Competitiveness, has been working with the government on broad and sector-specific regulatory reforms.

17. **IFC delivered a modest program in the first half of the CPS period given the major earthquakes, trade disruptions, frequent changes in government administration and delays in government approval process.** IFC committed three long-term finance (LTF) investments in energy, agribusiness and tourism/hotel. Through the Global Trade Finance Program (GTFP), IFC provided financing to seven commercial banks to support trade, including for SMEs. IFC's committed investment portfolio increased from US\$46 million with 13 clients at the start of FY14 to US\$52 million working with 15 clients at the end of FY16. Infrastructure accounted for 68 percent of the total portfolio while Telecom, Media, Technology, Venture Capital and Funds accounted for 13 percent. Financial Institutions Group (FIG) and Manufacturing, Agribusiness, and Services (MAS) each had a 9 percent share of the portfolio. The outstanding portfolio performed well with no non-performing loans. At the same time, advisory services continued to be a key part of IFC's value proposition. Advisory services portfolio increased from US\$11.2 million to US\$13.3 million. IFC worked on 23 advisory services projects during the first half of the CPS period, 9 of which are still ongoing. Eleven of the advisory projects are in the financial sector focused on capacity building in specific firms and on regulatory reforms. Other advisory projects are in hydro energy, agribusiness, SMEs, tourism, airport PPP, and investment climate.

18. **MIGA has no exposure in Nepal.** MIGA has been constrained by a challenging legal framework for foreign investment, an inadequate framework and limited capacity to support Public Private Partnerships (PPPs), and governance and capacity issues in procurement and financial management. Nevertheless, it is coordinating with the IFC and the World Bank to consider a guarantee support for Upper Trishuli-1 and stands ready to consider further projects across sectors as appropriate opportunities emerge.

ii) Overview of Program Implementation

Table 2. Progress in Achieving Nepal CPS Outcome Areas

(See Annex 3 for more details)

Pillar 1: Increasing Economic Growth and Competitiveness	
Outcome Areas	Outcome Status
1.1 Energy: Increased supply of electricity, including imports, and improved access to reliable and affordable electricity.	Likely to be achieved
1.2 Transport: Improved transportation connectivity, internally and with India.	Likely to be partially achieved
1.3 Investment climate/Financial sector: Increased financial sector stability and improved environment for private sector investment.	Likely to be achieved
Pillar 2: Increasing Inclusive Growth and Opportunities for Shared Prosperity	
Outcome Areas	Outcome Status
2.1 Agriculture: Increased agriculture productivity and commercialization.	Likely to be achieved
2.2 Education: More equitable access to education and skills development, of higher quality relevance.	Likely to be achieved
2.3 Health: Improved health and nutrition outcomes, particularly for the poor and disadvantaged.	Likely to be partially achieved
2.4 Social Safety Net: Improved social protection	Likely to be partially achieved

Pillar 1: Increasing growth and competitiveness

19. **The WBG has expanded its engagement and pursued a more integrated approach to increase Nepal’s energy supply despite the challenges faced in the sector (Outcome 1.1).** Limited access to reliable and affordable electricity was identified as a fundamental constraint to Nepal’s inclusive economic growth. The WBG embarked on an ambitious plan to support an increase in installed hydropower and enable regional power trade. As noted in paragraph 13, the energy portfolio performance has been poor and operations have moved more slowly than anticipated. This could be attributed to not only governance and government capacity issues, but also to the need to build the analytical basis and the policy dialogue with the government from a more limited sector support during the ISN periods. The WBG made progress in deepening its engagement in policy reforms, and a development policy credit is planned for FY18 to support key policy and structural reforms, including to support large-scale private investment. While the overall portfolio performance has been poor, the CPS outcomes in energy is expected to be mostly achieved as shown in Annex 3. Progress needs to be made on implementing Kabeli–A Hydroelectric Project and moving forward on Upper Trishuli 1, the ground-breaking 216 MW hydro project. These projects are considered transformational in their potential to help address Nepal’s power deficit and increase power export to India.

Box 2. Nepal Hydro Joint Implementation Plan

The Nepal Hydro Joint Implementation Plan is a framework for carrying out a multi-year, multi-project, IDA-IFC-MIGA program with the goal of supporting transformational hydropower projects and the cross-border transmission lines. The Plan is expected to transform Nepal’s hydropower sector by helping the country attract international sponsors and financiers on a large scale and position the country as a major regional exporter of electricity. The joint team is supporting the development of the Upper Trishuli 1 and Kabeli- A hydroelectric projects. The Project Development Agreement of Upper Trishuli 1, a key prerequisite to start construction, has recently been approved by the government. Upper Trishuli 1 Project is expected to attract the largest single-project foreign direct investment into Nepal. Kabeli-A, a 37.6 MW hydropower project, is jointly financed by IDA and IFC, which is already committed.

20. **Progress was made in improving internal connectivity, but increasing regional connectivity remains to be achieved (Outcome 1.2).** The government has achieved the CPS target to connect an additional six district headquarters by all-season roads. As in the case of the energy sector, the WBG is strengthening the analytical underpinnings for projects through, for example, a review of transport sector expenditure management. To support the priority to improve regional connectivity, the WBG has been implementing various initiatives. This includes the Nepal-India Regional Trade and Transport Project, which seeks to improve the main road corridor between Kathmandu and Birgunj, and the trade infrastructure along the corridor. Project activities were delayed due to the earthquakes and trade disruptions that led to the shortages of fuel and construction materials, as well as due to delays in procurement and decision-making. However, it is expected to achieve its project outcome by the end of the project (December, 2019). In addition, to develop strategic solutions to improve connectivity, the WBG has carried out a study of the “Fast Track” project – a 76 km expressway connecting Kathmandu with its southern border areas. Contingent upon receipt of the government’s formal request, the World Bank would help with the Fast Track highway, which is expected to have a transformative impact in improving the transport corridor.

21. **Important steps were taken to reform the financial sector but further effort is needed to improve the investment climate (Outcome 1.3).** The WBG has been providing a series of development policy credits (DPCs) to address capital adequacy of state-owned banks, strengthen inspection and compliance, and increase number of beneficiaries with access to finance. IFC on its own and through the joint Global Practices for Finance and Markets and for Trade and Competitiveness supports an advisory program in the financial sector and in investment climate. Many of the WBG targets are on track. The CPS targets for capital adequacy and government inspections were met, and legislative measures such as the Banking & Financial Institutions Act were recently approved by Parliament. In investment climate, limited steps have been taken to improve trade and efficiency of processes following WBG interventions. IFC advisory services through the Global Practice for Trade and Competitiveness have resulted in US\$24 million compliance cost savings for the private sector. However, the broader investment climate continues to be challenging, and Nepal ranks 107 out of 190 countries in the 2017 Doing Business report⁹. The low level of foreign direct investment underscores the urgency for reforms to improve government execution capacity and to strengthen government's ability to make swift and fair decisions on private sector investments. In the financial sector, IFC advisory services have resulted in an increase in the number of people obtaining access to financial services through payment accounts.

Pillar 2: Increasing inclusive growth and opportunities for shared prosperity

22. **The WBG is contributing to enhancing rural livelihoods through increased agricultural productivity (Outcome 2.1).** The WBG's support to increase agricultural productivity, including of high value products, continues to be mainly through the Project on Agricultural Commercialization and Trade (PACT) and irrigation projects. A number of CPS targets have been achieved through the PACT, such as for milk and ginger production (Annex 3). However, all ongoing irrigation projects have experienced implementation delays due to the earthquakes and trade disruptions and other implementation issues. Given that a large portion of the population continues to be employed in agriculture, there is a need to further improve the value added of agriculture.

23. **The WBG is on track in contributing to equitable access to education and skills development (Outcome 2.2).** In the first half of the CPS period, the milestone on access to higher education by poor students was met, with over 17,000 students from poorer families receiving scholarships for secondary and tertiary education. The net enrollment rates of students increased for both male and female students, surpassing the CPS target. Moreover, an increasing number of students are graduating from accredited tertiary institutions, and 70 percent of graduating students are gainfully employed, also meeting the CPS target. However, quantity and quality of graduates necessary for skilled employment in service sectors that may contribute to higher growth are in short supply, which needs to be addressed in the next CPF.

24. **While targets to promote better access to health care have been achieved, improving health outcomes remains a challenge (Outcome 2.3).** The WBG is contributing to the government's efforts to increase equal access to health care. For example, the target of increasing skilled birth attendants present at births for the poorest two quintiles was achieved. However, the World Bank is off track in achieving most of the targets related to health outcomes, in particular to decrease stunting by increasing the percentage of young children consuming a minimum acceptable diet in the most disadvantaged districts and in expanding access to safe drinking water and to public and private latrines. The CPS target to expand

⁹ Doing Business 2017-Equal Opportunity for All, October 25, 2016

health insurance coverage will likely be missed as a result of unaddressed capacity, institutional arrangement and coordination issues to implement this national level program.

25. **Efforts to empower marginalized groups and improve social protection, especially for the poor and the vulnerable, are ongoing (Outcome 2.4).** The Poverty Alleviation Fund (PAF) is the key program supporting the achievement of CPS social targets to empower and improve the livelihoods of marginalized groups. The PAF reached almost 825,000 households since the project started in 2007, and contributed to increasing real per capita consumption. To help develop a coherent social protection framework, the World Bank has been deepening its policy dialogue with the government, and carried out several key knowledge activities to identify household vulnerabilities, coping strategies, payment systems and coverage. Findings and lessons from these studies have informed the design of the Strengthening Systems for Social Protection Project approved in FY17.

Cross-cutting dimensions of institutional governance, gender, and climate change

26. **Efforts to strengthen institutional governance are continuing, particularly in public financial management (PFM) and procurement.** With WBG support, the government carried out the second Public Expenditure and Financial Accountability (PEFA) assessment in 2015, which showed progress in 61 percent of the performance indicators from 2010 to 2015. The government demonstrated its commitment to PFM reforms with the approval of a new action plan in March 2016, covering both institutional and technical aspects. The WBG is administering the Multi-donor Trust Fund (MDTF) for PFM, jointly funded by Australia (DFAT), Denmark, the EU, Norway, Switzerland, the UK (DFID), and the U.S. (USAID). This MDTF, which was recently extended, provides technical assistance aimed at outlining policy directions and key activities needed to strengthen the implementation and rectify shortcomings of the Public Procurement Act and its amendments. The MDTF for PFM helped to establish a comprehensive Treasury IT system covering 100 percent of budgeted expenditure and 95 percent of revenue collection, to create a Treasury single account with the closing of thousands of government accounts in private banks, and make progress in government accounting with the introduction of international accounting norms and in the professionalization of external audit. In addition, under the MDTF, demand-side activities to strengthen governance have also been supported. This includes the Program for Accountability in Nepal (PRAN), which supported civil society organizations (CSOs) in the use of social accountability tools to improve PFM at the local levels, emphasizing transparent, participatory, and accountable budgeting, as well as reviewing of social security expenditures. Also with PRAN's support, the OAG approved the OAG-CSO Partnership Guidelines to expand citizen's participation in performance audits.

27. **Mainstreaming gender considerations is an ongoing effort.** Overall, Nepal has made significant progress in achieving gender equality. Gender parity in primary education has been achieved and enrollment of girls in secondary education is increasing. Women's labor force participation is relatively high compared to other similar countries, with a female to male labor force participation ratio of 0.8. Overall fertility rate has declined from 3.1 (2006) to 2.6 (2011), and percentage of births attended by skilled birth attendants increased from 19 percent (2006) to 36 percent (2011). The government has introduced gender-sensitive budgeting and allocation of activities that directly support women and affirmative actions to increase women's participation in policy making and legislative bodies. Empowerment of women and gender access issues are being incorporated at the project level. The CPS reflects this effort through outcome indicators that are disaggregated by gender. They include women's access to education, skills development, access to finance, and health services. The WBG is also addressing gender through a number of non-lending initiatives such as the recent analytical work on labor market dynamics and gender-based violence. To support the government in closing persistent gender gaps, the

WBG prepared a Gender Action Plan (FY16-20), a cross-sectoral effort based on the Regional Gender Action Plan. The Gender Action Plan focuses on increasing the number of women engaged in formal jobs or entrepreneurial activities and on increasing number of women in decision-making positions in local institutions or community groups.

28. The WBG responded quickly and flexibly to Nepal's emergency reconstruction needs in the aftermaths of the 2015 earthquakes. Immediately following the two earthquakes, the government led the PDNA with support from the triparty coordinators (EU, WBG and UN), Japan, Asian Development Bank, and the Global Facility for Disaster Reduction and Recovery. The assessment was followed by the International Conference on Nepal's Reconstruction in June 2015 (supported by WBG technical advice), which resulted in pledges amounting to US\$4.1 billion. The WBG and other development partners also supported the government's efforts to prepare the Post Disaster Reconstruction Framework 2016-2020. The single largest need identified in the PDNA was reconstruction of rural housing, for which, the WBG and JICA provided support with a WBG-administered MDTF that pooled funding from Canada, DFID, Switzerland, and USAID. In addition, the WBG restructured, reallocated, or extended 12 existing IDA operations for recovery efforts. Other WBG contributions included additional resources of US\$300 million from the IDA Crisis Response Window. IFC quickly provided financing support for an existing client in agribusiness to address value chain disruptions. It also worked on a US\$70 million early response liquidity facility for partner banks in case these banks face liquidity constraints. The government established the National Reconstruction Authority (NRA) as an apex institution to oversee the reconstruction efforts. The NRA became operational at the end of December 2015, and since then, the housing reconstruction effort has moved forward and reached important milestones, including completing the survey of eligible beneficiaries, enrolling eligible beneficiaries, and rolling out tranches to an initial set of households. A consortium of donors, including the WBG, have been providing substantial support for day-to-day operations and policy development of the NRA.

29. Climate change is being addressed through a range of WBG support. Nepal's Strategic Program for Climate Resilience (SPCR) was developed with support from the World Bank, IFC, and the ADB. The WBG is promoting climate smart agricultural practices through agriculture and irrigation projects such as IFC's Program to Promote Climate Resilient Agriculture. Through this program, IFC is working with major agribusiness firms to promote improved agricultural and water management practices and introduce new technologies among smallholder farmers producing rice, maize and sugarcane to adapt to climate change. The WBG's Forest Carbon Partnership Facility has been supporting the government to reduce emissions from deforestation and forest degradation, promote sustainable management of forests, and enhance forest carbon stocks (REDD+¹⁰). Discussions are ongoing on possible support for the implementation of the government's 2015 Forest Policy. The WBG is also providing support to building resilience to climate-related hazards.

Evolution of Partnership and Leveraging of Resources

30. The landscape of development partners is shifting. China and India have become increasingly influential development partners in Nepal, and the WBG is making an effort to increase its outreach and engagement with them. In the immediate aftermaths of the earthquake the two countries were among the first to respond with rescue operations and provision of emergency supplies. China and India also pledged US\$767 million and US\$1.4 billion respectively for the earthquake reconstruction efforts,

¹⁰ REDD+ stands for countries' efforts to reduce emissions from deforestation and forest degradation, and foster conservation, sustainable management of forests, and enhancement of forest carbon stocks.

followed by the ADB (US\$600 million) and the WBG (US\$500 million).¹¹ Among the bilaterals, in terms of disbursements the UK has been a top donor, followed by the United States, Japan, China, and Switzerland. The WBG remains the largest development partner in Nepal with the highest disbursement¹². Together with DFID, the WBG is co-chairing the International Development Partners Group (IDPG), which meets regularly to exchange information and promote strategic coordination. The IDPG was particularly useful in bringing together donor responses to earthquake reconstruction efforts, and a priority agenda in the near term is coordinating support for Nepal's transition to a federal state. Local Donor Meetings continue to be organized as a forum for dialogue and coordination between development partners and the government. To promote greater coherence of development support and to reduce transaction costs, Nepal's development assistance coordination policy discourages development partners from funding large number of small development initiatives below US\$5 million.

31. **The WBG has endeavored to coordinate with other development partners, including to provide intellectual leadership, facilitate key policy dialogue, and support crisis management, such as post-earthquake reconstruction.** The FY16 Nepal Country Opinion Survey¹³ reflects high expectations from public, non-government and private stakeholders regarding the World Bank's role in tackling challenging and transformational development issues. It also reflects the expectations for collaboration with the WBG, in leading and facilitating coordination and dialogue among development partners, the government, the private sector, and other stakeholders on key policy reforms for the energy sector and earthquake reconstruction programs, among others. The WBG is coordinating with development partners to support Nepal's post-conflict transition. It is also working with them to leverage resources in supporting the government such as for the capacity building of government systems through the MDTF for PFM, or strengthening the health and education system through SWAPs. IFC is working with a number of bilaterals for possible engagement in financing projects.

IV. EMERGING LESSONS

32. **The CPS design was important in providing the WBG a solid framework for supporting Nepal's longer-term development goals and to also be responsive to the changes in the country context.** The CPS enabled enough flexibility to manage the country risks and to respond to exogenous shocks. Under the cross-cutting priority areas, the WBG has supported the government in addressing governance issues, gender, and citizen engagement in a more systematic manner through various interventions – PEFA, PRAN, gender-related analytical work, gender-focused pilot schemes and social media outreach. At the project/activity level, preparation and implementation required considerable effort, especially given the governance and institutional capacity weaknesses.

33. **To operate in a complex political environment, solid analytical work, understanding of the political economy and active outreach across the political spectrum have been critical.** Frequent changes in political leadership and power sharing among key parties have meant prolonged decision making at the policy level. The frequent turnover of government has also weakened the technocratic leadership and the bureaucracy, resulting in institutional silos and hesitance in taking actions. Within each sector, there are oftentimes several government actors involved at the central and local levels in project implementation. Both for project preparation and implementation, and in challenging sectors like energy and transport, it has been important for the WBG to invest in the understanding the political economy of the sector and to reach out across the political spectrum to achieve broad ownership and to build policy

¹¹ Nepal Development Cooperation Report 2014/2015, Ministry of Finance, Government of Nepal

¹² Ibid.

¹³ FY16 Nepal Country Opinion Survey Report, Public Opinion Research Group, the World Bank Group (August 2016).

continuity. For example, the progress in implementing the BIMP may be attributed in part to the sector analysis carried out in advance. In the energy sector, the WBG has stepped up policy dialogue with the government and other key stakeholders. This policy dialogue has led the Government to request a series of development policy credits for energy sector reforms. With political instability likely to continue and with the transition to a federal state, the WBG will need to continue its efforts to strengthen the knowledge and understanding of the political economy and reach out to a broad spectrum of stakeholders.

34. **Given the systemic constraints to project implementation, a multi-pronged approach to overcome bottlenecks has been necessary.** As noted earlier, project preparation and implementation have been affected by political complexities, governance and institutional capacity issues, including in procurement. Disbursement of investment projects has been low especially following the earthquakes and trade disruptions. The WBG has been applying a range of approaches to address implementation issues, which is yielding some results. Across the portfolio, the World Bank is working with the Ministry of Finance to strengthen the application of project readiness filters. To reduce the burden on government of having too many small activities when its implementation capacity is limited, the WBG has begun to apply the government's development coordination policy of supporting trust-funded activities above US\$5 million. The WBG also started to carry out joint portfolio reviews with the government to increase ownership of the problems and their solutions. At the project level, different approaches to facilitate project disbursement depending on the nature of the project have been applied, while ensuring strong accountability. In the case of the Earthquake Housing Reconstruction Project, the project has an output-based disbursement arrangements. Under this arrangement, resources are advanced to the government for transfer directly to eligible beneficiaries who are rebuilding their houses according to safer, earthquake resilient standards. Each payment is certified by a technical personnel and each check is tracked by the government budget management system (for which support was provided to strengthen the information system) and reported for third-party verification. The World Bank is increasingly adopting such results-based approach in Nepal that builds government's own capacity, including fiduciary, to implement and monitor results. To address governance and fiduciary capacity issues, the WBG is providing capacity building support for public financial management and procurement and contract management through the MDTF for PFM and a Public Procurement Improvement Project is being prepared to strengthen overall public procurement performance. The WBG will need to persist in tackling implementation challenges at different levels.

V. ADJUSTMENTS TO COUNTRY PARTNERSHIP STRATEGY

35. **The emerging development needs and Nepal's fragilities necessitate adjustments in WBG support and the WBG will also pursue transformative projects.** The two pillars of the CPS remain applicable as noted in para. 32. They are aligned with the government's Fourteenth Periodic Plan and its priorities to achieve economic growth and middle-income status. The areas identified under Pillar 1 of the CPS are also echoed in the results of the FY16 Nepal Country Opinion Survey Report that highlighted the top three priority areas to be transport, energy, and economic growth. The WBG will pursue transformational engagements in these areas, such as the Upper Trishuli 1 hydropower project and the Energy DPC, as well as the Fast Track Highway if requested by the government. At the same time, the WBG will do more to address emerging development needs in the following areas from FY18:

- support the government in its transition to a federal state,
- help create jobs domestically given the potential further decline in overseas employment opportunities and youth bulge,

- provide assistance to strengthen resilience against natural disasters including earthquakes, and
- intensify engagement on policy reforms to improve institutional governance.

36. **To be able to do more in the aforementioned areas, the WBG will calibrate its approach to enhance the effective use of available resources, based on ongoing implementation experience and lessons learned.** As described further in para. 42, this entails further consolidating the operations portfolio, exercising more discipline in types of activities being funded, and increasing multi-sectoral approaches. In view of the recent country developments and urgency to address them, the SCD originally planned for FY18 is being advanced to start in the second half of FY17 and the CPF will be prepared in FY18. The SCD will bring together knowledge about growth channels, instability conduits, and vulnerabilities that may not be fully covered by the Risk and Resilience Assessment (*e.g.* related to building resilience to climate-related hazard); prerequisites for functioning federated state; and binding constraints for transformational change required to graduate to low middle-income status. Annexes 4 and 5 provide an updated indicative list of IDA operations and ASAs, for the remaining CPS period.

37. **A strong pipeline of operations to strengthen Nepal's resilience will be a priority, which will be backed by an increase in IDA allocation under IDA18.** Nepal is expected to receive increased IDA resources including under the IDA18 Exceptional Risk Mitigation Regime. The facility is being considered for Nepal given its fragility to political uncertainties (especially in establishing the new federal structure), economic vulnerabilities (including to global economic downturns and further decline in remittances from overseas workers), and exposure to natural disasters and climate change. A Risk and Resilience Assessment is under preparation, which will analyze the main drivers and causes of fragility and inform areas of support and design of operations. This will contribute to the SCD along with other ongoing analytical work such as the Country Economic Memorandum (CEM). As a follow-up to the Risk and Resilience Assessment, an Implementation Note will be prepared in consultation with the government.

38. **The WBG will do more to support Nepal's transition to a federal structure.** The establishment of a new federal structure offers significant opportunities to reorganize and strengthen public administration at the national, provincial and local levels. At the same time, the transition is a new source uncertainty (para. 6). The WBG will support the government to establish the new governance structure and strengthen institutional capacity at the national and local levels where opportunity arises. The World Bank has already begun analytical work on fiscal devolution, as a basis for a future DPC to support the establishment of a federal structure in FY19/20. The WBG will scale up advisory services and diagnostic studies to support the devolution of administrative functions, fiscal resources, and service delivery from national to local levels.

39. **The WBG will intensify its efforts to expand opportunities for employment.** Job creation is an emerging challenge and presents a risk to the country, given the large youth population and potential return of migrant workers due to global economic factors (para. 10). The WBG has recently completed an analytical work on Understanding Labor Market Decisions. Building on this and other ongoing and planned analytical work, in FY17 and FY18, it will step up efforts to work across multiple sectors (such as agriculture, social protection, education, private sector development) to address employment opportunities, linking them to projects supporting investment climate, agriculture, vocational education and training, agriculture, and social protection.

40. **In the aftermaths of the 2015 earthquakes, the WBG will expand reconstruction efforts and support Nepal's disaster management.** Following the successful first tranche implementation of the Earthquake Housing Reconstruction Project, the World Bank is discussing with the Government the

preparation of a second phase project to continue efforts to build earthquake-resilient structures. In parallel, a number of projects were restructured and/or augmented to support the reconstruction of key infrastructure.

41. **The WBG will intensify engagement in policy reforms to improve institutional governance and capacity issues.** As noted in para. 13, institutional governance and government capacity issues have been key constraints to project preparation and implementation, especially in hydropower development projects. In the energy sector, World Bank engagement will shift away from stand-alone investment project for transmission lines to focus on policy reform to achieve wider impact by addressing institutional constraints. Likewise, the World Bank will intensify engagement in policy reforms in fiscal management through development policy credits. In addition, it will strengthen public financial management and procurement and support results-based operations that emphasize government project capacity to implement and monitor for results, such as the Health Sector Management Reform using the program-for-results financing.

42. **To enhance the use of available resources and to strengthen the portfolio, the World Bank will exercise more discipline in the type of activities it supports.** The World Bank will intensify its efforts to consolidate its portfolio ensuring that all new lending and non-lending activities are strategically aligned with the CPS and respond to government requests. It will do less of trust funded standalone programs. Furthermore, the World Bank will work with the Ministry of Finance to exercise more rigor in applying project readiness filters. The World Bank will also be more stringent in addressing non-performing projects whereby extensions will not be granted and remedial measures such as suspension and cancelation will be considered. It will reduce and reevaluate its engagement in community-based projects such as PAF, given the governance issues and the need to better understand service delivery under the new federal states. Following the completion of the SCD, it will reconsider projects in nutrition and rural water supply that have encountered serious implementation challenges.

43. **More emphasis will be given to multi-sector approaches.** In a number of areas, multi-sectoral solutions have been adopted, such as in policy engagements to strengthen the linkages between hydropower development and river-basin water resource planning. To address climate change impacts and support climate smart agriculture, cross-sector collaboration between agriculture, water, and the environment will be promoted. In the health sector, the WBG will facilitate greater partnership between government and health stakeholders to improve the efficiency and effectiveness of health systems delivery.

44. **The WBG will increase its attention to addressing citizen engagement as a new cross-cutting priority area.** The WBG is committed to meet the new corporate commitment made in December 2014 to incorporate beneficiary feedback in all new operations with clearly identifiable beneficiaries, including through consultations and incorporation of grievance mechanisms. The World Bank will more systematically focus its efforts on citizen engagement through a range of channels. They include engaging in dialogue with state and non-state actors, supporting broad participation in public expenditure management process, and strengthening outreach and promoting social media dialogue on key development topics.

45. **IFC will continue to focus on energy, financial inclusion, and strategic sectors.** IFC is developing a pipeline of projects in, among others, hydropower, tourism, cement production, and education. In the financial sector, IFC will continue its GTFP engagement with commercial banks and will seek investment opportunities to further financial inclusion. IFC's advisory services will primarily focus on investment

climate regulatory reforms, financial sector, energy, and airport PPP, tourism, and climate change related interventions. IFC will work closely with the World Bank to help address institutional capacity constraints to accelerate progress in existing private sector projects and attract more private engagements in key sectors.

46. **Adjustments will be made to the results matrix.** One is to split outcome area 1.3 that focuses on both financial sector and investment climate into two outcome areas - one focusing on financial sector stability and financial inclusion, and another on investment climate to better reflect the CPS emphasis in these areas. Another is to adjust Pillar 2 to highlight the focus not only on inclusion but also resilience. Under this pillar, an outcome area will be added on improved earthquake resilience where the World Bank support to the government has increased. In addition, specific indicators are being revised and updated to, for example, better align CPS outcomes and indicators and/or milestones with project interventions (*e.g.* some indicators are related to recently closed projects); update, simplify or clarify the outcome areas, indicators, and/or milestones; and update targets and milestones taking into account data availability (see Annexes 1 and 2). For instance, in the energy sector, the indicators and milestones have been revised to better identify generation capacity added, rehabilitated or increased through imports; to incorporate a measure of reliable electricity; and to measure transmission lines added.

VI. RISKS TO CPS PROGRAM

47. **The risks identified in the CPS remain relevant.** The CPS identified multiple risk factors that affect its implementation related to the fragile economy, political instability, governance issues, and weak institutional capacity for project implementation. Based on the Systematic Operations Risk Rating Tool (SORT), the overall risk rating for CPS implementation is substantial, as summarized in Table 2. Among the risk categories, the risks related to political governance and institutional capacity for implementation and sustainability are particularly significant for the WBG-financed initiatives, as further described below. The Risk and Resilience Assessment is expected to help expand the knowledge and understanding of Nepal’s vulnerabilities and possible options to address them with the support from the IDA18 Exceptional Risk Mitigation Regime. The WBG will maintain flexibility to respond to exogenous shocks to Nepal’s economy and natural disasters including earthquakes.

Table 2: Systematic Operations Risk Rating Tool

Risk Categories	Ratings (H, S, M, or L)
Political and Governance	H
Macroeconomic	S
Sector Strategies and Policies	S
Technical Design of Project and Program	M
Institutional Capacity for Implementation and Sustainability	H
Fiduciary	S
Environment and Social	S
Stakeholders	M
Other	S
Overall Rating	S

48. **Political and Governance.** The political and governance context remains uncertain and complex particularly with the transition to federalism, coalition government leadership, and continued frequent

turnover of government officials. To manage these risks, the WBG will continue its effort to build its knowledge and understanding of the political economy at the national and local levels, and of specific sectors. It will continue to intensify outreach across the political spectrum in policy dialogue and to achieve buy-in for projects and programs intended to support Nepal's development priorities. The WBG will maintain support to strengthen Nepal's public financial management capacity and transparency through the MDTF for PFM.

49. **Macroeconomic.** Nepal's economy remains vulnerable to the risks identified in the CPS. These risks include the economy's high dependence on consumption supported by remittances, reliance on agriculture that is dependent on weather patterns, and vulnerability to external developments including a slowdown in global trade. Nepal also faces the risk of limited diversification in trade partners, particularly for energy imports and other essential commodities. The country faces financial sector weaknesses including problem loans in the banking sector that are under-reported. To mitigate these risks, the WBG is providing support to address the constraints to economic growth (*e.g.* in energy, transport) and to strengthen the financial and banking sectors and fiscal management.

50. **Sector Strategies and Policies.** Sector policy reforms necessary for longer-term development is difficult, given the unstable political environment and dysfunctional government planning. The WBG is supporting policy reforms in a selective manner, based on strong analytical underpinning and building a policy dialogue over time with the government and key stakeholders to increase the chances of achieving reforms. To help government with the implementation of its sector strategies, the WBG has pursued SWAps and PforR operations to directly support the achievement of government's own initiatives.

51. **Institutional Capacity for Implementation and Sustainability.** The unstable political environment and frequent turnover of civil service staff have heightened implementation risk. In addition, weak project implementation capacity has hindered implementation of projects and affected the absorptive capacity of development financing. The Bank will enhance its coordination with the Ministry of Finance to ensure quality at entry of projects by adopting project readiness filters; to improve quality of supervision by enhancing joint monitoring and periodic review of portfolio; and to take more proactive actions to identify and resolve issues including widening stakeholders' buy-in to mitigate the impact of staff turnover.

52. **Fiduciary.** Weak procurement and financial management capacity continues to be significant contributors to implementation delays including delay in fiduciary compliance such as timely submission of financial reports and audit reports. The World Bank will continue strengthening procurement and financial management through MDTF focusing on digital data analytic tools to strengthen capacity. The Public Procurement Improvement Project (under the MDTF for PFM) is being prepared to improve overall public procurement performance. Follow-on projects on Strengthening Public Financial Management System, Strengthening the Office of the Auditor General and Strengthening the Capacity of Civil Society Organizations (CSOs) for PFM are also being prepared to enhance the supply and demand side of PFM.

53. **Environment and Social.** Weak capacity in assessing and mitigating social and environmental risks is a challenge undermining implementation and resulting in delays, particularly of infrastructure projects. The Inspection Panel case of the Power Development Project that closed in 2013 is a symptom of weak capacity across procurement, financial management and environment and social safeguards. Additional attention is given to environment and social safeguards during preparation and implementation, especially of infrastructure projects. The WBG will also continue to strengthen capacity building support for safeguards during preparation and implementation, particularly with the new World Bank Environment and Social Framework being introduced in 2018.

54. **Other.** Nepal is vulnerable to exogenous shocks including earthquakes, flooding and droughts. The WBG will maintain flexibility in its program to respond quickly to exogenous shocks. It will also contribute to strengthening Nepal's resilience to such exogenous shocks through support for earthquake preparedness. The Risk and Resilience Assessment is expected to help expand the knowledge and understanding of Nepal's vulnerabilities and possible options to address them with the support of the IDA18 Exceptional Risk Mitigation Scheme.

Annex 1: Updated Nepal CPS Results Matrix- Outcome and Milestones

Indicative CPS Outcomes and Indicators Targets=FY18 unless specified	Indicative Milestones	Ongoing and Indicative WBG Program
Pillar 1: Increasing Economic Growth and Competitiveness		
<p>Outcome 1.1: Increased supply and reliability of electricity</p> <p>Indicator 1: Local generation capacity rehabilitated (MW) Baseline: 0 MW; Target: 144 MW¹⁴</p> <p>Indicator 2: Local generation capacity added Baseline: 0 MW; Target: 25 MW¹⁵</p> <p>Indicator 3: Additional power imports Baseline: 100 MW; Target: 225 MW¹⁶</p> <p>Indicator 4: Number of load-shedding hours reduced in selected areas (hours)¹⁷ Baseline: 14 hours; Target: 8 hours</p>	<p>Milestone 1.1a: Transmission line added in selected areas: Baseline: 0 km; Target: 600 km added¹⁸</p> <p>Milestone 1.1b: High voltage substations capacity added Baseline: 0 MVA; Target: 860MVA¹⁹</p> <p>Milestone 1.1c: Procurement for EPC contract for 25 MW grid-connected solar project by December 2016</p>	<p>Financing: Ongoing/Closed</p> <ul style="list-style-type: none"> ✓ Kabeli-A Transmission Project ✓ Kabeli-A Hydroelectric Development Project (with IFC 37MW) ✓ Kali Gandaki Hydropower Rehabilitation Project ✓ Grid Solar and Energy Efficiency Project ✓ SREP-Supported Extended Biogas Project ✓ Nepal India Electricity and Trade Project ✓ Power Sector Reform and Sustainable Hydropower Development ✓ Butwal Power Co (4.3 MW Hydropower- IFC) <p>Financing: Pipeline</p> <ul style="list-style-type: none"> ✓ Upper Trishuli 1 Hydro Project (WB-IFC-MIGA) ✓ Energy Sector DPC <p>ASA: Ongoing/Delivered/Pipeline</p> <ul style="list-style-type: none"> ✓ Household Renewable Energy Access (<i>Delivered</i>) ✓ Fostering Hydropower Development in Nepal (Partnership for South Asia Regional Integration Programmatic Fund);

¹⁴ IDA Kali Gandaki Hydropower Rehabilitation Project

¹⁵ Grid Solar and Energy Efficiency Project (IDA) 25 MW

¹⁶ Nepal India Electricity Transmission and Trade Project

¹⁷ Kali Gandaki Hydropower Rehabilitation, Grid Solar and Energy Efficiency and Kabeli Transmission.

¹⁸ Nepal India Trade and Transmission 510 km+ Kabeli Transmission 90 km

¹⁹ Nepal India Trade and Transmission + Kabeli Transmission

Indicative CPS Outcomes and Indicators Targets=FY18 unless specified	Indicative Milestones	Ongoing and Indicative WBG Program
		<ul style="list-style-type: none"> ✓ Power Sector Reform and Sustainable Hydropower Development Project (SAWI-Phase 2) ✓ Sustainable Water Resources Development for Hydropower in Nepal (SAWI-Phase 2) ✓ Nepal Power Sector Reform and Sustainable Hydropower Development (Public-Private Infrastructure Advisory Facility) ✓ Conflict Management and prevention for Energy Projects in Nepal (Energy Sector Management Assistance Programme) ✓ Renewable Energy Resources Mapping in Geospatial Planning ((Energy Sector Management Assistance Programme) <i>(Indicative)</i> ✓ Economic Impacts of Hydro Development <i>(Indicative)</i> ✓ Developing Improved Solution for Cooking <i>(Indicative)</i>
<p>Outcome 1.2: Improved transportation connectivity</p> <p>Indicator 1: Percentage increase in population with access to all season road within 20 minutes of walking distance in targeted districts²⁰ Baseline: 8 percent; Target: 14 percent</p>	<p>Milestone 1.2a: Roads rehabilitated in targeted rural districts (km)²³ Baseline: 0; Target: 1000</p> <p>Milestone 1.2b: Routine maintenance of district core road network roads (km)²⁴ expanded Baseline: 80 km; Target: 3,067 km</p>	<p>Financing: Ongoing/Closed</p> <ul style="list-style-type: none"> ✓ Bridges Program Support ✓ Road Sector Development Project ✓ Nepal-India Trade and Transport Project ✓ Strengthening National Rural Transport Project ✓ AF to Road Sector Development Project <p>Financing: Pipeline</p> <ul style="list-style-type: none"> ✓ Second Bridges Improvement and Maintenance Program PforR

²⁰ IDA's Road Sector Development Project (RSDP) and AF of RSDP

²³ National Rural Transport Project

²⁴ National Rural Transport

Indicative CPS Outcomes and Indicators Targets=FY18 unless specified	Indicative Milestones	Ongoing and Indicative WBG Program
<p>Indicator 2: Decrease in journey times from the targeted areas to key economic centers²¹ Baseline: 4 hours; Target: 2.6 hours</p> <p>Indicator 3: Percentage of bridges in good and fair condition in targeted routes²² Baseline: 53 percent; Target: 75 percent</p>	<p>Milestone 1.2c: Additional new bridges built or improved (cumulative meters)²⁵ Baseline: 5,736 m; Target: 6,000 m</p>	<p>ASA: Ongoing/Delivered/Pipeline</p> <ul style="list-style-type: none"> ✓ Feasibility for improvement of Kathmandu – Naubise – Mugling road is in progress. ✓ SARTI Trade Facilitation Advisory (with IFC) ✓ Support to Nepal’s Trade Policy Reforms ✓ Transport Public Expenditure Review (<i>Delivered</i>) ✓ Nepal Fast Track: Preparing Next Step (<i>Delivered</i>) ✓ Nepal Export Incentive Program (Impact Evaluation) ✓ Trade Facilitation and Competitiveness (<i>Indicative</i>) ✓ Transport and Market Infrastructure Improvement (<i>Indicative</i>) ✓ Bridges Impact Evaluation (<i>Indicative</i>) ✓ Strengthening National Vigilance Center’s Technical Auditing (<i>Indicative</i>)
<p>Outcome 1.3 Improved financial sector stability and increased financial inclusion</p> <p>Indicator 1: State-owned banks are either Capital Adequacy Ratio (CAR) compliant or under Prompt Collective Actions (PCA)²⁶</p> <p><u>CAR:</u> NBL: Baseline: -0.49%; Target: 10% RBB: Baseline: 3.33%; Target: 10% Other Banks>10%; Target: >10%</p>	<p>Milestone 1.3a: A modernized legal framework for bank resolution in place through parliamentary approval of amendments to the Bank and Financial Institution Act, Nepal Rastra Bank Act and new Deposit and Credit Guarantee Fund law</p>	<p>Financing: Ongoing/Closed</p> <ul style="list-style-type: none"> ✓ Financial Sector Stability Credit (DPC 1 and DPC2 <i>Closed</i>) ✓ Access to finance in SME Ventures and Poultry (IFC) ✓ IFC investments in banks and trade finance facilities <p>Financing: Pipeline</p> <ul style="list-style-type: none"> ✓ Financial Sector Stability Credit (DPC3 and DPC4)

²¹ IDA’s RSDP and AF of RSDP

²² Bridges Improvement Project

²⁵ Bridges Improvement Project

²⁶ Financial Sector Stability DPC series (3 and 4)

Indicative CPS Outcomes and Indicators Targets=FY18 unless specified	Indicative Milestones	Ongoing and Indicative WBG Program
<p><u>PCA:</u> Baseline: No inspections; Target: 50% of Assets in Class A Bank</p> <p>Indicator 2: Individuals and micro enterprises reached with financial services²⁷ Baseline: Micro enterprise and individual 2.3 million (of which 1.5 million female) Target: Micro enterprise and individual 2.5 million (of which 1.6 million female)</p>		<ul style="list-style-type: none"> ✓ Fiscal Reforms DPC ASA : Ongoing/Delivered/Pipeline: ✓ IFC payments project (<i>Delivered</i>) ✓ Financial Sector Assessment Program (<i>Delivered</i>) ✓ Bank Resolution Capacity (<i>Delivered</i>) ✓ IDA- AgriFinance Nirdhan Utthan Bank (<i>Delivered</i>) ✓ Financial Sector Development TA ✓ Support to Fiscal Management (TA) ✓ IFC- AgriFinance advisory to Nirdhan Microfinance Bank ✓ IFC- TA to MNepal Project (<i>Delivered</i>) ✓ IFC-Nepal SME Banking (<i>Delivered</i>) ✓ IFC-Nepal Regulatory Reform Payment Project with Nepal Rastra Bank (<i>Delivered</i>) ✓ IFC: Nepal Investment Climate Reform Program ✓ Strengthening Insurance Sector TA support by FIRST (<i>Indicative</i>) ✓ FSAP follow up operation through ASA (<i>Indicative</i>) ✓ Support to Nepal's Trade Policy Reform (indicative)
<p>Outcome 1.4: Improved business regulatory environment for private sector investment</p>	<p>Milestone 1.4a: Average number of days to comply with business regulations/construction permits reduced Baseline: 240; Target: 226</p>	<p>Financing: Ongoing/Closed</p> <ul style="list-style-type: none"> ✓ IFC SME Venture and Poultry Feed ✓ IFC equity and debt support to infrastructure companies, micro-finance institutions and financial institutions.

²⁷ IFC Advisory services and Investment projects

Indicative CPS Outcomes and Indicators Targets=FY18 unless specified	Indicative Milestones	Ongoing and Indicative WBG Program
<p>Indicator 1: \$100 million in new private investment supported or mobilized in priority sectors²⁸</p> <p>Indicator 2: Compliance cost savings (CCS) from investment climate interventions²⁹ Baseline: US\$0 million; Target: US\$18 .5 million</p> <p>Indicator 3: Additional number of formally registered business increased³⁰ Baseline: 10,123; Target: 13,400</p>	<p>Milestone 1.4b: Number of days to comply with business regulations at entry reduced Baseline: 31; Target: 23</p>	<ul style="list-style-type: none"> ✓ IFC investments in the hotel/tourism sector: IFC financing Financing: Pipeline ✓ IFC projects in key sectors (e.g. energy, tourism and construction materials) ASA: Ongoing/Delivered/Pipeline ✓ Competitive Industries Studies ✓ IFC-Nepal Investment Climate Reform Program ✓ IFC advisory with existing clients in Nirdhan Microfinance Bank ✓ IFC PPP transaction advisory to GoN ✓ IFC South Asia Regional Integration in Trade and Investment (SARTI) Policy ✓ IFC- Strengthening the Poultry Value Chain (<i>Delivered</i>) ✓ Supporting Nepal Trade Integration Strategy (<i>Delivered</i>) ✓ Enhancing Investment Climate Nepal (<i>Delivered</i>) ✓ Development of new tourism destination ✓ Breaking Barriers to Regional Integration in South Asia. (<i>Indicative</i>) ✓ Entangled: Trade and Jobs in South Asia (<i>Indicative</i>) ✓ Nepal Export Incentive Program (<i>indicative</i>)
Pillar 2: Promoting Inclusion and Increasing Resilience		

²⁸ IFC Investment projects

²⁹ IFC Advisory Services

³⁰ IFC Advisory Services

Indicative CPS Outcomes and Indicators Targets=FY18 unless specified	Indicative Milestones	Ongoing and Indicative WBG Program
<p>Outcome 2.1 Increased agricultural productivity and commercialization</p> <p>Indicator 1: Productivity of selected high value commodities³¹ increased Tomato: Baseline: 52.85 mt/ha; Target: 66.06 mt/ha Milk: Baseline: 978 liter/year and cow Target: 2,250 liter/year and cow Sugarcane: Baseline: 39.5 mt/ha; Target: 47 mt/ha</p> <p>Indicator 2: Increased area under irrigation farming³² Baseline: Irrigated area 15,817; Target: 26,800</p> <p>Indicator 3: Increase in selected high value agricultural commodities sold (annual)³³</p> <p>Ginger: Baseline: 930 t/year; Target: 1302 t/year Milk: Baseline: 9,598,000 ltr/year; Target: 13,437,000 ltr/year</p>	<p>Milestone 2.1a: Percentage increase in the cropping intensity³⁴ Baseline: 168%; Target: 220%</p>	<p>Lending: Ongoing/Closed</p> <ul style="list-style-type: none"> ✓ Agriculture Commercialization and Trade (PACT) ✓ Rani Jamara Kulariya Irrigation Project ✓ Irrigation and Water Resource Management Project ✓ Agriculture and Food Security Project ✓ IFC: Investment in Probiotech Industries Private Limited– a feed manufacturer for poultry complemented by advisory services <p>Lending: Pipeline</p> <ul style="list-style-type: none"> ✓ Livestock Sector Innovation ✓ Rani Jamara Kulariya Irrigation- Phase 2 <p>ASA: Ongoing/Delivered/Pipeline</p> <ul style="list-style-type: none"> ✓ IFC – Climate Smart and Resilient Agricultural practices focused on vulnerable commodities (rice, sugarcane, maize) ✓ Sources of Growth in Agriculture (<i>Delivered</i>) ✓ IFC-Strengthening the Poultry Value Chain (<i>Delivered</i>) ✓ Women’s Enterprise Initiative to Ensure Community Food and Nutrition Security in Upland Nuwakot (<i>Indicative</i>) ✓ Evaluating nutritional outcomes (<i>Indicative</i>) ✓ Nepal Irrigation Impact Evaluation (<i>Indicative</i>) ✓ Development Impact Evaluation-GASFSP Nepal Impact Evaluation (<i>Indicative</i>)

³¹ PACT (IDA) for tomato and milk and Sugarcane from IFC project.

³² Rani Jamara Kulariya Project

³³ Agriculture Commercialization and Trade Project

³⁴ Irrigation and Water Resources Management Project

Indicative CPS Outcomes and Indicators Targets=FY18 unless specified	Indicative Milestones	Ongoing and Indicative WBG Program
<p>Outcome 2.2: Increased equitable access to education and improved relevance of skills development</p> <p>Indicator 1: Net Enrollment rate in secondary education³⁵</p> <p><u>Baseline:</u> <u>Target:</u> Male: 30.9% Male: 40% Female: 30.3% Female: 39.5%</p> <p>Indicator 2: Number of under-privileged enrolled in higher secondary and bachelors program³⁶ Baseline: 14,100; Target: 23,000</p> <p>Indicator 3: Number of students graduating annually from tertiary accredited institutions³⁷ <u>Baseline:</u> 2,000 <u>Target:</u> 5,000</p> <p>Indicator 4: Percentage of graduates from supported programs gainfully³⁸ employed</p>	<p>Milestone 2.2a: 12,000 (3,000 per year) poor students at secondary and tertiary levels receiving scholarships from 2014 to 2017</p> <p>Milestone 2.2b: 3,500 students graduating from accredited higher education Institutions; 15 institutions are accredited; 45,000 persons trained</p> <p>Milestone 2.2c: Additional community schools conducting early grade reading assessments for grade 2 and 3⁴⁰ Baseline: 0; Target: 5,600</p>	<p>Financing: Ongoing/Closed</p> <ul style="list-style-type: none"> ✓ School Sector Reform Program (SSRP; education SWAp) (<i>closed</i>) ✓ Pro-poor Targeted Stipend Project (TF) ✓ Enhanced Vocational Education and Training Project ✓ Second Higher Education Project <p>Financing: Pipeline</p> <ul style="list-style-type: none"> ✓ Enhanced Vocational Education and Training Project II ✓ School Sector Development Program PforR <p>ASA: Ongoing/Delivered/Pipeline</p> <ul style="list-style-type: none"> ✓ Nepal Education Strategy Note (<i>Delivered</i>)

³⁵ GoN (Nepal Living Standards Survey if available)

³⁶ Higher Education Reform Project

³⁷ Source GON

³⁸ Gainfully employed means that a graduate earns at least NRs 27,600 (NRs 4,600 per month on average) from the job (or self-employment) that is directly related to the training received by the graduates. The graduate must have been placed in employment within two months of completion of the training.

⁴⁰ This assessment is being conducted by teachers and observed by parents' representative and results are being shared and discussed with parents.

Indicative CPS Outcomes and Indicators Targets=FY18 unless specified	Indicative Milestones	Ongoing and Indicative WBG Program										
<p>at least for six months after completion of the short term training³⁹</p> <p><u>Baseline</u>: 68% <u>Target</u>: 70%</p>												
<p>Outcome 2.3: Improved access to and quality of health and nutrition services</p> <p>Indicator 1: Percentage of births delivered by skilled birth attendants in the poorest two quintiles⁴¹</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Lowest</td> <td>Lowest</td> </tr> <tr> <td>10.7%</td> <td>20%</td> </tr> <tr> <td>2nd Lowest</td> <td>2nd lowest</td> </tr> <tr> <td>23.7 %</td> <td>30%</td> </tr> </table> <p>Indicator 2: Percentage of children 6-24 months of age who consume a minimum acceptable diet in the most disadvantaged VDCs of the 15 project districts⁴²</p> <p>Baseline: 9.3% and Target: 15%</p> <p>Indicator 3: New households with access to safe drinking water, new Village Development Committees (VDCs) that are open defecation free (ODF) and new public latrines⁴³ added in selected areas</p>	<u>Baseline:</u>	<u>Target:</u>	Lowest	Lowest	10.7%	20%	2 nd Lowest	2 nd lowest	23.7 %	30%	<p>Milestone 2.3a: At least 500 Skill Birth Attendants training to doctors/nurse/mid-wives completed every year</p> <p>Milestone 2.3b: At least 200 disadvantaged VDCs have the nutrition project</p> <p>Milestone 2.3c: Impact Evaluation of Health Insurance completed</p>	<p>Financing: Ongoing/Closed</p> <ul style="list-style-type: none"> ✓ Second HNP and HIV/AIDS Project (health SWAp) (<i>closed</i>) ✓ Community Action for Nutrition Project ✓ The Rural Water Supply and Sanitation Project ✓ Health Sector Management Reform PforR (<i>Approved January 2017</i>) <p>ASA: Ongoing/Delivered/Pipeline</p> <ul style="list-style-type: none"> ✓ Food Security and Nutrition Thematic Report (<i>Delivered</i>) ✓ Capacity Assessment of Community Workers to Implement Priority Nutrition Actions in Nepal (<i>Delivered</i>) ✓ District Profiles of Determinants of Malnutrition in Nepal (<i>Delivered</i>) ✓ Review of Behavior Change for Infant and Young Child Feeding (Interventions in Nepal (<i>Delivered</i>)) ✓ Nepal Nutrition Policy Dialogue (<i>Delivered</i>)
<u>Baseline:</u>	<u>Target:</u>											
Lowest	Lowest											
10.7%	20%											
2 nd Lowest	2 nd lowest											
23.7 %	30%											

³⁹ Enhanced Vocational Education and Training

⁴¹ Second HNP and HIV AIDS Project and DHS data

⁴² Second HNP and HIV Aids Project and DHS date

⁴³ RWSSP3 project data

Indicative CPS Outcomes and Indicators Targets=FY18 unless specified	Indicative Milestones	Ongoing and Indicative WBG Program
<p><u>Baseline:</u> Drinking water: 0 (2014) Sanitation: 0 VDCs (2014) Public latrines: 0 (2014)</p> <p><u>Target:</u> Drinking water: 100,000 new households (2017) Sanitation: 140 new VDCs or about new 50,000 households (2017) New public latrines: 130</p>		<ul style="list-style-type: none"> ✓ Strategic Communications Plan to raise awareness and increase commitment for action against food and nutrition insecurity in Nepal (<i>Delivered</i>) ✓ Operational Strategy for addressing malnutrition in Nepal ✓ Rural Water Study Dissemination (<i>Delivered</i>) ✓ Nepal: Financial Protection and Access to Health Services (<i>Indicative</i>) ✓ Nepal Health Insurance – Impact Evaluation (<i>Indicative</i>) ✓ Qualitative Study for Sunaula Hazar Din-Community Action for Nutrition Project ✓ Community Action Nutrition Project (<i>Indicative</i>) ✓ Development Impact Evaluation - Sunaula Hazar Din- Community Action for Nutrition Project Impact Evaluation (<i>Indicative</i>)
<p>Outcome 2.4: Reduced vulnerability of the socially excluded, marginalized, and economically vulnerable population</p> <p>Indicator 1: Number of marginalized household supported with productive assets⁴⁴ in targeted areas</p> <p><u>Baseline:</u> 416,712 <u>Target:</u> 575,000</p>	<p>Milestone 2.4a: Number of Gender Equality and Social Inclusion Strategy in key ministries monitored for progress on gender and inclusion scores</p> <p>Milestone 2.4b: Gender Equality and Social Inclusion Analysis of 3 sectors completed</p> <p>Milestone 2.4c: 4,500 new PAF community organizations by end of July 2015</p>	<p>Financing: Ongoing/Closed</p> <ul style="list-style-type: none"> ✓ Poverty Alleviation Fund II Project (PAF II) ✓ Strengthening Systems for Social Protection and Civil Registration Project (Approved December 2016) <p>Financing: Pipeline</p> <ul style="list-style-type: none"> ✓ Jobs and Youth in Nepal <p>ASA: Ongoing/Delivered/Pipeline</p> <ul style="list-style-type: none"> ✓ Human Development and Social Protection Pilot (TF) (<i>Delivered</i>)

⁴⁴ Poverty Alleviation Fund Project (PAF- II)

Indicative CPS Outcomes and Indicators Targets=FY18 unless specified	Indicative Milestones	Ongoing and Indicative WBG Program
<p>Indicator 2: Percentage of households in the targeted communities with income increase of at least 15%⁴⁵ Baseline: 0.5%; Target: 70%</p>	<p>Milestone 2.4d: 6,120 new PAF community organizations by end of July 2016</p>	<ul style="list-style-type: none"> ✓ Human Development Note (based on Nepal Living Standards Survey data) (<i>Delivered</i>) ✓ Food Insecurity and Child Malnutrition (<i>Delivered</i>) ✓ Gender and Nutrition Review for Public Works (<i>Delivered</i>) ✓ Social Protection Study (<i>Delivered</i>) ✓ Nepal Programmatic Poverty Work (<i>Delivered</i>) ✓ Mobility and the Middle Class (<i>Delivered</i>) ✓ Understanding the labor market decision and outcomes of Nepal’s young adults (<i>Indicative</i>) ✓ Safety Net System Building TA (<i>Indicative</i>) ✓ Employment Creation Platform (with Cross Cutting Solutions Area -Jobs) (<i>Indicative</i>) ✓ Advancing Social Protection TA (<i>Indicative</i>)
<p>Outcome 2.5: Improved infrastructure in areas affected by the 2015 earthquakes</p> <p>Indicator 1: Additional number of households with multi-hazard resilient feature reconstructed by end FY18 Target: 40,000 (of which 10,390 women headed households)</p>	<p>Milestone 2.5a: Eligible beneficiaries have received second tranche of housing reconstruction subsidies by end FY17⁴⁶</p>	<p>Financing: Ongoing</p> <ul style="list-style-type: none"> ✓ Earthquake Housing Reconstruction Project <p>Financing: Pipeline</p> <ul style="list-style-type: none"> ✓ AF- Earthquake Housing Reconstruction

⁴⁵ Poverty Alleviation Fund Project (PAF- II)

⁴⁶ The number of eligible beneficiaries have been determined by the survey of affected households carried out by the Central Bureau of Statistics in 2016.

Annex 2: Summary of Changes to the Original CPS Results Matrix

Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes
<p>Outcome 1.1: Increased supply of electricity, including import, and improved access to reliable and affordable electricity within Nepal</p> <p>Indicator 1: Power Generation Capacity added or rehabilitated (MW)</p> <p>Local Capacity: <u>Baseline:</u> 0 MW (added or rehabilitated; 2014) <u>Target:</u> 144 MW (rehabilitated and at least 20 MW new capacity)</p> <p>Power Imports: <u>Baseline:</u> 100 MW <u>Target:</u> 250 MW (cumulative power import from India by end-2017)</p> <p>Indicator 2: Length of transmission and distribution system added or rehabilitated <u>Baseline:</u> 0 km (new or rehabilitated; 2014) <u>Target:</u> 600 km (new and rehabilitated)</p>	<p>Revised Outcome and Indicators: Outcome 1.1: Increased supply and reliability of electricity</p> <p>Indicator 1: Local generation capacity rehabilitated (MW) Baseline: 0 MW; Target: 144 MW</p> <p>Indicator 2: Local generation capacity added Baseline: 0 MW; Target: 25 MW</p> <p>Indicator 3: Additional power imports increased Baseline: 100 MW; Target: 225 MW</p> <p>New outcome indicator:</p> <p>Indicator 4: Number of load-shedding hours reduced in selected areas (hours) Baseline: 14 hours; Target: 8 hours</p> <p>New Milestones:</p> <p>1.1a: Transmission line added in selected areas: Baseline: 0 km; Target: 600 km added</p> <p>1.1b: High voltage substations capacity added Baseline: 0 MVA; Target: 860MVA</p>	<p>✓ Outcome 1.1 has been adjusted to make it more specific and align with the ongoing operations and CPS objectives in energy - to improve efficiency/reliability and supply of electricity.</p> <p>✓ Original outcome indicator 1 has been split into three indicators (1, 2 and 3) to measure results of local generation capacity rehabilitated, generation capacity added and power imported. Target for local generation capacity (indicator 2) revised upward from 20 MW to 25 MW, which only includes IDA operation.</p> <p>✓ Original outcome indicator 2 has been moved and reformulated as a new milestone indicator 1.1a as it is better suited as a milestone. The indicator 2 measures generation capacity added, and the new milestone indicator 1.1a measures the added transmission line under the WBG intervention, with target of 600 km, the original amount.</p> <p>✓ A new outcome indicator 4 related to electricity reliability has been included to measure the efficiency and</p>

Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes				
<p>Milestones:</p> <p>1.1a: Generation - (i) Procurement for turbine and main valve rehabilitation completed by December 2014; (ii) Procurement for EPC contract for 20 MW grid-connected solar project by December 2014.</p> <p>1.1b: Transmission - procurement for all substations, transformers and conductors completed by December 2014</p> <p>1.1c: Successful commitment of 2 IFC investments by end of Calendar Year 2015</p>	<p>Revised milestone:</p> <p>1.1c: Procurement for EPC contract for 25 MW grid-connected solar project by December 2016</p>	<p>consistency of electricity supply in the targeted areas. Previously, there was no indicator related to reliability.</p> <ul style="list-style-type: none"> ✓ Original milestone 1.1a on procurement of EPC contract has been incorporated and revised upward from 20MW to 25MW as milestone 1.1c. Procurement for turbine and main valve rehabilitation and is being carried out but the milestone target date has passed is no longer relevant. ✓ Original milestones 1.1b and 1.1c have been achieved. They are being dropped as they are less relevant to the revised outcome and indicators. ✓ A new milestone 1.1b regarding high voltage capacity has been added which measures the increased capacity of electricity supply. 				
<p>Outcome 1.2: Improved transportation connectivity, internally and with India</p> <p>Indicator 1: Number of district headquarters connected with all-season roads DP</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>59</td> <td>65</td> </tr> </table>	<u>Baseline:</u>	<u>Target:</u>	59	65	<p>Revised Outcome and Indicators:</p> <p>Outcome 1.2 Improved transportation connectivity</p> <p>Indicator 1: Percentage increase in population with access to all season road within 20 minutes of walking distance in targeted districts increased</p>	<ul style="list-style-type: none"> ✓ Outcome 1.2 has been adjusted to reflect the increased focus on the transport connectivity overall, including the planned new lending to support the “Fast Track” initiative. Initiatives to support connectivity with India will continue and be monitored through the project activities. However, the target is being dropped due to
<u>Baseline:</u>	<u>Target:</u>					
59	65					

Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes
<p>Indicator 2: Average time from ship readiness to unload to final destination for an imported container, on Kolkata-Birgunj-Kathmandu Corridor (days)</p> <p><u>Baseline:</u> 22 days <u>Target:</u> 18 days</p> <p>Milestones:</p> <p>1.2a: All road construction contracts procured by 2016</p> <p>1.2b: All road up-grading contracts procured by 2016.</p>	<p>Baseline: 8 percent; Target: 14 percent</p> <p>Indicator 2: Decrease in journey times from the targeted areas to key economic centers Baseline: 4 hours; Target: 2.6 hours</p> <p>Indicator 3: Percentage of bridges in good and fair condition in targeted routes Baseline: 53 percent; Target: 75 percent</p> <p>Revised Milestones:</p> <p>1.2a: Roads rehabilitated in targeted rural districts (km) Baseline: 0; Target: 1,000</p> <p>1.2b: Routine maintenance of district core road network roads (km) expanded Baseline: 80 km; Target: 3,067 km</p> <p>1.2c: Additional new bridges built or improved (cumulative meters) Baseline: 5,736 m; Target: 6,000 m</p>	<p>particularly challenging context post 2015 earthquakes and trade disruptions.</p> <p>✓ Outcome indicator 1 has been dropped although target was met as these were not attributable to WBG support. Three new outcome indicators - 1, 2 and 3- have been added to more suitably measure improvements in road access and conditions.</p> <p>✓ Original outcome indicator 2 has been dropped. The implementation of the ongoing Regional Connectivity project was delayed due to earthquake, trade disruption and procurement issues. Activities supporting regional connectivity are behind schedule to meet the CPS target.</p> <p>✓ Three new milestones - 1.2a, 1.2b and 1.2c - related to roads/bridges rehabilitation and maintenance have been added to complement the revised outcome indicators.</p>
<p>Outcome 1.3 Increased financial sector stability and improved environment for private sector investment</p>	<p>Revised Outcome and Indicators:</p> <p>Outcome 1.3 Improved financial sector stability and increased financial inclusion</p>	<p>✓ Original outcome 1.3 has been revised and separated into two outcome areas. The original outcome had two objectives which made it difficult to measure progress. The revised outcome</p>

Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes
<p>Indicator 1: State-owned banks (NBL and RBB) recapitalized as per prudential norms and NBL privatized</p> <p><u>Baseline:</u> Capital Adequacy Ratio (FY13): NBL: -0.49% RBB: 3.33% GoN ownership of NBL: 30%</p> <p><u>Target:</u> 10% CAR for each one GoN ownership of NBL: 0%</p> <p>Indicator 2: The Nepal Rastra Bank program of special inspections has been completed and all undercapitalized institutions have been either resolved or are under formal Prompt Corrective Action.</p> <p><u>Baseline:</u> No inspections</p> <p><u>Target:</u> 50% of assets of Class A banks</p> <p>Indicator 3: Amount of new private investment mobilized in priority sectors</p> <p><u>Baseline:</u> \$0</p> <p><u>Target:</u> \$100 million</p> <p>Indicator 4: Compliance cost savings (CCS) of investment in climate interventions</p> <p>Baseline: 0 Target: \$18.5 million</p>	<p>Indicator 1: State-owned banks are either Capital Adequacy Ratio (CAR) compliant or under Prompt Collective Actions (PCA)</p> <p><u>CAR:</u> NBL: Baseline: -0.49%; Target: 10% RBB: Baseline: 3.33%; Target: 10% Other Banks: Baseline:>10%; Target: >10%</p> <p><u>PCA:</u> Baseline: No inspections; Target: 50% of Assets in Class A Bank</p> <p>Indicator 2: Individuals and micro enterprises reached with financial services</p> <p>Baseline: Micro enterprise and individual 2.3 million (of which 1.5 million female) Target: Micro enterprise and individual 2.5 million (of which 1.6 million female)</p> <p>Revised Milestones:</p> <p>1.3a: A modernized legal framework for bank resolution in place through parliamentary approval of amendments to the Bank and Financial Institution Act, Nepal Rastra Bank Act and new Deposit and Credit Guarantee Fund law</p>	<p>1.3 focuses on the financial sector stability and inclusion.</p> <p>✓ Original outcome indicators 1 and 2 have been merged into outcome indicator 1, to monitor improvement in financial stability.</p> <p>✓ Original outcome indicator 5 on financial inclusion is revised as indicator 2 and adjusted to align with IFC's ongoing program. The revised indicator measures individual and microenterprises access to financial services and SME target is being dropped as IFC's existing program is focused on micro enterprises and not on SMEs.</p> <p>✓ Outcome indicators 3 and 4 have been moved under the new outcome 1.4 related to improved business regulatory environment.</p> <p>✓ The original milestone 1.3a related to legal framework for bank resolution has been reformulated to complement the revised outcome of financial sector stability.</p>

Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes
<p>Indicator 5: Access to finance: Improved access to finance - to be measured by number of beneficiaries (individuals and SMEs, disaggregated by gender)</p> <p><u>Baseline:</u> SMEs: 43,900 (5,268 female owned); Individuals: 2.3 million (of which 1.5 million female)</p> <p><u>Target:</u> SMEs: 51,300 (6,300 female-owned); Individuals: 2.5 million (of which 1.6 million female)</p> <p><u>Milestones:</u></p> <p>1.3a: The strengthened legal framework for effective bank resolution has been enacted and conflicts between the Nepal Rastra Bank Act and Bank and Financial Institution Act have been removed</p> <p>1.3b: The legal framework for deposit insurance has been enacted and Deposit and Credit Guarantee Corporation has operationalized the Act by developing adequate operating capacity and by issuing enabling regulations and bylaws</p>		<p>✓ The original milestone 1.3b related to legal framework on deposit insurance has been dropped.</p> <p>✓ Milestones 1.3c and 1.3d related to investment are no longer correlated with the revised outcome and so have been dropped.</p>

Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes
<p>1.3c: 10 IFC led technical advisory and/or PPP projects by 2015</p> <p>1.3d: 4 IFC led investment projects by 2015</p>		
	<p><u>New Outcome:</u></p> <p>Outcome 1.4: Improved business regulatory environment for private sector investment</p> <p>Indicator 1: US\$100 million in new private investment supported or mobilized in priority sectors</p> <p>Indicator 2: Compliance cost savings (CCS) from investment climate interventions Baseline: US\$0 million; Target: US\$18.5 million</p> <p>Indicator 3: Additional number of formally registered business increased Baseline: 10,123; Target: 13,400</p> <p><u>New milestones:</u></p> <p>1.4a: Average number of days to comply with business regulations/construction permits reduced Baseline: 240; Target: 226</p> <p>1.4b: Number of days to comply with business regulations at entry reduced Baseline: 31; Target: 23</p>	<ul style="list-style-type: none"> ✓ A new outcome 1.4 has been added to better reflect the CPS focus to improve the business regulatory environment. ✓ Original outcome indicators 3 and 4 from outcome 1.3 are now outcome indicators 1 and 2, to measure growth in private sector investment and also to reflect IFC's ongoing intervention. ✓ A new outcome indicator 3 has been added to measure the progress in business regulatory environment. ✓ Two new milestones 1.4a and 1.4b related to regulatory environment for improved business environment for private sector growth have been included, which were under the original outcome indicator 1.3.

Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes																								
<p>Outcome 2.1 Increased agricultural productivity and commercialization</p> <p>Indicator 1: Productivity of priority high value commodities</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Tomato : 84t/ha</td> <td>110t/ha</td> </tr> <tr> <td>Milk : 978 ltr/year cow</td> <td>2,250</td> </tr> <tr> <td>Sugarcane: 39.5t/ha</td> <td>47 t/ha (IFC)</td> </tr> <tr> <td>Poultry FCR: 2.1:1</td> <td>1.9:1 (IFC)</td> </tr> </table> <p>Indicator 2: Percentage increase in the cropping intensity</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Cropping intensity: 168%</td> <td>220%</td> </tr> </table> <p>Indicator 3: Area under irrigation farming</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Irrigated area: 15,817 ha</td> <td>26,800 ha</td> </tr> </table> <p>Indicator 4: Annual smallholder production marketed</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Ginger: 2,288 mt/year</td> <td>2,324 mt/year</td> </tr> <tr> <td>Milk: 5,122,260 ltr/year</td> <td>5,170,520 ltr/year</td> </tr> </table> <p>Milestones:</p>	<u>Baseline:</u>	<u>Target:</u>	Tomato : 84t/ha	110t/ha	Milk : 978 ltr/year cow	2,250	Sugarcane: 39.5t/ha	47 t/ha (IFC)	Poultry FCR: 2.1:1	1.9:1 (IFC)	<u>Baseline:</u>	<u>Target:</u>	Cropping intensity: 168%	220%	<u>Baseline:</u>	<u>Target:</u>	Irrigated area: 15,817 ha	26,800 ha	<u>Baseline:</u>	<u>Target:</u>	Ginger: 2,288 mt/year	2,324 mt/year	Milk: 5,122,260 ltr/year	5,170,520 ltr/year	<p>Revised indicators:</p> <p>Indicator 1: Productivity of selected high value commodities increased</p> <p>Tomato: Baseline: 52.85 mt/ha; Target: 66.06 mt/ha Milk: Baseline: 978 liter/year and cow Target: 2,250 liter/year and cow Sugarcane: Baseline: 39.5 mt/ha; Target: 47 mt/ha</p> <p>Indicator 2: Increased area under irrigation farming Baseline: Irrigated area 15,817; Target: 26,800</p> <p>Indicator 3: Increase in selected high value agricultural commodities sold (annual)</p> <p>Ginger: Baseline: 930 t/year; Target: 1302 t/year Milk: Baseline: 9,598,000 liter/year; Target: 13,437,000 liter/year</p> <p>Revised Milestone:</p> <p>2.1a: Percentage increase in the cropping intensity Baseline: 168%; Target: 220%</p>	<ul style="list-style-type: none"> ✓ Indicators and milestones are revised so that they are better linked to the ongoing activities. ✓ The baselines and targets for indicator 1 for tomato is being revised. Milk and sugarcane baselines targets remain the same. ✓ Original milestones 2.1a, 2.1c and 2.1d have been dropped as they are similar to outcome indicators and are not intermediary indicators.
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Tomato : 84t/ha	110t/ha																									
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Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes																
<p>2.1a: Increase in production of tomatoes and milk by 8%, 32% respectively; Feed Conversion Ratio (FCR) reduction for poultry by 0.2</p> <p>2.1b: Increased cropping intensity by at least 190% (2016).</p> <p>2.1c: Increased total area irrigated to at least 18,000 ha (2016).</p> <p>2.1d: Increased volume of ginger marketed by smallholder farmers by 25mt/year (min. 0.5% per year; 2016).</p>																		
<p>Outcome 2.2: More equitable access to education and skills development, of higher quality and relevance</p> <p>Indicator 1: Enrollment rate (NER) in secondary education (by gender and income quintile)</p> <table border="0" data-bbox="216 1052 562 1333"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Male: 30.9%</td> <td>Male: 34%</td> </tr> <tr> <td>Female: 30.3%</td> <td>Female: 33.5%</td> </tr> <tr> <td>Poorest Quintile: 17.7%</td> <td>Poorest Quintile: 22.5%</td> </tr> <tr> <td>Second Poorest: 25.9%</td> <td></td> </tr> </table>	<u>Baseline:</u>	<u>Target:</u>	Male: 30.9%	Male: 34%	Female: 30.3%	Female: 33.5%	Poorest Quintile: 17.7%	Poorest Quintile: 22.5%	Second Poorest: 25.9%		<p>Revised Outcome and Indicators:</p> <p>Outcome 2.2: Increased equitable access to education and improved relevance of skills development</p> <p>Indicator 1: Net Enrollment rate (NER) in secondary education</p> <table border="0" data-bbox="804 1089 1171 1190"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Male: 30.9%</td> <td>Male: 40%</td> </tr> <tr> <td>Female: 30.3%</td> <td>Female: 39.5%</td> </tr> </table> <p>Indicator 2: Number of under-privileged enrolled in higher secondary and bachelors program Baseline: 14,100; Target: 23,000</p>	<u>Baseline:</u>	<u>Target:</u>	Male: 30.9%	Male: 40%	Female: 30.3%	Female: 39.5%	<ul style="list-style-type: none"> ✓ Outcome 2.2 has been fine-tuned to focus on two objectives (equitable access and skills). This change reflects WBG’s increased focus on skills development for future employment. ✓ The enrollment rate targets for outcome indicator 1 has been revised upwards (both for male and female) to 40 percent and 39.5 percent. The target is being increased, given that greater progress is expected by end of the CPS period. The indicator to measure equity “poorest quintile” has been dropped as the survey to monitor the indicator may not be
<u>Baseline:</u>	<u>Target:</u>																	
Male: 30.9%	Male: 34%																	
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Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes
<p style="text-align: center;">Second Poorest: 25.9%</p> <p>Indicator 2: Number of students graduating annually from tertiary accredited institutions <u>Baseline:</u> 2,000 <u>Target:</u> 5,000</p> <p>Indicator 3: Percentage of graduates from supported programs gainfully employed at least for six months after completion of the short term training <u>Baseline:</u> 68% <u>Target:</u> 70%</p> <p>Milestones: 2.2a: 12,000 (3,000 per year) poor students at secondary and tertiary levels receiving scholarships from 2014 to 2017</p> <p>2.2b: (by mid-term) NER Male:33.5% Female: 33.0%</p> <p>2.3c: 3,500 students graduating from accredited HE Institutions; 15 institutions are accredited; 45,000 persons trained.</p>	<p>Indicator 3: Number of students graduating annually from tertiary accredited institutions <u>Baseline:</u> 2,000 <u>Target:</u> 5,000</p> <p>Indicator 4: Percentage of graduates from supported programs gainfully employed at least for six months after completion of the short term training <u>Baseline:</u> 68% <u>Target:</u> 70%</p> <p><u>New Milestone:</u> Milestone 2.2c: Additional community schools conducting early grade reading assessments for grade 2 and 3 Baseline: 0; Target: 5,600</p>	<p>completed by the end of the CPS period to measure results.</p> <ul style="list-style-type: none"> ✓ A new outcome indicator 2 has been added to monitor equitable access in higher secondary and bachelors program. ✓ Original outcome indicators 2 and 3 are now 3 and 4. ✓ Milestone 2.2b has been dropped as it is similar to outcome indicators and is not an intermediate indicator. ✓ A new milestone 2.2c to measure improvement in quality is being added. ✓ Original milestones 2.2a and 2.3c remain the same.

Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes																																
<p>Outcome 2.3: Improved health and nutrition outcomes, particularly for the poor and disadvantaged</p> <p>Indicator 1: Percentage of births delivered by skilled birth attendants in the poorest two quintiles</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Lowest</td> <td>Lowest</td> </tr> <tr> <td>10.7%</td> <td>20%</td> </tr> <tr> <td>2nd Lowest</td> <td>2nd lowest</td> </tr> <tr> <td>23.7 %</td> <td>30%</td> </tr> </table> <p>Indicator 2: Percentage of children 6-24 months of age who consume a minimum acceptable diet in the most disadvantaged VDCs of the 15 project districts</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>11.8</td> <td>25</td> </tr> </table> <p>Indicator 3: Proportion of people in a district enrolled in health insurance</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>0</td> <td>10%</td> </tr> </table> <p>Indicator 4: New households with access to safe drinking water, new Village Development Committees (VDCs) that are open defecation free (ODF) and new public latrines</p>	<u>Baseline:</u>	<u>Target:</u>	Lowest	Lowest	10.7%	20%	2 nd Lowest	2 nd lowest	23.7 %	30%	<u>Baseline:</u>	<u>Target:</u>	11.8	25	<u>Baseline:</u>	<u>Target:</u>	0	10%	<p><u>Revised outcome and indicators:</u></p> <p>Outcome 2.3: Improved access to, and quality of health and nutrition services</p> <p>Indicator 1: Percentage of births delivered by skilled birth attendants in the poorest two quintiles increased.</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Lowest</td> <td>Lowest</td> </tr> <tr> <td>10.7%</td> <td>20%</td> </tr> <tr> <td>2nd Lowest</td> <td>2nd lowest</td> </tr> <tr> <td>23.7 %</td> <td>30%</td> </tr> </table> <p>Indicator 2: Percentage of children 6-24 months of age who consume a minimum acceptable diet in the most disadvantaged VDCs of the 15 project districts increased Baseline: 9.3% and Target: 15%</p> <p>Indicator 3: New households with access to safe drinking water, new Village Development Committees (VDCs) that are open defecation free (ODF) and new public latrines added in selected areas</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Drinking water: 0 (2014)</td> <td>Drinking water: 100,000 new households (2017)</td> </tr> </table>	<u>Baseline:</u>	<u>Target:</u>	Lowest	Lowest	10.7%	20%	2 nd Lowest	2 nd lowest	23.7 %	30%	<u>Baseline:</u>	<u>Target:</u>	Drinking water: 0 (2014)	Drinking water: 100,000 new households (2017)	<p>✓ The outcome 2.3 has been reformulated to align with CPS objective and WBG program.</p> <p>✓ The baseline and target for outcome indicator 2 related to child nutrition revised downwards from 11.8 percent to 9.3 percent and 25 percent to 15 percent respectively to reflect the implementation progress of the ongoing program.</p> <p>✓ Outcome indicator 3 related to district health insurance has been dropped as this indicator is not being supported through WBG ongoing program.</p> <p>✓ The targets for revised outcome indicator 3 related to access to water and sanitation has been revised, given delays in program implementation due to 2015 earthquakes and trade disruptions (<i>i.e.</i> Rural Water and Sanitation Project). Access to drinking water target is being lowered from 177,000 to 100,000; sanitation from 240 to 140 and new public latrines from 600 to 130.</p>
<u>Baseline:</u>	<u>Target:</u>																																	
Lowest	Lowest																																	
10.7%	20%																																	
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Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes
<p><u>Baseline:</u> Drinking water: 0 (2014; project area only) Sanitation: 0 VDCs (2014; project area only) Public latrines: 0 (2014; project area only)</p> <p><u>Target:</u> Drinking water: 177,000 new households (2017) Sanitation: 240 new VDCs or about new households (2017) New public latrines: 600</p>	<p>Sanitation: 0 VDCs (2014) Public latrines: 0 (2014)</p> <p>Sanitation: 140 new VDCs or about new 50,000 households (2017) New public latrines: 130</p>	
<p>Outcome 2.4: Improved social protection</p> <p>Indicator 1: Number of marginalized household supported with productive assets</p> <p><u>Baseline:</u> 416,712 <u>Target:</u> 575,000</p> <p>Indicator 2: Percentage of vulnerable people benefiting from safety net programs</p> <p><u>Baseline:</u> 42% of poor receive SA <u>Target:</u> 50%</p>	<p><u>Revised Outcome and Indicators:</u></p> <p>Outcome 2.4: Reduced vulnerability of the socially excluded, marginalized, and economically vulnerable population</p> <p>Indicator 1: Number of marginalized household supported with productive assets in selected areas</p> <p><u>Baseline:</u> 416,712 <u>Target:</u> 575,000</p> <p>Indicator 2: Percentage of households in the targeted communities with income increase of at least 15% in targeted areas</p>	<ul style="list-style-type: none"> ✓ Outcome 2.4 has been refined to improve clarity and to be pre aligned with the ongoing program. ✓ A new outcome indicator 2 related to household income of targeted community has been added to reflect CPS objective of promoting inclusion among the economically vulnerable population. ✓ Original milestones remain unchanged.

Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes
<p>Indicator 3: Number of payment accounts opened (disaggregated by gender) productive assets</p> <p><u>Baseline:</u> 0 (male vs. female: N/A) <u>Target:</u> 1 million (of which 0.12 million female)</p> <p><u>Milestones:</u></p> <p>2.4a: Number of Gender Equality and Social Inclusion Strategy in key ministries monitored for progress on gender and inclusion scores</p> <p>2.4b: Gender Equality and Social Inclusion Analysis of 3 sectors completed</p> <p>2.4c: 4,500 new PAF community organizations by end of July 2015.</p> <p>2.4d: 6,120 new PAF community organizations by end of July 2016.</p>	<p>Baseline: 0.5%; Target: 70%</p>	
<p>New Outcome and Indicator</p>	<p>Outcome 2.5: Improved infrastructure in areas affected by the 2015 earthquakes</p> <p>Indicator 1: Additional number of households with multi-hazard resilient feature reconstructed by end FY18 increased.</p> <p>Target: 40,000 (o/w 10,390 women headed households)</p>	<p>✓ A new outcome 2.5 has been added to reflect the new priority to support the government in its earthquake reconstruction efforts, and improve resilience of infrastructure including against earthquakes. The indicator and milestone will be monitored through</p>

Current CPS Outcome Indicators/Milestones	Proposed Changes to Outcome Indicators/Milestones	Comments on Changes
	<p><u>New Milestone:</u></p> <p>Milestone 2.5a: Eligible beneficiaries have received second tranche of housing reconstruction subsidies by end FY17</p>	<p>the Nepal Earthquake Reconstruction Project.</p>

Annex 3: Nepal Summary of Progress toward CPS Objectives

Outcome Indicators	Milestones	Status	Milestones Comments
Pillar 1: Increasing Economic Growth and Competitiveness			
<p>Outcome 1.1: Increased supply of electricity, including import, and improved access to reliable and affordable electricity within Nepal</p> <p>Indicator 1: Power Generation Capacity added or rehabilitated (MW)</p> <p>Local capacity: Baseline: 0 MW (added or rehabilitated; 2014) Target: 144 MW rehabilitated and at least 20 MW new capacity</p> <p>Power Imports: Baseline: 100 MW Target: 250 MW cumulative power import from India end 2017.</p> <p><i>Source: Project Data (Bank and IFC)</i></p> <p>Progress: <u>Likely to be achieved</u></p> <p><i>Import of electricity increased by 80 MW through Dhalkebar-Muzzafarpur transmission line.</i></p> <p><i>Local capacity is on track in relation to the rehabilitation works and 20 MW solar project as per Milestone 1.1a. (ii) power imports: [180 MW] additional 80 MW has been imported.</i></p>	<p>Milestone 1.1a: Generation - (i) Procurement for turbine and main valve rehabilitation completed by December 2014; (ii) Procurement for EPC contract for 20 MW grid-connected solar project by December 2014</p> <p>Milestone 1.1b: Transmission - procurement for all substations, transformers and conductors completed by December 2014</p> <p>Milestone 1.1c: Successful commitment of 2 IFC investments by end of Calendar Year 2015</p>	<p>Likely to be achieved</p> <p>Achieved</p> <p>Likely to be partially achieved</p>	<p><i>This is not yet achieved but it is on track. Repair and rehabilitation of turbine runner and main inlet valve ongoing. Repairs on 2 of 3 turbine runner runners are complete and the third one will be completed by the end June 2017 at the latest; (ii) This is not yet achieved but it is on track. The bid evaluation is ongoing for selection of EPC contractor for 25 MW grid-connected solar. Contract is expected to be awarded by the end of 2016.</i></p> <p><i>Procurement for transmission lines, substations, transformers and conductor was completed by December 2014.</i></p> <p><i>Partially achieved. One project – Kabeli A– committed. A second project (Upper Trishuli I) is expected to be committed within the CPS period.</i></p>

Outcome Indicators	Milestones	Status	Milestones Comments
<p>Indicator 2: Length of transmission and distribution system added or rehabilitated <u>Baseline:</u> 0 km (new or rehabilitated; 2014) <u>Target:</u> 600 km new and rehabilitated Source: GoN; Project Data</p> <p>Progress: Likely to be achieved Total of 40.5 km of new transmission line commissioned and/or strung and 617 towers have been erected through the Kabeli Transmission Line and Nepal India Electricity Transmission and Trade Project. Kabeli Transmission Line: 35.5 km of new transmission lines commissioned and 127 towers have been erected. The project was delayed due to right of way (ROW) issues but these are being solved individually while construction work is continuing. Nepal India Electricity Transmission and Trade Project: 490 towers have been erected and 5 km of transmission line have been strung.</p>			
<p>Outcome 1.2: Improved transportation connectivity, internally and with India Indicator 1: Number of district headquarters connected with all-season roads DP <u>Baseline:</u> 59 <u>Target:</u> 65 Source: GoN and Project Data</p> <p>Progress: Achieved</p>	<p>Milestone 1.2a: All road construction contracts procured by 2016</p> <p>Milestone 1.2b: All road up-grading contracts procured by 2016.</p>	<p>Achieved</p> <p>Likely to be achieved</p>	<p><i>Inland Clearance Depot (ICD) improvement works at Bhairahawa complete; ICD shed works at Birgunj in progress; ICD design works at Kathmandu in progress; Procurement for development and</i></p>

Outcome Indicators	Milestones	Status	Milestones Comments
<p>65 district headquarters connected. Target achieved.</p> <p>Indicator 2: Average time from ship readiness to unload to final destination for an imported container, on Kolkata-Birgunj-Kathmandu Corridor (days)</p> <p>Baseline: 22 days Target: 18 days</p> <p>Source: Project Data</p> <p>Progress: Unlikely to be achieved <i>The Project was delayed by 1.5 years due to earthquake, trade disruption and procurement issues. Project is working to develop the corridor monitoring system. Improvement of Narayanghat – Mugling road section is ongoing with about 25% progress.</i></p>			<p><i>Implementation of National Single Window in progress.</i></p>
<p>Outcome 1.3 Increased financial sector stability and improved environment for private sector investment</p> <p>Indicator 1: State-owned banks (NBL and RBB) recapitalized as per prudential norms and NBL privatized</p> <p>Baseline: Capital Adequacy Ratio (FY13): NBL: -0.49% RBB: 3.33%</p> <p>Target: 10% CAR for each one GoN ownership of NBL: 0%</p>	<p>Milestone 1.3a: The strengthened legal framework for effective bank resolution has been enacted and conflicts between the Nepal Rastra Bank Act and Bank and Financial Institution Act have been removed</p> <p>Milestone 1.3b: The legal framework for deposit insurance has been enacted and Deposit and Credit Guarantee Corporation has operationalized the Act by developing adequate operating capacity and by</p>	<p>Likely to be achieved</p> <p>Likely to be achieved</p>	<p><i>Nepal Rastra Bank Amendments Act removing the conflicts with Bank and Financial Institution Act has been enacted by Parliament. Parliament approved Bank and Financial Institution Act in January 2017.</i></p> <p><i>The Deposit and Credit Guarantee Fund Act has been enacted by Parliament. Regulations and bylaws are being prepared. The Deposit and Credit Guarantee Fund framework is being operational</i></p>

Outcome Indicators	Milestones	Status	Milestones Comments
<p>GoN ownership of NBL: 30% Source: Nepal Rastra Bank and GoN</p> <p>Progress: Likely to be achieved State-owned Banks recapitalized. RBB CAR: 10.63%; NBL CAR 9.55% (both as of Q4 FY16). Recapitalization of NBL increased GoN's share to 62%. NBL recapitalization increased government's share. This was done to make NBL more attractive for potential investors intending to buy GoN shares.</p> <p>Indicator 2: The Nepal Rastra Bank program of special inspections has been completed and all undercapitalized institutions have been either resolved or are under formal Prompt Corrective Action. <u>Baseline:</u> No inspections <u>Target:</u> 50% of assets of Class A banks Source: Nepal Rastra Bank and Project Data</p> <p>Progress: Achieved Special Inspections Program carried out on 54 financial institutions covering 64% of banking sector's assets which included 22 Class A banks covering 74% of Class A banks' assets.</p>	<p>issuing enabling regulations and bylaws</p> <p>Milestone 1.3c: 10 IFC led technical advisory and/or PPP projects by 2015</p> <p>Milestone1.3d: 4 IFC led investment projects by 2015</p>	<p>Achieved</p> <p>Likely to be partially achieved</p>	<p><i>following the enactment of the Deposit and Credit Guarantee Fund bill. The current bylaws are being enhanced with preparation of new regulations that will provide further enabling jurisdiction.</i></p> <p><i>IFC worked on 23 Advisory service projects of which 9 had remained active as of end of in Nepal.</i></p> <p><i>3 new investment projects committed – Kabeli-A (energy), Probiotech (agribusiness) and Nepal Hospitality & Hotel Pvt Ltd (tourism). There are 5 projects in the pipeline expected to be committed by FY18.</i></p>

Outcome Indicators	Milestones	Status	Milestones Comments
<p>Indicator 3: Amount of new private investment mobilized in priority sectors <u>Baseline:</u> US\$0 <u>Target:</u> US\$100m <i>Source: IFC</i></p> <p>Progress: Likely to be achieved <i>IFC is pursuing investment opportunities across agribusiness, manufacturing and services industries. Total new private sector investment mobilized as of June 2016 is US\$23 million (Kabeli A-US\$ 19.3 M. Probiotech-US\$950,000 Nepal Hospitality & Hotel Pvt Ltd -US\$3 M. There are 5 projects in the pipeline expected to be committed by FY18.</i></p> <p>Indicator 4: Compliance cost savings (CCS) of investment in climate interventions Baseline: 0 Target: US\$18.5 million <i>Source: IFC</i></p> <p>Progress: Achieved <i>Direct compliance cost savings: US\$24 million achieved from Nepal ICRP Regulatory Reform Project US\$6.3 million, ICRP PPD US\$8.5 million and SARTI Trade US\$9.5 million.</i></p> <p>Indicator 5: Access to finance: Improved access to finance - to be measured by number of beneficiaries (individuals and SMEs, disaggregated by gender)</p>			

Outcome Indicators	Milestones	Status	Milestones Comments
<p><u>Baseline:</u> SMEs: 43,900 (5,268 female owned); Individuals: 2.3 million (of which 1.5 million female)</p> <p><u>Target:</u> SMEs: 51,300 (6,300 female- owned); Individuals: 2.5 million (of which 1.6 million female)</p> <p><i>Source: IFC</i></p> <p><u>Progress:</u> Likely to be partially achieved <i>Micro/individual on track. 937,291 new individual accounts have been opened of which at least 213,870 are female (June 2016). This is between Nepal Payments project and Nirdhan Utthan Bank Limited. SME not on track and no additional outcome expected since the relevant project has already been closed.</i></p>			
Pillar 2: Increasing Inclusive Growth and Opportunities for Shared Prosperity			
<p>Outcome 2.1 Increased agricultural productivity and commercialization</p> <p>Indicator 1: Productivity of priority high value commodities</p>	<p>Milestone2.1a: Increase in production of tomatoes and milk by 8%, 32% respectively; Feed Conversion Ratio (FCR) reduction for poultry by 0.2 (2016)</p>	<p>Achieved</p>	<p><i>Tomato: Achieved. Current productivity increase is 49.9% based on revised baseline and new target. With the revised baseline and target productivity increase target is 25% which has been achieved.</i></p> <p><i>Milk: Achieved. Current productivity increase is 65.3%</i></p>

Outcome Indicators	Milestones	Status	Milestones Comments
<p><u>Baseline:</u> <u>Target:</u> Tomato : 110t/ha 84t/ha 2,250 Milk : 978 ltr/year, cow ltr/year cow 47 t/ha (IFC) Sugarcane: 39.5t/ha 1.9:1 (IFC) Poultry FCR: 2.1:1 Source: Project Data (PACT and NPSCSP)</p> <p>Progress: Likely to be achieved Tomato: 79.2 t/ha. The baseline for tomatoes was revised down to 52.85 t/ha as well as the target to 66.06 t/ha. Progress is on track. Milk: 3935 liter/year, cow. The baseline for milk was revised up to 2381 liter/year, cow as well as the target to 2976 liter/year, cow. Target has been achieved Sugarcane: Lead farmer demonstration plots have resulted in increased productivity to 88mt/ha IFC's Poultry Supply Chain Strengthening Project was completed and achieved its Feed Conversion Ratio (FCR) reduced by 0.2 from a baseline of 2.1 to 1.9.</p> <p>Indicator 2: Percentage increase in the cropping intensity <u>Baseline:</u> <u>Target:</u> Cropping 220% intensity: 168%</p>	<p>Milestone 2.1b: Increased cropping intensity by at least 190% (2016).</p> <p>Milestone 2.1c: Increased total area irrigated to at least 18,000 ha (2016).</p> <p>Milestone 2.1d: Increased volume of ginger marketed by smallholder farmers by 25mt/year (min. 0.5% per year; 2016).</p>	<p>Achieved</p> <p>Likely to be achieved</p> <p>Achieved</p>	<p><i>based on new revised baseline and new target. With the revised baseline and target productivity increase target is 25% which has been achieved.</i></p> <p><i>IFC's Poultry Supply Chain Strengthening Project was completed and it achieved its Feed Conversion Ratio (FCR) reduction by 0.2 from a baseline of 2.1 to 1.9. The project closed in 2013.</i></p> <p><i>16,044 ha area under irrigation farming.</i></p> <p><i>Average annual increase in ginger marketed by smallholder farmers between 2014 and 2016 was 452 t/year (39% per year, average).</i></p>

Outcome Indicators	Milestones	Status	Milestones Comments
<p><i>Source: Project Data (Irrigation and Water Resources Management Project)</i></p> <p>Progress: Achieved <i>Increase in cropping intensity: 241% (Jun. 2016).</i></p> <p>Indicator 3: Area under irrigation farming <u>Baseline:</u> <u>Target:</u> Irrigated area: 26,800 ha 15,817 ha</p> <p><i>Source: Project Data (Irrigation and Water Resources Management Project)</i></p> <p>Progress: Likely to be partially achieved <i>16,044 ha area under irrigation farming. The project is on track and the target is expected to be achieved.</i></p> <p>Indicator 4: Annual smallholder production marketed <u>Baseline:</u> <u>Target:</u> Ginger: 2,288 2,324 mt/year mt/year Milk: 5,122,260 5,170,520 ltr/year ltr/year</p> <p><i>Source: Project Data (PACT)</i></p> <p>Progress: Achieved <i>Ginger: 2,285 t/year. Baseline was revised down to 930 t/year as well as the target 1302 t/yr. Target has been achieved.</i></p>			

Outcome Indicators	Milestones	Status	Milestones Comments																						
<p><i>Milk: 36,796,000 ltr/year. Baseline was revised up to 9,598,000 liter/year as well as the target to 13,437,000 liter/year. Target has been achieved.</i></p>																									
<p>Outcome 2.2: More equitable access to education and skills development, of higher quality and relevance</p> <p>Indicator 1: Enrollment rate in secondary education (by gender and income quintile)</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Male: 30.9%</td> <td>Male: 34%</td> </tr> <tr> <td>Female: 30.3%</td> <td>Female:</td> </tr> <tr> <td>Poorest</td> <td>33.5%</td> </tr> <tr> <td>Quintile⁴⁷:</td> <td>Poorest</td> </tr> <tr> <td>17.7%</td> <td>Quintile:</td> </tr> <tr> <td></td> <td>22.5%</td> </tr> <tr> <td>Second</td> <td></td> </tr> <tr> <td>Poorest: 25.9%</td> <td>Second</td> </tr> <tr> <td></td> <td>Poorest:</td> </tr> <tr> <td></td> <td>25.9%</td> </tr> </table> <p><i>Source: GoN (Nepal Living Standards Survey if available)</i></p> <p>Progress: Likely to be achieved <i>Enrollment rate in secondary education (by gender and income quintile): Male:37.8; Female:37.6</i></p>	<u>Baseline:</u>	<u>Target:</u>	Male: 30.9%	Male: 34%	Female: 30.3%	Female:	Poorest	33.5%	Quintile ⁴⁷ :	Poorest	17.7%	Quintile:		22.5%	Second		Poorest: 25.9%	Second		Poorest:		25.9%	<p>Milestone 2.2a: 12,000 (3,000 per year) poor students at secondary and tertiary levels receiving scholarships from 2014 to 2017</p> <p>Milestone 2.2b: (by mid-term) NER Male:33.5% Female: 33.0% Source: GoN</p> <p>Milestone 2.2c: 3,500 students graduating from accredited higher education institutions; 15 institutions are accredited; 45,000 persons trained.</p>	<p>Achieved</p> <p>Achieved</p> <p>Achieved</p>	<p><i>A total of 17091 students from secondary and tertiary levels received pro-poor scholarship</i></p> <p><i>See progress in indicator 1</i></p> <p><i>3,470 students graduating from accredited higher education institutions; 15 institutions are accredited 71,551 persons trained</i></p>
<u>Baseline:</u>	<u>Target:</u>																								
Male: 30.9%	Male: 34%																								
Female: 30.3%	Female:																								
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17.7%	Quintile:																								
	22.5%																								
Second																									
Poorest: 25.9%	Second																								
	Poorest:																								
	25.9%																								

⁴⁷ Enrollment rate will be based on Education Management Information System, whereas enrollment rate of poorest Qs is based on Nepal Living Standards Survey data.

Outcome Indicators	Milestones	Status	Milestones Comments
<p><i>Poorest/second Quintile: (NA as no Nepal Living Standards Survey done after 2010/11)</i></p> <p>Indicator 2: Number of students graduating annually from tertiary accredited institutions <u>Baseline:</u> 2,000 <u>Target:</u> 5,000</p> <p><i>Source: GoN</i></p> <p><u>Progress:</u> Likely to be achieved <i>3,470 students graduating annually from accredited institutions.</i></p> <p>Indicator 3: Percentage of graduates from supported programs gainfully⁴⁸ employed at least for six months after completion of the short term training <u>Baseline:</u> 68% <u>Target:</u> 70%</p> <p><i>Source: GoN</i></p> <p><u>Progress:</u> Achieved <i>70.79 percent of the graduates gainfully employed.</i></p>			
<p>Outcome 2.3: Improved health and nutrition outcomes, particularly for the poor and disadvantaged</p>	<p>Milestone 2.3a: At least 500 Skill Birth Attendants training to doctors/nurse/mid-wives completed every year</p>	<p>Achieved</p>	<p><i>20 Doctors and 934 nurses trained in FY 2014/15. 29 Doctors and 1197 nurses trained in FY 2013/14.</i></p>

⁴⁸ Gainfully employed means that a graduate earns at least NRs 27,600 (NRs 4,600 per month on average) from the job (or self-employment) that is directly related to the training received by the graduates. The graduate must have been placed in employment within two months of completion of the training.

Outcome Indicators	Milestones	Status	Milestones Comments																		
<p>Indicator 1: Percentage of births delivered by skilled birth attendants in the poorest two quintiles</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Lowest</td> <td>Lowest</td> </tr> <tr> <td>10.7%</td> <td>20%</td> </tr> <tr> <td>2nd Lowest</td> <td>2nd lowest</td> </tr> <tr> <td>23.7 %</td> <td>30%</td> </tr> </table> <p><i>Source: Project Data; DHS data</i></p> <p><i>Progress: Achieved</i> <i>Lowest: 25.5%; 2nd Lowest: 44.9%</i></p> <p>Indicator 2: Percentage of children 6-24 months of age who consume a minimum acceptable diet in the most disadvantaged VDCs of the 15 project districts</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>11.8</td> <td>25</td> </tr> </table> <p><i>Source: Project Data</i></p> <p><i>Progress: Unlikely to be achieved</i> <i>Project implementation was delayed so it is currently not on track. Current status 13.76%. Baseline was actually 9.3%. 11.8% was based on preliminary report but the final report showed that the baseline was 9.30%.</i></p> <p>Indicator 3: Proportion of people in a district enrolled in health insurance</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>0</td> <td>10%</td> </tr> </table> <p><i>Source: Project Data</i></p>	<u>Baseline:</u>	<u>Target:</u>	Lowest	Lowest	10.7%	20%	2 nd Lowest	2 nd lowest	23.7 %	30%	<u>Baseline:</u>	<u>Target:</u>	11.8	25	<u>Baseline:</u>	<u>Target:</u>	0	10%	<p>Milestone 2.3b: At least 200 disadvantaged VDCs have the nutrition project</p> <p>Milestone 2.3c: Impact Evaluation of Health Insurance completed</p>	<p>Achieved</p> <p>Likely to be achieved</p>	<p><i>292 VDCs have nutrition projects supported by WB.</i></p>
<u>Baseline:</u>	<u>Target:</u>																				
Lowest	Lowest																				
10.7%	20%																				
2 nd Lowest	2 nd lowest																				
23.7 %	30%																				
<u>Baseline:</u>	<u>Target:</u>																				
11.8	25																				
<u>Baseline:</u>	<u>Target:</u>																				
0	10%																				

Outcome Indicators	Milestones	Status	Milestones Comments								
<p><u>Progress: Unlikely to be achieved</u> <i>Program was delayed and is not on track. It has only just been rolled out in one district. Reporting will be done when the program is implemented in a further two districts.</i></p> <p>Indicator 4: New households with access to safe drinking water, new Village Development Committees (VDCs) that are open defecation free (ODF) and new public latrines</p> <table border="0"> <tr> <td><u>Baseline:</u></td> <td><u>Target:</u></td> </tr> <tr> <td>Drinking water: 0 (2014; project area only)</td> <td>Drinking water: 177,000 new households (2017)</td> </tr> <tr> <td>Sanitation: 0 VDCs (2014; project area only)</td> <td>Sanitation: 240 new VDCs or about new 116,000 households (2017)</td> </tr> <tr> <td>Public latrines: 0 (2014; project area only)</td> <td>New public latrines: 600</td> </tr> </table> <p><i>Source: RWSSP3 project data</i></p> <p><u>Progress: Unlikely to be achieved</u> <i>Drinking water: 41,469 new households (Jul. 2016); Sanitation: 0 VDCs directly</i></p>	<u>Baseline:</u>	<u>Target:</u>	Drinking water: 0 (2014; project area only)	Drinking water: 177,000 new households (2017)	Sanitation: 0 VDCs (2014; project area only)	Sanitation: 240 new VDCs or about new 116,000 households (2017)	Public latrines: 0 (2014; project area only)	New public latrines: 600			
<u>Baseline:</u>	<u>Target:</u>										
Drinking water: 0 (2014; project area only)	Drinking water: 177,000 new households (2017)										
Sanitation: 0 VDCs (2014; project area only)	Sanitation: 240 new VDCs or about new 116,000 households (2017)										
Public latrines: 0 (2014; project area only)	New public latrines: 600										

Outcome Indicators	Milestones	Status	Milestones Comments
<i>attributable to the project, but provided HH latrines to 30,385 households (Jul. 2016); New public latrines: 94 (Jul. 2016).</i>			
<p>Outcome 2.4: Improved social protection</p> <p>Indicator 1: Number of marginalized household supported with productive assets <u>Baseline:</u> 416,712⁴⁹ <u>Target:</u> 575,000⁵⁰ <i>Source: PAF-II</i></p> <p>Progress: Achieved 825,765 CO and family members benefitted from the project's infrastructure and income generation activities.</p> <p>Indicator 2: Percentage of vulnerable people benefiting from safety net programs⁵¹ <u>Baseline:</u> 42% of poor receive SA <u>Target:</u> 50% <i>Source: HDSP, SSNP and SSPCR</i></p> <p>Progress: Unlikely to be achieved <i>The anticipated social safety project is being delivered towards the end of the CPS period. Therefore, no progress can be shown due to the absence of operation.</i></p>	<p>Milestone 2.4a: Number of Gender Equality and Social Inclusion Strategy in key ministries monitored for progress on gender and inclusion scores</p> <p>Milestone 2.4b: Gender Equality and Social Inclusion Analysis of 3 sectors completed</p> <p>Milestone 2.4c: 4,500 new PAF community organizations by end of July 2015</p>	<p>Likely to be achieved</p> <p>Likely to be achieved</p> <p>Achieved</p>	<p><i>Ministry of Women Children and Social Affairs, Ministry of Federal Affairs and Local Development and Ministry of Health were confirmed their development of Gender Equality and Social Inclusion Strategy. The Gender Equality and Social Inclusion Strategy for Ministry of Agriculture Development Ministry of General Administration were under preparation.</i></p> <p><i>Gender and Social Inclusion Assessment of Nepal Living Standards Survey and Gender and Nutrition Review of Public Works were completed under Social Inclusion Action Program. Based on this, the Milestone 2.4b had been partially achieved.</i></p> <p><i>4,700 community organizations created under AF II as of July 2016. A total of 6,120 community</i></p>

⁴⁹ The figure is based on PAF's Progress Report (as of November 15, 2012)

⁵⁰ This number is based on the estimates for the Second AF suggesting that PAF will cover an additional 153,000 households based on the additional financing of \$80 million for the second AF of PAF II. The additional financing will provide support for about 6,000 additional community organizations.

⁵¹ Poor people who are benefiting of a reliable and robust safety nets program which has an efficient delivery mechanism

Outcome Indicators	Milestones	Status	Milestones Comments
<p>Indicator 3: Number of payment accounts opened (disaggregated by gender) productive assets</p> <p><u>Baseline:</u> 0 (male vs. female: N/A)</p> <p><u>Target:</u> 1 million (of which 12 million female)</p> <p>Source: IFC's TA Nepal Payments Regulatory Reform</p> <p>Progress: <i>Unlikely to be achieved</i> <i>Number of payment accounts opened: 558,998 vs 100,000 target through Nepal Payment Project. Another project (MNepal) has been completed but the target was not achieved because of delays in implementation.</i></p>	<p>Milestone 2.4d: 6,120 new PAF community organizations by end of July 2016</p>	<p>Likely to be achieved</p>	<p><i>organizations will be created by end July 2017.</i></p>

Annex 4: Updated IDA Operations for the CPS, FY15-18
(as of January 31, 2017)

FY15 Commitments	IDA (US\$ mil)	Other IDA (US\$ mil)
Kabeli-A Hydro Electric Project	46	
Grid Solar and Energy Efficiency	130	
Higher Education Reform Program	65	
Financial Sector Stability DPC2	50	50 (CRW)
Earthquake Housing Reconstruction Project		200 (CRW)
Subtotal	291	250
FY16 Commitments	IDA (US\$ mil)	Other IDA (US\$ mil)
Power Sector Reform and Sustainable Hydro Dev.	20	
Subtotal	20	
FY17 Commitments and Pipeline	IDA (US\$ mil)	Other IDA (US\$ mil)
Financial Sector Stability DPC3	100	
Strengthening Systems for Social Protection and Civil Registration (<i>committed</i>)	150	
Health Sector Management Reform PforR (<i>committed</i>)	150	
School Sector Development PforR (<i>committed</i>)	185	
AF for Road Sector Development	5	50 (CRW)
Sub-total	590	50
FY18 Indicative Pipeline		
Fiscal Reforms DPC	100	
Financial Sector Stability DPC4	100	
Enhanced Vocational Education and Training II	60	
Livestock Sector Innovation	80	
Energy Sector DPC	150	
Rani Jamara Kulariya Irrigation – Phase 2	65	
Second Bridges Improvement and Maintenance Program PforR	150	
Upper Trishuli 1 Hydro Project	100	
AF for Earthquake Housing Reconstruction	200	
Jobs and Youth in Nepal	150	
Sub-total	1,155	

Annex 5: Updated Key ASA Activities⁵² (Completed, Ongoing and Indicative) for the CPS, FY15-18

Focus Areas	FY15	FY 16	FY 17 (Indicative/Ongoing)	FY 18 (Indicative)
Pillar 1: Increasing Economic Growth and Competitiveness				
Energy	✓ Household Renewable Energy Access		✓ Economic Impacts of Hydro development	<ul style="list-style-type: none"> ✓ Renewable Energy Resource Mapping and Geospatial Planning ✓ Developing Improved Solution for Cooking
Transport		✓ Nepal Fast Track: Preparing Next Step	✓ Transport Public Expenditure Review	<ul style="list-style-type: none"> ✓ Transport and Market Infrastructure Improvement ✓ Bridges Impact Evaluation ✓ Strengthening National Vigilance Center's Technical Auditing ✓ Trade Facilitation and Competitiveness
Financial Sector	<ul style="list-style-type: none"> ✓ Nepal Financial Sector Assessment Program ✓ Bank Resolution Capacity ✓ AgriFin-Nirdhan Utthan Bank 			<ul style="list-style-type: none"> ✓ FSAP follow up ✓ Strengthening Insurance Sector
Investment Climate		<ul style="list-style-type: none"> ✓ Supporting Nepal's Trade Integration Strategy ✓ Enhancing Investment Climate Nepal 	<ul style="list-style-type: none"> ✓ Breaking Barriers to Regional Integration in South Asia. ✓ Nepal Export Incentive Program ✓ Support to Nepal's Trade Policy Reform 	✓ Entangled: Trade and Jobs in South Asia
Pillar 2: Promoting Inclusion and Increasing Resilience				
Agriculture		✓ Sources of Growth in Agriculture	✓ Women's Enterprise Initiative to Ensure Community Food and Nutrition Security in Upland Nuwakot	✓ Development Impact Evaluation - Global Agriculture and Food

⁵² Only Key Activities are listed here. There are other ASA's activities which are listed in Annex 1 that are under broader programmatic work or under TFs.

			✓ Evaluating nutritional outcomes	Security Program Nepal Impact Evaluation
Education			✓ Education Strategy Note (<i>Delivered</i>)	
Health	<ul style="list-style-type: none"> ✓ Nutrition Policy Dialogue ✓ Nepal Rural Water Study Dissemination 	✓	<ul style="list-style-type: none"> ✓ Nepal Health Insurance – impact evaluation ✓ Qualitative Study for Sunaula Hazar Din- Community Action for Nutrition Project ✓ Nepal Financial Protection and Access to Health Services 	<ul style="list-style-type: none"> ✓ Development Impact Evaluation - Sunaula Hazar Din- Community Action for Nutrition Project Impact Evaluation
Social Protection/Livelihood	<ul style="list-style-type: none"> ✓ Social Protection Study 		<ul style="list-style-type: none"> ✓ Understanding Labor Market Decisions 	<ul style="list-style-type: none"> ✓ Employment Creation Platform (with Cross Cutting Solutions Area - Jobs) ✓ Advancing Social Protection ✓ Safety Net System Building
Other/Cross Cutting Areas				
Macro	<ul style="list-style-type: none"> ✓ Support to Medium Term Expenditure Framework ✓ Debt Management Performance Assessment Nepal 	<ul style="list-style-type: none"> ✓ Strengthening Budgeting Process ✓ Medium Term Expenditure Framework 2016 Preparation ✓ Nepal Development Update ✓ Statistical Capacity Building 	<ul style="list-style-type: none"> ✓ Country Economic Memorandum 	<ul style="list-style-type: none"> ✓ Macro Monitoring and Analysis ✓ Fiscal Policy Analysis ✓ Support for Fiscal Management ✓ Federalism/Political Economy Study
Governance	<ul style="list-style-type: none"> ✓ Governance Reform Non Lending Technical Assistance ✓ Report on the Observance of Standards and Codes (Analytics & Advisory) 	<ul style="list-style-type: none"> ✓ PEFA II 		

Poverty		✓ Statistical Capacity Building	✓ Programmatic Poverty Work <i>(Delivered)</i> ✓ Mobility and the Middle Class <i>(Delivered)</i>	
Climate/DRM		✓ Disaster Risk Management Country Program	✓ Forest Management	
Other			✓ Nepal Urban Management	✓ Systematic Country Diagnostic ✓ Country Partnership Framework

Annex 6. IFC Investments and Advisory Services

B8 (IFC) For Nepal
Committed and Disbursed Outstanding Investment Portfolio

As of 10/31/2016

(In USD Millions)

Commitment Fiscal Year	Institution Short Name	Committed						Disbursed Outstanding				
		Loan Repayment -		Equity	**Quasi			Loan	Equity	**Quasi		
		Loan	IFC		Equity	*GT/RM	Participant			Equity	*GT/RM	Participant
2010/ 2013	Butwal Power Co	3.33	1.82	0	0	0	0	3.33	0	0	0	0
2009/ 2010/ 2013/ 2017/ 2014/ 2011/ 2015/ 2016/ 2012	Himalayan Bank	0	0	0	0	1.17	0	0	0	0	1.17	0
2014	Himtal Hydro	0	0	2.00	0	0	0	0	0	0	0	0
2015	KTCPL	0	0	1.00	0	0	0	0	0	0	0	0
2015	Kabeli	19.30	0	0	0	0	0	0	0	0	0	0
2015	MTCPL	0	0	1.50	0	0	0	0	0	0	0	0
2015	NHHPL	3.00	0	0	0	0	3.00	0	0	0	0	0
2010/ 2013/ 2017/ 2014/ 2011/ 2015/ 2016/ 2012	NIBL Nepal	0	0	0	0	0.13	0	0	0	0	0.13	0
2017/ 2015/ 2016	NMB Bank	0	0	0	0	3.16	0	0	0	0	3.16	0
2014/ 2012	NWEDC	0	0	4.00	0	0	0	0	4.00	0	0	0
2011/ 2012	Nepal BO2	0	0	0.28	6.71	0	0	0	0.28	0.64	0	0
2010	Nirdhan MFB	0	0	0.19	0	0	0	0	0.19	0	0	0
2014/ 2015	Probiotech	0	0	1.90	0	0	0	0	1.88	0	0	0
2012	RMDC Nepal	0	0	0.54	0	0	0	0	0.54	0	0	0
2015	UK hydro	0	0	4.00	0	0	0	0	0	0	0	0
Total Portfolio		25.63	1.82	15.41	6.71	4.46	3.00	3.33	6.89	0.64	4.46	0.00

** includes both equity and loan types

IFC Advisory Services: FY14-16

Project Name	Project Description	Status	Expected End Date
Financial Institutions Group (FIG)			
Sustainable Energy Finance Nepal	Improve the financial performance of Nepalese industry by reducing energy costs as well as emissions of greenhouse gases by helping 2-3 local Nepalese banks to develop a sustainable business in EE finance and promote energy efficiency within industry.	Closed	FY14
AS to Nirdhan Bank	The overall objective includes: (i) support Nirdhan to expand its operations and outreach to the clients; (ii) strengthen its risk management system and processes; and (iii) diversify and introduce new products and delivery mechanisms	Active	FY17
TA to M.Nepal on Launching of Mobile Money Initiative and Agent Network Development	Engage with M. Nepal to develop and roll out mobile financial services by developing a mobile banking strategy and product as well as agent and risk management framework	Closed	FY14
RMDC Risk Management and Microinsurance AS	Provide advisory to RMDC across two key components: (i) Support RMDC in creating a strong risk management foundations & allow some of the largest micro-finance institutions in Nepal to prioritize RM practices; (ii) Build internal expertise and incentivize RMDC to act as an aggregator & insurance agent in scaling up of Nepal's small and medium size micro-finance institutions insurance business	Terminated	FY17
RMDC Microinsurance TA	Building the internal expertise and incentivizing Rural Microfinance Development Centre Ltd. (RMDC) to act as an aggregator and insurance agent to help scaling up of Nepal's small and medium size micro-finance institutions ' insurance business.	Terminated	FY16
TA to Himalayan Bank	Assist HBL Bank in increasing access to financial services to SMEs while maintaining a healthy portfolio quality.	Terminated	FY15
Nirdhan Microinsurance TA	The project aims at widening and deepening the scope of insurance activities performed by Nirdhan by integrating some of the pre and post sales services in its operations and lowering the cost of operations and also provide innovative and affordable insurance solutions and easily accessible grievance redressal mechanisms to the end customers.	Terminated	FY16
Finance and Markets (FAM)			
Nepal Payment Systems Regulatory Reform	Engage with Nepal Rastra Bank and the Ministry of Finance in Nepal to facilitate the formulation of regulations and policies concerning National Payment Systems. The project also aims to provide capacity building of Nepal Rastra Bank so that it is able to monitor and regulate the financial sector efficiently	Closed	FY14
TA to Clean Energy Development Bank Ltd Nepal- Women in Business	Increase access to finance for women entrepreneurs by providing advisory services to a Nepali Bank, Clean Energy Development Bank Ltd on strategy, product development and portfolio development	Terminated	FY15
Nepal SME Banking	Improve SME banking practices in Nepal through the following 2 key objectives: (1) Developing SME Banking and Risk Management capacity among regulators and BFIs, and dissemination of SME Banking and RM global best practices through training programs; and (2) Advisory to banks on SME Banking/RM	Closed	FY17
Environmental and Social Risk	Promote adoption of Environmental and Social Risk Management standards and practices by the financial sector of Nepal through enhancing the banking	Active	FY18

Management for the financial sector of Nepal	regulatory and institutional frameworks to create a market driver and develop market and institutional capacity on ESRM implementation.		
Telecom, Media, Technology and Venture Investing (TTV)			
Nepal SME Ventures	Address the challenges SMEs face and to strengthen the SME sector through advisory services and investment products. This program will provide a holistic SME Solutions through contents and tools to design client solutions that strengthen SME performance and stimulate employment.	Terminated	FY17
Trade and Competitiveness (TAC)			
Nepal ICRP Regulatory Reform	The objective of the project is to improve the investment climate in Nepal by (i) identifying and removing major regulatory constraints for starting and operating a business; (ii) reducing tax compliance burden for businesses and (iii) improving the efficiency of export-import procedures	Active	FY16
Nepal ICRP - Public Private Dialogue	The project will comprise of the following three components: (i) Establishment and Operationalization of NBF Mechanism; (ii) Support private sector reforms to reduce the cost of doing business and capacity building; (iii) Communications and stakeholder engagement	Closed	FY14
Nepal Investment Climate for Industry	Support the Government of Nepal in streamlining procedures related to investment, improving air safety and food standards, as well as enhancing the capacity of investment promotion agencies, which will stimulate growth of the tourism sector through additional investments	Active	FY17
SARTI Investment Policy	Increase intra-regional foreign direct investment flows in South Asia by 3% and generate compliance cost savings through streamlined investment-related procedures. These will be achieved through improving the regulatory environment, streamlining investment related processes and procedures, and investment facilitation to catalyze cross-border flows.	Active	FY17
SARTI Regional Trade and Investment	Support private firms to develop, test and implement cross-border trade and investment projects in selected sectors.	Terminated	
Energy-Cross Cutting Advisory			
Nepal Hydro	Promote sustainable hydropower development by engaging with private sector developers. The program aims to upgrade current standards to international requirements and put in place a regulatory environment which is conducive to the development of bankable hydropower projects.	Active	FY18
Public Private Partnership-Cross Cutting Advisory			
Kathmandu Airport	Aid GoN to upgrade, operate and manage the Tribhuvan International Airport with the help of a private sector partner. The expected long terms impacts of the project are an increase in passenger traffic and private financing mobilized.	Active	FY18
Nepal Tourism	Conduct a pre-feasibility analysis for the development of the Ratna Mandir site at Pokhara as a heritage hotel under a PPP mode.	Terminated	FY14
Manufacturing, Agribusiness and Services (MAS)			
Program to Promote Climate Resilience- Promoting Climate Resilient Agriculture, Nepal	Work with agribusiness lead firms to promote improved agricultural and water management practices and introduce new technologies among smallholder farmers producing rice, maize and sugarcane to adapt to climate change	Active	FY17
Post-Earthquake Probiotech Industries Limited	Support Probiotech Industries Limited in internal capacity building to reach out to poultry farmers who have been affected by the 2015 earthquake in Nepal in their reconstruction and rehabilitation efforts.	Active	FY18
Nepal Poultry Supply Chain Strengthening Project	Develop sustainable poultry businesses for SME poultry farms by improving production efficiencies and demonstrating better bio-security and farm management practices.	Closed	FY14

