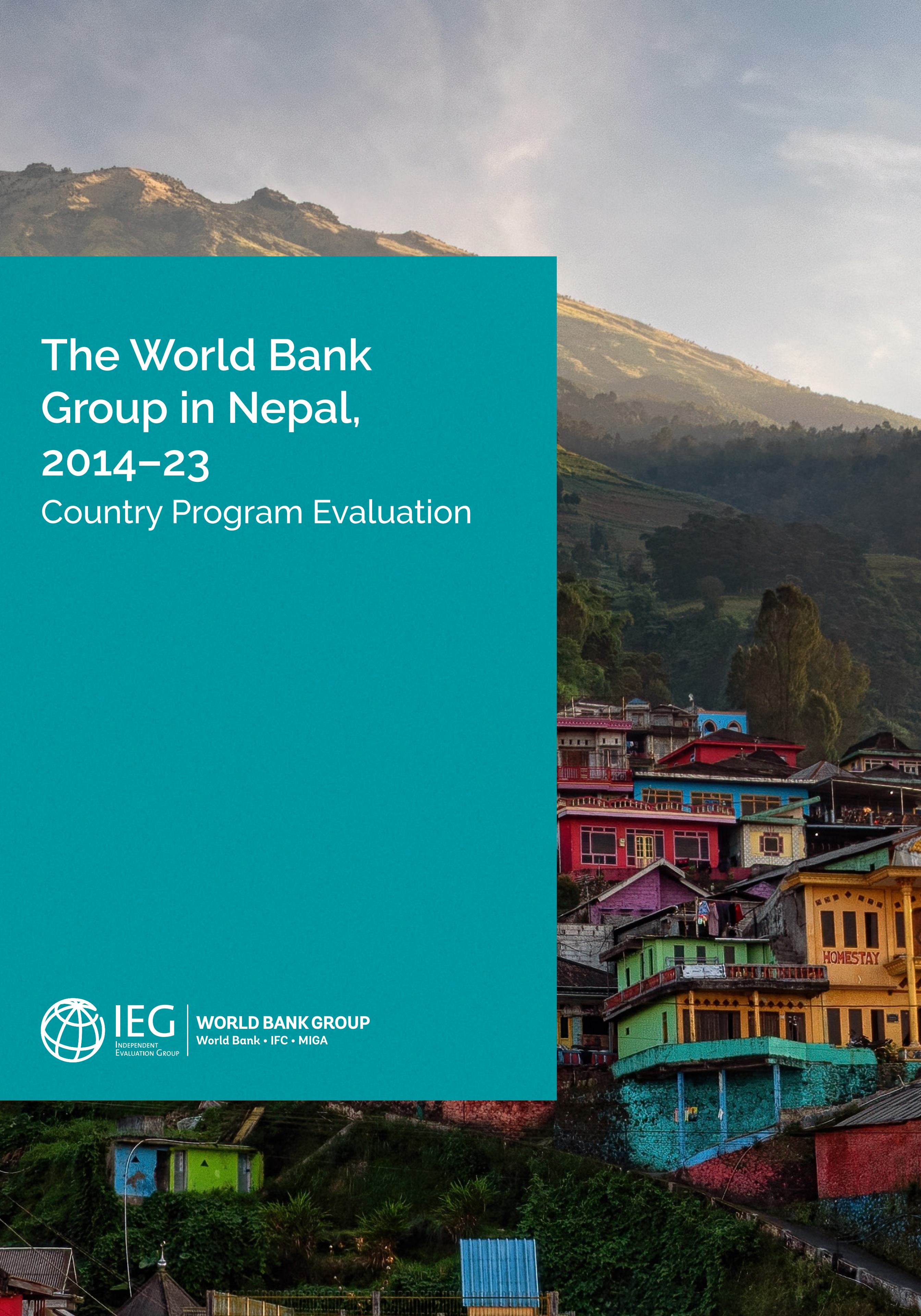
# The World Bank Group in Nepal, 2014–23

## Country Program Evaluation

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## Country Program Evaluation

*February 4, 2025*

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# Abbreviations

| | |
|---|---|
| ASA | advisory services and analytics |
| CPE | Country Program Evaluation |
| CPF | Country Partnership Framework |
| CPS | Country Partnership Strategy |
| DPC | development policy credit |
| DPO | development policy operation |
| DRM | disaster risk management |
| EHRP | Earthquake Housing Reconstruction Project |
| GRID | Green, Resilient, and Inclusive Development |
| IDA | International Development Association |
| IEG | Independent Evaluation Group |
| IFC | International Finance Corporation |
| IPF | investment project financing |
| NEA | Nepal Electricity Authority |
| NRB | Nepal Rastra Bank |
| NTTFC | National Trade and Transport Facilitation Committee |
| PforR | Program-for-Results |
| PPP | public-private partnership |
| PSD | private sector development |
| SCD | Systematic Country Diagnostic |

*All dollar amounts are US dollars unless otherwise indicated.*

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The evaluation was conducted under the guidance and supervision of Jeffrey Allen Chelsky (manager until February 12, 2024) and Birgit Hansl (manager from June 1, 2024), Carmen Nonay (acting director for Human Development and Economic Management until October 15, 2023), and Theo Thomas (director from October 16, 2023) under the overall direction of Sabine Bernabè (Director General, Evaluation, and vice president).

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# Overview

This Country Program Evaluation (CPE) assesses the relevance, effectiveness, and adaptability of the World Bank Group's support to Nepal from FY 2014 through FY23. The evaluation period spans the FY14–18 Country Partnership Strategy and the FY19–24 Country Partnership Framework (CPF). The CPE's scope includes the financing, knowledge, and convening support from the World Bank, the International Finance Corporation, and the Multilateral Investment Guarantee Agency to the government of Nepal. The CPE looks closely at three areas of the Bank Group's support—namely, its support for Nepal's transition to federalism, private sector development (PSD) and job creation, and climate and disaster resilience. The CPE provides lessons to help the Bank Group rethink its development approach as it designs a new CPF for Nepal.

This evaluation finds that the Bank Group was successful in supporting Nepal, including in mounting rapid and large-scale responses to devastating earthquakes and the COVID-19 pandemic, but did not always effectively consider the country's capacity and political economy challenges. The World Bank's earthquake and COVID-19 responses showed the World Bank at its best, with the World Bank building on these successes during the evaluation period by further strengthening Nepal's resilience to major disasters and shocks. However, both country strategies covered by this evaluation acknowledged implementation challenges. At times, the significant financing support of the Bank Group program surpassed the government's absorptive capacity and did not sufficiently consider lessons from past projects. At other times, program support insufficiently considered political barriers to advancing the program. This reduced the outcomes from the Bank Group's support, including for more complex policy and institutional reforms.

## Navigating Challenges in Strategy and Program Implementation

The Bank Group was a trusted and effective partner to Nepal and coordinated well with other development partners. The Bank Group was effective in several areas of the portfolio. These areas included postdisaster housing reconstruction, roads rehabilitation, hydropower generation, and support for reforms in the financial and energy sectors. The World Bank facilitated development partner coordination and joint financing and successfully mobilized postearthquake reconstruction. The Bank Group was at its best when it offered flexible responses to changing circumstances, effectively coordinated with development partners, focused on output-based disbursements, and generated strong political buy-in for reforms.

The support of the International Development Association to Nepal more than doubled over the evaluation period and ultimately exceeded the country's absorptive capacity. The World Bank grew International Development Association commitments from $2.2 billion in FY04–13 to $5.2 billion approved in FY14–23—from $172 million approved in FY14 to $320 million in FY23. However, several projects faced implementation challenges and struggled to meet their ambitious objectives. Implementation challenges included the inability to resolve procurement issues and the counterpart's institutional weaknesses, such as intergovernmental coordination challenges and frequent personnel changes. Consequently, disbursement rates for investment project financing declined from 21 percent in FY15 to 9 percent in FY24.

A more deliberative response by the Bank Group to Nepal's complex political economy challenges could have improved program implementation and enhanced the Bank Group's influence. The political settlement after a decade of conflict resulted in government fragmentation, the use of public office for party politics, inadequate interministerial coordination, and resistance to change. Unresolved issues in the shift to federalism weakened subnational governments' capacity and mandates. These challenges made it difficult for the Bank Group to facilitate reform on politically sensitive issues, such as federalism, civil service reforms, and regulatory reforms for jobs and PSD. By anticipating these challenges and adopting more recommendations from its own diagnostics for increasing citizen engagement and support to subnational governments, the Bank Group could have improved its program's implementation and results.

The Bank Group could have provided more complementary program support to its development policy operations (DPOs) to generate stronger outcomes. The government policy does not allow borrowing for technical assistance in support of policy implementation, and trust funds and partners did not cover the shortfall in implementation support. DPO prior actions on electricity and financial sector reforms that benefited from complementary implementation support achieved better results. By contrast, DPO-supported policies on accelerating fiscal decentralization, removing binding constraints to private investment in hydropower, and strengthening Nepal's disaster risk resilience were less successfully implemented.

The country program's technical staffing shortcomings contributed to a few missed opportunities. For example, there was a long delay between Nepal's passage of a federal constitution in 2015 and the mobilization of staff with sufficient decentralization expertise. The absence of expert international staff, particularly at the early stages of the reforms, led to the World Bank not recognizing opportunities to advocate for the passage of the Civil Service Act. The arrangement to rely on staff with close ties to senior civil servants who were hesitant about federalism also led to perceptions of bias.

The Bank Group's results reporting documents could have been more candid about implementation challenges and focused more on the achievement of well-identified higher-level outcomes. Country engagement documents and Project Completion Reports could have at times benefited from a more thorough analysis of the nature of challenges to implementation. Their results frameworks frequently focused on outputs and intermediate outcomes, such as the number of assets constructed, rather than the articulated higher-level outcomes identified in underlying Bank Group diagnostics, such as improvements in public sector performance. More candid and outcome-oriented reporting could have better facilitated timely course corrections and promoted a culture of learning about risks and challenges in the program.

## Addressing the Complexities of Nepal's Transition to Federalism

The World Bank supported the government's efforts in implementing federal fiscal arrangements. Several sectoral projects had local government capacity building or other federalism components. A total of 10 percent of lending was allocated to public administration integrated into sectoral projects, and the World Bank coled the federal capacity needs assessment and assumed a leadership role on the topic among development partners. However, beyond this, support for transitioning Nepal's public sector to federalism required broader support for public sector management reforms, including civil service reform and capacity building.

Overall, the World Bank's program provided uneven support to the legislation and institutions that would advance federalism. Building institutions in postconflict countries is typically slow and depends on strong government leadership and commitment. In hindsight, the World Bank could have done more to help projects successfully navigate the institutional dynamics created by federalism. For example, some projects supported local governments, but very few supported the provincial governments, although doing so is vital to meaningfully devolve power.

On balance, the Bank Group's program could have adapted better to Nepal's transition to federalism. Nepal's move to federalism emerged from the 2006 Comprehensive Peace Accord that ended its armed conflict. However, there was a prolonged political stalemate before the adoption of a federal constitution with a three-tiered government system in 2015. The FY14–18 CPF did not build a program in support of federalism—only after 2018 did the World Bank's advisory services and analytics and new projects begin to systematically incorporate federalism. The World Bank's portfolio did not include large-scale investments supporting citizen engagement or civil service reform for subnational capacity building.

## Providing Critical Support for Private Sector Development and Jobs

The Bank Group's country strategies were grounded in robust diagnostics on PSD constraints and addressed several critical barriers to private sector growth. The Bank Group's diagnostics showed that road and electricity infrastructure deficits hold back private sector competitiveness and domestic job creation. Diagnostics also identified tourism and hydropower as potential drivers of private sector growth and job creation. Other diagnostics, such as the joint World Bank–International Monetary Fund Financial Sector Assessment Program, identified shortcomings in the Nepal Rastra Bank (central bank) supervision of the financial sector as a risk. The Bank Group's country strategies aimed to address several of these critical PSD constraints by prioritizing improving governance and policy frameworks before implementing projects. However, the World Bank did not consistently adhere to these priorities, with projects proceeding amid weak governance and policy frameworks without fully tackling regulatory and institutional challenges.

The Bank Group's support led to notable successes in the financial and electricity sectors. The World Bank effectively supported government efforts to strengthen the Nepal Rastra Bank's supervisory capabilities and consolidate Nepal's banking and financial system, including measures to improve capital adequacy ratios and create new banking licenses, resolution schemes, and minimum capital requirements. These actions led to improved operational efficiency in the sector and enhanced financial sector stability. The Bank Group used infrastructure financing, DPOs, trust funds, International Finance Corporation advisory services, and a donor-funded convening platform to support hydropower. The International Finance Corporation successfully convened a consortium of lenders and leveraged resources from the Multilateral Investment Guarantee Agency and the International Development Association's Private Sector Window to finance Nepal's largest foreign direct investment in hydropower. The World Bank's regional integration unit also convened Power Secretaries Roundtables to help build a regional energy market. These interventions helped end load shedding, reduced transmission and distribution losses, increased electricity trade, enhanced the financial viability of the Nepal Electricity Authority, and supported the adoption of social and environmental standards in the hydropower sector.

The World Bank's transport and trade infrastructure investments improved connectivity but met counterpart capacity constraints. The World Bank contributed to improving Nepal's transport and trade connectivity through road and bridge improvements and maintenance, which led to reduced travel times and increased employment. However, project designs focused insufficiently on building counterparts' capacity, communication between the government and beneficiaries, and ensuring the maintenance of completed facilities. The size and complexity of the World Bank's transport projects were incompatible with the counterparts' implementation capacity, leading to delays and low disbursement rates. While all transport projects achieved their targets, results were not always sustained beyond project closure: the Independent Evaluation Group's field visits to project sites revealed that World Bank–supported trade logistic facilities faced such sustainability challenges.

Some Bank Group program interventions to address key barriers to private sector–led job creation were dropped because of opposition to proposed reforms and interventions. The country strategies set out to address barriers to competition and job creation. The program's implementation was successful in building skills for youth and women but was less successful in addressing economywide trade, taxation, and labor market regulations to facilitate private investment and job creation. The World Bank did not foster broad reform coalitions in these areas and had to drop several planned interventions intended to improve PSD, job creation, and market competitiveness—including in the tourism sector—when parts of the government opposed.

## Responding Strongly to Earthquake Reconstruction and Disaster Resilience

The World Bank's convening of stakeholders and large, sustained financing in response to the 2015 earthquakes built resilient homes for affected populations. The World Bank facilitated development partner coordination and joint financing for postearthquake housing reconstruction, successfully financed more than 320,000 disaster-resilient homes, and supported vulnerable populations and women through skills training and job creation. The World Bank's successful efforts at reconstructing houses are attributed to an owner-driven construction approach, output-based disbursements, effective development partner coordination, strong political buy-in, and the World Bank's flexible responses to changing circumstances. Despite the project disbursing grants to affected households for housing reconstruction, several became indebted as the cost, on average, exceeded the grant size provided by the project.

The government's limited capacity constrained the World Bank's efforts to build Nepal's disaster resilience. The World Bank contributed to the government's enactment of the Disaster Risk Reduction and Management Act of 2017 and the establishment of the National Disaster Risk Reduction and Management Authority. The World Bank also mainstreamed resilience aspects into its investment lending portfolio. However, integrating resilience into government practices proved more challenging. The World Bank's investments in early-warning systems suffered from inadequate counterpart capacity for operating and maintaining equipment and the limited response by the public to weather alerts. The 2023 earthquake exposed additional gaps in Nepal's disaster preparedness, including inadequate contingent funding, a delayed postdisaster needs assessment, and local governments' limited disaster management capabilities. It also highlighted the need to enact building codes at subnational levels to strengthen the resilience of housing to withstand multiple hazards.

## Conclusions and Lessons

The Bank Group was effective in several portfolio areas during the evaluation periods; however, building institutions and reforming policies was more challenging. The Bank Group achieved notable results in road construction and hydropower development, disaster reconstruction, and finance and energy reforms. These achievements were particularly evident in areas free from political contention and coinciding with elite interests or during periods of national solidarity after disasters. They were also aided when Bank Group interventions could build on the foundations of existing governmental programs. However, progress in building robust institutions that support sustained policy reforms was slow and relatively small.

The Independent Evaluation Group offers the following lessons for the next CPF based on the evidence, analysis, and conclusions in this evaluation:

1. The Bank Group could focus more on promoting counterparts' capacity and fostering coalitions for change among counterparts, stakeholders, and development partners for achieving higher-level development outcomes—in line with the Bank Group's comparative advantage of providing long-term development support.

2. The Bank Group could strengthen program implementation through more technical support or early project restructuring, including complementing policy development operations with technical assistance. Stronger results frameworks and more candid results monitoring would allow for earlier feedback on implementation challenges.

3. The Bank Group could give greater attention to political economy issues to inform the program of potential challenges during project design and implementation, including in Bank Group staffing capabilities. In this regard, a stronger program focus on citizen engagement and strengthening subnational institutions could be beneficial.

# 1 | Introduction

## Highlights

This Country Program Evaluation assesses the World Bank Group's overall program performance in supporting Nepal's development during FY 2014–23. It provides an in-depth analysis of its support for reforms that have consistently been highlighted as critical for Nepal's development—namely, federalism, private sector development and job creation, and resilience to natural and climatic disasters.

Nepal made important development gains and has reduced poverty despite relatively modest growth driven by high remittances. The economy remains constrained by critical private sector development challenges that hinder productive private investment and diversification, resulting in low competitiveness and few good jobs.

Nepal continues to be affected by political economy and governance challenges and is in the middle of a complex transition to a federal system that remains incomplete and contested. As a result, the country has struggled with weak institutions and thinly stretched capacity.

This report presents an evaluation by the Independent Evaluation Group (IEG) of the performance of the World Bank Group's support to Nepal from FY 2014 through FY23. This duration spans two country strategies: the FY14–18 Country Partnership Strategy (CPS) and the FY19–24 Country Partnership Framework (CPF). The evaluation encompasses World Bank, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency support, including financing, knowledge, and convening support. All activities during the 10-year period are included (see appendix B). This report is timed to inform the next CPF, which is scheduled for delivery in fiscal year 2025.

The evaluation broadly assesses the relevance, effectiveness, and adaptability of Bank Group support while looking in depth at three themes. This includes a review of the Bank Group's strategies, portfolios, financing instruments, results, collaboration, coordination, and response to major shocks—namely, the major earthquake in 2015 and the COVID-19 pandemic. The evaluation's three key themes are (i) federalism; (ii) private sector development (PSD) and job creation, including transport, trade connectivity, electrification, tourism, hydropower exports, and skills development from a job creation perspective; and (iii) strengthening resilience to natural and climate-induced disasters. The evaluation's Approach Paper (World Bank 2023b) identified these themes as the most important development challenges, underscored by the 2018 Nepal Systematic Country Diagnostic (SCD; World Bank 2018c). IEG confirmed the choice of the themes in consultation with the Country Management Unit.

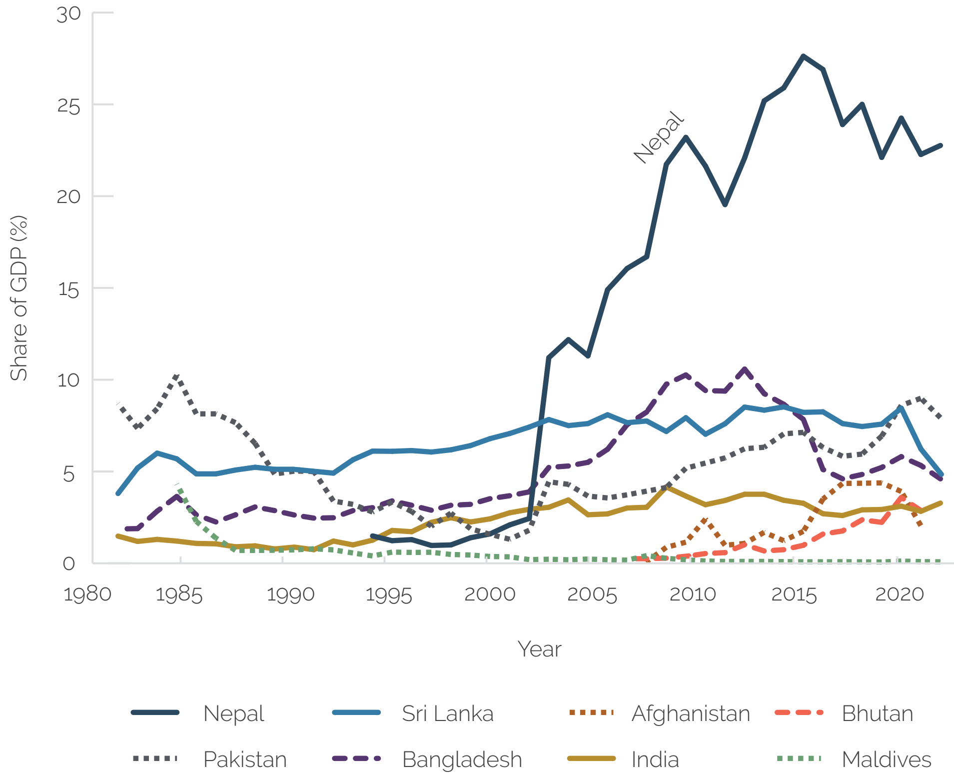
Overall, the evaluation finds that the Bank Group took decisive action in response to major earthquakes and the COVID-19 pandemic but did not always effectively consider the country's capacity and political economy challenges. The Bank Group mounted fast and large responses to major shocks in close collaboration with other development partners and the government. However, financing support sometimes surpassed Nepal's absorptive capacity, which undermined outcomes to strengthen the country's policy and institutional environment. The inadequate consideration of political economy challenges was reflected in initial delays and missteps in supporting the country's transition to federalism. This evaluation provides lessons and suggestions to help the Bank Group rethink its program approach in Nepal and designs a new CPF that breaks from past approaches.

## Background and Country Context

Nepal made strong development progress over the evaluation period despite relatively modest economic growth. Nepal is a lower-middle-income country with a population of 30 million. GDP growth over the past decade has averaged 4 percent, which is low compared with the rest of the region. Nonetheless, the country has made rapid improvements in living standards. Electricity and internet access has increased. Indicators of education enrollment and completion show strong improvements, with the precise figures varying by data source. The 2023 Nepal Living Standards Survey shows large increases in mean per capita expenditures and reductions in poverty headcounts, driven by high rates of international migration (National Statistics Office 2024a).

The economy is characterized by high remittances, low economic competitiveness and diversification, and few good jobs. Nepal has one of the world's highest rates of remittances as a share of GDP (figure 1.1). Remittances allowed Nepal to achieve many of its recent development gains, supporting the economic transformation away from agriculture and industry toward services and consumption. The World Bank's 2017 Country Economic Memorandum and the 2018 SCD note that Nepal's remittances create dynamics akin to Dutch disease—a phenomenon typically characterized by a shift in relative international and domestic prices, which undermines economic competitiveness. Remittances also reduce political pressure to generate more productive employment opportunities at home. They have largely supported consumption, which is reflected in the low levels of productivity and limited foreign direct investment. In the absence of focused support for enabling a more diversified private sector through competition and innovation, private investment and good job creation in the country remain limited.

Figure 1.1. Remittances as a Share of GDP in the South Asia Region, 1980–2022




*Sources:* Independent Evaluation Group based on World Development Indicators (database), World Bank, https://databank.worldbank.org/source/world-development-indicators.

Inclusions based on gender, ethnicity, and geographic location remain development challenges. Gender gaps in health, education, governance, and financial inclusion decreased. However, women trail men by 5 percentage points in tertiary education enrollment (World Bank 2024a). Female labor force participation remains low, at 24 percent, against 52 percent for men (National Statistics Office 2024b), and jobs available to women are of low quality. Women's representation has improved in government as a result of quotas for women's representation in the lowest tiers of government (Gurung 2024). Indigenous Peoples, Madheshi, Dalits, and Muslims continue to experience discrimination based on cultural identity, caste hierarchy, region, and religion.

Nepal's development is exposed to risks that range from geopolitical tensions to climate change. Nepal's economy is highly exposed to the Indian economy and has had to manage geopolitical competition between its neighbors. This exposure has complicated the development of energy exports, for example. Climate and disaster risk is high, especially floods, landslides, and earthquakes. Rising temperatures, melting glaciers, and more intense rainfall will increase climate-related hazards (World Bank Group 2022).

Nepal's development is also challenged by critical political economy and governance issues that are affecting its ongoing transition to federalism. Nepal's transition to a federal political system is a decades-long process that is still underway. Nepal's armed conflict of 1996–2006 ended with the signing of the 2006 Comprehensive Peace Accord, which laid out steps that eventually led to the new constitution, adopted in 2015, which created Nepal's federal system of government. However, the principles and implementation of federalism remain contested, and Nepal has struggled to transform its institutions and systems (Adhikari et al. 2023; Khan et al. 2022). The provinces rely on earmarked federal fiscal transfers, which they fail to fully absorb while struggling with staffing shortages in the absence of a Civil Service Act. These challenges in transitioning to federalism are exacerbated by Nepal's underlying political economy and governance issues, such as unstable political coalitions, influential stakeholder interests, thin public sector capacities, and a high staff turnover.

## Evaluation Questions and Methodology

The evaluation answers the following questions:

» How relevant was the Bank Group–supported strategy to Nepal's development needs, and how well did it evolve in response to changes in country context, major shocks, and emerging lessons? The report addresses these questions in chapter 2 and, to some extent, in all chapters.

» How effective has the Bank Group been in preparing for and supporting Nepal's transition to federalism? How effectively has the Bank Group adjusted to the new federal government structure, and how effective has it been as a convenor on federalism? The report addresses these questions in chapter 3.

- How effective has the Bank Group been in supporting PSD and job creation in Nepal? The report addresses this question in chapter 4.
- How effective has the World Bank been in strengthening Nepal's resilience to natural and climate-induced disasters? The report addresses this question in chapter 5.

The evaluation used a wide variety of methods and data sources: a literature review, focused on the Bank Group's and partners' publications and international and Nepalese research; semistructured interviews with government counterparts, past and current donor representatives, key informants in academia and civil society, and Bank Group staff; portfolio review and analysis using data and documents on the Bank Group's financing; reconstruction of theories of change for selected outcome areas; statistical analysis of survey, administrative, and portfolio data; geospatial analysis of World Bank financing; analysis of development partner financing; and field visits. For more details, see appendix A.

# 2 | The World Bank Group in Nepal

## Highlights

The World Bank Group's country strategies consistently prioritized job creation, enabling the private sector, infrastructure development, increasing social inclusion, strengthening social services, and governance.

The World Bank program faced disbursement and implementation challenges because of counterparts' high turnover and capacity constraints and the World Bank's limited response to underlying governance and political economy issues, including federalism.

The Bank Group expanded financing and sectoral coverage amid disbursement and implementation challenges. Commitments covered many sectors with a specific focus on infrastructure development, earthquake reconstruction, and the COVID-19 response.

Sectoral development policy operations did not always lead to satisfactory outcomes, in part because the World Bank did not complement development policy financing with technical assistance for policy implementation or link them to investment projects.

This chapter presents the Country Program Evaluation (CPE) review of the Bank Group's strategies, portfolios, financing instruments, shock responses, and collaboration and convening during the evaluation period. The chapter finds that the World Bank expanded its financing, sectoral coverage, and use of financing instruments. The World Bank responded robustly to large shocks but faced challenges in implementing projects and achieving results because its projects and programs did not account for resistance to change, inadequate interagency coordination, overlapping roles and responsibilities among tiers of government, frequent turnovers, staffing shortages in subnational governments, the influence of party politics on the state's functioning, and other governance and political economy challenges.

## The World Bank Group's Strategies

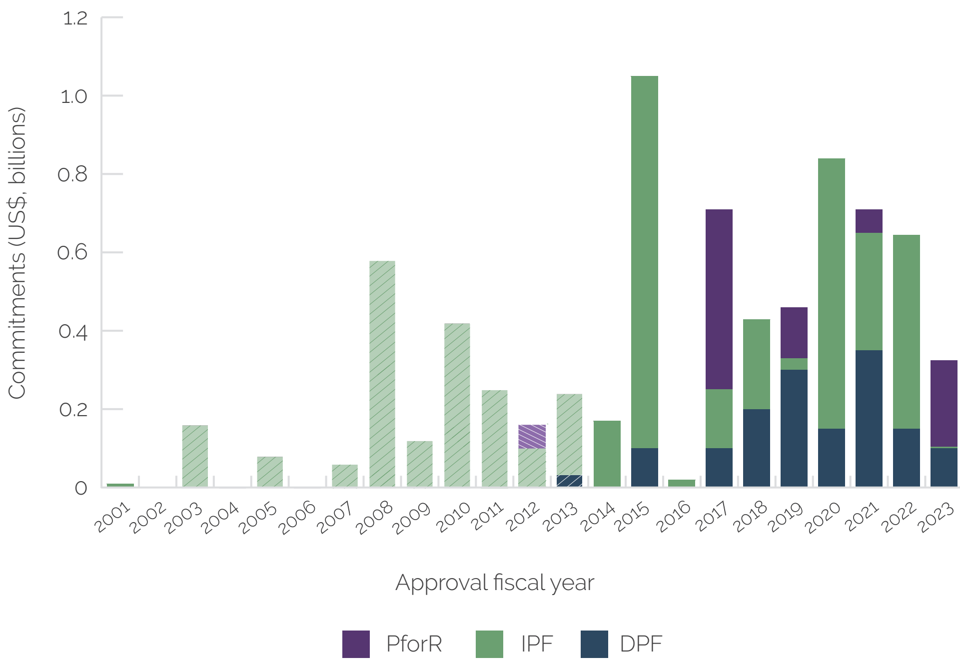
Country strategies were comprehensive but did not always appropriately incorporate lessons learned from previous engagement. Country strategies consistently prioritized job creation, private sector investment, infrastructure, social inclusion, social services, and governance. The country engagement documents addressed postfragility issues and identified many lessons from closed projects and previous strategy periods but did not sufficiently incorporate these lessons, especially those pertaining to governance limitations, political economy constrains, project implementation challenges, and barriers to private sector development. Further, country strategy documents aimed at increasing inclusion but targeted vulnerable groups without distinctions. There was a focus on the region's goal of achieving 100 percent gender-tagged projects, which means that all project activities had the "meaningful potential" to address gender gaps. However, the Bank Group's country strategy documents neither focused on any actual gender outcomes nor identified lessons about how to achieve gender outcomes.

## The World Bank Group's Portfolio

Financing increased substantially over the evaluation period (figure 2.1). The World Bank committed nearly $5.6 billion to Nepal in FY14–23, compared with $2.2 billion committed in FY04–13. Most financing came from the International Development Association (IDA) performance-based allocation and the special windows for crisis response and risk mitigation.

The portfolio emphasized infrastructure investments, such as roads and hydropower, and significantly backed the financial, education, and health sectors and postearthquake housing reconstruction (figure 2.2). The World Bank's South Asia Regional Integration, Cooperation, and Engagement supported regional dialogue and convening in hydropower, transport, and transboundary water, among other sectors.

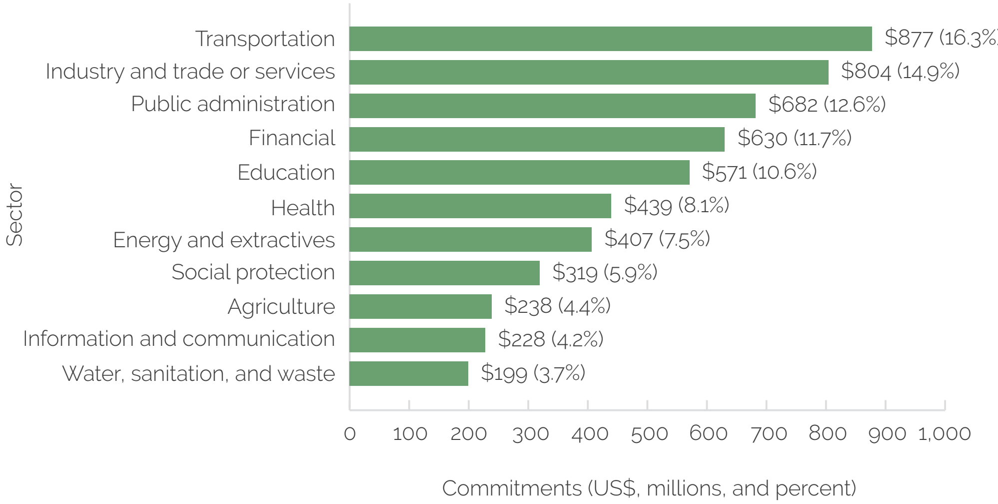
**Figure 2.1.** World Bank Commitments by Instrument and Fiscal Year




*Source:* Independent Evaluation Group.

*Note:* Diagonal lines represent commitments that were approved before the Country Program Evaluation period but active during it. FY15 shows especially high commitments because it includes the FY15-approved Earthquake Housing Reconstruction Project ($200 million) and its two additional financings: $300 million in FY18 and $200 million in FY20. See appendix B for details on the portfolio and the World Bank's lending instruments. DPF = development policy financing; IPF = investment project financing; PforR = Program-for-Results.

**Figure 2.2.** World Bank Commitments by Sector, FY14–23




*Source:* Independent Evaluation Group.

IFC's portfolio in Nepal increasingly shifted over the evaluation period to the electricity and financial sectors, while earlier engagement had focused on promoting a better economywide investment climate. IFC managed a portfolio of 11 investments with $253 million in total own-account commitments. Most of these investments went to the finance and insurance sector ($135 million) and the electricity sector ($104 million). IFC complemented these investments with more than 30 advisory services activities, also primarily supporting the financial and electricity sectors, with a notable emphasis on enhancing environmental, social, and governance practices (27 percent). Earlier in the evaluation period, IFC advisory services focused on promoting investment climate reforms, but after internal reorganizations, IFC shifted to providing advisory services only when directly connected to investments (see chapter 4).

The World Bank's PSD initiatives prioritized road and hydropower infrastructure and regulatory reforms in the energy and financial sectors, areas that represented major obstacles to private sector–led growth and high development impact, according to the SCD and other diagnostics. The World Bank concentrated on strengthening the electricity sector's governance and financial stability and viability, progressing from diagnostics to policy and institutional reforms. It also emphasized financial sector development in a development policy operation (DPO) series and added a small jobs portfolio.

The World Bank successfully mounted fast and large responses to the 2015 earthquake and the 2020–21 COVID-19 pandemic while also promoting resilience (box 2.1). The World Bank's lending surged in response to both shocks. The World Bank's earthquake response showed the World Bank at its best, at the time of the shock and beyond. Its convening of stakeholders and its large and sustained financing enabled the government to move toward improved risk reduction in the second half of the evaluation period (see chapter 5). During the COVID-19 pandemic, the World Bank used a DPO with catastrophe deferred drawdown option, among others, to support the National Pandemic Preparedness and Response Plan. The World Bank's analytic and advisory work on disaster risk management (DRM) informed policy dialogue and the World Bank's lending engagement well.

### Box 2.1. Fast and Large Responses to Major Shocks but Without Much Use of Social Protection

After the major earthquake in April 2015, the World Bank supported a postdisaster needs assessment and a pledging conference and convened donors to plan the reconstruction, resulting in a clear division of labor and a multidonor trust fund for pooling donor resources for housing reconstruction. The World Bank expedited the approval of a major reconstruction project and an emergency nutrition and sanitation project. Similarly, the World Bank's COVID-19 response was fast and large. It included 11 projects to support responses in the health and education sectors and to create temporary employment in infrastructure projects. The World Bank initiated emergency response projects, modified existing ones, and canceled noncritical projects. The World Bank coordinated effectively with the World Health Organization and others during the COVID-19 response, leading to complementarities among the organizations' response projects. It supported a cash-for-work program, which performed weakly both before and during the pandemic. The project activated its contingency emergency response component during the pandemic to provide temporary employment to more than 40,000 people. The program had targeting issues resulting from self-selection and beneficiary lists that were updated by hand (ADB 2022), underbudgeting, limited coverage, and delays in provision of work and, therefore, the timeliness of response. Hesitancy by the government prevented more extensive use of social protection in the pandemic response.

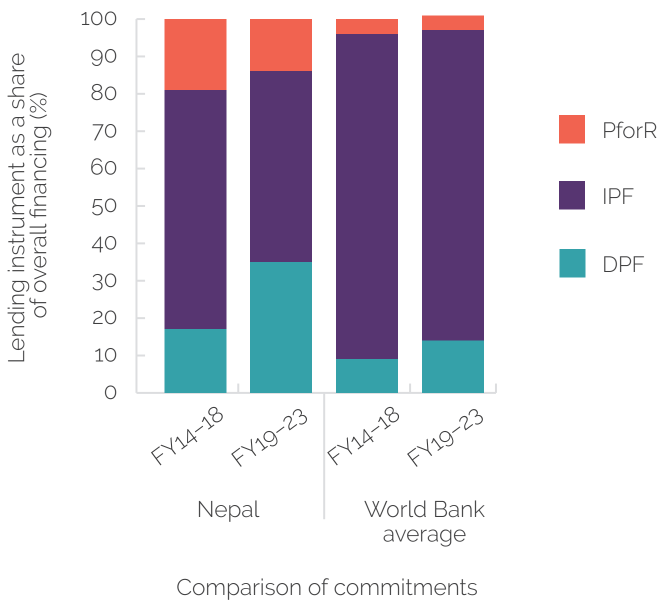
*Source:* Independent Evaluation Group.

The World Bank supported the expansion of a wide set of social services, contributing to Nepal's human development gains. The program switched from community-managed service delivery used during the conflict to building reliable service delivery by the government. Education support extended from basic and secondary to vocational and higher education over the evaluation period. The Health Sector Management Reform Program-for-Results (PforR), approved in 2017, was the only health operation until the pandemic, when the COVID-19 response project was introduced. The World Bank started supporting social protection around 2017, lending small amounts in combination with policy dialogue and technical assistance.

The World Bank supported fiscal decentralization through DPOs and advisory services and analytics (ASA) but could have provided a more comprehensive support to federalism. The World Bank supported the government's efforts in implementing federal fiscal arrangements (see chapter 3). Several sectoral projects had local government capacity building or other federalism components. A total of 10 percent of lending was allocated to public administration integrated into sectoral projects, and the World Bank led on a federalism capacity needs assessment and other ASA. Beyond this, however, assisting Nepal's public sector transition to a well-functioning federal system would have required more concerted support to public sector management, including for civil service reform and capacity building. Yet, the World Bank's portfolio did not include large-scale investments in these areas.

The World Bank increased its policy-based and PforR financing, and counterparts greatly appreciated PforR's sectorwide and results-based approaches. At the beginning of the evaluation period, the program mainly used investment project financing (IPF; see appendix B). Over the evaluation period, it added six PforR operations and four additional financings for PforR, totaling $883 million, for education, health, and bridges. These often built on earlier IPF-supported operations. Senior government counterparts interviewed for this evaluation favored PforRs for their sectorwide reach, alignment with aid principles, and results-based disbursements.[1] Four programmatic DPO series were added (figure 2.3), which sustained World Bank financing amid the slowdown in IPF-financed project disbursements. Compared with other countries, the high number of smaller-value sectoral DPOs is unusual.

**Figure 2.3.** Use of Lending Instruments: Nepal Versus World Bank Average, FY14–23 Commitments




*Source:* Independent Evaluation Group.

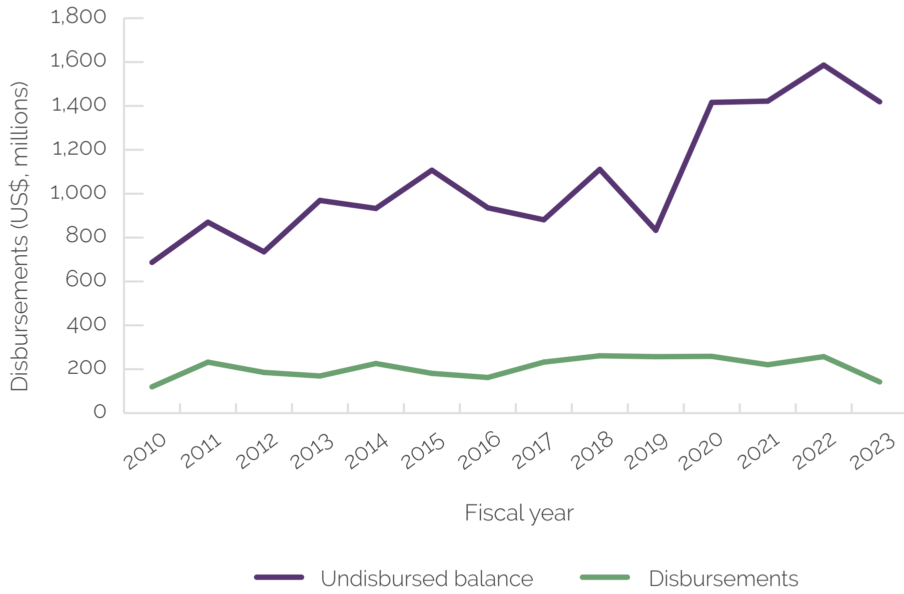
*Note:* The figure compares commitments approved in FY14–18 and approved in FY19–23. DPF = development policy financing; IPF = investment project financing; PforR = Program-for-Results.

## Implementation Challenges

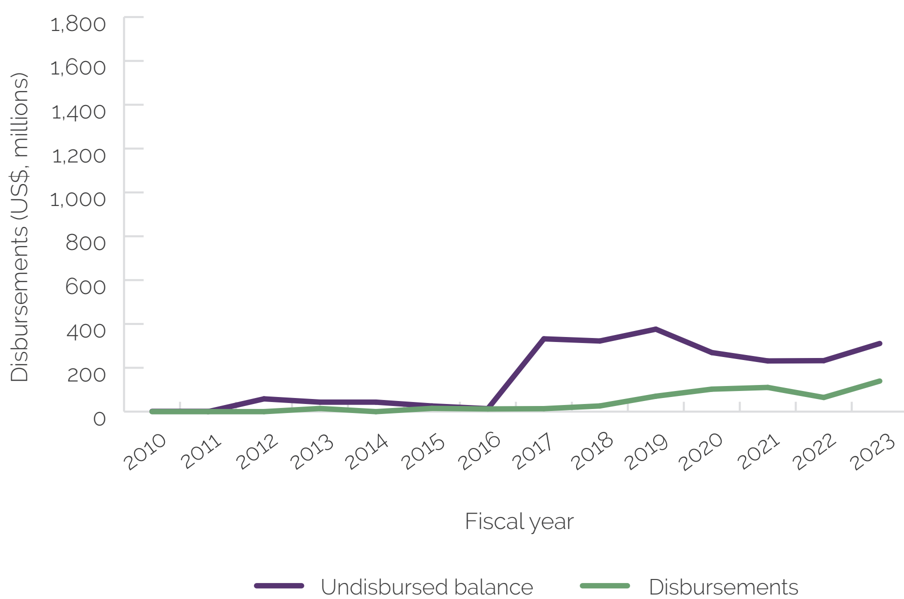
The World Bank's program disbursement was slow because of implementation challenges in many IPFs. IPF disbursements, as a share of commitments outstanding, are relatively low and declining. The disbursement ratio was 21 percent in FY15 and 17 percent in FY16. It increased to 32 percent in FY18 and stayed at 24 percent in FY19, with the Earthquake Housing Reconstruction Project (EHRP) contributing to above-average disbursements. Disbursements fell to 9 percent by FY24 (figure 2.4). Slow disbursement was because of implementation challenges such as issues with procurement, complex project designs, challenges in intergovernmental coordination, and obstacles to building stronger institutions, according to IEG's interviews, review of Implementation Completion and Results Report Reviews, and country engagement documents.

### Figure 2.4. Disbursements and Undisbursed Balances, FY10–23

a. Investment project financing




b. Program-for-Results




*Source:* Independent Evaluation Group.

*Note:* Disbursements = total disbursements made during the given fiscal year; undisbursed balance = total undisbursed balance as of the start of the given fiscal year.

The World Bank has partially addressed key program implementation challenges but continued to design complex projects. The Bank Group's country engagement documents recognized project implementation challenges and recommended simplifying projects and aligning designs with counterpart capacity while fostering stronger client ownership.[2] The World Bank held regular dialogues with project and government counterparts, conducted portfolio reviews, canceled nondisbursing projects, and stopped preparing small projects. Apart from this, the country program did not implement fundamental changes. It has continued to design relatively complex projects that require coordinated action across multiple ministries or departments.

Lack of counterpart ownership and high counterpart turnover were persistent obstacles to implementation. Political resistance within parts of the government to certain reforms or policies, along with lack of ownership and inadequate institutional coordination, hindered cooperation and ownership. Frequent counterpart turnover and staffing shortages in subnational governments compounded the challenges. Conversely, counterparts hold the view that the World Bank's processes for project approval and implementation are overly cumbersome given Nepal's public sector capacity, especially in relation to procurement, monitoring and evaluation, and environmental and social standards. Some senior government officials and development partner counterparts perceived the World Bank as too narrowly focused on delivering projects and lending rather than on outcomes, noting how the DPOs and PforRs allowed the World Bank to continue to deliver financing to Nepal despite the challenges in implementing the program and achieving results.

World Bank DPO-supported policy reforms did not always benefit from complementary program support and faced setbacks during the evaluation period. The Bank Group could have provided more complementary IPF and technical assistance for policy implementation. The government policy does not allow borrowing for technical assistance in support of policy implementation, and trust funds and partners did not cover the shortfall in implementation support. For example, DPO prior actions on electricity and financial stability that benefited from complementary implementation support achieved better results than DPO-supported policies on accelerating fiscal decentralization, and strengthening Nepal's disaster risk resilience was less successfully implemented without such support. Chapters 3, 4, and 5 find that DPO-supported policy reforms faced some setbacks. Examples include the nonenactment of the Electricity Bill and the dropping of key provisions of the Cooperative Act. In other cases, the World Bank replaced ambitious reforms with less significant prior actions. The use of multiple sector-specific DPO series may have also prevented the World Bank's leverage over economywide economic policy reforms. Interviews suggest that despite its ASA program, the Bank Group had a muted voice on major economic policy issues and seldom engaged publicly and visibly on them.

The country program's technical staffing challenges sometimes affected results. Experienced local staff often have deep local knowledge and strong relationships with counterparts, but sometimes those relationships are so strong as to give the perception of less than full objectivity. Effectively combining local knowledge with the valuable global expertise internationally recruited staff bring (for example, via co-team leadership) is key to productive dialogue and results. This evaluation found that the World Bank brought staff with global experience in many areas, including earthquake response and resilience mainstreaming, but that the program had staffing gaps in some key areas, such as trade, tourism, and governance.

## Results

The Bank Group's results systems had some gaps in tracking outcomes and did not always facilitate learning about implementation challenges. Results frameworks frequently focused on outputs and intermediate outcomes rather than on higher-level outcomes. Implementation Completion and Results Reports could have been at times more candid about implementation challenges and would have benefited from a more thorough analysis of the nature of challenges to implementation to facilitate learning.[3]

Findings from IEG evaluations of the Bank Group's program in the first part of the evaluation period were not used to inform program changes in the subsequent CPF. IEG's Completion and Learning Review Validation of the FY14–18 CPS emphasized the need for greater selectivity in postconflict environments to align with limited implementation capacity and ensure sustained delivery of results (World Bank 2018a). Nevertheless, the FY19–24 CPF and portfolio of operations expanded sectoral and thematic operations.

The country programs successfully mainstreamed gender and achieved progress with some tangible results. All projects became gender tagged, and the CPSs included gender targets. The Bank Group prioritized gender as part of its inclusion agenda, focusing on embedding actions within project components aimed at reaching women, enhancing their voices, and increasing their access to services. Some important results encompass the establishment of a platform to tackle gender-based violence in 2016, which included the launch of a 24-hour helpline for women. By 2021, this helpline had received 5,180 reports, with 90 percent of users expressing satisfaction with the assistance provided. The government also adopted gender-sensitive budgeting and increased support for women-centric initiatives.

## Collaboration, Coordination, and Convening

The Bank Group was the largest development partner in Nepal, with financing peaking in 2015 and 2020 in response to earthquakes and the COVID-19 pandemic. IDA and IFC together accounted for 30 percent of total reported donor commitments during the evaluation period (table 2.1). The Asian Development Bank was the second-largest development partner, with 23 percent of total reported commitments. Development partner financing peaked in 2015 and 2020 in response to earthquakes and the COVID-19 pandemic. PSD and job creation received 38 percent of total development partner commitments, of which 25 percentage points went toward infrastructure. Thematic areas such as job creation, small and medium enterprise development, trade, and federalism received little development partner financing, according to these data. Aid transfer to subnational levels of government grew from next to nothing before 2018 to 20 percent in 2020–21 (figure 2.5).

Within the thematic areas in which the Bank Group engaged, it was often the largest development partner, such as for improving the investment climate and job creation. IEG categorized the Bank Group's role in the evaluation's three thematic areas through a combination of total development partner commitments in each area and the degree of concentration of development partner financing (figure 2.6). This categorization showed three roles: (i) primary actor—the Bank Group had the highest share of financing, and the thematic area had a higher degree of concentration (such as for job creation and investment climate); (ii) lead partner—the Bank Group had the highest share of financing, and the thematic area had a lower degree of concentration (such as for federalism, PSD, disaster and climate resilience); and (iii) secondary partner—the Bank Group had the second-highest share of financing, and the thematic area had a lower degree of concentration (such as for infrastructure and skills development).

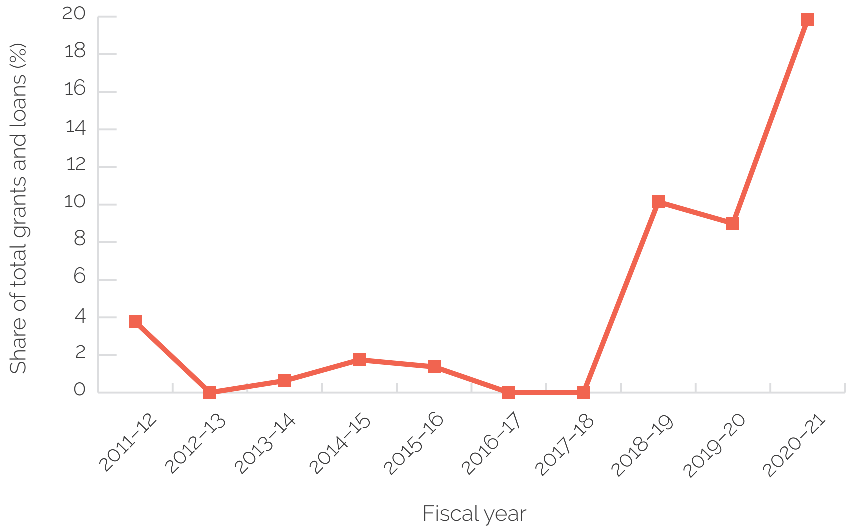
**Table 2.1.** Development Partners' Commitments, 2013–21

| Development Partner | Total Commitments (US$, millions) | Share of Total Commitments (%) |
| --- | --- | --- |
| World Bank Group | 4,898 | 29.6 |
| Asian Development Bank | 3,754 | 22.7 |
| United States | 1,428 | 8.6 |
| Japan | 991 | 6.0 |
| EU institutions | 716 | 4.3 |
| United Kingdom | 661 | 4.0 |
| Germany | 539 | 3.3 |
| Switzerland | 481 | 2.9 |
| Norway | 450 | 2.7 |
| IMF (concessional trust funds) | 268 | 1.6 |
| Korea, Rep. | 217 | 1.3 |
| IFAD | 206 | 1.2 |
| AIIB | 204 | 1.2 |
| Finland | 190 | 1.1 |
| Other development partners | 1,553 | 9.4 |

*Source:* Organisation for Economic Co-operation and Development (2022).

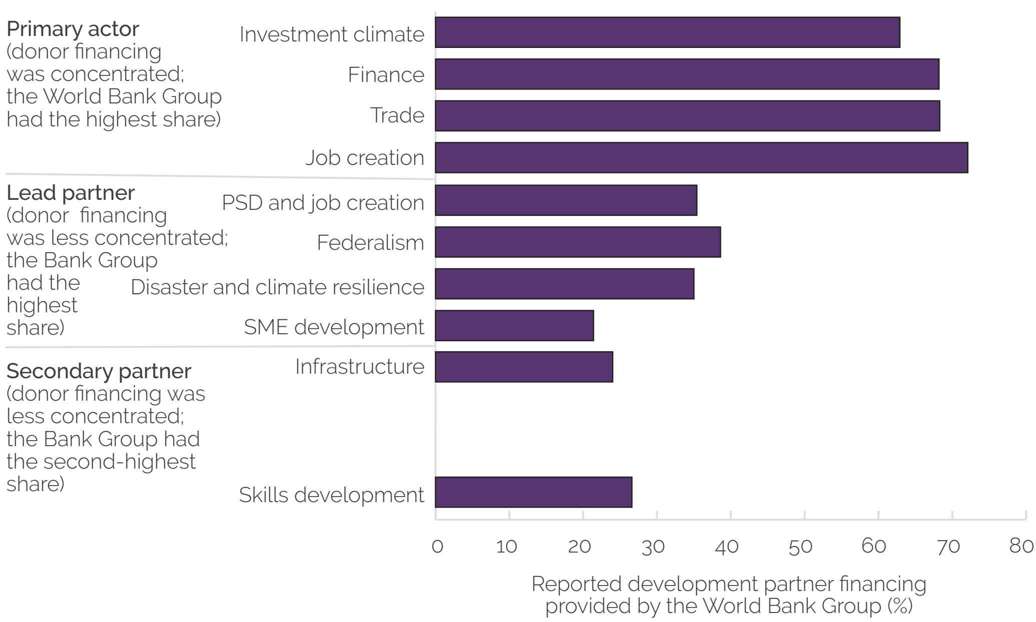
*Note:* Commitment figures for the World Bank Group are as reported in the Organisation for Economic Co-operation and Development Creditor Reporting System for comparability. AIIB = Asian Infrastructure Investment Bank; IFAD = International Fund for Agricultural Development; IMF = International Monetary Fund.

## Figure 2.5. Foreign Aid Disbursements Transferred to Subnational Government




*Source:* Independent Evaluation Group, based on government of Nepal Economic Survey 2021–22 (Nepal Ministry of Finance 2022).

## Figure 2.6. World Bank Group's Share of Total Development Partner Financing by Engagement Area




*Source:* Independent Evaluation Group based on commitment figures reported in the Organisation for Economic Co-operation and Development Creditor Reporting System.

*Note:* PSD = private sector development; SME = small and medium enterprise.

The World Bank coordinated effectively with other development partners, and partners valued their engagements with the World Bank. The World Bank had strong relationships with other development partners through regular exchanges at the senior and technical levels. Heads of agencies appreciated the World Bank's development knowledge and the invitations to join visits to provinces and project sites. This coordination aligned development partners' views, for example, in relation to support for federalism. Nevertheless, the World Bank could consider exploring more project-level collaboration—official cofinancing was 4 percent of the total financing during the period, with the World Bank's cofinancing fees seen as a deterrent by other development partners.

Bank Group knowledge products were valued by development partners but were less influential in the dialogue with the government. In interviews, government counterparts highly valued the World Bank for its financing and were aware of specific projects and reports coauthored with government counterparts, such as those on postdisaster needs assessment and federalism. However, government clients rarely cited other World Bank knowledge products. Senior civil servants questioned how well the authors of World Bank reports appreciate local realities and how well the World Bank's Nepalese counterparts appreciate the reports. In contrast, development partners valued the World Bank's reports.

The World Bank and IFC routinely coordinated with and complemented each other on the PSD agenda. The two institutions established mechanisms for dialogue and coordination, but they tackled PSD from different perspectives. This at times led to the perception of some clients and other stakeholders that the World Bank and IFC had different priorities—for example, on the proposed public-private partnership (PPP) for the operation of Kathmandu airport. However, World Bank–IFC collaboration was mostly complementarity, particularly in financial sector reforms.

[1] This CPE did not arrive at findings on PforR effectiveness because the human development sectors that most used PforR were outside its special themes.

[2] IEG's forthcoming evaluation of World Bank procurement highlights the need for more support for building government procurement capacity (World Bank, forthcoming).

[3] The limited utility of Nepal's country engagement documents for learning and conveying results and challenges is consistent with IEG's evaluation of country program outcome orientation. We found that country-level results systems are little used by staff and are ineffective in helping country teams understand their contribution to country outcomes. This, in turn, makes it less likely that teams will practice effective adaptive management to improve such contributions (World Bank 2020).

# 3 | Federalism

## Highlights

The World Bank Group did not prepare a strategy to support Nepal's transition to federalism, and there was a delay between the Peace Accords and Nepal's passage of a federal constitution in 2015 and the World Bank's mobilization of staff and resources to support it. This contributed to shortcomings in the World Bank's support during federalism's early years and the perception of bias.

World Bank projects approved after 2018 supported the implementation of federalism, but the World Bank did not always effectively navigate the institutional dynamics created by federalism. Some projects supported local governments, but very few supported the provincial governments or public sector institutions that would advance federalism.

Investment project financing flowed disproportionately to two better-off provinces, Bagmati and Gandaki, compared with disadvantaged provinces.

This chapter reviews the World Bank's effectiveness in preparing for, supporting, and adapting to Nepal's transition to federalism. The chapter finds that the World Bank missed opportunities to shape federalism before political resistance to federalism hardened. The World Bank mainstreamed federalism support in its new projects after 2018, but its staff at times lacked technical capacity on the subject, which in part contributed to the World Bank's unsuccessfully managing the complex governance and political economy issues surrounding federalism.

## Context

In Nepal, federalism was envisioned as a political solution to the failure to decentralize power and resources and forge a more inclusive social contract. The 2006 Comprehensive Peace Accord ended Nepal's armed conflict, setting the stage for a new constitution and a change to a federal political structure. The shift to federalism was meant to share central power and resources with underdeveloped areas and break up a sociopolitical system that favored a small elite. The 2007 Interim Constitution of Nepal sought to create a more inclusive political system for groups that were historically marginalized based on caste, class, gender, ethnicity, and regional identity. This was followed by a political stalemate that spanned seven years and two Constituent Assemblies. In 2015, Nepal adopted a new constitution that enshrined federalism.

Nepal's federalism transition is complex and ongoing, with continued debate and incomplete legislation affecting subnational governance. Federalism replaced a unitary system that consisted of 75 administrative districts with a three-tiered system of seven provinces and 753 local administrative levels. The new system required creating and merging ministries, restructuring the civil service and intergovernmental fiscal relations, and enacting or amending laws to implement the 2015 Constitution of Nepal. The constitution assigned exclusive and concurrent powers that often overlapped, resulting in unclear roles and responsibilities and the federal government retaining control over many areas by default. There were also concerns about costs, inefficiency, and corruption that led to resistance to delegating power and responsibilities to lower tiers of government.

## Strategy and Internal Readiness

The World Bank engaged in Nepal's peace process and began engaging with federalism after the Comprehensive Peace Accord was signed in 2006. A World Bank team provided ASA on aspects of federalism to the Constituent Assembly and executive government from 2009 to 2014, including advice on public administration and civil service reform financed by a global trust fund. The FY14–18 CPF mentioned federalism as a risk and as a potential research area. Without a clear strategy on support to federalism, the World Bank was inadequately prepared to support Nepal's transition to federalism. Projects approved after the adoption of the 2015 constitution refer to the anticipated federal transition but do not address all of its implications.

The World Bank did not mobilize enough expertise to inform the World Bank's federalism engagement. After 2015, Nepal began an ambitious state reform, yet it took the World Bank time to fully mobilize technical staff with the required skills to advise the government on federalism's implementation and adapt the program accordingly. The World Bank compensated for the shortfall in in-country international technical staff by drawing on other staff to lead its support on federalism and governance, coupled with some support from headquarters. However, this arrangement contributed to putting some staff with close ties to senior civil servants in charge of the World Bank's engagement, without the expected oversight and quality assurance by internationally recruited staff and managers. This led to perceived lack of impartiality of the World Bank's support.

There was little evidence that the country team attempted to systematically understand Nepal's political economy dynamics or the implementation risks arising from federalism.[1] Knowledge sharing, political economy analysis, and adaptive programming were affected by the frequent turnover of international staff.

## Portfolio and Engagements

The World Bank's ASA has systematically incorporated federalism since 2018. In this year, the World Bank coled the federal capacity needs assessment and assumed a leadership role on the topic among development partners.

The World Bank released annual Fiscal Federalism Updates in 2023 and 2024. The World Bank also conducted two Risk and Resilience Assessments over the CPE period to analyze the causes of ethnic and geographic exclusion and their links to fragility. The first Risk and Resilience Assessment, in 2017, was a prerequisite for an additional $300 million allocation from the 18th Replenishment of IDA's Risk Mitigation Regime. It included several recommendations related to federalism, such as establishing a subnational support program; enhancing transition planning and citizen engagement; addressing spatial and horizontal inequities based on caste, class, gender, ethnicity, and regional identity; increasing governance and political economy analysis; promoting adaptive planning and implementation; and expanding citizen engagement (World Bank 2017c). The 2021 Risk and Resilience Assessment reemphasized several of these points.

World Bank projects approved after 2018 aligned with the new federal structures and supported the implementation of federalism. World Bank project documents approved after 2018 consistently addressed federalism and the significance of collaborating with subnational governments. As required under Nepali law, World Bank financing is routed through the central government. That said, the World Bank increased its subnational engagements after 2018 and contacted provincial governments. The World Bank also supported the legislative framework for federalism through DPOs and in public financial management through trust fund–financed technical assistance. However, gaps in support for federalism included the following:

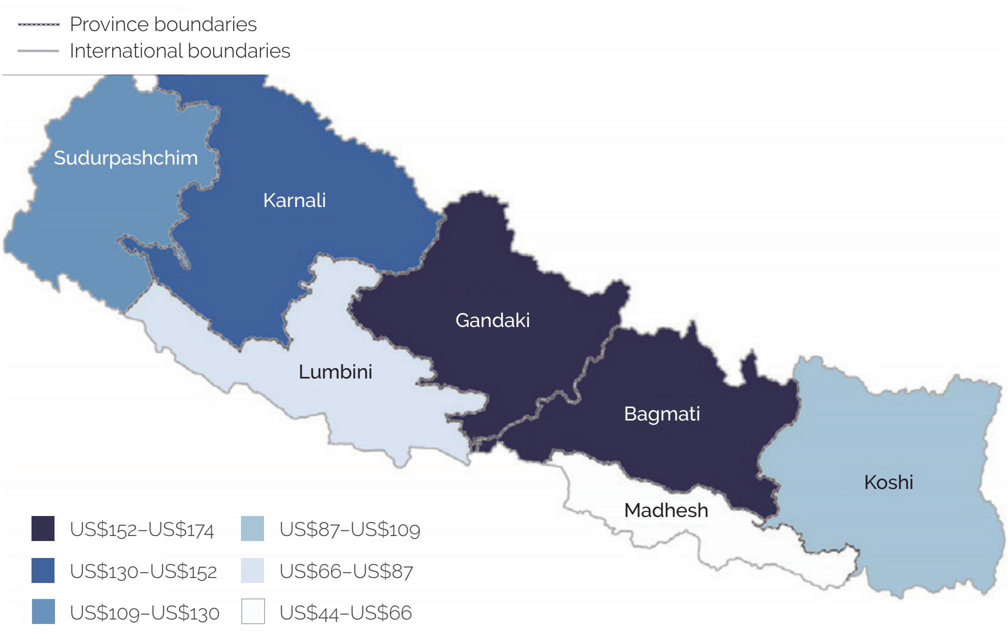
- The portfolio could have focused more on support for public sector institutions and capacity building, especially subnational support, and civil service reform.[2]
- The World Bank's citizen engagement with civil society organizations, think tanks, and actors outside of Kathmandu could have been stronger.
- The World Bank could have enhanced its attention to projects' spatial footprints. According to IEG's geospatial analysis, two better-off provinces disproportionately benefited from World Bank commitments, and disadvantaged provinces received less funding (box 3.1).

## Box 3.1. Geographic Inequities of World Bank Investments

World Bank assistance has been disproportionally concentrated in two provinces, Bagmati and Gandaki, whereas less advantaged provinces have received fewer funds. Projects located in Bagmati and Gandaki received more than four times as much in per capita financing as did projects in Madhesh, the area that received the least, despite its easy accessibility (figure 3.1). Appendix C shows the negative relationship between provinces' development needs and the World Bank's commitments. The provinces that received the highest amounts of per capita financing from investment project financing projects with geolocation data had the lowest levels of multidimensional poverty, but the geographic distribution of World Bank commitments became more equitable in the second half of the evaluation period (figure 3.2), with the concentration of World Bank financing in Bagmati declining from half of total commitments during FY14–18 to 21 percent during FY19–23. Disproportionate support favoring the poorer provinces would have been more in line with federalism's intent to address horizontal and spatial inequalities.

*Source:* Independent Evaluation Group.

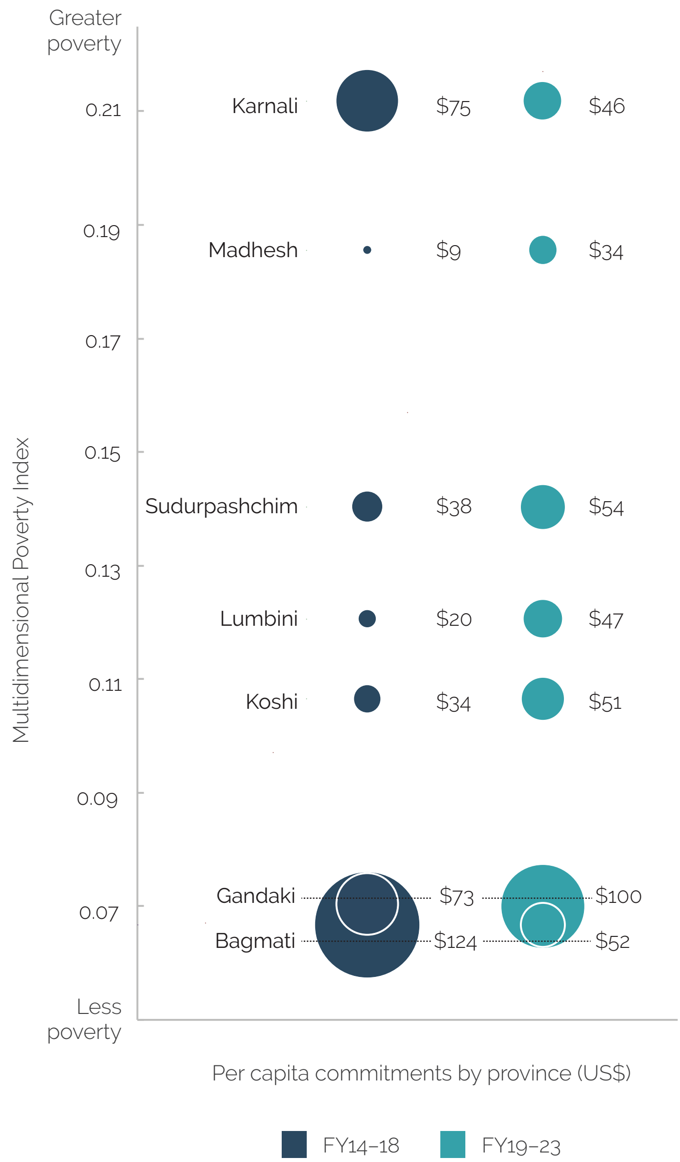
## Figure 3.1. Distribution of World Bank Per Capita Commitments, FY14–23




*Source:* Independent Evaluation Group.

*Note:* This map has been cleared by the World Bank Group cartography unit.

**Figure 3.2.** Multidimensional Poverty and World Bank Per Capita Commitments




*Sources:* Alkire et al. 2023; Independent Evaluation Group based on World Bank data.

*Note:* Dollar values and bubble sizes represent the commitments per capita for each province approved in each five-year period of the Country Program Evaluation, FY14–18 and FY19–23.

The World Bank supported the fiscal equalization grant formula with technical assistance and a DPO. Under the constitution, subnational governments manage spending, whereas the central government retains revenue authority. To address this vertical fiscal imbalance, the constitution mandates fiscal transfers. The Intergovernmental Fiscal Arrangement Act created the formula for these fiscal transfers and is therefore one of federalism's foundational pieces of legislation. It was supported in the early years of the federal transition by senior civil servants with World Bank technical assistance. However, it has shortcomings and does not match grant resources with the constitution's allocation of administrative responsibilities, leading to a mismatch of revenue and expenditures across different tiers of government and weakening the overall federal transition. The World Bank's analytic support has since stepped up, for example, with ASA in 2020 and 2023 on ways to improve the system.[3]

The World Bank could have supported the passage of the Civil Service Act in a DPO (World Bank 2023d). The Civil Service Act is another piece of foundational legislation for federalism that allows the provinces to hire staff. The Civil Service Act remains pending as of 2024, resulting in shortfalls in the subnational governments' staffing and capacity to perform and deliver essential services. Stakeholders interviewed for this evaluation pointed to the World Bank's limited involvement in the Civil Service Act reform process as a missed opportunity to influence legislative reform at a critical juncture around 2018.[4]

The World Bank's early staffing decisions led to some perception of bias. During federalism's crucial early days, the World Bank relied on staff with close ties to senior civil servants, some of whom were seen as opposed to decentralization and aligned with a Kathmandu-centric stance. The result of this arrangement was the perception of an antifederalism bias and questions about how deeply World Bank management understood the political aspects of the reforms.

Overall, the World Bank made significant progress toward the CPF objectives of citizen engagement and greater gender inclusion. The CPF intended to integrate inclusion and citizen engagement at the subnational level as cross-cutting issues. A main achievement has been the adoption of citizen engagement guidelines by 700 local governments (World Bank 2024a) but falling short of the goal of mainstreaming citizen engagement across the World Bank's portfolio. Another success was the establishment of a comprehensive system to address gender-based violence, supported by the first programmatic fiscal and public financial management development policy credit (DPC), which ensures that survivors have access to shelter, health care, legal aid, psychosocial support, and enhanced service delivery. The DPC also supported gender-responsive budgeting in all three tiers of government (World Bank 2023d).

[1] Governance and institutional assessments became more common starting in FY23, when the country team made a new “federalism filter” a mandatory part of project preparation.

[2] A proposed IDA-financed operation to build subnational capacity did not proceed because the government received alternate grant financing from other donors for this purpose. The World Bank’s federalism program did not secure any major trust funds for subnational capacity building or project implementation, despite the potential availability of financing from the State and Peacebuilding Fund.

[3] The 2020 Fiscal Gap Analysis report advised the National Natural Resources and Fiscal Commission on improving the methodology of the fiscal equalization grant formula. The 2023 Nepal Fiscal Federalism Update suggested legislative and policy amendments to clarify responsibilities across government tiers, a revision of the grant calculation methodology, a transition to sectoral block grants with limited earmarking, and improvements to the intergovernmental coordination mechanisms (World Bank 2023c).

[4] The World Bank’s room for influence was arguably higher around 2018 when the politics around federalism were more fluid. Resistance to the Civil Service Act has since become more entrenched.

# 4 | Private Sector Development and Jobs

## Highlights

The World Bank Group's country strategies were grounded in strong diagnostics that identified critical constraints to private sector development and job creation, but key policy barriers to private sector–led job creation were not overcome.

Bank Group engagements in the roads, energy, and financial sectors were highly relevant to the constraints to growth and job creation and achieved important results, but there were gaps in Bank Group support for areas with strong job creation potential, such as tax, trade, and labor reforms and tourism and small and medium enterprise support. The Bank Group did not develop the coalitions for change needed to advance in these areas.

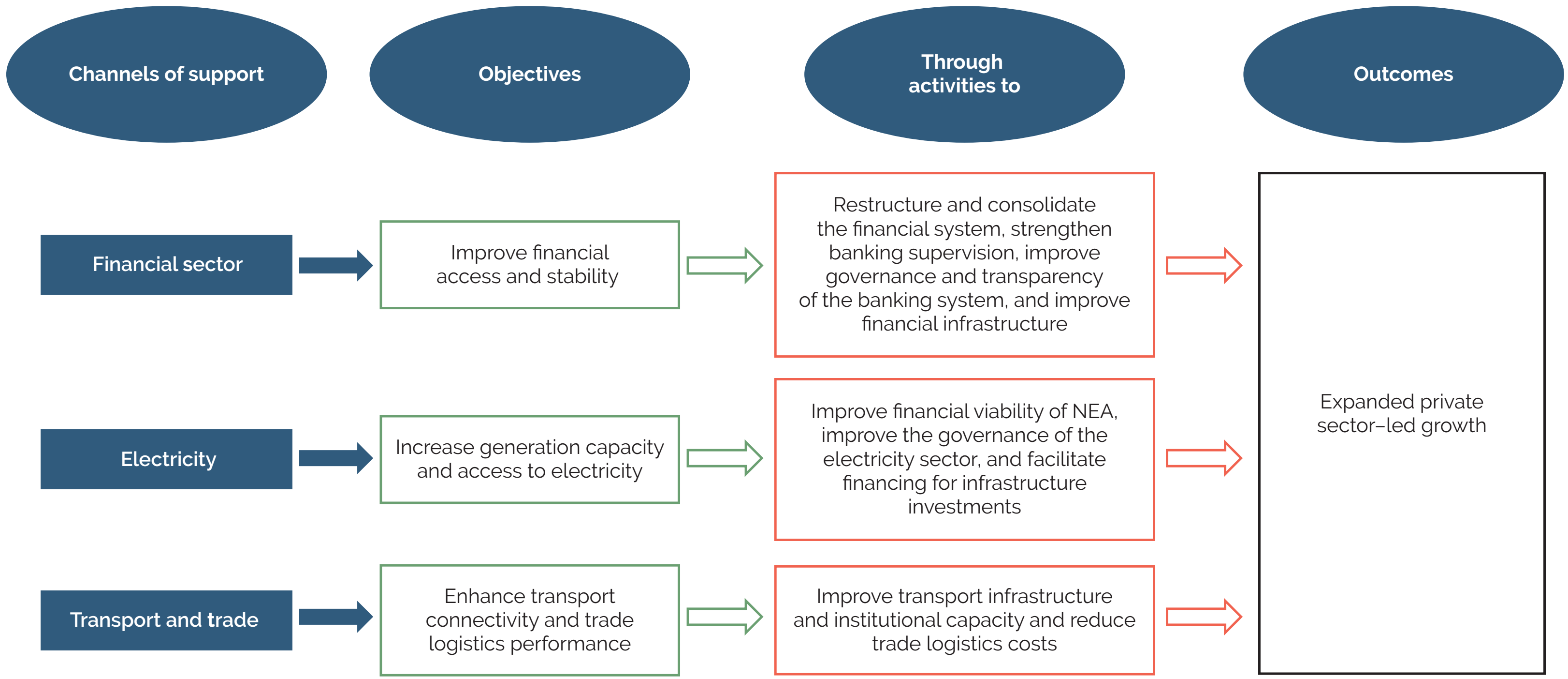
The Bank Group was more successful in constructing physical assets than in strengthening institutions and reforming policies and ensuring their implementation.

This chapter presents the evaluation's findings about how effective the Bank Group has been in its support to PSD and job creation in Nepal. The chapter finds that the Bank Group provided relevant and broadly successful support for the roads and hydropower sectors and for institutional reforms in finance and energy. However, the World Bank's portfolio had coverage gaps on jobs, gained little traction on reforms to enhance private sector competitiveness and create jobs, and failed to build institutions with the capacity to implement policy and deliver services. IFC made solid contributions to hydropower development, and its advisory services helped establish gender, environmental, and social standards in the hydropower sector, but its risk standards and other factors made it hard for IFC to increase its financing to local private sector hydropower developers.

## Private Sector–Led Growth

This section covers the country program's support areas targeting barriers to private sector investment and productivity. As shown in figure 4.1, it analyzes three sectors important for expanding private sector–led growth: (i) financial sector, through activities aimed at improving financial access and stability; (ii) electricity, with an assessment of support to increase electricity access and to expand generation capacity; and (iii) transport and trade, with a review of efforts to enhance transport connectivity and trade logistics performance. IEG focused on these sectors because they represented major obstacles to private sector–led growth and areas of high development impact, according to the SCD and other diagnostics.

**Figure 4.1.** Channels for Supporting Private Sector Investments and Growth




*Source:* Independent Evaluation Group.

*Note:* NEA = Nepal Electricity Authority.

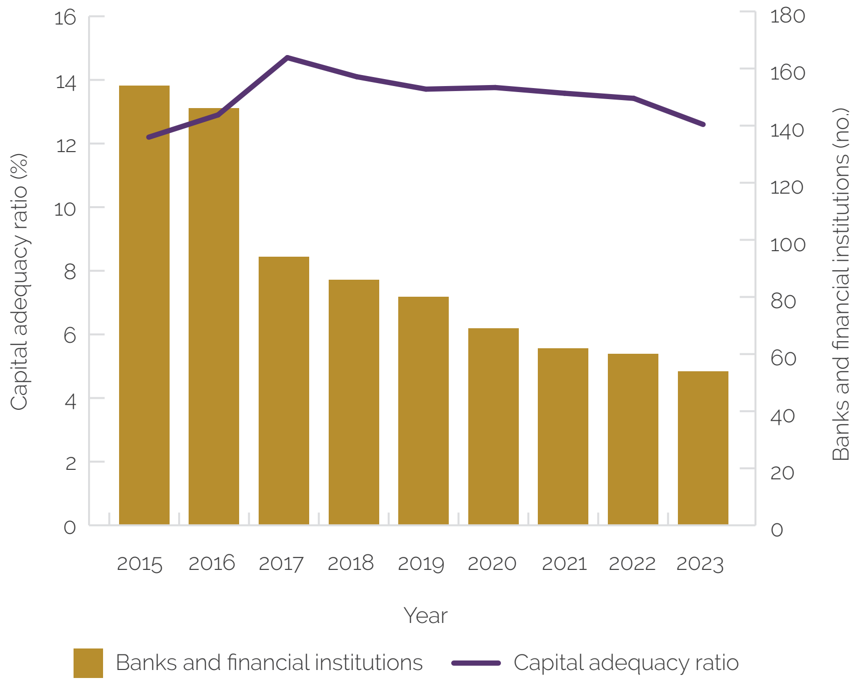
## Financial Sector

Since 2013, the Bank Group supported Nepal's financial sector through a stand-alone DPC, two programmatic development policy series, and IFC investments and advisory services. The 2013 stand-alone DPC provided $30 million in financing. The first series—the Financial Sector Stability DPC—spanned from 2014 to 2017 and consisted of three operations with $300 million in financing. The second series—the Finance for Growth DPC (2018–24)—is in its third operation and has provided $430 million in cumulative financing. During the evaluation period, IFC invested $24 million (including mobilization and blended finance utilization) in private equity investments, provided $160 million in long-term financing (including mobilization) to commercial banks, and provided advisory services on financial inclusion.

The World Bank's support for financial sector stability was highly relevant and aligned with the government's priorities. The reform strategy followed the recommendations of the Financial Sector Assessment Program, conducted by the International Monetary Fund and the Bank Group in 2014, which highlighted significant systemic vulnerabilities, including gaps in the supervisory capacity of the Nepal Rastra Bank (NRB). The reform program aimed to mitigate risks and strengthen the financial system's resilience, which is essential for macroeconomic stability and growth. In addition, the World Bank's DPC prior actions were part of a larger government-led financial sector reform initiated before the launch of the DPC series. The DPC operations benefited from a complementary structure, with the International Monetary Fund leading the policy dialogue and the United Kingdom complementing the reform process with technical assistance.

The World Bank effectively supported government actions to restructure and consolidate Nepal's banking and financial system. Since 2015, Nepal's bank capital adequacy ratios have consistently exceeded regulatory minimums, despite a post-2017 decline in ratios with the end of the postpandemic credit growth. The World Bank backed government measures to limit new licenses for banking and financial institutions, the implementation of prompt corrective action programs, including resolution schemes, and the increase in minimum capital requirements. This helped reduce the number of banks and financial institutions from 167 in 2014 to just 54 by FY23 (figure 4.2). Financial institutions that did not meet prudential guidelines were subject to corrective measures, paving the way for mergers and acquisitions that enhanced operational efficiency and contributed to the sector's financial stability.

**Figure 4.2.** Number of Banks and Financial Institutions and Capital Adequacy Ratio




*Source:* Independent Evaluation Group based on Nepal Rastra Bank and International Monetary Fund data.

The World Bank's efforts to enhance the supervision of financial cooperatives have not enhanced the sector's oversight. In 2014, the NRB supervised only 15 out of 17,000 financial cooperatives, with the rest licensed by the Registrar of Cooperatives, who lacked supervisory and resolution authority. The DPC series facilitated the passage of a new Cooperative Act, granting regulatory powers to address troubled cooperatives. The Cooperative Act's enactment in 2017 had limited impact because strong opposition from vested interests led to the weakening of key governance provisions. Currently, cooperative oversight falls under the Department of Cooperatives or local authorities, which lack adequate data to assess institutional risks (IMF 2023), therefore imposing risks to overall financial stability and hindering the government's money-laundering prevention efforts.

DPCs helped strengthen the NRB's supervisory capabilities, although capacity gaps persist. The DPC's actions improved NRB's adherence to Basel Core Principles, established frameworks for both on-site and off-site supervision, and introduced a new supervisory information system. These measures aimed to enhance the banking sector's monitoring efficiency and risk analysis, but their implementation has been delayed. Reports are needed that will enable NRB supervisors to conduct benchmark analyses of performance indicators across all significant risk categories. Further training would enhance NRB staff's analytic skills to use the new statistical reports and financial ratios for early identification of emerging risks (IMF 2023).

Nepal's financial sector continues to face risks because of related party lending and underreporting of nonperforming loans. The 2014 Financial Sector Assessment Program flagged both issues as problem areas. The practice of using revolving working capital loans to artificially sustain nonperforming accounts—known as evergreening—obscures the true asset quality and nonperforming loans in reported financial ratios. In 2023, commercial banks' nonperforming loans more than doubled from 1.3 to 3.0 percent, driven by higher lending rates and the end of forbearance measures after the postpandemic credit expansion. Nonperforming loans further deteriorated to 4 percent in the third quarter of FY24 due to new guidelines regarding working capital loans and asset classification. The seventh DPC operation, launched in 2022, supports amendments to the Banks and Financial Institutions Act to address these issues in alignment with international standards, but these actions come in late in the evaluation period relative to their critical nature. As noted in Bank Group reports, related party lending and nonperforming loans have been key contributors to banking crises in the developing world (World Bank 2023f).

The World Bank and IFC contributed to establishing a new framework governing private equity funds, but the scale of these investments remains limited. The World Bank–supported DPC actions in 2019 that led to the government's adoption of the Specialized Investment Fund regulations, setting the regulatory framework for venture capital, hedge funds, and private equity investments. The regulations are restrictive by international standards but have developed the industry by setting guidelines for the registration and operation of alternative investment funds, resulting in enhanced clarity for industry participants and investors. Concurrently, IFC has mobilized $14 million in investments to Business Oxygen (Nepal's first domestic private equity firm) and in 2021, leveraged IDA Private Sector Window resources to invest $10 million in the Dolma Impact Fund II. Private equity funds can offset the financing gap for Nepal's small and medium enterprises, and IFC's participation in these funds was critical to signal confidence to potential investors. However, despite IFC's use of blended finance solutions, IFC has not been able to significantly increase its own-account investments in private equity, which remain small compared with the sector's potential. Bank Group specialists note that, aside from business environment obstacles, IFC's strict risk standards and volume-driven incentives limit its ability to expand private equity investments in Nepal. Investments in Nepal tend to be small, come with high risks and transaction costs, and contribute little to IFC's corporate volume targets.

## Electricity

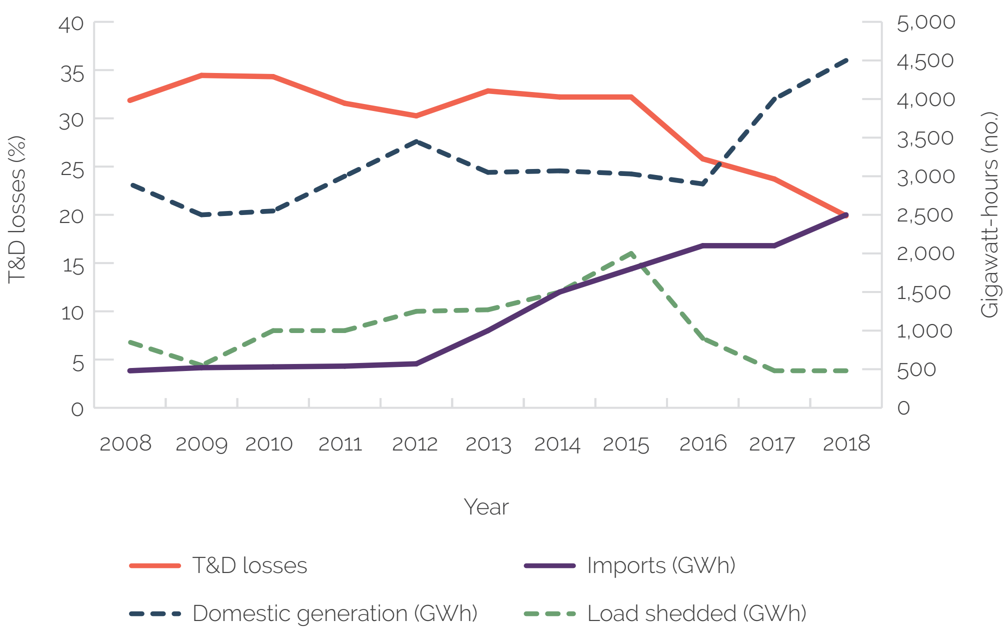
The Bank Group kept a strong focus on supporting Nepal's hydropower development, deploying a wide range of instruments during the CPE period. From 2009 to 2014, the World Bank supported the hydropower sector with infrastructure financing and analytic work to identify investment barriers. After 2015, the focus shifted to supporting electricity sector reforms, with two DPCs totaling $400 million to enhance the financial viability of the Nepal Electricity Authority (NEA), improve the electricity sector's governance, and adopt adequate environmental and social standards. Trust funds have supplemented these efforts. In 2023, the World Bank initiated a donor-funded platform to oversee technical assistance and policy dialogue for hydropower. Upcoming World Bank analytic work under this platform will inform a national hydropower plan that includes a river basin strategy and integrated environmental and social assessments to improve the sustainable management of Nepal's fragmented electricity sector.

The government's implementation of DPC-recommended institutional and system improvement measures contributed to ending Nepal's load shedding in 2018. The NEA adopted measures supported by a DPC in 2018 to use performance-based contracts to reduce system losses from theft and irregular billing and collection and the Distribution Activity Information

System to systematically monitor losses and established theft control units in NEA Distribution and Consumer Service offices. These measures led to significant reductions in transmission and distribution losses that, coupled with increased power imports from India, contributed to ending Nepal's load shedding (figure 4.3). A change in leadership in the NEA in 2016, with strong political backing, played a key role in driving the implementation of these institutional reforms.

The World Bank helped the NEA improve its financial viability. The NEA has been profitable for the past seven years after more than a decade of financial losses (figure 4.4). This change occurred, in part, because of World Bank contributions to helping the NEA limit technical and nontechnical losses, increase its revenues, and reduce financing costs through the implementation of the NEA's Financial Viability Action Plan. DPC-supported actions to move Nepal toward a more structured and cost-reflective tariff system have also enhanced the NEA's financial viability, which increases private investors' confidence by minimizing offtake risks.

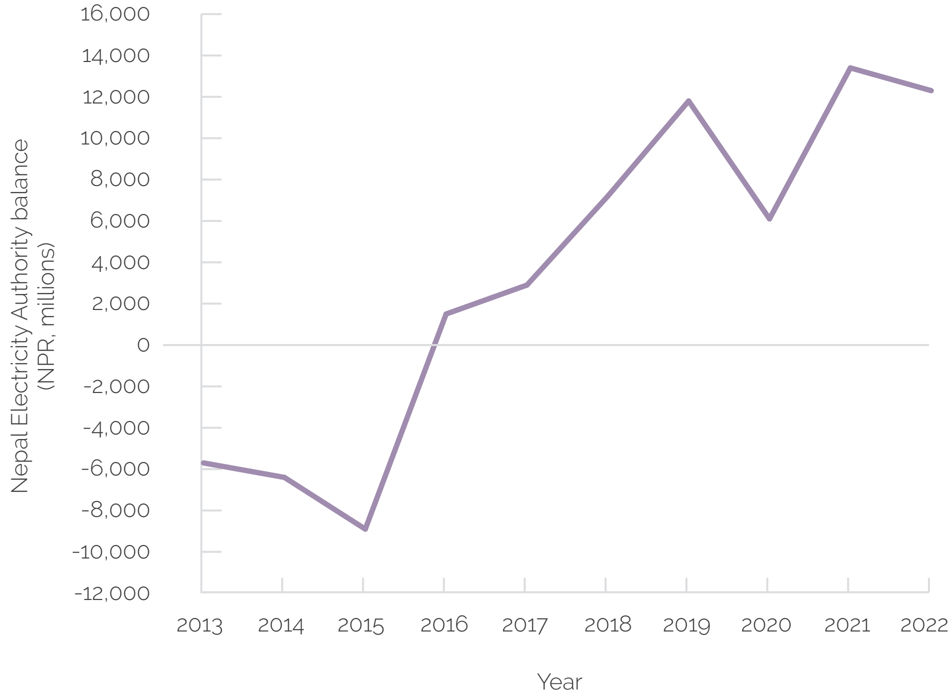
**Figure 4.3.** Factors Contributing to Ending of Load Shedding




*Source:* Independent Evaluation Group based on World Bank project documents.

*Note:* GWh = gigawatt-hour; T&D = transmission and distribution.

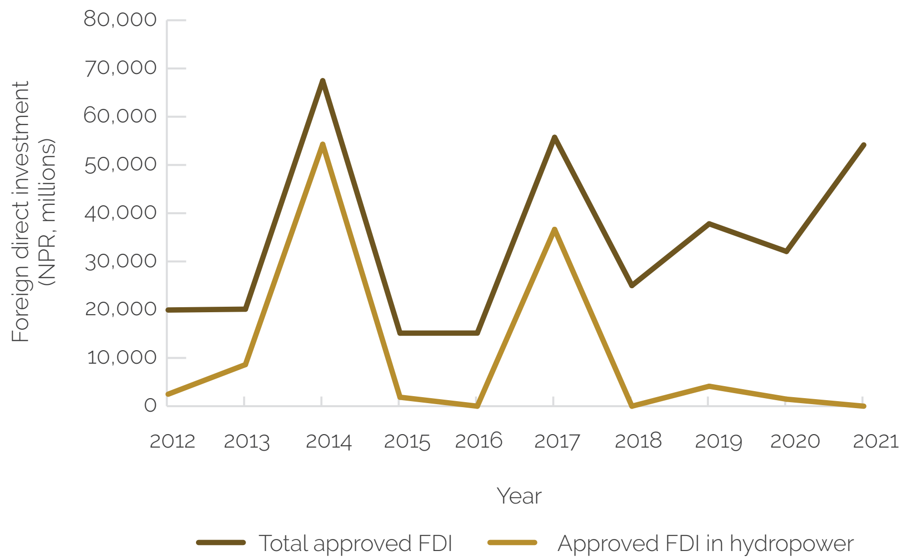
**Figure 4.4.** Nepal Electricity Authority's Profits and Losses over the Decade




*Source:* Independent Evaluation Group based on data from the Nepal Electricity Authority annual reports.

The DPC1-supported reforms incentivized the private sector's involvement in Nepal's hydropower development. In 2017, the NEA adopted differentiated power purchase rates and guidelines on foreign currency–denominated power purchase agreements for hydropower generation projects. Before these changes, a uniform electricity tariff disincentivized private sector investments in peaking run-of-river hydropower plants, which are much needed during Nepal's dry seasons. These measures increased private sector interest as evidenced by an increase in signed power purchase agreements,[1] but they did not encourage large foreign investments in hydropower development (figure 4.5), mainly because of investors' concerns over currency risks and financing restrictions (World Bank 2023a).

**Figure 4.5.** Foreign Direct Investment in Hydropower




*Source:* Independent Evaluation Group based on data from the Department of Industry of Nepal.

*Note:* FDI = foreign direct investment.

IFC has supported Nepal in adopting environmental and social standards in the hydropower sector, including gender diversity and equality dimensions. During the CPE period, IFC supported the development of the Hydropower Environmental Impact Assessment Manual to align the sector with best international environmental and social practices. IFC reports training 150 officials to strengthen their understanding of the Environmental Impact Assessment framework and monitoring processes (which resulted in 67 hydropower projects benefiting from these activities). IFC also implemented the Powered by Women initiative, which reportedly has enabled a 19 percentage point increase in women in leadership roles in the sector.

The World Bank's support to the new Electricity Bill has faced several challenges, and the bill has not been enacted as of April 2024. Since 2015, a World Bank IPF and DPC series have supported the drafting of a new Electricity Bill, which would liberalize the sector by allowing private power plants to access the transmission grid and trade power, including cross-border trade. However, the Electricity Bill has faced numerous setbacks since 2020, in part because of opposition from key stakeholders (World Bank 2023a). In addition, this law is politically sensitive because it entails correcting mistakes in current regulations, thereby penalizing earlier investors. After years of deliberations, the bill was reintroduced in the Federal Parliament of Nepal in November 2023. Its multiple revisions have led to a version of the bill that waives competition provisions for entities with a majority government investment, reduces the regulator's powers, and disregards the water basin strategy by allowing provincial and local authorities to license smaller hydropower plants without following the strategy.

World Bank–supported reforms established important energy sector institutions, but their effectiveness remains unrealized pending the enactment of the Electricity Bill. In collaboration with development partners, the World Bank–supported prior actions contributed to the establishment of the first independent electricity regulator in Nepal—the Electricity Regulatory Commission. World Bank efforts focused on making the Electricity Regulatory Commission operational and broadening its mandate, but the organization remains understaffed and not fully functional (World Bank 2023a). In addition, the World Bank contributed to the development of the Nepal Power Trading Company Limited, which currently manages cross-border electricity trade as a service provider for the NEA. However, as power trade becomes a licensed activity under the new Electricity Bill and generation capacity grows, the Nepal Power Trading Company Limited is expected to transition to a power trading company, marketing Nepal's electricity surplus, thereby contributing to improving electricity affordability and the financial viability of the power sector.

The Bank Group–supported policy actions have not yet removed binding constraints to private investment in hydropower. The sector continues to suffer from underinvestment to adequately expand its generation capacity. Although substantial generation capacity is under development,[2] most projects face implementation delays and local financing is insufficient (which leads to cost escalations affecting the feasibility of new projects).[3] The Bank Group–supported policy actions have been ineffective in removing binding constraints that limit access to the transmission grid and undermine hedging and profit repatriation mechanisms (World Bank Group 2019). However, this slow progress is not atypical; steps toward liberalization are by nature incremental and reliant on gradual trust building between trading partners and the public and private sectors.

The World Bank's convening contributed to paving the way for subregional electricity trade. In 2016, South Asian power sector cooperation plans were interrupted because of tensions between India and Pakistan. In this context, a Bangladesh, Bhutan, India, and Nepal subregional framework was the most viable entryway for electricity trade discussions. The World Bank's regional integration unit has used its expertise and influence to host Power Secretaries Roundtables, an informal forum to discuss subregional issues (which has contributed to the advances of the Bangladesh, Bhutan, India, and Nepal energy market).[4] This is a notable development because although Nepal and India have been trading power for many years, the terms of trade had been determined solely through bilateral arrangements. The involvement of a third country, as either producer or consumer, changes the nature of the transmission infrastructure, which begins to play the role of a regional good (Pillai and Prasai 2021).

IFC convened lenders and leveraged the Multilateral Investment Guarantee Agency and IDA resources to finance Nepal's largest hydropower foreign direct investment. After seven years of preparation, IFC and a consortium of Korean and Nepalese partners, in collaboration with the government of Nepal, completed the development of a 216-megawatt run-of-river hydropower project on the Upper Trishuli River through a $453 million innovative debt financing package approved in 2019. Construction began in January 2022, with completion expected by December 2026. The financing structure for this operation is a good example of Bank Group collaboration for its use of a $87.4 million Multilateral Investment Guarantee Agency political risk guarantee and $100 million in blended concessional finance from the IDA Private Sector Window. The IDA Private Sector Window support lessens the costs and risks associated with the project's long development period. The hydropower plant includes a storage facility, which is crucial for maintaining a reliable electricity supply during dry seasons. IFC carried out an impact assessment and management plan to assess the cumulative environmental and social risks of the Trishuli River Basin's various hydropower projects.

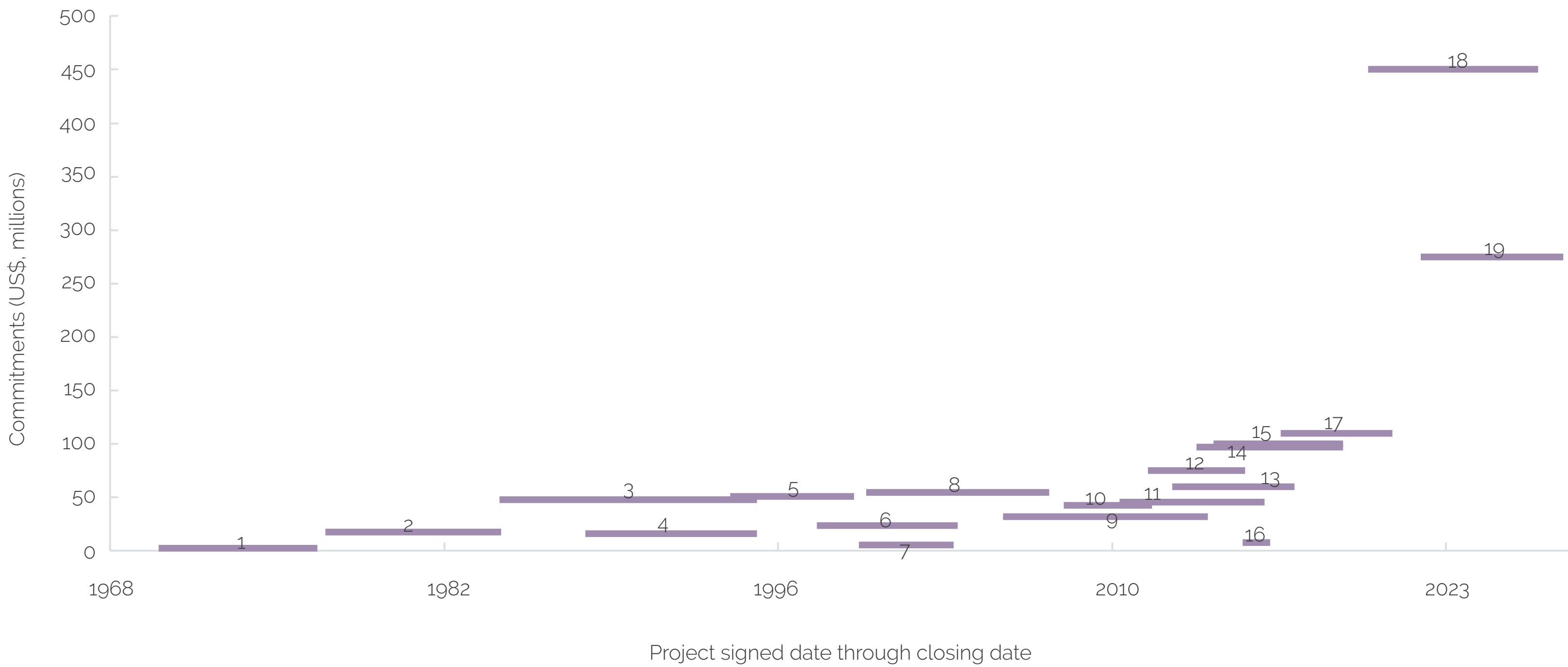
World Bank support for electricity infrastructure investments had mixed results. Since 2011, the World Bank has supported five hydropower infrastructure projects—none of them completed the planned works before project closure, and all of them received modest ratings in the Implementation Completion and Results Report Review efficacy and efficiency dimensions. These projects experienced implementation challenges related to procurement, financial management issues, and community disputes. That said, some World Bank–supported infrastructure initiatives helped enhance Nepal's electricity capacity. For example, the Nepal–India Electricity Transmission and Trade Project (2011–21), after seven restructurings, successfully constructed a transmission line between Dhalkebar and Muzaffarpur in 2018, increasing the power transmission capacity between India and Nepal by 1,000 megawatts. This facilitated power trade between the countries and helped reduce load shedding. Fewer firms cite electricity as the main constraint to doing business in 2023 compared with 2013.[5]

## Transport and Trade

The World Bank faced several challenges in addressing Nepal's transport and trade sector constraints, which led to more gradual progress than anticipated in areas such as maintenance and asset management, institutional strengthening, and enhancing private sector participation. Analytics showed that Nepal's infrastructure issues stemmed from weak institutions with overlapping mandates, inefficient spending, and weak policies for private investment. High trade costs were linked to both infrastructure and policy inadequacies. The CPS and CPF set forth bold strategies for transformation, emphasizing rural transport and connectivity to India, stronger government institutions, and increased private sector participation. The CPS stated that "instead of focusing on specific transactions, the [Bank Group] will take a more holistic approach that focuses on the necessary governance, policy, and institutional frameworks before committing to specific transactions and projects" (World Bank 2014, 30). While this approach was intended, in practice, projects moved forward under governance and policy frameworks that could have been strengthened. The World Bank's support addressed some regulatory challenges but left room for further progress in areas like interagency coordination, procurement management, and trade policy coherence. This was often because of entrenched institutional and structural issues beyond the control of the World Bank. IEG's interviews and document reviews found no evidence of joint World Bank–IFC efforts to boost private sector engagement in the sector.

The size and complexity of transport operations increased during the evaluation period, and implementation challenges followed. The World Bank has a long history of engagement in the sector, with the first transport operations in Nepal dating from the early 1970s. Since then, the size of commitments has consistently increased, peaking recently with the Accelerating Transport and Trade Connectivity in Eastern South Asia and the Nepal Strategic Road Connectivity and Trade Improvement Project, valued at $275 million and $450 million, respectively (figure 4.6). Projects have become more complex, integrating trade, resilience, and environmental and social aspects and using diverse financing instruments. However, project design was not enough attuned to counterparts' implementation capacity. Reviews of Project Completion Reports and Implementation Status and Results Reports revealed delays and low disbursement rates, with some projects facing operational and financial sustainability risks. Interviews also pointed to interagency coordination problems.

**Figure 4.6.** International Development Association Support to Transport in Nepal




1. Highway Project
2. Second Highway Project
3. Third Highway Project
4. Road Flood Rehabilitation Project
5. Road Maintenance and Rehabilitation Project
6. Multimodal Transit and Trade Facilitation Project
7. Rural Infrastructure Project
8. Road Maintenance and Development Project
9. Rural Access Improvement Project
10. Road Sector Development Project
11. Rural Access Improvement Project AF
12. Road Sector Development Project AF
13. Bridges Improvement and Maintenance Project
14. Nepal–India Regional Trade and Transport Project
15. Project for Strengthening the National Rural Transport Program
16. Road Safety Support Project
17. Proposed: Strategic Roads Development Project
18. Strategic Road Connectivity and Trade Improvement Project
19. Accelerating Transport and Trade Connectivity in Eastern South Asia—Nepal Phase 1 Project

*Source:* Independent Evaluation Group.

*Note:* AF = additional financing.

The results frameworks could have included outcomes for institutional strengthening. On completion, all transport operations received positive ratings based on the achievement of results, as outlined in their monitoring and evaluation frameworks, in accordance with the World Bank's standard methodology for rating projects at completion. However, the monitoring and evaluation frameworks often lacked robust indicators for measuring outcomes associated with institutional strengthening activities. This constrained opportunities for adapting and learning.

The World Bank contributed to the country's increased transport and trade connectivity. The bridges improvement and maintenance project helped increase the share of bridges in good and fair condition in targeted routes from 53 to 81 percent. This accounts for 481 out of 1,709 bridges on the Strategic Road Network. The Project for Strengthening the National Rural Transport Program rehabilitated 2,760 kilometers of roads and provided routine maintenance to 5,500 kilometers of roads. These results benefited 37 districts with 15.7 million people, more than half of Nepal's total population (ILO 2021), and contributed to a 12.7 percent increase in the population within a two- to four-hour walking distance of an all-weather road. These investments targeted districts that are home to approximately 60 percent of Nepal's poor population. In addition, as validated in IEG's field visit, the Nepal–India Regional Trade and Transport Project helped reduce in seven hours the transit time from Birgunj to Kathmandu by constructing four bridges and upgrading 33 kilometers of the most important road trade corridor between Nepal and India, which is the route for 60 percent of bilateral trade of goods between the two countries (box 4.1). The 2023 Enterprise Survey shows discreet progress, with 2.4 percent of firms reporting transportation as the biggest constraint in 2023, compared with 6.2 percent in 2013.

World Bank investments in trade logistics delivered outputs but not outcomes and show high operational and sustainability risks. The Nepal–India Regional Trade and Transport Project completed relevant activities to reduce trade logistics costs by constructing the Inland Container Depot in Kathmandu, developing the Nepal National Single Window, and constructing and equipping a sanitary and phytosanitary laboratory. The project had completed its expected outputs by the time the evaluation team visited in December 2023, but many activities faced operational and financial sustainability risks, as described in box 4.1.

## Box 4.1. Verification of Select Roads and Trade Outcomes

The Project for Strengthening the National Rural Transport Program (2013–20) aimed to enhance transport connectivity across 37 districts, benefiting 15.7 million individuals—more than half of Nepal's population. The project created an estimated 6.6 million person-days of temporary employment from upgrading and maintenance activities. The project collaborated with the International Labour Organization to increase the economic empowerment of women and marginalized groups through labor intensive maintenance, employing 2,700 people in road maintenance groups, 64 percent of whom were women and 35 percent Dalits, a historically marginalized community. The project also improved year-round road access, which is anticipated to boost economic activities and create further indirect and induced employment opportunities.

A project-commissioned survey of 1,080 households along 30 roads found that self-reported travel time to major markets dropped by 56 percent for people near paved roads and by 9 percent for people near gravel roads. Self-reported employment rose by 40 percent for people near paved roads and by 36 percent for people along gravel roads. Terai districts saw the most significant gains, whereas Hill districts saw more modest improvements. Independent Evaluation Group (IEG) reanalysis of the survey data confirmed the statistical validity of the claimed travel time reductions and employment increases, although noting the uneven benefits distribution and the potential for recall bias because the analysis was based on retrospective baseline data collected by the survey.

The Nepal–India Regional Trade and Transport Project (2013–21) sought to reduce transport time and logistics costs for Nepal–India trade along the Kathmandu–Kolkata corridor by upgrading infrastructure and streamlining border management. This project had national importance, given that 60 percent of Nepal–India trade transits through the selected corridor. Using direct observation, interviews, and traffic-data analysis, IEG's team confirmed the project's claimed reduction in travel time from two hours to 50 minutes along the upgraded 35 kilometers of the Narayanghat–Mugling road section, which was previously a bottleneck between the India border and Kathmandu. Community members interviewed by IEG praised the road's quality and the upsurge in domestic tourism and small and medium enterprise growth brought by the improved road.

*(continued)*

## Box 4.1. Verification of Select Roads and Trade Outcomes (cont.)

The Nepal–India Regional Trade and Transport Project also sought to improve trade efficiency by targeting key trade barriers. IEG's site visits showed risks to achieving this objective. First, upgrades to the sanitary and phytosanitary laboratory building were completed to enable rapid, on-site testing, but the laboratory remained underused because the Ministry of Agriculture had delayed appointing staff for more than two years. As of December 2023, the laboratory operated with only three part-time staff, just 4 percent of the 36 full-time equivalent positions needed. As a result, export samples were still being sent abroad for testing before the border crossing could be permitted. Second, a newly constructed Inland Container Depot in Kathmandu was intended to reduce crossing times at the Raxaul–Birgunj border post, but the Inland Container Depot was nonoperational during IEG's visit, despite reports of its functioning since April 2022 in the project's Implementation Completion and Results Report. The Inland Container Depot's function is dependent on the completion of the Kathmandu–Terai Expressway, which connects Kathmandu to the Indian border at Birgunj, but this was not part of the World Bank project, and it was only partly complete. Moreover, trade association representatives explained that customs officials mandate cargo clearance at the Birgunj border post to meet their revenue targets, implying that customs officials' organizational incentives are misaligned with the Kathmandu Inland Container Depot becoming fully operational.

Two project-supported digital solutions—the Nepal Trade Information Portal and the Nepal National Single Window—face operational and sustainability challenges. Interviews with stakeholders revealed that the single window is only partially digitized, traders had received insufficient training in using it, and the portal was launched without an approved legal framework, resulting in time-consuming negotiations to integrate additional agencies into the platform. The Nepal Trade Information Portal, designed to provide trade data to exporters, had been nonfunctional for several months at the time of writing because of technical issues. Furthermore, both systems' maintenance costs were not fully anticipated in the government agencies' budgets, posing a significant threat to the platforms' sustainability.

Several lessons can be offered. First, collecting survey and other evidence on project outcomes, including travel times and employment, proved valuable. Second, the project's engineering-centric design overlooked the need to create

*(continued)*

## Box 4.1. Verification of Select Roads and Trade Outcomes (cont.)

institutional communication between government entities and beneficiaries, such as trader groups. Third, Project Completion Reports and results frameworks did not reflect the institutional obstacles to ensure that completed facilities and portals are staffed, used, and maintained.

*Source:* Independent Evaluation Group based on site visits and project documents.

World Bank–supported transport and trade institutional strengthening activities achieved limited outcomes and focused insufficiently on sustainability. Projects were designed with components to support implementation and coordination but without support for sustainability, institutional performance, and guarantee of staffing beyond projects' timelines. For example, the Road Sector Development Project's institutional strengthening component focused on completing audits, surveys, and trainings. These outputs are relevant but unlikely to have a broader or sustained impact on outcomes. The Nepal–India Regional Trade and Transport Project had a trade component aimed to address systemic constraints, such as strengthening the mandate of the National Trade and Transport Facilitation Committee (NTTFC) to coordinate public and private agencies involved in trade and transport logistics. However, the World Bank has a stop-go track record of investing in this institution without sustainability considerations, which this project's design repeated. A World Bank–financed project established the NTTFC in 1994. It was instrumental in drafting legislation and simplifying and harmonizing transit and trade documents (UNCTAD 2006). However, the NTTFC was not sustained after the World Bank project closed in 2003. The NTTFC was reactivated in 2012 with World Bank support and contributed to trade and transport facilitation while it received World Bank project support. The NTTFC weakened after project completion; it holds meetings irregularly and focuses on information sharing rather than strategizing to address the problems and follow-ups. A main cause of its ineffectiveness is the lack of a secretariat with staff dedicated to its functions and activities (Kharel and Dahal 2021).

The Bank Group–supported private sector engagements in transport have been limited. The 2019 Infrastructure Sector Assessment Program identified Nepal's potential for infrastructure development and service delivery through private sector solutions (including PPPs) in energy, roads, and airports (World Bank 2019). Country strategies accordingly recommended building a PPP pipeline to tap into private sector efficiencies in road construction and maintenance and airport management. In 2013, IFC began advising the government on a PPP to upgrade, operate, and manage Tribhuvan International Airport; however, the initiative ended after six years without a decision on the partnership's modality because political will was absent. There is no indication of concerted World Bank–IFC efforts to reform the legal and regulatory framework for PPPs. The World Bank's private sector engagement in transport has primarily been confined to advocating for private contracting in road projects.

The Bank Group coordinated with development partners active in the sector but can still enhance its strategic leadership. A World Bank–International Labour Organization project partnership under the Project for Strengthening the National Rural Transport Program was successful in generating 3.4 million person-days of temporary employment in rural roads maintenance, with notable female and Dalit community representation. This partnership came about by chance, as the International Labour Organization was piloting its initiative when the Bank Group launched the Project for Strengthening the National Rural Transport Program. Interviewed stakeholders argued that the World Bank could assert greater leadership in the crowded field of donors to Nepal's transport sector, for example, via policy dialogue and building synergies.

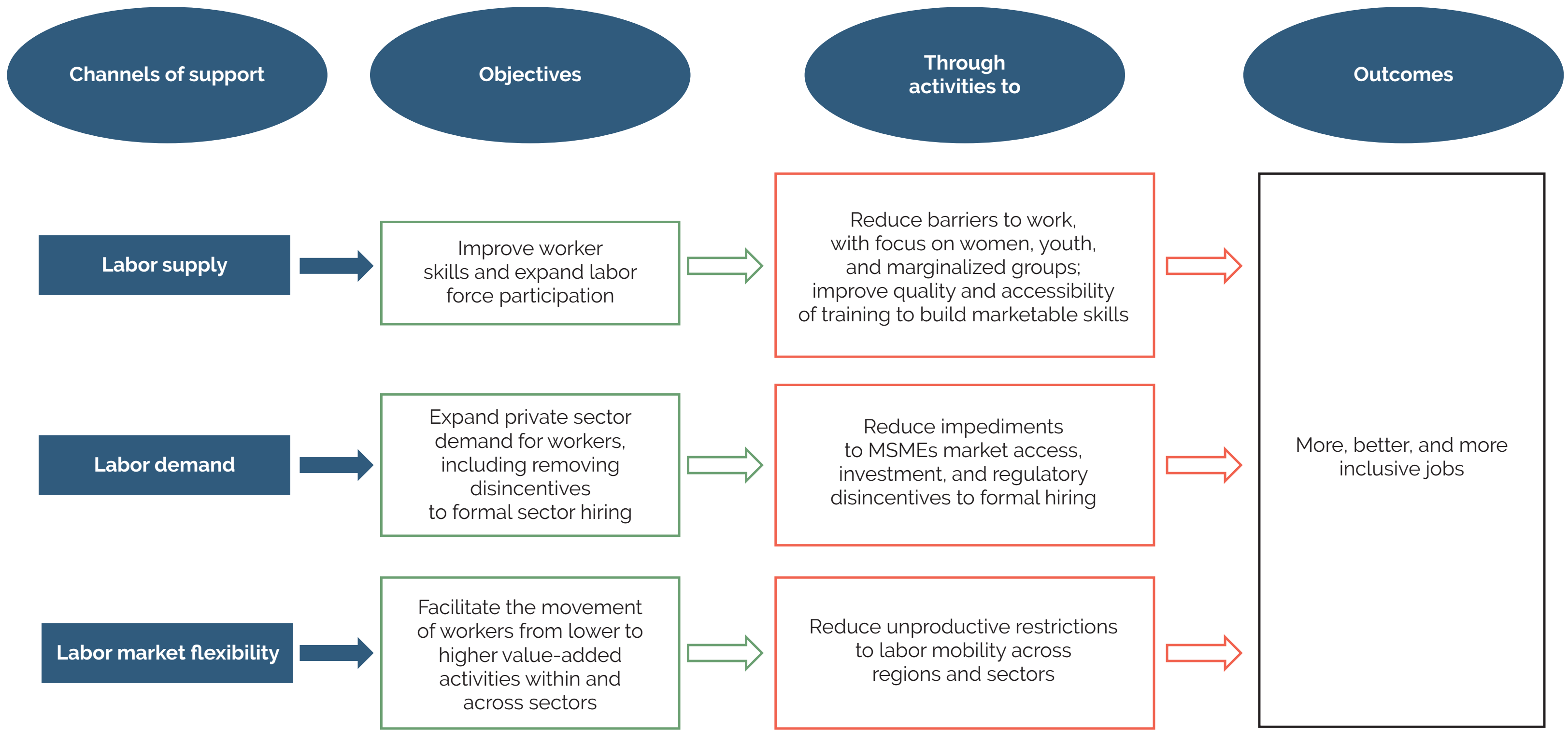
## Job Creation

This section evaluates the country program's direct lines of support for job creation, which IEG focused on because of the shortage of jobs in Nepal. The section examines direct support for job creation goals: (i) reducing labor supply barriers through projects that improve workers' skills, (ii) alleviating labor demand constraints by supporting private sector job creation, and (iii) enhancing labor market flexibility and policies that promote workers' mobility (figure 4.7),[6] complementing indirect contributions via energy, transport, and financial sector support discussed above.

CPS job creation objectives were grounded in technical analytics but did not address barriers to advancing policy reforms. The Bank Group diagnostics[7] pointed to competition barriers as key constraints to private investment and identified job creation potential and unexploited comparative advantages in tourism, agribusiness, and information and communication technology. However, the Bank Group did not develop the broad coalitions needed to advance in these areas and the country strategies did not overcome the key policy barriers to private sector–led job creation as this would require promoting outward orientation and competition, which have consistently faced resistance from entrenched interests in Nepal. In addition, the CPF cites the development of a comprehensive jobs strategy based on the recommendations of the World Bank's *Nepal—Jobs Diagnostic* (Bulmer et al. 2020), but the evaluation team found no evidence of the country team's uptake of this diagnostic, nor development of such a strategy.

The jobs-related portfolio was narrow in scope. From 2014 to 2018, the World Bank concentrated on supply-side job-related interventions, particularly skill building for youth and women. Generally, quality education is linked to better employment and income outcomes; however, in job-scarce contexts like Nepal, the impact of improved education quality on job outcomes is unclear (World Bank 2024c). In the second half of the evaluation period, the World Bank broadened its portfolio to also include demand-side barriers in agribusiness and, more recently, information and communication technology services. However, there were gaps in support for developing the tourism sector and promoting economywide enabling regulations for private investment and job creation, including regulations related to trade, taxation, and labor markets.[8]

## Figure 4.7. Channels for Supporting Jobs




*Source:* Independent Evaluation Group.

*Note:* MSMEs = micro, small, and medium enterprises.

The Bank Group's support has not been effective in strengthening policy dialogue around jobs or promoting the competitiveness agenda. The World Bank's 2020 jobs diagnostic recommended investment climate reforms and support to improve *Doing Business* indicators as short-term measures to advance this agenda. However, Bank Group–wide internal reorganizations halted most investment climate engagements after 2018, despite this being an area of support highly valued by the government. In addition, public-private dialogue initiatives, such as the Nepal Business Forum, established in 2010 with IFC support, proved ineffective. The Nepal Business Forum was established to create an engagement platform between the business community and government officials. The forum achieved some initial successes, facilitating policy reforms that led to the implementation of 62 out of 175 recommendations put forward by both the private and public sectors, but has been dormant since 2017. The Nepal Business Forum gave parity to high-ranking government officials and private sector representatives. This parity was not well received by some officials and led to a lack of ownership on their part. This issue, along with divisions within the private sector and diminishing donor support, led to the forum's decline (Kharel and Dahal 2021).

The country program dropped key jobs interventions amid political resistance. The proposed Maximizing Finance for Development DPC was informed by the robust findings of the Country Private Sector Diagnostic—a collaborative diagnostic that included extensive stakeholder consultations and achieved consensus between the World Bank and IFC. The $150 million Maximizing Finance for Development DPC, initiated in 2018, aimed to foster private sector investment through major policy reforms to the Foreign Investment and Technology Transfer Act, Procurement Act, and the Public-Private Partnership and Investment Act. These reforms could have improved market competitiveness and PSD, if the country program carried out its implementation as originally planned. However, the World Bank dropped the operation without documented reasons, apparently because the government was unwilling to undertake procurement and other systemic reforms. Similarly, in 2019, the country program dropped the private job creation component of the Youth Employment Transformation Initiative Project, which supports the implementation of the Prime Minister

Employment Program, as a result of government pushback, undermining the project's conceptual integrity and relevance. The World Bank's labor experts critiqued the project's design because of Nepal's limited job opportunities and weak implementation capacity. The project was intended to offer an employment guarantee, but it did not give jobs to more than 99 percent of the unemployed workers who registered. There are allegations of political patronage in the project's targeting, and the Office of the Auditor General called the program "unproductive" in its 57th Annual Report and cautioned that the program needed serious revision. Project documents did not provide reasons for the cancellation of the job creation component.

Skills development initiatives in Nepal have achieved project-level results but have not addressed systemic constraints. The $110 million Enhanced Vocational Education and Training Project, running from 2011 to 2024, sought to address the skills mismatch between inadequate and outdated training offerings and the evolving needs of the private sector. The project trained more than 170,000 disadvantaged youth, with an average employment rate for trainees of more than 70 percent within six months. However, the project's institutional strengthening activities focused on outputs, such as completed trainings, but not on outcomes, such as the beneficiaries' use of the developed systems. The project also did not systematically involve the private sector in curriculum development and policy formulation.

[1] In the first five months after the new guidelines were adopted, the NEA signed power purchase agreements with 52 hydropower projects. Cumulatively, the NEA signed 356 power purchase agreements totaling 6,354 megawatts until April 2022.

[2] A total of 5,000 megawatts combined and 9,000 megawatts under construction. Under current conditions, Nepal's forecasted electricity demand, mainly dependent on exports of surplus electricity to India and Bangladesh, remains significant and realistic. The country's power generation capacity reached 2,800 megawatts in 2023 and is expected to increase to 5,000 megawatts in 2025, whereas domestic consumption is expected to be half the potential generation by 2025. India's ambitious commitment to a green energy mix and the seasonal complementarities among the countries support optimistic scenarios of hydro exports.

[3] Most hydropower plants in Nepal have been financed through commercial loans (higher interest rates), and delays lead to cost escalation.

[4] For example, in 2023, India granted Bangladesh, Bhutan, and Nepal access to its real-time power market via the Indian Energy Exchange by amending the procedure for approval and facilitating import and export of electricity issued in February 2021.

[5] According to the IFC–World Bank Enterprise Surveys (2013 and 2023), as cited in the forthcoming SCD.

[6] These job creation objectives were defined in IEG's *World Bank Support to Jobs and Labor Market Reform through International Development Association Financing: A First-Stage Evaluation* (World Bank 2024c).

[7] Country Economic Memorandum, SCD, and Country Private Sector Diagnostic.

[8] In 2019, amendments were introduced to labor regulations that sought to provide greater social benefits to employees but disproportionately affected smaller businesses, raised effective labor costs, and further eroded competitiveness (IMF 2019).

# 5 | Resilience to Natural Disasters

## Highlights

The World Bank's support for disaster response and resilience building has been highly relevant to Nepal's recent disasters and severe climate exposure. In the first half of the evaluation period, the government and the World Bank focused on earthquake response. The World Bank's convening of stakeholders and large, sustained financing enabled the government to move toward improved risk reduction in the second half of the evaluation period.

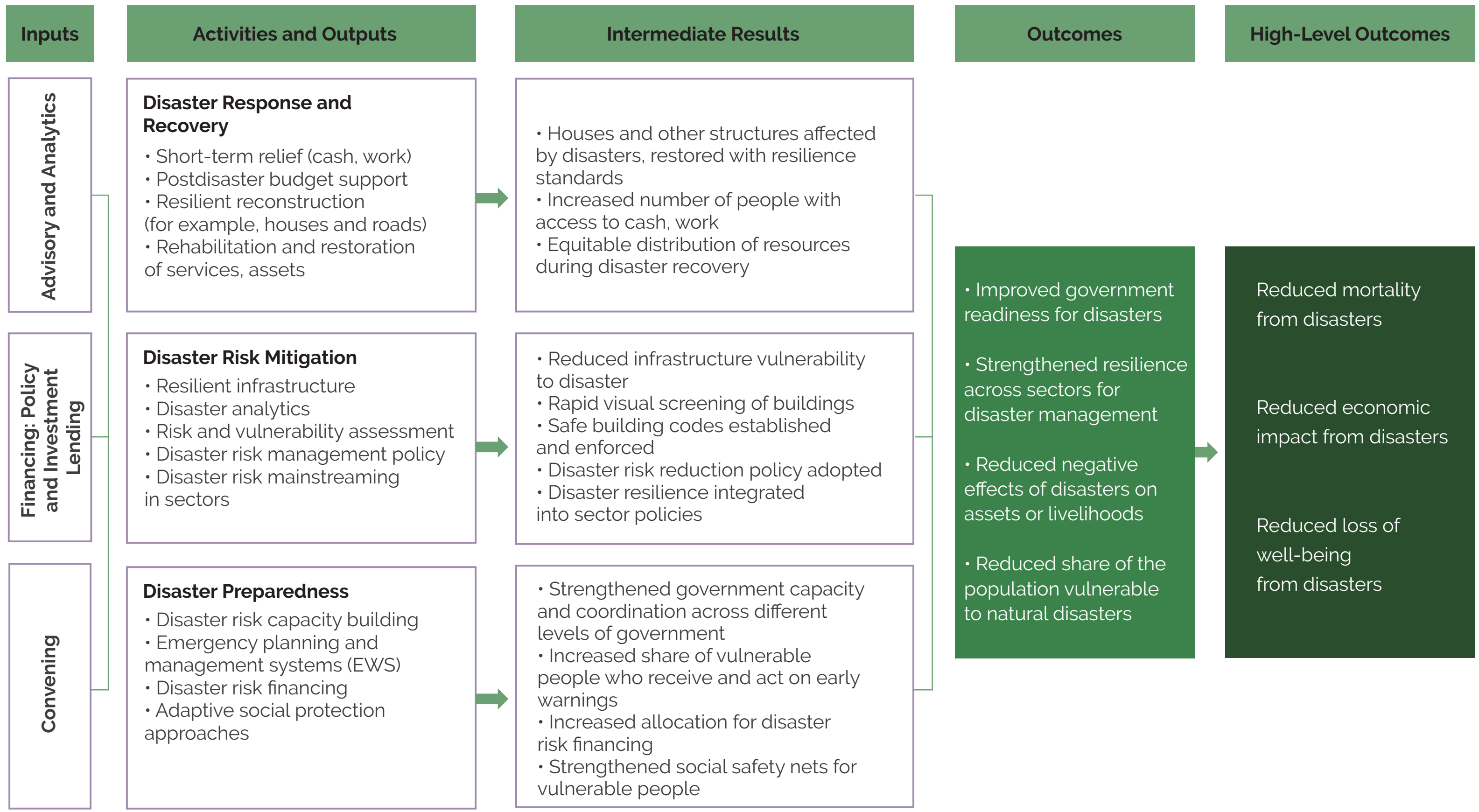
The World Bank's Earthquake Housing Reconstruction Project successfully built resilient homes for affected populations but did not pay adequate attention to the needs of the poorest beneficiaries. The project's success is attributed to an owner-driven construction approach, output-based disbursement, effective donor coordination, strong political buy-in, and the World Bank's flexibility to respond to changing circumstances.

The World Bank integrated disaster resilience into the design of its sector projects but was unable to fully integrate it into government policies and programs.

The 2023 earthquake exposed additional gaps in Nepal's disaster preparedness, including inadequate funding, a delayed postdisaster needs assessment, limited disaster management capabilities at the local level, and nonimplementation of building codes at subnational levels.

This chapter reviews the World Bank's support for strengthening resilience to disasters caused by natural hazards, such as earthquakes, floods, hurricanes, tornadoes, landslides, and droughts. It also covers support for adaptive social protection. The chapter finds that the World Bank was far more effective in earthquake response and in supporting policy and institutional reforms than in building resilience and ensuring reform implementation. The chapter begins with a section on the country's context and the evolution of the World Bank program during the evaluation period. It then structures the discussion around the World Bank's disaster resilience results chain (figure 5.1). This segment assesses the World Bank's three main areas of support: (i) disaster response and recovery, aimed at providing immediate relief and quickly restoring affected communities after a disaster has occurred; (ii) disaster risk mitigation, aimed at reducing the loss of human life and property by reducing disaster impacts; and (iii) disaster preparedness, aimed at developing strategies and systems to effectively manage potential disasters, including social protection measures.

**Figure 5.1.** Results Chain for World Bank Support to Strengthening Resilience to Natural Disasters




*Source:* Independent Evaluation Group.

*Note:* EWS = early-warning system.

## Country Context and Evolution of the World Bank Program

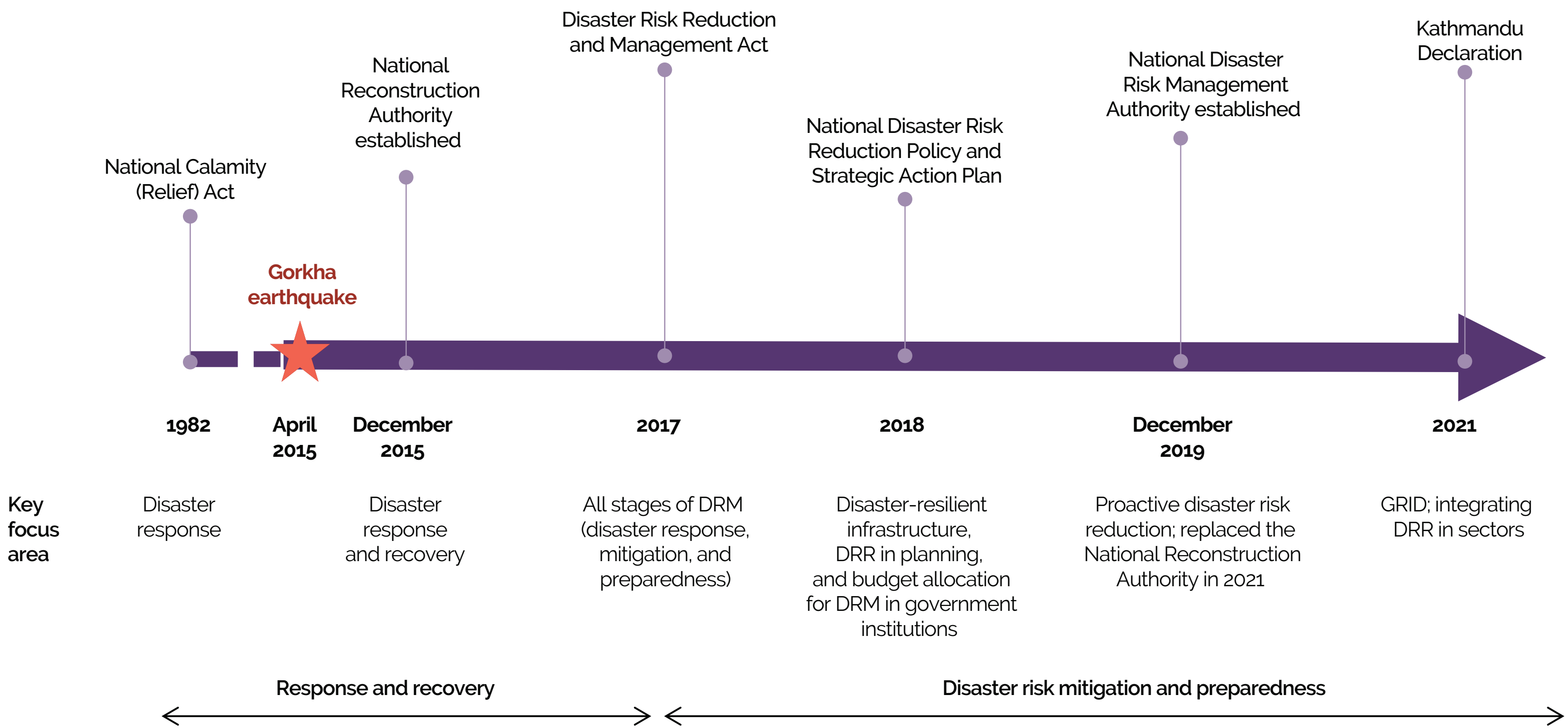
Nepal is highly vulnerable to natural disasters and climate risks. The most exposed people to these risks are poorer households and communities in remote, mountainous areas. Rising temperatures, melting glaciers, and more intense rainfall will likely increase climate-related hazards (World Bank Group 2022). Over the past decade, Nepal faced a series of shocks—from the major earthquake in 2015, the floods in 2017, and the most recent Jajarkot earthquake in 2023. These events led the government to focus on strengthening resilience to natural disasters and adapting social protection systems to be more responsive to shocks.

In April 2015, Nepal was hit by two major earthquakes, which resulted in more than 8,700 deaths and 25,000 injuries. The first earthquake had a 7.8 magnitude, and the aftershock had a 7.3 magnitude. The postdisaster needs assessment, supported by the World Bank and other development partners, estimated the earthquakes' physical damage at about $7 billion—approximately one-third of Nepal's GDP in FY13–14 (National Planning Commission 2015). The postdisaster needs assessment identified housing as the most pressing issue for the individuals affected by the earthquake, with damage to homes totaling $3.27 billion, nearly half of all reconstruction costs. The earthquakes destroyed about 490,000 houses and partially damaged another 265,000. In addition, government buildings, heritage sites, schools and health facilities, rural roads, water supply systems, and agricultural land also suffered significant damage. The government estimated it would need $1.2 billion for housing reconstruction, which could be financed through a combination of government resources, loans, and grants from development partners.

After the 2015 earthquakes, the government of Nepal, with World Bank support, prioritized disaster relief and reconstruction of critical infrastructure over initiatives aimed at reducing future risks. This focus was driven by the need to respond quickly and visibly to the 2015 earthquake. The government of Nepal's establishment of the National Reconstruction Authority, with a five-year life span, helped coordinate and manage the government's reconstruction efforts across various sectors.

During the latter half of the evaluation period, the World Bank supported the government's shift toward proactive DRM. The support included generating analytic insights for risk-informed decision-making and strengthening systems and institutional capacity for DRM at the subnational level. This shift from reacting to disasters after they occur to strengthening preparedness reflected the government of Nepal's growing recognition of the need to build resilience to increasing climate and disaster risks. The World Bank supported the enactment of the Disaster Risk Reduction and Management Act of 2017, which contributed to a proactive DRM approach and establishing the National Disaster Risk Reduction and Management Authority in 2019 (figure 5.2). The World Bank elevated Green, Resilient, and Inclusive Development (GRID) as a framework for shaping Nepal's sustainable development agenda.

**Figure 5.2.** Disaster Resilience: Evolution of Nepal's Policy and Institutional Framework




*Source:* Independent Evaluation Group.

*Note:* DRM = disaster risk management; DRR = disaster risk reduction; GRID = Green, Resilient, and Inclusive Development.

The World Bank's diagnostics and CPFs consistently highlighted the need to enhance Nepal's resilience to natural disasters. The FY14–18 CPS highlighted Nepal's vulnerability to climate change and natural disasters, proposing a collaborative approach with development partners to address these risks. The 2018 SCD and the FY19–24 CPF reinforced the importance of enhancing Nepal's resilience to natural disasters and climate change. The FY22 Performance and Learning Review prioritized GRID as a key framework for aligning donors and the government toward a multisector agenda.

The World Bank adapted its support in response to the changing priorities of DRM. Over the past decade, the World Bank has contributed to Nepal's DRM efforts through a variety of mechanisms, including investment lending, trust funds, analytic work, technical assistance, and development policy financing. The World Bank's initial efforts concentrated on immediate disaster relief and the construction of resilient infrastructure. More recently, World Bank projects have placed a greater emphasis on preparing for and mitigating the impact of disasters. This approach aligns with the World Bank's commitment to the principles of the Sendai Framework for Disaster Risk Reduction for global disaster risk reduction and adherence to IDA's climate change priorities and the Paris Agreement on climate change.[1] In discussions with IEG, the World Bank's clients and development partners acknowledged the World Bank's role as a trusted partner in Nepal's progress toward a more disaster-resilient future.

## Disaster Response and Recovery

The World Bank provided effective disaster response. Its flagship project—the EHRP (2015–24)—provided an effective disaster response by reconstructing more than 320,000 disaster-resilient homes in all 32 affected districts. Since its approval in 2015, this project has been the World Bank's largest disaster-related investment lending operation in Nepal. The project, funded by a $200 million credit from IDA, aimed to restore multihazard-resistant housing and strengthen disaster resilience. IDA later provided the project with an additional $500 million in funding. In parallel, the World Bank established the Nepal Earthquake Reconstruction Multi-Donor Trust Fund to channel development assistance from other development partners toward the World Bank's housing reconstruction program. The EHRP has provided housing grants for the reconstruction of multihazard-resilient housing units across the 32 affected districts. The project benefited 1.3 million people in all 32 affected districts by reconstructing 320,000 disaster-resilient homes, of which 20 percent were women-headed households.

The EHRP has become a model for postdisaster reconstruction in the region, drawing on lessons from similar World Bank efforts. The EHRP's design incorporated lessons from the World Bank's past operations in Pakistan and Gujarat. These lessons emphasized the importance of an owner-driven construction approach, which adopts the principle of the "right of choice" for beneficiaries, allowing them the flexibility to determine the typology and size of houses according to their needs. The World Bank led the coordination efforts to ensure the uniform adoption of the owner-driven construction approach across all development partners in the earthquake-affected area. A donor official emphasized that the World Bank's "convening of donors around the common owner-driven approach marked a paradigm shift with the focus shifting from building houses for people to enabling people to rebuild safer houses themselves."

The EHRP design linked financial incentives to specific construction milestones, facilitating quick disbursement of funds. The project released funds in multiple tranches, subject to satisfactory inspection and verification of construction compliance with resilient building standards. The project deposited housing grants directly into beneficiaries' bank accounts, promoting accountability and transparency. Furthermore, the government established the National Reconstruction Authority as the dedicated implementing agency for the project, which facilitated efficient decision-making. About 8 percent of the beneficiaries reconstructed their houses in less than one year, 17 percent in less than two years, and 67 percent between three and four years (World Bank 2024b). This pace is on par with or better than past reconstruction efforts in Indonesia, Japan, and Sri Lanka, which typically took four to seven years (National Reconstruction Authority 2021b).

The World Bank effectively coordinated and convened development partners around a common approach and joint financing for postearthquake housing reconstruction. In interviews, development partners and government officials appreciated the World Bank's leadership role in housing reconstruction. The World Bank facilitated the government's postdisaster needs assessment, with support from the Global Facility for Disaster Reduction and Recovery and other donors,[2] ensuring that development partner interventions complemented each other. The World Bank–led housing reconstruction multidonor trust fund reduced transaction costs by pooling resources for housing reconstruction. The World Bank ensured that all development partner efforts in housing reconstruction were aligned and coherent through regular donor meetings. The strong political support from the government was critical to the success of the reconstruction efforts. The formation of an apex advisory council led by the prime minister, including members from the opposition party, helped the government oversee the country's housing reconstruction efforts. This ensured political support for implementing decisions and maintaining momentum.

The World Bank ably adapted its program to the country's needs. The World Bank used its "streamlined procedures in situations of urgent need" to prepare the EHRP and mobilized resources from the IDA Crisis Response Window to meet the country's immediate housing reconstruction needs. It further restructured 12 IDA-financed sectoral operations to support recovery efforts by reallocation of resources toward disaster recovery efforts. The World Bank's support to the government for an immediate and thorough assessment of the earthquake's impact helped the World Bank quickly mobilize resources for housing reconstruction from the development partners. The World Bank restructured the EHRP six times to bridge funding shortfalls, support Nepal's transition to federalism, include the National Disaster Risk Reduction and Management Authority as an implementing agency after the closure of the National Reconstruction Authority, and add resilience-building activities.

The EHRP was inclusive, supporting vulnerable people and women. The EHRP included targeted support for vulnerable groups through skills training, efforts to enhance women's participation in jobs, and socioeconomic surveys to identify vulnerable beneficiaries. It also promoted joint house ownership and women's representation in elected positions.

People who met the government's vulnerability criteria received additional grants from the project. Women constituted 20 percent of the 755 masons and 8 percent of more than 3,000 engineers nationwide eligible for housing reconstruction.

The World Bank focused insufficiently on equity, which contributed to several assisted households being saddled with debt. The project was only able to identify the vulnerable population late in the reconstruction phase because of a lack of existing data, slowing down assistance and reconstruction progress. Vulnerable households struggled with debt despite project assistance because the cost of housing reconstruction was, on average, three times higher than the project grant of NPR 300,000. This was also driven by increased costs due to scarcity of reconstruction materials and inflation, as well as homeowners' choices to build multiunit houses under the owner-driven approach. The grant was not differentiated by income level. As such, the additional NPR 50,000 that many households received was still not enough. Discussions with residents in Kakre revealed that many struggle with reconstruction-related debts, with interest rates soaring from 7 to 20 percent. Households' limited access to subsidized loans led many of them to borrow at high interest rates from local lenders and microfinance institutions (National Reconstruction Authority 2021a). Furthermore, the earthquake affected the livelihoods of 2.29 million households and 5.6 million workers, resulting in a loss of about 94 million working days (World Bank 2015).

The livelihood dimension did not receive the necessary attention from the government or the World Bank. Instead, the government and the World Bank concentrated their efforts on training beneficiaries in housing reconstruction skills, leading to employment challenges in the postreconstruction phase because individuals trained in these skills had limited opportunities to use them. Senior government officials acknowledged that the predominant focus on housing overshadowed broader community needs—for example, livelihoods and employment regeneration, especially for disadvantaged people. Livelihood support was mostly left to nongovernmental organizations and other development partners.

## Disaster Risk Mitigation

The World Bank guided Nepal's building back better from the earthquake by building resilient houses and protecting communities against future shocks. The EHRP helped rebuild houses affected by the earthquake to multihazard resilience standards. However, the design lacked targeted activities for fostering long-term resilience despite the project's explicit development objective to strengthen disaster resilience. It was only in December 2018, during implementation, that the project launched specific measures to strengthen the government of Nepal's capacity for disaster resilience, via training in resilient construction practices, screening of municipal facilities' vulnerabilities, and installation of municipal search and rescue equipment.

The World Bank used DPCs to support policy reforms that strengthen resilience, but outcomes fell short. The DPCs supported Nepal in developing a comprehensive policy and institutional framework aimed at enhancing disaster resilience, based on analytic work. For example, the programmatic fiscal and public financial management DPCs, informed by the World Bank's DRM analytic work after the 2015 earthquake in Nepal, contributed to the federal enactment of the Disaster Risk Reduction and Management Act in 2017 and the introduction of DRM guidelines at the local level in 2019 (World Bank 2021a). The DPC policy actions have helped the government make progress toward establishing a legislative and regulatory framework for DRM, including disaster strategies and plans and coordinating mechanisms. IEG Implementation Completion and Results Report Reviews of two closed operations deemed the DRM-related prior actions to be of substantial relevance. However, less than one-third of DRM-related indicators demonstrate downstream effectiveness. Most DPCs lack evidence of the outcomes of DRM-related policy changes, primarily focusing on upstream measures, such as the issuance of regulations or approval of frameworks, with fewer indicators for actual policy implementation; the operationalization of new institutions; strengthened coordination; and devolution of powers at the local level. DPCs with DRM policy actions have met their targets, and there have been no policy reversals during government administration changes, but the actual impact of these policies largely depends on their effective implementation. Complementing development policy financing with technical assistance would help in ensuring active engagement by line ministries and overcoming capacity constraints.

Limited provincial and local implementation has hindered DPCs from achieving their defined disaster risk reduction outcomes. The 2017 Disaster Risk Reduction and Management Act provided a comprehensive institutional framework for disaster risk reduction across all government levels. However, overlap among district and provincial roles and responsibilities leads to challenges in coordination and efficiency during implementation. For example, the Nepal catastrophe deferred drawdown option supported an update of the National Building Code to enhance earthquake resilience, but nongovernment building compliance remains limited (Ahmed et al. 2019) because of the prevalence of informal construction practices. Government officials indicated that many municipalities have yet to adopt these codes in their local regulations. The Implementation Completion and Results Report Review for the Nepal Fiscal Reforms DPC (which closed in 2019) reported that about 400 municipalities adopted local frameworks for DRM (World Bank 2023d). However, IEG visits revealed that municipalities lacked technical expertise and had financial constraints and coordination issues. To date, the World Bank has not been significantly engaged in addressing these local-level challenges.

The World Bank integrated resilience measures into its projects. IEG estimates that one-third of the 65 investment lending projects during the evaluation period incorporated resilience aspects. This uptake was relatively even across sectors and included (i) enhancing water security and climate-resilient water supply and sanitation services, (ii) using climate-resilient designs in road networks, (iii) promoting climate-smart agriculture, (iv) integrating disaster risk analysis in hydropower projects, and (v) adopting nature-based solutions. The World Bank's creation of the DRM and Climate Change unit in South Asia and the integration of DRM and climate change specialists into sector dialogue helped mainstream disaster resilience into sector operations.

The World Bank's support to incorporate resilience aspects at all levels of government faced challenges. An example of this is the Narayanghat–Mugling road upgrade, which included slope and river protection measures as part of the World Bank project. However, postproject activities by the Department of Roads, such as excavation on previously stabilized hill slopes for building a bridge, led to road closures. This highlights the critical need for integrating climate resilience measures more comprehensively across government programs to ensure that donor efforts are not undermined by future development activities. Government regulations for planning, design, and construction of resilient roads have been developed and endorsed. However, there is no evidence of the government incorporating climate and DRM considerations into service delivery agencies' operational plans, such as those of the NEA or the Nepal Water Supply Corporation (World Bank Group 2022).

The World Bank helped establish a multisectoral GRID partnership platform, but challenges remain in translating this into a shared vision and action. The platform effectively coordinates and aligns donor actions to support sectoral transitions toward greener, more resilient, and inclusive development. The government of Nepal has prepared a GRID Strategic Action Plan 2024–34 supported by 16 development partners. This plan includes a $10 billion program of ongoing and pipeline investments over the next 10 years for 10 priority transitions. The World Bank's GRID DPC series, complemented with programmatic advisory services, supports policy reforms led by Nepal's Ministry of Finance. However, the DPC series' effectiveness remains to be seen. At present, the GRID agenda is largely donor driven and will need additional government efforts to generate acceptance across all sector ministries. Discussions with government officials also highlight that they do not prioritize borrowing for climate and disaster resilience because the impacts from these measures are less immediate and their benefits are less visible compared with other projects. This is also influenced by the political landscape surrounding climate justice.

## Disaster Preparedness

The World Bank developed early-warning systems, but the efforts have faced several challenges because of inadequate capacity for operations and maintenance. The Building Resilience to Climate-Related Hazards Project advanced weather and flood forecasting by installing 88 meteorological and

70 hydrological stations. However, the project closed before the capacity-building activities were fully implemented because of procurement and implementation delays. The EHRP has also installed 34 multihazard early-warning systems across 13 municipalities. Evaluative documents and IEG's discussions with municipal and provincial officials reveal significant ongoing challenges in delivering early-warning system services. These challenges include inadequate capacity for operations and maintenance of the equipment and insufficient public awareness and response capabilities. For example, during the postmonsoon rainfall in October 2021, a three-day weather forecast issued by the Department of Hydrology and Meteorology was not taken seriously by either local government agencies or the public, resulting in agricultural losses. The limited response to weather alerts can be attributed to the absence of location-specific impact-based rainfall forecasts, inadequate coordination among sectoral agencies for taking appropriate actions, and challenges in effectively communicating risks (Bhandari and Dixit 2022). The Melamchi flooding in June 2021 exposed the need to expand hydrometeorological observation networks in higher Himalayan elevations. The lack of tailored hydrometeorological services for sectors such as transport, tourism, and hydropower limits the full use and effectiveness of early-warning system investments.

Many gaps remain in Nepal's disaster preparedness, which the World Bank makes continued efforts to address. There have been instances of enhanced readiness. For example, the catastrophe deferred drawdown option provided $24.5 million to the government of Nepal for immediate relief work after flooding in the Sindhupalchowk and Baglung districts in September 2020. However, persistent gaps in preparedness remain. Following the EHRP's closing in June 2023, the National Disaster Risk Reduction and Management Authority saw a decrease in human and financial resources because contracts ended for technical consultants. IEG's visits showed insufficient government capabilities to operate the systems developed by the project. The aftermath of the Jajarkot earthquake in November 2023 exposed many shortcomings in preparedness, including a delayed postdisaster needs assessment, inadequate funding, and limited local-level disaster management capabilities. The lack of consensus inside the government on the emergency response trigger to request funding through the ongoing catastrophe deferred drawdown option after the earthquake highlights the need for strengthened policy dialogue and coordination in disaster response efforts. The World Bank is continuing its support to respond to these gaps in disaster preparedness.

The World Bank has engaged with different levels of government to strengthen social protection for disaster response, but the landscape is foundational and fragmented. Having multiple programs under different ministries—Nepal has more than 80 programs housed in more than 10 different ministries—coupled with high turnover of government staff, has led to lack of accountability and limited use of social protection systems for shock response. Although the World Bank has supported the digitization of data systems and payments for stronger social protection delivery, these have not been leveraged at scale. The World Bank successfully helped the government digitize civil registries and beneficiary databases for the Social Security Allowance, but the integrated social registry framework has met with resistance from the Ministry of Home Affairs because of (i) an incomplete national identity card system—3 million identity cards issued versus biometric data collected for more than 14 million of Nepal's 30 million citizens (Digital Watch 2024); (ii) constrained government capacity to operate a sophisticated integrated framework; (iii) political economy, including competition among ministries for autonomy over their programs; and (iv) continuous turnover of government staff.

[1] The Sendai Framework for Disaster Risk Reduction (2015–30) calls for enhancing disaster preparedness for effective response and to "build back better" in recovery, rehabilitation, and reconstruction.

[2] The postdisaster needs assessment was also supported by the Asian Development Bank, the Japan International Cooperation Agency, the United Nations, and the European Union.

# 6 | Conclusions and Lessons

Nepal needs a new development model that creates jobs in the country, but various influential stakeholder interests and a partisan civil service influence the pace of reform progress and capacity building, while unstable political coalitions have made it hard to create consensus on reform agendas. Federalism was at the heart of the political compromise that ended the armed conflict but is unfinished business—it still requires more clarity on roles and responsibilities among tiers of government and the overcoming of staffing shortages in subnational governments to meaningfully devolve power. Political and bureaucratic resistance to reforms, lack of interministerial and interagency coordination, frequent counterpart turnover, and large shocks made Nepal a challenging environment in which to achieve results.

Over the evaluation period, the World Bank expanded IDA commitments despite weak absorptive capacity. The World Bank expanded its financing in response to major shocks and by widening the sectors in which it engages and using DPOs and PforR to disburse as IPF faced implementation challenges. The World Bank's partial responses, such as joint portfolio reviews with the government, proved insufficient to address these challenges. Absorptive capacity can be defined as a country's ability to effectively use external resources to achieve development goals and sustainably manage projects, encompassing institutional, technical, and policy capabilities.
Over time, the IDA program came to exceed Nepal's absorptive capacity.

The Bank Group was effective in several areas of its portfolio. These areas included postdisaster housing reconstruction, roads, hydropower, and support for reforms in finance and energy. Overall, the Bank Group was more successful in building physical assets than in strengthening institutions and capacities. It achieved good results on politically uncontested issues during times of national unity after major disasters, when elite interests were broadly aligned with the reform agenda, when building on existing government initiatives executed by a central agency with clear administrative authority, and when addressing lower-level regulatory changes. It helped when the Bank Group had strong technical staffing and collaborated closely with partners.

Nevertheless, the Bank Group's outcomes were modest because of implementation challenges that were rooted in limited institution and capacity building. Building institutions in postconflict countries is usually a slow process, and Nepal is no exception. The World Bank's program made little progress in building stronger institutions with the capacity to implement policy and deliver services. Several policy reforms were completed but with little impact on people's lives and livelihood. There still exists a challenge of engaging effectively across sectors and levels of government. For example, pivoting from disaster response to building resilience required institutional reforms and sustained capacity that did not materialize.

The Bank Group was unable to successfully affect politically sensitive issues, such as federalism, civil service reform, and regulatory reforms related to jobs, competitiveness, and enabling business. The impacts of development policy financing support were often limited as complementary implementation support, technical assistance, and capacity building were not always adequate to support sustained follow-through and continued implementation in these reform areas. It was hard for IFC to grow its financing to the private sector given the country's investment constraints.

The World Bank considered political economy issues in its programming and its skillful partnering with other donors, but it did not develop a differentiated approach to operations in Nepal as it continued to initiate new, and sometimes larger and more complex, projects. The Bank Group project and program documents did not fully recognize the dearth of outcomes or the underlying obstacles to progress. The key implementation challenges of lack of political and interministerial coordination, resistance to decentralizing powers from Kathmandu, opposition to reforms, various influential stakeholder interests, and shallow public sector capacities persisted. The Bank Group program could have done more in prioritizing inclusion, supporting federalism, engaging more subnationally, enhancing citizen engagement, and deepening the understanding of political economy issues.

The Bank Group should exercise greater strategic selectivity and take decisive actions to strengthen program implementation. This includes areas such as ensuring appropriate staffing, facilitating more learning from past implementation challenges, building stronger results frameworks, and expanding stakeholder relationships.

## Lessons

IEG offers the following lessons based on the evidence, analysis, and conclusions in this CPE:

1. The Bank Group could focus more on promoting counterparts' capacity and fostering coalitions for change among counterparts, stakeholders, and development partners for achieving higher-level development outcomes—in line with the Bank Group's comparative advantage of providing long-term development support.

2. The Bank Group could strengthen program implementation through more technical support or early project restructuring, including complementing policy development operations with technical assistance. Stronger results frameworks and more candid results monitoring would allow for earlier feedback on implementation challenges.

3. The Bank Group could give greater attention to political economy issues and to informing the program of potential challenges during project design and implementation, including in terms of Bank Group staffing capabilities. In this regard, a stronger focus on citizen engagement and strengthening subnational institutions could be beneficial.

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# APPENDIXES

Independent Evaluation Group

*The World Bank Group in Nepal, 2014–23*

# Appendix A. Methods

## Evaluation Scope and Questions

The Country Program Evaluation (CPE) examined how well the World Bank Group identified and addressed Nepal's key development challenges, explored the extent to which it learned and adapted its strategy over time, and assessed effectiveness in three cross-cutting thematic areas. The evaluation's scope included the World Bank, the International Finance Corporation, and the Multilateral Investment Guarantee Agency. The CPE assessed the overall adaptive relevance and coherence of the program over the evaluation period (fiscal years 2014–23) and conducted a deeper assessment of the Bank Group's effectiveness and contributions to outcomes in three important thematic areas: federalism, private sector development and job creation, and disaster and climate resilience. These themes, selected in consultation with the Country Management Unit, are critical for the forthcoming Country Partnership Framework and reflect the major development challenges and the areas with potential for high development impact identified by the Systematic Country Diagnostic and other diagnostics.

To help answer the evaluation questions listed in chapter 1, the CPE assessed the following subquestions:

Relevance to needs and evolution over time:

- To what extent did the Bank Group's support respond to major shocks and changes? To emerging lessons? Did it respond at the project level (for example, in choice and design of project components) and at the portfolio level (for example, via shifts in sectors, themes, or lending instruments)?
- To what extent did the Bank Group mobilize the necessary expertise and resources to deliver the program?

Coherence and collaboration:

» To what extent were there synergies among the Bank Group's lending, knowledge, convening, and partnership activities?

» How effectively did the World Bank and the International Finance Corporation convene, collaborate, complement, and coordinate with development partners? Did they exploit complementarities and put in place a division of labor with partners? What were the experiences with cofinancing and joint studies?

Federalism:

» How effectively did the Bank Group support the federalism transition, including through its advisory services and analytics and its donor engagements?

» Once the new constitution was adopted, how effectively did the World Bank adapt its financial and technical support to the federal structure and support to the three tiers of government?

» How relevant was the World Bank's focus on the fiscal dimensions of federalism, and how effectively did it do so?

» How well did the World Bank understand the shifting local political economy and use this information to inform design and implement operations? Did the World Bank incorporate an understanding of conflict dynamics, social exclusion, and spatial inequalities into project design and implementation?

Private sector development and job creation:

» How well did the Bank Group identify and address the main constraints to private sector development and job creation?

» Was the design and implementation of World Bank support informed by relevant and robust analytics? Are the underlying theories of change credible to support private sector development and job creation objectives in Nepal? Did the World Bank prioritize the sectors, initiatives, and reforms with the largest job creation potential?

» To what extent has the Bank Group contributed to enabling the conditions for job creation and helped improve the legal, regulatory, and institutional environment for private sector–led growth, including for foreign direct investment? Did Bank Group interventions contribute to improved trade connectivity and to inclusive and sustainable job creation? What factors have influenced the achievement of results, and what have been the main challenges faced during implementation?

Resilience to natural disasters, the impacts of climate change, and other shocks:

- How effectively has the World Bank integrated disaster risk resilience considerations across key sectors, including the urban, transport, water, energy, and agriculture sectors? What were the factors behind the World Bank's success or lack thereof in these efforts?
- To what extent has the World Bank incorporated lessons learned and adapted to changing circumstances in this theme? To what extent does the Green, Resilient, and Inclusive Development agenda incorporate lessons learned?
- How effective has the World Bank's support been in strengthening the capacity for disaster risk resilience at all levels of government by supporting policies and institutions?
- How inclusive of the needs of disadvantaged and vulnerable groups and regions has the World Bank's support to Nepal been?

The CPE assessed the Bank Group's engagement in Nepal through five evaluation criteria:

- Relevance: The CPE assessed the relevance of the Bank Group's engagement considering Nepal's long-term challenges and binding constraints identified through analytic and diagnostic work and shocks and contextual changes, including COVID-19, disasters, and the introduction of federalism.
- Coherence: The CPE reviewed synergies among the Bank Group's activities and assessed its collaboration and coordination with the development partners.
- Effectiveness (for the selected themes): The evaluation assessed the Bank Group's contribution to country outcomes over the evaluation period. This includes both expected and unexpected positive and negative results.

» Sustainability (for the selected themes): The CPE assessed the Bank Group program's attention to, and progress toward, environmental sustainability; fiscal and financial sustainability, including affordability; and durability of key outcomes. Sustainability is inherently hard to evaluate. The evaluation looked for evidence of institutionalized changes, sustained funding, adoption of policy changes, clients' enhanced capacities, and clients' ownership.

» Equity (for the selected themes): The evaluation assessed the extent to which the Bank Group's support has considered gender dimensions, vulnerable and historically marginalized groups, and lagging regions. It reviewed the World Bank's targeting decisions considering Nepal's historical sources of fragility and how the program contributed to reducing gender and spatial disparities.

## Methods and Approaches

The CPE used a wide range of methods to collect and analyze evidence across a variety of data sources to answer the evaluation questions. Methods included the following.

Field visits. The Independent Evaluation Group (IEG) team visited Nepal in September and December 2023 and conducted field visits to the Gandaki and Lumbini Provinces and to municipalities and project sites in the Bagmati Province and Birgunj. While in Lumbini, discussions with provincial and local government officials centered on the Bank Group's disaster risk management support. In Bagmati Province's Kakre, a region severely affected by the 2015 earthquake, the team engaged with local government officials and beneficiaries of earthquake reconstruction efforts. In Birgunj, the evaluation team visited the Inland Container Depot and the Raxaul–Birgunj checkpoint at the India–Nepal border, which were established under the World Bank Nepal–India Regional Trade and Transport Project, and interviewed customs officials and government representatives. In Gandaki, IEG interviewed provincial officials, Pokhara's mayor and officials, and small business owners.

Stakeholder interviews. The evaluation team conducted more than 213 semistructured interviews, of which approximately 58 percent were with government officials, 27 percent with Bank Group staff, and 15 percent with academics, civil society representatives, and development partners. Most interviews were carried out face-to-face during two visits to Nepal. The evaluation team used opportunistic sampling, engaging with a variety of informants as new questions and findings emerged throughout the course of the study.

Portfolio identification and analysis. The evaluation identified and mapped lending and nonlending operations to the thematic areas in focus. The team used project theme and sector code data from standard reports and undertook text analysis of operational data based on a defined taxonomy and manual screening and validation. Project-level data were also reviewed and analyzed. The evaluation team applied a federalism lens to examine how the Bank Group engaged with the evolving political structure. The portfolio review and analysis also assessed the adaptation of the Bank Group program over time and in response to implementation experience across sectors, themes, and instruments.

Theory-based approach. This CPE applied a theory-based approach to reconstruct theories of change for the selected outcome areas. These theories of change make explicit the expected pathways for change from a strategic perspective and identify assumptions about how the Bank Group's activities were expected to influence change. IEG tested the theories and assumptions against observed results to extract findings at the outcome level and identify general patterns at the program level.

Case-based analysis. The team selected two roads and trade projects for in-depth analysis of outcomes and implementation challenges. To verify roads and trades outcomes, the evaluation team collected evaluative evidence through direct observation and reanalyzed the transport impact survey data commissioned by the project. The survey covered 1,080 households residing near 30 roads. It used retrospective baseline data for comparison.

Statistical analysis of survey and administrative data. The team analyzed official government statistics and surveys and digital and international data sources. This included two rounds of the Enterprise Survey (2013 and 2023) and the results from the Nepal Household Survey on Access to Finance (2021–22).

Geospatial analysis. Appendix C describes IEG's geospatial analysis.

Content analysis of country engagement documents. IEG's analysis of country engagement documents (Country Partnership Frameworks, Completion and Learning Reviews, Completion and Learning Review Validations, and Performance and Learning Reviews) focused on the program's responsiveness to shocks and changes; its ability to adapt and learn from emerging lessons; governance issues; and key sectoral issues.

Partnership analysis. The evaluation analyzed data on foreign aid commitments to Nepal to describe the donor landscape.[1] The evaluation quantified the Bank Group's role in relation to other donors in each of the evaluation's thematic areas by considering the Bank Group's rank in commitment volumes and the respective degree of concentration of financing. Donor financing was categorized into the evaluation's thematic and subthematic areas by mapping Organisation for Economic Co-operation and Development (OECD) sector codes to the corresponding areas. For example, the thematic area of federalism comprised OECD sector codes for governance, public financial management, civil society, and statistical capacity building, and all donor commitments mapped to these sector codes were included in the overall donor commitments to the thematic area. The analysis using OECD data had two key limitations: (i) for internal validity, data on Bank Group commitments as reported to the OECD were used, which differed from the data from World Bank operations systems used elsewhere in the report, and (ii) data on India and China's financing commitments were not reported to the OECD and therefore were not included.

## Limitations

The evaluation design had three main limitations. First, many outcomes, such as those in relation to resilience, federalism, and job creation, are still emerging. In these instances, the evaluation reviewed intermediate rather than final outcomes. Second, it was methodologically difficult to assess the Bank Group's contributions to outcomes to which the government and multiple development partners have contributed. The evaluation used contribution rather than causal analysis and triangulated a wide range of available qualitative and quantitative evidence to reconstruct plausible contribution pathways. Third, because of issues with recall and people's availability, it was sometimes more difficult to assess the earlier part of the evaluation period. IEG found that some key officials, partners, and Bank Group staff involved in the first half of the evaluation period were either hard to reach or remembered events with less detail. In such instances, the evaluation team relied on secondary sources to bridge the information gaps.

[1] Data on donor commitments and Nepal's public finances were sourced from the Organisation for Economic Co-operation and Development Creditor Reporting System database, the International Monetary Fund World Economic Outlook database, and various Nepal Ministry of Finance reports.

# Appendix B. Portfolio Review

This Country Program Evaluation (CPE) for Nepal covers a span of 10 fiscal years: FY 2014 through FY23. For World Bank financing, International Finance Corporation (IFC) investments, and Multilateral Investment Guarantee Agency (MIGA) guarantees, the portfolio included all operations active during the CPE period. Some analyses used only operations approved during the CPE period. The figures in this appendix describe the broader of these two data sets: all active projects (table B.1).[1]

**Table B.1.** World Bank Group Portfolio: Nepal, FY14–23

| | US$ | | Count | |
|---|---|---|---|---|
| Portfolio | (millions) | (%) | (no.) | (%) |
| Commitments | | | | |
| IDA financing | 7,121.6 | 91.0 | 58 | 58.0 |
| RETF | 366.3 | 4.7 | 30 | 30.0 |
| IFC investments | 254.1 | 3.2 | 11 | 11.0 |
| MIGA | 87.4 | 1.1 | 1 | 1.0 |
| Total commitments | 7,829.4 | 100 | 100 | 100 |
| Analytic and advisory activities | | | | |
| World Bank advisory services and analytics | 40.7 | 91.5 | 103 | 80.5 |
| IFC advisory services | 3.8 | 8.5 | 25 | 19.5 |
| Total analytic and advisory activities | 44.5 | 100 | 128 | 100 |

*Source:* Independent Evaluation Group.

*Note:* IDA = International Development Association; IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency; RETF = recipient-executed trust fund.

## World Bank Financing

World Bank financing projects ranged in size from $20 million to $700 million, with a mean of $122.8 million. Table B.2 shows the five largest projects by commitment size. Table B.3 explains the lending instruments.

There were 30 recipient-executed trust fund projects, totaling $366.3 million in commitments. These ranged from $0.25 million to $59.3 million, with a mean of $12.2 million. Table B.4 shows the five World Bank projects with the highest recipient-executed trust fund commitments.

**Table B.2.** World Bank Financing: Top Five Projects

| Project ID | Project Name | Sectors | Lending Instrument | IDA Commitments (US$, millions) | Approval Fiscal Year |
|---|---|---|---|---|---|
| P155969 | Earthquake Housing Reconstruction Project | Industry, trade, and services (90%); public administration (10%) | IPF | 700 | 2015 |
| P170409 | Nepal Strategic Road Connectivity and Trade Improvement Project | Transportation (94%); industry, trade, and services (6%) | IPF | 450 | 2020 |
| P177902 | Accelerating Transport and Trade Connectivity in Eastern South Asia—Nepal Phase 1 Project | Transportation (69%); information and communication (30%); industry, trade, and services (1%) | IPF | 275 | 2022 |
| P105860 | Poverty Alleviation Fund II | Agriculture (51%); social protection (25%); water, sanitation, and waste (24%) | IPF | 245 | 2008 |
| P160748 | Nepal School Sector Development Program | Education (100%) | PforR | 235 | 2017 |

*Source:* Independent Evaluation Group.

*Note:* ID = identification; IDA = International Development Association; IPF = investment project financing; PforR = Program-for-Results.

## Table B.3. Comparison of World Bank Lending Instruments

| Component | IPF | PforR | DPF |
|---|---|---|---|
| Support | Ring-fenced project activities | A wider government program | A set of policy and institutional actions |
| Disbursement based on | Borrower incurring eligible investment project expenditures | Verified achievement of program disbursement-linked results (no tracing of specific expenditures) | Achievement of development policy actions |
| Disburses to | Designated accounts or specific accounts for reimbursement | General budget (exceptionally to implementer account) | General budget |
| Implementation mechanism | World Bank IPF rules and procedures | Borrower program systems | Country policy processes |
| Fiduciary and environmental and social risks | World Bank fiduciary and environmental and social policies apply | Environmental and social and fiduciary assessments that identify weaknesses in risk management and propose mitigation measures | Attention to fiduciary and environmental and other natural resources aspects, and social and poverty impacts |
| Macroeconomic risks | Macro framework not required | Macro framework not required | Macro framework required |

*Source:* Independent Evaluation Group based on Operations Policy and Country Services guidance.

*Note:* DPF = development policy financing; IPF = investment project financing; PforR = Program-for-Results.

**Table B.4.** Recipient-Executed Trust Funds: Top Five

| Project ID | Project Name | Sectors | Lending Instrument | RETF Commitments (US$, millions) | Approval Fiscal Year |
|---|---|---|---|---|---|
| P113441 | Nepal School Sector Reform Program | Education (100%) | IPF | 59.3 | 2010 |
| P128905 | Nepal Agriculture and Food Security Project | Agriculture (100%) | IPF | 46.5 | 2013 |
| P165375 | Nepal Emission Reductions Program in the Terai Arc Landscape | Agriculture (100%) | IPF | 45 | 2021 |
| P160748 | Nepal School Sector Development Program | Education (100%) | PforR | 34.8 | 2017 |
| P127508 | Building Resilience to Climate-Related Hazards | Water, sanitation, and waste (81%); agriculture (19%) | IPF | 31 | 2013 |

*Source:* Independent Evaluation Group.

*Note:* ID = identification; IPF = investment project financing; PforR = Program-for-Results; RETF = recipient-executed trust fund.

## Multilateral Investment Guarantee Agency Guarantees

During the CPE period, there was one project insured by MIGA in Nepal—the Upper Trishuli-1 Hydropower Project (table B.5). This project was also the top recipient of IFC investment support. In recent decades, MIGA has insured three projects in Nepal, all of them related to power generation.

**Table B.5.** Multilateral Investment Guarantee Agency–Insured Project

| Project ID | Project Name | Sector | Strategic Priority Area | Guarantee Holder | Gross Exposure up to (US$, millions) | Fiscal Year |
|---|---|---|---|---|---|---|
| 12346 | Upper Trishuli-1 Hydropower Project | Power | Energy efficiency and climate change, IDA | Korea South-East Power Co. | 87.4 | 2019 |

*Source:* Independent Evaluation Group.

*Note:* Co. = company; ID = identification; IDA = International Development Association.

## World Bank Advisory Services and Analytics

World Bank advisory services and analytics were included in the portfolio if they were completed during the 10-year CPE period. There were 103 advisory services and analytics, totaling $40.7 million in expenditures.[2]

## International Finance Corporation

Eleven IFC investments totaled $254.1 million in commitments. These encompassed five sectors, but 94 percent was concentrated in just two—finance and insurance ($135 million) and electric power ($104 million). Table B.6 shows the five IFC projects with the highest commitments. IFC managed 25 advisory services products with $15.3 million in total funding. This included $3.8 million in IFC funding.

**Table B.6.** International Finance Corporation Investments: Top Five

| Project ID | Project Name | Primary Sector | Secondary Sector | IFC Original Commitments (US$, millions) | Commitment Fiscal Year |
|---|---|---|---|---|---|
| 35701 | Upper Trishuli-1 | Electric Power | Renewable Energy Generation | 103.8 | 2020 |
| 43551 | NMB SME | Finance and Insurance | Commercial Banking | 50 | 2020 |
| 47324 | Siddhartha Bank Limited | Finance and Insurance | Commercial Banking | 30 | 2023 |
| 46571 | Sanima SME 2022 | Finance and Insurance | Commercial Banking | 20 | 2022 |
| 41537 | WCS2 GIME Bank | Finance and Insurance | Commercial Banking | 20 | 2019 |

*Source:* Independent Evaluation Group.

*Note:* GIME Bank = Global IME Bank; ID = identification; IFC = International Finance Corporation; NMB = NMB Bank; SME = small and medium enterprise; WCS = Working Capital Solutions.

[1] The data set was obtained first through Independent Evaluation Group Data Hub, and then additional fields were added using Power BI Desktop. Additional data sources included the Standard Reports database, IFC management information system, IFC advisory services databases, MIGA website, and business intelligence reporting.

[2] In addition, there were 15 South Asia Region advisory services and analytics that included "Nepal" in either the advisory services and analytics name or the development objective description. These addressed topics such as trade, regional economic growth, tourism, and migration.

# Appendix C. Geospatial Analysis

The team analyzed the extent to which the design of World Bank financing projects sought to address spatial socioeconomic disparities. This analysis focused on projects approved during the evaluation period, which had an explicit spatial focus at the design stage and for which this information was captured by the World Bank's operations data systems. Such projects covered more than 50 percent of total commitments. Some projects do not have a spatial focus in their design—for example, those that are national in scope, those for which focus areas have not been agreed on at the time of project approval, or those that support activities such as policy reforms without spatial aspects. The data for this exercise were collected from internal World Bank operations data systems and consisted of a set of points (with respective geographic coordinates) corresponding to the planned implementation sites for each project.

Spatial focus in projects varied according to the type of financing instrument (table C.1). Development policy operations are excluded from the geospatial analysis because these projects typically do not have a spatial focus in their design. Although Program-for-Results projects can have a spatial focus in their design, the World Bank's data systems do not capture this. Geolocation information was available for most investment project financing, including additional financing.

## Table C.1. Summary of the Portfolio by Financing Instrument and Availability of Geolocations

| Financing Instrument | Projects (no.) | Share of Projects Geolocated (%) | World Bank Commitments (US$, millions) | Share of World Bank Commitments Geolocated (%) |
|---|---|---|---|---|
| DPF | 12 | 0 | 1,450.0 | 0 |
| IPF | 42 | 76 | 3,225.4 | 90 |
| PforR | 10 | 0 | 882.8 | 0 |
| Total | 64 | 50 | 5,558.2 | 52 |

*Source:* Independent Evaluation Group.

*Note:* DPF = development policy financing; IPF = investment project financing; PforR = Program-for-Results.

Spatial focus also varied according to projects' sector content (table C.2). Geolocation information was most often available for Sustainable Development Practice Group projects (90 percent of total commitments), followed by Infrastructure (69 percent), Human Development (31 percent), and Equitable Growth, Finance, and Institutions (0 percent). This is because Sustainable Development and Human Development Practice Groups' projects tend to provide services or build infrastructure in defined locations, whereas Equitable Growth, Finance, and Institutions projects more often support policy reforms without spatial footprints.

The spatial focus of the portfolio declined over the evaluation period (table C.3). This was because of a relative increase in use of financing instruments that are not amenable to spatial targeting during project design and a relative increase in projects for which the geolocation information is not captured in project design documents. The World Bank teams could have more consistently focused on capturing projects' spatial footprints.

**Table C.2.** Summary of the Portfolio by Lead Global Practice and Availability of Geolocations

| Lead Practice Group and Global Practice | Projects (no.) | Share of Projects Geolocated (%) | World Bank Commitments (US$, millions) | Share of World Bank Commitments Geolocated (%) |
|---|---|---|---|---|
| Equitable Growth, Finance, and Institutions | 10 | 0 | 1,118.7 | 0 |
| » Finance, Competitiveness, and Innovation | 5 | 0 | 650.0 | 0 |
| » Governance | 2 | 0 | 18.7 | 0 |
| » Macroeconomics, Trade, and Investment | 3 | 0 | 450.0 | 0 |
| Human Development | 18 | 28 | 1,326.7 | 31 |
| » Education | 9 | 22 | 634.1 | 20 |
| » Health, Nutrition, and Population | 6 | 17 | 422.0 | 4 |
| » Social Protection and Jobs | 3 | 67 | 270.6 | 100 |

*(continued)*

| Lead Practice Group and Global Practice | Projects (no.) | Share of Projects Geolocated (%) | World Bank Commitments (US$, millions) | Share of World Bank Commitments Geolocated (%) |
|---|---|---|---|---|
| Infrastructure | 15 | 60 | 1,573.0 | 69 |
| » Digital Development | 1 | 0 | 140.0 | 0 |
| » Energy and Extractives | 8 | 50 | 412.5 | 49 |
| » Transport | 6 | 83 | 1,020.5 | 87 |
| Sustainable Development | 21 | 86 | 1,539.8 | 90 |
| » Agriculture and Food | 4 | 100 | 232.7 | 100 |
| » Environment, Natural Resources, and Blue Economy | 5 | 60 | 173.8 | 42 |
| » Social Sustainability and Inclusion | 1 | 100 | 2.0 | 100 |
| » Urban, Disaster Risk Management, Resilience, and Land | 8 | 88 | 913.3 | 95 |
| » Water | 3 | 100 | 218.0 | 100 |
| Total | 64 | 50 | 5,558.2 | 52 |

*Source:* Independent Evaluation Group.

**Table C.3.** Summary of the Portfolio by Subperiod and Availability of Geolocations

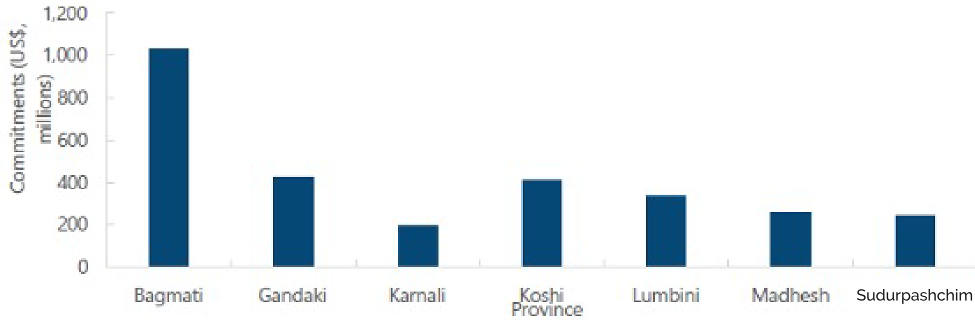
| Subperiod | Projects (no.) | Share of Projects Geolocated (%) | World Bank Commitments (US$, millions) | Share of World Bank Commitments Geolocated (%) |
|---|---|---|---|---|
| FY14–18 | 30 | 63 | 2,238.6 | 63 |
| FY19–23 | 34 | 38 | 3,319.6 | 44 |
| Total | 64 | 50 | 5,558.2 | 52 |

*Source:* Independent Evaluation Group.

The team analyzed the information at the highest level of spatial disaggregation—provincial. Higher levels of disaggregation, such as district or municipal, were not consistently available. The team's estimate considered (i) the total number of planned implementation sites, (ii) the distribution of planned implementation sites across provinces, and (iii) the total volume of financing commitments.

A high concentration of project commitments went to Bagmati Province during the evaluation period (figure C.1). This province contains the country's capital and most populous city of Kathmandu. Bagmati received more than five times as much financing commitment as Karnali Province, driven by urban and energy projects. Although the concentration of commitment volumes to Bagmati Province decreased during the evaluation period, the overall provincial distribution of portfolio commitments did not become more equitable in the second half. Project approval fiscal years were used to examine the province-wise distribution of portfolio commitments between the two evaluation subperiods (table C.4).

## Figure C.1. Distribution of Portfolio Commitments by Province




*Source:* Independent Evaluation Group.

*Note:* Portfolio totals are for 32 (out of 64) projects in the portfolio with geospatial data.

## Table C.4. Distribution of the Portfolio Commitments by Province over Subperiods

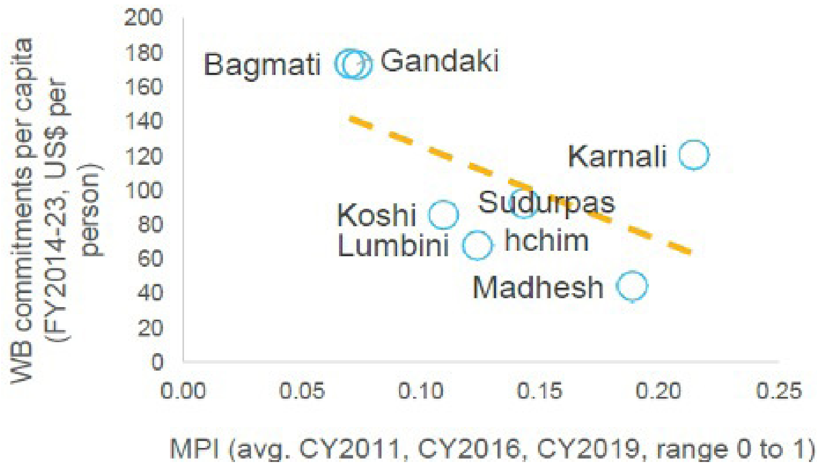
| Province | FY14–18 | FY19–23 | Total |
|---|---|---|---|
| Bagmati | 713.1 | 312.8 | 1,025.8 |
| Gandaki | 176.6 | 246.2 | 422.8 |
| Karnali | 121.0 | 77.0 | 198.0 |
| Koshi | 159.0 | 252.9 | 412.0 |
| Lumbini | 96.8 | 236.3 | 333.2 |
| Madhesh | 50.8 | 206.8 | 257.6 |
| Sudurpashchim | 98.7 | 144.8 | 243.5 |
| Total | 1,416.1 | 1,476.8 | 2,892.9 |

*Source:* Independent Evaluation Group.

*Note:* Portfolio totals are for 32 (out of 64) projects in the portfolio with geospatial data.

The volume of World Bank financing to Nepal's provinces was inversely related to their levels of multidimensional poverty. The team used the Oxford Poverty and Human Development Initiative's Multidimensional Poverty Index (Alkire et al. 2023) and the United Nations Development Programme's Human Development Index (2014 and 2020) as proxy measures of the level of development needs in the provinces. Figure C.2 shows that provinces with lower levels of multidimensional poverty received higher amounts of financing commitments even after adjusting for population size. The finding is invariant to different specifications, such as using the province-level Human Development Index and excluding outliers.

**Figure C.2.** Relationship Between Province-Level Multidimensional Poverty Index and World Bank Commitments During the Evaluation Period




*Sources:* Alkire et al. 2023; Independent Evaluation Group.

*Note:* CY = calendar year; MPI = Multidimensional Poverty Index; WB = World Bank.

## Limitations

The analysis had the following limitations: (i) projects' actual spatial financing disbursements can differ from those intended at design, used here; (ii) the analysis did not consider the work of other donors or the division of labor between the World Bank and others. In some sectors, such as roads, the World Bank and the Asian Development Bank have a division of labor with the World Bank implementing projects in some provinces and the Asian Development Bank in other provinces.

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