

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. Foreign aid has historically been a major source of financing to support Nepal in achieving its objectives of promoting inclusive economic growth. The entire development budget of the first Development Plan of Nepal 1956–1960 was funded by foreign aid. This proportion has progressively declined, to about 75% in the early 1980s and 22% in fiscal year (FY) 2018.¹ In FY2017, total official development assistance (ODA) disbursements amounted to \$1,394 million, distributed between grants (41.8% of ODA), loans (39.3%), and technical assistance (\$18.9%).² The Asian Development Bank (ADB) accounts for 18.2% of disbursed ODA, and the World Bank Group 24.8%, making them the two largest development partners of Nepal. The ten largest development partners disbursed a combined 91.8% of total ODA in FY2017 (Table 1).

Table 1: Official Development Assistance by Major Development Partner, FY2017

Development Partner	Amount Disbursed (\$ million)	Percentage Disbursed (%)
World Bank Group	346.0	24.8
ADB	253.9	18.2
UN Country Team	134.1	9.6
European Union	128.3	9.2
USAID	120.7	8.7
United Kingdom	83.9	6.0
Japan	77.7	5.6
India	59.3	4.2
People's Republic of China	41.2	3.0
Switzerland	35.0	2.5
Others	114.0	8.2
Total	1,394.0	100.0

ADB = Asian Development Bank; UN = United Nations; USAID = United States Agency for International Development.

Source: Government of Nepal, Ministry of Finance.

2. **External debt.** As of FY2016, the external debt of Nepal totalled \$3,566 million, or 16.9% of gross domestic product, of which \$1,417 million (39.7%) was outstanding to ADB and \$1,678 million (47.1%) to the World Bank. The external debt of Nepal remains resilient under standard stress tests, and the risk of debt distress remains low even with increased public investment.³ The positive fiscal balance of recent years is, however, expected to turn negative as a result of the investments required to address infrastructure bottlenecks, and to assist with the institutional and resource gaps introduced by the federal system (para. 4).

3. **Main sectors.** Foreign aid is well distributed across over 20 sectors and 436 ongoing projects, including 50 ongoing projects by ADB and 22 projects implemented by the Ministry of Physical Infrastructure and Transport (MOPIT). The main sectors benefiting from ODA in FY2017 were education (9.1%), local development (8.8%), housing (8.0%), and drinking water (8.0%). The road transportation sector remains a primary strategic recipient of ODA, and disbursed 6.0% or \$83.3 million of total ODA in FY2017, which is further supplemented by interventions in the urban sector (5.8%) and peace and reconstruction (5.2%). Total disbursements in the road sector averaged 7.9% of ODA during FY2011–FY2017, or \$604.0 million in total. Table 2 lists ongoing projects funded by major development partners in the road sector.

¹ Government of Nepal, Ministry of Finance. 2017. *A Study on Foreign Aid Mobilization in Nepal*. Kathmandu.

² Government of Nepal, Ministry of Finance. 2017. *Development Cooperation Report*. Kathmandu.

³ International Monetary Fund. 2017. *2017 Article IV Consultation—Debt Sustainability Analysis*. Washington, DC.

Table 2: Major Development Partners

Development Partner	Ministry	Project Name	Duration	Amount (\$ million)
Road Transport				
ADB, OPEC	MOPIT	Road Connectivity Sector I Project	2006–2015	65.2
ADB, GEF	MOPIT	Kathmandu Sustainable Urban Transport Project	2010–2018	22.5
ADB	MOPIT	Subregional Transport Enhancement Project	2010–2017	49.0
ADB	MOPIT	Transport Project Preparatory Facility Nepal	2010–2018	12.0
ADB	MOPIT	SASEC Road Connectivity Project	2014–2019	75.0
ADB	MOPIT	SASEC Roads Improvement Project	2016–2022	186.0
ADB	MOPIT	Earthquake Emergency Assistance Project	2015–2018	30.0 ^a
PRC	MOPIT	Improvement of Kathmandu Ring Road in Nepal	2011–2018	48.0
DFID	MOPIT	Strengthening Road Safety in Nepal	2013–2017	6.1
KfW	MOPIT	Town Development Fund Project	2000–2018	10.0
India	MOPIT	Road Improvement Project I	2007–2027	47.0
India	MOPIT	Road Improvement Project II	2011–2031	70.0
India	MOPIT	Road Improvement Project III	2014–2034	340.2
India	MOPIT	Postal Highway Project	2016–2019	117.0
JICA	MOPIT	Rehabilitation and Recovery from Nepal Earthquake	2015–2018	48.0
JICA	MOPIT	Nagdhunga Tunnel Construction Project	2016–2023	151.0
MCC	MOPIT	Road Maintenance Project	2017–2022	52.3 ^a
SDC	MOPIT	Emergency Rehabilitation of Flood Damaged Bridges	2015–2016	1.0
World Bank	MOPIT	Road Sector Development Project	2008–2016	42.6
World Bank	MOPIT	Road Sector Development Project Additional Financing	2010–2016	75.0
World Bank	MOPIT	Road Sector Development Project Additional Financing	2016–2019	55.0
World Bank	MOPIT	Bridges Improvement and Maintenance Programme	2012–2017	60.0
World Bank	MOPIT	Nepal–India Regional Trade and Transport Project	2013–2019	48.0
World Bank	MOPIT	Road Safety Support Project	2015–2016	7.5
ADB	MOFALD	Rural Connectivity Improvement Project	2018–2023	100.0
SDC	MOFALD	Local Roads Improvement Programme	2014–2019	90.5
SDC	MOFALD	Motorable Local Roads Bridge Programme II & III	2016–2021	50.0
Air Transport				
ADB, OPEC	MOTCA	South Asia Tourism Infrastructure Development Project	2010–2019	90.5
ADB	MOTCA	Air Transport Capacity Enhancement Project	2010–2018	70.0

ADB = Asian Development Bank; DFID = Department for International Development; GEF = Global Environment Facility; JICA = Japan International Cooperation Agency; MCC = Millennium Challenge Corporation; MOFALD = Ministry of Federal Affairs and Local Development; MOPIT = Ministry of Physical Infrastructure and Transport; MOTCA = Ministry of Culture, Tourism and Civil Aviation; OPEC = Organization of the Petroleum Exporting Countries; PRC = People's Republic of China; SASEC = South Asia Subregional Economic Cooperation; SDC = Swiss Agency for Development and Cooperation.

^a Road component only.

Sources: Asian Development Bank, Government of Nepal.

B. Institutional Arrangements and Processes for Development Coordination

4. **Federal system.** Development coordination is the responsibility of the Ministry of Finance (MOF). The federal system promulgated by the 2015 Constitution introduced three tiers of government: (i) a federal government, (ii) seven provincial (state) governments, and (iii) 753 local governments organized as cities and municipalities. Articles 59 and 60 of the Constitution specify the roles of all government levels in foreign aid mobilization and (i) mandate the federal government to leverage foreign resources to maintain macroeconomic stability, (ii) enable state governments to mobilize foreign grants with the consent of the federal government, and (iii) restrict local governments from mobilizing foreign aid. Fiscal transfers may take place from the federal to the state and local governments, and from the state to the local governments. The MOF is currently finalizing new policy guidelines and processes for the mobilization, management, and coordination of foreign aid. The MOF further tasks MOPIT with the formulation of development policies and programs for the strategic road sector for the preparation of 3-year plans.

5. **Sector consultation.** Major development partners—including ADB, the United Kingdom Department for International Development (DFID), Japan International Cooperation Agency (JICA), and the World Bank—closely coordinate their strategies and collaborate on key focus areas. ADB and the World Bank support institutional capacity strengthening and improvement of regional, national, and interprovincial connectivity through projects upgrading the strategic road network (SRN). The World Bank published a comprehensive road sector assessment covering the strategic and local road networks in collaboration with the other major development partners to identify and provide a practical way of addressing Nepal's main road sector issues.⁴ The road sector faces restructuring during the implementation of the federal system, but responsibility for SRN management will remain with Department of Roads and MOPIT.

6. **Project preparation.** The government used (i) the World Bank-funded Sector Wide Road Program and Priority Investment Plan (2007) to prepare projects to be funded by the World Bank and other development partners for 2007–2016; and (ii) used the ADB-funded Transport Project Preparatory Facility and the South Asia Subregional Economic Cooperation Road Connectivity Project to carry out project preparatory activities (feasibility, detailed design, and procurement) for priority road projects to be financed by ADB, JICA, or the World Bank. This helped development partners harmonize project design and implementation arrangements.

C. Achievements and Issues

7. ADB has a strong record of coordination with major development partners to ensure a consistent approach in the road sector. The World Bank and DFID supported parallel initiatives to strengthen road maintenance and road safety, while JICA and the World Bank have supported improvements of the SRN. ADB's country partnership strategy is prepared in close coordination with its development partners, and ADB will maintain its role as a lead development partner in the transport sector to facilitate the implementation of the road sector agenda. Close coordination and harmonization among development partners will continue to ensure that sector reforms are pursued efficiently and with consistent objectives.

D. Summary and Recommendations

8. The project's scope, implementation arrangements, and strategy reflect constructive development coordination. ADB's transport sector interventions contribute to the development objectives of the government, and ADB will remain a long-term strategic partner of Nepal, particularly for the development of the SRN. The proposed loan is well coordinated with other development partners active in the road subsector, and coordination will continue throughout implementation.

9. More broadly, ADB and development partners will continue (i) supporting the government by consolidating and coordinating their efforts, and (ii) assisting in implementing the federal system. The project will also consolidate development partner coordination with regard to road safety by preparing a comprehensive policy and investment plan for the safety of the SRN. ADB is reviewing institutional arrangements and initiating the preparation of a master plan and project investment plan up to 2030 to supplement and expand the project investment plan prepared in 2006 with support from the World Bank.⁵

⁴ World Bank. 2013. *Nepal Road Sector Assessment Study*. Washington, DC.

⁵ World Bank. 2007. *Sector-wide Road Programme and Priority Investment Plan*. Washington, DC.