Country Partnership Strategy

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Nepal, 2025–2029
—A Partnership for Private Sector-Led Growth, Youth Employment, and Resilience

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 26 May 2025)

Currency Unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	$0.0073
$1.00	=	NRe136.346

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CAPR	–	country assistance program review
CKP	–	country knowledge plan
COL	–	concessional ordinary capital resources lending
CPS	–	country partnership strategy
DRM	–	disaster risk management
FDI	–	foreign direct investment
GBV	–	gender-based violence
GDP	–	gross domestic product
GRID	–	Green, Resilience, and Inclusive Development
LDC	–	Least Developed Country
LTS	–	Long-Term Strategy for Net-zero Emissions
mMtCO2	–	million metric tons
MSMEs	–	micro, small, and medium-sized enterprises
MW	–	megawatt
NAP	–	National Adaptation Plan
NDC	–	nationally determined contribution
O&M	–	operation and maintenance
PPP	–	public–private partnership
PSD	–	private sector development
PWD	–	persons with disabilities
SASEC	–	South Asia Subregional Economic Cooperation
SDG	–	Sustainable Development Goal
TA	–	technical assistance
TVET	–	technical and vocational education and training
WBG	–	World Bank Group

NOTES

(i) The fiscal year (FY) of the Government of Nepal ends in mid-July. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2025 ends in mid-July 2025.

(ii) In this report, “$” refers to United States dollars.

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COUNTRY AT A GLANCE

Economic	FY2020	FY2021	FY2022	FY2023	FY2024
GDP ($ billion, current)	33.4	36.9	41.2	41.0	42.9
GDP per capita ($, current)	1,166.7	1,276.7	1,410.7	1,393.2	1,443.1
GDP growth (%, in constant prices)	(2.4)	4.8	5.6	2.0	3.7
Consumption (annual % change)[a]	12.2	11.2	14.1	7.1	7.5
Investment (annual % change)[a]	(9.2)	7.8	13.0	(8.5)	5.2
Consumer price index (annual % change)	6.2	3.6	6.3	7.7	5.4
Overall fiscal surplus or deficit (% of GDP)	(5.4)	(4.0)	(3.2)	(5.8)	(2.4)
Total revenue (% of GDP)	22.2	23.3	21.4	17.9	18.7
Tax revenue (% of GDP)	18.0	20.0	19.8	16.1	16.2
Merchandise export ($) growth (annual % change)	(7.6)	31.0	43.9	(19.9)	(2.3)
Merchandise import ($) growth (annual % change)	(18.9)	26.6	21.9	(22.0)	(2.2)
Current account balance (% of GDP)	(0.9)	(7.7)	(12.5)	(0.9)	3.9
External debt (% of GDP)	21.1	21.5	20.6	21.9	22.0
General government gross debt (% of GDP)[a]	15.8	18.4	19.8	21.1	20.7
Reserves ($ million)	11,646.1	11,752.6	9,512.6	11,708.8	15,270.9
Average exchange rate (LCU/$)	116.3	117.9	120.8	130.7	133.0
Poverty and Social			**Previous**		**Latest**
Population (million)			24.8 [2006]		29.7 [2024]
Population growth (annual % change)			1.2		0.9
Unemployment rate[d]					10.7 [2023]
Population with access to electricity (%)					96.7 [2023]
Maternal mortality ratio (per 100,000 live births)			281.0 [2006]		151.0 [2021]
Infant mortality rate (below 1 year/per 1,000 live births)			44.6 [2006]		23.0 [2022]
Life expectancy at birth (years)			65.9 [2006]		70.5 [2022]
Mean years of schooling			7.5 [2004]		8.9 [2023]
Completion rate for primary education (%)					81.8 [2019]
Child malnutrition (% below 5 years old)			49.0 [2006]		25.0 [2022]
Population below poverty line (%)			25.2 [2011]		20.3 [2023]
Proportion of population using safely managed drinking water services			28.3 [2006]		16.1 [2022]
Proportion of population using (a) safely managed sanitation services and (b) handwashing facility with soap and water			(a)19.6 [2006]; (b)46.5		(a)50.6 [2022]; (b)63.5
Environment					
Greenhouse gas emissions (tons) [2021]					28,166.06 Gg CO^2eq
Greenhouse gas emissions per capita (tons) [2021]					1.06
Forest area (million hectares) [2022]					6.16
Urban population (% of total population) [2023]					66.17
Renewable energy share in total final energy consumption [2023]					10.33%
ADB Portfolio (active loans and ADF grants)[b]					**As of 31 December 2024**
Total number of loans and ADF grants					55
Sovereign					53
Nonsovereign					2
Total loan and ADF grant amount ($ million)[c]					4,246.45
Sovereign					4,166.45
Nonsovereign					80.0
Disbursements {sovereign}					
Disbursed amount, total ($ million, 2024)					312.48
Disbursed amount, excluding PBL ($ million, 2024)					312.48
Disbursement ratio, excluding PBL (%)					15.3

… = not available, ( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, Gg CO^2eq = gigagrams carbon dioxide equivalent, LCU = local currency unit, OCR = ordinary capital resources, PBL = policy-based lending.

[a] In current prices; investment does not include change in stock.

[b] Covers ADF and OCR financing for projects and programs, including PBL, unless otherwise stated.

[c] Net of droppage and cancellation.

[d] Data based on World Development Indicators (modeled International Labor Organization estimate).

Sources: Asian Development Bank; Government of Nepal, Central Bureau of Statistics. 2014. *National Population and Housing Census 2011* (Population Projection 2011–2031); Financial Comptroller General's Office; Government of Nepal, Ministry of Finance. 2024. *FY2025 Budget Speech*; Government of Nepal, National Statistics Office. 2024. *FY2025 National Accounts Statistics*; Government of Nepal, National Statistics Office. 2024. *Nepal Living Standards Survey IV 2022/23*; Government of Nepal, National Statistics, Office of the Prime Minister and Council of Ministers. 2023. *National Population and Housing Census 2021. National Report.*; Government of Nepal, Ministry of Health and Population; New ERA; and ICF. 2022. *Nepal Demographic and Health Survey 2022: Key Indicators Report*; Nepal Rastra Bank. 2024. *Current Macro-Economic and Financial Situation*; United Nations Development Programme. 2024. *Human Development Report 2023/2024*; *UNICEF Data Warehouse*.(accessed 7 April 2025); *World Development Indicators database* (accessed 7 April 2025). Government of Nepal, National Planning Commission. 2022. *Climate Change Related Indicators of Nepal;* Ministry of Forests and Environment. 2024. *National Land Cover Monitoring System of Nepal*; Water and Energy Commission Secretariat. 2024. *Energy Synopsis Report 2024.*

I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. **Key development challenges.** Nepal has exhibited economic resilience while reducing poverty since the mid-1990s—despite persistent political volatility, structural challenges, and multiple disasters triggered by natural hazards. However, the country continues to face major development challenges, including low competitiveness because of its landlocked and mountainous topography, inadequate business climate, infrastructure gaps, low agricultural productivity, unplanned urbanization, and dependence on remittances. Nepal is also highly vulnerable to increasing natural hazards. Further, Nepal's transition to federalism following the comprehensive peace agreement in 2006 has highlighted the need to strengthen institutional capacities, funds, and functionaries of all three tiers of government.

2. **Strategic objective and priorities.** The country partnership strategy (CPS) is aligned with the government's 16th Plan and the Asian Development Bank (ADB) Strategy 2030 and its midterm review.[1] The CPS will support the country's development priorities by focusing on (i) promoting private sector-led, employment-intensive, and green economic transformation; (ii) promoting inclusive and quality human capital development and public services; and (iii) enhancing environmental sustainability and climate resilience. Cross-cutting themes include digital development, good governance and capacity building for federalism, and empowerment of women and disadvantaged and vulnerable groups.

3. **ADB's selectivity, flexibility, and value-addition.** To maximize the development outcomes of the CPS, ADB will ensure selectivity, integration, and synergies in its support by focusing on the primary objectives of private sector-led growth, youth employment, and resilience. In collaboration with the World Bank Group (WBG), ADB's assistance will concentrate on the core sectors of energy; transport; water and other urban infrastructure and services; agriculture, natural resources, and rural development; and education. Enabling areas such as public sector management as primary enabling sector, finance, industry and trade, climate mitigation and adaptation, and private sector development (PSD) will support the core sectors. Given the dynamic country context and global uncertainties, ADB's country program will remain flexible.

II. COUNTRY DEVELOPMENT CONTEXT

4. Nepal is a lower middle-income country that is classified as a Least Developed Country (LDC) by the United Nations.[2] The country's gross domestic product (GDP) was $42.9 billion in FY2024 with gross national income per capita of $1,430 in 2023.[3] Nepal has exhibited economic resilience since the mid-1990s by maintaining macroeconomic stability and moderate economic growth while substantially reducing poverty—despite persistent political volatility, structural challenges, and multiple disasters triggered by natural hazards.[4] Under the South Asia Subregional Economic Cooperation (SASEC) program, Nepal has increased integration and improved connectivity through investments in the transport corridor network, trade facilitation reforms, and energy investments.

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[1] Government of Nepal, National Planning Commission. 2024. *Sixteenth Five Year Development Plan (FY2025–FY2029)*; ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*; and ADB. 2024. *Strategy 2030 Midterm Review. An Evolution Approach for the Asian Development Bank*.

[2] The Inclusive and Sustainable Growth Assessment (Annex 1) provides details on Nepal's development challenges and opportunities.

[3] Atlas method. FY before a calendar year denotes the year in which the FY ends, e.g., FY2024 ended on 15 July 2024.

[4] World Bank. 2025. Country Economic Memorandum. *Unlocking Nepal's Growth Potential: Nepal Country Economic Memorandum 2025*.

5. **Macroeconomic trends.** Following 2 years of strong expansion since the coronavirus disease pandemic, Nepal's economic growth fell to 2.0% in FY2023. The larger-than-expected drop was the result of tight monetary policy and import restrictions to address accelerating inflation and pressure on foreign exchange reserves, as well as fiscal consolidation. The current account deficit, which had surged to 12.5% of GDP in FY2022, narrowed to 0.9% in FY2023, driven by moderation in the trade deficit and strong remittance inflows. The shrinking current account deficit contributed to an increase in foreign exchange reserves to $11.7 billion, equivalent to 10 months of imports, in FY2023. GDP growth accelerated to 3.7% in FY2024 as domestic demand gradually revived following stronger remittances inflows, increased private investment because of monetary easing, higher electricity output, and the continued recovery of tourism. Preliminary estimates show that GDP expanded by 4.6% in FY2025.[5] The fiscal deficit, which widened to 5.8% of GDP in FY2023 on sharp revenue shortfalls, is estimated to have dropped to 2.4% of GDP in FY2024.[6]

6. **Structural transformation has bypassed the industry sector.** Nepal's landlocked and mountainous topography raises the costs of production and trade, which contributes to inadequate productivity and economic competitiveness. It also limits the benefits of Nepal's proximity to the large and fast-growing markets of India and the People's Republic of China. From FY1996 to FY2024, Nepal's economy grew at an annual average of 4.3%. The economic structure has shifted from agriculture to services, bypassing the industry sector. Services accounted for the largest share of GDP in FY2024 (62.4%), followed by agriculture, forestry, and fishing (24.7%) and industry (12.9%), while manufacturing contributed only 4.9% to GDP (footnote 5). Economic growth has heavily depended on remittances from migrant workers, which have grown over the past 2 decades and were among the highest in the world at 25.3% of GDP in FY2024.[7] Remittances have made private consumption the main driver of economic growth, but they have likely contributed to an appreciation in the real effective exchange rate. This reduces the country's export competitiveness and contributes to the low and falling share of manufacturing in GDP, a phenomenon known as "Dutch disease"- like effects (footnote 4). Merchandise exports dropped from 15.4% of GDP in FY2000 to 3.2% of GDP in FY2024.

7. **Low agricultural productivity and resilience.** Agriculture is essential to rural livelihoods, poverty reduction, and job creation. However, agricultural productivity and competitiveness remain low, mainly because of (i) fragmented landholdings, (ii) labor shortages and abandoned farmland caused by migration, (iii) lack of year-round irrigation, (iv) limited access to formal financial services, (v) poor storage and market access, and (vi) an inadequate business climate for investments in agro-processing facilities. The agriculture sector is vulnerable to increasingly unpredictable weather patterns because of Nepal's geography, unsustainable farming practices, and weak institutional capacity. Farming remains subsistent in nature.

8. **Inadequate environment for private sector growth.** Despite recent progress, doing business in Nepal, including access to finance, continues to be difficult. The private sector remains predominantly small and noncompetitive; half of businesses employing a quarter of the workforce are unregistered.[8] In addition to the challenging geography, Nepal's inadequate competitiveness is attributed to high tariffs and excise taxes, an appreciation of real exchange rates, and an infrastructure gap. Trade and logistics facilities are underdeveloped, which deters

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[5] Government of Nepal, National Statistics Office. 2025. *National Accounts of Nepal FY2025.*

[6] ADB. 2024. *Asian Development Outlook (April).*

[7] Government of Nepal, Nepal Rastra Bank. 2025. *Current Macroeconomic and Financial Situation of Nepal.* As per the Ministry of Labor, Employment and Social Security, the top destinations for foreign employment in FY2024 were the United Arab Emirates, Malaysia, Saudi Arabia, Qatar, Kuwait, and the Republic of Korea. Including 460,103 new departures, 741,302 people were employed abroad.

[8] Government of Nepal, National Statistics Office. 2018. *National Economic Census 2018*.

foreign direct investment (FDI) and participation in value chains. FDI in Nepal averaged 0.3% of GDP from FY2020 to FY2024. Although a legal and regulatory framework for public–private partnerships (PPPs) is in place, institutional capacity in project procurement and implementation is weak. As a result, PPPs have been limited to the power sector.[9]

9. **Low youth employability.** The inadequately skilled workforce has been a major barrier to growth, limiting the supply of labor and creation of quality jobs. Children are not learning basic literacy and numerical skills at the primary level; at the secondary level, limited qualified teachers in key subjects of science, mathematics, and English pose serious challenges. Upon completion of general education, few choose technical and vocational education and training (TVET) programs, as these are plagued with systemic problems related to quality, capacity, and governance. More youth are choosing to finish their studies abroad, leading to decreasing enrollment in TVET and tertiary education. As the labor market is dominated by micro, small, and medium-sized enterprises (MSMEs), linking TVET with available jobs through engagement with industry organizations is only feasible for a few sectors in Nepal. It needs to be complemented with more flexible approaches focused on self-employment.

10. **Low employment creation.** The working age population (15–64 years) in Nepal has been increasing faster than the total population since 1992. This trend is expected to continue until 2047, providing a demographic window of opportunity for growth and development. However, Nepal's employment ratio fell by an average 0.46 percentage points per year from 2000 to 2022 because growth of the working age population outpaced job creation (footnote 4), which implies that Nepal's demographic dividend has not been fully utilized.

11. **Long-term growth rate**. Nepal needs faster growth to progress to an upper middle-income country in less than 2 decades (footnote 4). To reach that target, the country needs to switch from the current growth model that relies on remittances and private consumption to one fueled by productivity gains and the creation of jobs through (i) domestic private investments and FDI, (ii) access to quality infrastructure, (iii) adoption of new technologies and accumulation of skills, (iv) integration with regional and global value chains, and (v) exports.

12. **Inadequate climate-resilient infrastructure and renewable energy.** Large infrastructure gaps impede connectivity, raise the costs of doing business, and undermine public service delivery. This degrades living conditions and deters private investment, competitiveness, exports, and job creation. The inadequate climate and disaster resilience in infrastructure planning and design substantially increases damages and economic losses from climate-induced disasters. While the performance of Nepal's energy sector has improved and electricity access reached 96.7% in 2023, the reliability of the electricity supply remains problematic.[10] The main challenges include underdeveloped infrastructure, limitations in transmission and distribution network capacity, exposure to multiple disasters triggered by natural hazards, and limited access to finance including FDI. As of October 2024, Nepal's installed power generation capacity was 3,403 megawatts (MW), virtually all from hydropower.[11] Because power generation is dominated by run-of-river hydropower plants, the country experiences capacity and energy deficits during most of the dry season (December–May) and surpluses during the wet season (June–November). This presents an opportunity for Nepal to engage in cross-border energy trade with India and Bangladesh. In 2024, India committed to buy 10,000 MW of power from Nepal over 10 years

[9] The Private Sector Development Plan (Annex 6) provides details on Nepal's private sector development including the PPP framework.
[10] Government of Nepal, Water and Energy Commission Secretariat. *Energy Sector Synopsis Report 2024*.
[11] Government of Nepal, Ministry of Energy, Water Resources, and Irrigation. 2025. *Details of major activities carried out from 16 October 2024 to 15 January 2025*.

during the rainy season, while Bangladesh agreed to buy 40 MW of power over 5 years. The development of hydropower storage facilities is essential for Nepal to increase the generation capacity, reliability, and export potential of hydropower.

13. **Poor urban planning, infrastructure, and services.** Nepal has been unable to fully tap the economic and human development potential of urbanization, mainly because of problems related to urban sprawl, service delivery gaps, and crumbling essential infrastructure.[12] In addition to earthquake vulnerability, Nepal's urban sector is also vulnerable to increasing disasters such as floods and landslides. While many of Nepal's cities are rich in cultural heritage and could serve as hubs for nature-based and cultural tourism and commerce, they have been unable to fully harness existing assets and potential development.[13] The poor livability of urban centers raises the cost of doing business and makes it difficult for investors to attract and retain skilled workers, which may choose to migrate for better living conditions abroad.

14. **Challenges in Nepal's transition to federalism**. The adoption of a new Constitution in 2015 established Nepal as a federal republic with three tiers of government—federal, provincial, and local—entrusted with developing public infrastructure and delivering quality and efficient services to the population. Nepal has made some progress, including through ADB support, in establishing institutional structures, adopting key legislation, and building blocks for public financial management (PFM). The institutional capacity, funds, and functionaries required at all three tiers of government for the effective transition to federalism are gradually evolving and require strengthening.

15. With the pending enactment of the federal civil service act and the absence of other consistent legal frameworks, weak public administration is an implementation challenge for Nepal's transition to the federal system of governance.[14] In addition, institutional capacity issues in national and subnational governments include weak resource planning and management, characterized by a disconnect between development plans, investment projects, and budgets, as well as a chronic inability to utilize the capital expenditure budget and manage assets. Provincial and local governments have not fully executed many of the responsibilities specified in the Constitution because of limited fiscal space, lack of relevant legal and policy frameworks, insufficient human resources, and overlapping jurisdictions at different levels of government.

16. **Falling government revenue share of gross domestic product and chronically low capital spending.** The central government tax revenue-to-GDP ratio declined from 19.1% in FY2019 to 16.2% in FY2024, reflecting a combination of factors including the reliance on trade taxes and weaker imports and a transition to electric vehicles with lower import duties. Low capital budget allocations and expenditure are severe development constraints. This is attributed to (i) revenue shortfalls, (ii) frequent transfers of senior government officials, (iii) weak project cycle management capacity, and (iv) lack of project readiness and a pipeline of bankable projects. The quantity and quality of capital spending are low, including infrastructure investments funded by development partners.

[12] World Bank. 2019. *Nepal Infrastructure Sector Assessment: Private sector solutions for sustainable infrastructure development*; and Government of Nepal, Ministry of Urban Development. 2017. *National Urban Development Strategy*.
[13] ADB. 2024 Sudurpaschim: Integrated Economic and Tourism Development Study.
[14] The absence of a new federal civil service law has adversely impacted on management of civil servants and resulted in demotivation and lower productivity through ambiguities over their placements, responsibilities, accountability, benefits and career development.

17. **Geographical challenges.** Nepal's mountainous geography and glacier-dependent river system, heavy reliance on climate-sensitive sectors and poor infrastructure make the country highly vulnerable to increasing natural multi-hazards. These include extreme weather events and glacial lake outburst floods that often have devastating impacts on lives, livelihoods, and infrastructure. With temperatures rising, snow and glaciers melting, and rainfall becoming more erratic, the impacts of disasters triggered by natural hazards are likely to increase. These include more variable and unpredictable water availability, declining agricultural productivity, higher incidence of vector- and waterborne diseases, and heightened risks of floods and landslides. Nepal is also one of the most earthquake-prone economies. Its vulnerabilities stem from a lack of resilient infrastructure, unplanned settlements, and unsustainable agriculture practices, including dependence on monsoon-fed irrigation, overgrazing, overuse of chemical fertilizers, and poor development of value chains. Indoor and outdoor air pollution, forest fires, water pollution, seasonal water scarcity, inadequate solid waste management, land degradation, and biodiversity loss are some of Nepal's other environmental challenges.

18. **Policy ambitions to tackle escalating risks from disasters triggered by natural hazards.** Nepal is dedicated to fulfilling the Paris Agreement on climate change and the Sendai Framework for Disaster Risk Reduction.[15] In its 2021 Long-Term Strategy for Net-zero Emissions (LTS), Nepal aims to achieve carbon neutrality by 2045 and reach net-zero greenhouse gas emissions by 2050.[16] Under the third nationally determined contribution (NDC), Nepal plans to reduce its greenhouse gas emissions by 26.79%, source 15% of energy from clean sources, and ensure that 95% of private vehicle sales are electric by 2035. Nepal also started implementing the Sendai Framework through its National Disaster Risk Reduction and Management Strategy, improved disaster early warning systems, and strengthened community-based disaster risk management (DRM). The government-led Green, Resilient, and Inclusive Development (GRID) approach integrates environmental sustainability, climate resilience, and social inclusion into development efforts. ADB's collaboration with the government through technical assistance (TA) addresses gaps in climate and disaster risk assessment and formulation of comprehensive risk management and adaptation investment plans.[17] The TA will also support the government in implementing the disaster risk reduction plans. However, investment in disaster risk reduction remains insufficient.

19. **Comprehensive financing approach needed.** Meeting Nepal's climate and disaster risk reduction ambitions will require significant financial and technical resources. The cost to meet the NDC's mitigation target is estimated at $73.7 billion until 2035, while implementation of the National Adaptation Plan (NAP) is projected to cost $47.4 billion until 2050.[18] A feasible financing plan for the implementation of national climate strategies is needed. Fragmented approaches and capacity constraints have prevented Nepal from mobilizing the funds required to build climate resilience.

20. **Progress in empowering women and disadvantaged and vulnerable groups, but multidimensional inequalities remain.** Nepal's Constitution upholds the rights of women and disadvantaged and vulnerable groups, particularly those facing intersectional exclusion based on

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[15] United Nations Office for Disaster Risk Reduction. 2015. *Sendai Framework for Disaster Risk Reduction 2015-2023*. Nepal ratified the Paris Agreement on 4 November 2016.

[16] Government of Nepal. 2021. *Nepal's Long-term Strategy for Net-zero Emissions*. Nepal's greenhouse gas emissions are low, accounting for about 0.027% of total global emissions.

[17] ADB. 2023. *Technical Assistance for Building Adaptation and Resilience in the Hindu Kush Himalayas-Bhutan and Nepal*; and ADB. 2022. *Technical Assistance for Identifying Climate Adaptation Investment Priorities (Subproject 4)*.

[18] Government of Nepal. 2025. *Third Nationally Determined Contributions;* and Government of Nepal. 2021. *National Adaptation Plan (2021–2050)*.

gender, old age, disability, and social identities such as caste and ethnicity.[19] Following enactment of the Constitution in 2015, reforms and political progress have been substantial. The government has adopted rules and regulations on women's rights, including laws on discriminatory practices such as untouchability and gender-based violence (GBV). Political representation of women and disadvantaged groups has improved since the transition to federalism. In 2017, women were elected to 41% of the seats in local governments and more than 33% in provincial and federal assemblies—higher than the global average of women's representation in parliaments (25%).[20] In 2022, women (14,778) were selected for 40% of seats at all three tiers of government. Women's participation in the civil service also rose to 28.2% in FY2023 from 11.1% in FY2009.[21]

21. Women and disadvantaged groups, such as the Dalits, Muslims, and Tharus, remain exposed to ingrained adverse practices based on gender, caste, and ethnicity, which continue to constrain their access to resources, education, mobility, and economic opportunities. In the labor market, women's participation (26.3%) is about half that of men (53.8%).[22] Persons with disabilities (PWDs), who represent 2.2% of the population, still tend to be the poorest in their communities.[23] Almost a quarter of women aged 15–49 years reported experiencing violence in their lifetime; 15% experienced physical and/or sexual violence in 2021.[24]

22. **Progress on Sustainable Development Goals for poverty reduction and income inequality.** In FY2023, 20.3% of the population lived below the poverty line, down from 25.2% in FY2011.[25] The Gini coefficient dipped to 0.30 in FY2023 (from 0.33 in FY2011). A comparison of progress reports from 2015 to 2024 shows that Nepal is making progress toward achieving some targets under the Sustainable Development Goals (SDGs) on good health and well-being, quality education, gender equality, clean water and sanitation, and affordable and clean energy. However, meeting other SDG targets—including for industry, innovation, and infrastructure; and partnerships for goals—remains problematic. Insufficient investment in the SDGs for gender equality, climate action, and life on land could limit progress in these areas.[26]

23. **Implications of graduation from Least Developed Country status.** Nepal's graduation is expected in 2026.[27] Graduation could impact Nepal's international trade because of the potential loss of international support measures, including preferential market access through

[19] Disadvantaged groups, as recognized by constitutional commitments, include socially, economically, and geographically marginalized communities that require affirmative action and targeted policies to ensure their full participation in society. The Constitution guarantees fundamental rights, including citizenship (Article 12), equality (Article 18), protection against untouchability and discrimination (Article 24), the rights of Dalits (Article 40), the rights of senior citizens (Article 41), social justice (Article 42), and social security (Article 43). These provisions uphold the principles of affirmative action and proportional representation, aiming to ensure that marginalized groups receive support for inclusion, empowerment, and equitable development.

[20] Inter-Parliamentary Union. 2019. *Women in National Parliaments 2019*.

[21] National Network for Beijing+ review Nepal. 2024. *Civil Society Report on Beijing+30*; and Government of Nepal; Ministry of Women, Children, and Senior Citizens. 2024. *Gender Equality Report: Facts and Figures, 2024*.

[22] Government of Nepal, National Statistics Office. 2019. *Nepal Labor Force Survey III*, 2017/18; 2016. *Nepal Labor Force Survey I, 1998/99*; *and* 2016. *Nepal Labor Force Survey II, 2008*.

[23] Government of Nepal, National Statistics Office. 2021. *National Population and Housing Census 2021: Disability*; and S. Prasai and A. Pant. 2018. *Monitoring the Employment Rights of People with Disabilities in Kathmandu, Nepal*. York University, Canada: Disability Rights Promotion International.

[24] Government of Nepal, Ministry of Health and Population. 2023. *Nepal Demographic Health Survey 2022*.

[25] The national poverty line was revised in FY2023 to NRs72,908 per person per year. In FY2011, the poverty line was NRs19,261 per person per year, which when adjusted for inflation would be NRs42,845 per person per year. Government of Nepal, National Statistics Office. 2024. *Fourth Nepal Living Standards Survey 2022–2023.*

[26] Government of Nepal, National Planning Commission. 2024. *Voluntary National Review of Sustainable Development Goals*.

[27] United Nations. 2021. *UNGA adopts resolution on Nepal's graduation from LDC category*.

LDC-specific schemes.[28] The World Trade Organization estimates that Nepal's exports could drop between $20 million to $59 million, or 2.5% to 4.2% of total exports, with the largest impact from higher tariffs applied on clothing and textiles.[29] [30] The International Labor Organization estimates that the impact of LDC graduation on access and terms of development finance will be small as LDC status is not a main criterion for most multilateral and bilateral development partners for development cooperation. The loss of international support measures will require Nepalese companies to improve their competitiveness to maintain current levels of exports.[31]

III. COUNTRY STRATEGY FRAMEWORK

A. Lessons from Previous Strategy

24. The country assistance program review (CAPR) recommended the following priorities for the CPS: (i) capacity building for federalism, (ii) better integration of investments in sectors and thematic priorities, and (iii) PSD. The CAPR validation agreed with the CAPR's overall assessment of ADB's country program as *successful*. Further, it agreed with the three CAPR recommendations and provided supplementary suggestions, including (i) reducing the number of sectors that ADB supports, (ii) using the sector development program modality to maximize synergies in supporting policy reforms and investments, (iii) expanding support for renewable energy, and (iv) considering investment in the finance sector.[32]

25. The CAPR validation also suggested a more comprehensive approach to risk management when preparing infrastructure and other investments in Nepal's river systems, which ADB has been implementing through the Building Adaptation and Resilience in the Hindu Kush Himalayas initiative and the upcoming Green and Resilience Financing Facility. Further, the CAPR validation emphasized that the well-functioning system of development partner coordination, especially the close collaboration between ADB and WBG, offers an opportunity to expand cooperation on large, transformational infrastructure projects. The ADB–WBG collaboration on the Dudh Koshi and Upper Arun hydropower projects are good examples for this approach.[33]

B. National Development Strategy

26. **Continued economic growth through focused transformational strategies.** The CPS is closely aligned with the government's 16th Plan (FY2025–FY2029), which aims to achieve "good governance, social justice, and prosperity" (footnote 1). It focuses on the main development challenges by emphasizing (i) enhancing productive employment, developing resilient infrastructure to boost productivity, and increasing production and capacity in manufacturing for

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[28] P.R. Pandey et al. 2022. Nepal's graduation from the LDC category: Implications for international trade and development cooperation. *South Asia Watch on Trade, Economics and Environment*.

[29] World Trade Organization. 2020. *Trade impacts of LDC graduation: Insights from country-specific market access analyses*; International Trade Center. 2022. *Nepal after LDC Graduation: New avenues for exports*; National Planning Commission; and United Nation Development Program. 2020. *Beyond Graduation: Productive Transformation and Prosperity*.

[30] Given Nepal's low export share for the United States (11.4%) and unique export products, the direct impact on the economy by the tariffs announced on 2 April 2025 is not expected to be significant. The tariffs could however affect Nepal's growth prospects by increasing global economic uncertainty and reducing remittances.

[31] International Labor Organization. Forthcoming. Employment Impact Assessment on Nepal's LDC Graduation.

[32] Independent Evaluation Department. 2024. *Nepal: Validation of the Country Assistance Program Review, 2020–2024*. ADB.

[33] Systemic and deep collaboration between ADB and WBG has advanced by the approval of the Full Mutual Reliance Framework in early 2025.

improved competitiveness; (ii) universal access to essential public services, such as health care, education, skills development, drinking water, housing, and sustainable urbanization; and (iii) climate change considerations, DRM, biodiversity, and the promotion of a green economy.

27. **Alignment with the Green, Resilient, and Inclusive Development framework.** The government rolled out the homegrown GRID approach in 2021 which focuses on integrating environmental sustainability, climate resilience, and social inclusion into development efforts to withstand and recover from environmental shocks and ensure that development benefits are equitably shared across all segments of society.[34] The GRID Strategic Action Plan 2024 – 2034 includes 10 priority transitions and four cross cutting themes. In coordination with World Bank, ADB is supporting operationalization of the GRID framework with focus on reforms to unlock policy, regulatory and institutional bottlenecks.

C. Role of Development Partners

28. **Strong collaboration among development partners in Nepal.** Sector and thematic working groups discuss planned and ongoing operations, including implementation challenges and sector-level policy issues.[35] ADB will continue to foster collaboration and enhance development outcomes by (i) organizing bilateral mini-retreats with development partners to facilitate in-depth discussions and align strategies; and (ii) sharing the forward-looking 3-year rolling country program and project concepts to align country programming and explore potential areas for collaboration and cofinancing, as well as to avoid duplications.

29. **Joint strategic approach of ADB and World Bank Group.** ADB and WBG provide about 70% of official development assistance to Nepal. The two institutions have closely collaborated to align interventions and jointly address multifaceted challenges. Collaboration is undertaken through high-level policy dialogue, portfolio performance reviews, memorandums of understanding for the joint development and financing of two mega hydropower projects, joint peer reviews and other knowledge work, and capacity development. The collaboration has led to the development of the joint approach for ADB and WBG country strategies (Annex 7).

D. ADB's Strategic Priorities and Focus Areas

30. To address Nepal's development challenges, the overarching objective of the CPS is to support inclusive, resilient, green, and employment-intensive economic growth. It has three strategic priorities (figure) that are closely aligned with ADB's Strategy 2030 and its midterm review, the government's 16th Plan and GRID approach, and recommendations of the CAPR and its validation. ADB is strengthening the integration of its investments across sectors, subsectors within a sector, and thematic priorities in the country program and ongoing portfolio to create synergies and achieve greater development impact.

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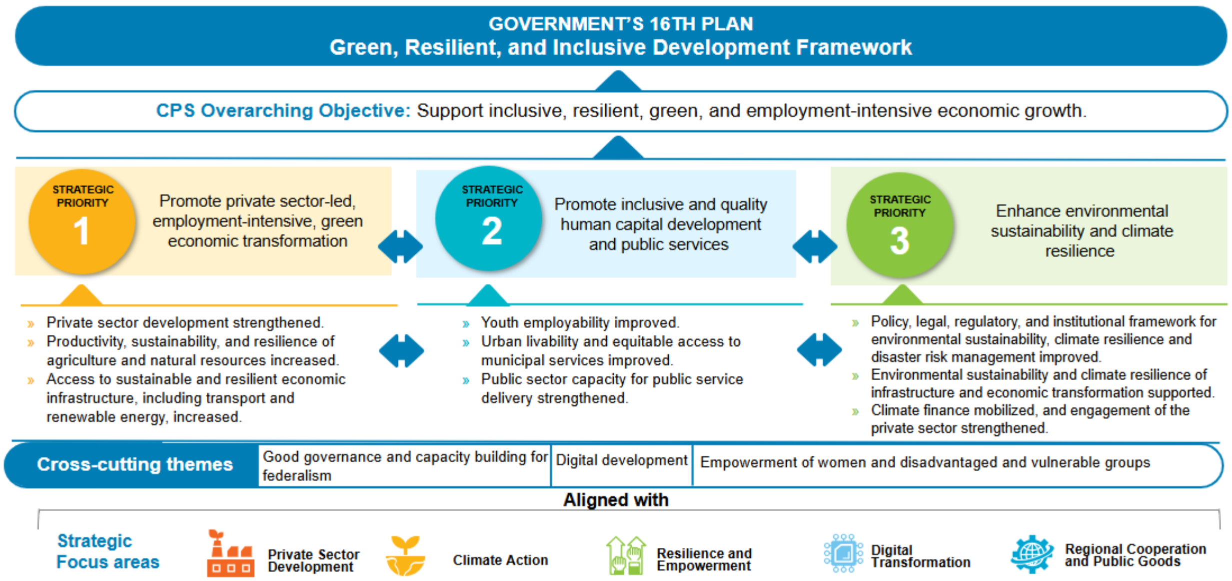
[34] World Bank. 2021. *Government of Nepal and Development Partners Join Forces on Nepal's Green, Resilient, and Inclusive Development.* Press release. 24 September.

[35] The Development Coordination Matrix is in Annex 2.

Strategic Framework for Country Partnership Strategy (2025–2029)



31. **Strategic Priority 1: Promote private sector-led, employment-intensive, green economic transformation.** ADB operations aim to increase the demand for labor by strengthening PSD, increasing the productivity, sustainability and resilience of agriculture and natural resources, and increasing access to sustainable and resilient economic infrastructure including transport and renewable energy.

32. **Private sector development strengthened.** ADB will support competitiveness and green economic transformation by (i) improving the business climate; (ii) reducing the cost of business; and (iii) promoting private sector investments including FDI through streamlining of legal and regulatory frameworks, including leveraging green finance initiatives. This will be driven by close collaboration between sovereign and nonsovereign operations. Further, ADB will strengthen innovation and scale up private sector solutions by targeting investments in sectors with the potential to increase exports (e.g., agriculture, light manufacturing, energy, and tourism). ADB will consider support for financial intermediaries to expand lending to MSMEs, promote inclusive finance and green initiatives, and provide early-stage support to MSMEs. Tourism has significant potential to create jobs with strong backward and forward links with other sectors, while information technology has shown strong potential for growth and job creation over the past 20 years. ADB will support PPPs by building capacity across different tiers of government in project initiation, feasibility studies, and screening in order to develop a pipeline of viable PPP projects and competitive tendering (footnote 9). ADB will engage with subnational governments on PPP capacity building and transaction advisory support.

33. **Productivity, sustainability, and resilience of agriculture and natural resources increased.** ADB will support investments in irrigation, agricultural production and value chain development, integrated water resources management, and ecotourism. ADB will also support agricultural commercialization through increased year-round irrigation, mechanization, improved access to finance, and promotion of climate-smart farming practices. Further, ADB will consider support for policy reforms with strong regional cooperation and integration dimensions through the SASEC program to promote agricultural enablers (e.g., green and organic certification, sanitary and phytosanitary standards, export promotion, and large-scale farming). These efforts will increase and diversify farmers' incomes and help them cover operation and maintenance

(O&M) costs, leading to greater sustainability. ADB will institutionalize integrated land and water resources management, taking into consideration nature-based solutions and regenerative agriculture. Nepal should specialize in commodities in which it has a comparative advantage over countries that export agricultural products to Nepal and generally have lower production costs.

34. **Access to sustainable and resilient economic infrastructure increased.** Nepal integrates more deeply into regional and global markets through the SASEC program. SASEC member countries want to improve the access of landlocked countries, such as Nepal, to subregional and global markets through seaports in Bangladesh and India. ADB will continue to invest in the upgrading of Nepal's national highway network, including the East–West Highway, and improvements of provincial and local roads. The O&M budget for maintaining these roads will be monitored throughout the project life cycle using road asset management plans. Post-project sustainability will be supported through performance-based O&M contracts. ADB will also support mobility projects (regulatory frameworks, access to finance, smart mobility solutions, electric vehicles, urban mobility infrastructure and potentially other green transportation modes for urban transport or carrying of agricultural produce to the nearest markets.

35. ADB will continue to support trade and transport facilitation enhancements to promote exports. The implementation of subregional initiatives under SASEC, such as coordinated cross-border management, electronic cargo tracking, and pre-arrival electronic customs data exchange, will be supported.[36] ADB will ensure that its infrastructure investments are environmentally sustainable and resilient to multiple natural hazards.

36. **Hydropower can become a cornerstone of Nepal's development.** Hydropower can (i) provide clean and reliable energy; (ii) generate export revenue and foreign exchange; (iii) boost productivity across industries, particularly in energy-intensive sectors such as manufacturing, agro-processing, and green technology; (iv) promote ecotourism; and (v) attract foreign investment. To improve reliability and mitigate the impact of unpredictable hydrology on the hydroelectricity supply, ADB will prioritize investments in storage and peaking run-of-the-river hydropower projects, while expanding and modernizing transmission and distribution networks to enhance reliability and boost domestic demand and cross-border power trade. ADB will support advanced technologies, such as smart grids, smart meters, and automated systems. Climate adaptation and disaster resilience will be embedded in the design of hydropower dams, transmission lines, and substations.

37. ADB will continue supporting the diversification of energy generation sources from hydropower to solar and other renewable energy sources. Further, ADB will explore policy reforms and regulatory reviews, including cost-reflective tariff-setting and designing of power purchase agreements to promote private sector participation in the energy sector. The sustainability of the Nepal Electricity Authority will be strengthened through ongoing support for financial management and internal control reforms, implementation of information technology solutions, and capacity building. Under the SASEC program, the development of regional power markets will enable Nepal to effectively manage seasonal fluctuations in hydropower generation and achieve a more stable and reliable power supply.

38. **Strategic Priority 2: Promote inclusive and quality human capital development and public services.** ADB will improve inclusion and increase employment by expanding the labor

[36] ADB will continue to support Nepal's participation in subregional transport facilitation agreements, such as the Bangladesh, Bhutan, India, and Nepal Motor Vehicle Agreement. Once implemented, it will facilitate the seamless flow of passenger, personal, and cargo vehicular traffic between and among the four countries.

supply by (i) improving youth employability, (ii) improving urban livability and equitable access to municipal services, and (iii) strengthening public sector capacity for inclusive public service delivery.

39. **Youth employability improved.** ADB's investments in school education and TVET will continue to support government-led sector reform programs to increase youth employability and employment of women and disadvantaged and vulnerable groups. In school education, ADB will continue to focus on interventions to reduce the remaining inequities in participation and accelerate learning and resilience. ADB's support will focus on strengthening foundational skills in early grades; establishing school-based professional support systems for teachers; and enhancing local government capacity in educational planning, monitoring, and reporting. The government's strategic plan for TVET proposes reforms to increase the role of industry, improve attractiveness, and strengthen quality. ADB will support implementation of the plan by focusing on upgrading institutions to provide TVET in areas such as agribusiness, health care, and manufacturing, including entrepreneurship and digital skills development. In higher education, ADB will be selective and target sectors with labor shortages and opportunities for job creation.

40. **Urban livability and equitable access to municipal services improved.** ADB supports the government's strategy of integrated urban development through regional planning that develops spatial strategies, prioritizes multi-sector investments, and strengthens institutions and upgrades municipal services. This approach leverages urban centers to improve livability, support PSD, attract investments, and increase job creation by (i) augmenting infrastructure; (ii) integrating nature-based solutions; and (iii) supporting tourism through enabling infrastructure, restoration of cultural heritage, and protection of natural reserves to attract and retain skilled workers who might otherwise migrate for better living conditions abroad. In water supply and sanitation, ADB is assisting the government with a holistic approach to improving the sustainability and resilience of the water supply system in the Kathmandu Valley. This includes investments in future phases of bulk water supply and sanitation, as well as support for institutional strengthening and governance. ADB will also continue to improve infrastructure and water, sanitation, and hygiene services in secondary towns and towns of cultural, touristic, and economic importance.

41. ADB will assist the government in addressing challenges caused by increasing natural hazards and overcoming systemic deficiencies using an integrated urban development approach with two main components. First, it will use a thematic focus on multi-sector strategic investments in potential urban growth centers that anchor the tourism subsector, as well as support for the development of regional economic corridors under the SASEC program. Second, it will assist the government with urgent livability and public health issues of (i) congestion; (ii) environmental degradation and pollution in emerging sectors, including solid waste management in secondary cities; (iii) e-mobility; (iv) green space enhancement; and (v) urban water quality and reducing flood risks. The sustainability of the municipalities will be supported primarily by building institutional capacity to implement devolved functions; increasing municipal revenue generation; and reducing reliance on federal assistance for operational needs, including O&M.

42. **Public sector capacity for inclusive public service delivery strengthened**. ADB will continue supporting the availability and efficiency of public services, including for poor and vulnerable groups and youth, by strengthening PFM and federalism. ADB will assist the government in finalizing and implementing the PFM reform strategy and plan. ADB will focus on enhancing expenditure and debt management and reducing fiscal risks through public finance reforms at all government levels. The reforms include (i) implementing the Public Debt Management Act and strengthening the public debt management office; (ii) improving management and governance of public enterprises and reducing fiscal risks and contingent

liabilities of those enterprises; (iii) operationalizing identification of fiscal risks and mitigating strategies through the annual budget; and (iv) improving contract management through the upgradation of e-government procurement.

43. **Increasing revenues and improving resource management.** ADB support for resource planning and management will focus on (i) improving coordinated planning and establishing effective links between policies, projects, and budgets, including measures to establish project banks; (ii) improving tax policies and administration, including strengthening of property taxes and digitalization of revenue administration; (iii) strengthening the framework for subnational borrowing; (iv) institutionalizing public asset management systems; and (v) developing and rolling out public investment management guidelines for local authorities. These measures are expected to improve the efficiency and effectiveness of capital expenditure.

44. **Enhanced fiscal federalism**. ADB will help the government clarify roles and responsibilities and improve coordination among sector agencies at all levels regarding policy formulation and execution, planning, expenditure and revenue functions, and program and project implementation. Initiatives to strengthen fiscal federalism will also be supported to improve fiscal equalization and reduce fiscal imbalances.

45. **Strategic Priority 3: Enhance environmental sustainability and climate resilience.** The CPS and ADB's investments will be implemented in a shifting climate context. Besides mainstreaming climate resilience, DRM, and environmental sustainability in country programming, project design, implementation, monitoring and evaluation of development outcomes, ADB will address challenges through specific project components, tackling both mitigation and adaptation (Annex 5).

46. **Policy, legal, regulatory, and institutional framework for environmental sustainability, climate resilience, and disaster risk management improved.** In line with the GRID framework, ADB will assist the government in conducting detailed upstream analysis in key sectors to identify actions to unlock the bottlenecks to achieve Nepal's climate ambitions, DRM, and environmental sustainability. ADB will assist the government with crucial policy and regulatory reforms to create an environment conducive to integrating biodiversity, disaster, and resilience into sovereign and nonsovereign projects and systems.

47. **Environmental sustainability and climate resilience of infrastructure and economic transformation supported.** In addition to mainstreaming, ADB will support the integration of specific components on climate resilience, DRM, and environmental sustainability into the objective and scope of projects. For support of implementation of the NDC, the country program includes investments in hydropower, grid infrastructure (to reduce transmission and distribution losses), and the promotion of clean public transport and logistic solutions such as ropeways and electric buses. For support of implementation of the NAP, the country program includes (i) support for flood-resistant and all-weather roads, (ii) integrated water resources management, (iii) development of year-round irrigation, (iv) flood risk management, (v) resilient urban and water supply development, (vi) ecotourism, natural and cultural heritage; and (vii) disaster-resilient school buildings.

48. Further, ADB will explore the possibility of government and private sector access to carbon finance through greenhouse gas emission reduction (e.g. in e-mobility projects and promotion of e-cookstoves). ADB will also analyze rising multi-hazard risks in catchments to inform project design with a strong regional cooperation and integration dimension. The regional TA for Building Adaptation and Resilience in the Hindu Kush Himalayas (footnote 17) will leverage technical

knowledge from international partners to build the capacity of the government and the private sector in planning and designing climate-resilient infrastructure. This will improve Nepal's capacity for resilience and DRM by developing comprehensive multi-hazard risk assessments, as well as de-risking and risk-transfer strategies.

49. ADB will also use sector specific investment and technical assistance to include support for environmental sustainability in projects, such as (i) increasing agricultural productivity through sustainable farming practices, (ii) restoring degraded watershed and protecting water sources, (iii) adopting nature-based solutions, (iv) promoting ecotourism, and (v) supporting the use of more environment-friendly modes of public transport and cooking stoves.

50. **Climate finance mobilized, and engagement of the private sector strengthened.** ADB can help maximize the opportunities for Nepal to catalyze additional climate finance by using the predictability of ADB's country allocation and grant funding from the Asian Development Fund (ADF) 14 thematic window. ADB is also establishing a large financing facility—the Green and Resilience Financing Facility—to narrow institutional, capacity, and financing gaps in implementing the NDC, NAP, LTS, and Disaster Risk Reduction Strategic Action Plan, as well as providing access to global climate funds. The access of governments and the private sector to international climate financing needs to be expanded to meet the substantial costs of mitigation and adaptation, including exploring mobilization of funds from green bonds.

51. **Cross-cutting themes.** The three strategic priorities will be supported by three cross-cutting themes to address binding constraints and improve development effectiveness: good governance and capacity building for federalism, digital development, and empowerment of women and disadvantaged and vulnerable groups.

52. **Good governance and capacity building for federalism.** In addition to the reforms to strengthen fiscal management, public investments, and fiscal federalism under the second strategic priority, ADB will mainstream good governance and capacity development in public institutions, focusing on subnational governments. ADB's support will include digitalization of operations; formulation of guidelines and strategies; tailor-made training programs; development of technical skills; and mechanisms for accountability, transparency, and coordination.

53. **Digital development.** Mainstreaming digitalization in ADB operations offers opportunities to (i) improve government efficiency and service delivery, (ii) increase trust in institutions and control corruption, (iii) enhance inclusion and cohesion, and (iv) boost productivity. The private sector needs to play a fundamental role in Nepal's digital development. Energy, in particular, is a sector of significant strategic importance for the government and ADB with a high potential for digital transformation under the leadership of ADB. In addition, as the knowledge and research agenda in Nepal is underdeveloped, ADB could research innovative approaches for building digital public infrastructure, undertake detailed analysis of digital businesses, and produce a tool kit and handbook for government officials on procurement of digital assets, as well as support innovative applications to enhance service delivery under ADB initiatives. In collaboration with other development partners, ADB is considering building the capabilities of local governments for digital transformation and strengthening of the digital education and training systems.

54. **Empowerment of women and disadvantaged and vulnerable groups.** ADB will support the government's efforts to remove barriers to empowerment of women and intersecting dimensions of historical marginalization and vulnerability through mainstreaming of actions in key sectors and targeted operations. This includes ADB support for integrating empowerment of women and disadvantaged and vulnerable groups into sector policy reforms and strengthening

institutional mechanisms and practices. ADB will also strengthen the government's efforts to eliminate discrimination against women, sexual exploitation and abuse, and harassment and GBV by building the capacity of executing and implementing agencies and continuing work with civil society organizations. ADB will carry out targeted interventions to address challenges to economic participation and financial inclusion of women and disadvantaged and vulnerable groups (including PWDs), and to support access to financial products and services. ADB will help build their resilience to increasing natural hazards and disaster impacts, focusing on participation in capacity building, diversified livelihood options, and improved access to basic services. ADB will continue to strengthen the response of the federal government and selected provincial governments to GBV through quality services.

55. **Selectivity and flexibility.** ADB will ensure selectivity under the Strategy 2030 and its midterm review by focusing on the primary objectives of private sector-led growth, youth employment, and resilience. In collaboration with WBG, ADB's assistance will concentrate on the following core sectors: energy; transport; water and other urban infrastructure and services; agriculture, natural resources, and rural development; and education. Support for enabling areas, such as public sector management as primary enabling sector with a substantial ensuing country program, finance, industry and trade, climate mitigation and adaptation, and PSD will strengthen the core sectors. An integrated approach across sectors and thematic priorities for ADB's operations requires investments in a broad range of core and enabling sectors to maximize development outcomes to achieve synergies. As ADB's operations make up a substantial portion of Nepal's public capital expenditure, they need to be programmed broadly across sectors to ensure the government's investment budget is balanced. Working across multiple sectors through outcome-based programming and maintaining a diverse portfolio is expected to improve portfolio performance by spreading project implementation risks, calibrating portfolios to the implementation capacity of executing and implementing agencies and balancing the utilization of limited implementation capacity, while improving the ability to respond to complex country development challenges.

56. ADB's operations in each sector will be selected in accordance with ADB's comparative advantages, the government's priorities and capacity to deliver, the ADB and WBG joint strategic approach, and cooperation with other development partners. ADB's country program will remain flexible given the dynamic country context and global uncertainties, particularly the ending of operations of the United States Agency for International Development and the Millennium Challenge Corporation, which trigger funding gaps in key sectors, including the social sectors.

57. **Indicative resources.** Nepal, a group A developing member country at low risk of debt distress, is eligible for concessional ordinary capital resources lending (COL).[37] The indicative country allocation for 2025–2028 (ADF 14) totals $1,915 million in COL for sovereign operations. The resources committed for each year of the program period will depend on the government's priorities, the outcome of the country performance assessment, and project readiness. ADB plans to support the mobilization of innovative financing tools, including the issuance of thematic and local currency bonds (i.e., Nepalese rupee-linked bonds) to international investors.

E. Priorities for Knowledge Support

58. The knowledge work outlined in the country knowledge plan (CKP) is aligned with the strategic and cross-cutting priorities of the CPS and addresses gaps identified in the sector and

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[37] ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank* (full document not available for public disclosure); and ADB. 1998. *A Graduation Policy for ADB's DMCs.*

thematic background assessments (Annex 4). The CKP sets out how knowledge solutions for development challenges and opportunities support policy dialogue and reforms, investment pipelines, policy-based lending, capacity building, and innovations across ADB's operations. The CKP remains dynamic to address any emerging and urgent needs of the government, which will be reviewed during annual country programming. Partnerships, especially with WBG, will be leveraged for joint knowledge initiatives.

IV. STRATEGY IMPLEMENTATION

A. Cost-Sharing Arrangements

59. As a group A developing member country, Nepal is eligible for COL and grants from the ADF thematic pool. The cost-sharing arrangements during 2025–2029 will continue with a ceiling of up to 80% for loans and grants and up to 85% for TA, both on a portfolio-wide basis. Actual cost-sharing parameters will be determined based on project-specific considerations and justified during a project's economic and financial due diligence.

B. Implementation Priorities

60. **Improved portfolio performance.** Nepal's high-cost, low-capacity environment needs to be reflected in the level of supporting inputs and in the project design. ADB mitigates implementation risks and constraints through regular country and tripartite portfolio review meetings with the World Bank and chaired by the Ministry of Finance with the participation of line ministries. The quality of safeguard compliance has slowly improved with ADB's continued capacity building efforts. During the new CPS period, ADB will aim to improve the quality of infrastructure investments through the recently approved TA that supports the government in removing systemic bottlenecks in procurement efficiency, contract management, project readiness, the e-government procurement system, and pilot e-governance and digital solutions.[38]

C. Monitoring of Results

61. ADB will use the results framework (Annex 3) to track the progress of CPS implementation. The key outcomes are closely aligned with the strategic priorities of the CPS, and the key performance indicators reflect the anticipated results of ADB-financed operations during the CPS reporting period. If the country's needs change, the key outcomes and indicators may be adjusted.

D. Risks

62. **Public financial management, procurement, and anticorruption.** PFM risks include budget credibility and transparency, low execution and bunching of capital expenditure at the end of the fiscal year, weak public asset management, financial reporting, internal auditing, and fiscal risk registry. These risks need to be addressed jointly by ADB and other development partners, including at subnational levels. Examples of public procurement risks include abnormally low bids, inadequate due diligence, and lack of fair competition. Measures to mitigate these risks include improving the government's digitalized procurement system, strengthening review processes in the Public Procurement Monitoring Office, and building the capacity of local entities. Important ways to combat corruption include strengthening the capacity of local governments, working with other development partners, and digitizing financial functions.

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[38] ADB. 2024. *Technical Assistance for Public Investment Implementation Performance Improvement*.