

# EVALUATION OF THE EUROPEAN UNION'S COOPERATION WITH NEPAL (2014-2021)

**PURPOSE OF THE EVALUATION:** to provide the relevant external cooperation services of the European Union (EU) and the wider public with an overall independent assessment of the EU's past and current cooperation with Nepal.

**GEOGRAPHIC SCOPE:** Nepal.

**TEMPORAL SCOPE:** 2014-2021.

**SECTORS COVERED:** the evaluation covered all the EU's development cooperation with Nepal from 2014 to 2021, including both financial and non-financial actions. The areas / sectors covered were: i) sustainable rural development, including nutrition, ii) education including Technical and Vocational Education Training (TVET), and iii) democracy and decentralisation.

## CONTEXT

Over the past decade, Nepal has suffered numerous shocks, ranging from human-made crises to natural disasters, including the devastating earthquake in 2015, which was the single most deadly one in modern times, killing about 9,000, injuring over 22,000, destroying over half a million houses. More recently Nepal was affected by the global COVID-19 pandemic which was particularly hard due to its reliance on tourism and remittances with the latter constituting 25 % of gross domestic product.

These events have shaped the context in which the EU has supported Nepal in its development ambitions between 2014 and 2021. In particular, the EU contributed to the fundamental restructuring of the state following the introduction of the federalisation reform in the 2015 Constitution. This constitution also ushered in safeguards to protect and promote previously marginalised minorities, including ensuring better representation in elected posts.

The core strategic guidance for bilateral cooperation between the EU and Nepal during the evaluation period is outlined in the EU's multi-annual indicative programme 2014-2020. In this document, the overarching aim is to support the Nepalese government in achieving its ambitious goal of graduating from the least developed country category by the year 2026. More specifically, the EU's plan highlights the need to increase the availability of decent job opportunities, address pockets of severe food insecurity, combat the high prevalence of chronic and acute malnutrition, improve access to quality education, enhance rural infrastructure and connectivity, and stimulate economic opportunities beyond subsistence agriculture. The plan committed EUR 360 million for the seven-year period, with a focus on three interlinked sectors:

- Sustainable rural development (including nutrition),
- Education (including TVET), and
- Democracy and decentralisation.

# EVALUATION METHODOLOGY

The evaluation followed an approach that relied on mixed methods to assess the cooperation of the EU with Nepal between 2014 and 2021.

Data collection activities were carried out during an extensive desk phase and a consecutive field phase. The terms of reference of the evaluation presented key issues that determined the focus of the analysis. To further guide data collection and analysis, the team developed a detailed evaluation matrix, structured around six evaluation questions:

- three cross-cutting questions focussed on issues of design and implementation of the EU cooperation strategy.
- three questions focussed on the effects of EU support in each of the focal sectors.

The combination of tools and methods (including the pilot of the intercultural approach) used for data collection and analysis varied according to the different evaluation questions. Multiple sources were systematically used to triangulate the information collected whenever possible.

## 3 PROVINCES VISITED

A team of 6 experts visited Kathmandu and Bagmati, Karnali, and Madhesh provinces [over 20 days].



## + 2,000 DOCUMENTS

Over 2,000 documents were consulted, ranging from EU strategic frameworks to sector studies and progress reports related to individual interventions.



## +143 INTERLOCUTORS

Interlocutors consulted were primarily EU officials at Headquarters and in the field, representatives from EU Member States, development partners, Nepalese officials, and civil society organisations.



## +60 eSurvey PARTICIPANTS

The contributions from 60 respondents to the online survey enabled evidence from other sources of information to be strengthened and corroborated.



# KEY LESSONS LEARNT

1

## **Nepal's experience highlights the importance of time, effort, and mutual understanding in building government partnerships.**

The EU's education sector support serves as a partnership model, where the EU has been gradually increasing budget support over 25 years.

Established mechanisms in education offer vital policy entry points for dialogue on key issues of importance to improve access and quality. Similar efforts in public financial management and federalism support are ongoing, involving robust consultation, and monitoring. However, in the agricultural sector, attempts to accelerate reforms during the roll-out of the federalisation process in the sector have proven challenging. The key lesson is the strategic sequencing of support aligned with government capacities, ownership, and willingness to change, emphasising the need for a nuanced approach to avoid pitfalls.

2

**Effective policy dialogue between the EU and the Nepalese government requires political and cultural sensitivity, necessitating continuous iteration and experimentation.**

Both the education sector and electoral support experiences highlight the importance of identifying agreeable entry points for cooperation on critical issues. In education, the chosen indicator for teacher absenteeism (teachers' time on task) hindered constructive dialogue, showcasing the need for better approaches (for suggestions see recommendations). In electoral support, the EU's withdrawal resulted from disagreements on ethnic group representation. These cases reflect a more assertive Nepalese posture, emphasising less reliance on aid, and an ambition to have more equal relations with development partners, including less focus on conditionalities. However, challenges persist in ensuring inclusion in quality education for underprivileged minorities and poorer pupils, demanding ongoing EU attention and a politically savvy approach while upholding EU's core values.

3

**The EU needs to address the micro-macro paradox when deciding the level of engagement for developmental impact.**

While achieving results is easier at the micro-level, translating them into macro-level improvements is challenging. The EU's approach involves both federal-level support and direct support to provinces and local governments. Engaging with sub-federal institutions provides valuable insights for federal policy dialogue and has shown success in federalisation and water, sanitation, and hygiene. However, challenges across sectors include high transaction costs, potential scalability issues, and risks of fragmentation with different development partners in various locations, often working with local governments. Balancing local benefits (including close engagement with end beneficiaries and target groups) with political buy-in and integration into domestic systems is crucial for avoiding fragmentation effects.

## CONCLUSIONS

### Cluster 1: Strategic issues

#### **C1. The EU has been a trusted partner assisting Nepal in navigating its development journey which has yielded significant results, but systemic challenges persist.**

The EU has followed through on the ambitions laid out in 2014. For both long-term engagement and emergency responses budget support has been the preferred aid modality. This offers a high degree of speed and flexibility at a critical time of crisis. It has also offered unique, deep and long-term partnerships with the government, which has yielded tangible progress in most areas of the partnership, including strengthening democracy and protecting human rights. This progress has been supported through initiatives such as support to elections, duty bearers, and rights holders. The EU has also contributed to improving the competitiveness of the rural sector, improved access to nutrition services and expanded water and sanitation access.

However, the development potential has still not been fully realised, most prominently due to an unfinished agenda of tackling core governance challenges that hold back public service delivery, which were also exacerbated by the COVID-19 crisis. Corruption and limited government effectiveness hinder progress at the sector level (e.g. education) and the development model of high reliance on migrant remittances and tourism has shown its vulnerability during the COVID-19 pandemic.

Remittances help to boost household spending, but they do little to improve public service delivery.

**C2. The EU is seen by all stakeholders as a committed and relevant partner with a strong developmental focus.**

The EU sets an example by aligning its aid with Nepal's domestic systems, promoting stronger coordination among development partners. This approach varies in impact across sectors but remains consistent. Moreover, the EU's commitment to a rules-based international system that prioritises multilateralism, fairness, and the needs of smaller countries, positions it favourably against alternative development models that may lack democratic principles or prioritise donor interests. This reputation is built on decades of positive examples and consistent peer pressure on other development partners for better alignment, joint programming, and a focus on Nepal's interests.

The EU's emphasis on aid effectiveness has solidified its relevance as a development partner, including in the International Development Partner Group. Its strategic bilateral programming addresses Nepal's development challenges and evolves in response to changing needs, such as focussing on infrastructure and governance support within the context of federalism reform. Frequent stakeholder consultations with government, EU Member States, civil society organisations, and youth further contribute to its relevance. Engaging more directly with ultimate beneficiaries across sectors could provide an even deeper understanding of needs, but the challenges of reconciling differing views and gauging the perspectives of such a diverse group remain. While its focus on partnerships is beneficial, the EU could play a stronger role in advocating for better service delivery, particularly in its flagship education sector.

**C3. The use of budget support has been justified, but its effects on policy outcomes depend on external factors as well as government commitment and willingness to have dialogue and to take actions on key binding constraints.**

The EU has been a frontrunner in terms of using budget support, first to the education sector and later extended to federalism, reconstruction, agriculture, and nutrition. The longer the track record and the more development partners supporting the sector in question with budget support, the more effective it has been as an instrument. The benefits include increased ownership, reduced transaction costs, reduced fragmentation of aid, and a boost to the government's budget for service delivery. It has also subjected the EU's aid to domestic accountability and fiscal oversight protocols which have the potential to foster integrity and transparency. The benefits of budget support in terms of increasing the fiscal space for the government are also evident, but it is not consistently the case that lack of funding is the key binding constraint undermining public service delivery. Budget support offers though the most legitimate entry point for discussing core governance. However, EU and its partners have yet to fully exploit these entry points in ways that commit the government to tackle hard-to-solve problems that are deeply rooted in political economy challenges, undermining especially accountability of service delivery as exemplified in conclusion number four on education.

**C4. The education sector demonstrates the benefits of budget support for improving aid effectiveness but also points to the primacy of domestic political bargains that undermine aspects of performance.**

Aid effectiveness has increased drastically and there is a regular policy dialogue structured around progress towards agreed milestones. This has allowed for impressive results in expanding access to education, including for girls and marginalised groups. Thus, net enrolment in basic education (grade 1-8) has increased from 80 % in 2010 to 95 % in 2021, whereas there is now gender parity in access. Moreover, completion rates have also improved by 8 % during the evaluation period. However, still 5 % never enter school, and these are disproportionately marginalised poorer groups, including Dalits and children with disability. Drop-out rates are also high for these groups. Most alarming is the fact that learning levels, which were already low, have not improved, and devising ways to address the learning crisis has proven difficult for all partners. Thus, most time-comparable learning indicators have either stagnated or fallen. While there are many contributors to the crisis, limited accountability towards learning is a key one. This is a truly systemic issue, right from teacher recruitment, placement, benefits, sanctions on absent teachers and providing them with motivation, to the parliamentary level, where the role of teacher unions and their political influence plays a key role in shaping incentives for accountability. The EU and other development partners have attempted to address parts of these issues through policy dialogue, but the government (and teachers unions) opposed such measures as it was deemed unwarranted interference in domestic affairs. There are thus still outstanding challenges of utilising the advantaged position to leverage deeper reforms that can improve accountability towards learning outcomes.

## **Cluster 2: Strategic operationalisation issues (including modalities)**

### **C5. The EU's pandemic response was pertinent and ushered in a new and closer EU-wide cooperation.**

The direct response of the EU to the COVID-19 pandemic was both in the core area of development cooperation, as well as a direct response in both non-pharmaceutical interventions (e.g. protective gear) and, at a later stage, the donation of over 8 million vaccine doses. In the three sectors of development assistance support was frontloaded, enabling the government to quickly respond to the crisis. The pandemic also catalysed closer EU cooperation under the Team Europe banner with EU Member States, including those without representation in Nepal, who joined forces with the European Commission in supporting Nepal to overcome the pandemic. This increased visibility of the EU as a whole also earned goodwill among domestic partners. In Nepal, the Team Europe approach has catalysed closer cooperation beyond the pandemic response and offers a more pragmatic and effective approach than previous efforts such as the joint EU programming exercises. The EU is now cooperating more closely with the two remaining EU Member States active (Germany and Finland) and uses delegated cooperation as a modality. Until now this has produced good results in areas such as value chain development and also enhanced aid effectiveness. By pooling resources with EU Member States, the EU also shares responsibility for the approaches and modalities chosen by the EU Member States, even if those are not fully aligned with the EU's.

### **C6. The EU has accelerated efforts to mainstream gender equality and social inclusion and more recently conflict sensitivity in its programming.**

This has been especially evident in the EU's engagement in education, federalism reform, nutrition, health and water, sanitation, and hygiene sectors, parliamentary elections, and its support to civil society organisations. The EU has increased its focus on ensuring better gender balance in all of its trainings, awareness raising and other events; although in itself this is not sufficient to address gender inequalities, it is nevertheless a low-effort measure to highlight gender equality issues. While these efforts are yielding results in achieving more equal representation of women and men, challenges persist in developing more knowledge on gender, equality, and social inclusion issues. For example, in the nutrition, health, and education sectors, issues such as the equity impact of boys attending private schools require further exploration, not only in terms of learning inequalities but also because better education has nutrition and health impacts. Thus, while the EU has established sound dialogue on gender equality and social inclusion issues, similar engagements on sensitive political economy issues, such as teacher accountability are needed.

**C7. There are still only a few synergies between support to non-state actors and larger government programmes.**

Smaller projects implemented by civil society organisations often aim to pioneer new service delivery approaches and enhance bottom-up accountability. They typically seek to provide direct benefits to specific target groups. While generally successful in this regard, challenges persist in mainstreaming innovative approaches, such as mobilising parental engagement in schools, into mainstream government programmes and holding public service providers accountable. Often these challenges relate to the limited interest of the government to learn from civil society organisations and their projects. Partly as a consequence, these smaller projects are more isolated islands of success, with limited spill-over in terms of learning and strengthening accountability systems. A case in point is civil society organisations-driven local governance projects that have made valuable contributions to strengthening democratic processes within small geographical settings but were not linked to the larger programmes on federalisation and good governance. This suggests that improvements in public service delivery may be less amenable to bottom-up civil society organisations-driven pressures and that bureaucratic inertia combined with dominance of vested interests, is still persistent, undermining the learning potential. Moreover, small-scale projects also tend to have weak sustainability prospects, partly because of the above-mentioned limited mainstreaming into larger programmes.

**C8. Although outcomes are now better evidenced, there is still more work to do in understanding what factors enhance or hinder progress.**

The EU has made substantial contributions to the evidence base on learning outcomes in the education sector through the National Assessments of Student Achievements (NASA) reports and provided better information on health status through the Web-Based Reporting System and the Health Management Information System including nutrition-specific indicators. These efforts have provided useful information and also catalysed a higher level of policy dialogue around learning in the education sector. They have also contributed to knowledge of the coverage of nutrition and food security campaigns. Despite these important achievements, there are still challenges in the evidence base. In

the education sector, the regularity and time-comparability of the learning assessments are weak and have been further disrupted by the COVID-19 pandemic. Moreover, there is also limited comparability at the school level, hindering parents from making an informed school choice. In the health sector, there is still no knowledge about the degree to which better access to health, nutrition and water, sanitation, and hygiene services translate into actual behavioural changes that improve the health status. Moreover, there is still limited knowledge of the drivers of the changes observed in the core sectors. For example, the politically realistic solutions needed to reverse the decline in learning outcomes are not clear. While significant investments in areas such as teacher training, infrastructure, and mother tongue learning have been made, they are unlikely to be sufficient.

# RECOMMENDATIONS

## Cluster 1: Strategic level

**R1. The EU should stay strongly engaged with the federal government but should use its privileged position to leverage more commitment to addressing core systemic issues and help foster more internally generated dynamism in the society.**

*Linked to conclusions 1, 2, 3, and 4.*

*To be implemented by: EU Delegation, Directorate-General for International Partnerships (DG INTPA) and European External Action Service.*

*Priority: High*

The extensive use of budget support, combined with a high degree of aid effectiveness focus and a strong global commitment has rightfully earned the EU a position as one of the governments' most trusted grant-based development partners. The EU should leverage that position to engage more directly on the core issues that are hampering development progress, many of which are related to weak governance. Governance challenges are permeating all sectors of EU engagement and designing effective solutions is not easy. However, a starting point would be to augment work already begun by the government to provide more information on the causes and consequences of weak governance, thus building coalitions that can increase demand for improvements. These coalitions will vary according to sectors, themes and relative power positions but examples could include furnishing and mobilising parents with more information on learning outcomes in their schools, supporting demands for higher budget transparency in local and provincial governments, more accountability of teachers towards learning, and greater inclusion of non-state actors in the conversation. This should form part of a wider push to help Nepal transition to another development path that is better able to instil domestically catalysed dynamism and is attractive enough to reduce the unsustainable high emigration levels. This entails a better environment for businesses, large and small, to thrive, which in turn requires higher regulatory predictability, reduced corruption and a workforce that has the required qualifications to match the labour markets' needs. In this context, the EU plan for 2021-2027 offers a robust strategic response but will require finding the right entry points to support a difficult and politically sensitive transition towards a new overall development model. It will be key to have a laser-sharp focus solely on Nepal's development needs and not dilute this focus by adding non-developmental (e.g. commercial) objectives, including those that may be emanating from EU Member States.

**R2. Continue with the Team Europe approach using a pragmatic case-by-case selection strategy while better ensuring that EU Member States' development policy and practices are broadly aligned to the EU's in the specific Team Europe Initiatives.**

*Linked to conclusions 1 and 5.*

*To be implemented by: EU Delegation, DG INTPA and European External Action Service.*

*Priority: Medium*



EU Member States and international (including European) financial institutions are obvious future partners for Nepal and the Team Europe approach should accelerate efforts to deliver on the promise of increasing cooperation in ways that past efforts failed to do. It has also increased the posture of the EU as a block, although the Team Europe approach itself is still not widely known. However, when partnering with EU Member States, the EU also lends legitimacy to the projects and approaches. Here the EU should consider more direct engagement with Member States on the pros and cons of their tying of aid in projects, also to protect the EU's reputation as a rule-based, untied player committed to promoting development outcomes for the exclusive benefit of Nepal. Many bilateral development partners, including EU Member States, have increasingly used their aid to leverage non-developmental objectives and, while not as widespread in Nepal as in other countries yet, there are signs that this is increasing. The EU should examine the pros and cons on a case-by-case basis and have an open dialogue with all partners, including the government, on how to maximise development impact.

## Cluster 2: Operational level

### **R3. Increase efforts aimed at the generation of data and knowledge on outcomes, especially in core social service delivery.**

*Linked to conclusions 4 and 8.*

*To be implemented by: EU Delegation and DG INTPA.*

*Priority: High*

As argued above, the EU, in cooperation with its main international partners active in Nepal, should consider tracking learning outcomes at the school level regularly (but not annually) as it has successfully done at the national level, possibly in conjunction with NASA surveys. This helps both to have a more granular picture of progress and catalyse more bottom-up demand. Inequalities stemming from the rise of private schools should also be included in such impact monitoring. More efforts could also be invested in making such assessments time-comparable and, in the longer term and if judged to be worth the investment, comparable with international assessment (D-PISA). In the nutrition and health areas, there has been only limited disaggregated data on the actual adoption of the approaches promoted, thus calling for a better understanding of how behaviours have changed.

### **R4. In the education sector, the EU should, together with the other development partners using budget support, promote a more systemic approach that puts learning at the centre of the education sector.**

*Linked to conclusions 3, 4, and 8.*

*To be implemented by: EU Delegation and DG INTPA.*

*Priority: High*

A good starting point would be to do a diagnostic study. This study should use a system approach to identify key incoherencies that compromise the system's ability to deliver quality education. Such an approach could use the tools of the programme on 'Research on Improving Systems of Education' (riseprogramme.org). Thus, it should not be another 'lack-of inputs' assessment of which there are

already many. That is because there are many indications that accountability relationships are not aligned around learning and identifying the root causes which should constitute a platform upon which reform measures could be designed. While the EU has already supported significant work on detailing the scale of the learning crisis at a national level (NASA), it should also consider supporting the same at a school level. For example, making information on learning outcomes for individual schools available to parents, politicians and teachers could catalyse increased demand for learning. This could be limited to only schools already participating in the NASA exercise and only add schools that would ensure that all municipalities are covered. This should reduce costs considerably but ensure coverage of all provinces and local governments. Experience from Nepal and elsewhere suggests that information may not be enough to catalyse improvement if those demanding change are not empowered. Hence, the EU should also consider strengthening social accountability mechanisms, such as school management committees, by empowering them with tools that can better evaluate learning at the school level. For example, monitoring and potentially linking pay or bonuses to attendance and classroom performance of teachers could be explored, if only as a pilot. However, past experience in Nepal suggests that it will be important to have buy-in from at least some core stakeholders (e.g. politicians, unions, and the private sector), which will require better policy dialogue including social dialogue at the national level. Finally, the EU should also encourage the public sector to learn from the private sector (and the few well performing public ones) not least regarding accountability mechanisms as well as factor in the rise of private schools into the conversation about inequality in learning outcomes. The ongoing positive deviance studies are encouraging in that context. In sum, the EU should start framing its sector goals in terms of learning outcomes, and acquisition of skills and capabilities, rather than relying on intermediate targets like spending, inputs, or programme implementation.

**R5. Continue with the emphasis on budget support, including in education, but with increased selectivity, expanding its use where there is clear commitment and rationale - not in sectors where there is limited commitment or weaker justifications.**

*Linked to conclusions 2, 3, and 4 but also builds on recommendation 1.*

*To be implemented by: EU Delegation and DG INTPA, with ECHO consulted on the nexus between social protection and disaster preparedness.*

*Priority: Medium*

The attempt to use budget support in the agriculture sector was based on over-ambitious plans considering the challenges of the federalisation and an over-estimation of the government's commitment and capacity of the Ministry of Agriculture and Livestock Development to manage budget support. Moreover, the agricultural sector is primarily a private sector undertaking, making the use of budget support less evident than in social sectors. However, there is still a case for expanding the use of budget support, as has been done in the nutrition sector. Here the EU should work with the government to expand what has started with the child nutrition grant and expand the conversation into a wider scope of supporting Nepal's ambitions to develop a resilient social-protection framework, in which context budget support would be obvious. The EU should here take a coherent, structured and

sequenced approach which would also help it deliver on the multi-annual indicative programme 2021-2027 ambitions to secure rights for all citizens to have an effective social protection system. This will also serve as a tool for mitigating the impact of future shocks and increasing disaster preparedness. In the education sector, the EU should continue with budget support due to its superior entry points for policy dialogue, but consider more strategic use of complementary measures, such as mobilising broader coalitions for change among non-state actors, that can both identify the driver of systemic learning improvements and devise ways of shaping the policy conversation around these topics in a way that is acceptable to the core Nepalese stakeholders.

**R6. When implementing sub-federal projects, ensure high scalability, low fragmentation, and political buy-in.**

*Linked to conclusion 7 and the third lesson learnt.*

*To be implemented by: EU Delegation and DG INTPA.*

*Priority: Medium*

As stated in the previous section on lessons learnt, the EU has increased focus on especially Karnali and Sudurpaschim, gaining valuable insights and achieving good results. However, to ensure that this support is scalable and does not increase the fragmentation of the aid landscape in Nepal, the EU should ensure that such projects are channelled through existing systems minimising the use of supply-driven technical assistance and other gap-filling inputs as much possible and have a clear plan for nation-wide mainstreaming. The federal government has expressed reservations on the increased use of geographically focussed donor projects (due to aid fragmentation and division of the country into donor regions) and has reiterated its preference for budget support as an aid modality. It will be key to ensure full buy-in from all levels of government, and also to ensure eventual adaptation of new approaches and innovations at the federal level.

**R7. Accelerate efforts aimed at creating better jobs, including through value chain development and private sector development.**

*Linked to conclusions 1 and 5.*

*To be implemented by: EU Delegation, DG INTPA, and ECHO.*

*Priority: High*

Nepal needs better, higher productivity, higher added value, and higher income-generating jobs. The massive emigration is a testimony to Nepal's hitherto inability to produce jobs of sufficient quality to keep the millions of migrants at home. The EU should focus on the framework conditions for private sector growth, including the acceleration of efforts to harness renewable (hydropower) potential to provide impetus to Nepal's industrialisation and exports as well as ensuring efficient transmission of the electricity produced. Similarly, the EU should step up the support to efforts promoting value chains in line with the objectives of the Green Deal and its related Farm to Fork strategy. The EU should also accelerate its ongoing efforts to mainstream climate and disaster risk reduction into its work on value chains and other relevant sectors, such as disaster preparedness in education.