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ANNEX I

to the Commission Implementing Decision on the financing of the annual action plan in favour of Nepal for 2022

Action Document for Quality Education for All

ANNUAL PLAN

This document constitutes the annual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

1 SYNOPSIS

1.1 Action Summary Table

1. Title CRIS/OPSYS business reference Basic Act	Quality Education for All OPSYS number: ACT-61472 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	Yes Nepal's Team Europe Initiative on Green Recovery
3. Zone benefiting from the action	The action shall be carried out in Nepal, with targeted actions in 3 provinces in Nepal (Madhesh, Karnali and Sudurpashchim)
4. Programming document	Multi-Annual Indicative Programme for Nepal 2021-2027 ¹
5. Link with relevant MIP(s) objectives / expected results	MIP Priority area 2: Human Capital Development Specific Objective 1: to support inclusive and equitable quality education, to promote lifelong learning opportunities for all Expected results 1.a: Increased access to inclusive and equitable early childhood education, primary, secondary and higher education and 1.b: Improved Learning Outcomes.
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Areas, sectors	MIP Priority area 2: Human Capital Development Education (110)
7. Sustainable Development Goals (SDGs)	Main SDG (1 only) : SDG 4 Quality Education Other significant SDGs (up to 9) and where appropriate, targets : SDG 1 No Poverty SDG 5 Gender Equality

¹ Within the maximum contribution of the European Union, the authorising officer responsible may adjust the allocation to the respective budgetary years subject to the availability of the commitment appropriations.

	SDG 8 Decent work and Economic Growth SDG 10 Reduced inequality SDG 13 on Climate action SDG 16 Strong institutions			
8 a) DAC code(s)	Main DAC code: 110 Education (100%) 112 Basic Education (70%) 113 Secondary education (30%)			
8 b) Main Delivery Channel	12000 Recipient government			
9. Targets	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input checked="" type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
10. Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition @	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	11. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective
Digitalisation @		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
digital connectivity digital governance		YES <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	NO <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>	

	digital entrepreneurship digital skills/literacy digital services	<input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	/
	Connectivity @	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital connectivity energy transport health education and research	YES <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>	NO <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	/
	Migration @ (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @ (methodology for marker and tagging under development)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Covid-19	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

BUDGET INFORMATION

12. Amounts concerned	<p>Budget line(s) (article, item): BGUE-B2022-14.020131-C1-INTPA</p> <p>Total estimated cost for the School Education Sector Plan (SESP) 2021- 2026: Approx. EUR 7.9 billion (5 years)</p> <p>Total amount of EU budget contribution EUR 50 000 000 of which EUR 40 000 000 for budget support and EUR 10 000 000 for complementary support.</p> <p>This action is co-financed by development partners (using budget support) in joint co-financing by (indicatively)</p> <p>ADB for an amount of USD 200 000 000 WB for an amount of USD 100 000 000 GPE for an amount of USD 60 000 000 Finland for an amount of EUR 19 000 000 Norway for an amount of USD 21 000 000 USAID for an amount of USD 15 000 000 UNICEF for an amount of USD 2 500 000</p> <p>The action is part of a TEI with Finland.</p>
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MANAGEMENT AND IMPLEMENTATION

13. Type of financing	<p>Direct Management through:</p> <ul style="list-style-type: none"> - Budget Support: Sector Reform Performance Contract. <p>Indirect management with (a) pillar assessed entity(ies).</p>
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1.2 Summary of the Action

Nepal's Constitution (2015) guarantees the right to compulsory and free education up to basic level and free secondary education to every citizen. The government, with support from the EU and other partners, has undertaken a series of national programmes in the education sector over the past two decades that have contributed to reducing education inequalities, improving governance, financing, and efficiency. However, challenges remain, especially in learning outcomes and equity in education, especially for girls and marginalised groups.

Nepal's progress in education has experienced a severe shock with the COVID-19 pandemic, which increased pre-existing disparities in access, participation and learning outcomes. An intensive corrective response over the next years will be necessary to recover the learning losses.

The Government of Nepal has worked in close coordination with development partners from 2020 to 2022 to develop the School Education Sector plan (SESP), which covers 2021 to 2030. The SESP differs from previous school sector plans in that it is designed in line with the new federal structure of governance for the Education system in Nepal, which has devolved many responsibilities for school education to local governments. The SESP is funded jointly by the Government of Nepal and donors covering the whole school sector education in Nepal.

This action supports the SESP and has been jointly programmed with the government and development partners, in particular with UNICEF and Finland focusing on SDG (and SESP) targets such as quality, gender equity and inclusive education. It's aligned to the Global Partnership for Education (GPE). This action foresees support for 4 years, including the transitional year. The potential EU support to the 2 years following these will be assessed after the Mid Term evaluation of the EU Multi-annual Indicative Programme (MIP) 2021-2027.

In line with the vision of the SESP, the overall objective of the EU action will contribute to a well-educated and skilled society in Nepal which is able to play an active role in the social and economic development of the country.

The action will support three specific objectives of the SESP:

1. improve equitable and inclusive access to education for all children, especially those who are socially and economically disadvantaged, children from marginalised groups and children with disabilities
2. improve the quality and relevance of free basic and secondary education and ensure minimum learning achievements of each child
3. strengthen the local system delivery capacity by promoting good governance, intergovernmental coordination and collaboration and by developing institutional capacity at local level

The main expected results will be: i) improved education enrolment and completion of all children; ii) reduction of disparities in learning outcomes; iii) improved teaching quality and student learning achievements and iv) improved capacities of local governments in implementation of the SESP.

While the action will support the nation-wide education system through the budget support modality, the complementary measures will focus on the three provinces with lowest learning outcomes so far (Karnali, Sudurpashchim and Madhesh), and also provide an opportunity to increase visibility through 'EU-supported schools'.

2 RATIONALE

2.1. Context

Nepal is a Least Developed Country (LDC) located in the Himalayas, endowed with an extremely diverse geography, climate, population and very biodiverse. It is one of the most disaster-prone countries in the world, ranking 4th in terms of climate risk according to the 2021 Global Climate Risk Index.

Despite the great progress that Nepal has achieved in most development indicators at national level, the rate of development is geographically unequal. The new federal structure promulgated in the 2015 Constitution presented an opportunity to tackle the disparities and create an enabling environment for economic growth.

Nepal aspires to graduate from LDC by December 2026, however regional disparities continued increasing and could put the sustainability of the graduation at risk.

As a result of the COVID-19 pandemic, the economy shrank in 2020 by 1.9%, while showing modest recovery in 2021 with a growth projected above 3% in 2022.

Nepal's Constitution (2015) guarantees the right to compulsory and free education up to basic level and free secondary education to every citizen. Over the last two decades, the government, with support from the EU and other partners, has undertaken a series of national programmes in the education sector that have contributed to reducing education inequalities, improving governance, financing, and efficiency. However, despite great gains in gender equality, challenges remain, especially in learning outcomes and equity in education, especially for girls and marginalised groups.

Following the promulgation of the new Constitution, the country has been undergoing a political, social and institutional transformation with the introduction of federalism. This has required the reorientation of the education system through structural and functional reforms, including the policy and regulatory frameworks.

In view of the transformative role that education can play towards the attainment of the long-term social and economic development goals of Nepal, as recognised by its Constitution and in accordance with the changing needs of the federalized governance structure, a new School Education Sector Plan (SESP) for the period 2021-2030 has been elaborated. The SESP focuses in further ensuring equitable access to and participation in school education for all children; enhancing the relevance and improving the quality of school education; and improving the governance and management of school education. The final beneficiaries (rights-holders) are the approximately 8.2 million pupils in Nepal from pre-school school to 12th grade. In addition, the direct beneficiaries (duty-bearers) are teachers working in schools (320 000) and education sector officials at different levels.

Nepal's Ministry of Education, Science and Technology (MoEST), the main duty-bearer, formulates overall education policy. Local Governments are responsible for the service delivery of education at local level, which includes financing the public schools, mainly through conditional grants, preparing local curricula, support teacher management etc. Local governments will be in charge of the implementation of the main activities of the SESP.

The EU has been a strong partner of the government in education since 1999. The EU Action is fully aligned with the Government's 15th National Development Plan and with the School Education Sector Plan (SESP 2021-2030). In addition, the action will deliver strong support to the ongoing federalisation process, by working directly with local governments and increasing their capacity to plan, budget, report and deliver inclusive, transparent and sustainable education services, and thus increasing their legitimacy for their constituents.

The action accelerates the strategic involvement of the EU in education by joining forces with Finland and UNICEF and boosting the Global Partnership for Education (GPE) intervention in the areas of gender equity and quality of teaching.

The action builds on the existing strong and coordinated mechanism of the current Sector Wide Approach, combining several development partners, where the EU and Member States have a significant role in Nepal and seek high-level dialogue. The EU policy dialogue during the support to the new sector plan will be focused on inclusive and quality education. The complementary measures of this action as well as the EU's support to the CSO's role in the education sector will improve the role of EU in sector policy dialogue at federal, provincial and local level. Moreover, the EU will lead the harmonisation and the alignment of the Technical Assistance framework for the SESP.

2.2. Problem Analysis

New federal structure

Local governments have now the mandate to develop and implement their own education plans and budgets alongside those of the federal government. However, the existing institutional setup and capacity varies across the 753 local governments, with a significant number of them lacking capacity to adequately execute key functions to run education services (analysis, planning, budgeting, implementation, monitoring and evaluation).

Furthermore, the mandates of the deconcentrated pre-federalism support structures (school supervisors, resource persons/centres, education training centres, etc.) have not yet been transferred to a decentralized model, further adding to the challenge for the local governments (LGs). There's no clear structure to support LGs to manage school education and support school-level planning for quality education and teacher professional development.

The disparities in existing capacity and resources across regions are mainly concentrated in the historically marginalized remote mid- and far western part of Nepal (the Karnali and Sudurpashchim Provinces) and the central Terai (the Madhesh and part of the Lumbini Provinces). Additionally, the inter-governmental coordination and

collaboration mechanisms are yet to be institutionalized due to the absence of the federal Education Act. There is no formalized monitoring and reporting on progress against national targets and indicators in place.

The MoEST formulates overall policy and planning and coordinates and collaborates with the National Planning Commission, the Ministry of Finances, the Ministry of Federal Affairs and General Administration (MoFAGA) and other line ministries. The main MOEST's agencies are the Center for Education Human Resources (CEHRD) responsible for developing strategic plans, developing standards, management of Educational Management Information System (EMIS), in-service teacher training, developing gender equity and inclusive education, the Curriculum Development Center (CDC) responsible for developing the curriculum and teaching materials, the Education Review Office (ERO) supports the reforms and assess the learning achievements, the Teacher Service Commission responsible for managing teacher selection, promotion and licensing. All the seven provinces have education development directorates and training centres under their Ministries of Social Development. All the local governments have local education units which develop school-level education plan and implement, monitor and evaluate education programmes. All the schools have school management committees (SMCs) and parents and teachers associations (PTAs) with head teachers responsible for managing schools. Youth clubs, CSO's representing minorities and marginalized groups are also integrated in the education system.

COVID -19 Pandemic and off-site learning

Since March 2020, Nepal's progress against key education performance indicators has experienced a severe delay due to the COVID-19 pandemic. The strengthening of the institutional capacity and inter-governmental coordination and collaboration for 2020-2021 to prepare the sector for SESP has not taken place to the extent planned, as local governments focused on humanitarian response and life saving measures. The disruptions caused by the pandemic increased disparities on access, participation and learning even further, due to Nepal's poor IT infrastructure limiting access to remote learning to urban areas.

This gap also made clear the need and opportunity to present local governments and schools with models off-site learning for inclusive and quality education that are replicable and scalable, can be contextualized and initiated with the current capacity. This is important given that Nepal's population in the remote areas is scattered into small communities, resulting in over 3 000 Government's schools serving less than 50 students and 8 000 serving to less than 100 students. This leaves local governments to make difficult decisions in terms of resource allocation, deciding to close and merge these schools into bigger centrally located schools, uprooting children from indigenous minorities who often stay in boarding hostels (with all the child protection risks linked) or drop out. Furthermore, a large part of these students does not have Nepali as their mother tongue, and this has shown to be a strong driver of disparity in terms of school readiness and early grade learning outcomes.

This tendency of shrinking remote communities is confirmed in the new census (2021), making the need for a sustainable education models for remote communities more relevant in the days to come. These models can be extended for post disaster situations, which are also common in Nepal.

The main stakeholders are indigenous groups, the Nepali Federation of Indigenous Peoples (NEFIN), the National Disaster Risk Reduction Management Authority, MoEST, MoFAGA, local and provincial governments.

Quality Teaching

The significant progress made by Nepal to improve quality education, including curriculum reforms, a continuous assessment system and the teacher competency framework cannot be implemented by many local governments. Structures to implement teacher training were removed during the early stages of the transition to federalism, with just seven provincial-level education training centres (PETCs)² remaining. There is a significant gap in institutional capacity to train and support teachers, which has resulted in fewer teachers being trained, the cost of training increasing, and teachers spending more time away from classrooms to attend courses.

Current pre-service teacher preparation does not fully prepares teachers for the realities of classroom teaching. As a result, in-service support does not build on experience but has to supplement the gaps in

² The institutional capacity for in-service training has been drastically reduced with the abolition of resource centers and persons at the local level and the reduced number of education training centers from 38 to 7.

teachers' competencies left by inadequate preparation. Furthermore, there is a need to develop a trainer competency framework and support trainer development.

Teaching salaries account for the greatest budget utilisation in education, with over 75% of the education budget allocation. Therefore, improving the effectiveness of teaching and the capacity of teachers will have a significant impact on the efficiency of the system with a bigger return on this significant investment.

The main stakeholders are teachers unions, CEHRD, teacher commission and universities.

Gender equality and Social Inclusion

Gender inequality and social exclusion are strongly interlinked in Nepal. Gender barriers have the biggest impact when women and girls face an additional driver of exclusion such as those based on language, disability, caste or socio-economic background. To address intersectional and multiple disparities in education, the Government of Nepal developed the Consolidated Equity Strategy. A central aspect of the strategy is the computation of an equity index measuring access, participation and outcomes for excluded groups (including girls, Dalits, indigenous and children with disabilities), which is then used to rank local governments on their levels of equity, and target those with the highest inequity with additional support.

Despite the availability of data, the use of gender segregated education data for analysis and evidence-based planning and budgeting at local government and school level remains limited. Nepal's efforts on gender responsive budgeting have had limited effectiveness at local level to address gaps, and few budgeting actions related to social inclusion have been taken.

Another group of children falling behind are children with disabilities. The percentage of children with disabilities as part of the school-aged and enrolled population (1.9%) was significantly lower than global averages and has further decreased by 50% during the pandemic. A majority of children with disabilities have no specific facilities to encourage their retention and learning. Teachers and supervisors are not equipped to cater to these. Finally, there remain a large number of so-called traditional/religious schools (Madrassas, Gumbas, etc.) that cater to ethnic minorities and traditionally disadvantaged communities and have yet to be mainstreamed in terms of reporting into the EMIS and receiving Government teachers and funding.

Pedagogy in schools does not consistently demonstrate child-centred, inclusive practices, especially for vulnerable and excluded children. These need to be contextualised into local level mechanisms that allow gender-responsive planning, implementation and monitoring, and enforcement of gender policies to ensure that schools have gender-sensitive facilities and that they are free from gender-based violence and harassment. Diverse stakeholder views are needed to formulate solutions to social exclusion and facilitate improvements that will challenge harmful traditional practices and address gender-based discrimination and violence.

The main stakeholders (duty-bearers with the obligation to respect, protect and realise the human right, especially the right to education) are the National Federation of the Disabled Nepal (NFDN), The Ministry of Women, Children and Social Welfare, the Nepal Disable Women Association, the Nepal National Dalit Social Welfare organization and the Feminist Dalit Organization (FDO).

2.3. Additional Areas of Assessment

2.3.1. Public Policy

Following the promulgation of the Constitution, the country has been undergoing a political, social and institutional transformation with the introduction of federalism. This has required a thorough reorientation of the education system through structural and functional reforms, including the policy and regulatory and fiduciary frameworks. Currently the vast majority (92%) of education budgets at local government level is derived from conditional grants from MoEST.

The government has elaborated a new long-term School Education Sector Plan (SESP 2021-2030). The SESP focusses on five major pre requisites for the planning and development of Nepal's school education sector:

- The federal transition: strengthen collaboration and coordination among the three tiers of government for effective delivery of education services.

- COVID-19: Recovery from the pandemic in view of the significant disruptions to the education sector and implementation of lessons learned.
- Demographic dividend: Nepal is entering its demographic window of opportunity - when there are more working age people than non-working age people.
- Skilling youth: increase the relevance and quality of education to provide skills for the domestic economy.
- Restore confidence in public schooling: political drive to restore confidence in the public-school sector.

A costed programme is being developed for the first five years of the SESP (2021-2026) in consultation with the development partners that have been providing pooled budget support in previous programmes in the form of a sector wide approach (SWAp). This SWAp maximizes the combined effectiveness of external resources in line with the principles of aid effectiveness. The sector wide approach (SWAp) is guided by a Joint Financing Agreement (JFA).

The whole school education sector is covered by the SESP. SESP is aiming to fulfil the government's commitment to ensure compulsory and free education up to basic level and free education at secondary level, as guaranteed by the Constitution, to implement the National Education Policy and achieve the education related Sustainable Development Goals (SDGs). The SESP continues and consolidates the reforms of previous education sector plans and programmes and as such is fully consistent with the government's development strategy.

The objectives of the SESP are:

- To ensure equitable access to and participation of all children, especially those who are socially and economically disadvantaged, children from marginalized groups and children with disabilities.
- To enhance the quality and relevance of overall school education and ensure minimum learning achievement in each child.
- To make all citizens literate with basic functional skills and expand opportunities for continuing education and lifelong learning.
- To ensure effectiveness of education service delivery by promoting good governance across the system, strengthening intergovernmental coordination, collaboration and developing institutional capacities of all institutions and individuals involved in the delivery of school education.

The SESP has been informed by multiple stakeholder consultations undertaken, including with government officials; parents and guardians; head teachers, teachers, and teachers representing various teacher associations; members of the school management committees; resource persons; social leaders; representatives from NGOs and civil society; political stakeholders; private sector organizations; and institutional schools. It has also benefitted from in depth studies on Gender Equality and Social Inclusion, costing and planning, Disaster Risk Reduction mainstreaming etc.

There is much consensus around the need to: improve quality of service delivery and learning outcomes; ensure the most disadvantaged groups are reached, especially children with disabilities; include early childhood education as part of the school system; develop capacity at all levels but particularly at school level and for teachers; improve teacher professional development; set minimum education standards, including for teacher qualifications and capacities; and leverage more resources for education.

Several acts and policies have been put in place, but the overall legislative framework, Federal Education Act, is yet to be enacted. This act is to provide guidance on how the three tiers of government coordinate and collaborate to accomplish the various education functions. The transition to this new division of roles and form of governance calls for increased institutional capacity particularly at the local level to govern the delivery of education services related to basic and secondary education. Despite the uncertainty over the precise establishment of the future roles and responsibilities across the three levels of governance it is understood that during the implementation of the SESP increasing levels of autonomy and responsibility will be transferred from federal to local level. As a result the capacities at local level will become the main deciding factor in the successful implementation of the SESP.

Within the proposed activities relating to monitoring and evaluation, a large number of systems, reports and reviews are proposed, e.g. local governments are expected to "develop and implement school education monitoring systems" and federal, provincial and local governments are expected to "prepare quarterly and annual reviews and reports of programme implementation" and "prepare annual situation reports". Given the identified capacity gaps, especially at local level, it will be important that such activities be as streamlined and efficient as possible.

The final beneficiaries of the action are the children and young people of Nepal (the rights-holders, entitled to know, be able to claim and to enjoy their right to education), including those currently within the public education system, those who will attain the age of 4+ during the life of the programme; those currently - or at risk of becoming - ‘out-of-school’ children; and those in school but at risk of not learning. Other beneficiaries include parents and communities who will benefit from early childhood support; members of school management committees; teachers and head teachers, district education teams and resource persons who will benefit from increased capacity development and resourcing to implement and monitor effective service delivery.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.

2.3.2. Macroeconomic Policy

Macroeconomic developments: The COVID-19 pandemic has derailed Nepal’s 40-year history of economic growth, with a 2.1% GDP contraction in financial year (FY) 2019/20. Recovery was only partial in FY 2020/21, at 2.7% GDP growth due to a second wave hitting the country between April and July 2021, forcing the authorities to impose renewed lockdowns and restrictions. According to preliminary Nepal Rastra Bank (NRB) estimates, remittances have picked up by 9.8% in FY 2020/21 after declining by 4% in FY 2019/20; services have grown by 4.4% in FY 2020/21, after a 4% contraction in the previous year, as tourism collapsed with an estimated one million jobs lost; industrial output bounced back by 5% in FY 2020/21, following a 3.7% contraction in FY 2019/20 as manufacturing and construction were affected by shortages in inputs and restricted labour mobility and constrained market access. Agriculture, which had remained the single driver of growth in FY 2019/20, expanding 2.2%, has grown by 2.6% in FY 2020/21. After an initial collapse in 2020, imports have rapidly grown, fuelling a large current account deficit in FY 2020/21 (8.3% of GDP).

The COVID-19 shock affected both revenues and expenditures. Temporary factors led to a narrowing of the overall fiscal deficit from 5.3% of GDP in FY2019/20 to 4.2% of GDP in FY2020/21. Specifically, increases in import related taxes and deferred tax receipts raised revenues by 2.2% of GDP. Concurrently, budget execution, which usually increases in the 2nd half of the fiscal year, was severely constrained by the second wave and associated lockdown measures. Public debt in FY2020/21 was 47.2% and Nepal remains at low risk of debt distress. Nepal’s external and domestic debt are roughly equal with external creditors mainly multilateral (88% of all external debt).

Outlook: The depth and duration of the pandemic are the main risks to the outlook. Growth is forecast at 4.4% in FY2021/22. The outlook for tourism, a traditional engine of growth in Nepal and key source of employment, remains fragile. Growth in the following years will be supported by greater and more efficient public infrastructure and development spending, and expansion of hydropower. Nepal’s current account deficit is expected to remain wide at -9.1% in FY2021/22. Imports are projected to remain at high levels given significant fiscal and monetary support for the economic recovery, as well as higher oil and food prices, COVID-19 related health spending, inventory rebuilding, and government capital spending. The overall fiscal deficit is expected to widen to 6.3% of GDP in FY2021/22 as higher expenditure needs arise from the resumption of capital projects and the governments’ pandemic response.

Policy: Buffers built before the COVID-19 pandemic, including a modest fiscal deficit, relatively low public debt to GDP, and a comfortable level of gross official reserves, provided some policy space to respond with a package of supportive measures introduced by the authorities in 2020 and extended in 2021. Many of these measures will continue into FY 2021/22, supported by additional fiscal space provided by Nepal’s participation in the debt relief under the Catastrophe Containment and Relief Trust (CCRT) and debt reprofiling under the G20 Debt Service Suspension Initiative (DSSI). In FY 2020/21, the authorities have extended monetary and fiscal support measures including (i) Cash transfer programs and temporary measures included daily food rations to the most vulnerable and utility bills subsidies; (ii) Measures to mitigate job loss including an expansion of the Prime Minister’s Employment Program and skills training; (iii) Tax relief measures including extension of tax deadlines, VAT and customs duty exemptions for COVID-19 related imports, and income tax rebates for MSMEs and highly affected industries; (iv) Liquidity and credit measures and macroprudential policies easing with NRB allowing for loan deferral programs; (v) Enhanced refinance facility and concessional loan program to support entrepreneurs, MSMEs, and affected businesses including in the tourism industry.

In January 2022, the IMF approved a 38-month USD 396 million Extended Credit Facility arrangement for Nepal with key policy actions including measures to boost revenues and public spending efficiency, strengthen financial sector regulation and supervision and support fiscal transparency, as well as measures to enhance governance and combat corruption. The program effectively validates the authorities' Memorandum of Economic and Financial Policies developed in support of their request for IMF support, and notably a comprehensive fiscal structural reform agenda, with both revenue mobilization and public financial management reforms to address the public investment efficiency gaps, strengthen fiscal risk management, improve public debt and cash management, and help advance fiscal federalism in a fiscally prudent manner.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.3.3. Public Financial Management

The Government has been implementing its PFM reform agenda under the Public Financial Management Reform Programme Phase II (PFMRP-II), which covers the period 2016-2026. The PFMRP has a detailed action plan to address weaknesses in the PFM system, and it is currently being updated to better reflect the needs created by fiscal federalism. Whereas improving PFM systems at the federal level remains an important objective, putting in place PFM systems at the subnational level has taken precedence as the Government implemented the federalisation agenda introduced with the 2015 Constitution, and fiscal decentralisation which started in 2017.

With fiscal federalism creating an opportunity to set the basic PFM systems right, implementation of strategic budgeting reforms introduced by the new Financial Procedures and Fiscal Responsibility (FPFR) Act (2019) at all three tiers of government are becoming a focus of attention, aiming at enhanced integration of recurrent and capital investment budgets, medium term and policy-based budgeting. Fiscal decentralisation makes policy-based budgeting more complex, in particular as ensuring a link between national and subnational strategies, and between the 5-year national Periodic Plan, the MTEF and the annual budget appears to be particularly challenging. The authorities have started to address these challenges in a more systemic manner since 2019, with the development of the 15th Periodic Plan and enhanced integration between MTEF and the annual budget.

Good progress has been achieved since 2016 in completing the legal framework for PFM and putting in place the institutional and regulatory framework for fiscal decentralisation, a key requirement to mitigate the high fiduciary risks inherently associated to a substantial part of the budget being transferred to newly formed local governments in need of equipment and trained staff. The federal constitution defines four types of federal transfers or grants to provincial and local governments: (i) federal equalization grants, (ii) conditional grants, (iii) complementary (matching) grants, and (iv) special grants. The Intergovernmental Fiscal Arrangements Act approved in November 2017 further introduced a tax-sharing system between all levels of government. In the meantime, IT systems have been rolled to provincial and local governments out to facilitate and standardize financial management and accountability, such as the Subnational Treasury Regulatory Application (SuTRA), Provincial Computerized Government Accounting System (P-CGAS) and the electronic government procurement (e-GP) system.

The authorities have also achieved good progress at enhancing domestic revenue mobilisation through tax and customs policy and administration reforms enshrined in the successive five-year Inland Revenue Management Second Strategic Plans. Nepal's tax policy seeks to accelerate revenue growth without increasing tax rates, which would have adverse impact on economic expansion. The challenges include the reduction of the informal sector (notably through larger taxpayer registration), mitigating tax evasion, broadening the tax net, reducing tax exemptions and reporting on tax expenditures, managing VAT refunds, collecting tax arrears and strengthening the audit programme. Domestic revenue soared from 15.9% in 2013/14 to 20.9% in 2020/21. The target is to reach 26.2% by 2025/26.

The main outstanding challenges faced by the PFM system are the following:

- Continue building human and institutional capacity in financial management, in particular at the local level, through the implementation of a comprehensive PFM Capacity Development Plan, the provision of model laws and guidelines, and by ensuring a more effective operationalisation of IT financial management systems deployed at local levels of government
- Improve strategic allocation of resources through: enhanced link between the planning framework (national, sector and provincial 5-year Periodic Plans), MTEF and annual budget (including Gender Responsive Budgeting) at provincial and local governments level.

- Improve public investment management through the implementation of the Project Bank and the development of an action plan to improve the efficiency of public investment spending and strengthen climate resilience, drawing on recommendations of the Public Investment Management Assessment (PIMA) 2021
- Improve public procurement governance and oversight.
- Strengthen domestic revenue mobilisation, notably through the adoption of a domestic revenue mobilisation strategy, including reduction of tax exemptions and increase in subnational governments revenue
- Enhance budget transparency.
- Improve external scrutiny.

These priorities shall be reflected in the forthcoming updated PFM RP-II, which will be informed by an ongoing PEFA update assessment (the last PEFA assessment report dates back to 2015).

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.3.4. Transparency and Oversight of the Budget

The authorities have shown their commitment to budget transparency, even in the context of the COVID-19 crisis where they continued to produce key budget documents with no or minimum delay. The executive budget proposal and the enacted budget (the ‘Red Book’) are made available to the public in a fashion that meets international standards, i.e. they are published every year on the website of the Ministry of Finance.

Quality and comprehensiveness of the information available on government websites has continued to improve (e.g. budget execution and debt situation data published on the Financial Comptroller General Office-FCGO website), while consolidated financial statements are approximating to the Nepal Public Sector Accounting Standards (NPSAS), according to the OAG.

Nepal has scored 39/100 for budget transparency in the 2021 Open Budget Index (OBI). Looking forward, improvement in the quality of data is expected through the use of accounting standard and the development and integration of IT financial management information systems at federal and subnational level. The challenge will be for the authorities to ensure budget transparency standards by local governments in the context of fiscal decentralisation, as well compliance of their accounting and reporting functions.

Concerning budget oversight, the mandate and resources of the OAG have been widened to allow for enhanced coverage of subnational governments. Audit oversight scores 67/100 in the OBI 2021, which is considered ‘adequate’. Parliamentary oversight still scores rather low, even as the parliamentary Public Accounts Committee has started to scrutinize federal government’s agencies more closely since 2018. More time (2 months) is now given to Parliament for scrutiny of the Budget Proposal under the new budget calendar in force.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to contribute to a well-educated and skilled society in Nepal which is able to play an active role in the social and economic development of the country.

The Specifics Objectives (Outcomes) of this action are to

1. improve equitable and inclusive access to education for all children, especially girls and children who are socially and economically disadvantaged, children from marginalised groups and children with disabilities
2. improve the quality and relevance of free basic and secondary education and ensure minimum learning achievements of each child
3. strengthen the local system delivery capacity by promoting good governance, intergovernmental coordination and collaboration and by developing institutional capacity at local level

The action is part of the Team Europe Initiative. Support measures will target teacher training (specific objectives 1 and 2) and implementation at local level (specific objectives 1 and 3).

The Induced Outputs contributing to Specific Objectives (Outcomes 1, 2 and 3) are:

1. Improved local management and institutional set up of education services to ensure effectiveness of education service delivery by promoting good governance across the system, strengthening intergovernmental coordination and collaboration and developing institutional capacities of all institutions and individuals involved in the delivery of school education.
2. Expanded inclusive school models and support mechanisms at LG level to increase access, participation and learning of children that face barriers related to their gender, caste/ethnicity, economic status, location, mother tongue and (dis)ability.
3. Implemented inclusive learning loss recovery roadmap in the priority provinces, with focus on reducing disparities in learning outcomes that have appeared/broadened over the past two years

The Direct Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

Contributing to Outcome 1 (or Specific Objective 1)

1. 1 Increased capacity of LGs to enroll and retain children in school education, especially those who are socially and economically disadvantaged, children from marginalized groups and children with disabilities.

Contributing to Outcome 2 (or Specific Objective 2)

2.1. Improved and more inclusive teaching and training practices at schools, teachers training centers and faculties of education.

2.2. Improved school capacities to support readiness.

Contributing to Outcome 3 (or Specific Objective 3)

3.1 Improved capacities of local governments in priority provinces in planning, budgeting, coordination, monitoring, reporting, and evaluation of the SESP.

3.2. Improved capacities of local governments in the priority provinces to run quality and inclusive education models for small schools, early grade learning, disability-inclusive, mother tongue education, gender responsive and safe learning environments in their schools and replicate these from other local governments.

3.2. Indicative Activities

Activities related to the Induced Outputs:

- Develop necessary laws and standards to make the governance and management of education in line with the federal system of governance.
- Promote good governance in school education, improve school leadership system and management based on information technology.
- Strengthen the communication systems to make mutual cooperation, accountability and coordination between local, provincial and federal governments effective.

Activities related to Outputs 1.1 and 1.2

- Update the child-friendly school model and equity strategy and implemented to promote equity and inclusion.
- Undertake school mapping and location planning on the basis of prescribed criteria and make arrangements for the establishment, adjustment and rationalisation of early childhood development and education centres and schools.
- Provide alternative learning for children in remote and small settlements.
- Manage, distribute and utilise of scholarships for uniforms and stationery for the economically disadvantaged and students with various forms of disabilities.

Activities related to Outputs 2.1 and 2.2:

- Introduce the use of modern and effective pedagogical methods: revision of curriculum and learning activities to include ICT, civic education, local language, culture, geography, history, knowledge and skills, supporting aids for children with special needs, climate change, sustainable development, peace education, gender and comprehensive sexuality education.
- Establish a teacher support system at local level and introduce the practice of teachers being responsible and accountable for students achievement.

Activities related to the Outputs 3.1 and 3.2:

- Develop contextualized benchmarks for local governments against SESP program result framework targets.
- Training to Local Governments on using the analysis and available data to inform their annual planning and budget exercises.
- Support local government to link and integrate social development data sets and information management systems at local level to allow education, child protection, health, and nutrition data to be linked for need-based and holistic support to the most at risk children.
- Support to local government to establish gender education networks and introduce complain response mechanisms and gender focal points at school level
- Support to local government to run eco-friendly (green) schools and introduce environmental sustainability and climate change in local curriculum
- Introduce low-tech interventions that provide feasible options for local governments with limited IT facilities and connectivity to bridge the digital divide
- Support local governments to undertake learning loss analysis and develop a recovery roadmap as part of their comprehensive education sector plans
- Model comprehensive school safety at school level to mitigate disruptions and shocks to the system and thereby loss of learning.

3.3. Mainstreaming

Environmental Protection and Climate Change

During the Education Sector Analysis (2020) in order to prepare the new school education sector plan, an vulnerability and risk assessment was completed. The outcome of the Strategic Environmental Assessment (SEA) screening concluded that no further action is required. The outcome of the Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment). During the implementation of this action environmental protection and climate change issues will be integrated in the curriculum updates and reform for teachers and students as well as in the review of guidelines for school construction.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender equality is a cross-cutting issue throughout all activities and envisioned outputs and outcomes. The SESP seeks to address gender inequality and social exclusion. This includes removing identified gender barriers, along with the challenges faced of the intersectionality of these barriers with additional drivers of exclusion such as those based on language, caste or socio-economic background. Major strategies under the SESP in this regard are the adaptation of the Consolidated Equity Strategy to be operational across the different tiers of government and support local governments to identify and unpack gender-driven education outcome disparities, followed by targeted interventions to reduce these and monitor progress through the equity index, which ranks local governments based on prevalence and severity of these disparities. The child-friendly school model and equity strategy will be modified and implemented to promote equity and inclusion; disability- and gender-friendly physical and educational infrastructure; an educational mechanism will be installed and necessary equity indicators will be included in the education management information system to ensure that any form of discrimination, abuse or bullying does not take place in school.

Human Rights

The SESP commits to ensure that all learners receive the knowledge of culture to respect a sustainable way of life, human rights, gender equality, peace, non-violence, universal citizenship and cultural diversity and skills to contribute to sustainable development. To achieve this, it has adopted the strategies of:

- integrating various soft/non-cognitive skills and human values, including gender, inclusion, respect for diversity, equity, human rights, non-violence, peace and cohesion, awareness in the school education curriculum.
- develop the capacities of all teachers so that all incumbent teachers can teach addressing contemporary issues related to teaching and learning identified by national studies such as gender, inclusion, equity, human rights, peace and co-existence, awareness of environmental change, etc.

In addition to strengthening the policy framework and system capacity to implement these strategies and amplify a human right approach where relevant, the proposed modelling on linking social development data information management systems at local level also has a strong correlation in ensuring services that relate to basic rights are made available and accessible to children in the most vulnerable situations (for example, right to safety, food, education, prevention from violence and abuse, etc.)

The action will apply the working principles of the human right based approach (HRBA).

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. The SESP was informed by a dedicated analysis on disability-inclusive education to inform the overall education sector analysis and the development of an inclusive education approach paper. Following this, the SESP sets out to strengthen inclusive education by including targets on scaling up inclusive education schools and turning the 380 existing resource classes into inclusive education resource hubs for schools within the respective local governments. It also scales up an inclusive Education Management Information sub-System at the local level to consolidate data on children with disabilities to be able to offer educational services that respond to their specific needs. Building on the progress achieved by MoEST and local governments on putting in place standards and frameworks for disability inclusive education and to support children with disabilities, the need is now to institutionalise and implement them to serve the holistic learning needs of children with disabilities in inclusive learning environments. Moving away from Nepal's traditional approach of providing residential segregated schools for children with disabilities, the SESP sets out all children to have access to quality education in their communities. This modelling of inclusive education is envisioned to be done alongside efforts to strengthen the capacity of governments to provide inclusive education services, including on identifying learning disabilities, developing tailored teaching and learning materials, along with teacher development

Democracy

The Consolidated Equity Strategy for the nepal School Education Sector is at the core of the strategies captured in the SESP relating to equity and inclusion. This strategy is based on the conceptual framework that schools are a reflection of society and therefore the primary instrument to reduce social exclusion and discrimination that lead to a divided and unequal society. The emphasis of the system strengthening in the education sector is primarily aimed at the local level to ensure that the democratically elected local governments are enabled to exercise their roles and responsibilities as per their constitutional mandate. The SESP also clearly states in its vision and mission the ambition to ensure that education produces people that are able to engage in their community and the wider society.

Conflict sensitivity, peace and resilience

The targeted geographical focus of the proposed support and interventions is based on the identified disparities between regions and provinces. Strengthening the systems within these provinces and local governments and reducing the disparities between them and the rest of the country directly contributes to a decrease of the flaring up of political agitation and conflict. Respecting local differences and allowing parents and children to have informed choices is a basis of the policy. Cross-cutting issues of child protection; preventing gender-based violence, sexual exploitation and abuse; and gender, age and disability needs to be systematically integrated in humanitarian responses. Children's related vulnerabilities increase during crisis periods. The proposed modelling on school safety and resilience component of the programme strategy has a dual focus on prevention and response. As part of the comprehensive school safety, the schools as a zone of peace (advocating against the use of schools for politically motivated disruptions) mechanism will also be strengthened and (re)introduced at the local government level.

Disaster Risk Reduction

The devastating impact of the 2015 earthquakes on school infrastructure exposed the vulnerability of the system and the need for a common understanding of comprehensive school safety encompassing safe learning facilities, school disaster management and risk reduction and resilience education. Recurrent floods and other disasters, as well as the COVID pandemic, has further shown the necessity to have a variety of strategies to reduce the burden of disruptions for students. The government's CSS Master Plan and minimum standards provides a foundation for this. However, this needs to be adapted to the federal context and operationalized at local and school levels to

increase the ability of schools to prepare and respond to natural disasters and other crises, such as the COVID-19 pandemic, while taking into account the cross-cutting issues that include protection, preventing gender-based violence, sexual exploitation and abuse, and disability. In line with this, local governments and schools need support to produce, update and implement school disaster management plans, and to train teachers and students on disaster risk reduction (DRR). At the same time, school safety needs to be understood as being related to more than physical infrastructure and DRR, including learning environments that are free of gender-based violence, bullying, corporal punishment and other violence. As many communities in Nepal are vulnerable to the impacts of climate change and natural disasters, there is an increasing need to strengthen awareness on climate and environment in schools.

3.4. Risks and Lessons Learnt

Category	Risks	Likelihood (High/Medium/Low)	Impact (High/Medium/Low)	Mitigating measures
Planning, processes and systems	Challenges in transitioning smoothly to a federal system during programme period, including the decentralisation process moving at different paces and promoting further inequities between different parts of the country.	High	Medium	<ul style="list-style-type: none"> • Identification in Policy and Strategy what will be overarching national directives and what will be discretionary. • Implementation of the Equity strategy to reduce inequities. • Policy dialogue on monitoring and analysis of civil servants rotations/ staff turn over
Planning, processes and systems	Insufficient capacity at all levels of the education system to deliver equitable and quality education	High	High	<ul style="list-style-type: none"> • Focusing greater capacity and institutional development efforts on school, district and community levels. • Develop a capacity development plan that outlines competencies and skills for different positions and levels. • Assess the numbers of staff at present and necessary • Assess the remuneration levels of staff
Legality and regulatory aspects	Further delays in amending Education Act and thus in activating high level bodies and implementing restructuring plans.	Medium	Medium	DPs are engaged in joint policy dialogue to press for progress on the Act and associated legislation.

Planning, processes and systems	Fiduciary risk is due to weak financial management and internal controls in the sector, which have led to qualified audits, ineligible expenditures, and delays in the submission of financial reports.	Medium	Low	<ul style="list-style-type: none"> Strengthen financial monitoring and supervision at all levels. DPs will commission Annual Fiduciary Reviews (AFR) and propose remedial actions and annually review outcome of implementation
External Environmental	Another earthquake/natural disaster	Medium	High	Focus on DRR-school safety in SESP. Continued efforts to support Government in ensuring safe schools – both infrastructure and 'software' components.

Lessons Learnt:

Access, equity and quality

The low enrolment rate of children of some marginalized communities, children living in difficult circumstances, children with disabilities, and children of economically very weak communities; and a high number of students not completing the education level is a concern. Drop out and repetition indicate the need for the improvements in access and participation.

Despite efforts made for improvement in quality, learning achievements obtained by the students show that improvement in quality is not achieved as expected. Creating 'enabling conditions' and 'child friendly' learning environments is not enough to guarantee improved learning outcomes: there must be a direct focus on classroom pedagogical processes that have a direct impact on learning outcomes.

Demand-driven teacher professional development depends on well informed teachers who are subject to performance management against a defined set of competencies, until these become the norm there is a need to define and communicate a minimum quality level of teacher competencies and prioritising inputs and actions that enable increasing numbers of teachers to attain the competencies necessary to fulfil their responsibilities. Teachers will have to be trained in innovative pedagogical approaches and continuous assessment

Strategies to reach the remaining out-of-school children and increase access to post-basic levels of education through addressing both socio-cultural and economic 'demand' factors can be very effective if well targeted and tailored to specific barriers

Effective and efficient service delivery

During SSDP, the main responsibilities for managing basic and secondary education were assigned to local governments. There is a need to further modify and strengthen the implementation structure and reporting systems for local governments' management of school education.

Training is not enough to achieve sustainable capacity development, there is a need for systematic capacity and institutional development that embraces individual and team capacity development needs, accounting systems (including ICT), structures and human resource development concerns.

The school improvement plan (SIP) is a useful tool for school development but only if it goes beyond a 'mechanistic' approach and is supported by 'instructional leadership of head teachers, facilitating a participatory, whole school and whole community approach to change'.

Donor coordination and complementarity

The working relationship between the government and DPs is supportive, and the education sector is increasingly looked upon as a model for other sectors in terms of aid effectiveness. All DPs are a part of the DP Education Group, together with representation from the Association of International NGOs (AIN) and the National Campaign for Education in Nepal (NCEN). All participate alongside government partners in the Local Education Group in well-established mechanisms of joint reviews and meetings as well as in thematic Technical Working Groups (TWGs) for more focused technical dialogue. Whilst DPs have different emphases on particular areas, there has been broad agreement over the most critical priorities and issues. Coordination mechanisms for the SSEP will build on existing strengths, whilst seeking to further strengthen harmonisation in terms of financial release criteria and reporting requirements, and a more coordinated approach to technical assistance.

3.5. The Intervention Logic

The underlying intervention logic for this action centres on financing for results. Financial support will leverage policy dialogue around demonstrating results (in particular via the variable tranches). Together with the DPs the EU will agree a common set of results-based tranche release indicators (DLIs). The DPs and the MoEST aim to build on the strong partnership modality as developed through the Joint Financing Agreement (JFA) of the SSDP and SSRP and are developing a similar joint modality to support the SESP in the continued spirit of aid effectiveness and harmonisation. The JFA sets forth the jointly agreed terms and procedures for the Joint Financing Partners (JFP) support to the SSDP and serves as a coordinating framework for consultations with the government, for joint reviews of performance, for common procedures on disbursement, reporting, procurement and audits.

Capacity development will be provided for the implementation of specific interventions aimed at improving key indicators of service delivery, particularly for the benefit of the most marginalised. The critical capacity development needs are especially on education quality, languages of education and inclusive education; improved resource allocation and efficiency savings; effective decentralisation as stipulated in the new Constitution; improved partnerships for support to targeted programmes; implementation of a range of institutional actions and support to PFM and fiduciary risk management, particularly at local level. In addition to providing support to implementing agencies to plan, implement, and monitor SESP activities and DLI achievement, technical assistance will be provided to support DP coordination, specifically JFPs, on required review missions each year.

The overall impact or long-term changes of the action, leading to the achievement of Nepal's strategic goal, endorsed by the EU and coherent with Nepal's strategy is to contribute to a well-educated and skilled society in Nepal able to play an active role in the social and economic development of the country. The expected short term or intermediate outcomes are positive changes in equity access and quality learning for the targeted beneficiaries, namely teachers, students and communities in response to the opportunities created by the implementation of new opportunities provided by the direct outputs. (e.g. more ECCD centres build and equipped). Induced outputs relate to the expected improvements in Nepal's public policies, education sector spending and education sector delivery, as reform steps are expected to be achieved by the public institutions supported by budget support and as a consequence of the appropriation and implementation of new opportunities provided by the direct outputs (e.g. the approved necessary laws and standards to make the governance and management of education in line with the federal system of governance).

3.6. Logical Framework Matrix - BUDGET SUPPORT MODALITY

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention.

On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.

The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

Caveat: the indicators used in the LFM refer to the budget support intervention logic. They help monitoring the implementation of the programme in view of its objectives and later evaluate its contribution to country policy's achievements. The list of indicators below should not be understood as the list of indicators informing the disbursement of variable tranches and spelled out in the relevant part of the financing agreement signed with the partner country, although some indicators may be used for both purposes and will be marked accordingly.

Results	Results chain	Indicators (max. 15)	Baselines (year)	Targets by the end of the budget support contract (year)	Sources of data (1 per indicator)
Indicative Impact of the policy	To contribute to a well-educated and skilled society in Nepal which is able to play an active role in the social and economic development of the country	1. Human Development Index 2. Completion rate (primary education, lower and upper secondary education disaggregated at least by sex (SDG 4.6.1 amended) (GAP III))	1. 0.602 (2019) 2. 75.3% (2021) 76.1% for girls	1. tbd 2. 92.8% (2024)	Human Development Report IEMS
Expected Outcomes of the policy	1.improve equitable and inclusive access to education for all children, especially girls and children who are socially and economically disadvantaged, children from marginalised groups and children with disabilities 2.improve the quality and relevance of free basic and secondary education and ensure minimum learning achievements of each child 3.strengthen the local system delivery capacity by promoting good governance, intergovernmental coordination and collaboration by developing institutional capacity at local level	1.1 NER in grade 1-8 (to be disaggregated by at least by sex) 1.2 Completion rate at basic level (to be disaggregated at least by sex) 2.1 Increased percentage of students who pass grade 8 examination with specified minimum learning achievement disaggregated by gender and disability 3.1. Number of LG using SUTRA 3.2. Number of schools using SAS 3.3 Number of schools that provide timely and complete data entry into IEMIS	1.1. 95.06% (2021) 1.2. 76.23% (2021) 2. 75.3% (2021) 3.1 749 (2021) 3.2. 2 000 (2021) 3.3. TBD (2021)	1.1. 96.52% (2024) 1.2. 82.45% (2024) 2. 87.3% (2024) 3.1. 753 (2024) 3.2. 4 741 (2024) 3.3. 35 900 (2024)	1. IEMS 2. IEMS 3.1 Financial Annual report 3.2. Financial annual report 3.3. Consolidated Annual Status report

Induced Outputs					
	<p>1.1. Improved local management and institutional set up of education services to ensure effectiveness of education service delivery by promoting good governance across the system, strengthening intergovernmental coordination and collaboration and developing institutional capacities of all institutions and individuals involved in the delivery of school education.</p>	<p>1.1.1 Satisfactory progress in the implementation of the SESP</p>	<p>1.1.1 Baselines of the KPI-PRF</p>	<p>1.1.1 Annual Targets of the KPI-PRF</p>	<p>1.1.1. Aide memoires of the JRM and BRM</p>
	<p>2..1 Expanded inclusive school models and support mechanisms at LG level to increase access, participation and learning of children that face barriers related to their gender, caste/ethnicity, economic status, location, mother tongue and (dis)ability.</p>	<p>2.1.1. Identification, enrolments and retention of children with disabilities/ functional limitations in basic schools</p> <p>2.1.2. Number of LG implementing additional measures in line with the learning loss recovery roadmap in the priority provinces</p>	<p>2.1.1. 0.49 % in 2021</p> <p>2.1.2. 0/246 (2021)</p>	<p>2.1.1. 3.6 % in 2024</p> <p>2.1.2. 100/246 (2024)</p>	<p>2.1.1. IEMIS</p> <p>2.1.2. MTR report of the SESP</p>
	<p>3..1 Implemented inclusive learning loss recovery roadmap in the priority provinces, with focus on reducing disparities in learning outcomes that have appeared/broadened over the past two years</p>	<p>3.1.1. Grades 3-5-8 students achieving minimum competency in Nepali and mathematics in Madhesh, Karnali and Sudurpashchim compared with the national achievements</p>	<p>3.1.1. TBD in 2021 (to be disaggregated by sex and caste)</p>	<p>3.1.1. Reduction 50% in 2024 (to be disaggregated by sex and caste)</p>	<p>3.1.1 NASA</p>

Direct Outputs	1.1. Increased capacity of LGs to enroll and retain children in school education, especially those who are socially and economically disadvantaged, children from marginalized groups and children with disabilities.	1.1 Percentage of out-of-school children (ages 5-12) disagragated at least by sex and disability	5.4% (2021) (to be disaggregated by sex (76.1% girls) and disability)	2.6% (2024)(to be disaggregated by sex and disability)	Annual Status Report
	1.2. Improved and more inclusive teaching and training practices at schools, teachers training centers and faculties of education.				Annual Status Report
	2.2. Improved school readiness for children entering basic education level.	2.2. Grade 1 entrants with ECED/PPE experience (to be disaggregated by sex and caste/ethnicity)	2.2. 70.1% (2021)	2.2. 81.5% (2024)	IEMIS
	3.1 Improved capacities of local governments in priority provinces in planning, budgeting, coordination, monitoring, reporting, and evaluation of the SESP.	3.1 Number of LGs with Comprehensive SESP and MTEF in priority provinces	3.1. 8/246	3.1. 100/246	MTR report of SESP
3.2. Improved capacities of local governments in the priority provinces to run quality and inclusive education models for small schools, early grade learning, disability-inclusive, mother tongue education, gender responsive and safe learning environments in their schools and replicate these from other local governments	3.2 Number of LG in priority provinces with running Q&I school models, adapted to their context	3.2. TBD/246	3.2. 100/246		

4. IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 63 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation of the Budget Support Component

4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 40 000 000 and for complementary support is EUR 10 000 000.

This amount is based on roughly maintaining the current and previous level of support to Nepal's school sector, recognising the proven capacity of the education sector to spend its budget. The following disbursement calendar and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

	Transitional Year	Year 1	Year 2	Year 3	Total
Budget Support					
<i>Fixed Tranche</i>	EUR 4M	EUR 3M	EUR 3M	EUR 3M	EUR 13M
<i>Variable Tranche</i>	-	EUR 9M	EUR 9M	EUR 9M	EUR 27M
Total indicative budget support	EUR 4M	EUR 12M	EUR 12 M	EUR 12M	EUR 40M

These budget allocation and indicative disbursement calendar are justified by the continued positive assessment of the government's policies geared towards macroeconomic stability, sustained rollout of the public finance management reform and the implementation of the new fiscal federalisation, and reliable improvement of the transparency and oversight mechanisms.

4.3.2. Criteria for Disbursement of Budget Support

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the School Education Sector Support policy and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities: quality education, equity and inclusive education and good governance.

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3. Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Nepali rupees will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

4.4. Implementation Modalities for complementary support to a BS

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures³.

4.4.1 Indirect Management with a pillar assessed entity

A part of this action may be implemented in indirect management with an entity or entities, which will be selected by the Commission's services using the following criteria:

For the implementation that entails contribution to the achievement of the specific objectives 1 and 2 of this action (see 3.1) which will improve inclusive and quality teaching, the entity will be selected using the following criteria:

- i) At last 20 years of experience in the education sector in Nepal;
- ii) Experience in supporting education reforms and in particular curriculum development and reform as well as teachers management, examinations and national assessments of learning achievements;
- iii) Specific experience, expertise and added value in the education sector in particular the promotion of the gender equality and social inclusion;

For the implementation that entails contribution to the achievement of the specific objectives 1 and 3 of this action (see 3.1) which will improve inclusive education and the capacities of local governments for the implementation of the SESP in 3 provinces in Nepal (Madhesh, Karnali and Sudurpashchim), the entity will be selected using the following criteria:

- i. At last 10 years of experience in the education sector in Nepal;
- ii. Experience in supporting education reforms;
- iii. Working experience in the 3 provinces in supporting local and provincial governments in the education sector.

³ www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

4.4.2 Changes from indirect to direct management mode (and vice versa) due to exceptional circumstances (one alternative second option)

In case this action cannot be implemented in indirect management due to the exceptional circumstances, it will be implemented in direct management (procurement). This implementation will contribute to the achievement of the three specific objectives specified in 3.1.

4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission’s authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.6. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	Third-party contribution, in currency identified
Budget support - cf. section 4.3	40 000 000	
Implementation modalities – cf. section 4.4		
Specific Objective 1 and 2		
Indirect management– cf. section 4.4.1.	5 000 000	EUR 5 000 000
Specific Objective 1 and 3		
Indirect management– cf. section 4.4.1.	4 700 000	
Evaluation – cf. section 5.2	300 000	N.A.
Audit – cf. section 5.3		
Contingencies	N.A.	N.A.
Totals	50 000 000	EUR 19 000 000 USD 398 500 000

4.4. Organisational Set-up and Responsibilities

Overall steer and direction of the SESP will be provided by the Local Education Group (LEG), particularly via the two annual meetings organized and chaired by MoEST that will be held in May (Budget Review Meeting - BRM) and November (Joint Review Meeting - JRM). The LEG is composed of a broad range of agencies and networks, representing the Government (including National Planning Commission, Ministry of Finance and line ministries), the Local Education Development Partner group (including joint financing DPs, non-joint financing DPs and (I)NGOs), Civil Society Organizations (CSOs - including federations representing women, minorities, people with disabilities, disadvantaged groups and teacher unions) and universities/research institutions.

The MoEST, through the CEHRD, is responsible for SESP programme implementation based on an agreed programme results framework, a Joint Financing Arrangement (JFA) signed by the government and the JFPs, and Annual Strategic Implementation Plans (ASIP), and Annual Work Plans and Budgets (AWPB). The CEHRD prepares the ASIP/AWPB and executes the AWPB by implementing activities assigned to the

provincial and local governments. At the beneficiary school level, where most of the SESP expenditures are made, the main frontline actors are the community schools, responsible for managing the school-level activities through school management committees (SMCs). Parent-teacher associations (PTAs) function as watchdogs.

Policy direction is entirely the purview of the MoEST. Responsibility for overall programme monitoring is shared between the CEHRD and the MoEST. The MoEST also oversees aid-coordination.

The EU Delegation is member of the LEG and signatory of the JFA. The EU Delegation will be also member of the the overall management and decision regarding the complementary measures and it will participate to the review as part of the steering committee of the implementation of the EU complementary measures to support the education sector wick will improve the role of EU in sector policy dialogue at federal, provincial and local level. Moreover, the EU will lead the harmonisation and the alignment of the Technical Assitance framework for the SESP.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows: Identification of DLIs including baselines and targets based on IEMIS and specific studies. Through the BRM and JFM, there is a comprehensive overall framework for monitoring and reporting on the implementation of sector policies and strategies as set out in the JFA, which has been revised based on the lessons learned from the SSDP and to align with the results-based funding mechanism.

The BRM will review the SESP plans and budget (ASIP/AWPB) for the next fiscal year; assess overall programme performance and implementation progress based on the reports specified below; assess and confirm the achievement of any DLIs not assessed in the previous DLI review during the JRM in November and for which evidence has been submitted; assess progress towards meeting the current year DLIs and identify steps to remove obstacles if any; review compliance with financial management responsibilities and procurement procedures as mentioned in the JFA; assess outcome of other reviews.

The JRM will assess overall programme performance and implementation progress based on the reports specified below; assess and confirm the achievement of annual DLIs for which evidence has been submitted; agree on the actions to be taken and the evidence to be submitted to fulfil the DLIs for the current year; review compliance with financial management responsibilities and procurement procedures as mentioned in the JFA; and assess outcome of other reviews. Data quality audit of IEMIS will be implemented periodically in addition to the internal quality control.

The government will provide all information relevant to the implementation of the SESP including the following: FMR reports for each trimester; the ASIP and AWPB for the next fiscal years before the BRM each year; a Consolidated Status Report before the JRM each year, among others, presenting progress in achievement of results as per the SESP programme results framework; a report on progress in achievements of DLIs before the JRM and BRM each year; an annual audit report from the external audit; reports from other reviews.

5.2 Evaluation

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders as part of the SESP mid-term and final evaluations.

The mid-term evaluation will be carried out for problem solving and learning purposes, in particular with respect to the decentralisation process and to make any course corrections as required as well as feed in to the programming and financing needs for the last years of SESP.

The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the deadline for Nepal's graduation for LDC status.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

Evaluation services may be contracted under a framework contract.

5.4. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.