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MULTIANNUAL INDICATIVE PROGRAMME (MIP) 2014-2020

NEPAL

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List of abbreviations

ADB	Asian Development Bank
ADS	Agriculture Development Strategy
CA	Constituent Assembly
CPA	Comprehensive Peace Agreement
CSP	Country Strategy Paper
DANIDA	Development branch of Ministry of Foreign Affairs, Denmark
DfID	Department for International Development, UK
DP	Development Partners
DRR	Disaster Risk Reduction
EU	European Union
EFA	Education for All
EIA	Environmental Impact Assessment
ER	Expected Results
FAO	Food and Agriculture Organisation of the United Nations
FY	Financial Year
GDP	Gross Domestic Product
GNI	Gross National Income
GPI	Gender Parity Index
GoN	Government of Nepal
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
JICA	Japan International Cooperation Agency
LAPA	Local Adaption Plans for Action
MIP	Multiannual Indicative Programme
MoE	Ministry of Education
MOFALD	Ministry of Federal Affairs and Local Development
MSNP	Multi-Sector Nutrition Plan
NDP	National Development Plan
NRRC	Nepal Risk Reduction Consortium
ODA	Official Development Assistance
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PFMRP	Public Finance Management Reform Programme
SDC	Social Development Centre, a unit of Qatar Foundation for Education, Science and Community Development
SEA	Strategic Environmental Assessment
SIP	School Improvement Plan

SO	Specific Objective
SSRP	School Sector Reform Plan
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
USAID	US Agency for International Development
WFP	World Food Programme
WB	World Bank

1. EU Response

1.1. Strategic objectives of the EU's relationship with the partner country

Nepal has achieved impressive progress on several social indicators including steady improvements in terms of poverty reduction, health, education and rural development thanks also to continued development support and strong policy engagement. Yet, developmental efforts need not only to continue but to be scaled up and better coordinated to reach the ambitious goal of the Government of Nepal for the country to graduate from least developed status by 2022. Following the signing of the Comprehensive Peace Accord (CPA) in 2006, the end of the monarchy, and the 2008 Constituent Assembly (CA) elections, fresh elections for a new CA were held on 19 November 2013. The elections were well-conducted in a free and fair manner with over 80% turn out and provide an important basis to revive the process for the drafting of a new Constitution, which was put on hold following the dissolution of the first CA in 2012, and the strengthening of democratic institutions and domestic accountability.

Economically, Nepal belongs to the Least Developed Countries and remains one of the poorest countries in South Asia. Gross National Income (GNI) per capita stands at USD 700. Key challenges include insufficient decent jobs, pockets of severe food insecurity, high prevalence of chronic and acute malnutrition, and limited access to quality education, poor infrastructure and connectivity including rudimentary water management systems, a poor business climate and therefore lack of economic opportunities outside subsistence agriculture and poor governance. Some inequalities persist between groups and communities on the basis of caste, ethnicity or gender. Although the interim constitution stipulates equal rights for men and women and prohibits discrimination on gender grounds, discrimination against women in Nepal has not been completely eliminated. Migration pressures have resulted in heightened vulnerability of some groups such as women and children. The Government of Nepal is determined to address these challenges by establishing the necessary post-conflict foundations to increase economic growth through increased investments in key sectors and making growth more inclusive to help equalise opportunities amongst groups and communities.

Addressing the challenges of deforestation, land degradation, biodiversity loss, climate change and improving disaster preparedness is equally important given Nepal's propensity to natural disasters. Nepal is 11th in the world in terms of vulnerability to earthquake hazards and it is listed as the 20th most vulnerable country on the global hazard map¹. Landslides, floods, cold waves, and fires affect the most vulnerable. Government's strong interest to address these issues is illustrated by its comprehensive package of responses laid down in the Approach Paper to the Thirteenth Plan (FY 2013/14 – 2015/16), the Climate Change Budget Code, the Climate Change Policy, the National Adaptation Programme of Action, and the National Framework on Local Adaptation Plans for Action (LAPA).²

Against this background, the EU's main strategic interest in Nepal therefore remains investment in the socio-economic development of the country through development aid, including focus on support to democratisation, human rights, rule of law and domestic accountability of state

¹ UNDP, 2008, *A global report: Reducing Disaster Risk, A challenge for development*. <http://www.undp.org.lb/WhatWeDo/Docs/Reducing%20Disaster%20Risk%20-%20A%20Challenge%20for%20Development.pdf>

² <http://www.gcca.eu/national-programmes/asia/gcca-Nepal-climate-change-support-programme>

and non-state actors, in order to respond to the preoccupations of Nepal's citizens for sustained long term economic development and enhanced employment opportunities. Largely considered to be a "neutral" actor in Nepal, the EU is in a unique position to support the political transition process including support to the elaboration of a new Constitution. This role has been further reinforced through the EU's on-going MIP, including namely through the support to the Nepal Peace Trust Fund, to the electoral process, to the education sector, and the fight against corruption including through support for improved public finance management. Furthermore Nepal has been selected as one of the "EU Resilience Flagship Countries" which should lead to more effective EU collaboration, bringing together the humanitarian assistance, long-term development cooperation and on-going political engagement.

As the biggest provider of official development assistance (ODA) to Nepal (EU and Member States' contribution combined) the EU together with other development partners engages in regular policy dialogue with the Government of Nepal to enhance the impact of development aid. The Government of Nepal is also highly committed to the aid effectiveness agenda as reflected in the recently endorsed Development Cooperation Policy. One of the Government's main objectives of the Development Cooperation Policy is to increase the proportion of aid that is channelled through country systems. Development partners however are of the view that higher levels of implementation of aid through the national budget should go hand in hand with significant concrete improvements in the Government's Public Finance Management (PFM) systems. Against this background, the present MIP shall be implemented through a mix of Sector Reform contracts, provided that eligibility for EU budget support is confirmed, particularly in those sectors or sub-sectors where multi-donor SWAPs exist and are functioning well, and other implementation modalities including direct and indirect management.

1.2. Choice of sectors

1.2.1. Sustainable rural development:

Sustainable rural development is of fundamental importance to Nepal given that 83% of the national population continues to live in rural areas, where the poverty incidence is 27% (as compared to 15% in urban areas). Within this sector agriculture is of particular importance as it employs well over two-thirds of Nepal's population, accounts for 34% of national GDP, and is the only income-generating activity for nearly all the poor. However, while agriculture is of vital importance, the sector suffers from notable problems. Agricultural productivity remains low, with production concentrated in the area of low-value cereals and subsistence, with only 13% of produce traded in markets. Low productivity has in turn led to food insecurity, which affects between 3.5 and 4 million people. According to the latest Nepal Food Security Bulletin (April-June 2013) prepared by Nepal Food Security Monitoring System, 25.3% of the population had inadequate food consumption. Related to food insecurity, malnutrition remains a serious problem in Nepal, with chronic under-nutrition (stunting) of children under five exceeding 40 % or 1.6 million children, severe acute malnutrition rates exceeding 3%, and reaching as high as 8% in certain districts in the Mid and Far Western Regions; a figure which exceeds emergency nutrition critical thresholds. Within the agricultural sector, and rural areas more generally, there are problems of limited employment and economic opportunities, which in turn have led to high levels of unemployment, outmigration and poverty, whilst also threatening stability and peace.

The issues surrounding the development of rural Nepal demonstrate a clear need for a broader transformation to occur within the agricultural sector, towards more highly productive and commercial farming. Such a transformation would help alleviate food deficit and insecurity, and correspondingly, malnutrition. It would also create employment opportunities, and bring about the

employment-centred economic growth necessary to improve the livelihoods of a large segment of the population, effectively lifting them out of poverty. There is, therefore, a strong case for the EU to support such a transition, which has the commitment of both the Government and other Development Partners. In its current National Development Plan (NDP), the Government has cited improving agricultural productivity, diversification and commercialisation as one of its four main priorities. It has also committed itself to developing an Agricultural Development Strategy to be implemented over the course of the next two decades. The Strategy, which has the support of 13 major partners, including ADB, IFAD, USAID and EU, comprises four national flagship programmes: i) food and nutrition security; ii) decentralized science, technology and education; iii) value chain development, and iv) innovation and agro-entrepreneurship. It is however not yet formally approved by the Government. Support for the Agricultural Development Strategy will build upon the experiences and lessons learnt from the EU Food Facility and Food Security Thematic Programme.

Within the sector of sustainable rural development, Nutrition and Agriculture are closely interlinked. Through this focal area, the EU can contribute to its own goal of addressing global malnutrition by reducing stunting with both nutrition specific and nutrition sensitive interventions. The EU has already supported the development and successful pilot implementation of the Government's Multi-Sector Nutrition Plan, which provides a sound basis for future interventions.

Support to sustainable rural development should also lead to increased co-operation on waste management, and increased access by rural populations to markets, but also to basic amenities and services such as safe drinking water, sanitation and primary healthcare. Renewable energy systems are a suitable option to improve the provision of such services in rural areas, whilst potentially enhancing rural livelihoods and bringing wider developmental change in terms of agricultural productivity and economic growth. Increased access to renewable energy contributes to climate change mitigation, in line with the EU's own priorities identified in the *Agenda for Change*. Furthermore, in line with the resilience approach, specific actions will be implemented to help rural populations to adapt to risks, including to the effects of climate change, by strengthening the sustainable management of natural resources and making agricultural systems more resilient to disasters. Linkages to the Asia Investment Facility (through blending of grants and loans) should be considered.

Finally, rural youth in Nepal are increasingly seeking employment opportunities outside the country, causing labour shortages in the agriculture and related sectors. Negative impacts of outmigration can be tackled by diversifying and encouraging livelihood opportunities through on farm and off farm employment as an alternative for outmigration in rural areas, facilitating the productive use of remittances and acquired skills of returning migrants, and helping them to find employment. All interventions in the rural development sector should offer avenues to tackle the problems associated with social exclusion, whereby exclusion from social, economic and political processes along lines such as caste, ethnicity and gender is a key cause of poverty and a potential driver of social conflict and migration pressures. Interventions should also address the need for more efficient production, distribution and marketing techniques and possibly tackling institutional obstacles for doing business in the agricultural sector, while promoting improved social and labour standards.

1.2.2. Education:

Education has a vital role to play in securing a peaceful future for Nepal and sustainable economic, social and environmental development. Access to and completion of a quality education, at all levels, from early childhood through basic education and beyond, represents the cornerstone of Nepal's efforts to reduce the historical inequality and inequity across different dimensions. Great progress has been made in enhancing access to education but deeply entrenched gender, equity and

social exclusion issues continue to restrain development and reform efforts. Learning outcomes for many children remain unacceptably low.

There have been impressive results in increasing access to basic education for all children since 2005 when the Government of Nepal's first sector programme, Education for All (EFA) 2005-2009 was launched. The second sector programme School Sector Reform Plan (SSRP) 2009-2015, has extended free and compulsory education and includes early childhood education, basic and secondary education together with adult literacy programmes. There are now more schools, more and better trained teachers, more textbooks and more children in school than ever before. There are more young children completing a year of early childhood education before joining the first grade of primary education. Girls and boys from diverse backgrounds are enrolling in representative numbers.

The Government of Nepal commitment to the education sector has been strong and consistent over many years, with the education sector claiming the largest allocation of the budget in recent years (around 15% - 17%). The mature sector wide programming in education allows for close alignment of EU support with Government priorities and plans. Working jointly with the Government and the other pooling donors through the government systems provides important opportunities for national scale reform and development within the education system and also in the key areas of PFM and governance.

Major achievements in the sector between 2009-10 and 2012-13³ include: an increase in the net enrolment rate for basic education (grade 1-8) from 83.2% to 87.5%; the Gender Parity Index (GPI)⁴ for basic education has gone up from 0.96 to 0.99; the completion rate of basic education has increased from 52.7% to 60.8%; the percentage of four year olds enrolled in Early Childhood Development has gone up from 66.2% to 73.7%; and the number of out of school children is estimated to have fallen from 800,000 to 445,204. Enrolments in secondary education (grade 9-12) are also increasing but are capped by infrastructure constraints.

Lack of skilled labour is one of the key constraints for economic growth in Nepal. A well-functioning technical and vocational education and training (TVET) system could play an important role in transforming Nepal's human resources into productive assets leading to more inclusive, sustainable and employment-oriented growth. Some of the key constraints that still hamper the development of the TVET sector include: (i) insufficient and inequitable access; (ii) poor quality and low market relevance; (iii) weak institutional capacity; and (iv) large investment gaps. The government of Nepal has realized the significance of technical and vocational skills and soft skills so that this component has been introduced in the education sector through the School Sector Reform Plan (SSRP). The main goal of TVET is to equip students with employable skills, which will assist and accelerate their transition from school to work and help them explore a variety of carrier opportunities that are available inside Nepal as well as in the neighbouring countries and in the global market.

Despite these significant achievements there is still much to do in the coming years. Many children are still out of school or are at risk of dropping out; more children need to access early childhood education; and more girls and children from disadvantaged backgrounds need to transition to and complete secondary education. Importantly, learning achievements at all levels also need to improve significantly; the availability of high quality teaching and learning materials needs to be increased, the quality of teaching needs to be raised, and work needs to continue to ensure that all schools have adequate infrastructure, water and sanitation and secure and friendly learning

³ Source: School Sector Reform Programme, revised version of September 2013.

⁴ Source: UNESCO Institute for Statistics: <http://www.uis.unesco.org/Education/Pages/gender-education.aspx>

environments. Finally, examination and assessment systems need to be modernised to reflect competencies and skills.

Support to the education sector has been a major pillar of the EU's assistance to Nepal under the Country Strategy Paper 2007-2013 with close to 60% of the funding allocated to education, in the form of sector budget support to the Education for All (EFA) and School Sector Reform Plan (SSRP) programmes. EU support has provided important financial and technical assistance, underpinning broad sector reform and supporting Government efforts. Furthermore, funding to non-state actor projects in education has provided an important and effective complement to the sector wide support, promoting greater access, equity and inclusion of marginalised children in education.

Maintaining this long term support during the 2014-2020 period will help to ensure a more efficient, better quality and more inclusive and equitable education system, whilst building on and strengthening the progress made so far. EU support can help government increase investments in early years learning (G1-3) particularly reading and numeracy and in the design of high quality literacy programmes for adults based on robust literacy assessments linked to small scale support for establishing and supporting livelihoods opportunities; further, it can support the expansion of skills and vocational education and training. The current sector programme planning extends to the financial year 2015-2016 with work underway to review indicators and targets and prioritise investments for the remaining two years of the programme. There will also be important opportunities during the MIP period to help shape a new sector plan for the post 2015 period, taking into account the post-Millennium Development Goals agreements and establishing targets and indicators for 2016-17 and beyond. Support to the vocational training sector (which could partly be focused on the agricultural sector and environmental issues) and possibly improving linkages to labour market planning and management will help creating employment and boosting Nepal's competitiveness in the long term.

Finally, with its unique geology and topography, Nepal faces frequent natural hazards causing displacement, loss of life, infrastructures, property, livelihoods and disrupting education. According to recent studies, two thirds of the school buildings throughout the country are at risk in case of major earthquakes, students and teachers have poor knowledge on disaster risk reduction (DRR) and only few schools have school safety plan. Institutional issues (capacity, dilution of responsibilities) and lack of proper building codes and standards make quick fixes not a realistic solution; In any case, DRR mainstreaming is a critical element of any action in the education sector, necessary to safeguard any investment made.

1.2.3. Strengthening democracy and decentralisation:

When measured by the majority of governance indicators, despite improvements in recent years, Nepal remains one of the weak countries in South Asia. Political instability, low institutional capacity, weak systems of accountability, delays in decision making processes and mismanagement all remain prevailing features within Nepal. Furthermore, poor performance in these areas has broader impacts in the overall socio-economic development of the country. This provides a strong rationale for the EU to offer support in this area given its extensive experience in supporting good governance and accountability, especially in countries undergoing transition. The period of post-conflict transition and constitutional development offers unprecedented opportunity to influence also the human rights framework.

Supporting the strengthening of democracy and decentralisation is particularly important given current political developments in Nepal. Specifically, support to democratisation and domestic accountability requires interventions on **democratic capacity-building of legislative bodies and other key institutions** as well as **electoral assistance**. The Assembly elected following the polls of November 2013 may require support for its dual tasks of Parliament and Constituent Assembly.

Furthermore, it may be appropriate to provide support to a number of constitutional bodies, such as the Election Commission, or the National Human Rights Commission and the Supreme Court. Local elections are a key dimension of the democratic transition that will require assistance, although support measures could possibly be envisaged under the ongoing Nepal Peace Trust Fund programme. With regard to future elections (national or local), recommendations made by the EU Election Observation Mission need to be addressed.

Moreover, in the timeframe of the forthcoming MIP, it is highly likely that Nepal will have a new constitution, and will undergo a transition towards a Federal State. Such a transition will present enormous challenges to the government, and will provide room for potential instability, conflict, and disruption of economic growth and service delivery. Through providing support to **decentralisation and state restructuring**, the EU as well as other development partners, can contribute to the capacity of key institutions in a manner that allows for a smoother transition to federalism and ensures quality service delivery to citizens at the local level. New administrations and possibly parliaments to be established at the provincial level may need significant support for capacity building. But also existing institutions at the central and local level are likely to be faced with a significant redefinition of their roles and competencies. In the meantime, a reform process for the civil service has started.

Remaining engaged in this sector will also offer opportunities for the EU to support efforts designed to improve **PFM**. It is critical to ensure that the government is able to manage its resources in an effective and efficient way in order to deliver public services of the expected quality. PFM support is also critical to ensure the EU's own resources provided through budget support are implemented in an accountable manner. Unfortunately, the prolonged political transition and the absence of elected authorities at national and local level have prevented the much needed improvements in the management of public resources. The EU should continue its on-going support to the implementation of the National PFM Reform Strategy, which should be reviewed, based on the results of the forthcoming Public Expenditure and Financial Accountability (PEFA) Assessment scheduled for 2014. Fighting corruption and working on economic governance issues in general are important issues, too.

Transitional justice institutions are facing considerable challenges (including lack of staffing and resources) that have negative consequences for the realisation of their respective responsibilities. Strengthening these institutions would help to address issue of impunity and strengthen an environment where rule of law prevails. Experience shows that impunity weakens the rule of law, undermines civic trust in justice institutions and propagates a culture of crime and violence.

Providing support to the strengthening of democracy and decentralisation will also offer an opportunity for the EU to align with the Government itself as reflected in the Government's own National Development Plan. The Government's Plan has also recognised the importance to promote human rights and to improve the status of marginalised and disadvantaged groups, which is critical for inclusive development. These issues will be directly addressed by all programmes implemented under the three proposed focal areas as well as by parallel interventions under other instruments such as the European Instrument for Democracy and Human Rights.

2. Financial overview (Indicative amounts)

<i>Sector 1 Sustainable Rural Development</i>	<i>(EUR 146 million – 40.5 %)</i>
<i>Sector 2 Education</i>	<i>(EUR 136.4 million – 38 %)</i>
<i>Sector 3 Strengthening democracy and decentralisation</i>	<i>(EUR 74 million – 20.5 %)</i>
<i>Support measures</i>	<i>(EUR 3.6 million – 1%)</i>
Total:	<i>(EUR 360 million – 100 %)</i>

3. EU support per sector

3.1 SUSTAINABLE RURAL DEVELOPMENT: indicative amount: EUR 146 million

3.1.1 The following overall and specific **objectives** will be pursued:

The **overall objective** is to stimulate the sustainable development of Nepal's rural areas by transforming agriculture from a sector largely based on low-value and subsistence production to a competitive, sustainable, and inclusive agriculture that brings economic growth, improved access, improved livelihoods, and food and nutrition security, whilst reducing vulnerability to climate change and natural disasters.

Specific objective 1: Profitable agricultural commercialization with improved connectivity and market infrastructure

Specific objective 2: Efficient and sustainable agriculture sector guaranteeing food security in rural areas

Specific objective 3: Improve maternal, infant and child nutrition in rural areas

Specific objective 4: Strengthen response, preparedness and recovery capacities of communities exposed and vulnerable to recurrent and predictable disasters

Specific objective 5: Maximise the development impact of migration and to minimise its negative consequences in rural areas

3.1.2. For each of the specific objectives (SO) the main expected **results** are:

For SO 1, the expected results (ER), defined on the basis of NDP of the Government's draft Agriculture Development Strategy, are:

ER1.1: Competitive agricultural value chains that increase value added and benefits to smallholder farmers and agroenterprises

ER1.2: Rural infrastructure such as rural roads/bridge network expanded

ER1.3: Increased access and promotion of renewable energy resources in rural communities

For SO 2 the expected results, defined on the basis of the Government's draft Agriculture Development Strategy, are:

ER2.1: Increased agricultural productivity and better functioning extension services

ER2.2: Improved food security

For SO 3 the expected results, defined on the basis of the Government's Multi-Sectoral Nutrition Plan (MSNP), are:

ER3.1: Policies, plans and multi-sector coordination improved at national and local levels

ER3.2: Practices that promote optimal use of nutrition 'specific' and nutrition 'sensitive' services improved

ER3.3: Strengthened capacity of central and local governments to provide nutrition-related basic services in an inclusive and equitable manner

ER 3.4. Improved access to sanitation and functionality of water schemes.

For SO 4 the expected results, in line with the National Strategy for Disaster Risk Management and Nepal Risk Reduction Consortium, are:

ER4.1: Disaster Risk Management mainstreamed in existing national rural development strategies and policies, particularly at the community and sectoral level

ER4.2: Local bodies capacity developed to incorporate disaster risk reduction and preparedness in their development plans, programmes and activities

ER4.3: Most vulnerable groups increase their resilience capacity and the resilience of their livelihoods taking into account risks including climate change.

For SO5 the expected results aligned with EU priorities and the Agricultural Development Strategy are:

ER5.1: Productive use of remittances increased and migrants' skills improved

ER5.2: Improved rural livelihoods and increased on-farm and off-farm job opportunities

3.1.3. Main indicators for the specific results:

In the future programme, the focus will be on outcome indicators in order to move towards impact assessment. The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex 1.

3.1.4. Donor coordination and policy dialogue

Since the 2008 food crisis, an increased number of donors have engaged in rural development supporting agriculture, food security and nutrition. In the wake of the 2011 international conference organised by the International Food Policy Research Institute (IFPRI) on “Leveraging Agriculture for Improving Nutrition and Health”, many donors have adopted integrated approaches acknowledging strong inter-sectoral relations. The main donors in rural development and nutrition in Nepal are WB, IFAD, ADB, USAID, DfID, DANIDA, JICA and the EU. Donor coordination takes place in monthly Agriculture and Food Security Donor Group meetings currently chaired by FAO (the co-chairs rotate on an annual basis, currently FAO is *de facto* the only chair). Given the number of donors active in the sector, coordination is vital. This has been fully understood and all the recent larger programmes (two from USAID and two from WB) have been planned in a highly coordinated manner. A specific donor sub-group to support the Agriculture Development Strategy has been planned under the leadership of ADB, while a separate nutrition group (Nepal Nutrition Group) has been also set up, involving also implementing agencies like UNICEF and INGOs. Donor coordination as regards to Specific Objective 3 will be pursued in the framework of the Nepal Risk Reduction Consortium.

3.1.5. The Government's financial and policy commitments are:

The two main policy commitments in the sector are the Agriculture Development Strategy (ADS) and the Multi-Sector Nutrition Plan (MSNP). The ADS was drafted with the support of 13 donor agencies, including the EU and strong levels of ownership and involvement by the Government. However, even if the Strategy has been finalised in June 2013, it has not been yet formally endorsed by the new Government. However, some of the activities have already been reflected in the budget for the current financial year (2013/2014). The leading Government departments to implement the ADS will be the National Planning Commission and the Ministry of Agricultural Development. MSNP has been endorsed by the Government in September 2012, and its implementation has reached six pilot districts in 2013. The EU has supported both drafting and implementation of the MSNP through the regional MYCNSIA project (2011-2014). The MSNP process is being led by the National Planning Commission, which now has a specific budget line for its implementation. Key line ministries involved include Ministry of Health and Population, Ministry of Agricultural Development, Ministry of Education, Ministry of Urban Works and Ministry of Federal Affairs and Local Development. All five ministries have signed the plan and are committed

to the implementation. The total budget approved by the five ministries for the 5 year plan is EUR 127 million.

3.1.6. Environmental assessment (SEA or EIA)

Environment and natural resource management issues have already been assessed in the context of the preparation of the Agricultural Development Strategy (led by ADB, co-funded by EU and other donors). Environmental Impact Assessments (EIA) will be carried out at the stage of project formulation⁵, particularly with regard to agricultural support programmes. Careful attention will be paid to preserving the natural capital of Nepal (environment, biodiversity) and building resilience to disasters.

Furthermore, Nepal is the fourth most vulnerable country according to the 2011 climate change vulnerability index⁶. The government estimates that 1.9 million people in the country are highly vulnerable to the risks of climate change, while another 10 million are increasingly vulnerable. EU support will accordingly mainstream mitigation of and adaptation to climate change, and address disaster risk management. Therefore, all major interventions under this focal sector will be subject to environmental and climate screenings to determine need for strategic environmental assessment, environmental impacts assessment and/or climate risks assessment⁷.

3.1.7. The overall **risk assessment** of the sector intervention:

- Limited government capacity and government staff turnover risking genuine Government ownership and commitment
Mitigation: Continued emphasis in central-level capacity building and awareness raising. So far the risks caused by high government staff turnover have not materialized. Changes of key staff members within the National Planning Commission as well as within the Ministry of Agricultural Development and the Ministry of Health have not caused any significant impact on the planning of ADS and the implementation of MSNP.
- The formal endorsement and implementation of the ADS delayed due to political instability
Mitigation: Continued policy dialogue with the Government along with other Development Partners, and provision of support to ADS unit. The lack of formal endorsement notwithstanding, the Government budget for the on-going fiscal year already reflects the ADS, and the Ministry of Agricultural Development has very recently undergone an internal reorganization to align its departments with the ADS flagships. Moreover, the main political parties have been involved in the drafting process, and thus it is expected that the next Government will adopt the strategy without fundamental changes.

3.2 EDUCATION – Indicative amount: EUR 136.4 million

3.2.1 The following overall and specific **objectives** will be pursued:

The **overall objective** is to contribute to equitable access and completion of quality school education for girls and boys and the provision of literacy and livelihood opportunities for adults, boosting individual, family and wider social and economic development.

⁵ Guidelines on SEA and EIA: <http://capacity4dev.ec.europa.eu/public-environment-climate/documents>

⁶ <http://maplecroft.com/about/news/ccvi.html>

⁷ The application of the screening questionnaires based on the applicable EU guidelines (<http://capacity4dev.ec.europa.eu/public-environment-climate/documents>) will help to determine need for and scope and detail of any required assessment and will identify opportunities to better address environmental and climate change concerns in the project/programme formulation even if such assessment will not be needed.

EU support will be fully aligned to national and sector development plans, taking into account agreements on education and development linked to the post 2015 framework. The current School Sector Reform Plan ends in July 2016.

Specific objective 1: Increase access to and completion of education⁸

Specific objective 2: Reduce inequalities in education

Specific objective 3: Improve the quality of education

Specific objective 4: Expand access to literacy

Specific objective 5: Provide a safer educational environment

Specific objective 6: Strengthen the vocational training system

3.2.2. For each of the specific objectives the main expected **results** in line with the current School Sector Reform Plan and expected future sector plan⁹ are:

For SO 1 the expected results are:

- ER.1.1.: More girls and boys go to school
- ER.1.2.: More girls and boys complete their education

For SO 2 the expected results are:

- ER 2.1.: More equal representation and greater inclusion of targeted populations in the school system

For SO 3 the expected results are:

- ER 3.1.: Reduced repetition rate at grade 1, grade 5 and grade 8
- ER 3.2.: Improved learning achievements at grade 5 and grade 8
- ER 3.3.: Improved school and teacher management
- ER 3.4.: Improved education system governance

For SO 4 the expected results are:

- ER 4.2.: More adults gain access to relevant and meaningful literacy opportunities

For SO 5 the expected results are:

- ER 5.1.: Schools have safer disaster resilient building and infrastructure
- ER 5.2.: Schools incorporate disaster risk reduction in preparing their Schools Improvement Plan (SIPs) and school based disaster preparedness rolled out
- ER 5.3.: Education curricula are formulated providing adequate knowledge and skills for mainstreaming disaster risk reduction and environmental issues.

For SO 6 the expected results are:

- ER 6.1: TVET system is more responsive to labour market needs and requirements

3.2.3. Main **indicators** for the specific results:

The indicators up to 2015/16 have been defined in agreement with the Government of Nepal and Ministry of Education and are derived from the School Sector Reform Programme document and the

⁸ Education refers to early childhood education, primary [grade 1-5], basic [grade 1-8] and secondary [grade 9-12]

⁹ The successor to the current sector plan SSRP is expected to be developed jointly by Ministry of Education and Development Partners in 2015 and to take into account agreements reached on the post 2015 "MDGs" for education, gender and equity

draft SSRP extension plan document, with targets for 2014/15 and 2015/16. Where data are available, indicators will be disaggregated for gender.

During the MIP period, a follow on sector programme from SSRP will be developed jointly by the Government of Nepal and development partners, drawing on internationally agreed post 2015 targets and indicators. Indicators should be disaggregated by sex, grade, ethnicity, district, disability etc. as appropriate

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex 1.

3.2.4. Donor coordination and policy dialogue are:

The education sector in Nepal is a mature sector wide approach and programme, with the EFA programme (2005-2009) focusing on primary education (G1-5) and the SSRP (2009-2015) covering early childhood education, basic education (G1-8), secondary education (G9-12) and adult literacy. Donor coordination and policy dialogue are well structured and organised through joint meetings, including namely annual Joint Consultative Meetings and Joint Annual Review meetings plus quarterly meetings; joint technical working groups (i.e. quality, teacher management, capacity development, PFM and governance); as well as Development Partners monthly meetings. A lead and a deputy lead donor are selected annually. The biggest donors to the sector are ADB, WB and the EU. Finland, Norway and UNICEF are also pooling donors. DFID and Denmark are planning to withdraw from the sector. The non-pooling partners are USAID, JICA, UNESCO and WFP. The main focus for key donors are learning outcomes, particularly early grade reading and national assessments of student achievement at G3, G5 and G8. Disaster risk reduction including namely earthquake resilience and climate change feature also prominently in the agenda of the main donors.

Future opportunities for greater harmonisation in the sector are good in the MIP period with several development partners interested in more and better coordination. Options to pursue this include the establishment of a pooled technical assistance fund and joint planning for a range of technical assistance and support. Technical assistance support could include studies and monitoring, the deployment of embedded education technical specialists in the Ministry of Education and mapping of technical expertise in the donor group which could pave the way for a better division of labour and effective use of the variety of skills and experience in the group.

With regard to vocational training, an informal TVET Donors Coordination Group exists in Nepal and brings together all donors active in the sector. The Asian Development Bank, the Swiss Agency for Development and Cooperation and DFID are among the biggest donors to the sector. All of them have contributed in establishing technical institutes and expanding their capacity, and in supporting the Council for Technical Education and Vocational Training in Nepal. Technical skills training and employment for disadvantaged youths and vulnerable groups is also being supported by the EU, SDC, DFID and WB,

The coordination between key DRR stakeholders takes place through the Nepal Risk Reduction Consortium (NRRC), which supports the Government of Nepal in developing a Disaster Risk Reduction Action Plan. Along with the Government of Nepal, donors, UN agencies and financial institutions, the EU is a member of the NRRC. The NRRC has identified five key priority sectors on disaster risk reduction and Flagship 1, led by the Ministry of Education and coordinated by the Asian Development Bank, is focused on school and hospital safety.

3.2.5. Government's financial and policy commitments:

The Government of Nepal has consistently supported the education sector in successive annual and three year plans from 2005 onwards with a budget allocation of around 16% reflecting the high priority given to the sector. The sector plan, the Education Act and Regulations, and the various Ordinances in place provide a comprehensive policy framework, which is also inclusive with regard to the right to education. However, the legal framework underpinning the reform measures set out in the current sector plan is on hold as there is no Parliament to approve the Education Act.

The Ministry of Education has recently approved its School Safety Action Plan (2012) as a pilot to address the structural vulnerability of the schools. The government is itself retrofitting 35 schools outside Kathmandu valley and 260 schools in the Kathmandu valley under the School Sector Reform Plan (SSRP). The Asian Development Bank is supporting the Ministry to develop a comprehensive strategy for scaling up school structural safety, after which the Government is expected to invest more on school safety.

3.2.6. **Environmental assessment** (SEA or EIA)

Environmental and climate screenings (based on EU guidelines)¹⁰ will be conducted for major retrofitting or building of schools. The aim is to ensure that any schools are built in safe places which can be accessed even in case of various disasters (earthquakes, flooding, land-slides. etc.) and can be turned into shelters for evacuated population if and when needed.

3.2.7. The overall **risk assessment** of the sector intervention:

- Commitment to PFM reform and PFM progress in the sector are not sufficient for Development Partners to remain engaged through sector budget support

Mitigation: EU continues to support reform, including through interventions at national level, but also within the joint Ministry of Education/Development Partners PFM working group, monitoring progress, and offering technical support and advice.

- Natural disaster(s) (earthquake, floods or landslides) damage school buildings causing loss of life, resources and equipment

Mitigation: continue to work with Ministry of Education and development partners on the DRR Flagship programmes linked to earthquake and disaster preparedness including school retrofitting, school and community awareness and preparedness training.

- Major corruption scandal affecting all sector budget support operations including education

Mitigation: DPs including the EU maintain a strong dialogue on the need to increase transparency and accountability and offer technical assistance and support to further strengthen capacity of the Ministry of Education at central, district and local level on financial management issues.

3.3 STRENGTHENING DEMOCRACY AND DECENTRALISATION: indicative amount: EUR 74 million

3.3.1 The following overall and specific **objectives** will be pursued:

¹⁰ <http://capacity-4dev.ec.europa.eu/public-environment-climate/documents>

The **overall objective** will be to contribute to deepening democracy and promoting human rights and rule of law in Nepal by strengthening fundamental processes and institutions for good governance and accountability in the country.

Specific objective 1: Support democratisation, domestic accountability and human rights through electoral assistance but also through capacity-building of democratic legislative bodies, justice institutions and other key institutions.

Specific objective 2: Support to Nepal's decentralisation and state restructuring in the context of a new federal state, to ensure quality service delivery to citizens at local level.

Specific objective 3: Improve effectiveness, efficiency, transparency and accountability of public finance management and reduce corruption at national and local level.

Within this focal area, results to be supported will depend largely on the unfolding of political developments in the country, notably the constitution making process or the planned local elections in 2014.

3.3.2. For each of the specific objectives the main expected **results** are:

For SO 1 the expected results are:

ER 1.1: The Election Commission and other key electoral stakeholders are well equipped to carry out national and local democratic, credible, transparent and peaceful elections.

ER 1.2: Increased domestic accountability through developing capacity in national/local parliaments as well as selected other key institutions and constitutional bodies (e.g. judiciary, political parties, supreme audit institutions, national human rights institutions, media, and civil society).

ER 1.3: Eradication of impunity, improvement of rule of law environment and access to justice for all.

For SO 2 the expected results are:

ER2.1: Increased decentralisation and improved local governance for effective service delivery.

2.1.1: Sound and comprehensive institutional framework for devolution and local governance;

2.1.2: Capable local bodies' in place that secure and improve citizen's access to services and information;

2.1.3: Citizens and communities enabled to hold the local bodies accountable.

ER2.2: Policies developed and plan implemented for federalism and state restructuring

2.2.1: Transitional arrangements for federalism are in place and transitional plans for concerned national institutions (ministry of general administration, Prime Minister Office, parliament, public service commission, etc.) are developed and implemented.

2.2.2: Reforms for federalism are implemented, including civil service reform, capacity building of new federal structures, and information campaign for citizens, etc.

For SO 3 the expected results are¹¹:

E.R 3.1. National and local government's fiscal management capacities in terms of planning, budgeting, execution, procurement, reporting and auditing are enhanced;

E.R. 3.2. Central government and local authorities are held to account for their fiscal and expenditure policies and their implementation through effective mechanisms of external scrutiny and audit;

E.R. 3.3. Mechanisms enabling citizens to be involved in governance processes and to exercise control over the management of public resources at national and local level are reinforced;

E.R. 3.4. Anti-corruption legal and institutional framework is enhanced leading to a reduction of the level of corruption and of impunity for misuse of public resources.

3.3.3. Main **indicators** for the specific results

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex 1.

3.3.4. **Donor coordination and policy dialogue** are:

Most of the development partners have interventions to promote good governance in Nepal. The EU, through its ongoing programmes, has taken a lead role on election and PFM issues, whilst Public Sector Reform has been largely addressed by other donors such as the World Bank (WB) and UNDP. Other areas such as constitution-building have been addressed by UNDP-led programmes, and local governance through funding from multiple donors. A governance donor group was created in 2010 and has been very active, including through at least quarterly meetings. The group has been useful to share information on governance projects and to avoid overlap, but also to develop common approaches and to share governance and political economy analysis and information (e.g. a joint donors Country governance assessment was done in 2013). Apart from this umbrella good governance group there are other donor groups that deal more in detail with different governance subsectors, including an elections working group, a local governance group, and a PFM working group. All these groups are also used as platforms for policy dialogue with the Government. The local governance group is co-chaired by the Ministry of Local Development, whereas the other groups organize regular meetings with the relevant Government institutions either in the context of specific programmes (such as the Multi Donor Trust Fund on PFM) or on a needs-basis, for instance with the Election Commission. Governance issues are also discussed with the government in quarterly Local Donors meetings and in the context of the Nepal's Performance Portfolio Review process.

3.3.5. The Government's **financial and policy commitments** are:

The government has shown commitment to promoting good governance and decentralisation, as reflected in the prevailing National Development Plan, as reflected in the prevailing National Development Plan (NDP) and in budget allocations across sectors. The Ministry of Federal Affairs and Local Development (MOFALD) is the line ministry responsible for local administration. For the last financial year 2012-2013, the total expenditure of the Ministry reached 9.4% of total Government

¹¹ The expected results are aligned with the government reform strategies (Public Financial Management Reform Program (PFMRP) Phase I, Public Expenditure and Financial Accountability and Fiduciary Risk Reduction Action Plan, Sector Fiduciary Risks Reduction Plans, the Strategy and Action Plan against Corruption) as well as results framework of the Multi-Donor Trust Fund and the Strengthening Public Management Programme of ADB.

expenditure. MOFALD will be the key Ministry for the implementation of decentralisation once the decision on the federal organisation of the State is taken.

The Plan envisions active participation of Nepali people through elections and undertakes to build transparent and accountable state institutions devoid of corruption. The plan equally envisages better service delivery as a result of improved governance and further decentralisation through federalism. The Government also adopted Governance and Economic Action Plan in 2012 which envisions bringing about sweeping changes to the running of public service in Nepal through the introduction of 27 programs designed to address some of the most pressing governance-related issues. The Government however needs to make further policy commitments to strengthen checks and balances and enhance domestic accountability. There is an urgent need for a roadmap and timeline for local elections. The promulgation of a new constitution by the recently elected Constituent Assembly will be key to obtain the expected results described above.

The government commitment to improve the national PFM system is translated in the Public Financial Management Reform Program (PFMRP) Phase I, adopted in 2009. Under this Program, tax reforms, institutionalisation of a medium-term expenditure framework to link policies to budget, strengthening internal and external audit systems, establishment of a Treasury Single Account, procurement reform and strengthening the PEFA Secretariat are at different stages of implementation. It is expected that the PFM Reform Programme will be up-dated following the next PEFA assessment, for which preliminary results should be available by mid-2014. In 2012 the government also adopted the Public Expenditure and Financial Accountability and Fiduciary Risk Reduction Action Plan (period covered March 2012 – July 2015) which address the PFM issues at local level. Sector Fiduciary Risks Reduction Plans are implemented by the Ministries of Health, Education, and Peace and Reconstruction. Nepal's efforts to fight corruption are defined by the Strategy and Action Plan against Corruption (2009).

3.3.6. **Environmental assessment** (SEA or EIA)

N/A

3.3.7. The overall **risk assessment** of the sector intervention:

- The promulgation of a new constitution by the Constituent Assembly is postponed.
Mitigation: Messaging by the EU Heads of Mission on importance of reaching an agreement on the constitution and continued development partner support for the constitution making process.
- Local elections are not announced soon after CA elections.
Mitigation: messaging by EU Heads of Mission on importance of local elections. Advocacy for governance and accountability arrangements at local level with clear responsibilities and checks and balances.

5. **Support Measures**

An indicative **amount** of EUR 3.6 million will be set aside for measures aimed at supporting the preparation and implementation of actions under the MIP including through feasibility studies, consultation and planning workshops, outreach, audits, evaluations and other activities as necessary to ensure a high quality design and implementation of actions.