



Australian Government  
Department of Foreign Affairs and Trade

# Aid Investment Plan

Nepal Program

2015-16

Due to the devastating earthquakes in Nepal in April and May 2015, the Nepal aid program was quarantined from budget cuts that applied to the aid program for 2015-16. This Aid Investment Plan governs the delivery of Australian aid to Nepal for 2015-16, focusing the program on post-earthquake recovery through existing and targeted investments. A longer term Aid Investment Plan will be developed for future years, following detailed analysis of ongoing need and Australia's ability to respond.

## Strategic objectives and rationale

Australia and Nepal have a longstanding relationship that continues to strengthen through development cooperation and people-to-people links. Over the years, the Australian Government and private sector have contributed to the economic and social development of Nepal through activities and assistance in the fields of education, health, hydro-electricity, sustainable forestry management, and livestock and grain management.

Nepal is a post conflict country that is undergoing a prolonged political transition and recovering from one of the worst disasters in its history. There have been moves towards finalising a new constitution, although this process has been beset by delays and violent protests. Australia has a keen interest in ensuring that Nepal emerges after all this as a stable and inclusive society. Situated between China and India with significant untapped hydro-power resources, a more stable and prosperous Nepal can contribute to regional security and growth.

While Nepal has made progress in reducing poverty rates over the past twenty years, the country remains the poorest in South Asia and among the poorest in the world. In 2014, Nepal ranked 145 out of 187 countries on the UN Human Development Index, falling into the lowest category of human development. One in four people live on less than USD1.25 a day and seven in ten live on less than USD2.50 a day. Further, the World Bank estimates that the earthquakes may have pushed an additional 2.5 to 3.5 per cent of the country's population into poverty, translating into 700,000 additional poor, demonstrating the vulnerability of Nepali households. Nepal continues to struggle with huge disparities and inequalities between regions and social groups with discriminatory practices based on gender, caste and ethnicity that trap people in poverty. Households in most privileged social groups are five times more likely to be lifted out of poverty by economic growth than the most excluded.

Nepal's economic outlook is modest. The 2015 earthquakes caused damage and loss equivalent to one third of Nepal's annual GDP, and growth is estimated by the World Bank to drop to 3.4 per cent. The significant investments in post-earthquake recovery and reconstruction over the next five years may help to overcome infrastructure constraints and stimulate economic recovery and growth.

To maximise the efficiency of the aid budget, the Australian aid program will focus on two objectives: basic education and micro-enterprise development. Supporting quality education and domestic job creation, specifically for women and girls, are central to ensuring long-term and inclusive economic growth in Nepal. Complementing these objectives will be a focus on resilience and making the most of opportunities afforded by the earthquakes, including 'building back better'<sup>1</sup>. Australia invested \$28.6 million in 2014-2015 in post-earthquake response and recovery, much of which will be delivered in 2015-2016. The program will also support improved public financial management which supports both objectives, and include a focus on people with disabilities as one of the most disadvantaged groups in society

### Objective 1: Promote human development through improved access to and quality of basic education

Education is critical to enabling the poor to participate in the economy and lifting living standards. Nepal has made good progress in net enrolment rates and gender parity in primary education; however these gains are new and fragile. Some 300,000 children with disabilities are not in school and two-thirds of out of school children are from disadvantaged families, with data suggesting that inequalities exist not only along rural, ethnic and caste lines, but also along gender lines<sup>2</sup>. There remains considerable need to increase the participation of children with disabilities and others experiencing disadvantage, including girls, as well as improving the quality of education. Recent national assessments found that only 63 per cent of grade three and 59 per cent of grade five children are literate in Nepali.

Australia has supported the School Sector Reform Program (SSRP) in Nepal since 2007, helping the Government to provide free and quality education for some 6 million boys and girls. Through pooling its funding with other donors and the Government of Nepal's funding, Australia is able to influence national level program delivery and to push for policy reform. Our agenda will focus on advocating for improvements in the quality of education, access for marginalised groups, school safety and strengthened

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<sup>1</sup> Defined as way to utilise the reconstruction process to improve a community's physical, social, environmental and economic conditions to create a more resilient community.

<sup>2</sup> Nepal Demographic and Health Survey 2011, Government of Nepal, Ministry of Health and Population

institutional capacity and financial management. The current phase concludes in mid-2016. Australia will look to influence the design of the new phase in late 2015.

Australia will also implement a targeted package of support following the earthquakes to help vulnerable children transition back into school and ensure classrooms are built back better. More than 32,000 classrooms were damaged in the earthquake and more than 800,000 children had their schooling interrupted. Australia's investment will help more than 17,000 children, especially children with disabilities, and those at greater risk of child labour, abuse, exploitation and being left behind, to go back to school. Australia is providing organised learning and psycho-social support in temporary spaces in the reconstruction period. Australia will also help ensure children return to better and safer school infrastructure by building twelve schools to serve as models for safer, inclusive schools. This work will be implemented by an Australian NGO (Plan International) under the Building Back Better and Safer Schools for All project. Australia will also provide funding to the Global Facility for Disaster Risk Reduction and Recovery and deploy Australian engineering expertise to institutionalise 'building back better' approaches in Nepal's Department of Education

## Objective 2: Expand economic opportunities for the poor by promoting enterprise and job-creation

Nepal's economy offers limited employment opportunities and features a large unskilled workforce. An estimated 450,000 Nepalis obtained approval to work overseas in 2013 (World Bank). The Overseas Development Institute estimates that 2.8 million Nepalis travelled to India for work, and a further 1.2 million Nepalis travelled to the Gulf countries, Malaysia and other developed countries over the past four years. Employment within Nepal is largely informal and overwhelmingly male dominated, with only 6 per cent of women engaged in formal employment. Supporting domestic job creation, especially for women, is central to ensuring long term and inclusive economic growth.

The Micro-Enterprise Development Program (MEDEP) is a key initiative of Australia's aid program to Nepal and is implemented by the United Nations Development Program and the Government of Nepal. Australia has funded the program since its inception in 1998. The program trains the poor and the ultra-poor to become entrepreneurs and assists them in establishing and developing their own businesses. As well as training, the program provides business development services and access to markets, finance and technologies. To date, the program has created more than 70,000 micro-entrepreneurs and 86,000 jobs, with nearly 70 per cent of beneficiaries being women. Impact studies have shown that the program has enabled most beneficiaries to move out of poverty and increase their incomes, with each individual's average annual profit totalling AUD550. The program continues to evolve and is now working with the Ministry of Industry to build systems and capacity so the Government of Nepal can deliver a MEDEP-style sustainable Micro-Enterprise Development system into the future. Micro-enterprises are the fastest growing area of the private sector and contribute significantly to economic growth, as well as social stability and equality, in Nepal.

In the most earthquake-affected districts of Nepal, up to 90 per cent of livelihoods, markets and enterprises were destroyed or damaged. The equipment and facilities of more than 12,000 MEDEP supported entrepreneurs were directly affected. As a result, Australia will fund the UNDP under the Rapid Enterprise and Livelihoods Recovery Program to provide targeted support to affected entrepreneurs; to get individuals back on their feet, revive businesses and restore local markets. The program will also help to establish a new group of entrepreneurs to build social cohesion.

## Cross-cutting support

The Public Financial Management Multi-donor Trust Fund is implemented by the World Bank. It is Australia's contribution to building stronger financial systems in Nepal. The Multi-Donor Trust Fund aims to strengthen performance, transparency and accountability in public financial management resulting in improved resource management; increased awareness and oversight of government processes and improved design of public financial management interventions at the country and sector level.

Australia is also responding to increased levels of conflict arising in connection with the earthquake aftermath and the political transition process by investing in a program "Conflict Mediation in Post-Earthquake Recovery". Delivered by the Asia Foundation, it will mediate over 12,000 local conflicts in seven of Nepal's most affected districts.

Over the coming two years Australia Awards in Nepal will centre on supporting our existing investments in education and expanding economic opportunities for the poor through a range of targeted short courses.

## Performance management

Targets to be achieved in 2015-16 are set out below.

<b>Australian aid objective - 1 Improved access to, and quality of, basic education</b>	
<i>Performance benchmarks</i>	<ul style="list-style-type: none"><li>- The new Education Sector design has a focus on mutual accountability, through the use of tranche release conditions</li><li>- More than 17,000 children (including Children with Disabilities) assisted to transition back to school following the 2015 earthquakes</li></ul>
<b>Australian aid objective - 2 - Promoting enterprise and job-creation</b>	
<i>Performance benchmarks</i>	<ul style="list-style-type: none"><li>- Facilitate capacity building for 7,790 individuals to become new micro-entrepreneurs</li><li>- Recovery of more than 12,000 microenterprises following the earthquakes</li></ul>

## Mutual obligations

Australian aid to Nepal is delivered in collaboration and accordance with the Government of Nepal's strategic priorities. Australia's two major bilateral aid investments – SSRP and MEDEP – partner with the Government of Nepal. Each program has achieved strong results, in part thanks to constructive collaboration between the Government of Nepal and donors such as Australia. In each investment, the Government of Nepal has established commitments regarding financing, collaboration, reporting and implementation; specifically a commitment to increase the share of public expenditure on education and for government to build the systems to deliver MEDEP by 2018. Investments in Nepal are aligned closely with Australia's development policy especially in terms of women's empowerment, gender equality and supporting the private sector. Regional Trade Facilitation and Sustainable Development programs also contribute to the Australian Government's strategic objectives for our engagement in Nepal in terms of improved regional connectivity and resource management.

## Monitoring, review and evaluation

A Performance Assessment Framework will be developed for the Nepal program to ensure it delivers development outcomes and represents value for money. Annual Aid Program Performance Reports and Aid Quality Checks will address investment quality and specify any remedial action that might be required. Evaluations will be conducted for investments over \$10 million and under-performing investments or partners will be dealt with promptly. Performance assessment processes will draw on sex-disaggregated data to inform future action on gender equality issues. Our investments will also report on issues of ethnicity, disability and caste.