



Australian Government

Department of Foreign Affairs and Trade



# Aid Investment Plan

Nepal

2016-2020

This aid investment plan (AIP) governs the delivery of Australian aid to Nepal from 2016-2020.

## Strategic objectives and rationale

### Australia's strategic interests

It is in Australia's interest to ensure that Nepal continues to develop as a secure, stable and prosperous partner in the Indo-Pacific region. Our aid program seeks to build Nepal's human capital to support economic growth with a focus on creating opportunities for the poor. As Nepal's economy grows, two-way trade and investment, including in services, will also grow.

### Development context

Nepal emerged from civil conflict in 2006, and in 2008 historic elections completed Nepal's transition to a federal democratic republic. Expectations for positive change in Nepal have been high and while literacy rates have increased, poverty rates have declined and gender disparities narrowed, Nepal's overall development progress has been slow. Nepal's development indicators are amongst the lowest in South Asia and it is classified by the UN as a least developed country. The Nepal Planning Commission has set an ambitious target of graduating from LDC status by 2022 and becoming a middle-income country by 2030. The slow rate of reconstruction following the devastating earthquakes in 2015 continues to have a negative impact on Nepal's growth prospects in the short to medium term, although economic growth is likely to pick up over the next two years. This is likely to generate higher levels of investment, but will be below potential and insufficient to make a significant impact on poverty reduction (Economist November 2016).

A severe lack of domestic jobs, combined with an additional five million people entering the labour force over the next decade, will require on-going support for job-creation and enterprise development. While female employment participation rates are higher than for other South Asian countries, women's economic opportunities are limited, and they are overrepresented in the agriculture sector. Australia's long-standing support to the micro-enterprise sector in Nepal, and particularly in the creation of women entrepreneurs, provides a solid platform to support Nepal's efforts in this area.

The promulgation of a new constitution in 2015, rather than delivering a sustained period of stability, prompted protests in the Terai region and an economic blockade of the southern border with India. Real GDP growth slowed to 3 per cent in FY 2015, significantly below the South Asia average (World Bank 2016). Political instability, constitutional uncertainty and highly centralised governmental structures all impact on the government's ability to deliver services effectively. The role of local governments has expanded, however, elections have not been held at the district, municipal and village levels since 1997. Australia will respond to this significant reform agenda by supporting locally driven change processes that continue Nepal's move towards a devolved system of government.

Education also remains an important priority in Nepal. Despite education being free and compulsory since the early 1990s, outcomes have been variable and subject to gender, geography, ethnicity and caste. Despite relatively similar enrolment rates in school for girls and boys there remains a large gap in literacy rates between males (75 per cent) and females (57 per cent) (UNESCO 2013). Lifting the quality of basic education would support more inclusive growth.

### Future program priorities

Australia's aid program in Nepal is currently in a period of transition, from a phase of post-disaster reconstruction to one of longer-term programmed aid. The end of a long-term investment in micro-entrepreneurship also provides an opportunity to review our existing program. As a relatively small donor, Australia's reach is limited and in order to maximise the efficiency of the aid budget we will work with larger donors to secure the greatest return on our investments. Our partners will be selected on the basis of performance, established networks and an understanding of the Nepal context. Australia's approach to using partner government systems will be informed by an assessment of national systems.

### Objective 1: Expand economic opportunities for the poor, particularly women, by promoting enterprise and job-creation

The overall aim of this objective is to boost employment opportunities and income generation. Despite declining fertility rates, Nepal is in the midst of a youth bulge which offers a potential demographic dividend, but also highlights the need to boost employment opportunities. Australia has supported enterprise and job-creation in Nepal since 1998 through the UNDP-led micro-enterprise development program (MEDEP). Australia will continue with its current phase of funding through to 2018-19 and will then review its options on how to best engage in this sector. This will include exploring opportunities to move beyond income and livelihoods to enterprise development, including working with the private sector to support small and medium sized enterprises (SMEs). Further analysis will also be undertaken to determine constraints to accessing financial services and other enterprise support for the poor. In the short-term Australia will continue support for recovery of enterprises impacted by the earthquakes in 2015. This assistance is delivering transitional support for earthquake affected communities to revive their businesses, restore local markets and build long-term resilience.

### Objective 2: Support the government to improve governance and policy implementation

Effective and stable governance that delivers services effectively and equitably across the country continues to be a challenge for Nepal. Helping to improve governance and policy implementation is a new objective for Australia. Over the course of 2017 we will develop a new program of support that focuses on promoting an enabling environment for strong, effective, and inclusive sub-national governance. We will help sub-national levels of government to improve service delivery and economic governance which will contribute to inclusive local economic development and poverty reduction. Where possible, we will encourage strengthened disaster risk governance policies, systems and processes. This is a large scale and long-term agenda which will require flexibility in order to respond to opportunities and constraints associated with the volatility of Nepal's political processes. Technical assistance will also be utilised to meet identified gaps, especially if proposed changes to government structures and the constitution occur. This assistance will be targeted and flexible, responding to demand at the sub-national level.

### Objective 3: Promote human development through improved access to and quality of basic education

Basic education has been a priority sector for the Government of Nepal since the 1990s. Education remains critical to enabling the poor, particularly women, to participate in the economy and to lifting living standards. Australia has provided long-term support to this sector and will invest in a new program that improves the quality of basic education and strengthens the leadership of the Ministry and Department of Education in program management and implementation. We will work with the Government of Nepal and other donors through a sector-wide approach (SWAp) which has a proven track record of delivering strong results and demonstrates excellent donor coordination. By combining our contribution with others we will work to influence policy reform based on analyses which identify those issues we can best influence.

The earthquakes in 2015 have had a major impact on education infrastructure and Australia will fulfil its commitment of targeted support for building back better and safer, and to encouraging children (particularly those with a disability) to return to school. Opportunities also exist to build resilience to disasters through school education programs including on hazard awareness and evacuation.

### Cross cutting, regional and global support

A range of cross-cutting investments and activities funded from bilateral, global, regional and other Australian Government Departments will also support our three aid objectives in Nepal and we will continue to rely on Non-Government Organisation partners to deliver on many of these program priorities. Australia Awards, public financial management, national resource management and support for cross border trade and regional economic integration will remain priorities. Gender Equality and Social Inclusion will be a key feature of all major investments and an overarching gender strategy will be developed in 2016-17. Incorporating disaster risk reduction principles will remain a priority for Australia's engagement in education and in all new investments.

## Performance management

DFAT will report on progress against key performance benchmarks through annual Aid Program Performance Reports. Targets to be achieved in 2016-17 are set out below. Multi-year benchmarks will be developed as new investments are finalised and will be published in the 2017 Aid Program Performance Report.

### **Australian aid objective 1: Expand economic opportunities for the poor by promoting enterprise and job-creation**

Performance Benchmark	Evidence of clear increases in the incomes of groups targeted by our key programs.
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### **Australian aid objective 2: Support the Government to improve governance and policy implementation**

Performance Benchmark	A completed design for a new program supporting improvements in governance and policy implementation.
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### **Australian aid objective 3: Promote human development through improved access to and quality of basic education**

Performance Benchmark	A completed design for a new program supporting improvements to basic education
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### **Cross cutting programs**

Performance Benchmark	22 additional people (including at least 11 women) are awarded tertiary scholarships to study in Australia.
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## Mutual obligations

Australia is committed to working with and through the Government of Nepal (GoN) particularly the ministries of Education, Industry and Finance. The GoN's development agenda is currently outlined in its thirteenth three-year plan (2013-16) which will be replaced by the fourteenth three-year plan (2017-2020). Australia will continue to seek commitments from the GoN on the financing of programs, collaboration, reporting and implementation. The Government remains the single largest contributor to the education sector with year-on-year funding continuing to increase. Expenditure for enterprise and job creation programs are also expected to increase in 2016-17 and beyond. Our investments in Nepal will align with Australia's development policy, thematic strategies and where applicable support private sector development.

## Monitoring, review and evaluation

The monitoring, review and evaluation process for the Nepal program will consist of an annual Aid Program Performance Report (APPR) which will be the principal mechanism for assessing the performance of the aid program as a whole. The APPR will be informed by annual investment quality reporting, mid-term reviews and independent evaluations for investments, as required under DFAT's evaluation policy. Performance assessment processes will where possible draw on sex disaggregated data as well as data on ethnicity, disability and caste to inform future actions in these areas.