



Nepal Annual Program Performance Report 2011

June 2012



This annual program performance report (APPR) outlines progress in 2011 in the Australian country program in Nepal.

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Nepal is a least developed, landlocked, post-conflict country. It ranks 157 on the Human Development Index¹. Nepal is the poorest country in South Asia and among the poorest countries in the world with about half of its 28 million population living in poverty. Nepal is also one of the 20 most disaster-prone countries in the world. As an emerging democracy that is drafting a new constitution and moving towards federalism, Nepal has struggled with stability and governance. The coming of democracy in the early 1990s brought with it some human and social development gains but only modest economic growth (3.75 per cent gross domestic product growth estimated for 2011²). Over the last 30 years, investment has remained modest.

Nepal's complex and fluid political economy presents daily challenges to development activities. Australian Agency for International Development's (AusAID) Assessment of National Systems³ rates the country's overall fiduciary risk as very high and Nepal ranks 154 out of 182 in the Corruption Perceptions Index.⁴ Frequent changes in government, ministers and key bureaucrats contribute to a lack of accountability and poor incentives to focus on delivering development outcomes. Nepal has not held local elections for 12 years, which has led to a political vacuum at district level. There are frequent general strikes, continued activity of armed groups and impunity. Non-government organisations (NGOs) and unions are highly politicised. Despite these challenges, strong development partner coordination has gone some way to manage the risks associated with corruption and political opportunism. For example, collective advocacy against inappropriate political interference and corruption has helped protect gains made in service delivery and development in key sectors.

After four extensions, Nepal did not meet the final Comprehensive Peace Agreement⁵ deadline of 27 May 2012 for delivering a new Constitution and so the Constituent Assembly was dissolved. The constitutional process and subsequent transition to federalism have been thrown into uncertainty and elections called for November 2012. Slow but positive steps towards implementing the Comprehensive Peace Agreement took place in 2011, with some progress on discharging Maoist combatants and agreeing on some constitution terms. However, Nepal's current extraconstitutional period may erode some of these gains. Nepal will eventually transition to a federal model but predictions of when are now difficult. When it occurs, federalism will present new challenges for development assistance.

Traditionally structured socio-economic systems of marginalisation, exclusion and discrimination have contributed to extreme poverty in Nepal and were drivers of the conflict. Income inequalities grew over the last decade but remittances and development are reversing this trend. Nepal's Comprehensive Peace Agreement and draft constitution identify the need to end patterns of exclusion built on caste, ethnicity or geographic remoteness. Despite women having made up one-third of the

¹ Human Development Index, http://hdr.undp.org/en/statistics/, 2011

 $^{^2\} Nepal, 2011\ Article\ IV\ consultations,\ International\ Monetary\ Fund\ Country\ Report\ No.\ 11/318.$

³ In draft and to be finalised and submitted to AusAID's Executive in 2012.

⁴ Transparency International Corruptions Perception Index, http://cpi.transparency.org/cpi2011/results/, 2011. http://cpi.transparency.org/cpi2011/results/, 2011.

⁵ The Comprehensive Peace Accord was signed between the Government of Nepal and the Unified Communist Party of Nepal (Maoist) on 21 November 2006, formally ending the Nepalese Civil War that had lasted for more than decade.



Constituent Assembly, women's role in decision-making bodies at community level remains limited. These are key considerations for Nepal's post-conflict environment.

The government's current three-year plan has two major development objectives: alleviate poverty and establishment sustainable peace through employment generation and inclusive and equitable economic growth.

Despite its challenges, Nepal is on target to meet most Millennium Development Goals (MDGs) (Table 1) by 2015 for health and education. Success is attributed in part to long-term independent service delivery by development partners, including through the conflict. Many significant gains have been made recently through the community-based service delivery model used by the government, and supported by coordinated and aligned donor assistance. Despite too frequent movement of its staff, the bureaucracy has continued to delivery services.

Table 1: Nepal's predicted progress against the MDG by 2015

M)	X	Eradicate extreme poverty and hunger— major issue
	×	Achieve universal primary education—on track for net enrolment rate and literacy improvements but off-track for year 5 completion rate
Q	✔	Promote gender equality and empower women—partially achieved
	✓	Reduce child mortality—under five mortality rate achieved
B	✔	Improve maternal health—on track
+	✓	Combat HIV/AIDS, malaria and other diseases—no national goals but on track
*	×	Ensure environmental sustainability—no national goals for some targets but an issue; on target for water but not sanitation

Nepal is highly reliant on foreign development assistance. Its capital spending from government revenues is almost 6.5 per cent of gross domestic product, and almost half of capital expenditure comes from foreign aid. Remittances have played a significant role in bolstering family incomes and economic growth but aid is still extremely significant for national development. Donor assistance is well coordinated between Development Assistance Committee (DAC) donors with pooled funding and sector-wide approaches (SWAps) well established in health and education. 2011 saw China and India attend meetings of the International Development Partners Group, the peak donor coordination mechanism. It is widely acknowledged that China and India provide the largest amount of financial support to Nepal, most of which is delivered through non-transparent mechanisms, although India has now reported on a large amount of its development assistance (Table 2). Australia ranks tenth as a donor according to the Nepal Ministry of Finance's Development Cooperation Report 2010–11. An Organization for Economic Co-operation and Development (OECD) analysis found that Nepal is one of five fragile states considered under-aided on the basis of need and performance.⁶

The government exerts significant pressure on donors to use its systems and finance development activities through its budget. The government's next foreign aid policy is expected to call for 100 per cent of donor funds to go through government systems.

Table 2: Aid to Nepal by donor (US\$ millions, 2010-11)

Rank	Donor	Official development assistance	% of total official development assistance
1	World Bank Group	256.1	23.7
2	Asian Development Bank (ADB)	184.4	17.1
3	United Nations (UN)	112.5	10.4
4	United Kingdom	92.6	8.6
5	Japan	58.7	5.4
6	India	50.7	4.7
7	United States Agency for International Development	48.4	4.5
8	European Union	42.3	3.9
9	Norway	32.8	3.0
10	Australia	31.7	2.9
	All donors, total	1,079.7	
	Net official development assistance (% of gross national income)		6.6%

⁶ Ensuring Fragile States Are Not Left Behind, 2011 factsheet on resource flows in fragile states, OECD–DAC International Network on Conflict And Fragility, 2011.



^{*}Sources: Development Cooperation Report, Government of Nepal (GoN) (March 2012) and AusAID budget outcomes 2011–12

Expenditure

Table 3 shows 99% of the bilateral program in Nepal is expended on meeting Australia's one development program objective: 'All Nepalis have improved access to key services delivered by an increasingly effective state'.

Table 3: Estimated expenditure in 2011-12

Objective	A\$ million	% of bilateral program	
Objective 1:	15.8	>99	
Other	0.028	<1	

Source: AusAID budget statement 2011-12

Program objectives and strategy

The objective 'All Nepalis have improved access to key services delivered by an increasingly effective state' will form the basis for AusAID's forthcoming country strategy for Nepal (2012). This APPR includes baseline data for reporting against this objective.

The key elements of the objective are:

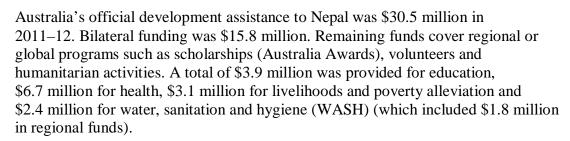
- recognition that poverty and exclusion are root causes of Nepal's conflict
- service delivery as the focus of Australian support
- to help build an effective and legitimate state.

The basis of the theory of change⁷ in AusAID's Nepal program is that:

- Australia is not in a position to bring about significant development outcomes on its own, but needs to form alliances with the GoN other development partners and NGOs
- participating in sector wide approaches supports the government with funds and guidance to implement its policy of providing better services and sustainable results
- direct funding of service provision contributes meaningfully to building national capability and provides a basis for influencing national policy and practice.

For the objective to be achieved a number of factors need to converge over time. Some are within the sphere of influence of development partners collectively and others are not. Nepal's recent experience of conflict and its long history of excluding its people who live in remote areas and/or belong to disadvantaged social groups means growth must address complex, multidimensional factors. This shapes the way development partners must work in Nepal.

⁷ Theory of change is a conceptual tool to describe how change occurs in a given context and how interventions will contribute to intended outcomes. It defines all building blocks required to bring about a given long term change and the assumptions that explain the change process.



Australia's development program is implemented largely through international and local partners including: the GoN through multi-partner SWAps in health and education; the World Bank, a multi-donor trust fund (MDTF) on public financial management (PFM); a delegated cooperation agreement with the United Kingdom Department for International Development (DFID) providing civil society grants for rights, democracy and inclusion; WaterAid, an NGO operating in WASH; and the United Nations Development Programme (UNDP) working in livelihoods. The program also contributes assistance to three AusAID global and regional programs—Australia Awards, Australian Volunteers for International Development and the Public Sector Linkages Program.

The Nepal program has been considering how to best give effect to the Australian Government's aid review commitment to 'consolidate the aid program with fewer, larger programs in fewer sectors.' Completing a country strategy in 2012 is critical for formally ensuring program alignment with *Effective Aid*. The Nepal program will be consolidated in coming years around four scalable initiatives—health, education, livelihoods and WASH, with inclusion and governance as crosscutting elements. Smaller-scale activities are being phased out.

Concentrating on these four initiatives is the best way forward, given limited presence on the ground. This will allow the program to collaborate on service delivery, while building Australian visibility and supporting good practice development.

SWAps in health and education have proven successful in delivering results and they meet the GoN's preference that development partners work through their systems. Consistent with AusAID's Framework for working in fragile and conflict-affected states (2012) AusAID manages the risks of using government systems with a large number of development partners, determining that the benefits of working through SWAps outweigh the risks. The World Bank's PFM–MDTF also helps AusAID manage risk. AusAID continues to also work with direct implementers such as UNDP and WaterAid to balance the program portfolio. These partnerships may allow greater responsiveness as Nepal transitions to federalism.

⁸ In November 2010 Australian government commissioned an independent review of the Australian aid program, the first independent review of the aid program in 15 years. The purpose of the Independent Review of Aid Effectiveness was to thoroughly examine the aid program, determine whether the program's current systems, policies and procedures are as effective and efficient as they can be, and give advice on how to make the program more strategic over the next five years and beyond. The Independent Review of Aid Effectiveness was released in Parliament on 6 July 2011.

⁹ In July 2011, the Government released a new aid policy for Australia's aid program, An Effective Aid Program for Australia: Making a real difference—Delivering real results. The policy includes the Government's response to recommendations made within the Independent Review of Aid Effectiveness.



Progress against objectives

Table 4 provides the rating of the program's progress towards the objective of 'All Nepalis have improve access to key services delivered by an increasingly effective state'

Table 4: Ratings of the program's progress towards the objectives

Objective	Current	Relative to
	rating	previous rating
Objective 1: All Nepalis have improved access to key services delivered by an increasingly effective state.		Unchanged
Note:		
The objective will be fully achieved within the timeframe of the strategy.		
The objective will be partly achieved within the timeframe of the strategy.		
The objective is unlikely to be achieved within the timeframe of the strategy.		

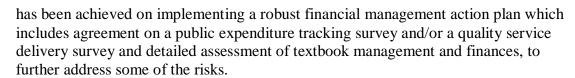
The green rating for the program's objective is based on generally solid improvements in service delivery outcomes over 2011. The portfolio is progressing well and delivering concrete results to Nepalis in the context of the country's complex and fluid political environment. These results have helped build a state that is improving its ability to meet the needs of its people. However, not delivering the Constitution by the 27 May 2012 deadline and subsequently dissolving the Constituent Assembly has significantly increased uncertainty about future progress. It has raised issues of legitimacy of government and the ability of the caretaker government to meaningfully implement policy and maintain momentum for reform. This presents serious concerns for the sustainability of gains achieved.

The results outlined below give AusAID confidence that over the course of the next four years the Nepal program will achieve the objective we have drafted for the forthcoming country situational analysis, which will be used to prepare the country strategy. A working draft of the PAF was recently completed and additional baseline data will become available over the coming months. Future APPRs will assess progress against PAF key indicators. These indicators will form the basis upon which progress against the country strategy's sole objective will be assessed and reported on.

Service delivery through government systems

Nepal's Ministry of Education has shown good commitment and capacity to address the country's development challenges. The Ministry of Health and Population, which saw frequent changes in the leadership in the past two years, has not performed as strongly. Neither sector has distributed its financial management or audit reports to donors by agreed deadlines. Audit reports repeat a number of similar findings, every year, reflecting difficulty in addressing causes.

In education, strong pressure by development partners has led to focused attention on governance and fiduciary risk in response to audit and textbook issues. Some progress



Both SWAps have governance and accountability action plans, which monitor financial management, procurement and social accountability tools. During 2011 cases of irregular expenditures were identified in the School Sector Reform Program (SSRP). These are being dealt with by the GoN in consultation with the donor consortium following agreed processes for reimbursing development partners. In 2011 the Ministry of Education agreed to address a number of development partner requests to strengthen governance. Health has further to go but a significant technical assistance unit funded by DFID on behalf of pooling partners has played a strong role in managing procurement-related risks. Some improvement in sector efficiency includes strengthening systems and processes such as: the electronic annual work plan and budget; performance based payments to hospitals; multi-sectoral collaboration; and human resources for health. AusAID is encouraging the Ministry of Health and Population to set up a high-level committee to oversee audit issues and provide financial management reports in a timely manner.

Budget execution has significantly suffered under political instability and weak systems. This was highlighted by Nepal's 2010–11 budget which was endorsed six months late by the Constituent Assembly. In 2010–11, education only executed 63 per cent of its budget. This continued the concerning trend of lack of recurrent budget execution, which increased from less than 7 per cent to 21.5 per cent over the last three years. Health expenditure is reported at 76 per cent (80 per cent of recurrent budget and 65 per cent of capital), significantly lower compared to the 2009–10 expenditure outcome, of 89 per cent.

Despite these challenges, collective donor coordination has had some positive influence in legislative reform and national service delivery. Australia has gained greater visibility through these areas with GoN and other development partners. Australia is also seen as an active partner in health and education and one that makes meaningful contribution in the sector's planning and review processes.

Most Nepalis perceive the health, education and water services they receive as 'fair' (Table 5). However, perceptions are more polarised on drinking water suggesting greater disparity across the country in providing such facilities. There is still work to do with government to improve services and address the perception held by 11 to 24 per cent of the public who think delivery of these services is bad.

Table 5: Nepalis' public perception of government services 2010–11

	Good	Fair	Bad
Perception on health facility	12%	71%	17%
Perception on education facility	16%	73%	11%
Perception on drinking water	20%	55%	24%

Data: Nepal Living Standards Survey 2011



Public financial management

The World Bank's PFM-MDTF has made some progress since its establishment in 2011. By June 2011 the six activities for the year were endorsed for implementation. The World Bank has been very responsive to donor suggestions and developed three analytical pieces in response, including the public expenditure tracking survey in education that AusAID identified as a priority. Given the long timeframe required for PFM reform and only eight months of operation in 2011, there are no significant results to report at this time.

Health

The second phase of Nepal Health Sector Program (NHSP II) has shown remarkable progress in health outcomes against many indicators. Deliveries attended by skilled birth attendants reached 36 per cent in 2011 compared to 19 per cent in 2006 and immunisation coverage for children aged below 12 months increased to 96 per cent in 2011 compared to 82 per cent in 2010. As a pro-rata contribution to the SWAp, in 2011 Australia was responsible for: 11 357 children immunised with three doses of the combined diphtheria/ pertussis/ tetanus vaccine; 4578 institutional deliveries attended by skilled birth attendants; and the training of 16 additional attendants. AusAID also enabled seven one-stop crisis centres to be established.

Nepal has had some major achievements in health, such as winning the 2009 Global Alliance for Vaccines and Immunisation award for success in MDG 4 (child survival) and the 2010 MDG 5 (maternal health) award for achievement in reducing maternal deaths. However, there remain marked disparities in many health indicators (like maternal mortality rates and contraceptive prevalence rates) across rural, urban, caste, ethnic and wealth quintiles, as evident from demographic health surveys. In 2011 neonatal deaths remained stagnant at 33 per 1000 live births. The contraceptive prevalence rate has dropped to 43% from 44% in 2006. Only 909 skilled birth attendants were trained in 2010–11, fewer than the set target of 1134. NHSP II has a clear objective of achieving gender equity and social inclusion across the health program but will require additional targeted interventions and accelerated effort to reach the entire population. Though health funding is increasing as a share of Nepal's national budget, it is still underfunded at \$12 per capita, per year (World Health Organization standards set this at \$34 a year for less developed countries).

Nutrition

Malnutrition is at alarming levels, with half of Nepali children suffering from stunting. While there has been some success in tackling this (for example, 90 per cent coverage of the vitamin A program), there is no comprehensive approach to nutrition. In 2011 Australia funded the Scaling Up Nutrition Initiative Technical Assistance (SUNITA), a World Bank-administered trust fund to support the implementation of a multi-sectoral approach to nutrition in Nepal. SUNITA is linked to the regional World Bank mechanism, the South Asia Food and Nutrition Security Initiative. Implementation progress was slower than anticipated but is providing targeted analytic work to inform policy, and develop evidence-based nutrition interventions.



Education

According to Nepal's education management information system, the current national SSRP is on track to meet most objectives and is contributing to progress against MDGs 2 and 3. Enrolment rates increased at all levels, reaching 95 per cent in primary, 86 per cent in basic (grades 1 to 8) and 30 per cent in secondary schools, exceeding annual targets. Survival rates to grades 5 and 8 improved and exceeded targets, reaching 83 per cent and 68 per cent respectively. Rates for girls and socially disadvantaged groups continued to significantly improve for all of these indicators with almost equal outcomes on the gender parity index (0.98) for net enrolment. However, data quality remained a concern with some gaps between enrolment and attendance. The World Bank will work to resolve identified data inconsistencies in 2012. The National Assessment of School Achievement was implemented in 2011 with donor support and will provide key data to inform and focus the quality aspects of SSRP.

Australia's pro-rata contribution to the education SWAp produced the following results in 2011: 40,576 children (21,099 girls and 19,477 boys) enrolled in basic education; 40 classrooms built or upgraded; 23,212 students (18,732 girls, 4,480 boys) provided with financial; 2,104 students (1,065 girls, 1039 boys) provided with nutritional support; 1283 teachers trained (441 females and 842 males); 6 school officials trained; and free text books provided to every child (39 729 financed directly by Australia).

SSRP's mid-term review was finalised in March 2012 and noted program successes in addressing access and gender inclusion. However, the review estimated a current funding gap of US\$750 to US\$900 million which could constrain full program implementation. The review recommended that the education sector focus on quality in years 1 to 8 and postpone restructuring the whole school system. It noted that the focus on governance has distracted attention from quality issues.

Gender and social inclusion are strong elements of SSRP. Initiatives such as scholarships, school feeding and mother-tongue teaching have seen positive gains in getting girls and children from disadvantaged groups into schools. There is a positive trend of increased participation by traditionally marginalised groups (for example, Dalit and Janjaati). Disaggregated education management information system data is used to monitor this progress. Enrolment of children with disability in the school system is very low at 1 per cent and much lower than the normal percentage of children with disability in the population at large. A review of children with disability is being undertaken by development partners to address this.

Earthquake resistance received more attention in 2011 due to the vulnerability of school buildings and education offices. This was highlighted on 18 September 2011 when 128 schools were destroyed and 547 damaged from an earthquake with its epicentre in Sikkim, India (just across Nepal's eastern border). Earthquakes pose a serious threat to development gains made in education and could cause a whole generation of youth to be lost. AusAID is entering a partnership with the ADB to provide \$3.9 million in technical assistance, capacity building and sector support through SSRP to jointly retrofit 260 schools in the coming years to address this risk.



Australia Awards

The selection processes for Australia Awards (Australian Development Scholarships and Australian Leadership Awards) were consolidated in 2011 to improve focus and inclusion. Australian awards address human resource development needs in Nepal and build people-to-people links. The program is split between GoN public servants and an open category at post-graduate level. Nepal's alumni network was strengthened in 2011 through a series of functions and Direct Assistance Program funding. In 2011 AusAID started work on alumni strategies, reintegration aspects and tracer studies to demonstrate scholarship impact in Nepal. This work will likely be completed in 2012.

In 2011 Australia and the GoN agreed to align Australia Awards priorities to the AusAID draft country strategy. Agreed priority sectors for the 2013 Australia Awards intake are education, health, livelihoods/poverty alleviation, WASH and governance (economics and public policy, as requested by the GoN). For 2012 there are better provisions to encourage applicants from traditionally marginalised groups to apply and help the GoN meet AusAID's Australia Awards inclusion targets. The aim is to achieve a cross-section of applicants that better match Nepal's diversity. Sixteen ADS and eight Australian Leadership Awards will start post-graduate studies in Australia in 2012, including 10 women and seven from traditionally marginalised groups. The managing contractor of the Nepal Australia Awards is working on a social inclusion strategy to encourage women, people with disability and applicants from traditionally marginalised groups to apply.

Water, sanitation and hygiene

WASH remains fragmented between the five major donors operating in the sector (who account for 54 per cent of rural water and sanitation expenditure): ADB; AusAID; Department of International Development Cooperation, Finland; UNICEF and the World Bank. AusAID's contribution accounted for about 5 per cent of total rural water and sanitation support in 2010–11. However, donor coordination is improving with implementation of recommendations of a Joint Sector Review in 2011 and the delivery of the GoN's Total Sanitation Master Plan. AusAID's implementing partner, WaterAid, leads the WASH cluster for the Association of International NGOs and has played a prominent advocacy role in addressing fragmentation through policy discussion and coordination. This is also ensuring that NGOs better align with government systems and planning.

Due to Australian support in 2011, 31 444 people have been provided with increased access to safe drinking water within 20 minutes of walking distance through 65 water schemes. A total of 31 558 people from 65 communities have been provided with increased access to basic sanitation and 28 402 people have increased knowledge of hygiene practices (hand washing with soap and water).

The independent mid-term review of Nepal's Water for Health (NEWAH) program in June 2011 reported good progress in achieving implementation targets, with major success in delivering sanitation promotion. NEWAH was assessed as being adept at implementing good practice, particularly in the areas of: poverty targeting; social inclusion; sanitation and hygiene promotion; cross sectoral coordination with health and education; and capacity enhancement of local partners. Another feature of



NEWAH's work with local government is developing and declaring beneficiary communities as 'open defecation free', in line with Nepal's Total Sanitation Master Plan. In 2011, NEWAH supported 65 communities to declare this, which will strengthen the sustainable benefits of WASH.

According to the NEWAH review, 80 per cent of target beneficiaries are from traditionally marginalised groups (including women, children, untouchable castes and indigenous people). Close to 50 per cent of the Water and Sanitation Users Committees in program districts are led by women and their voices are reflected in all decisions. WaterAid Australia has also incorporated a number of simple but very effective designs across its work to support people with disability.

Livelihoods—Micro-Enterprise Development Programme

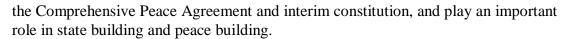
In 2011 the Micro-Enterprise Development Programme (MEDEP) created 1800 new entrepreneurs against a target of 1500 and over-achieved its inclusion target for women (68 per cent against 60 per cent). A total of 1851 new jobs were created with almost 65 per cent of these being to women. According to a November 2010 impact assessment, MEDEP is contributing significantly to poverty reduction. Based on National Planning Commission's 2010 poverty line, in 2011, the program helped 1365 entrepreneurs rise out of poverty, 63 per cent being women, 22 per cent Dalits, 55 per cent youth and 36 per cent indigenous nationalities. A total of 32 000 MEDEP entrepreneurs moved out of poverty in 2011.

MEDEP focuses on inclusion with 60 per cent women, 40 per cent Janjatis (indigenous nationalities), 25 per cent Dalits (untouchables by the Hindu religion), 30 per cent Madhesis (people from the Southern Plains, mainly of Indian origin) and 60 per cent youth target beneficiaries. The program also has a peace building element, with internally displaced people, ex-combatants and youth target beneficiaries. The disbursed nature of this support makes it somewhat difficult to effectively measure impact. The 2010 impact assessment found MEDEP has succeeded in empowering women, bringing them out of their traditional reproductive roles and providing them with access to and control over productive resources, land and public services. It also found that MEDEP has increased the proportion of women in decision-making positions. The impact assessment also found that 80 per cent of participating entrepreneurs are still active and 73 per cent of participating households have moved out of poverty.

The GoN is attempting to replicate the MEDEP model in all 75 districts by 2015 and has allocated NPR 240 million (A\$2.9 million) to this since July 2009. While this effort is noteworthy there are capacity issues within the Ministry of Industry, and trying to support the Ministry will be a key focus of MEDEP IV. In a weak domestic employment market, due to the conflict, poor infrastructure and problems with labour governance and employment migration, MEDEP directly addresses both pillars of the GoN's Three Year Plan—poverty alleviation and employment creation.

Governance—Rights, Democracy and Inclusion Fund

The multi-donor Rights, Democracy and Inclusion Fund (RDIF) supports civil society organisations working to strengthen these governance issues. Human rights, democratic principles and inclusion have strong links to delivering commitments in



RDIF has completed 17 projects and has 59 ongoing. These have so far reached around 190 450 people (48 per cent female) in 68 districts. Out of total project target groups, 22 per cent are Dalits, 25 per cent Janajatis, 2 per cent Muslims and 2 per cent Newars. All up, 880 village development committees (about 20 per cent of the total) in 68 districts (out of 75) throughout Nepal have received support, including those in extremely remote areas. A cluster evaluation conducted of RDIF found that women's participation in community group meetings has increased due to lower restrictions on their mobility attributed to their ability to effectively advocate with family members for their rights. There has also been attitudinal change with men who realise that women's participation in community based users' groups and meetings is important.

A 2011 cluster evaluation found that RDIF is progressing towards its objectives, particularly at sub-national level. Rights holders are better informed about democratic processes, civil, political and cultural rights, and the importance of peace building and inclusion. Local level pressure groups and public hearings have promoted good governance and accountability at community level through RDIF-supported programs. This has created opportunities for political decision makers, civil society and activists to constructively engage with each other. However, success in linking local-level initiatives to national-level policy influence has been limited. Thus, impact remains rooted at local change level.

Volunteers

In 2011, 12 Australian volunteers were working in Nepal in these sectors:

Sector	Number of volunteers
Health	3
Education	1
WASH	2
Humanitarian	2
Multi-sector/ crosscutting	4

2011 saw volunteer placements consolidate in line with these sectors.

Box 1: Becky-Jay Harrington at Nepal's National Emergency Operations Centre

AusAID placed Ms Becky-Jay Harrington, an Australian volunteering for international development, with Nepal's National Emergency Operations Centre, built by AusAID in 2010. The centre is Nepal's 'nerve hub' during and following disasters. Ms Harrington's work strengthened the capacity of her colleagues at the Ministry of Home Affair to handle national emergencies by establishing procedures and communication networks, facilitating training courses and participating in simulation exercises. Her presence during the September 2011 earthquake enabled greater coordination in assessing the impact of the disaster and ensuring lessons were learned.



Program quality

All major AusAID programs in Nepal were assessed against the OECD–DAC evaluation criteria in quality at implementation reports, (Table 6). Comparison between the 2010 and 2011 reports shows that more than half of the indicators stayed the same on the six-point scale. There was an even split between improvements and setbacks in the ratings that changed, nearly always by one point. SSRP dipped slightly in effectiveness, monitoring and evaluation (M&E) and sustainability scores but remained satisfactory across all ratings. RDIF improved in all ratings except sustainability and gender. NEWAH improved in efficiency and sustainability. The two new initiatives assessed, Australia Awards and the PFM–MDTF, rated the lowest, which is not surprising given programs tend to score lower when they first start.10

Unsatisfactory ratings for 2011 included: M&E and gender for the PFM–MDTF; efficiency and sustainability ratings of RDIF; and all ratings except gender equality for Australia Awards. With Australia Awards this may reflect the difficulty in applying the DAC effectiveness criteria to this type of activity. Overall, performance remained satisfactory to good within initiatives and differences in the assessment team from 2010 created small variations between ratings.

Table 6: Summary of Nepal's quality reporting results for 2011



Building staff capability in M&E continued as part of individual development and through the contracting of specialist support for creating the PAF and the drafting the

¹⁰ Because they were under the \$3 million quality at reporting threshold, neither of the new programs had quality at entry reports, so comparison against initial expectations is not possible.



APPR. The Nepal team uses a focused and detailed Program Management Plan and Risk Management Plan in overseeing the portfolio.

Gender, inclusion and disability

Gender equality and social inclusion are core elements of AusAID's program, including in Nepal. The program focuses on empowering and including women, the traditionally marginalised and people with disability by giving them access to services—health, education, WASH and economic opportunities as outlined in this APPR.

Environment and disaster risk reduction

As part of a joint health field trip AusAID observed that Nepal's health waste management facilities do not follow international best practice and pose a hazard to personal and environmental health. In January 2012 the Ministry of Health of Nepal committed to organising a workshop to disseminate an environmental health impact assessment plan and an environmental management framework for health facilities. The Ministry also committed to assessing health care waste management at different health facilities and developing a strategy for medical waste management..

NEWAH is building its skills to improve assessment of environmental degradation and potential impacts from climate change. An Australian 'engineer without borders' provided this assistance in 2011. NEWAH is planning ways to: better address run-off from taps (identified in the mid-term review); ensure disaster risk management considerations are better taken into account (particularly landslide risks); and find ways to address the drying-up of water sources.

With forest-based and natural-resource-based enterprises, MEDEP has been promoting sustainable resource management and harvesting techniques, including by helping community forest user groups benefit better from their forests. MEDEP is also working on sustainable farming and harvesting guidelines of forest-based-products to ensure no detrimental impact on the environment and optimal use of forestry resources.

AusAID joined the Nepal Risk Reduction Consortium in 2011. This coordination mechanism brings together financial institutions, development partners, the Red Cross/Red Crescent Movement, and the UN in partnership with the GoN under a common action plan. The consortium increases investment in risk reduction, to ensure more efficient and effective allocation of existing resources, and to mobilise additional funding for disaster risk reduction.

Visibility and reputation

Overall, the GoN and development partners broadly perceive Australia as a professional agency contributing in a positive and constructive way to the development of both SWAps. However, Australia is increasingly seen as a partner not doing its share of coordination in these sectors. Due to limited staffing in Kathmandu Post, Australia has not met partner expectations in sharing the burden of coordination. AusAID has never chaired either SWAp, for example, and in 2011 the Agency had to withdraw at the last minute from taking its turn as donor co-chair in SSRP due to lack

of management resources. This resulted in some loss of reputation among development partners. Similarly, pooling donors requested Kathmandu Post be cochair in NHSP for 2012–13. Without a health advisor, however, the Health and HIV Thematic Group could not do so. Even with additional resources, AusAID Kathmandu would not be sufficiently well resourced to take up the chairing roles for the remainder of the current phases of either SWAp, as the next chairs will have an additional burden of leading donor input to the design of the next phases. This presents a risk that AusAID will be perceived as a 'free-rider' by other development partners in these sectors.

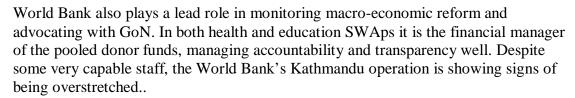
Multilateral performance assessment

Partner performance is critical to the effectiveness of Australian aid. In Nepal the UN (including UNICEF), World Bank and ADB are important multilateral partners.

The UN continues as a major supporter of peace in Nepal. In response to the challenges relating to the transition from humanitarian to post-conflict to fragile development, the UN identified a set of important services to provide, including a field presence for the bridging period—after its mission in Nepal and the Office of the High Commissioner for Human Rights withdrew. An integrated Resident and Humanitarian Coordinator's Office provided services to the UN Country Team, the GoN and development partners. The Transition Support Strategy (TSS) has provided additional services and resources to support Nepal's transition. AusAID provided \$500 000 funding support to the TSS in 2010–11 and \$1 million in 2011–12 and participated in a joint donor review mission in December 2011. AusAID will continue to share lessons learned in Nepal in other countries in transition such as Timor Leste. The TSS has so far demonstrated a sensitive and adaptable approach to supporting and monitoring Nepal's transition, so the UN supports but does not usurp the role of the re-emerging state. The strategy has discouraged conflicting interests from resorting to violence and enhanced UN coordination.

UNICEF played an important and strong role chairing the education development partner's group improving and strengthening coordination between donors and with the GoN in 2010–11. They have also played a catalytic role in driving improved WASH coordination and were instrumental in the WASH Joint Sector Review. UNICEF is effectively working at policy level with the GoN and development partners to reduce fragmentation in the sector. In health, UNICEF has been effective at local level in working with the government and supporting Ministry of Health divisions to deal with maternal and neonatal health, and nutrition. Although technically strong, UNICEF's assistance has at times erred on the side of parallel implementation rather than fully through the government system. UNICEF's major weakness has been in providing the required reporting to AusAID and changing program implementation without due donor consultation.

The **World Bank**'s large program in Nepal focuses on infrastructure and health and education SWAps. Its work with AusAID is largely good quality. Generally the scale of assistance results in positive development gains. However, effective targeting of women, disadvantaged groups and the most poor could be strengthening. The World Bank works through GoN systems and plays a key role in driving PFM reform and strengthened sector governance. In education it played an important role in putting pressure on the Government to improve textbook printing and distribution. The



The ADB has been effective at infrastructure and high-level engagements in Nepal. The ADB supports the capacity development of the GoN's Public Procurement Monitoring Office although progress has been extremely slow. With social service implementation the ADB has had mixed success and could gain from sector specialist support to focus on outcomes and impacts more than on internal ADB systems, processes and disbursals. The ADB tracks Nepal's macro-economic situation well and its strong in-country analytic teams identify key areas of support and strategic priorities. However, the ADB can be weaker in ensuring pro-poor social inclusion issues are addressed. The ADB played an important role in 2011, leading the Education SWAp donor group.

Management consequences

Results of 2010 management consequences

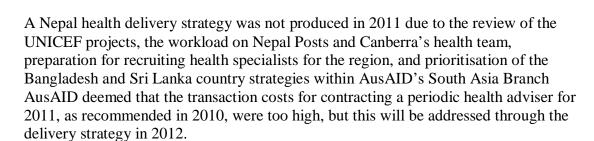
Of the following management actions identified in the 2010 APPR, 40 per cent were fully achieved, 30 per cent were partially achieved and 30 per cent were not achieved. The primary reasons partial or lack of completion were delays in the country strategy process (which followed from delays in finalising the *Effective Aid*) and resource decisions outside the control of Nepal program staff.

The management actions and responses are outlined below.

- 1. Any parallel health project would need careful consideration and clear justification, which is endorsed by the development partner working group.
- 2. Priority health investment should continue through the sector program and the pooled fund. This could be supported with one or two key strategic investments in analytical work and technical assistance. This needs close analysis through the development of a health delivery strategy in 2011.

No additional parallel health projects were undertaken. The Health Resource Facility reviewed the two AusAID-funded UNICEF projects: Child Survival and Nutrition; and Maternal Health. The review recommended that AusAID: focus on better targeting; ensure a sustained approach and strengthen rural and marginal districts; and explore funding options through DFID's technical assistance unit. If AusAID is to continue assistance through UNICEF it should be based on their overall health program and not its individual components. This could better leverage support through UNICEF. AusAID will use review recommendations to inform the Nepal delivery strategy's health component.

3. Contract a short-term periodic health adviser until the longer-term needs and skill mix of the health team are analysed and outlined in a health delivery strategy.



4. Include WASH in the AusAID country strategy and promote increased alignment and coordination in the sector and ensure that WaterAid is engaged in this process.

Due to planning requirements, the NEWAH program was extended to December 2012 with additional funding of \$2.4 million. The extension allows for the design of a new regional South Asia WASH program. During 2012, the Nepal team will support the WASH scoping mission run by AusAID's South Asia Regional Section. AusAID has recommended WaterAid lift its field monitoring and other support to NEWAH. AusAID is keen to see the sector receive ongoing support and engage more with national stakeholders and policy makers.

5. Provide Kathmandu Post with a senior program manager for education as a priority to take on the role of education co-chair.

As noted earlier, AusAID turned down the donor focal point role in education at the last minute, due to resource constraints. Increased human resources are needed at Post if AusAID is to undertake a greater role in coordination activities in the next phase of the program.

6. Secure regular resources for MEDEP to allow continuity of funding; conduct appraisals in preparation for phase IV.

The delays in delivering the Aid Effectiveness Review required MEDEP Phase III to be extended and funded for another year (2012). AusAID's Food Security and Rural Development section provided an officer as part of a review mission in early 2012 to feed into phase IV planning. Appraisals for the fourth phase are on track to start in 2013.

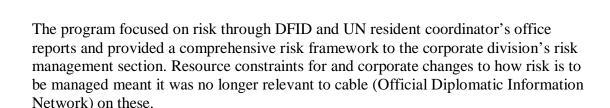
7. Work with AusAID's Working in Partnerships Section to use Nepal as a test case for implementing their new guidelines for an assessment of national systems.

The draft assessment of national systems was produced in August 2011 and will be presented to AusAID's Executive as part of a package of country assessments in 2012. It will be an important supporting document for Nepal's country strategy, informing the Agency's contribution to PFM–MDTF and supporting the program's risk management.

8. Consider withdrawing support for RDIF.

In line with *Effective Aid*, AusAID will withdraw from RDIF at the end of 2012 and has signalled this to program partners.

9. Use the risk profiles put out by DFID or the UN Resident Coordinator's Office to assess the program's risk and to send a cable on the impact for our program every 6 months.



10. Split the Program Support Officer's position into two positions.

AusAID has approved creating a Corporate Manager and Program Manager at Post and recruitment will be concluded by mid-2012.

Management consequences for 2012+

Strategy

1. The Nepal program will complete and endorsed a country strategy by the end of 2012.

The new country strategy, to be endorsed by the end of 2012, will enable AusAID to manages the risks associated with Nepal's fragile environment within the small envelope of allocated resources. AusAID's South Asia Branch has assessed Nepal's health and education SWAps as one of its highest-risk initiatives. The country situational analysis, conducted to inform the development of the country strategy, will prioritise program components to consolidate current engagements. The aim is to ensure effective management of the health and education sectors..

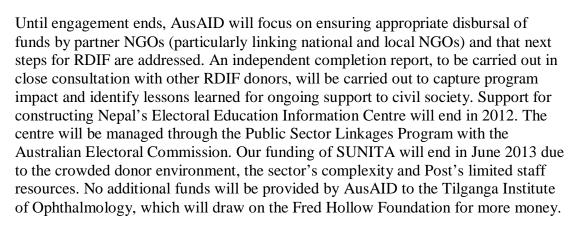
The Nepal program will use the country strategy as a catalyst for periodic discussion with high-level GoN and official representatives.

The Nepal country strategy will ensure performance and quality for 2012 and beyond is in-line with the Comprehensive Aid Policy Framework commitments and program objectives.

2. Undertake an options paper on engaging in Nepal's potential transition to federalism in 2012 to 2013 (depending upon the political environment).

Nepal's shift to federalism will have an impact on the way AusAID works in-country. All activities will likely be disrupted in some way during the transition to federal states, with activities being directed through government systems most affected. AusAID needs to ensure it has a place at the policy table and is engaged in how federalism will affect health and education service delivery, at the same time as it manages services to avoid interruption. AusAID needs to:

- decide if its assistance can be provided through current health and education SWAps and the PFM–MDTF rather than by participating in a dedicated federalism forum
- scope whether key partners, such as The Asia Foundation, could perform an assessment the possible pathways to federalism on our behalf.
- 3. AusAID will end engagement in RDIF at the end of 2012 and wrap up engagement with SUNITA, Tilganga Institute of Ophthalmology, and the Electoral Education Information Centre.



4. Investigate options for delegated leadership within current partnerships and the implications of that for the Nepal team's workload

Post will explore delegating some health and education sector risk burden, and address coordination expectations of pooling partners, through a deepened relationship with a partner. Post will explore how this relationship can provide greater flexibility in funding to allow for analytic work or targeted technical assistance, when the need arises. This will assist to maximise the effectiveness of AusAID's contribution in health and education and strengthen visibility in areas of expertise to be identified as an Australian value-add.

Operational

5. Enhance monitoring and increase learning and development opportunities for Nepal Post to ensure staff have adequate skills and information to manage current and future engagements.

To enhance monitoring and increase learning:

- all Kathmandu program management staff will visit their projects in the field four times in 2012
- staff will devote 20 days or 10 per cent of the working year to training, research and analysis, and
- will assess achievements against this target at the end of 2012.
- 6. Kathmandu Post's management team (First Secretary and Country Manager) will focus on risk analysis and management in 2012 given Nepal's challenging context.

The management team will ensure appropriate use of Agency's key management tools: the program management plan to track commitments and initiatives; Post's Risk Management Plan; and partner briefing mechanisms. The team will ensure strong ongoing engagement through the Basic Operating Guidelines Group, the International Development Partners Group, the Development Partners' Governance Group, Carter Center briefings and other coordination mechanisms, as needed. This will ensure they are on top of the fluid political economy and can make use of organisations with field presences to manage AusAID's limited ability to directly gather this kind of information.





7. AusAID will ensure that disaster risk management principles are integrated within the program in 2012, in line with AusAID's disaster risk reduction policy.

Given Nepal's high risk disaster profile, ensuring disaster risk reduction is addressed in AusAID's program is crucial. AusAID will achieve this through its membership of Nepal's Risk Reduction Consortium and by focusing on strengthening government policies and implementation within health and education.





8. Continue to support South Asia's consolidation of Australia Awards management to ensure more effective outcomes in Nepal.

In 2012, Nepal's Australia Awards program will:

- build a story about the results of Australia Awards from following up with our alumni
- work with the GoN to improve inclusion outcomes
- devolve administrative functions to the South Asia Australia Awards program team
- strengthen outreach to ensure inclusive selection of scholars
- align scholars with country strategy priorities
- improve M&E to form an evidence base upon which to assess program effectiveness.
- 9. Nepal program to contribute to South Asia Branch's Communications Strategy which will measure country program visibility and use of current communication tools.

At the end of 2012, the program will be able to assess the impact of having had a new, more informative website on the Nepal program available to all users of the web, as a key part the program's visibility. The Nepal program will also contribute to the implementation of a Branch-wide communication strategy to highlight the results of all South Asia programs to the Australian public and other stakeholders.



AusAID's Performance Assessment Framework for Nepal

ADB	Asian Development Bank
ADS	Australian Development Scholarships
APPR	annual program performance report
AusAID	Australian Agency for International Development
DAC	Development Assistance Committee
DfID	Department for International Development
GoN	Government of Nepal
M&E	monitoring and evaluation
MDG	Millennium Development Goals
MDTF	Multi-Donor Trust Fund
MEDEP	Micro-Enterprise Development Programme
NEWAH	Nepal's Water for Health
NGO	non-government organisation
NHSP	Nepal Health Sector Program
OECD	Organization for Economic Co-operation and Development
PAF	performance assessment framework
PFM	public financial management
RDIF	Rights, Democracy and Inclusion Fund
SSRP	School Sector Reform Program
SUNITA	Scaling Up Nutrition Initiative Technical Assistance
SWAp	sector-wide approach
TSS	Transition Support Strategy
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WASH	water, sanitation and hygiene