Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: 50157-NP

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT AND GRANT

IN THE AMOUNT OF

SDR 46.1 MILLION AND SDR 37.7 MILLION RESPECTIVELY

(US$ 71.50 MILLION AND US$ 58.5 MILLION EQUIVALENT RESPECTIVELY)

TO

NEPAL

FOR A

SCHOOL SECTOR REFORM PROGRAM

(August 25, 2009)

Human Development Sector Unit
Nepal Country Management Unit
South Asia Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS

(Exchange Rate Effective August 1, 2009)

NRs 1 = US$ 0.012

US$ 1 = NRs 77.600

FISCAL YEAR

July 15 – July 14

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AIN	Association of International Non-Government Organizations
ASIP	Annual Strategic Implementation Plan
AWPB	Annual Work Plan and Budget
BPEP	Basic and Primary Education Project
CAS	Continuous Assessment System
CBO	Community Based Organization
CD	Core Document
CBS	Central Bureau of Statistics
CDC	Curriculum Development Center
CLC	Community Literacy Center
CoRC	Convention of the Rights of the Child
CFAA	Country Financial Accountability Assessment
COC	Code of Conduct
CPAR	Country Procurement Assessment Report
CSSP	Community School Support Project
DEC	District Education Committee
DEO	District Education Office
DEP	District Education Plans
DFID	Department for International Development
DOE	Department of Education
DP	Development Partners
DPV	Discounted Present Value
EA	Environmental Assessment
EC	European Commission
ECED	Early Childhood Education and Development
EFA	Education for All
EMIS	Educational Management Information System
EMP	Environmental Management Plan
FACS	Foreign Aid Coordination Section
FCGO	Financial Comptroller General's Office
FMIS	Financial Management Information System
FMR	Financial Monitoring Reports
FTI	Fast Track Initiative
GAAP	Governance and Accountability Action Plan
GDP	Gross Domestic Product

GER	Gross Enrolment Rate
GON	Government of Nepal
HSEB	Higher Secondary Education Board
ICB	International Competitive Bidding
ICR	Implementation Completion Results Report
IDA	International Development Association
INGO	International Non-Government Organization
IP	Indigenous People
IRR	Internal Rate of Return
JAR	Joint Annual Review
JEMC	Janak Educational Materials Centre
JFA	Joint Financing Arrangement
JICA	Japanese International Cooperation Agency
KPI	Key Performance Indicators
MDG	Millennium Development Goal
MOF	Ministry of Finance
MOLD	Ministry of Local Development
NCB	National Competitive Bidding
NCED	National Center for Education Development
NEGSIF	National Environmental Guidelines for School Improvement and Facility Management
NER	Net Enrolment Rate
NCED	National Council for Education Development
NFEC	Non-Formal Education Center
NGO	Non Government Organization
NLSS	Nepal Living Standard Survey
NPA	National Plan of Action
NPC	National Planning Commission
NRs	Nepalese Rupees
NRB	Nepal Rastra Bank
OAG	Office of Auditor General
OCE	Office of the Controller of Examinations
PAD	Project Appraisal Document
PCF	Per Capita Financing
PIU	Program Implementation Unit
PMIS	Program Management Information System
PRSC	Poverty Reduction Strategy Credit
PTA	Parent Teacher Association
PWD	People with Disabilities
RC	Resource Center
SIL	Specific Investment Loan
SIP	School Improvement Plan
SLC	School Leaving Certificate
SMC	School Management Committee
SSR	School Sector Reform
SSRP	School Sector Reform Program
SWAp	Sector Wide Approach
TEVT	Technical Education and Vocational Training
TSC	Teacher Service Commission
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	The United Nations Children's Fund

VCDF	Vulnerable Communities Development Framework
VCDP	Vulnerable Communities Development Plan
VDC	Village Development Committee
WFP	World Food Program

Vice President:	Isabel M. Guerrero
Country Director:	Susan G. Goldmark
Sector Director:	Michal Rutkowski
Sector Manager:	Amit Dar
Task Team Leaders:	Rajendra D. Joshi/Venkatesh Sundararaman

NEPAL
School Sector Reform Program

CONTENTS

Page

I. STRATEGIC CONTEXT AND RATIONALE 1
A. Country and sector issues 1
B. Rationale for Bank involvement 3
C. Higher level objectives to which the program contributes 3

II. PROJECT DESCRIPTION 4
A. Lending instrument 4
B. Program development objective and key indicators 4
C. Project components 5
D. Lessons learned and reflected in the program design 8
E. Alternatives considered and reasons for rejection 9

III. IMPLEMENTATION 9
A. Partnership arrangements (if applicable) 9
B. Institutional and implementation arrangements 10
C. Monitoring and evaluation of outcomes/results 11
D. Sustainability 12
E. Critical risks and possible controversial aspects 13
F. Loan/credit conditions and covenants 14

IV. APPRAISAL SUMMARY 15
A. Economic and financial analyses 15
B. Technical 16
C. Fiduciary 16
D. Social 19
E. Environment 20
F. Safeguard policies 21
G. Policy Exceptions and Readiness 22

Annex 1: Country and Sector or Program Background 23

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies 32

Annex 3: Results Framework and Monitoring 35

Annex 4: Detailed Project Description..... 47

Annex 5: Project Cost..... 55

Annex 6: Implementation Arrangements 56

Annex 7: Financial Management and Disbursement Arrangements..... 63

Annex 8: Procurement Arrangements..... 74

Annex 9: Economic and Financial Analysis 79

Annex 10: Safeguard Policy Issues..... 93

Annex 11: Project Preparation and Supervision 107

Annex 12: Documents in the Project File 108

Annex 13: Governance and Accountability Action Plan..... 110

Annex 14: Lesson Learned From EFA 118

Annex 15: Joint Financing Arrangement 126

Annex 16: Statement of Loans and Credits..... 138

Annex 17: Country at a Glance 139

Annex 18: Maps..... 141

NEPAL

SCHOOL SECTOR REFORM PROGRAM (SSRP)

PROJECT APPRAISAL DOCUMENT

SOUTH ASIA

SASHD

Date: August 25, 2009	Team Leader: Rajendra D. Joshi/Venkatesh Sundararaman
Country Director: Susan G. Goldmark Sector Manager/Director: Amit Dar/Michal Rutkowski	Sectors: Primary education (70%); Secondary education (30%) Themes: Education for all (67%); Other social development (33%)
Project ID: P113441 Lending Instrument: Specific Investment Loan	Environmental category: Partial Assessment Joint IFC: Joint Level:

Project Financing Data

[ ] Loan [X] Credit [X] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:
Total Bank financing (US$m.): 71.5 IDA Credit and 58.5 IDA Grant
Proposed terms: 40-year maturity with a 10-year grace period

Financing Plan (US$m)

Source	Local	Foreign	Total
BORROWER/RECIPIENT	1,885.00	0.00	1,885.00
IDA Credit	70.50	1.00	71.50
IDA Grant	56.50	2.00	58.50
Bilateral Agencies (AUSAID, Denmark, DFID, Finland, Norway)	165.00	3.00	168.00
Foreign Multilateral Institutions (ADB, EC, UNICEF)	188.00	1.00	189.00
Non-Pooling Partners (JICA, UNESCO, USAID, WFP)	4.00	5.00	9.0
Financing Gap	250.00	4.00	254.00
Total:	2,619.00	16.00	2,635.00

Recipient:
NEPAL
Ministry of Finance
Singh Durbar
Kathmandu

Nepal
Tel: (977-1)-425-9820 Fax: (977-1)-425-7854
http://www.mof.gov.np/

Responsible Agency:
Ministry of Education
Keshar Mahal
Nepal
Tel: (977-1)-441-8784 Fax: (977-1)-441-2199
owa@mail.moe.gov.np

Estimated disbursements (Bank FY/US$m)									
FY	2010	2011	2012	2013	2014	2015			
Annual	10.00	25.00	30.00	30.00	25.00	10.0			
Cumulative	10.00	35.00	65.00	95.00	120.00	130.00			

Project implementation period: Start December 1, 2009 End: October 31, 2014
Expected effectiveness date: November 30, 2009
Expected closing date: December 15, 2014

Does the project depart from the ISN in content or other significant respects? ***Ref. PAD I.C.***	[ ]Yes [X] No
Does the project require any exceptions from Bank policies? ***Ref. PAD IV.G.***	[ ]Yes [X] No
Have these been approved by Bank management?	[ ]Yes [ ] No
Is approval for any policy exception sought from the Board?	[ ]Yes [X] No
Does the project include any critical risks rated "substantial" or "high"? ***Ref. PAD III.E.***	[X]Yes [ ] No
Does the project meet the Regional criteria for readiness for implementation? ***Ref. PAD IV.G.***	[X]Yes [ ] No

Project development objective ***Ref. PAD II.C., Technical Annex 3***
The Program Development Objective is to increase access to and improve quality of school education, particularly basic education (Grades 1-8), especially for children from marginalized groups.

Project description *[one-sentence summary of each component]* ***Ref. PAD II.D., Technical Annex 4***
The proposed Credit and Grant will help finance the GON's program to increase access to and improve the quality of school education, particularly basic education covering Grades 1-8, and with a specific emphasis on children from marginalized groups. The three main components of the program focus on Basic Education, Secondary Education and Strengthening Institutional Capacity. The program finances both the recurrent and the development expenditures for school education, focusing on the three pillars of enhancing access, promoting inclusion, and improving quality. SSRP supports the following sub-sectors or cross-cutting areas for the three pillars referenced above: (i) Basic Education (Grades 1-8) including Childhood Education and Development (ECED) and Literacy and lifelong learning; (ii) Secondary Education (Grades 9-

12) which includes technical education and vocational training (TEVT); and (iii) Institutional Capacity Strengthening for delivery and monitoring of the educational services and products.

Which safeguard policies are triggered, if any? ***Ref. PAD IV.F., Technical Annex 10***
Environmental Assessment (OP/BP 4.01). The nature of activities proposed under the project does not pose significant environmental risks. An Environmental Management Framework has been prepared to deal with the localized nature of environmental impacts, with a particular emphasis on (i) drinking water in schools, (ii) access to toilet and latrine facilities, and (iii) seismic-proofing of buildings.

Indigenous People (OP/BP 4.10). The SSRP triggers the Bank policy on IP and requires the development of an Indigenous Peoples Development Plan (IPDP). Given the pattern in the country of marginalized and disadvantaged people and the specific classifications of IPs, the GON has prepared a comprehensive Vulnerable Community Development Framework (VCDF). The VCDF complies with the essential features of the Bank's IP Policy of free, prior, and informed consultation leading to broad-based community support.

SSRP does not trigger the Bank's policy on Involuntary Resettlement. However, since the program will have land acquisition of a voluntary nature, a set of guidelines acceptable to IDA for such land acquisition has been prepared by the GON.

Significant, non-standard conditions, **if any**, for:
Ref. PAD III.F.
Board presentation:
None

Loan/credit effectiveness:
None

Negotiations Conditions:
None
Implementation Covenants:
The Recipient has agreed to the following project-specific covenants:

- Cause MOE/DOE to be responsible, at the central level, for the overall coordination, monitoring, evaluation and reporting on the Project.
- Ensure that the Project (including Subprojects for community schools) is implemented in accordance with the provisions of the Program Implementation Guidelines.
- Cause MOE/DOE, not later than April 15 of each year, to prepare and furnish to the Association a draft ASIP and AWPB for the following Fiscal Year, for its review, and promptly furnish the final ASIP and AWPB after their formal endorsement.
- Furnish to the Association an annual report summarizing the status of key indicators, relevant surveys, special studies and education project expenditure reviews, no later than two (2) weeks prior to the joint annual review meeting to be held no later than April 30 of each year.
- Provide each Subproject Grant to a Beneficiary, other than a community school, pursuant to an agreement to be entered into between the Recipient and such Beneficiary (Subproject Grant Agreement) containing terms and conditions satisfactory to the Association.

- Provide Subproject Grant to a Beneficiary, which is a community school: (i) in accordance with the eligibility and selection criteria, the disbursement, financial management, monitoring and other relevant provisions set forth in the Program Implementation Guidelines; and (ii) pursuant to arrangements satisfactory to the Association.
- Ensure that: (i) the Project (including Subprojects) is implemented in accordance with the provisions of the Vulnerable Community Development Framework (VCDF) (including the provisions of each Vulnerable Community Development Plan prepared in accordance with such Framework), the Environmental Management Framework (EMF) (including the provisions of each Environmental Management Plan and other environmental and social management plan prepared in accordance with such Framework) and the Land Acquisition Framework; and (ii) no action is taken which would prevent or interfere with such implementation.
- Ensure that the implementation of the Project (including Subprojects) does not involve, without limiting the generality of the foregoing,: (a) any involuntary taking of land resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (b) any involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihood of the affected persons.
- Ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

1. **Nepal is a land-linked country, located between China and India, and is characterized by significant geographical and social diversity**. Its 27 million people come from more than 100 caste/ethnicity groups and speak more than 90 languages and dialects. In an approximate rectangle of 800 kilometers by 250 kilometers, there are three distinct eco-zones- the mountains, the hills and the *tarai* plains - running north to south and five east-to-west development regions.

2. **Nepal is a relatively poor country with nearly one-third of the population living below the poverty line (NLSS II, 2003/04)**. Nepal's annual per capita income is about US$ 470 (FY2008/9), making it among the poorest countries in the region, despite a broad trend showing the poverty rate declining by one percentage point per annum even during the conflict period.

3. The country has witnessed significant political transformation in the recent past, and is beginning to emerge from a protracted period of instability and internal strife[1]. Having emerged from a long period of internal conflict, it has recently transitioned from being a constitutional monarchy to a republic state, and elected a Constituent Assembly (CA) that is primarily tasked to drafting a new Constitution. The Communist Party of Nepal (Maoist) emerged as the single largest party, but without a clear majority, following the 2008 CA elections and formed the coalition to head the Government. However, the Maoist-led government stepped down from office in May 2009 and a new coalition Government has been formed, led by the United Marxist Leninist (UML) party and supported by the Nepali Congress and other parties. The current political environment and the peace process remain volatile.

4. **The political transformation is closely interlinked with a desire for social change, with inclusion being very high up on the political agenda.** Nepal has a highly stratified social set-up, and historically many communities and ethnic groups in Nepal have been marginalized and excluded from the development process. Spatially, development has been largely Kathmandu-centric. The emphasis on decentralization and the development of a federal structure as part of the new constitution is a reflection of this desire for greater inclusion. Another manifestation of this social change is the very strong demand for education in post-conflict Nepal.

5. **There is strong political support for education, cutting across party lines.** The Government of Nepal's (GON) prioritization of education is a response to the increased demand for education services. The budgets for the past two years, articulates the priorities of *new Nepal*, with a key feature of the budget being the emphasis on the development of the country's human resources as a cornerstone of the country's development strategy[2]. This can be viewed as a continuation of the commitments made by the successive Nepali governments towards facilitating improved access to, and quality of education in the country.

6. **The proposed School Sector Reform Program (SSRP) is the final program in a 15 year Education for All – National Program of Action (EFA-NPA).** The Government has been focused on the education sector since the early 1990's through a series of national programs such as the Basic Primary Education Projects (BPEP I, 1992-1998 and BPEP II, 1999-2004), and

[1] Given the recent conflict, a peace filter was developed to ensure that the program design ensured that no one was made worse off due to the design of the project.
[2] In FY 10, the education sector accounted for the largest share of the Government's budget.

most recently, Community School Support Program (CSSP, 2003-2008), Secondary Education Support Program (SESP, 2003-2009), and Education For All Program (EFA, 2004-2009). The SSRP completes this series and will be in effect between FY 2009/2010 and FY 2014/2015 under the proposed phase of support.

7. **The success of these past programs is shown by the achievements in schooling outcomes reflected in Table 1**[3]. The Net Enrolment Rate (NER) at the primary level (Grades 1-5) has reached 92 percent in 2009, an increase from 67 percent in 1995. Gender Parity has been achieved at the primary and lower secondary (grades 6-8) with a Gender Parity Index (GPI) of 0.98 and 0.96 respectively.

Table 1: Progress on Key Education Indicators, Primary Education

Indicator	1995	2003	2008
Net enrolment rate (NER), %	67.5	83.5	91.8
Survival Rate to Grade 5, %	n.a.	59.7	81.1[4]
Gender Parity Index (GPI)	0.66	0.83	0.98
Schools Completing Social Audits, %	0	n.a.	75.0

Source: MOE (various years) and EFA Evaluation Report (2009).

8. **These achievements have benefited from Nepal pushing some critical reforms which have been implemented during periods of instability over the past decade.** Some of these key reforms include: (i) devolution of decision making powers to communities and school management[5]; (ii) the expansion of demand-side intervention schemes to bring children from marginalized groups to the schooling process including per child financing and scholarships; (iii) the decentralization of teacher hiring through the provision of teacher salary grants; (iv) opening up of the textbook printing and distribution system to private sector players, and (v) harmonizing support from across many Development Partners (DPs) behind a set of coherent and common objectives in education. The Government has committed itself to policy continuity.

9. **Despite the substantial progress in the provision of schooling services, considerable challenges remain**. Though the GON has made considerable progress towards achieving EFA targets, and has met some key MDG goals, the country still faces significant challenges. First, nearly 8 percent of primary-school aged children do not participate in schooling and these shares increase sharply for higher levels of schooling. In the primary school cycle, internal efficiencies continue to be poor with nearly 16 percent of children dropping out after Grade 1 and 30 percent repeating the grade. Grade 5 survival rate, by cohort method, is less than 60 percent and many who complete grade 5 do not transition to grade 6. Secondly, direct measures of quality, reflected through student learning assessments show only modest improvements in learning outcomes conducted in Grades 3 and 5. More importantly, systematic measurements of learning achievements of internationally acceptable standards are still absent. With the EFA program scheduled to close in 2009, the SSRP aims to consolidate the gains made under EFA and address the remaining challenges describe above. Furthermore, the SSRP will expand the access to Basic Schooling (Grades 1-8), while focusing on improving the quality of schooling.

[3] The Handbook of Education Economics refers to the "miraculous developments in Nepal" in the chapter written by Paul Glewwe and Michael Kremer.

[4] Most recent comparable value is from 2007.

[5] The Government's policy of local ownership through community management has been an important means of developing an accountability mechanism which relies largely on the relationship between the community and the school. This has proven to be an invaluable reform at a time when most other government services had come to a standstill due to the years of conflict.

10. **The government has been preparing School Sector Reform Program (SSRP) in close consultation with stakeholders**. These include other line ministries, representatives of special groups, such as, Indigenous Peoples, *Dalits*, *Janajatis*, and People with Disabilities (PWDs), and DPs. The Core Document and Sector Plan have been approved by the Cabinet.

B. Rationale for Bank involvement

11. **The Government of Nepal (GON) has requested the Bank and other Development Partners to assist them with this ambitious agenda**. The SSRP is seen as a program that consolidates the gains achieved under previous programs, while simultaneously expanding the program coverage in a phased manner to include all levels of schooling. The success of programs such as BPEP, EFA and CSSP, have created new challenges, such as meeting the "bulge" of children entering secondary education. Thus, the SSRP is envisaged as the continuation of support to education in Nepal in order to complete the EFA agenda.

12. **The World Bank has supported education in Nepal for over 30 years and is seen as trusted partner in this sector**. The Government particularly acknowledges the Bank's technical expertise on a wide range of sectoral and technical issues. The Bank also plays a key role in terms of donor coordination and development effectiveness. The Bank is well placed to support the Government's request for assistance to this effort given IDA's extensive experience in this sector, the knowledge acquired through working all over the world, and in particular, given the vast experience IDA has had in working with, and in, fragile states, such as, Nepal. The Bank has been and continues to be keenly involved in research activities in the school sector in Nepal, which has been instrumental in the development of the SSR Plan.

C. Higher level objectives to which the program contributes

13. **The SSRP contributes to Nepal's long-term objective of developing its human resources, and thereby contributing towards its poverty reduction and sustainable economic growth targets**. The Government of Nepal (GoN) has a high commitment to education, as reflected in the successive 5-year plans[6] and the 3-year interim plan (FY2008–FY2010)[7]. In addition, the SSR Core Document and SSRP have been developed for a 7-year timeframe (FY2010–FY2016) in view of working towards achieving the Millennium Development Goals (MDGs) for education by 2015. A key national priority is to increase equity in access to education, while social inclusion is a central approach to reducing disparities in education across gender, caste, and ethnicity. The decentralization of school management responsibilities to school management committees (SMCs), and community participation in education are at the center of the Government's strategy to improve the quality and efficiency of education. In 2000, Nepal joined the global EFA movement. The national plan of action for EFA 2015 was drawn up with the vision of achieving quality basic and primary education for all by 2015. To achieve the EFA goals, the Government launched the Nepal EFA Program (2004–2009), a high-priority program for basic and primary education supported by development partners including IDA.

14. **The SSRP is also aligned with the Interim Strategy Note**. The proposed program is well aligned with both the previous, and recently approved, World Bank Group's Nepal Interim Strategy Note (ISN, Report No. 48279-NP, 2009, and Report No. 38119-NEP, 2007). The program aims to support the ISN by ensuring access to basic schooling to all and meeting the key objectives of ensuring equitable access to quality education, and protecting key reforms

[6] See the 4th and 5th Five Year Plans prepared by the National Planning Commission.
[7] See the Three-Year Interim Plan (FY2008–FY2010) prepared by the National Planning Commission.

undertaken in Nepal's school sector, particularly, the decentralization of decision making powers to communities and school management.

II. PROJECT DESCRIPTION

A. Lending instrument

15. The proposed lending instrument for the Bank is a Specific Investment Loan (SIL). The program is expected to cover the period between 2009/10-2013/14[8]. The program will also be supported by numerous development partners (DPs) including AUSAID, Asian Development Bank, Denmark. DFID, EC, Finland, Norway, and UNICEF, all of whom will pool funds with the Government to support the program through a Sector Wide Approach (SWAp). In addition, there are a set of non-pooling partners, including JICA, USAID, and other UN agencies, UNESCO and WFP). DPs who pool their finances with the GON, harmonize their support through a Joint Financing Arrangement (JFA). The program is implemented primarily using country systems[9]. The experience with the SWAp in EFA has been a positive one, and is regarded as a best practice example in the country.

B. Program development objective and key indicators

16. The Program Development Objective is ***to increase access to and improve quality of school education, particularly basic education (Grades 1-8), especially for children from marginalized groups***.

17. Program Key Performance Indicators (KPIs) are the following[10]:

KPI		Baseline (2009)	Endline Target (2014)
(a)	Net Enrolment Rates for Basic Education	73%	85%
(b)	Basic Education Completion Rate [/a]	41%	66%
(c)	Gender Parity Index Basic Education	95%	98%
(d)	Student Learning Assessment in Grade 8	N.A. [/b]	Internationally accepted learning assessment system in place

Note: : [/a] proxied by Grade 8 survival rate by cohort method for now, this will be established as the ratio of total Grade 8 graduates in a given year to total children of official graduation age in the population.
.[/b] not applicable

18. The KPIs focus on Basic education given that over 75% of the budget is spent on this sub-sector. Primary education (grades 1-5) key indicators will continued to be tracked as part of the MDG Goals monitoring. These KPIs together with two intermediate indicators will complete the IDA core indicators requirements.

[8] The GON views the SSRP over a 7 year program till 2015/2016, though they have agreed to engage with the DPs on a 5-year partnership.
[9] Except for ICB procurement which follows IDA guidelines and NCB which incorporates IDA specified caveats.
[10] While IDA KPIs are limited to the following, SSR program as a whole with GON and all DPs, including IDA, will continue to monitor a larger set of outcomes, outputs, and other intermediate indicators (see Annex 3 for details).

C. Project components

19. The SSR program finances both the recurrent and the development expenditures covering all of school education. IDA will finance roughly 5% of the total program costs. The program focuses on the three pillars of Access, Inclusion, and Quality in: (i) Basic Education (Grades 1-8) including Childhood Education and Development (ECED) and Literacy and lifelong learning; (ii) Secondary Education (Grades 9-12); and (iii) Institutional Capacity Strengthening for delivery and monitoring of the educational services and products. These are described below.

20. A key reform that the government has adopted has been to move to a policy of providing grants to schools on the basis of Per Capita Financing (PCF). Schools will be financed on the basis of the number of students enrolled[11]. This will encourage communities to establish schools, and then finance direct student costs such textbooks and indirect costs, such as, teachers for un-served children and other quality interventions in the school improvement plan. The PCF provides a major shift in funding formula and avoids political influence in resource allocation to schools. The proposed SSRP will scale-up the PCF funding modality nationwide.

Component 1: Basic Education (Total: US$2067 million, IDA: US$102 million[12])

21. The primary objective of this component is to ensure equitable access and quality of basic education for all children in age group 5-12, prepare pre-school-age children through ECED for basic education and deliver basic numeracy and literacy to youths and adults, especially women and marginalized groups[13].

Sub-component 1.1 Increase Access and Inclusion in Basic Education (US$178 million)

22. SSRP will finance both demand and supply side interventions to expand the primary cycle to basic (to include grades 1-8), and to ensure access to all children, particularly those from marginalized population groups. Demand side interventions will include welcome-to-school and other outreach programs, provision of targeted scholarships, increased use of multilingual teachers and learning materials and provision of mid-day meals in targeted districts. A school mapping exercise would determine the extent of out of school children in a given locality. Supply-side interventions will include expansion of physical facilities including classroom construction and rehabilitation, and increased use of per capita financing for both teacher salaries for un-served students and non-salary inputs such as textbooks and other block grants.

23. The program will continue to build on the foundation of community initiation and ownership of schools and co-finance with the communities – mainly through per capita financing and matching grant incentives - to raise sufficient resources towards achieving universal access at this level. It will also provide increased support in the form of PCF-based salary grants and

[11] This enrolment figure is based on an end-of-school year census known as Flash II.

[12] The IDA numbers for each component are indicative (reflecting five percent of the cost of the component. As this is a SWAp, and resources are pooled with GoN and the other DPs, IDA resources can be used fungibly across components.

[13] This document uses marginalized or disadvantaged or excluded groups interchangeably. For purposes of the SSRP (and as defined under the EFA Core Document), the GON will continue to use the following categories of children as constituting the above groups. These include: Dalits, girls, ethnic minorities, linguistic minorities, children belonging to indigenous groups, poor children, children with disabilities, working children, street children, conflict affected children, calamity affected children, children from remote regions, children with parents in prison, children rescued from trafficking, and children of migrant parents. These definitions will be reviewed periodically during implementation.

textbooks to traditional religious schools such as *Gumbas* (Buddhists), *Madrasas* (Muslims) and *Gurukul* (Hindus) in their goal to bringing more children into school, and to alternative schooling schemes in the form of non-formal education, including mobile 'classrooms.'

Sub-component 1.2 Improve Quality in Basic Education (US$302 million)

24. To improve internal efficiency and quality of learning, SSRP will finance, mainly through the PCF instrument, a number of interventions: (i) at the student and school level, provision of free textbooks, provision of multilingual teachers and instructional materials to schools and other quality-enhancing block grants in the annual school improvement plan, salary grants to improve the pupil-teacher ratio, performance-based incentives and matching grants to schools, and performance-based student incentives, (ii) at the district level, strengthening of EMIS and Flash reporting systems and development, digitization and training for local curriculum; and (iii) at the center level, updating of curriculum to gradually adopt a competency-based system, textbooks and teacher guides, piloting of a number of innovative quality interventions and their evaluation, introduction of both continuous assessment system and sample-based standardized student assessments for grades 3, 5 and 8.

Sub-component 1.3 Early Childhood Education Development (US$59 million)

25. With an aim to better prepare children for school, SSRP will build on and expand the success of ECED under EFA[14] by financing the operation cost (salaries and materials) of some 25 thousand existing ECED centers and the establishment and operation of about 6000 new ECED centers in the rural areas. It will also support appropriate partnership with NGOs, INGOs and local agencies to coordinate and manage the different ECED modalities – school-based ECED centers, community-based centers, and privately managed centers in urban areas.

Sub-component 1.4 Literacy and Continuing Education (US$14 million)

26. SSRP proposes to complement the national literacy program by financing the operation of community learning centers. The target groups will include women and marginalized population groups, and the implementation modality will encourage locally managed partnerships with private sector and I/NGOs.

Sub-component 1.5 Basic Education Salary (US$1,513 million)

27. There are broadly three categories of teachers in Nepal - teachers recruited into government teacher positions, teachers recruited into raahat positions, and those recruited into the positions created by School Management Committees (SMC). There are an estimated 100,000 approved government teacher positions in Basic Education, and this has not increased since 1998, with the government only replacing teachers lost through natural attrition. The number of raahat positions in Basic education is estimated to be about 11,000. The sub-component finances both government teacher positions and raahat teachers. In addition, all new teachers hired through a PCF allocated post at the community level will be financed exclusively through PCF.

Component 2: Secondary Education (US$512 million, IDA: US$25 million)

[14] GER in ECED/Pre-Schooling increased from 13 percent in 2001 to 63.4 percent in 2008, far exceeding the target established for 2008 which was 51 percent. Percentage of new entrants in Grade 1 with ECED/pre-school experience increased from 8 percent to 36.2 percent between 2001 and 2008 respectively.

Sub-component 2.1 Increase Access and Equity in Secondary Education (US$44 million)

28. This component aims to improve equitable access to secondary education by financing: (i) the expansion of physical facilities, including classroom construction and rehabilitation, library and laboratory construction, and the construction of schools for children with special needs (CWSN), (ii) targeted scholarship schemes for *Dalits*, marginalized groups, disabled, girls and children from poor households; and (iii) alternative provisions such as open learning centers, non-formal education to adult women, and grant support to traditional schools.

Sub-component 2.2 Improve Quality in Secondary Education (US$44 million)

29. SSRP will aim to improve the quality and relevance of secondary education by supporting the: (i) setting of norms and standards for curriculum, education materials, teachers, school environment and examination systems; (ii) integrating grades 9-10 with grades 11-12 to result in a full-fledged secondary cycle of grades 9-12; and (iii) providing performance-based grants, PCF-based textbooks and other non-salary grants to secondary schools.

Sub-component 2.3 Technical Education and Vocation Training (TEVT) (US$15 million)

30. In order to prepare school children for future employability, SSRP will pilot a number of "soft" skills schemes such as in-school crafting skills classes for grades 7 and 8, and in-school training in non-formal apprenticeship for grades 9 and 10.[15] These could be scaled up over time after evaluating the efficiency and effectiveness of such pilots.

Sub-component 2.4 Secondary Education Salary (US$408 million)

31. This sub-component is very similar to that under Basic education. The sub-component will finance recurrent salaries and benefits of approximately 16,290 secondary school teachers in government teacher positions at the end of the EFA Program. In addition, the sub-component will also finance salary grants for secondary and higher secondary *raahat* teacher positions which had been approved by the end of EFA. Finally, given that there is likely to be increases in student numbers at the Secondary level, additional teacher positions recruited by SMCs on the basis of a PCF allocated position, at the Secondary level will be financed using the modality of the PCF.

Component 3: Institutional Capacity Strengthening (US$57 million, IDA: US$3 million)

32. The objective of this component is to improve the capacity of SSRP implementation agencies and its partners to enhance delivery and monitoring of educational services and products. In addition, this component also covers program management costs, excluding government staff salaries, which are incurred as part of program implementation.

Sub-component 3.1 Teacher Recruitment and Professional Development (US$11 million)

33. SSRP will support and finance the move towards school-based recruitment of licensed teachers through a system of teacher grants using the PCF instrument. Under the existing Education Act, there already exists a provision to recruit more female teachers. It is proposed that under the SSRP, schools will be encouraged to recruit more female teachers and if possible

[15] These courses are intended to orient and expose younger children to trade and/or vocational courses, but not actually provide training in any particular trade or vocation given that these children are very young.

provided incentives to do so. With regard to teacher development, SSRP will support both school and resource-center based teacher training, focus on student-centered teaching methods and upgrading of teacher licensing practices.

Sub-component 3.2 Capacity Development (US$3 million)

34. SSRP will strengthen capacity at both the school and implementing agency level. In line with increased decentralized planning and management, more and more communities will be encouraged to manage their schools. Capacity development will focus on enhancing the management capacity of SMCs, including the preparation and utilization of school improvement plan (SIP). In addition, support will be provided to all schools under the SSRP system to prepare social audits, making schools accountable for funds utilization. This sub-component will also finance a large-scale communication dissemination and strategy to reach out to parents and civil society to reinforce the main policy thrusts of SSRP such as community management of schools, the PCF, quality improvement and reduction of repetition and dropout rates at grade 1.

Sub-component 3.3 Program Management and Monitoring and Evaluation (US$43 million)

35. Under this component, the program will finance expenditures associated with program management. It also will finance monitoring and evaluation activities such as EMIS data collection and reporting, commissioning of quantitative and qualitative studies, learning assessments of international standards, and impact evaluation of pilot interventions. Moreover, it will support the implementation of a Governance and Accountability Action Plan (GAAP). This sub-component will also include direct costs of program management, excluding government staff salaries, which is wholly financed by the GON.

D. Lessons learned and reflected in the program design

36. The EFA program demonstrated that solid program design and effective implementation and monitoring can lead to significant achievement in outcomes even under conflict. The lessons learned from previous Bank-supported projects and programs are numerous. One key reason underlying the success of EFA was the emphasis placed on strengthening SMCs and community ownership of schools. Other over-arching lessons include: (i) mainstreaming implementation through Government structures rather than establishing stand alone PIUs is a more effective way of supporting reforms, (ii) for reforms to be successful there must be high level political commitment, continuous public dialogue, and communication on progress of the reform; there must be bureaucratic buy-in, and beneficiaries have to be mobilized; (iii) donor harmonization is best achieved when donors use country systems with the government in the lead; and (iv) clear and transparent resource allocation criteria and procedures can make significant contribution towards improving governance. There has also been tremendous progress on fiduciary issues under EFA, particularly since the adoption of the Financial Management action plan, and the emphasis on these issues will continue under SSRP. The program is designed with these lessons as key guiding principles. Annex 14 provides a detailed description of key lessons learned.

37. Significant policy developments have also taken place under past programs. These include primarily the decentralization policy as it applies to the school sector that returned all schools to community ownerships and management (Seventh Amendment to the Education Act), the increased use of block grants and cash grants based on the number of students and defined as *per capita financing* (PCF), and the involvement of the private sector in the printing and distribution of textbooks. The lessons from these policy measures have been extremely positive. In many ways, the support to the SSRP is a reaffirmation of the effectiveness of these policies and

the need to ensure that these can be sustained during the difficult political period the country is in at the moment.

38. EFA was supported by the DPs through a SWAp approach who financed a slice of the overall expenditures of the program. A similar approach will be followed for SSRP, as the success of the EFA program has been facilitated by this harmonized approach.

E. Alternatives considered and reasons for rejection

39. **Additional financing for EFA, with support to a new program being contingent on political stability**. Given the political instability in the country, the Bank team considered the option of additional financing for EFA instead of supporting a challenging reform program in Nepal. This was not pursued for a number of reasons including *inter* alia: (i) the education sector had demonstrated considerable resilience during EFA implementation which coincided with the height of the conflict in Nepal, (ii) SSRP has been under preparation for the past three years, and the basic structure of the program has been supported by successive governments, and (iii) inspite of the political instability, the GON has repeatedly committed to not rolling back key reforms – e.g. community management of schools, decentralized teacher recruitment, implementation of the PCF, and opening up of textbooks publication and distribution more fully to the private sector.

40. **Financing only primary education, though the Government's program covered the entire school sector**. The estimated cost of the initial Government program was US$4.4 billion, while the available financing was about US$2.4 billion. There was a risk that the GON capacity to implement this would be stretched and they would not be able to place adequate emphasis on either primary or secondary education, which would compromise the achievement of the MDGs. On this ground, the DPs considered the option of financing only basic education. The Government and DPs worked closely together to significantly prioritize the program, and sharpen its focus to selectively finance expenditures at the basic and secondary levels, as a result of which the size of the program was reduced to $2.6 billion. Given that the risk of compromising the achievement of MDG was averted, there was no compelling rationale for financing only primary education. The advantages of financing the entire school sector were: (a) given that grades 1-12 in Nepal are offered in the same school and managed by a single administration, reforms covering the entire school are more sustainable compared to reforms focused on the basic level only, and (b) the coverage of the entire school sector would help addressing the "demand-bulge" at the secondary levels created by the success of EFA.

III. IMPLEMENTATION

A. Partnership arrangements

41. The SSRP will be supported by the DPs through a SWAp approach. The DPs have agreed with the Government that the program will cover a five-year period between 2009/10-2013/14[16]. The total estimated cost of the program is US$ 2.63 billion over this period with an indicative envelope of US$ 2.35 Billion from GON and DPs, with the DPs tentatively committing about US$ 500 million. It is estimated that a financing gap of approximately US$ 254 million or about 9.7 percent of the overall program cost remains. The Government plans to initiate a resource mobilization strategy to cover this gap, which includes seeking financing from the

[16] Not all DPs have committed financing for a five-year period at this point in time.

Education for All-Fast Track Initiative's (EFA-FTI) Catalytic Fund[17]. This does not include the program management costs that include salaries of government staff of the Ministry of Education, the Department of Education, and all other associated agencies. Approximately 13% of the overall budget overseen by the Ministry of Education is allocated to staff salary costs, and costs for other programs that include higher education, vocational education and training, and other expenses.

42. Program implementation will be in accordance with the Joint Financing Agreement (JFA) that sets forth the joint provisions and procedures for pooled donors financial support to the SSRP and serves as a co-ordination framework for consultation between the Signatories for SSRP monitoring and decision-making (see Annex 15). In addition to the JFA, the DPs have also developed a Code of Conduct to provide a common framework and mechanism for regulating conduct of institutions including donors and government authorities involved in education, including the SSRP.

B. Institutional and implementation arrangements

43. The implementation arrangements for SSRP will be similar to those that have been employed for the implementation of EFA. Given that there may be considerable changes in the federal and sub-national structure of the country with the drafting of the new constitution, the GON and DPs have agreed that the SSRP implementation modality and inter-ministerial coordination may need to change to accommodate these developments. Till such point in time, implementation arrangements developed and used under EFA will govern the implementation of SSRP. Furthermore, the SSRP will be implemented under the existing legal framework provided by the Education Act and all its constituent Amendments. Even though the implementation structure itself does not change, there will be a renewed focus on ensuring that the most-disadvantaged and marginalized groups receive considerable attention under the program given the SSRP's focus on getting all children into school, particularly those from marginalized and disadvantaged groups. The monitoring tools and indicators will also be focused to a considerable extent on these groups so as to ensure the ability to measure progress.

44. Implementation arrangements have been defined as a function of the proximity to the point of service delivery. At the frontline of this service delivery chain are the schools, the communities in which they reside, the teachers in the schools, and the management structure which governs all school level activities, *viz*. the School Management Committees (SMCs). Higher up the service delivery chain are the implementing agencies at the district level and these include the village development committees (VDC), district education office (DEO), and resource centers referred to as cluster resource centers (RC). These institutions provide management and technical support, and help in program monitoring. The DEO provides policy oversight at the district level. Finally, at the highest point on the service delivery chain is the MOE/DOE, and all other institutions that develop strategies and policies underlying the SSRP.

45. The unique feature of Nepal's education sector is the extent to which schools are established by communities and managed by SMCs. The SMCs even have the authority to recruit teachers, raise financing from the local communities, decide on the number of classes to be offered at the school, and many other aspects of school management. This has been made possible by the Government's decision in recent years to redefine its role from being a provider of schooling services, to playing the more crucial role of financing, policy and strategy formulation,

[17] It has been proposed that a total of US$ 120 million will be sought from the Catalytic Fund over a three year period.

and oversight functions. Though the Education Act has effectively transformed these schools from government schools, to schools established, owned and managed by communities, schools continue to fall under the legal umbrella of the Education Act. This requires them to adhere to guidelines, regulations, and directives established and promulgated by the MOE. A key reform that has supported this decentralized set-up has been the adoption of the per capita funding modality. This has allowed financing to be channeled to schools to cover the costs of textbooks and other material, and additional teacher resources.

46. Aid Coordination is another key function of the MOE. The proposed partnership arrangements for SSRP, are similar to those developed during BPEP and EFA, and will be further strengthened in the SSRP. The government has clearly gained considerable experience during the implementation of EFA of a new model of engaging with the development partners, through the modality of pooled funds where domestic resources are combined with support from development partners to finance a sector wide approach (SWAp). A key feature of this partnership is that the development partners rely on government systems to account for, and report on, the use of these resources. This also extends to the realm of procurement, where the program allows for the use of government systems of procurement except in the case of ICB which follows wholly the World Bank's procurement guidelines, and for NCB where with a few additional caveats, the government system is employed. The partnership arrangements are endorsed in a Joint Financing Arrangement (JFA) and a Code of Conduct (COC). The SWAp approach is based on the adoption of a common monitoring and evaluation framework, common targets and reporting tools.

47. All DPs are coordinated by the Foreign Aid Coordination Section (FACS) of the MOE. FACS will convene regular meetings of the local representatives of all donors including those providing parallel financing.

C. Monitoring and evaluation of outcomes/results

48. *Monitoring*: SSR monitoring and evaluation framework will continue to build on and enhance the existing EMIS system at MOE/DOE, to strengthen the Program Monitoring Information Systems (PMIS), and to improve the dissemination of information on inputs, outputs and outcomes to relevant stakeholders. One, EMIS will collect comprehensive information in the form of school censuses at the beginning and at the end of school calendar year respectively, and produce Flash 1 report, Flash 2 report and Annual consolidated report. Two, MOE/DOE will use data from household surveys such as Nepal Living Standards Survey (NLSS), Demographic and Health Survey (DHS) and Population Census to cross-check schooling data obtained from EMIS system and to establish estimates on key indicators that are difficult to obtain through the EMIS. Three, MOE/DOE will commission other agencies and firms to carry out a number of qualitative and quantitative studies on topical issues every year. Four, MOE/DOE will team up with a specialized agency to carry out sample-based student learning assessments at Grade 3, 5 and 8.

49. *Evaluation*: Since SSRP has a number of access, quality and other interventions, the program proposes to identify four to five key pilots and assess them using rigorous impact evaluations before deciding to scale them up or refine their designs or implementation modalities. While MOE/DOE will manage these IE activities, they will partner with independent agencies/firms to undertake collaborate research/evaluation.

50. *Review arrangements*: The supervision strategy is based on several mechanisms that will enable enhanced implementation support to the Government and to enable timely and effective monitoring. The supervision thus comprises: (i) Joint Review Missions twice a year, with

quarterly meetings between the GON and DPs; (ii) regular visits by the DPs and technical consultants between the formal joint review missions as needed; (iii) internal monitoring by the Government; (iv) in-built independent third party monitoring/validation; and (v) internal audit and financial management reporting. The review arrangements will be modified as needed during implementation. These are detailed in Annex 3. Particular emphasis will be placed on monitoring progress on meeting the social and environmental safeguards objectives with particular attention to ensuring compliance with the Bank's IP policies. The monitoring arrangements will also place emphasis on ensuring that the agreements under the GAAP will be met.

51. *Social Audits:* In addition to all of the above, the SSRP will also lay heavy emphasis on ensuring that all schools receiving financial subventions through this program carry out social audits. Under EFA nearly 70% of schools have carried out social audits – covering both financial and output related aspects - and the target under SSRP is to raise this to all schools. Given that about 90 percent of all expenditures are likely to happen at the school level, and given the limited capacity for direct monitoring of all school level activities by concerned government authorities, it is important to introduce a system of social audits to ensure compliance with the stated goals of the program.

D. Sustainability

52. There is considerable evidence already that the GON has prioritized education over the last 15-20 years. The allocations for the education sector are typically the largest share of the budget, and it is also true that in terms of actual expenditures as opposed to budget documents, the education sector is one of the biggest spenders in the country. The Government's target for spending on education is roughly in the order of about 20 percent of the budget. The direct support for education through the MOE has ranged between 16-18 percent of budget. The Ministry of Finance (MOF) and the National Planning Commission (NPC) have also requested the Ministry of Local Development (MOLD) to ensure that about 20 percent of the share of their proposed expenditures at the local level be earmarked for spending in the social sectors.

53. The current legal framework and decentralized nature of the schooling system provides the perfect launching pad from which to strengthen the quality of teaching and learning in schools, and the accountability of school management to the community and teachers in the schools, and for principles of good governance to be established at the school level. The success of Nepal's education sector, even during the years of conflict, was because of the highly decentralized nature of provision and the fact that finances were channeled to schools increasingly on the basis of pre-set financial and funding norms. The risk to institutional sustainability is greater in the current political context, particularly if new political players attempt to politicize the schooling process, and re-centralize authority to various tiers of government, and undermine funding modalities. The GON has committed to consolidating all major reforms and strengthening them through the SSRP, though this is an issue on which close monitoring is required.

54. Institutional sustainability also requires that the program build the capacities across all tiers of government and school management to implement and manage the program, and to ensure that the program is adequately staffed for this purpose. This also involves streamlining bureaucratic procedures, building the capacities at the district level to effectively translate centrally mandated policies and targets into meaningful programs at the sub-district level, and building the capacities at the school level for effectively providing schooling services, while

simultaneously adhering to good governance practices. Staffing and redistribution of staffing resources to meet specific program targets is an important feature of institutional sustainability.

E. Critical risks and possible controversial aspects

55. The task team has analyzed: (i) country and sector level risks, (ii) sector governance, policies, and institutional risks, and (iii) operation specific risks. The overall program risk rating is Substantial, prior to mitigation, and judged to be Moderate after mitigation measures are employed. These are illustrated in Table 2.

Table 2: Critical Risk Matrix

Risk	Risk mitigation measures	Risk rating with mitigation
To project development outcomes		
Macroeconomic. Overall macroeconomic framework and fiscal policy is consistent with macroeconomic stability, however risks to growth stem from the fluid political situation, stalling of reforms and financial sustainability of populist programs.	Nepal's macroeconomic outlook for the medium term rests heavily on the prospects for sustained peace and political stability with framing of a new Constitution. A lasting improvement in the security situation, a return to normalcy on the political front and concurrent acceleration of key economic reforms, ought to lead to a gradual return to growth rates of 5 percent. GON has made good progress in FY09 in raising revenues by streamlining tax policy and improving tax administration. On the expenditure side, spending priorities have been reoriented towards pro-poor activities, although military/security expenditures remain high, as part of the peace process.	Substantial
Country Governance. (i) Risk of delay in the legislative process until the Constituent Assembly becomes fully functional. (ii) The continuing large gap between Nepal's legal framework and its capacity to implement its laws has implications for the likelihood of laws such as the Right to Information Act, the Governance Act and the Procurement Act being properly implemented. There is a risk of more leakages of public resources through criminal activities.	(i) Community oriented operations empower communities to demand accountability and improved governance. (ii) With Nepal being a pilot country for CGAC, the Bank is supporting a wide range of initiatives aimed at promoting inclusion, transparency, and use of social accountability mechanisms. All new operations, including SSRP, will integrate governance risk management measures through mutually agreed Governance and Accountability Action Plans. Community driven projects have built-in social accountability measures. (iii) IDA, DFID, ADB and other partners are supporting implementation of the GON's PEFA strategy through policy dialogue and capacity building.	Substantial
Sector Governance. (i) Given the political changes, there is the heightened possibility that policy reforms adopted earlier could be reversed; (ii) Potential for interest groups to use the political transition to their advantage (e.g. reversing community management of schools).	Through the mechanism of the SWAp, the Development Partners have conveyed collectively to the Government the importance of maintaining policy reforms. The GON has provided in writing that it will be committed to policy continuity and that any changes to implementation approach will be preceded by the necessary change in legislation and regulations.	Moderate
To component results		
Implementation Capacity. (i) Central, regional and district levels: Gaps in human resources, knowledge and skills, technology, communications, etc. (ii) School/Community level: Schools located in underserved communities lack human resources with sufficient knowledge and skills for effective school management	(i) Central, regional and district levels: Capacity Development Plan to be prepared by December 2009 to encompass the deployment and management of human, physical and financial resources that contribute to institutional strengthening. (ii) School/Community level: School Management Committee and head teachers to be trained by service organizations on school management, preparation of School Improvement Plans, and social auditing processes.	Moderate

Risk	Risk mitigation measures	Risk rating with mitigation
Technical/design. (i) Investing in interventions where returns to investments are lower than for other competing interventions – e.g., investing in expensive, low-return TEVT versus investing in less expensive and potentially high returns ECED. (iv) Disbursement slow due to the difficulty of meeting thresholds in the policy matrix (PM) or policy triggers too weak or inability to submit progress reports on time.	(i) Programs such as TEVT are being kept relatively small in SSRP, and their effectiveness will be evaluated before any decisions are made to expand them. (ii) The program will include a blend of mechanisms for disbursements. IDA will continue to use regular reporting mechanisms as the basis for disbursements, as will most other partners. This was the approach adopted under EFA. The ADB will use triggers for tranche releases, and the DFID/EC will employ triggers for both tranche releases and disbursement. All tranche release and disbursement triggers are sourced from the policy matrix to which the GON and all DPs have subscribed.	Moderate
Financial Management. An FMIS computerization effort has been initiated at the central level and is near completion. This is being gradually extended to the district level. There is a risk that this will not be completed which will adversely affect timely preparation of financial statements. Furthermore, to support formal financial management procedures, the GON has also adopted social accountability tools and there is a risk that these will not be universalized.	(i) Completion of a computerized FMIS has been completed at the central level. The key challenge is to extend the same to all district offices under SSRP. (ii) DOE has a working group in place to ensure timely preparation of financial statements and compliance to various guides already in place as social accountability tools. (iii) Development partners will closely monitor the implementation of Governance and Accountability Action Plan (GAAP) which will be a key document under the Joint Financing Arrangement (JFA) to ensure good accountability.	Moderate
Procurement. There is evidence of increased interference in public bidding. This is a threat to the usefulness and implementability of the Procurement Act. Though this has not yet been seen in the education sector. There are also stories in the popular press that teacher positions through raahat positions may have been allocated in inappropriate manner.	By decentralizing powers to communities, linked to the fact that public expenditures particularly on works, is only a fraction of the overall expenditures on works financed through community contributions, the SSRP is likely to mitigate procurement concerns on civil works. With regards to teacher salary grants, the inherent weakness in raahat appointments will be addressed in the SSRP by channeling all government funds for additional teacher positions for un-served and under-served children entirely through the PCF modality	Moderate
Safeguards. Environmental risks under the proposed program are related to: (i) limited access to clean water and adequate sanitation facilities (ii) school buildings / class rooms that are inappropriate from climatic considerations (temperature, light, ventilation etc), and (iii) disasters from flood, landslide and earthquake. Lack of awareness and capacity of field implementers, particularly at school and district level, regarding environmental guidelines could constraint effective implementations of the environmental standards. Social safeguards focus on inclusion, with a specific focus on indigenous peoples and other marginalized and disadvantaged groups, and on ensuring that acquisition of land through voluntary means follows a mechanism acceptable to IDA.	Environmental guidelines/ framework provides guidance. There are already some experiences of using environmental standard and guidelines with positive experiences. Standard designs for classrooms have been developed to help improve construction and supervision standards. Orientation and training to be given to the school and district implementers, and mechanism to coordinate environmental services to the school to be established. Through the introduction of decentralized planning procedures, and the employment of per capita financing norms, it is expected that the risk of the lack of awareness will be mitigated. The GON has prepared a Vulnerable Community Development Framework and a Land Acquisition Framework to ensure that IDA's policies on IPs (and other marginalized and disadvantaged groups) and voluntary contribution of land or land acquisition using willing seller/buyer approach are per guidelines that meet IDA safeguard policies.	Low
Overall risk rating		***Moderate***

F. Loan/credit conditions and covenants

56. *Implementation Covenants*:

The Recipient has agreed to the following project-specific covenants:

- Cause MOE/DOE to be responsible, at the central level, for the overall coordination, monitoring, evaluation and reporting on the Project.

- Ensure that the Project (including Subprojects for community schools) is implemented in accordance with the provisions of the Program Implementation Guidelines.
- Cause MOE/DOE, not later than April 15 of each year, to prepare and furnish to the Association a draft ASIP and AWPB for the following Fiscal Year, for its review, and promptly furnish the final ASIP and AWPB after their formal endorsement.
- Furnish to the Association an annual report summarizing the status of key indicators, relevant surveys, special studies and education project expenditure reviews, no later than two (2) weeks prior to the joint annual review meeting to be held no later than April 30 of each year.
- Provide each Subproject Grant to a Beneficiary, other than a community school, pursuant to an agreement to be entered into between the Recipient and such Beneficiary (Subproject Grant Agreement) containing terms and conditions satisfactory to the Association.
- Provide Subproject Grant to a Beneficiary, which is a community school: (i) in accordance with the eligibility and selection criteria, the disbursement, financial management, monitoring and other relevant provisions set forth in the Program Implementation Guidelines; and (ii) pursuant to arrangements satisfactory to the Association.
- Ensure that: (i) the Project (including Subprojects) is implemented in accordance with the provisions of the Vulnerable Community Development Framework (VCDF) (including the provisions of each Vulnerable Community Development Plan prepared in accordance with such Framework), the Environmental Management Framework (EMF) (including the provisions of each Environmental Management Plan and other environmental and social management plan prepared in accordance with such Framework) and the Land Acquisition Framework; and (ii) no action is taken which would prevent or interfere with such implementation.
- Ensure that the implementation of the Project (including Subprojects) does not involve, without limiting the generality of the foregoing,: (a) any involuntary taking of land resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (b) any involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihood of the affected persons.
- Ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

57. *Economic Analysis*: The economic analysis of the five-year SSRP uses the following benefit streams: (i) education quantity (additional school completers resulting in more workers in the future with at least eight years of schooling and with higher earnings as a result), (ii) education quality and relevance (more learning, resulting in higher productivity and earnings on the part of everyone who has completed basic education), and (ii) education's internal efficiency (less "wastage," i.e., fewer school dropouts and repeaters, and lower unit costs as a result). The measure of impact of SSRP on these benefits is estimated as the difference between "SSRP" and that in a counterfactual scenario of "in the absence of SSRP". For the cost streams, it uses the net SSRP investment costs (difference between the full SSRP costs and the business as usual costs had there been no SSRP), household expenditures and opportunity costs in the form of forgone earnings. The cost-benefit analysis results in an internal rate of return of 39 percent and a net present value of US$ 931 million assuming a 12 percent discount rate. Sensitivity analysis shows that even under the most conservative assumption in the low-case scenario, IRR is above 22

percent. These results accounts for only those benefits associated with basic education. An estimate of the IRR that takes into account all of the benefits associated with secondary education, as well as the private costs (household outlays and opportunity costs) of secondary education, is 62.5 percent, which is 23 percentage points higher even than the IRR based on basic education alone. The results unambiguously reinforce the conclusion that SSRP is a sound investment for Nepal.

58. *Fiscal Sustainability*: The analysis shows that the program is sustainable under various growth and government expenditure scenarios. However, it is clear that DP support will be required even after the SSRP period ends to ensure that gains from the program are sustained.

B. Technical

59. A key challenge that the SSRP will focus on is improvements in system quality. Overall progress on quality has been fairly limited to date. However, SSRP puts a significant emphasis on enhancing quality. Interventions include a focus on providing better quality inputs (e.g. textbooks, learning materials, teacher guides), providing incentives to schools and students which are tied to tied to performance measures, and improving the quality of teachers in school.

60. In addition, it is critical to enhance institutional capacity. Given the focus on community management of schools, SSRP will continue to support more schools as they move towards community management, while simultaneously strengthening the capacity of School Management Committees to implement the program and improve their performance on the governance front.

61. Another key issue is ensuring that PCF based financing to schools does not lead to over-reporting the number of students (ghost students). This is unlikely to happen for the following reasons: (i) Nepal has developed a good EMIS system, with EMIS reports being published twice a year. The first captures the beginning of the academic year indicators, while the second captures the end of academic year indicators. Both are published within six months of the census. This system has been in place for the last five years and has worked well. Independent surveys have assessed the EMIS to be reliable and accurate with regards to reporting on the number of students, and (ii) the PCF has been in place since 2003 during the EFA program, where it was used to finance non-salary recurrent costs and it has worked effectively. SSRP is now extending this to include financing of salaries, and the effectiveness of this approach will continue to be monitored closely.

62. Student scholarships have been identified by the EFA Evaluation Report to have been one of the most successful instruments used by the GON to ensure universal participation. Though this evaluation is not rigorous, there is considerable anecdotal evidence of the importance placed by families on this scholarship amount. This will be continued under SSRP. However, it is important to try and get a better understanding on how well these scholarships are targeted and on the size of inclusion and exclusion errors. This will be carefully studied during the implementation of the SSRP.

C. Fiduciary

Governance and Accountability Action Plan

63. As part of the preparation of the SSRP, the GON and the DPs together prepared a Governance and Accountability Action Plan (GAAP) for the SSRP. This combines several action plans under a single instrument and provides the foundations for the GON's keen desire to

establish practices of good governance. The GAAP is expected to help mitigate and address key risks of a fiduciary nature, and other key programmatic risks. Given that a large component of the program is the financing of teacher salaries and student grants, a key risk that has been identified includes ghost students and teachers. The SSRP addresses this by ensuring that the GON continues to strengthen its commitment to further decentralization to schools and school management committees (SMCs) and continue to ensure that the policy of moving towards to decentralized recruitment is strengthened during SSRP implementation. The GAAP is also expected to help address the issue of weak internal controls[18] identified in institutions in Nepal. The weak internal control is a reflection of high fiduciary risk environment in Nepal and not necessarily sector specific. However, to address this issue, the SSRP also focuses on developing and strengthening alternative control mechanisms which are centered around schools and school management committees, but also include alternative measures, such as, arrangements for third party monitoring, social and performance audits, and special reviews as part of its design.

64. In order to ensure adequate focus and attention to governance and accountability arrangements (including financial and procurement management), the Governance and Accountability Action Plan (GAAP) has been integrated into the Joint Financing Arrangement (JFA) document to be signed by all pooled partners and the Government of Nepal agreeing to harmonize procedures. Implementation of GAAP will be regularly monitored jointly by the GON and the pooled partners. There will be strong efforts to build capacity both in technical areas as well as overall sector management, including FM. On staffing, the Government will be required to place a qualified and competent team of staff, to be supplemented by consultants when needed, to sustain the successes being achieved in EFA. Pooled partners will seek assurances of continuity of core staff managing the SSRP program at the central level and also seek assurances for alternative arrangements should the risk of staff transfer prevail. Social audits, financial audits and performance audits are various means of ensuring better financial accountability and improved governance in SSRP.

Procurement

65. Procurement for the proposed program would be carried out in accordance with the JFA, which is consistent with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004, Revised October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, Revised October 2006, and the provisions stipulated in the Legal Agreement[19]. The various items under different expenditure categories are described in general below. For each contract to be financed by the Credit/Grant, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual program implementation needs and improvements in institutional capacity.

66. The factors contributing to procurement risk include: (i) limited ability to monitor decentralized procurement which constitutes a bulk of procurement under the program; (ii) non-

[18] Refers to the effectiveness of mechanisms are in place to ensure that prescribed norms and regulations are followed in the allocation of resources. For example, that scholarships are given only to those categories of persons identified and agreed to under SSRP, and in the stated amounts.

[19] The JFA also stipulates that procurement will be carried out in accordance with country systems, except for NCB which will need to meet additional IDA prescribed caveats and for ICB which follows fully IDA guidelines.

availability of trained manpower to handle the procurement; (iii) lack of awareness/dissemination of procurement procedures at school/village level, where most of the expenditure is incurred; (iv) limited disclosure of procurement related information and the oversight by the civil society on the procurement; (v) susceptibility of outside interference in procurement process. Given the current political situation, and weak governance specially at the decentralized levels, there have been growing instances of interference in or capture of works contracts (specially works contracts) invited at district levels[20]. To mitigate this risk DOE shall instruct its district offices that if such risks exist in the district, then the bid documents shall specify multiple locations for the sale of bid documents (e.g. the District Development Office, Department of Education in Kathmandu, any other location in the district) and to specify a location other than the DEO where security can be arranged on the deadline date for bid submission (e.g. the DDO or the Police Station). In parallel, the DOE shall organize community awareness/dissemination programs informing local people about how the effects such interference has on the timeliness, quality and cost the service delivery to the community, and their right to demand accountability.

67. It needs to be emphasized that the procurement-related risks in SSRP are identified to be moderate. The reasons for this include: (i) no large value central procurement, (ii) most procurement is small value, (iii) community management is accompanied by community contributions and hence provides an in-built mechanism for efficiency in procurement, iv) disclosure of procurement procedures for SMCs in the Project Implementation Guideline. Perhaps the most striking feature of the procurement environment in Nepal is the fact that there are no contracts issued by the Government for printing of textbooks. Textbooks are printed and distributed by the monopoly government printer, and receive payments from schools only when textbooks are delivered at the school. In two development regions, the textbook printing and distribution has been opened also to private producers and GON has agreed to extend this throughout the country. There is a process of short-listing of private printers and distributors here, and the SSRP GAAP aims to remove this short-listing process and move to an arrangement with no pre-qualification required, and thereby improve systemic accountability and eliminate vulnerability to corruption. On the issue of quality control, the GON has already agreed to have ex-post examination of the textbook quality, and not ex-ante approval of quality.

Financial Management

68. Overall, FM arrangements currently in place are considered to be adequate, and the FM risk for the program is rated "Substantial" and "Moderate" after mitigation. From operational and financial management perspectives, arrangements as adopted in the Education for All (EFA) Program will be followed by harmonizing with the government's planning, budgeting, accounting, reporting and auditing systems. During the EFA implementation, substantial efforts were made in improving overall financial management and accountability arrangements at the central and district levels and at the beneficiary level.

69. The strategy for financial management focuses on ensuring that the lessons from EFA are incorporated into SSRP, and that the achievements made therein are consolidated and strengthened during the implementation of the proposed operation; an appropriate identification of the key risks associated with the SSRP implementation; and in developing risk mitigation and supervision strategies that incorporate features that make it possible to supervise a SWAp type operation. These are described in greater detail below.

[20] Though this has not yet been witnessed in the education sector.

70. Under the EFA, considerable progress was made in strengthening FM related aspects of the program. A Financial Management Improvement Plan (FMIP) was developed and agreed to between the GON and the DPs, and its implementation was closely monitored. This has led to several key achievements including *inter alia* (i) a Financial Management Information System (FMIS) has been established at the DOE; (ii) efforts are underway to computerize this system and create an FMIS network with seventy-five district education offices; (iii) social accountability tools, such as, Social Audit Guidelines have been prepared and implemented in about 70 percent of schools in Nepal with an emphasis to cover all schools during SSRP; (iv) a School Audit Guide has been prepared with close collaboration with the Institute of Chartered Accountants of Nepal (ICAN) and this Guide is a part of the regular curriculum of students at ICAN; and (v) a mechanism for review of financial management and accountability arrangements are now in place within the system. All of these will be further deepened and expanded during the implementation of SSRP.

71. In terms of arrangements for supervision of SSRP from an FM perspective, the implementation of the GAAP is proposed as an important mitigating measure to address risks identified in the program and with the aim to lower the residual risk to "Modest" during implementation. The current financing arrangements as being adopted in EFA will continue with SSRP with an arrangement for pooled partners to share certain percentage of total SSRP expenditures. The DP consortium in Nepal has requested IDA, ADB, and the DFID to lead on fiduciary issues that include FM and Procurement, and hence the responsibility for supervision of all fiduciary matters among DPs lies with these three agencies and this provides considerable opportunities for strengthening the overall system. The coordinated approach applied during design phase will continue in the implementation phase to ensure high level attention is received on fiduciary matters.

D. Social

72. An over-arching goal of SSRP is to bridge gender and social gaps by 2015 in Basic Education. The SSRP aims to achieve this by focusing on the most marginalized groups that remain out of formal schooling at the Primary and Basic level. The target groups include *Dalits*, Indigenous Peoples or *Janajatis*, differently-abled children, children affected by conflict, and children with HIV-AIDS. Some of the specific interventions for *Janajati* children in SSRP includes provision of additional classrooms for schools in areas inhabited by these groups, bilingual or multilingual teachers, mother tongue medium of support, and scholarship support particularly for children from the two most marginalized groups of IPs.

73. To ensure that the targets are achieved, the SSRP will closely monitor disparities across social groups in enrolment, attendance, dropout, transition and learning outcomes. The EMIS will be further strengthened to provide even more disaggregated data which can be used for planning purposes. The SSRP will focus on strengthening the use of EMIS for planning, and for school and community level planning as well. The School Improvement Plans (SIP) will be strengthened and school management committees will be given training and incentives to ensure that out-of-school children, who are beyond the reach of interventions that are school based, can be mainstreamed into the schooling system. Back to school programs will be targeted at those children and/or communities or groups who are over-represented in the out of school population.

74. The GON has prepared a Vulnerable Community Development Framework (VCDF) which has been endorsed by the DPs and will drive and guide the implementation of programs targeted at marginalized children and groups, and will be used to monitor success in this area. The VCDF is developed based on the national policies/strategies and the SSRP with the primary

aim of meeting IDA's OP/BP 4.10 on Indigenous Peoples and to ensure that there are repeated opportunities for free, prior, and informed consultations specifically with IP groups, and more generally with other marginalized and disadvantaged groups during program implementation. This will be supervised during the annual review missions and quarterly meetings with the GON. In particular, the GON has committed to ensuring that an entire session will be dedicated to addressing these issues during review missions, and that national level representatives of these groups will be invited to all review missions. It is also important to note that these representatives already play a key role in the EPC, which is the highest education policy body in the country.

75. Furthermore, given the recent conflict in the country, a peace filter was developed to ensure that the operation did not create a negative impact on potential beneficiaries and also addresses root causes of conflict, such as social exclusion. The peace filter analyzed the operating environment including the policy making environment, the security situation, local political context and accountability. In addition, the peace filter also analyzed the potential program impacts in terms of location, who the most likely beneficiaries were, and the nature and scale of the impact. As a result, project design related to access and program financing has been influenced to address peace filter findings. For example, the SSRP emphasizes access to mother tongue medium of instruction which will be monitored during this program in terms of the number of languages for which basic textbook material is available, and the number of teachers that have been trained in bilingual education or teachers who have been recruited who are capable of teaching in select languages. In addition, to ensure the financing flows to the children, schools, and regions most needed, the GON together with DPs will improve resource channeling by developing an educational development index[21].

76. There will be no involuntary land acquisition under the program, and hence, SSRP does not trigger OP 4.12 on involuntary resettlement. Land acquired directly by the GON for the establishment of administrative buildings will either be on land that already belongs to the GON, or will be acquired through a willing buyer/seller approach. The issue of land acquisition for schools in Nepal is more nuanced than normal. Since schools are established by communities, the question of how the land is acquired only arises ex-post and at the time the school is identified for receiving GON subventions for constructing additional classrooms or other buildings. Traditionally, this land has always been acquired through voluntary contributions, or by adopting a willing buyer/seller principle. To meet IDA's safeguards issues on land acquisition the GON has developed a land acquisition framework which helps to ensure that all such transactions are done in a transparent manner, and without fundamentally altering the manner in which schools are established in Nepal. The framework will apply to all schools established during the program period and which become eligible and identified for financing of new classrooms under the SSRP, and for those schools that were established prior to the start of the SSRP, but acquired additional land during the SSRP period with the aim of expanding the number of classes they offered.

E. Environment

77. SSRP covers a wide range of activities including *inter alia*: teacher salary and textbooks, teacher development, physical infrastructure, scholarship, program cost, operating/ administrative cost, per capita funding for un-served children. Environmental concerns are related to actions/

[21] There is already an effort underway between the MOE and the NPC to develop such an index for improved targeting of government resources on a needs basis. This should help channel resources to parts of the country that may have historically been neglected.

activities under physical infrastructure. However, no large scale, significant and/ or irreversible impacts are foreseen as the activities would be relatively small scale and spread throughout the country. The minor and localized impacts may arise from construction/ upgrading of small administrative buildings or school blocks or new/ additional class rooms or may be related to providing facilities such as drinking water and sanitation as well as to their proper operation and maintenance. Ensuring supply of safe drinking water (e.g. arsenic-free groundwater in *Tarai*), proper sanitation (school latrine and waste management at school), and appropriate class room conditions (e.g. light, ventilation temperature, and noise) are the operational phase concerns. Locations of the schools or its facilities in risky or sensitive spot such as in flood-prone /risk, or landslide risk spot, and protected areas is also a concern besides risk of damage by earthquake as Nepal is in high earthquake risk zone. These concerns are also related to appropriateness of sites, orientations of the buildings considering climatic factors, and use of appropriate design standards for adequate light, ventilations, and temperature, sound-proofing as well as earthquake-resistance.

78. In order to manage the above mentioned type of minor and localized impacts, GON has prepared Environmental Management Framework (EMF) for SSRP. This has incorporated the experiences of the other projects such as Education for All, emerging lessons and updating the *National Environmental Guidelines for School Improvement and Facility Management in Nepal* (NEG). The EMF defines simplified steps, procedures and guidelines or criteria and/or standards to be used while planning and developing schools' physical infrastructure under the program. These, for example, are related to screening, preparation of simple environmental management plan, use of criteria for orientations and siting of school buildings, standards for light and ventilation requirements, temperature and sound-consideration as well as sanitation and water-quality aspects.

79. The EMF suggests capacity strengthening measures in order to improve environmental management by implementers (such as DOE, DEO, and SMC etc). These measures, for example, include providing environmental competency/ human-resources; orientation and awareness activities on environmental planning and management of school and school-facilities; and mechanism for coordination and for accessing specific environmental services e.g. water-quality testing, climatic design of school blocks etc.

80. The EMF provides a satisfactory basis for addressing environmental concerns that emerge from the implementation of the proposed program.

F. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[x]	[ ]
Natural Habitats (OP/BP 4.04)	[ ]	[x]
Pest Management (OP 4.09)	[ ]	[x]
Physical Cultural Resources (OP/BP 4.11)	[ ]	[x]
Involuntary Resettlement (OP/BP 4.12)	[ ]	[x]
Indigenous Peoples (OP/BP 4.10)	[x]	[ ]
Forests (OP/BP 4.36)	[ ]	[x]
Safety of Dams (OP/BP 4.37)	[ ]	[x]
Projects in Disputed Areas (OP/BP 7.60)*	[ ]	[x]

* *By supporting the proposed program, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

G. Policy Exceptions and Readiness

81. No policy exceptions are sought. The project's implementation, fiduciary, safeguards, and M&E arrangements are in place (with baseline data available for key performance indicators) satisfactory to IDA. Furthermore, the region's readiness criteria for Appraisal/Negotiations have been met.

Annex 1: Country and Sector or Program Background

NEPAL: School Sector Reform Program

I. INTRODUCTION

1. *Political and social context.* **Nepal is undergoing significant political and social transformation**. Having emerged from a decade-long conflict between the Government and the Maoists, the country recently transitioned from being a constitutional monarchy to a republic in 2008, and elected a Constituent Assembly tasked with drafting a new Constitution. The Communist Party of Nepal (Maoist) emerged as the single largest party, but without clear majority, in the CA elections. The Maoist-led coalition government ruled for only about nine months before resigning in May 2009. The Unified Marxist Leninist (UML) party, supported by Nepali Congress (NC) and other parties, now leads the coalition.

2. **The political transformation is closely interlinked with desire for social change, with inclusion being very high up on the political agenda**. Nepal has traditionally marginalized many of its diverse social and geographic groups from its development process. Three distinct north-to-south eco-zones, *viz*., the mountains, hills and the *tarai* (plains) and the five east-to-west development regions are characterized by uneven living standards in this land-linked country, located between China and India. The "new" Nepal has the opportunity and the challenge to be fully inclusive in its political, social and economic development for its 27 million people that come from over 100 different caste/ethnic groups and speak more than 90 languages and dialects, as identified in the last Population Census.

3. *Economy, poverty and human development***. Amidst a difficult conflict period, Nepal showed a great deal of resilience in economic growth[22].** The average GDP growth at constant prices has been around 3% since 2000. Headcount poverty rate decreased from 42 percent in 1996 to 31 percent in 2004[23]. With an annual per capita income of about US$ 470 (GON figures), making it amongst the poorest countries in the region.

4. **The global economic crisis has had only a limited impact on Nepal till date**. Because the country is largely isolated from international financial markets, there has been limited direct impact. On the other hand, the indirect effects are expected to come from likely reductions in remittances (that now account for close to one-fourth of the total GDP), export volume and tourist arrivals.

5. **While Nepal is ranked low (142nd out of 177 countries in the list) on a globally monitored Human Development Index, it has made impressive progress in many of the MDG indicators.** Net enrolment rate in primary school level increased from 68 percent in the mid-nineties to 92 percent in 2008. During the same period, gender parity index in primary enrolments rose from 0.66 to 0.98, infant mortality rate decreased from 79 to 48 (per 1000 live births) and under-5 mortality rate from 118 to 61. However, maternal mortality rate and child malnutrition rates remain one of the highest in the region. Moreover, despite an overall progress in many of the human development indicators, there is considerable disparity across populations from different caste/ethnic groups, geographic locations and income quintiles.

[22] Nepal Interim Strategy Note, 2009.
[23] Nepal Poverty Assessment, 2006.

II. THE EDUCATION SECTOR

Policy Reforms

6. **The GON is committed to ensuring educational access to all and improving the quality of school education**. Education continues to be a priority sector for the governments formed following the election of the 2008 Constituent Assembly. A key feature of last year's budget was the emphasis on the development of the country's human resources as a cornerstone of the country's development strategy. Among the overarching priorities related to the education sector, identified in the budget, are increasing access to, and improving quality of school education, and orienting graduates towards skills and vocations. Despite a change in the leadership in the government, the new Government has indicated firm commitment to key policy reforms and activities in the education sector, with an initial indicative budget allocation of about 17% for the education sector.

7. **Nepal has been keenly focused on the education sector since the early 1990s, and more recently implemented a series of key reforms.** GON has collaborated with development partners in a series of national programs such as the first and the second Basic Primary Education Projects (BPEP I 1992-1998, and BPEP II 1999-2004) and the Education for All (EFA 2004-2009) SWAp program. Despite the decade-long conflict, the Government had undertaken significant reforms in the education sector that have helped achieve impressive results in enrolments and gender parity. These reforms include: the transfer of public schools to community management; government financing for unaided community schools; introduction of per capita financing of schools; opening of textbook printing and distribution to the private sector; decentralizing higher education, along with introducing formula-based funding and cost sharing; and government financing for community campuses (see Box 1.1 for key reforms).

8. **The devolution of education management to communities is considered to be the key reform.** The education sector has set the trend for decentralization and devolution in with the passing of the Seventh Amendment to the Education Act in 2001. Historically, Nepal has had a unique tradition of communities establishing and managing schools. In 1971, Nepal effectively nationalized the management of schools. Owing to over-whelming dissatisfaction with this delivery system, the Government decided to return schools to community management on a gradual and voluntary basis. The legal framework that helped return schools to their communities is enshrined in the Seventh Amendment to the Education Act paved the way for schools to be made more accountable to the community they serve and helped ensure that public service delivery in school education took place through community schools, established and operated by communities, and co-financed by both government and communities. Management structure at the school level, supported by the Education Act and Education Regulations, is the formation of School Management Committees (SMC) and PTAs to be established through selection or election by parents and guardians. The full composition of the SMC is presented in Box 1.3.

Box 1.1
Key Reforms in the School Education

1. Started in 2002, the transfer of aided primary schools to community management has been a radical reform. Community ownership empowers the school management committee, consisting of parents and influential local citizens, with various staffing and fiscal decisions. IDA supported CSSP was designed to support this initiative of the government. Subsequently, the transfer of schools to community management was mainstreamed into EFA SWAp. To date, more than 8,600 schools have been transferred to community management. . Because community transfer is a completely voluntary choice, the extraordinary speed at which this has happened was not anticipated when the reform started. Recently completed EFA evaluation report has independently verified that the transfer of schools to community management has been a successful initiative and has already led to positive outcomes. The SSRP will continue to encourage communities to take over management of schools through advocacy programs and one time incentive grants of Rs. 100,000 (approximately US$1200) per school level. Government has already announced in the FY10 budget speech a target to transfer 4,000 schools to community management this year. All schools are expected to be transferred to community management by the end of the SSR program. While all community schools have the authority to appoint teachers on a non-permanent basis, community managed schools can appoint permanent teachers as well.

2. Salary grants are provided to schools to recruit community teachers. Empowering communities to hire and fire their own teachers – as opposed to government supplying them with centrally recruited teachers- increases teacher accountability and therefore school quality. First introduced in 2003/04 in unaided schools through the Bank's PRSC support, it was mainstreamed into the EFA SWAp program in 2004/05. This funding modality was spread to aided schools from 2005/06. Already very popular among the communities, this reform has proven to be highly effective. In FY09 EFA disbursed salary grants equivalent to salaries of [22,000] teachers.

3. Per capita funding (PCF) is a student enrolment based funding (as opposed to teacher–based funding) that is expected to enhance quality and efficiency through increased school choice (for children), competition among schools, and efficient teacher deployment. GON introduced PCF as a pilot in FY07/08 and provided 4,000 PCF-based salary grants to unaided schools. Scaled up from FY08/09, the PCF instrument will continue to be the primary funding modality to provide non-salary grants to schools to finance free textbooks and other quality interventions in the school improvement plan. Moreover, all additional teachers' salary grants for un-served students under SSRP will be channeled through PCF. PCF provides a major shift in funding formula and avoids political influence in resource allocation to schools.

4. Since the beginning of the supply of free primary textbooks in 1984, timely delivery of textbooks to schools had been a problem. A number of experiments aimed at ensuring the timely delivery of textbooks through Janak Education Materials Center (JEMC), a state-owned enterprise, did not produce desired results. At the beginning of EFA in 2004, schools were provided with per capita based textbook grants, ending the system where DOE contracted JEMC for printing and supply of primary textbooks. This paved the way for opening textbook supply to the private sector. In FY06/07, the government opened to the private sector the supply of Grade 5 textbooks in the eastern development region, which led to more timely availability of textbooks. In FY 08/09 the textbook supply for grades 1 to 8 to eastern and western regions was opened to the private sector. By the end of the SSRP period the government aims to open the entire school textbook market to the private sector. GON will drop the current provision of short listing of textbook suppliers and replace ex-ante quality control of textbooks with ex-post.

Box 1.2
Community and Community Managed Schools

In 2001, after adoption of the Seventh Amendment of the Education Act, all public schools were renamed as community schools. Public schools had School Cooperation Committees appointed by the government. But they had no meaningful authority. Therefore, these schools were in fact managed by the government. Following the Seventh Amendment, the responsibility for management of community schools was given to school management committees (SMC) which unlike school cooperation committees were elected by parents. Parents' Assembly became the supreme authority for schools. SMCs were given wide ranging powers – such as appointment of teachers, resource generation, formulating, approving and executing the school budget. In principal all community schools are community managed as all schools are managed by SMCs formed by the parents' assembly.

Community management of schools was a radical move and the government faced difficulties in implementation of the Seventh Amendment. Though the Act deemed the creation of SMCs, these were not formed immediately after the enactment. This is why the strategy of supporting the implementation through a voluntary approach was adopted. Those schools which signed an agreement with the government to take over management of schools were referred to as Community Managed Schools (CMS). This agreement on the one hand gave communities the confidence to exercise the powers vested in them by the Seventh Amendment, and on the other hand further pushed the government to concede the powers they exercised before the Seventh Amendment to communities. The conditions to be fulfilled for this transfer were: (a) formation of an SMC; (b) decision by the SMC to get the school transferred to community management; and (c) endorsement of the SMC decision by the Parent's Assembly.

Now every community school has formed an SMC. In this sense all of them are community managed. The only additional authorities that CMSs have in comparison to regular community schools, includes the authority to appoint head-teachers and permanent teachers in government teacher positions. The second provision is yet to be implemented successfully. Though schools formally transferred and non-transferred schools are in principle community-managed, the former are distinctly different from the latter in terms of the learning they have already experienced as managers of their schools, and hence in the confidence and morale they demonstrate.

Box 1.3
Composition of School Management Committee

The School Management Committee consists of a total of 10 persons. The composition of the SMC according to Education Regulations is as follows:

- **Chairperson** selected/elected by guardians from among guardians
- **Three members** (at least one female) selected/elected by guardians from among the guardians
- **Ward Chairperson** of the VDC or Municipality where the school is located
- **One member** from among local intellects/educationists appointed by the SMC
- **One member** from among school founders appointed by the SMC
- **One member** from among philanthropists appointed by the SMC
- One **teacher representative** selected/elected by the teachers
- The school's **Head Teacher** serves as the Member Secretary

9. **There are a variety of schools in Nepal: Community Aided, Community Managed, Community Unaided, Institutional or Private, and Alternative/Traditional Schools**. The Education Act stipulates two types of schools – community and institutional. While the first type of schools is eligible for government grants, the second type is not. Community schools that have

been approved for regular government grants (mainly salaries for government teachers) are popularly known as aided (legally approved) community schools, and those yet to be approved are popularly known as unaided (proposed and legally permitted but yet to be approved).Aided community schools that have taken over the management responsibility by entering into a formal agreement with the district education office are called community managed schools. Institutional schools are classified into schools registered as trusts and schools registered as companies. While the first type is not for profit, the second is for profit. In addition to the above mainstream schools, traditional religious schools – Madrasas (Islamic), Gumbas (Buddhist) and Gurukuls (Hindu) - operate in Nepal. These schools do not receive government grants. For those children who despite best efforts are unable to participate regularly in schooling, the Government also offers access to schooling through alternative schooling programs**.**

10. Community schools – both aided and unaided - also receive the following government grants: salary grants for teachers (relief grants); PCF grants for non-salary recurrent costs (textbooks and other quality interventions in the SIP); PCF salary grants for un-served students; earmarked grants for physical facility upgrading scholarships etc. The Government has recently started to offer per capita financing to traditional schools that have agreed to cover the government curriculum in addition to the religious curriculum.

11. **Schooling System**. Figure 1.1 provides a schematic of the current schooling system in Nepal. There are four cycles under the school education sub-sector, these include Primary, Lower Secondary, Secondary and Higher Secondary covering Grades 1-5, 6-8, 9-10, and 11-12 respectively. Pre-primary and ECED is precedes entry at Grade 1. Entry age at Grade 1 is recommended for 5 year olds. Under the proposed SSRP, the schooling cycles will be revised to include only two – Basic and Secondary schooling covering Grades 1-8 and Grades 9-12 respectively[24].

Financing of the School Sector

12. **Public expenditure in the education sector has improved greatly in the last decade**. During 2004-2009, the education expenditure as a share of GDP and as a share of government budget averaged 3.7 percent and 17 percent respectively. In 2008, primary education accounted for roughly 63 percent of the education budget, the secondary getting about 23 percent, tertiary 11 percent and the remaining going to technical/vocational and overall administration. In per student terms, public spending in primary grades (1-5) has seen a dramatic increase from $35 in 2004 to $65 in 2008 in nominal terms.

13. Per student household expenditure in primary education, as estimated by NLSS 2003/04 was about $17, the average largely driven by high costs of private schooling. Nevertheless, parents and communities made and continue to make a significant contribution to overall spending in primary education. As expected, such contributions are much larger at secondary and tertiary level, due to higher direct costs of schooling and lower public spending.

14. **The benefit incidence of public spending for primary education is pro-poor.** In 2003/04, public primary education outlays were strongly pro-poor, secondary education outlays weakly pro-poor, and tertiary education not pro-poor. Forty-eight percent of public expenditure in primary school and 21 percent of secondary expenditures went to the bottom two expenditure quintiles. In contrast, just 4 percent of tertiary expenditures went to the poorest 40 percent of the

[24] This will require changes in the existing Act.

population. With the increased enrolments in both primary and secondary level, particularly from disadvantaged groups, it likely that the benefits are increasingly reaching the poor.

Figure 1.1
Schooling System in Nepal

<table>
<tr><th>Age</th><th>Grade</th><th>Existing School System</th><th>Proposed under SSRP</th></tr>
<tr><td>16</td><td>12</td><td rowspan="2">Higher Secondary Education
(Grades 11-12)</td><td rowspan="4">Secondary Education</td></tr>
<tr><td>15</td><td>11</td></tr>
<tr><td>14</td><td>10</td><td rowspan="2">Secondary Education
(Grades 9 - 10)</td></tr>
<tr><td>13</td><td>9</td></tr>
<tr><td>12</td><td>8</td><td rowspan="3">Lower Secondary Education
(Grades 6 - 8)</td><td rowspan="8">Basic Education</td></tr>
<tr><td>11</td><td>7</td></tr>
<tr><td>10</td><td>6</td></tr>
<tr><td>9</td><td>5</td><td rowspan="5">Primary Education
(Grades 1 - 5)</td></tr>
<tr><td>8</td><td>4</td></tr>
<tr><td>7</td><td>3</td></tr>
<tr><td>6</td><td>2</td></tr>
<tr><td>5</td><td>1</td></tr>
<tr><td>4</td><td colspan="2" rowspan="2">Pre-Primary Education /
Early Childhood Development</td><td rowspan="2">Pre-Primary Education /
Early Childhood Development</td></tr>
<tr><td>3</td></tr>
</table>

Achievements in School Education: Access and Equity

15. **Access to schooling has improved tremendously in Nepal in recent years**[25.] In 1951 there were only 10,000 children in Nepal in primary and secondary schools. Total enrolment rose to about 400,000 in 1971 and has now reached more than 7 million students in more than 30,000 schools throughout the country.

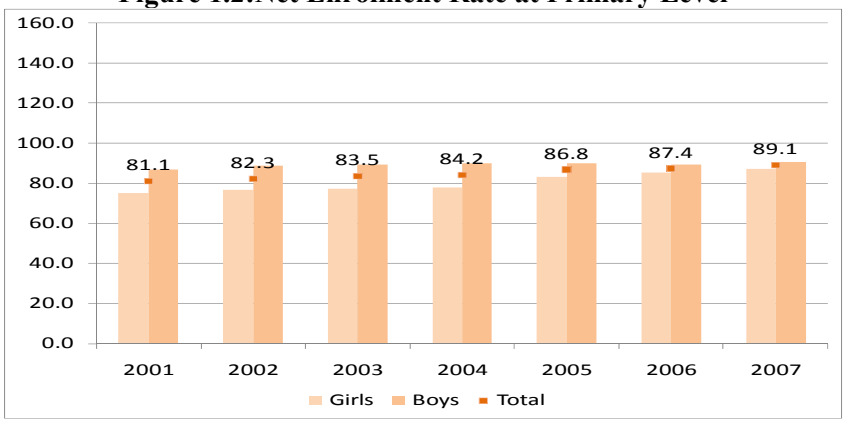
16. *Primary School:* **Nepal has made remarkable progress in increasing enrolments, particularly in primary education in the past two decades**. Overall primary enrolments have more than doubled to almost 5 million in 2008. As a result, the net enrolment rate (NER) for primary education rose from 68% in 1995 to 92% in 2008. The increase has been driven by expansion in underserved areas in the mountains as well as in the *Tarai*. Nearly 90 percent of primary enrolment occurs in community schools (aided, un-aided and managed), and only about 10 percent in institutional or private schools. Trend in NER at the primary level is shown in Figure 1.2.

17. **During the same time-period, there has been huge progress in terms of gender parity and social inclusion**. Gender parity index (GPI) increased from 0.66 in 1995 to 0.96 in 2008. School participation among *janajatis*, for example, doubled from 1 million to 2 million in only five years of EFA implementation. Dalit enrolments too have shown substantial progress, as seen from recent data that indicates dalit students now constituting 18% of total primary enrolments. It

[25] The Handbook of Education Economics refers to the "miraculous developments in Nepal" in the chapter written by Paul Glewwe and Michael Kremer.

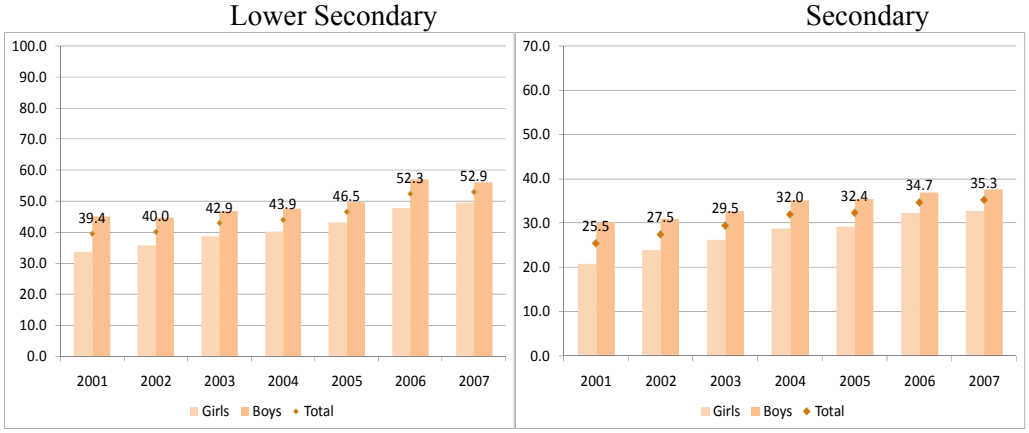
is also noteworthy that gender parity at the primary level has also been achieved within population sub-groups. A GPI of 0.98 for *Dalits* and of 0.99 for *Janajatis* reveal that girls belonging to these population sub-groups have also benefitted from increased access to schooling opportunities at the primary level. Other notable achievements include increase in percentage of teachers with required qualification and training (17% in 2003 to 67% in 2008). These achievements have also been supported, independently, by a recent report "Joint Evaluation of Nepal's Education for All (2009)" that documents key achievements in this sector, attributing mainly to revitalized School Management Committees under EFA program.

Figure 1.2:Net Enrolment Rate at Primary Level



18. *Secondary School:* **The success of the primary education access has also led to increased enrolments in lower secondary and secondary schooling**. Over 2.25 million children are enrolled at the lower secondary and secondary levels in Nepal, of which about 1.5 million are in lower secondary and the remaining at the secondary level. As seen from Figure 1.3, NER at lower secondary level (grades 6-8 for ages 10-12) grew from 43% in 2001 to 52% in 2008 while that at secondary level (grades 9-10 for ages 13-14) increased modestly from 30% to 35% during the same time period. In terms of gender parity, females now account for close to 47% of total enrolments at both lower secondary and secondary level, an impressive achievement during BPEP II and EFA period.

Figure 1.3:
NER at Lower Secondary and Secondary



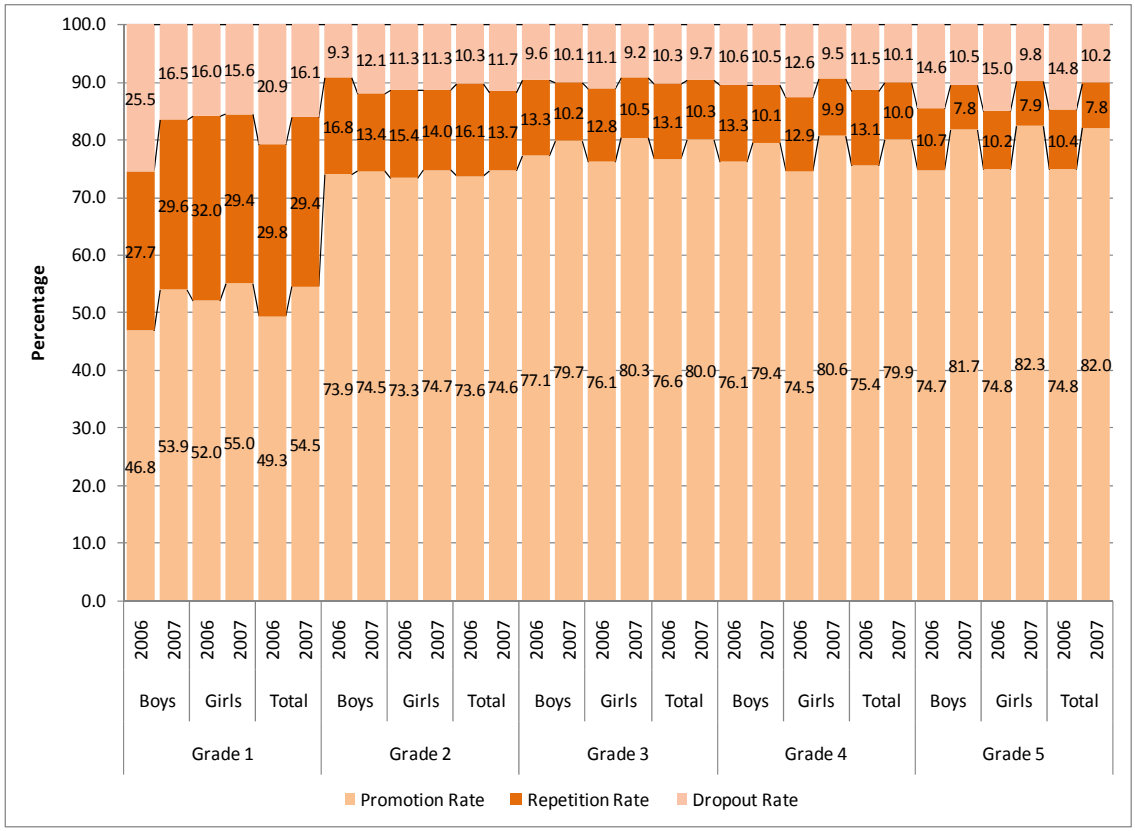
19. *Other sub-sectors:* **Dramatic improvements have been made in increasing access to ECED programs between 2003 and 2007**. Currently, a total of about 24000 ECED centers cater to more than 800,000 children between 3 and 4 years of age in the country. In terms of trend, GER at ECED increased from a lowly 13% in 2001 to an impressive 60% in 2008. As a result, the percentage of children in Grade 1 with ECED/PPC experience increased almost four-fold from 8% in 2003 to 33% in 2007.

20. **The use of non-formal education as a means of increasing access to schooling has gained popularity in Nepal in recent years**. Currently, there are three modalities through which NFE is offered: School Outreach Program (SOP) for ages 6-8, Flexible Schooling Program (FSP) for ages 8-14 and Urban out of School Program (UOSP) covering children aged 6 to 14. Together they enroll about 65,000 out-of-school children – both working and non-working.

Challenges: Efficiency, Quality and Measurement of Learning Outcomes

21. **Internal efficiency at all levels of school remains a daunting challenge given very high repetition and dropout rates.** About 28% of students in grade 1 repeat and 12% drop out every year (see Figure 1.4). Grade 1 repetition is very high, in the order of 30%, and dropout rate is about 16.1%. Survival rate to grade 5, as measured by cohort method, remains low at 58%. Many children who complete grade 5 do not transition to lower secondary level.

Figure 1.4:
Internal Efficiency at Primary Level Grades



22. **Moreover, quality of schooling as measured through student achievement tests is yet to systematically measured and documented.** In the absence of a reliable achievement testing system which meets international standards of student assessments, it is difficult to assess the learning outcomes of children in a meaningful way. A number of studies conducted between mid-1990s till now have reported student test scores in various subjects, without providing a systematic analysis for useful feedback to policymakers and other stakeholders.

23. **Teacher management continues to be a serious concern,** especially in the area of uneven deployment of government teachers, poor quality of teachers, and serious shortfall in resources (government not fully able to cover teacher's salary)**.** Teachers play an important role in improving the quality of education and quality improvements can only be sought with an adequately sized teacher-force, with teachers who are well-trained, and committed to improving the learning outcomes of children in their classrooms. Teacher absenteeism is another issue – on average, 1 out of 6 teachers are absent on any given day.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

NEPAL: School Sector Reform Program

Project	Credit No.	Sector Addressed	Closing Date	IP Rating	DO Rating
Second Higher Education Project (SHEP)	IDA Grant H274-NEP	(a) Reform Grants; (b) Student Financial Assistance; (c) Higher Secondary Education; and (d) Strengthening System Capacity	01/15/2014	Moderately Satisfactory	Moderately Satisfactory
Education for All (EFA) Project	3956	Primary education; pre-primary education; adult literacy/non-formal education, sub-national government administration; and other social service	01/31/2010	Satisfactory	Satisfactory
Community School Support Project (CSSP)	3808	General Education	09/30/2006	Satisfactory	Satisfactory
Basic and Primary Education Project II, Phase I (BPEP II)	3185	Law and justice and public administration (central government administration and sub-national government administration); pre-primary education; primary education; and tertiary education	07/15/2004	N/A	N/A
Higher Education Project I (HEP I)	2560	Tertiary education	11/30/2001	N/A	N/A
Engineering Education Project (EEP)	2044	Vocational/tertiary education and training	12/31/1999	N/A	N/A
Basic and Primary Education Project I (BPEP 1)	2357	Primary Education	12/31/1999	N/A	N/A

OTHER AGENCIES FINANCED PROJECT

Development Partner	Project Description
ADB	Primary Education Development Project (PEDP) (1991-2000). Establish NCED and nine PTTC and develop TT curricula and materials, train management personnel, teacher trainers and teachers
ADB/Denmark	Teacher Education Project (2002-2009 ongoing). Improve the quality and coverage of teacher training Secondary Education Support Project (2003–2009). Improve the quality of and access to public secondary education, particularly for girls and disadvantaged groups Secondary Education Development Project (1992–2000 Policy Development Support (2003). Policy formulation, coordination, and follow-up
ADB/SDC	Skills for Employment (2005–2011) Education Sector Development Policy and Strategy (ESDPS) (2004–2006) Education Support Program – Sub Program I (2007-2010)
Denmark	Education Sector Advisory Team (ESAT) (2004–2009). Education for All and Secondary Education Support Program
Finland	Multilingual Education (2006-2009). Initiate the creation of conducive MLE Policy environment.
Norway	Formative Research Project (July 2005 to July 2009). Formative Research and Capacity Building
UNICEF	Child Development Program (supporting EFA) – 2003 and ongoing in 30 districts. Life skills, non-formal education and early childhood development Quality Education and Welcome to School Program (1 Jan.2002 to 31 Dec. 2006) Formal Education Program (2008) Child Protection (2002-06). Providing support in basic Primary Education through Decentralized Action for Children
JAPAN	Physical Facility Expansion – to support EFA. Buildings, toilets, water, compound walls Community Based Alternative Schooling Project (CASP) (2004–2009)

Development Partner	Project Description
	Supporting Improvement of School Management (SISM)
UNESCO	Early Childhood Development (ECED) - (2003–2006). Strengthening the National EFA Plan for ECED in Nepal. Community Learning Center (2002–2005) CLS / IDP (Oct 2005 – Sep 2007). Providing continuous learning as well as development opportunities to the community Achieving Decade for Education for Sustainable Development (DESD) goals (2008-09). Early Childhood Care and Education (ECCE) Policy Review/Advocacy, ECCE Teacher Education, Gender and Inclusive Education
EC	Community Schools Capacity Development Program (2007-2010). Support EFA program
WFP	Global Food for Education initiatives (2002–2006). Mid-day meals and de-worming for primary level Food for Education (2002–2008)

Annex 3: Results Framework and Monitoring

NEPAL: School Sector Reform Program

I. Introduction

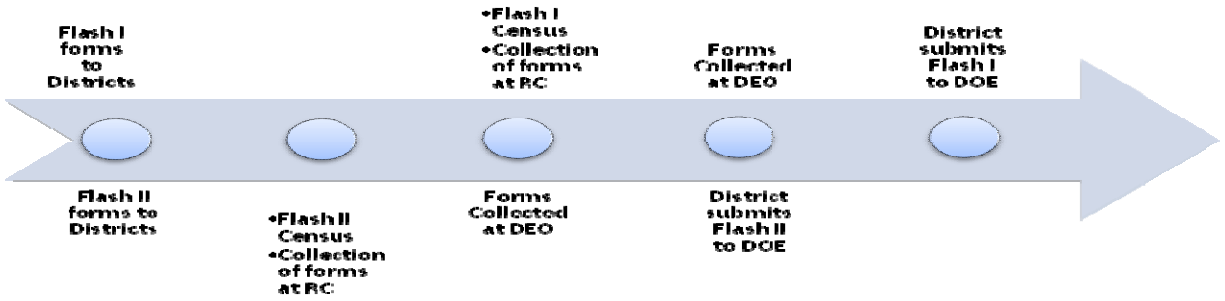
1. The monitoring framework for the SSR Program will build on the framework developed under current programs such as EFA and SESP. During these programs the MOE/DOE developed mechanisms to monitor program progress using both data-based methods and findings based on field level monitoring. The GON and the DPs tracked a total of 19 indicators to monitor progress of EFA program, and a set of additional indicators for SESP project as well. Since the SSR Program focuses more broadly on the overall school sector, and not just the primary cycle as done under EFA, the GON and the DPs have agreed to a set of revised indicators to monitor implementation and outcomes in accordance with School Sector Reform Plan, a long-term strategic plan of the education sector in Nepal over the period from 2009 to 2016, that has been endorsed by DPs. The SSRP results monitoring framework covers the key aspects of the program, *viz*., (i) ECED, Basic education, (ii) Secondary education including TEVT, (iii) Literacy and Lifelong Learning, (iv) Teacher Professional Development, and (v) Capacity Development including program management and monitoring.

2. The monitoring of the SSRP will largely rely on information collected through the Education Management Information System (EMIS), which is used to prepare the Flash I and Flash II Reports, the Annual Status Report, and an Annual Consolidated Report. This will be supplemented by available data from nationally representative household surveys for cross-checking the key indicators, such as, NER, GER, out of school children and completion rates. In addition, MOE/DOE will partner with other agencies and firms to carry out a number of quantitative and qualitative studies on specific topics. Sample-based learning assessments and impact evaluations will also form important part of the SSR program monitoring. The section below describes these instruments in some detail.

II. Sources of data for monitoring outputs and outcomes

3. *EMIS, Flash I and Flash II*. Most data available on school level education is obtained from annual school census in the form of Flash I and Flash II. The DOE initiated the Flash system in 2004 in response to the fact that data collection at a single point in time was inadequate for capturing both the initial enrolments and those at the end of school year. The EMIS collects school level information twice a year with the Flash I reporting on school level characteristics at the start of the school year, and Flash II reporting on those at the end of the school year. Figure 3.1 provides the timeline for the processing of Flash I and II data collection.

Figure 3.1:Timeline for Flash Data Collections



4. The Flash I and Flash II data are regarded as being of reasonable quality by most stakeholders in the country. The data collection, analysis and dissemination are done in a timely manner. The information coverage is comprehensive (Table 3.1), and it is collected from over 30,000 schools twice a year. Since its initial years, the flash system has improved in such areas as quality control during data entry and consistency-checks. SSR will build on this system and strengthen data utilization for informed decision-making at the center, districts as well as school-level. The DOE is already working towards producing a district- and school-level report card system with an aim to inform parents and communities how their schools are performing relative to other schools in their VDCs or district and the country.

Table 3.1: EMIS Coverage

Flash I (Reference Date – May 21)	Flash II (Reference Date – April 1)
1. Number of schools by types of school 2. Student participation by gender, Dalit, Janajati, and disability 3. Number of teachers and their training status 4. GER, NER by gender and level of education 5. Student-teacher ratios 6. Student-school and teacher school-ratios 7. Delivery of free textbooks to schools within the start of school year 8. Schools with transitional language support 9. Also contains information on ECDs/PPCs, Higher Secondary Schools, and Religious Schools	1. Students currently in school by grade, gender, Dalit, Janajati and disabilities 2. Enrolment in women literacy classes, enrolment in adult literacy classes by gender 3. Percent of schools receiving funds within two months of SY or each trimester 4. Percentage of schools with SIP (for the first time, and others), public disclosure of accounts, number of schools receiving SIP for the first time, and number of schools receiving Block grants 5. Number of operational days 6. Completion of social audit or not 7. Transfers to community management 8. Number of scholarships received 9. Number of new classrooms constructed and other rehabilitated and school environment improved

5. *Nationally Representative Household Surveys*. In addition to EMIS, and Flash I and II reports, the MOE/DOE uses data from household surveys such as Nepal Living Standards Survey (NLSS) and Population Census, and Demographic and Health Survey (DHS). These independent survey data are used to cross-check schooling data obtained from EMIS system and to establish estimates on key indicators that are difficult to obtain through the EMIS. These include indicators such as out-of-school children (OOSC) and household expenditures on education, for which household surveys are more reliable than EMIS administrative data. It is expected that respective agencies (CBS for NLSS and the Census, New Era for DHS) will carry out at least three large data collection exercises during the SSR implementation period: NLSS III during 2009/10, Population Census during 2011/12, and DHS during 2012/13. For the upcoming NLSS III, CBS has agreed to incorporate an expanded education module. These nationally representative data sources will allow for triangulation of data across surveys and administrative EMIS system at different points during SSR implementation.

6. Qualitative and Quantitative Studies: In addition, SSRP intends to use independent agencies/firms to carry out a number of studies using both quantitative and qualitative methods. First, to check Flash/EMIS data reliability, a sample-based verification survey of schools will be conducted annually to produce a report on EMIS data reliability/validity. Second, a sample of classrooms will be visited periodically to gather and analyze information to review quantity and quality of classroom teaching-learning processes occurring in classes. Third, MOE/DOE will commission research studies and reports each year on specific topics, agreed upon in the annual review mission among GON and DPs.

7. *Learning Assessments:* Given that quality enhancement is one of the primary SSR Program objectives, it is critical that the program systematically measure the quality of learning by administering a scientific student achievement testing that is reliable, valid and credible. The rationale for this independent assessment is even more compelling given GON is adopting a new policy of liberal promotions and Continuous Assessment Systems (CAS). SSR proposes to carry out sample-based nationally representative student tests, administered by an independent agency, at Grades 3, 5 and 8. Given the specialized nature of the task, MOE/DOE will partner with an international testing agency/firm and the national Curriculum Development Center (CDC) to develop, administer and analyze the testing results. The results of these independent assessments will be fed back to policymakers and stakeholders to raise their awareness about the quality of education, and adjust quality-related policies and interventions accordingly. These learning assessments will be carried out early during program implementation (2010), and again towards the end of the program implementation period (2013).

III. Capacity Building

8. Monitoring and Evaluation system at the MOE/DOE has been improved over the past decade, especially under EFA. As mentioned earlier, Flash Reports are one of the noteworthy products in EFA, providing detailed information at school level in timely manner. Financial Management System developed under EFA is also highly regarded by DPs as a successful tool to periodically produce financial management reports. M&E capacity at the MOE/DOE will continue to be strengthened in (i) improving mechanism for EMIS data collection and data management, (ii) carrying out qualitative and quantitative studies, and (iii) administering sample-based scientific learning assessments.

9. As a part of capacity building, the MOE/DOE already have in place a Program Monitoring Information Systems (PMIS) aimed at capturing the physical and financial progress of implementation, and other intermediate or input related information. The PMIS will need to be strengthened to capture information from all schools, and not only primary schools in Nepal.

IV. Dissemination and Use of Performance Indicators

10. The MOE/DOE disseminate the collected information to all stakeholders through the website and through review missions. This has helped improve not only dissemination process the but also quality of the data collection, as these key stakeholders are able to provide feedback on this information. This policy will be continued under SSRP with necessary refinements. The data collected by EMIS will continue to be disseminated as Flash Reports. Other data collected by different means will be also widely disseminated in the form of reports, e.g., student assessment reports, literacy survey reports, etc. The improved information dissemination mechanism under SSRP would allow stakeholders to conduct continuous and timely analysis of the program progress and institute corrective actions.

V. Research and Impact Evaluation

11. Impact Evaluations of Pilot Programs. Nepal has a long-standing tradition of piloting a program before scaling it up to a larger program. For example, school mapping (child tracking) exercise was carried out in 3 districts, before being considered for countrywide scale-up. Similarly, the program on Annex schools was piloted in a few areas, before the MOE/DOE considered whether it should be scaled up across the country or not. MOE/DOE is considering a number of pilot interventions such as school-feeding and school-health programs, incentives of teachers, student incentives, and TEVT soft skills course. Piloting a program prior to scaling up is important, but even more important is to ensure that these pilots are rigorously studied and evaluated. Furthermore, if these pilots were to have a range of design possibilities (not just single one), impact evaluation would help choose the most effective option.

12. Since SSRP will implement new and innovative strategies to improve the quality of the learning, the importance of rigorous impact evaluation cannot be over-stated. It is proposed that the M&E cell within the MOE/DOE work closely with appropriate institutions outside of the Government to carry out these evaluation activities through a learning-by-doing approach to facilitate quick transfer of evaluation capacity. Under SSRP, the MOE/DOE together with the DPs, will identify 4 to 5 key pilots for evaluation. On the basis of the findings of the evaluation, these pilots can be scaled up further during the program period. In addition, where possible, MOE/DOE will commission impact evaluation of ongoing education interventions that are of wider interest. MOE/DOE will partner with relevant organizations to build in-house capacity through technical training courses, and undertake collaborative research/evaluation. Given these impact evaluation activities require substantial technical and financial resources, it is agreed to carry them out using TA funds.

VI. Joint Review Missions and Supervision Strategy

13. The GON and the DPs will conduct joint meetings two times a year for the Joint Annual Review (JAR) in April and for the Joint Consultative Meeting (JCM) in December (Table 3.2). In addition, the MOE/DOE and the DPs have agreed to hold quarterly meetings and other periodic meetings as and when need arises (also see Joint Financing Agreement). The GON and DPs will review this arrangement at the end of the first year of SSRP implementation.

14. A Joint Consultative Meeting (JCM) will be held in December of each year for the GON and DPs to discuss overall progress for the previous fiscal year based on reports such as unaudited annual financial statements, interim financial monitoring report for the first fiscal trimester (four monthly), annual performance report, and a consolidated report of the previous fiscal year showing program outcomes.

15. A Joint Annual Review will be held annually in April for a joint review of the ASIP and the AWPB for the next fiscal year and the audit report of the previous fiscal year. Donor partners will commit to funding levels for the next year on the basis of the previous fiscal year's progress.

16. The Pooling Donors, non Pooling Donors, National Planning Commission (NPC), MOF, Financial Comptroller General Office (FCGO), MOE/DOE and Ministry of Local Development (MOLD) will be represented at the meetings. The Association of INGOS (AIN) and other key stakeholders (such as indigenous groups, teacher union's representatives, representatives of the Community School National Network, and heads of school management committees, etc.) will be invited to participate. Both the JAR and the JCM will be preceded by commissioned studies, described in section II under "qualitative and quantitative studies" paragraph above, to provide additional information on financial and overall implementation progress.

17. Quarterly Meetings. In addition to JAR and JCM, the GON and the DPs will hold regular meeting every quarter to oversee key issues, such as, those identified in the Policy Matrix and GAAP. The schedule for these meetings will be agreed at JAR and JCM.

18. Field visits to districts, schools and communities will constitute an important part of the program supervision and monitoring. IDA, along with other DPs, will participate in these visits during the regular missions and also carry out its own random monitoring visits between the missions.

19. A Mid-Term Review (MTR) will be held approximately in December of 2011.

20. Program Impact Evaluation will be carried out during the final year of the five-year SSR implementation. The GON and the DPs have agreed to develop a statistically rigorous methodology for

evaluation of the SSRP. The plan for evaluation will be developed by the first review meeting scheduled for November/December of 2009.

Table 3.2:
Proposed Schedule of DP-GON Meetings for SSRP

Month	**Event**	**Reports**	**Process**	**Output**
April/May	Joint Review Mission	ASIP AWPB Annual Procurement Plan Capacity Development/TA Plan Financial Management Report 2 Annual Audit (previous year)	Review of GON presentation on appraisal and approval of ASIP and AWPB for the next year.	Joint Aide Memoire: GON and DPs agree on plans and budgets and DPs confirm financing commitment for the upcoming year. Discussion on joint actions for TA, Capacity Development or other initiatives agreed between GON and DPs. DPs confirm disbursement schedule for the upcoming fiscal year: advance payment or annual tranche payment Review of Audit Report submitted.
November/December	Joint Consultative Meeting	Annual Consolidated Financial Management Report Annual Consolidated Flash and Output Based Reports Annual report on Policy Matrix, Results Matrix and Governance and Accountability Action Plan Reports from Studies and Surveys as agreed	A wider consultative meeting with key stakeholders and field visits.	Joint Aide Memoire: Review of progress towards program goals and objectives and in the context of annual milestones expressed in the Results Matrix. Field based implementation review covering regional and/or district offices, schools, teachers, students and communities.

21. SSR Results Framework. Table 3.3 and 3.4 present the results framework and monitoring arrangements respectively, for the overall program as well as different program components. The framework describes the objectives and the results indicators, and monitoring arrangement describes the reporting arrangement and target values for each of the monitoring indicators.

Table 3.3:
SSRP Results Framework

Goal and Purpose: To contribute to socio-economic development through enhanced access to quality education and improvement of country's human resource capacity.		
Program Development Objective	**Program Outcome Indicators/ Key Performance Indicators (KPIs)[26]**	**Use of Program Outcome Information**
The Program Development Objective is to increase access to and improve quality of school education, particularly basic education (grades 1-8), especially for children from marginalized groups.	1) Net enrolment rates for basic education (Grades 1-8) 2) Basic Education Completion Rate 3) Gender parity index for Basic Education 4) Student Learning Assessment in Grade 8	Data on outcomes will be the basis for assessing the efficiency and the effectiveness of the program and will monitor the progress towards the stated SSRP goals.
Objective	**Results Indicators for Each Component[27]**	**Use of Results Monitoring**
Component 1: **Basic Education** To ensure equitable access and quality basic education for all children in age group 5-12 *Sub-component 1.1- Increase Access and Inclusion in Basic Education* *Sub-component 1.2- Improve Quality in Basic Education* *Sub-component 1.3- Early Childhood Education and Development (ECED)* To expand access to quality ECED services for children of four years of age to prepare them for basic education *Sub-component 1.4- Literacy and Continuing Education* To enhance functional literacy and basic competencies among youth and adults	5) Gross Intake Rate at Grade 1 6) Gross enrolment rates for primary (grades 1-5) and basic (grades 1-8) 7) Share of Out-of-School Children aged 5 – 12 (overall, Dalit, educationally disadvantaged groups, poor, lagging districts) 8) Repetition Rates in Grade 1 and 5 9) Percentage of new entrants at grade 1 with ECED experience 10) Percentage of enrollees graduating from literacy/post literacy competency exams	The indicators will be disaggregated by gender, social/population groups (educationally disadvantaged groups and poor), lagging districts, and school-type (institutional and community) where relevant. The objectives, associated outcome indicators (in this table) and their target values (in the following table) assume the following: • Macroeconomic stability and sustained economic growth • Continued political
Component 2: **Secondary Education**	11) NER for secondary education (grade 9-12) 12) Transition rate from grades 8 to 9 and 10 to 11	

[26] The KPIs focus on Basic education given that over 75% of the budget is spent on this sub-sector. Primary education (grades 1-5) key indicators will continued to be tracked as part of the MDG Goals monitoring. These KPIs together with two intermediate indicators will complete the IDA core indicators requirements.

[27] The number of intermediate indicators by components is large because many of these were already part of the EFA key indicators monitored by both the Government and DPs and the program now covers all of school education. For ISR/ICR purposes, IDA will report a subset of these indicators, limited to KPIs and some key intermediate indicators. .

To improve access, equity, and quality and relevance of secondary education *Sub-component 2.1- Increase Access and Inclusion in Basic Education* *Sub-component 2.2- Improve Quality in Basic Education* *Sub-component 2.3- Technical Education and Vocational Training*	13) SLC and HSE pass rates as percentage of initial enrolment and exam appearance 14) Number of students completing TEVT soft skills course	commitments on major policy and strategic issues in the sector • Sound financial management and effective funds flow mechanism • Continued commitment and cooperation from DPs • Enhanced institutional capacity at central and community level • Firm commitment to inclusion agenda • Increasing partnership between schools and communities in service delivery • Sound monitoring and evaluation system
Component 3: Institutional Capacity Strengthening Improve capacity of SSRP implementation agencies and its partners to enhance delivery and monitoring of educational services and products *Sub-component 3.1- Teacher Recruiting and Professional Development* *Sub-component 3.2- Capacity Development* *Sub-component 3.3- Program Management and Monitoring and Evaluation*	15) Percentage of teachers with required qualification and training at basic and secondary education level 16) Percentage of teachers with required Certification at basic and secondary education level 17) Pupil Teacher Ratio at basic and secondary education level 18) Number of classrooms built or rehabilitated 19) Percentage of students receiving textbooks within two weeks of school session start 20) Percentage of students receiving scholarships of different categories within a month of scheduled timeline. 21) Share of PCF, *raahat* salary and non-salary grants disbursed to schools in first trimester. 22) Number of schools under community management 23) Number of schools completing social audit reports 24) Number of schools introducing Continuous Assessment System (CAS) in Grades 1-3 25) Number of languages for which instructional materials have been developed and teachers have been trained 26) Teacher attendance rate	

Table 3.4: Arrangements for Monitoring[28]

Results Indicators for Each Component	Baseline 2008/09	Data Collection and Reporting							
		Target Values					Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
		2009/10	2010/11	2011/12	2012/13	2013/14			
Program Outcome Indicators / Key Performance Indicators (KPI)									
1) Net enrolment rate for primary education (grades 1-5) and basic education (grade 1-8).	92% 73%	94% 75%	96% 77%	97% 80%	98% 82%	99% 85%	Annual Flash Report	EMIS/Flash Reports KPIs 1-3 to be triangulated using comparable statistics from NLSS III (2010), and Population Census 2011	MOE/DOE Central Bureau of Statistics (CBS)
2) Gender parity index in enrolment for primary (grades 1-5), basic (grades 1-8) and secondary education (grades 9-12)	98% 95% 91%	98% 95% 92%	99% 96% 93%	99% 96% 94%	100% 97% 94%	100% 98% 95%			
3) Primary (grades 1-5) completion rate and Basic (grades 1-8) completion rate.	58% 41%	61% 45%	65% 49%	70% 54%	74% 60%	79% 66%			
4) Student Learning Assessment in Grades 3, 5 & 8	N.A.		One undertaken for each grade			One undertaken for each grade	Periodic Student Learning Assessment Report	Standardized Student Learning Assessment Test	DOE supported by international independent testing agency/firm
Component 1: Basic Education - *To ensure equitable access and quality basic education for all children in age group 5-12*									
5) Gross Intake Rate at Grade 1	148%	144	140	137	133	130	EMIS/Flash Reports (Annual)	Flash I & II	MOE/DOE
6) Gross enrolment rate for primary (grades 1-5) & basic (grades 1-8)*	147 123	147 125	145 128	142 130	140 132	135 132			

[28] Though the KPIs state Basic Education, information is also available at the Primary level and this will be tracked to allow comparability with EFA progress.

Results Indicators for Each Component	Baseline 2008/09	Data Collection and Reporting							
		Target Values					Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
		2009/10	2010/11	2011/12	2012/13	2013/14			
7) Share of Out-of-School Children aged 5 – 12 *All* *Dalit* *Other Disadvantaged* *Poor* *Lagging districts*	To establish after NLSS III							* Supplemented by comparable statistics from NLSS III (2010) & Population Census 2011 Out-of-school children indicator to come from NLSS III and DOE's School Mapping (child-tracking) project	CBS
8) Repetition Rates Grade 1 & Grade 5	28% 7%	12% 5%	8% 4%	5% 4%	3% 3%	2% 2%			
9) Percentage of new entrants at Grade 1 with ECED	36%	41%	45%	51%	57%	64%			
10) Percentage of enrollees graduating from literacy/post literacy competency exams	n.a.					75%			
Component 2: Secondary Education - *Improve access, equity, and quality and relevance of secondary schooling*									
11) Transition rate from grade 8 to 9 and from grade 10 to 11	83%					94%	Flash Reports (Annual)	Flash I & II * Supplemented by NLSS III (2010) & Population Census 2011	MOE/DOE CBS SLC/HSLC Exam Board
12) NER for secondary grades (9-12)	21%	22%	23%	24%	26%	27%			
13) SLC pass rate as percentage exam appearance and initial enrolment HSLC pass rate as percentage exam appearance and initial enrolment	62% 25%	64% 28%	65% 31%	67% 34%	69% 37%	71% 41%			
14) Number of students completing TEVT soft skills course	n.a.					10,000			
Component 3: Institutional Capacity Strengthening – *Improve capacity of SSTP implementation agencies and its partners to enhance delivery and monitoring of educational services and products*									

Results Indicators for Each Component	Baseline 2008/09	Data Collection and Reporting							
		Target Values					Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
		2009/10	2010/11	2011/12	2012/13	2013/14			
15) Teachers with required Certification at Basic and Secondary Level	91% 91%	92% 92%	94% 94%	95% 95%	96% 96%	97% 97%	Flash Reports (Annual) Annual Flash Report	Flash I & II Supplemented by periodic studies on delivery of services and products	MOE/DOE Third party monitoring and evaluation agencies
16) Teachers with required qualification and training at Basic and Secondary Level	66% 77%	70% 80%	74% 83%	79% 86%	83% 89%	88% 93%			
17) Teacher pupil ratio at Basic and Secondary Level	43 39	41 37	40 34	39 32	38 30	37 28			
18) Number of classrooms constructed or rehabilitated	n.a.	5,500	6,000	6,500	7,500	6,500			
19) Percentage of students receiving textbooks within two weeks of school session start	n.a.		60%	70%	75%	80%			
20) Percentage of eligible students receiving targeted scholarships within a month of scheduled time	n.a.		30%	40%	50%	60%			
21) Percentage of PCF, *raahat* salary and non-salary grants amount deposited in schools account in first trimester	n.a.		20%	25%	25%	30%			
22) Number of schools under community management	8,500	11,500	14,500	18,500	22,500	26,500			
23) Schools completing social audit reports	75%	77%	80%	85%	90%	95%			
24) Number of schools carrying out continuous assessment system (CAS) in Grades 1-3	0	100	1,000	3,000	5,000	8,000			
25) Number of languages for which instructional materials have been developed and teachers have been trained	12	14	16	18	20	22			

Results Indicators for Each Component	Baseline 2008/09	Data Collection and Reporting							
		Target Values					Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
		2009/10	2010/11	2011/12	2012/13	2013/14			
26) Teacher attendance rate	85%		87%			90%		Sample Based School Surveys	MOE/DOE

Annex 4: Detailed Project Description

NEPAL: School Sector Reform Program

I. Background

1. Nepal has recorded impressive achievements in primary school enrolments through a series of national programs such as the Basic Primary Education Projects (BPEP I, 1992-1998, and BPEP II, 1999-2004), and more recently, Community School Support Program (CSSP, 2003-2008), Secondary Education Support Program (SESP, 2003-2009), and Education For All Program (EFA, 2004-2009). Since 2000, GON has undertaken significant reforms such as transfer of schools to community management, introduction of per capita financing of schools; and opening of textbook printing and distribution to the private sector that have helped achieve remarkable results in access and gender parity. However, a number of key challenges remain. These include low internal efficiency at all levels of schooling, need to increase access at lower secondary and secondary levels, inequity beyond primary grades, low levels of quality at all levels and the need to measure quality outcomes systematically.

2. To build on the successes so far, continue with the key policy reforms and to address the remaining challenges, GON is implementing the School Sector Reform Program (SSRP) starting July 2009. Lessons learned from the EFA program in particular have been incorporated in the design of the SSRP (see Annex 14 for details).

II. School Sector Reform Program – An Advanced SWAp

3. The SSR program, prepared by GON during the past three years, draws from the Education for All National Plan of Action and the Interim Three Year Plan (2005-2008). A Core Document (CD) for the Program was prepared by the MOE and approved by the Cabinet on June 15, 2008. The MOE prepared the School Sector Reform Plan (SSRP) based on the CD. The Plan was endorsed by the Cabinet on August 20, 2009. SSR Plan went through several rounds of revisions, incorporating comments and suggestions from a wide range of stakeholders, including the DPs.

4. This program is the outcome of *high level partnership* between GON and DPs and demonstrates their commitment to the Paris Declaration on Aid Effectiveness. The partnership has matured over the period of past two decades. Twelve donors are supporting this program, of which nine are financing it by pooling their funding with that of GON, and three through parallel financing. Pooled donors resources constitute more than 90% of the donor financing for the program. The financing for the program accounts for over 95% of the financing for the school sector i.e. this program provides a holistic treatment of the school sector.

5. The program is based on the *shared vision and strategies* for the sector. The cornerstone for the program is the vision of the school sector articulated by the Parliament in 2001 through the Seventh Amendment to the Education Act. The core policies/reforms guiding the program are: community management of schools, per capita financing of schools, licensing of teachers, and the expansion of the role of the private sector in supply of textbooks. The GON and DPs have agreed on a broad policy matrix[29].

[29] Given the scope of the SSRP, and the fact that there are 9 DPs who pool support with the GON's resources, there are a broad number of policy issues that have been identified and included in the Policy Matrix. Furthermore, for several DPs the Policy Matrix provides triggers for tranche releases and disbursements, for example, for the ADB, DFID and EC.

6. The program *finances both recurrent and development expenditures.* This entails a shift from the focus on ensuring effective use of donor resources to the focus on ensuring effective use of both donor and government resources. This is a significant achievement for a number of reasons. First, given that about 80 percent of SSRP financing is borne by the government, extending the purview of the program to recurrent expenditures allows the program to address systemic issues such as teacher deployment, equitable allocation of resources and good governance in general. Second, the program recognizes that the effectiveness of investments on development activities depends largely on the success in addressing these systemic issues. And finally, financing of the recurrent expenditures also helps to rapidly expand access to education by addressing the short-term government constraints in financing teachers.

7. The existing government institutional structures are used for the implementation of the program. This approach began in 1999 with BPEP II, and was further strengthened during EFA. The SSRP will use national procedures of procurement and financial management except for procurement under international competitive bidding (ICB) and limited caveats to national competitive bidding procedures as described in Annex 8. To mitigate possible risks associated with the use of national procedures the program will be guided by a Governance and Accountability Action Plan (GAAP).

III. Program Development Objective

8. The Program Development Objective is to increase access to and improve quality of school education, particularly basic education (Grades 1-8), especially for children from marginalized groups.

IV. Program Components

9. **The SSR program covers all of school education and finances both recurrent and development expenditures**. Recurrent expenditures under the program comprise salaries and benefits of teachers and administrative staff, while development expenditures comprise remaining expenses including *inter alia* infrastructure, textbooks, student grants and incentives, student scholarships, teacher training and teacher qualifications upgrading. The program is clustered around three main components: (i) Basic Education (Grades 1-8) that includes Childhood Education and Development (ECED) as a preparation for basic education; and Literacy and lifelong learning as a means of delivering functional literacy and basic competencies for out-of-school youth and adults; (ii) Secondary Education (Grades 9-12) including the introduction of TEVT "soft" (prevocational) skills; and also; and (iii) Institutional Capacity Strengthening that includes Teacher Professional Development; Capacity Development; Program Management and Monitoring and Evaluation. The main emphasis of the SSRP is on Basic Education, to which more than 75% of overall funding is targeted. The program also focuses on three overarching goals of *Access, Inclusion, and Quality*.

Component 1: Basic Education (Total: US$ 2067 million, IDA: US$102 million)

10. Component 1 focuses on basic education with an objective to ensure equitable access and quality basic education for all children in age group 5-12, prepare pre-school-age children through ECED for basic education and deliver basic numeracy and literacy to youths and adults, especially women.

Sub-component 1.1 Increase Access and Inclusion in Basic Education (US$178 million)

11. Context. Nepal has significantly improved access in primary education. The country now needs to expand this to combine the primary and lower secondary cycle to form basic education cycle. This expansion is justified because of the success of earlier programs has advanced the demand for quality schooling beyond the primary level. Moreover, the primary cycle/completion alone is inadequate in providing children with a set of basic literacy and numeracy skills to prepare them for a life of work and also leaves graduates at a time when they are still too young to enter the labor force. Therefore, SSRP proposes to expand the universal coverage to include grades 1-8. The program will continue to pursue the MDG of universal primary completion by 2015 in spite of the proposed expanded coverage by universal education. The program aims to increase the primary NER to 99% from 92% in 2008, and the basic NER to 85% from 73% in 2008. The program will address the lagging enrolments of children from marginalized groups including lagging regions, educationally disadvantaged caste/ethnic groups, female gender, poorer economic quintiles and children with special needs (CWSN).

12. Strategic interventions: SSRP will support the long-term strategy towards guaranteeing basic education to all children, particularly the needy ones. GON will continue to build on the foundation of community initiation and ownership of schools and co-finance with the communities – mainly through per capita financing and matching grant incentives - to raise sufficient resources towards achieving universal access at this level. Expansion of primary cycle to basic to include grades 1-8 will necessitate restructuring of schools accordingly. SSRP will provide positives incentives to move towards restructuring, but the decision on the final structure for a given school will continue to lie with the SMCs. To enroll the hardest to reach children, SSRP will finance both supply and demand-side interventions. Demand side will include school mapping exercise to determine the extent of out-of-school children, welcome-to-school and other outreach programs, provision of targeted scholarships, increased use of multilingual teachers and learning materials. Supply-side interventions will include expansion of physical facilities including classroom construction and rehabilitation, and increased use of per capita financing for both teacher salaries and non-salary inputs such as textbooks and other block grants.

13. To increase access for the vulnerable children, SSRP will support special strategies including targeted financial and other support within a broad framework of Vulnerable Community Development Framework (see Annex 10 for further details). In terms of the *Access Safety Nets* to assist communities that do not otherwise have the resources to establish schools, SSRP will explore in the second year of the program possible scheme to implement an Education Guarantee Scheme. *Traditional schools* such as Gumbas, Vihar, Madrasas and Gurukul continue to have an important role in bringing more children into school. SSRP will explore ways to provide greater support to these institutions and encourage them to broaden their curriculum to include secular subjects as well. And finally, for urban street children, unable to join the formal schooling system, SSRP will provide alternative schooling in the form of non-formal education, including mobile 'classrooms' to cater to special categories of children. Appropriate funding and implementation modality for such NFE programs will include collaborative efforts from MOE, INGOs, NGOs and other district or municipality level agencies.

Sub-component 1.2 Improve Quality in Basic Education (US$302 million)

14. Context. Internal efficiency and quality of learning remain formidable challenges at the basic education level. As described before, the repetition rate at grade 1 is 28 percent while the survival rate to grade 8 (cohort method) is only 41 percent. Direct measures of quality, reflected through in test scores show only modest improvements in learning outcomes conducted in Grades

3 and 5 with about 33% and 56% of correct answers by children in Mathematics and Language (EDSC 2003). The SSRP will carry out two international quality learning assessments by building capacities of relevant agencies by adopting a learning by doing approach.

15. Strategic interventions: To improve the flow of students through the basic schooling cycle with minimum wastage and to improve learning achievement, the SSRP will finance, a number of interventions. At the student and school level, these will include: strengthening of school improvement plan (SIP), provision of multilingual teachers[30] and instructional materials to schools, free textbooks, PCF-based other non-salary grants, salary grants to improve pupil-teacher ratio, performance-based incentives and matching grants to schools, performance-based student incentives, and provision of mid-day meals in targeted districts. At the district level, they will include strengthening of EMIS and Flash reporting systems and development, digitization and training for local curriculum. At the central level, this will involve updating of curriculum to gradually adopting competency-based system, textbooks and teacher guides, piloting of a number of innovative quality interventions and their evaluation, introduction of both continuous assessment system and sample-based standardized student assessments for grades 3, 5 and 8.

Sub-component 1.3 Early Childhood Education Development (US$59 million)

16. Context: EFA has been very successful in introducing and expanding access to ECED programs. There is increasing evidence that children with ECED experience have lower dropout rates, higher completion rates, and are better prepared cognitively, emotionally, and socially when they go to primary school. SSRP will to continue to support with the ECED services.

17. Strategic Interventions: SSRP will support the running of some 25,000 ECED centers through financing of renumeration for facilitators[31], costs associated with education materials, and for some 6000 new ECED centers in the rural areas through financing of both the establishment costs and operational expenditures. Given that ECED is a shared responsibility that the MOE/DOE and other agencies, the SSRP will finance appropriate partnership with NGOs, INGOs and local agencies to coordinate and manage the different ECED modalities – school-based ECED centers, community-based centers, and privately managed centers in the urban area.

Sub-component 1.4 Literacy and Continuing Education (US$14 million)

18. Context: Less than 70 percent of Nepalese aged 6 and above are literate and the average for 15+ age-group is only 56%. The gender parity index for the 15+ age group is only 74%. GON runs a national literacy campaign, through the Ministry of Local Development in collaboration with the Non-Formal Education Center, aimed at reaching the MDG goals on literacy.

19. Strategic Interventions: SSR proposes to complement the national literacy program by financing the operation of community learning centers, contributing to comprehensive literacy and basic competencies that impart skills to improve the quality of life. The target groups will include women, marginalized populations, *Dalits*, internally displaced people, people with disability and people living with HIV/AIDs. Emphasis will be placed on decentralization and partnerships with private sector and I/NGO's to achieve goals of adult literacy and continuing

[30] Though the recruitment and deployment of multi-lingual teachers is shown as a strategic intervention under Sub-Component 1.2, for accounting and budgeting purposes this is covered under Sub-Component 1.5. All teacher salary related grants, including PCF salary grants, fall under the recurrent education part of the program description.

[31] These costs are also covered under Sub-Component 1.5 which covers all salary and other benefits.

education. Continuing education interventions will be provided by linking to the formal education system and through locally managed arrangements at community learning centers.

Sub-component 1.5 Basic Education Salary (Total: US$1513 million)

20. Context: There are broadly three categories of teachers in Nepal - teachers recruited into government teacher positions, teachers recruited into raahat positions, and those recruited into the positions created by School Management Committees (SMC) and funded through community contributions or other sources of financing raised at the school level. There are an estimated 100,000 approved government teacher positions in Basic Education, and this has not increased since 1998, with the government only replacing teachers lost through natural attrition. The number of raahat positions in Basic education is estimated to be about 11,000.

21. Strategic Interventions: The GON has committed to a policy of moving towards school based recruitment. Furthermore, the GON has also committed to channeling finances for additional teacher grants through Per Capita Funding modality to ensure transparency in the use of funds and to ensure good governance. The sub-component finances both government teacher positions and raahat teachers. In addition, all new teachers hired through a PCF allocated post hired at the community level will be financed exclusively through PCF.

Component 2: Secondary Education (Total: US$512 million, IDA: US$25 million)

22. The objective of this component is to improve access, equity, and quality and relevance of secondary education. This component targets children in the age group of 13-16, and aims to ensure access to quality secondary education. This component will further focus on improving the relevance of secondary education by introducing and exposing children to various vocational and technical education programs, that would help facilitate school to work transition.

Sub-component 2.1 Increase Access and Equity in Secondary Education (US$44 million)

23. Context. Secondary Education Support Project (SESP 2004-2009) has helped increase access in lower secondary (grades 6-8) and secondary (grades 9-10) schooling level, and Second Higher Education Project (SHEP, 2007-13) in higher secondary level. GER for lower secondary increased from 60 to 79 percent between 2003 and 2007, and that for secondary rose from 46 to 56 percent during the same period. Now that the new secondary cycle consists of grades 9-12, GER and NER at this level currently stand at 40 and 20 percent respectively. Gender gap is a concern and disparity across disadvantaged groups is even starker.

24. Strategic Interventions: SSRP will support the access objective through expansion of physical facilities, including classroom construction and rehabilitation, library and laboratory construction, and the construction of schools for Children with Special Needs. It aims to enhance equity and inclusion through the continuation of the SESP scholarship schemes for *Dalits*, marginalized groups, disabled, girls and children from poor households. It will also finance alternative provisions such as open learning centers, non-formal education for adult women, and grant support to traditional schools. In the medium to long run, SSRP seeks to make secondary education free for all children.

Sub-component 2.2 Improve Quality in Secondary Education (US$44 million)

25. Context. More than 30 percent of School Leaving Certificate examinees fail to graduate from grade 10, and the average pass rate for students from community schools is around 50 percent. Pass rates at higher secondary level (grade 12) is much worse and is in the range of 25 percent. Moreover, even among those who graduate from these two grades, their competency level is low and relevance for labor market is very weak.

26. Strategic Interventions: SSRP will aim to improve the quality and relevance of secondary education through development of standards settings for curricula, education materials, teachers, school environment and examination systems. This will also involve gradual integration of grades 9-10 with grades 11-12 to result in full-fledged secondary cycle of 9-12 grades. In terms of the direct support, SSRP will finance performance-based grants, PCF-based textbooks and other non-salary grants to secondary schools.

Sub-component 2.3 Technical Education and Vocation Training (TEVT) (US$15 million)

27. Context: As in other countries, many Nepali school leavers are unequipped with the necessary skills to enter the labor market. SSRP seeks to provide these skills within the secondary curriculum. Integrating skill development into general education is not without risk. International and regional experience shows that technical streams in general education tend to be supply driven and inflexible. Schools are unable to provide and maintain relevant equipment and recruit and retain teachers with the necessary practical skills.

28. Strategic Interventions: In view of these experiences, SSRP will focus on developing generic/life skills to prepare school children for future employability. SSRP strategies will initially involve the piloting of a number of options in the initial years. "Soft" employability skills required by enterprise for employment will be introduced on a pilot basis as part of the education system from Grades 8-12.

Sub-component 2.4 Component B: Secondary Education Salary (US$408 million)

29. Context: Secondary education in the country has been severely underfunded in the past. The success of EFA has started to place pressure on the system at the secondary level. While this requires improved access and quality as stated in Sub-Components 2.1, 2.2, and 2.3 respectively, it also requires increasing the pool of teacher and trainer resources. Thus, the Government will finance salaries at the secondary level.

30. Strategic Intervention: The sub-component will finance recurrent salaries and benefits of approximately 16,290 secondary school teachers in government teacher positions at the end of the EFA Program. In addition, the sub-component will also finance salary grants for secondary and higher secondary *raahat* teacher positions which had been approved by the end of EFA. Finally, given that there is likely to be increases in student numbers at the Secondary level, additional teacher positions recruited by SMCs on the basis of a PCF allocated position, at the Secondary level will be financed using the modality of the PCF.

Component 3: Institutional Capacity Strengthening (Total: US$57 million, IDA: $3 million)

31. This component aims to improve the capacity of SSRP implementation agencies and its partners to enhance delivery and monitoring of educational services and products.

Sub-component 3.1 Teacher Recruitment and Professional Development

32. Context: Given the importance of teachers in the overall learning environment in the school, any improvement in quality outcome will be achieved through the deployment of an adequately sized, committed and well-trained teaching force. Currently, only 66% of primary teachers and 77% of secondary teachers possess the basic required levels of qualification and training, and 9% do not have the required certification.

33. Strategic Interventions: SSRP will continue with the current policy of moving towards school-based recruitment of licensed teachers through a system of teacher grants financed both by GON using PCF instrument and locally through fund-raising at the school level. Additional teachers will be recruited through per-capita funding to gradually reduce pupil teacher ratios and thereby reduce class sizes and overcrowding. Teacher positions in overstaffed schools will not be refilled but will be reallocated to overcrowded schools through local recruitment. Schools will be provided with incentives to recruit more female teachers.

34. In terms of teacher development, SSRP will support the updating of both the qualification training and certification norms. Teacher training, both school-based and resource-center based, will focus on new student-centered learning methods and continuous assessments. Qualifications and training will be linked to career development, thereby also addressing teacher motivation. To enhance quality of teachers, SSRP will aim to enhance teacher licensing practices. Teachers will be recruited at the local level from among the licensees as per the guidelines provided by the central level. The minimum qualifications for teachers will be upgraded to higher secondary education for basic education and M.Ed. or Master's degree qualifications with relevant teacher preparation course for secondary level. Serving teachers with a qualification of SLC or below will have the following options: (i) teach lower grades such as 1-3 grades until retirement, (ii) upgrade qualification to the minimum level in five years through upgrading courses that NCED will offer in partnership with academic institutions.

Sub-component 3.2 Capacity Development

35. Context: To deliver the education services as envisioned under SSRP, capacity development is required at both the school and implementing agency level. A number of areas have been identified as crucial for smooth and timely operation of the school system in line with the SSRP management objective. These include the timely delivery of textbooks, and the timely disbursement of scholarships to students and salaries to teachers.

36. Strategic Interventions: MOE/DOE is currently finalizing a comprehensive capacity development plan and aligning it with SSRP activities and responsibilities. Capacity development efforts under SSRP will focus more on local level development of capacity than was the situation under EFA. This is in line with increased decentralized planning and management. System-level capacity to deliver education services will be enhanced by increased involvement of communities in the management of schools. This presents a continuation of activities initiated under EFA. The number of schools transferred to local communities will be increased under SSRP. Capacity development will also focus on enhancing the management capacity of SMCs. The EFA evaluation study found that not all communities are ready to take on management of schools. This sub-component will also finance a large-scale communication campaign to reach out to parents and civil society to reinforce the main policy thrusts of SSRP such as community management of schools, the PCF, quality improvement and reduction of repetition and dropout rates at grade 1.

37. The SIP is another tool, first introduced during BPEP II and further improved in EFA, to strengthen local-level capacity in the planning and managing of school operations. All schools are expected to annually prepare a SIP as a mandatory requirement for release of the funds that will provide textbooks and other resources. The EFA evaluation study found that while SIPs are prepared by almost all the schools, their use for planning and budgeting is very limited. Under SSR, the government intends to strengthen the capacity of schools and communities to prepare and implement their SIPs. In addition, social audits will be made compulsory to all schools to receive funds in the next fiscal year and communities will be trained on how to conduct such audits in an effective manner. School level capacity development activities will be facilitated through both resource centers RCs and locally available service providers.

Sub-component 3.3 Program Management and Monitoring and Evaluation

38. Context: For purposes of program management, the SSRP allocates 1.5 percent of all development expenditures towards program management costs. These cover non-salary costs related to program management, such as, travel, per diem, office supplies, and communications. Furthermore, a program of this scope and coverage, SSRP proposes to systematically monitor program inputs, processes, and outputs and evaluate the impact of program. This is important for accountability purpose as well (see Annex 13 on Governance and Accountability Action Plan (GAAP)).

39. Strategic Interventions: This sub-component will finance both Program Management and M&E costs. The financing for program management will not include staff salaries for staff in MOE/DOE and other associated offices. However, it will include other direct costs of program management including but not limited to transportation, travel, fuel, stationery, communications, and dissemination. This sub-component will also finance monitoring and evaluation activities as identified in Annex 3. These include EMIS and Flash data collection and reporting, commissioning of quantitative and qualitative studies, learning assessments of international quality standards, and impact evaluation of pilot interventions. It will also finance expenditures associated with program management such as supervision costs and logistics support. In addition to these tools, the SSRP will also rely on the use of social and performance audits to strengthen the monitoring system of the program. The performance audit will be carried out by the OAG and typically includes a focus on major expenditure items, such as, scholarships, classroom construction, salary grants, and textbooks. Social audits on the other hand, are carried out at the community level by a committee chaired by the head of the PTA, and entirely independent of the SMC. The findings of the social audit are reported to the Parent's Assembly.

Annex 5: Project Cost

NEPAL: School Sector Reform Program

Table 5.1: Cost table by Component

SSRP Costs (2009-2014)	US$ mil	Percent of total
Total	**2,635**	**100.0%**
1. Basic Education	**2067**	**78.4%**
Access	178	6.8%
Quality	302	11.5%
ECED	59	2.3%
Literacy	14	0.5%
Recurrent basic education salaries	1513	57.4%
2. Secondary Education	**512**	**19.4%**
Access	44	1.7%
Quality	44	1.7%
TEVT	15	0.6%
Recurrent secondary education salaries	408	15.5%
3. Institutional Capacity Strengthening	**57**	**2.2%**
Teacher Development	11	0.4%
Capacity Development	3	0.1%
Program Management and M&E	44	1.7%

1. Table 5.2 provides an idea of the shares of the various agencies involved in the SSRP.

Table 5.2: Aggregated Shares of GON, IDA and Others

SSRP Financing (2009-2014)	US$ mil	Percent
GON	1885	72%
IDA	**130**	**5%**
Other Pooling partners	357	14%
Non-Pooling partners	9	0.3%
Financing Gap	254	9%
Total	**2635**	**100%**

Annex 6: Implementation Arrangements
NEPAL: School Sector Reform

1. The implementation arrangements for SSRP will be very similar to those that have been employed for the implementation of EFA. Given the very fluid political situation in Nepal, and the likelihood of considerable changes in the structure of the country with the drafting of the new constitution, and the fact that all of this is expected to take place during the period when SSRP will be effective, the Government and DPs have agreed that changes in implementation modality will be agreed to only when firm sub-national structures have been established and are in place. Till such point in time, implementation arrangements developed and used under EFA will govern implementation of SSRP. Furthermore, the SSRP will be implemented under the existing legal framework provided by the Education Act and Education Regulations.

2. The implementation arrangements for SSRP will rest on four principle levers: (a) Frontline Service Delivery, (b) Management, Technical Support, and Monitoring, (c) Policy Direction and Oversight, and (d) Aid-Coordination. These are described below.

3. Frontline Service Delivery is easily the most important part of the entire SSRP program implementation. The main frontline actor is community schools, through which most of SSRP expenditures will be made. A typical organizational chart of community schools is presented in a chart at the end of this annex. The organizational structure of community schools are defined by the law. Among the committees in the chart, Parents' Assembly, SMC, PTA and the Social Audit Committee are mandatory. Other committees in the chart are discretionary, but they are common in most schools.

4. Other frontline actors are community based organizations (CBOs) and non-government organizations (NGOs). Whereas the school education (grades 1-12) will be delivered through community schools, early childhood education and development (ECED) will be delivered through CBOs and community schools, and non-formal education through NGOs. The program success will be largely determined at the community and school level. The existing legal framework in Nepal defines all schools eligible for government financing as community schools and bestows on schools the full rights for program implementation. The School Management Committee (SMC) is responsible for day to day operation of the school as well as its development. Day to day operation, among others, includes: (a) preparation of the budget financed through government grants and school income, and its approval and execution; (b) resource generation including income generation activities; (c) teacher management including hiring of teachers; (d) scholarship distribution; (e) planning and execution of academic calendar; (f) conducting school examinations; and (g) periodic reporting to parents' assembly. Developmental activities, among others, include: (i) school improvement planning, maintenance and rehabilitation of school infrastructure and construction of new infrastructure; (ii) addition of higher grades; and (iii) teachers' training. The school management committee reports to the parents' assembly. Parent Teachers' Associations are responsible for school oversight including the social audit. The Education Act envisaged Village Education Committees to provide planning and coordination functions at the VDC level. Due to the lack of elected officials at the VDC and the attacks on the VDCs during the conflict VDCs have not been effectively administering these functions through all VDCs have been supplementing government financing to schools.

5. School-based ECED centers are managed by schools, and community-based centers by communities through ECED center management committees. These are community based organizations (CBOs). Non-formal education programs – literacy, out of school program and flexible schooling - are delivered through NGOs. The school outreach program, which is classified as a non-formal education program is managed by schools.

6. Schools, ECEDs and non-formal education programs receive financing from and report to DEOs. Schools report to the DEO through flash questionnaires (at the beginning and the end of the academic year), SIP, and financial and social audit reports. There are several modalities by which finances are transferred to schools and these include block grants like SIP grants and PCF financing for under- and un-served students, earmarked grants like teacher salary grants, PCF for textbooks, grants for classrooms and scholarships.

7. The SMC will assist in bringing all children to school, if possible update the village or ward register of the number of children of school-going age, monitor their attendance and whether parents are involved in their children's schooling, and oversee any developmental activities at the school level. They must also help ensure that educational needs of all children are being addressed, and that desirable outcomes, such as, gender and social parity is reflected in enrolment, school grants are used and accounted for properly, and that students and teachers regularly attend school.

8. Management, Technical Support, and Monitoring: The District Education Office (DEO) has the responsibility for implementation of the program at the district level. A district level organization chart is presented at the end of this annex. DEO is an extended arm of DOE. In relation to the functions devolved to District Development Committee (DDC) – a local body – DEO is guided by the District Education Committee (DEC) a committee under the DDC. The major function of the DEC is distribution of government teacher positions. The DEC also plays an active role in allocation of resources to schools. DECs have been weak due to the lack of elected local body officials at the district level. The main responsibilities of DEO are: (a) preparation of a district education plan; (b) allocation of resources to schools; (b) providing technical assistance and monitoring through a network of resource persons and school supervisors; (c) administering school census through flash questionnaires, preparing district level flash reports and forwarding them to DOE; (d) providing management oversight by reviewing financial and social audit of and teacher management by schools; (e) redeploying government teachers; (f) supervising civil works in schools and ensuring that environmental and social safeguards are met; and (g) executing annual work plan and budget and reporting to DOE. The DEO is also responsible for helping to guide schools to implement enacted policies of the Government, review progress on enrollment, retention, other indicators of system efficiency, and quality of education. The DEO liaises with other agencies that are offering support to education, such as, the Ministry of Women and Children, Ministry of Health, Ministry of Local Government and Development, and I/NGOs. INGOs are helping to supervise construction of classrooms in about half of the districts.

9. There are over a thousand resource centers (RC) established throughout the country, this means that there is approximately one RC for every three-four VDCs. The RCs are usually established in a secondary school, in which rooms are set aside for the RC. The RC provides a venue for schools in a cluster to gather together for discussions, introspection, and for training. The RCs provide training to SMC members, teachers, and other key stakeholders on a wide variety of issues, such as, school management, how to manage community construction, carry-out micro-planning, and mobilize communities and parents for enrolment and retention of children. Ideally, the RCs are also used to deliver training to teachers and in-

school professional support to improve classroom processes and enhance student learning. . The RCs can also provide assistance in the preparation of SIPs, monitor physical and financial progress of schools in their catchment areas, and liaise with the DEO on issues that may arise during implementation.

10. The overall responsibility for implementation of the program lies with the DOE. The organization structure at the central level is presented at the end of this annex. Other agencies involved in implementation of the program at the central level are National Council for Education Development (NCED), Non-Formal Education Center (NFEC), Curriculum Development Center (CDC), Higher Secondary Education Board (HSEB) and Office of the Controller of Examinations (OCE). NCED is responsible for teacher and administrative staff training, NFEC for non-formal education programs and CDC for curriculum development, HSEB for curriculum development, examinations, standard setting and monitoring of higher secondary programs, and OCE for administration of SLC examinations. DOE prepares ASIP and Annual Work Plan and Budget and executes the AWPB by implementing program assigned to DOE and sending authorizations for activities assigned to other central, regional and district level agencies,

11. Policy Direction and Oversight: Policy direction is entirely the purview of the Government at the center. Policy related matters will be dealt with by the Education Policy Committee (EPC). Responsibility for overall program monitoring will be assigned to a Steering Committee (SC) comprising mainly of senior officials from education line agencies. While the SSRP envisions the formulation and establishment of new institutional structures, such as, the New Technical Boards, the National Examination Board, Inspectorate, the National Examination Office, and the Education Desk in each VDC, these do not exist at this point in time. As per the agreements between the GON and the DPs, all these institutions and their roles will have to be first articulated clearly in a revised Act or in an new amendment of the Act, before they will be part of the implementation of the SSRP.

12. Aid-Coordination: The partnership arrangements between the GON and the DPs has been established, and in practice, since BPEP II. This will be further strengthened in the proposed program of support for SSRP. The government has clearly gained considerable experience during the implementation of EFA of a new model of engaging with the development partners, through a modality of pooled funding where domestic resources are combined with support from development partners for financing a sub-sector, also referred to as a sector wide approach (SWAp). The most important aspect of this partnership is that the development partners largely rely on Government systems to account for and report on the use of these resources. The partnership arrangements are endorsed in a Joint Financing Arrangement and a Code of Conduct. Furthermore, the adoption of a common monitoring and evaluation framework under the SWAp has streamlined data collection and analysis systems, and built capacity at the district and central levels to produce more timely and reliable information on program outputs and outcomes.

13. All DPs are coordinated by the Foreign Aid Coordination Section (FACS) of the MOE. FACS will convene regular meetings of the local representatives of all donors including those providing parallel financing.

14. Financial Management: The MOF and the Financial Controller General's Office (FCGO) will be responsible for the financial management of pooled government and donor funds for the EFA program. The FCGO is providing access to its Financial Management Information System (FMIS) to the DOE to ensure a timely production of financial reports.

This will enable the DOE staff to prepare reports on SSR accounts, which are identified by specific budget codes in accordance with the Government's cash-based accounting system. These reports will be verified by the FCGO before submission to the pooling donors for their review. To further strengthen the financial management arrangements the Government has committed to the implementation of a financial management improvement plan, as provided in GAAP, to strengthen capacity in the DOE, MOE and other program cost centers. Financial and audit provisions are also included at the school level.

Figure 6.1
Organizational Chart School Level

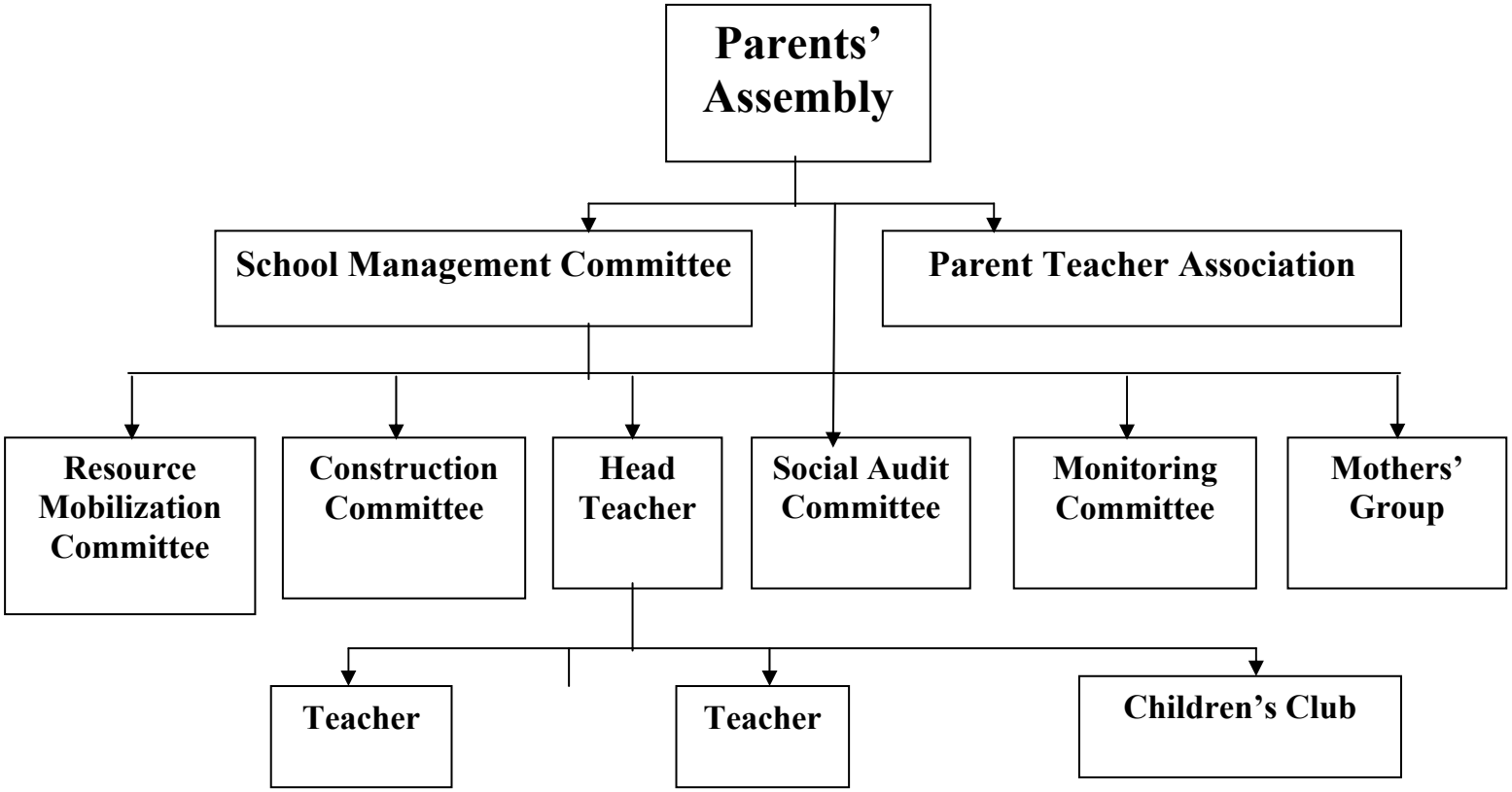


Figure 6.2
Organizational Chart District Level

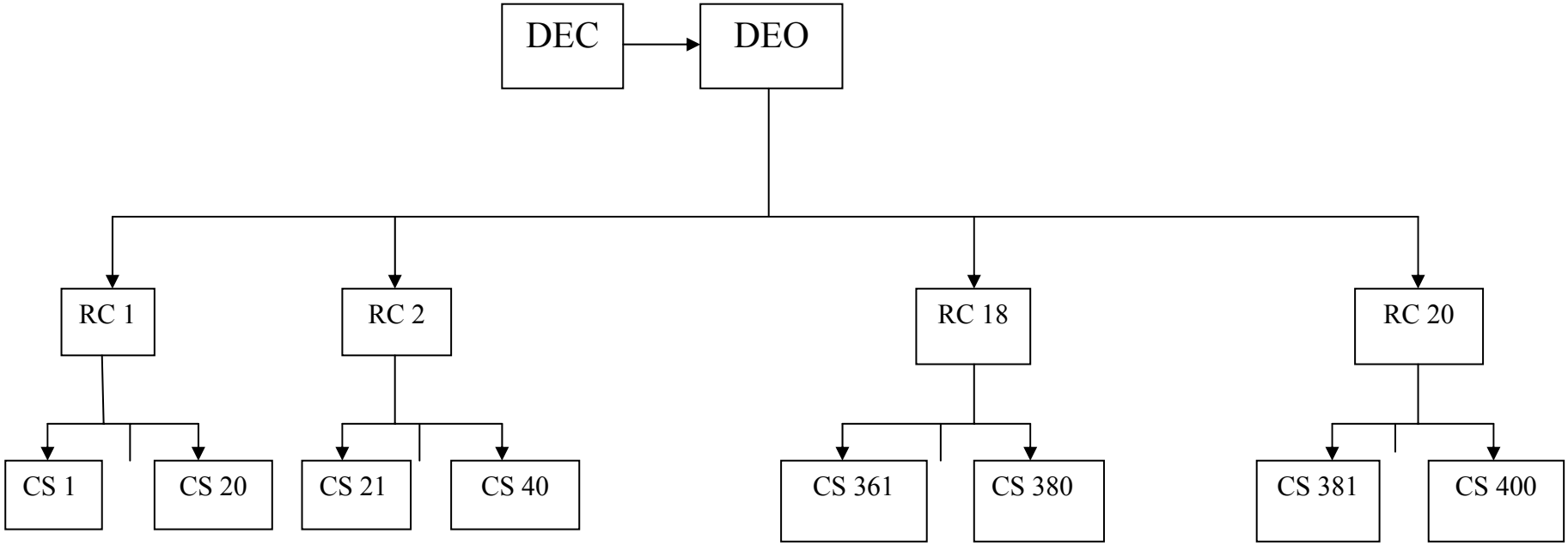
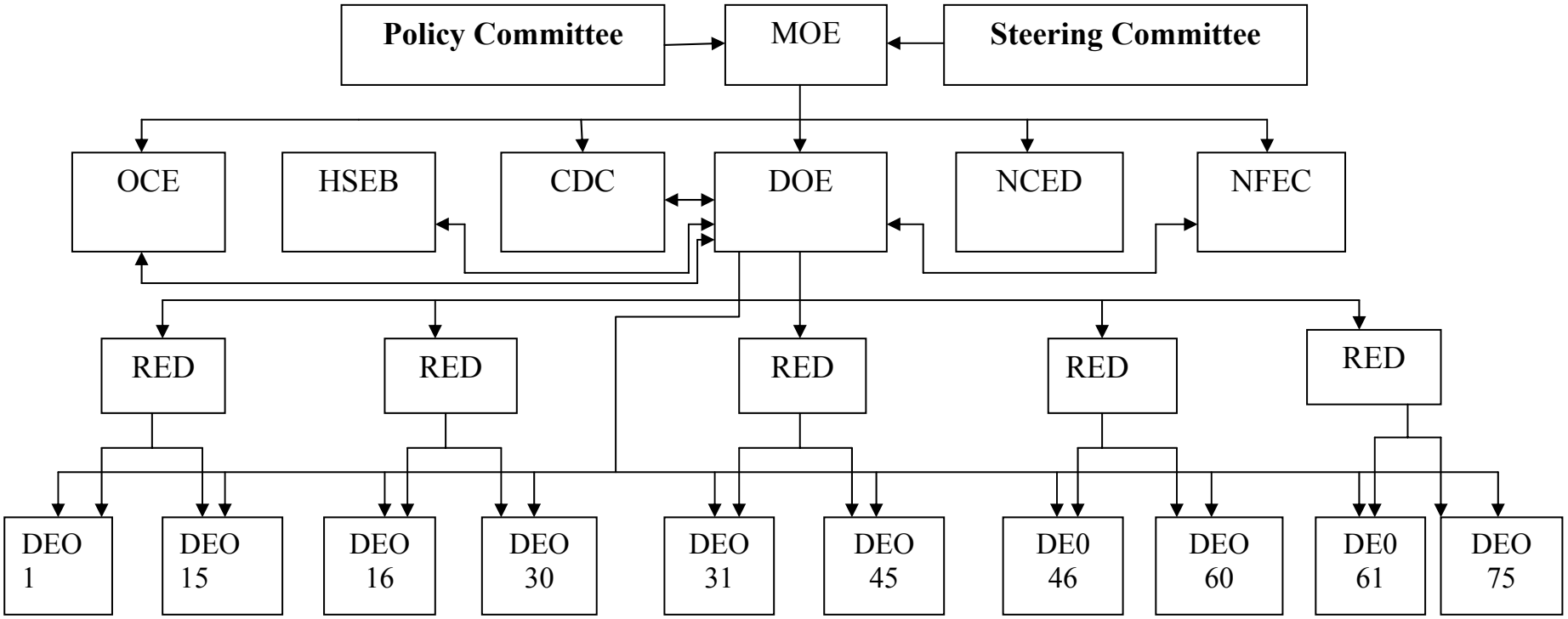


Figure 6.3
Organizational Chart Central Level



Annex 7: Financial Management and Disbursement Arrangements

NEPAL: School Sector Reform

I. Summary of SSR Program and Implementation Modality

1. The School Sector Reform Program (SSRP) is the terminal program in a 15-year Education for All – National Program of Action (EFA-NPA). Following a series of national education programs in the early 1990's, a sector-wide approach (SWAp) was adopted during the implementation of the Education for All Program (EFA) between 2004 and 2009. This allowed interventions in the sector to be harmonized with country systems, and helped ensure the support from a range of development partners was aligned with the Government's program. Furthermore, the adoption of a SWAp system provided an opportunity to make meaningful changes in those areas where the risks of using country systems were perceived to be "substantial" or "high".

2. Lessons on Financial Management learned during the implementation of EFA, will be applied to the proposed SSRP and further strengthened to deepen the harmonization efforts by DPs and to further align their support with the country's system. The SSRP will be guided by a Joint Financing Arrangement (JFA) that sets forth the joint provisions and procedures for financial support to the SSRP and serves as a co-ordination framework for consultation between the Signatories for SSRP monitoring and decision-making (see Annex 15). Learning from the implementation experience of EFA, the JFA will be modified for SSRP with a heightened focus on governance and accountability agenda. Given the high fiduciary risk country environment, the Governance and Accountability Action Plan (GAAP) (see Annex 13) has been discussed and agreed by the government and all DPs. This will be integrated into the JFA to draw close attention to this agenda during implementation. In addition to the JFA, the DPs have also developed a Code of Conduct to provide a common framework and mechanism for regulating conducts of peoples and institutions including donors and government authorities involved in education (see Annex 16).

3. Total expected program cost for SSRP for five years is estimated at US$ 2.635 billion of which the government is expected to finance about US$ 1.89 billion, and pooled DPs to finance about US$ 0.5 billion . Based on Annual Work Program and Budget (AWPB), the annual pro-rata share for each pooled DP will be determined on an annual basis which will be decided during the Joint Review of AWPB. A financing gap of about USD $ 254 million remains. The GON will initiate a resource mobilization strategy to try and cover this shortfall. The GON will seek to bridge this gap with resources from the EFA-FTI Catalytic Fund, and it is proposed that the GON will seek approximately US$ 120 million over the next three years, for which IDA will be the Supervising Entity.

4. The SWAp design has been strengthened to provide greater impetus to the governance and accountability framework with a specific focus on procurement and financial management, and social accountability tools as alternative assurance arrangements. These are intended to bring systemic reforms in the entire education sector. Periodic preparation of Implementation Progress Reports measuring implementation progress on outputs, with detailed analysis of financial information and procurement management, has now been internalized. This has not only improved transparency in reporting, but is also being used as a management tool.

5. The recent assessment of Financial Management in the ongoing EFA Program has rated Financial Management as Moderately Satisfactory. Main challenges and issues based on recent review as well as the review of the latest audit observations include:

a. delay in financial reporting and audit report,
b. weak monitoring and follow-ups,
c. weak internal control environment that includes not adhering to policy directives, not maintaining books of accounts or records as required by directives issued by the Department, payments made without adequate supporting documents, increasing financial indiscipline, Financial Procedure Rules not followed especially in case of taking action to freeze the unspent balance at the end of fiscal year or refunding the unused advances , and
d. satisfactory compliance of social monitoring tools which include, social audit and school audit.

6. These are partly due to the overall effects of high risk country environment. Working under a fragile political environment, the Ministry and the Department have to put a great deal of efforts to mitigate these challenges. In order to provide priority focus on these matters, actions related to these have now been integrated into the GAAP which will be closely monitored by DPs during quarterly meetings and semi-annual joint reviews with the government. Necessary resources will be built into the Annual Work Program and Budget to ensure that envisaged actions are adequately resourced. A high level focus will be provided together will DPs for oversight in program implementation, including, (i) policy and guidelines formulation; (ii) coordination among government agencies and other stakeholders; (iii) approval of AWPB and overseeing its implementation.

7. Policy related matters will be dealt with by the Education Policy Committee. The Department of Education (DOE), under the broad policy guidance of the MOE, will have overall SSRP implementation responsibility. As most of the program activities will be undertaken by the stakeholders at the district, sub-district and community levels, the DOE will coordinate with other line education agencies and local government, as well as support organizations (international and local NGOs), to provide technical backstopping to these stakeholders and monitor implementation of program activities. Responsibility for overall program monitoring will be assigned to a Steering Committee (SC) comprising mainly of senior officials from education line agencies. The partnership arrangements between the GON and the DPs will be further strengthened in the proposed program of support for SSRP. The government has clearly gained considerable experience during the implementation of EFA SWAp of a new model of engaging with the development partners, through a modality of pooled funding where domestic resources are combined with support from development partners for financing a sub-sector. The most important aspect of this partnership is that the development partners largely rely on Government systems to account for and report on the use of these resources, and also provide inputs to the process of strengthening country systems where improvements are warranted. Furthermore, the adoption of a common monitoring and evaluation framework under the SWAp has streamlined data collection and analysis systems, and built capacity at the district and central levels to produce more timely and reliable information on program outputs and outcomes. All DPs are coordinated by the Foreign Aid Coordination Section (FACS) of the MOE. FACS will convene regular meetings of the local representatives of all donors including those providing parallel financing.

II. Country Fiduciary Environment

8. The Nepal Country Financial Accountability Assessment (CFAA) that was conducted jointly by the Government of Nepal (GON) and IDA in 2002 and subsequently updated in 2005, concluded that the failure to comply with the impressive legal and regulatory fiduciary framework makes the fiduciary risk in Nepal "High", but the risk is similar to that in most developing countries. The situation has not significantly changed. The Public Financial Management (PFM) Review (May 2007) has reaffirmed that the PFM system in Nepal is well designed but unevenly implemented. The PFM benchmarks established in 2008 based on the Public Expenditure and Financial Accountability (PEFA) framework led by the government with technical assistance of the World Bank have endorsed the continuing "high" fiduciary risk with several PFM indicators rated at low scale. Joint DFID and World Bank progress review carried out in September 2008 and later in February 2009 have revealed little progress on implementation of PEFA Action Plan. Some of the prevailing country level risks include deteriorating control environment, insufficient monitoring, increasing threat of collusion and intimidation to bidders, weakening oversight agencies with the absence of institutional leaders which include the Auditor General and the Chief Commissioner of the CIAA have a wider impact on the country's accountability environment including at the sectoral or program level. While these challenges prevail, improving overall financial accountability framework remains a high priority of every government in transition. Frequent transition of political leadership in the government has been the main cause of slow movements in accelerating PFM reforms as envisaged by PEFA Action Plan. Some of the actions undertaken during challenging transition period such as, promulgation of the Public Procurement Act and Public Procurement Regulations in 2007, amendment of the Financial Administration Regulations in 2007, and the self-assessment of various PFM Indicators as per PEFA Guidelines in 2007 are some examples of government's continued commitments. Implementation of these frameworks through an integrated PFM reform package through a set of mutually supportive actions that are realistic and can generate positive impacts is critical to mitigate fiduciary risks. Such a package will be reflected in the PFM Strategy Document which is currently being prepared. A high level steering committee chaired by the Finance Secretary provides necessary forum for close monitoring on implementation with continuation of collaborative support from development partners.

III. Education Sector Fiduciary Environment and Risk Assessment

9. High fiduciary risk at the country environment bears a direct impact at the sectoral level. While many of risk factors may go beyond the control of the sector, there are still a number of initiatives that are or can be undertaken at the sectoral level to mitigate the risk environment. Detailed fiduciary assessment (procurement and financial management) carried out by the World Bank in 2006 and a fiduciary risk assessment in the sector carried out by DFID in September 2007 had concluded that the overall risk in the education sector was "High" mainly attributable to the absence of effective social and financial audits at the school level. Subsequent to the detailed assessment by the Bank, an action plan for Financial Management Improvement was agreed upon with the government which was closely monitored by DPs during joint reviews. Issues related to operationalizing social audits and financial audits at school level were addressed through the action plan. A review again carried out by the World Bank and DFID is 2008 noted satisfactory progress in the implementation of the Action Plan.

10. Some of the key results that were achieved through the implementation of the Action Plan included: (1) Preparation of School Audit Guide through the Institute of Chartered Accountants of Nepal (ICAN) and subsequent approval by the Accounting Standards Board followed by training program to the registered auditors; (2) Integration of training on School Audit Guide into

the regular curriculum of training courses conducted by ICAN – this has now been fully integrated and internalized into the system; (3) Revision of Social Audit Guidelines – in order to improve the compliance of the social audit (from about 60% estimated to target for 100%), a social audit committee was formed in the DOE to monitor both the compliance and quality of social audits; formation of social audit committees at school is also mandatory; in order to enforce the compliance, the DOE issued notice in the newspapers and also issued circulars to all DEOs mandating all schools to submit social audit report of the preceding year in order to be eligible for release of budget for the third trimester of the fiscal year; (4) Initiation on computerization of DOE and some DEOs started – following the preparation of a computerization plan, initiatives were undertaken to begin computerization of DOE and piloting in about 10 DEOs which will gradually be expanded with an overall thrust of MOE/DOE to be connected on line with all DEOs over the medium term; (5) Preparation of a simple accounting manual for schools is now in progress; and (6) Human Resource Development (HRD) Plan prepared to build the skills in all the areas mentioned above.

11. All these happened during the implementation of EFA Program. A solid foundation is now in place to ensure good governance in the education sector but this need to be substantially accelerated to ensure sustainability of these efforts. All these initiatives as well as identification of other governance actions have now been integrated into a GAAP which is proposed to be the central focus of the Joint Financing Arrangement to ensure close monitoring on the implementation of GAAP. In addition to that, all DPs have also committed to ensure that resources required for implementing HRD Plan are also integrated and discussed during review of AWPB. The fiduciary risk environment at the sectoral level, considering all the high risks and measures being taken and proposed to be continued, is "Substantial".

IV. Adequacy of Fiduciary Arrangements

12. Experience gained through the implementation of EFA Program for almost five years, increased focus on governance and accountability both by the government and DPs, increased demand for alternative assurance arrangements such as, social audit at the community level, arrangement for performance audit through the Supreme Audit Institute and arrangements for third party verification from time to time by DPs on specific technical areas are the basis for increased comfort on fiduciary arrangements. Further, the proposed integration of GAAP into the JFA is mainly to draw close focus and attention on this agenda by the government and DPs during periodic reviews. The overall thrust is to deeply enroot the governance and accountability agenda into the sector program. With all these initiatives, the proposed financial management arrangements will be adequate to manage the SSRP.

Strengths

13. The proposed SSRP operation is a follow on program to the EFA which will be implemented under the existing legal framework provided by the Education Act and all its constituent amendments. Implementation arrangements developed and used under EFA will continue for the proposed SSRP. The Government and DPs have also agreed to remain flexible for required modification in implementation modality following the new Constitution which is expected to define the firm sub-national structures. Through successful implementation of the first SWAp, EFA Program, the sector has gained a number of strengths that have a positive impact on financial management: (i) high-level government commitment for the sectoral program and the government taking the lead in implementing SSRP; (ii) effective coordination amongst DPs which has modeled for an effective SWAp operation in Nepal; (iii) incorporating lessons learnt from the EFA Program to the implementation design of the proposed SSRP; (iii) an effective

harmonization approach agreeing and signing the Joint Financing Arrangement (JFA) signed by the government all signatories to the pooled funding; (iv) a central focus to the governance and accountability agenda through integrating GAAP into JFA; (v) an agreement to a code of conduct for all DPs; (vi) adoption of a common monitoring and evaluation framework; (vii) priority to capacity building and human resource development by integrating such program into AWPB; and (viii) oversight arrangements through the country system as well as periodic reviews by DPs.

Harmonized Approaches as specified in the Joint Financing Arrangement (JFA)

14. The nine Pooling DPs (and new ones as they enter into the Pooling) have committed themselves to the principles of harmonization in the spirit of the Paris Declaration on Aid Effectiveness and Accra Agenda for Action and have strived to reach the highest degree of alignment with the budgetary and accountability system and legislation of Nepal so as to enhance effective implementation and to reduce the administrative burden of GON. Following are key features:

15. SSRP Budgets. The government will identify separate SSRP budget heads and will be indicated in the GON Estimates of Expenditures (Red Book). All activities under these budget heads will be funded jointly by the GON and Pooling Donors. These budget heads will comprise the SSRP for financial reporting purposes. The financial commitments of the Pooling DPs will be confirmed within the bilateral agreements/arrangements concluded between GON and each of the Pooling DPs.

16. Support from Pooling DPs. The Pooling DPs will base their actual support on the progress attained in the implementation of the SSRP. Progress will be measured through the common procedures for monitoring and reporting.

17. Roles and Responsibilities of GON and Pooling DPs. Roles and responsibilities of the GON and Pooling DPs are clearly defined. The GON have the overall responsibility (i) for the planning, administration, procurement, financial management and implementation of the SSRP as per the country system, (ii) for maintaining a financial management system adequate to reflect the transactions, resources, expenditures, and assets under the SSRP and ensure that the GON is able to produce timely, relevant and reliable financial information for planning and implementation of the SSRP, and monitoring of progress toward its objectives that will also allow the Pooling DPs to evaluate compliance with agreed procedures, (iii) providing sufficient qualified personnel and release all financial and other resources that are required over and above the funding from the Pooling Donors for the successful implementation of the SSRP; and (iv) ensuring that resources are channeled to the end user (such as, schools, students and teachers) on a timely basis.

18. On the other hand, the Pooling DPs have the responsibility to (i) review the Annual Strategic Implementation Plan (“ASIP”) and the Annual Work Plan and Budget ("AWPB") and commit their contributions subject to satisfactory review of the said documents, and (ii) ensure timely release of their commitments to the foreign currency account as per agreed procedure and in accordance with the provisions of the bilateral agreements/arrangements.

19. Review Mechanism. The GON and Pooling DPs will conduct joint meetings two times a year. In addition, they will also meet periodically as required.

20. Pooling and Fund Flow Mechanism. The indicative funding levels of the Pooling DPs for the following fiscal year will be discussed in the Joint Consultative Meeting in December. The Pooling DPs will provide a funding commitment in the annual review meeting in April to be

presented to the GON in a schedule showing amount and time of contribution by each Pooling DP conditional upon a satisfactory review of the ASIP/AWPB and also taking into account the budget and cash forecast statement. In light of these commitments, the Pooling DPs determine their share of funding for the coming fiscal year for the total SSRP.

21. The Pooling DPs will make an advance deposit into the Foreign Currency Account (FCA) with at least their share of the first two trimesters' expenditure estimates for the fiscal year from which GON will make their withdrawal for reimbursing the SSRP equivalent to the Pooling Donor's share based on actual expenditures during the period. GON will present Financial Monitoring Reports ("FMRs") showing funds utilized during the trimester, the cash balance position of the FCA, and the cash forecast for the remaining fiscal year. In the event of the cash balance position in foreign currency being more than the funds required for the next two trimesters, no transfers of funds would need to take place from the Pooling DPs to the FCA. Any outstanding advance may be liable for repayment or deduction against the advance for the following fiscal year. Pooling DPs, as suitable to their respective funding cycle, may advance to the FCA the full amount as committed for the fiscal year or for the full program or to any amount as convenient to them with the assurance that the funds so transferred will be closely monitored, tracked and reported by the FMRs. The FCA will be used only for the purpose of reimbursing the amount to GON's consolidated fund following the certification of actual expenditures. There will be no direct expenditure on the procurement of imported goods and services from the FCA. Upon MOE/DOE requests, foreign exchange currency payments will be promptly facilitated by GON as per GON regulations.

22. Procurement Arrangements. GON will undertake all procurement of works, goods and services in conformity with the Public Procurement Act 2007 and Public Procurement Regulations 2007 except for procurement under International Competitive Bidding (ICB) for which the World Bank's Procurement Guidelines will apply[32]. A Procurement Plan will need to be prepared by the DOE which will include on-going contracts rolling into the following year, and procurement plans for the following fiscal year prepared based on the agreed work program.

23. Financial Reporting, Monitoring and Disbursement. As part of progress reports, DOE will submit the Implementation Progress Report (IPR) on a trimester basis of which "Financial Monitoring Report" will form the basis of disbursement to the Foreign Currency Account (FCA) by DPs. DOE will submit the IPR within 45 days of the end of each trimester on current and year-to-date: (a) transfers of funds to and from the foreign currency account, (b) expenditure statements against each budget head by detail classification according to the chart of accounts, as

[32] Given proposed changes to the Procurement Act, guidelines for National Competitive Bidding (NCB), should be subject to the following additional procedures: (i) only the model bidding documents for National Competitive Bidding agreed with the Association (as amended from time to time), including qualification criteria, shall be used; (ii) bid documents shall be made available, by mail or in person, to all who pay the required fee; (iii) there shall not be any restrictions, such as registration/licensing requirements, for purchase of bid documents and bidding by foreign bidders, and no preference of any kind shall be given to any bidders in the bidding process when competing with the foreign bidders, state owned enterprises, or small scale enterprises; (iv) if a registration process is required, a foreign bidder declared as the lowest evaluated responsive bidder shall be given a reasonable opportunity of registering, without let or hindrance; (v) rebidding shall not be carried out without the prior concurrence of the Association; (vi) invitations to re-bid shall be advertised in at least one (1) national newspaper with a wide circulation, at least thirty (30) days prior to the deadline for submission of bids; and (vii) except in cases of force majeure and/or situations beyond the control of the Recipient, extension of bid validity shall not be allowed without the prior concurrence of the Association: (a) for the first request of extension if it is longer than four (4) weeks; and (b) for all subsequent requests for extension irrespective of the period.

funded for the SSRP, (c) a cash forecast statement for the following two trimesters accounting for the current balance in the FCA, (d) an output based progress report, and (e) an update on the procurement plan.

24. Monitoring. Various monitoring mechanisms will be adopted. These include annual review meetings, external technical review, mid-term review of SSRP progress to assess program outcomes, performance audit to be carried out by SAI every two years, external evaluation during the last year of the SSRP and detailed fiduciary review covering both procurement and financial management to be carried out by the World Bank every two years.

25. External Audit. An annual audit report of the SSRP covering all budget heads assigned to it will be submitted within six months after the end of the fiscal year. Given the reality that audit reports cannot be submitted within the defined period, three months grace period will also be provided.

26. Governance and Accountability Action Plan. In order to mitigate the risks of corruption and to ensure good governance in the implementation of SSRP, the GON and the Pooling DPs agreed to a Governance Accountability Action Plan (GAAP) which will address governance and accountability issues that related to the management of the SSRP, financial management, procurement management and social accountability tools. Actions in GAAP are specific to (i) improvement in the textbook distribution; (ii) timely distribution of grants and scholarships, and data processing for EMIS; (iii) improvement in financial management system at central level, district level and school level; (iv) improvement in procurement at central level and at district level; (v) enhancing alternative assurance arrangement such as, social audit and performance audit; (vi) improvement in the quality and compliance of school audits; (vii) implementation of transparency and disclosure measures; and (ix) ensuring capacity development by implementing HRD Plan.

Disbursement Arrangements

27. Disbursement arrangements will be same as applied for EFA. Disbursements will continue to be report-based based on FMRs acceptable to Pooled DPs. All Pooled Partners will continue to disburse their portion of funds as determined by the Financial Monitoring Report (FMR) to the designated Foreign Currency Accounts maintained at the Nepal Rastra Bank. The program finances a number of different initiatives including inter alia, salary grants for teachers and facilitators (both in government teacher positions and community teacher positions), scholarships for students, provision of textbooks, teaching and learning materials, expanding the reach of local level institutions to provide resource support to teachers, schools and schools management committees, and for strengthening of a monitoring and evaluation system. Of the total expenditures incurred under SSRP, each Pooled DP will finance as per the agreed pro-rata share.

External Audit Arrangements

28. The Office of the Auditor General audits the accounts of SSRP. There are no pending audit reports under the ongoing EFA Program. The following audit reports will be monitored in the Audit Report Compliance system (ARCS):

Implementing Agency	Audit	Auditors	Audit Due Date
DOE	SSRP Financial	Office of the Auditor	6 months after the

	Statements	General (OAG)	end of each fiscal year (January 15th)

Audit observations of EFA for FY2007/08

29. The audit report of EFA for FY2007/08 contains a number of qualified observations. The Auditors have expressed their concern about the delays in transferring the funds based on certified actual expenditures from the Foreign Exchange Account to the Government's Treasury. Similarly, concerns have been raised for the delays in requesting apportioned funds from pooled partners. These are mainly due to delay in preparing acceptable FMRs. The Auditors have raised concerns about weak control environment. There are some cases reported when payments were found to have been made without supporting documents as evidences. The Auditors have also reported that the Directives for Per Child Funding (PCF), 2007 were not followed in making payments to the additional teachers. The Auditors also raised issue related to non-compliance with the provision of the Fiscal Procedure Rules, 2007 with regard to timely action for returning unspent balance to the consolidated fund accounts. Based on sample visit to 25 districts, the Auditors observed overall weak control environment especially with regard to information system that relates to number of teachers, their level, their transfer status, their promotion status and their salaries. Based on these, the Bank has already sent its management letter to the DOE requesting for clarifications or actions on audit observations. Recognizing these weaknesses, actions are already incorporated into GAAP to address these concerns.

Performance Audit Observations and Recommendations

30. The Office of the Auditor General in close coordination with the Ministry of Education and development partners carried out the performance audit of EFA in FY2007/08. Its report has been published in the Performance Audit Report of the OAG. The Ministry of Education will ensure that the recommendations of the performance audit will be seriously followed up and implemented. Some of the key recommendations, which are already critical features built into the GAAP are related to improving the distribution of textbooks, improving the transparency of grants distribution to schools and scholarship distribution, and improving the implementation of per capita funding.

Internal Controls

31. Many of the indicators that deal with financial management are contributed by weak country environment. High risk environment as resulted by PEFA assessment clearly reflects a need for substantial PFM reform at the national level. This dialogue is being pursued separately by the development partners with the government. At the sectoral level, all possible interventions including the observations of the auditors are being addressed through GAAP. GAAP has been brought to the central focus of all development partners and hence being referred to as a separate "Agenda" in the Joint Financing Arrangement (JFA). This means that implementation of GAAP will be ensured of adequate resources and will be subject to close scrutiny by development partners during reviews. While weak internal controls are the fact that aligns more with the high fiduciary country risk, but GAAP provides an opportunity to mitigate such risks at the sectoral level.

Financial Monitoring Reports (FMRs)

32. Currently, there are no outstanding FMRs. FMRs have been of acceptable quality but were usually delayed. The third trimester report of EFA Program for FY2008/09 is due on August 31, 2009.

Conditionality

33. There are two FM-specific conditions: (i) submission of annual audited financial statements, and (ii) submission of trimesterly FMRs.

Supervision

34. A sub-team of the World Bank, the ADB and the DFID have been formed to closely supervise the fiduciary arrangements. The World Bank will take lead on fiduciary matters and will closely coordinate with the Pooled Donor Contact Point for dissemination of any findings with the consensus of pooled partners' view. Implementation of financial management actions contained in GAAP will be closely monitored. Arrangements for detailed joint procurement and financial management review will be undertaken by the World Bank on behalf of the Pooled DPs once in every two years. As being done during EFA Program, the World Bank will take lead to review all FMRs and audit reports and take necessary follow-up actions as per the Bank's procedure. The supervision strategy is based on several mechanisms that will enable enhanced implementation support to the Government and to enable timely and effective monitoring. The supervision thus comprises: a) Joint Review Missions; b) regular visits by the DPs and technical consultants between the formal joint review missions; c) internal monitoring by the Government; d) in-built independent third party monitoring/validation; and, e) internal audit and financial management reporting.

TABLE 7.1
RISK RATING SUMMARY

	Risk Assessment				***Previous Risk Assessment***	***Risk Mitigating Measures***	***Residual Risk***
	H	***S***	***M***	***L***			
INHERENT RISKS							
Country level	***X***				*H*		*H*
- Quality of PFM institutions (see PEFA-PMF, CFAA, CPAR, CPIA & other diagnostics), standard of financial accounting, reporting and auditing, quality of FM profession.						Implementation of PEFA Action Plan; PFM sector dialogue and implementation of actions.	
Entity level		***X***			*S*	Implementation of monitoring arrangement stated in Joint Financing Arrangements (JFA) and GAAP implementation.	*M*
- Independence of entity's management, appropriateness of the organizational structure, impact of civil service rules							
Project level		***X***			*S*		*M*
- Relative size of the Bank loan, type of lending instrument, complexity of the project (e.g. sectors involved, number of implementing and sub-implementing entities, multi-donor etc.)						Implementation of monitoring arrangements stated in Joint Financing Arrangements (JFA) and GAAP implementation.	
OVERALL INHERENT RISK		**X**			S	Implementation of monitoring arrangements stated in Joint Financing Arrangements (JFA) and GAAP implementation.	M
1. CONTROL RISKS							
Budget				X	L		L
Accounting		X			S	Placement of qualified and experienced staff; use of consulting services; close monitoring	M
Internal Controls	X				H	GAAP implementation	S
Funds flow			X		M		M

	Risk Assessment				*Previous Risk Assessment*	*Risk Mitigating Measures*	*Residual Risk*
	H	***S***	***M***	***L***			
Financial Reporting		X			S	Same as in Accounting	M
Auditing		X			S	Same as in Accounting	M
OVERALL CONTROL RISK		**X**			**S**		**M**
RESIDUAL RISK RATING	**2**	**7**	**1**	**1**	**SUBSTANTIAL**		**MODERATE**

H – High S – Substantial M – Moderate L – Low

Annex 8: Procurement Arrangements

NEPAL: School Sector Reform

A. General

1. Procurement for the proposed program would be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004, Revised October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, Revised October 2006, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Credit/Grant, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual program implementation needs and improvements in institutional capacity.

2. **Procurement of Works**: Works procured under this program would essentially be limited to small value works under the Physical Facilities Improvement component of the program and involves construction of additional new classrooms or rehabilitation of classrooms/schools. The value of the construction is small (usually not exceeding US$ 15,000 equivalent) and the procurement of these works shall be overseen/carried out by a Procurement sub-Committee (PC) under the School Management Committee (SMC) of the beneficiary schools The SMC includes members from the concerned community[33]. A part of the construction cost is borne by the school and a part by a matching grant provided under the program, but as is tradition in Nepal, schools are initiated by communities with GON's contributions to teachers, textbooks, and works for classrooms being provided only after the school has been established. The eligible school first carries out the construction using its own resources, and the program reimburses a fixed amount after verification of the construction. Usually, the schools contribute a part of the matching funds in kind (local materials such as sand, stones etc.) and engage the services of a labor contractor, selected competitively, for the construction. Procurement by the PC will follow procedures described in the program implementation guidelines (PIG) a simplified manual in local language developed for the earlier Education For All program that are in accordance with the national procurement law, is updated regularly, and will be in use for the SSRP.

3. In addition, the program envisages the construction of three District Education Office buildings, each estimated to cost Rs. 12.5 million ($ 155,000 equivalent). Contracts for these works shall be procured through NCB carried out following local procedures with the following conditions:

(i) only the model bidding documents for National Competitive Bidding agreed with the Association (as amended from time to time), including qualification criteria, shall be used;

(ii) bid documents shall be made available, by mail or in person, to all who pay the required fee;

(iii) there shall not be any restrictions, such as registration/licensing requirements, for purchase of bid documents and bidding by foreign bidders, and no preference of any kind

[33] Described in detail in Annex 1.

shall be given to any bidders in the bidding process when competing with the foreign bidders, state owned enterprises, or small scale enterprises;

(iv) if a registration process is required, a foreign bidder declared as the lowest evaluated responsive bidder shall be given a reasonable opportunity of registering, without let or hindrance;

(v) rebidding shall not be carried out without the prior concurrence of the Association;

(vi) invitations to re-bid shall be advertised in at least one (1) national newspaper with a wide circulation, at least thirty (30) days prior to the deadline for submission of bids; and

(vii) except in cases of *force majeure* and/or situations beyond the control of the Recipient, extension of bid validity shall not be allowed without the prior concurrence of the Association: (a) for the first request of extension if it is longer than four (4) weeks; and (b) for all subsequent requests for extension irrespective of the period.

4. Procurement of Goods: Goods procured under this program would include text books, reference materials, simple lab equipment/teaching aids etc. by beneficiary schools using the proceeds of the Per Capita Fund. The value of these contracts will not be large enough to merit ICB and thus all procurement will be done through shopping or NCB in accordance with local procedures as detailed in the PIG. For program related goods procurement through NCB , the DOE shall first prepare and obtain Bank clearance of a model document which shall then be applicable for such procurement. In addition the program envisages the procurement of incremental office furniture for District education offices or Regional Educational Directorate. The value of any such contract shall not exceed Rs 100,000 ($ 1300 equivalent) and the goods shall be procured through shopping using national procedures.

5. **Procurement of non-consulting services:** The program shall hire non-consulting service providers for activities such as organizing regular trainings, workshops, orientation programs, simple ICT services such as email, internet or webpage services etc. The districts are responsible for these small value contracts.

Selection of Consultants: Consultant shall be hired for various assignments such as developing and conducting training programs, studies, reviews and impact evaluation, development of educational materials in different languages, carrying out pilot activities capacity building etc. These are small value assignments (usually below Rs 200,000) which can be carried out by local individuals, firms or NGOs. Procurement of such consultants shall be done in accordance with local procedures. Short lists of consultants for services estimated to cost less than $ 200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

6. **Others**: The program will fund provision of various types of Grants (for Open Education, to religious schools and schools for special need students, Per Capita grants, text-book grants, salary grants etc.) as well as scholarships. Scholarship grants will be targeted to specific categories of students as described in the GON's Vulnerable Community Development Framework.

B. Assessment of the agency's capacity to implement procurement:

7. Except for some Procurement activities at the central Department of Education (DOE) such as educational materials, outreach programs etc. and by the District Education Offices (DEO), the bulk of the procurement will be carried out by the beneficiary schools. While each unit of the DOE has a procurement unit and a designated procurement official, overall coordination and support for DOE procurement is also provided by the Physical Services Section (PSS) which is headed by experienced procurement experts who have been responsible carrying out and assisting other units for DOE level procurement carried out for the ongoing EFA program.

8. As described above, contracts for the small value procurement taking place at school level shall be procured by the Procurement Sub-Committee (PC) drawn from the members of the SMC following procedures and using simplified forms/documents contained in the described

9. An assessment of the capacity of the Implementing Agency to implement procurement actions for the program has been carried out. The assessment reviewed the organizational structure for implementing the program and the interaction between the program's staff responsible for procurement Officer and the Ministry's relevant central unit for administration and finance. Together with this capacity assessment and the provisions of the national Procurement laws that require disclosure of procurement results, adequate procurement capacity and controls exist at the central level. In the case of schools, the identity of the beneficiary schools and the corresponding SMC cannot be determined at present and thus a capacity assessment like that carried out for DOE is not currently possible. However, to ensure that the PC drawn from the SMC is made aware of and is provided an orientation in the procurement section of the Program Implementation Guidelines[34] (PIG), the DOE will mobilize DEO staff to disseminate the information to the SMC through visits to the schools and short duration workshops.

10. Given the current political situation, and weak governance specially at the decentralized levels, there have been growing instances of interference in or capture of works contracts (specially works contracts) invited at district levels. To mitigate this risk DOE shall instruct its district offices that if such risks exist in the district, then the bid documents shall specify multiple locations for the sale of bid documents (e.g. the District Development Office, Department of Education in Kathmandu, any other location in the district) and to specify a location other than the DEO where security can be arranged on the deadline date for bid submission (e.g. the DDO or the Police Station). In parallel, the DOE shall organize community awareness programs informing local people about how the effects such interference has on the timeliness, quality and cost the service delivery to the community, and their right to demand accountability. Other features of the program such as the fact that contracts are of small value and that even classroom construction is carried out through communities, and not through central government or district administration, has provided an additional layer of mitigation against interference or capture of works contract[35].

11. DOE shall also hire the services of a reputed INGO to carry out independent review of a sample number of districts and schools to monitor the quality of procurement and assets.

12. Lastly, the DOE will design and put in place a robust mechanism for

[34] *Vidyalaya Anudaan Karyanvayan Nirdeshikaa Evam Vidyalayasthrikaran Form*

[35] Under other sectors, it has been observed that even relatively small works contracts (less than Rs. 1,000, 000 or US$ 13,000 approximately) have been captured or there has been interference in the contracting process. The difference seems to be based on the entity which is issuing the contract notice, district offices or the communities themselves.

a) public disclosure of procurement actions/results and expenditure so that written records of all meetings/decisions and procurement documents (invoices, quotations etc.) are maintained and accessible to all,

b) public disclosure of procurement results (names and prices of all bidders, winning bidder and contract price, contract description and time schedule if applicable)

c) a transparent system for publicly addressing and resolving any complaints/grievances.

13. The overall program risk for procurement is substantial though moderate after mitigation.

C. Procurement Plan

14. The Borrower, at appraisal, has developed list of actions and consolidated procurement needs for the first year of program implementation and is developing a plan based on this list. This plan shall be finalized by July 25, and shall then be reviewed by the Bank and agreed between the Borrower and the Project Team by Appraisal. Once agreed, the overall plan shall be made available at the DOE, Kathmandu. Further, discrete procurement plans for each district level procurement shall also be available at the concerned District Education Offices.

15. The overall plan will also be available in the program's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual program implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

16. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended two supervision missions to visit the field to carry out post review of procurement actions.

E. Details of the Procurement Arrangements Involving International Competition

1. Goods, Works, and Non Consulting Services

(a) No ICB procurement is foreseen under the program.
(b) NCB contracts estimated to cost above US$ 100,000 equivalent per contract and all direct contracting will be subject to prior review by the Bank.

2. Consulting Services

(a) List of consulting assignments with short-list of international firms.

1	2	3	4	5	6	7
Ref. No.	**Description of Assignment**	**Estimated Cost**	**Selection Method**	**Review by Bank (Prior / Post)**	**Expected Proposals Submission Date**	**Comments**

(b) Consultancy services estimated to cost above US$ 50,000 per contract, single source selection of consultants (firms), contracts with individuals for assignments estimated to cost above US$ 10,000 equivalent will be subject to prior review by the Bank.

(c) Short lists composed entirely of national consultants: Short lists of consultant firms for services estimated to cost less than US$ 200,000 equivalent per contract, may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 9: Economic and Financial Analysis

NEPAL: School Sector Reform Program

I. INTRODUCTION

1. In a concerted effort to build on the progress made under the country's Education for All (EFA) program (2004-2009) and to meet Millennium Development Goal (MDG) targets for education by the year 2015, the Government of Nepal (GON) has prepared a School Sector Reform (SSR) Program in close consultation with stakeholders including development partners (DPs). Whereas the Government's SSR program vision extends to 2015 and even beyond, GON and DPs have jointly agreed to appraise a five-year implementation program, 2009/10-2013/14. The economic and financial analysis presented in this annex[36] will focus on this intermediate five-year program.

2. While the EFA goals remain a key priority for Nepal, Government has determined that five years of education (the length of the nation's primary cycle) are not enough to support the country's human resource and economic development requirements. The key objectives of the SSR program is to increase access to and quality of school education, particularly basic education (grades 1-8), especially for children from marginalized groups. Though the SSR aims to cover the entire school sector eventually so that more students can continue and complete 10 or 12 years of schooling, the initial years would focus on basic schooling (Grades 1-8) so as to be able to consolidate the gains of EFA (2004-2009) and to accommodate the increased enrolment projections for Grades 6-8.

3. The economic analysis of the five-year SSRP requires the identification of a counter-factual "business as usual" scenario in which GON's program for the school sector is simply an extrapolation of the spending and activities of the recent period during which EFA was being implemented. The SSRP "investment" being appraised is the estimated addition to sector spending (both development and recurrent spending) as a result of the adoption of SSRP. Similarly, the benefits are taken to be those changes in the quantity and quality of education produced over the period of the program as a result of SSRP, as well as any savings attributable to reductions in "wastage" (repetition and dropout) of students in the system.

II. BENEFITS OF SCHOOL SECTOR REFORM PROGRAM

4. For the purposes of the economic analysis, three distinct objectives, in line with the above goals, will be studied and, to the extent possible, quantified: (1) education quantity (increased access to education, resulting in more workers in the future with at least eight years of schooling and with higher earnings as a result), (2) education quality and relevance (more learning, resulting in higher productivity and earnings on the part of everyone who has completed basic education), and (3) education's internal efficiency (less "wastage," i.e., fewer school dropouts and repeaters, and lower unit costs as a result). These benefits will be reported both in physical terms (for example, the additional number of completers and the reduced number of repeaters) and in monetary terms (the value of having completed a full education cycle (basic or secondary) and the savings associated with lower repetition). The monetized benefits will be used to compute the

[36] This analysis was jointly prepared by ADB and the World Bank program preparation team.

discounted present value (DPV) of each of the three benefit streams and, together with an estimate of the investment costs, the internal rate of return (IRR) accruing to the SSRP investment.

5. Underlying all of the analysis are projections of: (a) Nepal's 5-year old age cohorts, (b) gross intake ratios of children into grade 1, and (c) repetition and dropout rates in all grades, G1-G12 (and, therefore, about completion rates in all grades, since the completion rate for any grade = 1 minus the repetition rate minus the dropout rate). Because of over-age and under-age children, the gross intake ratio for grade 1 is currently well above 1.0, but in the economic analysis it is assumed that this ratio will gradually approach 1.0 over time as MOE monitors grade 1 entry more closely and discourages entry by children who are outside the official age range.

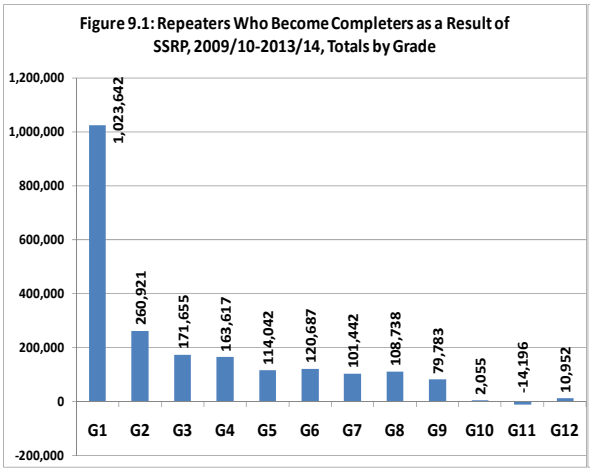
6. Approximately 12 percent of basic education students in Nepal (and 30 percent of secondary students) attend private schools. Although there might be some spillover impact of SSRP activities on student flows in the private sector, the conservative assumption used in the economic analysis is that SSRP's impact will be confined to students who attend community schools eligible for government funding (usually termed as public schools elsewhere). Accordingly, all of the numbers in the analysis that follows are deflated to eliminate students expected to be studying in the private or institutional schools (not eligible for public funding).

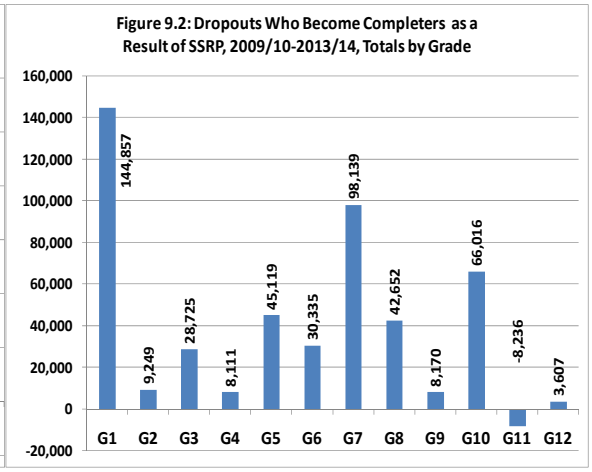
7. The analysis takes as given, for all 12 grades, the assumed repetition, dropout and completion rates in public schools as a result of the activities financed and included in SSRP. These activities include the construction of new schools and classrooms, reducing the distance to school for many children, the rehabilitation of classrooms and the addition of sanitation facilities, and provision of school meals and scholarships for children in the poorest and most disadvantaged areas of the country. With SSRP, repetition rates are assumed to drop by as little as 5-6 percent per year in the case of G11 and G12 to as much as a third in the case of G1. Dropout rates are assumed to drop between 15 and 25 percent annually depending on the grade.

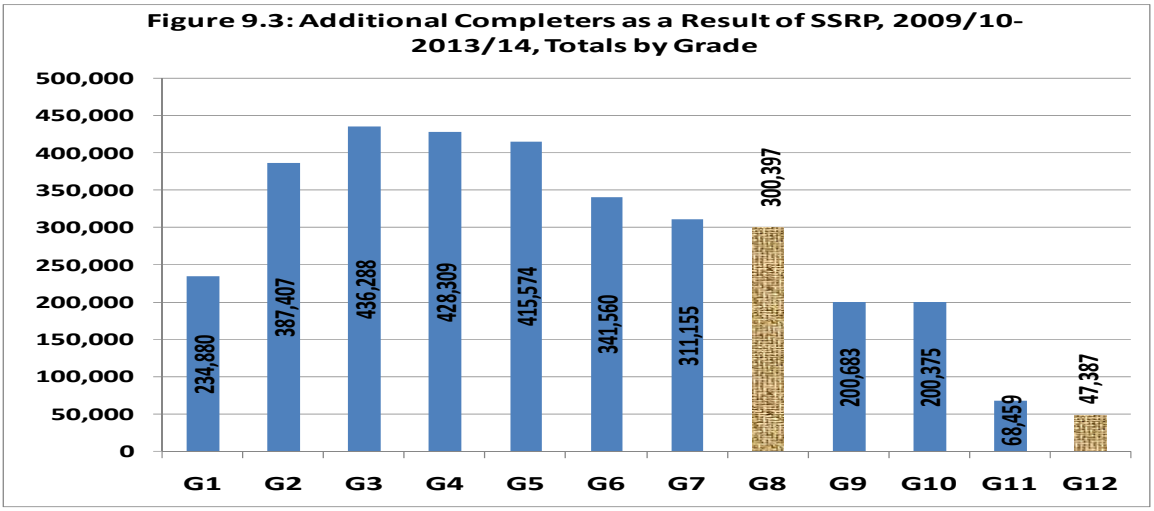
8. To assess the impact of SSRP on student flows, the analysis then assumes a counterfactual scenario in which repetition, dropout and completion rates would be in the absence of SSRP[37]. The "counter-factuals" used for the economic analysis are not the rates observed in the base year, 2008/09, as this would be "unfair" given that repetition and dropout rates surely would continue to fall even in the absence of SSRP, if more gradually. The assumptions used are that, without SSRP, repetition rates in any year would be 95 percent of those in the previous year, and dropout rates, 90 percent – declines that reflect trends over the recent past. The difference in student flow numbers of that between "SSRP" and "without SSRP" is a measure of the impact of SSRP on repeaters, dropouts and completers.

9. The presumed impact of SSRP on the number of repeaters and dropouts is illustrated in figures 9.1 and 9.2. Most of the impact is seen to occur in the first grade (G1), given that repetition in this grade is so high currently (between 20 and 30 percent). Over the period of the five-year program under appraisal, the additional number of G1 students expected to complete rather than repeat the grade as a result of SSRP is just over one million. The additional number of students expected to complete all grades is over 2.1 million. As will be shown at a later point, the monetary benefit of these large reductions in repetition in terms of teacher and other school resources saved is very significant. In similar fashion, the additional number of G1 students expected to complete rather than dropout as a result of SSRP is about 150,000.

[37] The details of this analytical exercise are found in the background paper and are available from authors upon request.







10. Finally, the combined impact of reduced repetition and reduced dropout on the number of completers is shown in figure 3. The additional numbers of grade 8 (basic education) and grade 12 (secondary education) completers are highlighted in figure 9.3, because completion of these levels is a particular objective of SSRP and because, in the international research literature looking at the relationship between education and earnings, completing an education cycle is nearly always associated with a higher earnings premium than just finishing one more year within the cycle.

11. **EQUITY:** SSRP emphasizes policies and incentives intended to increase the participation of currently underserved groups – disabled children, poor children, *Dalits* and other ethnic minorities, girls and children from disadvantaged regions. The enrollments and progression of these groups will be carefully tracked during SSRP. Specifically, gender parity (the enrollment of girls divided by the enrollment of boys) is expected to increase from its current level of 0.95 in basic education, already quite high, to 0.98 over the seven years of SSRP. While equity is a very important objective and its achievement will have a tremendous value to the country, particularly in the context of a new inclusive Nepal, it is difficult to quantify its monetary benefits.

III. DISCOUNTED PRESENT VALUES OF THE BENEFIT STREAMS – QUANTITY, QUALITY AND EFFICIENCY

12. **QUANTITY (ADDITIONAL SCHOOL COMPLETERS).** As seen from figure 9.3, this methodology results in a total of 300,397 additional basic school completers produced by Nepal's publicly funded schools over the five years of the program. Analysis of household survey data from the most recent *Nepal Living Standards Survey* (NLSS 2003/04) show that a Nepali wage worker who has completed basic education earns about two and a half times more than a worker who has completed less than basic education. The first cohort of additional completers (those finishing G8 in 2009/10) will be eligible to enter the labor market in 2010/11, the second cohort one year later (2011/12), and by 2014/15, all five cohorts will have completed their basic schooling and be eligible for work as primary school completers. In 2010/11 prices, the 250-percent earnings differential referred to above amounts to approximately NPR 25,300 per year (the equivalent of about USD 317). This differential was then assumed to grow by 5 percent in every future year, in line with anticipated inflation. For purposes of the analysis, it was assumed that the benefit stream accruing to the education of these five cohorts will continue for 20 years.[38]

13. Taking 12 percent to be the opportunity cost of capital (i.e., the rate of return on the next best alternative use of all of the resources invested in SSRP by GON, DPs, households, private voluntary organizations (PVOs) and others) and discounting the stream of benefits by this rate yields a "discounted present value" (DPV) of USD 771.7 million (NPR 61.7 billion, exchanged at NPR 80 to USD 1). For the layman, the significance of the DPV may be elusive. A way of thinking about it is to say that USD 771.7 million is the most that any investor should be willing to pay for SSRP's "quantity benefit stream."[39]

14. **QUALITY AND RELEVANCE (MORE LEARNING, AND LEARNING MORE RELEVANT TO THE LABOR MARKET).** This benefit applies, not only to additional completers, but in fact to all students who complete during the five-year investment period. Given SSRP, it can be predicted that nearly 2.3 million (2,290,318) students will complete basic education between 2009/10 and 2013/14. While it was not obvious what value of quality "premium" to apply to this number of students to reflect the qualitative improvements introduced under SSRP, the analysis uses an indirect measure of "school quality" from NLSS data. Using a standard human capital earnings function in a wage-regression and accounting for differential in earnings to both differences in demand for skills and differences in education quality, 5 percent of the average annual earnings of those with basic education (as observed in NLSS in 2003/04 and allowed to grow at the rate of inflation) was taken to be a measure of the "education quality premium" and was used to assess the impact of overall improvements in system quality as a result of SSRP.

15. As with the quantity benefit, the earnings of the student beneficiaries (those who will complete basic education between 2009/10 and 2013/14) were tracked for 20 years into the future. One further adjustment was needed, however. Those who will complete basic education over the period will have started their schooling prior to SSRP and will finish it before SSRP has been fully implemented. It was decided, therefore, to pro-rate the quality premium for the

[38] In fact, the typical basic education completer will probably continue to work for far longer than 20 years, but only 20 years are registered for purposes of the economic analysis, because "discounting" renders nearly insignificant the present value of benefits that occur beyond 20 years.

39 Applying the same methodology to the benefits expected to accrue to additional secondary school completers would, in fact, yield a DPV of USD 919 million (NPR 73.5 billion), an even larger figure owing to the sizable earnings differential seen in NLSS between secondary school completers and those with less education.

beneficiaries included in the analysis. Even so, the DPV of the benefit stream is sizable, USD 428.8 million (NPR 34.3 billion).[40]

16. **INTERNAL EFFICIENCY (REDUCED WASTAGE AND LOWER UNIT COSTS).** To measure a change in education's internal efficiency, the analysis required an estimation of the *number of student-years* needed *to produce one (or a thousand) basic education completer(s)*. In a "perfectly efficient" eight-year system, with no repetition and no dropout (and no mortality), for every 1,000 children entering grade 1, 1,000 would finish the course eight years later, as shown in table 1. Currently in Nepal, for every 1,000 children who enter grade 1, only 598 eventually finish, and because of high repetition as well as high dropout, 6,820 student-years are used to produce the 598 completers. Stated differently, it is currently necessary to use 11.50 student-years to produce one completer of the eight-year basic education course. Three and a half of the 11.5 years (the costs of which must be covered from the budget) are in a sense "wasted" years.

17. The current situation is treated here as the counter-factual (even though some improvements might have been expected to occur even in the absence of SSRP). Given the assumed reductions in repetition and dropout rates as a result of SSRP, it is anticipated that, by the end of the full seven years of reform, only 9.73 will be needed to produce one basic education completer. The "savings," in terms of 1.77 fewer student-years required, can be used to accommodate other students in the system or to enhance further the quality of the system. To assign a monetary value to the savings, unit costs were computed for each year of the five-year program, by dividing the projected number of students by the projected basic education costs in that year. As with the quality benefit discussed above, the per-completer savings were prorated to reflect the fact that the efficiency improvements have been programmed to be implemented over a seven-year period. The DPV of this benefit stream amounts to USD 78.3 million (NPR 6.3 billion).[41]

Table 9.1: Cohort Analysis – Students-Years Spent to Produce One Completer

	Perfectly efficient	SSRP	Counter-factual	Difference (= impact of SSRP)
Primary education				
Children who enter grade 1	1,000	1,000	1,000	--
Student-years	8,000	6,820	6,877	-57
Students who complete grade 8	1,000	701	598	103
Student-years per completer	8.0	9.73	11.50	-1.77
Secondary education				
Students who enter grade 9	1,000	1,000	1,000	--
Student-years	4,000	3,997	3,936	61
Students who complete grade 12	1,000	787	723	64
Student-years per completer	4.0	5.08	5.44	-0.37

[40] The DPV of the comparable (quality) benefit stream for secondary school completers is USD 563 million (NPR 45.1 billion).

[41] The DPV of the comparable (efficiency) benefit stream for secondary education is USD 10.4 million (NPR 831 million).

IV. DISCOUNTED PRESENT VALUE OF PROGRAM COSTS

18. The original plan for SSRP prepared by GON in October 2008 was an ambitious plan. To implement in full all of the activities included in this draft of the plan would have cost an estimated USD 5.1 billion (NPR 400.4 billion) over the full, seven-year period. Although that cost figure refers to all recurrent as well as capital costs needed to support key sector reforms and operate Nepal's school sector (pre-school *plus* grades 1-12) over the period, a preliminary financial analysis conducted by GON and the Development Partners (DPs) determined that this high level of financing was not feasible given reasonable assumptions about national economic growth, government and NGO spending, and support from DPs (both those currently active in Nepal's education sector and new ones that could possibly be mobilized). Between pre-appraisal and appraisal, an effort was undertaken to cut at least USD 1 billion from the SSRP budget. This effort was successful, for which the Government (whose "grand vision" for the school sector remains that articulated in the original plan) deserves much credit. At the time of appraisal, the seven-year program costs had been reduced to USD 4.1 billion (NPR 324.2 billion), and the five-year program that the donors were ready to appraise amounted to USD 2.6 billion (NPR 210.8 billion) as shown in table 9.2, which includes a year-by-year breakdown.

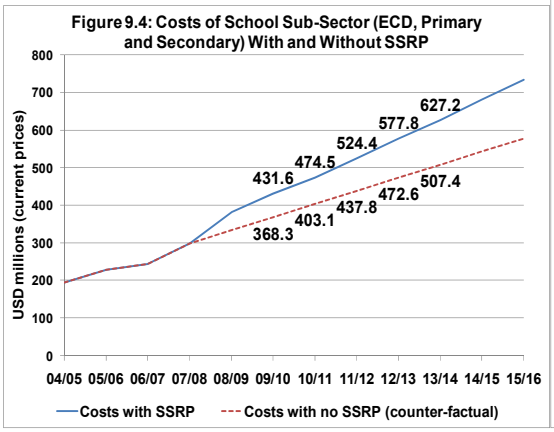
Table 9.2: MOE Expenditure on School Sector (ECED, Primary and Secondary Education), 2009/10-2015/16 - Revised SSRP Program, March 2009

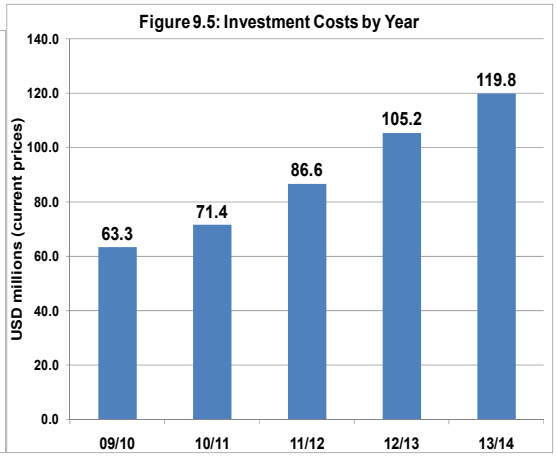
	Fiscal Year						
	09/10	10/11	11/12	12/13	13/14	14/15	15/16
	Annual Costs						
NPR millions	34,524	37,956	41,956	46,227	50,176	54,543	58,794
USD millions	431.6	474.5	524.4	577.8	627.2	681.8	734.9
	Seven-Year School Sector Reform Program						
NPR millions	324,176						
USD millions	4,052.2						
	Five-Year Program Being Appraised						
NPR millions	210,839						
USD millions	2,635.5						

19. A financial analysis to assess the affordability of the reduced program in the light of expected government and donor financing will be presented later in this chapter. If, at the end of the day, a financing gap is found still to exist, GON will try to mobilize new sources of external funding and also encourage existing DPs to give more, but if these efforts fail, it may be necessary to make further cuts. If, on the other hand, there is no financing gap, or if additional financing materializes over time, Government will be well prepared, having gone through the rigorous exercise of prioritizing the components in the original plan, to ratchet up the program in a rational and cost-effective manner. Because the program costs shown in table 9.2 include all expenditures by Government for the school sector during the seven years listed, covering all of the costs of operating, reforming and developing the sector, these totals should not be confused with the "investment" being appraised here. The school sector would not disappear in the absence of SSRP. A large share of the costs shown in table 3 would have to be met with or without SSRP. The economic analysis of SSRP requires an estimation of the "counter-factual," the hypothetical situation of not having a School Sector Reform Program, just as it was necessary above for quantifying the benefits of SSRP.

20. Figure 4 shows two versions of the public costs of the school sector during the five years being appraised: (1) those according to a "business as usual" scenario, and (2) the higher costs needed to accommodate SSRP – those shown in table 9.3 above. The first is an extrapolation of

MOE spending on school sector activities over the last few years. The year-by-year differences between the two expenditure profiles comprise the "investment" being appraised here. The annual amounts are shown in figure 8. The additional expenditure, over and above the "business as usual" scenario, by GON and the DPs for SSRP over the next five years amounts to USD 446.3 million. Although the main focus of SSRP is on basic education, the program includes some activities that relate to the development and improvement of secondary education, literacy and TEVT (technical education and vocational training). To be conservative in appraising the basic education program, however, all of the publicly financed investment costs shown in figure 9.5 are attributed to the basic education sub-sector for purposes of the economic analysis.





21. A full accounting of the SSRP investment should also include private costs borne by households. Families with children in school usually need to pay some fees, buy books and cover other school-related costs such as transportation, meals and uniforms. They also face indirect costs, referred to by economists as "opportunity costs." Children who are studying cannot hold jobs or do work around the home or on the family farm. From NLSS data, it is possible to quantify both the direct and indirect private (household) costs of education. Table 9.3 itemizes the public and private components of the SSRP investment.

Table 9.3: Public and Private Costs of SSRP, 2009/10-2013/14 (USD millions)

	2009/10	2010/11	2011/12	2012/13	2013/14	5-year Total	DPV
Public expenditure (from figure 5)							
Basic (ECD-G8)	63.261	71.395	86.624	105.247	119.836	446.363	309.940
Secondary (G9-G12)	--	--	--	--	--	--	
Household outlays (average HH expenditure per student in public education)							
Basic (ECD-G8)	0.228	0.614	1.082	1.516	1.762	5.203	3.427
Secondary (G9-G12)	0.592	1.831	3.627	6.047	9.303	21.400	13.691
Both	0.820	2.445	4.709	7.563	11.065	26.602	17.118
Opportunity cost (earnings foregone)							
Basic (ECD-G8)	2.302	6.194	10.910	15.281	17.760	52.447	34.547
Secondary (G9-G12)	1.399	4.326	8.569	14.289	21.983	50.566	32.352
Both	3.701	10.520	19.479	29.570	39.743	103.013	66.899
Total public and private investment							
Basic (ECD-G8)	65.792	78.203	98.616	122.044	139.357	504.012	347.915
Secondary (G9-G12)	1.991	6.156	12.196	20.336	31.287	71.966	46.043
Both	67.783	84.360	110.812	142.380	170.644	575.978	393.958

22. Do the benefits described and quantified earlier in the chapter justify the additional expenditure, by GON, DPs and households of USD 576 million over the next five years? An

answer to this question requires first, as with the benefits above, that future costs be discounted and expressed in terms of current dollars. The DPV of the five-year basic education cost stream is USD 347.9 million, as seen in the final column of the table above.

V. NET PRESENT VALUE AND INTERNAL RATE OF RETURN OF SSRP

23. Having quantified, assigned monetary values and discounted back to the present all costs and the three main benefit streams, it is now possible to address the question of whether the five-year investment program in Nepal is "profitable" from a social perspective. Given the discount rate (a measure of the opportunity cost of capital), the Government of Nepal and DPs should be willing to undertake the investment if and only if the net present value (NPV) of the investment is greater than zero (or, stated differently, if the DPV or the benefits exceeds the DPV or the costs).

24. Based on a discount rate of 12 percent, the first column of figures in table 9.4 suggests that this condition is satisfied by SSRP. Clearly, however, the choice of the appropriate discount rate is crucial. If the marginal cost of capital in Nepal were assumed to be higher than 12%, then the NPV of the investment would be lower (because the investment benefits are more back-loaded than the investment benefits and, therefore, get discounted more heavily by a higher discount rate). To give one example, the second column of figures in table 9.4 replaces the 12 percent discount rate with a 50 percent rate. Discounting at 50 percent, in fact, "flips" the result. The costs are now seen to outweigh the benefits.

Table 9.4: Net Present Values at Different Discount Rates (USD mil)

Discounted present value of benefits and costs	Discount rate		
	12% (low)	50% (high)	39.2% (IRR)
Quantity	771.7	62.1	102.4
Quality and relevance	428.8	26.3	45.1
Internal efficiency	78.3	27.7	35.7
Costs	347.9	150.3	183.2
NPV (Benefits - Costs)	930.9	-34.2	0

25. Somewhere between 12 percent and 50 percent, there will be a discount rate that makes the DPV of the benefits just equal to the DPV of the costs. This rate is what economists refer to as the "internal rate of return" (IRR) of the investment. The decision to undertake an investment requires that the IRR be greater than the discount rate (the opportunity cost of capital). The two decision rules (that IRR > discount rate, and that the DPV of benefits > the DPV of costs) are, in fact, equivalent to one another. In the case of SSRP, given all of the assumptions about benefits and costs as detailed above, the IRR turns out to be 39.2 percent, a robust figure that almost certainly equals or exceeds the rate of return on most alternative investments that GON could be considering at this time. A key question to ask, therefore, is whether the assumptions used to quantify the benefits and the costs of SSRP seem "reasonable." Some reviewers of the analysis presented here might argue that the assumptions are "stacked" in favor of a positive decision in regard to the SSRP investment. The standard way of responding to this kind of critique is to present alternative estimates of the IRR using more rigorous (less favorable) and, therefore, less controversial assumptions.

VI. SENSITIVITY ANALYSIS

26. The key assumptions underlying the estimated IRR in table 4 have to do with (1) the speed of progress in achieving the internal efficiency targets (repetition and dropout rates both falling nearly to zero) and (2) the additional earnings associated with the completion of basic education and with having attended school in an urban ("higher school quality") rather than a rural ("lower school quality") area. The first two IRRs reported in block B of table 9.5 assume that progress towards the internal efficiency targets and the earnings premiums associated with completion and with quality are only one-half (B.1) and two-thirds (B.2) of those assumed for A, the main IRR estimate. The last B estimate (B.3) combines both sets of lower assumptions. Inevitably, the IRR estimates in block B are lower than the main IRR estimate, ranging from 23 percent (B.3) to 32 percent (B.2), but even these reduced rates exceed any reasonable estimate of the opportunity cost of capital. These results of the "sensitivity analysis" reinforce the conclusion that SSRP is a sound investment for Nepal.

Table 9.5: Sensitivity Analysis – Alternative IRR Estimates

Investment scenario - assumptions about benefits and costs	IRR
A. Main estimate of IRR	
Assumptions reflected in table 5	39.2%
B. Lower estimates of IRR	
B.1. Slower progress in achieving internal efficiency targets (reductions in repetition and dropout)	26.2%
B.2. Smaller earnings differentials between education completion levels and also between education quality levels	32.3%
B.3. Both B.1 (slower internal efficieny progress) and B.2 (smaller earning differentials	22.8%
C. Higher estimate of IRR	
Secondary education benefits and costs added to those in A	62.5%

27. Finally, it should be recalled that the economic analysis thus far has taking into account only those benefits associated unambiguously with the changes in quantity, quality and internal efficiency expected in basic education (grades 1-8), and that the benefits associated with secondary education (grades 9-12) have not been counted. This was a deliberate decision taken by the analysts, reflecting the clear programmatic focus of SSRP, but also to ensure an IRR estimate that is conservative and not suspected of exaggeration. An estimate of the IRR that takes into account all of the benefits associated with secondary education (as mentioned in three of the footnotes in the pages above), as well as the private costs (household outlays and opportunity costs) of secondary education, is 62.5 percent, which is 23 percentage points higher even than the IRR based on basic education alone. The key explanation for the difference in the A and C estimates is the very high earnings premium currently enjoyed by those in Nepal who have completed 12 years of secondary education as compared with those with just basic education or incomplete secondary.

28. This fact suggests that the future private demand for secondary education on the part of the growing number of basic education completers will be intense. It also suggests that MOE must begin thinking soon, even as SSRP is just getting under way, about ways of expanding the number of places in secondary education, reinforcing high standards, and developing a model for financing that ensures that all basic education completers (rich and poor, urban and rural, male and female, and representatives of all ethnic groups) who demonstrate the prerequisite motivation and ability will have an opportunity to continue their studies beyond grade 8. Just as SSRP (focusing on basic education) follows naturally from Nepal's EFA program (focusing on primary

education), a program that focuses on secondary education will be the next step on Nepal's path to a well-rounded system of human development and global competitiveness.

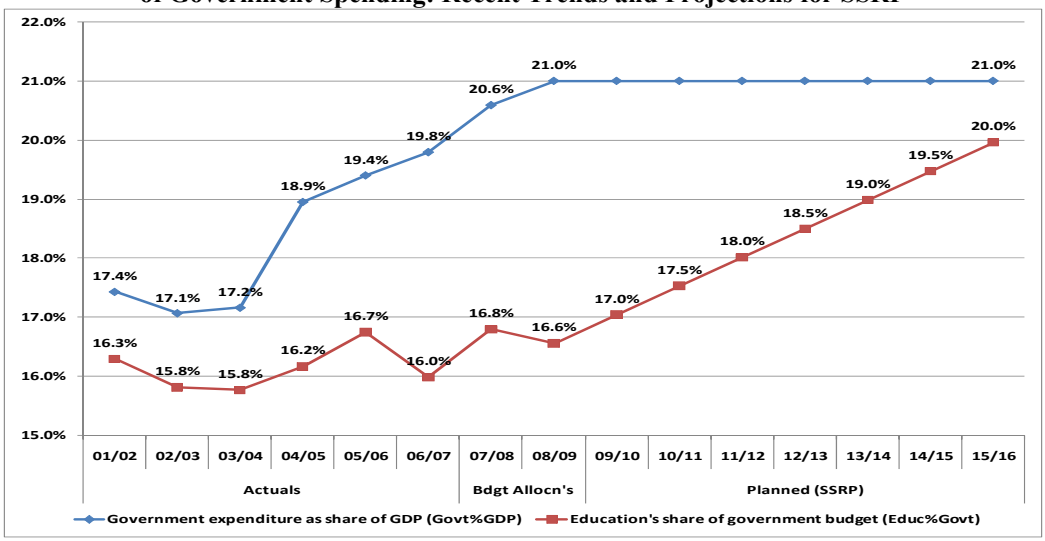
VII. FINANCIAL ANALYSIS – IS A GOVERNMENT PROGRAM OF USD 2.6 BILLION (INCLUDING DP CONTRIBUTIONS) OVER FIVE YEARS AFFORDABLE?

29. The answer to the affordability question requires a simulation model that estimates year-by-year government budget envelopes. An estimation of the available budget for SSRP in any year (SSR(t)) requires an estimate of gross domestic product (GDP) in the latest available year plus annual values for four parameters that make up the simulation model: (1) the "nominal" (measured in current prices) GDP growth rate (GDP%Δ(t)), which equals the "real" (measured in constant prices) growth rate times the rate of price inflation, (2) government expenditure as a share of GDP (Govt%GDP(t)), (3) education's share of the government budget (Educ%Govt(t)), and (4) the school sector's (or SSRP's) share of the education budget (SSR%Educ(t)):

$$SSRP(t) = GDP(t-1) \times GDP\%\Delta(t) \times Govt\%GDP(t) \times Educ\%Govt(t) \times SSRP\%Educ(t)$$

30. **BUDGET ENVELOPE SCENARIOS**. Three estimates of the simulation model, based on different parameter values, are presented here, Scenarios 1, 2 and 3 (a "high case," a "medium case" and a "low case"). Scenarios 1 and 2 are based on a GDP estimate of NPR 1,045.5 billion in 2009/10 and a nominal growth rate of 10.8 percent thereafter.[42] These were the values projected at the end of 2008 by the Ministry of Finance (MOF) of GON and by the International Monetary Fund (IMF). The assumptions about other parameters of the model were based on an extrapolation of recent trends and on policy statements of GON.

Figure 9.6: Government Spending as Share of GDP and Education's Share of Government Spending: Recent Trends and Projections for SSRP



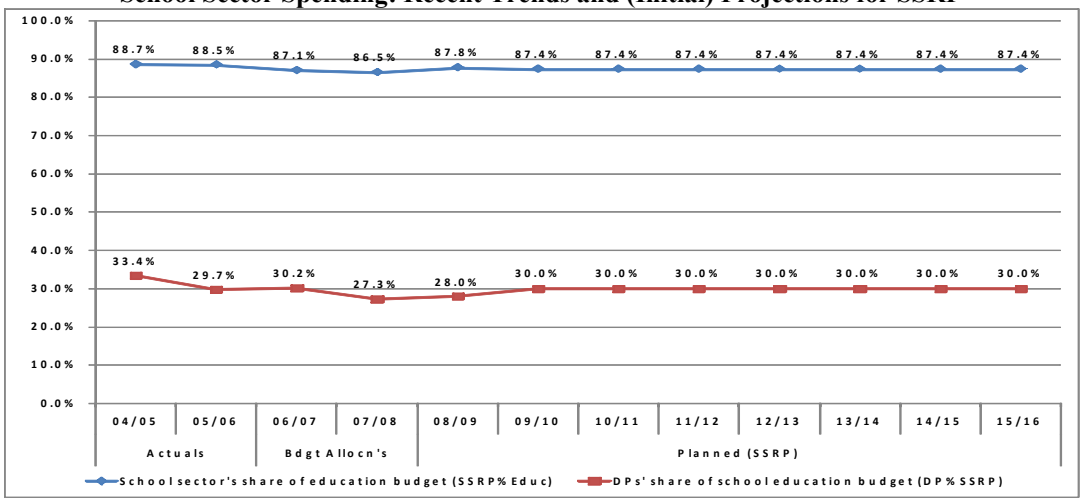
31. Figure 9.6 above shows the recent trends and SSRP projections of government's share of GDP and education's share of the government budget. Government's share of GDP has been increasing each year since 2002/03. In view of Nepal's recent success in increasing government revenue through better tax collection, MOF and the National Planning Commission program even higher government shares between 2007/08 and 2015/16, perhaps reaching 25 percent or higher,

[42] Equal to 5.5 percent real growth times 5.0 percent inflation.

but in order to be conservative, the financial analysis for SSRP assumes that government spending will reach 21 percent of GDP in 2008/09 and remain at that level for the seven years that follow.

32. GON has set a target of 20 percent for education's share of government spending. Up to now, however, MOE's share of the government budget has never exceeded 17 percent (figure 9.6). Conservatively, the financial analysis for SSRP assumes that education's share of the budget will gradually approach 20 percent and reach this target finally in 2015/16. The simulation model also requires an estimate of the school sector's share of the education budget (the share going to pre-school education and grades 1-12). Figure 7 shows that the school sector's share has remained quite constant, between 86 and 89 percent. The remaining 11 to 14 percent of MOE's budget is spent on tertiary education, technical education and vocational training (TEVT) and libraries and for management of the ministry. The financial analysis of SSRP assumes that the school sector's share will remain at 87.4 percent, the approximate level recently, for all years of the program.

Figure 9.7: School Sector's Share of Education Spending and Financing by the DPs as a Share of School Sector Spending: Recent Trends and (Initial) Projections for SSRP



33. **High case**. Using the parameter estimates discussed thus far yields the first of the three financial envelope estimates, the high case scenario or Scenario 1, a five-year envelope of USD 2.693 billion (see table 9.6). While this would be slightly more than enough to finance an SSR program of USD 2.636 billion (see table 9.3), Scenario 1 assumes as well that the DPs will finance 30 percent of the total cost of SSRP. This seems reasonable given recent trends (figure 9.10), but to achieve this percentage requires that the DPs come up with USD 808.0 million over the five years. At the time of the program's pre-appraisal, the DPs that currently support Nepal's education system made tentative pledges amounting only to about USD 500 million to cover the first five years of SSRP.

34. **Medium case**. Subtracting the difference between 30 percent of total funding according to Scenario 1 and USD 100 million in each year of the program reduces the total financial envelope from USD 2.693 billion to USD 2.385 billion, the basis for Scenario 2 or the medium case scenario. If we assume the medium case to be a realistic estimate of the budget envelope, this leaves us with a financing gap of USD 251 million (2.385 billion minus 2.636 billion).

Table 9.6: Financial Envelope Scenarios: High Case, Medium Case and Low Case

Monetary value or	Financial year of SSR program							Average/Total		
percentage share	09/10	10/11	11/12	12/13	13/14	14/15	15/16	7 years	5 years	3 years
Scenario 1: High Case-DPs 30%										
GDP grwth (GDP%Δ)		10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
GDP (NPR billions)	1,046	1,158	1,284	1,422	1,576	1,746	1,934	10,166	6,485	3,487
Govt's share (Govt%GDP)	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Educ's share (Educ%Govt)	17.0%	17.5%	18.0%	18.5%	19.0%	19.5%	20.0%	18.5%	18.0%	17.5%
Sch.S's share (SSRP%Educ)	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%
SSR (NPR billions)	32.62	37.21	42.40	48.29	54.95	62.49	71.01	348.97	215.47	112.23
SSR (USD millions)	407.8	465.1	530.0	603.6	686.9	781.1	887.6	4,362.1	2,693.4	1,402.9
DPs' share SSRP	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
DPs' contrib'n (USD mill.)	122.3	139.5	159.0	181.1	206.1	234.3	266.3	1,308.6	808.0	420.9
Scenario 2: Medium Case-DPs USD 100 million per year										
GDP grwth (GDP%Δ)		10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
GDP (NPR billions)	1,046	1,158	1,284	1,422	1,576	1,746	1,934	10,166	6,485	3,487
Govt's share (Govt%GDP)	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Educ's share (Educ%Govt)	17.0%	17.5%	18.0%	18.5%	19.0%	19.5%	20.0%	18.5%	18.0%	17.5%
Sch.S's share (SSRP%Educ)	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%
DPs' contrib'n (USD mill.)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	700.0	500.0	300.0
External gap (USD mill.)	22.3	39.5	59.0	81.1	106.1	134.3	166.3	608.6	308.0	120.9
SSR (USD millions)	385.4	425.6	471.0	522.5	580.8	646.8	721.3	3,753.5	2,385.4	1,282.0
Scenario 3: Low Case-Lower growth rate										
GDP grwth (GDP%Δ)		9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	10.8%	10.8%	10.8%
GDP (NPR billions)	1,046	1,140	1,242	1,354	1,476	1,609	1,753	9,619	6,257	3,427
Govt's share (Govt%GDP)	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Educ's share (Educ%Govt)	17.0%	17.5%	18.0%	18.5%	19.0%	19.5%	20.0%	18.5%	18.0%	17.5%
Sch.S's share (SSRP%Educ)	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%	87.4%
SSR required (NPR billions)	32.62	36.60	41.04	45.97	51.47	57.57	64.36	329.64	207.70	110.26
SSR required (USD mill.)	418.2	469.3	526.1	589.4	659.8	738.1	825.2	4,226.1	2,662.8	1,413.6
DPs' "reqd contrib'n" @ 30%	125.5	140.8	157.8	176.8	197.9	221.4	247.6	1,267.8	798.8	424.1
DPs' contrib'n (USD mill.)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	700.0	500.0	300.0
External gap (USD mill.)	25.5	40.8	57.8	76.8	97.9	121.4	147.6	567.8	298.8	124.1
SSR (USD millions)	392.8	428.5	468.3	512.6	561.9	616.7	677.6	3,658.3	2,364.0	1,289.5

35. **Low case**. Since MOF and IMF at the end of 2008 released the GDP projections used in Scenarios 1 and 2, however, the global economic picture has continued to deteriorate, and estimates of Nepal's economic growth in the short- to medium-term have been lowered. In a recent speech, a spokesperson for MOF referred to real growth of 3.8 percent, which translates into nominal growth of 9.0 percent using the same projected inflation rate of 5.0 percent. Scenario 3 or the low case scenario in table 9.8, which reflects the lower GDP figures, shows a five-year financial envelope of USD 2.364 billion. If this scenario is thought to be the most likely, it increases the five-year budget gap by USD 21 million, making it USD 272 million.

36. **SUMMARY OF FINANCING GAP ACCORDING TO THE THREE FINANCIAL ENVELOPE SCENARIOS**. Table 7 summarizes the results of the affordability analysis.

Table 9.7: Estimates of Financing Gap (USD millions)

Financing Scenario	Financial Envelope			SSRP Costs			Budget Gap		
	7 year	5 year	3 year	7 year	5 year	3 year	7 year	5 year	3 year
1: High Case	4,362	2,693	1,403	4,052	2,635	1,430	310	58	-28
2: Medium Case	3,753	2,385	1,282				-299	-250	-148
3: Low Case	3,658	2,364	1,290				-394	-272	-141

37. The assessment is that while a funding gap remains at this stage in the case of the low and medium case scenarios, this would be a manageable gap for the following reasons:

(i) The Ministry of Finance (MOF) and the National Planning Commission (NPC) have committed to consult with the Ministry of Local Development (MOLD) and require that a certain percentage of local governments' grants be earmarked for education. MOLD has already agreed to improve its tracking of local development grants. The new policy will help Government as a whole to satisfy the 20 percent budgetary guideline for education. It will improve the manner in which allocations are made to schooling activities and result in greater budgetary predictability. Estimates of local development spending to date suggest that recent totals nationwide have been in the neighborhood NPR 2 billion or approximately USD 25 million per year.

(ii) The Government has been quite successful during this fiscal year in increasing revenue collection. Even in the face of the economic downturn, this success could provide Government with more comfortable fiscal space in the future than in previous years.

(iii) GON has also signaled that it will focus on resource mobilization in the early years of SSRP and hope to attract new Development Partners to education. In particular, it was agreed that an application will be made to the EFA Fast Track Initiative (FTI) for a grant to help bridge the funding gap. The FTI Secretariat in Washington, DC, has indicated that perhaps as much as USD 120 million could be secured from the FTI Catalytic Fund.

(iv) Government is keen to develop a comprehensive sector financing strategy in the medium to long term, with more innovative partnerships with the private sector, including local and international non-government organization (NGOs). This is in recognition of the fact that Government alone cannot adequately finance Nepal's education sector.

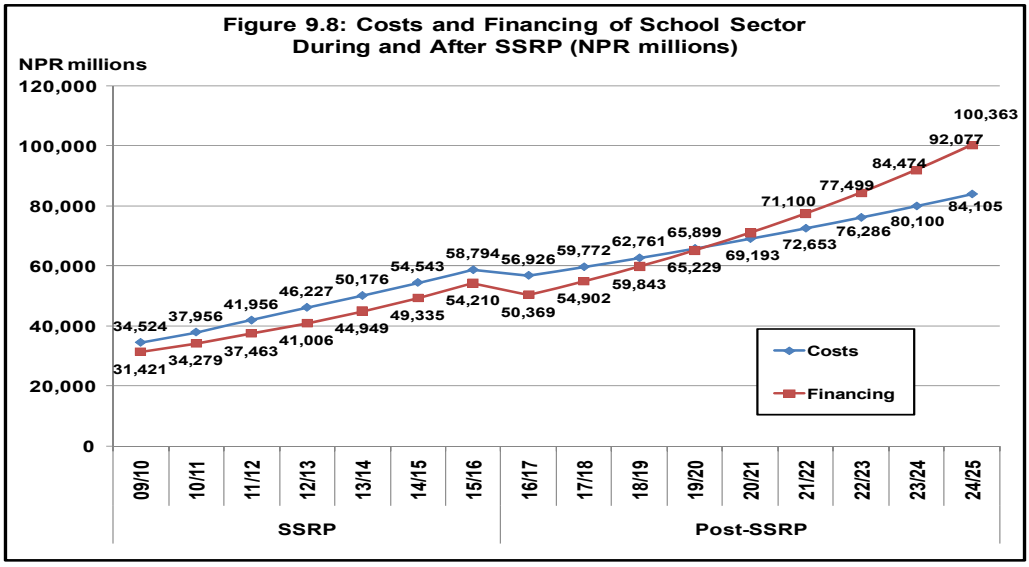
38. **Sustainability of Education System after SSRP:** A different question to that of affordability over the seven years of SSRP is the question of the program's sustainability in the years that follow. To assess the sustainability of the school education system, first it was necessary to decide which of the costs identified for SSRP are recurrent in nature and will need to be financed on an annual basis after 2015/16. The categorization of SSRP costs by MOE (and by the Department of Education (DOE), MOE's implementing arm) distinguishes between "development" and "recurrent" costs, but some of the activities classified as "development," while they may be new activities introduced as part of the reform, are in fact recurrent and, once adopted, will probably be repeated on an annual basis indefinitely into the future.

39. For the financial analysis, an attempt was made to distinguish between three levels of item regularity: (1) those that are clearly recurrent, such as teachers' salaries and scholarships; (2) those that produce capital assets with a short (2-to-5-year) working life, such as the development of curricula; and (3) those producing assets with a long working life, such as construction. For the years after SSRP, beginning with 2016/17, it is assumed that activities in category 1 will occur annually, whereas those in category 2 will occur only every three and a half years and those in category 3, every ten years. As done above, a 5 percent annual inflation rate is

assumed. Because development activities that occurred in compressed fashion during SSRP will occur less often after the program ends, the growth in the cost of the school sector will be slower after SSRP (as shown by the flatter slope of the graph showing costs in figure 9.8 from 2016/17 to 2024/25 as compared with 2009/10 to 2015/16).

40. As for financing to cover the costs of the school sector after SSRP, it is assumed that the financing from Government and NGOs will grow at 9 percent, the rate at which GDP is assumed to grow according to Scenario 3. Of course, by 2016/17 the global economic situation is likely to have improved, and Nepal's economic growth could be higher than this. Also, the growth of education spending could remain higher than (or could fall below) economic growth. The graph showing financing in figure 9.8 also assumes that DP flows will end abruptly at the end of SSRP, something not likely to happen in fact.

41. What the graph suggests is that the financing gap that exists on paper (at least for now, until the gap is closed, as it must be from an ex post perspective, by means of further cost cutting or resource mobilization) could possibly continue for 3-4 years after SSRP but that this gap is likely to close and become a surplus by 2020. The excess financing in the outer years could be used to make further improvements in the quality of education and gains in education access on the part of remaining disadvantaged groups.



Annex 10: Safeguard Policy Issues

NEPAL: School Sector Reform Program

I. SOCIAL DEVELOPMENT

Introduction

1. The proposed SSRP will continue to build on the social inclusion strategies in the EFA program. Nepal is a country inhabited by people of diverse social, cultural and ethnic backgrounds. Out of an estimated 27 million population in 2007, about 40 percent are under the age of 15 which forms the main group of school going children (MOF, 2007/08). There are more than 100 socio-ethnic groups and 92 languages recorded in the Population Census (CBS, 2001). Of the total population, a large percentage belongs to disadvantaged groups: *janajatis* constitute 37 percent, *dalits* constitute 13 percent, and muslims 4 percent. These alone represent more than half the total population.

Indigenous Nationalities/Peoples (IP)[43]

2. Forty three indigenous nationalities were identified in the census. Following this Nepal Federation of Indigenous Nationalities (NEFIN) identified additional 16 groups, not identified by the last Census. Of the 43 groups, the census finds that these groups are distributed across the all three ecological zones of the country (table 10.1).

Table 10.1: Population composition by eco-zone and IP groups

Groups by eco-zone		Population Distribution	
Ecological Zone	No. of groups	Population	No. of groups
Mountain	5	164-660	4
Hills	20	1000-10000	13
Inner *Tarai*	7	10000-50000	11
Tarai	11	50000-100000	6
		0.1 - 1 million	5
		1-3.5 million	4

Source: Census 2001

3. NEFIN and Nepal Federation for Development of Indigenous Nationalities (NFDIN), a GON established body for indigenous nationalities, have identified used the following IP categories based on their population size and other socio-economic variables such as literacy, housing, land holdings, occupation, language and area of residence (table 10.2).

Table 10.2: Classification of IPs in Nepal

Classification	Name of IP groups
Endangered Group	Bankariya, Kusunda, Kushbadia, Raute, Surel, Hayu, Raji, Kisan, Lepcha, Meche (10 groups)
Highly Marginalized Group	Santhal, Jhangad, Chepang, Thami, Majhi, Bote, Dhanuk (Rajbansi), Lhomi (Singsawa), Thudamba, Siyar (Chumba), Baramu, Danuwar (12 groups)
Marginalized Group	Sunuwar, Tharu, Tamang, Bhujel, Kumal, Rajbansi (Koch), Gangai, Dhimal, Bhote, Darai, Tajpuria, Pahari, Dhokpya (Topkegola), Dolpo, Free, Magal, Larke (Nupriba), Lhopa, Dura, Walung (20 groups)

[43] Indigenous People are interchangeably used with Adivasi/Janajati

Disadvantaged Group	Jirel, Tangbe (Tangbetani), Hyolmo, Limbu, Yakkha, Rai, Chhantyal, Magar, Chhairotan, Tingaunle Thakali, Bahragaunle, Byansi, Gurung, Marphali Thakali, Sherpa. (15 groups)
Advanced Group	Newar, Thakali (2 groups)

Source: Nepal Federation of Indigenous Nationalities (NEFIN) 2004

Dalit

4. The term "*Dalit*" refers to those Hindu castes that have been placed at the bottom of the social hierarchy and fall within broader categorization of *sudras*. This group has also been referred to as "untouchables" in the popular literature. They have been traditionally excluded from participating in development programs and most notably in education. The census lists 15 *Dalit* castes in the country. Table 10.3 provides the detailed list of *Dalits* groups in the country.

Table 10.3: Distribution of *Dalits* by ecological Zones

Eco-zones	Name of Dalit groups
Hill *Dalits*	Badi, Damai, Gaine, Kami and Sarki (5 groups)
Madhes (*Tarai*) *Dalits*	Bantar, Chamar, Chidimar, Dhobi, Doom, Dusadh, Halkhor, Khatwe, Musahar and Tatma (10 groups)

Source: Census 2001

Madhesi

5. Madhesi refers to population groups from the *Tarai* region of the country. As seen in Table 10.4. Madhesis can be classified as either *dalits* or other higher castes.

Table 10.4: Distribution of Madhesi

Groups	No. of groups (family name)	**Population**
Higher caste	25	2.8 million
Dalits	18	1.6 million

Source: Census 2001

Muslims

6. There are about 1 million Muslims in Nepal, representing about 4 percent of the total population. There are four groups of Muslims in Nepal. These are Kashmiri, Tibetan, Madhesis and Churaute (Hill Muslim) (Siddika, 1993). Most muslims of Nepal live in the *Tarai* regions.

3. Legal and Policy Framework for vulnerable groups

7. Nepal has prepared and implemented different policies, Acts and Regualations, to address the issues of IPs, *Dalits* and other marginalized or disadvantaged groups[44] in terms of their participation in schooling and towards the educational mainstreaming of these groups. The major policies and steps include *inter alia*: guaranteeing the rights of citizens access to free and

[44] This document uses marginalized or disadvantaged or excluded groups interchangeably. For purposes of the SSRP (and as defined under the EFA Core Document), the GON will continue to use the following categories of children as constituting the above groups. These include: Dalits, girls, ethnic minorities, linguistic minorities, children belonging to indigenous groups, poor children, children with disabilities, working children, street children, conflict affected children, calamity affected children, children from remote regions, children with parents in prison, children rescued from trafficking, and children of migrant parents. These definitions will be reviewed periodically during implementation.

compulsory basic education through constitutional provisions, and periodically developed plans, such as, NFDIN Act 2002, National Human Rights Action Plan 2005, Environmental Act 1997 and Forest Act 1993, which have all emphasized protection and promotion of indigenous people's knowledge and cultural heritage. In 1999, the Local Self-Governance Act was enacted to give more power to the local political bodies, including the authority to promote, preserve and protect the languages, religions, cultures and welfares of IPs.

3.1 National policies on mainstreaming Indigenous Nationalities

8. The **Interim Constitution of Nepal (2007)** guarantees that every citizen will have the right to free education up to the secondary level and that mother tongue medium of instruction will be made available across the country. It commits the government to the protection and development of Ips. The government established a National Committee for Development of Indigenous Nationalities in 1997, and in 2002 the government passed a bill which establisehd the 'National Foundation for Development of Indigenous Nationalities'. This foundation has been working to preserve the languages, cultures of marginalized ethnic nationalities, and to empower them.

9. The **Three Years Interim Plan** (2007-2010) includes following policies for inclusive development of Adivasi/Janajati and other disadvantaged groups including: (i) creating an environment for social inclusion; (ii) participation of disadvantaged groups in policy and decision making; (iii) developing special programs for disadvantaged groups; (iv) positive discrimination or reservation in education, employment, etc.; (v) protection of their culture, language and knowledge; (vi) proportional representation in development; and (vii) making the country's entire economic framework socially inclusive.

10. The GON is committed to ensuring the rights of all children to education and this is reflected in the country's willingness to sign on to a number of international agreements and treaties which focus on the right to education and language including *inter alia*: (i) the Convention on the Rights of the Child (CoRC) ratified by Nepal in 1990, (ii) the 1990 Jomtien World Conference on Education for All (EFA), (iii) the Dakar Framework of Action (2000), (iv) the Millennium Development Goals (2000), and (v) the UN Declaration on the Rights of Indigenous Peoples, 2007. The GON has also ratified the International Labor Organizations Convention 169 on Indigenous and Tribal peoples.

3.2 National policies on education

11. In line with the spirit of the interim constitution and the Interim Plan, the Education Act (2001 Seventh Amendment) and Regulations (2002) have also articulated the need of ECED interventions, ensuring access and quality. Education Regulations (2002) stipulate that at least one woman teacher has to be in every school and at least one female member in the School Management Committee, and in the district education committee. It also stipulates the provisions of scholarships for students, for female teachers, for inclusive education etc.The Girl's education strategy and implementation plan for gender equity development (2006) include a comprehensive implementation plan ranging from the provision of incentives for girl students to parental awareness activities.

12. The Three year Interim Plan (2007/08-2009/10) lays emphasis on the expansion and consolidation of ECED programs across the country and on increased equity and inclusion in education through the provision of literacy programs for marginalized groups and through the provision of scholarships.

3.2.1 Community Schooling

13. Annex 1 describes community schooling in greater detail. The Education Act and Regulations, returned all schools to communty ownership. This crucial piece of legislation has played a critical role in improving access and enrolment in Nepal, even during the worst years of conflict. Community schooling also ensures that every community can participate in the schooling process, since the community has the right and authority to establish a school. For communities too weak to establish schools, or those that do not have the capacity to establish a school, the SSRP will provide safety net measures to ensure full participation.

3.2.2 Inclusive Education

14. In Nepal, gender and inclusive education received impetus following the implementation of BPEP I and II. This was strengthened following the Dakar Framework for Action which lists six major goals to be achieved by the year 2015. The Education for All (EFA) 2004-2009 is a five year strategic plan within the broader EFA-NPA framework, of which the SSRP is the final program. The EFA program has made considerable progress in addressing issues related to gender and social inclusion in education by following a strategy of explicitly targeting marginalized and disadvantaged groups.

15. Overall educational attainment index for Nepal was 0.385 with sharp variations across the districts. For instance, the four top ranking districts include Kathmandu (0.622), Lalitpur (0.559), Kaski (0.543) and Bhaktapur (0.525), while the five districts with the lowest educational attainment indices include: Mugu (0.192), Jumla (0.212), Achham (0.206), Humla (0.158) and Rasuwa (0.204) (NHDR, 2004).

Table 10.6: Some Facts on Gender and Social Inclusion in Education

S.N	Key Indicators	2003			2008		
		Boys	Girls	Total	Boys	Girls	Total
1	Total Primary Enrolment (No.)	2198105	1827587	4025692	2416934	2365379	4782313
2	Enrolment of Dalit (No.)	340261	265569	605830	488912	477234	966146
3	Enrolment of Janajati (No.)	NA	NA	NA	967072	960006	1927078
2	Net Enrolment Rate (NER %)	89.4	77.5	83.5	93.2	90.4	91.9
	GPI of NER			0.87			0.97
3	Gross Enrolment Rate (GER %)	136.0	117.1	126.7	140.2	145.6	142.8
	GPI of GER			0.86			1.04
4	Survival Rate to Grade 5 (%)	59.3	60.2	59.7	72.6	74.1	73.4
	Repetition Rate at Grade 1			34			28.3
	Repetition Rate at Grade 5			13.5			7.3
	Literacy Rate (15-24 Age Group			70			80
	Literacy Rate (6 + Age Group)			70			72
	Adult Lit. Rate (15 + Age Group)			70			63

Source: *Norad, Joint Evaluation of Nepal's Education for All Program, 2004-2009, March 2009*

16. There is evidence that Nepal has made considerable progress on a number of key education related indicators during the period of EFA implementation which emphasized on the need to increase access to marginalized groups. This is reflected in Table 10.6. Reports demonstrate continuous growth in enrolments of children in different grades with substantial positive changes on many fronts. The evidence suggests that the EFA program helped raise primary school enrolment from 3.85 million learners in 2001 to 4.5 million in 2006 of which 48.1 percent were girls (ASIP, 2007/08). Total enrolments further increased to 4.78 million in 2008, with a marked

rise in the number of girls' enrolled between the years 2003 and 2008 compared to the number of boys during the same period.

3.2.3 Enrollment

17. Net Enrolment Rate (NER) at primary level increased from 83.5 percent in 2003 to 91.9 percent in 2008 while the Gross Enrolment Rate (GER) also grew markedly from 126 percent to 145 percent during the same period, reflecting the large number of under- and over-aged children who joined schools following intensive campaigns to raise awareness about children's education and to increase enrolment through enrolment drives. Not only has the growth occurred in absolute numbers for the children at the primary level, but there are marked improvements in enrolment rates and the gender parity index. Higher growth in net enrolment rates for girls (90.4%) in 2008 as compared to 2003 (77.5%), and an increase of ten percentage points in GPI during the same period offer encouragement.

18. This increase in enrolment numbers and rates is reflected in the number or proportion of children belonging to marginalized groups, belonging to *dalit* and *janajati* groups, who have began to participate in schooling. The data illustrates that during the past 5 years or so, enrolments in primary education grew from 4.1 million to nearly 4.8 million, an increase of 19 percentage points over the period 2003 to 2008, with an average increase of about 5 percent per year. The available Flash data indicates that the enrolment of two major target groups, i.e., *Dalits* and *Janajatis* has gone up substantially with GPI remaining at par with general trend. In case of *Janajatis*, enrolments have increased from less than one million to almost two million in 5 years, with near gender parity. Similarly, enrolment of *Dalits* at primary level has increased from 0.6 million in 2003 to 0.97 million in 2008.

19. A recent independent study reveals a significant reduction in the number of out-of-school children belonging to disadvantaged or marginalized groups during the period of EFA implementation. The number of out of school girls of primary age in the survey area dramatically reduced to 1.7 percent in 2008 from a high of 40.9 percent in 2004. The corresponding figures for Dalit children are reported at 14 percent in 2008, from a high of 49.1 percent in 2004, while for Janajati children, only about 11 percent of children were out of school compared with 42.3 percent in 2003 (Bajracharya, 2008).

4. SSRP Interventions

20. SSRP emphasizes the need to improve access to education for girls and disadvantaged groups. A key policy to minimize the threshold of access to education is the provision of free basic education including cost-free services for admission, textbooks, tuitions and examinations. The policy intent under SSR is to make secondary education gradually free[45] by 2015. To further address financial constraints for poor, marginalized and needy children, scholarships and other support is provided for marginalized and disadvantaged groups. Access will also be enhanced through expansion of physical facilities, including construction of classrooms, rehabilitation of schools, construction of libraries and laboratories, construction and transformation of school for children with special needs and upgrading of the external environment (including toilet construction).

[45] Free secondary education will include at least free services of admission and tuition fees. Textbooks and curricular material will be made available on a subsidized rate.

21. In order to increase children's access to and participation in Early Childhood Education Development (ECED), emphasis will be placed on expanding ECED services in disadvantaged and underserved areas. Locations of marginalized and disadvantaged populations will be identified through social mapping and they will be given priority to ensure their access to the ECED program.

22. The SSR Plan intends to augment the literacy program as a complementary intervention to the National Literacy Campaign with special emphasis on targeted groups and areas including women, marginalized populations, *dalits*, endangered communities, internally displaced people, and people with disability and people living with HIV/AIDS. Income generation program targeting women, dalit, ethnic minorities and other marginalized groups will be introduced along with literacy and life-long learning programs through an integrated approach.

23. Following the amended Civil Service Act 2007, a 45 percent reservation policy for disadvantaged groups was invoked to ensure the adequate representation of such groups in the staffing and teaching force in Nepal. This was done within MOE, in coordination with the Ministry of General Administration. The Education Act also calls for an increased number of women teachers, although it does not specifically mention other disadvantaged or marginalized groups. In order to be able fully implement the objectives of SSRP, the GON will need to amend the Education Act and Regulations to provide the opportunity for adequate representation in the staffing in MOE and line departments, and more importantly, in the teaching force. A trigger in this regard has been jointly identified in the Policy Matrix. If fully implemented, this can help increase the number of women gazette officers in MOE, DOE and DEO, including those from Dalit, Janajati and other under-represented groups. To develop such a reservation policy for teacher recruitment, appropriate changes will need to be made in Teacher Service Commission Regulations and other appropriate legislation.

4.1 Institutional Arrangements and Capacity

24. The District Education Offices are to ensure that the provisions for children belonging to vulnerable groups are implemented. The School Management Committees (SMC), Parent-Teacher Associations (PTA) help in community mobilization and assist in the development, implementation and management of activities as needed to bring all children to school. Staff of the DEO, and SMC members are provided training to carry out the special activities needed to reach vulnerable groups with the necessary sensitivity and diligence. The educational system and several related institutions, have the necessary outreach capacity needed to serve vulnerable groups.

25. The GON has implementing inclusive education policy through on going program EFA. Department of Education and District Education Offices are responsible for the implementation of SSRP. They are familiar with requirements of social safeguard policy frameworks prepared for the SSRP. However, other stakeholders need to be oriented on the social safeguard frameworks. The existing Education Inclusion Section and Gender and Equity Section in the DOE will be strengthened by providing additional training and orientation. In the implementation level, capacity of DEO and SMC is necessary to strengthen for the management of social safeguard issues. The GON will provide training and capacity building support on planning and implementation of social safeguard frameworks.

5. Social Safeguard Policy

26. The SSRP triggers OP/BP 4.10 on Indigenous People given the diversity among socio-economic groups in Nepal. In particular, the IP policy is triggered because there are 59 sub-categories of IPs or *Janajatis* and under the previous program all 59 sub-groups, grouped into 5 major groups, were classified under the one category known as *Janajatis*. There are however substantial differences across these sub-groups, and under SSRP the two most disadvantaged groups will be targeted through program interventions covering about 22 sub-groups.

5.1 Planning and Appraisal Process

27. The SSRP is seen to be the continuation of the Education for All Program (EFA), Secondary Education Support Program, Community School Support Program and Teacher Education Project. A separate Vulnerable Community Development Plan (VCDP) was prepared for planning and implementing the specific intervention for vulnerable groups under EFA. Building upon the lessons learnt and gains made in the sector, the SSRP has put forward special reform initiatives emphasizing on the access to basic and secondary schooling for children out of school. The SSRP also aims to improve the quality of learning for all children by raising the efficiency of the program and improving the effectiveness service delivery.

28. The SMC will undertake social mapping of the school catchment areas. The social mapping will prepare a sketch map of these areas with distribution of households, number of schools located in the area and an approximate number of children out of school. The process also identifies the household characteristics to which these children belong. The SMCs and PTAs will carry out household surveys to collect detailed listing of the children belonging to vulnerable groups as identified through the social mapping. The detailed inventory will identify the total number of children out of school, and the reasons for not participating in schools, possible alternatives to increase school enrollment, and the sustainability of education services. The activity will be completed using the pre-designed modified EMIS/C-EMIS survey form.

29. Information collected from the social mapping and household survey will be fit into the prepared EMIS to generate the information for the SIP preparation. Based on the need assessment and report of EMIS, SMC will develop appropriate intervention measures and enhancement activities for vulnerable groups. In case of limited intervention, specific actions for vulnerable group will be spelled out in SIP within their regular intervention. If the need assessment identified extra activities required for the development of vulnerable group beyond the capacity of SMC, additional section will be added in the SIP to enhance distribution of program benefits and promote the development of vulnerable communities. The SIP will consist of a number of activities and include mitigation measures of the potential impacts through additional resource arrangements and alternative actions to enhance distribution of SSRP intervention to vulnerable groups. The program implementation guidelines updated annually sets out the process for the formulation of SIP, VEP, DEP and ASIP.

30. Every District Education Plan (DEP) and ASIP Work Plan is expected to articulate clearly the district's strategy and approach to vulnerable group education and adopt specific programs and interventions to translate the strategy into action. It provides disaggregated data on tribal demography and education, spells out the educational problems of children belonging to vulnerable groups, the interventions, quality improvement efforts.

5.2 Vulnerable Community Development Framework (VCDF)

31. The SSRP is a governments' strategic plan prepared for the restructuring of education system in Nepal. The intervention area or projects can be determined when the programs or projects are identified during SP implementation. GON has prepared Vulnerable Community Development Framework to guide the preparation of SIP under the SSRP to ensure better distribution of the program intervention and education mainstreaming of the vulnerable groups. The VCDF is developed based on the national policies/strategies, SRR Plans as well as safeguard policies and guidelines of IDA's policy on indigenous people. The VCDF is prepared after rapid social assessment, review of previous or ongoing similar activities, field visits, and consultations with IPs, vulnerable groups, and stakeholders.

32. The VCDF will be used to manage consultations specifically with IP groups to comply with IDA's OP/BP 4.10. The GON has held national level consultations with leaders of IP groups on both the primary program document of the SSRP, and more specifically on safeguards related documentation, such as, the draft VCDF. The GON has invited organizations that represent these special vulnerable groups, for example, dalit organizations, women's organizations, organizations representing indigenous peoples, and organizations representing differently-abled children, to attend review meetings held twice a year during EFA implementation. Moving forward with SSRP, the GON will: (i) set aside one session during the major review missions to gauge progress on the key issues of inclusion of vulnerable groups and this meeting will be organized by the specific groups in questions; (ii) hold bi-annual consultations with representatives of these special groups both at the center and in the districts; (iii) include at least one district visit during the Joint Consultative Mission to specifically allow for consultations with IP groups; and (iv) enhance the monitoring and evaluation specifically to evaluate the impacts of the program on IP groups in the country while being cognizant of the enormous diversity in the country. The EMIS will begin to categorize IPs into three sub-groups and these include: (i) Endangered IPs, (ii) highly marginalized IPs, and (iii) other IPs. This will permit the monitoring of the effectiveness of the program in brining the most marginalized groups.

5.3 Land Acquisition and Resettlement

33. The SSRP will invest in improvement in physical infrastructures of education institutions. It is likely to involve infrastructure development component for additional classrooms to accommodate grades 6 to 8 in basic education, new school infrastructures, construction of library building, community learning centers and building for DEO which requires land either from public or private sources. In such cases, there is always the risk of displacement or any adverse impact on land owners or people who currently occupy the land (such as, squatters). Since the land required for these activities are typically very small, and since in any given location there are several alternative sites[46], it is possible to avoid the adverse impacts of involuntary land acquisition or forced eviction. The DOE is intending to meet any need for land through an approach that allows for land acquisition only on a voluntary basis. This option includes voluntary donation or the adoption of a willing seller and willing buyer approach to land acquisition. The DOE already has established practices in this regard and will follow these procedures while acquiring land. In addition, the DOE has further developed their existing guidelines to meet IDA's requirements in this regard. The procedures also ensures that the land title is transferred in the name of School or DEO. A grievance redress mechanism will be in place to hear complaints regarding land acquisition.

[46] Unlike in the case of the roads sector or water sector, where right of way becomes important.

34. Schools are established by communities in which land is acquired through voluntary contributions or through a willing buyer/seller approach. There will be no involuntary land acquisition under the program, and hence, SSRP does not trigger OP 4.12 on involuntary resettlement. Land acquired directly by the GON for the establishment of administrative buildings will either be on land that already belongs to the GON, or will be acquired through a willing buyer/seller approach. The issue of land acquisition for schools in Nepal is more nuanced than normal. Since schools are established by communities, the question of how the land is acquired only arises ex-post and at the time the school is identified for receiving GON subventions for constructing additional classrooms or other buildings. Traditionally, this land has always been acquired through voluntary contributions, or by adopting a willing buyer/seller principle. To meet IDA's safeguards issues on land acquisition the GON has developed a land acquisition framework which helps to ensure that all such transactions are done in a transparent manner, and without fundamentally altering the manner in which schools are established in Nepal. For the current school year, these guidelines will be disseminated using government circulars, and will be made part of the annual school implementation guidelines from the following year. The framework will apply to all schools established during the program period and which become eligible and identified for financing of new classrooms under the SSRP, and for those schools that were established prior to the start of the SSRP, but acquired additional land during the SSRP period with the aim of expanding the number of classes they offered.

6. Consultation and Disclosure

35. The MOE will organize a consultation workshop to disclose the social safeguard frameworks prepared for the implementation of SSRP at center level. The participants will invited from the institutions working on social inclusion and minority rights; especially National Dalit Commission, National Women Commission, National Federation for Indigenous Nationalities and National Commission for People with Disabilities. A separate discussion will be held with representative of such organization to share the progress acheived and out standing issues in each six month period during implementation of SSRP. While updating PIG, the DOE will include the provision recommended in social safeugruad frameworks.

36. At village level, public consultation and information dissemination/campaign will be carried out in each school catchments area to disseminate information about SSRP to local communities. The information dissemination will be through posters and pamphlets, public consultation meetings, focus group discussion, information campaigns, frequent interaction with vulnerable communities. Further, the stakeholders groups will be provided relevant safeguard requirements in language(s) and manner suitable to them. The necessary safeguards plans will be finalized only after the final consultation with representative of vulnerable groups / affected people.

37. Intensive consultations will carried out at the DEO level and school level involving political parties, SMCs, VDCs, NGOs, Teacher's union, PTA etc. During implementation, the DEO will also disclose to and consult with the relevant stakeholders at district level for finalizing specific safeguard documents/ mitigation plans. DOE will translate and pulbish the document in local languages.

7. Implementation Schedule

38. The implementation schedule for the implementation of vulnerable group framework requirement would follow the general implementation schedule for the program as a whole. Activities are planned and implemented in the districts/school on an annual basis.

8. Monitoring and Evaluation

39. The educational progress of vulnerable group children is monitored through the Education Management Information System (EMIS). EMIS data are analyzed at district and central levels and provide all relevant school strategies disaggregated by vulnerable group category. The EMIS relates school level data to community information gathered through surveys. Schools are encouraged to share all information with communities (including information on grants received). Notice boards are to be put up in schools for this purpose triggering both transparency and accountability to communities. In addition, the DEOs or Resource Person, including SMC, are responsible for continuous monitoring of activities in their areas, and provide feedback to local teachers and officials. The PTA also interact with vulnerable groups during their activities, such as village meetings, school welcome program etc. Household surveys give disaggregated data for vulnerable groups by age, gender, drop out and out.-of -School.

40. The SSRP has established benchmarks for coverage and achievements during period of implementation, which would be used to monitor implementation progress. SSR has a detailed Monitoring & Evaluation Component in place in which research and academic institutions all over the country carry out continuous and comprehensive monitoring of SSR. The information required for the monitoring of vulnerable group intervention will be through EMIS. The EMIS will capture and analyze data on social groups disaggregated by type of vulnerability. The analysis will be done at district level to feed into preparation of consolidated education at district level (DEP) and annual ASIP.

41. Evaluations are to be carried out by independent agencies to determine the impact of the SSR activities. Professional social scientists would be involved in the monitoring and evaluation activities. Evaluation reports are made public.

42. During Joint Review Mission, the monitoring reports, studies and evaluations are reviewed. Particular attention would be paid to assessing progress on the following, through EMIS and filed visits:

- Opening and functioning of schools targeting vulnerable groups;
- Enrolment and retention of vulnerable groups children in schools;
- Learning achievements of vulnerable group children compared with other groups;
- Availability of mother tongue teachers, teachers speaking the local language, teachers training to deal with vulnerable group children (attitudinal training), and administrators sensitized to indigenous people issue;
- Availability of instruction and instructional materials in the local languages;
- Availability of other schemes and incentives to facilitate school attendance of vulnerable group children.

II. ENVIRONMENTAL ASSESSMENT AND MANAGEMENT FRAMEWORK

A. Introduction

43. This section of the Annex focuses on environmental issues as associated with the SSRP and covers the following: (i) the findings from a recently concluded rapid environmental assessment and the nature of the issues likely to be encountered under SSRP, (ii) the existing guidelines and the Environmental Management Framework to be implemented during SSRP, (iii) EMF

implementation guidelines, institutional capacity and review mechanisms, and (iv) community consultations and disclosure.

44. The SSRP has seven program areas of which civil works for infrastructure expansion is an important one. Civil works in the program includes: (i) construction of new class rooms & rehabilitation of existing class rooms, (ii) construction of administrative buildings, (iii) construction of hostel buildings, (iv) construction of library and laboratory blocks, and (v) construction of toilets and water supply facilities. These activities will be implemented across the country and will be of small-scale in nature.

45. **Environmental Safeguard Policy triggered**. Environmental Assessment (OP/BP 4.01) is triggered because of the anticipated minor and localized impacts related to the physical infrastructure component of the SSRP. This is a Category B program. The program as a whole does not warrant any environmental clearance given the kind of the activities and the localized nature of the impacts.

B. Environmental Assessment and Key Issues

46. Since a full scale Environmental Assessment (EA) is not needed, for reasons of due diligence the GON undertook a rapid EA for SSRP. The EA was based on a series of reviews of experiences related to previous or ongoing similar activities under BPEP II, SESP, EFA, as well as field visits, and consultations with key stakeholders. The EA concluded that:

a. SSRP's environmental concerns are mainly related to actions/activities under physical infrastructure or civil works components as described above. As the individual works under SSRP are small in scale and geographically spread, no large-scale, highly significant and/or irreversible impact is anticipated. Environmental issues are assessed to be minor and localized in nature. Hence, the activities under SSRP do not trigger any national or Development Partners' (DPs) extensive environmental requirements. The SSRP, as a whole, doesn't require any environmental clearance. However, the minor localized impacts need to be managed appropriately in the process of planning, developing and operating these infrastructures.

b. The minor and localized impacts may arise from or may be related to:

i. school site selection and (appropriateness of sites, orientations of buildings considering climatic factors);
ii. use of appropriate design and construction standards to ensure proper class room conditions considering different climatic zones in Nepal. These standard, for example, are related to space, light, ventilation, temperature, and noise;
iii. provision of safe drinking water (e.g. e-coli free water in general and arsenic-free groundwater in *Tarai*), proper sanitation (school latrine and waste management at school); and
iv. adequate consideration to disaster risks (such as from floods, landslides, earthquakes, fire etc). These issues can be managed through appropriate site selection, proper orientations of the buildings considering climatic factors, and use of appropriate design & construction standards for adequate light, ventilations, and temperature, sound-proofing, as well as by considering the risks of earthquake, floods, landslides and fire (through the process of site selection, planning, design, construction and operation/maintenance).

C. Environmental Management Framework

47. **Existing Guidelines, Standards And Innovative Approaches**. Over the years, GON has adopted several policies, criteria and standards that attempt to address some of the above mentioned issues and concerns. These include *inter alia* standards for earthquake- and storm-resistant buildings; child-friendly class-rooms/space, furniture and water supply; gender-considerations (e.g. separate toilet for girls and boys); water-quality standards and water quality testing; and disabled-friendly designs and standards (e.g. ramp for wheel chair, toilet for wheel chair movement etc). Some innovative ideas are being piloted. For example, Carbon Fiber UPVC roofing in school for sound and heat insulation as well as safety against fire; and climate responsive school buildings using bio-climate principles (such as use of Compressed Stabilized Earth Block/ Brick) to maintain comfortable temperature in class rooms in all seasons. GON has been using the National Environmental Guidelines for School Improvement and Facility Management in Nepal and intends to gradually mainstream results of the successful pilots and innovative ideas.

48. In order to manage the above mentioned type of minor and localized environmental impacts/ concerns, GON has prepared Environmental Management Framework for SSRP. This has incorporated the findings of the rapid environmental assessment as well as the experiences of the other projects such as EFA, and emerging lessons from pilots and use of the standards and guidelines such as the National Environmental Guidelines for School Improvement and Facility Management in Nepal. The EMF defines simplified steps, procedures and guidelines or criteria and/or standards to be used while planning and developing schools' physical infrastructure under SSRP. EMF will ensure environmental-friendly design and construction of schools' physical facilities and infrastructures by meeting safeguard policies of the GON and DPs.

49. Salient features of the EMF are:

a. SSRP activities, in general, do not require formal environmental assessment such as Environmental Impact Assessment or Initial Environmental Examination, However, each SSRP physical infrastructure activity (school improvement activities as well as DEO administrative buildings) will be subject to environmental screening;
b. At school level, each participating school will have simple overall environmental management plan as part of School Master Plan and School Improvement Plan (SIP).
c. Emphasize effective use of already accepted policy and standards such as National Environmental Guidelines for School Improvement and Facility Management in Nepal; structural and disaster safety of buildings, child- and gender-friendly design and construction, inclusive design and constructions for disabled, design guidelines for school building construction from an environmental perspective etc.
d. Recommendations of environmental screening and environment management plan will be incorporated in the plan, design and contract documents.
e. There will be monitoring during pre-construction, construction and operational phases. Monitoring will be done at district level (regular), central level (four-monthly) and annually by an independent/external agency to ensure implementation of environment management framework provisions and compliance to environmental standards.

50. **Institutional Arrangements, Roles and Responsibilities for EMF implementation**. The Department of Education (DOE), District Education Office (DEO) and School Management Committee (SMC) are the main implementing agencies. The school construction will be managed by SMC with necessary technical support from DEO. DOE/ DEO will ensure that the physical

infrastructure comply with the approved environmental standards and practices, besides design and construction standards.

51. **Planning Process**. The overall environment management plan of a school shall be an integral part of School Improvement Plan (SIP). DEO will conduct a preliminary survey of environmental conditions of the school and its surrounding as part of physical survey of schools. DEO will be responsible for environmental screening of the proposed school improvement activities as well as administrative buildings. SMCs with support from the DEO, will prepare simplified overall environmental management plan for the school as a part of School Improvement Plan (SIP). The DEO ensures incorporation of environment management plan recommendations and environment management framework provisions into SIP. In case of district education offices, the environment management plan will be prepared by DEO, approved by DEO Environmental Officer and will be included as part of contract documents. Environmental Officer at DEO will check/ verify random screening and environment management plan samples of the SIP, and all screening/ EMPs of district education offices. Incorporation of environment management plan in design/tender documents will be checked by DOE/Environmental Officer.

52. **Monitoring**. Regular field level monitoring will be carried out by DEO. DEO regularly monitors implementations of the environmental works in the schools and reports to DOE. DOE PSS/Environmental Officer will prepare consolidated report on environmental works. DEO/PSS (Environmental Officer) and relevant district DEO visits randomly selected samples of schools on four-monthly basis to check implementation of environment management framework and compliance with environmental standards.

53. **Review of Progress on EMF**. Findings of this will feed into government's quarterly portfolio review meeting. Independent external agency will annually verify environmental compliance by visiting randomly selected representative samples of schools. DOE will conduct annual interactions on implementation of the environment management framework. Annual compliance audit of the environment management framework will be carried but by an independent person/agency. The annual report on the environment management framework implementation will be prepared by DOE and discussed in a workshop feeding into annual joint review conducted by GON and DPs. The annual GON and DPs joint review will also cover implementation of the environment management framework.

54. **Environment Management Framework Implementation Capacity**. Capacity of implementers reviewed during preparation of environment management framework suggests that capacity strengthening at different levels (DOE, DEO, and SMC) is necessary in order to improve environmental management. These measures, for example, include providing environmental competency/human-resources; training, orientation and awareness activities on environmental planning and management of school and school-facilities; and mechanism for coordination and for accessing specific environmental services e.g. water-quality testing, climate responsive school building construction etc. In consideration of increasing workload envisaged for implementation of environment management framework and non-existence of environmental competency at centre as well as local level, GON/MOE will have a full-time dedicated Environmental Officer at DOE to provide environment management framework implementation oversight. Additional human resources or agency will be hired, if necessary, in order to effectively implement the environment management framework. DEO will develop and implement an environment management framework training, orientation and awareness program targeting to SMC, DEO, other district level partners as well as service providers (including engineering design team).

55. **Environment Management Framework Dissemination and Disclosure**. GON will disclose the environment management framework on the web-sites of MOE and DOE. DOE will also translate and publish the document in Nepali language which will be widely circulated to DEOs and SMCs. It will be included in the PIG also. DOE will also disseminate environment management framework to stakeholders including engineers/sub-engineers, district education officers, design consultant as well as to partner INGOs/NGOs through orientation program.

Annex 11: Project Preparation and Supervision

NEPAL: School Sector Reform Program

1. Project Preparation Timeline

	Planned	Actual
PCN review	December 10, 2008	May 29, 2009
Initial PID to PIC	December 16, 2008	July 4, 2009
Initial ISDS to PIC	December 16, 2008	July 4, 2009
Appraisal	February 18, 2009	August 11, 2009
Negotiations	May 20, 2009	August 21, 2009
Board/RVP approval	July 15, 2009	
Planned date of effectiveness	October 15, 2009	
Planned date of mid-term review	April 15, 2012	
Planned closing date	December 15, 2014	

Key institutions responsible for preparation of the program:

Ministry of Education
Keshar Mahal
Kathmandu, Nepal

Bank staff and consultants who worked on the program included:

Name	Title	Unit
Rajendra Dhoj Joshi	Senior Education Specialist (Co-TTL)	SASHD
Venkatesh Sundararaman	Senior Economist (Co-TTL)	SASHD
Mohan Prasad Aryal	Extended Term Consultant	SASHD
Dilip Parajuli	Education Economist	SASHD
Hiroshi Saeki	Operations Analyst	SASHD
Hiroko Imamura	Senior Counsel	LEGES
Kishor Uprety	Senior Counsel	LEGES
Thao Le Nguyen	Senior Finance Officer	CTRFC
Bigyan Pradhan	Senior Financial Management Specialist	SARFM
Kiran Baral	Senior Procurement Specialist	SARPS
Sangeeta Kumari	Social Development Specialist	SASDI
Drona Ghimire	Environmental Specialist	SASDI
Laxmi Prasad Subedi	Consultant	SASDA
Maria Elena Anderson	Consultant	SASHD
Maheshwor Shrestha	Data Consultant	SASHD
Sushila Rai	Program Assistant	SASHD
Julie-Anne Graitge	Program Assistant	SASHD

Annex 12: Documents in the Project File

NEPAL: School Sector Reform Program

Project Background Documents

MOE (2009). School Sector Reform Program Program Document (Volumes 1 and 2), Ministry of Education, Government of Nepal.
MOE (2007). School Sector Reform Program Core Document, Ministry of Education, Government of Nepal.

Project Preparation Documents

Pre-appraisal mission, December 1-11, 2008
Technical Mission I (TM I), February 2-13, 2009
Technical Mission II (TM II), March 22 - April 2, 2009
Joint Appraisal Mission I (JAM I), April 27-30, 2009
Joint Appraisal Mission (JAM II), June 21-30, 2009

Government Documents

"School Level Educational Statistical of Nepal" *At a Glance 2064 (2007-08), Government of Nepal, Ministry of Education and Sports, Department of Education, Research and Educational Information Management Section*
"National Curriculum Framework for School Education in Nepal" (2007) *Government of Nepal, Ministry of Education and Sports, Curriculum Development Centre*
"A Report on The Monitoring of Training Programs under NCED – 2065" *Government of Nepal, Ministry of Education & Sports, National Centre for Educational Development*
"Education for All - Secondary Education Support Program & Community School Support Program – Status Report 2007" *Government of Nepal, Ministry of Education and Sports, Department of Education, Monitoring and Supervision Section*
"A Strategic Implementation Plan for Gender Equality in Girls' *Education Government of Nepal, Ministry of Education and Sports, Department of Education*
"Strategy Paper for Early Childhood Development in Nepal 2004" *Government of Nepal, Ministry of Education and Sports, Supported by UNESCO*
"Ninth Five-Year Plan (1997–2002)". *National Planning Commission, Government of Nepal, Kathmandu (1996)*.
"Tenth Five-Year Plan (2002–2007)." *National Planning Commission, Government of Nepal. Kathmandu 2001*.
"Three-Year Interim Plan (FY2008–FY2010)". *National Planning Commission, Government of Nepal, Kathmandu (2007)*.

Translated from Nepali Version

Department of Education (Government of Nepal Ministry of Education): Program Implementation Booklet, 2007/08 (2064 B.S.).
Department of Education (DOE): School Grant Implementation Guidelines and School Accreditation Form, 2006/07 (2063 B.S.).
DOE: Girls Education Strategy for Gender Equality, and Implementation Plan, 2006/07 (2063 B.S.).
DOE: Second Higher Education Project (Higher Secondary Education Component) (2007-2014), 2007/08 (2064 B.S.).
DOE and UNESCO (Kathmandu): Strategy Paper on Early Childhood Development in Nepal, 2004/05 (2061 B.S.).

DOE and Nepal Teachers Union: Code-of-conduct for Education Stakeholders, and Training Materials and Self-study Materials for School Accreditation Information Dissemination Program, 2006/07 (2063 B.S.).
DOE: Gender Trainer's Booklet, 2006/07 (2063 B.S.).
DOE: Female Education (Annual Publication), 2005/06 (2062 B.S.)
DOE: Resource Booklet for Inclusive Education, 2007/08 (2064 B.S.).
DOE: Girls Education: Profile of Networking Member Organizations, 2006/07 (2063 B.S.).
DOE: Guidelines for Conducting Early Childhood Development Program, 2004/05 (2061 B.S.)
DOE: Guidelines for Operation of Community Managed Schools (First Amendment), 2002/03 (2059 B.S.)
DOE: Program on Operation of Community Managed Schools: An Introduction, 2008/09 (2065 B.S.)

Sector Documents

NORAD (2009), Joint Evaluation of Nepal's Education for All 2004-2009 Sector Program
Tazeen Fasih (2008) "Linking Education Policy to Labor Market Outcomes" *Directions in Development, Human Development, The World Bank*
"The Street Children of Kathmandu" *Study, approaches and comments on the daily life of street-based children of the Nepalese capital, CPCS, Nepal 2007*
Usha D. Acharya (2002) "Primary Education in Nepal" *Policy, Problems and Pospects*
Govind Subedi, Bhim Prasad Subedi and Prabha Kumari Hamal (2001)"Child Labour in Bidi Industries in Nepal" *CWIN*
Harry Anthony Patrinos and Shobhana Sosale (2007) "Mobilizing Private Sector for Public Education" *A View from the Trenches, Directions in Development, Human Development, The World Bank*
Babu Ram Poudel, Kamal Kafle, Khaga Raj Paudyal, Arjun Aryal (DOE) and Thomas Nielsen (ESAT) "Concept Paper on Using Digitized Curriculum and OPLC in Nepal, 2008"
Susan Durston, Amanda Steel, John Evans and Friedrich Huebler (2008) "Developing Rights-Based Education SWAPs in South Asia" *From Evidence to Action, UNICEF Regional Office for South Asia*
Friedrich Huebler (2008) "Beyond Gender: Measuring Disparity in South Asia Using an Education Parity Index" *Girls Too! Education for All, UNGEI, UNICEF*

Annex 13: Governance and Accountability Action Plan

NEPAL: School Sector Reform Program

1. The School Sector Reform Plan (SSRP) identifies a number of governance and accountability issues, and for which accountability measures are already integrated into the program design. In addition to this, the MOE/DOE and DPs have also agreed on some key guiding principles on the basis of which the SSRP will be implemented. This Governance and Accountability Action Plan (GAAP) is structured around the following principles:

a. Improving governance in the education sector will be key to improving overall quality of services provided in the sector, and hence should be an area of emphasis in the implementation of the SSRP.
b. Program governance and implementation will be based on the prevailing Acts and Regulations. All proposed changes in governance and implementation modality, which requires changes in the Acts and Regulations, will be undertaken after the appropriate amendments have been made in the aforementioned legislation.
c. The implementation arrangements for the SSRP will be the same as those for the on-going EFA, unless and until the new structures are in place. The proposed changes in terms of the role of the Local Bodies – Village Development Committees, Municipalities and District Development Committees - will be reviewed annually to determine the practicality of such changes..
d. Communities are at the forefront of service delivery and it is important that the program ensures the creation of strong, independent community level structures for program sustainability.
e. Good-governance will be a key theme of the SSRP, and in particular, the program will continue to strengthening transparency and accountability, and identifying and addressing areas that are vulnerable to corruption.

2. As a program focused on improving both the participation of children in the schooling process, and to improve the quality of both teaching and learning, some aspects of the program design are important for developing and implementing the GAAP. These features include:

a. All program planning, strategies and implementation of programs in SSRP are assessed on whether they are child-centric, and by reviewing them through the lens of an equity filter
b. Program financing will become norm-based and channeled through Per Capita Funding (PCF) grants.
c. Responsibility for teacher management continues to be strengthened at the school level, consistent with the government's policy of decentralized teacher recruitment.
d. Learning achievements as validated through international standard assessments will become the key measure of learning outcomes and program success.

3. Various sections of the program document, prescribed guidelines, the appraisal report, and other relevant operational manuals provide clarity on the policy and legal environment under which this program is being implemented. The risk matrix provides a clear glimpse of the some of the key risks as identified, in addition to which the peace-filter further identifies key concerns that need to be addressed before, and during, program implementation.

4. Based on the above, and through intensive discussions with the MOE/DOE and DPs, the following GAAP was prepared for program implementation. This summarizes key areas of the risk

matrix that require further specific actions and will focus on: (i) Ensuring minimum enabling conditions in school education, (ii) Improving financial management and procurement procedures and their timeliness, (iii) Strengthening the role of communities and further concretizing the decentralization agenda in this sector, (iv) Institutional and Capacity Development, and Human Resource Management, (v) Performance Audits, (vi) Disclosure arrangements and communication strategy, and (vii) Guidelines for dealing with emergencies, conflicts and crisis.

5. *GAAP Monitoring*. The milestones and timeline indicated in the GAAP above will be monitored by the MOE/DOE and DPs on a regular basis through the review missions or through the quarterly Government and DP meetings. Issues identified in earlier missions will be reviewed and progress made on addressing these will be noted, and all remaining tasks identified. Given that the SSRP is a school sector SWAp, any changes in governance administered through this program is likely to have immediate and far reaching impacts across the sector, and as such will have impacts on overall service-delivery in the sector. Prior to each review mission, the MOE/DOE and the DPs will agree on the key governance issues to be included in the mission's TORs. Given the importance of these issues, and in close consultation with MOE/DOE, the DPs may initiate and finance periodic independent evaluations of GAAP as has been agreed to under paragraph 60 of the JFA.

6. *Implementation Arrangements for GAAP*. The SSRP is implemented directly through Government offices, and not through the establishment of a Program Implementation Unit (PIU). All improvements brought about through the program should enable the MOE and DOE to improve the overall efficiency with which resources are used in the system. Specifically, the implementation of the GAAP will be under the overall supervision of the Secretary (MOE), Director-General (DOE), and the DEOs at the district level. The Government shall designate a Grievance Officer to address key grievance issues and procedures at all administrative levels[47].

7. *Communication Strategy*. The Government shall designate a Deputy Director to handle both the dissemination of information and the development of communications strategies for the program. The development of clear strategies for communication are important for reasons of transparency and good-governance, and most importantly, for the benefit of all potential beneficiaries. The dissemination of program information will be carried out through all available and appropriate media. This includes, radio, TV, newspapers, MOE/DOE website, and other avenues. The disclosure of key information as identified in the Table 13.1 will be an important part of the Government's strategy for good governance and transparency, and will be reflected in the Government's annual budgets.

8. *Budgetary Implications of GAAP*. The expenses needed to implement the GAAP will be subsumed within the program management budget head.

[47] Under the current system of citizen's charter and the Right to Information (RTI), a similar designation exists. The GON has agreed to review and strengthen this system.

Table 13.1
Governance and Accountability Action Plan Framework

Objectives	Key Activities	Responsible Agencies	Key indicators	Reporting Frequency	Key Actions	Expected Results by
ISSUE 1. Ensuring Minimum Enabling Conditions For School Education						
1.1. Ensuring Adequate Number of Teachers as per norms	• Determination of surplus/short supply of teachers by school • Determination of unserved students by school • Calculation of PCF grants by school • Allocation of PCF grants by district/school	REDs, DOE DEOs and SMCs	• Short supply/surplus of teachers by school and/or district	• February-April • Joint Annual Review (JAR)-April • Once a Year	• ASIP and AWBP preparation and approvals	• Implementation of PCF grants and deployment of teachers as per this norm
1.2. Timely Availability of Textbooks and other learning materials	• Scrapping the provision for prequalification for textbook suppliers by August 31, 2009 • Replace ex-ante quality control of textbooks by ex-post, by August 31, 2009 • Camera Ready Copy to be made available to all interested parties at cost price six months before the beginning of the academic session and/or keep all textbooks in the website	MOE, DOE, CDC	• Share of students receiving textbooks within the second week of the academic session	• November/December Joint Review Mission • Once a year, Flash I	• Annual progress report on program activities	• Textbooks timely distributed and made available two weeks prior to the start of the academic year. • No complains reported on timely availability of textbooks.
1.3 Improving quality of textbooks	• Introduce multi-textbook concept in Nepal to meet the requirements of the NCF by January 31, 2010. • Establish a system for review of textbooks by January 31, 2010	MOE, CDC	• Annual review of quality of textbooks	•	•	• Certification on the quality of text books
1.4. Timely distribution of Grants to schools	• Providing adequate training and orientation for DEOs, RPs on guidelines for grants (including scholarships and books) and ensuring timely applications for	DOE, RED, DEO, RP, SMCs	• Number of districts and schools receiving timely school grants in accordance with regulations	• Joint Review Mission • Once a year	• Annual progress report • Social Audit	• Schools comply with School Grants Operation Directives (SGOD)

Objectives	Key Activities	Responsible Agencies	Key indicators	Reporting Frequency	Key Actions	Expected Results by
	school grants – per capita funding and other types of funding at the school level				Reports	
1.5 Teacher redeployment	• Identification of number of teachers to be redeployed within VDC/municipality/district • Transfer of teachers from schools with surplus teachers to schools with short supply	DEO, DOE and SMCs	• Number of teachers redeployed from schools with surplus teachers to the deficit one. .	• Once a year	• In FY10 and 11 redeployment at VDC/municipality level	• Maintain student teacher ratio in accordance to the Education Regulation.'
ISSUE 2. Improving Financial Management And Procurement Procedures And Their Timeliness						
2.1. Timely fund release to schools	• Providing adequate and timely support to districts to submit AWPB • Putting in place a clear system of norms and procedures for appraisal of plans and approvals of budgets • Fixing deadlines for key budget decisions e.g. list of schools selected for new classrooms and PCF and *raahat* allocation by schools to be included in AWPB	MOE, DOE, DEO and other bodies involved in appraisal and approval of plans and timely release of funds to schools at the start of the academic session	• Number of districts undertaking stakeholder consultations for plan preparation and budget approvals. • Share of annual budget released in the first trimester by District • Percentage of schools receiving grants within two month after the beginning of each trimester • Number of complaints registered on delays of fund.	April JAR • December JRM • Thrice a year	• AWPB approvals for all districts. • Annual Progress Report • Social Audit • Flash report	• Timely availability of funds at schools. • No complaints registered on delay of fund release to schools.
2.2 Adequate and timely Financial management -	• Timely preparation and submission of trimester Financial Management Reports (FMR) covering all program activities and	MOE, DOE, DEO and FCGO	• Trimester reports of adequate quality and coverage submitted for smooth disbursement	• FMRs every trimester • Annual Consolidated FMR	• Financial Progress Reports submitted as part of Implementation	• Reports submitted within the stipulated time frame. • Financial

Objectives	Key Activities	Responsible Agencies	Key indicators	Reporting Frequency	Key Actions	Expected Results by
at central, district and school level	all districts; • Establish a computerized system for accounting and reporting at DOE and DEO with networking facilities between them.		of funds to the program • A computerized Financial Management Information System (FMIS) is in place at the DOE.	• A computerized system in place in DOE by July 15, 2009. • DOE to submit a plan for networking by July 15, 2009	Progress Reports every trimester.	statements of the SSRP prepared through the FMIS system. • DEOs networked with DOE and MOE for the flow of management information system.
2.3 Monitoring the timely preparation and quality[48] of school financial audits	• Develop school audit schedule and budget to ensure that all schools are audited annually. • Establish DOE Task Force to monitor and report on auditors' compliance with audit guidelines and schools compliance with norms, financial rules and regulations • DOE prepares audit schedule and disseminate to DEOs. • DOE Task Force to closely monitor the compliance as well as recommendations from such audits.	MOE, RED, DOE, DEO, SMC	• Annual consolidated audit reports submitted timely with quality of coverage for smooth disbursement of funds to the program. • Audit report complies with ICAN guidelines	• April/May Joint Consultation Mission	• Annual audit reports in congruence with annual progress reports	• School audits timely carried out and widely disseminated the results of such audits.
2.4Procurement at central and district level	• Revise the Program Implementation Guidelines (PIG). • Preparation of annual procurement plans. • Training for strengthening procurement capacity both at the central and the district level	DOE and DEO	• Standards and procedures in place for procurement best practices. Districts reporting difficulties in procurement; monitoring reports on	• Annual Procurement Plan • Reports on procurements undertaken every trimester.	• Annual Procurement Plan in line with AWPB • Procurement report in FMRs • Procurement assessment in	• Good procurement practices in education sector

[48] Quality is derived from the audit guide line from Institute of Chartered Accountant of Nepal (ICAN)

Objectives	Key Activities	Responsible Agencies	Key indicators	Reporting Frequency	Key Actions	Expected Results by
			procurement; • Training conducted on procurement at least once a year for all DEOs and cost centers.		Status Report	
ISSUE 3. Strengthening Decentralization and Community Participation						
3.1 Timely and adequate Social Audit with full coverage of schools as per SSR goals	• Updating of Social Audit Guidelines, their distribution to all school; provision of training and budget for undertaking social audits as per the guidelines, dialogue with SMCs; dissemination and use of social audit information	MOE, DOE, RED, DEO, SMC	• Number of districts and schools undertaking social audits as per the guidelines and apply the results to next year planning cycle • Share/number of schools completing social audit by trimester by district • Random sample review of social audit reports and field verification	• Review the progress every trimester and describe in the Implementation Progress Report.	• ASIP and AWPB to reflect the use of Social Audit report outcomes • IPRs to report progress on collection of social audit reports	• Increased transparency in school decision-making and accountability for the use of resources and the achievement of results.
3.2 School Management Committees (SMC) are established and effective	• Facilitation at the local level to ensure that SMCs are formed in all schools and oriented in the roles, responsibilities and rights they hold for school education.	MOE/DOE DEO	• Number/share of schools with duly formed SMCs by district.	• November/December JCM • Once a year in Flash • Every trimester in IPR report	• Annual Progress Report to include information on the existence and functioning g of SMCs. • IPRs to report on the status of SMC formation.	• Effective functioning of SMCs.
ISSUE 4. Institutional And Capacity Development And Human Resource Management						
4.1. Ensuring adequate Capacity	• Annual work plans and budgets to incorporate capacity development initiatives as per the	MOE/DOE All key institutions	• Coverage of key activities, in line with the sequence of SSRP.	• April JAR • December JCM Twice a year	• Annual Plans to include a special chapter on capacity	• Commitment for capacity development demonstrated by

Objectives	Key Activities	Responsible Agencies	Key indicators	Reporting Frequency	Key Actions	Expected Results by
development of institutions and human resource strengthening to effectively implement SSRP	needs at the central, district and local levels. •	at central, regional, district and local levels.	planned implementation, in the key institutions of education.		development and institutional strengthening initiatives with requisite budgets. • Annual progress reports to provide information on the implementation CD and human resource strengthening actions	including in the AWPB and implementing the plan.
ISSUE 5. Performance Audit						
5.1 Ensuring periodic Performance Audit	• Identification of key aspects to be covered in the Performance Audit of the SSRP by MOE, DOE and other stakeholders; timely discussions on how the performance audit can supplement regular ongoing progress	MOE to request OAG for Performance Audit	Identification of key issues in relation to performance of districts and thematic areas against the programs' overall goals and objectives	• Every two years • Corrective measures to be included in the next cycle of planning	• Triangulation of this independent performance audit with regular internal reports;	• Expected results are independently evaluation and corrective actions taken for any reported deficiencies.
ISSUE 6. Disclosure Arrangements And Information Dissemination						
6.1. To ensure transparency and disclosure	• Regular and timely public disclosure activities through DOE website, Radio/TV, newspapers,	MOE, DOE, DEO and SMCs	• Sufficient flow of information at the local level.on budgets	• Ongoing	• Short report on disclosure procedures	• All information related to SSRP implementation are

[49] At the central level the following information will be put in the DOE website: (a) Procurement plan; (b) Complaint mechanism including that for procurement; (c) Information on action on complaints; (d) Trimester implementation progress reports; (e) Expressions of interests, bid documents, request for proposals and contract awards; (f) Annual work plan and budget; (g) Annual audited financial statements; (h) Program implementation guidelines; (i) School grants operation directives; (j) PCF Implementation Directives; (k) Flash reports; (l) Fund release information with budget heads, amounts and dates; and (m) Target and actual dates for prequalification, CRC delivery and the latest date of availability of books at the major depots.
At the district level the following information will be disclosed through newspapers and public notice boards, and wherever possible through websites: (a) List of schools getting new classrooms along with their scores according to the selection criteria; (b) List of schools getting ECD facilitator, *raahat* and per capita financing with justification; (c) Annual

Objectives	Key Activities	Responsible Agencies	Key indicators	Reporting Frequency	Key Actions	Expected Results by
measures[49]	and local points, of program budgets, contracts, procurement and activities.		available and used; activities planned and undertaken. • Coverage of public disclosure systems and instrument used.		implemented in the program annual progress report	kept in the access of public domain by adhering to Right to Information Act
	ISSUE 7. Dealing With Emergencies, Conflict And Crisis					
7.1 Ensuring continued access to education for all children in the face of emergencies, crisis and conflict situations	• Develop guidelines for immediate response and possible activities to deal with children affected. • Provision of Annual Contingency Plans and budgets for districts.	MOE, DOE Coordination with other departments that deal with emergencies and peace building	• Emergency, contingency plans and initiatives to deal with children in conflict situations • Funding modality to be developed and schemes to be put in place to ensure that financing can be obtained quickly	• November/December Joint Review Mission • Once a year	• Information included in the annual progress report	• Immediate response to deal with children affected by crisis.

work plan and budget; (d) Permanent teacher positions, *raahat* and PCF by school; (e) Number of scholarships by category by school; (f) Fund release information with budget heads, amounts and dates by school; (g) Complaint mechanism; (h) Information on action on complaints.
At the school level the following information will be disclosed through public notice boards: (a) Grants received from government and other sources with amount and date; (b) Social and financial audit reports; (c) List of students selected for scholarship with amount disbursed and selection criteria; (d) Current enrolment; and enrolment, repetition, dropout and promotion rate for the previous year; (e) Complaint mechanism; (f) Information on action on complaints; and (g) Information on teacher recruitment.

Annex 14: Lesson Learned From EFA

NEPAL: School Sector Reform Program

1. Development Partners (DPs) have supported education in Nepal for over three decades, and on a programmatic basis since 2001. Numerous lessons have been learnt and incorporated into each successive program, especially in terms of effective policies. The SSRP aims to integrate and build on the lessons learned from EFA, SESP and CSSP. Table 14.1 illustrates the important learnings from EFA and how these will be applied under SSRP.

2. In terms of overall engagement with the GON on education, the key lessons include *inter alia*: (i) the benefits of mainstreaming implementation through Government structures rather than establishing stand-alone PIUs, (ii) the crucial need for high level political commitment to push through difficult reforms, (iii) the need for continuous public dialogue, and communication on progress of the reform; (iv) the importance of bureaucratic buy-in; (vi) the crucial role of participatory processes to engage communities and mobilize beneficiaries; (vii) that donor harmonization is best achieved when donors use country systems with the government in the lead; and (iv) the finding that clear and transparent resource allocation criteria and procedures can make significant contribution towards improving governance. The proposed operation will be designed taking into account these lessons learned from previous programs.

3. As stated earlier, a number of policy developments have also proved crucial to improving the quality of education in Nepal. These lessons from EFA have been documented in a recently completed evaluation, financed by NORAD, endorsed by the GON and DPs, and carried out by Cambridge Education Ltd. and METCON Associates. The key lessons learned are shown below and with details provided in the attached matrix:

4. **Community Management**: Community management contributes to school improvement. Strengthening capacity of school management committees and parent teachers' associations will be critical for success of the School Sector Reform Program. SMCs work best when they have leadership with close ties to the communities. The hand-over of school management to become community management of schools has generally had positive outcomes. However, efforts to prepare SMC members, Head Teachers, and even District level staff to cope with decentralization have been patchy. SMC-to-SMC peer learning has been an effective and efficient way for building SMC capacity, and this will be consolidated and extended in SSRP.

5. **Per Capita Funding**: Notwithstanding the achievements already made equitable allocation of resources, especially in allocation of teachers and classrooms, continue to be a challenge. In terms of ensuring equity, per capita financing (PCF) has proven to be a more robust tool for financing teachers than *rahaat* grants, hence all additional financing for all new community recruited teachers will be channeled through PCF. The current PCF guidelines will need to be revised to make them even more equity sensitive. The recently released budget illustrates a move away towards PCF grants for teacher hiring and this will help reduce or eliminate the potential for rent-seeking in the recruitment and allocation of teachers and teacher posts.

6. **Resource Generation versus Free Schooling**: School dependence on community resources is heavy, and student fees and guardians' contribution do constitute one of the major sources of school revenues. Strict enforcement of free basic education policy without ensuring sustainable compensation to schools for lost revenues would be a setback for improving both access to and quality of education. A pragmatic policy to guarantee universal completion of basic education

will be the key for successful implementation of SSRP. The GON has adopted a pragmatic solution to address the issue of free-schooling versus resource generation, and have informed schools and SMCs that they can continue to mobilize community level resources as long as there are no financial barriers to admission, for the most marginalized students.

7. **Student Scholarships**: Scholarships constitute one of the major expenditure items in SSRP. Since the number of scholarships are too few to cover all eligible students, and the fact that the DOE employs categorical targeting, there is always some likely to be a certain amount of errors in targeting. It is not clear if the resources for scholarships are therefore being used effectively, and whether the most vulnerable groups are receiving support. The SSRP has developed a list of disadvantaged and marginalized groups and will incorporate this in the school implementation guidelines and this will be revised as needed.

Table 14.1: Lessons Learned from Previous Programs

SNo	Thematic Area	Lessons Learned	Areas for Strengthening	Reflected in SSRP	Specific Recommendations
1	**Overall Policies**	The EFA has been instrumental in implementing the legislative and policy directives explicitly with a clear emphasis on decentralization, community ownership, responsiveness to the linguistic, cultural and social diversities in Nepal, and through strengthened political commitment.	Some difficulties have arisen since these policies have not always been translated into implementable plans, for example, on hiring of teachers in permanent positions by communities,, on multi-lingual education, and on inclusive and special needs education.	The policy matrix adopted by the GON and all DPs under the SSRP will ensure the formulation of adequate guidelines to ensure that policy decisions can be effectively translated into actions.	Development of a set of guidelines to implement education policy, and revise the necessary Act and Regulations (Policy Matrix)
2	**Improving Access, Equity, and Quality Strategies**	Incentives: Incentive payments seem to have had a significant impact on the access for girls, *Dalits*, and disadvantaged *janajatis*. The program will continue to target additional financing to schools through SIPs.	There are numerous schemes for scholarship and incentive grants making it difficult to administer and achieve optimal impacts. The programs can be made more streamlined and targeted.	The scholarship program will be continued. Guidelines for the provision of scholarship grants and other incentives will be improved with a focus on marginalized and disadvantaged groups.	The scholarship program will be strengthened both by enforcing appropriate guidelines and by ensuring timely delivery of scholarship support (GAAP, Annex 13) and through improved targeting.
		Teaching-Learning Process: Substantial numbers of teachers have been provided with in-service training through EFA.	Training is not reflected in improvements in classroom processes or in outcomes.	Teacher qualification upgrading included in the SSRP – which will help teachers improve their qualifications. Minimum enabling conditions guidelines will also be developed under SSRP	These are reflected in the Policy Matrix as tranche release (ADB) and disbursement conditions (EC and DFID) using the Policy Matrix.
		Quality Standards Monitoring: The EFA program has been implemented in an environment which has lacked a basic framework of quality standards and indicators.	Quality monitoring tools need to be developed and incorporated into the monitoring framework of the SSRP. There is also a need to develop within a national body, the ability to carry out high quality student learning assessments.	The SSRP aims to develop a model of quality assurance, though this will not be in place at the start of the program period. Strengthen the capacity of a national body to carry out high quality learning assessments.	The GON has agreed to carry out learning assessments for Grades 3, 5 and 8, twice during the program period at the start and at the end. This will be done by identifying an international agency of repute to help the GON

SNo	Thematic Area	Lessons Learned	Areas for Strengthening	Reflected in SSRP	Specific Recommendations
					carry out the assessment through learning by doing arrangement. (PAD, Annex 3)
		Inclusion of Disabled Children: Nepal has the potential to move to an inclusive, child-friendly approach to Basic Education. For this it has the necessary foundation of expertise and resource classes.	There is a need to strengthen in-service, on-sight support to all teachers in a school to address issues of inclusion, particularly for disadvantaged groups such as CWSN.	Strengthening the role of resource persons to support an inclusion agenda. The program also provides incentives by establishing a child premium on each child belonging to a disadvantage group into school.	This is reflected in the PAD (Annex 10). This is also reflected in the DOE's Guidelines on CWSN which will be disseminated to all schools in Nepal and implemented through SSRP.
		ECED, NFE, and Adult Literacy: The EFA recognized the importance of ECED and NFE in improving access to schooling opportunities. The growth in ECED programs in Nepal has been spectacular. More than 50% out of about 24,000 ECED centers throughout the country are community based. ECED GER has dramatically increased from 13% in 2001 to 60% in 2007.	Consolidating achievements through MOE/DOE-DDC/Municipality/VDC-community partnership. Expansion of ECED program with a greater focus on qualitative. Ensuring minimum enabling conditions and quality improvements.	Expansion of ECED program with a greater focus on qualitative improvement and maintaining an equitable balance between the needs and demands. GON will fund one year ECED program for children of four year of age. Communities may, however, offer ECED services for children below the specified age, mobilizing their own resources	Extended stakeholders' consultation and communication on the importance of ECED for child's all round development. Yearly Plan of GON-local-bodies-community partnership on ECED. Publication of community based ECED enrollment information in the EMIS
		Similarly, the GON has realized the importance of using NFE as a stop-gap measure to bring all relevant aged children into the schooling system.	Non-Formal Programs under SSRP will be strengthened and include both alternative schooling mechanisms and Traditional schools.	NFE is identified as a key strategy to improve access to literacy and for general schooling.	Focus attention on NFE financing and outcomes of NFE programs in annual planning through ASIP/AWPB
		On literacy, EFA focused on three elements: basic literacy, updating skills, and continuing education. Expanding CLC and greater coordination between CLC and RC and public-private-government partnership was also recognized as key elements to enhancing adult literacy.	The GON has given importance to improving adult literacy and a key target was to eradicate illiteracy.	SSRP recognizes the positive roles played by CLCs and partnership frameworks for collaboration with CBOs, mothers' groups, I/NGOs and the private sectors towards creating an environment conducive to enhancing the	This is clear priority of the GON and is reflected in the SSRP documents and other relevant documents. The indicator initially proposed under the SSRP log frame has been modified.

SNo	Thematic Area	Lessons Learned	Areas for Strengthening	Reflected in SSRP	Specific Recommendations
				access to and quality of literacy programs. Need consolidation and extension of the partnership	
3	**Capacity and Institutional Development**	School Management: The hand-over of schools to communities has had positive outcomes and has strengthened the short-route of accountability.	The efforts to strengthen SMC capacity has been patchy, and needs greater attention. SMC-to-SMC peer learning has been an effective and efficient way to develop SMC capacity	Need for clear division of responsibility between schools, communities, local and district level administration and central government. This division of labor should follow strictly the existing laws of the land and should only be modified after appropriate changes have been made to the legal framework. Need for consolidation and extension of SMC peer learning activities.	While this is reflected in both the PAD and in SSRP documents, it needs to be adequately reflected in the ASIP/AWPB. Capacity development of SMCs should be the main priority.
		School Improvement Planning: has led to improvements in schooling facilities and outcomes. This has also helped integrate community involvement with the school and hence further strengthened the involvement of parents, community members and teachers/administrators in schooling outcomes.	There is a continued need for SMC capacity to be developed, particularly in the area of improving the quality of service delivery and good governance, and help improving the schools' physical infrastructure.	The importance of the role of the SIP is noted in the PAD and SSRP documentation.	The use of the SIP for planning purposes needs to be strengthened. The manner in which the SIPs are translated into the ASIP/AWPB every year is not clear. As stated earlier, the SMC capacity to prepare high quality SIPs is critical.
		Teacher Management and Training: Nepal's legal framework for education provides for improved school-teacher relationships since the school administration has the delegated rights of teacher management. Schools are also provided teacher salary grants which are used to recruit teachers by the SMCs. Most teachers have received some form of training	There are several areas that need strengthening. All teachers to be brought to school cadres from central cadre through natural attrition. All new hires must be through school cadres on the basis of PCF grants or teacher subvention grants, and not through the appointment of teachers to schools. Teacher licensing system needs to be strengthened.	SMC based teacher management-deployment and redeployment is reflected in the PAD and SSRP documents and this will help address teacher deployment problems.	Teacher salary grants for schools should be identified before the ASIP/AWPB is presented to the GON to limit district level discretion. This also needs to take into account the timing of the review missions.

SNo	Thematic Area	Lessons Learned	Areas for Strengthening	Reflected in SSRP	Specific Recommendations
		Partnerships with NGOs: MOE/DOE – (I)NGO partnership on construction has been effective in the last two years of EFA	Partnership in capacity development at different levels	Utilization of I/NGO contribution in literacy, ECED, multilingual education, special needs education, advocacy, and capacity development through separate MOU. I/NGOs encouraged to support non-recurrent type and one-time development activities.	Consolidation and extension of the partnership, review in JAR, JCM
4	Finance, Planning and Audit	Level of financing: Though the level of financing is still very low in absolute terms, Nepal is allocating more than the average proportion of GDP to primary education. After three years' of EFA implementation GON increased its funding by more than 75%, and DPs' funding also increased by more than 50% reaching the total EFA funding from US$ 629 to about 1 billion for five years. This is about 62% of the total education budget	The allocation to could use further increases and efforts must be made to improve the efficiency of expenditures. Furthermore, there is a need for a comprehensive understanding of financing channels, both through Government and otherwise.	The SSRP continues by increasing allocation to education through central ministries, and through the local governments. To improve predictability of financing by asking local governments to provide 20% of their budgets for the social sectors. Finally, the SSRP will also initiate a comprehensive study on financing of school education in Nepal. Exploring different sources of funding including FTI catalytic fund. Total budget envelop for SSRP (from ECED - Grade 12) is more than 2.5 times EFA budget of which more than 76% is GON share. .	The role of the Ministry of Local Development and communities in financing of school education needs to be made clear. This is reflected in the PAD and in SSRP documents. A comprehensive financing scenario should be developed and efforts need to be made to ensure the fiscal sustainability of sectoral allocations.
		Funding Modality: Through past programs a key lesson that has been learnt is that in-kind transfers are inferior to cash transfers. In EFA a greater share of resources went to schools in the form of cash grants. DPs' funding was based on trimester IPR/FMR Reporting and has	While this could potentially improve the effectiveness of the resource use, when used appropriately, it also increases the risk of misuse Strengthening analytical aspects of the reporting. Timely submission of IPR/FMR	The SSRP recognizes that community management is an effective way of putting in place checks and balances. However, it is also true that communities are not homogenous, and that there is	Enhancing computer facilities at DOE and DEOs; establishing DOE-DEOs electronic networking facilities, coordination among central level agencies and section at

SNo	Thematic Area	Lessons Learned	Areas for Strengthening	Reflected in SSRP	Specific Recommendations
		helped to improving reporting mechanism of the system. DOE-FCGO electronic networking for Financial reporting.		the possibility of elite capture and corruption. Particularly in the current political climate. The SSRP aims to strengthen the governance mechanisms, carry out PETS and financial audits at the school level, and expand the current program of social audits to cover all schools in the country.	DOE
		Planning Process: The planning process under EFA became much more participatory and bottom-up in nature.	More work is needed to ensure that there is continuous training of SMCs to improve SIPs, but also to develop a better planning process to determine how best individual preferences (at the school level) can be translated into ASIP/AWPB, and how these can be aggregated at the district level and so forth.	The ASIP and AWBP preparation process under SSRP will be strengthened to address these issues. Firstly, through the increased use of data to determine gaps in allocation. Also, as allocation becomes more norm based, the GON will be have a clearer picture of gaps in resource allocation.	There needs to be a closer alignment between SIPs and the funds channeled at the district level. This is reflected in the SSRP and the PAD.
		Financial Management and Audit: There has been tremendous progress on FM under the EFA, particularly since the adoption of the FM Action Plan. Under the Joint Financing Arrangement, there is also a provision where by the DPs most concerned about fiduciary issues take the lead on this.	There are however serious gaps in record-keeping in schools which continues to be very poor. Furthermore, there are numerous cost-centers under EFA at various central agencies of MOE, DOE, and DEOs, this makes FM issues very difficult to monitor and manage	The SSRP will continue to focus on strengthening FM capacity at the center, district and school levels. The delays experienced in EFA on audit documents will be addressed specifically through SSRP. In addition, a key guiding principle agreed to in the GAAP is that most resources should go to the schools or end-user, and in a timely manner	Issue based discussions and feedbacks in JAR, JCM and quarterly review meetings
		Joint Financing Arrangement: All signatories work under JFA. Parallel activities on reporting and supervision minimized. DPs consolidated effort to	Donor harmonization on some key issues of reform is still a challenge. Trimester reporting on activities under pool and non-pool	SSR will continue efforts on donor harmonization and streamlining the reporting mechanism	Issue based discussions and feedbacks in quarterly and review meetings on harmonization and reporting

SNo	Thematic Area	Lessons Learned	Areas for Strengthening	Reflected in SSRP	Specific Recommendations
		push the system towards reform discernible	mechanism is to be streamlined		
5	Program Monitoring and Impact Evaluation	Continued strengthening of M&E under EFA has taken place. The EMIS is an excellent source of decentralized information and provides rich information on school level inputs and outcomes.	Numerous EFA activities are carried out in a decentralized manner, and there have been few attempts to evaluate the effectiveness of these specific initiatives.	Under the SSRP, M&E will be given much more priority in program implementation. Though the set of indicators will be very similar to those in EFA, and other Bank programs, efforts will be made to design an impact evaluation at the beginning of the program. Furthermore, the SSRP will also use other survey data to try and triangulate information on progress, specifically the NLSS.	Preparing ASIP/AWPB based yearly plan of implementation and their supervision in JAR, JCM and quarterly meetings
6	Communication strategies, Consultation and Participation	EFA planned activities through Information, Education and Communication (IEC), communication technologies (ICT) and stakeholders' consultations at center and at Districts have visible impacts on ECED and grade 1 enrollments.	More work is needed to motivate the role of guardians and stakeholders on quality education delivery at schools. Information dissemination must be an important feature of SSRP.	SSRP recognizes the role of ICT on capacity development, and stakeholders consultation – presented in the SSRP Implementation Matrix- on reform.	Preparing ASIP/AWPB based yearly plan and their supervision in JAR, JCM and quarterly meetings and ensuring that the budgets adequately reflect the costs of the communication strategy.

Annex 15: Joint Financing Arrangement

NEPAL: School Sector Reform Program

This **Joint Financing Arrangement** made between

The Asian Development Bank ("**ADB**");
The Government of Australia, represented by the Australian Agency for International Development (**"AUSAID");**
The Ministry of Foreign Affairs, The Kingdom of Denmark ("**Denmark**");
The United Kingdom of Great Britain and Northern Ireland, represented by the Department for International Development ("**DFID**");
The Commission of the European Communities (**"EC")**;
The Ministry for Foreign Affairs of Finland ("**Finland**");
The International Development Association ("**IDA**");
The Royal Ministry of Foreign Affairs, The Kingdom of Norway ("**Norway**");
The United Nations Children's Fund (**"UNICEF")**
(collectively referred to as the "**Pooling Donors**")

and

the Government of Nepal (hereinafter referred to as "**GON**")

1. WHEREAS GON has requested the support of the Pooling Donors to contribute towards the funding of the first five years of the ***School Sector Reform Plan*** starting from FY2009/10 described in the School Sector Reform Plan document, dated June 2009 (hereinafter referred to as the "SSRP"). GON and the Pooling Donors together are hereinafter referred to as "the Signatories";

2. WHEREAS GON has committed itself to provide an agreed level of funding, in April meeting of every year, to the SSRP and intends to contract from Pooling Donors, grants to assist in financing the SSRP on the terms and conditions to be set forth separately in an agreement/arrangement to be entered into between GON and each of the Pooling Donors;

3. WHEREAS the Pooling Donors have committed themselves to the principles of harmonization in the spirit of the Paris Declaration on Aid Effectiveness and Accra Agenda for Action (all five principles), as reflected in this Joint Financing Arrangement (hereinafter referred to as the "JFA") and strive to reach the highest degree of alignment with the budgetary and accountability system and legislation of Nepal so as to enhance effective implementation and to reduce the administrative burden of GON;

4. WHEREAS respect for human rights, democratic principles, the rule of law and good governance form the basis of the co-operation and constitute essential elements of this JFA;

5. NOW THEREFORE, the Signatories to this JFA have come to the following understanding:

I. Goals of the SSRP and Scope of the JFA

6. The provisions of this JFA will be applied to all activities budgeted and accounted for in Nepal under the SSRP budget heads 65-3/4-428 and 65-3/4-815 (hereinafter referred to as Budget Heads) as per GON Estimates of Expenditures, contained in the Red Book. All activities under these Budget Heads will be funded jointly by the GON and Pooling Donors. In

the context of this JFA, these Budget Heads will comprise of the SSRP for financial reporting purposes. In the event that these Budget Heads are changed, GON will notify the Pooling Donors of the new Budget Heads which will comprise of the SSRP for financial reporting purposes.

7. The goal of the SSRP is to contribute to socio-economic development through a continuous development of its human resources capacity. The purpose is to facilitate that all citizens have the opportunity to become functionally literate, numerate, and develop the basic life skills and knowledge required to enjoy a productive life. The program development objective of the SSRP is to increase access to and improve quality of school education, particularly basic education (grades 1-8), especially for children from marginalized groups.

8. This JFA sets forth the joint provisions and procedures for financial support to the SSRP and serves as a co-ordination framework for consultation among the Signatories for SSRP monitoring and decision-making, joint reviews of performance, common procedures on financial management including disbursement, accounting, procurement, reporting and audits.

9. The financial commitments of the Pooling Donors will be confirmed separately in bilateral agreements/arrangements to be concluded between GON and each of the Pooling Donors. In addition, as SSRP is a five year program, the GON welcomes an indicative contribution for the entire five-year period.

10. The Pooling Donors will establish bilateral agreements/arrangements that are compatible with the spirit and provisions of this JFA and will refrain, as far as possible, from setting conditions in the bilateral agreements/arrangements that contradict or diverge from the spirit of this JFA. In case of any inconsistency or contradiction between the provisions and conditions of this JFA and any of the bilateral agreements/arrangements, the provisions of the bilateral agreements/arrangements will prevail. Insofar as specific agreements on specific items made in bilateral agreements/arrangements should deviate from the JFA, the Pooling Donor concerned will inform the other Pooling Donors thereof by supplying a copy of the bilateral agreement/arrangements to the other Pooling Donors and specify the deviations and how to resolve them in case of inconsistency with this JFA.

11. The Pooling Donors will base their actual support on the progress attained in the implementation of the SSRP. Progress will be measured through the common procedures for monitoring and reporting as described in sections IX and X (refer to Annex 1 SSRP - Schedule of Monitoring and Reporting). The Pooling Donors will refrain from making additional unilateral demands on the GON for additional reporting above what has been stated above and any changes in monitoring and reporting procedures will not be made without prior consultations among Pooling Donors and between Pooling Donors and GON including all users within the GON of the information.

II. Representatives

12. In matters pertaining to the implementation of this JFA, GON will be represented by the Ministry of Finance ("MOF"). The responsibility for the implementation of the SSRP not affecting the overall responsibilities of GON or the MOF will lie with the Ministry of Education ("MOE")/Department of Education (“DOE”).

13. In matters pertaining to the implementation of the JFA, the representative of each Pooling Donor will be as identified in their respective bilateral agreements/arrangements.

III. Responsibilities of GON

14. GON will make all possible efforts to facilitate the successful implementation of the SSRP, and will hereunder:

a. have the overall responsibility for the planning, administration, procurement, financial management and implementation of the SSRP;

b. establish a Foreign Currency Account ("FCA") in United States Dollar in the name of GON at the Nepal Rastra Bank ("NRB"). The FCA will be utilised exclusively for the SSRP to which the Pooling Donors will disburse proceeds of their loans/grants and from which funds will be reimbursed;

c. ensure that accounts for the SSRP are kept in accordance with GON accounting system, and should comply with the Financial Procedures Act (**2055,** and as amended) and provisions set forth in the Financial Procedures Regulations ("FPR") of GON (**2064,** and as amended);

d. maintain a financial management system adequate to reflect the transactions, resources, expenditures, and assets under the SSRP and ensure that GON is able to produce timely, relevant and reliable financial information for planning and implementation of the SSRP; it will further monitor SSRP's progress towards its objectives that will allow the Pooling Donors to evaluate compliance with agreed procedures;

e. provide sufficient qualified personnel and release all financial and other resources that are required over and above the funding from the Pooling Donors for the successful implementation of the SSRP; and

f. promptly inform the Pooling Donors of any condition which interferes or threatens to interfere with the successful implementation of the SSRP and call for a meeting to consult with the Pooling Donors on remedial actions to be taken.

g. ensure that resources are channelled to the end user (such as, schools, students and teachers) on a timely basis.

15. GON will convene and make adequate arrangements and documentation as stated herein for joint consultations and reviews (refer to Annex 1 SSRP - Schedule of Monitoring and Reporting).

IV. Responsibilities of the Pooling Donors

16. The Pooling Donors will make available to Nepal funds to be deposited into the FCA to be used exclusively to finance the SSRP.

17. On an annual basis, the Pooling Donors will review the Annual Strategic Implementation Plan ("ASIP") and the Annual Work Plan and Budget ("AWPB") for the SSRP and, subject to paragraph 31, will commit their contributions.

18. The Pooling Donors will ensure timely release of their commitments to the FCA in accordance with the provisions of Section VII below, the bilateral agreements/arrangements and the conditions stated under paragraph 31 of this JFA.

19. The Pooling Donors do not bear any responsibility and/or liability to any third party with regard to the implementation of the SSRP.

V. Meeting Structure

20. GON and the Pooling Donors will conduct Joint meetings two times a year, the Joint Annual Review ("JAR") in April and the Joint Consultative Meeting ("JCM") in December. In addition, the Signatories and other development partners ("DPs") will also have quarterly meetings.

21. At the JCM, the Signatories will discuss overall progress for the previous fiscal year based on reports as mentioned in paragraph 24 (a) and Section IX below. At the JCM, the Pooling Donors will make an initial indication of funding to be provided for the following fiscal year.

22. The JAR will serve as the annual review meeting. It will include other DPs to the sector, that are not parties to this JFA, for joint review of the ASIP, the AWPB for the next fiscal year, the audit report of the previous fiscal year, and findings of any studies commissioned by the DPs.

23. The Pooling Donors, National Planning Commission (NPC), MOF, Financial Comptroller General Office (FCGO), MOE/DOE, Ministry of Local Development (MOLD) and the Office of the Auditor General (OAG) will be represented at the meetings. Representatives of the Association of INGOS (AIN), non Pooling Donors and other key stakeholders, to be jointly agreed during the preparation of the term of reference (ToR), shall be invited to participate in the meetings. MOE/DOE in cooperation with the Pooling Donors will be responsible for the agenda of the meetings. The meetings will be called and chaired by MOE and the outcome will be presented in an Aide Memoire.

24. The discussions and decisions in the meetings will be based on the following documents, which will be submitted by MOE to the Pooling Donors in accordance with the deadlines set forth in Sections IX and XI below, but no later than two weeks ahead of the meeting:

    a. JCM: unaudited annual financial statements, annual performance report, interim financial monitoring report for the first fiscal trimester (four monthly), and a consolidated report of the previous fiscal year showing program outcomes, all as described in Section IX of this JFA;
    b. JAR: the annual audit report of the SSRP for the preceding year as certified by the OAG, the ASIP and AWPB for the forthcoming year, the interim financial report for the second fiscal trimester of the running fiscal year.
    c. Quarterly and other meetings: in addition to above specific purpose meetings, the Signatories and other DPs will meet quarterly and as and when necessary.

25. The Signatories have agreed to review Section V on Meeting Structure at the end of the first year of the SSRP implementation.

VI. Organizational Structure and Consultations

26. The Pooling Donors will designate one of the Pooling Donors as a contact or focal point ("Focal Point") for communication and information sharing with the GON on matters concerning the implementation of this JFA. However, the Focal Point will not have any authority to make decisions on behalf of the Pooling Donors. The period of a Focal Point will be for one year representing government's fiscal year (that is, July 16 to July 15 of every year). A co-Focal Point ("Co-Focal Point") will also be designated to work closely with the Focal Point and to act when the Focal Point is absent.
27. The ToR for the Focal Point and Co-Focal Point will be prepared by the Pooling Donors in

consultation with MOE/DOE and decided upon among the Pooling Donors, and a copy of the ToRs will be shared with the Signatories and other DPs.

28. The selection and role of the Focal Point and Co-Focal Point, as well as any changes made during the timeframe of this JFA, will be communicated to the MOF and MOE/DOE in writing by the Focal Point.

29. The Signatories will co-operate and communicate fully and in a timely manner with each other on all matters relevant to the implementation of the SSRP and this JFA. Signatories will share all information on financial matters and flow of funds, plans to carry out reviews, missions, and any other initiatives relating to the implementation of the SSRP.

VII. Pooling Mechanism

30. The indicative funding levels of the Pooling Donors for the following fiscal year will be discussed in the JCM.

31. The Pooling Donors will provide a funding commitment in the annual review meeting in April to be presented to the GON in a schedule showing the amount and time of contribution by each Pooling Donor. The commitment will be subject to the Pooling Donors subscribing to the ASIP/AWPB and will take into account the budget and cash forecast statement of the SSRP.

32. The Signatories will in the light of these commitments determine their share of funding for the coming fiscal year for the total SSRP, in accordance with paragraph 6 of this JFA.

33. Changes within the year of commitments or schedule of disbursements by the Pooling Donors or additional commitments from DPs, that are becoming signatories to this JFA and subsequently becoming a new pooling donors, will be discussed and agreed upon between the Signatories before such adjustments are made.

34. The disbursements by the Pooling Donors to the FCA will be as follows:

    a. The Pooling Donors will make an advance deposit into the FCA with at least their share of the first two trimesters' expenditure estimates for the fiscal year from which GON will make their withdrawal for reimbursing the SSRP equivalent to the Pooling Donor's share based on actual expenditures during the period.

    b. GON will present Financial Monitoring Reports ("FMRs"), as further described in paragraph 50 of this JFA, showing funds utilized during the trimester, the cash balance position of the FCA, and the cash forecast for the remaining fiscal year;

    c. In the event of the cash balance position in foreign currency being more than the funds required for the next two trimesters, no transfers of funds would need to take place from the Pooling Donors to the FCA;

    d. Any outstanding advance may be liable for repayment or deduction against the advance for the following fiscal year;

    e. There may be a final adjusted disbursement for the fiscal year on the basis of the certified third trimester FMR and the annual financial statement. This adjustment will be made in the second trimester of the following fiscal year.

    f. The Pooling Donors, as suitable to their respective funding cycle, may advance to the FCA the full amount as committed for the fiscal year or for the full program or to any

amount as convenient to them with the assurance that the funds so transferred will be closely monitored, tracked and reported by the FMRs.

35. The DOE is responsible for forwarding the relevant financial reports, as certified by the MOE Secretary, and for submitting the request for disbursement in writing in accordance with the provisions of this JFA to the Focal Point.

36. The Focal Point in consultation with Pooling Donors will have 15 calendar days, upon receipt of the request for disbursement from DOE, to review the request and the reports; and clarify any outstanding issues including validity of cash forecasts for the following two trimesters with the MOF, FCGO and MOE/DOE.

37. In the event of there being 'no objection' the Focal Point will advise the Pooling Donors to deposit additional funds to the FCA, if required, to meet their share of the agreed funding, which should take place no later than 30 calendar days after the receipt of GON's request.

38. In the event of there being issues which are not possible to clarify within the 15 calendar days period indicated in Para 36 above, the above process will be suspended until outstanding issues are resolved. GON and the Pooling Donors will make their best endeavours to resolve any such issues as quickly as possible.

39. Following confirmation from NRB, DOE will immediately acknowledge receipt of the foreign currency funds, in writing, to the concerned agency and a copy to the Focal Point.

40. The FCA will be a non-interest bearing account. No fees and commissions will be charged for the operation of the account without prior agreement of the Signatories.

41. The exchange rate at which funds from the FCA will be converted into Nepalese rupees will be the official buying rate of the NRB on the date of conversion.

42. The FCA will be used only for the purpose of reimbursing the amount to GON's consolidated fund following the certification of actual expenditures. There will be no direct expenditure on the procurement of imported goods and services from the FCA. The procurement of such items will take place in accordance with Section VIII below. Upon MOE/DOE requests, foreign exchange currency payments will be promptly facilitated by GON, as per GON regulations.

VIII. Procurement

43. GON undertakes to effect all procurement of works, goods and services for the SSRP and is responsible for the contracts to be signed.

44. All procurements requiring National Competitive Bidding (NCB) will be performed in accordance with generally accepted principles and good procurement practices and in conformity with GON's Public Procurement Act 2063 and Public Procurement Regulations 2064. Until the gaps vis-à-vis international procurement procedures that are existing in the prevailing laws are addressed, the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by IDA in May 2004, as amended in October 2006 ("Guidelines") will be applied for all procurements requiring International Competitive Bidding (ICB)[50].

[50] Given proposed changes to the Procurement Act, guidelines for National Competitive Bidding (NCB), should be subject to the following additional procedures: (i) only the model bidding documents for National Competitive Bidding agreed with the Association (as amended from time to time), including qualification criteria, shall be used; (ii) bid documents shall be made available, by mail or in person, to all who pay the

45. As an annex to the AWPB, MOE/DOE will provide the Pooling Donors for their review a draft annual procurement plan ("Procurement Plan"), which will include on-going contracts rolling into the following year, and a Procurement Plan for the following fiscal year prepared based on the agreed AWPB.

46. The Procurement Plan will only include activities to be financed under the SSRP and procured pursuant to International Competitive Bidding (ICB) and other procurement methods as maybe requested by the Pooling Donors.

47. During implementation of the Procurement Plan, MOE/DOE will provide the Pooling Donors with fiscal year trimester procurement monitoring reports concerning progress in implementation of the Procurement Plan and identifying any contracts that were not included in the previous Procurement Plan.

48. In each of the procurement monitoring reports, MOE/DOE will also provide information to the Pooling Donors concerning awarded contracts, appointment of consultants, and any material modifications to the terms and conditions of such contracts after their award.

49. MOE/DOE will, upon request, furnish the Pooling Donors with all relevant information on its procurement practices and actions taken, and provide access to all related records and documents.

IX. Reporting

50. The following set of progress reports will be accepted by the Pooling Donors as "Implementation Progress Reports (IPRs)" of which FMRs will be formed, as the basis of disbursement to the FCA by the Pooling Donors each trimester. These reports will be produced by DOE and submitted to the Focal Point copied to all Pooling Partners within 45 calendar days as of the end of each trimester:

    a. A report certified by the MOE Secretary for each trimester and information on the sources and uses of funds, transfers to and from the FCA in accordance with the format provided in Annex 2 to this JFA and with a copy of the bank statement for the account from the NRB.

    b. One consolidated financial report for allocation and expenditures for the Budget Heads, as described in paragraph 6 of this JFA, comparing actual and budgeted figures by budget heads and budget line item code for the trimester and cumulatively for the fiscal year to date, in accordance with the format provided in Annex 3 to this JFA.

    c. An output based progress report for the first and second trimester year relating SSRP

---

required fee; (iii) there shall not be any restrictions, such as registration/licensing requirements, for purchase of bid documents and bidding by foreign bidders, and no preference of any kind shall be given to any bidders in the bidding process when competing with the foreign bidders, state owned enterprises, or small scale enterprises; (iv) if a registration process is required, a foreign bidder declared as the lowest evaluated responsive bidder shall be given a reasonable opportunity of registering, without let or hindrance; (v) rebidding shall not be carried out without the prior concurrence of the Association; (vi) invitations to re-bid shall be advertised in at least one (1) national newspaper with a wide circulation, at least thirty (30) days prior to the deadline for submission of bids; and (vii) except in cases of force majeure and/or situations beyond the control of the Recipient, extension of bid validity shall not be allowed without the prior concurrence of the Association: (a) for the first request of extension if it is longer than four (4) weeks; and (b) for all subsequent requests for extension irrespective of the period.

expenditure and outputs in accordance with Annex 4; the third trimester output based report will constitute the annual output based report (ref. 52a below).

d. A cash forecast statement for the following two trimesters accounting for the current balance in the FCA.

e. An update on the Procurement Plan.

51. The following financial statements will be produced by DOE and submitted to the Pooling Donors on an annual basis: the third trimester FMR, which will serve as the un-audited annual financial statement for the Budget Heads referred to in paragraph 6 of this JFA, to be certified by the FCGO by 15 October of the following fiscal year.

52. The financial reporting will compare costs for actual activities for the current reporting period with the budget for the same period, and in the same currency.

53. The following program performance reports will be produced by MOE/DOE and submitted to the Focal Point, with a copy to all the Pooling Donors on an annual basis:

a. A consolidated output based progress report for the fiscal year relating SSRP expenditure and outputs by 15 November of the following year, in the form provided in Annex 4 to this JFA;
b. Flash reports on outcomes and processes twice during each academic year;
c. A consolidated annual "Flash Report" by 15 November on outcomes for the previous fiscal year in a format and with a content to be decided upon between the Signatories.

54. The Signatories have agreed to review this Section IX of this JFA at the end of the first year of SSRP implementation.

X. Monitoring and Evaluation

55. The Signatories have agreed that monitoring and evaluation will be an integral part of the program. In addition to the data collected through the evaluation and monitoring information system (EMIS), qualitative and quantitative studies will be commissioned by the MOE and DPs each year to provide additional information and analysis for program management, development and governance. The subjects and scope of such studies will be agreed each year as part of the JAR mission.

56. The Signatories, in consultation with other DPs will develop an evaluation design prior to the first JCM. This evaluation design will be the basis on which the Signatories and other DPs will evaluate the impacts of the program both at mid-term and closing stages of the program.

57. The Signatories will jointly conduct a mid-term review of SSRP progress in (i) meeting program outcomes, (ii) legislative or financial actions, (iii) the use of program funds, and (iv) capacity development measures. The Pooling Donors will elaborate the ToRs of the review to be discussed at a semi-annual meeting. The Focal Point will coordinate and manage the review process including the contracting of any external technical assistance for the review. The cost of the review will be charged to the Pooling Donors. The Signatories will rely upon the Performance Audit to be carried out by OAG, as stated in paragraph 62 of this JFA, and GON will ensure that the Performance Audit Report is discussed at the Public Accounts Committee (PAC) of the Parliament to ensure parliamentary oversight on findings and recommendations for improving program implementation.

58. The Signatories will jointly conduct an external evaluation during the last year of SSRP. The Pooling Donors will prepare a ToR for the evaluation to be agreed at the second to the last

semi-annual meeting of the SSRP. The Focal Point will coordinate and manage the evaluation process. The cost of the evaluation will be borne by the Pooling Donors.

59. The Pooling Donors will designate IDA to carry out a detailed fiduciary review covering both the financial management and procurement on a bi-annual basis as part of ensuring fiduciary controls and arrangements. IDA will closely coordinate with the Signatories while carrying out such a review and will share the findings of the review.

60. The Pooling Donors will, to the extent possible, refrain from initiating unilateral reviews/evaluations of the SSRP. However, in case a Pooling Donor is required to conduct a review/evaluation, the Pooling Donor will in a timely manner consult with the other Signatories.

XI. Audit

61. With respect to the SSRP, MOE/DOE will submit to the GON copied to the Pooling Donors an annual audit report of the Budget Heads for each fiscal year referred to in paragraph 6 of this JFA, as so audited by the OAG, no later than 15 January of the following fiscal year. The audit report will include the audit of the FCA and the local currency accounts. In case the report could not be finalized by the stated time frame, an additional 90 calendar days grace period will be provided to submit the final audited accounts. Such audit shall be carried out in accordance with auditing standards, prevailing statutes, and additional terms of reference if required, agreed between OAG and the Pooling Donors. MOE/DOE will also submit the related sections of SSRP in the Auditor General's Annual Report as soon as available.

62. A performance audit will be carried out once every two years by the OAG, or at its discretion, with the support of appropriately qualified auditors contracted under its authority. The Signatories may also request public expenditure tracking survey (PETS) studies to be carried out by the FCGO, or at the discretion of FCGO, with the support of appropriately qualified consultants under its authority. GON will provide adequate resources for such a purpose. The selection of the auditors and/or consultants and timing for such audit or expenditure tracking will be done in close collaboration with the Pooling Donors. The Signatories and OAG will jointly agree on the ToR in case of Performance Audit and with FCGO in case of PETS. Based on the outcome of such audit, the Pooling Donors may convey to GON any corrective measures they consider needed to be undertaken.

63. The Pooling Donors will to the extent possible refrain from initiating unilateral audits of the SSRP. However, in case a Pooling Donor is required to conduct such an audit, this Pooling Donor will timely consult with the other Signatories and OAG. GON will offer all reasonable support to facilitate such audits/inspections. The cost of this audit/inspection will be covered by the Pooling Donor(s) conducting such audit or inspection through separate arrangements.

XII. Non-Compliance

64. In case of non-compliance with the provisions of this JFA and/or violation of the essential elements mentioned in this JFA, the Pooling Donors reserve the right to suspend further disbursements to the SSRP and/or to reclaim all or part of the funds already transferred. Such non-compliance includes *inter alia* that:

a. substantial deviations from agreed plans and budgets occur;

b. SSRP implementation does not comply with the conditions of this JFA;

c. the suspension is warranted by a fundamental change in circumstances compared to those which existed at the start of the SSRP, and

d. any case of fraud or corruption is observed or reported and the GON fails to take appropriate action as spelled out in Section XIII.

65. If a Pooling Donor has the intention to suspend disbursements, reclaim funds or terminate its support for reasons of non-compliance, the Pooling Donor will call for a meeting with the other Signatories to seek a mutually acceptable solution and to reach a joint position on the remedial measures required as far as possible. In case a Pooling Donor decides to suspend disbursement, notification to this effect will be provided by the concerned Pooling Donor to other Signatories.

66. The Suspension shall cease as soon as the event/events which gave rise to suspension have ceased to exist. Notification to this effect will be provided by the concerned Pooling Donor to other Signatories.

XIII. Corruption

67. GON will promptly inform the Pooling Donors in case of any incidence of inappropriate use of funds or corruption as investigated by responsible anti-corruption bodies in Nepal.

68. The Signatories will invoke the remedy clause of suspension of disbursements as described in Section XII of this JFA if the GON fails to timely act with a satisfactory resolution on the cases of alleged corruption reported. The Signatories reserve this right, consistent with their commitment to good governance, accountability, and transparency.

XIV. Governance Accountability and Action Plan (GAAP)

69. In order to ensure good governance in the implementation of SSRP, the Signatories agreed to a set of actions called the Governance Accountability Action Plan (GAAP), as provided in Annex 5 to this JFA, which will address governance and accountability issues that relate to the management of the SSRP, financial management, procurement management and social accountability tools.

XV. Modification, Pooling Donor Accession, Withdrawal

70. Any modification or amendment of/to the provisions of this JFA will only be effective if decided in writing by all Signatories.

71. The Signatories welcome the accession to this JFA by other DPs who wish to support the SSRP.

72. Upon a DP's written request and acceptance of the provisions and conditions of this JFA, the Signatories may accept in writing the accession of the DP. An addendum will be prepared and attached to the JFA, to allow the DP to become a Signatory to the JFA.

73. In case a Pooling Donor intends to withdraw/terminate its support, the Pooling Donor will call for a meeting to inform the other Signatories on its decision and to consult on the consequences for the SSRP. Each Pooling Donor reserves the right to withdraw/terminate its

support to the SSRP by giving the other Signatories three months written notice.

XVI. Dispute Settlement

74. If any dispute arises between the Signatories as to the interpretation, application or performance of this JFA, the Signatories will consult with each other in order to reach an amicable solution.

XVII Entering into Effect

75. This JFA comes into effect on the date of signature by GON and the individual Pooling Donor and will remain in effect until all obligations under this JFA have been completed.

GOVERNMENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF NEPAL

By_____
Name_____

The Asian Development Bank ("**ADB**")

By_____
Name_____

The Government of Australia, represented by the Australian Agency for International Development (**"AUSAID")**

By_____
Name_____

The Ministry of Foreign Affairs, The Kingdom of Denmark ("**Denmark**")

By_____
Name_____

The United Kingdom of Great Britain and Northern Ireland represented by the Department for International Development ("**DFID**")

By_____
Name_____

The Commission of the European Communities (**"EC")**

By_____
Name_____

The Ministry for Foreign Affairs of Finland ("**Finland**")

By_____
Name_____

The International Development Association ("**IDA**")

By_____
Name_____

The Ministry of Foreign Affairs, The Government of Norway ("**Norway**")

By_____
Name_____

The United Nations Children's Fund **("UNICEF")**

By_____
Name_____

Annex 16: Statement of Loans and Credits

NEPAL: School Sector Reform Program

Project ID	FY	Purpose	Original Amount in US$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
		Additional Financing for Power Sector								
		Project on Agriculture Commericalization and Trade								
P113002	2009	NP Social Safety Net - Food Crisis Respo	0.00	16.70	0.00	0.00	0.00	15.83	0.00	0.00
P110762	2008	Peace Support Project	0.00	50.00	0.00	0.00	0.00	46.64	16.81	0.00
P105860	2008	PAF II	0.00	100.00	0.00	0.00	0.00	105.94	24.58	0.00
P095977	2008	Road Sector Development Project	0.00	42.60	0.00	0.00	0.00	29.93	-9.94	0.00
P099296	2008	Irrig & Water Res Mgmt Proj	0.00	64.30	0.00	0.00	0.00	62.38	3.45	0.00
P090967	2007	Second Higher Education Project	0.00	60.00	0.00	0.00	0.00	56.66	-1.49	0.00
P100342	2007	Avian Flu	0.00	18.20	0.00	0.00	0.00	13.00	-0.31	0.00
P093294	2005	NP Economic Reform TA	0.00	3.00	0.00	0.00	0.00	1.30	1.34	0.00
P083923	2005	Rural Access Improve. & Decentralization	0.00	32.00	0.00	0.00	0.00	15.23	0.12	0.00
P074633	2005	Education for All Project	0.00	110.00	0.00	0.00	0.00	46.98	-18.02	-1.93
P040613	2005	Nepal Health Sector Program Project	0.00	100.00	0.00	0.00	0.00	51.73	-6.06	3.08
P084219	2004	Fin Sector Restructuring (Phase II)	0.00	75.50	0.00	0.00	21.33	0.00	16.66	0.00
P071285	2004	Rural Water Supply & Sanitation Project	0.00	52.30	0.00	0.00	0.00	27.75	-0.65	0.00
P071291	2003	NP Financial Sector Technical Assistance	0.00	16.00	0.00	0.00	6.52	1.77	5.47	0.00
P043311	2003	POWER DEVELOPMENT PROJECT	0.00	75.60	0.00	0.00	0.76	57.96	47.95	2.98
P050671	2002	NP: Telecommunications Sector Reform	0.00	22.56	0.00	0.00	6.79	1.13	3.97	-1.74
		Total:	0.00	838.76	0.00	0.00	35.40	534.23	83.88	2.39

NEPAL
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

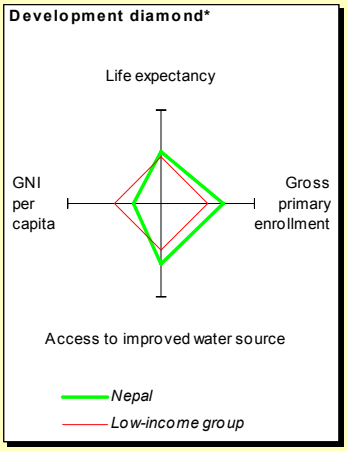
		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1996	Bhote Koshi	13.21	2.95	0.00	17.41	13.21	2.95	0.00	17.41
1998	Bhote Koshi	1.64	0.00	0.00	0.00	1.64	0.00	0.00	0.00
1994	Himal Power	18.17	0.00	2.54	0.00	18.17	0.00	2.25	0.00
2001	ILFC - Nepal	0.00	0.10	0.00	0.00	0.00	0.10	0.00	0.00
1998	Jomsom Resort	4.00	0.00	0.00	0.00	4.00	0.00	0.00	0.00
	Total portfolio:	37.02	3.05	2.54	17.41	37.02	3.05	2.25	17.41

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
	Total pending commitment:	0.00	0.00	0.00	0.00

Annex 17: Country at a Glance

NEPAL: School Sector Reform Program

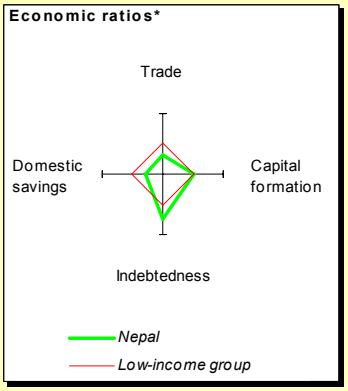
POVERTY and SOCIAL	Nepal	South Asia	Low-income
2007			
Population, mid-year *(millions)*	28.1	1,520	1,296
GNI per capita *(Atlas method, US$)*	340	880	578
GNI *(Atlas method, US$ billions)*	9.7	1,339	749
Average annual growth, 2001-07			
Population *(%)*	2.0	1.6	2.2
Labor force *(%)*	2.8	2.1	2.7
Most recent estimate (latest year available, 2001-07)			
Poverty *(% of population below national poverty line)*	31	..	..
Urban population *(% of total population)*	17	29	32
Life expectancy at birth *(years)*	63	64	57
Infant mortality *(per 1,000 live births)*	46	62	85
Child malnutrition *(% of children under 5)*	39	41	29
Access to an improved water source *(% of population)*	89	87	68
Literacy *(% of population age 15+)*	49	58	61
Gross primary enrollment *(% of school-age population)*	126	108	94
Male	129	111	100
Female	123	104	89



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1987	1997	2006	2007
GDP *(US$ billions)*	3.0	4.9	8.9	10.2
Gross capital formation/GDP	21.2	25.3	26.0	25.3
Exports of goods and services/GDP	11.8	26.3	13.6	12.5
Gross domestic savings/GDP	12.1	14.0	7.9	9.4
Gross national savings/GDP	16.3	22.5	28.2	27.9
Current account balance/GDP	-4.7	-0.8	2.2	0.6
Interest payments/GDP	0.5	0.5	0.3	..
Total debt/GDP	33.3	49.1	38.1	..
Total debt service/exports	10.1	5.2	5.1	..
Present value of debt/GDP	..	..	24.8	..
Present value of debt/exports	..	..	81.4	..

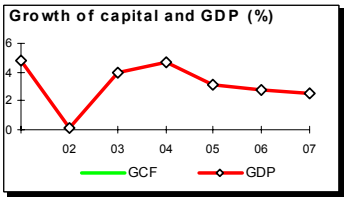
	1987-97	1997-07	2006	2007	2007-11
(average annual growth)					
GDP	5.2	3.6	2.8	2.5	4.5
GDP per capita	2.6	1.4	0.8	0.8	3.1
Exports of goods and services	..	..	..	..	..



STRUCTURE of the ECONOMY

	1987	1997	2006	2007
(% of GDP)				
Agriculture	50.7	41.4	35.1	33.8
Industry	15.8	22.9	17.4	17.2
Manufacturing	6.2	9.5	7.9	7.7
Services	33.4	35.7	47.5	48.9
Household final consumption expenditure	78.8	77.1	83.3	81.9
General gov't final consumption expenditure	9.1	8.9	8.8	8.7
Imports of goods and services	20.9	37.7	31.7	28.5

	1987-97	1997-07	2006	2007
(average annual growth)				
Agriculture	2.9	3.4	1.8	1.0
Industry	8.1	3.5	4.5	3.9
Manufacturing	10.6	1.9	2.0	2.2
Services	6.3	3.7	3.8	2.8
Household final consumption expenditure	..	..	..	..
General gov't final consumption expenditure	..	..	..	..
Gross capital formation	..	..	..	..
Imports of goods and services	..	..	..	..



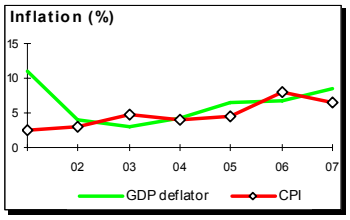
Note: 2007 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

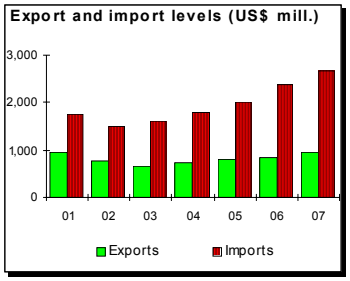
PRICES and GOVERNMENT FINANCE

	1987	1997	2006	2007
Domestic prices				
(% change)				
Consumer prices	13.4	8.1	8.0	6.4
Implicit GDP deflator	12.7	7.3	6.7	8.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	9.4	10.8	13.1	14.3
Current budget balance	-0.7	1.0	1.8	3.4
Overall surplus/deficit	-8.7	-3.9	-1.6	-1.4



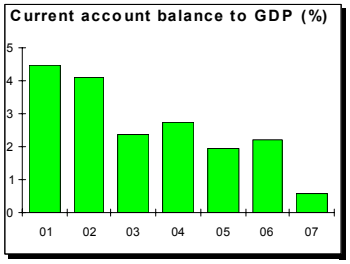
TRADE

	1987	1997	2006	2007
(US$ millions)				
Total exports (fob)	138	1,160	833	939
Food and live animals	..	51	99	..
Animal and vegetable oils	..	35	59	..
Manufactures	..	318	606	645
Total imports (cif)	503	1,750	2,372	2,653
Food	62	123	184	206
Fuel and energy	43	217	504	691
Capital goods	128	242	293	328
Export price index *(2000=100)*	..	..	..	..
Import price index *(2000=100)*	..	..	..	..
Terms of trade *(2000=100)*	..	..	..	..



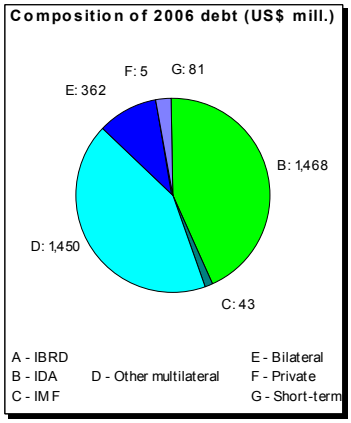
BALANCE of PAYMENTS

	1987	1997	2006	2007
(US$ millions)				
Exports of goods and services	348	1,506	1,216	1,347
Imports of goods and services	604	1,962	2,832	3,225
Resource balance	-256	-456	-1,616	-1,878
Net income	-6	8	68	106
Net current transfers	124	410	1,744	1,830
Current account balance	-138	-38	197	58
Financing items (net)	156	131	159	118
Changes in net reserves	-18	-94	-355	-176
Memo:				
Reserves including gold *(US$ millions)*	185	657	1,797	2,008
Conversion rate *(DEC, local/US$)*	21.6	57.0	72.3	70.5



EXTERNAL DEBT and RESOURCE FLOWS

	1987	1997	2006	2007
(US$ millions)				
Total debt outstanding and disbursed	986	2,414	3,409	..
IBRD	0	0	0	0
IDA	392	1,047	1,468	1,524
Total debt service	35	92	140	..
IBRD	0	0	0	0
IDA	5	17	42	46
Composition of net resource flows				
Official grants	131	140	312	..
Official creditors	130	197	58	..
Private creditors	37	-11	0	..
Foreign direct investment (net inflows)	1	23	-7	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	94	146	0	0
Disbursements	81	55	43	35
Principal repayments	1	9	31	34
Net flows	79	45	12	0
Interest payments	4	8	11	11
Net transfers	75	38	1	-11



Note: This table was produced from the Development Economics LDB database. 9/24/08

Annex 18: Maps

NEPAL: School Sector Reform Program

