NEPAL EDUCATION SECTOR PROGRAM IMPLEMENTATION GRANT AND MULTIPLIER GRANT ALLOCATION: REPORT FROM THE GRANTS AND PERFORMANCE COMMITTEE

For Decision

Please note: Board papers are deliberative in nature and, in accordance with the GPE Transparency Policy, are not public documents until the Board has considered them. It is understood that constituencies will circulate Board documents among their members prior to Board consideration for consultation purposes.

1. STRATEGIC PURPOSE

1.1. The purpose of this paper is to request the Board to approve an allocation for an education sector program implementation grant (ESPIG) and a multiplier grant to Nepal, as recommended by the Grants and Performance Committee (GPC) following its discussion of the grant application during its January 29-31, 2019 meeting.

2. RECOMMENDED DECISION

2.1 The Grants and Performance Committee recommends the Board approve the following decision:

BOD/2019/03-XX–Allocation for an Education Sector Program Implementation Grant and Multiplier Grant to Nepal: The Board of Directors with respect to the application submitted in the fourth round of 2018:

1. Notes compliance with the requirements for accessing the fixed part of the combined maximum country allocation for an education sector program implementation grant (ESPIG) and multiplier grant, as described in the application and summarized and assessed in Annex 2 to BOD/2019/02 DOC 03.

2. Notes compliance with the incentives for accessing the variable part of the combined maximum country allocation for an ESPIG and multiplier grant and approves the indicators on Equity, Efficiency, and Learning and their means of verification, as described in the application and assessed in Annex 2 to BOD/2019/02 DOC 03.
3. Notes compliance with the requirements of co-financing, additionality, and debt sustainability for accessing the maximum country allocation for a multiplier grant, as described in the application and assessed in Annex 2 to BOD/2019/02 DOC 03.

4. Approves an allocation from GPE trust funds for an ESPIG and a multiplier grant, as described in the application submitted and summarized in Table 1 in decision BOD/2019/03-XX 4 (c), subject to:
   a. Availability of funds.
   b. Board decision BOD/2012/11-04 on commitment of trust funds for ESPIGs in annual installments.
   c. GPC recommendations for funding include (all amounts in US$):

   **Table 1 Application Summary and GPC Allocation Recommendations for an ESPIG and multiplier grant in US$:**

<table>
<thead>
<tr>
<th>Nepal</th>
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</thead>
<tbody>
<tr>
<td>a. ESPIG Maximum Country Allocation</td>
<td>9,200,000</td>
</tr>
<tr>
<td>b. Multiplier Maximum Country Allocation</td>
<td>15,000,000</td>
</tr>
<tr>
<td>c. Total Maximum Country Allocation</td>
<td>24,200,000</td>
</tr>
<tr>
<td>d. Fixed Part</td>
<td>14,442,000 (of which 242,000 to be channeled through the Bank-Executed Trust Fund)</td>
</tr>
<tr>
<td>e. Variable Part</td>
<td>9,758,000</td>
</tr>
<tr>
<td>f. Allocation Requested (100%)</td>
<td>24,200,000¹</td>
</tr>
<tr>
<td>g. Allocation Recommended by GPC</td>
<td><strong>24,200,000</strong></td>
</tr>
<tr>
<td>h. Grant Agent</td>
<td>World Bank</td>
</tr>
<tr>
<td>i. Agency Fee % - Amount</td>
<td>1.75% - 423,500</td>
</tr>
<tr>
<td>j. Period</td>
<td>3 Years</td>
</tr>
<tr>
<td>k. Expected Start Date</td>
<td>July 16, 2018²</td>
</tr>
<tr>
<td>l. Variable Part Disbursement Modality</td>
<td>Ex-post</td>
</tr>
<tr>
<td>m. Funding Source</td>
<td>GPE Fund</td>
</tr>
</tbody>
</table>

5. Requests the Secretariat to:
   a. Include in its notification of grant approval to Nepal the requests for report-back and observations on the program as recommended by the Grants and Performance Committee and set out in Annex 1 to BOD/2019/02 DOC 03.

¹Includes US$242,000 for the cost of the grant agent to perform its roles and responsibilities (formerly supervision fees).
²The start date is aligned with the SSDP results-based financing/Disbursement-Linked Indicators cycle. While it is a past date, the first results verification and disbursement are planned in mid-2019.
b. Include an update on the issues listed as “report-back” in the annual Portfolio Review in accordance with the specified timeline.

3. **BACKGROUND**

3.1 The Committee assessed the grant application from Nepal and discussed whether it met the funding model requirements to access the fixed and variable part of the combined maximum country allocation of an ESPIG and a multiplier grant and the additional requirements of co-financing, additionality, and debt sustainability for accessing the multiplier maximum country allocation.

3.2 Prior to the discussion, the following conflict of interest was disclosed:

- Douglas Sumerfield, World Bank, as representative of the grant agent for the proposed program.

3.3 The GPC had a rich discussion regarding the application and found that Nepal met the requirements.

3.4 The primary discussion points are summarized in Annex 1. The evidence for meeting the requirements and quality standards is set out in Annex 2.

4. **PLEASE CONTACT** Margarita Focas Licht (mlicht@globalpartnership.org) in case of any questions.

5. **ANNEXES**

5.1 This paper includes the following annexes:

- Annex 1 – GPC Observations, Report-Backs, and Conditions
- Annex 2 – Secretariat Quality Assurance Review Phase 3 (Final Readiness Review)

5.2 The following is available on the Committee eTeam site:

- Nepal ESPIG Application Package (GPC/2019/01 DOC 11)
### ANNEX 1 – GPC OBSERVATIONS, REPORT-BACKS, AND CONDITIONS

<table>
<thead>
<tr>
<th>Nepal</th>
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</thead>
</table>
| **Observations** | The Committee recognizes Nepal’s challenges with regard to the federal transition enshrined in the 2015 Constitution, and the related extensive efforts undertaken to support the implementation of the education sector plan. These include the development of a transitional plan for implementing the School Sector Development Plan (SSDP) 2016-2023, the development and roll-out of various guidelines for local governments, as well as the upcoming adoption of the Federal Education Act. The Committee appreciates that the requested GPE grant will also support the federal transition.  

The Committee recognizes that the transition will be a long-term effort with course correction inevitable as challenges arise. In this regard, the SSDP Mid-Term Review 2019 will help align the implementation arrangements with the new federal structure, including recalibrating the disbursement-linked indicators of the Variable Part of the grant with the new structure.  

Regarding domestic financing to education, the Committee notes that the commitment in the 2015 ESPIG application from Nepal to maintain a 15 percent share of the national budget for education was not achieved due to extraordinary circumstances. Indeed, the education expenditure share went down from 20.4 percent in 2016 to 13.9 percent in 2018. The Committee notes that actual education expenditure has been increasing (from 77 million to 104 million Nepalese rupees for the same period), but that the denominator (national budget) has been inflated due to earthquake reconstruction and the federal transition needs. The Committee also notes that Nepal’s future commitment projects an upward trend and will reach 15.0 percent in 2019, up from the 2018 commitment of 13.4 percent. The percentage is projected to further increase to 16.6 percent in 2021. Furthermore, the Committee observes that the new GPE grant will help reduce the SSDP five-year program 2016-2021 financing gap of US$247 million by 10 percent. Nevertheless, the Committee is concerned about the continued fiscal vulnerabilities caused by the 2015 earthquake and the potential impact of the transition to federalism on the SSDP financing.  

The Committee notes that the equity index developed as part of the 2015 ESPIG variable part reflects several dimensions of inequity in access, participation and learning and helps the analysis and planning of strategies for out-of-school children (OOSC). While appreciating the various strategies already in place for children with disabilities as well as the ongoing development of the Inclusive Education Master Plan, the Committee encourages the local education group to reflect on measures to improve the capacity of schools to report on the disability-related data in EMIS, and to analyze the impact of the OOSC/inclusion strategies on the meaningful (re)integration of children with disabilities in schools. |
| **Report-Backs** | *For the Local Education Group:*

The Committee requests the local education group to monitor and analyse the domestic financing of education on an annual basis during the joint sector |
review, taking into consideration expenditures at the federal, provincial and local levels, and report on this to the GPE through the coordinating agency as part of the joint sector review report.

<table>
<thead>
<tr>
<th>Conditions</th>
<th>N/A</th>
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ANNEX 2 – SECRETARIAT QUALITY ASSURANCE REVIEW PHASE 3 (FINAL READINESS REVIEW)

Nepal - Quality Assurance Review – Phase 3

Proposed GPE Grant Amount: US$24.2 million (of which US$ 15 million Multiplier), of which US$ 242,000 for Grant Agent’s Implementation Support Costs;
Fixed Part: US$14.2 million
Variable Part: US$9.758 million
Implementation period: 3 years
Projected implementation start date: July 16, 2018
Grant Agent: World Bank

1. BACKGROUND AND EDUCATION SECTOR OVERVIEW

1.1 COUNTRY BACKGROUND

Tucked in the Himalayas between the two giant countries of China and India, Nepal remains among the poorest countries in the world. However, the country has witnessed a remarkable reduction in poverty; the Multidimensional Poverty Index has steadily declined, and it has met most Millennium Development Goal targets ahead of schedule. People living under poverty fell by 19 percentage points between 2003 and 2011, and 15 percent of the population was counted as poor in 2011. Agriculture employs 70 percent of the population but only accounts for around 30 percent of GDP. Overseas remittances have been the country’s largest source of revenue. The 2015 earthquakes disrupted economic growth from the expected 6 percent to 3 percent in 2015; further reduced to 0.6 percent in 2016. However, the country has shown resilience, as GDP growth bounced back to 7.5 percent in 2017.

Nepal is characterized by its cultural, ethnic, and religious diversity: the population comprises 125 castes and ethnic groups speaking 123 languages, most of whom are Hindus (81.3 percent), Buddhists (9 percent), and Muslims (4.4 percent). Dalits (people of the lowest caste, previously “untouchables”), occupy the lowest sociocultural and economic status, and are often de facto restricted to certain occupations and face discrimination in many aspects of societal life.

After a decade-long conflict which started in 1996, the country transitioned from a monarchy to a democratic republic in 2008. A new constitution was promulgated in 2015; a fruit of many years of negotiation between different stakeholders. A new government took office on February 2018, following elections for all three tiers of the state architecture (local, state and federal) defined by

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3 The estimated start date (July 2018) is past, in line with the SSDP results-based financing/DLI cycle. Given that the program is results-based financing (with the first results verification planned in mid-2019, and actual disbursement later), the Secretariat views that the past starting date is not an issue. The deadline of completion of activities is July 15, 2021, which is also aligned with the closing date of the SSDP five-year program. Disbursements will take place after the closing date with 4-month grace period.
4 World Bank EdStats http://datatopics.worldbank.org/education/country/nepal, last accessed November 27, 2018
5 As much as 30 percent of GDP in 2015
8 Officially estimated to be around 13 percent of the population but scholars estimate the actual proportion to be around 20 percent. http://www.dwo.org.np/dalit.php
the new constitution. At the sub-national level, funds, functions and functionaries managed by the central, district and village authorities under five regions and 75 districts are transferred to the seven new states and 753 local governments (LG) for which new legislation, institutions and administrative procedures are being progressively formalized.

### Table 1:

<table>
<thead>
<tr>
<th></th>
<th>Nepal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>29.3 million (2017, World Bank Databank)</td>
</tr>
<tr>
<td>Human Development Index Ranking</td>
<td>149 out of 189 countries (2017, UNDP Human Development Report)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>US$ 835 (2017, World Bank Databank)</td>
</tr>
<tr>
<td>World Bank Income Classification Level</td>
<td>Low Income (2018, World Bank Databank)</td>
</tr>
</tbody>
</table>

### 1.2 EDUCATION SECTOR OVERVIEW

GPE member since 2009, Nepal has benefited from two ESPIGs, an ESPDG and Global and Regional Activities grants.

The Net Enrolment Rate (NER) at the primary level increased from 81 percent in 2004 to 95 percent in 2017, while the NER at the lower secondary level increased from 48 percent in 2007 to 54 percent in 2017. Completion rates for primary and lower secondary education have increased, from 102 percent in 2012 to 113 percent in 2017 for primary and from 75 percent in 2012 to 89 percent in 2017. Pre-primary enrolment rate has significantly grown, with the percentage of grade 1 students having early childhood education/pre-primary experience at 49.9 percent in 2009 and 66.4 percent in 2017. NER at the secondary level remains low at 54 percent.

The current Education Sector Plan of Nepal, the School Sector Development Plan (SSDP 2016-23), builds on the achievements of the previous School Sector Reform Plan (2009-2016) and the Education for All Program (2004-2009), and places its central focus on improving education quality. SSDP is a seven-year plan, supported by a five-year costed program (2016-2021), currently in its third year of implementation. Like the SSRP, the SSDP is supported by a pooled funding mechanism, with a Joint Financing Arrangement (JFA) between the government and eight Development Partners (DPs), with high donor coordination and use of the government Public Financial Management system. The SSDP adopts a results-based financing modality for

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9 Education Sector Program Implementation Grant (See 3.1 for details of years and amounts)  
10 Education Sector Plan Development Grant  
11 Program Document, page 62  
14 Including GPE through the World Bank as GA
the DP funding/support, and includes a joint Disbursement Linked Indicator (DLI) Framework which also mainstream the previous (2015) ESPIG Variable Part indicators.

The promulgation of the new constitution and the consequent federal transition imply changes to the implementation arrangements of the SSDP, which is being progressively clarified. Under the federal system, the provincial and 753 LGs will be responsible for basic education provision, whereas previously education was more centrally managed through Ministry/Department of Education and the 75 District Education Offices (DEOs). At the federal level, the Ministry of Education, Science and Technology (MOEST) serves as the executing agency for SSDP. Instead of the Department of Education, a newly established Centre for Education Human Resource Development (CEHRD) is tasked with preparing annual work plans and budgets (AWPBs) and the annual strategic implementation plans (ASIPs). Further updates to align SSDP implementation arrangements to the federal structure are currently being finalized. The MOEST has prepared a transition implementation plan based on which a re-appraisal process of the SSDP implementation arrangements and support modality (including restructuring of the DLI framework and the JFA) will be undertaken within the coming year as part of the Mid-Term Review (MTR). The transition to federalism will test the LG’s capacity and governance to improve service delivery as most of the functions related to school education have been devolved to the LGs.

1.2.1 Equity

Nepal has made impressive gains in improving access and equity in education in recent years, demonstrated for example by the achievement of gender parity in basic and secondary education and the increase of Dalit\textsuperscript{15} students in schools. Girls’ survival rate to Grade 8 is now 77.4 percent; higher than that of boys at 75.9 percent.\textsuperscript{16} The increased retention of both boys and girls in basic education can be attributed to a series of enabling strategies adopted by the national-level programs such as scholarships and incentives (including scholarships for girls and Dalits), girls’ toilets and water, sanitation, and hygiene facilities, free textbooks, and the expansion of preprimary education, to name a few. Yet challenges remain. Children from poor households and certain geographic areas are much less likely to transition to the secondary level. At the beginning of the SSDP, there were over 540,000 out-of-school children (OOSC – around 10.6 percent of the 5-12-year-old children\textsuperscript{17}). 46 percent of them were in the Central Development Region, while nearly 1/4\textsuperscript{th} of children in the mountain areas were not in school.\textsuperscript{18} With GPE support, MOEST adopted a targeted approach to identifying OOSC using a Comprehensive Equity Index which considers access, participation, and learning outcomes from the perspective of gender, socioeconomic status/parents’ education level, ethnicity, caste\textsuperscript{19}, geographical location and disability. The SSDP uses the Index to bring OOSC in the most disadvantaged districts to either formal schools or non-formal learning centers. As for disability, the EMIS includes figures on enrolments disaggregated by types of disability by school level and gender, but the denominator is not available.

1.2.2 Efficiency

\textsuperscript{15} Almost half of Nepal’s Dalits live below the poverty line. They are landless and much poorer than the dominant caste population. https://idsn.org/countries/nepal/, last accessed November 28, 2018
\textsuperscript{16} Program Document, page 101
\textsuperscript{17} MOEST (2018) Flash Report
\textsuperscript{18} UNICEF (2015) Nepal’s Study within the Global Initiative on Out-of-School Children
\textsuperscript{19} Dalit/non-Dalit
Internal efficiency indicators in the education system have remained low. While repetition rates in Grade 1 have decreased from 30 percent in 2007 to 13 percent in 2016, and for all grades in primary from 16 percent to 7.4 percent, Grade 1 dropout rates have basically remained the same from 13.2 percent to 13.8 percent for the same time frame. The effective transition rate from primary to lower secondary level dropped from 87.3 percent in 2014 to 82.4 percent in 2016.

Close to 260,000 teachers work in the basic education system (public and private). Deployment has been improved across the country, with basic education student-teacher ratio of 30:1 in 2013 to 25:1 in 2017. Populated Terai (plains) have also seen an improvement in the ratio. Whereas the share of female teachers at different sub-sectoral levels has been steadily increasing thanks to the quota system, their deployment is still weak in the remote, mountainous districts. 77 percent of the teachers in public schools have received modular-based Teacher Professional Development training. DEOs play a crucial role in recruiting, deploying, and redeploying teachers, while School Management Committees are responsible for recruiting temporary teachers. The National Centre for Educational Development (NCED) manages in-service training for lower secondary and secondary teachers. However, lacking adequate staff to fulfil its mission, NCED is overwhelmed with in-service training tasks that are too big to implement successfully. While the backlog of untrained teachers has been largely cleared, the lingering challenge is that teacher training/qualification has not demonstrated significant effects on student achievement.

1.2.3 Learning outcomes

National Assessment of Student Achievement (NASA) results from 2011 to 2015 indicate low levels of student learning at the basic education level and results have not improved. Moreover, gaps in learning outcomes persist by geographical location, socio-economic status, ethnicity and mother tongue. Mean achievement score in Nepali among Nepali-speaking 8th graders in 2013 was 52 percent whereas among non-Nepali speakers, it was 41 percent (37 percent and 28 percent respectively for Math). According to the nationally representative early grade reading assessment (EGRA) from 2014, 12.8 percent (14.1 percent girls, 11.1 percent boys) of grade three students are reading at the MOEST benchmark. Gaps also exist between public and private schools; the Math achievement score in NASA 2013 was 57 percent in private schools compared to 26 percent in community (public) schools.

Improving the quality of education is at the heart of SSDP, due to low learning levels and inequity in learning outcomes. SSDP activities to address this include improvements in: learning environment, pedagogical practice, curriculum, textbooks and learning materials, student assessments and examination system.

1.2.4 Monitoring of Sector Performance

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21 Flash Report 2018
22 Nepal Education Sector Analysis, page XIII
23 45 correct words per minute with 80 percent comprehension
A large variety of stakeholders participate in the planning and monitoring of the SSDP, through a well-established and coordinated joint planning and review mechanism\textsuperscript{24}. Currently, eight\textsuperscript{25} DPs pool funds with the Government to support the implementation of SSDP: Asian Development Bank, EU, Finland, JICA, Norway, UNICEF, and the World Bank (and GPE), with USAID soon to join. In addition, partners like UNESCO and WFP have discrete projects, and come together under the Joint Direct Financial Arrangement. Civil society is represented in the LEG and the DP meetings through the National Campaign for Education, and the Association of International NGOs.

Two Joint Sector Reviews take place each year; the Budget Review Meeting which serves to agree on the ASIP and the AWPB, and the Joint Review Meeting which serves to review previous year’s progress based on the government’s annual report. Joint thematic working groups on equity, quality, financial management, M&E serve to steer planning, implementation and monitoring of SSDP in a more in-depth manner.

2. **Fixed Part Requirements**

2.1 **Requirement 1:** A credible, endorsed Education Sector Plan (ESP), or alternatively, a Transitional Education Plan (TEP).

SSDP is Nepal’s seven-year ESP, supported by its costed five-year implementation plan School Sector Development Program 2016-21\textsuperscript{26}. In addition, ASIPs and AWPBs, elaborated yearly, provide greater operational details and allow for adjustments. Various existing studies, the Education Sector Analysis, the SSRP evaluation, as well as stakeholder inputs fed into the SSDP. Extensive consultations were carried out at the central, district, and school/community levels, including CSOs. Additional consultations were carried out with vulnerable population groups.

SSDP was appraised between March and May 2016 by an independent consultant\textsuperscript{27}. The appraisal commended the highly analytical and participatory nature of the process, despite the difficult context of the 2015 earthquake aftermath. Its key recommendations, alongside DP and Secretariat comments, were reflected in the final version. The DPs endorsed the SSDP in November 2016.

As mentioned in the endorsement letter, the government and DPs have agreed to adjust the SSDP during the MTR in 2019, especially with respect to the federal transition. While the various iterations of the MOEST plans for transition show the way forward in implementing the provisions in the new constitution, it is noted that many decisions are outside of the purview of the MOE and require long political/technical process of clarification.

**Conclusion:** This requirement is met.

\textsuperscript{24} The National Planning Commission, Ministry of Finance, Ministry of Federal Affairs and Local Development, Office of the Auditor General, Teachers’ Professional Organizations, National Federation of Disabilities, National Dalit Commission, Parents’ Organizations, etc.

\textsuperscript{25} Including GPE funds through the World Bank as GA

\textsuperscript{26} While the SSDP does not include higher education due to the LEG consensus to prioritize the school sector (pre-primary to secondary) and non-formal education, the broader national development plan\textsuperscript{26} does.

\textsuperscript{27} Trained by UNESCO International Institute for Education Planning and GPE
2.2 Requirement 2: Evidence of commitment to ESP or TEP and its financing.

Nepal’s previous domestic financing commitment upon the 2015 ESPIG application submission was to maintain 15 percent of the national budget allocation to education up to 2018. The application was assessed by the GPC just a week and a half before the 2015 earthquake. The government’s education expenditure share (excluding debt service) was 20.4 percent in 2016, which decreased to 19.0 percent in 2017, and to 13.9 percent in 2018. This decrease should be interpreted within the context of the 2015 earthquake and subsequent reconstruction costs which inflated the denominator/national budget, where 49 percent of the recovery needs was in the housing sector as compared to 6 percent in the education sector. The current federal transition also requires a large budget, with block grants (ranging from US$1M-12.5M) for the transition itself being provided to all 753 LGs.

It is worth noting that the actual public education expenditure through 2016-2021 has been following a consistent upward trend (from 76,753 million NPR\textsuperscript{28} in 2016 to 153,973 million NPR in 2021), despite the earthquakes and federal transition\textsuperscript{29} while the population growth in Nepal is now among the lowest in South Asia at 1.35 percent.\textsuperscript{30}

The projected education expenditures (2019-2021) are taken from the recently finalized Medium-Term Expenditure Framework (MTEF). The government’s commitment (recurrent and capital, excluding debt service) is 15.0 percent in 2019, which is an important increase from 2018 commitment of 13.4%. The figure further increases to 16.3 percent in 2020 and to 16.6 percent in 2021. These projections need to be looked at with caveat, as the MTEF now only reflects the budget covered by the central government (MOEST), school reconstruction budget through National Reconstruction Authority (NRA), and conditional grants which will be paid directly to LGs. Provincial Governments (PGs) and LGs will also receive financial equalization grants, which they can allocate based on their needs. PGs have allocated 12 percent of the grant to education sector, which is already included in the projection. So far\textsuperscript{31}, the MOEST has been able to compile budget data from 27 LGs for 2019, and 6 percent of the equalization grant to these LGs has been allocated to education sector. This implies that the actual projected education expenditures will be larger than the MTEF figures. Moreover, the recurrent budget (excluding debt service) will increase from 16.3 percent in 2019 to 20.6 percent in 2021. It should be noted that at the beginning of the funding model roll-out, the domestic financing requirement was mainly assessed on the basis of the education share of the national recurrent budget. Notwithstanding the temporary decrease due to the earthquake and the federal transition needs, Nepal would have met the requirements comfortably if the previous assessment criterion was still in effect.

Nepal allocates funds to the basic education sub-sector of eight years. A pro-rated calculation of six years of primary based on the number of students shows that the primary recurrent education share of education is constantly beyond 45 percent (e.g. 48 percent in 2017/18).

\textsuperscript{28} Nepali Rupees
\textsuperscript{29} World Bank Group, Nepal Country Economic Memorandum, May 2017
\textsuperscript{30} Census 2011, in Flash Report 2018
\textsuperscript{31} At the time of the ESPIG application submission
DP funding\textsuperscript{32} constitutes 6.6 percent of the SSDP five-year program funding. As mentioned earlier, eight DPs support the SSDP through a sector-wide pooled funding.

**Conclusion:** This requirement is met.

### 2.3 Requirement 3: Availability of Data.

The Education Sector Analysis was conducted in 2015, finalized in 2016.\textsuperscript{33} It was then updated with information after the earthquake, and the revised version was shared in January 2017.

The Education Management Information System (EMIS) data is collected twice per year, published in the Flash Reports, and analyzed in the Consolidated Report, annually shared before the JRM. It is characterized by a good disaggregation of data according to gender, population sub-groups, disability, geography, as well as data on School Management Committees/PTAs, Priority Minimum Enabling Conditions, textbook availability and school opening days. It also includes the equity index developed in 2015, one of the Variable Part milestones of the 2015 ESPIG. EMIS will need to be adjusted to the new federal system so that it is compatible with the new structures and responsibilities. Nepal reports all of GPE’s 12 key indicators (and beyond) to the UIS every year. Nationally representative household surveys include the population census, Demographic Health Surveys, and National Living Standard Surveys.

NASA reports 2013 (grade 8) and 2014 (grades 3, 5) are available and on the MoE website. NASA 2017 (grade 8) report was recently finalized, and preparations are under way for NASA for grade 10. EGRA are carried out in grades 2 and 3, and classroom-based EGRA was carried out in 2017 (also a part of the Variable Part of the 2015 ESPIG).

**Conclusion:** This requirement is met.

### 3. ESPIG

#### 3.1 PAST ESPIG PERFORMANCE

**Financing and key components**

With the World Bank as grant agent (GA), Nepal previously received a Fast Track Initiative/GPE grant of US$120 million\textsuperscript{34} (2010 to 2016\textsuperscript{35}), and US$59.3 million (2015 to 2019), to support the implementation of the School Sector Reform Program 2009-2016 (SSRP), and its successor SSDP 2016-2023.

The SSRP covered grades 1-12 as well as pre-primary education and lifelong learning and included a wide range of strategies and activities to improve access and retention. The program

\textsuperscript{32} Going into the five-year pooled funding.

\textsuperscript{33} Includes analysis of demographic, economic and social context, sub-sector progress and challenges, macroeconomic and fiduciary assessment, institutional capacity. The equity chapter addresses not only access but also participation and learning outcomes, including data disaggregated by gender, region, caste/ethnicity, and disability.

\textsuperscript{34} Because there were some unutilized funds, the actual total disbursement was $118.7 million.

\textsuperscript{35} Original closing date was December 2014, but this was revised to July 2016 after a 2016 restructuring approved by the GPE Board.
was advanced in terms of aid effectiveness and alignment of DP support to the government system. Indeed, the government funds were pooled with nine DPs’ funds through a Joint Financing Arrangement, reimbursing incurred expenditures upon satisfactory fulfillment of the conditions in the JFA (one single reporting and review using the SSRP framework etc.). GPE’s support to SSRP also fed into the pooled funds, with the aim of increasing access to and improving quality of school education, especially for children from marginalized groups.

The SSRP faced, among others, a host of challenges such as political dynamics, accountability gaps, devastating earthquakes in 2015, and the sheer size and scope of its operations. Despite these, the SSRP/ESPIG performed well according to the GA, meeting or exceeding 80 percent of its intermediate outcome indicators, and 89 percent of its Project Development Objective indicators. As of end November 2018, the 2015 ESPIG (which straddles one year of SSRP and two years of SSDP) is over 90% disbursed, and the SSDP implementation so far is rated as moderately satisfactory by the GA.

**Ongoing Variable Part ESPIG Performance**

Table 2 below summarizes the strategies, targets and achievements of the 2015 ESPIG Variable Part. The first set of targets were expected to be reached by July 2017 (covering two years to aim for higher level outcomes) and verified in November 2017 during the Joint Review Meeting (JRM). However, the submission of the external verification report was delayed by five months, so disbursement occurred in June 2018. Targets for the first period were mostly achieved as verified by the independent verification agent and the World Bank team. Of note is that disbursement for the equity indicator was proportional to the 93 percent achievement of the target. The funds for the other two indicators were fully disbursed as targets were fully achieved. The second set of targets were expected to be reached by July 2018. According to the latest JRM Aide-Memoire from November 2018, Period 2 targets are on track; the efficiency and learning targets have been achieved and reported, while the achievement report of the equity target will be shared in December and verified by the verification agent by January 30, 2019.

<table>
<thead>
<tr>
<th><strong>Table 2: Summary of ongoing ESPIG Variable Part performance</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity</strong></td>
</tr>
<tr>
<td><strong>Strategy:</strong> Develop an equity index (considering socio-economic-geographical status of children and their access to basic education) and provide targeted support to 10 most disadvantaged districts, to reintegrate OOSC into basic education, and to provide non-formal education.</td>
</tr>
<tr>
<td><strong>Indicator:</strong> Targeted interventions implemented in 10 most disadvantaged districts according to the newly developed equity index, and OOSC reduced by 20 percent in these 10 districts.</td>
</tr>
<tr>
<td><strong>Period 1 (July 2015-July 2017) target:</strong></td>
</tr>
<tr>
<td>- Development of an equity index. Use index to design and implement interventions to reduce OOSC in 5 most disadvantaged districts. (US$ 700,000)</td>
</tr>
<tr>
<td>- Reduce OOSC by 20 % in targeted districts. (US$ 2,200,000)</td>
</tr>
<tr>
<td><strong>Period 1 achievement:</strong></td>
</tr>
<tr>
<td>- Equity index has been developed. Targeted interventions implemented in the 5 selected districts using the index. (US$ 700,000 USD disbursed)</td>
</tr>
<tr>
<td>- Partially achieved. 18.2 % reduction in the aggregate number of OOSC in these districts.</td>
</tr>
</tbody>
</table>

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36 Commissioned by the MOEST
<table>
<thead>
<tr>
<th>Period 2 (July 2017- July 2018) target:</th>
<th>Period 2 achievement:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Use index to design and implement interventions to reduce OOSC in 10 most disadvantaged districts. (US$ 700,000)</td>
<td>• TBD. To date, household census was conducted to collect detailed information on OOSC in all five additional districts</td>
</tr>
<tr>
<td>• Reduce OOSC by 20 % in targeted districts. (US$ 2,200,000)</td>
<td></td>
</tr>
</tbody>
</table>

**Period 2 (July 2017- July 2018) target:**
- Use index to design and implement interventions to reduce OOSC in 10 most disadvantaged districts.
- Reduce OOSC by 20% in targeted districts.

**Period 2 achievement:**
- TBD. To date, household census was conducted to collect detailed information on OOSC in all five additional districts.

**Efficiency**

*Strategy:* Transition from the pass-fail assessment system to single subject certification for the grade 10 SLC and higher secondary school exams.


<table>
<thead>
<tr>
<th>Period 1 (July 2015-July 2017) target:</th>
<th>Period 1 achievement:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Implementation of single subject certification in the SLC issued to 2016 and 2017 SLC exam candidates. (US$ 3,000,000)</td>
<td>• Achieved. SLC certificates issued to 2016 and 2017 SLC exam candidates as per single-subject certification policy. (US$ 3,000,000 disbursed).</td>
</tr>
</tbody>
</table>

**Period 1 (July 2015-July 2017) target:**
- Implementation of single subject certification in the SLC issued to 2016 and 2017 SLC exam candidates.

**Period 1 achievement:**
- Achieved. SLC certificates issued to 2016 and 2017 SLC exam candidates as per single-subject certification policy.

**Period 2 (July 2017-July 2018) target:**
- Single subject certification policy approved for higher secondary school examinations.

**Period 2 achievement:**
- Achieved. Single subject certification policy approved for grades 11 and 12. (expected disbursement of US$ 3,000,000)

**Learning Outcomes**

*Strategy:* Mobilize parents in the Early Grade Reading Assessments (EGRA) as observers, and improve pupils’ reading skills through sharing and discussion of results between parents and teachers.

*Indicator:* Standardized classroom-based EGRA for grades 2 and 3 are conducted with parent observation, and results are shared and discussed with parents in 5,600 (cumulative) schools/communities.

<table>
<thead>
<tr>
<th>Period 1 (July 2015-July 2017) target:</th>
<th>Period 1 achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Community schools where standardized classroom-based early grade reading assessments for Grade 2 &amp; Grade 3 are conducted by teachers, observed by parent representatives, and results are shared/discussed with parents: 2,600 community schools. (US$ 3,000,000)</td>
<td>• Achieved. Assessment conducted in 2,605 community schools. (US$ 3,000,000 disbursed).</td>
</tr>
</tbody>
</table>

**Period 1 (July 2015-July 2017) target:**
- Community schools where standardized classroom-based early grade reading assessments for Grade 2 & Grade 3 are conducted by teachers, observed by parent representatives, and results are shared/discussed with parents.

**Period 1 achievement:**
- Achieved. Assessment conducted in 2,605 community schools.

**Period 2 (July 2017-July 2018) target:**
- Community schools where standardized classroom-based early grade reading assessments for Grade 2 & Grade 3 are conducted by teachers, observed by parent representatives, and results are shared/discussed with parents: 3,046 community schools.

**Period 2 achievement:**
- Achieved. Assessment conducted in 3,046 community schools and shared with parents. (expected disbursement of US$ 3,000,000)
3.2 ESPIG DESCRIPTION

As in the previous ESPIGs in Nepal, the proposed ESPIG will directly support the implementation of the sector plan - the SSDP. SSDP aims to improve the equity, quality, efficiency, governance and management of the education sector in order to contribute to the continuous and inclusive development of the country’s human resource capacity.

The ESPIG’s objective is to “Improve the quality, equitable access, and efficiency of basic and secondary education in Nepal by supporting the Government’s School Sector Development Program”. The program will also safeguard and maximize SSDP’s development impact during the ongoing federal transition. With the World Bank as GA, the program will provide an Additional Financing (AF) to the existing World Bank Nepal School Sector Development Program (US$185 million, approved in March 2017), which contributes to the SSDP five-year pooled program, through a sector-wide approach and a full use of country public financial management systems.

The ESPIG/AF will follow the World Bank’s Program for Results (PforR) instrument used in the parent program, and will comprise two parts:

a) Fixed Part, with intermediate indicators amounting to 60 percent of the total grant and
b) Variable Part, with output/outcome-level indicators related to equity, quality, and efficiency amounting to 40 percent of the total grant.\(^{37}\)

The SSDP five-year program is estimated at US$ 6,461 million, and GPE funding will contribute to filling 10 percent of its funding gap of US$ 247 million\(^ {38}\). As mentioned earlier, SSDP five-year program is co-financed by eight DPs\(^ {39}\). Under the Joint Financing Arrangement, some partner financing is DLI-based, others are fixed (i.e. disbursement based on overall SSDP progress and as per JFA condition fulfillment), and the remaining mix both modalities. While the new ESPIG will continue to support SSDP itself through the pooled program, the LEG has agreed on a strategic leveraging of these additional funds, including the choice of a fully results-based support (including for the Fixed Part) and a larger percentage of the Variable Part at 40 percent of the grant amount. In total, the ESPIG/AF will entail 10 new indicators/targets\(^{40}\) supporting the three areas of equity, efficiency, and learning (see Table 3 below). However, in substance, only the efficiency indicators/targets to support the federal transition are new, while the equity and learning indicators/targets are existing SSDP program DLIs, and extensions of the 2015 ESPIG VP indicators/targets.

The proposed ESPIG/AF includes a regular country allocation (US$ 9.2 million) and a Multiplier grant (US$ 15 million). The GPE Multiplier is leveraged through an additional funding of US$ 163.86 million from Asian Development Bank to support disaster risk reduction and comprehensive school safety and US$ 3.5 million from USAID for inclusive education. The

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\(^{37}\) Percentages are after deducting 1 percent of the MCA for Grant Agent supervision fees

\(^{38}\) US$ 247 million

\(^{39}\) Nine, including GPE and USAID (signature under way).

\(^{40}\) The World Bank calls them “Disbursement-Linked Results”.

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additional funding exceeds the US$ 45 million required to access the Multiplier Maximum Country Allocation of US$ 15 million.

While the SSDP itself is organized mainly by sub-sectors and some cross-cutting areas, the AF directly supports key SSDP results areas clustered into three in the parent IDA program:41

1) **Results Area 1. Improved teaching-learning and student learning outcomes**: This area includes activities to improve early grade learning levels, improvement of curriculum textbooks and learning materials, improvement of student assessments and examination system, improvement of teacher/school management and accountability. This result area addresses both quality of education and improved efficiency of the education system.

2) **Results Area 2. Improved equitable access to basic and secondary education**: The activities covered here include pro-poor interventions, such as preparation of OOSC database, provision of grants to Learning Centers and schools, provision of pro-poor and pro-science scholarships for poor and marginalized students. This result area addresses access and equity.

3) **Results Area 3. Strengthened education system, sector planning, management, and governance.** This area includes putting in place an enhanced fiduciary system, improving and operationalizing the grants management system, operationalizing a web-based EMIS and improving self-reported EMIS data by schools, integrating SSDP activities in LGs’ annual plans and budgets and providing open data on conditional grants released to schools. This result area addresses efficiency.

**Table 3: ESPIG Program Components/DLIs: Summary**

<table>
<thead>
<tr>
<th>Components/DLIs from SSDP five-year Program</th>
<th>Indicators to be supported by the GPE AF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year 3 (July 2018–July 2019)</td>
</tr>
<tr>
<td></td>
<td>Year 4 (July 2019–July 2020)</td>
</tr>
<tr>
<td></td>
<td>Year 5 (July 2020–Closing Date)</td>
</tr>
<tr>
<td><strong>Fixed Part</strong></td>
<td></td>
</tr>
<tr>
<td><strong>EFFICIENCY</strong></td>
<td></td>
</tr>
<tr>
<td>Strengthened governance, fiduciary management, data systems, and institutional capacity for results-based program implementation42</td>
<td>SSDP activities have been integrated in annual work plan and budget (AWPB) by at least 75 LGs</td>
</tr>
<tr>
<td><strong>Variable Part</strong></td>
<td></td>
</tr>
<tr>
<td>Data on conditional grants released to individual schools, consistent with the Grant Management Guideline, is made public on user-friendly websites (or accessible spaces) by at least 200 LGs</td>
<td>Data on conditional grants released to individual schools, consistent with the Grant Management Guideline, is made public on user-friendly websites (or accessible spaces) by at least 300 LGs</td>
</tr>
</tbody>
</table>

42 DLI 1 in World Bank Parent program/AF
Components/DLIs from SSDP five-year Program | Indicators to be supported by the GPE AF
---|---
**EQUITY**
Improved access to basic and retention in secondary schools\(^43\) | Variable Part
- 30 % reduction in OOSC in 15 targeted districts (based on equity index) | N/A | OOSC in basic education age reduced to 5 % in the relevant age group nationwide
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**LEARNING**
Proficiencies and habits strengthened in early grades\(^44\) | Variable Part
- National early grade reading program (NEGRP) minimum package implemented in at least 80% of community schools by LGs in at least 20 districts | NEGRP minimum package implemented in at least 80% of community schools by LGs in at least 29 districts | NEGRP minimum package implemented in at least 80% of community schools by LGs in at least 38 districts

| Table 4: ESPIG Components and Costs |
|---|---|---|
| **Total Additional Financing** (MCA 9,200,000 + Multiplier 15,000,000) | **Amount (US$)** | **%** |
| Fixed part (Efficiency) | 14,200,000 | 59 % |
| Variable Part | 9,758,000 | 40 % |
| - Efficiency | 2,400,000 | 10 % |
| - Equity | 2,400,000 | 10 % |
| - Learning | 4,958,000 | 20 % |
| Total AF excluding implementation support costs | 23,958,000 | 99 % |
| Grant Agent’s Implementation Support Costs* | 242,000 | 1 % |
| Agency fees** | 423,500 | (1.75 %) |

* Include Grant Agent’s direct costs, such as Program Management, Administrative and other direct implementation costs.
** Agency Fee is not included in the MCA and is calculated as percentage rate (agreed with each GA) from the Total Fixed Part and Total Variable Part.

GA implementation support costs of US$ 242,000 (1 percent of the grant amount) will be channeled through a Bank-executed Trust Fund.

### 3.3 ASSESSMENT OF THE PROGRAM DOCUMENT

The **Program Design** is strong and aligns well with the GPE objectives of equity, quality and system strengthening, as the ESPIG would directly support the implementation of the robust

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\(^{43}\) DLI 2 in World Bank Parent program/AF  
\(^{44}\) DLI 7 in World Bank Parent program/AF
education sector plan of Nepal, the SSDP. Indeed, the program builds on the previous ESPIG programs which fed into the sector plans and continues the strong DP harmonization and alignment to the government program. This program goes a step further than the previous program; rather than simply feeding into the SSDP, it will incentivize the achievement of priority strategies through a fully results-based financing mechanism, through the use of DLIs.

While the program would support the SSDP in general, its important aim is to ensure that the ongoing federal transition would bring about positive impact on the education of children, through incentivizing LGs- newly responsible for basic education- to allocate funding and implement the SSDP strategies. Indeed, while decentralization has important potential to improve local level accountability and improve results for children, challenges related to operationalizing such major reform (such as shifting from 75 DEOs to 753 LGs), combined with the weak capacity of some LGs, jeopardize the recent achievements in the education sector. This is why the LEG chose for the program to support the LGs through the Fixed Part DLIs45, to ensure that LGs would integrate SSDP into their workplans and budgets. The DLIs of the ESPIG are (a part of the) DLIs of the SSDP; however, as the Fixed Part strategies/indicators are related to the federal transition, they are completely new and expected to be integrated into the SSDP as part of the Mid-Term Review (MTR).

Regarding the Program Budget, as mentioned earlier, the ESPIG/AF will support the SSDP DLIs and the new DLIs to support federal transition, with 60 percent for the Fixed and 40 percent for the Variable Part. Funds for both parts will be disbursed to the government upon a third-party verification and validation of the DLI attainment. Again, of the SSDP five-year program estimated at US$ 6,461 million, the ESPIG will help fill 10 percent of the remaining funding gap. The SSDP budget is based on a detailed financial analysis and costing. It is noted that the estimated start date is past; July 16, 2018, in line with the SSDP DLI timeline. Given that the program is results-based financing (with the first results verification planned in mid-2019), the Secretariat views that this is not an issue.

In terms of Monitoring and Evaluation (M&E), the program’s M&E framework is aligned with that of the SSDP, which is based on a well-defined theory of change reflected in a strong Results Framework. It will directly use and support the national monitoring, evaluation and reporting systems. The M&E activities will be conducted through site visits, trimester, annual reviews as well as baseline, midterm, and end-line evaluations. The M&E framework defines the M&E roles, responsibilities and coordination mechanisms: at the central level, monitoring functions will be shared by the MOEST and CEHRD, and at the provincial and local levels, monitoring will largely be supported by dedicated M&E units at provincial governments and M&E officials within LGs.

In the context of federal transition, there are potential risks in terms of weak LGs’ capacity to monitor SSDP activities, including data collection and supervision of schools. The SSDP and MOEST’s federal transition plan include mitigation measures and monitoring capacity building activities at the provincial, LG and school levels: LGs will receive monitoring support from

45 DLIs under both Fixed and Variable Parts are results-based, i.e. the payment will be made upon the achievement of results on a reimbursement basis. The difference, is that the DLIs under the Variable Part is in line with the GPE definition (i.e. transformational and stretch).
Education Development Coordination Units (EDCUs), provincial governments will have dedicated M&E units, and the restructured Education Training Centers (ETCs) and Resource Centers (RCs) will provide training, management, and monitoring support to schools.

As for **Fiduciary, Implementation Arrangements, and Readiness**, the implementation arrangements use the existing government system while strengthening their capacity. The program document includes detailed implementation arrangements down to the school level. Although since early 2018, MOEST has developed several iterations of the plans detailing how the federal transition would be rolled out in the education system, the detailed arrangements are still being finalized. This is inevitable in the context of such a major reform; although MOEST has indeed defined roles and responsibilities of different stakeholders, operationalizing this would be an enormous challenge, including the avoidance of overlaps and internalization of roles by all stakeholders. In this regard, the CEHRD’s technical support to the LGs, the EDCU’s support to the LGs would be crucial for the successful federal transition in the education sector.

Regarding the **Risk Identification and Mitigation Measures**, while the risk of the ESPIG/AF was elevated by the GA from substantial in the parent program to high, mainly owing to the federal transition and the consequent institutional arrangements, the mitigation measures are deemed appropriate. High risks are identified in political and governance, institutional capacity for implementation and sustainability, and substantial risks in design and fiduciary. For example, fiduciary capacity strengthening through the TA support jointly mobilized by DPs, the establishment of a Fiduciary Management Committee chaired by the Ministry of Finance, as well as measures to institutionalize fiduciary management in the new LGs through the ESPIG/AF indicators help mitigate the fiduciary risks.

**Sustainability** is high as all of the supported strategies/indicators are directly government/SSDP core strategies, already financed by the government. As for the support to LGs to mainstream SSDP in their activities, whether and how this needs to be sustained or strengthened needs to be monitored in the coming years.

As mentioned throughout this report, the program is very strong in terms of **Aid Effectiveness** due to the SSDP program that brings together DPs to use country systems to channel aid.

### 4. Variable Part

#### 4.1 Description of the Variable Part

40 percent of the total ESPIG amount is proposed as the Variable Part, with 20 percent supporting the learning dimension. The equity and learning strategies and indicators/targets are continuations of the 2015 ESPIG, as this supported the last year of the previous sector plan, and the new plan (SSDP) integrated the identified strategies/indicators.

Below are the strategies and indicators for the Variable Part:

**Equity:** Targeted interventions to bring OOSC into schools or Learning Centers to improve access to basic education.
• 30 percent reduction in OOSC in 15 targeted districts (based on equity index) (US$1,200,000).
• OOSC in basic education age group reduced to 5 percent in the relevant age group nationwide (US$1,200,000).

Efficiency: Ensure provision of open data on school grants by local governments to facilitate information for accountability
• Data on conditional grants released to individual schools, consistent with the Grant Management Guideline, is made public on user-friendly websites (or accessible spaces) by at least 200 LGs (US$ 800,000).
• Data on conditional grants released to individual schools, consistent with the Grant Management Guideline, is made public on user-friendly websites (or accessible spaces) by at least 300 LGs (US$ 800,000).
• Data on conditional grants released to individual schools, consistent with the Grant Management Guideline, is made public on user-friendly websites (or accessible spaces) by at least 400 LGs (US$ 800,000).

Learning Outcomes: Strengthening reading proficiencies and habits in early grades
• National early grade reading program (NEGRP) minimum package implemented in at least 80 percent of community schools by LGs in at least 20 districts. (US$1,000,000)
• NEGRP minimum package implemented in at least 80 percent of community schools by LGs in at least 29 districts. (US$ 1,979,000)
• NEGRP minimum package implemented in at least 80 percent of community schools by LGs in at least 38 districts. (US$ 1,979,000)

N.B.: The equity and learning indicators/targets are derived from the JFA signed in 2016, therefore continue to use districts as administrative units and not LGs. The units will be converted in line with the new federal structure after the MTR and during the restructuring. The LGs fall exactly under the previous 75 districts, so there will be no issue in verifying the achievements.

4.2 Assessment of the Variable Part
The initial concept of the VP discussed by the LEG was to support just one dimension, since the 2015 ESPIG’s VP were already mainstreamed into the SSDP, including as DLIs and also because the VP amount is smaller compared to 2015 due to the smaller allocation46. QAR phase 1 advised to include all three dimensions for the VP, and potentially increasing the proportion of the VP. QAR phase 2 mentioned the need to clarify the extent to which there will be overlap between the districts targeted by the previous program and this ESPIG/AF, and how the strategy continues to be transformational for the sector. These recommendations have been reflected in the final program document.

The equity dimension seeks to continue MOEST’s efforts to bring OOSC into schools or Learning Centers. Strategies to reach these children began under SSRP with mapping exercises, and the development of an equity index. Activities to reduce the number of OOSC under the SSDP include targeted scholarships and enrolment campaigns in formal schools, development of diverse non-formal education packages and special packages for children with disabilities, and bridge courses

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46 The Variable Part of the 2015 ESPIG was US$ 17.8 million (Fixed Part US$ 41.5 million).
for reentry into formal education, appropriate to specific districts and target groups. The continued focus on OOSC is clear and convincing, given that they are among the most vulnerable children and also the government’s emphasis in both SSRP and SSDP to respond to their educational needs.

The program’s theory of change and explanation underscore its transformational effect; the equity strategy and indicators will help prevent disruption of education service delivery for the most disadvantaged children during the federal transition. The strategy builds on and extends the 2015 ESPIG, whereby the target was to reduce the number of OOSC in the 10 most disadvantaged districts by 20 percent by 2018, after the development of the equity index47. This became the year 1 target of SSDP, and the new ESPIG supports the year 3 target, which aims for a 30 percent reduction of OOSC in 15 districts. The program document notes that while 10 of the 15 targeted districts were previously covered, in the new federal context, continued emphasis on these districts is crucial as the share of OOSC remain high and that improving access in these disadvantaged districts is challenging and is likely to be more so during the federal transition, given the capacity challenges. The second target under equity reducing OOSC rate among children in the basic education age group to 5 percent, is highly ambitious, given that the current share of OOSC is estimated at around 9 percent48. Especially in the context of the education system overhaul and the associated risks of reversal in progress made thus far, reaching these targets would be challenging.

OOSC data collected under the SSDP are being integrated into the EMIS database for regular monitoring. Moreover, given the federal transition, the MOEST plans to refine the equity index to a local level index to strengthening analysis and planning at the ground level. With the availability of a richer and more targeted index to identify OOSC, added support to MOEST’s efforts to reduce OOSC rate can lead to transformative improvements in bridging equity gaps in access.

The efficiency dimension encourages improved transparency and accountability in education resource flows at LG level for better education outcomes. With the federal transition, LGs now receive resources for conditional grants directly from the Ministry of Finance while former DEOs used to receive them from the MOEST. Conditional grants include grants crucial to manage schools, such as teacher salaries, textbooks and scholarships for girls, Dalit students and students from disadvantaged communities. Currently, there is no reporting mechanism at LG level in place for either MOEST or community members to verify proper allocation and use of these grants. Therefore, availability of school finance data on accessible websites and/or physical spaces will improve transparency at LGs, which can further foster development of accountability mechanisms in future that are suited to the institutional setup of each LG. The proposed efficiency strategy will also complement other existing strategies (e.g. parents and community members to engage more effectively in social audits as well as in formulating school improvement plans) to strengthen efficiency and improve their effectiveness to improve education outcomes (e.g. reduction in dropout rate, improvement in transition rate from primary to secondary level).

47 I.e. LGs that come under these districts.
48 8.7% of children age 5-12 were estimated to be out-of-school by MOEST in 2017/18, against the SSDP baseline of 10.6% in 2015/16,
The strategy addresses major efficiency challenges caused by the federal transition, which actually aligns with the Fixed Part DLI focusing on the integration of SSDP activities in annual work plan and budget by LGs. This strategy is transformational as it will help lay the foundation for still nascent accountability at LG level, and in combination with other strategies as mentioned above, will likely contribute to better education/learning outcomes. The proposed indicator is considered a stretch as LGs would not only have to report crucial education data but will also have to ensure accessible medium for transparent data. The absence of such open data provisions to date and the capacities at LG level also needs to be taken into consideration. The AF design does not target specific LGs as the need for better reporting and transparency measures applies to all LGs but encourages open data in 400 out of 753 LGs (over 50 percent). Due to the new responsibilities entrusted to the LG (who are new and have various responsibilities beyond that of education) and the uncertainties of their capacities to align with the SSDP as well as at the central government to supervise and verify SSDP implementation across all 753 LGs, the target seems to be an important stretch. While the strategy does not measure actual improvement in efficiency, the (timely) release of grants as per guidelines would help achieve the SSDP objectives of drop out reduction and improved transition to secondary.

The **learning outcomes** dimension seeks to build reading competencies in early grades, through the implementation of NEGRP minimum package by LGs. This builds on the 2015 ESPIG which aimed to mobilize parents in the classroom-based EGRA assessments as observers, and improve pupils’ reading skills through sharing and discussion of results between parents and teachers. The current ESPIG will extend this effort to incentivize the effective implementation of the national package to strengthen early grade reading. The components of the package include the provision of supplementary reading materials and establishment of book corners, teacher training in EGR methodology, mentoring and classroom support training to headteachers, and community mobilization including sharing/discussion of EGRA results.

Given the current challenge in learning and its emphasis within the SSDP, the choice of continuing to strengthen reading as foundational skills for all learning is convincing, and the 50 percent allocation of the VP funding to the dimension reflects the importance placed on this thematic area by the government and partners. Although the proposal would have been stronger had it targeted the most disadvantaged districts, federalism has already added another layer of difficulty, as now MOEST would need to support over 350 LGs (some with very weak capacity in education) for the NEGRP roll-out instead of 38 well-established DEOs. This is why the target of 80 percent of all public schools in 38 districts is considered a good level of ambition. In addition, the NEGRP package in itself is large, with many components which are respectively challenging to roll out, representing another stretch. While the indicator will not directly measure learning outcomes, the effective implementation of NEGRP in at least half of the country will provide important lessons for other LGs for a future nationwide scale-up. Indeed, reading skills will be monitored by school-level stakeholders through classroom-based EGRA, and also at a higher level through NASA. Synergy with existing strategies such as planning through school management committees and the intended enhanced local accountability through federalization, has the potential to substantially improve learning.

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40 Out of the 75 districts.
The verification of results is clearly described and follows an already established mechanism under the SSDP JFA and the 2015 ESPIG; first, the MOEST/CEHRD will submit DLI achievement reports to the GA and other DPs, accompanied by various supporting evidence. Then, the IVA will carry out the verification (including a random sampling of schools/communities), and the GA will validate the achievements, and make disbursements when agreement on the extent of the achievement is reached. The costs of the results verification will be financed through MOEST funds. Disbursements are scalable, with a minimum of 50 percent of the target to be achieved.

The equity and learning outcomes indicators are supported by EU under the SSDP JFA. The choice of (continuing to) supporting these through this new ESPIG demonstrates the importance placed by the LEG on achieving these results.

5. **RECOMMENDATIONS**

The Secretariat deems that the three funding model requirements are met. The federal transition will be a long-term challenge that the education stakeholders would have to work on over many years. In the meanwhile, the 2019 MTR would help adjust the SSDP implementation arrangements, and domestic financing, especially actual resource allocation to education at the LG level needs to be closely monitored.

Nepal’s progress in education despite its low-income status and numerous setbacks is enabled in part by the strong sector plan(s) under government leadership, continued strong equity focus, high aid effectiveness and strengthening of country systems through its use. The (comparatively) stronger government system and capacity has led to the choice of a fully results-based ESPIG under the SSDP JFA and GA’s PforR instrument. Although the ESPIG allocation to Nepal has seen an important decline over the years, the willingness of the government to have a larger VP component of 40 percent is also noteworthy. As the country faces the enormous challenge and opportunity of federalism, the ESPIG/AF will provide a strategic use of GPE funds through the continued and strengthened focus on equity and learning outcomes strategies while incentivizing the LGs to take up the main responsibilities of education provision.

A possible GPC report-back point is the following:
- Regarding domestic financing, it is expected that the LEG will together monitor the increase of the national budget allocation to the sector together with the expenditure at the federal, provincial and local levels and analyze the enabling conditions (particularly for the LG allocations), and that the Secretariat receives an annual update from the Coordinating Agency.

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50 These recommendations were adjusted by the GPC. The final recommendations are found in Board Document BOD/2019/02 DOC 03 Annex 1.
### Annex 1: Major Interventions of Development Partners

<table>
<thead>
<tr>
<th>Donor name</th>
<th>Major interventions</th>
<th>Financial scale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asian Development Bank</strong></td>
<td>DLI-based program support with focus on equity/access (pro-science girls scholarship), activity-based teaching learning materials for Math, Science and English, model schools, provision of subject teachers (Math, Science and English) in higher grades, teacher training for subject teachers in higher grades, governance and management.</td>
<td>US$ 120 million</td>
</tr>
<tr>
<td><strong>European Union</strong></td>
<td>Both DLI and non-DLI based program support with DLIs focused on equity/access (out of school children), early grade reading program, comprehensive school safety plan and retrofitting of school blocks in non-earthquake affected districts.</td>
<td>US$ 72 million</td>
</tr>
<tr>
<td><strong>Finland</strong></td>
<td>Both DLI and non-DLI-based program support with DLIs focus on equity/access (out of school children) and strengthening assessment and examination systems.</td>
<td>US$ 23 million</td>
</tr>
<tr>
<td><strong>Japan International Cooperation Agency</strong></td>
<td>Non-DLI based program support</td>
<td>US$ 15 million</td>
</tr>
<tr>
<td><strong>Norway</strong></td>
<td>Non-DLI based program support</td>
<td>US$ 21 million</td>
</tr>
<tr>
<td><strong>United Nations Children’s Fund</strong></td>
<td>Non-DLI based program support</td>
<td>US$ 3 million</td>
</tr>
<tr>
<td><strong>World Bank</strong></td>
<td>DLI-based program support with focus on (i) improving equitable access (out-of-school children, pro-poor and pro-science scholarships); (ii) strengthening assessment and examination system (improving large scale assessments, standardizing grade 10 high-stake examination); (iv) curriculum reform; (v) strengthening governance and management (teacher time-spent-teaching, teacher redeployment, performance grants, EMIS verification, grant management system and capacity building).</td>
<td>US$ 185 million</td>
</tr>
<tr>
<td>Results in Education for All Children (REACH)</td>
<td>DLI based program support with DLIs focused on EMIS verification, and Financial management (FM training to schools).</td>
<td>US$ 4 million</td>
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<tr>
<td>----------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Non-Joint Financing Interventions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USAID, WFP, UNDP, UNESCO, and others</td>
<td>Major interventions differ by agencies. USAID – early grade reading program WFP – food for education program</td>
<td>US$ 14 million</td>
</tr>
<tr>
<td>Technical assistance (TA) needs mapping has been carried out. In addition to the on-budget provision of capacity building, off-budget TA has been mobilized by different development partners for capacity building in different area in a coordinated manner.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>