



Aid Program Performance Report 2012–13 Nepal

Key messages

This report summarises the aid program's progress in 2012–13 against three objectives for the aid program to Nepal. These objectives are to:

1. build confidence in the Government of Nepal by strengthening government service delivery, particularly to traditionally marginalised groups and the poor
2. work with a range of stakeholders to protect the gains made to date and flexibly respond to change
3. engage with partners (including government) on policy reforms for greater transparency, accountability and effectiveness of the State.

Key findings on Nepal program performance in 2012–13 are:

- > The program is making progress towards its revised objectives, which provide the basis for program management until a country program strategy is published.
 - Australia helped improve access to primary education and maternal and child health services through partnerships with the Government of Nepal and donors.
 - Australia collaborated with partners to enhance water, sanitation and hygiene access and to alleviate poverty through micro-enterprise, reaching some of the poorest and most marginalised people in Nepal.
 - Australia and other donors have supported early signs of reform in Nepal's public financial management (PFM).
- > Expectations for progress on policy reform and systems strengthening in 2013–14 remain modest due to the politically unstable environment in Nepal. Australia will therefore continue to balance support between government-led programs and complementary collaboration with partnerships.
- > The risks of working in a fluid political environment will be managed by engaging with other donors and like-minded organisations and drawing on high quality contextual analysis.

Context

Political

Nepal has experienced political stalemate and consequent economic slowdown in the last 18 months. This situation has the potential to undermine recent development gains. The enactment of long-awaited reforms and a return to normalised full budget processes are urgently needed to make further progress on the quality and effectiveness of public service delivery.

The Constituent Assembly, set up to draft a new Constitution, was dissolved in May 2012 having failed to deliver on its mandate. An interim administration is in place and politics centre on mediating the claims of Nepal's main political parties. In this environment,

important reforms and new policies have stalled. For example, amendments to the Education Act were not pursued and statutory appointments essential to improving transparency and accountability were not made.

A caretaker government, led by the Chief Justice of Nepal, was installed in March 2012. There are signs that the Government is focusing on development needs. Some reform legislation, including the Health Services Act, was approved by ordinance in April 2013.¹ The Government of Nepal made outstanding statutory appointments to the Supreme Court and Election Commission, and released an ‘adjusted budget’ for 2012–13 on 9 April 2013.²

Elections are scheduled to be held in November 2013, and development partners will be under some pressure to provide assistance. Political parties need to successfully negotiate complex agreements about the electoral system and boundaries before an election can take place. Small political parties that have had no official platform since the dissolution of the Constituent Assembly have taken to the streets through strikes and demonstrations to make their views known. There is risk of rising tensions and disruption if elections are further delayed or conducted in a manner not seen as fair, representative and transparent.

Citizen discontent with the state is rising, as is discontent with the way the main political parties have handled the peace process.³ This has led to a rise in the popularity of ethnic-based parties. Federalism⁴ is a key issue in the constitutional debate and is seen by its supporters as bridging the gap between citizen and state. The debate over Federalism was less prominent in 2012–13, but is now re-emerging as a contentious issue.

Local government elections are scheduled for April 2014. In the power vacuum at the local level, established political interests continue to influence spending and appointments. A study on local-level governance conducted for the Department of Foreign Affairs and Trade (DFAT) by The Asia Foundation in 2012 concluded that informal ‘all-party mechanisms’ have fostered a culture of collusion in local governance which will not be easy to reverse. Instances of politicisation and political interference have been observed in health and education service delivery.

Millennium Development Goals

Based on existing data, progress against the Millennium Development Goals (MDGs) remains consistent with the results reported on in the *Nepal Annual Program Performance Report (APPR) 2011*,⁵ with Nepal largely on track to achieve the four health and education MDGs, except for the target for primary school completion. Building on these achievements, the Government of Nepal and development partners are increasingly focusing on quality. While coming from a low base, this illustrates the strong development gains Nepal has made despite its challenging circumstances.

¹ <http://www.nepalnews.com/archive/2013/apr/apr11/news10.php>

² ‘Public Statement on Income and Expenditure of Fiscal Year 2012–13’, Government of Nepal, Ministry of Finance (2013).

³ <http://nepalitimes.com/article/nation/A-wide,235>

⁴ Nepal’s interim constitution and Comprehensive Peace Agreement (<http://reliefweb.int/report/nepal/full-text-comprehensive-peace-agreement-held-between-government-nepal-and-communist>) commits Nepal to state restructuring interpreted as a transition to ‘federalism’ (a political system based upon democratic rules and institutions in which the power to govern is shared between national and provincial/state governments).

⁵ Prior to 2012-13 Aid Program Performance Reports were called Annual Program Performance Reports.

Economy

Over the last decade, Nepal's economic growth rate fluctuated between 3 per cent and 6 per cent, and is forecast to be 3.6 per cent for 2012–13⁶, well below the Government's target of 5.5 per cent.⁷ Nepal is relatively isolated from global economic conditions, and much of this dip in growth is from delays in public expenditure.

Levels of investment have remained low since the end of the conflict.⁸ Lack of political settlement continues to erode business confidence and Nepal has slipped further in the World Bank's 2013 Doing Business report.⁹ Inflation is at 10.1 per cent¹⁰ and the trade deficit is widening.¹¹ Nepal increased its score in Transparency International's 2012 Corruption Perceptions Index but still ranked low at 139 out of 176 countries.

Poverty

In Nepal, poor people suffer disproportionately from high inflation, as their incomes rarely keep up with increasing food and other costs. Agriculture, on which many poor families depend, has declined in its share of gross domestic product. There is unequal access to opportunities to improve agricultural productivity, or to move to alternative sources of income. Remittances account for more than 23 per cent of gross domestic product and are growing. While remittances contribute overall to poverty reduction they also contribute to income inequality because different income groups have different opportunities for migration.

Political instability has affected, to some extent, collective development partner confidence in the Government's ability to efficiently deliver services, although no development partner has yet withdrawn from commitments to national programs or systems.

Public financial management

A partial budget for 2012–13—approved by the President in the absence of a legitimate elected legislative body—was confined to programs and expenditure levels from the previous financial year. Partly because of fiscal uncertainty and the difficulty for government departments' in reprioritising expenditure, the partial budget hampered the delivery of capital expenditure and led to delays in paying salaries.

A supplementary budget was approved in April 2013, three months before the end of the financial year, which may allow some ground to be made up. Meanwhile, revenues continued to grow and surpluses were added to reserves.¹² While there is no comprehensive evidence on the overall effects of delayed provision, there is a risk that a repetition in 2013–14 could set back service provision significantly. Development partners are concerned about this risk and collectively raised concerns at the local donor meeting on 30 April 2013.

⁶ Minister of Finance, local donor meeting, 30 April 2013.

⁷ Ibid.

⁸ Nepal is slowly emerging through political transition following a 10-year civil conflict (1996–2006) which resulted in thousands of people being killed and thousands disappearing. The conflict raised awareness of traditional exclusionary political, social and economic institutions that did not reflect the country's diversity. This led to the rise of identity politics with an increasing demand for regional autonomy and greater accommodation of diverse social, cultural and ethnic identities. (http://dfat.gov.au/geo/nepal/nepal_country_brief.html)

⁹ <http://www.doingbusiness.org/>

¹⁰ Minister of Finance, local donor meeting, 30 April 2013.

¹¹ International Monetary Fund briefing to the International Development Partners Group, 17 April 2013.

¹² Minister of Finance, local donor meeting, 30 April 2013.

Expenditure

Nepal's bilateral financial expenditure is reported in two periods—Table 1A for the six-months of January 2012 to June 2012 and Table 1B for 2012–13.

Table 1A Expenditure 01 January 2012 to 30 June 2012

Objective		A\$ million	% of bilateral program over 6 months
Objective 1	To build confidence in the Government of Nepal by strengthening government service delivery, particularly to traditionally marginalised groups and the poor.	4.6	60
Objective 2	To work with a range of stakeholders to protect the gains made to date and flexibly respond to change.	2.6	34
Objective 3	To engage with partners (including government) on policy reforms that contribute to greater transparency, accountability and effectiveness of the State.	0.4	6

Source: Budget estimates table 29, Nepal

Table 1B Estimated expenditure in FY 2012–13

Objective		A\$ million	% of bilateral program
Objective 1	To build confidence in the Government of Nepal by strengthening government service delivery, particularly to traditionally marginalised groups and the poor.	7.6	50
Objective 2	To work with a range of stakeholders to protect the gains made to date and flexibly respond to change.	6.8	46
Objective 3	To engage with partners (including government) on policy reforms that contribute to greater transparency, accountability and effectiveness of the State.	0.55	4

Source: Official development assistance flows to Nepal country program, revised post reallocation

Progress towards objectives

During the reporting period, important work was completed in developing DFAT's first Nepal country program strategy. This involved revising country objectives. This Nepal Aid Program Performance Report (APPR) has assessed 2012–13 progress against these revised objectives.

The Nepal program has drafted a performance assessment framework based on these new objectives. When finalised, the framework will support a more robust assessment of the results of Australian aid to Nepal during 2013–14 and more rigorous reporting in the 2013–14 APPR.

Table 2 rates progress against the program's revised objectives. The 'previous rating' beside Objective 1 is for progress reported in the *Nepal Annual Program Performance Report 2011*, which was rated against the single objective: 'All Nepalis have improved access to key services delivered by an increasingly effective state'.

Table 2 Rating of the program's progress towards the objectives

Objective	Current rating	Previous rating
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Objective 1	To build confidence in the Government of Nepal by strengthening government service delivery, particularly to traditionally marginalised groups and the poor.	Green	Green
Objective 2	To work with a range of stakeholders to protect the gains made to date and flexibly respond to change.	Amber	
Objective 3	To engage with partners (including government) on policy reforms that contribute to greater transparency, accountability and effectiveness of the State.	Amber	

Note:

■ Green. Progress is as expected for this point in time and it is likely that the objective will be achieved. Standard program management practices are sufficient.

■ Amber. Progress is somewhat less than expected for this point in time and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.

■ Red. Progress is significantly less than expected for this point in time and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

The basis of the theory of change¹³ in the Nepal program is that:

- > Australian participation in health and education sector-wide approaches (SWAps) makes use of government systems and provides opportunities for meaningful policy dialogue. It builds national capacity and confidence in the State's ability to deliver services to all.
- > Australia's focus on the poor and traditionally marginalised addresses one key driver of the conflict consistent with the agenda outlined in the Comprehensive Peace Agreement.¹⁴
- > Australia's aid program will, given its relative size, contribute to the achievement of development outcomes by collaborating with the Government of Nepal and other development partners.

Objective 1—To build confidence in the Government of Nepal by strengthening government service delivery, particularly to traditionally marginalised groups and the poor.

The green rating reflects solid progress on public service delivery indicators and reduced disparities in access to education and health services. Coordinated development partner support has contributed to this for some years through established mechanisms. Because service delivery access, outcomes and effectiveness have improved, Australia assesses that community confidence in the Government is positive, although expectations remain modest.

Australia provides a small proportion of overall external funding for service delivery (1.5 per cent for health and 3 per cent for education). Non-financial contributions in 2012–13 included membership of thematic groups and policy discussions on selected issues such as PFM (as reported on under Objective 3), gender equality, social inclusion, and disaggregated reporting. Australia also contributed to the evidence base by funding a study on barriers to access to health in Nepal's mountain areas.

Access to primary education and maternal and child health services continued to improve in Nepal during 2012–13, but was hampered by budget constraints and slow progress with sector reforms. The health and education sectors produce comprehensive and

¹³ A theory of change is a tool for thinking and planning that identifies the changes necessary to achieve a desired outcome in a given context. It helps identify good entry points for aid and describes why, where and how aid can make the most difference. It also provides the rationale for downstream investments and for the types of aid chosen, as best suited to the context, to maximise results.

¹⁴ The Comprehensive Peace Agreement 2006 is an agreement between the Government of Nepal and the Communist Party of Nepal (Maoist) for political, economic and social transformation and to 'affirmatively resolve existing conflict in the country'. United States Institute of Peace.

reasonably reliable data on service delivery and inclusion. Enrolment rates in basic education continue to rise and gender parity has been achieved at all levels of schooling. Completion rates also continue to rise, but not at a sufficient rate to meet MDG targets. Indicators of public service provision in health, including deliveries by skilled birth attendants and drug stock-outs, improved in 2012, while immunisation levels remained satisfactory.

There are signs that traditionally marginalised groups are gaining increased access to services. Perceptions of quality are not consistently measured every year, but the 2012 Nepal Health Sector Program Service Tracking Survey concluded that 90 per cent of clients were satisfied with the care received (although this figure may reflect low expectations).

Some progress has been made in identifying bottlenecks to delivery, including through studies examining teacher recruitment and textbook provision, and the recent Nepal Health Sector Programme II (NHSP II) Mid-term Review (MTR) (February 2013) and Nepal Health Sector Programme Joint Annual Review (January 2013). The long-awaited amendment of the Health Services Act, which will enable about 5000 outstanding health professional positions to be mobilised and deployed, has been certified by the President through an ordinance.

However, other key reforms are outstanding and the lack of normal national budget processes has set back new initiatives. It is too early to say if the trend in service delivery indicators, which lags behind changes in policy and expenditure, is at risk from the present political instability.

The most up-to-date data on community perceptions of government service delivery are those reported on in the 2011 Nepal APPR.¹⁵ In health, 83 per cent of Nepalis reported service as 'fair' or 'good'. The figures for education and the provision of drinking water services was 89 per cent and 75 per cent respectively.

Development partners collectively supported reforms for better delivery capacity, but progress remained slow and was affected by political instability. A national assessment of educational achievement was held for Year 8 for the first time in 2012, and will be extended from 2013–14. Minimum standards for schools have been established and schools will be surveyed in 2013. A government initiative to earthquake-proof schools in the Kathmandu Valley, substantially supported by Australia, is making progress after a slow start. A Ministry of Health and Population policy was developed to deal with emerging urban health issues, which were a much lower national priority than rural health.

With health and education sector programs, the policy and governance reforms agreed between development partners and the Government of Nepal have influenced national planning and budgeting, and enabled open discussions with the Government.

The amendment to the Education Act, which would enable restructuring of the school system, formally establishing an education review office and addressing teacher management issues has been ready for approval as an ordinance for some time but has not been passed. It is not yet clear whether the budgetary disruption of 2012–13 will cause a dip in the otherwise generally upward trends in expenditure in health and education in recent years, but managing the initial shortage of funds has preoccupied the public service for much of the year.

An Australian co-funded report by The Asia Foundation, *Political Economy Analysis of Local Governance in Nepal with Special Reference to Health and Education*, has been used by the World Bank to inform the work of the PFM MDTF, to which Australia also contributes. Other

¹⁵ Nepal Living Standards Survey 2011.

development partners have observed that Australia takes consistent and strategic approaches and helps to keep dialogue with the Government manageable and focused on key issues.¹⁶

Health and education sector programs are an increasingly effective means of contributing to Australia's aim of promoting opportunities for all. Recent gains in gender parity in schools and steady progress in maternal health services demonstrate that national service provision is oriented towards the needs of women and girls. Despite this, needs remain acute with the proportion of births supervised by a skilled birth attendant in Nepal at 46 per cent, and only 18 per cent among Nepal's Muslim population.

The Government is making improvements so that more services reach traditionally marginalised people. Data on social indicators and access to services is increasingly disaggregated, highlighting disparities across geography, rural – urban, and many caste and ethnic groups. This is allowing more targeted service delivery. Both cases confirm that an increased proportion of students from traditionally marginalised groups are in school. In health, Vitamin A supplementation coverage among 6 to 59-month old children is almost equal across all gender, caste, wealth and geographic groups.

Examples of improved practices in gender and social inclusion in 2012 include updating health training curricula, establishing a Technical Working Group on gender and inclusion in the Ministry of Health and Population, and agreeing on reservations in the 2013 teacher recruitment round for marginalised groups. Australia has been an active member of the thematic group on gender equality and social inclusion in health. DFAT also developed three background papers on multilingual education, to assist the Ministry of Education meet the needs of a linguistically diverse population.

The February 2013 MTR of the NHSP II noted strong progress towards reducing child and maternal mortality, while cautioning that these achievements are slowly plateauing and pointing to the need for more concerted and targeted interventions.

The MTR:

- > acknowledged that gender equity and social inclusion are well integrated across the health program and that the Ministry is making some visible effort to address these issues
- > highlighted significant improvements in donor coordination and between the government and donors
- > recommended greater harmonisation of technical assistance in the health sector
- > judged progress was limited in health sector governance, financial management and human resources
- > recommended improved senior management and cross-government engagement in health
- > recommended addressing systemic issues to overcome health sector governance, financial management and staffing issues.

Australia has begun work with the Government of Nepal to migrate the successful Micro-Enterprise Development Program (MEDEP) into a wider government-owned program during the next phase (Phase IV). Australia funds MEDEP through the United Nations Development Programme (UNDP) to alleviate poverty among the extremely poor and those who are traditionally marginalised in Nepal. MEDEP began in 1998 and its third phase is due to finish early-2014.

¹⁶ Feedback provided by representatives of the European Union, United Kingdom's Department for International Development (DFID) and World Bank at quality at implementation (QAI) discussion for the health and education SWAps (March 2013).

Phase IV will allow for gradual transition to the Government's own micro-enterprise program—Micro-Enterprise Development for Poverty Alleviation (MEDPA)—and roll out to all 75 districts. Phase IV will also ensure UNDP's institutional capacity is transferred to the Ministry of Industry.

Both MEDEP and MEDPA face capacity constraints. Building government, private sector capacity and civil society capacity to effectively deliver micro-enterprise development services in Nepal will therefore be a focus of MEDEP Phase IV. Australia is contributing to the Phase IV design and will continue to support implementation with a focus on poverty, inclusion and building government capacity to work with non-state actors to provide an enabling environment for micro-enterprise development.

Objective 2—To work with a range of stakeholders to protect the gains made to date and flexibly respond to change.

Australia has maintained activities outside Government of Nepal-led SWAs, with mixed results. The amber rating of this objective largely reflects the reduction in the Nepal program's overall flexibility in 2012–13 as a result of a changing context and increasing demands facing a small program management team in Kathmandu. If plans for additional staff and access to technical resources in 2013–14 are realised there is potential to increase flexibility and a rating to green could be achieved.

Australia has partnered with a number of stakeholders to support and complement government service delivery. These include a range of civil society organisations, two international non-government organisations (WaterAid and Save the Children), the UNDP (in particular the Resident Coordinator's Office, and Transitional Support Scheme), global organisations (such as the International Crisis Group) and The Asia Foundation. Two of the Nepal program's four major activities in 2012–13 involved non-government partners: the MEDEP and the Nepal Water for Health (NEWAH) program.

The MEDEP targets women, unemployed youth, Dalits, marginalised ethnic groups and poor families. In 2012, the program created opportunities for more entrepreneurs than targeted, but created fewer jobs than expected. A total of 79 per cent of the 3600 micro-entrepreneurs supported were women. In 2011, the program was regressing in its outreach to Dalits, but some improvement was seen in 2012–13 with 33 per cent of the new entrepreneurs being Dalit, up from 18 per cent.

Field visits found that the **NEWAH** was effective in working with local communities in delivering water, sanitation and hygiene services. However, it performed significantly below expectations and agreed targets and reports contained inconsistent data. Individual projects had a 25 per cent failure rate five years after construction. These mixed results were linked to management and administration problems in 2012–13, including weak results forecasting, poor oversight by implementers, failure to produce reports, poor communication with the department, and poor communication between WaterAid staff in Australia and Nepal.

Discussions between DFAT, WaterAid and NEWAH program managers in 2013 led to an action plan to address weaknesses and set expectations of better performance for the remainder of the program (to October 2013). DFAT will reassess NEWAH results following project completion. Options for further WASH engagement ('Management consequences') will include consideration of the NEWAH program quality and management performance.

Preliminary results of the MTR (March 2013)¹⁷ of the **Avoidable Blindness Initiative: Towards a Centre of Excellence at Tilganga Institute of Ophthalmology**¹⁸ found that the

¹⁷ Included in the RDIF QAI-Final Report, 31 March 2013.

initiative continues to provide eye care services, train quality ophthalmological human resources and strengthen business processes and systems at the Institute. Preliminary recommendations included research to inform better outreach to the most vulnerable, and use of research findings to inform evidence-based advocacy, policy and program improvements.

Australia concluded its engagement with the **Rights Democracy and Inclusion Fund (RDIF)** in 2012 as a means of reducing the number of activities and sectors of development work in Nepal. The *Impact Evaluation of Rights, Democracy and Inclusion Fund (April 2013)* found that community-based organisations (CBOs) supported by the RDIF reached approximately 200 000 beneficiaries. The fund increased awareness of human rights at grassroots level and strengthened state and society collaboration to make government more responsive to addressing local rights violations. With support from the fund, CBOs participated more in local governance forums and women and marginalised groups gained better access to local resources. Local political party members became better sensitised to gender issues and inclusive policies, and more involved in helping to resolve local inter-party disputes. The fund also improved local government accountability and the transparency and governance of CBOs.

The **Australia Awards Scholarships Program**, now closely aligned to overall country program objectives, enabled government and non-government staff to further their education. In Nepal, the program aims to have Australia Awards alumni, including traditionally marginalised groups and those working in the public sector, contribute to development-related policies or practices in the relevant priority sectors.

The 2012–13 QAI report on the Australia Awards program in Nepal assessed progress against baseline data set in 2011–12. A tracer study showed that alumni are both contributing to development work and, in the public service, within their fields. They are also being promoted. Tracer study data also showed that when compared with the full cohort of Australia awardees, Nepal public service awardees are more likely to return to and stay in Nepal.

The program supported social inclusion with 11 out of the 31 awardees for 2013 coming from traditionally marginalised groups. Fourteen scholars were female and one scholar was a person with disability. In response to representations from Australia, the Government of Nepal advertised the 2013 scholarships more broadly across the public service within core sectors. The Ministry of Education has decided to fund English language courses to enable more applicants to compete for awards. The Government also took steps to fill social inclusion targets for the staff they put forward as applicants. The targets are expected to lead to more representative candidate fields in the long term.

The **Australian Volunteers for International Development** program, managed through local partner the Centre for International Studies and Cooperation, supported 16 volunteers placed with government, non-government organisations, and research bodies aligned with Australian aid objectives and sectors in Nepal.

Australian Youth Ambassador for Development at National Society for Earthquake Technology

Australia placed James Low, an Australian Youth Ambassador for Development, with the National Society for Earthquake Technology in Nepal in April 2012. The society is Nepal's foremost institution working on earthquake risk management and a DFAT partner in school safety. James brought the society's guidelines for earthquake risk assessment up to international best practice. He helped identify priorities for capacity development, strengthened the society's mason

¹⁸ <http://www.tilganga.org/>

and engineering training programs, and developed training modules. James also provided technical advice and guidelines for using carbon fibre polymers to reinforce concrete columns. Through his inputs, the National Society for Earthquake Technology has been made more effective and better able to help Nepal prepare for earthquakes.

Australia has commissioned or supported research that has informed programming and influenced development partner approaches more widely. A study for the World Bank's Scaling Up Nutrition Initiative Technical Assistance program (part of the multi-donor South Asia Food and Nutrition Security Initiative) analysed nutrition needs to inform Nepal's greater focus on this critical development issue. A study of local governance by The Asia Foundation provided valuable insights to development partners on the local political economy and the role informal political mechanisms play, as well as their impact on providing health and education services. Finally, Australia supported the Nepal Armed Violence Assessment by the Small Arms Survey, which has produced publications about the legacies of war and the post-conflict period to improve understanding of these issues among development partners working in Nepal.

Objective 3—To engage with partners (including government) on policy reforms that contribute to greater transparency, accountability and effectiveness of the State.

The amber rating reflects a prolonged environment of political stasis in 2012 which was not conducive to policy or PFM reform. A focus on technical solutions has seen some notable progress and the environment for reforms appears more promising in 2013.

Australia supported donor efforts to consolidate coordination mechanisms through the implementation of formal development sector groupings in 2012–13. While this enabled the development community to better identify bottlenecks and challenges, significant development partner fragmentation remains. Staff turnover remained very high in the Government of Nepal, with approximately 60 per cent of key positions changing within the ministries of health and education in 2012. The Government's Development Cooperation Report¹⁹ found that donors' aid portfolios are fragmented, with each donor working on average with 11 ministries and agencies. The report showed DFAT as having 10 partnerships with government ministries, including regional and global programs operating in Nepal. The report found limited division of labour between development partners and highly fragmented technical assistance. The consolidation of DFAT's bilateral program is reducing partners but the proliferation of global and regional program partners outside the Nepal program's control is seeing a net growth of Australian partnerships in-country.

DFAT continued to participate in forums for building donor coherence. These included the quarterly local donor meetings (chaired by the Ministry of Finance) to discuss development policy and coordination issues, and the International Development Partners Group (a bi-monthly forum for information sharing, coordination and discussions, chaired jointly by the World Bank and UNDP).

Engagement between donors and the Government remains generally positive and productive. The Nepal Government held its annual Nepal Portfolio Performance Review in January 2013. The review allowed donors and the Government to discuss high-level governance and performance issues, negotiate actions in response to performance findings, and agree to quarterly monitoring and evaluation of follow-up actions.

¹⁹ Development Cooperation Report— 2011–12, Ministry of Finance (March 2013).

Some PFM achievements were notable within this challenging period but much remains to be done. The Government has greater recognition of the need to build PFM capacity and the Chief Secretary is a champion for PFM strengthening. The rollout of the Treasury Single Account to 65 of 75 districts has markedly improved transparency and fiduciary controls—95 per cent of government expenditures and about 98 per cent of government revenues now flow through one local account. The Nepal Government now has more timely data on revenue and expenditure for decision making. To improve financial accountability and timely reporting, the Ministry of Health and Population recently launched the pilot Transaction Accounting and Budget Control System to roll it out in all its cost centres by July 2014.

Participation in the MDTF for PFM is Australia’s most effective way to improve the timeliness and accuracy of financial reporting from government. An operational risk assessment by the Overseas Development Institute under the MDTF found that very low functionality of recent governments in Nepal made it hard for donors to achieve progress on PFM reforms. The assessment recommended short and long-term measures to address issues and develop a politically feasible sequence of reforms. It also provides a basis for donors to decide what PFM reforms they can pursue in the current political climate and set a pragmatic and realistic work plan for the PFM MDTF. The program will continue to be guided by the 2012 Assessment of National Systems. This analytic document outlines the fiduciary risk and steps the program needs to take to mitigate these risks, particularly through assistance to programs like the MDTF. Given the high risk environment, DFAT will update this assessment at the end of 2013.

Some technical improvements were made in financial management in health and education SWAs. Donor coordination structures are now well established. The Government is generally observing its obligations under Joint Financing Arrangements and continues achieving some progress against detailed financial management action and improvement plans. While the number of adverse audit observations has reduced slightly, there is still limited ability in health and education ministries to action recommendations (except for repaying ineligible expenditure to donors). The Ministry of Health and Population is preparing internal guidelines to improve its control of health expenditures.

PFM progress was poor overall. The United Kingdom’s DFID completed a fiduciary risk assessment in early 2013. The assessment identified little change or progress on PFM and concluded that Nepal’s fiduciary risk levels remained high. The absence of a Public Accounts Committee (following the dissolution of the Constituent Assembly) is a major gap in the oversight mechanisms necessary for prudent fiscal oversight. So too is the absence of an Auditor General or Chief Commissioner for the Commission of Inquiry into the Abuse of Authority. However, signals are positive that these long vacant constitutional appointments may be filled in 2013.

Preparations for the Government’s next three-year plan are well progressed with an approach paper informed by local consultations. The plan features a results-based management approach consistent with Busan commitments²⁰ which will strengthen Government monitoring and evaluation and DFAT’s ability to effectively align.

²⁰ The *Busan Partnership for Effective Development Cooperation* was agreed between developed and developing countries at the Fourth High Level Forum on Aid Effectiveness in Busan, Republic of Korea, 29 November to 1 December 2011. It outlines common principles and actions to improve development effectiveness up to and beyond the MDGs. The Global Monitoring Framework will be used to track implementation progress.

Program management and quality

Program quality

The country program strategy for Nepal planned for the end of 2012 has taken longer than expected to develop because of limited resources at DFAT and the priority sequencing of larger South Asian country programs. The strategy should, however, be approved by the end of 2013.

With the exception of the NEWAH, overall progress of major initiatives was generally steady in 2012–13 (Annex B). This was a significant achievement considering Nepal's challenging transition context. DFAT has maintained close monitoring of program quality through QAI assessment and evaluation. Identified reductions in performance ratings and responses are highlighted below.

- > **NHSP II**—Effectiveness and sustainability dropped slightly due to a levelling out of key indicators.
- > **NEWAH**—2012–13 ratings were lower than 2011 ratings for effectiveness, efficiency, monitoring and evaluation, and sustainability. DFAT has discussed concerns with WaterAid and negotiated management improvements expected until project completion in early 2014.
- > **PFM MDTF**—gender equality remained low in 2012–13. DFAT has discussed concerns with the World Bank, including the Country Manager for Nepal, to address this.
- > **RDIF**—The impact evaluation and final QAI assessment:
 - improved the fund's ratings for effectiveness, monitoring and evaluation and gender equality (from earlier QAI ratings)
 - highlighted the program's ability to learn from challenges and continually improve to deliver significant results during implementation
 - found the fund 'less than adequate' in efficiency and sustainability, due to slow expenditure (compared to budget) and inadequate attention paid to sustainability planning (following completion in December 2012).

Partnerships

Australia has continued to manage the Nepal program through well-established partnerships, particularly with multilateral organisations, consistent with DFAT's approach across South Asia.

Australia places high value on its relationships with the **World Bank** and the **Asian Development Bank (ADB)** in Nepal both of which are high-performing organisations. Australia shares common development and reform objectives with these banks which have the technical capacity and ability to influence government and other partners in ways that complement Australian aid. The World Bank provides fiduciary oversight of sector programs on behalf of all development partners and leads on PFM reform (a subject on which both banks collaborate well as a result of collective development partner pressure).

During 2012–13, Australia raised two key performance issues with the **World Bank**. Prolonged gaps in international staffing in the Nepal country office affected the World Bank's ability to influence policy debate. The World Bank also provided insufficient human resources to fully implement activities as planned under the PFM MDTF.

The **ADB** continued to be stronger on technical than policy inputs in 2012–13. As Australia’s partner for safer schools, the ADB was slow in setting up mechanisms for implementation.

As the funding partner for the MEDEP, the **UNDP** demonstrated strong implementation capacity and good relationships with the Government of Nepal in 2012–13. However, progress suffered from high turnover among Government of Nepal program staff. The UNDP did not always effectively address DFAT’s concerns about MEDEP performance and quality. Major gaps in monitoring and evaluation and strategic management of key stakeholders need to be addressed. Overall, the department has spent much more time on the program than intended in original partnership arrangements, particularly in ensuring quality in the design for MEDEP Phase IV.

Another important partnership for Australia in Nepal is with the **UN Resident Coordinator’s Office**. The Coordinator provided strong leadership and vision for development partners and within the UN, and was an effective interlocutor with the Government. The office’s network of field offices, supported through Australian funding, has conducted high-quality analysis.

Australia does not fund any **United Nations Children’s Fund (UNICEF)** programs in Nepal, but UNICEF is an important partner for the Government of Nepal in health and education. During 2012–13, DFAT observed that UNICEF delivered a strong bilateral program, using its effective field presence, good relations with the Government and technical expertise. UNICEF also made useful contributions to policy discussion about these sectors at meetings between donors and government.

DFID is the most important bilateral partner for Australia in Nepal, and is the biggest bilateral donor in Nepal. In 2012–13, DFID contributed significant resources and technical expertise to donor discussions with government. DFID was effective in encouraging donors to develop joint positions and present issues to the Government as a coordinated group.

Program management

DFAT has a small team in Nepal comprising one Australian staff member, four locally engaged program staff and a locally engaged operations manager. The size of the team requires a selective approach to deciding how and when to participate in aid policy, planning and monitoring in Nepal. During 2012–13, the team continued to work closely with better-resourced partners, especially those outlined under ‘Partnerships’. The department decided to withdraw from the peace building sector in 2012 to free up resources for a more focused approach in the remaining sectors of health, education and PFM. Australia may be able to have greater influence on development policy in Nepal when the South Asia Regional Platform is operationalised.²¹

There was some progress against targets in Kathmandu to spend more time in the field and on learning, research and analysis. Half the program staff made four annual field visits and half also spent the targeted time on learning and development. Senior staff in Kathmandu continued to work long hours in 2012–13, in particular to monitor changes in the political and economic context with limited resources.

In 2012–13, DFAT participated in the NHSP II’s MTR (February 2013) and an evaluation of the MEDEP. A final evaluation of the RDIF was commissioned, as was a MTR of support (through the Avoidable Blindness Initiative) to the Tilganga Institute of Ophthalmology. This level of evaluation is appropriate for the size of the program and the capacity of the DFAT team in Kathmandu.

²¹ The South Asia Regional Platform, expected to begin from late 2013, will provide technical expertise to support programs across South Asia.

Staff at Kathmandu Post remain highly vulnerable to an earthquake. The buildings they work in on the compound have been assessed as unsafe in a major earthquake. A planned and approved annex was indefinitely put on hold in 2012.

Management consequences

1. **Improve country level performance monitoring.** The program management team will update the draft performance assessment framework and use it to guide data collection and analysis for the 2013–14 APPR for Australian aid to Nepal.
2. **Retain flexibility to adapt as needed.** The program management team will work with partners to analyse the changing context in Nepal and changes to program assumptions, including as a result of national elections.
3. **Strengthen risk management and aid delivery systems.** Guided by the country program strategy, and considering the above contextual analysis, the program management team will decide:
 - a. ways to increase effective risk management for program delivery in 2013–14
 - b. planning and analytical documentation relating to future aid:
 - i. such as a delivery strategy and/or investment concepts or designs
 - ii. in proportion to the small size of the program and the small program management team.
4. **Implement quality improvement reforms as needed.** To maintain and improve the quality of specific initiatives, the program management team will:
 - a. seek approval for an additional locally based program manager to support the transition of the MEDEP from the UNDP to the Government of Nepal (expected by 2017–18).
 - b. reassess NEWAH results following project completion in early 2014
 - c. consider the potential costs and benefits of possible future Australian support for water, sanitation and hygiene in Nepal (subject to the country program strategy objectives and contextual analysis discussed earlier)
 - d. maintain an active role in the PFM MDTF to continue improving Government of Nepal’s control and reporting of finances for development (supported by a new public financial adviser for South Asia, if this is approved and filled in 2013–14).

Table 3 Risks associated with the program and management actions

Most significant risks	Management response—What? Who? How? When?
<p>A lack of technical capacity in areas such as education, health, PFM, systems, and monitoring and evaluation means the Nepal program is unable to safeguard Australia’s investments in SWAps and other programs. A lack of resources could also mean Australia is unable to elevate its relationship with partner governments and its level of influence with other donors.</p>	<p>A long-term Regional Education Adviser is in place. The Finance Coordinator in Canberra can assist Kathmandu Post with corporate and finance support. Canberra will recruit a long-term regional PFM adviser and health adviser in 2013–14. Implementation of the South Asia Regional Platform will provide a mechanism for country programs to efficiently source short and long-term technical expertise and administrative support. The creation of a new Counsellor position in Dhaka (Regional Operations and Policy Support) will also assist.</p>

Geographical instability and the potential for natural disasters to occur. Embassy buildings, embassy staff and volunteer residences in Kathmandu are not earthquake safe, and Kathmandu is due to experience a severe earthquake.

Political instability and threat of physical violence to staff, particularly given upcoming elections. Political instability means resources (including time and money) could be diverted from partner governments to other priorities, putting the successful delivery of some programs at risk.

Uncertainty over future budget allocations could lead to uncertainty over future investments. A delay in the scale-up of the aid program overall could mean the Nepal program is unable to meet commitments in 2013–14 and 2014–15. This is a reputational risk given the potential for agreements to be cancelled or amended as a result.

High levels of corruption, coupled with a program increasingly being delivered through partner government systems and large donor groups, with reduced oversight of Australian Government funds.

Regular contact with the Australian Government's Department of Foreign Affairs and Trade to discuss changes to travel advisory warnings and other security developments. The department has a Business Continuity Plan which DFAT will input into. A new building should be constructed for staff in Kathmandu, however this depends on funding being made available from the capital works budget.

The program management team in Kathmandu will closely monitor risks to staff in consultation with DFAT and ensure appropriate measures are in place to mitigate direct dangers. DFAT will coordinate with other donors to maintain staff safety and security.

The program has a three-year financial planning pipeline plan in place which is updated quarterly to show forward commitments. The program management team will discuss planned new investments with senior management, to avoid raising expectations and ensure the Nepal program is not over-committed.

DFAT's Fraud Management Plan is applied in Nepal. Cases of fraud are reported to the Risk Management and Fraud Control Branch. Kathmandu management team will continue to invest significant time in sector financial management and oversight of governance reforms.

Annex A

Progress in addressing 2011 management consequences

Management consequences identified in 2011 APPR	Rating	Progress made in 2012–13
1. Complete an endorsed country program strategy by the end of 2012.	Red	A country program strategy was drafted in 2013. It will not be progressed further until broader DFAT country programming architecture has been finalised which will likely include foreign policy objectives and priorities for the aid program.
2. Undertake an options paper on engaging in Nepal's potential transition to federalism in 2012 to 2013 (depending upon the political environment).	Red	DFAT Kathmandu had discussions with the World Bank which mooted a paper on local governance issues through the PFM MDTF, but the transition to federalism now appears several years away, with an election to be held first and then agreement on a constitution.
3. End engagement in the RDIF at the end of 2012 and wrap up engagement with Scaling-Up Nutrition Initiative Technical Assistance, Tilganga Institute of Ophthalmology, and the Electoral Education Information Centre.	Amber	The RDIF has ended. The Electoral Education and Information Center has been completed. Scaling-Up Nutrition Initiative Technical Assistance funds have been reallocated for 2012–13. Intent achieved but the program will continue until June 2014 since the larger regional mechanism it is linked to has been extended. The Tilganga Institute of Ophthalmology will continue until March 2014 under a no-cost extension.
4. Investigate options for delegated leadership within current partnerships and the implications of that for the Nepal team's workload.	Green	Post investigated and found no more efficient possibilities for delegated leadership beyond current arrangements. The South Asia platform may supersede the need for other relationships. DFAT will reconsider again in the second half of 2014.
5. Enhance monitoring and increase learning and development opportunities for Nepal Post to ensure staff have adequate skills and information to manage current and future engagements.	Amber	Half of program staff met the target of four annual field visits and half achieved targets for time spent on learning and development.
6. Ensure Kathmandu Post's management team (First Secretary and Country Manager) focus on risk analysis and management in 2012, given Nepal's challenging context.	Green	Successfully focused on. Full risk management plan in place.
7. Ensure, that disaster risk reduction management principles are integrated within the program in 2012, in line with the disaster risk reduction policy.	Green	Have included disaster risk reduction program commitments in the draft country program strategy. Disaster risk reduction school work progressed through 2012–13. Post continues to participate in the Nepal Risk Reduction Consortium.
8. Continue to support South Asia's consolidation of scholarship management to ensure more effective outcomes in Nepal.	Green	Supported.

Management consequences identified in 2011 APPR**Rating****Progress made in 2012–13**

9. Ensure Nepal program contributes to South Asia Branch’s communications strategy which will measure country program visibility and use of current communication tools.

Amber

The communication strategy was completed in consultation with the Nepal program but does not fully meet the program’s needs.

Note:

-  Green. Progress is as expected for this point in time and it is likely that the objective will be achieved. Standard program management practices are sufficient.
-  Amber. Progress is somewhat less than expected for this point in time and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.
-  Red. Progress is significantly less than expected for this point in time and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

Annex B

Quality at Implementation (QAI) ratings

Initiative/activity	Financial approval and duration	Year	Quality at Implementation (QAI) ratings						Risk management
			Relevance	Effectiveness	Efficiency	Monitoring and evaluation	Sustainability	Gender equality	
Micro-enterprise development—MEDEP	\$11.7m 8 years	2010	6	4	4	5	4	5	
		2011	6	5	5	4	4	5	
		2012	6	5	5	4	4	5	
Public Financial Management Multi-donor Trust Fund—PFM MDTF	\$2.85m 4 years	2010							
		2011	6	4	4	3	4	2	
		2012	5	4	3	3	4	2	
School Sector Reform Program—SSRP	\$28m 7 years	2010	6	5	5	5	5	5	
		2011	6	5	4	4	4	5	
		2012	6	5	4	4	4	5	
Nepal Health Sector Program—NHSP II	\$26m 5 years	2010	6	5	4	5	4	5	
		2011	6	5	4	5	5	5	
		2012	5	4	4	5	4	5	
Nepal Water for Health—NEWAH	\$7.2m 4 years	2010	6	5	5	5	4	5	
		2011	6	5	6	5	5	5	
		2012	5	3	2	2	3	5	
Rights Democracy Inclusion Fund—RDIF	\$7.3m 9 years	2010	4	3	2	3	3	5	
		2011	5	4	3	4	3	4	
		2012 (QAI-F)	4	5	3	5	3	5	

Definitions of rating scale:

Satisfactory (4, 5 and 6)

6 = 6 = Very high quality

5 = 5 = Good quality

4 = 4 = Adequate quality, needs some work

Less than satisfactory (1, 2 and 3)

3 = 3 = Less than adequate quality; needs significant work

2 = 2 = Poor quality; needs major work to improve

1 = 1 = Very poor quality; needs major overhaul

Risk Management scale:

6 = Mature (M). Indicates the initiative manager conducts risk discussions on at least a monthly basis with all stakeholders and updates the risk registry quarterly.

3 = Intermediate (I). Indicates the initiative manager conducts ad-hoc risk discussion and updates the risk register occasionally.

2 = Basic (B). Indicates there are limited or few risk discussions and the risk register has not been updated in the past 12 months.

Annex C

Evaluation and review pipeline planning

List of evaluations completed²² in the reporting period

Name of Initiative	AidWorks number	Type of evaluation ²³	Date evaluation report received	Date evaluation report uploaded into AidWorks	Date management response uploaded into AidWorks	Published on website Yes/no
Child Survival and Nutrition Initiative II	INJ241	Independent review of two Australian-funded UNICEF projects—one on child survival and nutrition and one on maternal health in Nepal	31 January 2013	6 February 2013		no
Maternal Health Services for the Disadvantaged	INJ398					
Micro-enterprise development	ING833	MEDEP, final report	18 April 2012	23 August 2012	7 November 2012	yes
Rights Democracy and Inclusion Fund	ING679	Impact evaluation	10 May 2013	22 May 2013		no

²² 'Completed' means the final version of the report has been received

²³ For example, MTR, completion report, partner-led evaluation, joint evaluation

List of evaluations planned in the next 12 months

Name of Initiative	AidWorks number	Type of evaluation	Purpose of evaluation²⁴	Expected completion date
South Asia Water and Sanitation	INJ037	Final evaluation		May and June 2013
Nepal Assessment of National Systems	n/a	Nepal Assessment of National Systems update		Last quarter 2013

²⁴ For example, to inform a future phase of a program, improve an existing program or verify program outcomes.