

**DFID**

Department for  
International  
Development

**COUNTRY BUSINESS PLAN**



**THE UK GOVERNMENT'S  
PROGRAMME OF WORK  
TO FIGHT POVERTY IN  
NEPAL**



**DEVELOPMENT IN  
NEPAL  
2009-2012**

# **THE UK GOVERNMENT'S PROGRAMME OF WORK TO FIGHT POVERTY IN NEPAL**



## **DFID, the Department for International Development: leading the British government's fight against world poverty**

---

One in six people in the world today, nearly a 1 billion people, live in poverty on less than one dollar a day. In an increasingly interdependent world, many problems – like conflict, crime, pollution, and diseases such as HIV and AIDS – are caused or made worse by poverty.

DFID supports long-term programmes to help eliminate the underlying causes of poverty. DFID also responds to emergencies, both natural and man-made.

DFID's work forms part of a global promise to:

- ↪ halve the number of people living in extreme poverty and hunger
- ↪ ensure that all children receive primary education
- ↪ promote sexual equality and give women a stronger voice
- ↪ reduce child death rates
- ↪ improve the health of mothers
- ↪ combat HIV & AIDS, malaria and other diseases
- ↪ make sure the environment is protected
- ↪ build a global partnership for those working in development.

Together, these form the United Nations' eight 'Millennium Development Goals', with a 2015 deadline. Each of the Goals has its own, measurable, targets.

DFID works in partnership with governments, civil society, the private sector and researchers. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID operates from 64 overseas offices worldwide, with a budget of nearly £7 billion in 2009.

Its headquarters are in London and East Kilbride, near Glasgow.



## TABLE OF CONTENTS

---

<b>NEPAL PAST AND PRESENT: OVERVIEW OF ECONOMIC, POLITICAL AND SOCIAL DEVELOPMENT</b> .....	1
Conflict, politics and peace.....	1
Outstanding risks to the peace process .....	1
Economy and jobs .....	2
Global economy .....	3
Social context .....	4
Data.....	6
Climate change.....	6
The Future .....	6
Partnership - Measuring government commitment to DFID core principles on commitments to poverty reduction; human rights and tackling corruption.....	8
Government priorities.....	9
Partnerships with Donors and Multilaterals.....	9
Working with the Multilaterals.....	10
Consultations.....	10
Areas where we will do less .....	12
Security and Development .....	12
Disaster Risk Reduction.....	13
Areas of Focus for New Country Plan, 2009-12 .....	13
Recent Programme.....	13
Aid framework .....	14
Future Programme 2009/10 – 2011/12 .....	14
Cross cutting elements of our approach.....	16



# DFID NEPAL COUNTRY BUSINESS PLAN 2009-2012

## NEPAL PAST AND PRESENT: OVERVIEW OF ECONOMIC, POLITICAL AND SOCIAL DEVELOPMENT

### Conflict, politics and peace

1. Nepal is going through an historic process of transition, and emerging from a 10 year conflict, in part driven by poverty and exclusion. The Nepali-owned peace process has made considerable progress since peace agreements were signed in November 2006. An election was held in April 2008, and a Maoist-led coalition government was formed in August 2008. The newly elected constituent assembly is tasked with drafting a new constitution. It is the most representative assembly in Nepal's history, with a third of CA members women, and greatly increased representation from excluded groups. Its first meeting abolished the 240 year-old monarchy, and declared Nepal a federal, democratic republic.
2. This new political moment in Nepal provides a huge opportunity for the country to renegotiate its political settlement. People's expectations have been raised and Nepal's leaders face the challenge of meeting them and agreeing a political settlement that will help to achieve sustainable peace. The international community needs to respond to this 'open moment' with increased political and financial resources in order to cement the peace and deliver development.

### Outstanding risks to the peace process

3. Nepal is faced with a number of challenges including the rise of identity politics and a weak law and order situation. A key issue ahead is successful completion of the constitution writing process through the CA. Essential for progress, and in particular economic progress, is the establishment of public security in the country. Numerous armed groups, sometimes with links to criminal gangs, have disrupted the economy and threatened the population. The police face huge challenges in bringing about law and order across the country. Blockades or bandhas severely disrupt economic activity.
4. There are a number of outstanding issues in the peace agreements. An important one is decisions on the future of the armies, who remain confined to barracks or cantonments. Other areas of the agreements include support to conflict affected people, to the displaced and to families of those 'disappeared'. Greater representation of and rights of excluded groups also need to be ensured. Little progress has been made on transitional justice, reinforcing impunity of the police and other armed forces.
5. Government has done well to maintain macro-economic stability, even during the conflict, and debt ratios are low at 1-2% of GDP. Recently government

successfully increased revenue, a third up from last year. But while revenue targets have been exceeded, spending is lagging, made harder by the absence of political bodies at the local level.

6. Coordinated international support will be critical in helping government keep the peace process moving. International support to the Nepal Peace Trust Fund has been important in getting elements of the peace process implemented (i.e. setting up and running cantonments for Maoist soldiers, support to displaced people and financing a significant proportion of election costs). DFID and others can provide support to public security, and help with security sector reform. Our work, and that of government and other donors, will need to be sensitive to addressing the causes of conflict, and be led by government plans.

#### Box 1: Potential triggers of future conflict / increased instability

- ↪ collapse of coalition government
- ↪ increase in Tarai tensions (and other identity-based tensions)
- ↪ unsatisfactory resolution on the future of Maoist / Nepal Armies
- ↪ increased friction between YCL, Youth Force and / or state security forces
- ↪ lack of progress in the Federalism debate
- ↪ Constituent Assembly fails to address the interests of excluded
- ↪ failure to deliver peace dividend, including to poor and excluded
- ↪ external shocks: increasing food insecurity and fuel prices; impact of global financial crisis

Also: unfulfilled expectations of the people; land reform policies and attempts at land redistribution

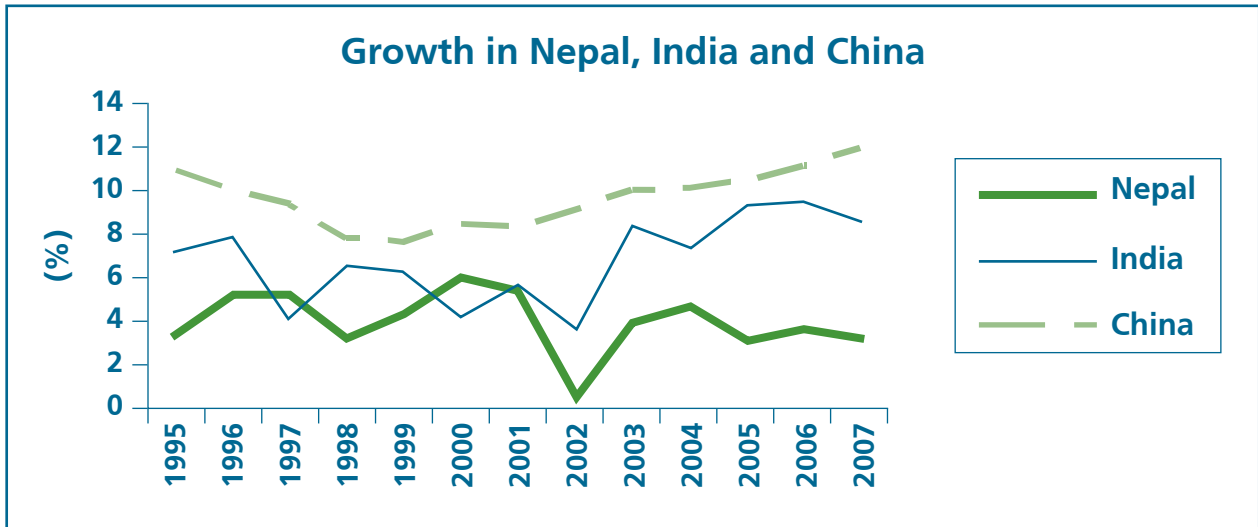
DFID: Strategic Peace Assessment (2008)

## Economy and jobs

7. Nepal's economy suffered when the conflict intensified in 2001 and is now recovering. Nepal's neighbours – India and China - have huge economies and sustained growth, offering important markets which Nepal can benefit from. So strengthening economic links with its two main neighbours is a priority, particularly with India which accounts for half of Nepal's trade. Nepal's main exports are garments and carpets. It also has opportunities to develop tourism further and develop its hydro-power resources (an estimated 1% of Nepal's potential is tapped). Similarly agriculture, which makes up a third of GDP, has significant potential, but is vulnerable to varying rainfall. Remittances from the 2 million Nepalis working overseas generate more foreign earnings than exports, and around 15% of national income. Foreign Direct Investment is very low at \$6 million. There are indications that investor confidence has fallen since the 2008 elections.



Chart 1: Regional growth



8. Job creation is a key government priority, and jobs are urgently needed in Nepal for a peace dividend. International evidence shows economic development and jobs significantly increase long term stability. Job creation in the long term will come from a better investment climate and private sector-led growth. The key constraints to growth, according to a DFID / ADB / ILO growth diagnostic, are political instability & insecurity, poor infrastructure and an over-regulated labour market. The new government has committed itself to private sector-led growth, and announced ambitious plans in the budget on job creation; delivery will be a challenge.
9. It is vital that growth is inclusive, if more of Nepal's people are to benefit from new economic opportunities. Nepal is the poorest and most unequal country in Asia, and inequality is growing. International experience shows that inequality is a key driver of conflict and instability, so jobs must reach the poor and excluded. Employment for women is important too, given their role in increasing the welfare of children and breaking the inter-generational cycle of poverty. Helping the poor and excluded get jobs requires programmes that give them market-ready skills, strengthen links between the poor and markets, and encourage investment in excluded areas. Programmes that create jobs in the short term e.g. cash for work programmes, also have an important role. In the longer term, better social protection to reduce vulnerability, health, education, access to finance and natural resource management, including land reform, will all have a vital role to play.

## Global economy

10. There are wider issues too. Nepal is not strongly integrated into the global economy and its banking sector has been largely unaffected by the recent crisis, however the global economic downturn will threaten markets for Nepal's key export: migrant workers. Reduced tourism, and exports as regional demand reduces, may also

become issues. Nepal may be protected by growth in India, its main export market, but growth has reduced to around 5% in 2009 because of the global downturn, and could worsen. However, while the global economic downturn will impact negatively on Nepal, there is much that Nepal can do to improve its own constraints to growth: mainly public security, infrastructure, and labour market regulation.

11. Food prices have remained high following global rises in 2008, and assistance is being provided by WFP, with some DFID help, to 300,000 people in the remote west where food prices are 70% higher than in more accessible areas. Fuel prices have reduced with falling oil prices, effectively removing fuel subsidies, which were costing the government \$25m a month, but a lasting policy on fuel subsidies has not been agreed. DFID will monitor these issues, along with other donors, and will support government action.

## Social context

12. The number of people living below the poverty line was reduced from 42 to 31% between 1996 and 2004, surprisingly so during the conflict, but mainly driven by growth in remittances. Important progress has also been made on health and education. Child mortality has been halved over the past decade, maternal mortality reduced by at least 20-30%. Primary school enrolment is at 89%, and gender parity has been achieved. However, with 40% of children underweight, Nepal will be unable to achieve the hunger Millennium Development Goal (MDG). The HIV/AIDS goal is off track, and maternal mortality, despite significant progress made by government, is severely off-track.

### Box 2: Poor people's priorities

#### Poor people want :

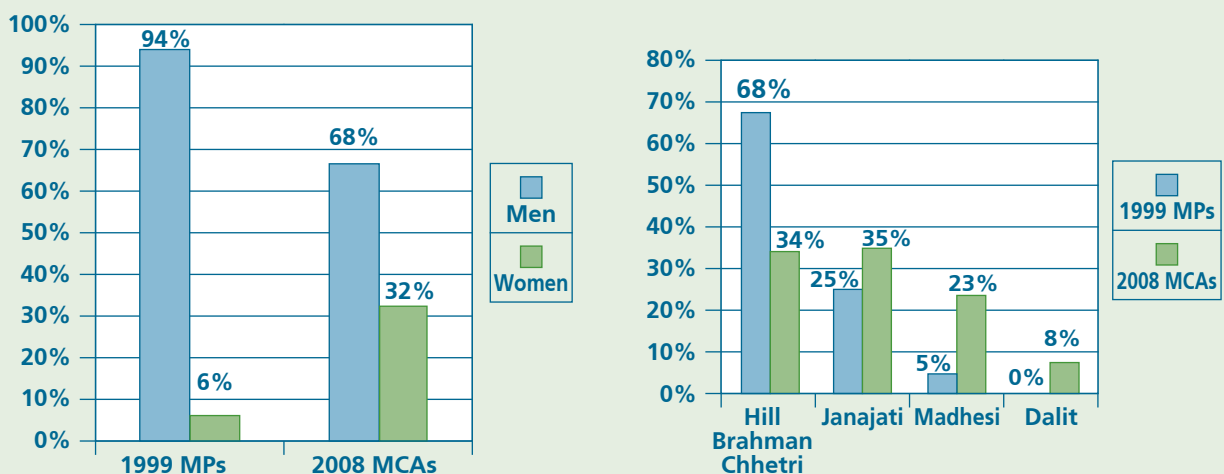
- Peace and security
- Roads
- Cost free services in health, education, water supply and sanitation
- Electricity and irrigation infrastructure
- More land
- A government that is closer to them;
- with greater representation of them;
- and which communicates better with them

Participatory Governance Assessment, 2007

13. But while poverty reduced, it did so unevenly - by 46% for high castes but only 5% for Muslims. Only 4% of women in the lowest income quintile give birth in a health facility, greatly increasing their chances of birth complications, while 55% of women in the highest income quintile do. Social indicators are heavily influenced by who people are, their gender, their caste, and where they live. Women and girls fare worst.

14. **Gender:** Almost 50% of Nepal's children (and in India and Bangladesh) are malnourished. Evidence now shows that inequality between men and women drives malnutrition because women eat last, eat less and eat lower quality food. Consequently they are more stunted, more wasted and die younger; and their children do too. Pregnancy is more perilous, babies are born underweight, and their mental development is irreversibly impaired as they grow older. And this new generation is trapped again in a cycle of poverty and exclusion. Research shows that tackling this requires changing women's status – through more and better education, and through jobs, and secondly through targeted health and reproductive services. This evidence has helped shape DFID's priorities and in particular the focus on jobs and education for girls. Recent research<sup>1</sup> shows that while societies with greater gender equality are more stable, it may also be the case that gender equality plays a strong and measurable role in the stability of the state.
15. **Exclusion:** Compounding gender discrimination is wider exclusion, primarily through caste, religion and identity. Exclusion was and is a key driver of conflict in Nepal. It is multilayered. For example, 85% of Madhesi Dalit women have no education, compared with less than 2% of Madhesi Brahmin/Chhetri men, and hill Brahmin children are twice as likely to survive as hill Dalit children. Social exclusion makes the excluded poor and keeps them poor. Delivery of improved, and inclusive services, is key to stabilising the peace, and delivering a peace dividend.
16. Government has made important commitments to address some of these issues. Prior to the CA elections, a new electoral law adopted proportionate representation, following pressure from excluded groups, many supported by DFID. The Civil Service and Police have been mandated to reserve 45% of new recruitments for women and excluded groups. Major reforms will be required to implement this in practice. The first test was in the elections. The results - women's representation in the constituent assembly increased from 6% to 33% compared to the 1999 parliament. 40 of the new female members having received capacity building support from DFID. Dalit representation increased from zero to 8%, and Madhesi from 5% to 23%.

### Box 3: Representation of excluded groups in current and past parliaments



17. Nepal's civil society with some 30,000 NGOs and other informal associations is becoming increasingly influential in public policy issues. Their contribution to bringing about democratic change is widely recognised.

## Data

18. We are exploring further support to the National Planning Commission for improved poverty monitoring information and analysis, building on past support on analysing exclusion and poverty across Nepal. We are also improving our own impact data, including developing improved baselines for monitoring. We will be evaluating key areas of assistance to assess impact and learn lessons. For instance, our £87m investment over 30 years on roads in eastern Nepal. In health for example, our technical assistance is helping to build a stronger analytical base for monitoring health improvements. The next national household survey is planned for 2010.

## Climate change

19. Nepal will be disproportionately affected by climate change as the Himalayan ice caps are melting faster than any other, in part because global temperature rises are doubled at high altitude. Two thirds of glaciers are retreating, three quarters will disappear by 2030 and 20 glacial lakes are at risk of bursting their natural dams. Nepal will also experience more intense monsoons and dry seasons. Support to mitigation and adaptation will be important. Community forest management offers good opportunities for carbon trading, and the government is developing a national adaptation plan with DFID and other donor support.

20. More needs to be done to deal with these challenges, yet addressing climate change will be vital not just for Nepal, but for the region, since Nepal lies at the head of the Ganges basin on which 500 million people rely on for water. Improved management of Nepal's water resources will be good not just for Nepal's economy through hydro-production, where only 1% of the potential is currently utilised, but for controlling peak and low flows, reducing flooding, and increasing irrigation potential in the dry season. Nepal also has an international role to play. Its unique, vulnerable position in the Himalayas make it well placed to work with other vulnerable countries to articulate the need for an ambitious, equitable climate change deal at the Copenhagen negotiations in December 2009.

## The Future

21. The scale of the challenges facing Nepal is daunting, yet Nepal has accomplished a great deal in the past few years in achieving and sustaining the peace. There is a political opportunity to move the country forward, but significant risks lie ahead.

22. Our view is that over the coming years, slow but steady progress will be made. There will most likely be forward movement in agreeing a new constitution, holding elections for a new government under this constitution, implementing agreements on inclusion, enabling growth and delivering vital services to the people. The situation will remain fluid and it is likely that there will be setbacks along the way.

23. DFID Nepal has learnt how to respond in a conflict and post-conflict context. Over the past year our Interim CAP has been largely successful in achieving its aims.

#### Box 4: Interim CAP: Examples of impact in 2007/08

**Health:** Government announced a new free institutional delivery policy to be implemented in 2009. Births attended by health workers increased by 2%.

**Education:** Total net enrolments at primary level went up by 8%; gender parity achieved.

**Infrastructure:** Completed construction of 548km of roads. Since 2006/07, 163 new foot bridges built bringing 371,000 people closer to markets, schools and health centres.

**Livelihoods:** 45,000 families received access to credit to improve livelihoods. Community forest user groups reach 10% of the total population, generating £730,000 from the sale of forest products and creating the equivalent of about 5,500 full time jobs. A third of these went to women.

**Peace process:** Our impact on this is harder to quantify but in 2007/08 we dedicated 19% of our expenditure to the implementation of the Comprehensive Peace Agreement: support to the elections, including 3,750 civic education sessions in 75 districts; funded more than 100 international and 20,000 national observers, and helped set up Maoist cantonments. Also trained 40 female CA members.

**Political and social inclusion:** The new constituent assembly is the most gender-balanced, youngest and inclusive representative assembly in Nepal's history, DFID supported various groups of excluded people to advocate for their rights.

24. During this transition period in Nepal, it is important that we assess risks and develop actions to mitigate them. Our risk register highlights five key risks:

#### Box 5: Key risks

**Risk 1: Political Instability and Return to Conflict**

**Impact:** growing insecurity and conflict

**Mitigating actions:** programme design minimises conflict triggers occurring; UK efforts support peace and stability; support international response to peace building

**Risk 2: Global economy, food & fuel prices**

**Impact:** high: remittances, tourism and exports; food prices esp. for vulnerable; high fuel prices puts pressure on budget

**Mitigating actions:** address short run food insecurity (relief); address long-run food insecurity through building private sector activity, improving market linkages through roads, and exploring social protection measures; support debate on fuel subsidies

**Risk 3: Climate change**

**Impact:** already significant but will worsen, increased vulnerability

**Mitigating actions:** support delivery of National Adaptation Plan of Action; support water resource management; create new DFID post to address these areas

<p><b>Risk 4: Fraud and Corruption</b></p> <p><b>Impact:</b> high, undermines delivery, weakens state</p>	<p><b>Mitigating actions:</b> ensure DFID operate to highest standards; take appropriate measures to safeguard programmes; support Nepal’s efforts to tackle corruption</p>
<p><b>Risk 5: Risk of natural disasters</b></p> <p><b>Impact:</b> depends on affected area</p>	<p><b>Mitigating actions:</b> contribute to national risk reduction measures through UN and World Bank; contingency plans for staff in place</p>

25. The Institute for State Effectiveness conducted a review of our portfolio from a fragility and state-building perspective and recommended focusing on a few core programmes working through the state, including a more comprehensive national accountability programme, focus on the private sector as an engine of growth and jobs, an increased focus on skills-building and higher education, and public security. The review also suggested greater use of networked leverage, including with international private sector, a focus on inclusion not exclusion, and greater focus on policy advice and analysis.

## **Partnership - Measuring government commitment to DFID core principles on commitments to poverty reduction; human rights and tackling corruption**

26. **Commitment to poverty reduction and the MDGs:** For the government as whole the commitment to poverty reduction is assessed as good. To date the main indicators of commitment are the Common Minimum Programme, the budget and the emerging Nepal Development Strategy. All are strongly pro-poor, but capacity to implement is a concern. A key challenge for Nepal will be for the political parties to work together to take forward implementation of the peace process and key economic and development priorities. The UK will continue to play a role to support this collective effort.

27. **Commitment to human rights:** While the number of human rights violations and abuses has decreased significantly following the end of the conflict, impunity remains widespread. There has also been an increase in the level of abuses by new actors such as armed criminal groups in the Tarai, and youth organisations of the political parties. Amnesty International’s 2008 annual report highlighted the failure of the police and public prosecutors in their duty to investigate and prosecute cases of human rights abuse. Press freedom and space for civil society activists has grown since the end of the conflict, but threats against journalists continue, often resulting in self-censorship, especially at the regional level, with the result that abuses are often unreported.

28. **Commitment to strengthening financial management and accountability:** More needs to be done by government to tackle corruption, in particular on procurement. Government leadership of a joint government / donor procurement review is a helpful contribution. New disclosure laws and improved tax recovery efforts are addressing some aspects of personal corruption. Nepal is one of the few countries to complete a Public Expenditure and Financial Accountability self-assessment, and a strategy is being



developed to address the findings. Actions will be monitored over the country plan period. DFID continues to use government systems in some sectors e.g. education, and is committed to future SWAPs in other sectors, e.g. rural infrastructure, but greater use of government systems will require greater progress on tackling corruption.

## Government priorities

29. The new government is setting out its priorities for the coming period. Our proposed direction sits well with these priorities, and our joint planning with ADB, World Bank and government should allow us to share efforts in different areas.

### Box 6: Draft Nepal Development Strategy 2008/09 – 2011/12 - priorities

**Vision:** to a Build Peaceful, Prosperous and Just New Nepal

- ✦ Peace building (addressing post conflict issues in a sustainable way through relief, rehabilitation, reconstruction and reintegration; implement CPA, new constitution, state restructuring, security sector reform, transitional justice, human rights, cantonments, conflict sensitive development, employment, equity, access and ownership of productive assets)
- ✦ Harness international cooperation and regional economic prosperity for national development (trade integration, FDI)
- ✦ Employment-oriented and broad-based high economic growth - agriculture, infrastructure (hydro, roads, airports), ICT, tourism, cooperatives, investment climate including security
- ✦ Improvement in governance and service delivery systems (empowerment of people, institutions, judiciary, free basic health care, compulsory education to secondary level, inclusion, social security)
- ✦ Investment in infrastructure (Physical, social, economic)
- ✦ Social development
- ✦ Inclusive development and targeted programs

Draft outline, presented to donors 2 March 2009

## Partnerships with Donors and Multilaterals

30. There are around 30 donors working in Nepal. The UK is the largest OECD bilateral, with USAID, Japan, Norway, Denmark and Germany providing around half our volume. India provides substantial aid, including in-kind, China is also a donor, but accurate figures are not known for either. ADB has been the largest multilateral but is now being overtaken by the World Bank.

31. The social sectors, education, health and water supply and sanitation, are receiving high levels of donor support, in both numbers of donors and the amount of aid. This is particularly true in education and health, both supported by ten donors with over \$300m currently committed to each area, although in health only DFID and the World Bank are key funders. This partly reflects the harmonised practice in

both sectors. Other sectors, such as agriculture and irrigation, are well provided for by the ADB and World Bank.

32. The economic sectors, industry, employment, tourism and private sector development are relatively under funded. In governance the spread of support is highly variable. The peace process has 12 donors and \$210m committed, but covers a wide range of programmes. DFID is the only donor to have provisionally committed support to security sector reform, including policing. Donor support to climate change and water resources is currently small-scale.
33. There has been some progress towards targets set out in the Paris Declaration and on Fragile States principles, but this is partly constrained by Nepal's fragility, limited government leadership, and weak country systems. The challenge for donors is to support the Government to manage the transition from scattered donor projects and programmes outside government, to effective delivery through government, as corruption is tackled more effectively. We are doing this through support to the Ministry of Finance and the introduction of aid management systems with the UN.

## Working with the Multilaterals

34. The consultations for our country planning were done jointly with the World Bank and ADB (see below), in part to streamline consultations, but primarily to provide a platform for joint planning as a group of donors providing over 70% of future aid to Nepal.
35. A concerted international response will be needed to help Nepal seize this moment to secure the peace, address the immediate challenges and start to lay the foundations for the future. Nepal has a relatively small and increasingly well-coordinated donor community, who are bringing additional resources at this critical time.

## Consultations

### Box 7: Headlines from consultations

ADB, DFID and the WB were asked to:

- ✎ Help improve trust amongst political parties
- ✎ Support to the peace process and constitution writing
- ✎ Support improved governance and tackling corruption
- ✎ Help to change the lack of service culture in government administration, and the desire both to see services delivered directly by donors, but also a desire to see delivery from a more effective government administration
- ✎ Help create more jobs, build infrastructure and improve service delivery
- ✎ Assist with raising agricultural productivity
- ✎ Support to western and remote regions marginalised from development
- ✎ Help to stop violence against women which is a major issue for women, coupled with concerns around alcoholism
- ✎ Be more transparent as donors

Country Planning Consultations, ADB / DFID / World Bank, 2008



36. Joint consultations with the ADB and World Bank were carried out in selected districts of Nepal, and with key interest groups in Kathmandu – government, politicians, civil society, private sector, and youth. Consultations were also conducted with civil society and the Nepal Embassy in the UK.
37. What have we done differently as a result of these consultations? They helped us in three main areas:
- ✎ firstly, in ensuring that our country plan proposals are addressing key priorities. Our programme will address the majority of issues raised in the consultations;
  - ✎ secondly, better address additional areas–violence against women and donor transparency. We are exploring how we can support increased work on violence against women through a possible ‘One UN’ fund which will also promote UN reform. The UN Resident Coordinator’s office has agreed with other donors that the UN will lead on a ‘donor transparency’ initiative at the district level, which we will support, and
  - ✎ thirdly, it has helped us improve joint planning and division of labour between the ADB, World Bank and DFID, who will provide over 70% of Nepal’s aid over the plan period (see table below).

**Table 1: ADB, DFID, and World Bank Division of Labour**

Donors/Sectors	ADB	DFID	WB	Approach and Division of Responsibility
Agriculture	X		X	<b>ADB/WB lead:</b> DFID potential support for agriculture market development
Climate Change	X	X		<b>DFID lead:</b> Government developing National Action Plan, potential support from DFID
Local Development	X	X	X	<b>Common framework in place,</b> DFID and ADB support harmonised, WB considering
Education	X	X	X	<b>Multi donor SWAp:</b> DFID moving to fund through the European Commission and support a DFID secondment
Health		X	X	<b>Multi donor SWAp:</b> 2 <sup>nd</sup> Health SWAp currently in design, DFID and WB the only 2 donors in the SWAp
HIV		X	X	<b>WB agreed to take lead from DFID:</b> agreement reached for WB to take over HIV from DFID in 2010
Rural Infrastructure	X	X	X	<b>ADB/DFID lead on moving to SWAp:</b> SWAp Pilot to be supported in 2009. If SWAp successful DFID could withdraw or fund solely through Banks in 3-4 years
Security Sector Reform, including policing		X		<b>DFID only donor:</b> Awaiting outcome of SSR commission to define need, possible support to police
Skills	X	X		<b>Developing national employment fund:</b> ADB/DFID scaling up support based on demand
Social Protection			X	<b>WB lead:</b> DFID funding WB to develop policy and systems
Tourism	X	X		<b>ADB lead</b> and finance for tourism infrastructure DFID considering market development / policy support
Water and Sanitation	X		X	<b>WB lead on SWAp development:</b> DFID no longer in sector as covered by WB and ADB (exception is Gurkha project)
Water Resources	X		X	<b>WB lead on water resources, ADB on hydro infrastructure:</b> DFID financing research, regional negotiations & policy

## Areas where we will do less

38. In **agriculture** we will be reducing our support to the Ministry of Agriculture and Co-operatives, given strong World Bank and ADB engagement. But we will provide **support to the sector** in four main areas. Firstly, exploring support to proven decentralised community based agricultural commercialisation programmes. Secondly, supporting private sector led development of agricultural markets so that Nepal's 20 million farmers, particularly women, can increase their returns from agriculture. Thirdly, by continuing support for rural roads that dramatically increase farmers' profits by lowering costs for inputs and increasing prices for produce. Fourthly, reducing vulnerability to climate change, improving irrigation, reducing flooding and raising awareness of different crops and planting practices. We have also explored land reform issues, and are considering further work. Finally we will ensure that Nepal benefits from the DFID regional agricultural research programme currently under development.
39. We made the decision to withdraw support from the **rural water and sanitation** sector in 2007. This was based on a review that concluded that although DFID could play a role, others were equally well placed. Currently 6 donors are active in the sector, over \$100m dollars is committed and support is moving towards a pooled funding arrangement. The exception to this is continued support to the Gurkha Welfare Service for water and sanitation programmes in the recruitment areas of the Gurkha regiment.
40. DFID are the lead funder for the National **HIV/AIDS** programme. The WB intends to become the lead donor from 2010 and we will be supporting their preparations through a trust fund. We have also agreed to provide our support to **education** through the European Commission, including seconding staff, rather than directly, starting in mid-2009.

## Security and Development

41. Staff security and direct programme delivery is protected through measures developed through the conflict, including high quality advice from the DFID/GTZ Risk Management Office, use of Safe and Effective Development in Conflict procedures, and joint donor / NGO Basic Operating Guidelines which set out agency neutrality in delivering development.
42. Expectations of tangible development are high across the country and it is expected that, generally, conditions for development will improve with an evolving peace process. However, on the road to stability, conditions for development may be challenged by:
- ↳ Lawlessness, criminal activity – including corruption related coercion, and operations of armed gangs in the Tarai.
  - ↳ Attempts at programme manipulation through intimidation by the youth groups of political parties.

- ↪ Demands to comply with illegal demands from identity based groups in different parts of the country.

## Disaster Risk Reduction

43. Nepal is a disaster prone country. Floods and other disasters also take their toll on the government budget, with \$288 million lost over the past two decades, at least \$23 million a year. Nepal is also situated in a geographical zone at very high risk of earthquakes, according to past records it is due two earthquakes of magnitude 7.5-8 on the Richter scale every forty years and one earthquake of magnitude of 8+ on the Richter scale every eighty years. The last great earthquake to strike Nepal was in 1934 which had a magnitude of 8.3 Richter. The government with UN support has been developing contingency plans.
44. International support for government preparedness is through the development of Nepal's National Strategy for Disaster Risk Management supported by UNDP, and by the USAID funded Nepal Earthquake Risk Management Program. In the event of a major earthquake DFID will support the co-ordinated response set out in these strategies.

## Areas of Focus for New Country Plan, 2009-12

45. Nepal's Government is faced with a daunting number of challenges, any one of which would unsettle an established and stable state. Post conflict countries have a 40% chance of returning to conflict within 5 years of signing a peace agreement, if action is not taken to sustain the peace. A major opportunity exists in Nepal to achieve peace and lay the foundations for a stable future, but it is likely that fragility will continue for some time and the risks are high. We need to anticipate set backs, but the political economy analysis undertaken for the Country Business Plan concludes that the best way forward for Nepal at this critical time is for parties to work together to help stabilise the country, write the constitution and start dealing with some of the major short and long term economic and social issues facing the country. And for donors to back this effort. All other options are much more likely to take Nepal back to conflict and deeper instability.

## Recent Programme

46. Our Interim Country Assistance Plan (November 2007 to March 2009) responded to this fragile context. Its focus was: the peace process – we successfully assisted with the establishment of cantonments for rebel fighters and the holding of the historic CA elections; effective and inclusive governance – 40 representatives of excluded groups in the CA were supported by DFID programmes, and the Government has a credible public financial management plan; delivery of services – great strides have been made in health to introduce free basic care, assisted by the International Health Partnership; jobs and incomes – we have continued to provide employment

through the building of rural roads and a community forestry programme both of which have created opportunities for economic growth. We also used the Interim CAP period to consider and plan for phasing out from the water, HIV/AIDS and government agriculture sectors.

## Aid framework

47. Our aid framework for the UK government Comprehensive Spending Review period, 2008/9 – 2010/11 was £42m / £46m / £56m. For the plan period, 2009/10 – 2011/12, we have £46m / £56m and estimate £60m for the final year. Recent approval of additional funds, in order to help cement the peace process and deliver development, takes our framework for the plan period to £56m / £56m / up to £60m. See table below.

**Table 1: Budget profile for plan period, £m**

	2007/08	2008/09	2009/10	2010/11	2011/12	Total
1. CSR	43	42	46	56		
2. Additional	10	10	10			
3. Total	53	52	56	56	(60*)	
4. Final plan period			56	56	(60*)	(172*)

\* Indicative figures

## Future Programme 2009/10 – 2011/12

Given our current commitments, the context described above, including views of the government and others through our consultations, DFID Ministers have decided that DFID Nepal should focus on the following areas over the plan period:

48. **Support to the peace process and help improve public security:** We will provide support to implementing outstanding areas of the peace agreements, including compensating victims of violence, internally displaced people, investigating disappearances, a truth and reconciliation process, support to future of the armies and improving democratic control of the security forces. We will also explore with the Ministry of Home Affairs ways that we can help government improve public security and law and order, through support to the police, including community policing and increased adherence to human rights. We will continue to support the Government’s Nepal Peace Trust Fund and the UN Peace Fund.
49. **Governance and an enabling environment for the private sector:** We will support the Constituent Assembly, support government to improve public financial management, strengthen the financial sector, support more accountable and inclusive state institutions, including local government (through the Local Governance and Community Development Programme), improve state capacity for monitoring poverty, help government and the private sector improve the

investment climate, increase investment in low-carbon growth, and climate change adaptation planning. We are exploring with the UN support to further work to reduce violence against women, a key issue raised in our consultations.

50. **Growth and jobs:** We will scale up support to job creation and expansion of economic opportunities. This will involve putting resources into an expansion of existing and very successful skills training and job placement schemes, and developing a new private sector Challenge Fund to address obstacles in the market and help create jobs. It would be targeted at areas in which Nepal has comparative advantage, including tourism and agricultural markets. The Fund would build on experience from the Bangladesh and Africa Challenge Funds which have funded private sector activities, ranging from making remittance transfers more efficient, mobile banking and community tourism.
51. **This programme will build on support in two areas:** 1) funding of a Nepal Investment Climate Facility, which together with the World Bank International Finance Corporation, will allow us to promote improved government / private sector dialogue in order to eliminate obstacles to investment and job creation, and 2) support to a new Nepal Centre for Inclusive Growth which will provide much needed policy analysis for both government and the private sector, and which will be linked to the DFID International Growth Centre. Expansion of labour-based infrastructure development is a tested area which will also provide short-term jobs. This investment has proven very high rates of return and the expected impact includes 800km roads connecting 2.4m people to jobs and services. Many of the economic opportunities available will be targeted towards women, for example, up to two thirds of new jobs created will be for women. Overall these activities will create 170,000 short-term jobs on roads and adaptation programmes (see Climate Change work below), with 130,000 long-term jobs created through skills and challenge fund programmes, in total 300,000 jobs over the plan period. In the longer term DFID is part of an emerging Sector Wide Approach to rural infrastructure with the ADB, GTZ, JICA, SDC, WB and WFP. We will also explore social protection (social security) measures along with the World Bank.
52. **Basic services:** We are one of only two donors financing the government's health sector programme, although 10 donors overall work in the health sector, most not working through government. We have a long established role, have supported important policy reforms (including free basic care and maternal care) and contributed to important results (reductions in infant and maternal mortality). Continued support over the plan period is vital to ensure the impact of these reforms, and to take forward the International Health Partnership which is helping to improve donor coordination and support to government. We will support around a third of the national programme on maternal mortality, results will include: 30,000 lives saved, 120,000 children immunised, and 260,000 births with skilled attendants, from DFID's contribution.
53. We will continue support to education through support to the education sector and support to skills (see growth and jobs section). This will mean an expected attributable impact of 400 classrooms built, 7,000 additional children enrolled

and 224,000 text books from DFID's contribution. The education sector has a large number of donors; we intend to reduce DFID transaction costs and expand our influence through funding the European Commission and providing a DFID secondment, which is currently being explored.

54. **Climate change** : Climate change is impacting negatively on Nepal now, and effects will only worsen. The water flowing from the mountains of Nepal affects 500m people in the Ganges River Basin. Climate change will impact most heavily through flooding and drought, with enormous impacts in Nepal and beyond. However, through its untapped hydropower resources, Nepal has enormous clean power potential. It also has large forest resources which through better management can reduce poverty, raise tax, protect biodiversity, improve watershed management, attract international carbon financing and increase GDP by 5% (forestry currently contributes 5% of total GDP). DFID will help the government design and implement its climate change National Adaptation Plan of Action, including flood risk reduction and agricultural adaptation in vulnerable areas. We will engage with regional water resource development through the South Asia Water Initiative with the World Bank and others. We will explore expanding our forestry work into a national programme with other donors. It could include more market orientated sustainable forest enterprises, and attract carbon finance, where we will help ensure it reaches communities. We hope the programme can attract \$30m in carbon finance, as well as address illegal logging.

## Cross cutting elements of our approach

### 55. A number of areas cut across our programme:

- ↪ **Fragile context approach:** Our programme is designed in line with the Accra Agenda for Action, including approaches for countries in fragile situations such as Nepal, with a focus on supporting improved governance to be more inclusive, transparent and accountable as this is what is needed to secure sustainable peace.
- ↪ **Gender** is at the heart of our work, because without tackling gender inequality it will not be possible to tackle poverty and make progress on other MDGs. All our work considers impacts on women and girls, for example on jobs for women and girls.
- ↪ **Multilateralism:** Working closely with the World Bank and the UN is central to our approach. We have worked with the World Bank to substantially strengthen its presence and effectiveness in Nepal, with more staff on the ground, increased funding, using a "peace filter" in its work, and a willingness to take on a greater leadership role. We will also be working with the UN to enhance its effectiveness. We helped start a multi-donor UN Peace Fund which is driving a coherent UN approach to peace, and on which we plan to support Nepal as an "early-recovery" focus country. We are also working with the UN to develop a UN fund to support the "UN delivering as one" reforms.



**DEVELOPMENT IN  
NEPAL  
2009-2012**



## MORE INFORMATION

### WHAT CAN I DO?

#### Get informed:

Visit our website, read our publications and check aid agency websites.

#### Spread the word:

Get people talking, start discussions with your friends.

#### If you're at school:

Why not look into a school linking project?

#### Buy fairly-traded goods:

To help people in developing countries work their own way out of poverty.

#### Protect the environment:

Climate change presents a serious threat to development.

#### Give money:

To charities working to reduce poverty.

#### Give your time:

To an organisation like VSO.

**And, during a disaster, give money, volunteer if you have specialist skills, or help raise funds.**

### HOW CAN I FIND OUT MORE?

This booklet forms part of a series to explain DFID's work around the world. For more detailed information about DFID's work visit:

[www.dfid.gov.uk](http://www.dfid.gov.uk)

Email: [enquiry@dfid.gov.uk](mailto:enquiry@dfid.gov.uk)

Public Enquiry Point: **0845 300 4100** (local call rate)

or **+44 1355 84 3132** (from outside the UK)

#### For more information about

DFID Nepal write to us at:

DFID Nepal

PO Box 106

Ekantakuna, Lalitpur

or Email: [nepal-enquiries@dfid.gov.uk](mailto:nepal-enquiries@dfid.gov.uk)

Visit: <http://www.dfid.gov.uk/countries/asia/nepal.asp>

Tel: **+977 1 5542 980**

Fax: **+977 1 5000 179**