

**COUNTRY DEVELOPMENT COOPERATION STRATEGY
FY 2014 – FY 2018**



Approved March 19, 2014

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ACRONYMS AND ABBREVIATIONS

BCC	Behavior Change Communication
CDCS	Country Development Cooperation Strategy
CFUG	Community Forest User Group
CIAA	Center for the Investigation of Abuse of Authority (Government of Nepal)
COR	Contracting Officer's Representative
CSO	Civil Society Organization
DDO	District Development Office
DfID	Department for International Development (United Kingdom)
DHS	Demographic and Health Survey
DO	Development Objective
DRG	Democracy, Rights, and Governance
DRR	Disaster Risk Reduction
EGR	Early Grade Reading
EGRA	Early Grade Reading Assessment
EIG	Education for Income Generation
FCHV	Female Community Health Volunteer
FECOFUN	Federation of Community Forestry Users Nepal
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FFP	Food for Peace
FtF	Feed the Future Initiative
GCC	Global Climate Change
GCCI	Global Climate Change Initiative
GDP	Gross Domestic Product
GESI	Gender Equality and Social Inclusion
GHI	Global Health Initiative
GON	Government of Nepal
HDI	Human Development Index
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICT	Information Communication Technology
IFC	International Finance Corporation
IHDI	Income-Adjusted Human Development Index
ILO	International Labor Organization
IR	Intermediate Result
JICA	Japan International Cooperation Agency
LGBT	Lesbian, Gay, Bisexual, and Transgender
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
MoE	Ministry of Education
MoF	Ministry of Finance
MoHP	Ministry of Health and Population
MOWCSW	Ministry of Women, Children, and Social Welfare
NEAT	Nepal Economic, Agriculture, and Trade Program
NGO	Non-governmental organization
OCA	Organizational Capacity Assessment
OFDA	Office of Foreign Disaster Assistance (USAID)
PACOM	Pacific Command (U.S. Department of Defense)
PFM	Public Financial Management
PFMRAF	Public Financial Management Risk Assessment Framework
PWD	Person with Disability

REDD+	Reducing Emissions from Deforestation and Forest Degradation <i>plus</i> Conservation
SBCC	Social and Behavior Change Communication
SSRP	School Sector Reform Program (Government of Nepal)
Sub-IR	Sub-Intermediate Result
UN	United Nations
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USG	United States Government
VDC	Village Development Committee

DEVELOPMENT CONTEXT, CHALLENGES, AND OPPORTUNITIES

I. CONTEXT

Geographically, ethnically, and culturally diverse; historically independent and isolated; nestled in the Himalayan mountains between the economic giants of India and China—Nepal is in the midst of historic political and social transitions that will influence not only its government and economy but its national identity. The country is engaged in a largely peaceful debate over its post-conflict identity—a debate over the role and structure of government, the role of women and marginalized groups, and the management of the economy. Emerging from centuries of monarchical rule, the domination of an oppressive caste system, a violent conflict, and economic instability, Nepal is slowly moving towards greater democracy, prosperity, and resilience.

A landlocked country of about 27.5 million people, Nepal is one of the few examples of a civil conflict that ended not with one side vanquishing the other, but through a negotiated peace. Post-conflict progress is slow, but this reflects the fact that decisions come through discussion, dialogue and consensus rather than by fiat in Nepal.

Nepal remains one of the poorest and least developed countries in the world. An isolated, agrarian society until the mid-20th century, Nepal entered the modern era in 1951 without schools, hospitals, roads, telecommunications, electric power, industry, or civil service. The country has, however, made progress toward sustainable economic growth since the 1950s and is committed to a program of economic liberalization. Foreign aid accounts for about half of the government's development budget. Government priorities over the years have been the development of transportation and communication facilities, agriculture, and industry. Since 1975, improved government administration and rural development efforts have been emphasized.

While there has been some progress, the economy is not keeping pace with its South Asian neighbors, and the country suffers from a poor investment and business climate as well as the lack of a coherent policy and regulatory framework. Nevertheless, there is significant potential, particularly in the hydropower, tourism, and agricultural sectors. Nepal faces multiple climate-related and geological hazards, including floods, landslides, and earthquakes. The traditional caste system and multitude of ethnicities in the country exacerbate development challenges. Despite persistent poverty, human development indicators continue to show marked improvement, and there is a commitment by the government and Nepalis themselves — to progress, tolerance, and resilience.

To view Nepal through a short-term lens is to discount the immense changes — social, political, and economic — which have swept the country over the last 60 years and particularly over the last decade. The centuries-old system of monarchical rule ended in 1951 with the establishment of a cabinet system of government. A first wave of reforms in the 1990s created a multiparty democracy within the framework of a constitutional monarchy. The 10-year civil war between Maoist insurgents and government forces weakened the country's fragile democratic systems. Peace negotiations between the Maoists and government officials ended the conflict in November 2006. Following a nationwide election in April 2008, the newly formed Constituent Assembly (CA) declared Nepal a federal state. Several coalition governments have filled the leadership void to date, but a definitive constitution and election of a fully empowered parliament remain elusive. Nepalis are hopeful that the recently concluded CA elections held on November 19, 2013, will lead to greater representation and focus on a democratic dividend.

II. CHALLENGES

Since the U.S. Government first began providing development assistance to Nepal in 1951, poverty has been drastically reduced; yet as of 2011, approximately 25 percent of the population still lived below the international poverty line of \$1.25 per day.¹ Roads, hospitals, schools, and drinking water systems have been built. Fertility and infant mortality have decreased, life expectancy has doubled, and natural resource management has markedly improved. Primary school enrollment and total adult literacy rates have risen significantly. Yet despite these improvements, many challenges persist.

Nepal's wide range of physical and social diversity, including its marked spatial variation in resources, has created and perpetuated disparities in the population's living conditions. The country of 27.5 million has 125 caste and ethnic groups (including two unidentified groups), speaking 92 languages.² Caste, ethnicity, language, and religion remain the major sources of cultural identity.

A. Gender Equality and Social Inclusion

Gender-based discrimination is rampant in Nepali society. It affects all women, whatever their economic status, caste, ethnicity, or regional affiliation. A patriarchal worldview is embedded not only in social and cultural practices, but also in Nepal's systems of governance and its legal framework, permeating all aspects of the lives of women and girls. Patriarchy also pervades the social spectrum so that Dalit (historically "untouchable") women face multiple layers of exclusion. Women and girls lag behind men because of at least six factors:

- (1) Disparities in education;
- (2) Limitations on the rights of women to own and inherit property until the recent past;
- (3) Access to quality reproductive health services and commodities;
- (4) Low access to labor markets, employment and productive assets/resources;
- (5) Gender-based violence; and
- (6) Lack of fair representation in decision-making.

Gender-based violence, and domestic violence in particular, is widespread throughout Nepal. Overall, 26 percent of Nepali women report having experienced violence in their lifetime, and one-third of ever-married women report having experienced spousal violence.³ Most gender-based violence goes unreported, and those who do report it often have few legal or health resources available to them. Women of historically lower castes are at greater risk of gender-based violence, including spousal abuse, accusations of witchcraft, dowry-related violence, polygamy, and forced and early marriage. For example, Madhesi Dalit women are more than three times more likely to have experienced physical or sexual spousal abuse than Brahmin and Chhetri (higher-caste) women from the same region.⁴

Nepali women have long raised their voices against these oppressions and have made remarkable strides in addressing policy barriers and improving participation. They have, for instance, secured the allocation of approximately 30 percent of Constitution Assembly seats, and won the right for women to provide citizenship to their children. The Ministry of Women, Children and Social Welfare (MOWCSW) was established in 1995 and actively works to mainstream gender into national

¹ Source: World Bank, World Development Indicators, <http://data.worldbank.org/country/nepal>

² Source: National Population and Housing Census 2011.

³ Women's Rehabilitation Center (WOREC) Nepal and Isis-WICCE (2011). *Unveiling Justice: Rape Survivors Speak Out: A Research Report on Access to Justice for Rape Survivors in Nepal 2007-2010*. Kathmandu, Nepal. 17, 80.

⁴ Source: Nepal Social Inclusion Survey 2013. Tribhuvan University: March 2014.

development plans, policies, and programs and initiated measures to remove socio-cultural, structural, and other obstacles to women's full and equal participation in national development. The Ministry helped institute gender focal points in government ministries, conducts gender assessments and gender audits in some ministries, and holds trainings for government officials. At the district level, the Women Development Offices, which report regularly to the MOWCSW, act as the focal government mechanism for women. These offices support community women's groups, provide trainings, and recently began conducting outreach on gender-based violence. Various identity-based civil society organizations (CSOs) have also increased awareness of women's social exclusion, and the media more frequently reports on these issues.

Women are also at greater risk for human trafficking. Each year thousands of Nepalis are trafficked internally and to countries in Asia and the Middle East. Unregistered migrants using informal channels, traveling via India and/or relying on independent recruiting agents, are more vulnerable to forced labor and human rights violations. While the 2012 Government of Nepal (GON) labor migration ban on Nepali women under age 30 intended to protect women from abusive labor situations in the Gulf, women circumvented GON safeguards by traveling through India. By the end of 2013, female labor migration increased by 9 percent. The U.S. State Department's Annual Trafficking in Persons Report for 2013 lists Nepal as a Tier II country.⁵ With USAID support, Nepal's government and civil society have made significant gains, including an anti-trafficking national action plan, the establishment of minimum standards for trafficking victim care, stricter monitoring of labor-recruitment agencies, and 21 notable convictions for trafficking cases in 2013. Despite progress, Nepal's economic challenges continue to drive vulnerable populations in search of labor that often results in human trafficking. Nepal thus remains a source, transit, and destination country for men, women, and children who are subjected to forced labor and sex trafficking.

Within Nepal, child labor is a serious problem that most acutely affects marginalized groups in search of financial opportunities. Although the 1991 Children's Act prohibits the employment of any child in any enterprise, around 18 percent of Dalit children are involved in traditional and often arduous and hazardous occupations.⁶ The International Labor Organization estimates that 8 percent of all Dalit children are victims of slavery or slavery-like practices.⁷

Nepal is widely recognized as a regional leader in respecting and promoting the rights of sexual minorities (including those who are LGBT—lesbian, gay, bisexual, and transgender). After the April 2008 Constituent Assembly election, Nepal was also the first country in Asia to have an openly gay nationally elected official. Also in November 2008, Nepal's Supreme Court directed the government to enact laws enabling equal rights for LGBT citizens, including forming a committee to study same-sex marriage laws in other countries and their possible adoption in Nepal. Nepalis have the choice to be registered as the third gender on voter rolls and for passport registration. Nevertheless, as in most countries, sexual minorities in Nepal continue to face discrimination and unique challenges in accessing services, asserting their rights, and participating in decision making.

Overall, gender inequality and practices such as human trafficking, forced labor, and child labor in Nepal are inextricably linked with the norms and inequalities between castes and ethnic groups, with gender disparities being greatest among poor and traditionally marginalized groups. Greater

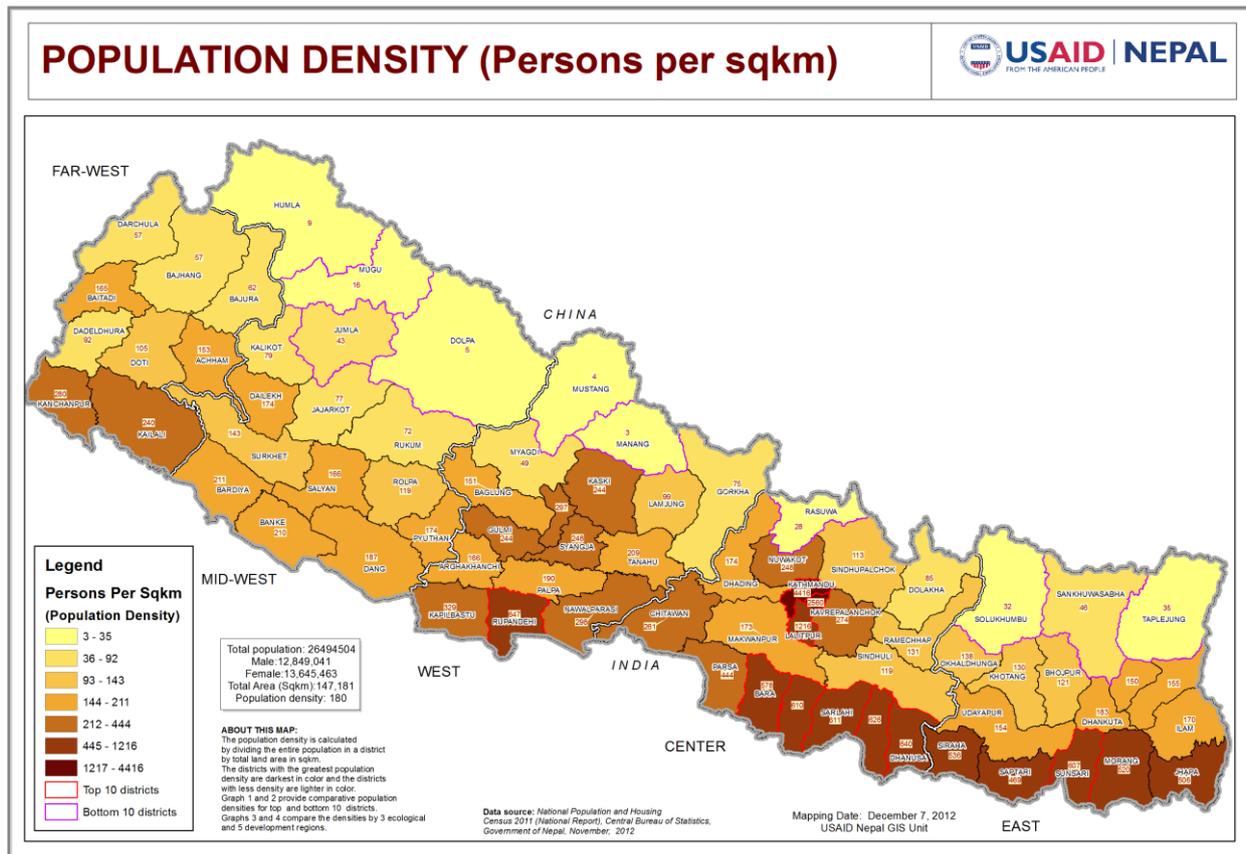
⁵ U.S. categorization of the countries based on their performance to combat human trafficking. Tier 2 - Countries whose governments do not fully comply with the Trafficking Victims Protection Act minimum standards, but are making significant efforts to bring themselves into compliance with those standards.

⁶ These occupations include: sweeping and human waste disposal; collecting metal scraps and glass; disposing of carcasses; cremating dead bodies; working in coal mines; portering; leatherwork; midwifery; earthwork and soil-digging; and laundry washing. ILO 2005: xvi.

⁷ *Ibid.*

detail on Nepal’s demographic trends and social structure, as well as on gender equality, can be found in Annex 2.

The spectacular geography of Nepal also presents challenges for social inclusion and addressing chronic poverty. Approximately 17 percent of the population is considered urban, with the other 83 percent living in rural areas. The greatest population density is found along the lower elevation of the Terai, where 50 percent of Nepalis live and where poverty is concentrated. About 43 percent of the population lives in the hill region, this includes Kathmandu. The mountain areas contain 7 percent of the population. These areas are difficult to reach and cut off during the winter, making access to food difficult.



B. Democracy & Governance

Over the past twenty years, Nepal experienced the decline of its 250-year old monarchy, the emergence of a democratic political movement, the restoration of parliament, and the establishment of a federal republic. The 2006 Comprehensive Peace Accord (CPA) ended a 10-year civil insurgency. In this new democratic era, Nepal faces the challenge of improving government effectiveness, broadening representation and social inclusion, and reducing poverty.⁸

⁸ Nepal’s Central Bureau of Statistics, found in the National Planning Commission’s Secretariat, carried out its third Nepal Living Standards Survey (NLSS-III) in 2010-2011 shows significant income inequality with the bottom 10 percent (the poorest) that hold only 1.5 percent of the total income, while the top 10 percent (the richest) hold 39.5 percent.

Poor governance in Nepal is often cited as the major factor inhibiting economic growth.⁹ Institutional weaknesses in legislative, policy-making, and regulatory bodies, coupled with political infighting and rent-seeking, undermine Nepal's economic potential. The World Economic Forum's 2013-14 Global Competitiveness Index ranks Nepal 117 out of 144 nations. Improving the GON's public financial management systems, budget execution and delivery of basic services is the most direct path to sustained alleviation of the extreme poverty that affects 25 percent of the population.

Some of the systemic challenges that affect governance and basic public service delivery are particularly acute within local government. They include: poor retention of qualified staff, particularly in remote areas; an outdated civil service system unreflective of population growth or composition; high staff turnover, rotating personnel every 6-18 months; poor use of data for decision-making and budgeting; and opaque financing systems, procurement, and public reporting.

Another critical challenge is the weak performance of Nepal's public financial management (PFM) systems. More than 60 percent of the GON's recurrent and capital budget is not released to local authorities until the third trimester of the fiscal year, resulting in low budget execution rates and creating pressure to prioritize quick spending over well-planned, evidence-based investment. Poor budget execution rates negatively affect job creation and overall economic growth, and weak PFM contributes to poor transparency, accountability, and service delivery outcomes. Sustained increases in GDP cannot be achieved without reforms that create a more suitable environment for the private sector and for addressing PFM issues.

The challenge of including traditionally excluded groups in the political process while improving government responsiveness to their demands pertains to all sectors in which USAID works. Addressing this challenge is critical to Nepal's future stability. Likewise, new and renewed institutions require substantial support to meet their mandates. Independent commissions, a new Constitutional Assembly, judicial actors, and elected local government bodies are amongst the key democratic institutions that are being strengthened to support the country's democratic process.

C. The Economy

The resilience of Nepal's economy is subject to a wide range of shocks and stressors; therefore, poverty reduction efforts have had mixed results. Per capita income, at US\$700, remains among the lowest in the world.¹⁰ Although real GDP per capita rose nearly 30 percent in the last decade, this was largely due to an increase in remittances (now officially equivalent to 25 percent of GDP)¹¹ and foreign aid (which is currently 5.4 percent of GDP).¹² There are some benefits from emigration and remittances, such as knowledge transfer and higher household incomes. Nevertheless, the scale of remittances—doubling since 2004 to one quarter of GDP—also represents a source of vulnerability, exposing Nepal to risk of economic shocks in other countries.

While agriculture constitutes 37 percent of Nepal's GDP and provides employment to 75 percent of the population, the overall share of agriculture in national income is declining (in part due to the increase in income from remittances), and crop yields and earnings remain well below international standards. Due to the widespread participation of Nepalis in the agriculture sector, a focus on agricultural development represents an opportunity for broad-based economic growth and poverty reduction. International experts estimate that investment in agriculture is 2.5 to 3 times more

⁹ The Global Competitiveness Report 2013-2014. World Economic Forum. 2013. Page 202.

¹⁰ Gross National Income (GNI) per capita, Atlas method, World Bank World Development Report (2012). Available at: http://devdata.worldbank.org/AAG/npl_aag.pdf. Accessed 8/14/13.

¹¹ World Bank, World Development Indicators, <http://databank.worldbank.org>, accessed 01/08/2014.

¹² GON/Ministry of Finance. *Development Cooperation Report 2011-12*.

effective in increasing the income of the poor than is nonagricultural investment.¹³ Exports are 10 percent of GDP in Nepal for various products such as carpets, clothing, leather goods, jute goods, grain, herbs, tea and coffee, although imports are 33 percent of GDP—there is a large trade imbalance. The greatest growth potential area to earn foreign exchange is hydroelectric power followed by tourism – both sectors for which there already exists considerable donor support.

In late 2011, Nepal was deemed eligible for a Millennium Challenge Corporation (MCC) Threshold Program. The MCC draft Constraints Analysis Report, prepared in early 2013, highlights the inconsistency of policy reforms as a major constraint to Nepal’s economic growth. According to MCC and International Finance Corporation (IFC) business surveys, political uncertainty, lack of a coherent policy and regulatory framework conducive to private sector development, weak infrastructure, and labor market failures are perceived as the main constraints for inclusive economic growth. As mentioned above, Nepal has significant potential in services, hydroelectric power generation, and basic manufacturing, but new growth-oriented policies and continued reforms to the investment environment are needed. Under the Threshold Program, the MCC plans to specifically focus on improving the enabling policy environment for both transportation infrastructure and hydropower generation.

According to the 2011 census, approximately 76 percent of Nepali households have access to electricity, up from 51 percent in 2006. However, despite Nepal’s enormous hydropower potential, electricity availability is limited to between 10 and 16 hours per day for most Nepalis. The country’s mountain ranges and swiftly flowing rivers hold tremendous hydropower resources, but Nepal’s total installed power generation capacity is only 700 megawatts, and firewood, animal dung, and agricultural residues meet 87 percent of total energy needs.¹⁴ This contributes to forest degradation and aggravates climate change impacts.

In addition—and linked—to Nepal’s economic difficulties are its geographic and climatic challenges. Nepal’s spectacular physical, biological, and cultural diversity is its most defining feature. Its topography ranges from 60 to 8,848 meters above sea level and covers nearly all climatic zones, from sub-tropical jungle to barren alpine peaks. However, Nepal’s extreme geography makes life difficult in remote areas, and reaching remote populations with government services is challenging. Nepal has, by far, the lowest road density in South Asia, with one third of residents in the hill areas living an average of more than four hours away from an all-season road and 60 percent of roads unable to provide all-weather connectivity.¹⁵ In addition, trucking sector cartels, tariff and non-tariff barriers, and other border issues increase costs and impede both domestic and international trade.

A combination of rough topography, steep slopes, an active seismic zone, and the intense impact of monsoon rains makes Nepal’s population and economy vulnerable to a wide variety of natural hazards including floods, drought, landslides and earthquakes. In particular, the Kathmandu Valley faces a high risk of a catastrophic earthquake, presenting potential challenges in all development sectors, with ripple effects across the country. Weak construction and regulatory mechanisms have resulted in infrastructure that is extremely vulnerable to a seismic event. An estimated 60 percent of Kathmandu’s buildings would collapse following a large earthquake.¹⁶

¹³ See Cleaver, Kevin. “Scaling Up in Agriculture, Rural Development, and Nutrition: Investing in Agriculture to Reduce Poverty and Hunger.” International Food Policy Research Institute: 2012. Available at: http://www.ifpri.org/sites/default/files/publications/focus19_02.pdf. Accessed 03/15/2014.

¹⁴ Ministry of Environment, Science and Technology/UNDP (2008). *Nepal National Capacity Self-Assessment for Global Environment Management*.

¹⁵ See World Bank Nepal Overview. Available at: <http://www.worldbank.org/en/country/nepal/overview>. Accessed 8/14/13.

¹⁶ See Earthquake Scenario of Kathmandu Valley <http://www.nset.org.np/nset2012/images/publicationfile/20110816230215.pdf>

Climate change is a risk multiplier, creating an unpredictable variability in the timing and pattern of rainfall, which not only affects when and how farmers are able to plant their fields, but also whether or not the aquifers are being recharged, and the year-round availability of water for hydropower production. Recent studies have found that Nepal is experiencing a net loss of water in the below-ground aquifers, which has implications for irrigation and commercial agriculture¹⁷. Widespread forest fires, previously unknown in Nepal, are also linked to climate change, and threaten biodiversity and human life. Finally, rising temperatures are melting glaciers at very high rates, increasing the risk of glacial lake outburst floods, and drying up critical water sources for alpine communities.

Nepal's economy depends directly on the stocks and flows of natural capital (water regulation, soil stability/fertility, wildlife populations, forest resources) through the agriculture, nature-based tourism, and hydropower sectors yet there has been a steady deterioration of these resources over the past fifty-years. The extent to which there will be sustained and broad-based economic prosperity in Nepal is closely tied to the effective management and conservation of natural resources in the country. Further, healthy, intact ecosystems will further increase Nepali's ability to buffer against and recover from increasing climate shocks and natural disasters that have economic and human impacts.

D. Human Capital – Health & Education

I. Health Sector

Mortality and morbidity rates among women and children in Nepal remain alarmingly high. Acute preventable childhood diseases; childbirth complications; nutritional disorders; sexually transmitted infections; and water, food and vector-borne diseases are prevalent at high rates. Such conditions are associated with pervasive poverty, low education and literacy rates, low levels of hygiene and sanitation, poor access to safe drinking water, formidable terrain, geographic isolation, and difficult communications. These problems are further exacerbated by under-utilization of resources; shortages of adequately trained personnel; underdeveloped infrastructure; and weak public sector management. Improving health outcomes is challenging due to Nepal's increasing population size and limited arable land—a third of the country consists of some of the most rugged mountainous areas on earth, making health care delivery extremely difficult.

In spite of these challenges, Nepal is making progress towards improving the health of its citizens. With rapid declines in infant and under-five mortality and maternal mortality over the last 15 years, Nepal is on track to achieve Millennium Development Goals (MDG) for Maternal Health (MDG 5) and Infant Mortality (MDG 4). To further reduce preventable child deaths, the country must focus on newborn survival rates, which have stagnated over the last five years. One in every 22 babies dies before reaching age 1, and 1 in every 21 does not survive to his/her fifth birthday.¹⁸ Unsafe water, poor sanitation and unhygienic behavior are major contributors to health risks in Nepal, including serious infection, acute respiratory infection, and diarrhea, which together account for over 50 percent of child deaths. Similarly, Nepal's maternal mortality ratio decreased remarkably by 45 percent between 1990 and 2006, but Nepal still ranks as the 60th worst performer on maternal mortality out of 183 countries worldwide. Nepal's total fertility rate has significantly decreased especially for urban women; however, there has been little change in contraceptive use in the last five years, and 27 percent of married women have an unmet need for family planning.

¹⁷ Wang, S., J. Yoon, R. Gillies, and C. Cho, 2013: What caused the winter drought in Western Nepal during recent years? J. Climate. doi:10.1175/JCLI-D-12-00800.1, in press.

¹⁸ Global Hunger Index, IFPRI <http://www.ifpri.org/ghi/2013>

Nepal's high rates of chronic and acute malnutrition among children are of significant concern, with 41 percent of children stunted, 11 percent wasted, and 29 percent underweight. Among women of reproductive age, nutrition is also poor, with 18 percent being thin or undernourished (with significantly worse nutritional status among women in the Terai region versus the hills). With the highest HIV prevalence among adults age 15-49 in South Asia (0.30 percent in 2011), Nepal has a concentrated epidemic among injecting drug users, labor migrants, men who have sex with men, and sex workers, who collectively account for 58 percent of all infections.

II. Education Sector

Despite recent political challenges, Nepal has made remarkable progress in expanding learning opportunities for children and adults. Since 1990, net primary enrollment rates have increased from 64 to nearly 95 percent, with similar enrollment rates for girls and boys. These improvements have put Nepal on track to achieve MDG 2: Universal Primary Education. Despite this progress, however, there are serious concerns about the quality of education and low school completion rates. Nepal's linguistic, geographical and socio-economic diversity have also raised concerns about the provision and quality of education services for all students. The rapid growth of private primary schools is a telling sign of the low level of public confidence in public education services.

While the prospects for school-age children to enroll in primary school are good, there are millions of Nepali adults who have never attended school and are illiterate. Despite progress on this front, overall literacy rates hover around 60 percent, with much lower literacy rates among women and traditionally marginalized castes and ethnic groups. Nepalis also lack marketable skills needed to access employment opportunities. The lack of basic literacy, numeracy, entrepreneurship, and other skills limits such groups' ability to take advantage of agricultural technologies and techniques, establish and grow businesses, access markets, and ultimately increase their incomes. Low adult literacy also limits parents' ability to support their children's educational progress and health and nutritional status. Investments in early grade reading and adult literacy can be mutually reinforcing and support economic growth, improved health, and participation in democratic governance in both the short and long term.

III. OPPORTUNITIES

Nepal is at an historic moment that demands American engagement and support. USAID and its USG partners have, over the past 63 years, helped build a foundation on which the country can continue its path to development and modernization. The next five years present for Nepal the potential to re-craft the political, social, and economic institutions that can propel its development in unprecedented ways. A new constitution can enshrine the rights of women, Dalits, and indigenous communities to participate as active and equal members of Nepali society. Nepal's position between two economic giants, India and China, presents unprecedented opportunities for economic growth. Despite enduring a decade-long conflict and seasonal floods, Nepal has made great development strides and has the potential to serve as a global example for sustaining health, education, and agricultural gains.

Efforts to redefine Nepal's administrative structure along federal lines will open up new opportunities to promote local commerce, good governance and resource management, and improved health and education service delivery.

With the Constituent Assembly elections behind it, Nepal is focusing on drafting a constitution that can be supported by the majority of the population, and on creating a transparent process to deliver better services and begin to devolve authority to the local level for greater citizen participation in decision making. The GON consistently produces excellent plans and systems and is an early adopter

of innovative approaches in multiple sectors, where there is opportunity for USAID and international development partners to further partner with them to advance the country's development.

Recently completed USAID activities have yielded impressive results, and there are opportunities to build on the strengths and lessons learned from these efforts. For example, in the health sector, USAID has supported Nepal to significantly increase access to health services and to drastically reduce maternal, infant, and child mortality. From 1996 to 2011, infant and child mortality dropped 46 percent and 54 percent, respectively.¹⁹ USAID can help ensure sustained health improvements by now focusing on strengthening health systems and comprehensive nutrition efforts, improving service quality.

The Mission's recently completed Education for Income Generation project increased by an average of 278 percent the incomes of its 75,000 youth agricultural and vocational trainees (82 percent of them women). USAID is applying successful techniques from this program to its Feed the Future activities. Similarly, a recently ended USAID economic and agricultural policy project supported the GON to analyze and implement numerous policy reforms, greatly facilitating trade agreements, foreign investment, mobile banking, access to financial services, seed registration, customs valuation, and tax payment.

New USAID activities will continue helping the GON achieve its stated development objectives. With Nepal's success at rapidly increasing primary school enrollment for boys and girls, USAID is poised to support the Ministry of Education in its efforts to improve the quality of public education, particularly through strengthening and expanding its approach to early grade reading.

Over the past 30 years, the GON has devolved over 1.7 million hectares of forest area to 18,000 Community Forest User Groups (CFUGs) for conservation, sustainable management, and productive use. This successful network provides an opportunity to strengthen these groups' capacity and focus on the interconnections between farm and natural ecosystems and local-level climate change resilience.

In disaster risk reduction, climate change, health, and food security, USAID/Nepal is positioned to serve as a model for integrated governance and resilience. Hosting three Presidential Initiatives—Global Health (GHI), Feed the Future (FtF), and Global Climate Change (GCC)—in addition to a first-of-its kind, inter-agency Disaster Risk Reduction Office, USAID/Nepal already has the foundation to support more sustainable development efforts and maximize the long-term value of U.S. Government (USG) investments in Nepal.

The recently conducted MCC Constraints Analysis has identified infrastructure development—particularly improved energy generation—as one of the greatest barriers to economic growth in Nepal. Several large donors, including the Asian Development Bank, World Bank, IFC, and DFID, are implementing large-scale programs and investing in financial market development and infrastructure, especially hydropower. In the medium term, these donors are making a major shift in their engagement to support large-scale electricity generation through hydropower development. The MCC will undertake deeper analysis of the hydropower and other sectors in their efforts over the next several months to develop a Threshold Program for FY 2014.

¹⁹ Nepal Demographic and Health Survey (NDHS). 2011.

DEVELOPMENT HYPOTHESIS

Given the context, challenges, and opportunities outlined above, USAID/Nepal sets as the overarching goal of this strategy fostering *a more democratic, prosperous, and resilient Nepal* over the next five years.

CDCS Development Hypothesis:

The Mission asserts that if selected institutions become more effective at delivering services, more adept at engaging citizens—and more responsive to their needs—and if communities' economic, environmental and human capacity are strengthened, then Nepal will become more democratic, prosperous, and resilient.

Democratic – A stronger democracy will be reflected by the government's growing inclusion of traditionally marginalized populations in decision making and services. Political competition and conflict will be channeled through democratic institutions. Nepalis will enjoy increased civic and political freedoms, and become better informed as a result of stronger government transparency and accountability. Devolution of authority and greater transparency in public management will allow the government to better respond to people's needs and requests in various sectors. Modernized policies and practices will create an enabling environment that supports inclusive, sustainable economic growth, an educated and healthy population, and resilience to shocks.

Prosperous – Prosperity encompasses a range of economic and social factors, from increased livelihoods to improved individual health and better education. A more prosperous Nepal will be reflected in sustainable gains in income across socio-economic classes, especially for the rural poor and the extreme poor. Nepalis will lead longer, healthier lives, taking advantage of better educational opportunities, in a more diverse and productive economy. Equally, Nepal and its people will more sustainably and productively manage its wealth of natural resources in a manner that serves the country's long-term interests.

Resilient – The risk of shocks—climatic, seismic, economic, health—and other threats to the country, communities, and individual households, will always be present in Nepal. In five years, however, Nepal and its population, particularly the most vulnerable, will have taken steps to reduce risk where possible, and they will have increased capacity to adapt to changing conditions. Their improved socioeconomic status will serve as a social safety net, helping them recover more quickly from shocks.

The Nepal of 2019 will be on a path set by its people and government to address the country's most critical development issues. There will be a government more accountable to its people, a more diverse and productive economy, a health system with social safety nets that prolongs and improves lives; an education system that creates opportunities for all and encourages innovation; and a country that is better able to withstand human and natural hazards. In short, Nepal will be more democratic, prosperous, and resilient.

CDCS Goal Illustrative Indicators:

- Democracy Index (Economist Intelligence Unit): measure of democratic change
- Prevalence of poverty in targeted districts, disaggregated by sex and caste/ethnicity: measure of prosperity and resilience
- Gender Inequality Index: measure of prosperity and equitable development
- Maternal mortality rate: measure of overall function of public health system. Contributes to prosperity and resilience

RESULTS FRAMEWORK

Taking into consideration resource levels and USAID's comparative advantage USAID/Nepal proposes three development objectives to contribute to achieving the CDCS goal:

- Development Objective 1: More inclusive and effective governance
- Development Objective 2: Inclusive and sustainable economic growth to reduce extreme poverty
- Development Objective 3: Increased human capital

The three DOs are mutually reinforcing. Democracy depends on citizens' ability to place demands on government and hold it accountable. Economic growth requires a healthy and educated population to take advantage of opportunities in an ever more sophisticated global economic environment. And democratic systems require an educated and empowered population.

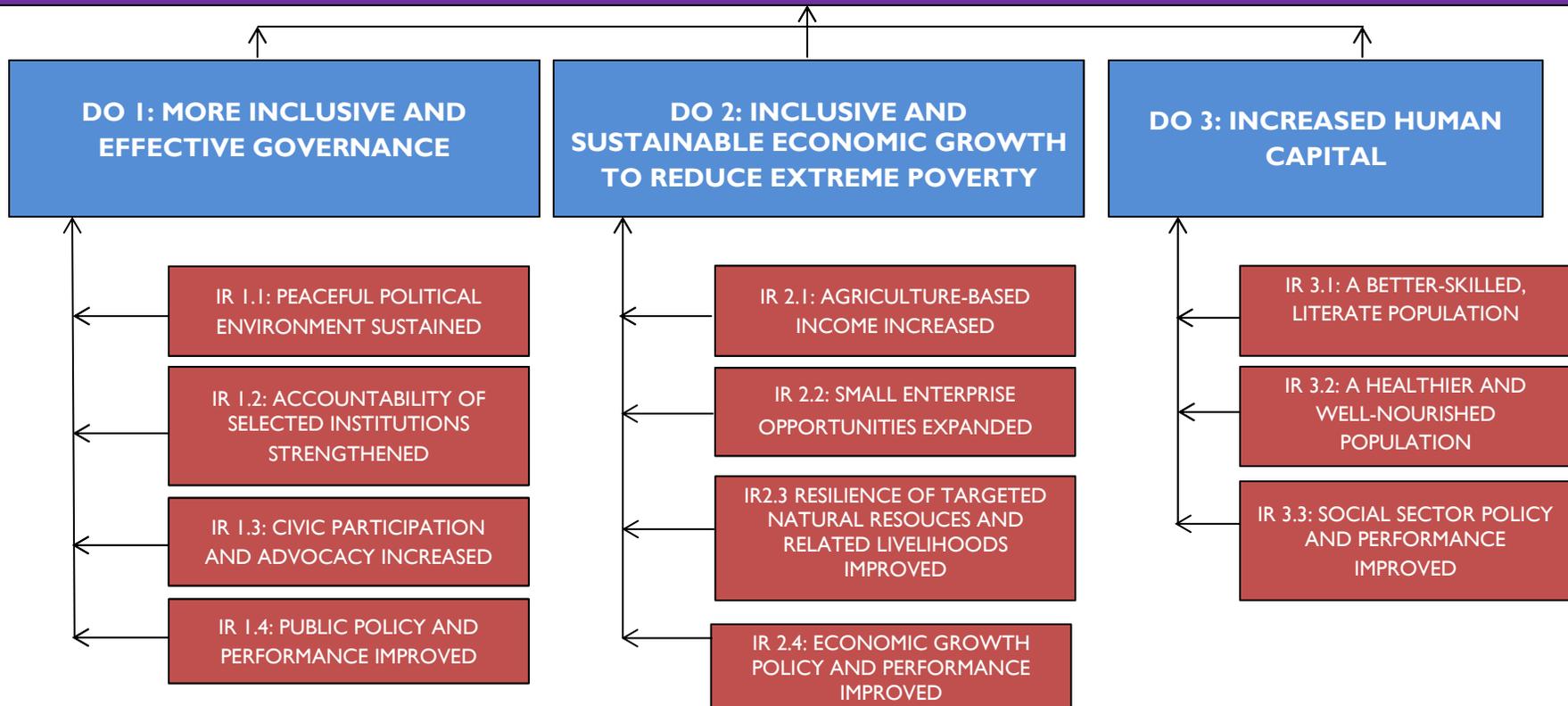
The same is also true of the need to simultaneously reduce risks, enhance adaptive capacities, and facilitate inclusive growth as described earlier in relation to the cross-cutting theme of resilience. In more practical terms, these can be conceived of as protecting, building and leveraging the livelihood assets (or capital) people have access to and use as described in relation to each DO in subsequent sections.²⁰

On a practical level—because the DOs are so interconnected and because the Mission's approach emphasizes the centrality of integration and governance to achieve sustainable results—activities may support results under multiple DOs. For example, USAID's health interventions are designed to increase healthy behaviors among marginalized groups and to increase their participation in local health governance bodies.

²⁰ These livelihood assets include human, social, natural, physical and financial capital. For more information on these assets and the sustainable livelihoods framework, see <http://www.eldis.org/vfile/upload/1/document/0901/section2.pdf>

CDCS GOAL: A MORE DEMOCRATIC, PROSPEROUS, AND RESILIENT NEPAL

CDCS Development Hypothesis: Effective and inclusive governance, combined with investments in human capital and economic growth, will result in a more democratic, prosperous, and resilient Nepal.



KEY CROSS-CUTTING ISSUES: REDUCING EXTREME POVERTY; GENDER EQUALITY AND SOCIAL INCLUSION; YOUTH; RESILIENCE; SCIENCE, TECHNOLOGY, INNOVATION, AND PARTNERSHIP (STIP)

CRITICAL ASSUMPTIONS

The Mission identified several “game-changing” events that could dramatically affect implementation or even warrant revisiting the DOs:

- ❖ **Local elections significantly delayed/postponed:** While consensus among the major parties is lacking, the current government is planning for local elections in 2014. Local elections are critical for ensuring greater accountability, oversight and transparency of GON operations.
- ❖ **A major earthquake hits Nepal:** Kathmandu and other major cities have poor infrastructure rendering them extremely vulnerable to destruction and mass casualties in the event of a major earthquake.
- ❖ **Conflict breaks out in Nepal:** USAID’s 2013 Violent Extremism Assessment for Nepal and the U.S. Government’s 2011 Interagency Conflict Assessment Framework Report found that the likelihood of major conflict is currently low in Nepal. However, both reports note that continued poor governance could lead to increased violence.

A. STRATEGIC CHOICES- IMPORTANCE OF GOVERNANCE THROUGHOUT STRATEGY

Approximately 75 percent of USAID/Nepal's resources are tied to Presidential Initiatives, with additional funds earmarked for basic education and biodiversity. In developing this CDCS, the Mission conducted extensive consultations with GON, private sector, civil society, USG stakeholders, and others, and identified *governance* as critical to achieving success in each of these sectors. Given the multiple challenges weighed against the opportunities for USAID/Nepal to help address them, the Mission strategically selected governance as critical to achieving a sustainable impact through multi-sector efforts that build increasingly strong relationships with the GON. USAID/Nepal contends that U.S. foreign assistance is better secured through stronger institutions and their ability to implement sector programs.

B. INTEGRATION AND GEOGRAPHIC FOCUS

Throughout its long history in Nepal, USAID has applied a multi-tiered approach that has supported central line ministries, national programs, civil society, local government and citizens directly. This approach has been sector-based and largely reliant on non-Nepali institutions for program implementation. Under this CDCS, USAID will model a more bottom-up approach to development and democracy—coupled with top-down, national-level approaches—leading to integrated and resilience-focused development results. USAID will implement a number of policy and operational reforms to increase integration across sectors, and use and strengthen local organizations and GON entities.

USAID will also focus efforts geographically to leverage its programs and relationships across sectors for better collaboration, especially locally. The expected results include greater transparency, government credibility, and public confidence in the targeted sectors. Except as required by the need to target certain ecosystems, vulnerable populations, specific disease burdens, or coverage needs (especially for nutrition and HIV/AIDS), USAID activities will be increasingly co-located within 20 core districts in the middle hills and the Terai portions of Nepal's Far-Western, Mid-Western, and Western Development Regions. This area is a focus because it is defined by the traditionally excluded populations who were the originators of the rebellion and a decade of conflict. Additionally, this area has a higher level of poverty than the national average (32.5 percent vs. 25.2 percent nationwide) and also a higher level of stunting (45.2 percent vs. 40.5 percent nationwide). The area is typified by high population density, less developed infrastructure, and vulnerability to climate change, yet possesses significant unmet agricultural, economic and nature conservation potential.²¹

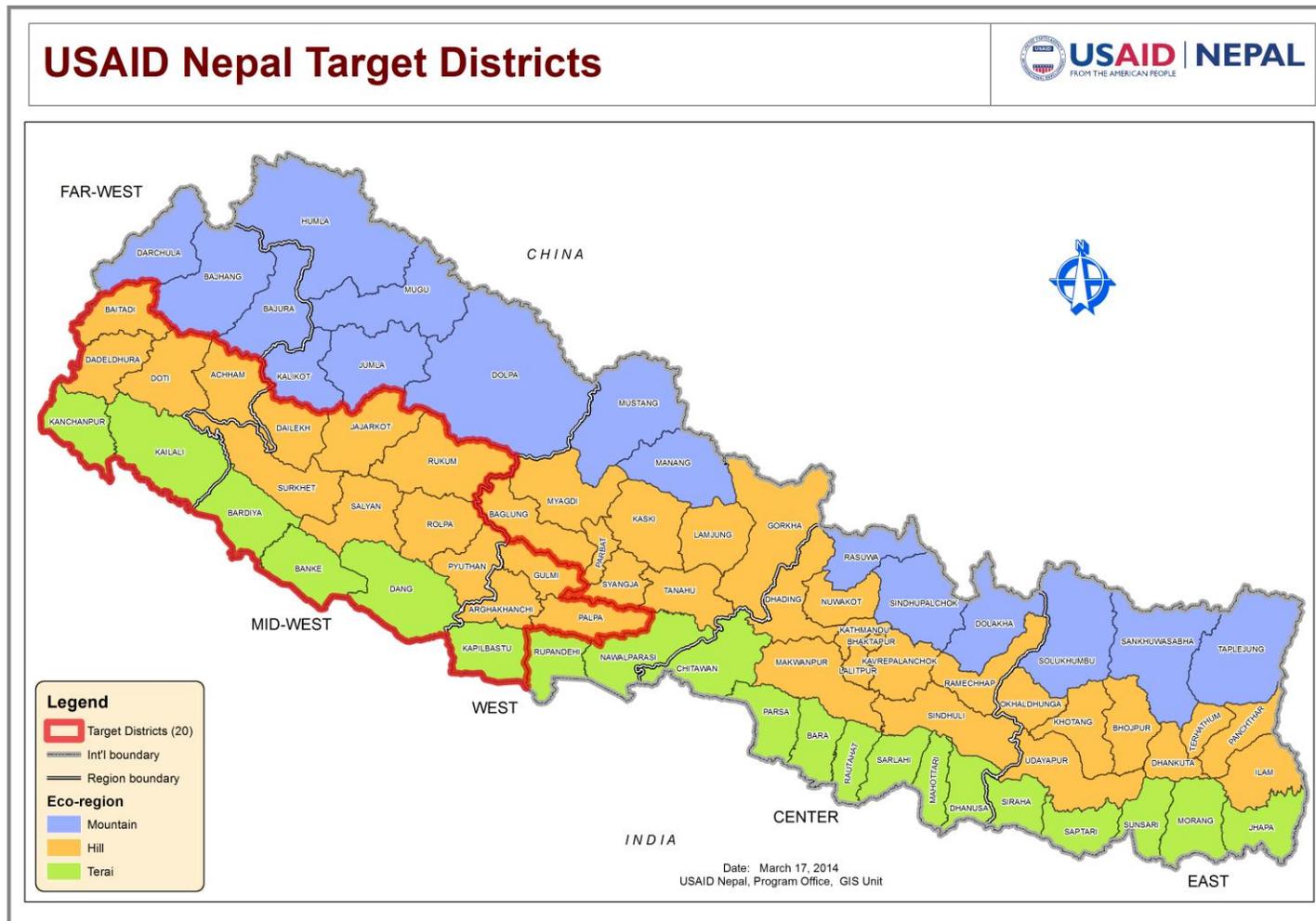
USAID has selected focus districts through in-depth analysis of human development, governance, and conflict indicators, supported by rapid assessments conducted by local NGOs with expertise in each of these areas. All three Presidential Initiatives are active in the focus area, and their efforts are complemented by a cross-cutting local governance strengthening activity and a new Food For Peace activity that will also target extreme poverty.²²

²¹ The HDI for the Mid West Development Region is 0.452 (2009) and the Far West is 0.461 (2009), the two lowest in the country. This is in comparison to an overall HDI of 0.509 (2009). See http://hdr.undp.org/en/reports/national/asiathepacific/nepal/Nepal_NHDR_2009.pdf

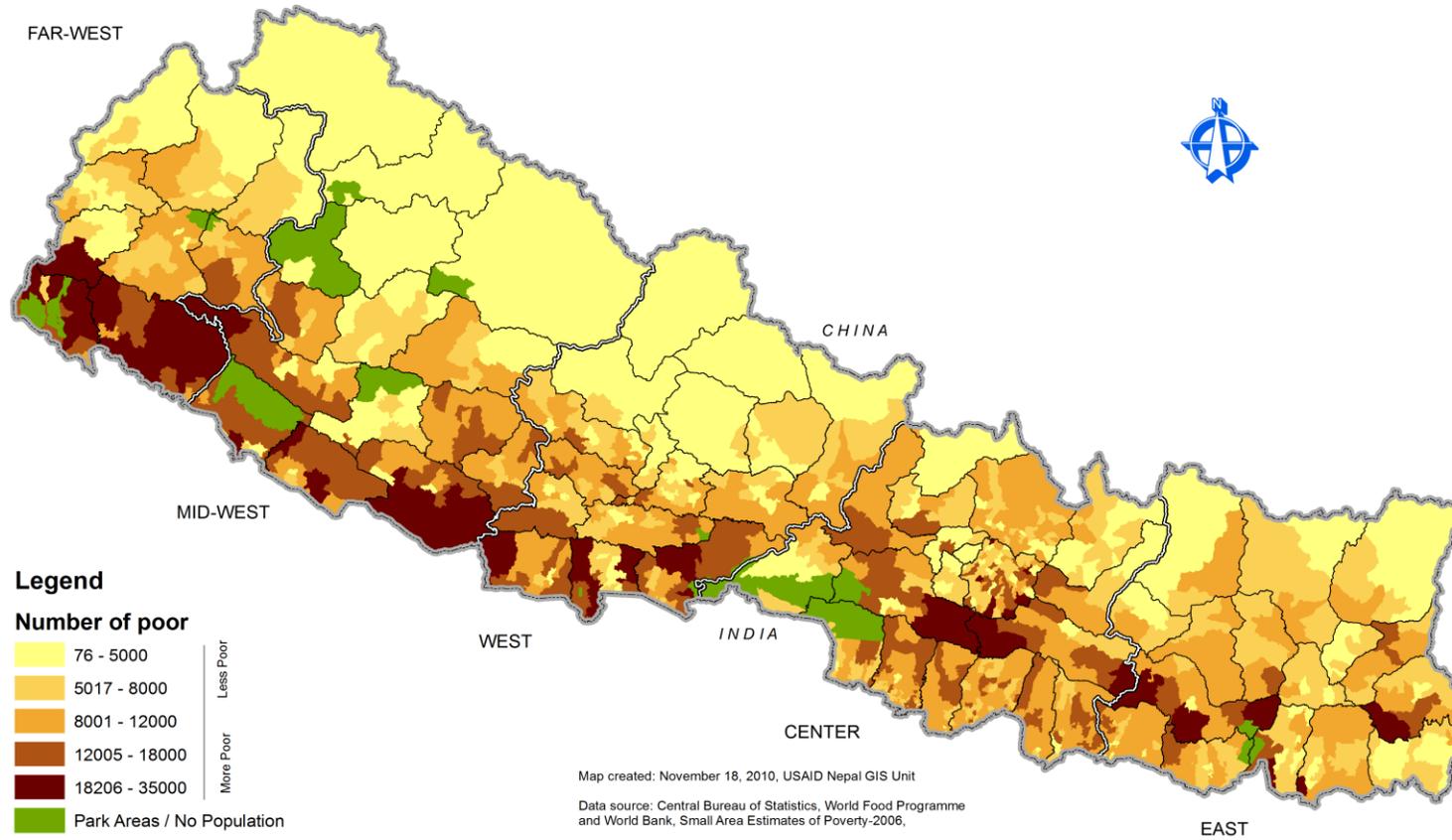
²² All three Presidential Initiatives will continue activities outside these "focus" districts, as described in their respective strategies. Where USAID works with particular vulnerable populations (such as those most at risk for HIV/AIDS), the activity location may not overlap with the focus districts.

Some of the key factors taken into consideration during the selection of the CDCS focus districts include: extreme poverty (see map below); population density and stunting; and a range of variables taken into consideration during the selection of districts for USAID’s Presidential Initiative programs in food security (FtF), health (GHI) and climate change (GCC).

Map of CDCS Geographic Focus Regions and Districts



Number of Poor in Terai and Hills



C. CROSS-CUTTING ISSUES

1. Extreme Poverty: Inclusive poverty reductions in Nepal require coordinated and sustained efforts to improve the health, education, and livelihood opportunities for the duration of the strategy period and onward. Most of the 75 percent of the population that derives their livelihoods from agriculture are working the 30 percent of arable land, often without improved technologies. The depth of poverty has plummeted from 26 percent in 1996, to 18 percent in 2003, to 5.6 percent in 2010, demonstrating the viability of meaningful poverty reductions in Nepal.²³ Further reductions require widespread engagement with marginalized and vulnerable populations. To graduate from least developed country (LDC) status by 2022 as the GON intends through its Vision 2022 Concept Paper, overall economic growth needs to accelerate from roughly 3 percent per capita to exceed an average of 5.3 percent per capita.²⁴ Economic growth acceleration will require concrete policy reform to improve the enabling environment for the private sector.

2. Resilience: Building resilience is critical both as a means of achieving the Development Objectives (DOs) and overarching goal laid out in this CDCS, as well as a characteristic of their achievement, as outlined in USAID's *Building Resilience to Recurrent Crisis: Policy and Programming Guidance* (2012).²⁵ USAID Nepal will address "resilience deficits" by targeting those most vulnerable to high levels of stunting and wasting, predictable food insecurity, severe access constraints, climate change and environmental risks, poor governance, and faltering livelihoods. One of the root causes of these deficits and the associated chronic poverty is the GON's continued struggle to meet societal demands for inclusion and service delivery. This struggle contributed to a decade of conflict that further exacerbated both poverty and vulnerability.

Accordingly, USAID's vision for resilience in Nepal is an integrated and inclusive approach to building household, community, and government capacities to manage a wide range of shocks and stresses in ways that protect and contribute to inclusive, sustainable growth. In partnership with USAID's Resilience Secretariat, the Mission is establishing a resilience framework that will be integrated into the Mission's Performance Management Plan, so that key resilience factors identified for Nepal will be measured and implementation adjusted accordingly.

As part of the integrated approach, the Mission will partner with USAID's Food for Peace to launch a Community Resilience Program, which will strengthen livelihoods, improve nutritional status and increase the capacity of vulnerable households to mitigate, adapt to and recover from shocks and stresses in communities with deep poverty and high rates of malnutrition. This innovative program will integrate alternative livelihoods, agriculture, nutrition, water, sanitation and hygiene, adaptation to climate change and disaster risk reduction. This program will comprehensively address the needs of the extreme poor in coordination with GCC, GHI, and FtF programs. For more information on resilience, see Annex 3.

²³ World Development Indicators. World Bank. 2010.

²⁴ Calculation based on World Development Indicator data. World Bank. See, http://www.un.org/en/development/desa/policy/cdp/lcd/lcd_criteria.shtml, for more information on the criteria relating to income, economic vulnerability, and human assets that the UNCTAD uses to determine if a country has graduated from LDC status. Likewise, significant and sustained economic growth is also necessary to graduate from low income status according to the World Bank's income classifications.

²⁵ Note: In 2012, the U.S. Mission to Nepal prepared a U.S. Disaster Risk Reduction Strategic Framework for FY 2012-2016. It can be found here: <http://www.usaid.gov/sites/default/files/documents/1861/DRR%20Strategic%20Framework.pdf>.

3. Gender Equality and Social Inclusion (GESI):

Nepal ranks 102nd out of 186 countries on the Gender Inequality Index.²⁶ Nepali women and girls face particularly difficult challenges, often influenced or compounded by issues of caste, religion, and socioeconomic status. Nationwide, 41 percent of Nepali women (44 percent in rural areas) have never been to school, compared with 20 percent of men. Nearly 80 percent of women (92 percent in the Far West and 86 percent in the Mid- West) own no property, despite legal changes in the last five years that made it easier for them to do so. The vast majority of Nepali women marry and have children at an early age, taking on the traditional social obligations of marriage and child-bearing, which can be major impediments to educational and career advancement.²⁷ In nearly all Nepali communities, daughters move to the husband's household after marriage, and Hindu families generally must pay a dowry to the groom's family. Women's position in their in-laws' household often limits their access to resources and ability to make decisions about time use, money, nutrition, health, and other issues.

Caste, ethnicity, and geographic location also play important roles in social inclusion. As noted in USAID/Nepal's 2012 Country Gender Analysis, "Poor and socially excluded men and women face greater economic and political disadvantages than Nepalis who belong to higher castes—but females are subordinate within all caste and ethnic groups."²⁸ A 2006 World Bank/DfID Gender and Social Exclusion Assessment found—and recent assessments have confirmed—that, while women in all caste groups have lower levels of both empowerment and inclusion than men in their own groups, there are significant differences between castes. For example, Brahman women are significantly more empowered than Dalit men. Overall, the assessment found that caste and gender together account for more than a third of Nepal's variation in empowerment and inclusion levels but that *caste is a more powerful predictor of empowerment and inclusion than gender*.²⁹ This is not to say that any caste or ethnic group has achieved gender equality; rather, that in Nepal, one's caste is more strongly correlated with indicators of empowerment and inclusion than one's gender. Gender disparities are also much greater within historically lower castes than within historically higher castes. Thus, caste and gender norms combine to make lower-caste women particularly marginalized. This finding is borne out by studies on education level, literacy, income, land ownership, gender-based violence, health and nutrition outcomes, civic participation, and decision-making at the household, community, and national levels.³⁰

Understanding and carefully considering Nepal's unique and complex social structure is critical to achieving equitable socioeconomic development objectives. Under this CDCS, USAID/Nepal will: improve GESI analysis and data collection throughout the program cycle; increase engagement on GESI issues with the GON, donors, civil society, and other USG agencies; implement cross-sector activities to improve inclusive governance; deepen staff ability to identify and address GESI gaps; and emphasize ongoing learning and adaptation on GESI issues. USAID recently became a member of the steering committee for Nepal's Social Inclusion Action Group, which seeks to harmonize and leverage gender equality and social inclusion approaches among GON, donor, and civil society organizations. USAID/Nepal has established GESI working groups within the Mission and among its key implementing partners and will seek to deepen its efforts under the leadership of a newly hired, full-time GESI Advisor. Each project designed under this CDCS will also undergo a rigorous GESI analysis that must be reflected

²⁶ 2013 Human Development Report: http://hdr.undp.org/en/media/HDR_2013_EN_complete.pdf. Accessed 3/29/2013.

²⁷ UNFPA (2007). "Gender Equality and Empowerment of Women in Nepal." Kathmandu: UNFPA. 21-25.

²⁸ USAID/Asia Bureau: USAID Nepal Country Gender Analysis. Washington: 2012.

²⁹ World Bank and DfID 2006: xviii, 38.

³⁰ See: *Nepal Social Inclusion Survey 2013*. March 2014: Tribhuvan University, Kathmandu, Nepal; and DHS 2011;

in all subsequent procurement actions and implementing partner work plans. Recognizing that Nepal has many strong GESI-related laws and policies in place, the Mission will follow the recommendation of the 2012 Nepal Gender Analysis to emphasize mutual GON-USAID accountability on *implementing* specific, existing policies and practices.³¹

4. Youth: With 37 percent of its population under age 15, Nepal's youth—who are increasingly educated and urban—represent significant potential. However, many youth struggle with limited employment opportunities and seek work overseas, as evidenced by the fact that 45 percent of migrants from Nepal are between 15 and 24 years old. Many of these young people are also parents. Although marriage age in Nepal is rising, 77 percent of women and 45 percent of men under age 24 are married, and half of Nepali women give birth by age 20. While child marriage rates have decreased, 29 percent of girls aged 15 to 19 are married, and 25 percent of women give birth by age 18; these rates are higher in the Mid-West and Far West regions.³² Youth play an important role in all USAID activities, and a number of USAID interventions—particularly in institutional capacity building (DO 1), health (DO 3), FtF (DO 2), and environment (DO 2)—explicitly target youth. Under this CDCS, USAID/Nepal will seek to strengthen youth employment opportunities, healthy behaviors, and engagement in local and national governance.

5. Science, Technology, Innovation, & Partnerships (STIP): USAID will increasingly seek to use cutting-edge science and technology, innovative approaches, and new partnerships to achieve and scale up results more quickly and efficiently. In particular, the Mission will seek increased partnership with private sector, civil society, academic, and GON actors. For example, Nepal's mountainous terrains pose real difficulties when it comes to connecting rural communities with banking services. Being able to store or transfer savings securely and conveniently, as well as access loans or insurance, can help households save time and money and get ahead. More than 70 percent of Nepali households do not have bank accounts, but with new, innovative mobile services a growing network of mobile financial services could be available nationwide within five years. With respect to agriculture, USAID is using participatory research approaches to develop new open-pollinated varieties of maize seed, which have higher yields, higher amounts of protein and better resistance to changing climate conditions and pests. In health, results from field tests, and the ensuing scale-up to 41 districts, indicate that the application of a one-time, low-cost antiseptic ointment, chlorhexidine, reduces the risk of neonatal mortality by 23 percent. With these promising results in hand, USAID's Office of Science and Technology awarded its coveted Pioneer Prize to Nepal for its work in chlorhexidine, which is slated for nation-wide coverage by 2015. USAID is also exploring new ways to protect forests and reduce emissions from burning of fuel wood by supporting innovative technologies such as a "gold standard" for biogas production at the household level which also results in fewer respiratory infections and less time collecting wood for women. USAID/Nepal will weave such innovative technological approaches into its programming across the board, deepening the strategy's impact.

D. OTHER DEVELOPMENT ACTORS

³¹ Some examples of this that are already reflected in recent project designs include: making gender training part of teacher development for the National Early Grade Reading Program; disaggregating student reading scores by gender and caste/ethnicity to help the GON better target its resource to meet its Education for All goals for girls; and strengthening Women Development Officers and gender-based violence response as part of the local governance and health system strengthening projects.

³² The 2011 DHS found that the median age at first marriage for women was 16.7 in the Far Western Hills and 17 in the Mid-Western Hills.

Nepal receives official development assistance from over 40 donors, and foreign aid disbursements in fiscal year 2011-12 totaled \$1.21 billion (about 57 percent came from multilateral donors and 43 percent from bilateral donors), or 5.4 percent of Nepal's GDP.³³ The largest multilateral donors are: the World Bank, the Asian Development Bank, the United Nations, the European Union, and the Global Fund to Fight AIDS, Tuberculosis, and Malaria. The largest bilateral donors, in descending order, are: the United Kingdom, Japan, India, the United States, and Norway. China has committed to provide significant amounts of aid over the next few years. The sectors receiving the largest amounts of foreign aid are education, local development, health, and road transportation. USAID is one of the largest donors in the health, agriculture, and environment sectors.

The potential MCC Threshold Program in Nepal is likely to include a focus on energy issues as a barrier to economic growth. However, the primary donor active in the hydropower and energy sector is the Asian Development Bank (ADB). The ADB Country Partnership Strategy outlines an investment of over \$400 million in hydropower development and expansion of transmission and distribution networks, including cross-border power exchange, over the next four years.

USAID Commitment to Paris Declaration and Busan Partnership Principles

The Mission strategy is aligned with the GON's Three-Year Development Plan (2013-2016), which is currently in the process of being finalized. This CDCS supports four of the six priorities of the GON Plan and is well aligned with government priorities to increase agricultural productivity, diversification and commercialization; improve basic education and health, drinking water and sanitation; improve governance; and promote the tourism, industry and trade sectors.³⁴ This CDCS supports the GON priority of implementation of the November 2006 Comprehensive Peace Agreement between the Maoists and the Seven-Party Alliance, which ended the 10-year armed conflict and paved the way for a peace process and the reconciliation with the former insurgents. These and other GON priorities are implemented in coordination with other donors. USAID/Nepal actively participates in the International Donor Partner Group (IDPG) and chairs or participates in several multi-donor technical working groups. About half of the donor group foreign aid resources go through GON budget or procurement systems.

The GON has made significant efforts to coordinate donor engagement, including through Sector Wide Approaches (SWAPs) that use pooled donor funds. The Ministry of Finance (MoF) leads donor coordination efforts and convenes an annual Nepal Portfolio Performance Review. USAID supports these efforts. For example, in partnership with AusAID, USAID funded the MoF to upgrade the Aid Management Platform, a Web-based information system that collects data on the activities of all development partners and allows the MoF to better coordinate and plan development activities. MoF and other government officials were trained to use the platform and assume a greater leadership role in aid coordination, transparency and accountability.

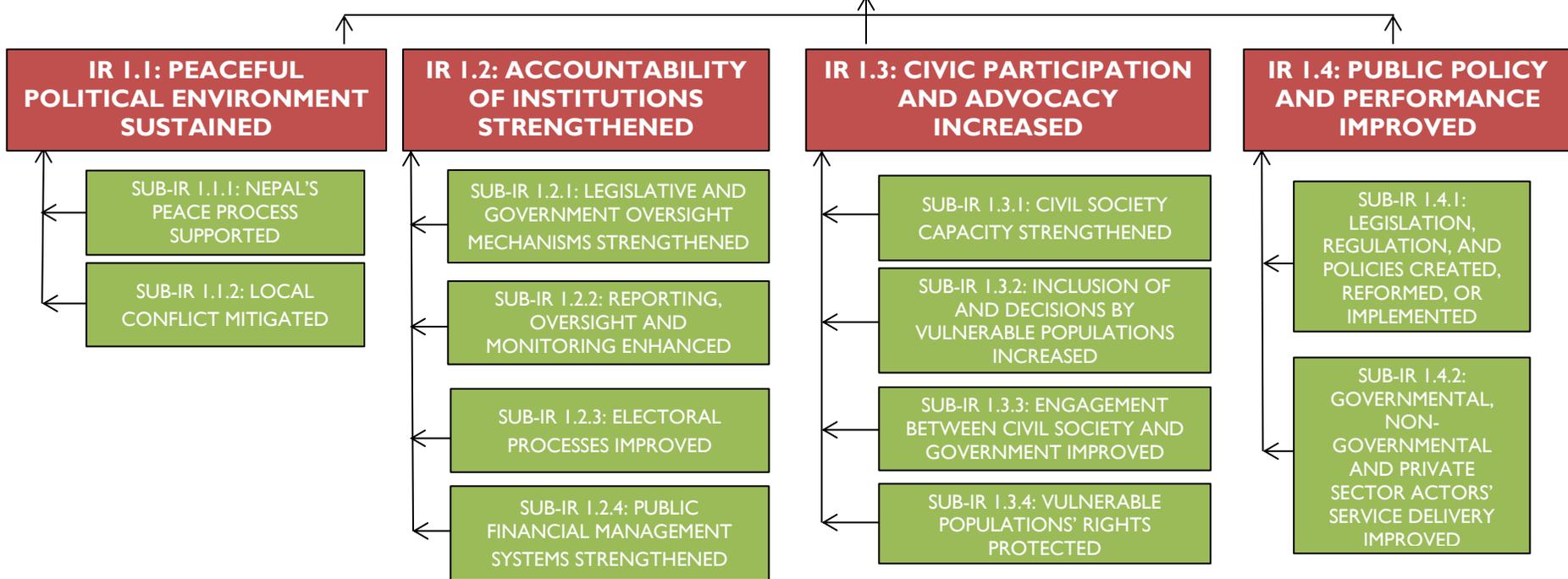
For more than 60 years, the USG has worked with the GON to achieve development results in Nepal. For the past 15 years, USAID has programed funds directly through the Ministry of Health and Population to strengthen Nepal's public health system. During the CDCS period, USAID will continue to directly fund the Ministry of Health, will begin direct funding through the Ministry of Education, and will continue to work closely with other GON ministries to strengthen government service delivery and public financial management capacity in particular.

³³ *Development Cooperation Report, Fiscal Year 2011-12*. March 2013.

³⁴ GON/National Planning Commission. "Three Year Plan Approach Paper (2013-2016).

DO 1: MORE INCLUSIVE AND EFFECTIVE GOVERNANCE

Development Hypothesis: Investment in Nepal's peace process, accountable democratic institutions, civic participation and improved governance capacity will result in more effective governance and increased political inclusion



KEY CROSS-CUTTING ISSUES: REDUCING EXTREME POVERTY; GENDER EQUALITY AND SOCIAL INCLUSION; YOUTH; RESILIENCE; SCIENCE, TECHNOLOGY, INNOVATION, AND PARTNERSHIP (STIP)

CRITICAL ASSUMPTIONS

- ❖ A constitutionally based, functional government is formed during the CDCS period.
 - ❖ Space for civic and political engagement is maintained or expands.
 - ❖ GON remains committed to improved, accountable governance.

I. DEVELOPMENT OBJECTIVE 1: MORE INCLUSIVE AND EFFECTIVE GOVERNANCE

A. Context and Rationale

While it is unlikely that Nepal will return to a major conflict, poor governance can lead to increased instability and raises the potential for violence. ***To achieve the objective of effective governance and political inclusion in Nepal four conditions must be achieved—peace, accountability, civic participation, and better performance.***³⁵ Without peace, human development is not possible, and without human development, peace is often not sustainable. The Mission will target these conditions at the local level, while supporting capacity development at the national level.

B. Political Inclusion

Since the end of its 10-year conflict and the overthrow of its hereditary monarchy, Nepal has seen a dramatic increase in the number of political voices, including the Mahdesi (based in the Terai along the Indian border) and Janajatis (ethnic communities of the hills with a unique cultural and linguistic heritage). New voices continue to emerge including women and youth, caste groups such as Dalits, and ethnic groups such as the Tharu, Tamang, and Limbu. Each of these brings to local and national politics a combination of historical grievances and expectations for redress and equality. Even with the reintroduction of democratic government, politics and civil society remain dominated by men from high castes and the hill region. Compared with the 2008 elections, in November 2013 political parties failed to field a large number of competitive women candidates—proposing only 10 percent of their directly elected candidates to run in difficult constituencies. Similarly, there were fewer Dalit candidates elected than in 2008 and parties struggled to meet constitutional requirements of minority representation among the seats won in the proportionate representation race. Bringing Nepal's historically marginalized communities more deeply into leadership and decision making, and ensuring a voice in day-to-day affairs of their communities locally, are key to the long-term sustainability of the political gains made since the end of the conflict.

C. Government Effectiveness

The Government of Nepal continues its transition from poor governance practices under a long-standing monarchy to its response to the “people’s movements” as agreed to in the 2006 Comprehensive Peace Accord. This transition has often progressed slowly and unevenly, hampered by the absence of elected local government. As a result, government agencies, especially those operating at the local level, have been unable to effectively respond to the growing demands of the Nepali people. In remote geographic locations, unreachable by road and often days’ or a week’s walk from public services, the physical presence of government is limited. Even in more accessible areas, the legacy of a long-ingrained caste system and the myriad of languages prevent many of the country's poorest and most marginalized communities from accessing government services. While the central bureaucracy has continued to provide some basic services, the government struggles to keep up with the pace of demands. Chronic power and water shortages are only the most visible result. Central to achieving the Mission's development objective is improving the ability of the national and local level government to deliver basic services, as well as the vital health, education, and regulatory services critical to broader social and economic development. Programs designed in support of this objective will increase local ownership of government and oversight by civil society in order to improve effectiveness and sustainability of across sectors.

³⁵ DO 1 is also effectively aligned with the development objectives of the USAID Strategy on Democracy, Human Rights and Governance adopted in June, 2013, adapted to the Nepali context.

D. Development Hypothesis and Evidence

Local and national investment in Nepal’s peace process, accountability in democratic institutions, civic participation, and improved policy and performance will result in more effective governance and increased political inclusion. The four Intermediate Results (IRs) are necessary conditions for the achievement of the Development Objective (DO) of effective governance and increased political inclusion. The combined approach also incorporates analysis that identifies the risk of renewed violence as linked to the failure to adopt a constitution, weak and unresponsive governance institutions, and/or the mismanagement or inability to meet public expectations accompanying state restructuring expected under the new constitution.

E. Expected Results for DO 1: More Inclusive and Effective Governance

Over the life of the CDCS, DO 1 will support increased inclusion of Nepalis in civic and political life, and a government more capable of responding to rapidly increasing public demands, with an emphasis on meeting demands in Presidential Initiative sectors. USAID will focus and concentrate its local governance program to overlap with Presidential Initiative activities in districts of the Mid-West and Far-West regions. Activities in support of local governance will strengthen the sustainability of other sectors’ work and improve government effectiveness for better inclusion and response. However, it is expected that available indices—such as the World Bank Government Effectiveness Index, Economist Intelligence Unit Democracy Index—combined with Mission-based monitoring and evaluation efforts will provide adequate and sufficient data to measure progress over the life of the CDCS. These activities will contribute to the following expected results:

- The fulfillment of targeted mandates under the Comprehensive Peace Accord
- Maintained or reduced levels of political, identity, and resource conflict at the local level
- The inclusion of historically marginalized groups in leadership and decision-making positions in the executive and legislative branches of government
- Sustainable civic organizations that provide advocacy and oversight on social, economic, and political issues
- More effective expenditures at the national and local level in support of service delivery and public policy priorities

F. Illustrative Indicators for DO 1

- Comprehensive Peace Accord fulfilled with USG support
- Change in incidence of political, identity, and resource conflict
- Change in Nepal’s World Bank *Country Policy and Institutional Assessment policies for social inclusion/equity cluster average score*
- Government actions taken as a result of USG-supported civil society advocacy
- Change in Nepal’s World Bank *Government Effectiveness Index score*

G. Gender Equality and Social Inclusion in DO 1

Women, Dalits, and Janajatis are disproportionately affected by poor service delivery and weak governance. They are the groups most likely to need public services—whether in the form of maternal and child health care; scholarships for primary school; agricultural extension to teach them more effective farming techniques; assistance with voter registration; or protection and assistance in cases of gender-based violence or human trafficking. They are also the groups least likely to have the skills and social capital necessary to effectively advocate for such services or to hold government accountable for them. They are the least represented among the ranks of elected or civil service officials, or among the

leadership of NGOs, CSOs, and community groups. Inclusion of women and marginalized groups is critical to achieving improved governance.

Under DO 1, USAID will continue to support women's participation in the peace and electoral processes and strengthen women and marginalized groups' capacity to demand services and inclusive governance, helping them effectively engage with and hold service providers accountable. USAID will also strengthen citizen participation (and women and marginalized groups' representation) in community organizations, GON community management structures such as school management committees and Health Facility Operations and Management Committees, and CSOs and in processes ranging from elections to social audits to monitoring at service delivery points. USAID will particularly support inclusion and protection of marginalized and vulnerable groups, such as trafficking survivors and those at risk for trafficking.

H. Intermediate Results for DO 1

The Mission will achieve the following intermediate results in order to realize the higher development objective of more inclusive and effective local and national governance:

- IR 1.1 – Peaceful political environment sustained
- IR 1.2 – Accountability of institutions strengthened
- IR 1.3 – Civic participation and advocacy increased
- IR 1.4 – Public policy and performance improved

IR 1.1: PEACEFUL POLITICAL ENVIRONMENT SUSTAINED

A. Context

The most essential contextual factor in achieving a democratic, prosperous, and resilient Nepal is continuation and conclusion of Nepal's peace process. The negotiated end to Nepal's 10-year armed struggle allowed greater inclusion of long-neglected marginalized populations to address transitional justice. Since the signing of the 2006 Comprehensive Peace Accord (CPA), the country's demand for inclusion has outpaced the government's ability to respond and offer better outreach and services. The CPA has four components: political and socioeconomic transformation; management of armies and arms; ceasefire provisions and measures for normalization; and protection of human rights and fundamental rights.

IR 1.1 addresses the ongoing transition in Nepal and the continued efforts to fulfill the CPA's mandates. While peace is ultimately a product of the government's ability to address grievances and bring marginalized populations into civic, economic and political life, USAID will complement the government's efforts to support the peace process. USAID will work to mitigate local communal conflict, increase inclusive civic participation, and integrate equitable and inclusive activities under DO 1, DO 2 and DO 3. USAID will support the implementation of the CPA through assistance to the constitutional drafting process, transitional justice mechanisms, and mitigation and resolution of ongoing local tensions. USAID will engage a range of actors, from the GON to local community mediators, with the ultimate goal of creating an environment conducive to fulfilling the CPA and strengthening democratic institutions.

Women's participation and leadership are critical to sustainable peace in Nepal. In 2011, Nepal became the first country in South Asia to adopt a National Plan of Action on Women, Peace and Security, which supports the full integration of women and girls as equal partners in preventing conflict and building peace in post-conflict Nepal. The Plan's objectives include: 1) increasing women's participation in

decision-making around the peacebuilding process; 2) protecting the rights of women and girls and preventing their violation; 3) mainstreaming gender equality throughout the peacebuilding process; 4) addressing women and girls' needs in relief and recovery programs; and 5) ensuring proper resources to implement, monitor, and evaluate the National Plan of Action. USAID/Nepal particularly supports Objectives 2 and 3. In collaboration with several other donors, USAID supports long-term observers of the peace process, who interact with women from all segments of Nepali society and seek to ensure that their views are recorded and incorporated in the peace and transition process. USAID also provides funds to the Nepal Peace Trust Fund, a GON-managed, multi-donor fund that supports implementation of the Comprehensive Peace Accord and the National Plan of Action on Women, Peace and Security by providing funds to various ministries, local governments, private sector, and civil society organizations to implement peacebuilding projects nationwide. USAID specifically recruited and funds a GESI advisor for the Trust Fund to ensure GESI mainstreaming throughout all its projects, as well as supporting women's leadership and participation under the National Plan of Action. USAID further supports the National Plan of Action on Women, Peace and Security by: training women political leaders, election officials, and election observers; preventing and protecting youth and women from trafficking in persons; and providing judicial and police training to ensure greater prosecution of traffickers.

B. Illustrative Indicators for IR 1.1

- Country political stability and absence of violence point value score (1.6-4)³⁶
- Constitution incorporating fundamental freedoms drafted with USG assistance (2.1.1-1)
- Freedom in the World Political Rights sub-score for Electoral Process (2.3.2-13)

C. Proposed Sub-IRs

- **Sub-IR 1.1.1 – Nepal's peace process supported**

USAID will provide programmatic support to achieve the remaining mandates from the CPA, which include drafting a constitution and establishing transitional justice mechanisms. USAID will also engage the GON directly in support of these mandates through current and future investments in the NPTF.

- **Sub-IR 1.1.2 – Local Conflict Mitigated**

USAID will engage local government, civic, private sector and other leaders at the local level in regions most prone to identity, resource and political conflict. USAID programming will emphasize formal and informal mechanisms for dispute resolution and build trust among Nepal's varied caste, ethnic and linguistic communities.

D. Illustrative Sub-IR Indicators

- Number of people participating in USG-supported events, trainings, or activities designed to build mass support for peace and reconciliation
- Number of new groups or initiatives created at the local level through USG funding, dedicated to resolving local conflict or the drivers of conflict
- Number of groups trained in conflict mediation/resolution skills or consensus-building techniques with USG assistance

³⁶ Indicators ending in parentheses refer to the indicator drawn from the Standard Foreign Assistance Master Indicator List: <http://www.state.gov/f/indicators/index.htm>

IR 1.2: ACCOUNTABILITY OF INSTITUTIONS STRENGTHENED

A. Context

Accountability increases effectiveness by limiting opportunities for corruption and waste. Currently, Nepal ranks 117 out of 177 countries in the Transparency International Corruption Index. However, Nepal stands at the early stages of a critical constitutional process that will define the operations and effectiveness of fundamental democratic institutions. These include a parliament that oversees the executive branch, a justice sector that provides access to all citizens, an Elections Commission that enfranchises constituents, a civil society that provides external oversight, and GON agencies that investigate and audit.

USAID will emphasize and promote accountability, seizing opportunities that accompany the establishment of and reform under a new constitution. Accountability efforts will focus on supporting executive institutions to ensure transparency and accountability to recipients of public services. Existing activities to strengthen Nepal's electoral processes—a fundamental aspect of political accountability—will continue as Nepal's democracy evolves. Now that the Constituent Assembly elections have taken place, USAID will support basic legislative oversight functions corresponding to budgeting, personnel appointments, and policy implementation. Other activities may include strengthening independent constitutional bodies such as the Commission for the Investigation of Abuse of Authority (CIAA) and civil society oversight of public resources both locally and nationally.

While several donor initiatives in Nepal focus on strengthening public awareness of and demand for accessible and high-quality government services, few seek to increase accountability of service-providing institutions to their constituents and clients. Where accountability does exist, some studies have found that the public views accountability in the Nepali government as oriented more toward donors than toward citizens.³⁷ Thus USAID seeks to improve both external accountability (to the ultimate recipients of goods and services) and internal accountability (to stakeholders within the organization), as well as improve public outreach where improvements exist. This view of accountability must begin to undergo a fundamental shift resulting in greater trust in government and its responsiveness to public demand.

B. Illustrative Indicators for IR 1.2

- Percent of population showing trust in the legislature, the courts and elections
- Budget execution rates (central, local, and by ministry)

C. Proposed Sub-IRs

- **Sub-IR 1.2.1 – Legislative and government oversight mechanisms strengthened**
USAID will support parliament to play a more active role in developing policy and legislation that respond to constituent demands. USAID will also support independent government bodies such as the CIAA, National Vigilance Commission, and the Office of the Auditor General (OAG), to exercise more effective oversight over line ministry activities.
- **Sub-IR 1.2.2 – Reporting, oversight and monitoring enhanced**

³⁷ Panday 2000 and Mahat 2005; cited in Tamang, Seira and Carmen Malena. *The Political Economy of Social Accountability in Nepal*. World Bank Program for Accountability in Nepal (2011): 16.

The Mission’s efforts under this sub-IR will focus predominantly on civil society oversight and on institutions’ responsiveness to the recommendations of oversight bodies. USAID will also support oversight by stakeholders such as the media, civil society watch-dog groups, community-level committees (e.g., Ward Citizen Forums, school management committees, health facility management committees, water user groups, community forest user groups), and the public at large. The Mission will also build the capacity of national, sub-national, and district GON officers to monitor and supervise government activities.

- **Sub-IR 1.2.3 – Electoral processes improved**

The USG will provide technical assistance to Nepal’s independent Election Commission to improve the quality and credibility of national and subnational elections. The USG will also engage key actors—including political parties and civil society—to participate more effectively in electoral processes.

- **Sub-IR 1.2.4 – Public financial management systems strengthened**

USAID will support the GON to strengthen PFM systems—those that impact multiple sectors, and especially those implicating local collection, appropriation, spending, and tracking of public monies—through a combination of sector-specific and cross-cutting governance activities. USAID’s efforts to improve PFM systems will build on and be coordinated with larger efforts being undertaken by the GON and other donors, including the Asian Development Bank, the World Bank, and other bilateral donors.

USAID will provide targeted support to address and mitigate risk while laying the foundation for greater use of host country systems and promoting increased accountability. USAID’s goal in this process is to strengthen GON PFM systems from the central down to the district levels. USAID will seek to help targeted Village Development Committees (VDCs) and municipalities design and implement public expenditure tracking systems.

D. Illustrative Sub-IR Indicators

- Number of executive oversight actions taken by legislature (2.2.1-4)
- Number of laws or amendments to ensure credible elections drafted with USG technical assistance (2.3.2-6)
- Number of mechanisms for external oversight of public resource use supported by USG assistance (including social/public audits) (2.2.4-4)
- Number of ministries showing improvement on issues identified in USAID PFMRAF assessments

IR 1.3: CIVIC PARTICIPATION AND ADVOCACY INCREASED

A. Context

The relationship between government and civil society in Nepal remains nascent. Government and political party discourse, for example, focuses on symbolic ethnic- or identity-based politics. In May 2012, the public debate for ethnic-based federal states stymied the drafting of the constitution and led to the dissolution of the Constituent Assembly. While the federalism discourse focused primarily on proposed provinces’ ethnic or geographic names, no in-depth public discussion ensued over the necessary powers, capacity, or finances—or the benefits, costs, or viability—for such state restructuring laws to be responsibly passed and implemented. While many groups have become increasingly vocal in their government demands, a few employ attention-calling, conflict-era “bandhs” or protests that arrest urban activity and stir violence.

The need for meaningful participation and effective advocacy is central to the success of the nascent Nepali democracy, with respect to both the responsibilities of the people and duties of the government. For peaceful democratic change, civil society and political parties must engage in a more constructive discourse, expressing differences through democratic channels and public fora. USAID will work across sectors to broaden participation and decision-making by marginalized groups and will help them advocate for inclusive and innovative policies. Additionally USAID will work with vulnerable populations for better advocacy and civil society-government engagement to combat trafficking in persons.

B. Illustrative Indicators for IR 1.3

- Percent of active participants of management committees of select organizations who are women or members of marginalized groups
- Percent of institutions that have plans with budget allocation specifically for marginalized and disadvantaged groups
- Percent of change in target population that shows an awareness of trafficking in persons

C. Proposed Sub-IRs

- **Sub-IR 1.3.1 – Civil society capacity strengthened**

USAID will strengthen the organizational and technical capacity of the Nepali implementing partners associated with the Mission's portfolio. The Mission will also seek to leverage and strengthen existing institutions which provide capacity development services, in order to improve the local market for such services.

- **Sub-IR 1.3.2 – Inclusion of and decisions by vulnerable populations increased**

USAID will strengthen citizens' capacity to demand services and inclusive governance, helping them effectively engage with and hold service providers accountable at the local level. USAID will also strengthen citizen participation (and women and marginalized groups' representation) in community organizations, GON community management structures such as School Management Committees and Health Facility Operations and Management Committees, and CSOs in processes ranging from elections to social audits to monitoring at service delivery points.

- **Sub-IR 1.3.3 – Engagement between civil society and government improved**

USAID will support civil society to develop advocacy skills to effectively engage government counterparts and work collaboratively to address development issues both locally and nationally. The USG will support the GON to maintain and expand space for civic actors to raise critical policy issues to their democratically chosen representatives. In the absence of local elections, USAID will support civil society engagement with local government officials in order to address inclusive development priorities.

- **Sub-IR 1.3.4 – Vulnerable populations' rights protected**

USAID will support activities that engage Nepal's historically marginalized populations locally in civic, economic and political life. This includes targeting the role of marginalized populations in political parties and civil society, as well as protecting populations most vulnerable to economic exploitation and trafficking.

D. Illustrative Sub-IR Indicators

- Percent change in Organizational Capacity Assessment (OCA) score among local organizations supported by USAID
- Percent of leadership positions of USG-supported institutions (including CSOs and community-based organizations) that are filled by a woman or member of a marginalized group (disaggregated by sex, caste/ethnic group, and institution)
- Number of public policies introduced, adopted, repealed, changed or implemented consistent with citizen input (2.4.1-12)
- Country rating on capacity of the host government to provide protection to victims of trafficking (1.5.3-15)

IR 1.4: PUBLIC POLICY AND PERFORMANCE IMPROVED

A. Context

Low institutional capacity is a major barrier to effective governance and local service provision. As public demands on government increase, the inability of service providers to meet those demands threatens the stability of Nepal's young democracy. Thus, policy and performance are directly connected to the ongoing peace process; the presence of accountable, democratic processes and institutions; and civic participation. Public services in Nepal are provided by a range of government and non-government organizations. Service delivery is not as simple as the government's presence. Rather, it requires complementary laws, regulations, and policies implemented through coordinated governmental, non-governmental, and private sector actors. It entails the competition for scarce financial and human resources, including competition among those who place personal and private gain over national or community interest.

USAID and its partners have worked to achieve impressive gains in health, education, agriculture, economic growth, and natural resource management in Nepal. USAID's stakeholder consultations and data analysis show that poor governance is a common obstacle to achieving long-term, sustainable development results in all sectors. In many cases, government bodies are unable to expend even half of their annual budgets or implement existing policies, laws and regulations. The need for sustained improvements in performance among institutions that deliver key services highlights the interdependence of governance with inclusive economic growth and human development outcomes. As a result, USAID will offer technical assistance to develop and strengthen policies and legal, regulatory frameworks in agricultural, natural resource management, global climate change, disaster risk reduction, health, education, as well as anti-trafficking in person, elections, and good governance. Improving the performance of sub-national government in targeted regions is clearly critical to the overall improvement of government performance.

As part of the CDCS approach to USAID Forward reforms, access to capacity development services to strengthen the ability of national government, sub-national government, civil society organizations and private sector entities will be addressed using a two-pronged approach. Joint efforts that affect all sectors, particularly in improved public financial management systems, will be implemented as part of the integration of DO 1 across the portfolio. Capacity development targeting specific sectors, such as line ministries, is planned for all sectors. This includes the cross-cutting policy objectives.

The MCC Constraints Analysis identifies weak policies and weak policy implementation as major constraints to growth and to development outcomes in all sectors. Under this strategy, USAID will highlight policy reform and effective implementation under each Development Objective. Under IR 1.4, USAID will prioritize policies that support gender equality, address gender-based violence, prevent

caste-based discrimination, and level the playing field for economic and political opportunity. Among the services whose delivery USAID will seek to strengthen under IR 1.4, the Mission will prioritize those that reach women and marginalized groups with the health, nutrition, education, agricultural extension, financial, and legal services that have so often failed to reach them in the past. The USG will use its convening power to partner with other donors, local think tanks, the private sector, and the GON to assess policies, hold dialogue, and—where appropriate—draft and implement new policy.

B. Illustrative Indicators for IR 1.4

- Government Effectiveness Index Score
- Percent of Mission funds obligated through GON systems

C. Proposed Sub-IRs:

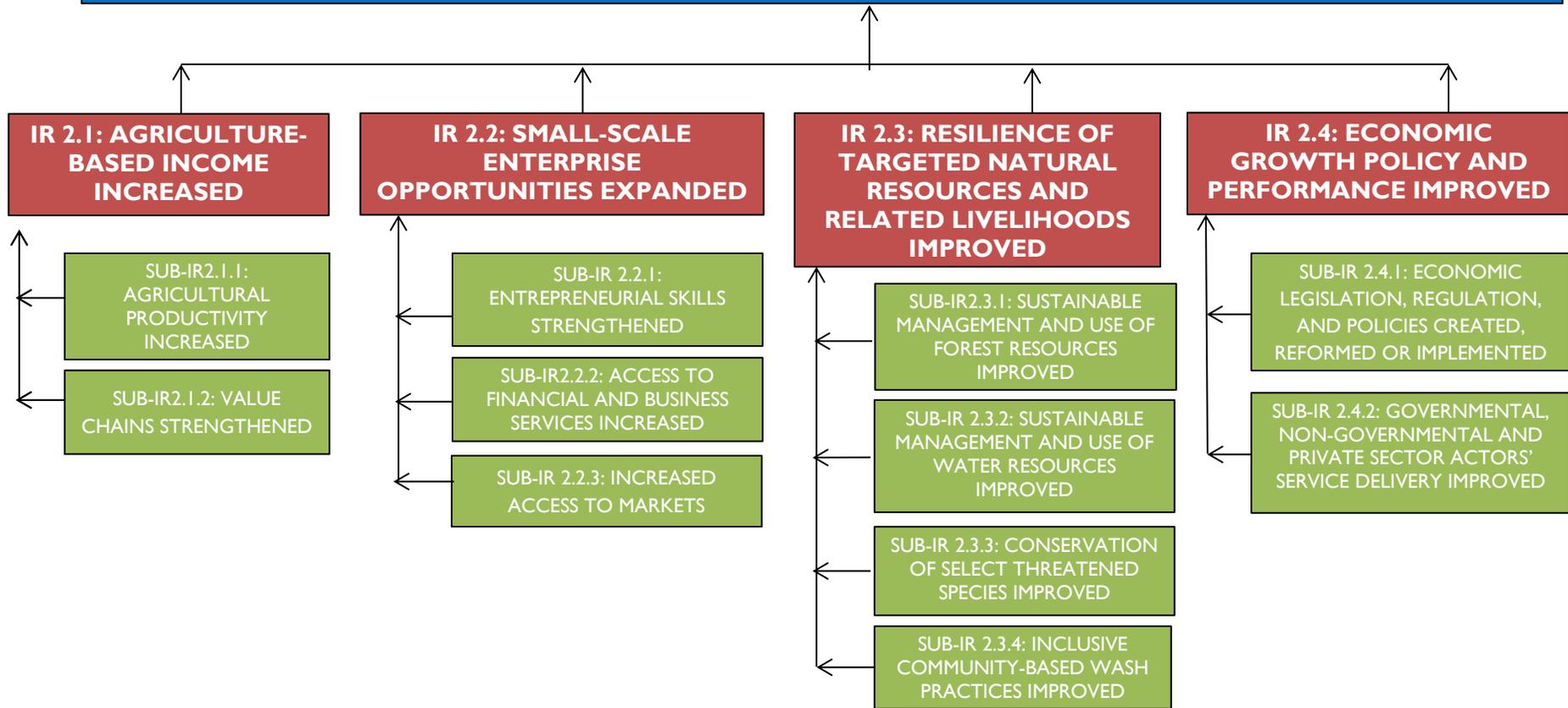
- **Sub-IR 1.4.1 – Legislation, regulation, and policies created, reformed, or implemented**
USAID will provide technical assistance to decision makers to update legislation and policy for broader inclusion, responsive governance, and sector growth. Where appropriate legal and regulatory frameworks exist, USAID will raise awareness, and advance implementation through training, capacity building, and harmonizing efforts across Development Objectives. If the necessary legislation and policy does not exist, USAID will work with civil society, government and the private sector to address public policy issues.
- **Sub-IR 1.4.2 – Governmental, non-governmental and private sector actors' service delivery improved**
USAID will seek to strengthen GON capacity to improve service delivery by: 1) providing systems and operational training to working-level staff who are less likely to be transferred; 2) focusing on building systems that will remain rather than on people who will not; 3) building on existing systems and best practices (such as the information management systems within the Ministries of Labor and Health and Population); and 4) encouraging performance-based incentives and less frequent transfers for those at the top. Where the GON is not the primary service provider, USAID will engage in similar efforts with the private sector or civil society while also ensuring access to services among the most vulnerable populations. USAID will particularly seek to create processes and skills to improve service delivery for women and marginalized groups. Examples may include continued training for health workers, local Women Development Officers, judges, and (through Department of Justice) law enforcement to sensitively and appropriately handle gender-based violence cases.

D. Illustrative Sub-IR Indicators

- Number of policy reforms/laws/regulations/administrative procedures drafted and presented for public/stakeholder consultation to enhance sector governance and/or facilitate private sector participation and competitive markets as a result of USG assistance (4.4.1-33)
- Number of USG-assisted organizations and/or service delivery systems strengthened who serve vulnerable populations (3.3.2-15)
- Satisfaction with USG-supported public services received (disaggregated key demographics: gender, caste, ethnicity extreme poor, etc.)

DO 2: INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH TO REDUCE EXTREME POVERTY

Development Hypothesis: If competitiveness of agriculture and enterprise is increased through increased productivity, financial and market access, sound natural resource management, and improved policy and performance, then inclusive and sustainable economic growth will be achieved.



KEY CROSS-CUTTING ISSUES: REDUCING EXTREME POVERTY; GENDER EQUALITY AND SOCIAL INCLUSION; YOUTH; RESILIENCE; SCIENCE, TECHNOLOGY, INNOVATION, AND PARTNERSHIP (STIP)

CRITICAL ASSUMPTIONS

- ❖ GON remains committed to improved, accountable, and inclusive governance.
- ❖ Nepal's economy continues to grow or sees only modestly slowed growth, particularly in agriculture.

II. DEVELOPMENT OBJECTIVE 2: INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH TO REDUCE EXTREME POVERTY

A. Context and Rationale

With average annual GDP growth rate of 4 percent, Nepal experienced the lowest economic growth in the region from 2001-2012. During the same period, per capita incomes rose by an average of only 2.5 percent per year. Currently, 25 percent of the population lives below the international poverty line of US \$1.25 per day.³⁸ To increase growth rates and income, accelerate poverty reduction efforts, and set the country on a path toward sustainable, inclusive, employment-focused economic growth, Nepal must improve the management of its natural and human resource base. USAID/Nepal's Feed the Future and Global Climate Change programs are designed to do just this by addressing key barriers to inclusive economic growth. Analysis that informed these strategies highlighted that ***to achieve inclusive and sustainable economic growth, Nepal needs increased agriculture-based incomes, expanded small-scale enterprise opportunities, a liberal trade and investment climate, and a protected natural resource base—all supported by a strong policy and enabling environment.***

For Nepal's economy, the real challenge will be to "graduate" to a higher growth trajectory by removing key bottlenecks to public and private investment. In the medium term, Nepal's ability to spur significant growth and reduce poverty will depend on: 1) enhancing private sector engagement by removing existing policy and regulatory bottlenecks to investment; 2) improving public financial management, thereby accelerating GDP growth; 3) investing in new and better infrastructure; 4) promoting *inclusive* economic growth; and 5) improving performance in agricultural and other productive sectors. USAID has an opportunity to directly support the first, second, fourth, and fifth, and to leverage donor relationships and interagency influence and resources (including those of the MCC) to address the third.

The results under this DO are mutually reinforcing. For example, because environmental resources are a common good, a certain level of economic stability is needed for a community to work together to manage those resources effectively. Also, successful businesses can provide private sector incentives to enhance agricultural production and marketing and create sustainable individual and community engagement in natural resource management. The extent to which there will be sustained and broad-based economic prosperity in Nepal is closely tied to the effective management and conservation of natural resources in the country.

Success and sustainability in DO 2 will be enhanced by the governance improvements under DO 1. The recent draft MCC Constraints Analysis highlighted political instability, inconsistent policies, and inefficient implementation of existing policies as major constraints to economic growth. By building the capacity of agriculture- and natural resource-focused local government institutions, USAID can deepen its efforts to promote inclusive and sustainable economic growth to reduce extreme poverty.

Under DO 2, USAID will focus on sectors of the economy for which it has a comparative advantage, in which investments have been shown to most effectively reduce poverty, and from which the majority of Nepalis (particularly women and marginalized groups) earn a living. USAID focus sectors in this area include agriculture (under the FtF Presidential Initiative and complemented by a Food for Peace program) and natural resources (under the GCC Presidential Initiative).

³⁸ Source: World Bank, World Development Indicators, <http://data.worldbank.org/country/nepal>

It is important to note that other donors, notably the Asian Development Bank and the World Bank, are investing hundreds of millions of dollars annually to strengthen other sectors of Nepal’s economy—such as infrastructure and energy—that have the potential to spur growth. The MCC is also considering investment in these sectors. USAID, together with the Department of State, will continue to support policy reform and dialogue that encourages economic growth writ large, but it will focus its efforts on the agriculture and natural resources sectors.

B. Agriculture-based Incomes

Agriculture contributes 37 percent of Nepal’s GDP and provides employment to 75 percent of the population, with contributions of 55 percent on average to household income. The GON’s new Agricultural Development Strategy demonstrates how the agriculture sector is a priority for achieving national development goals of increasing food and nutrition security and reducing poverty.

Commercialized small-scale agriculture, such as high-value vegetable production, has demonstrated the potential for increasing rural incomes. Strengthened linkages along key agricultural value chains – including high value vegetables, rice, maize and pulses – will enhance access to inputs and markets, leading to increases in private sector investment and competitiveness. An improved business enabling environment for agriculture is essential for sustaining increases in private sector investment that will increase availability of and access to key agricultural inputs. Increased private sector investment at all points along targeted agricultural value chains will lead to sustained increases in agriculture-based incomes that will contribute to inclusive and sustainable economic growth and poverty reduction. Through increased household incomes and an overlaying of USAID’s nutrition interventions described in DO 3, such as nutrition education and behavior change messaging, improvements will be made in the nutritional status of women and children.

C. Enterprise Development

A more competitive and inclusive economy requires new entrants along key value chains. Investments in strengthening agricultural value chains have created and will continue to create opportunities for small-scale enterprise development focused on input and service delivery, transportation, wholesaling, marketing, and trading. Economic growth can be achieved when more jobs are created through agricultural and other productive value chains, when people have increased and improved skills, when better technologies are readily available for production and service businesses, and when farmers practice sustainable natural resource management.

D. Natural Resources

The adverse effects of global climate change put Nepal’s valuable natural resources and the poor communities that depend on them at high risk. Glacial retreat will impact river flows needed for the operation of planned hydroelectric infrastructure. Forests provide timber, medicinal plants, fodder, wood fuel, and other products that form the backbone of Nepal’s largely rural economy, in addition to being home to a significant portion of the country’s biological diversity and a number of endangered species (tigers, rhinos, red pandas, etc.). Key species, such as tigers and rhinos, face increasing pressures. Another critical natural resource, water, links health, agriculture, biodiversity, forests, livelihoods and climate resilience. Climate change can be thought of as a risk multiplier that will put greater pressure on biodiversity conservation, land use planning, forest health and quality, water resources, and increase associated disasters such as fires, droughts, and floods. The nature and beauty of Nepal are important to conserve because of the environmental services they provide as well as the tourism that they attract; tourism contributes about 9 percent to GDP.

E. Development Hypothesis and Evidence

When economic opportunities expand through an improved business enabling environment and access to inputs, including natural resources, Nepal will achieve more inclusive and sustainable economic growth. The IRs are necessary conditions for the achievement of the DO of inclusive and sustainable economic growth, as outlined in the recommendations of the *USAID/Nepal Inclusive Economic Growth Assessment, Feed the Future Nepal Strategy, USAID/Nepal's Ensuring Food and Nutritional Security Report* and are critical to achieving the CDCS goal.

F. Expected Results for DO 2

Over the life of the CDCS, USAID will contribute to the following results:

- Reduce the prevalence of extreme poverty (\$1.25/day) in FtF zone of influence from 32.5 percent to 22.5 percent
- 800,000 hectares in areas of biological significance and/or natural resources showing improved biophysical conditions as a result of USG assistance
- Reduce diarrheal disease in selected districts by 30 percent

G. Illustrative Indicators for DO 2

- Per capita income (as proxied by expenditures) of USG targeted beneficiaries (disaggregated by sex and caste/ethnicity)
- Decrease in household hunger scale disaggregated by gendered household types in FTF zone of influence
- Change in percentage of women achieving empowerment under the Women's Empowerment in Agriculture Index, disaggregated by caste/ethnicity
- Number of hectares in areas of biological significance and/or natural resources showing improved biophysical conditions as a result of USG assistance
- Percent of children under age five who had diarrhea in the prior two weeks, disaggregated by sex and caste/ethnicity
- Number of stakeholders with increased capacity to adapt to the impacts of climate change, disaggregated by sex and caste/ethnicity

H. Gender Equality and Social Inclusion in DO 2

Numerous gender and social inclusion disparities and issues exist in Nepal's economy, particularly in the agriculture sector. An estimated 75 percent of Nepali women (higher in the Mid-Western and Far-Western regions) work in agriculture, compared with just 35 percent of men (and compared with 52 percent of men in 2006).³⁹ These statistics reflect the significant demographic shift taking place as more men, particularly those from rural areas, migrate for work. Women farmers suffer a disadvantage in terms of access to land, technology, seeds, irrigation and credit, which results in lower productivity and prices. Reflecting their lack of capital, women are typically more involved in producing subsistence crops and raising small livestock, while men more often raise large animals and produce cash crops.

Women and ethnically or economically marginalized groups such as Dalits and Janajatis are among the most reliant on vulnerable ecosystems. Most of their livelihoods depend on agriculture and non-timber forest products. Yet although Nepal's community forestry program is widely considered a successful example of decentralized common pool resources simultaneously meeting local forest product needs and enhancing biodiversity conservation, many studies have reported that CFUGs exclude women,

³⁹ See 2011 DHS.

marginalized groups, and the poor from gaining access to and control over forestry resources and benefit sharing. Women and marginalized groups have also been excluded from much of Nepal’s Reducing Emissions from Deforestation and Forest Degradation *plus* Conservation (REDD+) strategy development. A 2012 assessment found “evidence of the explicit exclusion of women from the policy development process at both national and local levels.”⁴⁰ Out of Nepal’s 75 districts, only 14 have women CFUG chairpersons. Despite these findings, some CFUGs have increased women and marginalized groups’ social capital and use their revenues to construct houses and provide scholarships and health care for the poor. And in 2012, the Federation of Community Forestry Users Nepal (FECOFUN) elected its first female chairperson, who expressed her desire to use community forestry as a tool “to eradicate poverty and uplift . . . marginalized communities.”⁴¹

To address the gaps and inequalities between men and women and different castes and ethnic groups who rely on Nepal’s biodiversity, forests, water, and soil resources, USAID will build the capacity of women and marginalized groups to improve agricultural productivity, access markets, play leadership roles in community groups such as CFUGs, and benefit equitably from natural resource benefit-sharing schemes—resulting in increased incomes and reduced poverty. In its climate change adaptation work, USAID will seek to ensure that adaptive measures promoted are based on the differential impact being felt or expected by women and marginalized groups, recognizing that such impact varies based on geography, type of livelihood, poverty level, and access to resources (such as land, agricultural inputs, capital, and credit).

I. Intermediate Results for DO 2

The Mission will achieve the following intermediate results in order to realize higher development objective of inclusive and sustainable economic growth:

- IR 2.1 – Agriculture-Based Income Increased
- IR 2.2 – Small-Scale Enterprise Opportunities Expanded
- IR 2.3 – Resilience of Targeted Natural Resources and Related Livelihoods Improved
- IR 2.4 – Economic Growth Policy and Performance Improved

IR 2.1: AGRICULTURE-BASED INCOME INCREASED

A. Context

Small-scale farmers in Nepal are constrained by low and declining investment in agricultural research and extension, poor access to quality inputs and services, and limited basic infrastructure. These have inhibited productivity and led to significant post-harvest losses. Recent declines in agricultural production have depressed rural economies and increased widespread hunger and urban migration. Evidence suggests that two out of three Nepalis suffer from food insecurity each year. Due to extremely low levels of income and agricultural production, the poorest households must allocate almost three-quarters of their income to food. Nepali farmers also suffer from a lack of access to markets where they can sell their products at optimal prices. In some cases, access is physically limited by poor roads and infrastructure; in others, the opportunity cost of traveling to markets is prohibitively high; and in still others, poor market information and weak commercial relationships with buyers inhibit market access.

⁴⁰ Upreti, Hima, Dibya Gurung, Szandra Szomor, Rama Ale Magar, Geeta Bohara, and Rupa KC. “An Assessment of Gender and Women’s Exclusion in REDD+ in Nepal.” Kathmandu: WOCAN (2012): 2.

⁴¹ “FECOFUN Elects: The Forest Lady.” *Spotlight News Magazine*, Dec. 28, 2012. Available at: <http://www.spotlightnepal.com/News/Article/news-nepal-army-community-forest-the-forest-lady>. Accessed 4/7/2013.

Insufficient post-harvest storage facilities and market access lead many farmers to sell their crops early at low prices or prevent them from getting their products to market at all.

Despite these difficulties, there are many opportunities to substantially improve Nepal’s food security. Ecologically, Nepal has the potential to be a food surplus country. The flat plains of the Terai region hold the greatest potential for small-scale commercial agriculture, especially increased agricultural production of rice and pulses, which are an essential part of the Nepali diet. Agricultural value chain strengthening projects that include scaling up technologies, policy reform, infrastructure development, and coordination with social protection programs can create graduation pathways out of poverty. By developing agribusiness along key agricultural value chains through direct engagement with farmer organizations and private sector firms, USAID will scale up interventions for more sustainable market-transformative activities that can facilitate investment.

B. Illustrative Indicators for IR 2.1

- Daily per capita expenditures (as a proxy for income) disaggregated by gendered household type of USG targeted beneficiaries⁴²
- Number of jobs attributed to USG assistance, disaggregated by sex and caste/ethnic group

C. Proposed Sub-IRs

- **Sub-IR 2.1 .1 – Agricultural productivity increased**

USAID will work with both public and private extension agents as well as other change agents to provide training and technical assistance to increase farmers’ knowledge and access to affordable quality inputs. This approach will promote sustainable agriculture practices that result in higher crop yields. USAID will also improve farmers’ access to credit and financial services.

- **Sub-IR 2.1.2 – Value chains strengthened**

By focusing on the subsectors of high-value vegetables and lentils—both of which have been shown to have high production values and income-generating potential for smallholder Nepali farmers—USAID will integrate women, youth, and marginalized groups in employment-generating activities. A central part of USAID’s value chain strategy is to help farmers attain better prices by aggregating, packaging, and getting their produce to market; and by linking smallholders to the private sector.

D. Illustrative Sub-IR Indicators

- Farmers’ gross margins per unit of land
- Post-harvest losses as a percentage of overall harvest for selected commodities
- Change in yield for FtF value chain crops

IR 2.2: SMALL-SCALE ENTERPRISE OPPORTUNITIES EXPANDED

A. Context

A more competitive and inclusive economy requires new entrants along key value chains. Nepal’s business environment remains mostly unfree and ranks low.⁴³ The most costly and problematic areas in

⁴² Target to be determined once baseline data is analyzed.

the Doing Business survey are: starting a business, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. Accelerated economic growth can be achieved when more jobs are created through agricultural and other productive value chains, when people have increased and improved skills, when better technologies are readily available for production and service businesses, and when farmers practice sustainable natural resource management.

Enterprise development improves employment opportunities that enable households to eat food of a greater quantity, quality, and variety; purchase livestock and other productive assets; lower seasonal migration; increase savings and loan repayments; and enroll their children in school. Successful small and medium enterprises drive the growth of agricultural value chains and create natural resource-based income. USAID/Nepal's recently ended Education for Income Generation project (2008-2012) demonstrated the importance of delivering demand-driven training designed to improve literacy, numeracy, nutrition, civics, and entrepreneurial and life skills. The financial system, despite its diversity and number of institutions, has major problems in policy, capacity, and reach, especially to the hill and mountain areas. Only 10 percent of the population in rural areas has access to financial services. Increased access to commercial markets is essential for increasing the competitiveness of key value chains.

B. Illustrative IR Indicators

- Number of medium, small, and micro-enterprises established and/or expanded as a result of USG assistance, disaggregated by business owner's sex and caste/ethnicity
- Number of enterprises (for profit), producer organizations, trade and business associations receiving USG assistance
- Number of jobs attributed to USG assistance, disaggregated by sex and caste/ethnicity

C. Proposed Sub-IRs

- **Sub-IR 2.2.1 – Entrepreneurial/business skills strengthened**
To strengthen entrepreneurial skills, the Mission will provide direct technical assistance, training and technology to specific businesses. USAID will focus on identifying potential opportunities in niche markets, working with existing businesses to create more value added.
- **Sub-IR 2.2.2 – Access to financial and business services increased**
USAID will invest in the development and scaling of new and innovative financial products such as crop and livestock insurance, access to financial services such as savings, loans, micro-insurance, and other products.
- **Sub-IR 2.2.3 – Increased access to markets**
USAID will invest in small-scale community infrastructure (such as grading and storage facilities, trader warehouses, and collection centers near farmers' homes) and train processors to increase product availability, safety, and quality. The Mission will strengthen producer groups, local procurement centers, and other aggregators. Such producer groups and associations will also improve farmers' access to information on market prices, relationships with new buyers,

⁴³ The World Bank's Doing Business Report 2014, Nepal ranks 105 (of 189 countries). In the Index of Economic Freedom, Nepal ranks 141 (of 177 countries), <http://www.doingbusiness.org/data/exploreeconomies/nepal> and <http://www.heritage.org/index/ranking>. In South Asia, Nepal ranks behind Sri Lanka (85) and Maldives (95) and ahead of the rest of the region including Bangladesh (130) and India (134).

and ability to sell in higher-value markets. The Mission will further seek to build domestic, regional, and international private sector alliances.

D. Illustrative Sub-IR Indicators

- Number of microenterprises supported by USG enterprise assistance, disaggregated by the owner's sex and caste/ethnicity
- Value of agricultural and rural loans
- Change in the volume of agricultural produce sold through market collection centers

IR 2.3: RESILIENCE OF TARGETED NATURAL RESOURCES AND RELATED LIVELIHOODS IMPROVED

A. Context

In addition to climate change risk, Nepal struggles with unproductive and unsustainable use of natural resources, particularly forest resources. It is estimated that a full quarter of Nepal's forest area is poorly utilized and heavily degraded, resulting in decreased biodiversity; declining sources of livelihoods for rural people; soil erosion; water scarcity; and increased vulnerability to natural and man-made disasters such as floods and landslides. Lack of basin-wide management plans results in overexploitation and conflicting uses of water resources. Poor resource use is driven by various disincentives to protect resources as well as individuals' and communities' inability to adequately manage those resources. While Nepal has seen great successes in protecting key species such as tigers and rhinos in the last few years, the worldwide increase in poaching and the trade in endangered species continue to concern conservationists.

Over the past three decades, Nepal has made great advances in improving natural resource management in the forest sector, protecting endangered species, and slowing rampant deforestation. Major drivers of deforestation as well as general natural resource degradation include: poorly planned infrastructure development (roads, dams, and transmission lines), over-exploitation of forest products, forest fires, and invasive species. Poor resource use is driven by various disincentives to protect resources as well as individual and community inability to adequately manage those resources.

Under a widely praised model of community-driven environmental management, more than 1.7 million hectares of Nepal's forests are managed by more than 18,000 Community Forest User Groups (CFUGs). More than 1.65 million households (40 percent of the national population) belong to CFUGs. CFUGs obtain funds from sale of forest products (including fodder, timber, firewood, and herbs) and receive government and donor grants. Although Nepal is in some ways considered a global model for community management of forest resources, citizens' inability to access and benefit from natural resources other than forests has been a powerful disincentive directly linked to poor resource management outcomes in the country.

Linked to forest health and biodiversity are the supply and quality of Nepal's freshwater resources. Nepal is often lauded as the second most "water rich" country in the world (after Brazil), yet this belies the fragile nature of its water systems. Poor management of the riverine forests and riverbanks, as well as unregulated riverbed mining, have led to increasing levels of sedimentation, blocking dams and in some cases displacing entire rivers. Exacerbating this is municipal and rural pollution of waterways. Endemic and rare species make up the incredible biodiversity of Nepal's rivers, but they are poorly studied and understood, and are likely to be under enormous threat due to the previously mentioned challenges. Climate change is rapidly affecting the hydrological systems in Nepal—causing longer dry

seasons, changing the pattern of the monsoon, melting glaciers which normally provide dry-season water, reducing recharge of underground aquifers, and bringing disasters like floods and droughts.

Proper water management—to improve access, quality and safe use—is essential for creating a healthy population. Access to water is both critical to Nepal’s development and a fundamental human right. In addition, access to safe water, sanitation and hygiene are fundamental GON development priorities. Still, the 2011 DHS showed that 11 percent of the population does not have access to improved drinking water sources, and although much contamination of drinking water occurs between the source and the point of use, only 18 percent of the population treats their water with an effective method to improve microbiological quality. The quality of water is very closely linked to the health of the watershed and natural systems.

Resource degradation can only be reversed by addressing its root causes. The threat of climate change also increases the uncertainty of communities’ abilities to manage stresses on natural resources. Nepal needs to develop strategies that empower communities and farmers to cope with and address this variability, as previously applied techniques may not be appropriate, sufficient, or flexible enough to continue to reverse resource degradation in light of climate change.

B. Illustrative Indicators for IR 2.3

- Number of hectares of biological significance and/or natural resources showing improved biophysical conditions as a result of USG assistance
- Number of people with increased economic benefits derived from sustainable natural resource management and conservation, disaggregated by sex and caste/ethnicity
- Quantity of greenhouse gas emissions, measured in metric tons of CO₂, reduced or sequestered as a result of USG assistance
- Number of people with improved access to sanitation services, disaggregated by sex and caste/ethnicity

C. Proposed Sub-IRs

- **Sub-IR 2.3.1 – Sustainable management and use of forest resources improved**
USAID will continue to promote inclusive and sustainable forest-based livelihoods by working with the GON and community-based organizations such as CGUFs. USAID will work to improve the enabling environment for climate-resilient forests by supporting Nepal’s Reducing Emissions from Deforestation and Forest Degradation plus (REDD +) program.
- **Sub-IR 2.3.2 – Sustainable management and use of water resources improved**
USAID will take a leadership role among donors in addressing the growing challenges around water resources in Nepal. USAID will build GON capacity to do basin-level planning to ensure sustainability of infrastructure and development projects and protect freshwater biodiversity, and will help empower community-level water user groups to make decisions that will increase their resilience—particularly to the threat of climate change—and protect their rights. USAID will also build Nepal’s resilience to water-related hazards through early warning systems.
- **Sub-IR 2.3.3 – Conservation of select threatened species improved**
USAID will continue to work to preserve key endangered species, such as the Indian one-horned rhinoceros, Bengal tiger, freshwater dolphin, and snow leopard. USAID will build GON capacity

to manage and protect biodiversity, and with regional capacity to stem the tide of the illegal trade in wildlife.

- **Sub-IR 2.3.4 – Inclusive community-based water, sanitation, and hygiene (WASH) practices improved**

USAID will continue to promote sustainable WASH practices among communities in Nepal, building on the successes in hygiene, and transition to water provision, protection, and management.

D. Illustrative Sub-IR Indicators

- Number of hectares in areas of biological significance under improved management as a result of USG assistance
- Number of individuals adopting new technologies or improved farming practices related to climate change and disaster risk reduction, disaggregated by sex and caste/ethnic group
- Healthy, stable populations of select species (measurements for each species may vary, baseline and goal to be determined individually, comparison to be made qualitatively)
- Number of people gaining access to an improved sanitation facility in USG-assisted programs, disaggregated by sex and caste/ethnicity
- Number of stakeholders with increased capacity to adapt to the impacts of climate change, disaggregated by sex and caste/ethnicity

IR 2.4: ECONOMIC GROWTH POLICY AND PERFORMANCE IMPROVED

A. Context

As mentioned under DO 1, low institutional capacity has been identified as a major barrier to effective governance and service provision. Not only does inability of service providers to meet demands threaten the stability of Nepal’s young democracy, it also destabilizes the mechanisms necessary for positive, sustainable economic growth. As in other sectors, economic growth-related public services in Nepal are provided by a range of government and non-governmental organizations.

A reformed legal, regulatory and policy framework creates the foundation for an inclusive and competitive business enabling environment. Reforms to and improved implementation of key agriculture and natural resource policies and regulations will enable increased agriculture investment, production and marketing, and enhanced natural resource management. Agricultural policy changes will focus on seed and fertilizer regulations, food safety legislation, and contract farming. In the natural resources sector, policy reforms will help Nepal meet its international agreements (such as those to the United Nations Framework Convention on Climate Change and the Convention for Biological Diversity), as well as provide the groundwork for better managing natural resources into the future.

B. Illustrative Indicators for IR 2.4

- Percent of Mission funds obligated through GON systems
- Number of economic, agricultural, and environment policies reformed with USG assistance

C. Proposed Sub-IRs

- **Sub-IR 2.4.1 – Economic legislation, regulation, and policies created, reformed or implemented**

USAID will technically assist decision makers to update legislation and policy for broader inclusion, responsive governance, and sector growth. Where good legal and regulatory frameworks exist, USAID will help advance their implementation through awareness raising, training, and capacity building, harmonizing efforts across Development Objectives for competent, unbiased implementation that responds to public demand.

- **Sub-IR 2.4.2 – Governmental, non-governmental and private sector actors’ service delivery improved**

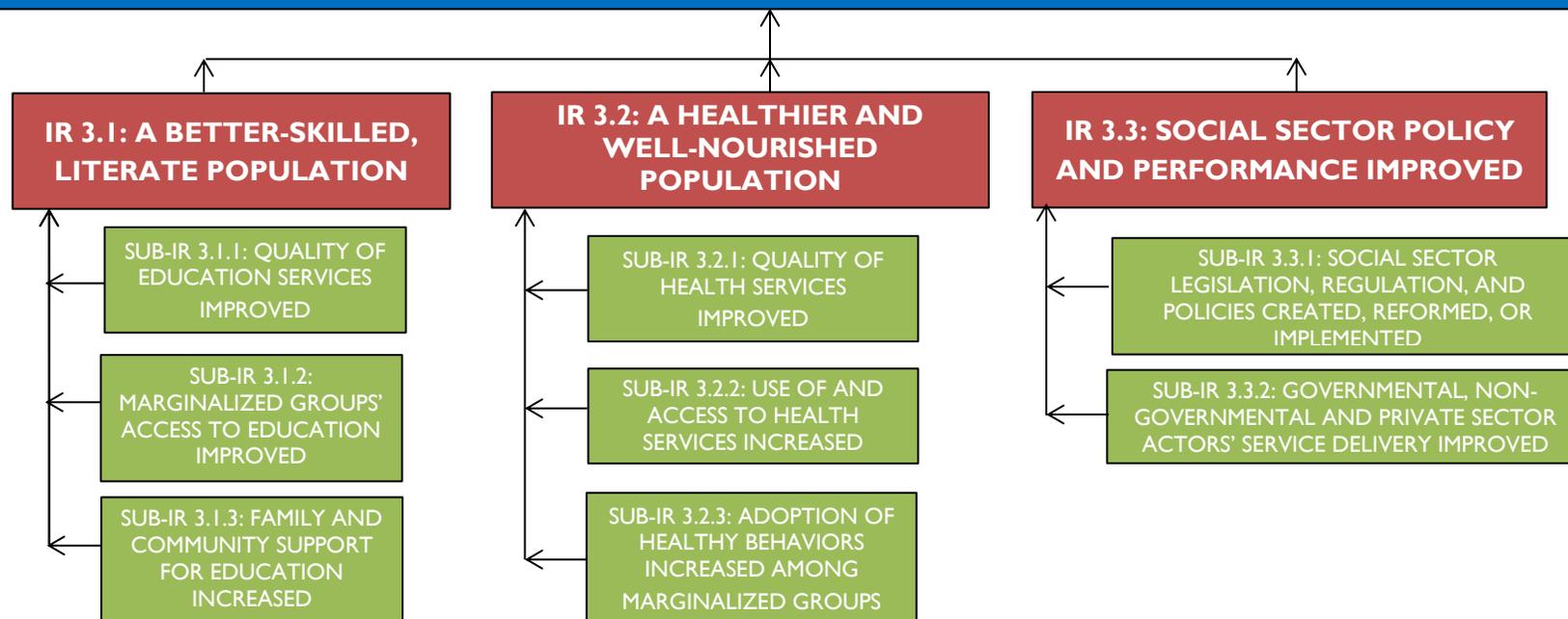
USAID will seek to strengthen GON and private sector capacity to improve service delivery by: 1) providing systems and operational training to working-level staff who are less likely to be transferred; 2) focusing on building systems that will remain rather than on people who will not; 3) building on existing systems and best practices; and 4) encouraging performance-based incentives and less frequent transfers for those at the top.

D. Illustrative Sub-IR Indicators

- Number of laws, policies, strategies, plans or regulations addressing climate change and/or biodiversity conservation officially proposed, or adopted as a result of USG assistance
- Number of policy reforms/laws/regulations/administrative procedures drafted and presented for public/stakeholder consultation to enhance sector governance and/or facilitate private sector participation and competitive markets as a result of USG assistance
- Number of USG-assisted organizations and/or service delivery systems strengthened who serve vulnerable populations
- Satisfaction with USG-supported public services received (disaggregated key demographics: sex, caste, ethnicity, extreme poor, etc.)

DO 3: INCREASED HUMAN CAPITAL

Development Hypothesis: Improving the health, skills and literacy of Nepalese will strengthen the human capital necessary to fully participate in a more democratic and prosperous Nepal.



KEY CROSS-CUTTING ISSUES: REDUCING EXTREME POVERTY; GENDER EQUALITY AND SOCIAL INCLUSION; YOUTH; RESILIENCE; SCIENCE, TECHNOLOGY, INNOVATION, AND PARTNERSHIP (STIP)

CRITICAL ASSUMPTIONS

- ❖ USAID/Nepal's funding for GHI, FtF, GCC, and education remain stable or decrease modestly.
- ❖ Other donors maintain commitment in key sectors at or near current levels.

III. DEVELOPMENT OBJECTIVE 3: INCREASED HUMAN CAPITAL

A. Context and Rationale

Increased human capital is both a condition and consequence of economic growth. Education and health are the most important investments in developing human capital. Evidence shows that people with more education earn above average wages, with larger gains in less-developed countries. Education and training increases have accompanied major advances in technological knowledge in all countries that have achieved significant economic growth. Gender equality also plays an important role in advancing human capital across both the education and health sectors. Multiple studies have shown that women are left out of decisions that affect their own health and that of their children and that, once educated, women advocate for and receive better health care and have better health outcomes. Furthermore, under-nutrition reduces a nation's economic advancement by at least 8 percent because of direct losses due to poorer cognition and schooling.⁴⁴ The quality of human capital and the quality of services offered in a country are directly linked.

B. Education

USAID and other development partners support the GON's education reform program through the School Sector Reform Program (SSRP), a five-year education sector development plan. The Ministry of Education manages donor engagement in the education sector through the SSRP, which utilizes a sector-wide approach program (SWAP) for planning, managing, financing, implementing, and evaluating basic education reform programs. The SSRP receives support from nine pooling partners and four non-pooling partners. Most of the SSRP funds are programmed on-budget, through GON financial systems, commonly referred to as the Red Book.

In addition to USAID, the principal funding partners for education are World Bank, DfID/EU, AusAid, UNICEF. Education sector planning, coordination and collaboration are widely viewed as effective. Regular SSRP reviews are jointly held by the MoE and DPs twice a year. The SSRP supports several technical groups to address substantive education issues such as quality and teacher management, equity and access, monitoring and evaluation, public finance management, school safety and technical education and vocational training. In addition to SSRP joint reviews and technical working groups, the education development partners have a collegial and collaborative sector working group which meets on a monthly basis. Apart from the SSRP thematic groups, the MoE has formed core team and technical working group for the National Early Grade Reading Program. USAID is a member of SSRP quality and teacher management thematic group, core team and technical working group of the National Early Grade Reading Program.

C. Health

The USG and other donors support the GON's implementation of the NHSP II under a Joint Financing Arrangement, with the Australian Agency for International Development (AusAID), Global Alliance for Vaccines and Immunizations (GAVI), KfW (German Development Bank), U.K. Department for International Development (DFID), and World Bank pooling and channeling their funds directly to the GON. Other donors in the health sector include Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ, German Agency for International Cooperation), UNAIDS, UNICEF, UNFPA, and the WHO. All stakeholders plan and implement a single national five-year health strategy resulting in a single national annual work plan and budget, and a single results-based management plan with data collected from the GON's health management information system and national population surveys. Ongoing coordination takes place among donors in biweekly meetings, and with the MOHP

⁴⁴ Executive Summary of The Lancet Maternal and Child Nutrition Series, June 2013.

during Joint Consultative Meetings, and annual Joint Appraisal Reviews. Additionally, multiple technical working groups led by the MOHP meet regularly.

D. Development Hypothesis and Evidence

Improving the health, skills, and literacy of Nepalis will increase the human capital base necessary for full participation in a more prosperous and democratic Nepal. The IRs are necessary conditions for the achievement of the DO of increased human capital.

E. Expected Results for DO 3

Over the life of the CDCS, USAID will contribute to the following results under this DO:

- Decrease in neonatal mortality rate in targeted districts, from 33/1,000 to 16/1,000
- Increase in Skilled Birth Attendance from 36 percent to 64 percent
- Increase Contraceptive Prevalence Rate from 43.2 percent to 60 percent by 2018
- Reduce the national stunting prevalence rate to 27 percent from the existing 41 percent
- Increased literacy for 48,000 adults (particularly women and marginalized groups) within the FtF zone of influence
- Improvement in reading skills of children in grades 1-3⁴⁵

F. Illustrative Indicators for DO 3

- Nepal's progress towards achieving post MDG targets for reducing child mortality
- Nepal's progress towards achieving post MDG targets to improve maternal health
- Change in prevalence of exclusive breast feeding of children under six months of age to 80 percent from 46 percent, disaggregated by caste/ethnicity
- Change in literacy rate of target population in FtF zone of influence as a result of USG assistance (disaggregated by sex, caste/ethnicity)
- Change in reading skills of children in grades 1-3 in the 20 USAID/Nepal districts, disaggregated by sex and caste/ethnicity

G. Gender Equality and Social Inclusion in DO 3

Education

Nepal currently has near parity for girls' and boys' primary school enrollment, but some studies suggest lower school attendance for girls. Nepal also has high child labor rates (42 percent overall and 21 percent of 5-9-year olds), which are higher for girls than for boys.⁴⁶ Child labor is likely higher among marginalized groups, and it may prevent children from attending school or performing well academically. Unfamiliarity with Nepali language represents a significant educational barrier for most Janajati children and for many in the Terai. Recent small NGO studies found that more than half of speakers of languages other than Nepali could not read a single word by grade three.

Incentives such as scholarships for girls and Dalit students exist in Nepal but are often not accessed. USAID will encourage parents to take advantage of these incentives and will promote parental and community support for girls' education. USAID will also explore opportunities to integrate support for girls' education—particularly early grade reading—into behavior change communication materials being used in health and nutrition and into USAID-supported media and social awareness activities. The Mission will also work with its education sector partners to promote greater gender parity among teachers. Although Nepal currently does not have a reliable, nationwide tool for measuring reading skills, the Early Grade Reading Assessment (EGRA) that USAID will support under this IR should allow for greater understanding of reading skill gaps between boys, girls, Janajatis,

⁴⁵ Target for readings skills improvement to be set upon analysis of baseline reading levels.

⁴⁶ Nepal Living Standards Report 2010/2011, Vol. 2, 51-57.

Dalits, and non-native Nepali speakers. The Mission will use these findings to target and refine its approach to support a narrowing of such gaps.

Health

In Nepal, one's gender, caste, and/or ethnic group play an important role in access to health services, adoption of healthy behaviors, and ultimately, health outcomes. A number of culturally influenced norms in Nepal affect the health behaviors of men and women. For example, early marriage can result in higher fertility and a greater likelihood of childbirth complications.⁴⁷ An adolescent wife and mother who has not completed secondary education is less likely to be knowledgeable about family planning and maternal and child health and nutrition, and less likely to be in a strong position to advocate on these issues with her husband and in-laws. Indeed, neonatal and under-five mortality are significantly higher among children of young mothers.⁴⁸ Gender norms and caste/ethnic disparities also play a role in contraceptive use and family planning decisions. Marginalized groups in Nepal tend to marry and give birth earlier and have a higher unmet need for family planning.

USAID's strategies to address gender equality and social inclusion under DO 3 include:

- Promote and track equitable access to essential health services at facility and community levels.
- Provide support services to victims of trafficking.
- Increase the meaningful participation of women and girls in the planning, design, implementation, monitoring and evaluation of health programs.
- Reach adolescent and pre-adolescent girls with health services and health education.
- Engage men and boys as clients, supportive partners, and role models for gender equality.
- Utilize multiple community-based programmatic approaches, such as behavior change communication, community mobilization, advocacy and engagement to improve health for women, girls and marginalized populations.
- Build the capacity of individuals, with a deliberate emphasis on women and marginalized groups, as health care providers, caregivers, and decision-makers throughout the health systems, from the community to national level.
- Strengthen the capacity of institutions—which set policies, guidelines, norms and standards that impact access to, and quality of, health-related outreach and services—to improve health outcomes for women, girls and disadvantaged groups and promote gender equality.
- Solidify links between health care providers and other ministries to bolster the prevention of and treatment for survivors of gender-based violence.
- Engage grandmothers, mothers-in-law, and men in child health and nutrition education and healthy behavior programs.

⁴⁷ The 2011 DHS found that nearly a third of women aged 15-19 (but only 7 percent of men in that group) and 77 percent of women (but only 45 percent of men) aged 20-24 are married. It also found that nearly 25 percent of women give birth by age 18 and nearly half by age 20.

⁴⁸ The 2011 DHS found that neonatal mortality is nearly twice as high among babies whose mothers are under 20 as among babies of mothers over 30, and that under-five mortality among children born to mothers with no education is more than double that of children whose mothers have completed at least secondary education.

H. Intermediate Results for DO 3

The Mission will achieve the following intermediate results in order to realize higher development objective of increased human capital:

- **IR 3.1 – A better-skilled, literate population**
- **IR 3.2 – A healthier and well-nourished population**
- **IR 3.3 – Social sector policy and performance improved**

IR 3.1 A BETTER-SKILLED, LITERATE POPULATION

When populations are literate and skilled, they are equipped to take advantage of economic opportunities and understand and participate in community management and governance. Nepal has made great progress in increasing school attendance for boys and girls, achieving a net enrollment rate in basic education of close to 95 percent with gender parity. The education sector in Nepal benefits from broad government and development partner collaboration around a well-defined School Sector Reform Program (SSRP). However, poorly prepared teachers, the lack of adequate and appropriate materials, and insufficient support at home prevent children from developing the reading skills in early grades that will allow them to learn throughout their academic career.

USAID/Nepal's Early Grade Reading Program (EGRP) will be implemented in 20 districts of the Mid-West and Far-West regions. The new USAID-supported EGRP will develop and test interventions to improve reading skills at national scale and will support targeted reading interventions for up to 75 percent of public primary schools in targeted districts. Through a phased approach, the EGRP will begin implementation in six of USAID/Nepal's FtF districts and, if successful, will scale up to 20 districts by the end of the CDCS period. The EGRP has the potential to directly improve reading skills for more than one million children and, if the national scale-up is successful, an additional four million children in over 6,000 schools.

Despite progress in recent years, the education level among adults in most Nepali communities—particularly among women and traditionally marginalized castes and ethnic groups—is very low.⁴⁹ Nepalis also lack marketable skills needed to access employment opportunities. Investments that increase access and quality of education and training and encourage community support for learning will result in a skilled and literate population. The lack of basic literacy, numeracy, entrepreneurship, and other skills limits such groups' ability to take advantage of agricultural technologies and techniques, establish and grow businesses, access markets, and ultimately increase their incomes. It also limits their ability to support their children's educational progress. Investments in early grade reading and adult literacy can be mutually reinforcing and support economic growth in both the short and long terms.

Low national literacy rates (87 percent male and 66.7 female, with rates much lower among Dalits and other marginalized groups)⁵⁰ and a lack of numeracy, entrepreneurship, and other skills also limit the ability of many women and members of marginalized groups to realize the benefits of FtF and GCC (DO 3) and participate in government and civil society (DO 1). Under FtF, USAID will replicate successful adult literacy, numeracy, entrepreneurship, and life skills training, targeting mainly women and marginalized groups within the FtF zone of influence (DO 2).

⁴⁹ The 2011 DHS found that 41 percent of Nepali women have never been to school. Median years of schooling for women is 1, and for men, 4.

⁵⁰ Percentage distribution of men and women age 15-49 by level of literacy.

While poor quality of education represents the major barrier to improved reading skills for children, lack of access to appropriate educational services poses a greater challenge for illiterate and unskilled adults. For both groups, family and community support for education are necessary to achieve improved skills.

A. Illustrative Indicators for IR 3.1

- Percent change in EGRA scores, disaggregated by sex and caste/ethnicity
- Primary school drop-out rate, disaggregated by sex and caste/ethnicity
- Percent increase in teachers using classroom-based student reading assessments
- Change in reading scores among adults receiving USAID literacy training

B. Proposed Sub-IRs

• Sub-IR 3.1.1 – Quality of education services improved

USAID will help the MoE develop, test and institutionalize interventions to improve the delivery of education services with a particular focus on improving reading in primary schools. To accomplish this, USAID will provide technical assistance, capacity building and materials to improve the quality of reading materials, develop teacher capacities to teach reading, utilize low-cost tools to assess reading skills among teachers and students, and improve de-centralized services by the district education offices, principals, and local teacher resource centers.

• Sub-IR 3.1.2 – Marginalized groups' access to education improved

The EGRP and adult literacy program interventions will be implemented in the Terai portion of Nepal's Far-West and Mid-West development regions, which have the highest concentration of poor, marginalized and underserved Nepalis.

• Sub-IR 3.1.3 – Family and community support for education increased

The EGRP will build on successful NGO work to mobilize community support for reading. This will include advocacy campaigns, strengthening school management committees and other community-based groups to access education resources from local agencies.

C. Illustrative Sub-IR Indicators

- Percent of schools that provide at least one hour daily of focused instructional time for EGR
- Percent of teachers (by district) who received early grade reading coaching and supervisor visits from school supervisors or resource persons
- Number of individuals from underserved and/or disadvantaged groups accessing adult literacy programs, disaggregated by sex and caste/ethnicity
- Number of school management plans developed or updated to include EGR activities such as social audit for teacher attendance, distribution of textbooks, and time on task for reading

IR 3.2: HEALTHY AND WELL-NOURISHED POPULATION

A. Context

Evidence from the Nepal Demographic and Health Survey (NDHS) and substantial qualitative data collected over many years shows that poor health outcomes in Nepal, such as chronic and acute malnutrition among children, are a result of: 1) low utilization of services, 2) poor quality of services offered in facilities, and 3) low uptake of health-seeking and nutrition-related behaviors, particularly among marginalized groups. While Nepal remains on track to achieve MDGs 4 and 5, it will take more than merely tackling the remaining low-hanging fruit to ensure that Nepal bends the curve in the areas of maternal and child health as well as HIV and AIDS outcomes. Addressing systemic health sector weaknesses at the national and community levels will allow the USG and the GON to

reach the last mile and will involve both the public and the private sectors to increase use of high-quality health services and improve health knowledge, attitudes, and behaviors, giving particular attention to the complex caste and ethnic divisions that pervade Nepal.

Improving maternal and child survival, increasing the use of modern contraceptives, and reducing HIV/AIDS necessitate improving the quality of interventions focusing on the major causes of mortality. In Nepal, most mothers die due to pregnancy complications such as eclampsia (causing 21 percent of maternal deaths in 2009) and emergencies during childbirth such as postpartum hemorrhage (24 percent). A majority of newborns die because of infections (causing 39 percent of neonatal deaths in 2006) and birth asphyxia (15 percent), and the majority die within the first few days of life. Many of these deaths could be prevented with improved service quality. As is the case in many developing countries, 70 percent of Nepali children who die before reaching age five do so from preventable or treatable childhood illnesses. Access to and utilization of high quality health services, in addition to positive health-seeking behavior, will improve health outcomes in Nepal.

Undernutrition is an area that exemplifies the interrelated and culturally nuanced challenges faced by the GON and development partners in achieving better health outcomes. According to the 2011 DHS, the rate of stunting for children under five is 41 percent, wasting is 11 percent, and 29 percent are underweight. These challenges are even more acute for Nepali women (18 percent malnourished). USAID/Nepal's FtF strategy emphasizes the linkages between agriculture and nutrition in order to address the needs of vulnerable groups, such as women and youth.

The outcomes that will reduce maternal mortality include greater coverage for family planning, antenatal care, birth preparedness training, and increased delivery using a skilled birth attendant. Outcomes that will reduce child mortality include better newborn care, nutrition and sanitation, full immunization, and increasing the time between childbirth intervals with family planning, which increases child survival. For HIV, it is critical that there be sustained commitment to surveillance, prevention, care and support activities.

B. Illustrative Indicators for IR 3.2

- Change in neonatal mortality rate in targeted districts, disaggregated by sex and caste/ethnicity
- Prevalence of stunting among children under 5 in targeted districts, disaggregated by sex and caste/ethnicity
- Contraceptive prevalence rate, disaggregated by caste/ethnicity

C. Proposed Sub-IRs

• Sub-IR 3.2.1 – Quality of health services improved

Improving maternal and child survival, increasing the use of modern contraceptives, and reducing HIV and AIDS necessitates improving the quality of interventions focusing on the major causes of mortality. Quality of care activities will include: strengthening the referral system for pregnant women needing emergency obstetric care; supporting the accelerated development and application of innovative technologies, tools, and service delivery approaches; supporting the development of a comprehensive health quality improvement system at the district and national levels; and strengthening pre-service training for health workers in health facilities and birthing centers.

• Sub-IR 3.2.2 – Use of and access to health services increased

USAID will extend community-based services to those who have traditionally been excluded from health services by design or by default because of their religious, ethnic, or caste membership through targeted outreach, social marketing, and Female Community Health

Volunteers (FCHVs) who reach the household level. These efforts will link communities with government services to deliver nutrition education to pregnant women and small children such that stunting can be decreased. Goals in family planning will be achieved by expanding the method mix in remote and unreached areas with a special focus on hard to reach groups with high unmet needs. USAID will reduce stigma and increase health service use among female sex workers, men who have sex with men, transgender people, injecting drug users, trafficking victims, and persons with disabilities through training and sensitization for health workers.

- **Sub-IR 3.2.3 – Adoption of healthy behaviors increased especially among marginalized groups**
USAID activities will encourage pregnant women to seek antenatal care through health promotion activities implemented by academic and civil society partners, which will disseminate messages on birth preparedness, maternal and child nutrition and hygiene and smoking cessation. For the prevention of sexually-transmitted-HIV, USAID will promote safer sexual practices through interpersonal communication and small group activities particularly targeting vulnerable groups. Effective nutrition programs require an emphasis on improved nutrition and hygiene behaviors among pregnant women, mothers, children and families. USAID’s programs will focus on essential nutrition actions (ENA) and essential hygiene actions (EHA), particularly related to infant and young child feeding. To improve child survival and address the unmet need for family planning, USAID is prioritizing health communication campaigns and programs which are aimed at women to increase knowledge of family planning options, as well as health care-seeking and prevention behaviors to address common causes of childhood illnesses.

D. Illustrative Sub-IR Indicators

- Percent of Auxiliary Nurse Midwives who graduate with high level of proficiency in skilled birth attendance
- Number of USG-assisted service delivery points experiencing stock-outs of specific tracer drugs
- Percent of women receiving antenatal care from a trained provider, disaggregated by caste/ethnicity
- Percent of children receiving diversified foods, disaggregated by sex and caste/ethnicity
- Change in adoption of targeted healthy behaviors among marginalized groups, disaggregated by sex and caste/ethnicity

IR 3.3: SOCIAL SECTOR POLICY AND PERFORMANCE IMPROVED

A. Context

A reformed legal, regulatory, and policy framework for the education sector, and a focus on policy implementation in the health sector will enable sustained increases in Nepal’s human capital. Policies that prioritize budgets to deliver quality and universally available basic education and health services; provide appropriate incentives and rewards to teachers and health care providers; ensure accountability for results; and invest in communities will contribute to human capital increases. USAID’s work to strengthen government accountability and service delivery under DO1 will improve the legal, regulatory and policy frameworks essential for achieving health and education outcomes that are critical for inclusive and sustainable economic growth. USAID is focused on several key policy issues that aim to strengthen the overall education system while also improving key education outcomes. For example, USAID will promote the revision of the Education Act of 1971, amended in 2001, which would introduce compulsory basic education for grades 1-8.

Policies to improve education system performance will focus on integrating measurable learning outcomes, especially early grade reading, into education sector planning, policies, and implementation. The EGRP will support improved policies on instructional language; appropriate

times for reading in the school curriculum, establishment and utilization of national reading standards, performance and competency-based professional development for teachers, better utilization of learning assessment data to inform sector planning and policies, and improved delivery systems for instructional materials.

USAID health activities will focus on the improved implementation of several policies related to service delivery to improve the skills of providers and the quality of primary care services received at health facilities. They will also support the Ministry of Health to adopt policies that tailor service delivery to the geographical barriers, health data and health seeking behaviors within each district, moving away from blanket approaches for the entire country. Nepal also has strong policies and guidelines in place for the promotion of GESI in the health sector, but implementation is often weak. USAID will focus on key activities that promote meaningful implementation of GESI policies that result in measurable changes in the health status of women and disadvantaged groups. Across sectors, USAID will support implementation of policies and guidelines that strengthen public financial management systems to ensure they are transparent and include strong mechanisms for public oversight and accountability.

Further challenges include a shortage of health workers, poor distribution of existing health workers, poor staff performance, and fragmented approaches to staff planning, management and development. By strengthening the capacity of health-focused civil society groups such as health management committees (Sub-IR 1.3.1), USAID will enable them to more effectively engage local health officials and other relevant local government bodies to improve access to quality of services (Sub-IR 2.2.1). USAID is working through its projects to advocate for key changes in human resources that will improve the recruitment, training, and performance of staff in the public sector as well as help strengthen private sector regulation. These changes need to be completed within the broader context of better donor coordination, and an approach to decentralization that strengthens local-level government.

B. Illustrative Indicators for IR 3.3

- Number of tailored health service delivery programs being implemented throughout the country
- Change in resource allocation linked to reading outcomes
- Change in expenditures for reading local language reading materials

C. Proposed Sub-IRs

- **Sub-IR 3.3.1 – Social sector legislation, regulation, and policies created, reformed, or implemented**

In both health and education sectors, USAID will focus primarily on policy implementation rather than formulation. By assisting the GoN in its implementation of a national EGRP, USAID will help demonstrate the value of early grade reading as foundational to human development and critically linked to broad-based economic growth and democratic governance.

- **Sub-IR 3.3.2 – Governmental, non-governmental and private sector actors' service delivery improved**

USAID efforts in the education sector will service delivery by focusing on central line agencies and school management committees to improve teacher performance and national student assessments, curricula, textbooks and supplemental materials.

For health, the strengthening of health facility management committees and district/local coordination bodies (Multi-Sectorial Nutrition and Food Security Committees, District AIDS

Coordination Committees, etc.) will more effectively engage local and district policymakers, as well as civil society service delivery organizations, to improve access to and quality of services.

D. Illustrative Sub-IR Indicators

- Percent of school budget allocated for reading improvement activities
- Change in capacity of GON to efficiently spend and report on use of USAID resources
- Percent of health facilities being independently assessed and accredited annually based on a national quality assurance assessment tool
- Percent of schools utilizing assessment to track student progress on national reading standards for grades 1-3
- Percent of intervention schools receiving supplemental reading materials on time

USAID FORWARD

In support of Local Solutions Objectives 1 and 2, USAID/Nepal will increase its direct partnerships with Nepali civil society organizations (CSOs), government bodies, local NGOs, and private sector actors. The integration of DO 1: More Inclusive and Effective Governance across all development sectors will enable the cost-effective addressing of key results, such as improved policy, strengthened public financial management systems, and increased civil society capacity through joint approaches. In addition to joint approaches, each sector will implement capacity development activities that are demand driven and tailored to their specific needs through the Project Appraisal Document process. This will establish linkages between national and local capacity building efforts creating the comprehensive coverage needed for achieving CDCS goals.

USAID/Nepal will build the capacity of both government and non-government entities, providing greater support on the GON budget and providing direct support to local NGOs will take place gradually, requiring tempered expectations in the short run. For long term sustainability, new USAID activities implemented by international organizations are required to have local sub-awardees that will assume “prime” partner status in the latter half of their implementation period. USAID is conducting Public Financial Management Risk Assessment Framework (PFMRAF) studies (and in some cases partnering on such studies with other donors) and follow-up actions with several GON entities and anticipates increased government-to-government partnership over the life of the CDCS.

Science, technology and innovation and partnerships (STIP) play an increasingly important role in USAID/Nepal’s work. See part C under the Results Framework section of this document for highlights of USAID’s approach to STIP.

MONITORING, EVALUATION, AND LEARNING

To achieve the objectives laid out in this CDCS, USAID must effectively monitor progress, evaluate performance and impact, learn from a wide variety of sources, and adapt implementation based on new information. The CDCS will use a Collaborating, Learning and Adapting (CLA) approach to do this.⁵¹ The guiding principle of the CLA approach is continuous assessment of and feedback into DO-defined causal pathways. Its ultimate goal is increasingly effective courses of action at all levels of the Results Framework. The CLA approach will ensure that USAID/Nepal is proactive throughout CDCS implementation and able to develop best practices and lessons learned prior to the end of the strategy period. USAID/Nepal staff will foster candid sharing of knowledge and information between

⁵¹ Note: CLA is an approach piloted in USAID/Uganda and increasingly used by USAID missions. More information on CLA can be found at <http://usaidlearninglab.org/faq/collaborating-learning-and-adapting-cla>.

staff, implementing partner teams, the GON, other development partners, academics, and other stakeholders. This culture of learning and decision-making is characterized by stakeholder consultation, analysis, trouble-shooting, and objective problem solving.

The CLA approach contributes to achieving the CDCS objectives in the following ways:

Collaboration

- Identifying new opportunities for traditional and non-traditional partners—including other U.S. Government agencies—to work with USAID and with each other towards the CDCS objectives.
- Increasing engagement with the private sector, academia, and others who can partner with USAID to use and scale up cutting-edge science, technology, and innovation for greater development impact.

Learning

- Identifying gaps in quality and availability of data needed to improve implementation, assess impact, and inform program and strategic adjustments.
- Reinforcing project-level evaluations and strategically targeted impact evaluations.
- Facilitating discussions of hypotheses and evaluation findings within USAID/Nepal, among partners, and alongside other donors and GON counterparts to improve the sharing of key data that inform implementation and partnerships.
- Identifying potentially game-changing science, technology, and innovation approaches.

Adapting

- Using lessons learned to reshape projects and, when needed, DOs.
- Cultivating an environment where incentives reward continuous improvements in our work.

Evaluations: USAID/Nepal is developing a multi-year program level evaluation agenda with an emphasis on performance and development effectiveness. Where feasible, evaluations of individual sector impact will be designed to look at interactions and subsequently evaluate multi-sector impacts. Impact evaluations will generally focus on program effectiveness regardless of the USG share of the total program cost. Partnerships and contracts supporting monitoring and evaluation are expected to run approximately one year beyond the life of the CDCS to enable evaluations to be completed and disseminated. Some of the evaluation questions for the CDCS are:

- What types of investments in value chain market-led development result in poverty reduction and improved nutrition among even the lower –income quintiles in areas where value chain work is taking place? Which kinds of investments and in which value chain functions have generated increases in income and opportunities for employment among the poorest quintile, women, and other vulnerable groups?
- Have FtF strategies to generate overall economic growth improved livelihoods of the poorest and most vulnerable populations? What are the most effective economic growth strategies for incorporating the poor and vulnerable?
- Have agriculture and nutrition projects or approaches effectively improved women’s empowerment, specifically in terms of agricultural production, decision-making over and access to resources?
- Are the Nepali people more resilient to economic, environmental and health shocks due to USG assistance?
- To what extent did USAID efforts to integrate sector-specific programs with governance improvements yield greater development results?

- What impact do USAID/Nepal's co-location and program integration efforts have on the long-term sustainability and program outcomes of the development goals?
- How has the integration of governance across development sectors (agriculture, health, education, environment, economic growth) led to improved government performance and service delivery at the local and national levels?
- What program approaches facilitate better access to health care facilities for women and excluded ethnic, religious and caste groups?
- What program approaches will reduce harmful cultural practices that reduce the nutritional intake by women?
- What program approaches increase the consumption of nutritional foodstuffs that are missing in the current household diet?
- What interventions or combination of interventions are effective in improving early grade reading outcomes?
- What outreach strategies work in increasing communities'/parents' involvement in early grade reading?
- To what extent did USAID efforts to increase capacity, accountability, and inclusion result in improved service delivery and budget execution?

High-quality, external evaluations are planned for all large and pilot projects as required by the USAID Evaluation Policy. Mission staff members (from programs outside the implementation unit) and, where appropriate, GON representatives and other stakeholders (such as local universities), will participate in evaluation design, presentation, recommendations and action planning for learning and adapting.

Planned impact evaluations will be better informed utilizing results data gathered throughout the Strategy period. The Mission's Integrated Monitoring and Evaluation Team will assist in refining development hypotheses, building strategic collaborations, understanding knowledge gaps, grounding indicators in overall performance, and supporting a learning culture that makes evaluations more useful and effective. These actions are important for adaptation to dynamic conditions on the ground and accelerating the achievement of results.