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PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 34.5 MILLION
(US$50.0 MILLION EQUIVALENT)

TO THE

KINGDOM OF NEPAL

FOR AN

EDUCATION FOR ALL PROJECT

June 9, 2004

Human Development Unit
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective June 9, 2004)

NRs 1 = US$ 0.0136

US$1 = NRs 73

FISCAL YEAR

July 15 – July 14

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
APL	Adaptable Program Loan
APR	Annual Progress Report
ASIP	Annual Strategic Implementation Plan
AWPB	Annual Work Plan and Budget
BPE	Basic and Primary Education
BPEP	Basic and Primary Education Project
CAS	Country Assistance Strategy
CBO	Community Based Organization
CBS	Central Bureau of Statistics
CFAA	Country Financial Accountability Assessment
CGI	Corrugated Galvanized Iron
CIP	Core Investment Program
COC	Code of Conduct
DANIDA	Danish Agency for Development Assistance
DEO	District Education Office
DfID	Department for International Development
DOE	Department of Education
DTCO	District Treasurer Controller Office
EA	Environmental Assessment
ECD	Early Childhood Development
EFA	Education for All
EMIS	Educational Management Information System
EMP	Environmental Management Plan
EMS	Educational Materials Section
ERR	Economic Rate of Return
FACS	Foreign Aid Coordination Section
FAR	Financial Administration Regulations
FCGO	Financial Comptroller General's Office
FE	Foreign Exchange
FMIS	Financial Management Information System
FMR	Financial Monitoring Report
GDP	Gross Domestic Product
HMG/N	His Majesty's Government of Nepal
ICB	International Competitive Bidding

IDA	International Development Association
JEMC	Janak Educational Materials Centre
JFA	Joint Financing Arrangement
JICA	Japanese International Cooperation Agency
MDG	Millennium Development Goal
MOES	Ministry of Education and Sports
MOF	Ministry of Finance
MLD	Ministry of Local Development
MTEF	Medium-Term Expenditure Framework
NASC	Nepal Administrative Staff College
NCB	National Competitive Bidding
NEGSIF	National Environmental Guidelines for School Improvement and Facility Management
NER	Net Enrolment Rate
NGO	Non Government Organization
NLSS	Nepal Living Standard Survey
NPA	National Plan of Action
NPC	National Planning Commission
NRs	Nepalese Rupees
NRB	Nepal Rastra Bank
AG/N	Auditor General of the Kingdom of Nepal
PDWG	Pooling Donors' Working Group
PMC	Program Management Committee
PTA	Parent Teacher Association
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
RC	Resource Center
SA	Social Assessment
SBD	Standard Bidding Documents
SGP	School Grants Program
SIL	Specific Investment Loan
SIP	School Improvement Plan
SMC	School Management Committee
SWAp	Sector Wide Approach
ToR	Terms of Reference
TSC	Teacher Service Commission
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
VCDP	Vulnerable Communities Development Plan
VDC	Village Development Committee
WFP	World Food Programme

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KINGDOM OF NEPAL

EDUCATION FOR ALL PROJECT

SOUTH ASIA, HUMAN DEVELOPMENT UNIT

Date: June 9, 2004 Country Director: Kenichi Ohashi Sector Manger/Director: Michelle Riboud/ Julian Schweitzer Project ID: P074633 Lending Instrument: Specific Investment Loan	Team Leaders: Chingboon Lee/Rajendra Joshi Sectors: Primary education (100%) Themes: Education for all (P);Other social development (S);Decentralization (S) Environmental screening category: Partial Assessment Safeguard screening category: S2

Project Financing Data

[ ] Loan [X] Credit [ ] Grant [ ] Guarantee

Total Bank financing (US$ million): 50.00
Proposed terms: Standard with 40 years maturity.

Financing Plan (US$m)

Source	Local	Foreign	Total
Borrower/Recipient	514.00	15.48	514.00
International Development Association (IDA)	50.00	1.51	50.00
DENMARK: Danish International Development Assistance (DANIDA)	28.00	.84	28.00
FINLAND: Ministry for Foreign Affairs	14.00	.42	14.00
NORWAY: Norwegian Agency for Development Cooperation (NORAD)	23.00	.69	23.00
UK: Department for International Development (DfID)	35.00	1.05	35.00
Total:	664.00	20.00	664.00

Borrower: Kingdom of Nepal
Responsible Agency: Ministry of Education and Sports

Estimated disbursements (Bank FY/US$m)

FY	2005	2006	2007	2008	2009				
Annual	7.00	8.00	10.00	12.00	13.00				
Cumulative	7.00	15.00	25.00	37.00	50.00				

Project implementation period: Start July 15, 2004 End: July 15, 2009
Expected effectiveness date: September 1, 2004
Expected closing date: January 31, 2010

Does the project depart from the CAS in content or other significant respects?	No
Does the project require any exceptions from Bank policies? Have these been approved by Bank management? Is approval for any policy exception sought from the Board?	No N/A N/A
Does the project include any critical risks rated “substantial” or “high”?	Yes
Does the project meet the Regional criteria for readiness for implementation?	Yes

Project development objective

The project's long-term development objective is to improve access to and benefit from basic and primary education for children, especially girls and children from disadvantaged groups, and from literacy programs for poor adults.

Project description

The proposed Education for All Project will support the Government's Education for All 2004-2009 Program. Using the EFA indicators, specific targets are to further increase the net enrollment rate from 81 percent to 96 percent; increase achievement in grade five from 40 to 60 percent, further decrease the gender and social gaps, and increase literacy of the 15+ age group from 48 to 66 percent.

The project aims to achieve three strategic goals: 1) improving access to and equity of basic and primary education; 2) enhancing educational quality and relevance; and 3) improving efficiency and institutional capacity of education service delivery.

Improving access and equity. Equitable access will be approached through measures to increase both the demand for education and the supply of services. On the demand side, expanded involvement of community-based organizations; increased literacy for mothers; scholarship programs targeted to poor girls, dalits and out of school children from disadvantaged ethnic groups, and expansion of the number of classrooms and non-formal programs based in schools, will accommodate growing demand. Alternative classroom designs will be introduced. In line with the philosophy that no child should be left out of school, resources for building additional classrooms will also be provided to communities. Double shifting will also be offered as an option to local communities. Literacy programs for adult women, targeted to dalits and ethnic minorities with lowest literacy rates, will be expanded.

Enhancing quality and relevance. Early Childhood Development (ECD), delivered through community managed centers and through pre-primary classes, will be expanded. Recurrent in-service teacher training will be strengthened by making it school based. Resources from school grants will enable School Management Committees (SMCs) to procure local expertise for school improvement activities, including teacher training. Improved school facilities (including water supply and toilets), and newly developed transitional linguistic support on entry for non-Nepali speaking students, are expected to further improve the quality of learning, retention of children, and hence school completion rates.

Improving efficiency and institutional capacity. Key to effective program performance is the shift from centrally managed sub-programs to an expanded School Grants Program (SGP) that will empower SMCs in improving the performance of all schools.

Which safeguard policies are triggered, if any?

Environmental Assessment (OP/BP/GP 4.01) and Indigenous Peoples (OD.4.20)

Significant, non-standard conditions, if any, for:
Board presentation: None.
Credit effectiveness: None.

Covenants applicable to project implementation:

1. The Government shall submit to IDA: (a) trimester Financial Monitoring Reports starting with the first trimester after credit effectiveness; and (b) annual financial audit reports, carried out by the Auditor General of the Kingdom of Nepal, by January 15 each year. In addition to the formal annual audits, the Borrower shall agree to ad-hoc procurement and financial management reviews conducted periodically by the Association.

2. The Government, shall establish, not later than August 31, 2004, and thereafter maintain a Program Management Committee whose responsibilities shall include facilitating inter-ministerial coordination and overseeing preparation of the Annual Strategic Implementation Plan and the Annual Work Plan and Budget during project implementation.

3. The Government shall, not later than October 15, 2005, cause schools receiving School Grants to have records, and communities benefiting from school block grants to undertake annual social audits, commencing with the year ending July 15, 2005.

4. The Ministry of Education and Sports shall implement, in a manner satisfactory to IDA, the environmental mitigation, monitoring and other measures set forth in the Environmental Management Plan.

5. The Ministry of Education and Sports shall implement, in a manner satisfactory to IDA, the social inclusion and monitoring measures set forth in the Vulnerable Communities Development Plan.

6. The Government shall cause to be in position by September 30, 2004, suitable staff and consultants in the Educational Materials Section of the Department of Education to manage the action plan for textbooks development, production and distribution to the private sector.

7. The Government shall produce by December 31, 2004, a list of pre-qualified Non-Governmental Organizations/support organizations to deliver services (including social audits) to schools.

8. The Government shall provide to IDA by July 31, 2004, the Annual Work Program and Budget for the basic and primary education sub-sector submitted by the Ministry of Education and Sports to the Ministry of Finance.

NEPAL: EDUCATION FOR ALL PROJECT

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A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

Since the beginning of multi-party democracy in 1990, Nepal has seen many positive changes. However, political instability and the insurgency are severely hampering efforts for reform. Growth in Gross Domestic Product (GDP) averaged 5 percent annually in the 1990s, fell to negative rates in 2001/2002, and recovered to 2.5 percent in 2002/2003. Over the last ten years, poverty rates have fallen very little, if any. About 40 percent of Nepal's citizens, the majority of whom reside in rural areas, live on less than $1.00 a day. The distribution of income has grown more unequal, with wide variation across regions and social groups.

Decentralization has been a key strategy of His Majesty's Government of Nepal (HMG/N) to improve the equity, efficiency and quality of public service delivery. Elected local bodies (district, municipality and village) have been expected to play key roles in facilitating, funding and monitoring the delivery of social services, including education.[1] Unfortunately, these bodies completed their term in 2002 and no new elections have taken place. As an interim measure, the Government has appointed members of political parties to fulfill the functions of these local bodies.

The Nepal Country Assistance Strategy (CAS) highlights three characteristics of the development context: (1) an unstable political environment; (2) poor delivery and quality of basic social services, including education; and (3) wide disparities in access to and benefit from public services for females, dalits and children from disadvantaged ethnic communities.[2] Clearly, improvements in the effectiveness and equity of social services for the rural poor, with basic and primary education having high priority, will be essential to achieving the social and political stability needed for growth and to reduce poverty.

On a more positive note, the current crisis has led to a number of reforms led by committed technocrats within government. A key achievement is the development of a Poverty Reduction Strategy (PRS) based on the 10th Plan, which underpins the Bank's CAS and a Poverty Reduction Support Credit (PRSC).[3] More rigorous and prioritized allocation of public funds is being addressed through a Medium-Term Expenditure Framework (MTEF) and an Immediate Action Plan. Both a Country Procurement Assessment Report and a Country Financial Accountability Assessment (CFAA) have been completed and the Government is implementing the recommendations.

Nepal has achieved much in basic and primary education (BPE), both in building the capacity to plan and manage a sub-sector investment program and in improving educational outcomes.

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[1] Nepal has a system of elected district and village development committees. These bodies, which do not have legislative power, enjoy much less authority than conventional local governments.

[2] Nepali society encompasses many cultures and languages. Dalits are low caste Hindus who suffer from high levels of poverty and social exclusion. Poverty and social exclusion vary across more than 90 officially identified ethnic groups; many are disadvantaged, some are not.

[3] A key objective of the Poverty Reduction Support Credit (PRSC) is to improve the delivery of social services, including education, by strengthening the participation of communities.

These achievements have rested to date on HMG/N's policy framework for the sub-sector, supported by a Core Investment Program (CIP)[4] and other parallel bilateral and multilateral assistance.

Educational outcomes have improved. Primary (grades one-five) net enrolment rates (NER) were reported to have increased from 69 percent in 1998 to 81 percent in 2001. During the same period, the gender gap in enrolments was reported to have fallen from 20 percent to 12 percent, while primary completion rates rose from 44 percent to 59 percent.[5] Over the last twenty years, adult literacy rates increased from 34 percent to 66 percent for males, and from 12 percent to 43 percent for females. These statistics may, however, be biased upwards due to weaknesses in the present administrative data collection and analysis system.

Significant challenges remain for Nepal in meeting the Millennium Development Goal (MDG) of universal primary education by 2015, and the Education For All (EFA) targets. These include:

- When dropouts are considered, more than 25 percent of children remain out of school, with girls, children from dalits and vulnerable ethnic communities disproportionately represented.
- The quality of public education is poor, as signaled by low scores on primary level achievement tests and parental flight to private secondary schools, which achieve 73 percent pass rates on the School Leaving Certificate exams compared to 22 percent for public schools.
- Completion rates, while improved, remain low, reducing system efficiency.
- While the practice is illegal, many public primary schools are charging student fees which, in turn, reduce the chances that poor children will enroll.
- Funding for schools is low and frequently released late.
- Efficiency and reliability of the textbook provision system requires significant improvement.

Perhaps most importantly, implementation has been uneven. Under the CIP, educational services were delivered through 17 centrally managed components, often with unsatisfactory results. Inputs arrived at schools in unpredictable fashion with little adaptation to local issues and conditions, little synergy, and consequently less than satisfactory impact.

Policy development and implementation remain incomplete in three key areas:

- *Teacher appointment* is constrained by central control of recruitment by the Teacher Service Commission (TSC) that limits local appointments by School Management Committees (SMC), and leads to uneven deployment of teachers;

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[4] The CIP is an integral part of the Government's five-year BPE investment program that began in fiscal year 1999/00. The International Development Association (IDA), partner donors (DANIDA, European Commission, Finland and Norway), and the Government committed US$106 million to pooled funding for the CIP under the Basic and Primary Education Project (BPEP). Additional parallel financing for the program is provided by ADB, WFP, UNICEF, UNESCO and JICA.

[5] However, Government estimates of NERs do not yet adequately take student dropout or repetition into account, with the implication that the number of children not enrolled in school is likely to be substantially higher.

- *Lack of female teachers* in more than half of public schools that hinders progress towards gender parity; and
- *Textbook publishing and distribution* is poorly managed by a public enterprise.

At the institutional level, effective financing and management mechanisms needed for decentralization to schools are in the early stages of development. The Education Management Information System (EMIS) is cumbersome and slow, with a two to three year lag in reporting education statistics, in part because the system has yet to be fully computerized at the district level.

To address these issues, HMG/N prepared in 2003, an EFA Core Document to guide the next phase of the BPE program in consonance with the country's 10th Plan. Extensive consultations on the program were undertaken at the regional and district levels. The EFA program is grounded in the Dakar Framework for Action on EFA, and provides a vision statement, a policy matrix to support the vision, time-bound outcome indicators and performance targets, and an indicative budget. Using the international EFA indicators, the targets are to: (a) further increase the NER from 81 percent to 96 percent; (b) increase learning achievement scores in grade five from 40 to 60 percent; (c) further decrease gender and social gaps; and (d) increase literacy of the 6+ age group from 54 to 73 percent, and of the 15+ age group from 48 to 76 percent by 2015. The broad pillars on which the strategies rest are: improved service delivery, social inclusion and improved governance.

To support the EFA Program, the Government is committed to resolving policy implementation gaps for teachers and textbooks. To reduce teacher shortages, particularly in remote and rural schools, and increase the recruitment of female teachers, actions will be taken in four key areas. First, to create the 'space' for community-recruited teachers, all teacher positions falling vacant after July 16, 2004 will be converted into community-recruited positions funded by government. Second, all schools approved by the Government and already receiving regular grants, but which have less than the number of teachers prescribed by the Education Regulations, will receive block grants for community recruitment of teachers. Third, service conditions comparable to those for regular government teachers, will be established for community-recruited teachers. Fourth, two female teacher positions per school will be established in schools with four or more teacher positions. To address deficiencies in the textbook provision system, the Government will implement a phased plan for increasing the private sector's role in textbooks.

2. Rationale for Bank involvement

The World Bank has been engaged consistently with the Government in basic and primary education for more than twenty years, gaining considerable knowledge and experience. The gains made under the CIP are vulnerable in the present country context, and continued Bank technical and financial support is crucial to enable the government to meet the MDGs for education.[6] The proposed project in support of the EFA program should make a substantial

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[6] And also the MDGs for maternal, infant and child mortality rates which fall in Nepal, as elsewhere, with increase in mothers' education.

contribution to achievement of Nepal's PRS goals, thus further deepening Bank support for poverty alleviation.

To manage risks and improve impact, the Government has developed a new design for the EFA program that places schools at the center of efforts to improve service delivery which, in turn, requires a new financing approach. To meet this requirement, IDA and several other donors have established a joint financing arrangement with the Government whereby donor funds will be pooled with government budgetary resources to support BPE under a Sector Wide approach (SWAp). This arrangement, which is expected to reduce transaction costs through alignment of donor rules and procedures with government financial regulations, and improve the linkage of disbursements to implementation progress, is considered by HMG/N to be a pilot that could have wider application to other sectors. Key success factors will be the Bank's close relationship with the Ministry of Finance (MOF) and Ministry of Education and Sports (MOES), and a shared commitment to ensuring that financial management and procurement policies under the recently amended Financial Administration Regulations (FAR), will be effectively implemented within Nepal's largest sector.

3. Higher level objectives to which the project contributes

The project contributes to HMG/N's long-term development objective of strengthening the country's human resource base to support economic growth and reduce poverty. In the current uncertain socio-political environment, the project would also contribute to improved delivery of public services to the rural poor, with more effective targeting of females and other vulnerable groups, and hence indirectly to social cohesion and stability.

B. PROJECT DESCRIPTION

1. Lending instrument

At the request of the Government, donors currently supporting BPE have agreed to enter into a SWAp with improved features for supporting the EFA 2004-2009 program. The Department for International Development (DfID), United Kingdom, a new donor to the sub-sector, will join four other partners – Denmark, Finland, Norway and IDA – in pooling resources with HMG/N for the EFA program. The five partner donors will be contributing approximately US$158 million[7] or about 19 percent of the total BPE budget during the program period. IDA will provide US$50 million in credit financing, equivalent to 33% of pooled donor resources, through a Specific Investment Loan (SIL) instrument. Credit proceeds upon disbursement, are indistinguishable from government and other pooled donor funds and as such, cannot be tracked by specific expenditure category. The focus instead, will be on monitoring the basic and primary education sub-sector as a whole, both in respect of financial performance and progress on results and outcomes indicators.

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[7] Denmark, Finland, Norway and the UK have indicated grant support in the amounts of approximately US$33 million, US$15 million, US$25 million, and US$35 million, respectively. Of the total of US$158 million (including US$50 million from IDA), about US$150 million will be channeled through the pool. The remaining US$8 million will be provided as bilateral TA support. The amounts provided by each bilateral donor, net of direct funding for TA, are indicated in the summary page of the PAD under Financing Plan.

2. Project development objective and key indicators

The project's long-term development objective is to improve access to and benefit from BPE for children, especially girls and children from disadvantaged groups, and from literacy programs for poor adults.

The key indicators to be measured are listed below. All data related to students and adult learners will be reported by gender, for dalits, disadvantaged janajatis,[8] and other socially disadvantaged groups.

Indicators for assessing long-term outcomes:

- Net enrollment rates
- Survival rates to grade five
- Learning achievement

Results indicators:

- Number of out of school girls, dalits and children from disadvantaged janajati and other socially disadvantaged groups
- Number/share of schools with required number of classrooms of acceptable standard
- Number/share of schools with safe drinking water
- Number/share of schools with toilet(s) for girls
- Percentage of entrants to grade one with Early Childhood Development (ECD) experience
- Percentage of fully trained teachers
- Number/share of accredited schools
- Number of schools providing transitional language support to non-Nepali speaking students
- Share of sub-sector budget transferred to schools as grants
- Share of non-salary allocations in school grants
- Share/Number of schools: (a) completing School Improvement Plans (SIP); (b) receiving block grants on time; (c) receiving textbooks on time; and (d) completing social audits
- Number of schools transferred to community management

3. Project components

To manage effectively within the current unstable socio-political environment, the Government's strategy is to focus in initial stages of EFA program implementation, on core activities needed to increase the effectiveness of schools, and maintain normal functioning of schools in highly impacted areas. Innovative non-formal education programs, many of which have been launched as pilots, would be maintained at current levels of funding and evaluated with a view toward scaling up as the implementation environment stabilizes and as funds become available in later stages of the operation.

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[8] Indigenous ethnic groups.

The project addresses three strategic goals: 1) improving access and equity; 2) enhancing quality and relevance; and 3) improving efficiency and institutional capacity.[9] These goals will be approached through six sub-programs under the EFA program aimed at: (i) expanding early childhood education; (ii) ensuring access to all; (iii) meeting learning needs of all; (iv) reducing female illiteracy; (v) eliminating gender disparity; and (vi) improving all aspects of quality education. Resources for these sub-programs will be channeled primarily through school grants.[10]

Improving access and equity. Equitable access will be approached through measures to increase both the demand for education and the supply of services. On the demand side, expanded involvement of community-based organizations in identifying, and motivating out of school children to enroll, will strengthen school outreach. Increased literacy for mothers is also expected to have a long-term positive impact. Scholarships, funded through school grants and targeted to poor girls, dalits and out of school janajati children, will offset the private costs of schooling for these groups. Expansion of the number of classrooms and non-formal programs based in schools, will accommodate growing demand. Alternative classroom designs that are adapted to different geographical conditions, and which provide better lighting and ventilation will be introduced. In line with the philosophy that no child should be left out of school, resources will also be provided to communities for constructing temporary classrooms using local materials, but whose designs are structurally sound. Double shifting will also be offered as an option to local communities. Literacy programs for adult women, targeted to dalits and ethnic minorities with the lowest literacy rates, will be expanded.

Enhancing quality and relevance. ECD, delivered through community managed centers and through pre-primary classes, will be expanded. ECD has been shown to improve learning and completion in grade one; enhanced completion of grade one in turn, will decrease class size in grade one (15 percent of grade one students are currently underage), contributing both to the quality of the learning environment and to efficiency. Teacher education through a ten-month certificate training course is supported by the Asian Development Bank (ADB) under a Teacher Education Project. Recurrent in-service teacher training will be strengthened by making it school based. More substantial and direct funding through the School Grants Program (SGP) will enable SMCs to select and finance local expertise for school improvement activities, including teacher training. Improved school facilities (including drinking water and toilets), and newly developed transitional language support on entry for non-Nepali speaking students, are expected to further improve the quality of learning, retention of children, and hence school completion rates.

Improving efficiency and institutional capacity. Key to effective program performance is the shift from centrally managed sub-programs to an expanded SGP that will empower SMCs in improving the performance of all schools. A parallel initiative, currently piloted under the IDA-financed Community School Support Project, will transfer 8,000 of the 21,000 primary schools to community management with block grant financing over the five years of the program.

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[9] Education for All 2004-2009 Core Document, Ministry of Education and Sports, November 17, 2003.

[10] Funding through school grants will be increased from 10 percent of the BPE budget in 2003/2004 to about 60 percent by 2008/2009.

All schools currently operate bank accounts and receive earmarked grants through District Education Offices (DEO) for salaries, and NRs 300 per year to each teacher for teaching and learning materials. Schools transferred to community management currently benefit from expanded block grants. School improvement planning has been successfully piloted and is ready to be scaled up. Though less than fully efficient, the basic administrative structure for block grant financing is in place.

An important new feature of the SGP will be the inclusion of funding for non-salary recurrent costs in school grants, which comprise three main categories – basic, level 1 and level 2 grants. While all schools will be eligible for basic grants, only accredited schools will be eligible for level 1 and 2 grants (Annexes 4 and 17). Schools will be accredited, on a voluntary basis, at different levels of eligibility through a system of self-assessment and ex-post audits. Depending on the level of accreditation, schools will be eligible to apply for grants for physical facilities improvement, enhanced student access, capacity building, and quality improvement. The use of block grants by schools will be audited annually by parent committees, and the results of these audits will be publicly disclosed.

The synergies among strategies to increase access, equity, quality and relevance should improve performance on enrolling and keeping children in school, raising learning achievement, and improving system efficiency. The SGP is the linchpin for the delivery of these strategies by providing adequate funding for locally relevant inputs/incentives for school performance, and for reducing the imposition of fees that is detrimental to access by poor students.

4. Lessons learned and reflected in the project design

Focusing on schools to improve service delivery. The ongoing Basic and Primary Education II Project (BPEP II) has initiated district- and school-based planning, including introduction of the SIP process. Delivery modalities for key activities such as in-service teacher education, civil works planning and execution, and alternative and non-formal education were established. However, HMG/N and donors identified as a key lesson during the mid-term review of the project and subsequent joint supervision missions, the need to shift from a "component-driven" modality – 17 components run by 17 units in the DOE and other central level agencies under the MOES, to a more holistic and decentralized planning and implementation process focusing on schools.

A decentralized service delivery system centered on schools and the community they serve, will be critical for managing risks arising from the conflict situation. The insurgents have publicly declared that they would not disrupt the functioning of schools. Many private schools have been closed because they are seen by the insurgents as profit making entities. If a school is providing free education to children particularly in poor, rural and remote areas, there is every reason to believe that it will be allowed to continue functioning. What is needed will be timely delivery of more substantive direct funding to schools to enable them to purchase services/inputs according to local priorities. This is fully consistent with the recommendation of the BPEP mid-term review that the use of school grants be significantly expanded during the EFA program to empower schools and make them more accountable for learning outcomes. To ensure that schools in highly impacted areas are able to utilize block grants effectively, the Government has agreed to partner with support organizations -- including international and local Non-

Governmental Organizations (NGOs) -- for social mobilization, technical support and monitoring, beginning in two pilot districts.

Need for a comprehensive approach. Although BPEP II represents an important first step towards a comprehensive approach using a basket funding mechanism to support the sub-sector, HMG/N and donors realized that the design and financing modality for the EFA program would need to go much further to align donor rules and procedures with government systems in order to increase government ownership and reduce transaction costs. Consequently, donors to the sub-sector have agreed to adopt a SWAp with several new features: (a) pooling of donor and government funds to finance the EFA program; (b) reliance on government rules and procedures for disbursing, monitoring and reporting program expenditures; and (c) a common and simplified monitoring framework for program outcomes, which is endorsed by all donors to the sub-sector. The SWAp is underpinned by the government-led EFA strategy and program.

5. Alternatives considered and reasons for rejection

The alternative considered to the proposed project design was to restructure the Adaptable Program Loan (APL) instrument supporting BPEP II (closing in July, 2004). This was rejected for four reasons. First, the EFA program reflects government strategies, priorities and time lines that depart significantly from those supported in the first phase of the APL. Increasing political uncertainty and insurgency in the country have mandated a sharp strategic shift away from the gradual institutional capacity building approach under the APL, to a school-centered approach. In respect of priorities, the Government has postponed the APL's goal of enrolling all children in eight years of education in order to concentrate on the education MDGs. Timeline wise, the ten-year APL with three phases is not compatible with the five-year cycle of the government program.

Second, under the APL, performance would be judged every two or three years against a sub-set of weakly defined triggers that are not widely accepted by donors outside the basket funding arrangement. The design of the new program provides a stronger annual monitoring framework, which is endorsed by all donors and offers better linkage between disbursements and performance, thereby increasing the pooling donors' ability to manage risks under an uncertain environment. Third, the design of the APL was not consistent with the evolving objectives of pooling donors seeking greater harmonization. Finally, government ownership of the APL is low. For these reasons, a clean break from an increasingly inappropriate program design and lending instrument was chosen.

C. IMPLEMENTATION

1. Partnership arrangements

The partnership between the Government and donors established under BPEP II has worked well and will be further strengthened through the more comprehensive SWAp for the EFA program. HMG/N's objective of increased harmonization with all donors (both pooling and parallel) will be addressed through a donor Code of Conduct (COC), Annex 16, that reflects mutual commitment to the Government's objectives of achieving enhanced cooperation, and decreasing the transaction costs of partnership. The COC has been endorsed by both the Government and donors.

A Joint Financing Arrangement (JFA) describing the understandings reached among signatory partners for the creation and management of pooled donor funding in support of the EFA Program, has been prepared and is expected to be signed by September 30, 2004. The JFA describes the mutual roles and responsibilities of signatories and the process by which funds will be disbursed and monitored through HMG/N's financial management and reporting system (Annex 15). Further reduction in the administrative burden on government will be achieved through streamlined modalities for monitoring and reporting on selected output, results and outcome indicators.

2. Institutional and implementation arrangements

Implementation of the JFA underpinning the SWAp will strengthen national systems and capacity. The MOES will be the pilot for implementing a new model of development assistance, which is based on the pooling of donor and domestic resources for financing a sub-sector, and reliance on the Government's FAR to account for and report on the use of these resources. The adoption of a common monitoring and evaluation framework under the SWAp will streamline data collection and analysis systems, and build capacity at the district and central levels to produce more timely and reliable information on program outputs and outcomes.

Financial Management. The MOF and the Financial Comptroller General's Office (FCGO) will be responsible for the accounting and reporting of EFA expenditures financed through the pool. The FCGO will provide access to its Financial Management Information System (FMIS) to the DOE. This will enable DOE staff in the Accounts section to extract the relevant information from the FMIS for preparation of reports on EFA accounts, which are identified by specific budget codes in accordance with the Government's cash-based accounting system. These reports will be verified by the FCGO before submission to pooling donors. DOE staff who are familiar with the government accounting system and donor requirements, will manage the EFA accounts with the assistance of short term local consultants. To ensure that the financial management arrangements will work satisfactorily, the Government has committed to implement a financial management improvement plan (Annex 7) to strengthen capacity in the DOE, MOES and other program cost centers.

Implementation. The DOE, under the broad policy guidance of the MOES, will have overall EFA program implementation responsibility. As most of the program activities will be undertaken by stakeholders at the district, sub-district and community levels, the DOE will coordinate with other line education agencies[11] as well as support organizations (international NGOs, local NGOs) to provide technical backstopping to these stakeholders, and monitor implementation of program activities. Responsibility for overall program monitoring will be assigned to a Program Management Committee (PMC) comprising mainly of senior officials from education line agencies.

[11] These include among others, the National Center for Education Development, Distance Education Center, Curriculum Development Center, and Non-formal Education Center.

The SGP will be the primary mechanism for EFA program implementation. The DEO will be responsible for preparing annual district education plans, review of SIPs, release of grants to school bank accounts, monitoring school performance, and preparation of reports on key outcome and output indicators.

The MOES will support the implementation of the SGP through: (a) provision of operational guidelines; (b) public communication and outreach programs to build awareness of the new opportunities for schools; (c) a program of workshops to introduce the SGP to district staff, SMCs and teachers; and (d) capacity building for school-community partnership and for social audits by community groups.

A Joint Annual Review by HMG/N and all donors to the BPE sub-sector in April of each year will assess implementation progress in respect of outcomes and expenditures as provided through an Annual Progress Report (APR) prepared by the MOES for the fiscal year ending in July of the previous year. The APR will report on the agreed outcomes and results indicators for the EFA program as well as on expenditures and outputs. The AWPB for the next year will also be presented by MOES at this review. Donor partners will commit to funding levels for the next year on the basis of the previous fiscal year's progress, and the AWPB.

In addition to the Annual Review, a consultative meeting will be held in December of each year during which the signatories to the JFA will review the preliminary consolidated financial statements for the previous fiscal year as well as financial and output reports for the first trimester of the current year. Both the Annual Review and the consultative meeting will be preceded by independent technical reviews,[12] which provide additional information to pooling partners on financial and overall implementation progress. The technical reviews will include visits to a sample of districts and schools in those districts. In light of the conflict situation and consequent difficulty of donors to travel to the field, suitably qualified agents would be contracted locally for carrying out the site visits to assess implementation progress.

3. Monitoring and evaluation of outcomes/results

Streamlined and more timely data collection and reporting systems on key output and outcome indicators will be in place at the start of the program. Indicators for outcomes/processes and outputs will be incorporated in a new system of 'flash reports' from schools, which will be aggregated at the district level and consolidated by the MOES. Outcome data will be reported in disaggregated format to track enrolments, completion rates, and distribution of scholarships for girls, dalits and students from disadvantaged ethnic groups. The timeliness and availability of school grants will be monitored.[13] The output data cover approximately 75 percent of planned program expenditures. The outcome/process indicators are a subset of the current and much larger and slower EMIS; the output indicators are a subset of a much larger set currently monitored by the National Planning Commission (NPC).

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[12] These reviews will be financed outside the pool with each of the five donors in the JFA taking turns to finance and organize the reviews each year.

[13] See section B.2 for indicators.

Routine monitoring of EFA program and expenditure data will be supported by learning achievement tests (three times during the program) and independent national sample surveys, conducted by the Central Bureau of Statistics for the NPC.[14] A pilot test of an education expenditure tracking survey was completed in 2003. It will be expanded to include limited household data (including citizen satisfaction with public schools) administered on a sample basis in 2007.

Social audits, which will include disclosure of income and expenditure statements to communities, will be undertaken by committees formed by the Parent-Teacher-Association to monitor the use of school grants, the achievement of school improvement objectives, and community satisfaction with school services. This approach, which has been successfully piloted in the IDA-supported Community School Support Project, will be implemented in a phased manner with the objective of covering all schools by the end of the five-year program.

A robust evaluation program will focus on: (a) education outcomes using NLSS data;[15] (b) cost effectiveness of literacy and non-formal programs; (c) impact evaluation of scholarships for girls, dalits and disadvantaged janajati groups; and (d) operations research on key delivery mechanisms. Findings of the evaluation program will be presented during the mid-term review of the project to inform design/implementation modality modifications and/or up-scaling.

The APRs and supporting data, the results of learning achievement assessments, and the results of household surveys and evaluations will provide substantial information for the project Implementation Completion Report.

The EMIS will be strengthened and streamlined to enable rapid monitoring of key outputs and outcomes at the school and district level (Annex 3). The focus will be on system redesign, data collection procedures, computerization, and capacity building at all levels.[16]

4. Sustainability

Four elements of the project support sustainability:

- *High government priority.* The EFA program for which project support is provided, is embedded in HMG/N's PRS and 10th Plan, and is supported by the PRSC. It is a Priority One program under the government's MTEF, thus safeguarding it from expenditure cuts.
- *Strong financing commitment.* The Government currently allocates approximately 15 percent of the national budget to education, of which around 60 percent goes to basic and primary education. The Government intends to gradually raise the budget share of education to 17.5 percent, with the share going to basic and primary education being maintained at around 60 percent.

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[14] The surveys are the Nepal Living Standards Survey (NLSS, reported in 2004, 2009) and the Demographic and Health Survey, which will incorporate the NLSS education module (reported in 2007).
[15] A comprehensive analysis of changes in NLSS education indicators between 1996 and 2003 is currently being conducted by the Bank
[16] UNESCO's Institute of Statistics will provide technical support for EMIS development.

- *Advanced project design.* The move to a SWAp whereby donor funds are pooled with the Government's own resources should improve the flow of funds, financial monitoring and reporting.
- *Community and school-centered implementation.* The strategic shift to implementation by schools and communities should lead to less dependence on services from the central ministry. It will contribute to enhanced local capacity for improving schools and mobilization of local finance (including from local bodies when they are re-established).

5. Critical risks and possible controversial aspects

Risks	**Risk Mitigation Measures**	**Risk Rating**
To Project Development Objective		
Insurgency and political instability may cause project implementation to falter substantially through lack of government access to schools, inability to implement policy improvements, or failure to provide adequate budget.	The SGP will enable schools to purchase needed inputs/services without having to rely solely on services from the central ministry. EFA program delivery strategies will be adjusted annually to take policy and overall budget factors into account. Donor financial releases will be contingent on overall progress and risks against objectives, and may be adjusted if implementation slows.	M
To Component Results		
Component 3: Improving Efficiency and Capacity		
Insurgency has been disrupting school operations. If this spreads and deepens, delivery of services in some rural areas may be interrupted.	MOES will expand partnerships with NGOs and community organizations to deliver and monitor education services. This strategy is working in other sectors, such as rural water supply and sanitation.	M
Decentralization strategies may be hampered by the unwillingness of the government officials concerned to surrender autonomy to schools and communities; teacher unions may oppose SMC local appointment of temporary teachers.	Increased community involvement, public disclosure of funding to schools through earmarked and block grants, and improved communications should create pressure from civil society to support decentralization and safeguard the autonomy of schools.	S
There may be leakages of funds from schools.	Auditing by parent committees and public disclosure of funds should help manage this risk.	M

Procurement capacity at the school level may be inadequate for managing enhanced block grant resources.	Although schools have to-date, not received block grants of meaningful size, they have been managing resources mobilized from the community for goods and small works. Given that the basic block grant would only be about US$120 per school per year, the only procurement method needed would be shopping. Nonetheless, a capacity building plan will be implemented for schools and communities to ensure effective resource management.	M
Overall Risk Rating		**S**

Risk Rating: H (High); S (Substantial); M (Modest); N (Negligible or Low)

6. Credit conditions and covenants

Condition for Disbursement

Unless and until the Operational Manual for administration of school grants, acceptable to IDA, has been developed and adopted by the Government, no withdrawals shall be made from the proceeds of the IDA Credit.

Legal Covenants

1. The Government shall submit to IDA: (a) trimester Financial Monitoring Reports (FMR) starting with the first trimester after credit effectiveness; and (b) annual financial audit reports, carried out by the Auditor General of the Kingdom of Nepal, by January 15 each year. In addition to the formal annual audits, the Borrower shall agree to ad-hoc procurement and financial management reviews conducted periodically by the Association.

2. The Government, shall establish, not later than August 31, 2004, and thereafter maintain a PMC whose responsibilities shall include facilitating inter-ministerial coordination and overseeing preparation of the ASIP and the AWPB during project implementation.

3. The Government shall, not later than October 15, 2005, cause schools receiving School Grants to have records, and communities benefiting from school block grants to undertake annual social audits, commencing with the year ending July 15, 2005.

4. The MOES shall implement, in a manner satisfactory to IDA, the environmental mitigation, monitoring and other measures set forth in the Environmental Management Plan.

5. The MOES shall implement, in a manner satisfactory to IDA, the social inclusion and monitoring measures set forth in the Vulnerable Communities Development Plan.

6. The Government shall cause to be in position by September 30, 2004, suitable staff and consultants in the Educational Materials Section of the DOE to manage the action plan for textbooks development, production and distribution to the private sector.

7. The Government shall produce by December 31, 2004, a list of pre-qualified NGOs/ support organizations to deliver services (including social audits) to schools.

8. The Government shall provide to IDA by July 31, 2004, the Annual Work Program and Budget for the basic and primary education sub-sector submitted by the Ministry of Education and Sports to the Ministry of Finance.

D. APPRAISAL SUMMARY

1. Economic and financial analyses

Economic: Enhanced primary education is strongly correlated with poverty reduction, economic development and productivity growth. The project aims to provide quality primary school education to the children of Nepal to put them on the road towards better employment and income-earning possibilities. Challenges to enhance educational quality and increase access to the disadvantaged can be classified into three types: (a) Demand side - those that prevent children from going to school or from benefiting from the educational services provided by the school e.g., poverty, direct costs of schooling, opportunity costs; (b) Supply-side - factors that limit the capacity for providing quality education opportunities for children living in inaccessible areas (which is likely to be a significant issue given the insurgency), inadequate facilities, lack of teaching and learning resources, teacher absenteeism; and (c) Institutional - policies and administrative arrangements that can keep the system from performing at an acceptable level, e.g., weak organizational capacity, centralized management, and inadequate funding arrangements. The project aims to address these constraints by increasing primary school access, participation and completion rates; and through improving learning outcomes.

Preliminary rates of return have been computed on the basis of alternative assumptions regarding the internal and external efficiency of the system. Based on these assumptions, the project yields an Internal Economic Rate of return of 16 percent. Sensitivity analysis using alternative assumptions on the external and internal efficiency of the system demonstrate that the rate of return will vary between 7 percent in the low case scenario to 24 percent in the high case – these figures will of course be affected depending on how education services are impacted by the insurgency. The assumptions and scenarios are discussed in detail in Annex 9.

Financial: Project sustainability is dependent on two key factors: (a) the availability of revenue to meet the additional costs that will arise inevitably from the adoption of the EFA strategy; and (b) the willingness of HMG/N to meet those new costs at the possible expense of secondary and tertiary education (or at the expense of allocations to other sectors). In its MTEF, the Government has stated clearly that it regards the successful development and maintenance of high quality primary education as one of its highest priorities. Sustainability beyond the project period appears to be financially feasible under most plausible growth scenarios. Using the base case scenario of GDP growth (i.e., 4.5 percent per annum), the analysis shows that for the project to be sustainable, HMG/N will need to maintain education spending at around 3.5 percent of

GDP. Under this scenario, to maintain EFA spending at 55 percent of overall education spending, close to 18 percent of government expenditures will need to be spent on education (as compared to the 15 percent currently being spent).

2. Technical

The overall design of the EFA program, which will be supported by multiple donors including IDA, builds upon lessons learned from BPEP II and earlier education projects. Given the importance of improving access to and quality of primary education through more effective school management, the design supports a process whereby publicly financed and managed schools with low accountability to parents and students for education outcomes, can be transformed into more effective schools that enjoy greater management autonomy and increased access to resources. This process is fully consistent with the ongoing initiative to transfer government-funded schools to community management, and in fact, may offer a transition path for schools which cannot be transferred in the medium to longer term.

Key to the transition process is the SGP, which is the primary mechanism for project implementation. Funding for non-salary recurrent costs will be substantially increased through provision of basic block grants to all schools. This will be critical for improving the teaching learning environment as schools will now have more adequate resources to purchase basic learning materials and maintain the physical condition of classrooms. The grant also provides an incentive for SMCs to recruit female and dalit teachers who are essential for improving the retention rate of girls and children from vulnerable communities. The opportunity for schools to become eligible for higher levels of grant funding through a voluntary accreditation process, will motivate SMCs to meet performance criteria such as enrolment of girls and out of school children from disadvantaged ethnic groups, and greater accountability in the use of resources.

Cost effective and child friendly classroom designs will be developed to suit the topography of Nepal's different regions, and allow for the use of locally available building materials. Communities will be able to choose from several alternative designs and undertake the civil works themselves with the help of construction manuals containing a complete set of specifications, bill of materials, detailed drawings, and step-by-step guidelines on how to construct the classroom of the selected design. To meet the demand for additional classroom space as and when it arises (e.g., in communities which have to accommodate a sudden increase in enrolments as a result of out-migration from insurgency impacted areas), resources will be provided for the construction of temporary classrooms. Although these will be low cost structures, district overseers and technical personnel will ensure that they meet the technical specifications for safety and proper ventilation.

3. Fiduciary

The pooled funding donors have committed to the principles of harmonization (as reflected in the JFA), which aim to achieve the highest degree of alignment with HMG/N's budgetary and accountability systems, and legislation. Staff in the implementation agencies (FCGO, MOES, and DOE) are familiar with government financial management procedures, and have adequate knowledge of the Bank's procurement guidelines from previous involvement in IDA-financed projects. National consultants will also be appointed from time to time to support their work.

In view of the need to strengthen the internal control system, DOE will recruit independent reviewers to visit districts and evaluate the performance of the DEOs and SMCs. The reviewers will submit an independent assessment report to the DOE with recommendations for improvements in the system. Communities benefiting from school block grants will be required to organize local committees (e.g., local parents' committees) to undertake social audits, the findings of which will be reported to the responsible DEO. These audit reports will be carefully monitored by DOE and included as a key output in the EFA program monitoring framework. A mechanism will also be put in place for performance audits to assess the outcomes of the EFA program.

The Auditor General (AG) of the Kingdom of Nepal is the statutory auditor of the project. Since the Constitution has mandated the AG to undertake both financial and performance audits, MOES and the pooled funding donors will request the AG to carry out periodic performance audits on the EFA program in addition to the required financial audits. An audit committee under the chairmanship of the Secretary, MOES, will be established to monitor the actions taken on audit findings.

Overall, the financial management arrangements for the project and the EFA Program as a whole, meet the Bank's minimum requirements for effective financial control of the project. Areas needing further improvement/capacity building are indicated in Annex 7.

The EFA 2004-2009 program will begin in mid-July 2004. Since the proposed IDA credit will not be effective by this date, HMG/N will require retroactive financing of eligible expenditures prior to the Credit effectiveness date but after July 15, 2004.

4. Social

Based on the findings and recommendations of a social assessment study, HMG/N has prepared a Vulnerable Communities Development Plan (VCDP). The VCDP, which was finalized after extensive consultation with stakeholders, lays out a number of steps that should be taken to comply with OD 4.20 on Indigenous Peoples and ensure that the project not only causes no negative impacts on indigenous people and other vulnerable groups, but that it provides the necessary measures to ensure that they get equal access to project benefits. These measures include: (i) introducing home-to-school language transition program in areas where there are large populations for whom Nepali is not a mother tongue; (ii) providing incentives for recruitment of local bilingual women teachers in primary schools where necessary; (iii) disaggregating EMIS data by gender, caste, ethnicity and special needs to permit tracking of progress on inclusive education objectives; and (iv) enabling partnerships between the SMC and local community groups.

Experience has indicated that for effective implementation, more trained staff who are based in the field are needed, as mainstreaming of accountability for social inclusion has been difficult. More than rules, a shift in attitudes and behavior is needed to stimulate real social transformation in schools. The EFA program envisages support to SMCs from local women's, children's and other community groups to create increased ownership and broad participation in social monitoring of education service delivery. Partnerships with such groups will be encouraged to strengthen the EMIS and monitoring through community social mapping, and to carry out social audit of school expenditures, including allocation of scholarships to the most needy girls and Dalits.

5. Environment

No large scale, significant and/or irreversible impact is anticipated in this project. An environmental review by the DOE has identified several small-scale and local environmental issues potentially associated with project activities. These issues relate to site selection and planning (natural hazards; sensitive ecological regions; arsenic in the drinking water supplied in the schools; site drainage); building design and construction (indoor air quality and daylight factor inside the classrooms, sanitation facilities and waste management, water supply); and maintenance during the operation period (site cleanliness and hygiene, prevention of enteric infections).

The DOE has completed studies on: (a) the implications of arsenic in water supply, especially in the Terai area, and testing and mitigation requirements under the project; (b) systems for ensuring and improving sanitation facilities in schools; (c) appropriate methods for site selection of school buildings, sanitation and water facilities; and (d) appropriate designs and materials for creating a good learning environment with adequate lighting, ventilation, and acoustics. The findings of this assessment were used to prepare the National Environment Guideline for School Improvement and Facility Management in Nepal. This guideline will be followed while constructing new schools, or in additions or rehabilitations of the existing schools/classrooms.

The National Environment Guideline for School Improvement and Facility Management in Nepal, prepared in the course of Environmental Assessment (EA) of this project, includes: (a) guidelines for site selection and planning of school buildings; (b) guidelines for design of school buildings including provisions for sanitation, sewage disposal, site drainage, solid waste management, and landscape development; (c) guidelines for managing environmental issues during construction including environmental monitoring during construction; and (d) arrangements for regular supervision and periodic environmental audits.

Environmental Clearances. The project does not require any environmental clearance by the Government. In the course of project implementation, there might be a few schools located in forests or other protected areas. If such cases arise, site-specific clearance will be obtained, and all requisite government conditions will be fulfilled.

Community Consultations and Public Disclosure. Community consultation is an integral part of the overall EFA program. The local communities and institutions are involved in identification, planning, design, implementation, operation and maintenance of the schools and all other program activities. Consultations with schoolteachers, experts, NGOs and other stakeholders will continue throughout the implementation period. During the review of current school construction activities, as part of the EA, consultations were held with schoolteachers and NGOs/CBOs. Meetings were held with several stakeholders including the experts from the Department of Environment. The draft environmental guidelines were discussed with experts and NGOs, and the comments have been incorporated in the EA. The Government have disclosed the EA and other documents on their website, and the EA reports will be available at public places for wider dissemination.

6. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	X	
Natural Habitats (OP/BP 4.04)		X
Pest Management (OP 4.09)		X
Cultural Property (OPN 11.03, being revised as OP 4.11)		X
Involuntary Resettlement (OP/BP 4.12)		X
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	X	
Forests (OP/BP 4.36)		X
Safety of Dams (OP/BP 4.37)		X
Projects in Disputed Areas (OP/BP/GP 7.60)*		X
Projects on International Waterways (OP/BP/GP 7.50)		X

7. Policy Exceptions and Readiness

No policy exceptions are sought. This project complies with all applicable Bank policies.

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

Annex 1: Country and Sector or Program Background
NEPAL: Education For All Project

Nepal is one of the poorest countries in the world, with about 40 percent of the population living on less than US$1 per day. Although there has been some progress against the MDGs, social indicators remain weak and it will be difficult to attain most of the MDGs.

Nepal's Progress Towards Achieving the Millennium Development Goals

Millennium Development Goal	Nepal's Current Position
Halve, between 1990 and 2015, the proportion of people whose income is less than US$1/day.	As of 1995, it was estimated that about 40% of Nepal's population lived on less than US$1/day. There is little evidence that poverty has declined since the 1980s and the absolute number of poor has increased.
Enroll all children in primary education by 2015.	There is evidence that the net enrolment rate of primary-age children rose in the 1990s reportedly to over 70 %
Make progress towards gender equity and empowering women by eliminating gender disparities in primary/secondary education by 2005 and all levels by 2015	There have been significant improvements in the relative access of girls to school education during the 1990s (a ratio of girls to boys in primary/secondary education of 82%); however, the ratio of young literate females to males is still less than 60%, and Nepali women are still largely without voice and influence in the public domain.
Reduce infant and child mortality ratios by two-thirds between 1990 and 2015.	Within the last decade there have been considerable reductions in infant mortality (from 100 per 1,000 live births to 66) and child mortality (from 145 per 1,000 to 91); nevertheless, large regional variations persist.
Reduce maternal mortality ratios by three-quarters between 1990 and 2015.	Maternal mortality remains high (estimated at 830 per 100,000 live births in 1995) with only about 12% of births attended by skilled health staff.
Have halted by 2015 and begun to reverse the spread of HIV/AIDS, incidence of malaria and other major diseases.	It is hard to obtain an accurate assessment of the HIV/AIDS situation; however, evidence suggests that the HIV rate is rising rapidly – perhaps the early stages of a concerted epidemic—in several vulnerable groups, notably Nepalis working abroad and sex workers.
Integrate the principles of sustainable development into country policies and programs, and reverse the loss of environmental resources.	There are issues, e.g., deletion of soil nutrients and arsenic contamination in the Terai that show environmental sustainability remains a problem. However, other initiatives in drinking water and forestry indicate positive progress. A national sustainable development strategy is under preparation.
Develop a global partnership for development.	Nepal has an overall low level of telephone density and approximately two-thirds of telephones are in the Kathmandu valley.

Source: NEPAL: Country Assistance Strategy 2002-2007.

Nepali society is marked by inequity. Poverty is largely a rural phenomenon, and 85 percent of the total population of 23 million reside in rural areas. Poverty is highest in the mountain region[1] and in the mid- and far-western districts.

Political Context

The political environment in Nepal is marked by instability. Democratic governance is on hold since the Parliament was dissolved in 2002. Elections for local governments were also cancelled in the same year.

The insurgency that began in 1996 as a low intensity rural campaign escalated in 2001. A state of emergency was declared and the army was mobilized. Over 10,000 lives have been lost to assassination and armed conflict. Insurgents have destroyed infrastructure such as local government offices and telecommunications. The conflict has spread across the country; as a result, access of the Government apparatus to many parts of the country has been constrained.

There is no detailed account of the impact of the insurgency on rural education. Education officials are hopeful that insurgents will allow schools to function. However, it is known that several hundred schools have been closed and teachers are taxed by the insurgents. Both teachers and students have migrated to district towns. Travel, including visits to schools, has been curtailed for many district and local education officials.

Social Context

Society is characterized by significant ethnic and caste-based disparities. A hierarchical caste structure defines social status for the Hindu population. The lowest castes (Dalits), which comprise approximately 15 percent of the population, have a very high poverty incidence and are subject to significant social exclusion. Beyond this, some 37 percent of the population are categorized into 93 ethnic groups with their own mother tongue. These communities fall within the international definition of indigenous peoples; in Nepal, they are generally referred to as 'janajati'. There is considerable income variation across these groups; many are poor, some are not. Janajatis are found in most of Nepal's districts, and comprise more than half of the population in 26 of the 75 districts. Of the 93 ethnic groups counted in the census, 81 have less than one percent each of the total population.

Education Status

Although there has been progress in achieving equitable access to education for girls, dalits and janajatis, disparities remain, especially for dalits. The primary NER increased from 67.5 in 1995 to 81.1 in 2001, but the rate for girls was 75.1 and for boys 86.9.[2] The NER for dalit students is not officially reported, but is estimated to be about 40 percent for boys and 20 percent for girls.

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[1] Nepal has three distinct ecological regions: mountains, hills and the Terai plain that borders India.
[2] Data are drawn primarily from School Level Educational Statistics of Nepal 2001, and the 2001 Nepal Census.

Over the past twenty years, the adult male literacy rate has increased from 34 percent to 66 percent, but the gap between male and female literacy has remained the same over this period, with 43 percent of adult women being literate in 2001. The literacy rate for dalit women is 12 percent; among the larger Janajati communities the overall literacy rate ranges from 53 to 66 percent.

The public primary school system is highly inefficient. Fifteen percent of students enrolled in grade one are under-aged, and 39 percent of these repeat the grade. The survival rate to grade five is 67 percent. Less than a third of the students who begin primary school enter lower secondary school and only about 12 percent enter higher secondary school. Gender, caste and ethnic disparities in enrolments increase with the level of education, and poverty plays a key role. Only 5 percent of secondary students are from the lowest income quintile; at the university level, less than 1 percent are drawn from the poorest fifth of the population.[3]

The quality of public education is also low, with students getting less than one-half of answers correct on grade three and grade five achievement tests. The pass rate for students from public schools on the grade ten school leaving exam have ranged from 25 to 35 percent over the past decade; private school students do more than twice as well. Causes of low achievement at the primary level include inadequately trained teachers, high levels of student and teacher absenteeism, long delays in the delivery of textbooks and learning materials, and delayed provision of (inadequate) funding to schools.[4]

Primary and Basic Education System

Nepal's education system is overwhelmingly publicly financed and managed.[5] There are 21,000 public primary schools, of which 19,000 are in rural areas. There are 1,900 schools financed and managed by communities and 2,100 private primary schools, almost all of the latter in urban areas. The number of private primary schools is falling as insurgents are targeting them for closure. Public primary schools serve 3.4 million children. The overall teacher to student ratio is 1:40, but this varies by ecological region with the ratio in small mountain schools being 1:31. In the larger and usually overcrowded Terai schools, the ratio is 1:55. Of the 78,000 teachers in public primary schools, 13,000 (21 percent) are female. Only 15 percent of primary teachers are fully trained. Dalit and janajati participation in the teaching work force is very low in comparison with their share of the total population.

Teachers have been certified and appointed nationwide through the TSC. Recently, the MOES has taken steps to break the hold of the TSC on teacher appointments so that teachers can be appointed locally by SMCs. Currently, a SMC can appoint teachers only if the TSC cannot assign one to the school.

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[3] World Bank (2001). Nepal: Policies and Strategies for Education Reform, Report No. 22065-NEP.
[4] HMG/N Ministry of Finance (2003). Expenditure Tracking Survey of Primary, Lower Secondary and Secondary Schools.
[5] In 1972 the government nationalized community owned and financed schools, which comprised the bulk of education institutions.

Teacher education is provided through B.Ed and M.Ed programs in colleges and universities. A ten-month certification program is provided nationally through a combination of residential and distance education. Recurrent in-service training is provided at the school and cluster level by trained resource persons.

The system is managed by the DOE, MOES in Kathmandu through Education Offices in each of the 75 districts. DEOs are responsible for all levels of public education. DEOs work through resource persons in Resource Centers, which provide monitoring and professional support to a cluster of 10-25 primary schools. DEOs are responsible for ensuring the flow of funds to schools (currently grants for salaries and 300 NRs Grants to teacher for teaching materials), distribution of textbooks, organizing teacher in-service and other training activities, preparing expenditure and output reports every four months, and EMIS reports every year. DEOs also prepare an annual District Education Plan and budget for review in the MOES.

The system as a whole has been characterized by weak leadership and management. Despite the hierarchy of management, schools are frequently isolated. Reporting is slow and of uneven quality.

Decentralization of funding for and management of public services is a pillar of the Government's PRS; increased authority of communities has been shown to improve efficiency and outcomes because communities can find local solutions for local problems. Efforts to decentralize management authority and resources to schools have been uncertain until recently. However, the program of transferring schools to SMCs, with substantial grant financing, has taken hold. One thousand schools are expected to be managed by SMCs in 2005; the Government's target for scaling up this effort is 12,000 schools by 2009. The EFA 2004-2009 program should provide major impetus to the decentralization effort through substantially increased grants tied to school performance.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies
NEPAL: Education For All Project

Project	Credit No.	Sector Addressed	Closing date	IP rating	DO rating	Operational Evaluation Department ratings
Community School Support	3808	General education	09/302006	Satisfactory	Satisfactory	N/A
Basic and Primary Education II; Phase I	31850	Law and justice and public administration (Central government administration and sub-national government administration); Pre-primary education; Primary education; and Tertiary education	07/15/2004	Satisfactory	Satisfactory	N/A
Higher Education	2560	Tertiary education	11/30/2001	N/A	N/A	Outcome: Satisfactory Institutional Development: Substantial Sustainability: Likely Bank Performance: Satisfactory Borrower Performance: Satisfactory Quality of ICR: Satisfactory
Engineering Education	2044	Vocational/tertiary education and training	12/31/1999	N/A	N/A	Outcome: Satisfactory Institutional Development: Substantial Sustainability: Likely Bank Performance: Satisfactory Borrower Performance: Satisfactory Quality of ICR: Satisfactory
Basic and Primary Education	2357	Primary education	12/31/1999			Outcome: Satisfactory Institutional Development: Modest Sustainability: Likely Bank Performance: Satisfactory Borrower Performance: Satisfactory Quality of ICR: Satisfactory

Annex 3: Results Framework and Monitoring
NEPAL: Education For All Project

Results Framework

<table>
<tr><th>Project Development Objectives</th><th>Outcome Indicators</th><th>Use of Outcome Information</th></tr>
<tr><td>Improve access to and benefit from basic and primary education for rural children, especially girls and children from disadvantaged groups, and from literacy programs for poor adult women.</td><td>• Net enrolment rates by district
• Survival rates to grade five
• Learning achievement
*All reported by gender, and by dalit, disadvantaged janajati and other disadvantaged groups.</td><td>Outcome information will be used together with results monitoring data and financial reports to: (a) determine whether modifications are needed to program strategy; and (b) adjust pooled donor funding to performance.</td></tr>
<tr><th>Intermediate Results</th><th>Results Indicators</th><th>Use of Results Monitoring</th></tr>
<tr><td>Component One: Improving Access and Equity
Schools are able to attract girls, dalits and students from disadvantaged janajati groups to enroll and complete primary education</td><td>• Number of out-of-school girls, dalits and students from disadvantaged janajati and other disadvantaged groups
• Number/share of schools with required number of classrooms of acceptable standard
• Number/share of schools with safe drinking water
• Number/share of schools with girls' toilet</td><td rowspan="3">Below target achievement will signal potentially serious delays in program implementation, which, in turn, point to the need for: (a) independent performance audits and corrective action; and (b) review of pooled donor funding levels.</td></tr>
<tr><td>Component Two: Enhancing Quality and Relevance
School environments become more conducive to learning</td><td>• Percentage of entrants to grade one with ECD
• Percentage of fully trained teachers
• Number/share of accredited schools
• Number of schools providing transitional language support to non-Nepali speaking students</td></tr>
<tr><td>Component Three: Improving Efficiency & Institutional Capacity
Schools are increasingly autonomous with high levels of community involvement</td><td>• Share of sub-sector budget transferred to schools as grants
• Share of non-salary allocations in school grants
• Share/number of schools:
-completing SIPs
-receiving block grants on time
-receiving textbooks on time
-completing social audits
• Number of schools transferred to community management</td></tr>
</table>

Arrangements for Results Monitoring

		Target Values					Data Collection and Reporting		
Outcome Indicators	**Baseline**	**YR1 2005**	**YR2 2006**	**YR3 2007**	**YR4 2008**	**YR5 2009**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
Net enrolment rates[1]	82.4% *M 88.7% *F 76% *Dalits (NA) *Janajati (NA) (2002 EMIS)	88 93% 83%	90% 94% 86%	92% 94% 89%	94% 95% 93%	96% 96% 96%	EMIS annually	EMIS Flash Reports NLSS 2004 DHS 2007 NLSS 2009	MOES Central Bureau of Statistics (CBS) under Poverty Monitoring System
Survival rates to grade five	67.7% M 59.5 F 76.1 Dalit (NA) Janajati (NA) (2002 EMIS)	70%	73%	77%	81%	85%	EMIS	EMIS	MOES
Learning achievement outcomes (grade five)	52% M 52.7% F 52.2% dalit (NA janajati (NA) (2003)					60%	Learning Achievement Assessments 2007	Curriculum-referenced achievement tests	MOES/ independent contractor

[1] Baselines for NER by dalit and janajati groups are not available as current EMIS does not collect this information. However, when 'Flash' reports (i.e., streamlined reports based on a sub-set of EMIS data) are in place, it would be possible to track NER for these groups.

		Target Values					Data Collection and Reporting		
Results Indicators for Each Component	**Baseline**	**FY 2005**	**YR2 2006**	**YR3 2007**	**YR4 2008**	**YR5 2009**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data ollection**
Component One: Improving Access and Equity.									
Share of out of school: Girls Dalits Disadvantaged janajati Other disadvantaged groups	 24% (2000 EMIS) NA NA NA	17%	14%	11%	7%	4%	EMIS annual NLSS Reports	EMIS survey form Household sample surveys	MOES CBS under Poverty Monitoring System
Number/share of schools with required number of classrooms of acceptable standard	52.5% (2001 EMIS)	55%	65%	71%	78%	82%	Annual Progress Reports EMIS annual	EMIS	MOES/DOE
Number/share of schools with safe drinking water	59.4% (2001 EMIS)	65%	72%	78%	85%	90%	Annual Progress Reports EMIS annual	EMIS	MOES/DOE
Number/share of schools with girls' toilet	37.5% (2001 EMIS)	45%	50%	58%	65%	80%	Annual Progress Reports EMIS annual	EMIS	MOES/DOE

		Target Values					Data Collection and Reporting		
Results Indicators for Each Component	**Baseline**	**YR1 2005**	**YR2 2006**	**YR3 2007**	**YR4 2008**	**YR5 2009**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
Component Two: Enhancing Quality and Relevance									
Number/share of new entrants at grade one with ECD	8% (2001)	20%	25%	30%	40%	60%	Annual Progress Reports	EMIS	MOES
Number/share of accredited schools Grade one Grade two	 0% 0%	 10% 0%	 20% 2%	 30% 4%	 40% 7%	 50% 10%	Annual Progress Reports	EMIS	MOES
Share/number of teachers fully trained	15% (2001)	25%	40%	60%	80%	99%	Annual Progress Reports	EMIS	MOES
Number of schools providing transitional language support to non-Nepali speaking students	NA	50	100	150	200	300	Annual Progress Reports	Flash reports	MOES

		Target Values					Data Collection and Reporting		
Results Indicators for Each Component	**Baseline**	**YR1 2005**	**YR2 2006**	**YR3 2007**	**YR4 2008**	**YR5 2009**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
Component Three: Improving Efficiency and Institutional Capacity									
Share of sub-sector non-salary budget transferred to schools as grants	2003/04	20%	30%	40%	55%	60%	Annual Progress Reports	Consolidated FCGO Financial Reports	FCGO/MOES
Share of non-salary allocations in school grants	2%	10%	14%	16%	18%	20%	Annual Progress Reports	Consolidated FCGO Financial Reports	FCGO/MOES
Share/number of schools:									
-completing SIPs	8000	10000	12000	14000	16000	18000	Annual Progress Reports	EMIS Flash Reports	MOES/DOE
-receiving block grants on time	0	20%	30%	50%	65%	75%	Annual Progress Reports	EMIS Flash Reports	MOES/DOE
-receiving textbooks on time	NA	2000	4000	8000	12000	18000	Annual Progress Reports	EMIS Flash Reports	MOES/DOE
-completing social audits (cumulative)	0	20%	30%	50%	65%	75%	Annual Progress Reports	EMIS Flash Reports	MOES/DOE
Number of schools transferred to community management (cumulative).	1000 Estimated (2003/04)	2000	4000	6000	8000	10000	Annual Progress Reports	EMIS Flash Reports	MOES/DOE

		Target Values					Data Collection and Reporting		
Results Indicators for Each Component	**Baseline**	**YR1 2005**	**YR2 2006**	**YR3 2007**	**YR4 2008**	**YR5 2009**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
Finance									
Percent GDP channeled to primary education budget	1.9 (2001)	2.3	2.3	2.3	2.3	.3	National budget – Red Book		MOES/DOE
Education budget as percentage of national budget	15.2	16.2	16.4	16.8	17.2	17.5	National budget – Red Book		MOES/DOE
Percent total education budget channeled to primary education sub sector	57.5	62.4	62.0	62.0	61.5	60.0	National budget – Red Book		MOES/DOE

Annex 4: Detailed Project Description
NEPAL: Education For All Project

Background

Primary education in Nepal comprises grades one to five. Public, community-funded, and private schools account for 85 percent, six percent and nine percent, respectively, of primary enrolments. Publicly-funded primary schools are not allowed to levy fees on students. Private primary schools offer pre-primary programs of up to three years' duration. Public schools are also starting to add pre-primary classes, which are not funded by the Government.[1]

In 2002, the NER in primary education (as reported by the EMIS) was 82 percent. Since 1995, except for one year, the NER has been increasing at approximately one percent per annum. The completion rate increased from 44 percent to 59 percent between 1998 to 2001. If the current pace of improvement in access is not accelerated, and the survival rate does not improve, Nepal is not likely to be able to meet the MDG target of Universal Primary Education by 2015. This challenge seems even greater considering the possibility that enrolment statistics may have been inflated due to weaknesses in the present data collection and analysis system.

In spite of considerable investments in the basic and primary education sub-sector, the quality of education still remains poor with average examination scores at grade three and grade five reaching only about 51 percent and 50 percent, respectively, in 2001. The perceived quality gaps between private and public provision, which are reinforced by a significant difference in success rates in School Leaving Certificate Examinations – 85 percent for private schools and 15 percent for public schools – has led to flight of children from well to do families to private schools that has created segregation in education along income lines.

Responding to the deep public mistrust of the public school system, the Parliament in 2001, passed the Seventh Amendment to the Education Act paving the way for schools to be made more accountable to the community they serve. The Amendment calls for the formation of school management committees (SMC), the members of which will be elected by parents and/or guardians from among themselves. Subsequently, the Government has issued directives allowing transfer of public schools to community management, and decentralizing significant authority to the SMCs of community-managed schools. To date, about three percent of public schools have been transferred to community management. The Government has set a target of transferring to community management, over a third of public schools by 2007.

Important lessons have been learned from the ongoing Basic and Primary Education Project (BPEP II) being supported by eight donors including IDA. First, fragmented and uncoordinated delivery of developmental inputs to schools by various units of the Government has helped little to improve service delivery of schools. Second, artificial segregation between regular and

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[1] The Government does not provide grants for pre-primary teachers nor bear other costs of the program. Parents who send their children to pre-primary classes will have to pay fees unless the schools find a means of cross-subsidizing these classes.

developmental activities of schools hinder synergy of investments in schools.[2] Third, empowerment of schools and a school-centered approach will be critical for ensuring greater returns from investments. Based on the lessons learnt, the following strategies will be adopted in the EFA: (i) funding of schools through block grants allowing communities to make their own choices in terms of inputs/investments and thus nurturing community/school initiative; (ii) introduction of a full sector wide approach with a financing arrangement that calls for integration of regular operations and developmental activities, thus ensuring synergy of investments; (iii) increased focus on social inclusion and accountability; and (iv) introduction of a school accreditation system linking award of block grants with achievement levels of schools.[3] These strategies will not be completely new to Nepal. Since August 2003, the IDA-financed Community School Support Project, has led the way to introduce block and performance grants to schools, and partnership of schools with Support Organizations including NGOs to achieve school improvement targets, including those related to social inclusion and accountability.

The current conducive policy environment and rich experience from BPEP II will enable the project to achieve significant improvements in the sub-sector. During project preparation, a careful policy analysis was carried out to ensure that all policy gaps are addressed. This analysis has revealed four critical policy gaps in the sub-sector. First, central recruitment of teachers by the TSC reduces the accountability of teachers to schools, and leads to uneven deployment of teachers given that centrally recruited teachers are unwilling to move to rural/remote areas. Second, the lack of female teachers in more than half of the schools has hindered progress towards gender parity. Third, as a result of grossly inadequate non-salary recurrent budgets, schools are unable to deliver quality education. This has forced many schools to levy fees, which is contrary to the Law, and consequently, denying access to the poor. Fourth, late delivery of free textbooks is a persistent problem hindering children's learning.

To address the above policy gaps, the Government has committed to: (i) convert all teacher positions in community-managed schools that fall vacant after July 16, 2004 into community-recruited positions funded by the Government, but which are not subject to recruitment through the TSC; (ii) fund additional teachers required in schools through block grants allowing schools to recruit teachers without referring to the TSC; (iii) establish two female teacher posts in every primary school; (iv) increase school non-salary recurrent budgets through block grants; and (v) increase the role of the private sector in textbook development, production and distribution.

The EFA Program

The Government's Education for All (EFA) 2004-2009 program will support the basic and primary education sub-sector with a view to meet the international and national commitments for "education for all" as well as the targets of the MDGs with respect to universal primary education and gender parity. This program builds on the: (i) Tenth Plan (2002-2007), which constitutes Nepal's PRS; (ii) MTEF (2003-2006); and (iii) EFA National Plan of Action (2002-2015). The program, estimated to cost about US$789 million, will be funded by the Government (US$514

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[2] The development budget is predominantly funded through external assistance while the regular budget is financed by domestic resources. Recognizing that this does not meet international norms, the Government is in the process of reclassifying development and regular expenditures into recurrent and capital categories.

[3] The block grants program and the associated school accreditation system are described in Annex 17.

million, 65 percent), with donors providing the balance under a SWAp led by the Government and underpinned by the EFA strategy. JICA, WFP, IDA, ADB and UNICEF will provide approximately US$125 million or 16 percent of program requirements through parallel project financing. Denmark, Finland, Norway, DfID/United Kingdom and IDA will pool their funds (US$150 million or 19% of the EFA budget) with government resources under the SWAp. IDA will contribute US$50 million in credit financing to the pool through a SIL.

The pooled funding is designed to meet the funding gap for the Government's EFA program rather than financing a particular set of activities under the program. Hence, the pooled donor resources, which will be blended with government resources, cannot be attributed to any specific set of development activities under the program. By virtue of this design, the IDA-financed project will monitor the outputs and outcomes of the sub-sector wide EFA program. Financial monitoring under the project will, however, not extend to parallel donor funding, implying that from the public expenditure monitoring perspective, the estimated costs of the EFA program will be around US$664 million (Annex 5).

Drawing from the goals of the Dakar Framework for Action, the EFA program is built around the following six thrusts: expanding and improving early childhood development; ensuring access to education for all children; meeting the learning needs of all children including indigenous peoples and linguistic minorities; reducing adult literacy; eliminating gender disparity; and improving all aspects of quality education.

Expanding and Improving Early Childhood Development

Completion of early childhood development program has been shown in Nepal to improve learning gains and completion rates. Therefore, ECD programs will have particular relevance for children from deprived families. Recognizing this fact, the EFA program will target ECD interventions to most remote districts and other disadvantaged areas.[4] The program also addresses the problem of underage enrolment in grade one (approximately 15% of enrolment) leading to high repetition rates with significant negative impact on both learning outcomes and system efficiency. At present, the program is being implemented on a cost sharing basis. The Government provides NRs 500 per month towards remuneration of an ECD facilitator. As this is significantly less than the salary of a primary school teacher (over NRs 4,000 per month), there is intention to raise this to NRs 1,000 per month. Increased subsidies proposed for the ECD programs under EFA will increase the access of poor families to the programs.

At present, there are around 5,700 community-based and school-based public ECD centers. In addition, there are about 1,500 pre-primary classes contributing to the same purpose. The EFA program envisages establishment of 11,000 new ECD centers. The centers will cater for around 270,000 children annually. The program aims at increasing the percentage of new entrants to grade one with ECD experience from eight percent in 2001 to 60 percent in 2009.

[4] Targeting will also be based on low participation rates, and targeting within districts may be necessary to serve pockets with lower participation rates.

Ensuring Access to Education for All Children

The second thrust of the EFA program is to ensure that all children, particularly girls, children in difficult circumstances and those belonging to ethnic minorities, have access to and complete primary education of good quality. A specific objective will be to increase the NER from 81% in 2001 to 96% in 2009. This will be a tremendous challenge, given that the promotion rate at grade one is only around 50% in 2001. To mitigate economic, social and cultural barriers to access, financial assistance will be provided to girls from remote districts, dalit children, children from disadvantaged janajatis[5] and other children from households below poverty line. Social inclusion will be promoted through partnerships with local organizations, and incentives to schools. Support from local bodies, particularly Village Development Committees (VDCs) and municipalities is envisioned for facilitating access to school for excluded groups through development of village education plans and incentives provided to local bodies.

Enrolment opportunities will be improved through construction and furnishing of 8,000 new classrooms, rehabilitation of 6,000 classrooms, improving site services in 5,000 schools with special focus on toilets for girls and safe drinking water. A key objective will be to meet the classroom requirements of all schools so that no child is denied access to school. Schools that have not qualified for new permanent classrooms but have high demand for access, will be provided with temporary classrooms. During the EFA program period, about 1,000 temporary classrooms, which are low-cost, safe, well lit, and well ventilated structures will be built using local materials. In addition to the standard classroom designs developed for BPEP, alternative designs that are adapted to different geographical and site conditions will offer schools a choice in what best suits the local environment (details provided in Annex 2). Civil works will undertaken by schools on a cost sharing basis, and the DEO will assist in site supervision to assure quality. In addition to school works, the EFA program will also finance construction of 23 DEOs and 250 Resource Centers (RCs), which are components of the overall infrastructure for service delivery.

The EFA program will continue to support alternative schooling for children aged six to eight years in very small and remote hamlets through 1,000 school outreach programs. For children in the eight to 14 years age group who could not join school, 800 flexible schooling programs will be available. Support will continue during the program period for special needs education to cater to children with learning difficulties, and to promote inclusive education. A conflict and disaster fund will be established to support school children victimized by the insurgency, natural calamities, and HIV AIDS. An operational framework for this fund will be prepared before commencement of the EFA program.

Meeting the Learning Needs of all Children Including Indigenous Peoples and Linguistic Minorities

Home to school transition support to non-Nepali speaking children, constituting about 50% of children in Nepal, will be developed and piloted in about 50 schools serving predominantly non-Nepali speaking populations in five districts. The design of the pilot will be completed by

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[5] Indigenous ethnic groups.

December 2004. Pilot results will guide expansion of the initiative to cover about 50% of schools serving predominantly non-Nepali speaking populations. In addition, support will be provided for activities aimed at: (a) promotion of primary education in mother tongue; (b) incorporation of life skills and local content in the school curriculum; and (c) communication of program objectives and strategies.

Improving Adult Literacy

A primary goal is to increase the adult literacy rate (15+ years) from 48 percent in 2001 to 66 percent in 2009. At the same time, the literacy gender parity index will be raised from 0.6 in 2001 to 0.9 in 2009. To achieve these goals, support will continue for the ongoing Women's Literacy Program and National Literacy Campaign. It is expected that the Women's Literacy program will provide basic literacy to 60,000 women and enable 48,000 others to become functionally literate. Ten percent of the women who attain functional literacy will be trained in self-employment skills. Women's Literacy programs will be focused in 18 low literacy districts. During the EFA program period, an achievement test for adult literacy will be instituted.

Support will also be provided to 205 community learning centers catering to out of school children and neo-literates. Out of School Programs will be targeted to school dropouts with the primary purpose of redirecting them to schools. About 250,000 children will benefit from this program. Supervision of Out of School Programs and adult literacy programs will be shifted from DEOs to VDCs/schools as the capacity of the latter is built up.

Eliminating Gender Disparity

The MDGs aim to close the gender gap in primary education by 2005. In Nepal, NER for girls lagged behind that for boys by about 12 percent in 2001. The gender gap is much wider among dalits, deprived ethnic and other disadvantaged groups. This implies that the gender gap can only be closed if efforts to increase girls' enrolment are integrated with efforts to enroll dalits, deprived ethnic and other disadvantaged groups. The Government's strategy has been and will be to provide scholarships of NRs 250 per year to girls, dalits, and children from other disadvantaged groups. These scholarships will be funded through the School Grants Program (SGP) and benefit about 650,000 students per year. Under the SGP, booster scholarships of NRs 500 per year will be introduced to mainstream about 120,000 children from excluded households per year. Taking into account the additional costs due to higher enrolments as well as the need for providing incentives to schools, an additional amount of NRs 100 per scholarship/booster scholarship per year will be awarded as an untied grant, which may also be used to provide additional support to needy students.

Discrimination of dalits, comprising about 15% of the population of the country, in schools has been recognized as one of the major factors hindering access to and retention of dalit children. In spite of the legal provisions for making discrimination illegal, deep rooted traditions and lack of an operational framework for preventing discrimination have limited progress towards reduction of discriminatory behavior. An important step in addressing this problem will be development of a framework (rules and enforcement) for preventing the discrimination of girls, dalits and other groups.

To encourage females and dalits who aspire to become teachers, scholarships will be provided to 100 pre-service teacher trainees for undertaking the ten-month teacher's training course. To motivate schools to recruit female and dalit teachers, a one-time bonus of NRs 5,000 per newly recruited female or dalit teacher will be awarded to schools. These scholarships and bonuses will be paid out of school grants.

Improving All Aspects of Quality Education

The major focus of the EFA program will be empower SMCs to take initiative for school improvement in partnership with the community. The first step in this direction will be articulation of a shared vision for the school and the community through a participatory process. This will be the corner stone of school improvement planning, an initiative that will be supported through various types of earmarked and block grants to schools to cover quality and physical improvement needs, non-salary recurrent costs, capacity building needs, and support for children's access to and retention in schools. School improvement plans are now being prepared in 12 districts; all schools are expected to prepare these plans by the end of the EFA program period.

Training and capacity building for SMC members, head teachers and community organizations will be provided to enable them to effectively access and use grant resources. Key elements of the grants program will be award of performance bonuses to schools, incentive grants to community-managed schools, and free textbooks and basic learning materials to all children. In addition, support will be provided for the purchase of materials for book corners in classrooms, research and development activities at the center and districts, including school-based action research, and piloting of computer education.

Recurrent training for teachers developed during BPEP II will be strengthened to make it more relevant to local contexts. A ten-month certificate training course to enable teachers to qualify for certification is being strengthened and expanded with support from the ADB.

The EMIS will be strengthened and streamlined to enable rapid monitoring of key outputs and outcomes at the school and district level (Annex 3). Evaluation of initiatives such as scholarships to girls, dalits and children belonging to disadvantaged janajati and other disadvantaged groups, alternative education, and adult literacy programs will be undertaken to inform design modifications and/or up-scaling.

Special EFA Program Features

School Grants: The critical difference in design and implementation modality between the EFA program and BPEP II, lies in the expanded use of block and earmarked grants to replace in-kind support provided to schools. Grants will be tied to a school accreditation system that will be introduced under the program. Under this system, schools will be classified into three categories: unaccredited, grade one, and grade two. Unaccredited schools will be eligible for basic grants. Grades one and two schools will be eligible for level 1 and level 2 grants, respectively.

According to a proposal prepared by the DOE, accreditation will be based on eight indicators: (i) accountability/transparency; (ii) physical facilities; (iii) teacher availability and training; (iv) external environment (drinking water and sanitation in particular); (v) internal environment (classroom, learning materials and furniture); (vi) co-curricular activities; (vii) school operating processes; and (viii) outcomes. Schools meeting grade one benchmarks for the first seven indicators will qualify for level 1 block grants. If they meet the eight indicator for outcomes, a bonus will be awarded as well. Similarly, schools meeting the higher benchmarks set for grade two, will be eligible for level 2 grants. Grade two schools that perform well on outcomes will also be rewarded with bonus payments. These criteria will be finalized by July, 2004 and included in an Operational Manual for administration of school grants.

Education outcomes will be improved through the synergy of sub-program activities. ECD and pre-primary classes improve learning readiness and increase system efficiency by reducing underage enrolments; both factors should contribute to enhanced learning achievement and completion rates. Involvement of community organizations for mainstreaming out of school children, combined with scholarship programs, improved school facilities, increased literacy for mothers, and support to students for language transition, will increase demand for schooling. Expansion of the number of classrooms will accommodate growing demand. The impact of all of these programs will be increased by giving schools the central role in service delivery through the expanded block grants and capacity building programs.

EFA Program Funding: In addition to the 'development budget' costs associated with the six main EFA thrusts (US$182 million), the Government and pooling partners will support 'regular budget' costs – salaries and benefits of teachers and managerial staff under the MOES, which are estimated to be around US$482 million. Parallel funding is also provided for the sub-sector through projects outside the pooled financing arrangement. These projects, contributing about US$125 million, include: (i) Primary School Construction Project (JICA); (ii) Primary School Nutrition Food Program (WFP); (iii) School Transfer and Incentive Program (IDA); (iv) Teacher Education Project (ADB); (v) Basic and Primary Education including the ECD Project (UNICEF); and (vi) UNESCO Support to Community Learning Centers/ECD.

Joint Financing Arrangement: The joint financing arrangement between HMG/N and five pooling donor partners – Denmark, Finland, Norway, DfID/UK, IDA – enables the use of the Government's financial management and reporting procedures for the EFA program. This has the benefit of not only reducing transaction costs for all the parties concerned, but will also increase MOES compliance with HMG/N's recently amended FAR. Further reduction in the Government's administrative burden will be achieved through a strengthened and streamlined EMIS, which will provide output and outcome information needed for monitoring progress against program objectives and results indicators.

Annex 5: Project Costs
NEPAL: Education For All Project

The standard Project Costs Table is not applicable as proceeds from the IDA credit, together with funds from four other donors (Denmark, Finland, Norway and DfID/UK) will be pooled with HMG/N resources to finance the 2004-2009 EFA program.

Table 1: EFA Program Budget by Funding Source

	US$ million	**%**
Total budget, of which:	789.0	100
Regular[1]	482.0	61
Development[2]	307.0	39
By funding source:		
HMG/N	514.0	65
Non-pooling donors[3]	125.0	16
Pooling donors[4]	150.0	19
Of which, IDA	(50.0)	(33)
Total	789.0	100

Under the joint financing arrangement, IDA and pooling partners will track all EFA program expenditures in both the regular and development budgets excepting those financed through parallel projects supported by non-pooling partners.

This implies that the program budget for financial monitoring purposes will be US$664 million for the five-year period.

[1] Regular budget comprises mainly recurrent expenditures (salaries, administrative costs). Under the present system, HMG/N finances 100% of the regular budget.
[2] Development budget includes both capital and recurrent cost items, which are predominantly funded through external assistance. HMG/N contributes a small share (around 18%) to development expenditures, mainly in the form of counterpart funding for donor-supported projects.
[3] Donors supporting projects outside the pooling arrangement include JICA, WFP, ADB and UNICEF.
[4] Denmark, Finland, Norway, DfID/UK and IDA will enter into a joint financing arrangement with HMG/N.

Table 2: EFA Program Budget Estimates for FY2004/05

Budget category	Source of Funding in NRs			Budget in US $ millions[5]		
	Total	HMG/N	Development partners	Total	HMG/N	Development partners
National Budget[6]	112640000	81473700	31166300	1522.2	1101.0	421.2
Education Budget[7]	17977483	12864105	5113379	242.9	173.8	69.1
Total Primary Education Budget	11209523	7310945	3898579	151.5	98.8	52.7
% Source of Primary Education Financing		65.2	34.8			
Pooled Funding	9200044	7042778	2157266	124.3	95.2	29.2
% Source of Pooled Funding		76.6	23.4			
Regular Budget[8]	6175087	6175087	0	83.4	N/A	N/A
Development Budget, Center[9]	153895	33000	120895	2.1	N/A	N/A
Development Budget, District[10]	2871063	834691	2036372	38.8	N/A	N/A
Non-pooled Funding[11]	2009479	268167	1741312	27.2	3.6	23.5
% Source of Non-pooled Funding		13.3	86.7			

Source: MTEF and MOES

[5] Exchange rate used for calculation is US$1 = NRs74.
[6] Estimates.
[7] Estimates.
[8] Covers total recurrent expenditures for basic and primary education.
[9] Covers development expenditures incurred at the center.
[10] Covers development expenditures incurred at the district level.
[11] Parallel project funding outside the JFA.

Annex 6: Implementation Arrangements
NEPAL: Education For All Project

The partnership between the Government and donor partners established for the Basic and Primary Education Project II (BPEP II) has worked well, and will be strengthened in the proposed operation. Based on successful use of basket financing for BPEP II, and the Government's objective of increased donor harmonization, a Donor COC has been agreed upon, and a Joint Financing Arrangement (JFA) for fund pooling by four donors and the Government, has been developed. The JFA, details of which are given in Annex 15, is expected to be signed by all parties before the EFA program commences. The COC reflects donor and government commitment to enhance aid effectiveness by decreasing the transaction costs of partnership, and improve coordination amongst the partners.

The JFA sets forth the agreements to be reached between the Government and signatory partners for the creation and management of pooled donor funding arrangements in support of the EFA program. Donor funds will be deposited in a government bank account and managed by the Ministry of Finance through government budget and financial management procedures (Annex 7).

Implementation arrangements are largely based on those used for the BPEP II, and reflect the high priority that the EFA program holds for the Government, including extension of the sector wide approach. The main deviation from BPEP II in respect of implementation modality will be the enhanced role of schools and communities, and a shift from the component driven approach to a holistic, school-centered approach.

<u>Financial Management</u>. The MOF/FCGO will be accountable for the financial management of pooled government and donor funds for the EFA program. To ensure timely production of financial reports, the FCGO will provide access to its database to the DOE. The Financial Controller in the DOE will extract the relevant information from the FCGO database for the compilation of reports, which are endorsed by the FCGO before submission to pooling donor partners. The DOE will maintain the accounts of pooled donor funds identified by specific budget codes in accordance with the Government's cash-based accounting system.

<u>EFA Program Management</u>. The MOES will be the implementing agency for the program in coordination with the MOF, Ministry of Local Development (MLD), other line education agencies and specialized institutions, civil society, international NGOs and NGOs, including those representing dalits and janajatis.

A Program Management Committee (PMC) will be established to: (a) oversee preparation of the ASIP and AWPB; (b) monitor overall program implementation progress; and (c) bring to the attention of the Secretary, MOES, any cross-cutting issues impacting on program implementation, which require inter-ministerial coordination among MOES, MOF and MLD. PMC members comprise:

1. Joint Secretary, Planning Division, MOES (Chair)
2. Director General, DOE
3. Joint Financial Comptroller General, Office of the Financial Comptroller General

4. Director General, Curriculum Development Center
5. Director, Planning and Administration, DOE
6. Executive Director, National Center for Education Development
7. Director, Non-formal Education Center
8. Joint Secretary, Ministry of Local Development
9. Director, School Education Division, DOE
10. Under Secretary, Ministry of Finance

Planning and Programming. Decentralized planning and programming was introduced during BPEP through pilot tests of school improvement and district education plans. These plans serve as a major strategy for empowering communities and achieving holistic implementation of EFA strategies at the school and community level. SIPs are reviewed at the District level and provide the basis for the award of SIP grants to schools.

DEOs will prepare annual District Education Plans, review school improvement plans, disburse grants to school bank accounts, monitor school performance, and report twice annually on key outcome and process indicators, and three times a year on key output indicators (Annex 7).

School Grants Program. The expanded SGP will be the primary mechanism for implementation, including for areas affected by the insurgency. MOES will support the implementation of the SBG through public communication and outreach programs to build awareness of the new opportunities for school, a program of workshops to introduce the SBG to district staff, SMCs and teachers, and capacity building for the establishment of local school support organizations and parent committees for school audits.

A school accreditation system will be introduced as a part of the program. Schools will take part in accreditation voluntarily. Schools taking part in accreditation will conduct self assessment, which will be verified ex-post by experts in the accreditation roster approved at the district level. To leverage school improvement, block grants to schools will be linked to accreditation. Schools will be encouraged to use block grants to engage outside support for school improvement from NGOs and Support Organizations. DEOs will disburse grants to school bank accounts and monitor performance. Social audits of school performance and use of funds will be conducted by committees formed by communities (e.g., parents' committees) and reviewed by DEOs. A random sample of social audits will be reviewed by DOE, and the results reported in the APR.

Operational manuals for the school grants program will be developed and tested. Training will be provided to district staff, school management committees and head teachers. SIPs and accreditation will be the instruments through which schools can apply for grants. School Management Committees will be required to publicly disclose their finances by posting the information at the school and the office of the VDC.

The delivery of services from the DOE and other central agencies will be sharply reduced as the school grants program is scaled up. The DOE will increasingly focus on program monitoring and technical support to districts.

Donor Coordination. All donor partners are coordinated by the Foreign Aid Coordination Section (FACS) of the MOES. FACS will convene meetings of the local representatives of all donors, including those providing parallel financing.

A Joint Annual Review in April of each year will assess implementation progress, outcomes and expenditures as provided through the APR prepared by the MOES for the fiscal year ending in July of the previous year. The APR will report on outcomes, intermediate outcomes, outputs and expenditures. The ASIP and the AWPB for the next year will also be presented and reviewed. Pooling donors will make funding commitments for the next year on the basis of the ASIP, AWPB and performance as reported in the APR (Annex 7).

In addition to the April Annual Review, a consultative meeting will be held in December of each year between pooling donors and the Government. In accordance with JFA provisions, this meeting will review the preliminary consolidated financial statements for the previous fiscal year as well as financial and output reports for the first trimester of the current year. Both the Annual Review and the consultative meeting will be preceded by independent technical reviews financed outside the pooling arrangement, which provide additional information to pooling partners on financial and overall implementation progress. The technical reviews will include site visits to a sample of districts and schools in those districts. In light of the conflict situation and consequent difficulty of donors to travel to the field, suitably qualified agents would be contracted locally for carrying out the site visits to assess implementation progress.

Annex 7: Financial Management and Disbursement Arrangements
NEPAL: Education For All Project

Country Financial Issues

The Nepal CFAA, jointly conducted by HMG/N and IDA, was completed in 2002. The assessment concluded that the failure to comply with the impressive legal and regulatory fiduciary framework makes fiduciary risk in Nepal "High" by the standards of that framework. Faithful implementation of the framework would have brought risks closer to good practices found in developed countries. Fiduciary risk in Nepal is similar to that in most developing countries.

The Government has put in place a sound financial management system, with the introduction of a computerized Financial Management Information System. The FMIS, which is an integrated system connecting 64 out of 75 districts (of which, 57 are currently functional), allows the FCGO to receive on-line expenditure reports from District Treasury Controller Offices (DTCO).

The development budget was prioritized in 2002 (as part of a three year MTEF), and the number of projects/programs was significantly reduced. Priority projects are required to have trimester work plans with detailed output/physical achievement targets and expected results. Expenditure reporting and fund release procedures are now linked to performance of priority project; this requirement will be extended to all other projects/activities. Information on budget allocations, expenditures and outputs are now published, and made available to the public. A web portal for HMG/N, containing information on projects and activities has been created, with links to government departments.

Starting from FY2005, HMG/N intends to reclassify expenditures under the regular and development budgets as recurrent and capital expenditures. The Government has also constituted the Accounting Standards Board and Auditing Standards Board in March, 2003, which since then, have released four Accounting Standards and eight Auditing Standards, respectively. Overall, implementation of the development action plan as agreed in the CFAA for the public and private sectors, is satisfactory.

EFA Program and Financing Plan

The EFA National Plan of Action (NPA) is designed to meet national and international commitments in education. The EFA Core Document reflects the NPA for the period 2004-2009. Donor partners agreed that this document provides a largely satisfactory policy and strategy framework for implementation of the NPA. The objectives of the EFA program, as described in the Core Document are to: a) ensure access and equity in primary education, b) enhance quality and relevance of basic and primary education, and c) improve efficiency and institutional capacity.

The sub-sector program that HMG/N and donor partners are jointly financing is the total public expenditure on basic and primary education, including both development and regular expenditures. As such, the program incorporates planning and monitoring of the contributions of HMG/N, pooling donors (DANIDA, DfID, Finland, NORAD, IDA), and donors providing parallel project financing outside the pool. The pooling donors have committed to harmonization principles as reflected in the JFA for providing financial support to the EFA program. Under the JFA, which also serves as a coordination and consultative framework for the signatories, the pooling partners will subscribe to the use of government systems for disbursement and accounting of pooled government and donor funds (Annex 15).

The Financial Management System

The MOF/FCGO will be accountable for the financial management of pooled government and donor funds for the EFA program. To ensure timely production of financial reports, the FCGO will provide access to its FMIS to the DOE. The Financial Controller in the DOE will extract the relevant information from the FMIS for the compilation of reports, which are endorsed by the FCGO before submission to pooling donor partners. The DOE will maintain in spreadsheets, the accounts of pooled donor funds identified by specific budget codes in accordance with the Government's cash-based accounting system. The accounting systems contain the following features: (a) application of consistent cash accounting principles for documenting, recording, and reporting financial transactions; (b) well-defined chart of accounts that enables meaningful summarization of financial transactions for financial reporting; (c) asset register; (d) monthly closing and reconciliation of accounts and statements; and (e) production of annual financial statements acceptable to all donors. These financial management arrangements, including key components described below, are adequate to meet the minimum financial management requirements for the project supporting the EFA program.

Planning and Budgeting

The budgeting procedures for preparation, approval, implementation, and monitoring are elaborated in the FAR. At the beginning of the fiscal year, the NPC and MOF will set budget ceilings for all line ministries based on the overall development policy of HMG/N and availability of financial resources. These agencies also issue budget preparation guidelines, which are passed on through the ministries to subordinate units. Work programs and budgets are then prepared by these units and consolidated for submission to the NPC and MOF.

The above process is followed by the MOES in the preparation of the AWPB for the EFA program.[1] Pooling donors will review the AWPB and ASIP at an annual meeting in April of each year. Based on the outcome of the review, they commit resources and agree on the share of pooled donor funding in the program budget for the next fiscal year. After the budget is approved, the MOF releases spending authorization to the MOES, which will, in turn, release expenditure authorization to DOE and thereafter to spending units. Given that the EFA is a priority program, funds will be promptly released as soon as the DOE receives authorization from the MOES accompanied by the AWPB. The DTCO will also receive a copy of this documentation.

Separate and identifiable budget codes will be provided by the MOF to enable monitoring and reporting on EFA program expenditures funded through the pooling arrangement. Public expenditures that are jointly financed by the Government and pooling donors will be tracked to those associated budget heads and sub-heads for basic and primary education under the EFA

[1] The annual work plan, based on the approved program and estimated budget is prepared by the DOE/MOE and is divided into trimesters.

program. Program support from donors outside the JFA are subject to separate agreements and monitoring arrangements.

Staffing

The Accounts Section in the DOE is headed by the Financial Controller supported by six accounts staff. Each staff has the responsibility for maintaining the accounts of specific budget heads. Two staff will be primarily dedicated to maintain the accounts of EFA expenditures financed through the pooling arrangement; other staff will maintain accounts financed by donors outside the pool. Each cost center will be staffed by at least one accountant who is responsible for maintaining the accounts in accordance with government procedures, and for submitting monthly statements of expenditures to DOE and DTCO. While it may take some time for DOE to receive monthly expenditure statements from its cost centers, such statements are promptly transmitted through network connectivity between DTCOs and the FCGO. To enable the DOE to obtain and reconcile the required accounting information more speedily, on-line access to the FCGO database will be provided. The DOE will take the lead in monitoring expenditures at the district level, and to train new staff.

Internal Controls

The financial accounting policies and procedures in place are sufficient to ensure that the EFA program complies with minimum financial management requirements. These include the establishment of internal controls and proper accounting procedures described in the FAR. The DEOs are responsible for maintaining district level accounts by budget heads. DEOs forward monthly expenditure statements to the DOE and the respective DTCOs. The DOE also prepares a consolidated expenditure statement for the program funded through the pooling arrangement based on expenditure reporting by DEOs. The DOE periodically reconciles this information with information generated by the FCGO's database.

The Constitution of Nepal mandates the Auditor General to carry out performance audits in addition to financial audits. As such, the MOES and pooling donors will rely on these audits to assess EFA program impact. The DTCOs are responsible for monthly internal audits of all district cost centers; however, in some districts, these audits are not undertaken in a timely manner due to lack of staffing and/or remoteness of cost centers. In order to address this deficiency, a mechanism will be put in place whereby DOE will recruit independent reviewers, preferably professionally qualified audit firms, to visit districts and evaluate the work of DEOs and communities. The reviewers will submit an independent assessment to the DOE with recommendations for improvement. Assurances of effective grant utilization will be obtained through a system of public disclosure of statements of accounts and social audits by communities benefiting from EFA program funds. The social audit committees formed by the communities will mandate that schools receiving grants be subject to social/public audit. Findings will be reported to the respective DEOs and carefully monitored by DOE and technical review missions organized by pooling donors.

Financial Reporting, Monitoring and Disbursement

MOES/DOE will use the government reporting system to the extent possible to prepare and submit the FMRs on a trimester (every four month) basis, duly certified by the FCGO, within 45 days of the end of each trimester, which will provide the basis for disbursement by pooling donors each trimester into a foreign exchange account established at the Nepal Rastra Bank (NRB). The FMR will constitute the following reports:

a. for each trimester and year to-date, a report on the transfers to and withdrawals from the foreign exchange account, with a copy of the bank statement for the account;

b. consolidated financial report for allocations and expenditures from the FCGO for the budget heads, comparing actual and budgeted figures by budget line item, for the trimester and cumulatively for the fiscal year to-date;

c. output based progress report relating EFA expenditures to outputs for the first and second trimesters;

d. cash forecast statement for the following two trimesters accounting for the current balance in the foreign exchange account; and

e. update on the procurement plan.

Formats for the FMR were discussed at Negotiations, which will be finalized by June 30, 2004. In addition, semi-annual 'Flash' reports on progress related to key education indicators will be submitted in July and September. The following program performance reports will also be produced by MOES/DOE on an annual basis:

a. consolidated output based progress report relating EFA sector expenditure and outputs for the fiscal year (to be submitted by 15 November of the following year); and

b. progress report on outcomes and outputs (a consolidated flash report) for the previous year (to be submitted by 15 November).

On an annual basis, MOES/DOE will compile and submit the un-audited annual financial statements for the EFA budget heads by January 15th of the following fiscal year, comparing actual and budgeted figures by cost center and line item. The annual financial statements for the EFA program, which is funded jointly by pooling donors and HMG/N will include: (a) Summary of Sources and Uses of Funds; (b) uses of Funds by program activity; (c) summaries of statements on Pooled Accounts; and (d) notes to financial statements.

Risk Assessment

Topic	Risk Assessment	Comments/Recommendations
Inherent Risk		
Country	H	The CFAA has rated country financial management risk as High, primarily due to failure to comply with the legal and fiduciary framework. This is being mitigated by close monitoring of the CFAA action plan to improve public financial management.
Implementing Entity	M	Core staff have experience working on the BPEP. Financial management responsibility lies with the MOF/FCGO while MOES/DOE will be responsible for program implementation and reporting. Inclusion of financial management and ex-post reviews of expenditures in annual program review meetings will focus the attention of HMG/N and donors.
Control Risk		
Funds Flow	M	Funds flow is well-defined. However, delays in funds flow to schools may persist. This will be mitigated through close monitoring by pooling donors. Delayed funds flow from donors is also likely. The JFA, which explicitly states the obligation of pooled donors for timely release of funds, will help to enforce discipline in this area.
Staffing	M	The current staff have been well trained. However, the risk of trained staff being transferred persists. HMG/N has committed that staff transfers will take place only after two years.
Accounting Policies and Procedures	L	The EFA program will follow the Government's FAR. Internal controls are adequate.
Internal Audit	M	Internal audits are inadequate in respect of timeliness and quality. Strengthening internal controls will be a key focus during program implementation.
External Audit	L	The Supreme Audit Entity – AG/N – is the statutory auditor. Audit arrangements are satisfactory.
Financial Reporting and Monitoring	M	FMRs will be primarily based on government reporting formats for financial and procurement reports. Semi-annual flash reports will measure outputs. A monitoring system will ensure timely submission of reports.
Overall Risk Assessment	Medium	

Key: H = High; **S** = Substantial; **M** = Moderate; **L** = Low

The implementing agencies, MOES and DOE have implemented various projects/programs supported by donors, and gained adequate institutional capacity as a result. Overall, the systems, procedures, and staffing satisfy the Bank's minimum financial management requirements. However, the EFA program still carries a moderate risk rating primarily due to factors relating to country risk, including the current political instability and frequent transfer of staff.

Funds Flow Arrangements

Funds Flow from Donors to HMG/N

HMG/N will establish a foreign exchange account in United States Dollars with NRB to which the pooling donors will contribute funds for the EFA program. The donors will provide indicative funding levels for the program for the following fiscal year during the consultative meeting with HMG/N in December. Funding commitments, which take into account the sub-sector budget and cash flow needs for program implementation, will be made during the Annual Review meeting in April. The Signatories of the JFA will, in light of these commitments, determine the donor share in program funding for the coming fiscal year. The pooling donors will advance into the foreign exchange account, their share of the estimated expenditure for the first two trimesters. For each trimester disbursement thereafter, donors will replenish the Foreign Exchange (FE) Account based on FMRs, which indicate the amount of funds utilized during the trimester, the cash balance position of the FE Account, and the cash forecast for the subsequent two trimesters. In the event of the cash balance position exceeding funds needed for the next two trimesters, the FE Account will not be replenished. At the end of each fiscal year, HMG/N will carry out a reconciliation of the funds deposited into and withdrawn from the FE Account.

The MOF/FCGO is responsible for certifying the relevant financial reports and submitting the request for disbursement in writing to the Contact Point for the Pooling Donors Working Group (PDWG). The Contact Point, in consultation with PDWG, will have 10 days upon receipt of the request, to review the attached reports and clarify any outstanding issues, including validity of cash forecasts for the following two trimesters with the MOF/FCGO and MOES/DOE.

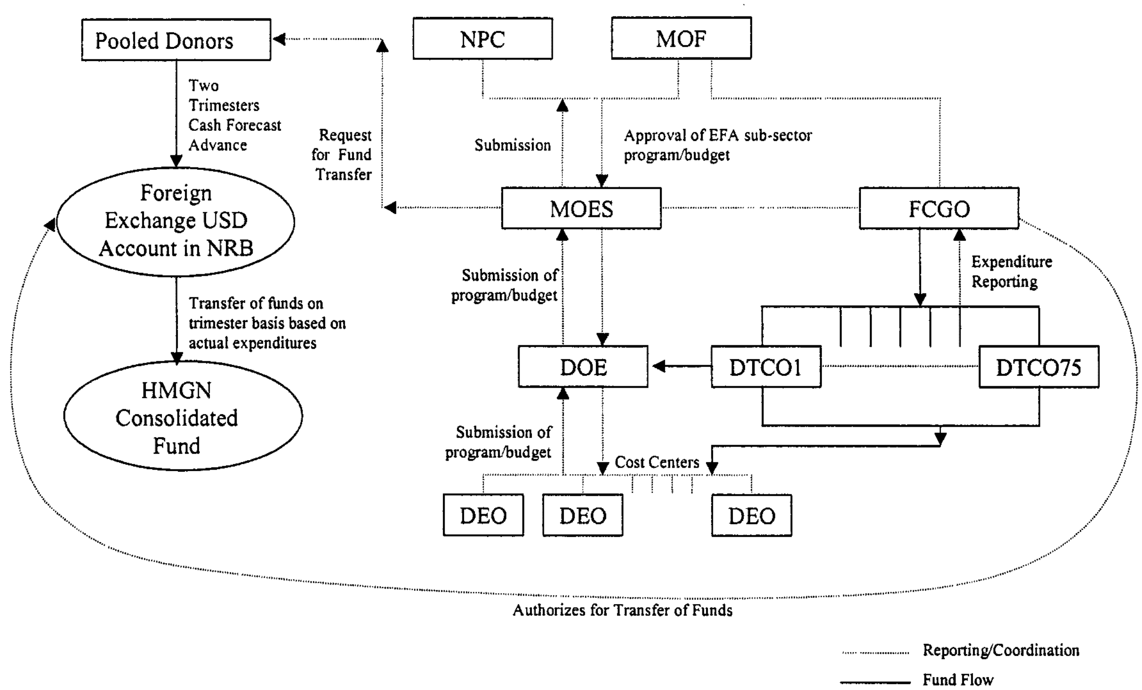
Funds from the FE Account will be transferred to HMG/N's consolidated fund following the certification of actual expenditures. There will be no direct payment from the FE Account for expenditures on imported goods and services. Foreign exchange currency payments requested by the MOES/DOE will be promptly facilitated by HMG/N as per government regulations.

Funds Flow at the Central Level (from MOF to DTCOs and to DEOs)

Until the work program and budget is approved, all cost centers including the DEOs, will receive an initial advance through the respective DTCOs, of one-third of the previous year's expenditures or projected expenditures for the first trimester, whichever is greater. MOF arranges for the release of these funds through its consolidated fund. Following approval of the work program and budget, an adjustment will be made against advances to cost centers. If advances are less than the approved trimester budget, cost centers will receive an additional amount. As expenditures are incurred, cost centers may request the respective DTCOs for reimbursement based on monthly expenditure statements. Since the EFA program is a priority (P1) program, fund release in the first trimester is based on expenditure statements. The second and third trimester releases are contingent upon performance, and submission of physical progress reports, as required by Schedule 2 of the FAR. If performance achieved is at least 80 percent of the target, funds are released automatically to the cost center. For performance between 50 to 80 percent of the target, fund release is only made after the DTCO obtains authorization from FCGO and the line ministry secretary. The third trimester budget will not be released if performance is less than 50 percent.

Expenditures incurred by cost centers are consolidated by the FCGO. The consolidated report, together with a request for reimbursement, are submitted to the Contact Point of the PDWG. Funds are transferred from the FE Account to HMG/N's consolidated fund only when the Contact Point provides a confirmation in writing within 10 days of receipt of the reimbursement request.

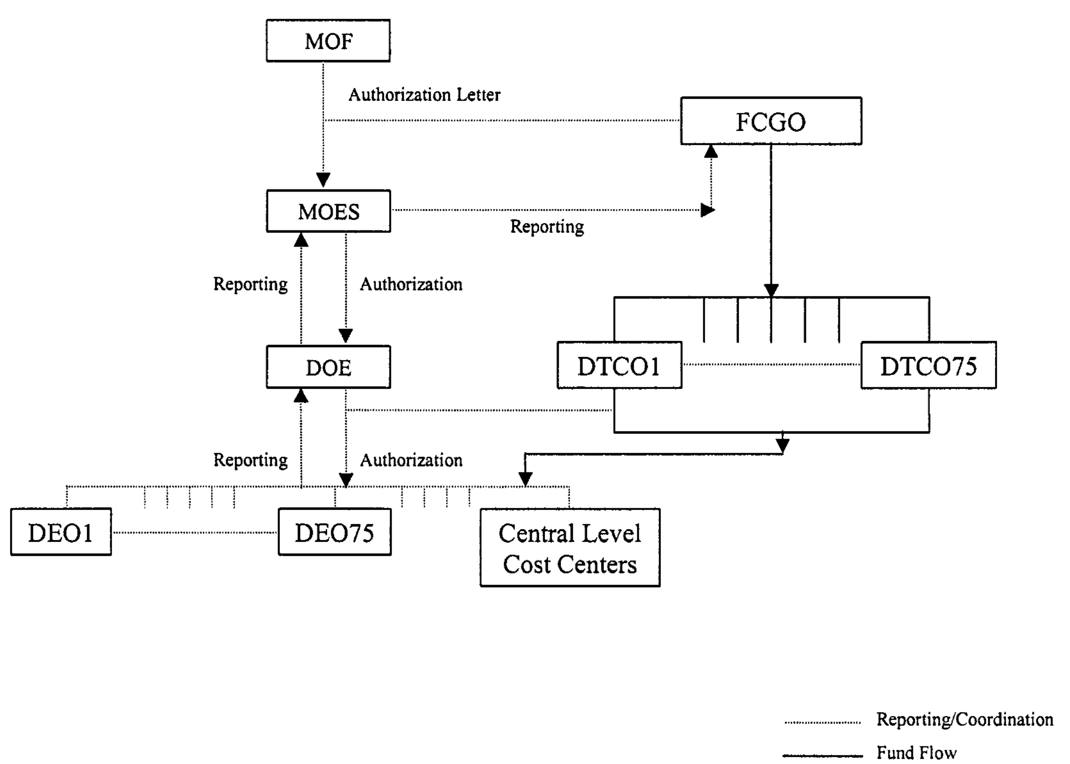
From Foreign Exchange Account to HMGN Consolidated Fund



Funds Flow at the District Level (from DTCOs to DEOs and other cost centers)

The MOES sends an authorization to the DOE, which is thereafter passed on to DEOs and other cost centers to permit them to obtain funds from the respective DTCOs. The DTCOs will get an authorization from the FCGO to disburse funds to DEOs and other cost centers when these units appear with a similar authorization from their line ministry. Funds will be provided by the DEOs to schools in the form of block grants. Procurement of consultancy services and goods may be carried out directly by the DOE and other cost centers at the central level.

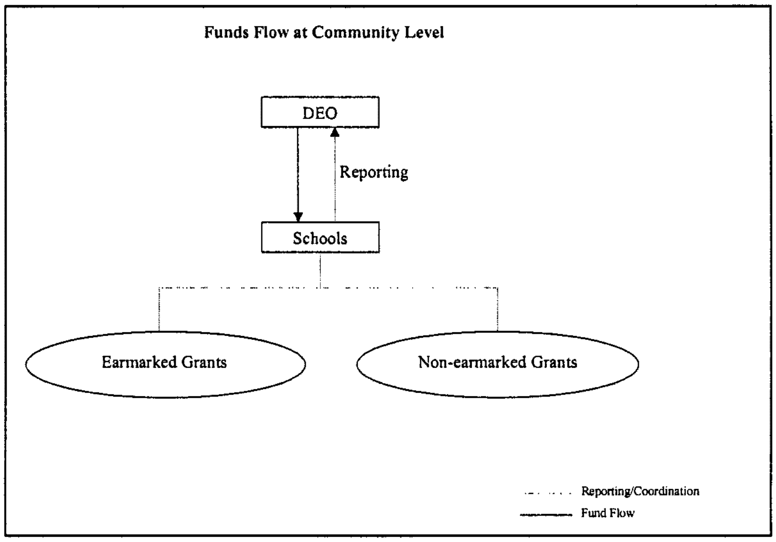
Funds Flow at District Level



Funds Flow at the Community Level (from DEOs to Schools)

The DEOs release block grants to schools on a trimester basis. Once disbursed, the block grants are considered as expenditures incurred. Two types of block grants under basic, level 1 and level 2 grants are released: (a) earmarked grants, which are intended for specific purpose such as school construction; and (b) non-earmarked grants, which can be spent by schools for any purpose as decided by the school management committees. Earmarked block grants provided for school construction are released in tranches based on specific outputs to ensure that the final release is made only after the completion of the works. Schools are required to maintain a book of accounts, which has to be audited annually by registered auditors. Schools are also required to submit progress reports to DEOs on a trimester basis. These trimester reports are consolidated by the DEOs and the consolidated district reports are sent to the MOES.

Social audits will be the primary vehicle to ensure accountability in the use of block grants by schools. These audits will be undertaken by a committee comprising three to five members formed by the Parent Teacher Association (PTA). Schools also required to report to the DEOs on physical progress (i.e., outputs) and intermediate outcome indicators through 'Flash' reports twice a year.



External Audit

The EFA program will be audited by the Auditor General of the Kingdom of Nepal (AG/N) as required by the country's Constitution. HMG/N and pooling donors will agree on the scope of the audit, which will be proposed thereafter to the AG/N for consideration. Audit reports are due within six months of the end of each fiscal year. However, since submission of the audit report within six months is unlikely due to the wide geographic spread and remoteness of many cost centers, IDA will provide a 90 days' grace period for the submission of overdue audit reports. The audit report will be submitted with detailed observations. The Audit will also include the audit of the FE Account to ensure that funds from this account are transferred only for the intended purpose of the EFA program. The signatories may request performance-related audits to be undertaken from time to time by the AG/N, or at his discretion, by other appropriate auditors.

For statutory audit purposes, the grants released to communities will be considered as expenditures and accounts will be maintained as incurred expenditures, and audit thereof will be based on total grants released.

Schools will be required to submit social audit reports or publicly disclosed statements of expenditures once a year. The external auditor will judge whether grants have been utilized effectively or not through these reports, and random visits to selected schools. If all reports from DEOs and schools are maintained centrally at the DOE, the external auditor can complete the audit based on available documentation at the center. However, it may not be practical to bring all these records to the center. In the case of records being kept at the district level, verification and confirmation of reports will be done through visits by the external auditor to a random sample of districts.

The following audit reports will be monitored in the Audit Report Compliance system (ARCS):

Implementing Agency	Audit	Auditors
MOES/DOE	Financial statements of the EFA program	AG/N
MOF/FCGO	Foreign Exchange Account for pooled donor funds	AG/N

Financial Management Improvement Plan

HMG/N and pooling donors have agreed on a time-bound plan to address weaknesses identified in the financial management assessment, and to further strengthen capacity in MOES and DOE.

The financial management improvement plan is described below:

Actions/Activities	Responsibilities	Completion
At the Institutional Level – ***Strengthen financial management capacity in DOE:***		
• Financial consultants to support DOE in maintaining accounts information in a computer system	MOES/DOE	August, 2004
• Training on financial management and procurement twice a year for cost center staff (including FCGO, DTCO and other concerned agency staff) – the training should include a session on reporting physical progress as required by Schedule 2 of FAR	MOES/DOE	June, 2004 to December, 2004
At the Sub-sector Level – ***Develop a financial management framework:***		
• Agreement with AG/N on ToR for the audit for the Program	Pooling donors	June, 2004
• Auditors' training on key elements of sub-sector program	MOES/DOE/ AG/N	July, 2004
At the Ministerial level – ***Strengthen financial management capacity in the MOES:***		
• Establish an EFA Program Monitoring Committee cum Audit Follow-Up Committee that is chaired by the Secretary, MOES, and comprising of the following members: Joint Secretary, Planning Division MOES; Director General, DOE; Director General, CDC; Director, NCED; Director, Non-Formal Education Center; Joint Comptroller General, FCGO; Under Secretary, MOF; and Under Secretary, NPC	MOES	July, 2004

Fiduciary Role and Supervision

Program implementation progress will be continuously monitored by the pooling donors through the PDWG. The Contact Point for the PDWG will coordinate several important tasks associated with financial supervision of the EFA program. These tasks include: (a) FMR review and approval of eligible expenditures; (b) ex-post reviews at cost centers to identify and report on any ineligible expenditures and recommend remedial action; (c) review of audit reports and preparation of a summary of audit findings for discussion with pooling donors; (d) periodic joint supervision to keep pooling donors informed of emerging issues or improvements needed on financial management; and (e) monitoring of the financial management action plan to ensure that adequate progress is being made.

Retroactive Financing

In order to expedite EFA Program implementation, there is a need for retroactive financing by IDA. The Association will reimburse from the proceeds of the IDA Credit, payments made for eligible expenditures prior to the Credit effectiveness date, but after July 15, 2004, in an aggregate amount not to exceed the equivalent of SDR 2.0 million. In order to be eligible for retroactive financing, procedures for procurement, processing and clearance, are subject to the Association's Procurement and Consultants Guidelines with respect to ICB. In addition, documentation requirements for expenditures claimed under retroactive financing are the same as those for disbursements against payments made after the Credit Agreement is signed and effective.

- Goods such as textbooks, computers, office equipment but excluding vehicles using local procedures as detailed in the EFA Procurement Manual.

(ii) DEO level

District Education Offices shall procure:

a. works for the construction of Education Offices and all RC buildings in their district, estimated to cost below US$500,000 equivalent per contract, using procedures described in the EFA Procurement Manual and the Government's Standard Bidding Document (SBD) for procurement of Works through NCB developed in 1997 in collaboration with, and agreed to by the Bank;

b. consultant and NGO services for various training activities, estimated to cost less than US$200,000 equivalent per contract in the case of firms, and US$20,000 equivalent in the case of individuals, using procedures and documents specified in the EFA Procurement Manual; and

c. goods such as training materials and, in the case of pilot districts[2], fabricated steel structures and CGI sheets, estimated to cost less than US$500,000 equivalent in accordance with procedures and documents specified in the EFA Procurement Manual.

Since schools receiving classroom construction grants do not have the capacity to undertake procurement of fabricated steelworks, they will have to route their requirements for such materials to the concerned DEO. In the case of districts where decentralized procurement of steelworks and CGI sheets will be piloted, the concerned DEO shall procure pre-determined quantities of such materials, which will be made available to the requesting schools. In the case of non-pilot districts, the steelworks will be procured centrally by the DOE and supplied to requesting schools through a network of storage depots at zonal or district levels.

(iii) School level

As the value of procurement funded through non-earmarked portion of the Basic, level 1 and level 2 grants do not exceed US$1,000 per annum, all procurement (such as small works related to physical improvement of schools, goods and NGO services for supporting the development of SIPs) using such Grants shall be undertaken by the concerned SMC in accordance with the simplified procedures, forms/documents contained in the section on 'School Procurement' in the EFA Procurement Manual.

Similarly, procurement against earmarked grants to accredited schools for construction and/or developmental activities (e.g., labor contracts, local materials, and furniture, training or other equipment, etc.) shall be undertaken by the concerned SMC in

[2] During the first year of the EFA program, decentralized procurement of fabricated steelworks and CGI sheets will be piloted in three districts where manufacturing capacity exists for these materials.

Annex 8: Procurement
NEPAL: Education For All Project

Sector Wide Approach

IDA credit proceeds will support Nepal's EFA program under a sector wide approach subscribed to by all donors to the basic and primary education sub-sector. In accordance with a joint financing arrangement, IDA will be pooling funds with four partner donors (Denmark, Finland, Norway and DfID/UK) and His Majesty's Government of Nepal (HMG/N) to support the program, which covers all activities in the basic and primary education sub-sector. Since the EFA program is underpinned by a national strategy and its implementation will be led by HMG/N, the basic premise is to allow government procedures to be followed in all procurement-related areas of the program, provided these are satisfactory to all pooling partner donors.

Procurement Arrangements

Although the DOE under the MOES will be the nodal agency, under the proposed implementation arrangements, procurement will be carried out at three levels:

(i) DOE level

There are no civil works contracts to be implemented through the DOE. Instead, the DOE will be responsible for the procurement of:

- (a) fabricated steel structures and corrugated galvanized iron (CGI) roofing materials required in the construction of modular two-classroom school blocks of standardized designs, estimated to cost more than US$500,000 equivalent per contract; and (b) vehicles estimated to cost more than US$200,000 per contract. These items shall be procured through ICB in accordance with World Bank procedures[1] and using the Bank's Standard Bid Documents (SBD) for Goods. Contracts for fabricated steel structures and CGI roofing materials estimated to cost below US$500,000 and contracts for vehicles estimated to cost below US$200,000 may be procured through National Competitive Bidding (NCB) using local procedures;

- (a) consultants for baseline and other studies, technical reviews, and monitoring through Quality and Cost Based or Consultant Qualification or Single Source methods depending on the nature of the assignment and availability of capable firms; and (b) NGO services for information campaigns, and the services of specialized training agencies such as the Nepal Administrative Staff College (NASC) through single source or Consultant's Qualifications (CQ). All such procurement shall be done using procedures and documents specified in the EFA Procurement Manual, which is prepared based on the provisions in the FAR of HMG/N; and

[1] As defined in the Guidelines for Procurement under IBRD Loans and IDA Credits, January 1995, and revised January and August, 1996, September 1997 and January 1999.

accordance with the simplified procedures, forms/documents contained in the EFA Procurement Manual. SMCs may use community participation for labor and occasionally provide local construction materials.

National Procurement Environment

Public procurement is governed by the FAR, 1999. However, in keeping with the Government's commitment to procurement reform, a second amendment to the FAR was introduced in 2003, bringing procurement procedures closer to international (UNCITRAL) and Bank procedures. Some significant variations vis-à-vis World Bank procedures still remain in the FAR. These are described in the Country Procurement Assessment Report and summarized as follows:

i. bid opening at only one place and immediately after deadline for bid submission is not mandatory but provided as an option only (FAR clause 66-6);

ii. bidders for a works contract invited through International Competitive Bidding (ICB) must work in a joint venture with a Nepali construction company or a firm working in Nepal (FAR clause 73-2-k-1);

iii. institutions where the Government has 50% or more capital are exempt from furnishing bid and performance securities (FAR clause 86);

iv. preference for local bidders competing with foreign bidders in NCB (FAR clause 58 (3)); and

v. bidders' qualification criteria are not in accordance with the World Bank's standard procedures.

Reform Agenda: HMG/N is currently implementing a Procurement Reform Project using the proceeds of a World Bank IDF Grant. The objectives of this project are to:

a) prepare a draft Public Procurement Law for Nepal based on UNCITRAL procedures by July 2004; and

b) develop the procurement capacity of EFA implementation personnel through provision by the NASC, of regular courses on public procurement for selected government procurement staff, including accountants and staff of the AG/N.

With the enactment of the Public Procurement Law (expected to happen by December 2004), the country's public procurement procedures will be in line with international practices and would thus be unconditionally acceptable to IDA and other donors. Until this happens, procurement for the EFA program not subject to ICB will be conducted as per local procedures with the exception of the five variations listed above, which shall be in accordance with World Bank procedures.

Procurement Capacity and Remedies for Enhancement

In DOE and DEO:

During regular supervision of the ongoing BPEP, and in the course of preparing the proposed Project, an assessment was made of the capacity of the key agencies – the DOE and DEOs – to undertake procurement under the EFA program. Since procurement under BPEP was conducted as per World Bank procedures, DOE procurement staff are familiar with these procedures as well as those under the FAR. There is therefore, adequate capacity at this level.

At the DEO level, although most procurement staff do not have experience in World Bank procurement procedures, they do have adequate knowledge of government procedures, which will be needed for district level procurement under the EFA program. To ensure that procurement capacity is not adversely affected by staff transfers, several actions to institutionalize such capacity is recommended. These include:

i. preparation of an EFA Procurement Manual[2], based on procedures and provisions detailed in the FAR and the Government's Public Works Directives, for use by designated procurement staff at the DOE and DEOs; and

ii. provision of short training courses to selected DOE and DEO staff in the use of FAR procurement procedures. It is expected that this training would be conducted by the NASC where the Procurement Training Cell is expected to be in place by end-2004.

It is noted that the standard bid document for Goods and Works, which will be part of the EFA Procurement Manual, will incorporate amendments to reflect the five exceptions listed in the section on National Procurement Environment. In respect of consultant selection, since FAR provisions are not as explicit about procedures for consultant selection as they are for goods or works procurement, the forms and documents in the Procurement Manual will be developed by the DOE in consultation with the World Bank.

In Schools:

Though a similar assessment has not been done for schools, almost none of them have personnel with adequate knowledge or experience of FAR procurement procedures. The SMCs, comprising representatives of teachers, parents and the community, will not have the capacity for carrying out procurement at the school level. Therefore, to enable the SMC to undertake the responsibility for procuring goods and services using school block grant funds, capacity building measures will be necessary at the beginning of the EFA program, and before any procurement is initiated. These include:

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[2] The EFA Procurement Manual will contain instructions on how to choose the most appropriate method (e.g. shopping, competitive bidding) for each type of procurement, and will provide details on the corresponding procedures (e.g., notifications, short-listing and bidding, bid evaluation etc.) and standard formats (e.g. for quotations, standard bid documents, request for proposal documents etc.), as well as step-by-step instructions on how these formats are to be tailored for each procurement need.

i. the DOE shall update the Operational Manual for the ongoing Community School Support Project such that it will provide a detailed explanation on the procedures, forms, documents and accounting/reporting requirements for all categories of procurement to be done at school level and incorporate this into the EFA Procurement Manual; and

ii. NGOs/consultants hired under the information/communications campaign on school block grants will, as part of their terms of reference, provide basic training to each SMC on the contents and use of the relevant sections of the EFA Procurement Manual.

Expenditure Categories

Under the EFA program, fund allocations will depend on the progress achieved on the agreed results indicators and targets, performance of schools, and the need to amend annual work programs to improve achievement of results. Therefore, it is not possible to determine *ex-ante*, the total value of works, goods and services to be procured during the life of the program. However, based on the current description of components and related activities, a tentative estimate of expenditure categories is given in the table below. It is understood that this distribution is indicative, and could vary greatly from year to year.

S. No.	Category and Brief Description	Estimated Quantity	Amount (US$ millions)	Category Subtotal (US$ millions)
1	WORKS			*24.0*
	New Classroom construction	8000	13.3	
	Classroom Rehabilitation	6000	5.5	
	Site Services	5000	1.5	
	Temporary Classrooms	1000	0.5	
	DEO Buildings	23	2.5	
	Resource Centres	250	0.7	
2	GOODS			*31.5*
	Materials for New Classrooms	8000	18.0	
	Equipment, Vehicles	LS	0.5	
	Text Books	LS	13.0	
3	SCHOOL GRANTS	LS		*57.0*
4	SUPPORT, SCHOLARSHIPS and SUBSIDIES	LS		*58.0*
	EFA Non-Specific	LS	21.0	
	Under components 1, 3, 4 & 5	LS	37.0	
5	CONSULTANTS, NGOs	LS		*7.5*
6	OPERATING COSTS	LS		*7.0*
7	SALARIES, ALLOWANCES	LS		*479.0*
			TOTAL	***664.0***

Review Mechanisms

DOE and DEO level procurement:

All ICB, contracts for Goods estimated to cost the equivalent of US$500,000 or more, vehicles estimated to cost the equivalent of US$200,000 or more, contracts with consultant firms estimated to cost US$200,000 equivalent or more, and contracts with individuals costing the equivalent of US$20,000 or more, shall be subject to the Bank's prior review. All other procurement, conducted in accordance with agreed local procedures shall be subject to ex-post review by consultants engaged by the World Bank[3]. This will be in addition to the Government's regular internal audit and audit by the AG/N.

School procurement:

Besides social audits and review by the Government's regular internal audit and audit by AG/N teams, local consultants engaged by the World Bank will periodically conduct a sample review of school level procurement in different districts. All the eligible schools receiving block grants/funds under the EFA program shall be required to maintain records and documentation pertaining to procurement. When requested, these records shall be made available to community representatives concerned with SMC oversight, the DEO, and World Bank consultants.

Misprocurement

The goods, works and services that have not been procured in accordance with the procedures stated in the EFA Procurement Manual shall be treated as misprocurement. The expenditures incurred on such procurement shall not be eligible for financing from EFA funds.

Procurement Plan

The DOE has prepared a procurement plan for the first 18 months, which provides details on procurement activities, the procedures to be followed (e.g. NCB, QCBS), estimated values and review requirements and includes all items to be procured under ICB.

Table A: Project Costs by Procurement Arrangements

The table on project costs by procurement arrangements is not applicable since the pooled donor funds, which will be blended with government resources, cannot be attributed to any specific set of activities under the EFA program.

[3] Review reports will be shared with pooling donors.

Table B: Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value Threshold (US$)	Procureme nt Method	Prior Review	Contracts Subject to Prior Review (US$ millions)
1. Works	< US$ 500,000	As per FAR[4]	First one/year	0.0
2. Goods:				
i. Steelworks	> US$ 500,000	ICB	All	14.0
ii Steelworks	< US$ 500,000	NCB	First one/year	0.0
iii. Vehicles	> US$ 200,000	ICB	All	0.2
iv. Equipment		As per FAR		0.0
v. Textbooks		As per FAR		0.0
3. Services				
i. Firms	> US$ 200,000	As per FAR	All	2.0
ii Individuals	> US$ 10,000	As per FAR	All	0.2

Total value of contracts subject to prior review: $ 16.4 million

Overall Procurement Risk Assessment: **High**

Frequency of procurement supervision missions proposed: **One every six months** (includes special procurement supervision for post-review/audits)

[4] FAR procedures as detailed in the EFA Procurement Manual.

Annex 9: Economic and Financial Analysis
NEPAL: Education For All Project

Economic Analysis

Background

Nepal has a strong national commitment to education reflected in HMG/N's commitment to achieving EFA objectives and the Millennium Development Goals (MDGs) for basic education by 2015. As shown in Table 1, there are currently close to four million children enrolled at the primary level in over 250,000 schools – out of these just over 2.5 million reflect enrolments at the correct age (6-10).

Table 1: Enrolments in Primary Education (2001)[1]

Grade	*Total Enrolments*			*Correct Age Enrolments*		
	Boys	Girls	Total	Boys	Girls	Total
1	727052	606003	1333055	471163	396636	867800
2	430498	352655	783153	278983	230817	509800
3	367698	300335	668033	238285	196573	434858
4	326711	254054	580765	211724	166281	378005
5	275406	213206	488612	178476	139546	318022
Total	**2127365**	**1726253**	**3853618**	**1378631**	**1129854**	**2508485**

Approximately 20 percent of children remain out of school, with girls, disadvantaged castes and indigenous ethnic groups disproportionately represented. Completion rates, while improved, remain low, reducing system efficiency. The quality of public education is poor, as signaled by parental flight to private schools, which achieve 73 percent pass rates on the School Leaving Certificate exams compared to 22 percent for public schools. Less than half the students complete the primary cycle while only one out of ten reach grade 10. Furthermore, there are large differences in gross enrolment rates across geographic/ecological areas and income levels. The rates in primary schooling range between 64 percent in the Eastern Terai to 104 percent in the Eastern hills/mountains, and from 68 percent for the poorest quarter of all households to 118 percent for the wealthiest quarter. Most of the 30 percent or so of children not enrolled in primary school are members of socially disadvantaged groups and a majority are girls.

These symptoms can be traced to the lack of effective governance. The system lacked a holistic vision and strategies for developing accountable institutions and for developing an effective base of administrators and teachers who are critical in ensuring the efficient and equitable delivery of a quality education. Furthermore the role communities play in school management has been eroded - while school management committees played an effective role prior to the introduction of the

[1] "Correct Age Enrolment" refers to individuals in the correct age for the grade, e.g., number of six year-olds in grade one.

National Education System Plan in 1971 when all schools were brought under the control of the Government, they are usually not formed democratically and do not always represent the most immediate stakeholders. Only recently has this trend been reversed with the government moving back towards giving control of schools to communities.

The poor quality of education arises out of constraints which can be classified into three types:

- *Demand side* factors that prevent children from going to school or from benefiting from the educational services provided by the school. For example, poverty, direct costs of schooling, opportunity costs, the special needs of some children, cultural constraints and prejudices.
- *Supply-side* factors that limit their capacity to provide adequate quality education opportunities for children living in the area. For example, schools not being accessible – a major issue currently under the insurgency, inadequate facilities, untrained and poorly trained teachers often with inadequate knowledge, lack of teaching and learning resources, teacher inertia and absenteeism. A related supply-side issue is the fact that teachers lack adequate incentives to perform well and have limited avenues for career growth.
- *Institutional* policies and administrative arrangements that can keep children from attending school or performing at an acceptable level or limit the school and classroom's capacity to provide an effective education. For example, weak organizational capacity, the high level of centralized management, staffing policies that create inefficiency, inadequate funding arrangements, and the inability to make the most effective use of available funds.

Primary-level education is universally regarded as a public good, with significant externalities. Enhanced primary education is strongly correlated with economic development and with increased productivity. Without EFA program, the majority of the labor force will continue to lack the foundation of a good-quality basic education, will remain unskilled, leading to low levels of productivity. The program, through providing better quality primary school education to children, will put them on the road towards better employment and income-earning possibilities. The main economic arguments for a proactive role for the Government and the Bank in this sector are as follows:

- Returns. There are high private and social returns to investing in primary education – cost-benefit analysis studies of primary school education show very high rates of return. Furthermore, enhanced primary education is strongly correlated with economic development and with increased productivity. Without a high-quality primary education system, the majority of the labor force will continue to lack basic skills that will be crucial to increasing efficiency and productivity in the labor market. The EFA program aims to provide an a better quality primary school education to the children of Nepal, will be to put them on the road towards better employment and income-earning possibilities.
- Equity. The government has an important role to play in ensuring that access to education – especially education of high quality - is equitable. EFA interventions, such as the stipend/scholarship programs, and community grants are aimed at achieving this objective.
- *Relationship with higher levels of education.* Unsatisfactory performance of the primary education system has a ripple effect as it contributes to a significant loss in systemic efficiency. The outputs of a poor quality primary education system proceed to the secondary level and higher levels and are unable to perform well and this ultimately leads to a loss in

employability and productivity. EFA aims to enhance the quality of the throughput out of the primary education system.

- *Information.* Currently, systematic monitoring and evaluation of the primary education system does not take place. The government has a crucial role to play in the collection, analysis and dissemination of information on the quality and effectiveness of education provided in different institutions, and on analyzing how efficiently public and private funds flow through the administrative and budgetary system and ultimately reach teachers and schools; and determining how those resources are combined with other inputs at the school level to generate education outcomes. By putting in place effective monitoring and evaluation mechanisms, EFA will aim to ensure that such information is readily available and can feed back into policy.

Cost Benefit Analysis

Project cost-benefit analysis has produced an approximate internal rate of return (IRR) of about 16.1 percent for the project investment using a discount rate of 12 percent. The proxy for project benefits is increased earning of primary school graduates resulting from quality enhancements.

Benefits Stream: The program design focuses on quality improvements that will establish the necessary foundation for a more efficient and effective primary education system. The investment will promote quality improvements in education, beneficiaries of which will be the incremental students entering the education system as well as those who are already in the primary education stream. The proxy for capturing the benefits arising from quality improvements are estimated to be increased earnings in the labor market at around 8 percent.

Economic benefits are estimated in accordance with the following assumptions:

- Population growth rate is based on World Bank projections: 2.2% (2000-05); 0.8% (2006-2010); 0.5% (2011-2020), -0.8% (2021-2030);
- Improved access to primary education is achieved for educationally disadvantaged children, especially children of minority groups, through enhanced school facilities and resources and improved classroom resources and teaching;
- The defined GER target for primary schooling of 105 percent is achieved by 2008/9 (and 100 percent by 2015);
- The defined NER target for primary schooling of 96 percent is achieved by 2008/9 and 100 percent by 2015;
- Repetition rates are reduced to 10 percent by 2008/9;
- Dropout rates are reduced to 5 percent by 2008/9;
- The benefits are estimated for completion of the primary cycle only. No allowance is made for the fact that the improvements in primary education will allow more children to attend secondary school and thereby have access to even greater earning power; and
- Incremental earnings benefits are calculated on the basis of increased earning with each additional year of primary schooling.

Cost Stream: The estimated direct costs of the project comprise the project investment, the public and private cost of each additional pupil-year, and the opportunity cost of retaining each student in school for an additional year. Public costs are estimated to be equal to government expenditure per pupil attending public primary schools, that is approximately $20/year, and private costs are those incurred by the families of each pupil on school fees, books and school supplies, transportation, etc., estimated at $10/year. The opportunity cost of retaining each student in school for an additional year is estimated equal to the wage for an unskilled worker with no school certificates completed.

Using these assumptions, the project yields an Internal Economic Rate of Return (EIRR) of 16.1 percent (Table 2). Net present value has been calculated based on a discount rate of 12 percent.

Table 2: Economic Internal Rates of Return

	Net Present Value
Present Value	US$234.9 million
IRR	16.15 percent

* *It is assumed that the economic and financial rates of return to be the same.*

It should be borne in mind that the real rate of return is likely to be somewhat higher reflecting positive externalities and longer-term intergenerational social benefits that come with increased levels of education, including lower fertility rates and improved health outcomes to which it is difficult to assign monetary values.

Sensitivity Analysis

Rates of return are also computed on the basis of alternative assumptions regarding the internal and external efficiency of the system. For the purpose of this analysis: (a) dropout and repetition rates are utilized as proxies and changes in internal efficiency are assumed to be captured by changes in dropout and repetition rates (and hence completion rates); and (b) potential wage growth rate is utilized as proxy for changes in external efficiency. While these distinctions are somewhat artificial, they provide us with some interesting information about the changes in rates of returns based on different assumptions regarding the system efficiency.

Table 3 highlights the rates of returns under different assumptions. The "low" case for the internal efficiency is based on dropouts and repetitions rising by 50 percent as compared to the base case, while the "high" case is based on dropouts and repetitions falling by 50 percent as compared to the base case. With regards to the external efficiency–the "low" case is based on a wage growth of only 50 percent as compared to the base case, while the "high" case is based on a wage growth of 50 percent more as compared to the base case. These rates are highly sensitive to changes in assumptions regarding the external efficiency of the system - controlling for changes in internal efficiency, a 50 percent change in wage growth roughly corresponds to a 50 percent change in the rates of return.

Table 3: Sensitivity Analysis

	External Efficiency		
Internal Efficiency	Low	Medium	High
Low	7.77	15.16	22.56
Medium	8.83	16.15	23.58
High	9.08	16.67	23.71

Fiscal Analysis

Trends in Education Spending

Table 4 presents data on educational expenditures in Nepal over the past four years. As the table shows, it is difficult to point to any trends regarding overall expenditures in the education sector (in real terms). Expenditures on education has dropped significantly since 2001/2 (which may have been an aberration). Consequently, expenditures as a proportion of GDP and government expenditures have also dropped. Primary education trends are clearer. Expenditures have systematically increased over the four years – reflecting the commitment of HMG/N towards moving forward to meeting the EFA goals. Primary education expenditures now account for close to two percent of GDP and around nine percent of government expenditures.

Table 4: Education Expenditures 2000/01-2003/4

	2000/01	*2001/02*	*2002/03*	*2003/04*
Total Education (US $ mill.)	167.68	219.18	181.45	175.16
....as % of GDP	2.71	3.71	2.99	2.71
....as % of Govt. Exp.	13.95	19.50	15.77	12.83
Primary Education (US $ mill.)	88.03	98.11	106.37	123.46
....as % of GDP	1.42	1.66	1.75	1.91
....as % of Govt. Exp.	7.32	8.73	9.24	9.04
Primary as % of Total Education	52.50	44.76	58.62	70.48

Note: These expenditures are in real 2003/04 dollars.

However primary education seems to be crowding out expenditures in secondary and tertiary education – while primary education expenditures accounted for 45 percent of total education expenditures in 2001/2, these expenditures are expected to account for over 70 percent of such expenditures in 2003/04.

Financing EFA 2004-09: MOES Proposal and Potential Donor Funding

The MOES EFA 2004-09 lays out the financing plan for basic education for 2004-09. Two scenarios are given – a high case scenario and a low case scenario (Table 5). Recurrent expenditures are identical under both scenarios and are fully funded by the government. Under the high case scenario, HMG/N will finance 16 percent of developmental expenditures while under the low case scenario HMG/N finances 18 percent of developmental expenditures (the absolute value of HMG/N's contribution is identical under both scenarios).

Table 5: Primary and Basic Education Budget (FY04/09)

	2004/5	*2005/6*	*2006/7*	*2007/8*	*2008/9*	*Total*	*...of which HMG/N*
Recurrent Expenditures	89.82	90.55	98.64	99.54	100.52	479.07	479.07
Development Expenditures...							
High Case	59.84	69.90	66.86	71.70	67.13	335.43	56.46
Low Case	56.08	63.06	60.14	65.21	60.95	305.44	56.46
Total Expenditures....							
High Case	149.66	160.45	165.50	171.24	167.65	814.50	535.53
Low Case	145.90	153.61	158.78	164.75	161.47	784.51	535.53

The main difference between the High Case and the Low Case scenario is the expenditures on the 'Planned EFA program', expected to be fully financed by pooled development partners (Table 6). The low case scenario scales back the expenditure on the various components of the program based on the assumption of lower donor commitments to the program.

Table 6: 'Planned EFA Program' Expenditures (FY04/09)

	2004/5	*2005/6*	*2006/7*	*2007/8*	*2008/9*	*Total*
High Case	21.36	30.80	37.79	43.90	41.15	175.00
Low Case	17.60	23.96	31.07	37.41	34.97	145.01

Financing for the Education Sector 2004-2009: Projections

In this section, projections of the likely expenditures for primary education over the plan period have been made using several assumptions regarding growth of GDP, government expenditures, allocation of government expenditures to education, and the share of primary education within the education allocation. The aim is to examine whether the proposals made by MOES – described above - are financially sustainable within HMG/N's overall budget envelope.

The EFA core document states that HMG/N has a policy to allocate 15 percent of its total expenditure to the education sector with 55 percent of this being allocated to the basic and primary sub-sector. It also states that by 2009, 3.7 percent of GDP will be allocated to education. There is an inconsistency in that if HMG/N allocates 3.7 percent of GDP to education – this may not be equivalent to spending 15 percent of total government expenditure on education.[2] Hence - two sets of scenarios are constructed.

[2] In fact, on average (between 2000 and 2004) the government is spending about 15.35 percent of government expenditures on education. However, as a proportion of GDP – only about 3.1 percent are being spent on education.

Scenario I: HMG/N will continue to spend 15 percent of government expenditures on education

Three cases are considered here based on projections regarding macro-growth rates. The first case utilizes conservative assumptions to assess the consistency of the EFA plan with the macroeconomic framework. GDP projections and growth rate are based on IMF projections. GDP growth rate is assumed to be constant at 3.5 percent from 2004-09. The second case uses the MTEF base GDP growth rate of 4.5 percent throughout the period and the final case uses the MTEF high growth scenario of 6.2 percent per annum. In all three cases, total government budget as a percentage of GDP is based on an average of this ratio over the previous four years – 20 percent – and is assumed to remain constant over time. The proportion of education sector budget to government expenditures is assumed to remain at 15 percent and it is assumed that 55 percent of the education budget is allocated to primary education (as opposed to the 70 percent).

Table 7: Projected Budget on Primary Education 2004/9

	2004/5	*2005/6*	*2006/7*	*2007/8*	*2008/9*	*Total Expenditure*
SCENARIO I: 15 PERCENT OF GOVERNMENT EXPENDITURES ON EDUCATION						
Low case: 3.5% annual GDP growth	114.80	118.82	122.97	127.28	131.73	615.60
Base case: 4.5% annual GDP growth	115.91	121.12	126.57	132.27	138.22	634.09
High Case: 6.2% annual GDP growth	117.79	125.10	132.85	141.09	149.84	666.66
SCENARIO II: SHARE OF GDP GOING TO EDUCATION RISES TO 3.7 PERCENT						
Low case: 3.5% annual GDP growth	115.92	123.85	132.19	145.11	158.77	675.82
Base case: 4.5% annual GDP growth	117.04	126.25	136.06	150.79	166.59	696.73
High Case: 6.2% annual GDP growth	118.94	130.39	142.80	160.85	180.58	733.57
MOES PLANNED PRIMARY EDUCATION EXPENDITURES						
High Case	149.66	160.45	165.50	171.24	167.65	814.50
Low Case[3]	145.90	153.61	158.78	164.75	161.47	784.51

Scenario II: HMG/N will gradually increase education expenditures to 3.7% of GDP by 2008/9.

This scenario is identical to scenario I, except that the assumption is that education expenditures rise gradually to 3.7 percent of GDP by 2008/9 from the current 3.1 percent.

Table 7 presents total projected budget for 2004-9 for primary education under these alternative scenarios, and compares these projected expenditures to MOES high case and low case proposals presented in Table 5. As seen below, under either of the scenarios, the projected budget available for education will fall below the proposed MOES expenditures.

Planned primary education expenditures can fall within the overall budget envelope under a variety of scenarios. To demonstrate a few, we have undertaken another set of simulations (Table

[3] This is consistent with the indicative donor commitments of around $150 million.

8). For these simulations, we have assumed that the base case option in terms of economic growth (4.5 percent annual growth rate of GDP).

- *Simulation A*: Assume that proportion of government expenditures to education remain at 15 percent. Then, for planned primary education expenditures to fall within the budget envelope, expenditures on primary education must reach around 65-71 percent of the total education budget. This implies primary education may crowd out expenditures on secondary and tertiary education.
- *Simulation B*: Assume that proportion of education expenditures going to primary remain fixed at 55 percent. Then, for planned primary education expenditures to fall within the budget envelope, the proportion of government expenditures going to the education sector as a whole must rise to around 18-19.5 percent (this is equivalent to stating that the government commits to spending about 3.75 percent of GDP on education beginning 2004/5). This implies that the government needs to commit to raising education expenditures relative to expenditures in other sectors.
- *Simulation C*: A similar result can be achieved through a combination of the above two scenarios - the government decides to raise the proportion of education expenditures going to primary rise to 60 percent, and increasing the proportion of government expenditures going to the education sector as a whole to around 18 percent.

Table 8: Simulations under Different Scenarios

	2004/5	***2005/6***	***2006/7***	***2007/8***	***2008/9***	***Total Expenditures***
MOES Low Case Expenditures (US$ million)	145.90	153.61	158.78	164.75	161.47	784.51
Simulation A						
Proportion of education budget to primary education (%)	70.4	71.0	70.2	69.7	65.4	
Total Government budget for primary (US$ million)	145.84	153.7	158.8	164.77	161.56	784.7
Simulation B						
Proportion of Government budget to education (%)	19.3	19.5	19.2	19.1	17.9	
Total Government budget for primary (US$ million)	145.8	153.6	158.7	164.6	161.4	784.27
Simulation C						
Proportion of Government budget to education[4] (%)	18.0	18.2	17.9	17.8	16.7	
Total Government budget for primary (US$ million)	145.75	154.00	158.28	164.48	161.26	783.79

[4] This simulation assumes that 60 percent of education expenditures are spent on primary education.

Discussions with MOES suggest that HMG/N will be adopting a strategy similar to that proposed in Simulation C.

Sustainability Beyond Planned Period

In order to assess long run sustainability, a rough assessment of the costs of achieving the goal of 100% NER by 2015 was undertaken. MOES projections of the school-age population and an assumed GER of 104% were used to estimate school enrolments to 2015. Unit costs per pupil were applied to this total in order to arrive at a rough estimate of EFA costs to 2015. Some points to note about this procedure:

- Unit costs were derived by dividing total EFA costs by the primary school enrolments, although some of these costs relate to expenditures not related to primary education. This approximation is valid if the percentage of non-primary expenditure remains broadly constant from 2008/9. This is a pessimistic assumption, since improved primary education should gradually begin to reduce the need for non-formal provision.
- Estimated unit costs in 2008/9 were projected forward on the assumption of 2% per annum real increase. This implicitly assumes continuation of capital expenditure at the rates planned for in the EFA program. This is a pessimistic assumption if it is assumed that classroom shortage will be largely addressed by 2009. The 2% per annum increase allows for some growth in teacher salaries and some continued improvement in non-salary costs.
- Enrolments increase sharply from 2012 as the extension of the primary cycle to 13 years is phased in over 2012-2014. The cost of adding these enrolments in EFA spending has been included in this calculation.
- A 6% growth in non-EFA education costs is assumed throughout, but secondary education costs have been adjusted by assuming that there are offsetting savings to the secondary education budget, equivalent to one sixth of secondary spending for each year that is added to the primary cycle.

Table 9: Long Term Sustainability

	2008/9 Baseline	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Total education as % GDP							
a. Non-EFA Education grows 6% p.a.							
High GDP growth	3.1	3.1	3.0	3.2	3.3	3.4	3.3
Medium GDP growth	3.3	3.3	3.3	3.5	3.7	3.9	3.9
Low GDP growth	3.5	3.5	3.5	3.8	4.0	4.3	4.3
EFA %	59.2	58.6	58.0	64.2	69.4	73.7	73.2
b. EFA constant 55% share of education, 6-10 only							
High GDP growth	3.4	3.3	3.2	3.1	3.0	2.9	2.8
Medium GDP growth	3.6	3.5	3.5	3.4	3.4	3.3	3.3
Low GDP growth	3.7	3.7	3.7	3.7	3.7	3.7	3.6
c. Scenario a, 6-10 only, with constant unit costs							
High GDP growth	3.1	3.0	3.0	2.9	2.8	2.7	2.6

	2008/9 Baseline	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Medium GDP growth	3.3	3.3	3.2	3.2	3.2	3.1	3.1
Low GDP growth	3.5	3.5	3.5	3.5	3.4	3.4	3.4
Memorandum Items							
GER	104	104	104	104	104	104	104
NER	96	96.7	97.3	98	98.6	99.3	100
Gross EFA school Enrolment 000s	3686	3740	3795	4562	5334	6108	6171
Unit Cost NRs	3366	3433	3502	3572	3643	3716	3790
Total EFA Budget (NRs million)	12,372	12,804	13,251	16,248	19,378	22,635	23,324
Non EFA, 6% Growth	8544	9057	9600	9057	8544	8061	8544
Total Education	20,917	21,861	22,851	25,305	27,923	30,696	31,868

If GDP growth of 6.2% p.a. is achieved, and ignoring for the moment the cost of extending the primary cycle, the costs can be sustained with Government expenditure on education of about 3% of GDP, with the EFA share declining slowly. If growth achieves 4.5% per annum, the improvements initiated under EFA can be sustained with spending of 3.3% of GDP, marginally above the share budgeted in 2003/04. With growth of only 3.5% per annum, the share of GDP required to sustain the program continues at about 3.5% of GDP.[5] If non-EFA spending has to increase fast enough to reduce the EFA share to 55%, the share of education spending will need to be around 3.4%-3.7% of GDP (depending on the projected rates of GDP growth), requiring 17-18% of Government spending.

In conclusion, sustainability beyond the program period appears to be financially feasible on most plausible growth scenarios. Using the base case scenario of GDP growth (4.5% per annum), our analysis shows that for the program to be sustainable, HMG/N will need to maintain education spending at around 3.5% of GDP. In this scenario, to maintain EFA spending at 55% of overall education expenditures, close to 18% of government expenditures need to be spent on education.

[5] In all cases, the addition of the extra years has significant cost implications, requiring Government to allocate 3.9% of GDP in the moderate growth case. The 6-13 compulsory cycle will require 74% of the total education budget in 2013/2014. With low GDP growth, achieving the EFA targets for universal enrolment of the 6-13 age group would imply a rising share of GDP and government expenditure, and the addition of the extra years would be difficult to finance, requiring 4.3% of GDP and over 20% of Government spending by 2015.

Annex 10: Safeguard Policy Issues
NEPAL: Education For All Project

Environmental Assessment

Background. The DOE will be implementing the EFA program covering all 75 districts of the country, supported by the IDA and other donors. This program intends to consolidate the achievements made in the earlier and ongoing primary education projects supported by a number of donors including IDA. The EFA goals are to improve access and equity; to enhance quality and relevance; and to improve efficiency and institutional capacity. The EFA program aims to ensure that all children, particularly girls, children in difficult circumstances and those belonging to dalits, disadvantaged janajati and other disadvantaged groups, have access to and complete primary education of good quality.

A specific objective of EFA will be to increase the net enrolment ratio from 81% in 2001 to 96% in 2009. Enrolment opportunities will be improved through construction and furnishing of 8,000 new classrooms, rehabilitation of 6,000 classrooms, improving site services in 5,000 schools with special focus on toilets for girls and safe drinking water. The EFA program will meet the classroom requirements of all schools so that no child is denied access to school. Schools that have not qualified for new permanent classrooms but have high demand for access will be provided with temporary classrooms. During the program period, about 1,000 temporary classrooms, which are low-cost, safe, well lit, and well ventilated structures will be built using local materials.

Civil works and improvement of physical facilities will be undertaken by the schools on a cost-sharing basis between the Government and communities. The DEO will assist in site supervision to assure quality. In addition to school works, the program will also finance construction of 23 district education offices and 250 Resource Centers, which are components of the overall infrastructure for service delivery.

Environmental Issues. No large scale, significant and/or irreversible impact is anticipated. An environmental review by HMG/N has identified several small-scale and local environmental issues potentially associated with the program activities. These issues relate to school site selection and planning (natural hazards; sensitive ecological regions; arsenic and fluoride contamination in the drinking water supplied in the schools; site drainage); building design and construction (indoor air quality and daylight factor inside the classrooms, sanitation facilities and waste management, water supply); and maintenance during the operation period (site cleanliness and hygiene, prevention of enteric infections). No long-term impact is anticipated, except that supply of potable water in the schools could be an issue in future, given the deteriorating trend of water quality in the country, as a whole.

Environmental Assessment. The DOE has undertaken an EA for the program. The EA was based on a series of reviews of construction works undertaken in the ongoing BPEP, field visits and consultations with stakeholders with respect to practices related to school physical facility improvement, and operation and maintenance of facilities. The findings of this review were used to prepare the National Environmental Guidelines for siting and construction of new schools, improvement of physical facilities in schools, as well as additions or rehabilitations of classrooms in the existing schools. In parallel, the DOE has completed an assessment of the implications of arsenic in groundwater supply, especially in the schools located in the *terai* area, and testing and mitigation requirements under the project. An Environmental Management Plan (EMP) has been prepared, which lists the environmental mitigation and management measures, and assigns responsibilities for implementation.

The EFA program, as a whole, <u>does not</u> require any environmental clearance. Normally, school sites would be located in areas already approved for such purposes. During program implementation, there might be a few schools that are proposed to be located in forest or other protected areas. If such cases arise, site-specific clearance will be obtained, and all requisite HMG/N conditions will be fulfilled.

<u>Analyses of Alternatives</u>. At the program level, there is no alternative. However, at the level of individual school buildings, alternatives will be available in terms of selection of individual classroom building sites, building materials, building design and technology, and water and sanitation facilities. These alternatives have been reviewed; the choice of alternatives and the process of selecting the optimal alternative from an environmental management perspective are included in the Nepal National Environmental Guidelines for School Improvement and Facility Management (NEGSIF).

<u>Community Consultations</u>. Community consultation is an integral part of the overall program. The local communities and institutions are involved in the identification, planning, design, implementation, operation and maintenance of the schools as well as all other program activities. Consultations with schoolteachers, experts, NGOs and other stakeholders will continue throughout the implementation period.

During the review of current school construction activities, (which was a part of the EA), consultations were held with schoolteachers, Community Based Organizations (CBOs)/NGOs and local communities. The consultations were in the form of school and community meetings. Consultations were held with educationists, engineers, architects, planners, and DOE Officers on different aspects of school facilities and management. Students and parents were interviewed. The draft National Environmental Guidelines (NEGSIF) were discussed with selected experts and the DOE, and the comments have been incorporated in the final document.

HMG/N has disclosed the NEGSIF and related documents on their website, and will also place the reports in public places for wider dissemination project documents.

<u>Mitigation Plans</u>. The DOE has set a goal of creating a safe and healthier learning environment for children. Improving the physical facilities in schools is key to achieving this goal and therefore an important component of the EFA program. To ensure that the program will not have adverse impacts on public health, the surrounding environment and communities, the NEGSIF will be strictly adhered to in managing environmental issues in the planning, construction and operation of schools in the varied geographical and climatic conditions of Nepal.

Guidelines: The NEGSIF, which form essential parts of the Environmental Management Plan (EMP), include the following:

- guidelines for site selection and planning of school buildings: these include criteria to avoid locating schools in highly vulnerable sites (steep slopes, vulnerable river banks, sites inundated by floods or prone to water logging), and ensure selection of safe slopes in hilly areas as well as proper drainage at and off the site;
- guidelines for design of school buildings: these relate to ensuring adequate day lighting and windows, ventilations within the classrooms, use of solar or other renewable energy systems, analyses related to alternative construction materials and building technology; and
- guidelines for provision of sanitation and sewage disposal facilities, solid waste management, landscape development, and rain water harvesting.

The EMP describes how the provisions of the NEGSIF will be implemented, monitored and evaluated. All schools will prepare complete infrastructure plans, which will include water and sanitation facilities, rainwater harvesting, and landscaped boundary enclosure or live fencing. The construction program will encourage the use of local building materials, and minimize the use of timber or other natural resources. Buildings will designed for designated levels of earthquake and fire resistance. Quality of water supply will be tested, including periodical testing for bacteriological and chemical contamination, especially for arsenic and fluoride. Particular attention will be paid to ensure good health and hygiene of the schoolchildren. Topics such as food, health, personal hygiene, and common illnesses will form part of classroom instruction. Personal hygienic, health and sanitation issues will be integrated into teacher training programs as well as school/community outreach campaigns. Separate funds will be allocated for maintenance of water supply and toilets, and for regular repair and maintenance of the school building, site drainage and solid waste management facilities.

As school construction will be managed by communities, the NEGSIF will be incorporated in the School Design and Construction Manual. For the construction of the district education offices and resource centers, the EMP will be included as part of the contract documents.

Environmental management issues will be included in EFA program supervision and monitoring activities, especially the Annual Reviews conducted jointly by HMG/N and donors. In addition, periodic environmental audits are planned to assess the quality of implementation of the EMP/ NEGSIF, and to identify and resolve residual issues.

Implementation Capacity. The MOES/DOE has implemented a number of Bank and/or donor supported basic and primary education projects since 1984. The ongoing project covered all 75 districts of Nepal in which the physical facilities in a large number of schools have been improved, with a cost-sharing arrangement between the DOE and local communities. The Government has demonstrated institutional capacity to manage the EFA program, including planning and implementation of actions to meet social and environmental needs and safeguards.

To further strengthen capacity to manage environmental issues in the planning, implementation and operation of schools and associated facilities, substantial training is proposed. The DOE will coordinate the training programs and ensure that adequate resources are available for this purpose. The DEOs will be responsible for conducting the training programs, which will include workshops and on-site training. The NEGSIF will form the core training material. Community training on construction management will also include complete training on the use and implementation of the NEGSIF.

Institutional Arrangements. The roles and responsibilities for implementing the NEGSIF in respect to the planning, construction, and operation of schools and associated facilities have been clearly assigned in the EMP.

At the school level, the SMCs will maintain an inventory of natural, cultural, and other resources in or near the school; identify the resources needing protection; implement the NEGSIF during planning, construction and operation adopting environmentally sound technologies and alternatives; and launch school level environmental awareness programs aimed at improving the health and hygiene of schoolchildren. At the district level, environmental coordinating units will be set up (or responsibilities will be assigned within the existing institutional set-up) in the DEO. This unit will prepare and maintain: (a) an inventory related to environmental conditions of schools; (b) monitor and advise on the implementation of the NEGSIF; (c) review the resource requirement for managing environmental issues in the schools; and (d) conduct environmental training programs. In addition, the DEO will be responsible for regular supervision and monitoring of construction activities, and confirm in regular reporting that all environmental management issues are adequately addressed through application of the NEGSIF.

At the national level, the DOE will assign environmental monitoring responsibilities to existing staff and/or sections. These staff will ensure that: (a) the EMP and NEGSIF are adequately integrated in school improvement plans and civil works proposals; (b) resources are provided to the SMCs and DEOs for implementing the EMP/NEGSIF; (c) environmental training programs and awareness campaigns are carried out; (d) periodic site supervision are conducted with DEOs; (e) annual/periodic environmental audits for all civil works in the EFA program are undertaken; (f) the environmental guidelines for schools are reviewed periodically and revisions made as necessary; and (f) all relevant environmental management issues are discussed and resolved during the Annual Reviews of the EFA program.

Social Inclusion

HMG/N has carried out a Social Assessment (SA) to analyze the social impacts of the proposed EFA program, and to recommend actions to help meet the national objective of 'inclusive education' by special targeting of project benefits to poor and vulnerable groups. The specific focus of the SA was to understand the major barriers, which exclude children from socially disadvantaged communities, and to recommend ways to reduce institutional barriers and enhance incentives to increase the access of girls and boys from diverse social groups, and of children with special education needs.

Additional relevant on-going national studies include: (i) *Gender and Social Exclusion Assessment*, currently underway with joint funding from DfID and the Bank; (ii) *Review and Redesign of Incentives and Scholarships Programs for Primary and Secondary Education,* I; and (iii) *Situation of Indigenous Peoples in Nepal and National Framework for the Development,*. The latter two studies, which are supported by Denmark, provide valuable insight into the impact of current scholarships and incentives to socially disadvantaged communities.

Safeguard Related Risks and Measures Proposed. Based on the SA findings, the EFA program will not entail any involuntary resettlement or land acquisition. As in the earlier and ongoing basic and primary education projects preceding the EFA program, no land purchase or donation will be involved as no new schools will be constructed. Furthermore, schools tend to have ample grounds for the construction of new classrooms should the SMCs decide that more space is needed. Land for the construction of public schools in Nepal is not purchased; wealthier members of the community either donate the land or schools are built on public land not owned by any individual. Therefore the EFA program does not trigger OP/BP 4.12 on Involuntary Resettlement.

However, OD 4.20 on Indigenous Peoples does apply. After conducting a separate and detailed study, the Government prepared an Indigenous People's Development Plan (IPDP) as part of the SA work. The IPDP focused on language-based social exclusion in primary education and assessed the capacity of the EFA program to meet the learning needs of indigenous peoples and linguistic minorities. This study has determined that the program will not have any negative impact on indigenous people or those from socially disadvantaged communities such as Dalits. Based on the findings and recommendations of the SA and the IPDP study, a VCDP has been prepared. The VCDP lays out a number of steps that should be taken to comply with OD 4.20 on Indigenous People and ensure that the EFA program not only causes no negative impacts on indigenous peoples and other vulnerable groups, but that it provides the necessary measures to insure that they get equal access to program benefits.

These measures include: (i) introducing home-to-school language transition program in areas where there are large populations of indigenous people or linguistic minorities who do not speak Nepali as their mother tongue; (ii) incentives for recruitment of local bilingual women teachers in primary schools where necessary; (iii) segregation of EMIS data by gender, caste, ethnicity and special needs to permit tracking of progress on inclusive education objectives; and (iv) partnerships between the SMC and local community groups. Tasks that could be undertaken by these community groups include: (a) social mapping to identify out-of-school children from poor households and vulnerable communities; (b) organizing campaigns to encourage enrolment of out-of-school children, and regular follow up to track their attendance and progress; (b) acting as a catalyst to change attitudes towards caste, gender and ethnic exclusion among parents, teachers and students, and monitoring school response to discriminatory behavior within the school; (c) lobbying for SMC membership to better reflect the gender, caste and ethnic profile of the community as revealed in the social mapping process; and (d) carrying out social audits to track the allocation of funds from school block grants, particularly to ensure that scholarships go to the most needy Dalits, girls and indigenous children.

Consultations with Stakeholders. During the SA and preparation of the VCDP, a series of meetings and interviews were conducted with a wide range of people and scholars working in the field of primary education, language development, gender, anthropology and social exclusion issues. Members of community organizations representing socially excluded groups, indigenous people and linguistic minorities were interviewed. Field visits were made to rural and urban community schools to assess different social inclusion issues of indigenous and Dalit children.

Five stakeholder discussions were organized at the central level. As a first step, three separate thematic meetings were held with national stakeholders – women, Janajatis and Dalit activists. Participants were from government, non-government and academic institutions working at national, district as well as community levels, including representatives from the National Commissions for Dalits and Women, and the Nepal Federation of Nationalities. The SA team presented their preliminary recommendations, and solicited ideas and inputs from the participants. The key recommendations from each of these thematic group meetings were incorporated with SA recommendations into the VCDP.

A final consultation with a larger group of participants representing government, international NGOs and other concerned organizations was led by the MOES on January 9, 2004. Feedback from the consultations confirmed the validity of several key recommendations to ensure the inclusion of vulnerable groups. These include: (i) provision of grants to SMCs to enable them to enter into partnerships with local groups for implementing EFA activities; (ii) development of modalities to reduce discriminatory practices and behavior in schools; and (iii) piloting of home-to-school language transition for non-Nepali speaking children.

Capacity and Commitment of Implementation Agencies. The DOE/MOES as the lead implementation agency, has the primary responsibility for delivery of program outcomes in coordination with other central agencies (e.g., FCGO/MOF, NPC). Within the DOE, the Women's Education, Special Needs Education, Training and the Planning and Monitoring sections have key accountability for components related to social inclusion. Experience has indicated that for effective implementation, more trained field-based staff are needed for mainstreaming accountability for social inclusion. More than rules, a shift in attitudes and behavior is needed to stimulate real social transformation in schools. The EFA program envisages support to SMCs from local women's, children's and other community groups to create increased ownership and broad participation in social monitoring of education service delivery. It is proposed that modalities for monitoring and tracking cases of discrimination be set up at appropriate offices. The existing Women's Education and Special Needs Education sections would benefit from a more holistic framework for addressing inclusive education in approach and content.

Drawing on the rich experience and demonstrated success of the many international NGOs and community-based organizations in Nepal in social mobilization, the program will support partnerships with such groups to strengthen monitoring and social audits of school block grants. At the national, district and community levels, there are thousands of women's groups engaged in women's and children's development through advocacy and empowerment. Similarly, over 1,500 Children's Clubs and Children's Federations have been formed in schools and communities. These and other local groups will be tapped to build the capacity of SMCs to implement program activities.

Arrangements for Funding and Schedule for Implementation. It is anticipated that all the program activities, including the review of national policies, regulations, guidelines and directives on social inclusion, will be initiated within the first year of program implementation.

Funding at the Community Level: (i) NRs 100,000 as a one-time incentive will be provided to all community-managed schools; (ii) all publicly-managed schools will get an initial basic grant during the first year of program implementation; and (iii) from year two onwards, accredited schools will receive additional block grant funding linked to the accreditation level of the school (details on the qualification criteria for different levels of grant funding are described in Annex 17). These funds can be used for: (a) establishing partnerships between SMC and local community groups to carry out social mapping, social audits and capacity building activities; (b) hiring female teachers (bilingual where necessary); and (c) scholarships for girls, dalits and students from disadvantaged households.

Funding at the Central Level: Central funds will be used (probably on an outsourcing basis) for: (i) providing technical expertise on integrating positive images of diverse socio-cultural and religious groups into the on-going curriculum development process; (ii) developing a home-to-school language transition module/curriculum for teaching non-Nepali speaking children; and (iii) developing a framework for sanctions against discrimination, which will be carried out by the Monitoring and Inspection Section in DOE. It is recommended that development of the curriculum be initiated in the first year through outsourcing of technical inputs for development of modules. Pre-testing and piloting in a number of districts with high indigenous population should follow in second and third years to inform up-scaling of the activity.

<u>Mechanisms to Monitor the Implementation of the Agreed Plan</u>. The EMIS and appropriate Monitoring and Evaluation systems will be strengthened/developed to ensure accountability of all stakeholders. EMIS data will be segregated by gender, caste (Dalit/non-Dalit) and ethnicity (Janajati/non-Janajati) and incorporated into flash reports for monitoring progress on process and outcome indicators.

Community Managed Information System data will be collected with the help of local group to supplement information from the EMIS. Mechanisms such as social audits and social mapping will help to track school absenteeism and dropout rates by gender, caste and ethnicity of children, and monitor discriminatory behavior/practices and access of targeted children to scholarships and other incentives funded through school grants.

Annex 11: Project Preparation and Supervision
NEPAL: Education For All Project

	Planned	Actual
PCN review	03/20/2003	08/15/2003
Initial PID to PIC	03/20/2003	12/02/2003
Initial ISDS to PIC	11/04/2003	11/26/2003
Appraisal	03/15/2004	03/08/2004
Negotiations	04/28/2004	05/19/2004
Board/RVP approval	06/15/2004	
Planned date of effectiveness	09/01/2004	
Planned date of mid-term review	12/01/2007	
Planned closing date	08/31/2009	

Key institutions responsible for preparation of the project: Ministry of Education & Sports

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Nawaf A. Al-Mahamel	Counsel	LEGMS
Maria E. Anderson	Implementation Specialist/Consultant	SASHD
K.G. Awunyo	Counsel/Consultant	LEGMS
Kiran Baral	Senior Procurement Specialist	SARPS
Lynn Bennett	Adviser, Social Development	SDV
Kiran Bhatia	Social Development Specialist/Consultant	SASHD
Amit Dar	Senior Economist	SASHD
Julie-Anne Graitge	Program Assistant	SASHD
Rajendra Joshi	Senior Education Specialist/Co-Task Team Leader	SASHD
Chingboon Lee	Lead Education Specialist/Task Team Leader	SASHD
John Middleton	Implementation Specialist/Consultant	SASHD
Rajat Narula	Senior Finance Officer	LOAG2
Tapas Paul	Environmental Specialist	SASES
Bigyan Pradhan	Senior Financial Management Specialist	SARFM
Sushila Rai	Program Assistant	SASHD
Sudarshan Tiwari	Architect/Consultant	SASHD
Mark Turin	Social Development Specialist/Consultant	SASES

Bank funds expended to date on project preparation:

1. Bank resources: $105,553.87 (FY03)
   $319,670.09 (FY04)
2. Trust funds: Nil
3. Total: $425,223.96

Estimated Approval and Supervision costs:

1. Remaining costs to approval: $ 10,000.00
2. Estimated annual supervision cost $120,000.00

Annex 12: Documents in the Project File
NEPAL: Education For All Project

Bank Staff Assessments

Project Background Documents:

- Back-to-Office Report: Education for All Project Appraisal Mission, March 30, 2004
- Aide Memoire: Education for All Project, Appraisal Mission, March 8-17, 2004
- Back-to-Office Report: Education for All Project – Technical Mission, February 2, 2004
- Back-to-Office Report: Education for All Project - Pre-appraisal Mission, December 17, 2003
- Back-to-Office Report: Education for All Project - Pre-appraisal Mission, December 5, 2003
- Back-to-Office Report: Basic and Primary Project APL Phase II Multi-donor Preparation Mission, July 1, 2003
- Back-to-Office Report: Basic and Primary Education Preparation Mission, June 23, 2003
- Aide Memoire: Education for All Project, Preparation Mission, June 3-18, 2003
- Back-to-Office Report: Basic and Primary Education Project Phase II , March 10, 2003

Other

Government

- Education for All 2004-2009, Core Document, The Ministry of Education and Sports, Keshar Mahal, Kathmandu, Nepal, November 17, 2003
- The Tenth Plan (PRS Paper) 2002-2007, Summary, HMG/N, National Planning Commission, Kathmandu, Nepal, July 2003
- Expenditure Tracking Survey of Primary, Lower Secondary and Secondary Schools, HMG/N, Office of the Financial Comptroller General, Anamnagar, Kathmandu, Nepal, June 4, 2003
- Resourcing Education for All 2004-2009, A Framework, Report on the *Funding Modalities Workshop,* HMG/N, Ministry of Education and Sports, Kathmandu, February 25-26, 2003
- Medium Term Expenditure Framework, Fiscal Year 2002/03-04/05, Main Volume, HMG/N, National Planning Commission, Singha Durbar, Kathmandu, January 2003
- Education Regulations, HMG/N, 2002
- The Seventh Amendment of Education Act 2028 BS, HMG/N, 2001
- The Tenth Five Year Plan 2002-2007, HMG/N, National Planning Commission, 2001
- Annual Strategic Implementation Plan and Annual Work Program and Budget 2004-200

Project Preparation Documents (April 26, 2004, Ministry of Education and Sports):

- An Operation Plan for School Block Grants
- A Plan for NGOs/CBO and Support Organizations for the Delivery of School Support Services (text in Nepali)
- Service Conditions for Government-Guaranteed Community Recruited Teachers in Community Managed Schools
- Action Plan for Textbook Development, Production and Distribution

- Vulnerable Community Development Plan for Nepal Education for All Programme (2004-2009)
- National Environmental Guidelines for School Improvement and Facility Management in Nepal
- Bilingual Transition Education Programme for All (Non-Nepali Speaking Students)

Country Documents:

- Memorandum of the President of the International Development Association to the Executive Directors on a Country Assistance Strategy for the Kingdom of Nepal (Report No. 26509-NEP), The World Bank Group, November 24, 2003
- Nepal: Country Financial Accountability Assessment. A Joint Exercise of His Majesty's Government of Nepal and the World Bank, July 5, 2002
- Nepal Country Procurement Assessment Report, Procurement Services, South Asia Region, The World Bank Group, April 11, 2002

Sector Background:

- Nepal Priorities and Strategies for Education Reform, The World Bank Group, South Asia Region, Human Development Unit, July 16, 2001

Other:

- Review of Cost and Price of School Textbooks. Study by JBRH and Company, Chartered Accountants; Kathmandu, March 2004

Annex 13: Statement of Loans and Credits
NEPAL: Education For All Project

			Original Amount in US$ Millions						Difference between expected and actual disbursements	
Project ID	FY	Purpose	IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P071285	2004	Rural Water Supply and Sanitation Project	0.00	25.3	0.00	0.00	0.00	25.3	0.00	0.00
P074685	2004	Poverty Reduction Support Credit I	0.00	70.0	0.00	0.00	0.00	70.0	0.00	0.00
P081968	2004	Poverty Alleviation Fund	0.00	15.0	0.00	0.00	0.00	15.0	0.00	0.00
P084219	2004	Financial Sector Restructuring (Phase II)	0.00	75.5	0.00	0.00	0.00	75.5	0.00	0.00
P082646	2003	Community School Support Project	0.00	5.00	0.00	0.00	0.00	5.01	0.00	0.00
P071291	2003	Financial Sector Technical Assistance	0.00	16.00	0.00	0.00	0.00	14.87	-2.44	0.00
P043311	2003	Power Development Project	0.00	50.40	0.00	0.00	0.00	76.53	1.00	0.00
P050671	2002	Telecommunications Sector Reform	0.00	22.56	0.00	0.00	0.00	23.98	10.54	0.00
P045052	2000	Road Maintenance And Development	0.00	54.50	0.00	0.00	0.00	33.19	50.45	9.23
P040612	1999	Basic & Primary Ed. II	0.00	12.50	0.00	0.00	0.00	3.75	4.16	4.22
P010530	1998	Irrigation Sector Dev.	0.00	79.77	0.00	0.00	8.01	6.12	15.73	2.04

P010509	1998	Multimodal Transit	0.00	23.50	0.00	0.00	0.00	3.88	4.59	10.94
P010516	1997	Rural Water and Sanitation	0.00	18.30	0.00	0.00	1.55	0.56	3.37	1.74
		Total:	0.00	282.53	0.00	0.00	9.56	167.89	87.40	28.17

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

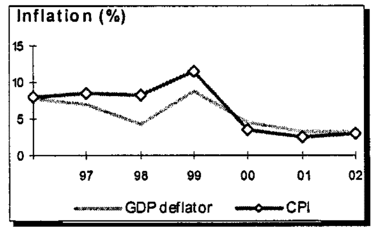
		Committed IFC				**Disbursed IFC**			
FY Approval	Company		Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1998	Bhote Koshi	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1994	Himal Power	24.27	0.00	3.60	0.00	24.27	0.00	3.60	0.00
2001	ILFC - Nepal	0.00	0.30	0.00	0.00	0.00	0.30	0.00	0.00
1998	Jomsom Resort	4.00	0.00	0.00	0.00	4.00	0.00	0.00	0.00
	Total portfolio:	28.27	0.30	3.60	0.00	28.27	0.30	3.60	0.00

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

Annex 14: Country at a Glance
NEPAL: Education For All Project

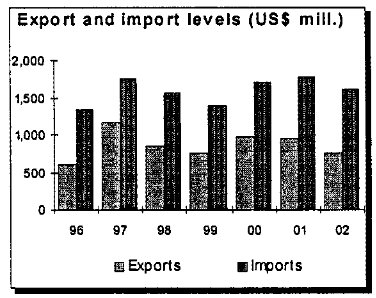
PRICES and GOVERNMENT FINANCE

	1982	1992	2001	2002
Domestic prices				
(% change)				
Consumer prices	10.6	20.7	2.4	3.0
Implicit GDP deflator	9.3	18.2	3.2	3.2
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	8.8	13.1	12.9
Current budget balance	..	-0.9	1.9	1.3
Overall surplus/deficit	..	-8.5	-4.5	-4.3



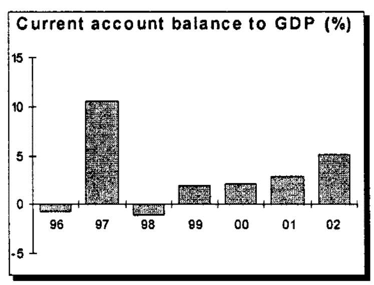
TRADE

	1982	1992	2001	2002
(US$ millions)				
Total exports (fob)	116	306	942	762
Food	..	..	65	..
Pulses	..	..	56	..
Manufactures	..	..	256	..
Total imports (cif)	384	712	1,773	1,605
Food	..	95	81	..
Fuel and energy	..	85	338	..
Capital goods	..	138	312	..
Export price index *(1995=100)*	..	..	..	..
Import price index *(1995=100)*	..	..	..	..
Terms of trade *(1995=100)*	..	..	..	..



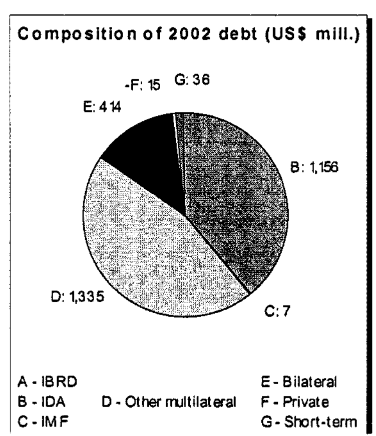
BALANCE of PAYMENTS

	1982	1992	2001	2002
(US$ millions)				
Exports of goods and services	278	543	1,359	1,060
Imports of goods and services	412	875	1,984	1,687
Resource balance	-134	-333	-625	-626
Net income	12	13	9	-7
Net current transfers	40	96	774	921
Current account balance	-82	-223	159	287
Financing items (net)	135	310	-78	-323
Changes in net reserves	-53	-86	-80	36
Memo:				
Reserves including gold *(US$ millions)*	..	416	1,026	1,055
Conversion rate *(DEC, local/US$)*	12.9	44.9	73.5	75.9



EXTERNAL DEBT and RESOURCE FLOWS

	1982	1992	2001	2002
(US$ millions)				
Total debt outstanding and disbursed	353	1,807	2,786	2,933
IBRD	0	0	0	0
IDA	142	765	1,102	1,156
Total debt service	18	67	84	88
IBRD	0	0	0	0
IDA	1	9	25	26
Composition of net resource flows				
Official grants	89	40	78	74
Official creditors	66	103	60	4
Private creditors	1	-11	0	0
Foreign direct investment	0	4	6	-4
Portfolio equity	0	0	0	0
World Bank program				
Commitments	29	179	0	23
Disbursements	34	70	47	38
Principal repayments	0	3	17	18



Annex 15: Joint Financing Arrangement
NEPAL: Education For All Project

DRAFT

This Joint Financing Arrangement is among:

Department for International Development of United Kingdom ("DfID");
the Ministry for Foreign Affairs of Finland ("Finland");
the Royal Ministry of Foreign Affairs, Norway ("Norway");
the Ministry of Foreign Affairs of Denmark ("Denmark");
the International Development Association ("IDA");
collectively referred to as (the "Pooling Donors")

and

His Majesty's Government of Nepal, hereinafter referred to as ("HMG/N")

1. WHEREAS HMG/N has requested the support of the Pooling Donors to contribute towards the funding of the BPE sub-sector described in the Education for All Core Document, dated November 17, 2003 (hereinafter referred to as the "EFA Programme"). HMG/N and the Pooling Donors together are hereinafter referred to as "the Signatories";

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

3. WHEREAS the Pooling Donors have committed themselves to the principles of harmonization as reflected in this Joint Financing Arrangement (hereinafter referred to as the "JFA") and strive to reach the highest degree of alignment with the budgetary and accountability system and legislation of Nepal so as to enhance effective implementation and to reduce the administrative burden of HMG/N;

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

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

I. <u>Goals of the EFA Program and Scope of the JFA</u>

6. This JFA will apply to all activities budgeted and accounted for in Nepal under the EFA Programme budget heads 65-3-140 Education for All (Regular Budget), 65-4-140 Education for all (Development Budget – Central Level) and 65-5-140 Education for All

(Development Budget – District Level) as per HMG/N current chart of accounts. All activities under these budget heads will be funded jointly by the HMG/N and pooling donors. In the context of this JFA these budget heads will comprise the EFA Programme for financial reporting purposes. In the event that these budget heads are changed due to revision of HMG/N chart of accounts, HMG/N will notify the Pooling Donors of the new budget heads which will comprise the EFA Programme for financial reporting purposes.

7. The objectives of the EFA Programme are: (a) ensuring access and equity in primary education; (b) enhancing quality and relevance of primary education; (c) improving efficiency and institutional capacity as well as promoting Early Childhood Development and Non-formal Education as specified in the Core Document.

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

9. The financial commitments of the Pooling Donors will be confirmed within the bilateral agreements concluded between HMG/N and each of the Pooling Donors.

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

11. The Pooling Donors will base their actual support on the progress attained in the implementation of the EFA Programme. Progress will be measured through the common procedures for monitoring and reporting as described in paragraphs IX and X (refer to Attachment 1: Schedule of Monitoring and Reporting).

II. Representation

12. In matters pertaining to the implementation of this JFA, the HMG/N will be represented by the Ministry of Finance ("MOF"). The responsibility for the implementation of the EFA Programme not affecting the overall responsibilities of HMG/N or the MOF will lie with the Ministry of Education and Sports ("MOES").

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

III. Responsibilities of HMG/N

14. The HMG/N will make all reasonable efforts to facilitate the successful implementation of the EFA Programme, and will hereunder:

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

    b. establish a foreign exchange account in United States Dollar with Nepal Rastra Bank ("NRB") to which the Pooling Donors will disburse resources and from which funds will be released to be utilised exclusively for the EFA Programme;

    c. ensure that accounts for the EFA Programme are kept in accordance with procedures set forth in the FAR of HMG/N (2056 and as amended);

    d. maintain a financial management system adequate to reflect the transactions, resources, expenditures and assets under the EFA Programme and will ensure that the HMG/N is able to produce timely, relevant and reliable financial information for planning and implementation of the EFA Programme, and monitoring of progress toward its objectives that will also allow the Pooling Donors to evaluate compliance with agreed procedures;

    e. provide sufficient qualified personnel and do their utmost to release all financial and other resources that are required over and above the funding from the Pooling Donors for the successful implementation of the EFA Programme; and

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

15. The HMG/N will convene and make adequate arrangements and documentation as stated herein for joint consultations (ref. Attachment 1. Schedule of Monitoring and Reporting).

IV. Responsibilities of the Pooling Donors

16. The Pooling Donors will make available to Nepal funds through a foreign exchange account in the name of the MOF in the NRB to be used exclusively to finance the EFA Programme.

17. On an annual basis, the Pooling Donors will review the Annual Strategic Implementation Plan ("ASIP") and Annual Work Plan and Budget ("AWPB") for the EFA Programme and commit their contributions (ref. section 30).

18. The Pooling Donors will ensure timely release of their commitments to the foreign exchange account in accordance with the provisions of paragraph VII below and the bilateral agreements.

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

V. Meeting Structure

20. The Pooling Donors and HMG/N will conduct semi-annual meetings (December and April).

21. The meeting in December will serve as a consultative meeting for the Signatories to discuss overall progress for the previous fiscal year based on reports as mentioned in paragraph IX as well as section 24 (a) below, and the findings of a technical review mission. The Pooling Donors will make an initial indication of funding to be provided for the following fiscal year.

22. The meeting in April will serve as the annual review meeting that will include the wider group of donors to the sector for joint review the ASIP and the AWPB for the next fiscal year, the audit report of the previous fiscal year, and the findings of a technical review mission.

23. The Pooling Donors, MOF, FCGO and MOES will be represented at the meetings. MOES in cooperation with the Pooling Donors will be responsible for the agenda. MOES will call and chair the meetings. The outcome of the meetings will be presented in an aide memoire. The aide memoire will be drafted jointly by the Signatories.

24. The discussions and decisions in the semi-annual meetings will be based on, *inter alia,* the following documents, which will be submitted to the Pooling Donors in accordance with the deadlines set forth in paragraph IX and XI below but no later than two weeks ahead of the meeting:

    a. December meeting: preliminary annual financial statement (ref. section 50 (a)), annual performance report (ref. section 52 (a)), financial monitoring report for the first fiscal trimester and a consolidated flash report of the previous fiscal year (ref. section 52 (c)); and

    b. April meeting: the annual audit report of the EFA Programme as certified by the AG/N, the ASIP and AWPB, the financial report for the second fiscal trimester and a report from the technical review mission.

VI. Organizational Structure and Consultations

25. All the Pooling Donors will be represented in a Pooling Donors' Working Group ("PDWG"). The Pooling Donors through the PDWG will designate one of the Pooling Donors as a Contact Point for communication and information sharing with the HMG/N on matters concerning the implementation of this JFA. However, the Pooling Donor Contact Point will not have any authority to make decisions on behalf of the Pooling Donors.

26. The terms of reference ("ToR") for the Pooling Donors' Contact Point will be prepared by PDWG and decided upon between the Pooling Donors, and a copy of the ToR will be shared with HMG/N and the Pooling Donors.

27. The selection and role of the Pooling Donors' Contact Point, as well as any changes made during the timeframe of this JFA, will be communicated to the MOF and MOES in writing by the Pooling Donors' Contact Point.

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

VII. Pooling Mechanism

29. The Pooling Donors will provide indicative funding levels for the following fiscal year in the semi-annual meeting in December.

30. The Pooling Donors will provide a funding commitment in the semi-annual meeting in April. It will take into account the sub-sector budget and cash forecast statement (ref. 49 c) of the EFA Programme.

31. The Signatories will in the light of these commitments determine the their share of funding for the coming fiscal year for the total EFA Programme as defined in section 6 of paragraph I above.

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

33. The disbursements by the Pooling Donors to the foreign exchange account will be as follows:

    a. For the first disbursement of the first fiscal year under the EFA Programme, the Pooling Donors will advance their share of first two fiscal trimesters expenditure estimates for the first year.

    b. For every trimester disbursement thereafter, the Pooling Donors will replenish the FE Account based on FMRs as defined in para 49 of this arrangement showing funds utilized during the trimester, the cash balance position of the FE Account, and the cash forecast for the remaining fiscal year;

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

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

e. There may be a final adjusted disbursement for the fiscal year on the basis of the certified annual financial statement (section 50a). This adjustment will be made in the second trimester of the following fiscal year.

34. The MOF/FCGO is responsible for certifying and forwarding the relevant financial reports indicated in paragraph IX below, and submitting the request for disbursement in writing in accordance with the provisions of this JFA to the PDWG contact Point.

35. The Contact Point in consultation with PDWG will have 10 days upon receipt of this request to review the attached reports (ref. paragraph IX) and clarify any outstanding issues including validity of cash forecasts for the following two trimesters with the MOF/FCGO and MOES/DOE.

36. In the event of there being 'no objection' the Pooling Donors' Contact Point will advise Pooling Donors to deposit their share of the overall disbursement in the designated foreign exchange account, which should take place no later than 30 days after the receipt of the HMG/N's request.

37. In the event of their being issues which are not possible to clarify within the 10 day period indicated in section 35 above, the above process will be suspended until outstanding issues are resolved. HMG/N and the Pooling Donors will make their best endeavours to resolve any such issues as quickly as possible.

38. Following confirmation from NRB, MOF/FCGO will immediately acknowledge receipt of the foreign exchange funds, in writing, to the Pooling Donors' Contact Point.

39. The FE Account will be a non-interest bearing account. No fees and commission will be charged by the NRB for the operation of the account without prior agreement of the Signatories.

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

41. The FE Account will be used only for the purpose of transferring the amount to HMG/N's consolidated fund following the certification of actual expenditures. There will be no direct expenditure on the procurement of imported goods and services from the foreign exchange account. The procurement of such items will take place in accordance with paragraph VIII below. Upon MOES/DOE requests, foreign exchange currency payments will be promptly facilitated by HMG/N as per HMG/N regulations

VIII. Procurement

42. HMG/N undertakes to effect all procurement of works, goods and services for the EFA Programme and is responsible for the contracts to be signed.

43. All procurements will be performed in accordance with generally accepted principles and good procurement practices and in conformity with HMG/N's regular procedures and regulations as described in the FAR of HMG/N unless otherwise provided for below.

44. As an annex to the AWPB, MOES will provide the Pooling Donors for their review a draft annual procurement plan ("Procurement Plan") in accordance with the format in Annex 8, which will include on-going contracts rolling into the following year, and procurement plans for the following fiscal year prepared based on the agreed work program. The Procurement Plan shall only include activities to be financed under the EFA Programme and procured pursuant to International Competitive Bidding (ICB) and other procurement methods as maybe requested by the Pooling Donors.

45. During implementation of the Procurement Plan, MOES/DOE will provide the Pooling Donors with fiscal year trimester procurement monitoring reports concerning progress in implementation of the Procurement Plan and identifying any contracts that were not included in the previous Procurement Plan. In each procurement monitoring report, MOES/DOE shall also provide information to the Pooling Donors concerning awarded contracts, appointment of consultants, and any material modifications to the terms and conditions of such contracts after their award.

46. Procurements requiring NCB will follow HMG/N procurement guidelines with the following exemptions to FAR 2056 to ensure compliance with generally accepted principles and good procurement practices:

a. bid opening at only one place, and immediately after the deadline for bid submission;

b. all bidders must provide performance securities if so required by the letter of invitation without exemptions (Regulation 86 of FAR 2056 as amended);

c. no preference for local bidders competing with foreign bidders in NCB (Regulation 58 (3) of FAR 2056 as amended);

d. no provision for debarring foreign bidders from bidding for contracts less than NRs 250 million (Regulation 73 (k2) of FAR 2056 as amended); and

e. bidders' qualification criteria shall be according to the World Bank's standard procedure.

47. For International Competitive Bidding the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) will apply until such date of entry into force of the new procurement law currently being drafted in which case the Signatories will agree on applying procedures under the new procurement law for all procurements.

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

IX. <u>Reporting</u>

49. The following set of financial reports will be accepted by the pooling donors as FMRs and will form the basis of disbursement to the foreign exchange account by the pooling donors each trimester. They will be produced by MOES/DOE and submitted to the PDWG Contact Point within 45 days of the end of each trimester:

a. A report certified by FCGO for each trimester and year to date on transfers to and from the foreign exchange account in accordance with the format in Attachment 2 and with a copy of the bank statement for the account from the NRB enclosed.

b. One consolidated financial report for allocation and expenditures from the FCGO for the budget heads described in section 6 of paragraph I above, comparing actual and budgeted figures budget line item code for the trimester and cumulatively for the fiscal year to date (report ref. Attachment 3).

c. An output based progress report for the first and second trimester year relating EFA sector expenditure and outputs in accordance with Annex 4; the third trimester output based report will not be required but instead substituted by the annual output based report (ref. 52a below).

d. A cash forecast statement for the following two trimesters accounting for the current balance in the foreign exchange account.

e. An update on the procurement plan.

50. The following financial reports will be produced by MOES/DOE and submitted to the Pooling Donors on an annual basis:

a. The un-audited annual financial statement for the budget heads referred to in section 6 of paragraph I above certified by the Financial Comptroller General by 15 January of the following fiscal year.

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

52. The following program performance reports will be produced by MOES/DOE and submitted to the PDWG Contact Point on an annual basis:

a. A consolidated output based progress report for the fiscal year relating EFA sector expenditure and outputs in accordance with Annex 4 by 15 November of the following year (ref. 49c above);

b. Progress reports on outcomes and processes twice during each academic year by 15 November and 15 August.

c. A consolidated annual progress report by 15 November on outcomes and processes (ref. 52 b above) above for the previous academic year in the format decided upon between the Signatories.

X. Monitoring

53. As part of the preparation for the consultative meeting in December and annual review meeting in April, the Signatories will jointly conduct an external technical review in November and March of past performance and future financial needs. The ToR for the technical review will be drawn up and consultants identified by the Signatories. The costs of the technical review will be borne by the Pooling Donors.

54. The Signatories will jointly conduct a mid-term review after two years of EFA Programme implementation. The PDWG will elaborate the ToRs of the review to be discussed at a semi-annual meeting. The Pooling Donors' focal point will coordinate and manage the review process including the contracting of any external technical assistance for the review. The cost of the review will be charged to the Pooling Donors.

55. The Pooling Donors may jointly conduct an evaluation of the EFA Programme after EFA Programme completion. The PDWG will prepare a ToR for the evaluation to be discussed at the last semi-annual meeting of the EFA Programme. The Pooling Donors' focal point will coordinate and manage the evaluation process. The cost of the evaluation will be charged to the Pooling Donors.

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

XI. Audit

57. With respect to the EFA Programme, HMG/N will submit to the Pooling Donors an annual audit report of the budget heads referred to in section 6 for each fiscal year as so audited by the AG/N, no later than 15 March of the following fiscal year. Such audit shall be carried out in accordance with auditing standards and under terms of reference agreed between AG/N and the Pooling Donors. AG/N will submit the audit report of the EFA Programme with detailed observations as reported in the Auditor General's Annual Report. The Audit report will also include the audit of the FE Account and the related local currency account.

58. The Signatories may request a performance related audit to be carried out by the AG/N, or at his discretion, with the support of appropriately qualified auditors contracted under his authority. HMG/N will provide adequate resources for such a purpose. The selection of the auditors and timing for such audit will be done in close collaboration with the Pooling

Donors. The Signatories will jointly agree on the ToR. Based on the outcome of such audit, the Pooling Donors may convey to HMG/N any corrective measures they consider needed to be undertaken.

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

XII. Non-Compliance

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

    a. substantial deviations from agreed plans and budgets occur or misprocurement is declared;

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

    c. the EFA Programme develops unfavorably in relation to its objectives; and

    d. the suspension is warranted by a fundamental change in circumstances compared to those which existed at the start of the EFA Programme.

61. The Suspension shall cease as soon as the event/events which gave rise to suspension have ceased to exist.

62. If a Pooling Donor has the intention to suspend new disbursements, reclaim funds or terminate its support, the Pooling Donor will call for a meeting with the other Signatories in order to seek a solution in the matter and the Signatories will seek to reach a joint position on the remedial measures required.

XIII. Corruption

63. The HMG/N will promptly inform the Pooling Donors in case of any incidence of accidental or deliberate misuse of funds or corruption as investigated by anti-corruption bodies. Changes to be agreed with other donors.

XIV. Modification, Donor Accession, Withdrawal

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

65. The Signatories welcome the accession to this JFA by other donors who wish to support the EFA Programme.

66. Upon a new donor's written request and written acceptance of the provisions and conditions of this JFA, the HMG/N may authorise in writing as an annex to this JFA, a donor to become a Signatory. The HMG/N will inform the other Pooling Donors in advance of possible donor accession and subsequently furnish them with a copy of the letter of acceptance.

67. In case a Pooling Donor intends to withdraw/terminate its support, the Pooling Donor will call for a meeting to inform the other Signatories on its decision and to consult on the consequences for the EFA Programme. Each Pooling Donor reserves the right to withdraw/terminate its support to the EFA Programme by giving the other Signatories three months written notice.

XV. Dispute Settlement

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

XVI. Come into Effect

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

HIS MAJESTY'S GOVERNMENT OF NEPAL

Bv________________________________
Authorized Representative

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT
OF THE UNITED KINGDOM (DfID)

By____________________________________
Authorized Representative

THE MINISTRY FOR FOREIGN AFFAIRS OF FINLAND

By____________________________________
Authorized Representative

THE NORWEGIAN AGENCY FOR DEVELOPMENT COOPERATION/THE MINISTRY OF FOREIGN AFFAIRS OF NORWAY

By____
Authorized Representative

THE MINISTRY OF FOREIGN AFFAIRS OF DENMARK

By____
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By____
Authorized Representative

Attachment 1:
Schedule of Monitoring and Reporting[1]

Month	HMG/N input	Donor Input	Dialogue and expected output
April	ASIP, AWBP, Annual Procurement Plan, Cash Forecast for the Fiscal Year.		Annual Review meeting: Input: Reports. Output: Aid Memoire with agreed donor share of budget and proposed schedule of donor disbursements.
July	FCGO request for advance donor disbursement.	Agreed share of advance to be disbursed by each donor to the FOREX account within agreed date.	
November	Flash1	Technical Review of performance.	
December	FMR1, FCGO request for donor replenishment		HMG/N - donor consultations: Input: Reports Output: Aid Memoire with donor pledges for next fiscal year.
January		Agreed share to be disbursed by donors to the FOREX account within agreed date according to revised cash forecast consolidated with previous trimester advance and actual expenditure.	
March		Technical Review of performance.	

[1] For first two years of the program

Month	HMG/N input	Donor Input	Dialogue and expected output
April	FMR2, ASIP, AWBP, Annual Procurement Plan, FCGO request for donor replenishment	Agreed share to be disbursed by donors to the FOREX account within agreed date and according to revised cash forecast consolidated with previous trimester advance and actual expenditure.	Annual Review meeting: Input: Reports. Output: Aid Memoire with agreed donor share of budget and proposed schedule of donor disbursements.
July	FCGO request for advance donor disbursement.		
August	FMR3 (excluding Output based report third Trimester which is substituted by the Annual Consolidated Output Based Report submitted in November) Flash 2	Agreed share of advance adjusted for previous years balance to be disbursed by each donor to the FOREX account within agreed date.	
November	Flash1, Annual Consolidated Flash report previous academic year. Annual Consolidated Financial Report, Annual Consolidated Output Based Report.	Technical Review of performance.	
December	FMR1 FCGO request for donor replenishment		HMG/N - donor consultations: Input: Reports Output: Aid Memoire with donor pledges for next fiscal year.
January	FCGO certified Annual Consolidated Report previous fiscal year.	Agreed share to be disbursed by donors to the FOREX account within agreed date and according to revised cash forecast consolidated with previous trimester advance and actual expenditure.	
March		Technical Review of performance.	

Month	HMG/N input	Donor Input	Dialogue and expected output
April	FMR2 , ASIP, AWBP, Annual Procurement Plan, AG/N Audit report. FCGO request for donor replenishment		Annual Review meeting: Input: Reports. Output: Aid Memoire with agreed donor share of budget and proposed schedule of donor disbursements.
May		Agreed share to be disbursed by donors to the FOREX account within agreed date and according to revised cash forecast consolidated with previous trimester advance and actual expenditure.	
July	FCGO request for advance donor disbursement.		
August	FMR3 (excluding Output based report third Trimester which is substituted by the Annual Consolidated Output Based Report submitted in November) Flash 2	Agreed share of advance adjusted for previous years balance to be disbursed by each donor to the FOREX account within agreed date.	
November	Flash1, Annual Consolidated Flash report previous academic year. Annual Consolidated Financial Report, Annual Consolidated Output Based Report.	Technical Review of performance.	

FMR — Financial Monitoring Reports each trimester (ref. Section 49 of Joint Financing Arrangement). FMR3 will not include an Output-based Progress Report which instead will be substituted by the Annual Consolidated Output-based Progress Report (ref. 49c and 52a of JFA).

ASIP — Annual Strategic Implementation Plan.

AWPB — Annual Work-Plan and Budget

Flash Reports — Flash 1 reporting on process and outcome indicators beginning of the school year, flash 2 at the end of school year (ref. section 52b in JFA). Annual Consolidated Flash Report (ref. section 52c of JFA) presents consolidated information from flash 1 and flash 2 reports.

Attachment 2:
Statement of Funds Flow through Foreign Exchange Account
Covering [date] to [date]

		Amount in USD	Exchange Rate	Amount NRs
1	**Balance of Advance not expended** (from previous year & due for refund)			
2	**Receipt of Funds** IDA DANIDA Finland NORAD DfID			
	Total Cash Received			
3	**Less:** Counter-value credit to MOF countervalue account for EFA Commissions/fees by NRB			
4	**Closing Balance**			
5	**Opening Balance Countervalue Account**			
6	**Receipt of Funds:** Counter-value debited from FOREX account for EFA			
7	**Less:** Transfers to MOF revenue account for EFA			
8	**Closing Balance Countervalue Account**			

Attachment 3:
Trimester Financial Report

Financial Comptroller General Office
Budget Performance Report
Fiscal Year 2060/61 **For month up to**

Ministry/Budget Head	Redbook	Release	%
XX-X-XXX Imprest HMG Reimbursable Grant Reimbursable Loan Cash Grant Cash Loan Direct Grant Commodity Grant Direct Loan			
Sub-Total			
XX-X-XXX Imprest HMG Reimbursable Grant Reimbursable Loan Cash Grant			
Sub-Total			
XX-X-XXX **Imprest** **HMG Reimbursable Grant** **Reimbursable Loan** **Cash Grant**			
Total			

Date prepared:__________ Certified by: __________

Financial Comptroller General Office
Budget and expenditure
Fiscal Year 2060/61 **For month up to**

Ministry/Budget Head Item Subtype/Line Item	Budget	Expenditure	%
XX (Ministry) **XX-X-XXX (Budget Head)** x (Item Subtype) x.xx x.xx x.xx			
Sub-Total			
x (Item Subtype) x.xx x.xx x.xx			
Sub-Total			
XX-X-XXX (Budget Head) x (Item Subtype) x.xx			
Sub-Total			
Total			

Date prepared:____________ Certified by: ____________

Attachment 4:
Output Based Progress Report
for fiscal year [ ] from [date] to [date] (all figures in NRs)

		Financial Progress				Physical Progress	
	Program Output	Planned Budget for the Fiscal Year	Expenses during Reporting Period	Cumulative Expenses for the Fiscal Year	% of Total Expenditure vs Planned Total Cost	Output Indicator/Target	Actual Progress
	Total						

Prepared by:____________________ Approved by:________________

Annex 16: Code of Conduct for Partnerships in Education
NEPAL: Education for All Support Program

I. Preamble

1. The purpose of this Code of Conduct is to provide a framework of shared objectives and both guiding and operational principles for the management of partnerships between His HMG/N and International Development Partners - bilaterals, multilaterals and International Non Government Organizations - in Nepal's education sector. The Code is inclusive, recognizing the variety of modalities through which different Partners support the HMG/N's goals, objectives, policies and programs, and management and administrative procedures. The Code is guided by HMG/N's Foreign Aid Policy 2002 and informed by the Rome Declaration on Donor Harmonization

II. Participation

3. While participation is voluntary and open, HMG/N encourages prospective external partners to accept and adhere to the COC. This implies that they will all a) share Nepal's goals and objectives for education, b) contribute financial, technical or service delivery support to those goals and objectives, and c) have the status of external Partners. For all Partners, the National Plan of Action for Education For All (EFA) 2001-2015, the EFA Core Document 2004/09, will constitute the main vision, objectives and strategies to which they subscribe. It is understood that while the Code of Conduct is neither legally binding nor enforceable, Partners will subscribe to both guiding and operational principles in good faith

III. Shared Goals and Objectives

3. HMG/N and Partners are mutually committed to improving the equity, quality and efficiency of education in Nepal. As contributors to the Government program and priorities, partners also share responsibility for achieving results in education development under the ownership and leadership of the HMG/N. Specifically, they share Nepal's EFA objectives, which are consonant with those of the Dakar Framework for Action, and also Nepal's strategies to achieve the Millenium Development Goals for education. Government also recognizes and endorses, through multilateral and bilateral agreements, the goals and objectives that guide the work of Partners.

IV. Guiding Principles

4. Partners to the Code agree to the following guiding principles:

    a) To ensure the highest possible degree of consistency in harmonization of financial management, implementation, monitoring and evaluation procedures with Government and each other, to increase efficiency and knowledge sharing among all partners.

b) To make every effort to use, and to strengthen, HMG/N policy, planning, financing, management and monitoring and evaluation procedures in developing and providing support.

c) To participate, to the extent possible, in joint missions and reviews, including those for monitoring and supervision, in order to minimise the need for separate missions and to increase efficiency and knowledge sharing among Partners and with Government, and to reduce the burden of transactions at the central, district and community levels.

d) To collaborate among themselves and with HMG/N to ensure that the particular competencies of each Partner are identified and used to the best extent, with the possibility that, at the request of Government, principal responsibility for a given technical area may be delegated to a given Partner.

e) To plan jointly with development partners to the extent possible all technical inputs with HMG/N, at national and local levels, to ensure direct linkages to Government policies, programmes, plans and institutions.

5. To ensure the effectiveness of the COC, the MOES agrees to further strengthen leadership of partnerships by:

a) Leading the development partner group on education, and chairing meetings and reviews according to the agreed schedule of the group.

b) Ensuring timely and transparent sharing of information with Development Partners on implementation effectiveness, including any special circumstances that may affect the pace or quality of implementation of education programs.

c) Strengthening the staffing and funding of the FACS of the MOES to facilitate enhanced policy dialogue with Partners as well as to achieve timely and efficient coordination of Partners' contributions to Government programs

d) In consultation with Development Partners, preparing and making publicly available general principles and procedures for domestic development partners entering into partnership with Government agencies at all levels.

e) Maximising the coverage and efficiency of the education program, it is recommended that a robust process to review, assess and scale up best practises - other stakeholders will play an important role in this process.

f) Identifying the key policy and program documents of HMG/N that guide Government's work in any part of education, or in any geographic area of Nepal, and providing these documents to Partners.

IV. Operational Principles

6. **Coordination**. All Development Partners will be members of the Development Partner Working Group on Education (Working Group for short) through their local representation. The Working Group will be the forum for all partners to discuss education policies, strategies and implementation issues to be taken up with the HMG/N/MOES. The MOES will lead in the facilitation, coordination and harmonization of the development partners and, in this respect, will chair the meetings.

7. Terms of Reference for joint missions will be developed between MOES and Partners, and mission briefings for the Working Group will be held at the request of MOES whenever feasible.

8. The Working Group will appoint a Donor Contact Point on a rotational basis (timing to be agreed), usually a Kathmandu based staff member of a Development Partner. The initial contact point will be chosen and the rotation established by consensus once this Code of Conduct has been endorsed by all Partners. The contact points will liase between the development partners and the HMG/N/MOES. The main entry point to the MOES for the Donor Contact Point will be the Foreign Aid Coordination Section (FACS).

9. **Harmonization of monitoring and other procedures.** Partners are fully committed to harmonization with Government's objectives, strategies and programmes for education in Nepal, and national efforts to improve harmonization. As a priority, Partners commit to work closely with MOES, DOE, MOF, NPC and other appropriate Ministries and agencies to strengthen the common use of monitoring indicators for further integrating and coordinating the wide variety of resources and services that Partners provide.

10. **Mission planning and scheduling.** FACS and the Working Group will prepare a preliminary schedule of missions for the financial year. It is recognized that deviations from the schedule may occur. Whenever possible and feasible, missions will have joint participation of all partners

11. **Review meetings.** MOES will organize annual program and progress review meetings in April of each year with a smaller technical consultation in December. A general meeting focused on overall progress in education programs will involve all Partners. Other meetings on issues and themes will require a more selective participation of Partners. The composition and purpose of such meetings will be decided at the discretion of MOES and the Working Group. Annual Progress Reports will be the basis for the general meeting. Relevant documentation will be made available to the Partners, and publicly available on the MOES website as appropriate. The minutes and records of both general and specialized meetings will be made available to all Partners.

12. **Technical assistance and direct support.** Technical assistance for programme support through both long and short-term provisions, and direct financial and technical support for the implementation of education development activities, will be coordinated with all development partners, to the extent possible, under the leadership of the MOES to link directly to national programs and activities at all levels. Technical assistance will be governed by MOES' TA coordination guidelines and framework, based on the principles of decentralization. This

framework will be informed by the strategic priorities of the HMG/N as well as the Human Resource Development plan for capacity development.

13. **Review of Code of Conduct:** The code of conduct will be reviewed based on implementation experiences in the education sector.

Annex 17: School Block Grants Program
NEPAL: Education For All Project

Background

Prior to the nationalization of schools in 1972, school education in Nepal almost exclusively depended upon schools managed and funded by communities. At that time, all authority for management of the schools rested with the Board of Directors. Schools received block grants from the Government to cover about 20-25% of the schools' operating costs. The main source of school income was tuition fees. Some schools supplemented their income from endowments received from philanthropists.

After nationalization, schools began receiving earmarked grants to cover teacher salaries, which significantly strengthened the schools' financial base. In addition to grants for teacher salaries, government schools have been receiving substantial in-kind inputs from the development budget funded primarily by donors. Despite large government investments in schools, education quality not only did not improve but started to decline. This decline has been attributed to two main reasons: (i) a shift in the accountability of schools (and of teachers in particular) from stakeholders to the Government; and (ii) disempowerment of schools through in-kind support provided by district and central authorities.

The key objective of school block grants as envisaged in the EFA program, is to allow publicly managed schools to make their own choices in respect of educational inputs, and to have the resources for financing these inputs. A conducive environment for accountable use of block grants by schools now exists due to the recent amendment of the Education Act. The amendment stipulates that schools should establish management committees that are accountable to stakeholders, and includes a provision for the transfer of government schools to community management. Schools opting for community management are given a one time incentive grant.

Accreditation of Schools

School grants will be used to leverage school improvement by linking funding with performance. An accreditation system will be introduced based on assessment of school performance in eight areas: (i) accountability/transparency; (ii) physical facilities; (iii) teacher availability and training; (iv) external environment (drinking water and sanitation in particular); (v) internal environment (classroom, learning materials and furniture); (vi) co-curricular activities; (vii) school operation processes; and (vii) educational outcomes. The DOE has established basic criteria for evaluating schools in each of these areas (Attachment 2). Consultations with stakeholders –SMC, academia, professional bodies, teachers' unions, and parents' associations – will be undertaken to confirm the validity of these criteria for classifying schools into three categories: unaccredited, grade one and grade two.

Participation in the accreditation process will be on a voluntary basis. Each participating school will carry out a self assessment once a year. Self assessment results will be verified ex-post by qualified experts included in a roster of accreditation experts. The procedures for preparing the roster, and guidelines for implementation of block grants will be included in an Operations Manual for the school grants program.

School Grants

School grants will comprise three levels: basic, level 1 and level 2; the last two are linked to accreditation at grades one and two, respectively. Basic grants comprise block grants in addition to the earmarked grants that schools are receiving at present, while level 1 and 2 grants comprise earmarked, block and bonus grants (Attachment 1). Unaccredited schools will receive only basic grants.

Basic grants are designed to provide a minimum level of financial support to unaccredited schools to help them improve and aspire to grade one status. Schools meeting grade one requirements will be eligible for a Level 1 grant. In addition, if these schools are able to achieve the outcome standards for grade one, they will qualify for a Level 1 bonus grant. A similar process will be used for awarding level 2 grants and bonuses. The grants system is designed such that schools will not be penalized for being unable to meet the standards related to resource requirements (e.g., desirable student to teacher ratios, physical facilities) for which help from the Government is needed.

Basic Grants. These grants will have an earmarked component in addition to block funding. The earmarked component covers: (a) salaries of teaching and administration staff; (b) textbooks for students; (c) scholarships for poor students; (d) existing programs for pre-school/ECD, special needs, and inclusive education; (e) planning and management training for SMCs, PTAs, and head teachers; (f) school-community partnerships; and (g) construction and major rehabilitation of classrooms. The block grant component of the basic grants, estimated at NRs 70 per student per year (about US$1.0) is expected to be used for teaching materials, book corners, non-salary recurrent costs (school, office and cleaning supplies), and basic maintenance of physical facilities.

Level 1 Grants. Grade one accredited schools will receive these grants, which comprise three components. First, there is an earmarked component for salaries, scholarships and existing programs for special needs and inclusive education. Second, the block grant component will increase the allocation per student per year as it represents an amount equivalent to what schools are already receiving as earmarked grants plus additional funding for non-salary recurrent expenditures. Third, bonus grants amounting to NRs100 per student (about US$1.4) will be given to schools, which meet the outcome standards associated with the accreditation level. Since there will be annual self-assessments, schools will receive the bonus grant as long as they continue to meet the outcome standards for the level at which they have been accredited.

Level 2 Grants. Schools meeting grade two requirements will qualify for earmarked grants for salaries and special needs education. The block grant component of level 2 grants will cover non-salary recurrent expenditures at a higher level than Level 1 grants, as well as school expenditures that are currently ear-marked. It is expected that grade two schools will be able to manage a relatively large non-earmarked budget. Bonus grants amounting to NRs150 per student (about

US$2.0) would be given to schools, which meet the outcome standards for grade two. Schools are required to maintain outcome standards in order to continue receiving bonus grants.

Based on the results of periodic monitoring at the school level, and observations on SMC management capacity, the Ministry of Education and Sports may adjust the composition of ear-marked and non-earmarked block grants during implementation of the EFA program.

Implementation Arrangements

The Director General, DOE will have overall responsibility for oversight and evaluation of the school block grants program. Resource Persons (RPs) located in the Resource Centers, as well as DEOs will be responsible for providing technical support to schools and monitoring program implementation. To carry out these functions, they will be supported by qualified local NGOs and persons contracted for this purpose.

During the first year of program implementation, all schools will receive a basic grant and an accompanying Operations Manual describing the block grants program, and the roles and responsibilities of school personnel, SMCs and PTAs. The Manual will provide: (i) the basic formats for financial reports; (ii) the rules and procedures for procurement of goods and services; (iii) formats for monitoring progress on processes and outcomes (flash reports); and (iv) self-assessment form for school accreditation. During this period, schools will be requested to carry out a self-assessment, which will be verified before the start of the next academic year (April 2005) to ensure that schools qualifying for grade one and grade two accreditation status, will receive the enhanced block grants.

Since DEOs are key to the success of program implementation, an incentive system will be put in place to motivate staff in these offices to assist schools in improving their performance. Beginning in the second year of program implementation, an excellence award will be presented at an annual celebratory event to DEOs, which have the largest number/share of schools qualifying for Level 1 and Level 2 grants. The award of around NRs 500,000 (US$6,800 equivalent) is expected to be a sufficiently attractive incentive for DEO staff to promote teamwork in the offices.

Financial Aspects

Block grants will be transferred to SMCs using the existing mechanisms for transferring funds to schools. A plan to reduce present delays in the transfer of funds for non-salary expenditures is being developed, and will be implemented during the first year of the program. Funds will be transferred to SMCs once every trimester (i.e., every four months). To promote transparency in the use of grant resources, SMCs are required to post income and expenditure reports periodically in a visible area at the school. Parents' associations are expected to monitor the use of funds as well as undertake social audits. Simple financial reports will be prepared by the SMCs and maintained at the school for record-keeping purposes, and for periodic audits that will be carried out by a third party in a sample of schools.

Attachment 1: Type of School Block Grants

INCENTIVE GRANTS FOR COMMUNITY SCHOOLS

Not ear-marked

BASIC GRANTS

Not ear-marked:
- Teaching materials
- Book corners
- Office supplies
- Cleaning supplies
- Basic maintenance
- Education statistics reports

Ear-marked:
- Salaries
- Textbooks
- Existing special needs education
- Existing inclusive educ.
- New classrooms
- Major rehabilitation
- Planning and mgmt. Training
- Existing ECD (pre-school)
- School-community partnership

LEVEL I GRANTS

Not ear-marked:
- Teaching materials
- Book corners
- Textbooks
- Office supplies
- Cleaning supplies
- Basic maintenance
- Education statistics reports
- Planning & Mgmt. Training
- Recurrent Training
- Inclusive education (new)
- ECD (new)
- Alternative educ.
- Literacy education
- Incentive for recruitment of female/dalit teachers
- Temp. classrooms
- School-community partnership
- New classrooms
- Major rehabilitation

Bonus Grant*

Ear-marked:
- Salaries
- Special needs educ.
- Scholarships

* Given based on performance criteria

LEVEL II GRANTS

Not ear-marked:
- Teaching materials
- Book corners
- Textbooks
- Office supplies
- Cleaning supplies
- Basic maintenance
- Education statistics reports
- Planning & Mgmt. Training
- Recurrent Training
- Inclusive education (new)
- ECD (new)
- Alternative educ.
- Literacy education
- Incentive for recruitment of female/dalit teachers
- Scholarships
- Temp. classrooms
- School-community partnership
- New classrooms
- Major rehabilitation

Bonus Grant*

Ear-Marked:
- Salaries
- Specials needs educ.

* Given based on performance criteria

Attachment 2: School Grants
Criteria for Qualifying Schools to Receive Block Grants

No.	Performance	Basic Grants	Level I Grants	Level II Grants	Rating
1	Accountability/ Transparency	• SMC formation and meeting • PTA formation • Disclosure of financial statements	• Academic progress and reporting to parents twice/year • Financial report disclosure within 4 months • Social audit • Active SMC • Active PTA • Assembly of parents once/year	• Individual student portfolio record • Individual student tracking • Annual report publication	Pass/Fail
2	Physical Facilities	• Adequate space for learning	• Separate room for each section, plus two additional rooms (i.e., office and reading) • Well-lit and ventilated rooms	• Separate room for each section, plus three additional rooms (i.e., office, staff room, science/ computer lab, library)	Pass/Fail
3	Teacher Management	• All teachers are licensed • All teachers have minimum required qualifications	• Adequate number of teachers with five month training • Availability of female teacher (at least one) • New vacancies filled with female teachers	• Availability of dalit/teachers belonging to disadvantaged janajati other disadvantaged groups (in the case of new hirings) • At least one teacher for instruction in mother tongue (in case of new hirings) • Adequate number of teachers with 7.5 month training certificate • All teachers with adequate recurrent training	Pass/Fail

No.	Performance	Basic Grants	Level I Grants	Level II Grants	Rating
4	External Environment	• Availability of safe drinking water • Availability of toilets (latrines) for girls • Availability of playground	• Availability of safe drinking water • Separate flush toilet for girls, boys and teachers • Proper fencing and good use of available school ground/space	• Availability of safe drinking water • Adequate number of working toilets for girls, boys and teachers • Proper use of available land, school ground and space • Solid waste disposal system	Pass/Fail
5	Instructional Materials	• Availability of textbooks • Availability of minimum quantity of learning materials (i.e., globes, charts, maps) • Availability of sitting mats in classrooms • Availability of one blackboard per classroom	• Availability of textbooks • Availability of adequate collection and display of learning materials in the classroom • Classrooms and other spaces clean and tidy • Availability of adequate and sufficient furniture	• Availability of textbooks • Availability of educational materials and use in teaching and learning • Use of locally made learning materials • Proper display of educational materials • Introduction of student-centered learning • Adequate number of multi-purpose classroom furniture • Availability of display boards • Reasonable collection of reading materials and science equipment • Classrooms and other spaces attractively maintained	Pass/Fail

No.	Performance	Basic Grants	Level I Grants	Level II Grants	Rating
7	Co-curricular activities	• Students have opportunities for co-curricular activities	• Involvement of all students in co-curricular activities	• Intra and inter-school competition in co-curricular activities • Equal participation of girls in co-curricular activities	Pass/Fail
8	Process	• Teacher attendance is monitored • Students receive homework assignments • Classes are conducted according to schedule • Students have a minimum of two tests/year • School statistics are kept • School conducts at least one enrollment campaign	• Academic calendar prepared with SMC collaboration • At least 85% of scheduled classes take place • Use of local knowledge, history and culture in curriculum and learning process • Mechanisms exist to ensure social inclusion • Baseline record of out-of-school children in service are prepared • SIPs prepared	• Academic calendar prepared and executed with collaboration of SMC, PTA, VEC • Effective teaching and learning activities using instructional materials • Students receive feedback after presenting homework • At least 95% of scheduled classes take place • Parents and students participate actively in integration of local knowledge, history and culture in learning process • Mechanisms exist to ensure social inclusion and non-discriminatory behavior in teaching students and parents of various social groups	Pass/Fail

Criteria for Qualifying Schools to Receive Bonus Grants

	Level I	Level II	Rating
Outcomes	• 60% of the students attain at least 50% mark, in aggregate • Percentage of school age children out of school decreases by on third every year in the school's catchment area • Promotion rate for grade one is at least 60%, and at least 70% for the remaining grades • Survival rate to grade five is more than 50%	• 70% of the students attain at least 60% mark, in aggregate • More than 90% of school age children in the school's catchment area are in school • Promotion rate for grade one is at least 70% and at least 90% for the remaining grades • Parents' satisfaction with the school services is over 80%	Pass/Fail

Attachment 3: School Grants
Proposed Implementation Plan

Activity	April-June 2004	Trimester 1	Trimester 2	Trimester 3
PREPARATORY ACTIVITIES				
Budget preparation				
Budget revision				
Detailed implementation plan				
Social communication plan				
IMPLEMENTATION				
Operations Manual Preparation				
Operations Manual Validation				
Social communication campaign		----		
Budget bill passed				
Authorization letters to DEOs				
First fund transfer to schools for payment of salaries				
Self-assessment by schools				
Printing of operations manual				
Distribution of operational manual				
Second fund transfer to schools, including block grants				
Verification of self-assessments				
Third fund transfer to schools				
Level 1 and Level 2 schools verified				
Budget preparation for next year				
Budget revision for next year				
Third party audit contracted				----

Annex 18: Textbook Development, Production and Distribution
NEPAL: Education For All Project

Background

Primary school education has been free in Nepal since 1975. From 1978 onwards, free textbooks were provided for all students in grades one to three and for students in remote areas in grades four and five. Since 1999, all students in grades four and five receive free textbooks. The entitlement of all students to a new set of free textbooks every year is in the process of changing for all grades except for grade one with the introduction of re-usable textbooks, which are designed to last for three years.

The Curriculum Development Centre (CDC) under the MOES is responsible for both curriculum and textbook development. Production and distribution of textbooks is the responsibility of Janak Educational Materials Centre (JEMC), a state-owned enterprise incorporated under the Company Act and reporting to the MOES. The JEMC has been sub-contracting textbook distribution to Sajha Prakashan (SP), which is a cooperative.

Private schools accounting for about 9% of total primary enrolment of the country, are required to use textbooks developed by the CDC. However, Education Regulations allow private schools to supplement CDC textbooks with additional textbooks subject to approval by the CDC. Practically all private schools use additional textbooks that are developed, produced and distributed by the private sector.

Despite continual efforts to ensure timely delivery of textbooks to students, delays persist. To address this problem and improve the quality of textbooks, the MOES has decided to open-up the development, production and distribution of textbooks to the private sector. The action plan for implementation of this policy initiative envisages opening-up of printing and distribution of textbooks to the private sector from April 2005 (i.e., beginning of academic year 2005/06), and the development of textbooks in the following year. Expert review of the action plan indicated that the proposed pace and scale of introducing competition into the textbook development, production and distribution process may not be manageable and could lead to disruption in textbook supply in the short run. The MOES has therefore revised the action plan, which is summarized in the next section.

The Action Plan

The Government's ultimate objective is to rely upon the market for the development, production and distribution of textbooks, while retaining regulatory functions with the MOES. Implementation of the action plan is expected to lead to timely delivery of quality textbooks to students at a competitive price. Under the action plan, beginning in April 2006, the development, printing and distribution of textbooks through the market mechanism will be piloted in seven districts for all titles and all primary grades. Schools in the pilot districts will receive block grants for purchasing textbooks. The scale of the pilot is estimated to be big enough to attract private sector interest, while being manageable in case the market mechanism fails to function effectively, and the Government has to rely on the JEMC as a backup supplier. The pilot districts account for about 19% of the total market share in textbooks (including demand from private schools). To increase the probability for success, districts with well functioning markets have been selected for the pilot. Up-scaling of the approach will be based on the experience gained from the pilot.

In non-pilot districts (68 districts), competitive production of all grade five textbooks developed by the CDC, will be introduced in April 2006. Textbooks for other grades will continue to be produced by JEMC. Competition for textbook distribution will be introduced in April 2005 in five selected districts, with five more added the following year. SP will continue to be the primary textbook distributor in districts yet to be opened to competition.

Action Plan for Textbook Publishing, Production and Distribution

Activity	April 2005	April 2006
Printing (non-reusable and reusable textbooks)	JEMC for 75 districts.	Competitive printing for all grade five textbooks in 68 districts. For other grades, JEMC to print for 68 districts.
Distribution (non-reusable and reusable textbooks)	Competitive distribution for five districts – Jhapa, Ilam, Paanchthar, Taplejung and Dhankuta). SP for 70 districts.	Competitive distribution for ten districts – Jhapa, Ilam, Paanchthar, Taplejung, Dhankuta, Tehrathum, Bhojpur, Sankhuwasabha, Khotang and Solukhumbu. SP for 55 districts.
School Block grants for textbooks		Reliance on market mechanism for textbook development (manuscripts to be approved by the CDC), printing and distribution for all grades in seven districts – Kathmandu, Lalitpur, Bhaktapur, Kaski, Morang, Rupandehi and Parsa. Camera Ready Copies (CRC) of textbooks developed by the DOE will also be made available at cost price to private printers.

Preparations for Opening Development, Production and Distribution to Private Sector

Opening development, production and distribution to the private sector is a complex exercise. For successful implementation of this initiative, the MOES would need to undertake serious preparations. The main preparatory activities for opening textbooks to the private sector are briefly described below.

Management of Textbook Provision. The agency responsible for overseeing textbook production and distribution was the CDC until this responsibility was transferred to the DOE's Educational Materials Section (EMS) in academic year 2003/04. Both of these agencies are not properly staffed and equipped to manage the production and distribution of textbooks worth several millions of US dollars. Staff are regularly transferred and new staff are appointed with no experience nor understanding of the process, which normally requires handling by a team of professionals.

To implement the first phase of the action plan beginning academic year 2005/06, the EMS will need to undertake the following tasks:

- Coordinate the collection of, and verify schools' annual textbook requirements.
- Plan the annual production and distribution of textbooks.
- Allocate responsibility for textbook production and distribution among single source suppliers (i.e., JEMC and SP), and private and public sector suppliers using competitive procurement.
- Draw up bidding documents and organize competitive process for selecting textbook distributors.
- Contract with the winners of the competitive procurement process.
- Agree on timetables with distributors, and ensure that these are adhered to. Penalize the distributors for late deliveries.
- Ensure that delivery of textbooks and payment of invoices are made on time through monitoring of production, distribution and coupon/reimbursement slip collections.

During the second phase beginning academic year 2006/07, the EMS will:

- Continue all activities included in the first phase.
- Establish procedures (including evaluation criteria and their weights) for approval of textbooks developed by the private sector.
- Agree on quality standards and timetables with suppliers and ensure that these are adhered to, penalizing those responsible for unacceptable quality and late deliveries.
- Fix the amount of schools block grants for textbooks and the timing for their availability, working with schools and private and public sector suppliers to ensure that schools have access to a wide range of competitively priced textbooks.

For successful management of the above tasks, capacity in the EMS will need to be considerably strengthened. This could be achieved through either the appointment of specialized government staff or the recruitment of suitably qualified consultants. At the minimum, two experts experienced in book development, production, distribution, procurement and data processing, will be required. In addition, the existing staff has to undergo specialized training. In order to meet the action plan schedule, the experts should be in place by September, 2004. Depending upon the experience of locally recruited staff/consultants, some short-term international consultancy services may be required.

Once textbook development is open to the private sector, the CDC's continued engagement in textbook development while being the responsible agency for approving manuscripts, may constitute a conflict of interests. It is recommended therefore, that the CDC discontinue its involvement in textbook development by transferring this function to the DOE. At the same time, the section responsible for textbook approval in the CDC will need to be strengthened through training of its staff, and technical support from the newly recruited specialists in the EMS.

Transfer of responsibility for textbook development from the CDC to the DOE will require amendment of the Education Regulations. To meet the action plan schedule, this amendment has to completed by December, 2004.

Status of JEMC: The JEMC, being a state-owned enterprise incorporated under the Company Act, and reporting to the MOES, will not be eligible to bid for textbook production contracts under a competitive process that is managed by the DOE. For the JEMC to be eligible, it will have to become a financially autonomous entity not linked to the MOES. Steps will need to be taken to change the status of JEMC in order that it is eligible to compete for production contracts from academic year 2006 onwards.

Cost. The action plan for opening textbook development, production and distribution to the private sector envisages single source procurement of textbooks from the JEMC during the interim period before competition is applied to the procurement of all primary grade titles. This implies that the DOE will need to determine a commercially justified price for textbooks, which are procured from the JEMC. To this end, an analysis of production costs based on JEMC's balance sheet and profit and loss statements, together with a market survey of textbook prices, will be required. Similarly, the market price for distribution of textbooks will also need to be determined. The MOES has committed to undertake these tasks as part of action plan preparations.

Annex 19: School Physical Facilities Improvement
NEPAL: Education For All Project

The major construction component of the EFA program is improvement of school physical facilities. This component entails: (a) the construction of new classrooms, of which 11,000 will be permanent and 1,000 will be temporary structures; (b) rehabilitation of 10,000 existing classrooms; (c) improvement of site landscaping; and (d) addition or improvement of water supply and sanitation services in 10,000 schools. The program will also fund construction of 250 RCs and 11 DEO buildings.

The EFA objective of increasing access to quality primary education cannot be achieved unless there is a well functioning and safe school environment, which is friendly to girls, children with disabilities, and children of disadvantaged groups. The vision for an effective and safe learning environment is one in which the classroom is spacious, well lit, well ventilated and adequately furnished. Hence, the main thrust of school physical facility improvement will be to increase the conduciveness of classrooms for the teaching/learning process, while ensuring that adequate environmental, structural and safety standards are maintained.

Meeting classroom needs. There are about 21,000 primary schools with a total enrolment of about four million students. Out of the existing stock of about 80,000 classrooms, about 41,000 classrooms constructed through various projects over the last two decades, are deemed to meet minimum standards. However, most of the stock – about 30,000 classrooms – built mainly through community efforts, do not meet these standards. In addition, there are schools with classroom shortage that is exacerbated by influx of people from insurgency impacted areas. The physical facilities improvement program is therefore, not expected to meet all the requirements for replacement/new classrooms. As availability of classrooms for all primary age children is a basic prerequisite for meeting the commitment towards education for all, the program will introduce low-cost temporary classrooms to ensure that children are not denied access to primary education because of the lack of classrooms. Temporary classrooms will be constructed by communities using local materials, technology and labor. The design of temporary classrooms, which will meet building code requirements for safety, including resistance to earthquakes and adequate lighting and ventilation, will be completed by July, 2004.

Alternative designs for classrooms. Assessment of classroom designs used in earlier projects against the objective of improving construction quality brought to light, several concerns. First, there is concern about the quality of construction, which is managed by local communities with limited skills in this area. Second, construction using timber could lead to depletion of this resource, which, in turn, brings about undesirable environmental impacts. The third main concern pertains to the structural ability of school buildings to resist earthquakes. To address these concerns, a standard classroom design using steel structures and CGI sheet roofing was adopted under the second basic and primary education project (BPEP II). Since the quality of fabricated steel structures could be assured at the factory, and the structures transported manually to construction sites where they are assembled under limited supervision, use of such a classroom design has the advantage of lowering transport and supervision costs. However, there are also shortcomings in that use of local materials for wall and floor construction is now limited, and the cost of manual transport of steel structures has been prohibitive in very remote, high terrain districts with narrow and steep trails. Although designed for manual transport, delivery of steel structures is often delayed as a result of the difficult terrain.

Although the existing designs meet safety requirements and ensure spacious, well lit and ventilated classrooms, further improvements could be achieved through: (i) use of locally available materials (e.g., straw/thatch mats) for better noise and heat insulation; (ii) allowing local architecture, interior design preferences and local materials to be integrated into classroom construction; and (iii) providing the design for additional amenities, which could be financed by communities if they choose to include such amenities in the school facilities.

Based on the experience of BPEP II, the DOE is developing alternative designs for schools located in different geographic terrains.

(i) *Mountain/Hill districts with difficult access* (i.e., more than five days' walk from the nearest road-head). This design is based primarily on the use of local materials and construction methods, but will adhere to nationally prescribed construction standards, particularly for earthquake resistance.

(ii) *Mountain/Hill/Terai districts with moderate access* (i.e., maximum walking distance of five days from the nearest road head). Options for interior design and material specifications for the BPEP II model classroom will be made available to schools in these districts. The interior and material specifications will aim to improve the teaching/learning environment, noise and heat insulation as well as facilitate local procurement. Appropriate local materials will be used to improve wall elevations, door/window, floor and damp-proof specifications. The options will also include the design for additional amenities to be financed by communities.

(iii) *Accessible districts* (urban areas in particular) with demonstrated construction capacity have the option of using industrial/modern materials and methods primarily intended for community-managed schools receiving block grants. The design recommendations will take into consideration, the availability of skilled labor and technical supervisory capacity in the district/area.

The alternative designs were reviewed by the appraisal mission. At least three options will be prepared for each of the above terrains/categories by July, 2004. These will take into account, the comments provided by the appraisal mission, including interior design options. In addition, tentative site layouts will be prepared; actual layout for each school will be prepared by technical supervisors from DEOs after completion of site mapping and surveys.

All schools under the physical facility improvement program will have improved site services, including bio-fencing, leveled play spaces, water and sanitation facilities (especially toilets for girls). Cost-sharing by the community for physical facilities improvement will remain at the present level of about 20% of total construction costs.

Criteria for identifying, targeting and prioritizing districts and schools. The government will prioritize districts on the basis of four equally weighted criteria: (i) classroom requirement as reported by the school through the EMIS; (ii) classroom requirement as determined using prescribed student teacher ratios, (iii) average number of classrooms per school constructed to-date, under all externally-supported projects; and (iv) human development index for districts. In the first year of program implementation, construction will start in 18 priority districts. This will be followed by 19 other districts every year till the end of the program period. School physical facilities improvement in each district is expected to be completed within two years. Based on these criteria, the Government has selected the following 18 districts for the first year: Gulmi, Nawalparasi, Baglung, Jajarkot, Palpa, Baitadi, Salyan, Arghakhanchi, Bardia, Rolpa, Rautahat, Ilam, Tanahu, Bajhang, Doti, Khotang, Myagdi and Kathmandu.

The prioritization criteria for schools within each program district is a composite index of three weighted factors: (i) share of dalit students in total enrolment; (ii) share of disadvantaged janajati and other disadvantaged groups (iii) share of girls in total enrolment; and (iv) ratio of grade five to grade one enrolment. These shares are weighted at 25%, 25%, 30% and 20%, respectively. The list of schools selected for construction during the first year was reviewed by the appraisal mission. To assure appropriate use of school selection and prioritization criteria, and timely implementation of annual physical facilities improvement plans, the Government will submit the list of selected schools for each district for discussion during the EFA program reviews in April of each year. The requirements of 'priority' schools for construction and rehabilitation/service improvements will be established through survey and mapping of the three districts selected for piloting of decentralized procurement for steelworks and CGI sheets.

Management, supervision and monitoring. Physical facilities improvement will be managed and monitored centrally by the Physical Services Section of the DOE. The works will be executed by SMCs under the supervision of technical units in the DEOs. The technical units will undertake supervision of works on a roving basis. Depending upon the terrain and accessibility of districts, one overseer is expected to supervise eight to ten schools using steel component assembly at site. If reinforced cement concrete is used for classroom construction, each overseer will be able to supervise only four to five schools. It has been proposed that teams of six to eight overseers led by a graduate engineer, be formed in technical units. For proper implementation of the design options for urban and community-managed schools, an additional posting of one architect to cover two districts is proposed in the technical unit. The Physical Services Section is headed by a Senior Divisional Engineer (Deputy Director), and staffed with three Engineers, one Architect and five Overseers/draftsmen. Given the increase in complexity of the construction program, an additional engineer will be posted at the DOE.

The size of the annual program for each district is prorated from the overall EFA targets proportionally to the average projected demand in each district. Physical facilities improvement in each district is expected to be completed in two years so that the technical supervision load will remain at a maximum of thirty districts. In order that school selection criteria can be effectively applied and the survey of physical facilities done in time, these activities have to be completed in April each year for the coming fiscal year. In the near-term, to avoid large-scale transfer of technicians from districts with ongoing classroom construction to EFA year one districts, a detailed survey will be conducted only in the three districts where decentralized procurement of steel structures is to be piloted. Surveys in the remaining districts will be completed by November, 2004.

Procurement of materials and construction services. The process of NCB at central or district level will be followed for construction of resource centers and DEO buildings. Procurement of steel trusses, other structural materials, roofing and door/window materials for standard classrooms will be made both through International Competitive Bidding (ICB) and NCB procedures depending upon the size of the contract. Decentralization of this procurement process to the district level will be piloted in three districts during the first year of EFA program implementation. Capacity for procurement and quality inspection in the technical units in these districts will need to be enhanced through consultancy services in the first year. Works for constructing classrooms and other school facilities will be procured under community management and overseen by the SMC. Schools are reimbursed at different construction stages based on progress and on approval of the supervising technician. The works will also be subject to social audits by community groups.

The procurement plan for civil works was reviewed during the appraisal mission and found to be satisfactory.

Manuals and guidelines. The DOE has completed an Environmental Management Plan (EMP), which provides guidelines for design and construction of classrooms to create a safe and conducive environment for learning. In addition, these guidelines will help to mitigate any environmental risk that school construction, and external facility improvement (i.e., drinking water and sanitation facilities) may pose. The DOE is preparing a School Design and Construction Manual comprising one booklet each for each type of classroom design to assist the communities to undertake classroom construction. The booklets will contain drawings for the classroom design, bill of quantities, specifications of materials, clear step by step guidelines on how to construct the class room, skills required and supervision needs for the particular design. The DOE has also been preparing a School Construction Management Manual (SCMM). This manual will specify classroom construction norms, and clearly define what has to be done, who will be doing it, how it will be done, and when it should be done. The manual will also list construction targets and describe how each target will be achieved, giving the specified dates and labor requirements. The alternate designs and environmental guidelines will form part of the SCMM, which will be utilized as a guidance and monitoring tool by all persons involved in EFA program implementation. All the manuals and guidelines are expected to be ready by July, 2004.