

**PROJECT INFORMATION DOCUMENT (PID)**  
**APPRAISAL STAGE**

Report No.: AB7049

<b>Project Name</b>	Nepal: School Sector Reform Program: Additional Financing
<b>Region</b>	SOUTH ASIA
<b>Country</b>	Nepal
<b>Sector</b>	Primary education (70%); Secondary education (30%)
<b>Project ID</b>	P125610
<b>Parent Project ID</b>	P113441
<b>Borrower(s)</b>	Government of Nepal
<b>Implementing Agency</b>	Ministry of Education Singha Durbar, Kathmandu Nepal Tel.: (977-1) 44-12-804 Email: info@moe.gov.np
<b>Environment Category</b>	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	March 14, 2013
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1. Country and Sector Background

Nepal is a land-locked country, located between China and India, and is characterized by significant geographical and social diversity. According to the 2011 census, the population size is 26.6 million people. More than 90 languages are spoken in Nepal and there are about 100 caste and ethnic groups. In an approximate rectangle of 800 kilometers by 250 kilometers, there are three distinct eco-zones - the mountains, the hills and the *tarai* plains - running north to south and five east-to-west development regions. The percentage of people living below the international line for extreme poverty (people earning less than US\$1.25 per day) declined from 53 percent in 2003/2004 to 25 percent in 2010/2011. Despite the progress in poverty reduction, GNI per capita remains low at US\$742 in 2012 and Nepal remains among the poorest countries in the world.

Nepal is still struggling with the reminders of a ten year armed conflict that ended in 2006. It is currently passing through a prolonged political transition. This transition entails two interrelated processes: promulgation of a new constitution and the completion of the ongoing peace process. While Nepal has made good progress on the peace process – notably by formally concluding integration of former ex-combatants into the armed forces on March 14, 2013 – the country’s political transition is taking longer than expected. The Constituent Assembly (CA), in effect since 2008 and tasked with drafting Nepal’s new constitution, was dissolved in May 2012 without completing the constitution. Following a long period of uncertainty and protracted political negotiations, political parties agreed on March 13, 2013 to form an “interim election council” under the leadership of the Chief Justice of the Supreme Court. The interim government is charged with holding new CA elections by June 21, 2013.

Nepal has also made impressive improvements in primary and basic education and gender parity. Net primary enrollment rates at the primary and basic levels have increased to 95 percent and 88 percent, respectively. Gender parity has been achieved in primary, basic and secondary education. Completion rates for girls at primary level are slightly higher (76 percent) than for boys (74 percent). Net enrollment rate disparities in access to primary education across regions, consumption quintiles and ethnic groups have also narrowed.

While the school sector has made impressive progress in terms of access, enrollment, completion rate and gender parity, a small but persisting number of children remain out of school, a challenge well recognized by the Government of Nepal. Additionally, improvements in the quality of education, governance and financial management are areas that require more attention.

## 2. Objectives

The original project development objective (PDO) is to *improve access to, and improve the quality of, school education, particularly basic education (Grades 1-8), especially for children from marginalized groups*. The PDO will not change with the Additional Financing.

IDA's School Sector Reform Program (SSRP) finances both the recurrent and the development expenditures for the entire school education (Grades 1-12), focusing on the three pillars of enhancing access, promoting inclusion, and improving quality. The original project consists of three components: (i) Basic Education (grades 1-8) including ECED and literacy and lifelong learning; (ii) Secondary Education (grades 9-12); and (iii) Institutional Capacity Strengthening. While the School Sector Reform Program as a whole includes a wide range of performance indicators measuring performance at both basic and secondary levels, the IDA Key Performance Indicators (KPIs) were limited to the following basic education level KPIs: (a) net enrollment rates for basic education; (b) basic education completion rate; (c) gender parity index for basic education; and (d) student learning assessment in Grade 8.

**Table 1: Progress as of October 2012**

PDO	Project Outcome Indicators	Progress to date*
<p>To increase access to and improve quality of school education, particularly basic education (grades 1-8), especially for children from marginalized groups.</p>	<p>Net enrollment rate for primary and basic education (grades 1-5, 1-8)</p> <p>Gender parity index enrollment for primary, basic and secondary education</p> <p>Primary and basic education completion rate</p> <p>Student Learning Assessment undertaken in grade 3, 5 &amp; 8</p>	<p>Starting from 2008-09 baseline of 73%, the NER for basic education increased to 88%, surpassing the end of program target of 85%. According to NLSS III, the figure is 83.9%.</p> <p>Nepal has achieved gender parity in net enrollment for basic and secondary education with the GPI for net enrollment being 0.99.</p> <p>The completion rate for basic education has reached 68%, exceeding the 2011/12 target of 54%.</p> <p>The field work and data analysis for grade 8 NASA have been completed. The final results will be published by March 2013. The preparatory work for grades 3 and 5 NASA is underway and the field work will be completed by March 2013.</p>

### 3. Rationale for Bank Involvement

Nepal continues its commitment to education sector reforms which have been instrumental in helping to achieve significant positive outcomes in education. IDA reflects these commitments in its FY12-13 Interim Strategy Note for Nepal.

While the SSRP has achieved impressive education outcomes, these gains need to be preserved and additional resources invested in order to maximize program impact and address key concerns identified during implementation. The SSRP was developed for a seven year period (2009/10 – 2015/16) with an initial estimated budget of US\$4.040 billion. The initial estimates of the program cost increased substantially, primarily because of an unforeseen 30 percent increase in teacher salaries starting in 2010. Current estimates indicate a financing gap of around US\$210 million for the first five years of the program (ending July 2014) and US\$622.7 million for the full 7-year program period (ending July 2016). The proposed Additional Financing (AF) would enable the GON to partially address the pressing financing gap of SSRP and continue implementing the originally planned activities.

While the AF is expected to enhance progress towards the PDO, the project will also be restructured. This is expected to ensure timely achievement of key outputs and outcomes that will contribute to enhancing the PDO as well as improving confidence in the overall program and service delivery.

#### 4. Description

The project uses a Sector Wide Approach (SWAp) to support the implementation of the Government of Nepal's (GON) School Sector Reform Program. The three main components of the program are Basic Education, Secondary Education and Strengthening Institutional Capacity. The program finances both the recurrent and the development expenditures for school education.

The proposed Additional Financing will support the GON in the implementation of the 7-year SSRP through the original three components. However, the restructuring under the AF would: (i) introduce Incentive Linked Indicators (ILIs) to partially finance the Annual Workplan and Budget (AWPB) in order to further improve service delivery and enhance key quality and governance and accountability outcomes; (ii) revise the Results Framework; and (iii) extend the original project Closing Date from December 15, 2014 to July 15, 2016, in order to fully implement the governance and accountability measures. The proposed Closing Date would align with the Government's 7-year timeframe for SSRP and the GON's fiscal year.

The AF proposes a new financing modality whereby 75 percent of IDA financing would be disbursed using the commitment/disbursement approach under the original project, as baseline funds, and 25 percent of the financing committed/disbursed would be linked to a set of indicators, as incentive funds. Incentive Linked Indicators aim to ensure appropriate attention to, and timely implementation of, key actions that are essential to achieve specific results associated with improved program quality, governance and accountability measures and improved service delivery in high investments areas.

The new financing modality will apply to the proposed AF and the remaining funds under the original project. The ILI-based financing will be made available in FY 2014/15 and FY 2015/16, with \$12.5 million allocated to each of these two years. These annual commitments will be linked to the targets achieved under each of the ILIs and in accordance with the weights assigned to each indicator.

5. Financing	(\$m.)
Source:	
BORROWER/RECIPIENT	3895.27 <sup>1</sup>
Cofinancing	436.33 <sup>2</sup>
International Development Association (IDA)	
Additional Financing	75.00

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<sup>1</sup> Including IDA funds (US\$130 million) to the original project.

<sup>2</sup> SSRP donors include pooling donors: ABD, EC, UNICEF, AUSAID, Denmark, DFID, Finland, Norway, Global Partnership for Education (GPE); and non-pooling donors: JICA, UNESCO, USAID, WFP)

Total 4406.60

## 6. Implementation

The SSRP is supported by Development Partners (DPs) through a sector wide approach. To help harmonize DP support and align this support behind a GON program, the SSRP is implemented with the help of a Joint Financing Agreement (JFA). The JFA sets forth the joint provisions and procedures for financial support to the SSRP and provides a co-ordination framework for consultation between the Signatories for the monitoring of SSRP progress. In addition to the JFA, the GON and DPs have agreed upon a Code of Conduct which provides a common framework and mechanism for regulating conducts of people and institutions including donors and government authorities involved in education.

Implementation arrangements for the Additional Financing will continue as under the original project. At the frontline of service delivery are the schools, the communities in which they reside, the teachers in the schools, and the management structure which governs all school level activities, viz. the School Management Committees (SMCs). The SMCs play a key role in the functioning of schools as per the 7th Amendment of the Education Act which returned schools back to the communities. In such a decentralized system, it is imperative that the capacity of the SMC be strengthened. Higher up the service delivery chain are the implementing agencies at the village and district levels. These include the village development committees (VDC), district education office (DEO), and resource centers referred to as cluster resource centers (RC). These institutions provide management and technical support, and help in program monitoring. The DEO provide policy oversight at the district level. Finally, at the highest point on the service delivery chain is the MOE/DOE, and all other institutions that develop the strategies and policies.

## 7. Sustainability

The PDO, components and implementation arrangements of the original IDA project remain unchanged and are aligned with SSRP. The changes introduced in the disbursement modality, results framework and Governance and Accountability Action Plan (GAAP) have been developed with input from DOE/MOE and DPs. The proposed Additional Financing would support the continuation of successful activities under the original project and further enhance the overall development impact and effectiveness of the project.

## 8. Lessons Learned from Past Operations in the Country/Sector

The GON has continuously shown a strong commitment to invest in education, and the sector has achieved significant outcomes resulting in positioning Nepal as a country on track for meeting the education MDGs. One of the lessons learned from the Bank's long engagement in the education sector is that a sector-wide approach using country systems is an effective way to harmonize donor efforts, mobilize resources, and encourage reforms. The sector now has an established system and practices for overall program and financial management.

The education sector continues to make progress in policy developments with positive impact on education outcomes. The positive response from GON to support community secondary

schools has contributed to positive growth in students' enrollment at the secondary level. The increased use of school block grants based on per-capita financing, targeted scholarships and involvement of private sector in the printing and distribution of textbooks have helped to strengthen community participation in school management, increase access to education and enhance the quality of education inputs. These developments need to be sustained and further improved to maximize their effectiveness.

Despite increased capacity in the overall management of the school sector, challenges remain in the area of financial management, governance and accountability. GON needs to pay more attention to improve in these areas. A shift from input-based financing to result-based financing could support a shift in focus from inputs to outcomes/results.

#### 9. Safeguard Policies (including public consultation)

The proposed Additional Financing would not trigger any additional safeguard policies.

The Additional Financing of the School Sector Reform Program would not be associated with any large scale, irreversible environmental damage. Any environmental concerns of the proposed Additional Financing are related to the civil works. The type of civil works that would be supported remains the same as in the original project. These include construction or upgrading of small school blocks or new/additional classrooms or may be related to providing facilities such as drinking water and sanitation. These works would be relatively small-scale with low environmental risks and spread in different parts of the country and are therefore categorized as Environmental Category B. The provisions in the Environmental Management Framework (EMF) of the original project are adequate to provide environmental guidance to the proposed Additional Financing.

The Vulnerable Community Development Framework (VCDF) prepared under the original project to ensure that the most vulnerable groups including girls, Dalits, disadvantaged Janajatis, etc., benefit from the implementation and outcomes of the project activities would apply under the proposed Additional Financing. The VCDF was developed based on national policies/strategies and the SSRP with the aim of meeting IDA's OP/BP 4.10 on Indigenous Peoples (IP) and to ensure that there are repeated opportunities for free, prior, and informed consultations specifically with IP groups, and more generally with other marginalized and disadvantaged groups during program implementation. The VCDF has been reviewed and remains valid for the AF. As in the parent project, there would be no involuntary land acquisition under the program, and hence, the AF would not trigger OP 4.12 on involuntary resettlement.

6. Safeguard Policies Triggered	Yes	No
Environmental Assessment (OP/BP 4.01)	X	
Natural Habitats (OP/BP 4.04)		X
Forests (OP/BP 4.36)		X
Pest Management (OP 4.09)		X
Physical Cultural Resources (OP/BP 4.11)		X
Indigenous Peoples (OP/BP 4.10)	X	
Involuntary Resettlement (OP/BP 4.12)		X
Safety of Dams (OP/BP 4.37)		X
Projects on International Waterways (OP/BP 7.50)		X
Projects in Disputed Areas (OP/BP 7.60)		X

## 10. List of Factual Technical Documents

### Project Paper

#### 11. Contact point

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