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# USAID/NEPAL

## Country Strategic Plan

### FY2001-2005

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## November 2000

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United States Agency for International Development, Nepal  
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**USAID/Nepal  
Country Strategic Plan  
FY 2001- FY 2005**

**November 2000**

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Annex: Analyses Completed For The Preparation Of The Country Strategic Plan For Nepal

## ACRONYMS

ANE	Asia and Near East
BOOT	Build, Own, Operate, Transfer
CIDA	Canadian International Development Agency
CFUG	Community Forest Users Group
DA	Development Assistance
D/G	Democracy and Governance
DANIDA	Danish International Development Agency
DDC	District Development Committee
DFID	Department for International Development (British Aid Agency)
DOED	Department of Electricity Development
ESF	Economic Support Fund
EIAs	Environmental Impact Assessments
FECOFUN	Federation of Community Forest Users of Nepal
FCHV	Female Community Health Volunteer
FSN	Foreign Service National
GDP	Gross Domestic Product
GNP	Gross National Product
GON	Government of Nepal
HIV/AIDS	Human Immuno-Deficiency Virus /Acquired Immuno Deficiency Syndrome
HIV/STI	Human Immuno-Deficiency Virus / Sexually Transmitted Infection
HMGN	His Majesty's Government of Nepal
ID	Infectious Disease
IEC	Information, Education, Communication
IMF	International Monetary Fund
IR	Intermediate Result
ITBN	Insecticide Treated Bed Net
MOPE	Ministry of Population and Environment
MOWR	Ministry of Water Resources
MPP	Mission Performance Plan
NEA	Nepal Electricity Authority
NGO	Non Governmental Organization
NORAD	Norwegian Agency for International Development
NRM	Natural Resource Management

NTFP	Non Timber Forest Products
OE	Operational Expenses
PDF	Power Development Fund
RDF	Regional Democracy Fund
RMG	Resource Management Group
RUG	Resource User Group
SAARC	South Asian Association for Regional Cooperation
SARI	South Asia Regional Initiatives
SARI/E	South Asia Regional Initiatives/Energy
ScheEMS	School of Environmental Management and Sustainable Development
SIAs	Social Impact Assessments
SO	Strategic Objective
SpO	Special Objective
TA	Technical Assistance
TCN	Third Country National
TAACS	Technical Advisor for AIDS and Child Survival
USAID	United States Agency for International Development
USEA	United States Energy Association
USG	United States Government
VBDRTC	Vector Borne Disease Research and Training Center
VDC	Village Development Committee
WEP	Women's Empowerment Program



**U.S. Agency For International Development  
Mission to Nepal**

# **memorandum**

**DATE: November 24, 2000**

**FROM: Joanne T. Hale, Director**

**SUBJECT: USAID/Nepal's Country Strategic Plan, FY 2001-FY 2005**

I am pleased to present USAID/Nepal's Final Country Strategic Plan for FY 2001- FY 2005.

This document includes the approved elements of the Mission's April 2000 Strategy Proposal (Ref. State 127585, July 5, 2000) along with the August 2000 Addendum to that Proposal (Ref. State 213784, November 7, 2000).

Lasers:

ACTION: AID  
INFO:AMB P/E DCM

DISSEMINATION: AID,  
CHARGE: AID

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TO AMEMBASSY KATHMANDU PRIORITY 2157  
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UNCLAS SECTION 01 OF 02 STATE 213784

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E.O. 12958: N/A  
TAGS:  
SUBJECT: APPROVAL OF USAID/NEPAL STRATEGY ADDENDUM  
FOR FYS 2001-2005

REF: STATE 127585 DATED JULY 5, 2000

1. SUMMARY: ON SEPTEMBER 6, 2000, AA/ANE ROBERT RANDOLPH CHAIRED A FORMAL DECISION MEETING IN WHICH USAID/W APPROVED USAID/NEPAL#S ADDENDUM TO ITS COUNTRY STRATEGIC PLAN FOR FYS 2001-2005, SUBMITTED BY THE MISSION IN AUGUST 2000. THE PRINCIPAL ISSUE DISCUSSED WAS WHETHER THE STRATEGY ADDENDUM REFLECTED USAID/W GUIDANCE ADEQUATELY (SEE REFTEL). PARTICIPANTS AGREED THAT THIS ISSUE WAS FULLY ADDRESSED IN THE STRATEGY ADDENDUM. END SUMMARY.

2. BACKGROUND: USAID/W REVIEWED USAID/NEPAL#S PROPOSED COUNTRY STRATEGIC PLAN FOR FYS 2001-2005 ON MAY 19, 2000. AT THAT TIME, REVIEWERS RECOMMENDED APPROVAL OF THE PROPOSED STRATEGIC OBJECTIVE FOR POPULATION, HEALTH AND NUTRITION (SEE REFTEL), AND RECOMMENDED PROVISIONAL APPROVAL OF THE SOS FOR .

GOVERNANCE AND HYDROPOWER, PENDING CLARIFICATION AND REVISION BY THE MISSION. USAID/NEPAL SUBMITTED A REVISED DOCUMENT, CONTAINING THE REQUIRED CLARIFICATIONS AND ANALYSIS, IN AUGUST 2000.

3. DISCUSSION: A USAID/W ISSUES MEETING WAS HELD ON AUGUST 30, 2000, CHAIRED BY ANE/SPOTS DIRECTOR BILL JEFFERS, TO REVIEW USAID/NEPAL'S CLARIFICATIONS AND ANALYSES FOR THE PROPOSED GOVERNANCE AND HYDROPOWER SOS. FIVE CONCERNS (DISCUSSED BELOW) WERE RAISED AND RESOLVED AT THE ISSUES MEETING.

-- CONCERN 1: IN ADDITION TO COMMUNITIES UPSTREAM AND

DIRECTLY NEXT TO A HYDROPOWER SITE, OTHER IMPACTED COMMUNITIES, INCLUDING THOSE DOWNSTREAM FROM THE SITE AND THOSE THAT ARE POOR AND MARGINALIZED, MUST RECEIVE ATTENTION AS THE HYDROPOWER PROGRAM IS IMPLEMENTED. USAID/W (ANE AND G/ENV/EET) WILL WORK WITH THE MISSION TO ENSURE THAT DOWNSTREAM IMPACTS AND COMMUNITY PARTICIPATION ARE ADDRESSED ADEQUATELY, PARTICULARLY UNDER IR5.1.

-- CONCERN 2: SOME OF THE PROPOSED INDICATORS FOR 367-004 AND 367-005 DO NOT SHOW THE ECONOMIC BENEFITS FROM HYDROPOWER ADEQUATELY, IN TERMS OF BOTH NATIONAL INCOME STREAMS AND PEOPLE-LEVEL IMPACTS. USAID/W (ANE AND G/ENV/EET) WILL WORK WITH THE MISSION, AS IT PREPARES ITS PERFORMANCE MONITORING PLAN, TO DEVELOP APPROPRIATE INDICATOR(S) THAT ARE WITHIN USAID'S MANAGEABLE INTEREST AND ARE COST-EFFECTIVE IN TERMS OF DATA COLLECTION.

-- CONCERN 3: QUESTIONS WERE RAISED ABOUT S04#S EXPLICITNESS CONCERNING DEMAND FOR ELECTRICITY AND THE ECONOMIC RETURNS TO INVESTMENTS IN HYDROPOWER, BOTH IN TERMS OF DOMESTIC DEMAND (RURAL ELECTRIFICATION) AND REGIONAL MARKETS. IN RESPONSE, G/ENV/EET SUPPLIED INFORMATION THAT SUPPORTS THE HYDROPOWER APPROACH. USAID/W REMAINS INTERESTED IN THE PROGRESS OF RURAL ELECTRIFICATION IN NEPAL ALTHOUGH USAID IS NOT INVESTING IN THAT SECTOR.

-- CONCERN 4: THE NEPAL INTERNAL CONFLICT REPRESENTS A RISK TO ACHIEVING THE AIMS OF THE STRATEGY. THE MISSION NEEDS TO CONTINUE TO TAKE THIS INHERENT LEVEL OF RISK INTO ACCOUNT AT BOTH THE COUNTRY AND STRATEGIC PLAN LEVELS THROUGHOUT THE STRATEGY IMPLEMENTATION PERIOD. TOGETHER WITH USAID/W, THE MISSION WILL CONTINUE TO MONITOR THE INSURGENCY ISSUE, DEVELOP A

USEFUL PERFORMANCE MONITORING PLAN, AND HOLD AN EARLY REVIEW OF THE PROGRAM#S IMPLEMENTATION, POSSIBLY IN THE NEXT R4 CYCLE. IN ADDITION, TO ENSURE ITS CAPACITY TO ADDRESS THE CONFLICT ISSUE, THE MISSION WILL CONSIDER CAREFULLY THE MIX OF BOTH ITS USDH AND PSC STAFF WITH RESPECT TO THE STRENGTHS OF THOSE INDIVIDUALS IN DEMOCRACY, GOVERNANCE AND CONFLICT MANAGEMENT. ALSO, SINCE THE ANE BUREAU'S PILOT CONFLICT MANAGEMENT COUNTRY PROGRAM IS BASED IN NEPAL, USAID/NEPAL SHOULD CONSIDER STRENGTHENING ITS CONFLICT EXPERTISE AND MANAGEMENT; CONDUCTING ANALYSES OF THE SITUATION; AND PARTICIPATING AS REQUIRED IN USG EFFORTS TO MEDIATE THE CONFLICT. IT MAY BE NECESSARY TO RE-EVALUATE THE RESOURCES ALLOCATED TO FULFILL THIS CONFLICT PREVENTION AND MITIGATION ROLE ADEQUATELY WHEN THE LEVEL AND NATURE OF USAID#S INVOLVEMENT BECOMES CLEARER.

-- CONCERN 5: THE AGENCY'S ENVIRONMENTAL REVIEW

REGULATIONS (REG. 216) REQUIRE THAT POTENTIAL SECONDARY IMPACTS OF HYDROPOWER SCHEMES BE IDENTIFIED, ASSESSED, AND, IF NECESSARY, MITIGATED. THE MISSION WILL INCLUDE THIS ISSUE IN THE IEE THAT WILL BE PREPARED FOR THE RELEVANT S04 RESULTS PACKAGE.

4. TO RECAP, USAID/W AND THE MISSION HAVE REACHED AGREEMENT ON THE NEW STRATEGY, WHICH WILL END SEPTEMBER 30, 2005, AND INCLUDES THE FOLLOWING STRATEGIC OBJECTIVES: 367-002 - REDUCED FERTILITY AND PROTECTED HEALTH OF NEPALESE FAMILIES; 367-004 - INCREASED PRIVATE SECTOR PARTICIPATION IN ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE HYDROPOWER DEVELOPMENT; AND 367-005 - STRENGTHENED GOVERNANCE OF NATURAL RESOURCES AND SELECTED INSTITUTIONS.

5. USAID/W COMMENDS USAID/NEPAL ON ITS DEVELOPMENT OF A SOUND NEW COUNTRY STRATEGY, AND LOOKS FORWARD TO A CONTINUED PRODUCTIVE RELATIONSHIP DURING THE IMPLEMENTATION PHASE OF THE STRATEGY.

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TO AMEMBASSY KATHMANDU 1318  
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UNCLAS SECTION 01 OF 04 STATE 127585

ADM AID

E.O. 12958: N/A

TAGS:

SUBJECT: USAID/NEPAL COUNTRY STRATEGY REVIEW

1. BEGIN SUMMARY: ON MAY 19, 2000, ANE HELD A FORMAL DECISION MEETING TO CONCLUDE A WEEK OF DISCUSSIONS AND REVIEW OF THE NEPAL COUNTRY STRATEGIC PLAN. REPRESENTATIVES FROM ANE, G/EGAD, G/ENV, PPC, M/B, GC, AND THE NEPAL MISSION ATTENDED THE MEETING. USAID'S PROGRAM IN NEPAL IS UNDERGOING SIGNIFICANT CHANGES INCLUDING A 40 PERCENT REDUCTION IN PROGRAM FUNDING LEVELS. WITH REDUCED RESOURCES PROJECTED AT A 15 DOLS MILLION ANNUAL LEVEL, THE NEW STRATEGY WILL FOCUS ON THREE AREAS: HEALTH, HYDROPOWER, AND GOVERNANCE. ALTHOUGH NOT WITHOUT RISK, DEVELOPMENT OF DOMESTIC AND EXPORT-ORIENTED HYDROPOWER OFFERS GREAT HOPE FOR SIGNIFICANTLY INCREASING NEPAL'S NATIONAL INCOME AND REVERSING ITS DEPENDENCY ON DONORS.

2. IN IMPLEMENTING THE STRATEGY, ATTENTION WILL BE PAID TO SUPPORTING NEPAL'S INTEGRATION INTO REGIONAL AND GLOBAL ECONOMIES AND ENSURING THE EQUITABLE DISTRIBUTION OF THE BENEFITS OF ECONOMIC GROWTH. STRONG LINKS WILL BE DEVELOPED BETWEEN THE NEPAL HYDROPOWER PROGRAM AND THE ENERGY COMPONENT OF THE SOUTH ASIA REGIONAL INITIATIVE (SARI/ENERGY) TO HELP OVERCOME THE POLITICAL OBSTACLES TO DEVELOPMENT OF REGIONAL TRADE IN ENERGY IN SOUTH ASIA.

3. USAID/W APPROVES THE PROPOSED STRATEGIC OBJECTIVE

(SO)FOR-PHN (S02). THE HYDROPOWER SO AND A NEW STRATEGIC-OBJECTIVE IN GOVERNANCE ARE PROVISIONALLY APPROVED PENDING CLARIFICATION AND REVISION. FORMAL APPROVAL OF THESE TWO SOS AWAITS SUBMISSION OF A REVISED DOCUMENT WITH REQUIRED CLARIFICATIONS AND ANALYSES (SEE BELOW) BY AUGUST 30, 2000. USAID/W WILL SEND A TDY TEAM TO KATHMANDU THIS SUMMER TO ASSIST THE MISSION WITH THIS EFFORT. END SUMMARY

4. ANE ASSISTANT ADMINISTRATOR ROBERT RANDOLPH CHAIRED THE DECISION MEETING AND COMMENDED THE MISSION ON A BOLD NEW STRATEGY THAT PROMOTES HEALTH AND GROWTH WITH EQUITY, BUILDS ON USAID#S PAST SUCCESSES, AND REFLECTS THE NEW RESOURCE REALITIES IN THE BUREAU. BY IMPROVING HEALTH SERVICES, REDUCING FERTILITY, AND PROMOTING INCREASED PRIVATE SECTOR INVESTMENT IN HYDROPOWER, THE NEW STRATEGY PROMISES TO HELP RAISE THE STANDARD OF LIVING FOR THE

AGRICULTURE AND FORESTRY (S01)

5. USAID/W APPROVES THE COMPLETION OF S01, INCREASED SUSTAINABLE PRODUCTION AND SALES OF FOREST AND HIGH-VALUE AGRICULTURAL PRODUCTS IN 2002, BUT REQUESTS A TDY REVIEW TEAM TO WORK WITH THE MISSION TO IDENTIFY CRITICAL ACTIVITIES THAT SHOULD CONTINUE AS WELL AS OPPORTUNITIES FOR REPROGRAMMING FUNDS FROM LESS CRITICAL ACTIVITIES TO SUPPORT NEW ACTIVITIES (SEE PARA 13). LESSONS LEARNED FROM S01 ACTIVITIES, PARTICULARLY IN COMMUNITY FORESTRY, SHOULD BE APPLIED TO THE IMPLEMENTATION OF THE NEW HYDROPOWER AND GOVERNANCE PROGRAMS. FOR EXAMPLE, IMPROVED WATERSHED MANAGEMENT AND PROTECTION OF WATER-QUALITY ARE CRITICAL TO THE LONG-TERM SUCCESS AND SUSTAINABILITY OF HYDROPOWER DEVELOPMENT IN NEPAL. USAID/NEPAL SHOULD EXPLORE WAYS TO REPLICATE THE SUCCESSES OF ITS COMMUNITY FORESTRY PROGRAMS TO ENSURE EFFECTIVE MANAGEMENT AND PROTECTION OF KEY WATERSHEDS. USAID/NEPAL SHOULD ALSO CONTINUE TO ENCOURAGE OTHER DONORS TO CONTINUE AND EXPAND THEIR CURRENT SUPPORT FOR COMMUNITY FORESTRY, WATERSHED MANAGEMENT, AGRICULTURE, AND BIODIVERSITY CONSERVATION THROUGHOUT NEPAL.

PHN

6. USAID/W APPROVES THE PROPOSED FIVE-YEAR, 60 DOLS MILLION S02 (REDUCED FERTILITY AND PROTECTED HEALTH OF

NEPALESE FAMILIES). THE MODIFICATION OF THE SO

LANGUAGE FROM IMPROVED MATERNAL AND CHILD HEALTH TO PROTECTED HEALTH OF NEPALESE FAMILIES BETTER DESCRIBES THE INCLUSION OF IMPORTANT HIV/AIDS AND INFECTIOUS DISEASE ACTIVITIES. THE FOCUS ON THE PHN SECTOR WILL SUPPORT CONTINUED IMPROVEMENTS IN THE DELIVERY OF HEALTH AND FAMILY PLANNING SERVICES AND CONTRIBUTE TO BETTER GOVERNANCE, GREATER WOMEN'S EMPOWERMENT, AND REGIONAL STABILITY. IMPROVED GOVERNANCE IN TURN WILL PROMOTE EQUITY. THERE WAS NO DEBATE ABOUT THE STRATEGY'S PHN PROGRAM WHICH REPRESENTS APPROXIMATELY 80 PERCENT OF THE PROGRAM BUDGET. THERE WAS BRIEF MENTION OF SUCCESSES ACHIEVED BY THE SO IN SIGNIFICANTLY LOWERING UNDER 5 MORTALITY AND LOWERING FERTILITY. IT WAS POINTED OUT THAT ILLITERACY OF TWO-THIRDS OF NEPALESE WOMEN HAS SIGNIFICANT IMPACTS ON HEALTH PROGRAMS. THE APPROACH OUTLINED IN S02 FITS WELL WITHIN THE THEME OF GROWTH WITH EQUITY.

#### HYDROPOWER

7. ALTHOUGH MANY REVIEWERS ENDORSED THE PROPOSED NEW S04 IN HYDROPOWER, IT WAS THE SUBJECT OF MUCH DEBATE. UNDER THE CURRENT DOLS. 5 MILLION, 3-YEAR SPECIAL OBJECTIVE (SP04: INCREASED PRIVATE SECTOR PARTICIPATION IN ENVIRONMENTALLY AND SOCIALLY SOUND HYDROPOWER), THE ENABLING ENVIRONMENT FOR PRIVATE SECTOR INVESTMENT IN HYDROPOWER HAS BEEN IMPROVED AND THE GOVERNMENT OF NEPAL'S (GON) CAPACITY TO REVIEW AND EVALUATE THE ENVIRONMENTAL AND SOCIAL IMPACTS OF HYDROPOWER PROJECTS HAS BEEN STRENGTHENED. THE NEW HYDROPOWER SO WILL BUILD ON THIS WORK, AND HELP TRANSFORM NEPAL'S IMMENSE HYDROPOWER POTENTIAL INTO AN ECONOMIC ASSET THAT CAN FUEL BROAD-BASED, EQUITABLE ECONOMIC AND SOCIAL DEVELOPMENT IN AN ENVIRONMENTALLY AND SOCIALLY-SOUND MANNER.

8. THE NEW HYDROPOWER SO WILL EXPAND CURRENT CAPACITY-BUILDING SUPPORT FOR THE ELECTRICITY DEVELOPMENT DEPARTMENT (EDD) OF THE MINISTRY OF WATER AND WATER RESOURCES (MOWR), WHICH AT PRESENT BOTH PROMOTES AND REGULATES HYDROPOWER DEVELOPMENT, AND FOR OTHER APPROPRIATE INSTITUTIONS. THE MISSION WILL

PROVIDE EXPANDED ASSISTANCE ON A BROADER SET OF TOPICS AND WORK WITH MORE STAKEHOLDER GROUPS THAN UNDER THE EXISTING SPO FOR HYDROPOWER. ADDITIONAL TOPICS WILL INCLUDE HYDROPOWER EXPORTS, WATERSHED PROTECTION, AND STRENGTHENED CAPACITY FOR ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT. ADDITIONAL STAKEHOLDER GROUPS WILL INCLUDE A LARGER SET OF GOVERNMENT AGENCIES INVOLVED IN HYDROPOWER, COMMUNITIES POTENTIALLY IMPACTED BY

HYDROPOWER DEVELOPMENT, LOCAL NGOS AND BUSINESS GROUPS, AND OTHER CIVIL SOCIETY GROUPS AS APPROPRIATE.

A SPECIAL TDY TEAM WILL WORK WITH THE MISSION IN JULY TO CONDUCT A CRITICAL REVIEW OF THE ADEQUACY OF EXISTING ENVIRONMENTAL AND SOCIAL IMPACT PROCEDURES TO ENSURE THAT THE NEW SO WILL ADDRESS ENVIRONMENTAL AND SOCIAL SOUNDNESS OF EVEN LARGE-SCALE HYDROPOWER PROJECTS. THIS REVIEW WILL DESCRIBE HOW THE PROPOSED S04 ACTIVITIES WILL IMPROVE THE ENABLING ENVIRONMENT FOR PRIVATE SECTOR AND CIVIC PARTICIPATION IN HYDROPOWER DEVELOPMENT, PROMOTE EXPORT OF HYDROPOWER, AND PROMOTE EQUITABLE DISTRIBUTION OF BENEFITS FROM HYDROPOWER DEVELOPMENT.

9. UNDER THE NEW HYDROPOWER SO, USAID WILL URGE THE GON TO ESTABLISH AN INDEPENDENT ENERGY SECTOR REGULATOR TO ISSUE LICENSES, SET OPERATING GUIDELINES, AND REVIEW THE ENVIRONMENTAL AND SOCIAL IMPACT ANALYSES PREPARED BY DEVELOPERS AND/OR OTHER GOVERNMENT AGENCIES. THIS REGULATORY BODY SHOULD PROVIDE A FORUM FOR STAKEHOLDERS TO COMMENT ON ALL ASPECTS OF ANY POWER PROJECTS AS WELL AS ON THE ELECTRICITY TARIFFS AND THEIR STRUCTURE, WHICH WILL ENHANCE THE TRANSPARENCY OF THESE PROCEDURES AND IMPROVE THEIR EFFECTIVENESS. TO MINIMIZE POTENTIAL JURISDICTIONAL CONFLICTS, USAID WILL PROVIDE SUPPORT TO HELP THE GON ESTABLISH AND STRENGTHEN AN INDEPENDENT REGULATORY FUNCTION WITHIN THE CONTEXT OF CLARIFIED ROLES AND RESPONSIBILITIES OF OTHER RELEVANT GON AGENCIES, E.G., THE MINISTRY OF POPULATION AND ENVIRONMENT (MOPE).

10. USAID/W REVIEWERS AGREE THAT HYDROPOWER DEVELOPMENT AT ANY SCALE MUST BE SUBJECT TO RIGOROUS SOCIAL AND ENVIRONMENTAL REVIEW AND WILL NEED TO MEET THE CRITERIA OF SOCIAL AND ENVIRONMENTAL SOUNDNESS IN ADDITION TO ECONOMIC AND TECHNICAL FEASIBILITY. THESE REQUIREMENTS ARE SIMILAR IRRESPECTIVE OF THE SIZE OF THE HYDROPOWER PROJECT. HOWEVER, TYPES, INTENSITY, AND COST OF ANALYSIS AND MECHANISMS FOR DEALING WITH EQUITY, SOCIAL, AND ENVIRONMENTAL CONCERNS WILL VARY

WITH THE SCALE OF HYDROPOWER PROJECT AND MAY REQUIRE SIGNIFICANT INVESTMENTS BY THE PROJECT PROMOTERS UNDER THE CAREFUL SCRUTINY OF AN INDEPENDENT REGULATOR TO ENSURE THE ENVIRONMENTAL AND SOCIAL SOUNDNESS OF PROJECTS. THE NEW SO IN HYDROPOWER SHOULD REFLECT THESE CONCERNS.

11. USAID/W PROVISIONALLY APPROVES THE HYDROPOWER SO PENDING THE FOLLOWING CLARIFICATIONS: A) IR 4.2 SHOULD

BE REVISED TO BETTER REFLECT THE CONCEPT OF INCREASED COMMUNITY PARTICIPATION IN HYDROPOWER, B) IR 4.1 WILL BE REVISED, AS APPROPRIATE, TO CLARIFY HOW IT WILL SUPPORT AND IMPROVE GON CAPACITY TO ENSURE RIGOROUS SOCIAL AND ENVIRONMENTAL IMPACT ASSESSMENTS ARE ADEQUATELY FUNDED, UNDERTAKEN AND IMPLEMENTED SO THAT PROBLEMS WITH THE ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENTS UNDERTAKEN ON THREE GORGES, ARUN AND OTHER. LARGE HYDROELECTRIC PROJECTS AROUND THE WORLD ARE NOT REPEATED; AND C) IR 4.3 WILL BE REVISED TO INCLUDE SUPPORT FOR MODEL INTEGRATED WATERSHED MANAGEMENT APPROACHES AND PROGRAMS THAT WILL HELP ENSURE THE LONG-TERM SUCCESS AND SUSTAINABILITY OF HYDROPOWER DEVELOPMENT IN NEPAL. FUNDING FROM REPROGRAMMED SO1 RESOURCES WILL HELP SUPPORT IR 4.3 ACTIVITIES.  
DG

12. THERE IS BROAD AGREEMENT ON THE NEED FOR A DG STRATEGIC FRAMEWORK FOR NEPAL'S PROJECTED ESF AND REGIONAL ANTI-TRAFFICKING FUNDING, AND THE PARAMETERS CABLE HAD ENCOURAGED THE MISSION TO CONSIDER THE UTILITY OF AN SPO OR SO IN DG. AID/W ALSO RECOGNIZED THE VALUE OF SAFEGUARDING AND EXTENDING THE ACHIEVEMENTS UNDER SO1 TO EMPOWER LOCAL COMMUNITIES AND USERS' GROUPS. THE NEW STRATEGY PROPOSED TWO LIGHTLY FUNDED AND SOMEWHAT OVERLAPPING SPECIAL OBJECTIVES TO DEAL WITH DG AND RURAL DEVELOPMENT. DURING THE STRATEGY REVIEW, HOWEVER, USAID/W RECOMMENDED KEEPING A SINGLE GOVERNANCE SO THAT CONTINUES DG WORK AND PRESERVES AND BUILDS ON RELATED USAID INVESTMENTS IN RURAL DEVELOPMENT, ENVIRONMENT, AND COMMUNITY FORESTRY. TO THE EXTENT POSSIBLE, THE ACTIVITIES UNDER THE COMBINED SO SHOULD SUPPORT THE NEW HYDROPOWER SO. USAID/W EMPHASIZES THAT THE NEW GOVERNANCE SO RESTS ON VERY LIMITED FUNDING (APPROXIMATELY 500,000 DOLLARS IN DA ANNUALLY AND AN UNDETERMINED AMOUNT OF ESF). USAID/W ANTICIPATES THAT THIS NEW SO WILL STRENGTHEN THE LINK BETWEEN GOVERNANCE AND THE HYDROPOWER SECTOR, BRING ABOUT

MANAGEMENT EFFICIENCY, APPLY VERY SCARCE RESOURCES TO IMPROVED GOVERNANCE AND DECISION MAKING, AND ADDRESS IMPORTANT BIODIVERSITY ISSUES.

SO1

13. TO FACILITATE THE COMPLETION AND TRANSITION OF SO1, THE TDY TEAM AND MISSION WILL JOINTLY IDENTIFY SO1 ACTIVITIES THAT ARE CRITICAL UNTIL THE END OF SEPTEMBER 2002, OTHERS THAT COULD BE USED TO JUMPSTART THE NEW SO5, AND THOSE THAT COULD BE COMPLETED EARLY,

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THEREBY MAKING FUNDS AVAILABLE FOR THE WATERSHED  
ACTIVITIES IN S04 OR OTHER ACTIVITIES UNDER S05.

CONFLICT

14. USAID/NEPAL SHOULD WORK WITH THE U.S. EMBASSY, OTHER DONORS, AND OTHER RELEVANT ACTORS TO ENSURE THAT THE NEW STRATEGY AND ITS IMPLEMENTATION REALISTICALLY TAKE INTO ACCOUNT THE ONGOING MAOIST CONFLICT. CONCERN WAS EXPRESSED THAT USAID APPEARS TO BE OPERATING WITH LIMITED UNDERSTANDING OF THE ROOT CAUSES OF THE CONFLICT. THEREFORE, THE MISSION IS ENCOURAGED TO TAKE STEPS TO INVESTIGATE WITH OTHER DONORS APPROACHES THAT ENSURE OUR STRATEGY REALISTICALLY TAKES INTO ACCOUNT THE EVOLVING CONFLICT. IF POSSIBLE THE MISSION IS ENCOURAGED TO CONTRIBUTE TO MITIGATING THE EFFECTS OF THE CONFLICT ON NEPAL'S PEOPLE AND THE NATION'S GROWTH POTENTIAL.

15. G/WID IS CONCERNED THAT THE NEW STRATEGY DOES NOT INCLUDE AN ADEQUATE ANALYSIS OF GENDER ISSUES ACROSS THE SOS, AS ATTENTION TO GENDER ISSUES IS EXPECTED TO BE SEVERELY CUT WHEN THE WOMEN'S EMPOWERMENT SO ENDS IN SEPTEMBER 2001. (THIS IS PARTICULARLY TRUE FOR THE NEW ENERGY SO.) ALSO PLEASE NOTE THAT THE SOON-TO-BE-ISSUED REVISED ADS 200 WILL REQUIRE GENDER ANALYSIS FOR ALL NEW STRATEGIC PLANS. G/WID HAS DEVELOPED A "USAID GUIDE TO GENDER INTEGRATION AND ANALYSIS" TO ASSIST IN THIS PROCESS. G/WID WILL BE HAPPY TO WORK WITH THE MISSION TO ENSURE THAT GENDER IS INTEGRATED THROUGHOUT THE STRATEGY.

STAFFING

16. THE BUREAU REQUESTED THAT A REVISED STAFFING AND RESOURCE PLAN FOR THE STRATEGY PERIOD BE SUBMITTED BY MID-SEPTEMBER. THIS WILL BE BASED ON STAFFING NEEDS CLEARLY LINKED TO AND JUSTIFIED BY THE REVISED STRATEGY.

ADDITIONAL ANALYSIS AND CONCLUSION

17. A TDY TEAM CONSISTING OF REPRESENTATIVES FROM ANE, GLOBAL, AND THE MISSION WILL BEGIN APPROXIMATELY THREE WEEKS OF FIELD ACTIVITIES STARTING O/A JULY 24, 2000, TO COMPLETE THE ANALYSIS AND REFINEMENT REQUESTED ABOVE BY AUGUST 30, 2000.

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## EXECUTIVE SUMMARY

This strategy reflects USAID/Nepal's vision for responding to the changing development context in Nepal, as well as changing priorities and resources in the US Agency for International Development. The strategy responds to the discussion held in Washington during the strategy review in May 2000, the visit of a strategy team in July of 2000 and the guidance from the ANE bureau. Budget constraints over the coming years have forced the Nepal mission to reevaluate priorities, create greater efficiencies within the program and restructure management and technical expertise to take full advantage of the available resources.

The strategy focuses on three key sectors: health, hydropower and the governance of key natural resources and selected institutions. In addition, the new USAID strategy for Nepal aims to improve the impact of its assistance by:

- Focusing on critical improvements in governance of key resources (water, other natural resources and human resources including health and human rights)
- Strengthening essential policy, institutional and decision-making mechanisms
- Targeting assistance to a few key sectors of manageable interest (health, hydropower, democracy and natural resources)
- Leveraging assistance through coordination and collaboration with other donors
- Closely aligning USAID/Nepal programs with the overall USG priorities in Nepal
- Integrating the bilateral program with USG and USAID regional and global initiatives

Under this strategy the mission will build on experience gained from prior USAID assistance to Nepal and address the factor that most affects Nepal's ability to achieve growth with equity – governance. Democratic gains achieved in Nepal since 1990 are threatened by ineffective governance and corruption, and there remains great scope and need for civil society interventions that advocate for and monitor performance at both the national and local levels. Strengthening non-governmental stakeholders to provide institutional checks and balances and broader oversight is critical for ensuring transparency, accountability, predictability and participation, which have emerged as major factors in ensuring more equitable economic and social development.

*Integrating theme*

**Better governance for equitable growth**

An unavoidable consideration for the USAID strategy is Nepal's Maoist insurgency. USAID/Nepal is cognizant of the growing severity of this conflict, which is centered in the mid-west and has affected half of the country's 75 districts. The insurgency has generated momentum by criticizing the Government of Nepal (GON) for failing to represent the interests of the people and by highlighting weaknesses in local government administration. Apart from any possible future USG support for a negotiated solution, the USAID program can play a limited role in diminishing the effects of the conflict by ensuring that its programs adhere to the principles of good governance.

The Health and Family Planning portfolio in the new strategy will continue to contribute to and benefit from improved governance and equity. Many of the activities supported under the new strategy in this sector are carried out at the community level and sustained through local mobilization and initiative. The forms of organization and self-reliance in these programs have beneficial impacts on local governance. The organization of women's groups has allowed

women a greater voice in health care and other public affairs. While the projected levels of resources will be lower than in recent years, USAID will still remain the largest bilateral donor in the sector. Reviews of health activities carried out for the preparation of the strategy have identified measures to increase the impact and cost-effectiveness of our investments, and more fully integrate our assistance with that of government programs, other donors and private sector entities.

Developing Nepal’s vast water resources, particularly for hydropower, offers enormous potential for stimulating national development including an additional source of foreign exchange. Domestic and export-oriented hydropower development are the main economic growth components of the strategy. To unleash this growth potential private investment, both domestic and foreign, is needed. The achievement of this potential requires more transparency and predictability in the hydropower sector, which can contribute greatly to equitable economic growth in Nepal.

Better governance of the natural resource sector is not only necessary for economic growth and building rural democracy but also for the conservation of the nation’s unique and extensive biodiversity. It is also critical for ensuring that the revenues generated by hydropower development are invested wisely for broad-based development, rather than captured by the urban elite.

*The new strategy is comprised of three strategic objectives:*

- SO2 Reduced fertility and protected health of Nepalese families
- SO4 Increased private sector participation in environmentally and socially sustainable hydropower development
- SO5 Strengthened governance of natural resources and selected institutions

*In addition, the mission will complete and close out two objectives early in the strategy period:*

- SO1: Increased sustainable production and sales of forest and high-value agricultural products
- SO3: Increased women’s empowerment

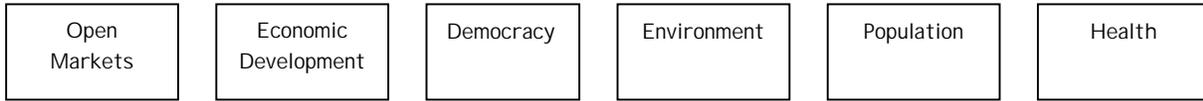
Three funding levels have been used in preparing the strategy, ranging from ten to twenty million dollars in annual funding, with the assumption that 80 percent of this funding will be allocated in earmarks for population, child survival, HIV/AIDS and other health related programs (PHN). Most of the program design work has been focused on the medium or base level of about \$15 million in annual funding, with 80 percent or \$12 million earmarked for health. Over the five year strategy period, annual funding is allocated among proposed programs as follows:

SO2	Health/Population	\$ 12.0 million
SO4	Private Sector Hydropower	\$ 2.0 million
SO5	Strengthened Governance	\$ 1.0 million
<b>TOTAL</b>	.....	<b>\$ 15.0 million</b>

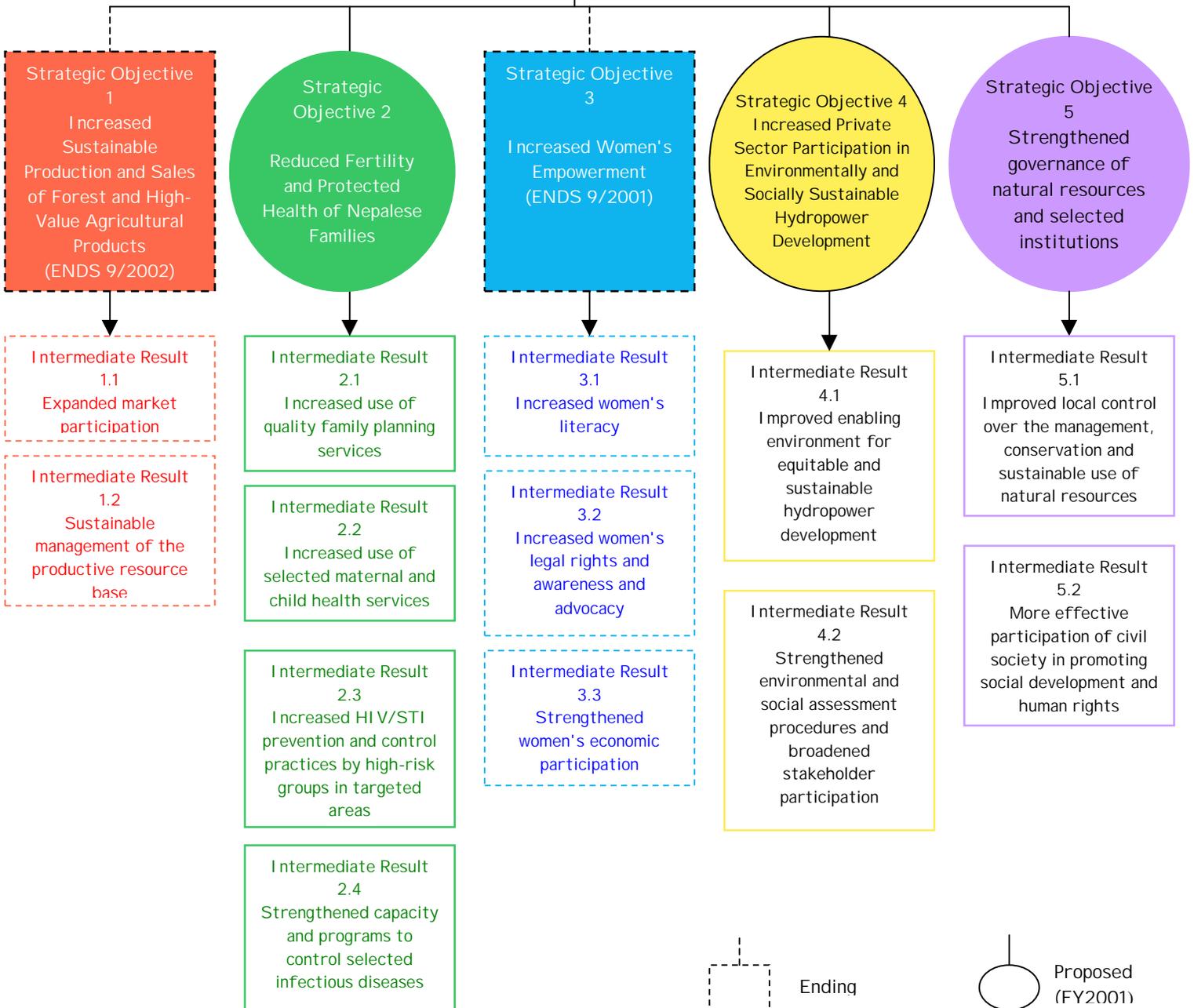
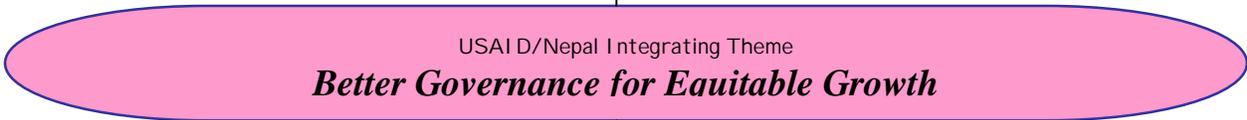
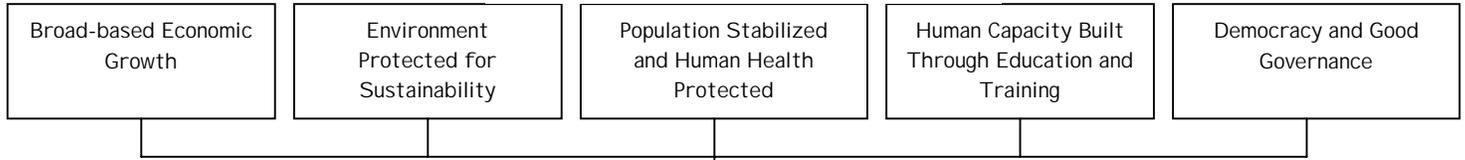
There is not a major overall decrease in staff levels, but a significant (25 percent) reduction in more costly expatriate staff. Professional FSN staff will be strengthened in parallel with the reductions and redirection of US professional staff. Similarly, OE expenses are not expected to decrease, and are basically straight-lined in current dollars.

# USAID/Nepal Program Results Framework

## US MISSION GOALS



## AGENCY STRATEGIC GOALS



## **PART I: THE ASSISTANCE ENVIRONMENT**

### **The Development Context**

Nepal opened its doors to the outside world only 50 years ago after centuries of isolation. Since then, the country has taken many decisive steps toward joining the modern world, most importantly the establishment of democratic processes. Nepal is small, landlocked, and constrained in almost all facets of its development efforts by rugged terrain and limited resources. Its rapidly growing population puts escalating demand on food supplies, basic social services, and increasing pressure on its fragile environment. Economic poverty and human suffering have also limited the ability of the country to move forward. Within this context, and based on decades of experience, USAID is proposing a new strategy which takes a fresh look at how the resources available for US government assistance over the coming years can be best applied to meeting the challenge of Nepal's future development.

**Socio-Economic Indicators:** Nepal's extremely low socio-economic indicators provide a strong argument for providing assistance to Nepal for humanitarian reasons alone. Nepal remains one of the poorest countries in the world – over half of its 22 million people live on less than a dollar a day and in the past two decades both the proportion and absolute number of poor have been increasing. Over 80% of the population still live in rural areas, pursuing an agricultural livelihood, most on small, low quality plots that produce insufficient food for survival. Access to basic services has improved but remains very low – 90% of the population still does not have access to adequate health services, 29% do not have access to safe water and 84% do not have access to sanitation. Infant mortality is 74.5 per thousand live births compared to 6 per thousand in industrialized countries. Nepal is the only country in the world in which life expectancy for women is lower than for men, partly because 539 of every 100,000 women die of pregnancy-related causes. Literacy levels are improving but are still very low – 62% for men and 28% for women.

For decades, isolation kept many of the rural people from knowing what they lacked. Recently, however, this state of ignorance has been ended by the extension of telecommunications and mass media into rural areas and greater mobility due to improved roads. With the growing awareness of the disparities within the country there is also a rise in public awareness of the power of the democratic process and the ability of average citizens to participate in that process. Resource user groups' activities and increased advocacy at the community level are evidence of the changing socio-political environment in rural areas. In the urban areas, this change has gone several steps further with increased numbers of watchdog groups, NGOs, and rapid advancements in free press and free association. These combine to put public pressure on the government for much needed change.

**Political Context:** Hundreds of years of relative isolation from the mainstream of South Asian and Central Asian events left Nepal in a vulnerable position when it opened its doors to the world in 1950. It had a comparatively strong sense of nationhood built on allegiance to the monarchy, but little experience with democracy. It was only in 1990 that parliamentary democracy was restored and a shift to a constitutional monarchy was achieved. The early 1990s were a period of great enthusiasm and progress politically and economically. Considerable economic liberalization took place and a broad set of reforms aimed at reducing poverty was implemented. Between 1994 and 1999 Nepal succeeded in holding onto its "democratic principles" but the fragility and impotence of four minority/coalition governments slowed the advancement of the reform agenda. During this period, disillusionment with the party system by radical elements of the communist party led to the birth of the Maoist movement, which took to the hills in a violent struggle to

overthrow the monarch and the parliamentary system of government. This Maoist insurgency is feeding on the growing dissatisfaction of Nepal's citizens with the lack of government response to their demands for basic services and change.

In the national election of May 1999 the Nepali Congress party won a solid majority of parliamentary seats. Although the leadership within the Congress Party has been disappointingly weak over the intervening months, expectations for the reform agenda are still high. There is increasing pressure on the Government to curb corruption, speed civil service reform and to show progress in the provision of basic social services. A recent decentralization bill is viewed as an important step towards shifting political and fiscal responsibilities closer to the community level.

**Economic Factors:** The initial years of the new democracy saw considerable economic growth in response to the improved environment for investment created by steps to open up and deregulate the economy. Between 1990 and 1997, the growth in GDP averaged 5% per year. An emerging private sector moving toward modern productivity and social responsibility has led this growth, but continues to be hampered by public sector obstacles and corruption. The strong growth of the early 1990s including the initial movement to privatize wasteful parastatals began stagnating in the mid-90s as political momentum and direction was lost. The decline in estimated GDP growth to 1.9% in 1998 suggests that the reforms were of questionable sustainability. The optimism that accompanied the election of the majority government is credited with creating growth levels estimated as high as 6% in 1999/2000.

Increased access to education and improved skills are no longer an assured path to a better life in Nepal. Employment has increased by less than 2% a year over the past three decades, much less than the growth of the labor force, and has resulted in widespread unemployment and underemployment. Remittances from Nepalis who take temporary and medium term employment in India and the Gulf States are now estimated to be the largest source of foreign exchange. Life for most Nepalese remains cruel and is becoming more so. In 1998, per capita GNP was about US\$200, little changed in 20 years, and more than 100 times lower than the per capita GNP in the United States.

**The Progress of Development:** Development programs in many sectors moved ahead rapidly at the beginning of Nepal's democratic transition in the early 1990s, but the low starting point in most sectors made small amounts of progress look unrealistically impressive. Since 1995, development progress has slowed, and in some sectors it has actually deteriorated. Development of the agriculture sector on the whole has been particularly disappointing, despite some notable achievements in the production of high-value crops. Food production increases in Nepal have barely kept up with and possibly fallen behind population growth, and agricultural development is unlikely to significantly remedy spreading rural poverty that is rooted in economic stagnation.

In spite of these trends, USAID-assisted programs have consistently met or exceeded targets. Much of this success is attributable to reliance on non-governmental partners and local level implementation that bypasses central institutions which have, in many sectors, become less effective under democracy.

USAID's new strategy is being issued at a time when the donor community and the government of Nepal are engaged in a constructive dialogue on the priorities of foreign assistance. There is little doubt that the continuing need of Nepal for foreign assistance is great and that the government of Nepal recognizes the importance of taking the right steps to make the best use of that assistance.

**Changing Conditions:** Globally, USAID faces tight budget levels and pressures to tackle a growing number of trouble spots and political priorities with a smaller staff. Constrained regional budgets within Asia have been reallocated in the past several years to confront the Asian financial crisis, as well as the complex crises in Indonesia and East Timor. For Nepal and other Asian countries receiving USAID development assistance, this has meant overall cuts in aid levels and has necessitated corresponding readjustments among sectoral allocations. There have also been major changes in priorities and resource availability in Washington since the 1995 strategy was approved. Nepal will receive lower levels of USAID assistance over the coming years, and the bulk of the funds will be directed to health, child survival and family planning programs. Very limited funding will be available to support the Mission's other programming priorities.

## **PART II: STRATEGIC PLAN**

This strategy responds to the discussion held in Washington during the strategy review in May 2000, the visit of a strategy team in July of 2000 and the guidance from the ANE bureau. Budget constraints over the coming years have forced the Nepal mission to reevaluate priorities, create greater efficiencies within the program and restructure management and technical expertise to take full advantage of the available resources.

The new USAID strategy for Nepal aims to improve the impact of its assistance by:

- Focusing on critical improvements in governance of key resources (water, other natural resources and human resources including health and human rights)
- Strengthening essential policy, institutional and decision-making mechanisms
- Targeting assistance to a few key sectors of manageable interest (health, hydropower, democracy and natural resources)
- Leveraging assistance through coordination and collaboration with other donors
- Closely aligning USAID/Nepal programs with the overall USG priorities in Nepal
- Integrating the bilateral program with USG and USAID regional and global initiatives

*Integrating theme*

**Better governance for equitable growth**

Under this strategy the mission will build on experience gained from prior USAID assistance to Nepal and address the factor that most affects Nepal's ability to achieve growth with equity – governance. For the purposes of this strategy, governance is defined as the manner in which power is exercised in the management of a country's economic and social resources for development. Democratic gains achieved in Nepal since 1990 are threatened by ineffective governance and corruption, and there remains great scope and need for civil society interventions that advocate for and monitor performance at both the national and local levels. Strengthening non-governmental stakeholders to provide institutional checks and balances and broader oversight is critical for ensuring transparency, accountability, predictability and participation, which have emerged as major factors in ensuring more equitable economic and social development.

An unavoidable consideration for the USAID strategy is Nepal's Maoist insurgency. USAID/Nepal is fully aware of the growing severity of this conflict, which is centered in the mid-west and has affected half of the country's 75 districts. The insurgency has generated momentum by criticizing the GON for failing to represent the interests of the people and by highlighting

weaknesses in local government administration. To stay abreast of this expanding problem, USAID staff members consult frequently with the Embassy, members of the international donor community and our partners with field programs. Since its beginning, the primary Maoist targets for violence have been political party members, government officials, the police and high profile international development agencies. Very recent targets have been economic, including small factories. The Government of Nepal (GON) has created a High-Level Consensus Seeking Commission as the vehicle through which dialogue with the insurgents is to be channeled, although it appears the GON's current strategy for addressing the conflict is primarily through police counter-insurgency.

Should the international donor community decide to work with the GON in formulating a more comprehensive strategy to address the conflict, the USG may consider the provision of some support. Any USG assistance would form one component of a package of multilateral support designed to facilitate resolution of the conflict. Direct or high profile USG involvement in negotiating a solution would be ill-advised, as the USG is not viewed as neutral or objective by the parties in conflict or by our donor colleagues. Currently, USAID can only play a limited role in diminishing the effects of the conflict by ensuring that its programs adhere to the principles of good governance, thereby strengthening local government service delivery mechanisms.

This strategy focuses on three key sectors: health, hydropower and the governance of key natural resources and selected institutions. While this is a five-year strategy, many of the investments in these sectors require longer time horizons. For example, large foreign exchange earnings from hydropower export are probably only realistic 10 to 15 years from now.

The Health and Family Planning portfolio in the new strategy will continue to contribute to and benefit from improved governance and equity. Many of the activities supported under the new strategy in this sector are carried out at the community level and sustained through local mobilization and initiative. The forms of organization and self-reliance in these programs have beneficial impacts on local governance. The organization of women's groups has allowed women a greater voice in health care and other public affairs. The sustainability of USAID contributions to the health sector depends on radically improving the allocations of public finance to this sector, focusing them on preventive and basic care rather than urban-oriented, preventive investments. More fundamentally, much of health care needs to be put on a self-financing basis, which will ultimately be dependent on increased rural incomes.

Developing Nepal's vast water resources, particularly for hydropower, offers enormous potential for stimulating national development including an additional source of foreign exchange. Domestic and export-oriented hydropower development are the main economic growth components of the strategy. Since both domestic and foreign private investment are needed to unleash this growth potential, greater transparency and predictability in the hydropower sector to improve the overall investment climate will also be needed.

Over 80% of Nepal's population is rural and depends on local natural resources for subsistence and income. Although the national statistics for the rural sector economy indicate some stagnation, a look at disaggregated indicators shows some progress and potential. USAID has been closely associated with some of these successes. However for this potential to be realized a number of issues must be tackled on a larger scale. These issues are governance-related and include:

- The establishment and implementation of policies that promote decentralization;
- Liberalization and privatization of the economic sector;

- Institutional arrangements that promote accountability, transparency and participation; and
- The wide dissemination of best practices for resource management.

Better governance of the natural resource sector is not only necessary for economic growth and building rural democracy but also for the conservation of the nation’s unique and extensive biodiversity. It is also critical for ensuring that the revenues generated by hydropower development are invested wisely for broad-based development, rather than captured by the urban elite.

Policy development and dialogue remains a key feature of all activities within the strategy. It is clear, however, that policy reform in itself is insufficient to allow for broad-based growth. In several sectors, such as natural resource management, the GON has put basic, sound policy in place. Preserving policy advances and, most importantly, ensuring policy is *implemented*, are critical.

*The new strategy proposes a program emphasis on three strategic objectives:*

SO2    Reduced fertility and protected health of Nepalese families

SO4    Increased private sector participation in environmentally and socially sustainable hydropower development

SO5    Strengthened governance of natural resources and selected institutions

In addition, the mission proposes to complete and close out two objectives early in the strategy period:

SO1: Increased sustainable production and sales of forest and high-value agricultural products

SO3: Increased women’s empowerment

The agriculture and natural resource sector activities under SO1 will be completed by 2002. During the close out period selected activities under SO1 will be gradually integrated into the new strategy under SO5. During the past 18 months the mission has undertaken extensive assessments and redirected SO1. These assessments have contributed directly to the new strategy, particularly SO4 and SO5. The remaining activities must be implemented and completed by 2002 if USG commitments are to be respected and reasonable hand-over completed. In this period these activities will be oriented and managed to support and contribute to “best practices” for SO4 and SO5. Among the most important of these best practices are lessons learned for watershed management and better governance of forest resources and biodiversity. In addition, a limited amount of uncommitted funds (about \$500,000) from SO1 will be used to accelerate the momentum of SO4 and SO5 especially to strengthen the advocacy and service provision capabilities of federations of resource management groups and to strengthen media coverage of natural resource management issues.

In Nepal, poor women and marginalized people are isolated and dispersed and have little power or influence over decisions that affect their lives. Through SO3, USAID Nepal has important experience in supporting and empowering these sectors of the population. Organized into groups and receiving an integrated set of skills and information, these women have much greater power

to ensure that their interests and those of their families and communities are advanced. They can take an appropriate place in Nepali civil society. SO3 will be successfully completed in late 2001. SO3 accomplishments include models and best practices of women's empowerment, which will be fed directly into both the community participation aspects of SO4 and the civil society and natural resource management of SO5.

**Links to USG Goals in Nepal:** Mission Performance Plan (MPP) priorities, which reflect US national interests in Nepal, are expected to remain constant over the new strategy period. These priorities place primary emphasis on democracy and recognize the important contribution of USAID's development assistance to their achievement.

USAID's proposed strategy maintains and strengthens the close links with the MPP through the inclusion of democracy-related activities in SO5 and enhanced hydropower development efforts in SO4. SO5 will support the democracy goal with its emphasis on building grassroots democracy and improving human rights. Expanding USAID programs in hydropower will support the US Mission goal of creating increased business opportunities for private sector investors, while also contributing to the MPP's economic development goal. Both SO4 and SO5 contribute to strategic goals in the environment. South Asia is an important emerging market for US trade and investment, and Nepal can be a significant site for private sector investment in clean energy that can benefit most of the region.

USAID's continued emphasis on Health and Family Planning provide a critical link to a US policy objective to address global population growth and health issues. Improving Nepal's health care capacity has a humanitarian benefit but also promotes economic growth through the increased productive output of healthier people. The expansion of programs in HIV/AIDS prevention and control of infectious diseases has an international impact. Under this strategy, family planning programs will continue to seek reductions in the fertility rate in Nepal in order to stabilize population growth rates which, in turn, support economic growth, reduce the demands on limited resources and provide social benefits.

**Supporting Agency Goals:** The new strategy is closely linked to the Agency's strategic plan. Almost 80% of program funds support the Agency goal to stabilize the world's population and protect human health through the continuation of family planning and health programs. The agency's goal of democracy and good governance pervades the program but is especially important in SO4 and SO5. The strategy promotes broad-based growth over the longer term through hydropower (SO4) and through improving conditions for rural sector growth (SO5). The agency's environmental goals are supported through the development of climate friendly, clean hydropower that also reduces pressures on Nepal's extensive biological diversity and natural resources. SO5 directly addresses the management of natural resources and supports biodiversity conservation.

**Government of Nepal Development Goals:** The Ninth Five-Year Plan drafted by Nepal's National Planning Commission in 1997, puts forward a long list of priorities for development directed rightly towards poverty alleviation, but without well defined or prioritized actions. USAID's new strategy contributes to the overriding national goal of poverty alleviation through its combined long-term economic growth initiatives, assistance to basic health care and family planning and good governance.

In the past, USAID has coordinated its economic assistance portfolio with GON programs. This strategy will continue to fit USAID objectives to GON stated needs and implementation modes. Particularly in health and family planning programs, bilateral resources/mechanisms will be

increasingly channeled to GON priority areas identified through direct consultations with government counterparts. The new strategy also reflects USAID's commitment to actively coordinate with other donors to address GON priorities, based on its strong role, past experience, and continuing good relationship with key GON implementing agencies.

**Regional Linkages:** The new strategy and its implementation priorities reflect and benefit from the growing emphasis on a regional dimension and perspective in USAID programs. This change in USAID assistance is consistent with and supportive of increased cooperation among the countries of South Asia – through SAARC (South Asian Regional Association for Cooperation) activities and more sector-specific public and private sector programs of cooperation. The new strategy proposes to enhance the links between Nepal bilateral program and ANE's South Asia Regional Initiative (SARI), a regional program promoting development, economic growth and energy sector reform. The SARI/Energy (SARI/E) program has been developed at the same time as this strategy. This has resulted in links to the SARI/E program in SO4. The mission's anti-trafficking and infectious disease programs are mutually supportive, and both have been developed within a regional context. The mission's bilateral infectious disease program in fact has the potential to become the heart of ANE's new regional infectious disease program as it is developed.

### **Synergies in the new strategy**

This strategy is designed to make best use of existing and potential synergies among elements of the USAID program and in doing so strengthen individual programs. Synergies are used, most importantly, to help ensure the equitable distribution of the benefits of development for the people of Nepal. The synergies described in this document are based on reviews of the current program undertaken during the development of this strategy and explorations of relevant new areas of assistance. Discussions of the mission's previous attempts at increasing synergy within the program have also guided the strategy formulation. Improved management and governance cuts across all SOs. Lessons learned in these areas will be shared widely. Lessons from SO1 and SO3 are already adding value to the health, hydropower and governance SOs.

Reviews of current programs carried out over the past year have identified instances of "spontaneous" synergy, successful planned transfers and borrowing between activities, as well as future opportunities for mutual enhancements between activities. Excellent synergies have existed in the program in nutrition, HIV/AIDS, anti-trafficking, and the promotion of an increased role for women in Nepal. Advocacy and civic education activities will provide additional synergies to the strategy. Such activities will promote good governance to contribute to the equitable distribution of the benefits of development, especially from water and other natural resource management. SO5 draws heavily on the experience and input of our partner organizations.

Within this more focused assistance program the mission has included a strategic objective which will be the focal point of synergy in the strategy. SO5 will have specific program objectives of its own in democracy and governance. It will also provide a critical core of staff with the skills and mandate to promote and support synergy among program activities. This SO will provide "value added" supplementary assistance drawing on USAID's past experience and other best practices from Nepal and elsewhere.

The linkages between SO4 and SO5 are particularly important. While SO4 works with a limited number of national level organizations critical to the reform, promotion and enabling environment for hydropower, SO5 works with a set of different but key complementary

organizations and themes with a greater field orientation. SO5 must be linked with SO4 to ensure that critical community participation, natural resource governance and watershed management practices are applied to hydropower development over the long term. Without these links the chances for environmental and social sustainability in hydropower are diminished. In addition, work on democratic institutions and processes, including more accountable local self-government, under SO5, will more broadly affect all of USAID's programs.

#### **GENDER AND EQUITY**

*USAID's Women's Empowerment Program (SO3) is widely acknowledged to have brought innovation and results to donor efforts to promote women's participation in civil society in Nepal. SO3 interventions have offered basic literacy skills, knowledge of legal rights and advocacy, financial management and collective decision-making, and participation in local self-governance. The Mission will apply the lessons learned from SO3 to broaden and strengthen public participation in natural resources management and hydropower development to include women and the more marginalized members of Nepali society. Improved public awareness and participation will help to ensure the equitable distribution of revenues derived from sound management of Nepal's unique natural resource diversity.*

#### **STRATEGIC OBJECTIVE 2 (SO2): REDUCED FERTILITY AND PROTECTED HEALTH OF NEPALESE FAMILIES**

Within the new strategy, USAID will continue support for its integrated program in Strategic Objective 2 at all three possible levels of funding. This SO continues to focus on four priority public health areas: family planning, maternal and child health, HIV/AIDS and infectious diseases. Congressional allocations for the areas of child survival and disease mean that these IRs will continue to receive about 80% of the mission budget throughout the strategy period.

Achievements towards this objective have been outstanding and USAID's contribution to improving the health of the people of Nepal remains critical. The needs in Nepal are vast; the maternal mortality ratio is among the highest in the world estimated at more than 539/100,000 live births, population growth is 2.4% and, under-five mortality rate is currently estimated at 92/1,000 live births. In October 1999, a strategy assessment team from AID/W reviewed the effectiveness of the program and provided recommendations for maintaining much-needed impact in Nepal even with reduced funding levels. Most of the recommendations developed by the review team have been accepted and incorporated in the new strategy.

USAID/Nepal has chosen to retain the existing strategic framework in the four program areas with minor modifications to selected indicators. The strategy assessment concluded that the existing Strategic Objective 2 is valid but its title omits two of the four functioning program areas, HIV/AIDS and infectious diseases. Therefore, the SO will be reformulated as follows: "Reduced Fertility and Protected Health of Nepalese Families." The four intermediate results will remain largely intact with minor modifications and adjustments to targets made after the 2001 Demographic Health Survey which will be reflected in subsequent R4s.

The program can continue in full, and possibly be selectively expanded based on efficiency improvements at the high funding level scenario of \$16 million. Reduced resource levels at the medium level for this SO (\$12 million annually) will mandate restructuring of the program,

particularly in implementation mechanisms. If available funding is reduced to the low level of \$8 million, serious reductions in programs and targets will be needed.

## **Statement of the Objective and Intermediate Results**

**Strategic Objective:** *Reduced Fertility and Protected Health of Nepalese Families*

**IR2.1** *Increased use of quality family planning services*

**IR2.2** *Increased use of selected maternal and child health services*

**IR2.3** *Increased HIV/STI prevention and control practices by high-risk groups in targeted areas*

**IR2.4** *Strengthened capacity and programs to control selected infectious diseases*

Within this framework, the program will continue to improve access to, demand for and the quality and sustainability of services. The mission will continue to strengthen GON commitment and leadership in the health sector and promote shared donor funding of key national programs. USAID/Nepal's critical participation in the recent joint health sector assessment and the ongoing health reform dialogue undertaken by the GON and major donors reflects USAID's continuing leading role in this sector and provides excellent opportunities to leverage and complement assistance from other donors.

As a cost-saving measure, some of the portfolio will be consolidated into mission-managed bilateral mechanisms. In keeping with the assessment team recommendations, the family planning program, which is now largely funded through USAID/Global Bureau mechanisms, will shift 3-5 activities into a new, bilateral umbrella mechanism. Infectious diseases activities that are globally-funded will be reviewed later in 2000 to determine if cost efficiencies can be gained in a bilateral shift of some of the activities. Other programs that are mission-funded, like the HIV/AIDS and child health/logistics programs, will continue to be streamlined. During this transition, new awards will be made before existing agreements end in order that programs may continue through 2005 with minimal disruption.

### *Rationale and Approach*

USAID has been a major intellectual, technical and financial contributor to the success of health and family planning programs in Nepal. This has been achieved through close collaboration with public, INGO, NGO and private organizations. There is ample evidence (the increase in contraceptive prevalence, the reduction in total fertility and the reduction in under-five mortality for example) that the investments made by USAID in Nepal's health and family planning programs have begun to pay substantial dividends. It is clear that continued large-scale, but carefully targeted, investments by donors (including USAID) in Nepal will be needed for the foreseeable future. Although the future presents many challenges to the Nepal program, trends in key indicators suggest that success can be sustained and additional progress achieved.

Many obstacles to sustainability of services exist in the public health sector. These include frequent staff transfers, vacant posts, under-trained and under-supervised staff, and insufficient equipment and supplies. Private curative services are widely used and range from traditional healing to high-tech medicine in urban areas. Almost 75% of the health economy in Nepal is financed by consumers, often for curative services. More efficient, accessible and appropriate preventive services such as immunizations, maternal and child health care and family planning

delivered through the public and private sectors, could help contain excessive expenditures on curative services.

USAID, together with other donors, will continue to work toward

- improving the sustainability of preventive health services by advocating for the GON's stronger commitment and increased contributions to priority programs
- exploring additional private sector opportunities to increase quality preventive services
- leveraging increased donor commitment in the short term
- supporting decentralization efforts by strengthening district-level planning, services and resource utilization especially through village development committees.

### **IR 2.1 Increased use of quality family planning services**

Activities in support of this IR in the new strategy will result in increased use of contraceptives and a decrease in the total fertility rate by 2005. There is high awareness of family planning in Nepal (98%), but a substantial unmet demand (33%). Family planning use can be increased by improving access and availability of services, and by increasing demand through Information, Education and Communication (IEC) and through satisfied clients making peer referrals. To ensure that the quality of services will remain high, programs will be adding competency-based in-service and pre-service training; appropriate monitoring and supervision of health care providers and services; and by creating a cadre of informed consumers empowered to demand high quality services. The word "quality" will be retained in the IR to reflect the importance of maintaining a prescribed level of quality as services expand and as use increases.

Population growth combined with increased contraceptive prevalence will result in the need for a continuously increasing supply of contraceptives. Continued donor coordination in the area of contraceptive procurement is critical. Donors are unable to commit resources more than a few years in advance and are not always reliable in meeting delivery schedules. USAID/Nepal may not be in a position to make significant contributions in supplying contraceptives in the future, but will continue to work with other donors and the GON to accurately forecast needs and assure that commodities are supplied from other donors.

### **IR 2.2 Increased use of selected maternal and child health services**

This IR will result in further reducing the maternal and infant mortality rates by 2005. USAID's new initiative in Maternal and Neonatal Health will expand USAID contributions to safe motherhood in Nepal. In collaboration with GON and other donors, USAID/Nepal will focus on an enhanced policy environment for safe motherhood, better coordination among partners implementing safe motherhood programs, improved quality of services and training curricula in emergency obstetric care, and increased access to and demand for quality services. In addition, USAID will continue to support the Safe Motherhood Network providing effective grassroots communication and advocacy to address maternal health issues.

USAID has been a leader in achieving progress in child health and will continue to support priority child health interventions including vitamin A capsule supplementation and nutrition education, community-based Integrated Management of Childhood Illness and Polio Eradication. Assuming reasonable funding levels, many of these programs will expand to nationwide coverage during the strategy period. To maximize coverage, ensure access for all children and enhance

sustainability of these interventions, particular attention is being given to strengthening service delivery at the community level. USAID/Nepal believes that the country's 46,000 Female Community Health Volunteers are critical to the success of national child health and nutrition programs and will continue to devote resources to their training as well as promoting local support for their activities.

### **IR 2.3 Increased HIV/STI prevention and control practices by high-risk groups in targeted areas**

This IR will result in decreased transmission of HIV/AIDS by 2005. Even with budget constraints, the program will continue to focus on primary prevention activities (condom promotion, STI treatment), targeted at high-risk groups in the border areas. The Mission has chosen to expand these activities into the Kathmandu valley where the incidence of HIV/AIDS cases is increasing. USAID/Nepal assistance can help control the spread of the disease from high-risk groups into the general population.

USAID is the largest donor for HIV/AIDS/STI prevention activities in Nepal. USAID/Nepal has supported studies for the GON's strategy development and guided the GON response to the epidemic. Given USAID's leadership in responding to the HIV/AIDS problem and the Mission's experience working in cross-border areas, reliance on USAID expertise in establishing regional programs is evolving rapidly.

As the risk of contracting HIV/AIDS/STIs is high amongst trafficked persons, the mission will continue to use HIV/AIDS-designated resources to support anti-trafficking of women and children activities. These activities will be concentrated in border areas and closely linked to and mutually supportive of other USAID and US Mission anti-trafficking programs in Nepal and to the SARI program. To date, the USAID anti-trafficking program has been managed by SO2 staff. In the new strategy, the mission will shift management of the community awareness and policy components of the program that are funded by ESF and/or new DA into the new SO5, Strengthened Governance of Natural Resources and Selected Institutions.

### **IR 2.4 Strengthened capacity and programs to control selected infectious diseases**

This IR has been developed by the mission over the last strategy period and early activities have been very successful. It is expected that the continuation of the infectious diseases program to 2005 will result in improved control of infectious diseases in Nepal and within the region. The infectious disease program has two components - vector-borne diseases and anti-microbial resistance. Currently the program is being implemented through five USAID/Global Bureau projects. Under the strategy, the Mission will investigate creating a bilateral program to form a more cohesive working unit and reduce costs.

The program will continue to strengthen Nepal's Vector-Borne Disease Research and Training Center (VBDRTC) as a national and regional institution and enhance its capacity for vector-borne disease surveillance, reporting, response and control. The mission's infectious disease program will be closely linked to the proposed regional infectious disease program to develop initiatives to coordinate efforts to combat emerging and re-emerging infectious diseases. With mechanisms well advanced and the capacity of Nepalese institutions improved, Nepal will have the expertise to provide leadership to an organized regional initiative in infectious disease control.

Growing antimicrobial resistance due to irrational drug use is a global public health concern. Without a system in place to monitor antimicrobial resistance, Nepal is particularly vulnerable.

In the new strategy, the infectious disease program will continue to provide the GON with technical assistance to develop a national antimicrobial resistance surveillance system and improve rational management of antimicrobial drugs.

**Policy:** USAID will continue to play an important role in health policy and policy reform. Although the macro policy level is not the primary program focus, the mission will continue to be engaged through high-level policy dialogue with the GON, support for multi-donor efforts and targeted short-term technical assistance. The mission will also support efforts to implement GON's recent Local Governance Act at the district and community levels for improving local capacity to plan and manage effective programs.

#### **SYNERGIES**

*A USAID/Nepal priority is to strengthen democratic processes in Nepal. Opportunities exist in the health and family planning network of district and community-level activities to diffuse a broader message of civic education, rights and responsibilities in support of social and health services. The mission will explore using selected modules of the successful women's empowerment program in health education and literacy programs.*

*An area of strong synergy for the mission is in the anti-trafficking program. SO2 addresses HIV/AIDS and other health problems faced by trafficking victims, while SO5 attempts to address the political and economic causes and consequences of the problem. This will allow the mission to make best use of expertise from both the health sector and the democracy sector resulting in an even more integrated approach to reducing trafficking and improved use of available resources.*

**Strategic Choices:** This new health and family planning strategy is based on an expected funding level of about \$12 million annually. Under a lower funding scenario (\$8 million) the mission would drastically reduce activities and would need to adjust the IR level targets. The family planning program could be maintained with some reduction of activities. All other programs would be substantially reduced. HIV/AIDS prevention activities would be scaled back. The Vitamin A and Integrated Management of Childhood Illnesses programs would not be expanded nation-wide and the maternal health initiative would end. The infectious diseases program would focus only on the vector borne disease component and not anti-microbial resistance with the possibility that IR 2.4 would be removed from the strategy completely.

In the event of a higher funding scenario of \$16 million, the mission would make much faster progress towards achieving this objective. The maternal health program would be expanded to more quickly reduce Nepal's high maternal mortality rate. USAID's model child survival programs would be expanded, institutional capacity in the infectious disease program would be improved, and HIV/AIDS prevention activities would be increased.

## **STRATEGIC OBJECTIVE 4 (SO4): INCREASED PRIVATE SECTOR PARTICIPATION IN ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE HYDROPOWER DEVELOPMENT**

### **Challenges to Hydropower Development in Nepal**

There is great promise in the development of Nepal's hydropower potential. Sound development of that potential could meet increasing domestic demand for electricity in the home and for use in agriculture, industry, health and education. It can potentially produce clean energy to meet a huge unmet demand for power in neighboring countries. Encouragement of foreign and domestic private investment in hydropower development could also provide greater domestic returns on investment than are currently provided by most other sources, both in terms of capital development and foreign exchange earnings.

Of Nepal's estimated total hydropower generation potential of 80,000 to 110,000 MW, it is currently technically and economically feasible to develop approximately 45,000 MW. Despite this enormous potential, only 316 MW<sup>1</sup> or 0.6% of hydropower capacity is on-line, with another 299 MW under construction or committed.<sup>2</sup> With a national per capita consumption rate of 42 kWh per year, Nepal is currently one of the most electricity-starved nations in the world. The picture worsens when distribution is considered. While an estimated 13% of the total population has access to electricity, this average falls to 5% in rural areas, where the bulk of the country's population lives. This imbalance is largely the result of Government policy that gives priority to providing power to high-density urban areas at the expense of rural areas that, because of Nepal's rugged topography, are difficult to access and service. In general, the quality of electricity supply is poor, system losses are high and outages are frequent. Two-thirds of Nepal's rainfall occurs during only four months of the year. Because Nepal has no significant storage capacity, the country has an excess of electric generating capacity in the wet season and a shortage of capacity during the dry season. To offset that shortage, Nepal imports 16% of its power from India during the dry season, but remains unable to export power during the wet season.<sup>3</sup> The lowest annual demand for electricity is during the wet season. As a result, by the year 2001, Nepal will be "spilling" as much as 50% of the installed hydropower capacity in the wet season for lack of a domestic or export market.<sup>4</sup>

The challenges faced by Nepal to fully develop and effectively utilize its hydropower potential can generally be grouped into two broad categories: (1) the need for continued electricity sector reform both within Nepal and the region to allow Nepal to compete successfully with its neighbors for private investment; and (2) the need for a balanced program that will stimulate the development of electricity for export (which will satisfy regional demand for clean energy), as well as meet the domestic need for the developing the national economy and improving the livelihoods of regional, national and local stakeholders.

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<sup>1</sup> 316 MW hydropower generation capacity includes 224 MW from run-of-the-river sites and 92 MW from a single NEA storage site at Kulekhani. There is also 45 MW of thermal capacity.

<sup>2</sup> 239 MW of run-of-the-river hydropower generation capacity is under construction or committed, as follows: 14 MW Modi Khola (NEA); 36 MW Bhote Kosi (IPP); 144 MW Kali Gandaki A (NEA); 5 MW Indrawati; 6 MW Puwa Khola; 20 MW Chileme; and 14 MW Upper Modi. No new storage projects have been committed.

<sup>3</sup> In 1999, 232 GWh or 16% of the 1475 GWh produced or purchased by NEA were imported from India. Energy sales were 1113 GWh, indicating a loss of 25%.

<sup>4</sup> Assumes that the first three projects listed above in footnote 2 are on-line by 2001.

**The Need for Continued Electricity Sector Reform:** The economic efficiencies of private sector ownership of public utilities have been demonstrated both in the developed and the developing worlds. With decreasing levels of grant and soft-loan financing available, developing country governments are increasingly turning over the operation and management of the energy sector to private investors while retaining a planning and regulatory role. This divestment allows governments to direct greater levels of public investment to sectors such as health and education, which do not typically attract private investment. For Nepal to follow this trend, it needs to develop a long-term plan for restructuring its energy sector to encourage private investment and the growth of a competitive energy market made up of independent power producers (IPPs) and buyers.

USAID and other donors have contributed to an improvement of the overall policy environment for private investment in the energy sector. However, implementing these policy reforms has been problematic and major constraints to private investment remain. These constraints include the current lack of an institutional framework for the energy sector separating policy, regulatory, operational, and promotional functions. Currently, multiple government institutions have overlapping responsibilities in the sector.<sup>5</sup> Of special concern are the conflicting regulatory and promotional functions within the Ministry of Water Resources' (MOWR) Department of Electricity Development (DOED), formerly the Electricity Development Center or EDC), which has been the primary counterpart agency of the Mission in the energy sector to date. There is an urgent need to develop consensus among these government agencies to delineate their respective roles in sector development, planning, licensing and regulatory regimes, water resource development for multipurpose and export projects, and the promotion of both foreign and domestic private investment in the energy sector.

To improve the enabling environment for private investment in Nepal, the Government must create a **strong and independent energy sector regulatory authority** that is free from the influence of the institutions with policy-making and promotional functions. The Government's national utility, the National Electrical Authority (NEA), should be "unbundled" into separate power generation, transmission, and distribution systems to open up grid access to private IPPs. As has been demonstrated in other Asian countries, such unbundling improves transparency and revenue flow into the sector, increases efficiencies, reduces losses and lowers costs in power generation, transmission and distribution. These developments will make Nepal's electricity more attractive to private sector investors and more competitive with Bangladesh's natural gas and India's thermal and hydropower resources in the regional energy market.

USAID has initiated a four-year, \$50M South Asia Regional Initiative/Energy Program (SARI/E) to promote energy cooperation and eventual trade in energy in South Asia.<sup>6</sup> With the support of SARI/E, grid companies in Bangladesh and India are already making plans to partner with a US grid company through the US Energy Association (USEA). The Mission will encourage NEA to join this partnership as well. In Latin America, such partnerships have not only led to the establishment of expanded and synchronized physical grid inter-connections across multiple national boundaries, but they have promoted the creation of computerized dispatch centers and financial clearinghouses for pool-market transactions on an hourly basis. SARI/E will explore the

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<sup>5</sup> Department of Electricity Development (DOED) of the Ministry of Water Resources (MOWR); National Electricity Authority (NEA); Ministry of Population and Environment (MOPE), Water and Energy Commission Secretariat (WECS), and the National Planning Commission (NPC).

<sup>6</sup> Linkages between SO4 and regional initiatives supported by SARI/E have been discussed in the original Country Strategic Plan, pp. 12-15.

feasibility of forming of a pool-market in South Asia, which could provide Nepal with the ability to sell power to buyers throughout the region at will when the price is attractive, when foreign exchange is needed, or when local demand is insufficient. If feasible, this market choice could allow Nepal to avoid having to sell power abroad through multi-year bilateral commitments – such as take-or-pay (TOP) contracts – while domestic demand remains uncertain. The imbalance of Nepal's current energy supply and demand pattern also makes the pool-market mechanism attractive. Because pool-market customers who do not pay their bills are quickly cut off, participation in a pool-market could free Nepal from dependence on TOP contracts with insolvent State Electricity Boards in neighboring Indian states.

Through SARI/E, the Mission will also help address the region's need to price power more realistically by introducing full-cost pricing principles. Current energy pricing in the region fails to account for such externalities as, for example, the public health costs of highly polluting thermal power generation in India. When government subsidies are used to support such inefficiencies in power generation, the full benefits of cleaner options, such as Nepal's hydropower, are not reflected in the cost of energy for the region's consumers. Similarly, there is a need to factor the value of the downstream benefits of hydropower, such as flood control benefits for India and Bangladesh, into the cost of project development and the pricing of energy.

SARI/E will play a major role supporting reforms in energy pricing and in creating a more competitive environment in the regional energy market. At the same time, SARI/E will promote regional agreements dealing with transboundary issues and the sharing of water resources to promote a more favorable political climate for energy trading. For example, with the potential for new storage projects on major rivers flowing into their countries, Nepal's downstream neighbors are concerned about the potential for Nepal to withhold water during critical periods of scarcity.

**The Need for a Balanced Hydropower Development Program:** Water is a national resource that Nepal needs to exploit to meet its growing needs for foreign exchange earnings. The Mission will continue to support Nepal's efforts to promote international investment in large-scale hydropower projects for export, but will also support opportunities to promote domestic investment. Recent liberalization of the energy sector in Nepal has prompted the entry of nearly a dozen small Independent Power Producers (IPPs) into the domestic market seeking licensing for projects ranging from 0.5 to 5 MW. A larger domestic IPP has partnered with foreign developers to develop the 60 MW Khimti Khola Hydropower Project, commissioned in July of this year. This increasing involvement of Nepali IPPs in the domestic energy market promises to support strong “backward linkages” by creating demand for engineering and construction, equipment leasing and transport services. It will also support “forward linkages” such as domestic water supply, rural electrification, mechanized irrigation, agro-processing enterprises and employment generation. For these reasons, SO4 will take a “scale neutral” approach in its support of private participation in Nepal's hydropower development. This approach promotes large-scale benefits for the national economy and broad-based economic growth driven by stronger domestic capacity in the energy sector.

Hydropower facilities are typically located in rural areas, many of which remain unconnected to the national grid. Many rural communities continue to rely almost exclusively on dung and fuelwood for their domestic energy. Power lines that run overhead to the Kathmandu Valley, bypassing the neighbors of the facilities generating the power, are an invitation to unrest. Given USG concerns about the rising level of Maoist unrest in Nepal on the one hand, and USG interest in promoting US private sector investment in Nepal hydropower on the other, it is critical that the Mission pursue a balanced approach to hydropower development for both domestic and export markets. Such an approach will strive to improve the overall policy, legal, and regulatory

platform for private sector-led investment in hydropower projects oriented for either domestic or export markets. Once this platform is created, the Government of Nepal must engage in the detailed process of establishing the Implementing Rules and Regulations, where a scale-neutral approach is also appropriate. In addition to establishing these “rules of the game”, it is also necessary to ensure that the rules can not change significantly once long-term contracts between the NEA and the IPPs are signed.

Enforcement of the rules is critical to ensure equitable distribution of the costs and benefits of hydropower. The overall environmental, social, and financial sustainability of projects also depends upon such enforcement. Negotiating these rules requires transparent processes whereby all key stakeholders have a seat at the table. While establishing procedures to assess environmental and social impacts has begun, many important stakeholders have not yet begun to participate in those assessments. From the local to the national level the possibility of revenue “off-takes” from a combination of royalty and tax payments will generate much interest. However, it will be important not to “kill the goose that lays the golden egg” by letting the combination “off-takes” scare away potential investors. It will also be important to have productive uses of electricity in the domestic market and willing buyers, as well as guaranteed payments in export markets, so that there is a revenue stream to distribute equitably.

USAID/Nepal will support the development of broader stakeholder processes than those currently existing and pilot test them in specific project areas. Experience has shown that local stakeholders benefit more extensively when they have been involved early on in project development. One small project supported by USAID in Andikhola showed that women’s lives can be transformed by the introduction of electricity into a community. Long hours spent on grain processing and the transport of water can be freed up for more productive entrepreneurial activities (e.g. agro-enterprise) and skill development towards such activities. Women may also shift to other household activities, thereby freeing up their children’s time to attend school. USAID experience indicates that such benefits are more likely when electricity is coupled with household purchasing power, good roads, access to markets, availability of training, and a generally conducive socio-cultural environment.

### **Statement of the Objective and Intermediate Results**

Since 1992, USAID/Nepal’s contributions have significantly improved the enabling environment for private investment in the energy sector. Building on its early efforts to strengthen the government’s capacity to develop its hydropower resources, the Mission launched the present three-year, \$5M SpO4 in mid-1998 to encourage private sector participation and investment in environmentally and socially sound hydropower development. As a result of these efforts since 1992, USAID has helped to stimulate over \$300 million in private sector investments in hydropower projects.

From lessons learned from SpO4, e.g., promoting greater transparency, predictability, accountability, and participation in Nepal’s energy sector, SO4 will support greater foreign and domestic private investment in hydropower development. Leveraging resources from USAID regional (SARI/E) and global (G/ENV/EET) energy initiatives to support institutional reform and improve competitiveness in Nepal’s energy sector, SO4 will also build on the lessons learned from SO1 and SO3 to stimulate greater levels of public participation in hydropower development, and support the sharing of the benefits derived from hydropower revenues (i.e., rural electrification and investments by local communities of their share of revenues). Through SO4 USAID/Nepal will be able to stimulate and leverage both multilateral and bilateral donor efforts

to build capacity in the hydropower sector, promote project financing and support regional, national and local initiatives for sustainable development of clean energy.

The framework for SO4 is as follows:

**Strategic Objective:** *Increased private sector participation in environmentally and socially sustainable hydropower development*

**IR 4.1: Improved enabling environment for equitable and sustainable hydropower development.** This IR is aimed at promoting publicly-acceptable structural and regulatory reform in the energy sector to increase Nepal’s competitiveness in regional energy markets, to encourage increased private domestic and foreign investment in Nepal’s hydropower development, and to provide for improved distribution of the benefits of hydropower development.

**IR 4.2: Strengthened environmental and social assessment procedures and broadened stakeholder participation.** This IR is aimed at promoting greater government and private domestic capacity to assess environmental and social impacts of proposed hydropower projects, and at promoting greater levels of public participation in these processes.

SO4 supports the achievement of the GON’s objectives for the hydropower sector, which are to: 1) generate and provide sufficient electricity to meet domestic consumer and industrial demand; 2) export electricity at a competitive price; 3) minimize any adverse environmental and social impacts of hydropower development; and 4) support rural development with electrification. The following sections describe each of the Intermediate Results in detail. The following text box highlights the synergies that link SO4 and SO5 in supporting these objectives.

*Possible SO-Level Indicator*

- Private sector projects progressing towards hydropower investments (track number of both export and domestic projects in status categories)

### **SYNERGIES**

*Strengthening community-based natural resource management and civil society groups under SO5 will benefit SO4 through greater public participation in the debate over hydropower development policy, including how benefits are distributed and how project impacts are assessed, monitored and mitigated. The efforts under SO4 and SO5 will be closely coordinated in those locations where there is an intersection between hydropower project development and water catchment protection activities. SO5 will also promote the adoption of “best practices” to support the strengthening of local capacity to utilize revenues generated from hydropower projects to finance local development.*

## **IR 4.1: Improved enabling environment for sustainable hydropower development**

Compared to most developing countries, Nepal has already developed a comprehensive framework for promoting private investment in its energy sector. The Nepal Electricity Authority (NEA), for example, has established a transparent screening methodology for identifying projects suitable for development based on economic and design criteria as well as bio-physical and socio-economic criteria. Under SpO4, the Mission has assisted the GON's Department of Electricity Development (DOED) to develop the "one window" mechanism to facilitate both developer certification and licensing, and transparent procedures for competitive bidding for approved hydropower projects. Under IR 4.1, in addition to supporting the improvement of the "one window" mechanism, USAID will: 1) expand its efforts to promote the implementation of policy and regulatory reforms in the energy sector to improve the overall investment climate; 2) leverage other donor resources to promote foreign and domestic investment in hydropower projects for both export and domestic use; and 3) encourage the development of local capacity to finance, implement and operate small-scale hydropower projects that support rural electrification.

### *Rationale and Approach*

While the GON has made great strides since the early 1990s in developing policies and regulations that encourage private investment in the energy sector, it must remove the remaining obstacles that discourage investor confidence. These include

- Improving the "one window" mechanism by:
  - Strengthening the capacity of GON agencies to evaluate proposed projects based on economic and risk analysis, to negotiate power purchase agreements (PPA), and to deal with royalty and tariff issues associated with export and domestic projects;
  - Ensuring the transparency and predictability in the procurement process and the processing of PPAs; and
  - Responding to all project proposals in a timely fashion to avoid inadvertent discrimination between private sector investors seeking to develop hydropower projects for export or domestic purposes.
- Separating the policy, operation, promotion and regulatory functions within the government agencies involved in the energy sector and creating an independent regulatory agency;
- "Unbundling" the generation, transmission and distribution functions in the energy sector to allow participation by IPPs to increase the competitiveness of Nepal's electricity in the region's energy sector;
- Ensuring equitable distribution of hydropower revenues earmarked for local development;
- Articulating and further developing the existing and proposed hydropower revenue-sharing mechanisms; and
- Ensuring that the private sector protects the security of its investment by obtaining local buy-in to its project through benefits-sharing.

In working with the Government to develop and implement its sector reform policies and activities, USAID will also create opportunities for the public to be involved substantially in the debate through the participation of civil society groups (e.g., Local Elected Bodies (LEBs) and Resource Management Groups (RMGs)). To keep the public better informed, USAID will strengthen the capacity of radio and print media to report on energy matters through targeted training activities for journalists. These initiatives are described in more detail under IR 4.2.

Now that several privately-financed hydropower projects have begun to come online in Nepal, the policy debate over the distribution of the benefits from such project developments has moved

from the theoretical to the practical. Hydropower projects generate power that can be used to electrify rural areas as well as provide electricity to consumers already linked to the national grid or to grids in neighboring countries. The availability of electricity in areas currently lacking such services can generate opportunities for rural populations to engage in more productive endeavors (e.g., agro-processing and other value-added post-harvest activities). Hydropower projects also provide monetary benefits in the form of taxes and royalty payments to the government, as well as employment opportunities for a wide range of domestic technical and general service providers (e.g., engineering, equipment manufacturing, transport and local labor).<sup>7</sup> However, because local communities may often bear many of the costs of project development, policies are needed that will lead to a fair and equitable distribution of benefits between these communities and the national government or consumers connected to the national grid. USAID will work with GON ministries and civil society groups to strengthen the implementation of current benefit-sharing policies.

In addition to promoting regulatory reform and strengthening government capacity to implement hydropower development policy, USAID will continue its support for the implementation of the Power Development Fund (PDF). The GON has applied for a credit from the International Development Association of the World Bank for the creation of the PDF. The PDF is intended to accelerate hydroelectric power development in the country by supplementing the existing debt financing for power projects, enhancing the overall maturity of available debt financing and by increasing the comfort level of private investors involved in the development of Build, Own, Operate and Transfer (BOOT) power projects. The PDF will co-finance projects with international and domestic lenders, including commercial banks, investment funds, export credit agencies, the International Finance Corporation and other multilateral institutions. The aim of the PDF is to act as a catalyst for private investment in Nepal's energy sector.

The GON recognizes the necessity of attracting foreign investors to build and operate medium to large-scale projects to generate electricity for the domestic and export markets. It also realizes that it must reduce the rural-urban disparity in electricity supply. Rural electrification is one of the country's long-term power development strategies to reduce this disparity. One of the aims of SO4 is to facilitate local investment in hydropower projects of all scales, including those that encompass rural electrification. Such efforts will have at least three benefits: 1) increase the financial resources available for smaller rural projects that would otherwise have difficulty in obtaining financing; 2) encourage the development of local engineering and other technical services, equipment leasing, transport and skilled and unskilled employment generation; and 3) increase the number of local investors in hydropower development, which will spawn an informed and interested political constituency for the sound and productive development of hydropower resources.

By making long-term resources available to local domestic financing institutions, the PDF can play a significant role in mobilizing local co-financing resources to provide additional long-term financing for eligible projects, particularly those involving grid-connected generating stations below 10 MW. However, limited sources of venture capital, the reluctance of commercial banks to extend long-term financing, and Central Bank and tax regulations that discourage long-term financing combine to limit the sources of long-term debt and equity financing required for hydropower development. Through IR 4.1, the Mission will explore the feasibility of supporting

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<sup>7</sup> Annex 6 of Nepal's recent Local Self-Governance Regulations provide 10% of the royalties levied on hydropower generation projects to be returned to the District Development Committee that has jurisdiction over the area in which the project is situated. The Government must exercise restraint in levying additional fees on power developers so as not to discourage investment in the sector.

a proposed domestic private power and infrastructure development bank that can leverage domestic capital sources, including government investment funds, to mobilize long-term debt and equity financing for hydropower development. Such a financial institution could leverage funding from the PDF to attract additional financing for specific projects.

These improvements in enhancing sector operation and oversight, expanding public participation and involvement, providing a more equitable distribution of benefits from hydropower development, and expanding project financing capabilities, will improve the overall investment climate for both export- and domestic-oriented hydropower projects.

#### *Illustrative Activities*

- Technical assistance and training to support policy, legal and regulatory reform, including strengthening the capacity of key institutions (such as the independent regulator) to carry out their new responsibilities.
- Executive exchanges to promote the development of consensus for a policy reform that will take a cross-section of key decision makers to the US and/or another country to meet with their peers and view first-hand the results of energy sector reform.
- Facilitation of a policy dialogue between the government and civil society groups on sector reform, hydropower development, and benefit-sharing policies and their implementation, including targeted training for journalists.
- Technical support and training for DOED dedicated to one or more export projects through a program of action research/case studies and the application of lessons learned.
- Support for the reform and restructuring of the NEA to improve efficiency and transparency through continued support for linkages with the USEA Partnership Program.
- Continued support for the Nepal Renewable Energy Project Support Office (REPSO) – an initiative supported by the Environment Center of USAID's Global Bureau – and its promotion of IPP investment in small-scale (1-10 MW) multi-purpose hydropower projects that can provide energy for rural electrification, irrigation, agro-industry, and drinking water initiatives as well as potentially supply the national grid.
- Promotion of the ratification of the Power Trade Agreement with India (in collaboration with SARI/E) and the capacity of Nepal for wholesale and retail “wheeling” of power to regional grids through NEA and IPPs.
- Training and related support (drawing on SARI/E resources) to build Nepali capacity to participate effectively in regional energy development and trade.
- Technical, managerial and legal assistance to local entrepreneurs in developing project proposals and raising private capital from domestic financial institutions.
- Technical assistance and training support for the liberalization of Nepal’s finance sector to promote domestic investment in hydropower projects, including a financial sector needs assessment as it relates to financing hydropower projects.
- Support for a feasibility study for the creation of a domestic power development bank.
- Technical support for development of procedures that improve public disclosure and public participation in hydropower project development.
- Improved transparency of local revenue-sharing of hydropower benefits via dedicated project area investment and royalties.

#### *Possible IR 4.1 Indicators*

- Hydropower projects exhibiting benefit distributions to local communities (track projects sharing royalties, providing electricity, and both).

- Policy reforms adopted (track number of reforms as well as number for which public hearings were held).
- Public hearings for hydropower projects conducted with local stakeholders and NGOs (track number of hearings).

**Intermediate Result 4.2: Strengthened environmental and social soundness procedures and broader stakeholder participation.**

Since 1996, Nepal has had a comprehensive set of regulations governing the assessment of environmental and social impacts (EIA/SIA) of capital development projects implemented by either private or public sector proponents. These regulations include procedures for the public disclosure of project information as well as for public consultation with communities and other stakeholders that will be directly affected by proposed projects. **Nepal is among the few developing countries in the world that require hydropower project proponents to comply with these regulations as a condition of project approval and licensing.** Through SpO4, USAID has been instrumental in building capacity within the agencies responsible for water resources management and hydropower development – including DOED, NEA, MOWR and the Environmental Department of the Ministry of Population and Environment (MOPE) – to operationalize the EIA/SIA process for the hydropower sector. While comprehensive, the current EIA/SIA process is cumbersome, time consuming and ultimately, constraining to private investment in the sector. Weaknesses in the process lie in the limited experience and technical capacity of the government agencies charged with the review of EIA/SIA, and in the narrow scope of public disclosure and consultation that has characterized project development to date. Lack of capacity and lack of information combine to create bottlenecks at every stage of the EIA/SIA review process, thereby clouding the transparency and predictability of the process.

Public consultation surrounding the EIA/SIA is the principal entry point for public participation in the development of a project. Ideally, the EIA/SIA process should engage the developer and the communities affected by the developer’s activities in assessing of a project’s social and biophysical impacts. The outcome of such an assessment should mitigate both potential adverse impacts and enhance potential benefits of the project. However, the processes of public disclosure for capital development projects in Nepal remain directive, i.e., “top down”, and fora for public consultation remain largely inaccessible to the uneducated and marginalized elements of Nepal’s rural society, including women and lower caste groups.

In addition, throughout the developing world EIA/SIA is typically carried out on a project-by-project basis. In Nepal, individual project proponents, be they hydropower developers, government line agencies or District Development or Village Development Committees (DDC/VDCs), seldom possess the information to enable them to coordinate their activities to minimize the cumulative impact of those activities in any one area – such as a hydropower project catchment area – or downstream of those areas.

To address these weaknesses in the EIA/SIA process, SO4 will support the strengthening of technical capacity, information dissemination and broader public participation in the assessment and monitoring of hydropower development impacts in Nepal.

*Rationale and Approach*

Under SpO4, the Mission has identified shortcomings in the Government’s EIA/SIA regulations and procedures and recommended appropriate measures to overcome them. SO4 will support the implementation of these measures and “harmonize” them with internationally accepted “best

practices” for EIA/SIA. In addition, SO4 will build on the successes of SpO4 to improve the capacity of DOED and collaborating agencies to assess, approve and monitor the implementation of EIAs and impact mitigation plans submitted by hydropower developers from both public and private sectors. USAID will apply a “hands-on” approach in its training initiatives to promote the development of a cadre of **practitioners** within the government, capable of both reviewing and preparing EIAs. The development of these skills is essential for the effective assessment, monitoring and control of the impacts of capital development projects, regardless of scale.

USAID will also leverage the efforts of other bilateral donors such as NORAD and CIDA to strengthen the capacity of MOPE, line agencies and Local Elected Bodies to undertake due diligence in assessing the adverse environmental impacts of capital development projects and in applying sound environmental management to mitigate those impacts. Through this collaboration, USAID can promote improved awareness of, and help stakeholders address, the cumulative impacts of development in watersheds and river basins resulting from both private and public investment. In addition, local public development, such as Ministry of Local Development and DDC/VDC initiatives to build roads and other infrastructure in hydropower project areas can be stimulated.

Mission support for the implementation of the Power Development Fund outlined in IR 4.1 provides an appropriate context in which to improve both technical capacity and active public participation in the EIA/SIA process. PDF-financed projects will require the application of internationally accepted “best practices” for impact mitigation. Through its support of these best practices, USAID will assist the GON in harmonizing its EIA/SIA procedures for all private sector, as well as public sector-sponsored hydropower projects.

In addition to its efforts to build GON capacity, USAID can play an important role in promoting the existing domestic capacity for EIA and environmental mitigation plan preparation, implementation and monitoring. Through SpO4, USAID has collaborated with the School of Environmental Management and Sustainable Development (SchEMS) to develop training modules in EIA/SIA procedures aimed at engineering and science professionals working in both the private and public sectors. This collaboration can be expanded to include: the development of standards for accrediting EIA/SIA professionals; support for the formation of an independent professional association of EIA/SIA practitioners; and the promotion of association members’ participation in capital development projects financed domestically and from abroad.

SO4 will build on the lessons learned from SpO4, SO1 and SO3 to promote greater public participation in decision-making, impact monitoring and benefit-sharing related to hydropower investments. These lessons can be formulated into a set of guidelines and “best practices” for engaging the participation of all stakeholders – such as employing appropriate training, media, and communication strategies to reach all stakeholders, including the marginalized members of rural populations. DOED can then encourage the use of these guidelines by hydropower project proponents in their public disclosure and consultation processes, which will include review of EIAs, impact mitigation strategies and the participation in the monitoring and implementation of those strategies.

Finally, the Mission can promote the formation of a broader constituency for environmentally and socially sustainable hydropower development by supporting Nepal’s print and broadcast media outlets. Through partnerships with local non-governmental institutions such as the Nepal Press Institute, the Panos Foundation and the Nepal Water Conservation Foundation, USAID can contribute to a more professional and balanced reporting of water resource management issues, foreign investment and hydropower development in Nepal. Such targeted support for the media

can help ensure reliable and regular reporting on specific hydropower development initiatives as well as a broader and expanded public awareness of the “downstream” benefits of sound energy development in terms of domestic economic growth and regional economic cooperation.

Increased public participation and awareness does not necessarily translate into increased equity. All IR 4.2 initiatives will be implemented with the aim of increasing public participation in the **process** as well as in the **benefits** of hydropower development, be they direct economic benefits – e.g., hydropower revenues returned to affected communities or the development of local enterprise associated with rural electrification and public infrastructure – or indirect benefits – e.g., improved environmental services resulting from the application of sound natural resource management practices.

#### *Illustrative Activities*

- Technical support and applied training for DOED, MOPE and other relevant GON agencies in EIA/SIA procedures and public consultation through selected hydropower pilot project sites as identified in IR 5.1.
- Technical training and support for the development of local private capacity for undertaking EIA/SIA.
- Training for media, NGOs, representatives of national federations and LEBs in the public disclosure and public consultation associated with the EIA/SIA process.
- Training workshops, seminars, partnerships and other regional information exchanges that engage media, NGOs, federations, and elected bodies in positive efforts to resolve natural resource-sharing issues and promote sound environmental management of capital development projects.

#### *Possible IR 4.2 Indicators*

- Environmental/social assessments prepared for hydropower proposals (track number of those prepared and those reviewed/approved)
- Public hearings held on environmental/social assessments prepared for hydropower projects with local stakeholders and NGOs (track number)

## **STRATEGIC OBJECTIVE 5 (SO5): STRENGTHENED GOVERNANCE OF NATURAL RESOURCES AND SELECTED INSTITUTIONS**

### **Challenges to Governance in Nepal**

Governance refers to the manner in which power is exercised in the management of a country’s economic, environmental and social resources for development. Good governance rests on four pillars: transparency, accountability, predictability and participation. These pillars are either weak or non-existent in Nepal. While the country has successfully established many of the basic institutions of democracy – executive, legislative and judicial – their existence is characterized by form and not substance. Nepal suffers from a crisis of governance that threatens the gains made since the establishment of democracy in 1990.

The Government of Nepal stands at a critical juncture as efforts to decentralize control over public resources and implement important reforms to curb corruption begin to be taken seriously. Unless pressure to implement these reforms is sufficient, trends toward economic stagnation and citizen disillusionment will continue to grow. Constituencies to implement reform exist at the local and national levels, yet their influence is still too weak to affect change that will lead to enhanced political participation and greater government accountability.

While no citizen can be legally excluded from the Nepali political system, and Nepalese are quick to participate when given the opportunity, significant portions of the population are disenfranchised from meaningful political, social and economic participation on the basis of economic status, gender and caste. The mission's commitment to Nepal is to assist in providing opportunities for expanded participation and to deliver the skills that will make that participation meaningful.

Because Nepal has the basic institutions of democracy in place, but remains a semi-feudal agricultural society, the mission has adopted a two-prong strategy. The primary entry point for development is through rural community-based organizations that can exercise control over the management of natural resources, exercise their democratic rights, act collectively to assure the wise use of revenues and benefits, and intervene in the market place to increase trade and income. The second entry point is through interventions that can affect national policy. These interventions include work with federations, associations, and selected government ministries that hold the potential to funnel demand upward and into the policy debate. Using both entry points, the Mission can help to establish an enabling environment that will bolster the country's ability to follow through on the promise of democracy.

The framework for SO5 is as follows:

**Strategic Objective:** *Strengthened governance of natural resources and selected institutions*

**IR 5.1:** *Improved local control over the conservation, management and sustainable use of natural resources*

**IR5.2:** *More effective participation of civil society in promoting social development and human rights.*

#### *Rationale*

SO5 will build on the lessons learned from the mission's previous strategy, particularly those with natural resource user groups (SO1) and the women's empowerment program (SO3), and apply these lessons to the development of hydropower resources. Implicit in the Mission's plan for the greater involvement of user groups, economic groups, and other associations is an understanding that the sustainability of these groups rests on their coming together for direct economic or social benefits. While not a panacea, the Mission hopes that establishing the practices of good governance and promoting economic growth at the local level will provide an incentive to communities that might otherwise be tempted by the insurgency. By strengthening the "voice" of these rural resource users through their national associations and federations, the Mission also hopes to improve governance at the national level. Such governance is central to ensuring that the macroeconomic benefits of foreign exchange from hydropower exports are used wisely.

This strategic objective is designed to capture varied and uncertain funding sources. It is held together and guided by the principles of good governance. Programming under SO 5 will enable the mission to form one distinct management unit that can monitor activities, ensure USAID/USG representation in donor and GON governance forums, and enhance cross-sectoral governance linkages with other Mission SOs.

### **Description/Definition of the Strategic Objective**

SO5 focuses the Mission's approach to good governance by capitalizing on the Mission's comparative advantages with local resource management organizations, national and local civil society and private sector organizations, and possible future support for elections and judicial reform. For the purpose of this strategic objective, *strengthened governance* refers to the processes by which local user groups gain understanding, make decisions and interact with local elected bodies and government administration. *Institutions* refer specifically to four types: civil society and private sector organizations promoting democracy and economic development, organizations protecting human rights (including anti-trafficking), Local Elected Bodies, and selected ministries. Governance of *natural resources* embraces recognition that natural resources are the principal source of economic growth. Natural resource management, therefore, requires the practice of good governance to ensure sustainability. *The sustainable use of resources* includes environmental, social, and financial sustainability and the equitable sharing of benefits, including the production and use of electricity and other benefits derived from water resources.

SO5 emphasizes increasing capacity to aggregate citizen and private sector interests through effective planning and advocacy. The focus throughout is on the four pillars of good governance. SO5 is designed to capture funding from varied sources (DA, ESF, RDF, SARI, etc.) and activities will change frequently, according to the availability of funds. Results will therefore be measured at the IR level.

### **SYNERGIES**

*SO5 is the vehicle through which the mission will influence improvements in good governance and equity and have an impact on the process of democracy in Nepal.*

- *Natural resource management groups and user and producer associations play an important role in the spread of democratic practices in Nepal, which links IR 5.1 to the broader governance IR 5.2.*
- *The key natural resources focused on in IR5.1 comprise the catchment areas that provide the essential input for all hydropower developments supported under SO4.*
- *Through the governance activities of SO5, civil society and the private sector will develop the capacity to become active stakeholders in determining the rules of the game for sustainable and equitable hydropower development.*
- *Anti-trafficking activities in IR5.2 will build upon synergies that exist in the health sector (SO2) and the democracy sector.*
- *IR5.1 activities have synergy with on-going conservation-based enterprise development activities supported by the USAID Global Environment Center and energy sector reform activities of SARI/E. These activities also complement the work of other donors and provide additional value-added to their programs.*

### **Intermediate Result 5.1: Improved local control over the management, conservation and sustainable use of resources**

Over 80% of the population in Nepal is rural and depends on local natural resources - forests, water, soil - for subsistence and revenue. For many individuals and communities, governing and using their natural resources is the first, most realistic and most tangible means for them to exercise their rights, affect public affairs and gain greater control over the direction of civil society. The distribution of power over the management of productive resources is a major expression of substantive rural democracy. In addition to leading to better governance, exercising control over the management of natural resources and their use contributes to the potential for increased economic benefits for all stakeholders concerned. Community participation is essential in decision-making, often dominated by government, on resource use including the development of hydropower. Improved local control over the management and use of resources not only creates capabilities in governance that are applied in a wider context, it unleashes economic growth and has positive impacts on environmental protection and biodiversity conservation.

In Nepal, progress has been made to decentralize and improve local control over the management of resources. USAID has supported much groundbreaking activity in this area. The Nepal experience is often held up as an example for others to replicate both regionally and globally. In many cases, local communities have taken the organizational steps to develop resource management groups (RMGs) and producer groups to further solidify and implement their management rights. They have begun to advocate for their rights and interact responsibly with local elected bodies and various levels of the government administration. RMGs' budgets can exceed those available to local government and their members frequently go on to elected positions. Although imperfect, a further step towards improved NRM governance and hydropower participation has been the federation of groups at a national level to represent and advocate for the interests of a specific user group, e.g. forestry users (FECOFUN) and small-scale hydropower producers.

Unfortunately, the ability of resource users to make informed decisions and fully benefit from resources is hindered by inappropriate policy, lack of policy implementation, organizational weaknesses and insufficient access to best practices and other information. Decentralization of decision-making pertaining to how resources are managed is still a concern. Although some policies and institutions are in place, local-level resource managers are largely dependent upon higher levels for making basic management decisions. Communities in hydropower areas are sometimes not involved in decisions and benefit sharing. Procedures for community forestry users to develop operational plans are overly complex and time consuming, taxing the organizational abilities of communities. Thus they are still dependent on others for basic decisions and constrained in capturing economic returns. These resource users are further handicapped by the lack of an adequate mechanism to advocate for the necessary changes in the existing structure.

In the policy arena several key interventions are needed for good governance in the management and distribution of benefits to relevant stakeholder groups. These include efforts by communities and resource management groups to capture benefits from their efforts at forest management, including the production and marketing of non-timber forest products. It also entails efforts by these groups to organize and advocate for their rights. In addition, efforts are needed to facilitate civil society participation in decision-making processes involving forests, water (including hydropower development) and the use of revenues derived from the management of those resources. Good governance also includes public participation associated with EIA/SIA procedures.

NRM and hydropower stakeholders need to:

- Have sufficient literacy, economic, and civic participation skills;
- Be aware of their rights to manage and benefit from resources;
- Assure that these rights are allocated to them or devolved if held by higher levels;
- Collaborate with fellow resource users in the management of resources, i.e. form groups or associations;
- Articulate and advocate for their existing and future rights;
- Improve their decision making on how resources are managed;
- Have better access to information; and
- Participate responsibly in the planning and implementation of resource benefit flows.

### *Rationale and Approach*

The process of assuring conservation, management and sustainable use of natural resources is less than fully achieved in Nepal. For initiatives in natural resource management and their sustainable use to be increasingly successful, a new approach is needed and a series of “next generation” activities need to be carried out. Some of the issues that need to be addressed include the following:

- Moving from subsistence to commercial production and capturing greater economic benefit;
- Greater empowerment through operational plans and regulations and greater liberalization and privatization;
- Assuring better service provision to local resource user groups and encouraging a range of non-governmental providers;
- Re-enforcing the independence and self-determination of groups;
- Better articulation and coordination of NRM and hydropower revenues and benefits with local government budgets and plans; and
- Networking among groups to effect policy at all levels.

The previous activities of the mission, in SO1, SO3, and SpO4 have laid a solid foundation, through the “first generation” of activities, upon which to build. Initiatives in agriculture, NRM, micro-enterprise development, water, irrigation and electricity use, and women’s empowerment have begun to develop institutions (including user and producer groups). The Mission has also begun to develop appropriate best practices (including ways to improve advocacy, civic participation, private sector involvement, and EIA/SIA procedures) and highlight some of the critical next steps in the policy discourse. The development of mechanisms for better capture of benefits and opportunities and procedures for re-investment should position groups to develop micro-enterprises. The Mission is well positioned to move on to the “next generation” activities listed above, which are essential to solidify the excellent efforts in governance to date and apply this experience to hydropower development.

IR 5.1 will contribute to improving control over the management of natural resources for their conservation and their sustainable use. The mission has chosen to concentrate on those key natural resources in Nepal that contribute significantly to economic development and conservation of its unique resource base: water resources, forests and biodiversity. IR 5.1 will help facilitate the processes by which individuals and communities exercise greater control over the management of their resources through three components - institutions, best practices and policy, or more specifically:

- The development of active and responsible institutions for natural resource management (NRM) including community participation in hydropower development;
- The dissemination and application of best practices in NRM and broadened stakeholder participatory approaches; and
- The development and implementation of policies and procedures to decentralize NRM.

The implementation of these components will assist in developing institutional models that can strengthen the enabling environment for natural resource management and hydropower development. The approach will be a combination of nationally focused initiatives in these areas linked to a small-scale, geographically concentrated field activity. National activities will be complemented and supported by field activities essential to properly inform policy development and implementation. Field level activities will allow for the application of existing and emerging lessons learned to hydropower development, including management of catchment areas in hydropower sites. Many catchment area management activities come from best practices in forestry and other rural sectors. Governance in natural resources management (NRM) includes work with a wide variety of stakeholders: forest user groups, water user groups, watershed management groups, protected area buffer zone councils and natural resource management federations and associations.

Ideally, selected field areas will reflect as much as possible the overlap between NRM “next generation” issues and hydropower potential. Two sets of criteria will be used to select field areas.

The first set of criteria relates to getting maximum impact on “next generation” NRM issues, including lessons that can be applied to hydropower catchment areas. It is not expected that the activities undertaken will be district-wide initiatives. In total approximately 3 to 5 field areas will be selected. The criteria for selection of field areas for “next generation” NRM issues include:

- Existence of NRM institutions that are contributing to improved governance;
- Ongoing development and application of best practices in NRM, as well as opportunities for critical feedback into NRM policy;
- Existence of important biodiversity;
- Representation of a variety of ecological zones and socio-economic situations; and
- Areas in which the Mission and its partner organizations have past experience.

The second set of criteria relates to selection of sites that have reasonable expectations for eventual hydropower development, including:

- The potential to effect broad based participatory processes to implement policies and procedures for sustainable and equitable hydropower production, use and benefit sharing from revenue generated;
- Location in a district of previous or on-going USAID activities; and
- The consent and understanding of the GON (and any relevant donor active in that location).

#### *Illustrative Activities*

- Building basic literacy, economic and civic participation skills for groups that are lacking.
- Strengthening (especially advocacy and service provision) of coalitions of independent local resource management groups and private sector groups through TA, training, workshops and core support.

- Promoting policies for the decentralization, liberalization and privatization of natural resource management.
- Development, compilation, documentation and dissemination of best NRM and hydropower practices.
- Promotion of the adoption of best practices to strengthen local capacity to utilize the revenues generated from resource management including hydropower development projects to finance local development.

*Possible 5.1 Indicators:*

- A selected number of multi-stakeholder (private sector, government, communities, groups, local elected bodies, etc.) processes to jointly plan and use local revenues and undertake collective actions.
- Policy changes that enhance communities' ability to manage and benefit from local natural resources.
- Increased level of perception, understanding, awareness of local managers (users) of their rights and responsibilities in managing natural resources.
- Best practices developed on "next generation" issues including mechanisms for sharing benefits of resource management and sustainable use.
- Mechanisms for benefit sharing of revenues from improved NRM and hydropower development demonstrated and replicated.

**Intermediate Result 5.2: More effective participation of civil society in promoting social development and human rights.**

Civil society participation refers to the ability of non-state actors to influence public affairs and derive better standards of living through more effective planning and advocacy. While not exclusive, the Mission's approach places primary emphasis on the need to work in rural areas to counter the overwhelming dominance of Kathmandu. An implicit assumption is that quality of life can be improved through economic development resulting from: active civic participation of all segments of the affected community; private enterprise development; more equitable government allocation of public funds; and respect for the conservation of vital natural resources. Included in this approach is an emphasis on human rights, particularly as these rights pertain to women and other disadvantaged groups.

This IR is the primary vehicle through which the mission will continue and expand anti-trafficking activities. It will also target opportunities for work under the South Asia Regional Democracy Fund, which are decided in consultation with the Embassy and have included support for elections, the protection of human rights, and judicial reforms in past years. The activities under this Fund will change from year to year based on the availability of funds. Programming requires a high level of interaction with the Embassy and the ability to expand or contract activities in accordance with variable funding levels.

*Rationale and Approach*

IR 5.2 responds to the country's pressing need for greater citizen participation in public affairs. It is consistent with the mission's desire to strengthen the enabling environment in Nepal through a cross-sectoral focus on citizen participation and directing resources to short- and medium-term issues identified as important to the country's political development.

The approach identified emphasizes the articulation of citizen interests in local development and the policy process. It includes public access to information and meetings, peaceful competition for political power and influence, citizen boards, and other mechanisms for joint decision making. It requires an enabling environment that encourages participation by all sectors of the population. It reinforces the ability of citizen groups to hold civil servants and officeholders accountable for their actions. Citizen participation will be strengthened through work with existing indigenous institutions that have developed, or are willing to develop, their own rules, sanctions and entitlements. These include, but are not limited to, savings and credit societies, chambers of commerce, human rights groups and journalists' associations. IR5.2 will adapt existing materials from SO3, utilize existing training resources, and adjust successful activities for inclusion under the new SO framework. The principles of good governance – transparency, accountability, predictability and participation – provide the basis for the development and adaptation of course materials and training sessions.

The mission's approach does not exclude some targeted support to key ministries and government departments most closely associated with the provision of services to the local level. These include, but are not limited to, the Ministry of Local Development, the Ministry of Women, Children and Social Welfare, the Elections Commission, the Ministry of Justice and the Human Rights Commission. Justice sector activities will be directed to providing greater access to the judiciary or alternative dispute mechanisms among groups currently lacking such access. They may also include other forms of support designed to improve judicial performance.

#### *Illustrative Activities*

- Building basic literacy, economic, and civic participation skills for groups that are lacking.
- Training and technical assistance to local and national groups that can perform a watchdog role in monitoring compliance with new decentralization rules and resource flows.
- Dissemination of local level best practices in advocacy and coalition building to inform the national debate on decentralized local government.
- Meetings and observation programs that link local groups with national associations that can effectively advocate on their behalf to national authorities.
- Training and technical assistance to local and national groups with the potential to influence important social policies in key areas such as anti-trafficking, judicial reform, child labor and other human rights violations.
- Development of anti-trafficking behavior change messages at the community level
- Dissemination of anti-trafficking behavior change messages through appropriate media in the community - peer educators, radio, street drama - utilizing INGO, NGO and community group structures.
- Training (budget, management, resource allocation, roles and responsibilities, awareness, civic education) for local user groups.
- Training and technical assistance on democratic functions of local government and interface with local groups: transparency, accountability, public input into decisions.
- Advocacy training on important human rights problems directly affecting local communities, such as trafficking in women and girls for prostitution.

#### *Possible IR 5.2 Indicators*

- The number of policy impacts by target CSOs at both the national and local level.
- Key local government sector reforms achieved.
- Improvements in internal democratic practices of targeted CSOs.

- The number of collective actions by targeted CSOs that demonstrate progress in reaching stated objectives.
- Key legislative changes related to local government, human rights and anti-trafficking.

### **PART III: STRATEGIC OBJECTIVES TO BE COMPLETED DURING THE STRATEGY PERIOD**

#### **STRATEGIC OBJECTIVE 1 (SO1): INCREASED SUSTAINABLE PRODUCTION AND SALES OF FOREST AND HIGH-VALUE AGRICULTURAL PRODUCTS**

The Mission will complete and close out SO1's activities by FY 2002. SO1 was developed to address Nepal's problems of pervasive poverty and environmental degradation. The vast majority (80% or more) of Nepal's people lives off the land, striving to make a living on family holdings of about two acres. Only 20% of Nepal's land is cultivable; the rest is too steep or climatically unsuitable for agriculture. An expanding population has pushed farmers onto ever more marginal land, increasing deforestation, land degradation, and loss of the country's rich biodiversity. Since agriculture dominates Nepal's economy, accelerated agricultural growth is critical to achieving overall economic growth and poverty reduction. However, GON efforts to assist farmers and to manage productive resources such as forests and irrigation schemes have had limited effect. As a result, agricultural development has stagnated, not generating the income required to invest in more productive or environmentally sound technologies.

When SO1 was designed in 1995, there were encouraging signs that Nepal's rural economy could make the transition from a subsistence to a market-driven mode. When given the opportunity, farmers had eagerly adopted new technologies to produce vegetables and seeds for the market, and had organized to collaboratively manage forests and irrigation schemes using improved management practices. SO1 aimed to achieve sustainable increases in production and sales of high value agricultural products by expanding market participation, linking groups of producers with traders and entrepreneurs, introducing appropriate technologies, and promoting sustainable management of the productive resource base by local users' groups. This approach was directly supportive of the Government's then recently adopted Agriculture Perspective Plan, a twenty year rural development plan developed jointly with USAID and other donors.

The significant achievements under SO1 over the past five years have proven the validity of this approach. Production and sales of high value products have increased substantially in USAID targeted areas, and links to national and export markets have been established. New micro-enterprises are utilizing non-timber forest products and increasing incomes, particularly for women. With USAID support, strong networks of user groups in community forestry and irrigation have been established and are following improved management practices. Biodiversity conservation has also been strengthened through better management of protected areas and forests and the creation of new income generating opportunities in the buffer zones of national parks.

Despite these impressive achievements, much work remains to be done, particularly to enhance the sustainability of the groups that have been established under USAID programs. USAID/Nepal realizes that it cannot complete this work alone, and has begun to identify other donors and mechanisms to carry on when USAID support is terminated.

USAID/Nepal proposes using the remaining funding available under SO1 to protect investments in agriculture and natural resources and honor commitments to ongoing activities. For example, the Mission will honor its commitment to establish and train Water User Associations in irrigation systems being rehabilitated with Asian Development Bank loan funds. The Mission will support the work of the Agro Enterprise Center (AEC) at the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and to move it towards financial viability without USAID funding. AEC is now making a major contribution to the development of agribusiness in Nepal, most importantly by serving as a well-respected advocate of private sector interests in dealings with the Government.

Other local groups established with USAID support will benefit from continued organizational strengthening assistance through 2002, including producers' marketing groups for high value commodities and community forest users' groups. Many of these groups have been in existence for less than three years. USAID technical assistance and training will improve management and accounting skills, help to establish long-term marketing arrangements for the groups' products, and strengthen the democratic functioning of the groups in their decision-making and benefit sharing responsibilities.

Completing the program also allows the mission to continue key policy dialogue with the GON on agriculture and natural resources development, as well as maintain a leadership role in the donor community in this sector. Over the next two years, the program will also achieve the following results:

- 25,000 more rural households will be producing high value crops
- annual sales of forest and high value products in target districts will increase by another \$7 million to \$37 million
- marketing links between producers and traders in the target districts will be strengthened
- AEC will have developed a financial sustainability plan and will have diversified its funding sources
- 6-7 additional irrigation schemes will be turned over to democratically elected Water User Associations for operation and maintenance
- 400 forest and water users' groups will be strengthened and will be managing an additional 60,000 hectares following improved practices
- successful non-timber forest product microenterprise models will be adopted by other community forest user groups
- other donors will have replicated the high value crop model in 10 districts of Nepal
- USAID and its partners will have continued dialogue with the GON on key policy issues, including fighting regression in community forestry policy and strengthening the private sector's role in delivering services to farmers

### **SYNERGIES**

*There are strong linkages between SO1 and other current and other Mission objectives. For example, SO1 activities to promote production and consumption of high value nutritious vegetables closely complement SO2 efforts to reduce Vitamin A deficiency. The democracy and microenterprise training materials and approaches, developed for the SO3 Women's Empowerment Program, have been used by some groups established under SO1. SO5 will achieve significant impact in advancing good governance at the local level and build on past SO1 investments by working with producer, forest and water users' groups and their federations. The mission's work in forest and soil management in watersheds is providing lessons that can be applied in watersheds where hydropower projects are constructed.*

### **STRATEGIC OBJECTIVE 3 (SO3): INCREASED WOMEN'S EMPOWERMENT**

This SO, initiated in 1997, will be completed by September 2001 and is expected to achieve all of its targets. A review of the program in late 1999 predicted that the program would achieve its intended objective of positively changing the behavior of participating women, and encouraged USAID to complete funding of the current phase of this program. Reduced resource levels will not allow the mission to consider expansion or significant follow-on activities. The GON and other donors will aggressively market and transfer the lessons learned, and the approaches and the materials developed and proven under this program. Components from this program will also be utilized in synergistic activities enhancing the skills and viability of community groups under SO5.

The Women's Empowerment Program (WEP) uses an integrated package of interventions that contribute to three intermediate results considered essential to the achievement of the SO - increased women's literacy; increased women's legal rights, responsibilities, and advocacy; and strengthened women's economic participation. WEP measures its progress through three indicators that represent the key dimensions of women's empowerment it hopes to influence. These are i) household decision-making; ii) spending on family well being, and iii) initiation of collective actions for change.

USAID will have expended approximately \$7.6 million by the end of Phase II of the program through two US-based NGOs, PACT and The Asia Foundation (TAF). These implementing partners are working with 245 Nepalese intermediaries (161 indigenous NGOs; 64 established cooperatives; 2 regional branches of the GON's Grameen Bank; 13 branches of *Nirdhan* (literally, "not having wealth" in Nepali), a national Grameen replicator; and the UNDP - supported GON "Parks & People" program). These intermediaries are empowering over 130,000 women in about 7,350 groups in 21 districts across the *Terai*. The partners are currently operating under cooperative agreements that will be extended to allow them to complete the full set of planned interventions with all participants and groups.

WEP expects to have met or exceeded targets at the SO and IR levels by the completion date of September 2001. The 1999 review of WEP concluded that the program had already had a measurable impact on all three dimensions of women's empowerment. Women participants: i) talk more with their husbands about key household decisions and have more confidence in taking decisions themselves; ii) invest more income in savings and productive endeavors in order to generate income for future well-being; and iii) undertake more collective actions in their immediate wards.

At the intermediate result level achievements are clear. At least 120,000 targeted women will be literate by closeout; with actual numbers of women impacted by WEP literacy activities expected to be higher. Results have confirmed the effectiveness of WEP's shorter, more cost-effective self-study literacy curriculum when it is reinforced by further literacy practice in the legal rights and microenterprise components of the program. In a country where one-third of women are literate, this is a significant lesson-learned.

By the end of 1999, 99.5% (140,000) of participating women were actively depositing savings at least once a month, accumulating a total of \$1 million in savings. Over \$2.4 million in small loans has been taken out. The total loan size is higher than savings for two reasons: some loans have been repaid and the money loaned again, while some women have accessed external sources of credit. 56,000 women began or expanded a microenterprise in 1999 and end of program totals should significantly exceed the planned target for this indicator.

In 1999, PACT introduced a village-banking model as the basis for WEP's savings-led, community-managed, economic model. By September 2001, WEP expects that approximately 40,000 women will efficiently operate approximately 1,500 village banks throughout southern Nepal. In this model, women learn to read and write and save their own money before they form banks and begin to borrow. Women are in charge throughout the process. WEP is developing an affordable, sustainable national 'woman-to-woman' village-banking program that can potentially reach and benefit rural women throughout Nepal. It will also serve as an innovative model for countries with conditions similar to those in Nepal.

The 1999 review concluded that the early impact of the program "...suggests it is a powerful set of interventions with great promise for individual, community, and national development". It also stated that "USAID has very few, if any, other programs worldwide that achieve a behavioral change impact at the SO level within such a short time". The team further concluded, "this impact may have profound implications in terms of women's participation in community and national development, as well as for future gender development efforts". The initial results indicate that WEP's three components combined have a significantly greater overall impact than the individual components. The resulting behavioral change reflects true empowerment.

WEP has already begun to demonstrate nationwide impact. The GON is using WEP as a model for a newly proposed nationwide women's empowerment/income generation program called *Jagriti*, which has been allocated an initial budget of US \$1 million in GON funds. At the request of the GON, the WEP team has provided lessons learned and technical advice for this new national program.

Working with the GON, other donors and partners the WEP team will implement a practical, time-phased exit strategy and share lessons learned in order to spread key elements of the approach. WEP materials may also be incorporated into activities supported by the new SO5. WEP modules are suitable for such applications as they are very cost effective and not dependent on sophisticated trainers or technical assistance. These empowerment skills are also critical for men and appropriate for mixed groups. It is also likely that many of the 245 local intermediary groups and the trainers who have participated in the WEP program may find roles in implementing SO5. Options to ensure continuing availability of WEP materials will also be explored.

#### **PART IV      RESOURCE REQUIREMENTS**

As requested in the May reviews of Nepal's April 2000 Strategy proposal, the Mission worked with the Washington team to review the resource requirements resulting from the strategy revisions described above. Overall parameters for resources are based on Washington guidance provided in the May review and in subsequent briefings for the Washington team. In the terms of the original strategy parameters these amount to providing resource scenarios for the middle and high levels set for the overall strategy.

## Financial Resources

	<b>MEDIUM FUNDING LEVEL</b>	<b>HIGH FUNDING LEVEL</b>
<b>SO2</b>	<b>Critical Activities \$12.0 m</b>	<b>Important Activities +\$4.0 m</b>
<b>SO 4</b>	<b>Critical Activities \$2.0 m</b>	<b>Important Activities +\$0.75 m</b>
	<ul style="list-style-type: none"> <li>▪ Power sector reform ‘roadmap’ (defines ‘unbundling’ of NEA and creation of independent regulatory body)</li> <li>▪ Streamlining of ‘one window’ process for domestic and export hydropower development</li> <li>▪ Strengthening implementation of benefit-sharing policies</li> <li>▪ Increasing participation in policy development and implementation</li> <li>▪ Improving environmental and social assessment processes and broadening stakeholder involvement</li> <li>▪ Training of key personnel in selected institutions</li> <li>▪ Assist World Bank with startup of Power Development Fund</li> <li>▪ Coordination with SARI/E activities</li> <li>▪ Program Management</li> </ul>	<p><u>Expansion of existing activities:</u></p> <ul style="list-style-type: none"> <li>▪ Increase partnerships, exchanges and training to build targeted capacities</li> <li>▪ Include additional non-governmental stakeholders (more RUGs, etc.)</li> </ul> <p><u>Additional activities:</u></p> <ul style="list-style-type: none"> <li>▪ Strengthen skills of Nepalese in EIA/SIA preparation</li> <li>▪ Work with local financial institutions to support hydropower projects</li> </ul>
<b>SO 5 IR 5.1</b>	<b>Critical Activities \$1.0 m</b>	<b>Important Activities +\$1.2 m</b>
	<ul style="list-style-type: none"> <li>▪ Policy development and implementation</li> <li>▪ Institutional support for national federation/associations of natural resource users’ groups</li> <li>▪ Best practices compilation and dissemination</li> <li>▪ Field implementation areas for application of improved local control over management of natural resources/potential hydropower sites</li> <li>▪ Program Management</li> </ul>	<p><u>Expansion of existing activities:</u></p> <ul style="list-style-type: none"> <li>▪ Additional field implementation areas</li> <li>▪ Facilitation of resource and revenue planning among local stakeholders</li> <li>▪ Linking users’ groups with local governments on revenue sharing and development decision-making</li> </ul> <p><u>Additional activities:</u></p> <ul style="list-style-type: none"> <li>▪ Reinforcement of non-governmental service providers</li> <li>▪ Support to the integration of women into groups and marginalized groups into associations</li> <li>▪ Micro-enterprise support for reinvestment of NRM/ hydropower benefits</li> </ul>
<b>SO5 IR 5.2</b>	<b>Critical Activities- ESF \$0.75 – 1.25m / DA \$0.1m</b>	<b>Important Activities- (as funds are available)</b>
	Activities (e.g. elections, judicial support, human rights, anti-trafficking) vary from year to year according to the availability and types of funding. The primary focus is on citizen participation in social development and human rights. DA mainly for program management.	Expand coverage of training and outreach programs
<b>Sub- Total</b>	<b>Critical activities DA/CSD \$15.1m / ESF \$0.75 – 1.25m</b>	<b>Important activities + DA/CSD \$5.95m / + ESF as available</b>
<b>TOTAL</b>	<b>DA/CSD \$15.1m ESF \$0.75 – 1.25m</b>	<b>DA/CSD \$21.05 m ESF &gt; \$1.25 m, as available</b>

## Staffing Requirements

The staffing requirements projected below take into account the entire program, including SOs which are phasing out, and SO2. Projections for SO2 remain unchanged from what was submitted earlier.

Staffing requirements for SOs 4 and 5 are based on a transitional personnel planning scenario for the next several years where staff will be shared in various ways among SOs 1, 3, 4 and 5. By FY 2003 there will only be program staff allocated to SOs 2, 4 and 5.

As the following table shows, there is not a major overall decrease in staff levels, but a significant (25 percent) reduction in more costly expatriate staff. Professional FSN staff are in fact strengthened under these scenarios in parallel with the reductions and redirection of overall professional staff. There are some, but not radical, efficiencies assumed in the use of support and administrative staff.

### USAID/Nepal Staffing (SO1, SO2, SO3, SO4, SO5)

	FY00	FY01	FY02	FY03	FY04	FY05
USDH	8	8	8	7	7	7
Other US Citizen	5	5	3	3	3	3
FSN/TCN	51	53	54	51	51	51
TAACS	1	1	1	1	1	1
Fellows	2	2	1	1	1	1
NEPs	0	0	0	0	0	0
<b>Total</b>	<b>67</b>	<b>69</b>	<b>67</b>	<b>63</b>	<b>63</b>	<b>63</b>

## **Annex**

### **ANALYSES COMPLETED FOR THE PREPARATION OF THE COUNTRY STRATEGIC PLAN FOR NEPAL**

#### Reviews of Ongoing Programs

1. USAID/Nepal's Role in Agriculture and Natural Resource Management: An SO1 Assessment, November 1999, 69 pp.
2. Market Access for Rural Development Project: Mid Term Evaluation, September 1999, 90 pp.
3. Forestry and Natural Resources: A Review, November 1999, 90 pp.
4. Nepal Health and Family Planning Strategy Review: Strategic Planning Period 2001-2005, September 1999, 43 pp. (Distribution Restricted because of Procurement Sensitive Information)
5. Strategic Analysis to Operationalize Second Long Term Health Plan for Nepal, October 1999, 63 pp.
6. USAID/Nepal SO3 Review, December 1999, 55 pp.
7. Strategic Review for Special Objective 4 (SpO4), Increased Private Sector Participation and Investment in Environmentally and Socially Sound Hydropower, November 1999, 16 pp.

#### Cross-cutting Analyses

1. Nepal Democracy Governance Assessment, October 1999, 29 pp.
2. Donor Coordination Review, November 1999, 50 pp.
3. Conflict Vulnerability Analysis, November 1999, 8 pp. (Distribution Restricted)
4. Micro-enterprise Development in Nepal: Achievements in the 1990's and opportunities ahead for USAID/Nepal, June 1999, 61 pp.
5. Compilation of data on Micro-Finance Programs, and Adult Literacy Programs, completed November 1999, 2 pp.
6. Analysis of USAID Actions to Conserve Biological Diversity and Tropical Forests in Nepal, September 2000, 23 pp.
7. Review and Analysis on Crosscutting Strategic Objectives and More, October 1999, 18 pp.