

USAID/Nepal

Annual Report

FY 2005

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Please Note:

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Nepal

Performance:

In the last 54 years, Nepal has made a remarkable transition from an isolated kingdom with limited basic services and infrastructure to a functioning constitutional monarchy. It has made notable progress-substantial road infrastructure, large decreases in child mortality and fertility rates, functioning ministries such as education, finance, and health, gains in literacy and increased access to basic services.

Absolute poverty has declined from 42% to 30% between 1996 and 2002, attributed largely to increased remittances from Nepalis living abroad. Nonetheless, Nepal remains one of the poorest countries in the world, with an annual per capita income of \$276 and 38% of the population living below the national poverty line. Life expectancy at birth has increased, but, at 59 years, it is still lower than its neighboring South Asian countries. The literacy rate is 54% nationwide. Population growth has fragmented land holdings and depleted forest products, impacting the livelihoods of the 80% of Nepalis who depend on agriculture for their livelihood. Maternal mortality is amongst the highest in the region. One of eleven children dies before reaching his/her fifth birthday - the majority during the first year. Moreover, Nepal is in the midst of a concentrated HIV epidemic: the World Health Organization/UNAIDS estimate that 14 Nepalese adults become infected with HIV every day. While Nepal's human development indicators are low by any standard, they are particularly low for the very poor, and include wide disparities by region, gender and ethnic group. For example, life expectancy in Kathmandu is over 70 years, whereas it is under 42 years in the far-western mountains.

On the political front, there are reasons for cautious optimism despite Nepal remaining without locally elected officials or a Parliament. A fragile coalition of four of the five legitimate political parties has been in power for several months - allowing it to pursue various necessary reforms in the areas of fiscal transparency, good governance, and accountability. The Prime Minister re-appointed by the King in June 2004 has publicly stated that his main priorities are resolving the Maoist insurgency, and calling for national elections by April 2005 to restore multi-party democracy. The GON's formation of a High-Level Peace Committee and the Peace Secretariat signals its long-term commitment to the peace process. However, the political will to negotiate - especially on the Maoist side - is uncertain and it may prove too difficult to hold free and fair elections soon due to the rapidly evolving security situation.

On the economic front, the GON is implementing key reforms that aim to improve the business environment, encourage investment, reduce avenues for corrupt practices, and improve the service orientation of key GON agencies. These reforms are critical to curbing the Maoist insurgency, as they would increase government revenues, reduce corruption, increase accountability, improve service delivery, and enhance citizens' confidence in the government. Nepal has recently joined the World Trade Organization and is a member of the South Asia Free Trade Area. These events, together with the December 2004 phase-out of the Multi-Fiber Agreement, heighten Nepal's need for assistance to strengthen its trade competitiveness.

U.S. Interests and Goals: The United States desires an economically and politically stable multi-party democracy in Nepal. Nepal serves as a geographic buffer between the world's two most populous nations in a volatile region. By supporting efforts to resolve the Maoist insurgency and addressing the underlying causes of poverty, inequality, and poor governance in Nepal, the United States is making an important contribution to fighting terrorism, promoting regional stability, and diminishing the likelihood of a humanitarian crisis. These goals support and reinforce each other and are present in each of the strategic objectives (SOs) and the special objective (SpO).

Other Donors: Other donors provided roughly \$147.8 million in grants and \$143.4 million in loans directly

to the GON during its 2003-2004 fiscal year; and an additional \$230-\$280 million to support development in Nepal outside of the GON budget. The United States is the second largest bilateral donor, after Japan, in terms of funds disbursed.

Other major bilateral donors and their principal areas of focus include Denmark (education, decentralization, governance, and environment), the United Kingdom (governance, rural development, health, and HIV/AIDS), Germany (rural and urban development and health), Switzerland (roads and rural infrastructure and technical training), Norway (hydropower, water, governance, and human rights), the Netherlands (community development), Finland (environment and rural water), and Canada (civil society, environment, and gender).

The major multilateral donors include the United Nations Development Program (local planning and governance, urban infrastructure, rural energy and HIV/AIDS), the Asian Development Bank (governance, education, water, power, agriculture and roads), the World Bank (education, roads, water, power, telecommunications, financial sector reform and health sector reform), the European Union (urban development and education), and the United Nations World Food Program (food for work programs). Other multilateral agencies such as UNICEF, UNFPA, UNAIDS and ILO are also active in Nepal.

In Nepal, the donors coordinate closely in terms of both program coordination at the strategic level and developing common approaches for implementing development programs in the context of the Maoist conflict. Donors coalesced around these themes in the May 2004 Nepal Development Forum although they differed on how much control to cede to the GON in terms of managing their funds.

USAID funds the Humanitarian Assistance and Information System, a multi-donor initiative headed by the United Nations Development Program (UNDP) to collect and analyze information related to the conflict and natural disasters. It also works with UNDP to train women to enter into the civil service. USAID works directly with GTZ (the German development agency) in conflict-affected districts to implement infrastructure projects and with the British Department for International Development to lay the foundation for a national alternative dispute resolution model for community mediation. In the health sector, all external development partners collaborate closely as evidenced by a statement of intent signed in February 2004 with the GON to ensure that all assistance is fully consistent with the government's health sector strategy. USAID and the Norwegian Aid Agency have collaborated on hydropower and environmental training activities.

Challenges: The most pressing problem facing Nepal today is the profound impact of a rebel insurgency on its political and economic development and security. The Maoist insurgency, which began in 1996, found fertile ground largely in response to Nepal's poor governance, poverty and exclusion. The initial pro-people approach, which won the Maoists converts among the disenfranchised of Nepal, has degraded into a campaign of violence, lawlessness, intimidation, and destruction. Almost 11,000 people have been killed by the Maoists and security forces, with the bulk of these deaths, more than 10,000, occurring since 2001. Human rights abuses are committed by both parties to the conflict. In addition to the human toll, the continuing violence drains budget resources, restricts delivery of services and prospects for socioeconomic development and stifles economic growth - the conflict has inflicted estimated combined costs to national property and the economy of over \$1.5 billion on the already-impoverished country.

Violent activities are widespread, affecting all but one district of Nepal. Urban centers such as Kathmandu and Pokhara are becoming increased targets of Maoist activity. Maoists are the main suspects in the bombing of the American Center in September 2004 and are responsible for injuring 38 people after bombing a government building on a busy commercial street. They are relying increasingly on strikes (called bandhs) and blockades to stem economic growth - the estimated cost of these alone is over \$640 million. Bombings and destruction of infrastructure continue. Extortion of food and money from locals and tourists is common; and kidnappings and abductions are increasing. Reports that the Maoists may be collaborating with insurgents in India raise further concerns about stability in this region.

USAID monitors the rapidly evolving security situation continuously and, when necessary, adjusts its

programs to minimize risk to U.S. Mission staff and partners. To ensure successful implementation of its programs, the Mission has established a policy resource unit that analyzes relevant information to assess the security and political situation, target resources and evaluate the need for a humanitarian response. The Mission also collaborates with other donors across sectors to share information and develop unified approaches to common implementation challenges.

Key Achievements: USAID made significant progress in FY 2004 despite the ongoing conflict and political instability.

- **Agriculture:** USAID is facilitating activities that generate employment and increase incomes in targeted areas to address the needs of the rural poor. Annual sales of high-value agricultural, livestock, and forest commodities in target areas exceeded targets by almost 50%, reaching total sales of \$3.69 million. Contributing to this were the 15,694 rural farmers who sold high-value vegetables worth \$2.20 million, exceeding expectations of technology adoption and marketing coverage. Targeted rural households increased their incomes by at least \$100, which is a 45% increase in household income in one year.

- **Health:** The health and family planning program overall met or exceeded annual performance targets. The ultimate beneficiaries are 11 million men and women of reproductive age and 3.5 million children under the age of five years. Couple years of protection increased in both the public (target areas) and private sectors (11% and 30% respectively). The Vitamin A supplementation program was implemented in all of Nepal's 75 districts and reached 98% of all eligible children. This program alone is estimated to save the lives of approximately 15,000 children per year. Through the expansion of the community-based treatment of child pneumonia program from 22 districts to 26 districts, child mortality has been reduced an estimated 20% in each district related to early detection and treatment.

- **Hydropower:** Encouraged by program activities that have led to policy reforms and the long-term potential for growth in the sector, the private sector continued to invest in hydropower development. Four new investments in hydropower made in FY 2004 totaled \$20 million, raising total cumulative private sector investments from \$360 million reported in FY 2003 to \$380 million in FY 2004. This is a very significant increase given the current situation, when other sectors of the economy, such as tourism and textiles, have actually contracted.

-**Strengthening Governance of Selected Institutions:** The Democracy and Governance Program met nearly all its FY 2004 targets despite the conflict and flooding that impacted the irrigation activity. Natural resource management was expanded in 18 districts, resulting in the harvesting of 13,554 metric tons of forest products by almost 600 forest user groups, exceeding the target by 7%. Water users cleared 728 kilometers of canals mobilizing 84,000 person days of labor and collecting \$21,253 in service fees. Advocacy activities enabled over 800 community civil society groups in 12 districts to enhance their ability to advocate for improved governance, resulting in 23% increase in women in key leadership positions. These groups also conducted audits resulting in the recovery of over \$23,000 of misappropriated funds. Women's political participation activities enhanced the campaign and leadership skills of over 8,000 women in political parties. 150 of these women were elevated to senior positions in these parties. Anti-trafficking initiatives resulted in the activation of 94 task forces and trained 300 transport workers to combat trafficking in persons. These units intercepted 35 groups of girls being trafficked. 776 local anti-trafficking campaigns were also held in seven districts.

- **Conflict:** In FY 2004 USAID provided critical technical support that helped the GON plan for - and ultimately establish - a Peace Secretariat, a critical institution with the mandate of coordinating preparations for peace talks. Approximately 29,000 rural families (an estimated 153,700 individuals) benefited from road construction activities directly, through cash salaries, or indirectly, from improved access to markets and services; and 3,244 women, of whom 1,032 were from untouchable castes, received literacy, basic math and financial skills training. Women were also assisted in establishing and participating in savings and credit groups that offer affordable financial services in areas where banks do not exist. This year, 121 new savings and credit groups were established. Over 1,550 victims of torture received medical, psycho-social and legal services, bringing the total number of clients served since the beginning of the program to 3,102. In addition, the local dispute resolution program responded to 1,473

applications for mediation services, of which 1,185 cases (80.4%) were successfully resolved and 159 cases (10.7%) are pending. As a result, communities that normally had to rely on the slow and unreliable justice system were able to resolve their disputes locally.

GDA: Thanks to support from the Nepal Tree Crop GDA, the first container load of specialty coffee worth \$28,300 was shipped to the U.S. buyer that signed a five-year agreement to purchase all washed coffee with Nepal Tree Crop GDA members.

Program Synergies: All Mission programs collaborate and coordinate with each other synergistically to address the root causes of the conflict and mitigate the immediate impact of the conflict. For example, in FY 2004 the health program collaborated closely with the conflict mitigation program to address the immediate emotional, health, and educational needs of 8,000 children affected by the conflict in 14 districts. Further, the agriculture and conflict programs joined forces to increase income and economic opportunities in conflict-affected districts. Moreover, the economic policy and democracy and governance programs partnered up to assist the GON to pursue various reforms in the areas of fiscal transparency, good governance, and accountability. Likewise, a new Mission Order issued in FY 2004 outlined the provisions for including not just gender, but also caste and ethnicity, into Mission programs and activities.

Title II Resources: The Mission did not use PL 480 Title II resources in FY 2004 and does not request them for FY 2005.

Gender: USAID/Nepal was the first Mission to elevate women's empowerment to the strategic objective level and has remained at the cutting edge in highlighting women's needs, perspectives, and concerns. Ongoing programs address gender issues through activities that broaden and strengthen women and disadvantaged groups' participation in political processes, natural resource management, family planning, anti-trafficking, high-value agriculture and market access initiatives. USAID has ensured that gender integration remains a cross-cutting strategic priority through a new Mission policy that establishes the organizational framework to mainstream gender equality into all new programs and activities. In addition, USAID chairs the Gender and Development Donor Group that coordinates gender-related programs among the participating donors.

Results Framework

367-001 Increased Sustainable Production and Sales of Forest and High-Value Agricultural Products

SO Level Indicator(s):

Annual sales of high-value agricultural, livestock and forestry commodity sales in target areas

- 1 Expanded Market Participation

367-002 Reduced Fertility and Protected Health of Nepalese Families

SO Level Indicator(s):

Female sex worker sero-prevalence

Total fertility rate

Under-five mortality rate

- 1 Increased Use of Quality Family Planning Services
- 2 Increased Use of Selected Maternal and Child Health Services
- 3 Increased Use of HIV/AIDS Prevention and Care Services by the Most-at-Risk Groups
- 4 Strengthened HMG Capacity and Pilot Community Programs to Control Selected Infectious

Diseases

367-003 Increased Women's Empowerment

367-004 Increased Private Sector Participation and Investment in Environmentally and Socially Sound Hydropower

367-005 Other Activities in Support of Agency Objectives

367-006 Increased Private Sector Participation in Environmentally and Socially Sustainable Hydropower Development

SO Level Indicator(s):

Private Financial Commitments for Hydropower Projects

- 1 Improved Enabling Environment for Equitable and Sustainable Hydropower Development
- 2 Strengthened Environmental and Social Assessment Procedures with Broadened Stakeholder Participation

367-007 Strengthened Governance of Natural Resources and Selected Institutions

SO Level Indicator(s):

Number of women in leadership positions in target civil society groups and institutions

Public perception of corruption levels in selected civil society groups and institutions

Transparency of financial information of target civil society groups and institutions

- 1 Increased Management Capacities of Natural Resource Management User Groups
- 2 Increased Advocacy Capacity of Selected Civil Society Groups at Community and Federation Levels
- 3 Increased Women's Participation
- 4 Improved Performance of Selected Institutions

367-008 Promoting Peace Through Improved Governance and Incomes in Targeted Areas

SO Level Indicator(s):

Perception of civil society organizations and community-based organizations that the HMG peace planning/implementation includes their input

Wages earned by laborers working on USAID-supported infrastructure activities

- 1 Improved Infrastructure and Expanded Economic Opportunities in Conflict-Affected Areas
- 2 Increased Use of Key Support Services by Victims of Conflict
- 3 Increased National Capacity to Engage Effectively in Transition to Peace Processes
- 4 Strengthened Community Capacity for Peace