



COUNTRY ASSISTANCE STRATEGY NEPAL 2009 - 2013



U.S. Mission/Kathmandu Country Assistance Strategy 2009-2013

**U.S. Mission to Nepal
Kathmandu, Nepal**



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I. INTRODUCTION

The United States has had a positive and productive relationship with Nepal for more than 55 years and has contributed more than \$1 billion in assistance. This assistance has affected the lives of the Nepali people in measurable ways. For example, during the last 25 years, U.S. assistance has helped Nepal reduce the fertility rate from 6.3 to 3.1 children per woman. In just the last 10 to 15 years, USAID has also helped to increase contraceptive prevalence from 15% to 44.2% and lower under-five mortality by 52%. In recent years, more than 275,000 rural farmers have increased their incomes by at least 50% and 735,000 Nepalese now benefit from access to rural roads as a result of U.S. assistance programs.



USAID developed and introduced *Strengthened Actions for Governance in Utilization of Natural Resources (SAGUN)* to support *Community Forest User Groups (CFUGs)* to increase sustainable forest management and biodiversity conservation in the Terai and the Mid-hills.

United States Government engagement is significant to Nepal's transition to democracy and the implementation of critical development priorities. This assistance strategy outlines priority interventions based upon consideration of the country context and key U.S. foreign policy priorities.

A. COUNTRY CONTEXT

Following a decade-long insurgency, Nepal has sustained a comprehensive peace agreement for more than two and a half years and has taken major steps toward instituting democratic constitutional rule. The monarchy has been abolished, a representative Constituent Assembly has been elected, and a transitional government is in place. There is a broad national consensus on the need to address critical development challenges and on the need for political reform, although progress has been hampered by a lack of agreement about how to carry out reform.

Nepal's principal political challenges are to consolidate the current peace process; draft a new, more inclusive constitution; and build a functioning government with sufficiently broad legitimacy and authority to uphold the rule of law and carry out national development in the years ahead. It must accomplish all of this in an environment of political and social divisions; high and often-unrealistic expectations on the part of the public; fragile and politicized state institutions and civil society; severely limited resources; and unrest and physical insecurity.

Insecurity is both political and criminal in nature.

The former consists of political parties and other groups using politically affiliated bands—sometimes armed—to intimidate and attack rivals.

The latter is both ordinary street and organized crime associated with extortion and kidnapping rackets, and trafficking in persons, drugs, and contraband. There is a need for additional training and further transparency in the national police. Nepal is one of the poorest, least-developed countries in Asia. Poverty is widespread - 31%

of the population subsists on less than \$1 per day. The workforce is largely unskilled; unemployment is high; and there is a high vulnerability to natural disasters - mostly floods and landslides, which annually disrupt the lives of tens of thousands. Agriculture accounts for 32% of GDP and 68% of the labor force, but Nepal is unable to meet domestic demand for food. Industry is limited and uncompetitive, due to location, high costs, low product quality, labor unrest and political instability. On the positive side, Nepal has major potential for increased growth through tourism and hydropower development, the former having great job-growth potential and the latter having great income-generating potential domestically and through a ready-made export market for its surplus electrical power in India.

While significant progress has been made in recent years, health indicators are among the worst in Asia, including those for malnutrition, infectious disease, and maternal, infant and under-five mortality. In many areas, even basic health services are inaccessible, either due to poverty or to physical isolation. Government capacity to provide quality health and education services is limited due to lack of resources, low pay, and corruption.

Nepal has high levels of biological diversity and is internationally recognized for making great progress in conservation in recent years. However, major threats to biodiversity persist, including illegal trade in wild plant and animal products, over-grazing, deforestation and unsustainable harvesting of timber and non-timber forest products. The Mission's 2006 FAA Section 118/119 Tropical Forest and Biodiversity Assessment, which still describes today's conditions, confirms that Nepal's natural resources are under severe pressure across the board. The principal causes of problems are rural poverty and lack of local governance and law enforcement.

B. HOST COUNTRY PRIORITIES AND POLITICAL COMMITMENT TO REFORM

Political and government leadership is provided by the Prime Minister, his Cabinet and an elected interim parliament in the form of the Constituent Assembly. The official date for ratification of a new constitution to be written by the Constituent Assembly is May 28, 2010.

The Government of Nepal's (GON) development priorities are contained in the Three-Year (2008-2010) Interim Development Plan (TYIP). This plan was written prior to the April 2008 elections and was approved by the sitting Parliament. The current administration continues to support this Plan as the country's over-arching strategy for development.

Recent speeches and presentations by the new government endorse the priorities outlined in the TYIP: ensuring peace, inclusive growth, reducing poverty and expanding social services. The TYIP also emphasizes good governance; relief and reconstruction for populations impacted by the insurgency; improved education and health services; and reduced social and economic exclusion. The TYIP builds on the 2002 IMF/World Bank-supported Poverty Reduction Strategy Paper (PRSP) and the 2015 United Nations Millennium Development Goals (MDGs). Both the TYIP and the PRSP reflect extensive consultations with internal and external stakeholders. Currently, the National Planning Commission is developing a Peace and Poverty Reduction Strategy Paper to succeed the PRSP and support the TYIP.

The national budget of the current interim government divides its priorities into "policy" and "sectoral" priorities. The policy priorities are: Completion of the Peace Process and Immediate Relief; Accelerated Economic Growth; and Social Security and Inclusion. The sectoral priorities are: Transformation of the Agriculture Sector; Development of Water Resources; Wider Expansion of Tourism; Qualitative Development and Expansion of Physical Infrastructure; Human Resources Development; and National Industrialization.

The Ministry of Local Development jointly with the United Nations Development Programme (UNDP) has recently developed public private partnership sector papers for tourism, infrastructure development, education, health, agriculture and local development. These initiatives and statements indicate a consistent national development paradigm of market-based approaches with an emphasis on inclusion and provision of social services, although comments about nationalization and mixed economies have been made.

While the leadership positions of the transitional government – the Prime Minister, Finance Minister and Defense Minister- are currently

dominated by the Communist Party of Nepal – Maoist, a party that has historically been ideologically opposed to U.S. assistance, the Prime Minister has stated in both public venues and in meetings with the U.S. Ambassador that his party is interested in a cooperative relationship with all donors, including the U.S. A longstanding USG practice of close consultation with the Nepal Government on its development assistance strategies has resulted in there being few impediments to the USG's ability to implement its programs. The strategy set forth in this document reflects consultations with the Government of Nepal and is consistent with its development priorities.

II. OVERALL STRATEGIC APPROACH AND PRIORITIES

A. U.S. FOREIGN POLICY GOALS

The USG’s overall foreign policy goal in Nepal is synonymous with the U.S. State Department’s Transformational Diplomacy Goal: To help build and sustain a democratic, well-governed state that responds to the needs of its people, reduces widespread poverty and conducts itself responsibly in the international system.

B. THE USG STRATEGIC VISION FOR NEPAL

The USG has the following Strategic Vision for Nepal for the end of the strategy period (2013): Measurable progress in expanding and deepening democracy, strengthening public and private institutions, and supporting policies to promote economic growth and poverty reduction.

U.S. assistance will target gaps in both host-country resources and capabilities and other donors’ assistance programming, emphasizing those areas where it has a predominance of expertise and capability. In this way, U.S. assistance will achieve maximum impact relative to the amount of resources expended, avoid duplication of effort by either the host country or other donors, and be able to clearly demonstrate the results of its assistance.

C. U.S. ASSISTANCE PRIORITY GOALS

The USG’s five Assistance Priority Goals (“the Goal[s]”) for Nepal are distinct in focus - to facilitate management, budget planning and results reporting - but also mutually-reinforcing, in recognition of the interrelated nature of the major development challenges. The five Goals and their constituent program areas are:

Goal 1: *Successful Transition Completed toward an Effective, Responsive and Democratic Constitutional Government*

Conflict Mitigation and Reconciliation; Rule of Law and Human Rights; Good Governance; Political Competition and Consensus-Building; and Civil Society

Goal 2: *Key Elements of an Enabling Environment for Inclusive, Private-Sector Led Economic Growth Established*

Macroeconomic Foundation for Growth; Trade and Investment; Financial Sector; Agriculture; Private-Sector Competitiveness; Economic Opportunity; and Environment

Goal 3: *Health and Well-Being of Nepalis Improved and Sustained*

HIV/AIDS; Maternal and Child Health; Family Planning and Reproductive Health; Other Public Health Threats; and Basic Education

Goal 4: *Government More Effectively Secures National Territory, Provides Public Safety, Enforces the Law and Fulfills International Commitments with Full Respect for Human Rights and Subordination to Civilian Authority*

Counter-Terrorism; Stabilization Operations and Security-Sector Reform; Transnational Crime

Goal 5: *National capacity to prevent, mitigate and respond to disasters and address the needs of vulnerable populations improved*

Protection, Assistance and Solutions; Disaster Readiness; Migration Management

Five major themes cut across Nepal's development challenges - themes that must be addressed by an effective strategic approach to development assistance. Those themes are:

- **Youth:** Fifty percent of the population is under 20 years of age, and youth are disproportionately unemployed; there are about 300,000 new entrants to the workforce each year. This age group is particularly vulnerable to influence by political and armed groups, early marriage/pregnancy, HIV/AIDS (through high-risk behavior), and human trafficking, particularly girls.
- **Social Inclusion:** Nepal has a long-standing cultural tradition of social, economic and political exclusion based on gender, caste, and ethnicity, especially notable in the Terai, a low lying area of ethnically diverse peoples bordering India. This exclusion is linked directly to poverty, unemployment, regionally-skewed development, poor public services, public insecurity, and levels of political disaffection.
- **Regional balance in Development:** Economic opportunities, infrastructure and services are severely limited outside of the major urban centers, due to physical isolation, national government capacity, resource constraints, and a historical tradition of neglect of other regions.
- **Environment:** The degradation of Nepal's natural resources, including forests, arable land, wildlife, and water, is both a consequence and cause of poverty, limited economic opportunity, natural disasters, and absence of local government and of rule of law.
- **Sustainability:** All sectors are hampered by a lack of adequate attention to the professional development of individuals and institutions. For lasting results, investments must be made in strengthening the capacity of stakeholders in a manner that promotes ownership.

D. DONOR COORDINATION

Among multilateral institutions, Asian Development Bank and the World Bank are the major donors in Nepal. Among bilateral donors, Japan, the United Kingdom and the United States are among the largest. The United Nations is also very active in Nepal. The sheer number of donor organization estimated to be over 30 - makes coordination a challenge. At last count, the number of donor working groups exceeded 70.

Despite this challenge, coordination is improving in Nepal. The Government of Nepal is taking steps to strengthen their leadership role in coordinating donor and international non-governmental organization (NGO) activities. The success of this coordination varies considerably depending on the lead technical ministry. With assistance from the UNDP, the Ministry of Finance has designed a donor coordination framework that was recently presented to donors and is currently under negotiation for funding and implementation.

While donor coordination at the central level is receiving focused attention and there have been improvements, there is still a need to improve coordination at the district level. The USG is taking steps to support these efforts and remains active in donor coordination efforts.

III. DETAILED DISCUSSION OF PRIORITY GOALS

USG Priority Assistance Goal 1: Successful Transition Completed toward an Effective, Responsive and Democratic Constitutional Government

A. SITUATION ANALYSIS/PROBLEM STATEMENT

A fundamental reordering is occurring in the absolute and relative influence of Nepal's major political actors. The monarchy is gone. The April 2008 elections for the Constituent Assembly (CA) affirmed that the Maoist party (CPN-M) has become the largest political actor and that Madhesi political organizations are a significant emerging political force. The influence of the Nepali Congress (NC) and Communist Party of Nepal - Unified Marxist Leninist (CPN-



USAID launched the first national call-in, toll-free radio show in Jhapa, Nepal, providing some listeners with their first-ever opportunity to question national-level elected representatives, government officials, and civil society leaders.

UML) has declined considerably, but they remain significant actors due to their organizational presence and their roles as an opposition party (NC) and a party in the governing coalition (CPN-UML).

The Maoist shift to political participation from armed struggle has led to a nascent peace. All parties elected to the CA have pledged commitment to multi-party politics and to promulgating a new constitution. But haggling and delays over the formation of a government show how difficult it will be to govern, and how difficult it will be to actually reach agreement on the substance of a new constitution.

There appears to be some broad and solid consensus on some of the basic issues, including peace, secularism, the establishment of the republic, plus some form of federalism. But at this time there is no consensus on what form federalism should take. There is rhetorical consensus on the need for social change and particularly the need for greater inclusion, but it is not clear what will happen when there are winners and losers from this process. The new constitution will be just a first step in trying to forge a new consensus and in solidifying the gains from the peace process.

B. CRITICAL ASSUMPTIONS AND RISKS

In order for U.S. assistance to achieve this goal, certain critical assumptions will have to hold:

- All parties to the peace process will continue to support it;
- The parties will be able to reach compromises when drafting the constitution; and

- The government will demonstrate governing capacity and be able to re-establish its authority in traditionally underserved areas such as the Terai, rural and remote areas.

In the event that this goal is not achieved, for example if transition continues indefinitely without key structures in place, there would likely be a stagnation of governance. The focus of assistance may need to shift to basic social services while operating in a more difficult security environment.

C. ASSISTANCE APPROACHES

Support to key democratic institutions and processes, as well as the peace process, is essential to ensure Nepal's continuing transition results in a more democratic, inclusive and peaceful political system. Additionally, the US should encourage and support efforts by the political parties to enhance their capacity to engage in democratic politics and governance. In support of this strategy, Nepali organizations, civil society and citizens must monitor and assess the trajectory of democratic politics and governance over the years.

Address key transitional processes and issues -

The U.S. will continue to provide flexible, timely support for addressing key constitutional issues, elections, and the peace process. The U.S. will provide targeted technical assistance and training for CA committees, members, and the Secretariat.

This assistance will complement the work of other donors and will enable CA members to successfully engage in the process of drafting a new constitution and to better serve the interests of their constituents. Technical support for specific legislative or constitutional committees may focus on the elections, legislative framework, political party legislation, and possibly media legislation.

U.S. assistance will also seek to strengthen institutional actors involved in electoral processes, either as actors (e.g., election commission, monitoring groups) or as participants (e.g., political parties, candidates, or civil society).

Assistance will be provided in five broad areas: support for the legal framework, electoral management, voter information/education, election observation and complaint resolution and, critically, post-election assistance. The proposed activities build upon the support that USAID provided in the lead up to the CA elections held in April 2008.

As the peace process evolves, the U.S. will seek new ways to assist the transition and promote long-term peace. U.S. assistance will continue to support the Nepal Transition To Peace Forum as a locus for informal dialogue. Peace building programs will also continue to support the development of a variety of transitional peace structures, including the Peace Units within the major political parties and the Local Peace Committees (LPCs).

Bolster democratic approaches to politics and governance -

Assistance programs in this area should include support for human rights organizations, selected civil society/youth groups and coalitions, and political parties. The Mission will seek to assist political parties with internal democratization and the capacity to develop and communicate party platforms. The Mission will support local civil society organizations (CSOs) with constructive participation in the constitution-writing process, in their democratic-oversight role, and in communicating their communities' concerns to their elected representatives.

Foster greater inclusion -

U.S. assistance should provide support to increase the participation of youth, traditionally marginalized populations and women in politics and civic affairs. Attention also needs to be paid to issues of geographic disparities and historic exclusion. Conflict management and mitigation activities will address underlying drivers of conflict such as lack of educational and employment opportunities.

Protection and support for independent media - especially outside Kathmandu -

This could include support for media associations, for monitoring of media freedom and for the protection of journalists.

Monitor the political transition and improve public understanding of it - This should include supporting organizations and civil society in monitoring: the constitutional drafting process; adherence by all parties to human rights and democratic principles; preparations for elections; and the status of local governance. Moreover, a series of activities will look at the public's understanding and perception of these proceedings.

D. COORDINATION OF USG EFFORTS

Within the US Mission, a Democracy and Peace Working Group is the primary inter-agency body for USG coordination. It includes representatives of all USG entities at Post.

E. ROLE OF HOST COUNTRY/REGIONAL ORGANIZATIONS/PRIVATE SECTOR PARTNERSHIPS

As described above, the Government of Nepal is in a transitional period and will likely remain so for the next several years as the government drafts and enacts a new constitution.

Openness to necessary reforms and assistance for capacity-building by the GON and political parties currently exists but sufficient commitment to implement next steps does not yet exist. Nepal has numerous and competing civil society organizations with various interests, scope and national influence that could have an important role in the achievement of this goal - however they have yet to fully utilize their potential. International NGOs provide complementary assistance, and regional organizations have also played a role, although mainly in election monitoring. Other donors and multilateral organizations will likely remain heavily involved in this sector and the Mission coordinates activities through several working groups. A full analysis of other actors is given in the recent democracy and governance and inter-agency conflict assessments that facilitated the design of this strategy.

F. ANTICIPATED RESULTS

Success is envisioned as the completion of a broadly participatory constitutional development and ratification process and increased capacity of democratic institutions. Similarly, grassroots and national federations of civil society organizations should be stronger.

Linkage to other goals - Agreement on a new set of political rules and practices will provide a better climate for investment and economic growth. Improved security and economic growth will provide a more conducive environment for democratization to take hold.

USG Priority Assistance Goal 2: Key Elements of an Enabling Environment for Inclusive, Private-Sector Led Economic Growth Established

A. SITUATION ANALYSIS/PROBLEM STATEMENT

With a gross national income per-capita of \$340, Nepal ranks as the twelfth poorest country in the world. While levels of absolute poverty have gone down, still nearly 4 out of 10 Nepalese live below the poverty line. At the rate of average economic growth of the last ten years (3.6 % annually), Nepal would take almost 44 years to merely double per-capita income. Nepal's poverty is complex and multi-faceted, with several interrelated challenges.

These include the economy's inability to generate jobs; the mismatch between the labor force and its skill level and the number and type of jobs available, which results in large-scale unemployment alongside a critical shortage of skilled labor; historic exclusion leading to untapped human potential; and government bureaucracy and regulations, which often imposes costs and bureaucratic obstacles rather than promoting pro-growth conditions.

Historically, Nepal's growth has depended on its natural resource base—in particular agriculture, forestry, and tourism. Over the past decade, however, remittances have contributed significantly to economic growth and Nepal's ongoing balance of payment surpluses - officially recorded remittances were 18% of GDP in 2006. Income from remittances is typically for the least attractive and least profitable work and is vulnerable to global economic trends. There are new drivers of economic growth, such as the service sector and small and medium-sized businesses in urban and peri-urban areas. The modest growth achieved in recent years has come

at a high environmental cost, and the prospect of more rapid growth as one of the peace dividends may lead to even greater environmental pressures.

Nonetheless, there are opportunities for gains. Both Nepal's government and public recognize the critical need for economic growth to generate economic opportunities. Nepal has unrealized economic potential in areas such agriculture and niche products that, if tapped, can increase growth and employment on a significant scale. Hydropower and tourism are the most noted areas for opportunity while remittances are both a blessing and a challenge.



USAID's agriculture program has increased market access and introduced more productive, sustainable farming practices.

Policy activities involving trade and investment must take into account India's dominant role in Nepal's economy. Virtually all imports (over 90%) to Nepal pass through India, and India is the source of

all petroleum products and virtually all industrial inputs. India also provides a major labor market for Nepali emigrant labor.

B. CRITICAL ASSUMPTIONS AND RISKS

In order for U.S. assistance to achieve this goal, certain critical assumptions will have to hold:

- The new government will support market-oriented policy reform;
- Economic disruptions – including strikes and blockages - diminish in number, duration and severity;
- The business sector advocates for policy reform, increased competitiveness and exports; and

- The current global financial crisis does not translate into a major reduction in overseas job opportunities for Nepali migrant workers, a further reduction of foreign direct investment, and a reduction in trade opportunities.

The consequences of a lack of real growth in Nepal's economy, of not increasing opportunities for the unemployed, and of not improving the business operating environment will be stagnation and continued poverty. This in turn will likely aggravate political instability and physical insecurity and result in further unsustainable utilization of natural resources.

C. ASSISTANCE APPROACHES

A policy for inclusive growth will have to combine traditional growth policies with policies for poverty reduction and inclusion. Four focal points will be assistance to the GON in policy reform, agricultural innovation, enterprise assistance, and vocational education and training. Additionally, specific activities to protect the environment while contributing to sustainable growth will be pursued.

Economic Policy Reform - Sound economic policy is a necessary condition for economic growth and poverty reduction including sustainable monetary and fiscal policies, policies for an enabling business environment, and for open trade and investment regimes supportive of competitive markets and foreign direct investment. These policies encourage the private sector investors to decide where profitable investment can be made. The USG should actively encourage the GON to adopt free market economic policies as the most effective means of reaching the GON's larger goal of poverty reduction. Additionally, the U.S. Mission will continue to engage the private sector to advocate for these reforms.

Investments in physical and human capital in support of inclusive growth require government funding. Efforts in establishing broad-based tax and customs systems that can generate the needed

funding with low tax and tariff rates that do not unduly distort nor discourage private sector activities are essential and should be supported by the USG. Strengthened government revenue systems will also be supported with increased interest in revenue sharing for the rural districts that lack government services and infrastructure.

Agricultural innovation - Agricultural research and application of new approaches are critical to increasing agricultural productivity and encouraging growth of high valued agricultural products. Additionally, agriculture and food security initiatives address immediate needs of target populations and strengthen local capacity and resilience to disasters. USAID will continue to support agriculture and food security activities that expand choices available to farmers.

Enterprise assistance - US assistance will increase access for small- and microenterprises to affordable business credit, and support policy and legal reform to encourage enterprise development and foreign direct investment.

Vocational education and training - Skills training and literacy programs targeted toward those who are poor and toward excluded youth will provide disadvantaged groups with greater access to higher paying jobs in the domestic market and abroad. This assistance will be both growth-enhancing and inclusive.

Environment - U.S. assistance to the environment will be two-pronged, consisting of community-based interventions in areas of significant biodiversity and policy and legal reform activities focused on improving the enabling policy and legal environment. USAID will continue to build on its success in working with local communities that are dependent on the environment for their livelihoods to improve biodiversity conservation and sustainable forest management while also improving income. These communities are also specifically at risk for the affects of global climate change.

Nepal currently has a policy environment and legal frameworks for the management of natural resources although enforcement still needs

improvement. With changes in the political and governance environment of the country ensuring that there is continued progress in this direction will be paramount. U.S. policy and legal activities should engage at national and local levels to ensure that community rights to natural resources are included in the constitutional and federal process, as well as any new policies and regulations.

D. COORDINATION OF USG EFFORTS

Within the US Mission, an Economic and Environment Working Group coordinates U.S. assistance in economic policy reform, enterprise development, and environmental protection and resource management.

E. ROLE OF HOST COUNTRY/REGIONAL ORGANIZATIONS/PRIVATE SECTOR PARTNERSHIPS

The Government of Nepal is a key partner, significantly so in the policy reform component. Currently, motivation and will for reform exists and assistance is welcome. Business associations and other civil society groups provide an important political constituency for pro-growth policy reform by the GON. U.S. outreach activities should continue to target these stakeholders. The Nepal Agricultural Research Council is an integral part of plans to increase agricultural productivity and the Mission has a solid working relationship built on a long history of collaboration. Environmental organizations and other civil society groups will be engaged in achieving sustainable growth as in the past.

F. ANTICIPATED RESULTS

Fiscal and trade policies should have encouraged increased investment if all assumptions are met. Working with the private sector, the Mission anticipates increased exports in selected sectors and an increase in agricultural production and productivity in targeted areas. Increased participation of the poor in the economy will result from strengthened microfinance and workforce development activities.

Linkage to other goals - The majority of USG activities contribute indirectly to the objective of this activity. Strengthening democracy, governance, human rights and labor; strengthening rule of law; mitigating conflict; and improving health and family planning – all help make conditions more conducive for rapid, sustained and inclusive economic growth.

USG Priority Assistance Goal 3: Health and Well-Being of Nepalis Improved and Sustained

A. SITUATION ANALYSIS/PROBLEM STATEMENT

Despite impressive gains in recent years, Nepal’s health and education indices still rank among the lowest in Asia. Indicators for maternal and child mortality are among the highest in Asia - with maternal mortality at 281 per 100,000 live births and under-five mortality at 61 per 1,000 live births.

Though the Nepal Government has made progress towards increasing access to basic education, and has placed a priority on education, illiteracy rates remain high. The Department of Education reports that 45.5% of Nepalese children will repeat or drop-out of school at the Class 1 level.

Efforts to assist the health and education sector face several major challenges. External donor aid makes up 60% of the GON’s health budget and 30% of the basic education budget, raising questions about long-term sustainability of programs. Insufficient numbers of skilled healthcare providers and teachers, insufficient supplies, and low institutional capacity and corruption impede and distort the delivery and utilization of services, particularly in rural areas.

There are, however, opportunities to achieve gains in both the health and education sector. The GON has, through its budget process, clearly demonstrated a commitment to improved health and education services. Also, previous U.S. assistance has laid the ground work for sustained improvements in public health through institutional strengthening, improved service quality and increased public access to services.

B. CRITICAL ASSUMPTIONS AND RISKS

In order for U.S. assistance to achieve this goal, some critical assumptions will have to hold:

- The Government of Nepal and key donors maintain their commitment to improve health and education services; and

- Coordination with other donors continues to be effective which enables U.S. assistance to be more effective.



Female Community Health Volunteers (FCHV) deliver primary health care activities acting as a bridge between government health services and the community. These FCHVs provide vitamin A supplements, detect childhood pneumonia and diarrhea, treat mild cases, and refer severe cases.

Failure to address weaknesses within the public health-care system will affect public health through lower quality and access. Lack of quality education will continue to impede Nepal's ability to have effective leaders for tomorrow affecting governance, economic growth and other aspects of the country's development.

A. ASSISTANCE APPROACHES

U.S. assistance will build the GON's capacity to provide quality basic health and education services to its citizens, particularly the poor (both urban and rural), and strengthen its delivery systems to ensure sustained improvements toward achieving its 2015 Millennium Development Goals (MDGs).

Health -

Maternal and Child Health - Assistance to the GON to scale up proven interventions that reduce maternal, neonatal and child mortality will continue, as well as testing and documenting new approaches. USAID will continue to support capacity-building of GON health service providers, and technical assistance to strengthen health delivery systems for community-based interventions. USAID will also continue to support a new GON and donor initiative to address Nepal's high rates of malnutrition.

Family Planning - U.S. assistance will continue to support the National Family Planning Program through the public sector at national, district and local levels and through the private sector with subsidized socially marketed family planning products and services.

HIV/AIDS - USAID's program aims to stabilize and reduce HIV prevalence levels in key high-transmission groups. This includes surveillance of the concentrated epidemic; policy development; prevention, care and supply chain management for treatment; and improving the capacity of local non-government organizations, the

private sector and GON to deliver high-quality HIV-related services. The Department of Defense additionally conducts focused HIV/AIDS awareness and prevention activities with the armed forces.

The USG should continue to work closely with the Nepal Government and other donors to achieve maximum national-level impact in the health sector. Health threats that transcend national boundaries, such as HIV/AIDS, polio and avian influenza, would benefit from regional cooperation and coordination.

The U.S. Centers for Disease Control and Prevention (CDC) currently support the Ministry of Health and Population through the World Health Organization (WHO) to train surveillance medical officers and to improve the effort and the focus of surveillance capacity. Future activities should emphasize the maintenance of the successes which have been achieved in accelerated disease control and eradication initiatives that have contributed to public health infrastructure development, particularly disease surveillance for polio, measles and rubella and Japanese encephalitis. The CDC should continue a focus on surveillance capacity for an integrated package of infections and emerging disease, as well as injuries especially associated with gender-based violence and traffic accidents.

Education -

In the education sector, U.S. assistance will focus on activities not fully covered by other donors through the School Sector Reform initiative, mainly in the area of early childhood education, and will work with the GON to harmonize these activities with the sector-wide approach.

USAID will design and implement activities that improve the quality of teaching and teaching materials, increase community demand for education services, and improve monitoring and evaluation at the pre-primary level (Early Childhood Education & Development).

D. Coordination of USG Efforts

Within the US Mission, a Health and Education Working Group includes State and USAID representatives. As USAID funds the position of the CDC representative who sits in WHO, coordination and communication is assured.

E. ROLE OF HOST COUNTRY/REGIONAL ORGANIZATIONS/PRIVATE SECTOR PARTNERSHIPS

The GON has developed sector-wide national health and education strategies into which individual donors can provide appropriately targeted assistance. NGOs can provide local capacity to more effectively target populations in need of specific health assistance or health messages, while regional organizations such as the UN World Health Organization and Food and Agriculture Organization support efforts to combat transnational health threats. Social marketing for improved health behaviors has had great success with private sector partnerships and will continue to build on this mechanism.

U.S. support for pre-primary education will strengthen and expand the GON's national program for Early Childhood Development.

F. ANTICIPATED RESULTS

USG support to increase access to quality health services will reinforce current positive trends in meeting demand for family planning services and in reducing maternal and child morbidity and mortality. These successes are contributing to the achievement of the MDGs.

USG support to early childhood education will result in a strengthened GON capacity to deliver quality education services, particularly in early childhood development. U.S. assistance will be designed to complement and reinforce the activities of the Government of Nepal and other donors, within the framework of the Government's National Health and Education Strategies and Education for All initiatives.

Linkage to other goals - Efforts under other goals to improve income will directly impact health and education advances while enhanced security will facilitate access for beneficiaries and implementing partners. Improved governance can also result in better social service delivery.

USG Priority Assistance Goal 4: Government More Effectively Secures National Territory, Provides Public Safety, Enforces the Law and Fulfills International Commitments with Full Respect for Human Rights and Subordination to Civilian Authority

A. SITUATION ANALYSIS/PROBLEM STATEMENT

During the course of the decade-long counter-insurgency campaign, Nepal's security forces - Army, Armed Police Force, Civil Police and National Investigation Department - expanded more rapidly than procedures and mechanisms for effective civilian control. A tradition of the army being answerable only to the King further undermines the ability of civilian officials to assert authority. Many members are inadequately trained and the forces have engaged in widespread human rights violations and corruption.

Over the next five years, Nepal's military must undergo a radical reduction in force strength, as current levels are financially unsustainable and the insurgency is officially over. The management capacity of the civilian agencies charged with oversight is hampered by civil service policies and the politicization of administrative appointments. While coping with force reductions, the forces must retain the numbers and capacity required to carry out their national security role as well as fulfill their significant, ongoing commitments to UN peacekeeping operations worldwide. They will likely also be required to deal with integration into their ranks of former insurgent combatants.

Critical gaps and impediments will be challenging: a recruitment, training and organizational architecture which privileges certain social groups and senior ranking officers; lack of effective control over Nepal's long and porous borders and weak capacity in border security operations; and political considerations and institutional shortcomings that handicap any effort to significantly improve security within the Terai region in the near-to-mid term. The greatest opportunities for U.S. assistance are in programs which target systemic problems such as the weakness of training institutions, including through curriculum development for force modernization and increased effectiveness, and personnel management.



Vocational education program trains disadvantaged and conflict-affected youth in areas of the economy that have been identified as having ready job opportunities.

Finally, there has been a serious decline in law and order, and a shift in violence and human rights abuses from violence between the central government and the Maoists to non-state political violence and criminality. This is increasingly common across the country, but is particularly true in the Terai. There is a dangerous weaving together of political and criminal interests and a growing willingness to use violence and intimidation for political and criminal ends.

B. CRITICAL ASSUMPTIONS AND RISKS

In order for U.S. assistance to achieve this Goal, these critical assumptions will have to hold:

- The Maoist Party, Nepal Army, or other armed groups do not return to armed conflict;
- Political interference in recruitment, promotion and retention decisions is minimized;
- The Nepal Government continues to accept outside aid in the security sector; and

- There are realistic and genuine efforts to accept (by the security forces) and institute (by the public sector) civilian control over the security sector.

Failure to address weaknesses within the security sector will hamper the forces' ability to perform their national and public security roles. Continued high levels of insecurity will have a negative impact on the economy, particularly investment, and will impact on the ability of the USG and other donors to implement their assistance activities in the field. Ultimately, mismanaged or abortive security-sector reform presents the risk of a breakdown in the still fragile peace process.

C. ASSISTANCE APPROACHES

U.S. assistance should incorporate a flexible approach that can be adapted as circumstances require. Limited absorptive capacity within GON organizations will require that any system-oriented strategy be pursued incrementally, expanding where change takes root rather than through a rigidly-formulated hierarchical approach. Over the long-term these program streams must focus on support to institutional - rather than individual or unit - skill development.

Current plans include various training activities at a variety of levels and departments in the security sector. To sustain the peace process, support could be provided to broaden the discussion of civil-military relations. With additional resources, future considerations include support for analysis, dialogues and media outreach.

Trafficking in persons is also addressed through support to Nepal police and other government staff and training and support to survivors. Options for addressing terrorism will focus on boarder control and security forces training and capacity building.

The sensitivity of security-related affairs tends to encourage assistance initiatives negotiated in private bilateral contexts, promoting competition between donors, rather than cooperation. The integration of former insurgent combatants is likely to require extensive donor assistance. However, U.S. policy constraints will limit our potential for assistance in this regard, making this challenge an especially key opportunity for partner nations. Regional political dynamics have consistently demonstrated a trend towards competition rather than cooperation, especially in the security sector. These will more likely prove an obstacle to overcome, rather than a source of support, for U.S. assistance efforts in Nepal's security sector.

D. COORDINATION OF USG EFFORTS

Assistance to Nepal's security sector is bound by constraints in both U.S. and Nepali law. However, recognizing the link between security and other Mission goals, programs in this sector are thematically coordinated with other activities through the Working Group for Peace and Democracy mentioned under Goal #1. This type of inter-agency design is already present in the Mission's Department of Defense 1207 Account activities, which promote rural security and stabilization through support to the police; local government bodies; and small-scale economic and infrastructure development. This model can be adapted to activities associated with the justice system; for example, synchronizing assistance to police investigators with support for prosecutors and capacity building within the court administration system.

E. ROLE OF HOST COUNTRY/REGIONAL ORGANIZATIONS/PRIVATE SECTOR PARTNERSHIPS

Achievement of this goal essentially implies a significant transformation within Nepal's security and related institutions. Success depends upon the desire and aptitude for change within those institutions. Recent trends suggest such desire and aptitude are present, and many

emerging security force leaders have shown a desire to build programs and institutions on U.S. models. As organizational demographics shift, this trend may be expected to continue, particularly if nourished by sustained U.S. support.

The private sector has a comparatively limited role in the security sector; but U.S. programs designed to increase the awareness and involvement of civil society in security issues will enhance government transparency and accountability in this arena.

F. ANTICIPATED RESULTS

The challenge confronting Nepal in the security sector is a vast one. At a minimum, a successful U.S. strategy in this regard will at least ensure that the situation has not deteriorated.

With U.S. assistance, Nepal will have begun to change the way it recruits, trains and deploys its security forces to more closely connect within the civilian community these forces serve. Such change will take years to realize as old practices slowly fade away, but our assistance in the near-to-mid term will ideally have helped establish strong institutions and sound organizational practices.

Linkage to other goals - Success in security sector reform efforts will significantly assist broader efforts to promote democracy and good governance, by promoting merit-based personnel-management systems, discouraging patronage, and ending the culture of impunity.

USG Priority Assistance Goal 5: National capacity to prevent, mitigate and respond to disasters and address the needs of vulnerable populations improved

A. Situation Analysis/Problem Statement

Nepal has an extraordinarily high vulnerability to natural disasters – including major floods, landslides, drought and earthquakes – due to its geographic location, low levels of development, minimal infrastructure and institutional capacity, and dependence on rain-fed agriculture. Severe rural poverty causes populations to inhabit marginal lands in areas at high risk for natural disasters, which is then aggravated through unsustainable practices (deforestation, over-farming or over-grazing). Anarchic construction in the Kathmandu Valley in recent decades virtually ensures a high casualty toll from the next major earthquake, due to lack of building standards. The last major (7+ or greater on the Richter scale) quake was in 1934 and each year that passes increases the chance for a major event that will affect Nepal.

There are several critical gaps and impediments to addressing Nepal’s vulnerability to disasters.

Many of the most vulnerable populations are also the most physically remote, impoverished, and the least-educated. The GON has only a limited response capability, and virtually no prevention/mitigation capability. The absence of local government from large areas of the country - including those most vulnerable to floods and other disasters - and the related non-enforcement of land-use and environmental regulations lead to resource utilization that increases vulnerability. There are, however, opportunities for gains. There is general recognition of the urgent need for improved response, prevention and mitigation capacity. Prior USG investment in sustainable natural resource management practices in rural areas provides a foundation on which to build community capacity to prevent or mitigate disasters.



These children in Dhangadi are attending meeting of a Community Forest User Group. Sustainable use of natural resources can decrease the severity of natural disasters.

B. CRITICAL ASSUMPTIONS AND RISKS

In order for U.S. assistance to achieve this goal, certain critical assumptions will have to hold:

- The new government will contribute resources for building a national disaster response/mitigation capacity;
- Unrest and insecurity in rural areas are not sufficiently acute to interfere with the workings of the disaster early-warning systems, or with the delivery of humanitarian assistance in the event of disasters; and

- The GON continues to permit international assistance to refugees sheltered within or transiting its territory.

The consequences of not building and helping to institutionalize disaster preparedness, mitigation and response capacity are the periodic wiping-out of all development progress for those populations vulnerable to disasters, and high cost of emergency humanitarian relief efforts in difficult and isolated terrain.

C. ASSISTANCE APPROACHES

U.S. assistance should seek a three-way approach that should be adapted as resources permit and circumstances require: preparedness - establishment of early-warning systems, increasing the capacity of civil society and the GON; mitigation - education and training of at-risk communities in reducing vulnerability; and response - assistance when crises occur and continued support to vulnerable groups within Nepal. Obviously, the Mission cannot anticipate what events will occur that will necessitate a response. However, with the limited funding available, the US Mission to Nepal will continue to support preparedness and mitigation activities and continued assistance to vulnerable groups.

Preparedness - Preparedness activities will mainly focus on what is considered the most catastrophic threat - a significant earthquake in a major urban center. The National Society for Earthquake Technology (NSET) coordinates the long-term earthquake risk reduction plan for the Kathmandu Valley and works with the GON, NGOs, schools, and local communities to increase earthquake awareness and preparedness. It is currently supported by the USG through USAID's Office of Foreign Disaster Assistance (OFDA).

Through NSET, the Program for the Enhancement of Emergency Response (PEER) is a preparedness and mitigation strategy for South Asia. The current phase of PEER promotes disaster preparedness through the development of national and regional

cadres of professional emergency response instructors. The program assists local, national, and regional disaster management agencies in organizing and conducting trainings in medical first response, collapsed structure search and rescue, and hospital preparedness for mass casualties after a disaster. This program has been funded by OFDA since 2003. The U.S. should continue support for similar programs.

Mitigation - The mitigation component works with communities through a variety of activities, currently focusing on flooding. In an effort to make communities less vulnerable to the effects of future floods, the program is supporting income generation activities; improved sanitation, hygiene and nutrition campaigns; the rehabilitation and rebuilding of flood-preventative infrastructure; the strengthening of local groups; and the protection of women and children through education about gender discrimination and trafficking.

This component provides an opportunity to strengthen the ties between local government, community groups and populace, and thereby strengthens the capacity of the community as a whole to address and mitigate conflict in the future. USAID is also using this program as an opportunity to engage with community level organizations, including potential local peace committees that are working to resolve conflicts at the community and district levels. Furthermore, as the program develops, there will be linkages developed with other areas such as economic growth and additional social services.

The extensive and severe deforestation and over-grazing/over-cultivation of land identified as environmental threats in the Mission's 2006 Tropical Forest and Biodiversity Assessment play a key role in vulnerability to flooding and landslides. The USG should continue its support to community-forestry, buffer-zone, and conservation-area groups to build their internal capacity for sustainable forest management and biodiversity conservation. These activities are currently under democracy and governance section of the Mission.

Assistance - Humanitarian assistance to refugees is another component of the USG response. The Embassy works closely with the UN High Commissioner for Refugees to assist refugees transiting Nepal from Tibet to India, and assist refugees from Bhutan presently located in camps in eastern Nepal. Focus will be on ensuring that internationally-recognized minimum standards are met for refugee support, on expanding the basic rights of recognized refugees, and on urging the GON to join international refugee conventions. USAID/OFDA is also involved in protection and assistance to internally displaced persons who continue to face protection concerns and political persecution. The Mission will continue to advocate for displaced peoples, bringing attention to human rights violations appropriately when they occur and working collaboratively to find permanent solutions.

D. COORDINATION OF USG EFFORTS

The US Mission to Nepal creates Working Groups on humanitarian assistance as needed that encompasses State, USAID and Department of Defense representatives.

E. ROLE OF HOST COUNTRY/REGIONAL ORGANIZATIONS/PRIVATE SECTOR PARTNERSHIPS

UNDP is assisting the Government of Nepal in implementing the standards of the 2005 Hyogo Framework Agreement, to which it is a signatory. The Agreement calls for an all-government approach to building disaster prevention and response capability. (Formerly, disaster response was entirely the responsibility of the Home Ministry; now all Ministries are being required to develop and implement plans.) Mission activities will compliment these efforts.

Scientists in the South Asia region, which includes Nepal, are in agreement on the need to coordinate among countries, and to seek transnational approaches and solutions to the shared, chronic vulnerability to disasters. Several of these organizations are described in the Assistance Approach above.

The Asia Flood Network (AFN) strengthens the capacity of regional and national hydro-meteorological institutions in climate, weather, and hydrological forecasting while directly involving communities at risk in reducing vulnerability to hydro-meteorological hazards. In collaboration with partners in Asia, the AFN is jointly implemented by USAID/OFDA, the National Oceanic and Atmospheric Administration, and the U.S. Geological Survey. Support to activities similar to these is likely to continue.

F. ANTICIPATED RESULTS

Technical assistance and training will increase disaster preparedness, mitigation and response capacity on the part of communities, civil society organizations and the GON. Adequate care and support for vulnerable populations is expected.

Linkage to other goals - Reduced vulnerability to disasters will increase the sustainability of all U.S. assistance programs as development gains will not be wiped out by each event of any magnitude.

IV. RESOURCE ASSUMPTIONS

Bilateral USAID and State Department foreign assistance to Nepal has remained relatively stable in recent years, with around \$75 million in Fiscal Year (FY) 2007 and \$67.2 million in FY 2008. As indicated by the Washington Interagency Focus Group, it is anticipated that overall U.S. assistance program resources will remain consistent with these levels or increase slightly.

While assistance for Nepal is assumed to remain relatively steady, funding levels for different kinds of programs are anticipated to shift in relative amounts over the coming years, as also indicated by the Focus Group. Democracy, Governance and Conflict Mitigation-related assistance and Economic Growth funding will likely experience an increase. Health-sector funding probably will remain steady as Nepal is a priority country for meeting USAID's global objectives in maternal and child health with their related Congressional directives. Security-related assistance will remain constant or slightly decline, while Humanitarian Assistance will likely continue in relatively modest amounts.

Nepal is not currently eligible for any Millennium Challenge Account assistance. The U.S. Mission supports the application of Nepal to be a Threshold country. The chance of this is strong if there is progress in the Democracy/Governance front and other indicators remain stable or improve.

Host-country contribution to the strategy is anticipated to continue to be primarily in the form of in-kind contributions (staff, buildings, vehicles). The USG will continue to encourage the maximum contribution on the part of the GON for achievement of the Priority Assistance Goals.

Under a scenario of limited funds, it is unlikely that the goals of the U.S. Mission to Nepal would change, however, the means and activities to achieve them would be altered - perhaps drastically. Should progress toward the goals be halted or critical assumptions not hold, assistance could shift to providing essential social services, meeting basic human needs and humanitarian assistance.

There are issues/areas for which the US Mission would welcome additional assistance; which are USG policy priorities but for which annual funding levels have historically been limited (those historical levels are built into the assumptions of the strategy). The Mission would applaud additional funds to combat trafficking in persons through cross-cutting programs in law enforcement, education, economic opportunities, health, and care and support. Government decentralization is another under-funded priority where new monies would provide additional technical support (including fiscal decentralization technical support) and training to local governments (including Village Development Committees), and expand assistance to remoter districts strengthening the peace process and good governance. Additional U.S. assistance for environmental health and further disaster preparedness activities could also be effectively utilized in Nepal.

V. APPENDIX

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