

Document of
The World Bank

Report No: 19002 NEP

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED CREDIT
IN THE AMOUNT OF SDR 9.0 MILLION
TO THE
KINGDOM OF NEPAL
FOR THE
BASIC AND PRIMARY EDUCATION PROJECT
IN SUPPORT OF
THE FIRST PHASE OF
THE BASIC AND PRIMARY EDUCATION PROGRAM

March 3, 1999

**Education Sector
South Asia Regional Office**

CURRENCY EQUIVALENTS

(Exchange Rate Effective September 15, 1998)

Currency Unit = Nepalese Rupees (NRs.)

NRs. 1 = US\$ 0.015

US\$ 1 = 67.51

FISCAL YEAR

July 16 - July 15

ABBREVIATIONS AND ACRONYMS

APL	Adaptable Program Lending
AWPB	Annual Work Programs and Budgets
BPEDU	Basic and Primary Education Development Unit
BPEP	Basic and Primary Education Program
CAS	Country Assistance Strategy
CBO	Community-based Organization
CDC	Curriculum Development Center
CIP	Core Investment Program for BPEP
CMG	Change Management Group
Danida	Danish International Development Agency
DEO	District Education Officer
DOE	Department of Education
ECDC	Early Childhood Development Center
EMIS	Educational Management Information System
ESRP	Earthquake Schools Rehabilitation Project
EU	European Union
JICA	Japanese International Cooperation Agency
LACI	Loan Administration Change Initiative
MOE	Ministry of Education
NCED	National Center for Education Development
NFEC	Non-Formal Education Center
NGO	Non Governmental Organizations
NORAD	Norwegian Agency for Development
PIP	Project Implementation Plan
PMIS	Project Management Information System
SMC	School Management Committee
TSAG	Technical Support Advisory Group
VDC	Village Development Committee
VEC	Village Education Committee

Vice President:	Mieko Nishimizu
Country Director:	Hans M. Rothenbuhler
Sector Manager:	Ralph W. Harbison
Team Leader/Task Team Leader:	Grant G. Sinclair

NEPAL
BASIC AND PRIMARY EDUCATION PROJECT

CONTENTS

	Page
A. Project Development Objective	
1. Program purpose and program phasing	3
2. Project development objective	3
3. Key performance indicators	3
B. Strategic Context	
1. Sector-related Country Assistance Strategy (CAS) goal supported by the project	4
2. Main sector issues and Government strategy	4
3. Sector issues to be addressed by the project and strategic choices	6
4. Program description and performance triggers for subsequent loans	7
C. Project Description Summary	
1. Project components	8
2. Key policy and institutional reforms supported by the project	9
3. Benefits and target population	11
4. Institutional and implementation arrangements	11
D. Project Rationale	
1. Project alternatives considered and reasons for rejection	14
2. Major related projects financed by the Bank and other development agencies	16
3. Lessons learned and reflected in proposed project design	17
4. Indications of borrower commitment and ownership	17
5. Value added of Bank support in this project	17
E. Summary Project Analyses	
1. Economic	18
2. Financial	19
3. Technical	20
4. Institutional	20
5. Social	21
6. Environmental assessment	22
7. Participatory approach	22
F. Sustainability and Risks	

1. Sustainability	23
2. Critical risks	24
3. Possible controversial aspects	25
G. Main Loan condition	
1. Effectiveness conditions	25
2. Other	25
H. Readiness for Implementation	25
I. Compliance with Bank Policies	26
Annexes	
Annex 1: Project Design Summary	27
Annex 2: Detailed Project Description	31
Annex 3: Estimated Project Costs	34
Annex 4: Cost Benefit Analysis Summary, or Cost-Effectiveness Analysis Summary	36
Annex 5: Financial Summary for Revenue-Earning Project Entities, or Financial Summary	41
Annex 6: Procurement and Disbursement Arrangements	42
Annex 7: Project Processing Schedule	49
Annex 8: Documents in Project File	50
Annex 9: Statement of Loans and Credits	51
Annex 10: Country at a Glance	53
Annex 11: Development Policy Statement and Basic and Primary Education Policy Framework	55
Annex 12: Common Procedures for Donors	73

MAP(S)
N/A

NEPAL

Basic and Primary Education Project

Phase I of an APL Credit to support the Basic and Primary Education Program

Project Appraisal Document

South Asia Regional Office
Education Sector Unit

Date: March 3, 1999	Team Leader: Grant G. Sinclair
Country Manager/Director: Hans M. Rothenbuhler	Sector Manager/Director: Ralph W. Harbison
Project ID: 40612	Sector(s): EE - Education
Lending Instrument: Adaptable Program Loan (APL)	Theme(s): Education
	Poverty Targeted Intervention: Yes

Program Financing Data							
APL	Indicative Financing Plan				Estimated Implementation Period (Bank FY)		Borrower
	IDA US\$ m	%	Others US\$ m	Total US\$ m	Commitment Date	Closing Date	
APL 1 Loan/ Credit	12.5	22.4	43.2	55.7	07/16/99	07/15/2002	His Majesty's Government of Nepal
APL 2 Loan/ Credit	15.0	29.5	35.9	50.9	07/16/2002	07/15/2005	His Majesty's Government of Nepal
APL 3 Loan/ Credit	22.5	18.8	97.5	120.0	07/16/2005	07/15/2009	His Majesty's Government of Nepal
APL 4 Loan/ Credit							
Total	50.0		176.6	226.6			

Project Financing Data

Loan
 Credit
 Grant
 Guarantee
 Other (Specify)

For Loans/Credits/Others:

Amount (US\$m) 12.5

Proposed Terms: To be defined
 Multicurrency
 Single currency
 Standard Variable
 Fixed
 LIBOR-based

Grace period (years): 10

Years to maturity: 40

Commitment fee: 0.5%

Service charge: 0.75%

Financing Plan:	<input type="checkbox"/> To be defined			
	Source	Local	Foreign	Total
Government		1.7	0.5	2.2

IBRD	0.0	0.0	0.0
IDA	9.7	2.8	12.5
OTHER BILATERAL FINANCING INSTITUTIONS	31.6	9.3	40.9
Total:	43.0	12.6	55.6

Borrower: His Majesty's Government of Nepal

Guarantor:

Responsible agency:

Ministry of Education

Implementing agency(ies):

Ministry of Education

Address: Keshar Mahal, Kantipath, Kathmandu, Nepal

Contact Person: Mr. Sharad Kumar Bhattarai, Secretary

Tel: 411599

Fax: 414887

Email:

Estimated disbursements (Bank FY/US\$M):

FY	2000	2001	2002				
Annual	3.3	4.2	5.0				
Cumulative	3.3	7.5	12.5				

Project implementation period: 36 months

Expected effectiveness date: 07/16/99 **Expected closing date:** 07/15/2002

OCS APL PAD Form: October 9, 1998

A: Program Purpose and Project Development Objective

1. Program purpose and program phasing:

By 2009, the Government of Nepal expects that at least two thirds of school-age children will attain grade 8 in schools that are effectively supported by institutions at the community, district and national level. To achieve this goal the Government will: (a) give greater control to communities to manage schools for quality improvement and to districts to distribute resources based on school needs and targeted underserved groups; (b) develop the quality of teaching and educational content; and (c) increase access to an eight-year basic cycle of education. IDA proposes to support this program with a Credit of approximately US\$50 million in three phases over ten years following an Adaptable Program Lending (APL) approach.

Phase I (US\$12.5 million over three years, starting July 1999) will develop institutional capacity for qualitative and quantitative improvement in the five-year primary education system. This includes: (a) strengthening the Ministry of Education (MOE) and establishing a Department of Education (DOE) to become its technical wing to deliver primary and secondary education programs; (b) introducing performance-based district planning and budget processes; and (c) piloting school improvement planning.

Phase II (tentatively US\$15.0 million over three years, starting July 2002) will consolidate institutional capacity building at national, district and school levels to raise primary school quality. It will assess human and physical requirements to universalize eight years of basic education, and ensure that teacher development policies and strategies are in place to support an extended cycle of basic education from five years to eight years.

Phase III (tentatively US\$22.5 million over four years, starting July 2005) will continue to support institutional capacity building, development of the teaching service, and will expand access to eight years of education. Project details will be based on outcomes of Phase II and corresponding changes in the structure of secondary education.

2. Project development objective: (see Annex 1)

The objective of the project is to strengthen institutional capacities at national, district and school levels to plan and deliver more efficient and better quality education services. In turn, this is expected to lead to increased levels of learning resulting from improved student retention (especially for girls and socially disadvantaged groups), more effective teacher performance and efficient teacher deployment practices.

3. Key performance indicators: (see Annex 1)

Progress towards the development objectives will be measured by: (a) preparation of appropriate annual operational and expenditure plans at national and district levels based on school improvement plans; (b) numbers of months of staff development and training for school managers (by gender and location); (c) physically adequate schools in underserved areas; (d) gross enrollment ratios (by gender and location, sampled from the poorest 15% of subdistricts); (e) primary school completion rates (by gender and location, sampled from the poorest 15% of subdistricts); (f) cycle costs; (g) teachers performance as measured by changes in classroom practice; (h) teacher quality based on the percentage of total primary teachers with the Certificate of Primary School Teaching (by gender and location); and (i) learning achievement based on a national assessment of Nepali and Mathematics in grades 3 and 5 carried out bi-annually.

B: Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)
Document number: 18578-NEP **Date of latest CAS discussion:** 12/15/98

Reducing poverty and strengthening a weak human capital base through effective investments in the provision of basic services are priorities in the Nepal CAS, reviewed by the Board on December 15, 1998. The CAS identifies two key strategies to poverty alleviation: (i) bringing resources closer to the beneficiaries, where they are most likely to be productively used; and (ii) collective donor action to foster the stronger governance needed to reduce waste and mismanagement of resources. The project strongly supports these strategies in the following ways:

(a) *Reducing poverty through effective investments in basic services.* The project objective is to strengthen capacities at school, district and at the central level to manage human, physical and financial resources more efficiently and equitably. Within the longer-term strategy for basic and primary education, a detailed five-year subsector investment plan has been developed by the MOE. The plan outlines policies and strategies to improve efficiency, quality and equitable access, and Government will put in place performance-based annual planning and budget processes based on these three criteria.

(b) *Bringing resources closer to the beneficiaries.* The project will introduce a School Improvement Planning process that will be the responsibility of School Management Committees (SMCs) and they, together with Village Development Committees (VDCs), will participate in monitoring schools' performance. The project targets interventions to reduce educational inequity between gender, regions, and disadvantaged groups through a district planning process. Funds to carry out activities will be allocated to schools, districts and NGOs based on efficiency and equity criteria, implementation plans and performance. The project will improve institutional capacity at the national level to manage a community- and district-based basic education system by setting criteria for targeting interventions to the most disadvantaged schools and communities, and reviewing implementation plans against the policies set out in the Basic and Primary Education Policy Framework (Annex 11).

(c) *Coordinating donor action to foster stronger governance and increase efficiency in resource use.* Government's policy framework for basic and primary education is agreed with donors supporting its program and benchmarks for implementation of efficiency, quality and equity policies have been established. Five major donors will jointly cofinance the core investment activities of the Government's basic and primary education program and will jointly review with the Government the annual work plans and budgets against performance benchmarks and needs. The MOE will be responsible for donor coordination for which a set of common procedures has been prepared (Annex 12). Financial management capacity building will be an important component of the project.

2. Main sector issues and Government strategy:

Sector Issues: Government recognizes that education is key to poverty alleviation and in recent years has given a high priority to provision of education services. Much has been achieved in a very difficult environment to make schooling more accessible, to increase quality inputs and to provide alternative programs to address the low literacy levels. However, student learning outcomes of both primary and secondary education are low, and the poorest communities remain the most educationally disadvantaged. These low outcomes relate to issues of equitable access to quality schooling, system efficiency and use of resources.

(a) *Access and Quality.* Substantial progress has been made in increasing enrollment in primary education since the early 1990s. In this period, the Government has supported a range of programs to include more women, out-of-school girls and children with special needs in basic education. Gross enrollment rates in primary education are high and access to schools is impressive given the remoteness of much of the population. Access to secondary education is unevenly distributed, and has high direct and opportunity costs. Primary and secondary school completion rates are low and those completing schooling have only minimal levels of skills for community needs. Teacher absenteeism is high, reflecting the poorly regulated teacher recruitment process, incentive structures, and weak school supervision.

(b) *Efficiency and Resource Use.* The school system is characterized by low student retention and completion rates, inefficient teacher deployment practices and poor fund utilization. Sector management is highly centralized and not well situated to handle the rapidly expanding school system. Many professional functions in the sector such as curriculum renewal, teacher training and design of non-formal education programs have been carried out under donor-funded project units. Currently about half of education expenditures are channeled to the basic and primary education subsector, but resource use is poor at all levels of the system. The large number of donors supporting the sector within a weak institutional and regulatory framework has exacerbated the low absorptive capacity and lack of policy coherence.

Government Strategy: The Government recognizes these issues and has articulated strategies in the Ninth (1997-2002) Five-Year Development Plan to raise the national literacy level by expanding equitable access to basic education and increasing the quality of primary education; and at the secondary and higher levels, by emphasizing the upgrading of secondary and higher education and raising the quality of output. Other key strategies are to increase the allocation of public resources for the education sector from 13% to 15% in the interests of sustainability and system stability; to strengthen the MOE in order to improve policy planning and system monitoring; and to devolve education management to promote the active involvement of communities and local bodies in managing education institutions. Major ongoing efforts to improve access and quality at the basic and primary levels are being expanded with greater emphasis on community participation at all levels.

The Basic and Primary Education Master Plan, 1997-2002 outlines national priorities for the subsector as follows: (a) to ensure universal coverage of primary education and raise literacy; (b) to improve quality and efficiency of primary education; (c) to improve planning, policy making, coordination, research and evaluation capacity within the MOE; and (d) to decentralize educational management. It builds on strategies and experience from two previous IDA-supported primary education projects, supports curriculum and textbook reform, a school cluster-based teacher training model, and targeted strategies to increase participation of girls and disadvantaged groups. Based on the Master Plan, and in collaboration with donors supporting the subsector, Government developed a Second Basic and Primary Education Program, 1997-2002 (BPEP II) which covers the entire subsector, builds on past experience and introduces a more decentralized approach to management of primary education. BPEP II supports implementation of Government's compulsory education policies and strategies to ensure that all children can enter and complete five years of primary education. Government's longer term vision is to raise the basic cycle from five years to eight years as recommended in the National Education Commission Report (1998).

3. Sector issues to be addressed by the project and strategic choices:

The project will focus on addressing the key institutional issues that affect the efficiency, quality and equitable provision of basic and primary education services. It will support the Government's medium-term objectives as set out in the agreed policy framework for BPEP II (see Annex 11). Issues to be addressed in the project are based on past experience in the basic and primary education subsector in Nepal and strategic decisions made during appraisal of the core investment plan for BPEP II.

- *More efficient use of resources.* A decision taken early in project preparation by the donors supporting basic and primary education was to build on their cooperation in BPEP I and to support jointly with the government a subsector wide investment program. From that flowed the decision to focus support on strengthening the capacity of the MOE to manage a sectoral program, to make districts more accountable for planning and performance monitoring and to increase community participation in school management. Five of the major donors agreed to finance jointly an agreed core investment plan for BPEP II. It was decided that the funding mechanisms for this should enable a single monitoring and reporting system and an associated process to provide for joint annual reviews of work plans and budget proposals to release funds against performance benchmarks and needs. This is expected to provide greater coherence in policy implementation and monitoring and more efficient use of resources. In addition, policy measures on three major expenditure items were also agreed: (a) teachers will be deployed according to the target teacher:student ratio of 1:45 nationally with special consideration for small isolated and rural schools; (b) construction of schools/classrooms will be on needs-based criteria and school mapping requirements; and (c) the long-term residential teacher upgrading program will be replaced by distance education programs linked to classroom teaching performance.
- *Strengthening Institutional Capacity.* It became clear during appraisal of the BPEP II that the first three years of implementation would require a new institutional framework and developing capacities to meet the demands of a more technically equipped MOE and a decentralized system. A decision was made to absorb various project units already established under previous projects; to support the establishment of a technical department at MOE; and to support a long-term human resource development plan for strengthening capacities to deliver quality education services. Another decision was to introduce district planning as a funding prerequisite. Greater accountability would be encouraged at the school level to improve teacher and student attendance and increased authority at district level to set priorities for equity and quality. As it will take some time to bring about the desired institutional changes, Government and IDA agreed that an Adaptable Program Lending approach would better suit the change process being initiated and offer flexibility in adjusting to the pace of implementation as it becomes evident.
- *Addressing access and quality.* The strategic choices made are to focus on increasing primary school completion rates and improving learning achievements as measured by periodic national assessments. A high level of quality inputs was provided under BPEP I (curriculum and textbook reform, cluster-based in service training and in-school professional support) to 40 of the 75 districts in Nepal. The project will extend access and quality initiatives begun under BPEP I to the remaining districts. Analysis and feedback from the national basic skills assessment at grade 3 will be used to identify key areas for teacher training and professional support, materials and school development planning. Community provision of early childhood programs would cater for the special needs of young children and ensure that under-age children are not enrolled in school. The project will use the financing mechanisms to target school construction, teacher deployment and local language materials to underserved areas. It will support alternative school schedules to retain children, especially girls, from disadvantaged groups. Female teachers will be deployed to schools with low enrollment of girls and be given preference in recruitment.

4. Program description and performance triggers for subsequent loans :

The Government's program over the next ten years is to upgrade the quality of the primary school system and to extend the basic cycle of education from five to eight years, to build the MOE's technical capacity, and to introduce decentralized school-based planning and management. An APL approach would best suit the longer term strategic approach. It would confirm IDA support for the Government's overall strategies in the sector and provide program support to: (a) expand to all districts successful quality improvement strategies begun under previous projects; (b) introduce new education management structures and approaches that would allow communities to participate more directly in decisions on the use of resources to improve their schools; and (c) develop appropriate strategies to support a universal basic education cycle of eight years within a twelve-year formal school system. The APL financing approach would allow sufficient time and flexibility in which to develop appropriate strategies for extending the basic cycle of schooling to eight years and to put in place a teaching service structure that would meet the quality demands of a changing school system.

Phase I (US\$12.5 million over three years, starting July 1999) will focus on putting in place the institutional framework to bring about the desired changes in the primary education system. Institutional capacity will be developed at: (a) the MOE/DOE for primary education policy, planning and monitoring; (b) national institutions to provide quality support services and promote learning; (c) district level to plan, implement and monitor school quality; and (d) community level to participate in school improvement planning. The ongoing school-cluster system for teacher support and curriculum implementation will be expanded to the remaining 35 districts. School quality improvement activities will focus on increasing learning in grades 1 to 3.

Phase I to *Phase II* triggers will be:

- Donor coordination is effective.
- Teacher recruitment is contained within the total number of positions at 1998 levels.
- National assessment of basic skills at grades 3 and 5 has been carried out.
- The DOE is fully established and functioning.
- Basic district planning is implemented in all districts.
- Pilot for preservice primary teacher training has been carried out.
- Nonformal Education and Early Childhood Development programs have been piloted.
- A policy to include NGOs as providers of eligible community and district level activities is being implemented.

Phase II (tentatively US\$15 million over three years, starting July 2002) will consolidate institutional capacity building at national, district and school levels to bring about qualitative change in schools. Based on experience of Phase I, Phase II will expand the annual planning and budgeting processes to all districts and, as appropriate, will expand school improvement planning for direct allocations to schools through the district planning process. Phase II will begin to put in place the mechanisms for increasing the basic education cycle from five years to eight years for all school-age children. Policy and strategic issues related to development of a professional teaching service for an eight-year cycle of basic education will be a focus of this phase.

Phase II to *Phase III* triggers will be:

- Appropriate human resource development programs are being implemented throughout MOE and line agencies.
- National assessments of basic skills at grades 3 and 5 are repeated.

- A primary school teacher career development (education, training, incentives and career paths) and strategic framework approved by government.
- District planning strategies target disadvantaged groups.

Phase III (tentatively US\$22.5 million over four years, starting July 2005) will continue to support institutional capacity building and the development of the teaching service, and will expand access to eight years of basic education. Detailed plans for Phase III will be developed midway during the proposed Phase II. These will be based on progress in institutional development, sector policy development and studies undertaken during Phase II to map schools and staffing requirements to shift from a five-year to an eight-year basic education cycle.

C. Program and Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

The objective of the Project is to strengthen institutional capacity at national, district and school levels to deliver more efficient and better quality basic and primary education services thereby raising learning achievement and increasing equitable access, especially for girls and under-served communities.

The Project supports the first three years of the BPEP II core investment program (CIP) which is being financed jointly by five major donors (Danida, European Union, Finland, IDA and NORAD) and by the Government of Nepal. A joint Government-donor annual planning process will comprise plans, budgets, monitoring indicators and performance benchmarks for release of funds. Plans at national and district level will be developed within the policies and strategies set down in the Government's Basic and Primary Education Policy Framework. A process by which School Improvement Plans (SIPs) will be eligible for direct funding will be put in place and over the project period these will progressively become part of the district planning process. Eligible expenditures for national, district and school plans are described in the BPEP II investment plan. The project supports the following three components of the CIP.

(a) Strengthening institutional capacity:

At *national level*, the project will: (i) provide programs of staff development and training to strengthen the technical support functions of the MOE including its newly established DOE; and Curriculum Development Center (CDC), Non-Formal Education Center (NFEC), Distance Education Center (DEC), and National Center for Education Development (NCED); (ii) develop information systems and the professional skills to manage and supervise a decentralized school system; (iii) prepare manuals and formats for development of policy-based implementation plans and budget proposals by national institutions and district primary education teams; (iv) conduct policy research, evaluation and monitoring including periodic national assessments in basic skills at grades 3 and 5; (v) initiate and provide technical support for a district planning process starting in 12 districts and expanding up to 30 districts during the project; and (vi) establish criteria and mechanisms for school improvement planning, providing technical support to districts for their implementation and gradually incorporating these into the district planning process.

At *district level*, the project will: (i) provide programs of training in support of the district planning process to staff in eligible districts; (ii) strengthen their technical and management capacities to implement teacher inservice-training based on clusters and whole school development approaches, to monitor school performance; (iii) increase participation of village education committees (VECs) and school management -

committees (SMCs) in actions to raise schools' performance; and (iv) develop district plans and budgets targeting quality improvement at grades 1 to 3 and increased retention of students to grade 5.

At *community level*, the project will: (i) provide technical support and training to headteachers, SMCs and VECs in school improvement planning; (ii) provide essential books and materials to schools and additional facilities based on school improvement plans; and (iii) provide inservice training for teachers in methods appropriate to increasing learning in grades 1 to 3 and in multigrade teaching in small schools.

(b) Raising learning achievement:

The project will: (i) *improve teaching and learning processes* through: curriculum review in the context of small, multigrade schools as well as single classes grades 1 to 3; a more efficient textbook distribution system; development of methods and materials for local languages, multigrade teaching, and continuous assessment techniques; and (ii) *expand and improve teacher education* through regular school-based training; by strengthening the resource center professional support system; and by piloting a preservice teacher training certificate program.

(c) Increasing equitable access:

The project will: (i) expand early childhood development (ECD) centers as part of school and village planning in areas where there are large numbers of underage children in grade 1; (ii) provide textbooks free to all children in grades 1 to 3, and to girls and children in the poorest districts at grades 4 and 5, scholarships to needy girls and inclusive schooling programs for children with special needs; and (iii) improve the stock of classrooms based on approved district education plans and community mobilization programs.

Table 1. Project Components and Costs

Component	Sector	Indicative Costs (US\$M)	% of Total	Bank-financing (US\$M)	% of Bank-financing
Strengthening Institutional Capacity	EE - Education	18.8	33.8	4.2	33.6
Raising Learning Achievement	EE - Education	14.0	25.1	3.1	24.8
Increasing Equitable Access	EE - Education	22.9	41.1	5.2	41.6
Total Project Costs		55.7	100.0	12.5	100.0
Total Financing Required		55.7	100.0	12.5	100.0

2. Key policy and institutional reforms supported by the project:

A description of Government's ten-year vision and its strategies for basic and primary education over the program period has been provided in a Letter of Development Policy (Annex 11). The Basic and Primary Education Policy Framework for BPEP II sets out the policies, strategies and monitoring indicators for the Project (Annex 11). This will provide the policy criteria for appraising annual work plans and budget proposals.

In summary, the key institutional reforms supported by the project relate to:

- delegating responsibilities for planning, budgeting and implementation to districts;
- progressively incorporating whole school improvement plans in district plans to promote access and quality targeting and community involvement;
- preparing annual operational and expenditure plans, linking each line agencies' (CDC, NFEC, DEC, NCED, DOE) key activities at national and district levels;
- strengthening the MOE to create a separate DOE and merging previous project units into functional units of the DOE;
- maintaining teacher positions at 1998 levels; and
- transferring recurrent costs of operating the system to the revenue budget on a gradual basis as agreed after project closing.

The criteria for appraising school improvement plans, annual district work plans and budget proposals and implementation plans of national institutions supporting the subsector will be based on policies and indicators set out in the Basic and Primary Education Policy Framework. These include the following policies:

(a) to improve quality and efficiency by:

- ensuring that all teachers are properly trained and are allocated to schools on the basis of school enrollment criteria; and that, class size does not exceed 50 students;
- providing a better balance of student textbooks, teachers guides and supplementary reading materials to all schools and provide free textbooks in the core subjects to all students;
- carrying out a national assessment of learning achievement of the national curriculum in grades 3 and 5 every other year; and
- increasing instructional time (thereby enhancing learning achievement) by raising both student and teacher attendance and teacher time on task.

(b) to increase equitable access to primary education by:

- improving school facilities only on the basis of clear efficiency and quality criteria;
- ensuring that teachers are efficiently deployed based on school enrollment and location criteria;
- ensuring that schools with low female enrollment have at least one female teacher and that priority will be given to females as replacement teachers;
- targeting subsidies to the most economically disadvantaged students, especially girls, and hard-to-reach groups; and
- expanding community-based early child programs to enable full implementation of the school-entry age policy.

3. Benefits and target population:

Nepal is one of the poorest countries in the world with a per capita income of US\$210 and very low social indicators. The expansion and improvement of primary schooling is one of the most effective options for raising levels of economic and social development and is reflected in the priority the Government gives to primary education. The expected increase in access to basic and primary education under the project, combined with higher completion rates resulting from quality improvement, would result in 3.3 million children of the 6-10 year age group attending school, a 10% increase in net enrollment over the project period. The project addresses poverty reduction in two ways. One, it has specific mechanisms for targeting poorer and socially disadvantaged students by providing subsidies for textbooks and school supplies, locating schools in underserved areas, and offering optional timetabling. It also provides access to training for female teachers and teachers in rural areas and enhances their earning capacity. Two, the poorer communities will benefit more from broadening access to schools and increasing completion rates, as children not attending school now or dropping out tend to be from poorer households.

In addition to overall future increases in labor productivity the project would contribute to substantial social gains by improving girls' and women's educational opportunities. The social benefits of primary education such as healthier and smaller families, particularly for girls, are expected to be sizable from a program of countrywide coverage. In Nepal, infant mortality rates are drastically reduced and children's nutritional status and well being substantially increased with each level of mothers' education (Annex 4), and reductions in both the fertility rate and the ideal number of children for those women with a primary schooling compared to those with no schooling are pronounced (from 5.1 to 3.8 and from 3.1 to 2.5, respectively). The participation of parents and communities in school development planning will ensure greater client-orientation and build their confidence in identifying ways to improve their schools, in establishing priorities in use of resources, and in seeking accountability from school managers, teachers and students.

Staff of MOE and its line agencies will gain experience in data-based policy planning and monitoring, donor coordination and delegatory and consultative approaches to management. They will increase their technical expertise through programs of training and counterpart technical assistance and be better equipped to support the content needs of primary education and provide qualitative leadership.

4. Institutional and implementation arrangements:

Institutional arrangements : The executing agency is MOE through its DOE and other line agencies. An inter-ministerial Program Execution Board (PEB) will oversee the operation of the Program. MOE is responsible for policy and planning, donor coordination and coordination with other Government and non-Government agencies. As the DOE will be functional only from July 1999, a Change Management Group (CMG) has been established to co-ordinate DOE formation and transition of implementation management from project implementation units to the DOE. The DOE will prepare annual operational and expenditure plans for the basic and primary education program including all donor-financed subprojects; monitor and report on progress towards policy objectives; and account for expenditures in the subsector. In this task it will be guided by an established Technical Support Advisory Group (TSAG) which will identify expertise required for effective project execution and possible sources.

A service unit, the Basic and Primary Education Development Unit (BPEDU) under the DOE, will be set up to facilitate the provision of technical support to implementing agencies (central and district level institutions) through its construction, procurement and service contracting capacity. Day-to-day implementation of the program at national level will be the responsibility of the DOE administration, training and finance units. The existing NCED will be responsible for teacher training policies and plans.

the CDC will be responsible for curriculum, textbook and resource center development and training, and the NFEC will be responsible for literacy and out-of-school education programs. At the district level, program planning, implementation and monitoring will be the responsibility of the district DOE offices. The Project Implementation Plan (PIP) sets out the organizational structure of the MOE and describes in detail the roles and responsibilities of the MOE and implementing agencies at national and district levels. At negotiations, Government agreed to supply a list of key staff to be appointed by **Credit effectiveness**, including the Director General for DOE, the Division Head for Primary Education Division (PED), and Section Chiefs at PED.

Planning and programming . Funding for the CIP will be released to national institutions and districts on the basis of agreed Annual Work Plans and Budget (AWPB) proposals which will be reviewed by the DOE for consistency with objectives, policies and eligibility criteria for funding from the CIP. Each year, prior to Government's Budget approval meeting, donors and MOE will review jointly the proposed AWPB comprising the work plan and budget for:

- (a) national institutions and Regional Education Offices to carry out their national functions in supporting delivery of education services; and
- (b) district education teams to implement primary and nonformal education programs consisting of
 - (i) a basic plan that lists all ongoing activities eligible for funding from the CIP, and (ii) an investment plan that lists proposed new activities eligible for funding from the CIP.

In year one of project implementation, all 75 districts would submit a basic plan and 12 districts will be selected to submit investment plans. In the *second* and *third* years, additional districts will submit investment plans. The SIPs to be included in district investment plans will be piloted in two districts and will be expanded gradually, in conjunction with facilities improvement, to target disadvantaged communities across a larger number of districts. Annual funding to districts during project implementation will be based on:

- (a) priorities favoring increased participation and retention of girls and other socially deprived groups;
- (b) evidence of financial commitment and community involvement in school improvement activities; and
- (c) performance in achieving access, retention, and quality improvement objectives.

Program Monitoring and Supervision . All development partners supporting the CIP will participate in the joint semi-annual review process in accordance with common procedures (Annex 12). A review will be carried out in the third year of the Project at which time an assessment will be made by IDA regarding Phase II of the APL Credit. Project monitoring indicators are based on the Basic and Primary Education Policy Framework. Annual implementation benchmarks include institutional, qualitative and financial indicators. Implementation reviews will be carried out, under rotational leadership, by a joint donor mission and Government. MOE and donor agency staff resident in Nepal would be responsible for mission preparation. To prepare for the key annual reviews, an independent monitoring team will provide third party supervision that includes independent physical, financial and qualitative reviews, validating monitoring data and assessing compliance with agreed implementation plans.

Accounting, Financial Reporting and Auditing Arrangements: A financial management assessment of MOE was carried out (Summary, Annex 6). The financial control environment in Nepal has been weakened by the transfer of responsibility from the Financial Controller General's Office (FCGO) to the Ministry of General Administration (MOGA) as explained below, and organizational risks are present:

in the short-term in the context of MOE's institutional transition from project approach to program approach. The recently established DOE will formally assume program and financial management responsibility as from July 1999. In order to mitigate institutional development risks, capacity for financial management is being built up in accordance with a time-bound action plan which includes the phased recruitment, and temporary placement of key staff within the CMG (see PIP). During negotiations, Government agreed to an action plan that provides for key staff to be appointed by Credit effectiveness, including the Chief Financial Controller; an Accounts Officer; an Accountant; and one middle-level technician to be responsible for computer operations and facilitate operation of the Financial Management Information System.

Until the capacity of the DOE is adequate for Project Monitoring and Reporting (PMR) based on financing, regular disbursement procedures will be followed for the IDA Credit. IDA will review the progress made in establishing a strong financial management system after about a year, and will ascertain whether the Project is eligible for PMR-based disbursements. However, a common set of PMRs will be prepared by DOE for reporting to the donor group from the outset. During the interim period, the project will produce the following PMR statements - Financial Statement - Report 1.(a.) and Section 3 - as confirmed during negotiations.

There is a potential country risk due to a recent transfer of the accounting cadre of staff from the FCGO to the MOGA. FCGO, however, retains overall responsibility and accountability for public financial management including maintaining central accounts (including donor accounts) and preparing the national accounts for timely external audit by the Auditor General. A further risk is the timely compilation of accounts and completion of internal audit covering possibly 75 districts within six months of the end of each financial year. Even under optimal conditions this will be a significant challenge. Trimesterly project management reports which will be prepared will be valuable for progress monitoring and subject to close review and supervision by IDA. This will allow prompt follow-up to bring to Government's attention any developing problems in the project's accounting, internal controls and financial reporting.

Disbursements: The donor group will employ a unified financing approach (a 'basket') for the CIP which will pool funding. The Ministry of Finance (MOF) will allocate annual budgets as envisaged in the AWPB agreed between MOE and the donor group. DOE will be responsible for overall project administration and management and submission of PMRs to Government and donors. Disbursements will be made on the basis of a percentage of eligible expenditure according to each donor's CIP financing share. IDA's financing will represent 22.5% of total eligible expenditures over the project period.

Special Account: A Special Account in US dollars will be established, on terms and conditions satisfactory to IDA, at the Nepal Rastra Bank (Central Bank). For the interim period until such time as IDA disbursement is based on PMR, the account will have an authorized limit of US\$1.2 million and will follow the existing disbursement procedure. DOE will submit replenishment applications for the Special Account on a monthly basis, or when 25% of the authorized allocation has been used, whichever occurs first. The replenishment applications will be supported by the necessary documentation including a bank statement and a reconciliation statement. Until the disbursement is PMR-based withdrawals from the account will be based on statements of expenditure.

Audit arrangements: Project financial statements, prepared in the formats agreed with IDA, will be audited annually by the Auditor General of Nepal who is considered an independent auditor for IDA's purposes. Audit reports will be due within six months of the end of each fiscal year. These arrangements were agreed at negotiations. Experience with auditing under the ongoing project was generally satisfactory with timely submission of audits and SOEs that did not raise major concerns.

Construction and Procurement . A unit of the DOE, the BPEDU, will provide technical support to district engineering staff to supervise management of construction at the district and community levels. It will provide contract preparation and procurement services to DOE and other MOE line agencies in support of the Project. The BPEDU will also assist and monitor performance of the District Education Offices (DEOs) where procurement functions have been decentralized. The BPEDU will be staffed with qualified technical/procurement personnel in accordance with a schedule and staffing plan that includes procurement and engineering expertise agreed with Government. The principal procurement activities to be undertaken by the BPEDU will be the procurement of steel construction materials and frequent small-scale contracting of individuals and local institutions that will provide operational expertise to the Project during execution. The BPEDU will formally come into operation by July 1999 with project startup. Key staff appointments of an executive engineer and a procurement officer are to be made by **Credit effectiveness** . Consultants are being recruited under preparation funding for bid documentation preparation for NCB small works, community participation, ICB and NCB documents for goods including steel and roofing sheets which will be reviewed by IDA and the donor group during the first AWPB, and be available by project startup.

D: Project Rationale

1. Project alternatives considered and reasons for rejection:

Project Approach or Subsector Program : One option was to continue the project approach of the ongoing BPEP I and to finance expansion of similar activities only in 35 districts not yet covered. This would have meant greater funding for civil works, teachers' salaries and inservice training and implementation by a semi-autonomous project office. This approach was rejected as experience indicates the need for a stronger policy based operation that would include quality and access targeting. The alternative selected was to review Government's five-year subsector program and to support an agreed set of policies and strategies to improve quality and efficiency in the subsector.

Project/Program Management : The continuation of a project implementation unit structure, as under the ongoing BPEP I, was considered but rejected on the basis of lessons learnt from the previous projects. The alternative selected was to build more sustainable arrangements by merging former project units into the institutional structure of the MOE and its line agencies and to establish a DOE within MOE to absorb some of these functions. Transfer of many technical functions from the BPEP I Project Implementation Unit to the new DOE will enhance institutional capacity and sustainability.

A continued centralized management approach for planning, implementation and monitoring of activities was rejected. Experience has persuaded both the Government and donors that it is crucial to generate and strengthen community support for, and monitoring of the delivery of education services, including teacher attendance to ensure quality and efficiency of schools. The alternative selected is to introduce, and gradually expand, a process of devolving responsibility to schools, villages and districts for the management and financing of schooling. This arrangement involves: (i) "bottom-up" planning, budgeting and monitoring by SMCs and VECs which will have responsibility for implementing comprehensive school improvement plans; (ii) priority setting and supervision of implementation at the district level; and (iii) technical support for decentralization from the technical divisions of the DOE which would have overall responsibility for co-ordination and quality. Expansion of the decentralized approach during implementation will be district-wise, through programs targeted at disadvantaged communities across a larger number of districts.

Financing Modalities : Several donors willing to support the Government's basic and primary education program considered a number of alternatives for financing the subsector. Separate and discrete donor projects within the subsector program were rejected because of the institutional burden the multiple reporting and implementing approaches would put on Government and the likely ineffectiveness of uncoordinated sets of inputs and activities. The option selected was for IDA, Danida, EU, Finland and NORAD to finance jointly an agreed core investment plan covering the bulk of Government's basic and primary education subsector program. ADB, JICA and Unicef will continue to provide technical and financial support on the basis of existing agreements with Government within the overall policy framework for the subsector.

Traditional Sector Investment Lending or Adaptable Program Lending : During initial preparation of the project, IDA's expectation had been to finance the five year core investment program of Government's BPEP II using a sector investment lending approach for the five-year period. However, given the scope of the program, the policy reforms, the institutional changes proposed and also taking into account past experience of project implementation and disbursement patterns, it was decided that a sequence of shorter time frame projects would allow greater flexibility in assessing the pace of implementation of different components. It would also create a better environment in which to focus attention and efforts on the institutional issues as the key to systemic improvement.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed Shortage of skilled craftsmen with basic engineering skills; no standard national skills applicable to all training institutions.	Second Education (Technical and Vocational Training) Project (Credit 1198-NEP), 1981-1988	S	S
Poor quality of primary education and weak administrative and technical capacity of the education sector.	Primary Education Project (PEP) (Credit 1463-NEP) 1984-1992	S	S
Emergency reconstruction of schools affected in earthquake areas of Eastern and Central Nepal.	Earthquake Schools Rehabilitation Project (ESRP), (Credit 2047-NEP), 1989-1995	S	S
Shortages of well trained engineers and technicians.	Engineering Education Project (Credit 2044-NEP), 1989-1999	S	S
Low access to, and high inefficiency in basic and primary level, and weak national and local educational management capacity.	Basic and Primary Education Project I (Credit 2357-NEP), 1992-1999	S	S
Poor quality and efficiency of higher education at the degree and diploma levels	Higher Education Project (Credit 2560-NEP), 1994-2000	S	U
Other development agencies			
Asian Development Bank	Primary education project in support of BPEP objectives		
JICA	BPEP supporting donor		

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

Experience from previous and ongoing projects financed by IDA and other donors in Nepal and in the region was taken into consideration in designing the project: (i) the quality of primary education can be improved by focusing attention on acquisition of basic learning skills and by introducing an integrated approach to promoting student learning, teacher performance and school development; (ii) NGOs, local communities and local bodies must be involved in delivery of educational services if the needs of diverse groups are to be met; (iii) ensuring communities' ownership in school construction and involvement in school management and teacher monitoring are essential for increasing accountability; (iv) a lean field-based project management structure with flexibility to acquire technical expertise when needed is the most appropriate management approach; (v) interventions to increase girls' enrollment and retention through the appointment of female teachers, strengthen in-service teacher training, and the integration of project management structures into the MOE will not be sustained unless there are clear reinforcing policies; and (vi) donor cooperation can be effective provided firm funding commitments and agreements on supervision are reached before implementation starts.

4. Indications of borrower commitment and ownership:

The Government is committed to implementing plans to decentralize educational management and financing, consistent with the recommendations of the Basic and Primary Education Master Plan and Sub-Sector Development Program for 1997-2002. The Government has adopted legislation and regulations to (a) implement decentralization, (b) regulate teacher recruitment and appointment, and (c) establish a DOE as a technical wing of MOE. It has begun the process of merging previous project units into the functional units of several line agencies and reallocated staff to these and has set up a CMG to assist the MOE during the establishment of the DOE, the reorganization and the merger processes. It has also set up the TSAG to advise on program implementation and technical capacity building. Government plans to spend more than half (55%) of its total education expenditures on basic and primary education and to increase the education share of the national budget from 13.1% to 15% over the next five years. It has engaged in frank discussion with IDA and other major external agencies regarding policy issues and project design and has prepared a set of common procedures for donor coordination during project implementation. Annual plans and budget review processes and project supervision will be reviewed in the context of the BPEP II policy framework.

5. Value added of Bank support in this project:

The Bank has become a catalyst for the external funding of basic and primary education in Nepal. The Government of Nepal recognizes IDA's capability to provide both substantive technical advice and financial support necessary to assist the implementation of complex but integrated educational programs on a large scale. IDA initiated the proposal that each major donor supporting the project consider financing a proportion of the total cost of the core investment program. This encouraged donor support for the full program and, given the number of donors, will avoid administrative complexity for Government. This approach has been accepted by five major donors. IDA's experience with multi-donor reviews will facilitate the proposed joint supervision process. IDA continues to play a leading role in the overall country context particularly for policy development and is favorably positioned to assist government with additional support for the education system.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (supported by Annex 4):

- Cost-Benefit Analysis : NPV=US\$ million; ERR = %
- Cost Effectiveness Analysis
- Other

Economic and social returns. The expansion of schooling is one of the most effective options for raising levels of economic and social development in Nepal. Several studies conducted since the 1970s have demonstrated the positive impact of primary schooling on farmers' productivity in Nepal. The most recent evidence of the positive relationship between education and income comes from the Nepal Living Standard Survey for 1996. Earnings functions indicate a return to an additional year of schooling of 13.1 percent. Returns were much higher for non-agricultural work than for agriculture and for females than for males. Relative to households in which the head is illiterate, agricultural incomes are 18.4 percent higher in those households headed by a literate person. Other data sources also indicate the economic importance of schooling, especially for women. The Family Health Survey, 1996 shows that literate ever-married women are almost twice as likely to earn some cash income compared to illiterate women (19.6 percent and 10.9 percent). Education is also closely related to improvements in the quality of life, particularly those affecting women. Reductions in both the fertility rate and the ideal number of children for those women with no schooling compared to those with primary schooling are pronounced (from 5.1 to 3.8 and from 3.1 to 2.5, respectively), as is the reduction in the mortality rate of their children (from 149 per 1000 live births to 99 per 1000). Twenty-three percent of children whose mothers have no schooling are chronically malnourished compared to 14 percent of children with primary schooled mothers.

Poverty alleviation. Forty-two percent of the population live below the official poverty line. With even fewer physical assets than the average person, the only route out of poverty is via schooling and the consequent increase in knowledge and greater ability to negotiate the outside world. Compared to most other public expenditures, those for primary education are pro-poor. According to the Nepal Living Standards Survey, the percentage of children currently attending public primary schools is roughly the same for each household income quartile. Since aggregate consumption in general in Nepal is highly skewed by income level, the proportionate shares of expenditure on primary schooling have the impact of reducing inequality in consumption. Illustrated through Lorenz curves additional expenditures on primary education will have a more than proportionate impact on the poor.

Cost effectiveness, system inefficiencies and project design . The delivery of primary education in Nepal is inefficient. While the primary net enrollment rate is 69, the gross enrollment rate is 117. A more efficient system could allow for a higher proportion of the primary age group to be accommodated in primary schools with relatively few additional resources. In aggregate there are sufficient primary school teachers to allow for the universal schooling of all 6 -10 year olds with no increase in the overall pupil:teacher ratio. To achieve this, the gross enrollment ratio would need to decrease through reductions in the numbers of under- and over-age children, and a reduction in repetition rates, with the resulting school places filled by additional children of primary school age who proceed steadily through the system. Currently, the repetition and dropout rates result in the system being required to deliver 11.4 years of schooling to graduate one pupil from the five year cycle.

The project design focuses directly on these issues. Without improvements in system efficiency the public finances of Nepal will not allow for significant increases in the coverage of primary schooling and, in particular, in the participation of the poor. The project is designed to improve system efficiency by (a) reducing under age children enrolling in grade 1 through supporting the pre-schooling program and

encouraging enforcement of the minimum age provisions, (b) reducing repetition rates within the primary cycle through improving assessment procedures, encouraging the 'liberal' promotion policy and supporting interventions to increase the quality and enjoyment of schooling, (c) minimizing increases in the teachers' salary bill through helping to effect a teacher redeployment policy, encouraging a freeze on new teacher positions and ensuring that primary teachers do not run preschool classes, and (d) attracting additional, mainly low income, children through piloted financial incentive schemes and the provision of facilities, such as toilets which have been shown to encourage girls' enrollment. A second focus of the project is to increase quality and raise levels of achievement. Higher quality schooling improves levels of retention and increases the development benefits.

Alternatives. Several strategic alternatives for project design were considered and are reported in Section D.1. In addition, three additional options were considered which would have had economic and financial implications:

(a) in the context of the severe financial situation in Nepal, not responding to the Government's request for further support for the primary education sub-system was rejected on the grounds that the result would be a continuation or worsening of a system with huge inefficiencies and one which could not allow for increased access by the poorest third of the primary age group without further large reductions in quality;

(b) an *explicit* focus on increasing access through building many new schools and funding new teacher positions was considered. The result would have been to increase the net enrollment ratio without any simultaneous reduction in the gross enrollment ratio and a reduced focus on quality-improving interventions. Financial analysis indicated that such an approach would be unsustainable and that the strategy for increasing access should rather be on reducing under- and over-aged pupils, redeploying part of the existing teaching force and increasing quality; and,

(c) with the project's emphasis on efficiency and quality, serious consideration was given to removing all civil works components from the Government's proposal. This was rejected on the grounds that survey evidence exists in Nepal to suggest that improved physical environment leads to higher levels of retention and learning achievement. This and the existence of female teachers were the only two statistically significant measures identified in a probability study of school enrollment which could be influenced directly by Government.

2. Financial (see Annex 5): NPV=US\$ million; FRR = %

Fiscal Impact:

The growth of the Nepalese economy is slowing down and public finances have been deteriorating. In FY1998, economic growth was 1.9 percent (at producers' prices) compared to an average of 4.5 percent over the previous decade. Internal revenue was 11 percent of GDP in 1996 and has stagnated since. The growth rate of revenues in FY1998 is similarly low compared to that over the previous decade. In real terms, the Development Budget has remained at the same level over the past few years and the Government's contribution to it has fallen. Overall, budgetary constraints on increasing domestic resources for the educational sector over the coming years will be severe.

The Regular Budget for primary education in 1996/97 was Rs. 2719 million and the Development Budget NRs. 1492 million - a total of NRs. 4211 million. Of this, the Government directly funded the entire Regular Budget and Rs. 422 million (28 percent) of the Development Budget. The annual average-

counterpart funding over the three year Phase 1 period will be US\$800,000 (NRs. 54 million) and will be at a similar level in the envisaged Phase II period. This is equal to under two percent of current government expenditure on primary education. While the overall situation of public finance is not encouraging, the fiscal impact of the project during implementation will be small. The situation following project completion is reviewed in Section F.

3. Technical:

The design of the project has taken into account the variety of physical and human contexts in which the project components will be implemented: (a) school construction designs have been well developed and tested through previous projects in Nepal and the decision to use lightweight steel frames is sound in an earthquake prone zone and where timber is a scarce resource; (b) teacher deployment will take account of large schools as well as the small schools that operate in the mountain areas and, in the case of small schools, efforts to support multigrade teaching methods will be based on good practice in the region and elsewhere; (c) action research and teacher support will assist teachers in certain linguistic areas to help children learn to read through use of their home language as a method to help learning better in the national language; (d) the development of teacher based assessment as part of routine teaching will be introduced in a manageable way to take account of the different capacities of teachers as well as the different school situations; (e) the management information systems being established in the project are taking into account the availability of technological support systems at the district levels and at sub-district levels where electricity would not be available; (f) the design of the quality and equity components are based on feedback from the national assessment of basic skills in grade 3 and the social assessments carried out during preparation; and (g) the location of resource centers and school clusters, as well as construction are based on mapping exercises. Social assessments and the national assessments of basic skills at grades 3 and 5 will continue periodically during implementation to obtain feedback for targeting strategies.

4. Institutional:

a. Executing agencies: The regulatory environment to reorganize the MOE, to merge past project units into the MOE and its line agencies (CDC, NFEC, NCED) and to establish the DOE within the MOE is in place: Cabinet has approved the DOE establishment and creation of additional posts; staff are being recruited for DOE and the merger of project units at CDC, NFEC, NCED and DEOs will be completed by June 1999. Budgets will be allocated for the additional staffing at DOE. Functions of the Project Implementation Unit under the ongoing project such as budgeting, accounting and monitoring and school facilities management will be merged with these units being established at DOE. A merger and transition plan for staffing and skills required in the new DOE will be reviewed by the donor group for financing during initial AWPB discussions in May/June 1999 and will be substantially implemented by the end of the first year of the project. Much experience has been gained through previous projects and staff with appropriate skills will be retained under the new structures. To provide the necessary technical and management support to MOE during the transition period, the CMG has been established and is functioning. Its role is to advise the MOE on aspects of program planning and policy implementation and donor coordination. As the DOE becomes functional the CMG role will diminish and end. The TSAG has also been established and is functioning. Its role is to review technical issues related to program implementation and to advise on the technical expertise to be hired under the core investment plan to ensure effective program implementation.

b. Project management: During project preparation a decision was made to shift its management from a project implementation unit to the MOE line agencies. The Joint Secretary, Planning Division, answering to the Secretary, Education is responsible for project preparation. The MOE is assisted in this by the CMG

and TSAG mentioned above. When appointed, the Director-General, DOE, will assume responsibility for project management supported by the Director, Primary Education Division (PED). The transition may be gradual depending on staff skills and capacities and participation in training programs. During this period the CMG and TSAG will retain important support roles. Competent accounting and auditing staff are being recruited for DOE and the Loan Accounting Change Initiative (LACI) system will be implemented gradually according to an agreed time-bound action plan over the first year designed to adequately build up financial monitoring and procurement systems. Functions such as curriculum and materials development, action research and recurrent training, nonformal education programs and teacher training that were previously carried out under project funded positions have already been located in the responsible line agency.

5. Social:

Results from the Nepal Living Standards Survey, 1995/96 contributed to the project priorities. The most comfortably situated Nepali families are more than twice as likely to enroll their children in primary school and ten times as likely to enroll them in secondary school compared to the poorest, reflecting not only the cost of schooling but also opportunity costs of contributions to household work or wages earned. Educational opportunity gives urban children an escalating advantage over rural ones as they advance or drop out of the school system producing wide gaps in literacy between the two groups. Among the poorest fourth of Nepali households almost one in five sends away at least one worker in search of seasonal employment and sometimes entire households migrate. These migrants however carry few income earning skills useful in urban areas nor are they likely to compete across the border in India where many will go in search of work. In addition, there are significant differences in educational attainment between men and women and across socio-economic strata. More than eighty percent of Nepali women cannot read or write, and only one in twenty of Nepal's poorest women is literate, compared to one in three of the poorest men.

Nepal's various ethnic and linguistic groups have had differentiated access to education resulting in different educational outcomes among various groups, especially females from cultural and linguistic minority groups and other socially deprived groups. These issues were the main focus of the social assessment study conducted in 1998. The study identified 24 educationally disadvantaged groups which constitute 45 percent of the total population of the country. The study carried out participatory exercises to identify the characteristics of out-of-school children and drop-outs in 15 districts and assessed school quality and access issues, and proposed specific interventions to reach disadvantaged groups. The project addresses the critical issues identified by this study. A major strategy of the project is to increase equity in basic and primary schools by targeting socially deprived groups and girls through: (i) *School facilities*, e.g., improved classrooms, toilet facilities, and water supply; (ii) *Female teachers* to increase girls enrollment and attendance; (iv) piloting alternative language use in grades 1 and 2 to facilitate learning in Nepali; (iii) *Outreach programs* to overcome the barrier of distance to school; (iv) *Flexible schooling and OSP* to address the opportunity costs of poor children, especially girls' schooling, to adjust work with schooling; (v) *Early childhood development centers* to free girls of younger sibling care (also improving school quality and efficiency); (vi) *Free textbooks* to girls in grade 1 and 5 to reduce the direct cost of schooling; (vii) targeted incentive programs for primary school girls, and scholarship programs for secondary school girls to encourage the possibility of more female teachers; (viii) *Improve the overall quality* by providing curriculum and textbooks with gender neutral messages, reducing teacher absenteeism, and improving teacher training; and (ix) *Mobilize the community*, through awareness campaigns, regarding the benefits from education. In addition, women will be provided literacy and income generating training. This is a package approach, and if implemented effectively, will have a sustainable impact on improving girls' enrollment, retention and completion rates as well as women's literacy.

6. Environmental assessment :

Environment Category A B C

The project would not raise any significant environmental issues. Construction of new schools and additional classrooms is to be on the land donated by the community. As timber has become a scarce resource in Nepal, its use will be limited by substituting factory crafted steel elements. Government has confirmed to IDA that no involuntary resettlement will arise from implementing project civil works activities.

7. Participatory Approach (key stakeholders, how involved, and what they have influenced or may influence; if participatory approach not used, describe why not applicable):

a. Primary beneficiaries and other affected groups:

SMCs and VECs will be significantly involved in micro-planning and preparation of school improvement plans which will be prioritized at the district level and consolidated into AWPBs (Component 3). Project activities will be implemented by district, community and school level authorities. SMCs and VECs will be significantly empowered for school management and financing (Component 3). NGOs were consulted during the appraisal process and will continue to play a vital role in local capacity building, “bottom-up” planning, awareness building, designing and conducting ECD program, adult and women education, out-of-school programs for girls and other target populations (Component 1). The Research Center for Educational Innovation and Development (CERID) at Tribhuvan University carried out the social assessment and an independent research firm conducted the national assessments of basic skills at grades 3 and 5. Independent monitoring and evaluation will be encouraged during implementation.

b. Other key stakeholders:

Danida, EU, Finland and NORAD are the major external funding agencies jointly financing the BPEP II core investment program with IDA. ADB, Unicef and JICA have been closely involved with IDA during project preparation, and will continue to finance the subsector program under MOE coordination.

F: Sustainability and Risks

1. Sustainability :

(a) *Financial Sustainability.* Direct Government expenditure on primary and basic education in 1996/7 was NRs. 2719 million on the Regular budget and NRs. 422 on the Development budget. Incremental recurrent expenditures in the third year of the project (2001/02) are estimated at around US\$5.7 million or NRs. 380 million. At the end of the Phase II APL, three years later they are estimated to be around NRs. 750 million. In addition to the cost of Government of taking over all of the responsibilities of the ongoing BPEP I project, these are substantial increments. The Ministry's Master Plan proposed that by the end of the Ninth Plan period (coinciding with the end of Phase I), Education will be allocated 15 percent of total Government expenditure (up from 13.1 percent in 1997/98) and that basic and primary education be allocated 55 percent of this. Financial projections suggest that, on the assumption of an overall increase in total budgetary allocations of four percent a year, the attainment of these shares would allow for the incremental costs of the project to be funded, provided that real salary increases are kept near zero. However, if the shares do not increase, the allocations would be insufficient. In this context, and the current slowdown in overall economic activity to below three percent a year, it will be important to ensure that expenditures to initiate new activities or expand existing ones also contribute towards increasing the efficiency of the whole subsector and are made within an overall supportive framework. This framework has been agreed upon. At the center is a commitment to reduce the high levels of under- and over-age children in schools, the length of time it takes, on average, for a child who enrolls in grade one to graduate from the primary cycle and to rectify the mis-allocation of teachers across and within districts, and within schools. Progress on these measures will be carefully reviewed annually and during consideration of IDA supporting a second phase of the program.

(b) *Institutional Sustainability.* A key trigger to move to the second phase of the APL will relate to progress made in establishing a functional DOE and building its capacity, initiating school-based improvement planning and in implementing annual work plans and budgets processes at district and national levels. Government has set up the necessary regulatory framework to reorganize the MOE and to create new positions for DOE; to absorb past project units into the CDC, NFEC, NCED and DEC and in the districts. It is in the process of creating an institutional and organizational framework to better suit a decentralized education system. But the building of institutional capacity will be the core of this phase I project. By the end of the project period the DOE is expected to be better staffed with competent professionals, the merger of past project units (their functions and where appropriate their personnel) should have been completed and, in at least 12 districts, primary education teams should be established with competent professional staff and district planning, budgeting and monitoring should have been successfully implemented.

2. Critical Risks (reflecting assumptions in the fourth column of Annex 1):

Risk	Risk Rating	Risk Minimization Measure
<p>From Outputs to Objective Poor communities will be unable to generate resources for implementation of school improvement plans</p>	M	Support for school improvement plans will be provided according to need, fiscal effort and performance in implementing activities and achieving objectives. Levels of funding for district AWPBs will reflect educational as well as social and economic characteristics consistent with the overall project objective of increasing participation, retention, completion and achievement rates for girls and other disadvantaged groups.
<p>From Components to Outputs MOE/DOE management may be over-extended due to implementation of the Project in 75 districts simultaneously.</p> <p>There may be a disruption of donor funding for project activities</p> <p>Large scale community involvement in planning, management and construction of facilities will be poorly carried out</p> <p>Requirements of teacher certification programs and weaknesses in Resource Persons staffing may impede quality improvement efforts.</p> <p>Political interference in teacher appointment and deployment could jeopardise the financial sustainability of the project and its quality improvement goals if the agreed policies are ignored.</p>	<p>H</p> <p>M</p> <p>M</p> <p>M</p> <p>H</p>	<p>DOE is being strengthened through recruitment of technically competent staff; training and development of management processes; and interim measures (CMG, TSAG, BPEDU) have been established to allow time for DOE to develop its full institutional capacity. IDA, Danida, EU, Finland and NORAD financing is designed to provide sufficient flexibility to address gaps in supporting critical activities identified during bi-annual reviews of donors.</p> <p>Intensive training would be provided to SMCs and VECs on planning and management as well as technical support for construction of facilities.</p> <p>NGOs will be involved in design and evaluation of in-service training and technical support provided by Resource Persons who will be closely supervised by DEOs and accountable to VECs for improving teaching and learning.</p> <p>Criteria for recruitment of new replacement teachers and for deployment of teachers to schools are set out in the agreed policy framework. Annual agreements for financing will be reached on the basis of compliance with the agreed policies.</p>
<p>Overall Risk Rating</p>	M	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N(Negligible or Low Risk)

3. Possible Controversial Aspects

Implementation of some policies may become controversial at local levels: (i) targeting of funds for school construction and special programs to underserved areas; and (ii) maintaining the ceiling on teacher recruitment and criteria for redeploying teachers. It may be difficult for DEOs to enforce the policy criteria as control over teacher appointments, sites for school location and awarding of contracts have been vulnerable to political influence in the past and in some circumstances may continue to be so.

G: Main Loan Conditions

1. Effectiveness Condition

Key staff of the Department of Education are to be appointed.

2. Other [classify according to covenant types used in the Legal Agreements.]

(a) *Financial.*

- (i) Audits to be provided within six months of the end of the fiscal year. Section 4.01(b)(ii)
- (ii) Implement an action plan for strengthening of the Financial Management System and by July 1, 2000 prepare trimesterly Project Management Reports. Section 4.02(a)

(b) *Implementation Program.*

- (i) Timely implementation of the DOE re-organization plan and limitation on key staff transfers. Schedule 4, Para. 2.
- (ii) Teacher training to be implemented in accordance with the agreed policy framework. Schedule 4, Para. 3.
- (iii) With regard to teaching staff, MOE shall: complete redeployment in 12 districts by December 31, 2001; implement policies to increase the total number of female teachers; and maintain the 1998 level of primary teaching positions in the education system. Schedule 4, Para. 5.
- (iv) By December 31, 2001 provide IDA with reports on: experience with school improvement plans; teacher training programs; resource management and resource levels; special focus group programs and girls incentive programs; and a revised textbook policy for review. Schedule 4, Para. 6.
- (v) Periodically carry out grade 3 and grade 5 learning achievement assessments. Schedule 4, Para. 7.

H. Readiness for Implementation

- 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
- 1. b) Not applicable.
- 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
- 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
- 4. The following items are lacking and are discussed under loan conditions (Section G):

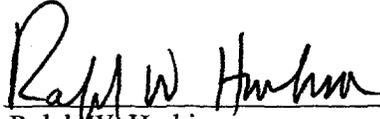
Staffing appointments for project startup.

I. Compliance with Bank Policies

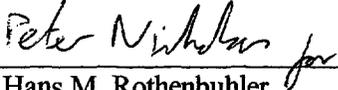
- 1. This project complies with all applicable Bank policies.
- 2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.



Grant G. Sinclair
Team Leader



Ralph W. Harbison
Sector Manager/Director



Hans M. Rothenbuhler
Country Manager/Director

Annex 1: Project Design Summary
NEPAL: Basic and Primary Education Project

Phase I of an APL Credit to support the Basic and Primary Education Program

Hierarchy of Objectives	Key Performance Indicators	Monitoring & Evaluation	Critical Assumptions
<p>Sector-related CAS Goal:</p> <p>Strengthening the human resources base of the country for equitable growth and development and to alleviate poverty.</p>	<p>Sector Indicators:</p> <ul style="list-style-type: none"> ● Improvement in leading indicators of human resources development in Nepal. ● Reduction in gender gap in human development indicators. ● Gradual improvement in income earning opportunities for various disadvantaged groups. 	<p>Sector/ country reports:</p> <ul style="list-style-type: none"> ● Economic and Sector work and reports by other donors on human resources development in Nepal. ● National Education Statistics ● Household Survey Data ● Census Data 	<p>(from Goal to Bank Mission)</p> <ul style="list-style-type: none"> ● Investment in human resources development will help achieve equitable growth and alleviate poverty.
<p>Program Purpose:</p> <p>By 2009, at least two-thirds of school age children will attain grade 8, in schools that are effectively supported by community, district and national institutions.</p>	<p>End-of-Program Indicators:</p> <ul style="list-style-type: none"> ● Percent increase in student retention at grade 8, disaggregated by socially disadvantaged groups ● Percentage gains in learning achievement at grades 3 and 5 ● Sustained institutional capacity at all levels of decision making 	<p>Program reports:</p> <ul style="list-style-type: none"> ● Education Management Information System data ● Periodic national assessments of basic skills at grades 3 and 5 ● Social assessments ● Annual progress reports and funding triggers ● Policy studies 	<p>(from Purpose to Goal)</p> <p>Ensuring increased student retention and appropriate quality levels of education are indicative of effective investments in human capital development.</p>

Hierarchy of Objectives	Key Performance Indicators	Monitoring & Evaluation	Critical Assumptions
<p>Project Development Objective: To strengthen institutional capacities at national, district and school levels to plan and deliver more efficient and better quality education services.</p>	<p>Outcome / Impact Indicators:</p> <ul style="list-style-type: none"> ● Percentage increase in grade 5 completion rates, particularly girls and children from socially disadvantaged groups. ● Percentage increase in learning achievements at grades 3 and 5 ● Number of districts successfully implementing investment plans targeting disadvantaged groups. ● Number of schools/VDCs successfully implementing school quality improvement plans 	<p>Project reports:</p> <ul style="list-style-type: none"> ● Annual education statistics ● National assessments of basic skills at grades 3 and 5, baseline and end of project. ● Social assessments. ● District annual work plans and monitoring reports. ● Policy studies on teacher deployment, teacher performance, staff development and NGO participation ● PMIS data, school and RP reports 	<p>(from Objective to Purpose)</p> <ul style="list-style-type: none"> ● Bringing planning decisions about education resources closer to the beneficiaries will lead to greater accountability for more equitable distribution and productive use of resources.
<p>Output from each component: 1. Improved capacity at national, district and village levels to manage primary schools</p>	<p>Output Indicators:</p> <ul style="list-style-type: none"> ● National institutions prepare annual policy and performance based work plans and budgets; ● 75 districts prepare and implement annual work plans based on budgets for regular activities ● 30 districts prepare and implement annual work plans based on budgets for regular activities plus investment plans based on targeting priorities ● 800 schools and VDCs prepare and effectively carry out school quality improvement plans 	<p>Project reports:</p> <ul style="list-style-type: none"> ● National and district annual work plans and budgets ● Financial and physical audit reports ● EMIS data ● Monitoring reporting ● PMIS data, school and RP reports 	<p>(from Outputs to Objective)</p> <ul style="list-style-type: none"> ● Policy-based planning and budgeting will lead to more efficient use of financial and human resources. ● Investment planning based on priorities and involving beneficiaries will lead to more equitably distributed resources and greater accountability for outcomes.

<p>2. Learning achievements raised</p> <p>3. Increased access and retention to grade 5</p>	<ul style="list-style-type: none"> • Teacher competency to help children learn in grades 1-3 and multigrade classes • Increase in learning achievement on national assessment of basic skills in grade 3 and 5 (2002 compared to baseline, 97-99) • Numbers of children, especially those from socially disadvantaged groups completing grade 5 compared to the baseline, 1999 	<ul style="list-style-type: none"> • Classroom observations; studies and monitoring reports • National assessments of basic skills in grades 3 and 5 conducted 98/99 and 2002. • EMIS data disaggregated by district, subdistrict and targeted groups 	<ul style="list-style-type: none"> • Measures of quality and efficiency of primary education are the numbers of children entering who complete the five year program and acquire sufficient learning to continue to secondary school. • Increasing teacher skills and accountability for student learning will raise achievement levels. • If children can be retained in school to Grade 3 they are more likely to complete primary schooling and proceed to secondary. • Education strategies targeting the most disadvantaged out-of-school children can increase their participation in/ and completion of primary schooling.
<p>Project Components / Sub-components:</p> <p>1. Strengthening Institutional Capacity</p> <ul style="list-style-type: none"> • Strengthening DOE and central level institutions • Strengthening district planning and implementation capacity • Local capacity building <p>2. Raising Learning Achievement</p> <ul style="list-style-type: none"> • Teacher Training and Professional Support • Curriculum Renewal & Assessment 	<p>Inputs: (budget for each component)</p> <p>US\$18.8 million</p> <ul style="list-style-type: none"> • US\$5.0 million • US\$8.6 million • US\$5.2 million <p>US\$14.0 million</p> <ul style="list-style-type: none"> • US\$8.1 million • US\$5.9 million 	<p>Project reports:</p> <ul style="list-style-type: none"> • Annual work plans and budgets • Trimester financial and physical monitoring reports • Annual audit reports • Semi-annual supervision reports • Quarterly monitoring reports • National assessment of basic skills at grades 3 and 5 levels in years 1999 and 2002. 	<p>(from Components to Outputs)</p> <ul style="list-style-type: none"> • The political environment remains supportive of decentralized management and gives high priority to the primary education policies <p>The results of the national assessments of basic skills are for qualitative feedback on the 'health' of the system; not to establish a leagues table of winners and losers.</p>

<p>3. Increasing Equitable Access and Improving Retention</p> <ul style="list-style-type: none"> ● School Physical Facilities ● Special Needs Education ● Early Childhood Development ● Community mobilization and literacy 	<p>US\$22.9 million</p> <ul style="list-style-type: none"> ● US\$12.2 million ● US\$5.2 million ● US\$1.9 million ● US\$3.6 million 	<ul style="list-style-type: none"> ● PMIS, semi-annual reports for Joint Supervision Missions ● Social Assessments 	<p>Local political groups accept the criteria for targeting resources to socially disadvantaged groups (who by definition) do not necessarily have a strong voice.</p>
--	--	--	--

Annex 2: Project Description

NEPAL: Basic and Primary Education Project

Phase I of an APL Credit to support the Basic and Primary Education Program

The Project will strengthen institutional capacity at national, district and school levels to deliver education services more efficiently and equitably. It supports the first three years of a five-year core investment program for BPEP II which is financed jointly by five major donors (Danida, European Union, Finland, IDA and NORAD) and by the Government of Nepal. The BPEP II core investment program is based on the strategies and recommendations of the Government's Ninth Five-Year Plan (1997-2002), the Basic and Primary Education Master Plan (1997-2002), study reports and recommendations during project appraisal consultations between Government and major donors supporting the subsector. It also takes into account the experience of the Basic and Primary Education Project (Cr. 2357), which was carried out in 40 of Nepal's 75 districts. Development expenditures supported by agencies other than the five joint-financing donors (JICA, Unicef and possibly the ADB) and regular government expenditures are indicated separately as complementary investments in the sub-sector.

The Project will be implemented in the context of Government's Basic and Primary Education Policy Framework which sets out policies, strategies and monitoring indicators for the next five years. Progress towards these will be assessed on the basis of a series of annual benchmarks and the triggers at the end of the Project to move to an IDA Credit for the Phase II APL. The Basic and Primary Education Framework is attached to Annex 11 (Statement of Development Policy). The policy framework provides coherent policy guidelines for all agencies supporting the subsector program and establishes the criteria for appraising school improvement plans, annual district work plans and budget proposals and implementation plans of national institutions supporting the subsector.

The Project supports the three major components of the BPEP II core investment program: strengthening institutional capacity; raising learning achievement; and, increasing equitable access and retention. Eligible expenditures from the Credit would be for activities in all three components.

By Component:

Project Component 1 - US\$18.8 million Strengthening Institutional Capacity

(a) *at national level*, the Project will: (i) provide programs of staff development and training to strengthen the technical support functions of the MOE and its newly established DOE, the CDC, NFEC, DEC and NCED; (ii) develop information systems and the professional skills to manage and supervise a decentralized school system through programs of staff development and training and provision of equipment; (iii) prepare manuals and formats for development of policy-based implementation plans and budget proposals for use by national and district level institutions; (iv) conduct policy research, evaluation and monitoring including periodic national assessments in basic skills at grades 3 and 5; (v) initiate and provide technical support for basic district planning, and investment planning starting in 12 districts and expanding to a maximum of 30 districts during the project; (vi) establish criteria and mechanisms for SIPs, providing technical support to districts for their implementation and gradually incorporating these into the district planning process. The Project will also (vii) include technical and logistical support, and equipment for the transition functions of the BPEDU, the TSAG and the CMG in support of MOE capacity to implement the project.

(b) *at district level*, the Project will: (i) provide programs of staff development and training to district education staff for basic district planning, and investment planning in 12 districts initially and expanding to a maximum of 30 districts, to strengthen their technical and management capacities to: - implement school based inservice-training based on clusters and whole school development approaches, monitor school performance; - increase participation of village education and school management committees in actions to raise schools' performance; - develop district plans and budgets targeting quality improvement at grades 1 to 3 and increased retention of students to grade 5; (ii) develop funding mechanisms for NGO and Community Based Organizations (CBOs) to deliver training and monitoring services and carry out programs for early childhood and out-of-school literacy programs; and (iii) construct about 15 District Education Offices.

(c) *at community level*, the Project will: (i) provide technical support and training to headteachers, SMCs and VECs in school improvement planning; and (ii) develop funding mechanisms for school improvement activities identified by participating schools on a set of clear criteria, procedures and budget ceilings. The Project will also (iii) provide essential books and materials to schools and additional facilities based on school improvement plans; (iv) provide recurrent inservice training for teachers in methods appropriate to increasing learning in grades 1 to 3, for teachers in small schools with multigrade teaching and for teachers of grades 4 and 5.

Project Component 2 - US\$14.0 million
Raising Learning Achievement

(a) *To improve teaching and learning processes* the Project will: (i) review the curriculum content of grades 1 to 3 based on feedback from the results of the national assessment of maths and Nepali in grade 3 and develop methods and supplementary materials for specific identified topics in maths and Nepali; (ii) carry out action research with teachers in small, multigrade schools to develop appropriate management strategies, methods and materials for multigrade teaching situations, especially addressing the needs of students in grades 1 to 3; (iii) increase textbook availability through the introduction of a voucher system; (iv) develop methods and materials for use of local languages to assist learning in Nepali in grades 1 to 3; (v) develop a continuous assessment system and teaching techniques and materials for grades 1 to 3; and (vi) provide textbooks and additional materials including supplementary reading materials, student workbooks and teachers guides.

(b) *To expand teacher professional support systems and improve teacher quality* the Project will: (i) provide ten days school-based recurrent training each year for all teachers, focusing on curriculum content in grades 1 to 3; (ii) provide professional support to teachers in their classrooms through whole-school development programs, demand driven training at resource centers and school supervision related to improving learning in grades 1 to 3, multigrade teaching and classrooms where the community language is not Nepali; (iii) expand the school cluster based professional support system to an additional 35 districts including the construction of about 200 multipurpose rooms at resource center schools; (iv) pilot a preservice teacher training certificate program with a classroom based approach; and (v) develop a distance education teacher upgrading program.

Project Component 3 - US\$ 22.9 million
Increasing Equitable Access and Improving Retention

To increase access and retention the Project will:

(a) *develop funding mechanisms to utilize NGOs and CBOs to deliver* (i) early childhood development (ECD) programs as part of school and village planning in communities where there are large numbers of underage children in grade 1; and, (ii) a range of inclusive primary education programs targeting children and adolescents in disadvantaged circumstances (alternative schooling, out-of-school programs, women's literacy programs, special education).

(b) *provide incentives targeted at the most disadvantaged families.* (i) free textbooks to all children in grades 1 to 3, to all girls in grades 4 and 5, and to boys in the grades 4 and 5 in the 18 remote districts; (ii) scholarships to needy girls; (iii) scholarships and hostel accommodation for secondary school girls from areas with serious shortages of female teachers with the condition that the candidates agree to serve as teachers in the relevant area for a certain period of time after graduation; and, (iv) an innovation fund of US\$0.5 million for innovative activities that promote girls' participation in primary schools.

(c) *improve the stock of classrooms based on approved district education plans and community mobilization program.* The project will finance the construction of about 3,000 new and replacement classrooms and about 6,000 upgraded classrooms based on school enrollment: class size ratios. Eligibility for classroom construction and repair will be based on a facilities survey and school map to be prepared by district authorities and preparation of a school improvement plan that includes a description of school maintenance to be implemented by SMCs. Communities will be involved in school construction/rehabilitation activities and will provide about 25% of the total costs.

(d) *provide community mobilization programs.* (i) train VDCs and SMCs based on the Village Readiness model developed under BPEP I; (ii) conduct participatory planning exercises at the district level; and (iii) provide an annual support grant to each participating VDC.

Annex 3: Estimated Project Costs
NEPAL: Basic and Primary Education Project

Phase I of an APL Credit to support the Basic and Primary Education Program

Table 3A

Project Cost by Component	US\$ Million		
	Local	Foreign	Total
I. STRENGTHENING INSTITUTIONAL CAPACITY			
Strengthening Institutions			
Strengthening DOE and Central Level Institutions	1.5	0.2	1.8
Strengthening District Planning and Implementation	7.4	1.2	8.6
Local Capacity Building	5.0	0.3	5.3
Subtotal	14.0	1.7	15.6
Core Investment Program (CIP) Management/BPEDU			
Technical Support Group (TSG)	0.8	0.2	1.0
Program Management	1.9	0.3	2.2
Subtotal	2.7	0.5	3.2
Subtotal	16.7	2.2	18.8
II. RAISING LEARNING ACHIEVEMENT			
Teacher Training and Professional Support			
Recurrent Cluster-Based Training	6.4	1.5	7.9
Certification Training (non-core financed)	-	-	-
Subtotal	6.4	1.5	7.9
Curriculum Renewal & Assessment			
Curriculum and Textbooks Renewal	0.4	0.7	1.1
Continuous Assessment	4.0	0.6	4.6
Subtotal	4.4	1.3	5.7
Subtotal	10.8	2.8	13.6
III. INCREASING EQUITABLE ACCESS AND IMPROVING RETENTION			
School Physical Facilities	6.2	5.0	11.2
Special Needs Education			
Alternative Schooling	0.9	0.4	1.2
Incentive Programs	0.9	0.0	0.9
Special Education	2.6	0.4	3.0
Subtotal	4.4	0.8	5.2
Early Childhood Development	1.4	0.4	1.8
Community Mobilization and Literacy			
Community Mobilization	0.8	0.0	0.9
Literacy	2.8	-	2.8
Subtotal	3.6	0.0	3.6
Subtotal	15.6	6.2	21.8
Subtotal	43.1	11.2	54.3
Total BASELINE COSTS	43.1	11.2	54.3
Physical Contingencies	1.1	1.0	2.1
Price Contingencies	-1.2	0.5	-0.8
Total PROJECT COSTS	43.0	12.7	55.7
Total FINANCING	43.0	12.7	55.7

Note: Figures may not add up due to rounding.

Table 3B

Project Cost by Category	US\$ Million		
	Local	Foreign	Total
WORKS			
New/Replacement Classrooms	2.7	2.7	5.4
Rehabilitated Classrooms	1.1	1.1	2.2
Administrative Buildings	0.2	0.2	0.5
Water Supply, Toilets and Site Development	0.6	0.6	1.1
RC Buildings	0.2	0.2	0.5
Subtotal	4.8	4.8	9.6
GOODS			
Educational Materials, Readers and Guides	0.3	0.6	0.8
Equipment and Materials	1.3	3.1	4.5
Vehicles	0.1	0.3	0.4
Furniture	0.5	0.3	0.9
Subtotal	2.2	4.3	6.6
Local Training			
Local Training (NAT)	1.2	0.3	1.6
Local Training (District)	1.2	0.3	1.4
Local Training (Below District)	4.9	1.2	6.1
Subtotal	7.3	1.8	9.1
Local TA			
Studies	0.7	0.1	0.8
Local Experts	0.7	0.2	0.8
Subtotal	1.3	0.3	1.6
Community Service Providers	4.6	-	4.6
Scholarships	1.1	-	1.1
Grant Funds	5.5	-	5.5
Subtotal	19.9	2.1	21.9
RECURRENT COSTS (CIP)			
Operating Costs	5.1	-	5.1
Salaries	11.1	-	11.1
Subtotal	16.2	-	16.2
Total BASELINE COSTS	43.1	11.2	54.3
Physical Contingencies	1.1	1.0	2.1
Price Contingencies	-1.2	0.5	-0.8
Total PROJECT COSTS	43.0	12.7	55.7
Total FINANCING REQUIRED	43.0	12.7	55.7

Note: Figures may not add up due to rounding.

Annex 4
NEPAL: Basic and Primary Education Project

Phase I of an APL Credit to support the Basic and Primary Education Program

1. Economic and social returns

Nepal is one of the poorest countries in the world with a per capita income of US\$210 and has very low social indicators. The expansion of schooling is one of the most effective options for raising levels of economic and social development. Several studies conducted since the 1970s have demonstrated the positive impact of primary schooling on farmers' productivity in Nepal (e.g., Jamison and Mook 1984). The most recent evidence of the relationship between education and income comes from the Nepal Living Standard Survey for 1996 covering almost 3400 households and income data on 3562 persons. Earnings functions estimate a return to an additional year in schooling of 13.1 percent. Returns were much higher for non-agricultural work than for agriculture and for females than for males. Rates of return were estimated to be 11.6, 10.0 and 21.8 percent for primary, secondary and higher education respectively. At the primary level, returns to girls were almost twice those to males. Relative to households in which the head is illiterate, agricultural incomes are 18.4 percent higher in those households headed by a literate person. Other data sources also indicate the economic importance of schooling, especially for women. The Family Health Survey, 1996 shows that literate ever-married women are almost twice as likely to earn some cash income compared to illiterate women (19.6 percent and 10.9 percent). They are also three times as likely to work in non-agricultural sectors (22.1 percent and 7.1 percent).

Education is also closely related to improvements in the quality of life, particularly those affecting women as indicated below.

Table 1
Quality of Life Indicators, by level of women's education

	No education	Primary education	Secondary education
Total fertility rate	5.1	3.8	2.5
Ideal number of children	3.1	2.5	2.1
Under five mortality (per 1000 births)	149	99	61
Children receiving full set vaccinations %	38	56	72
Children chronically malnourished %	23	14	7
Children severely malnourished %	52	40	28

Nepal: Family Health Survey 1996.

Reductions in both the fertility rate and the ideal number of children for those women with a primary schooling compared to those with no schooling are pronounced (from 5.1 to 3.8 and from 3.1 to 2.5, respectively), as is the reduction in the mortality rate of their children (from 149 per 1000 live births to 99 per 1000). Seventy-five percent of children whose mothers have no schooling are severely or chronically malnourished compared to 54 percent of children with primary schooled mothers. A full set of vaccinations among the latter group of children is also much more frequent. Ongoing research in the Kathmandu Valley (since 1989) by a team from Harvard University suggests that while the impact of schooling on the demographic transition and health practices may come partly from the more assertive, reflective and

independent persona resulting from the sheer experience of schooling, changes are also resulting directly from the literacy skills and information acquired in schools.

2. Poverty alleviation

Forty two percent of the population live below the official poverty line. With even fewer physical assets than the average person, the only route out of poverty for the poor is via schooling and the consequent increase in knowledge and greater ability to negotiate the outside world. Compared to most other public expenditures, those for primary education are pro-poor. According to the Nepal Living Standards Survey, and described in Table 2, the percentage of children currently attending public primary schools is roughly the same for each household income quartile. Of each NRs. 100 rupees spent by Government on primary education, roughly NRs. 23 is spent on children from the lowest income quartile. Since aggregate consumption in general in Nepal is highly skewed by income level, the proportionate shares of expenditure on primary schooling have the impact of reducing inequality in consumption. This is less the case for higher schooling levels. Participation in these is much more skewed in favor of higher income groups. For each NRs. 100 spent by Government on lower secondary and upper secondary schooling, only NRs. 10 and NRs. 4 respectively are spent on children from the poorest 25 percent of the population compared to NRs. 40 and NRs. 59 on children from the richest 25 percent. Overall the education subsidy as a *share of* household income is higher for the poor than for the better off. In absolute terms it remains lower. Additional expenditures on primary education will have a more than proportionate impact on the poor.

Table 2: Participation in Public Schools by Household Income Quartile

Quartile Income	Primary	Lower Secondary	Upper Secondary	Tertiary
Bottom 25 percent	23	10	4	1
26-50 percent	25	21	11	5
51-75 percent	28	28	25	23
Top 25 percent	24	40	59	71

According to estimates of the National Education Accounts for 1994/95, households contribute a higher share of total education expenditure (41 percent) than do Government (38 percent) or donors (20 percent). The households' share is highest for secondary education (72 percent), then primary (37 percent) and lowest for higher education (18 percent). For primary schooling, over half of the private expenditures are reported to be for books. This is likely to be an overestimate since there is a relatively efficient reimbursement system. A further 10 percent is for private tutoring. In the NLSS, cost was given as the reason for never having attended school by 20 percent of the respondents. Another 21 percent cited the need to help at home, on the farm or in the family business.

Raising the net primary enrollment ratio and improving the quality of primary education will have a positive effect on the poor, and particularly on poor girls. The two are often related. For instance, analysis of data from the NLSS indicates that, of the variables identified the four most important policy-related factors influencing girls enrollment are distance to school, the presence of female teachers, and the availability of desks and toilets. The inter-generational effect of education is very strong. A schooled father is much more likely to send both sons and daughters to school. For a girl, having a mother who has attended school very significantly increases the probability that she is enrolled in school.

3. *Cost effectiveness, system inefficiencies and project design*

The delivery of primary education in Nepal is inefficient. While the primary net enrollment rate is 69, the gross enrollment rate is 117. A more efficient system could allow for a far higher proportion of the primary age group to be accommodated in primary schools with relatively few additional resources. In aggregate there are sufficient primary school teachers to allow for the universal schooling of all 6 -10 year olds with no increase in the overall pupil:teacher ratio. To achieve this, the gross enrollment ratio would need to decrease through reductions in the numbers of under- and over-age children, and a reduction in repetition rates, with the resulting school places filled by additional children of primary school age who proceed steadily through the system. According to the NLSS, fifteen percent of grade one pupils are under age. Of the rest, only 44 percent are aged six or seven years. Currently, only 10 percent of the primary 1 intake graduate from primary V, five years later. In all, 39 percent eventually graduate. The repetition and dropout rates result in the system being required to deliver 11.4 years of schooling to graduate one pupil from the five year cycle.

The project design focuses directly on these issues. Without improvements in system efficiency the public finances of Nepal will not allow for significant increases in the coverage of primary schooling and, in particular, in the participation of the poor. The project is designed to improve system efficiency by (a) reducing under age children enrolling in grade 1 through supporting the pre-schooling program and encouraging enforcement of the minimum age provisions, (b) reducing repetition rates within the primary cycle through improving assessment procedures, encouraging the 'liberal' promotion policy and supporting interventions to increase the quality and enjoyment of schooling, (c) minimizing increases in the teachers' salary bill through helping to effect a teacher redeployment policy, encouraging a freeze on new teacher positions and ensuring that trained teachers do not run preschool classes, and (d) attracting additional, mainly low income, children through piloted financial incentive schemes and the provision of facilities, such as toilets which have been shown to encourage girls' enrollment.

A second focus of the project is to increase quality and raise levels of achievement. Recent evidence points to the positive impact of improved competencies and skills which can be learned in schools and which goes beyond those associated with the socialization effects. For instance, the NLSS indicates that household incomes are larger when the head is literate though not formally schooled than when she/he is simply categorized as having completed primary education which may or may not have resulted in permanent literacy. Further, the detailed research on female schooling and mothers education and child development being carried out in the Kathmandu Valley, described above, is increasingly providing evidence on the direct positive impact of the communication skills learned in primary schools. Higher quality schooling improves levels of retention and increases the development benefits.

4. *Alternatives*

Several strategic alternatives for project design were considered and are reported in Section D.1. In addition, three additional options were considered which would have had economic and financial implications.

(a) In the context of the severe financial situation in Nepal, the option of not responding to the Government's request for further support for the primary education sub-system was considered. This was rejected on the grounds that the result would be a continuation or worsening of a system with huge inefficiencies and one which could not allow for increased access by the poorest third of the primary age group without further large reductions in quality.

(b) An *explicit* focus on increasing access through building many new schools and funding new teacher

positions was considered. The result would have been to increase the net enrollment ratio without any simultaneous reduction in the gross enrollment ratio and a reduced focus on quality-improving interventions. Financial analysis indicated that such an approach would be unsustainable and that the strategy for increasing access should rather be on reducing under- and over-aged pupils, redeploying part of the existing teaching force and increasing quality.

(c) With the project's emphasis on efficiency and quality, serious consideration was given to removing all civil works components from the Government's proposal. This was rejected on the grounds that an improved physical environment leads to higher levels of retention and learning achievement. Some quantitative evidence exists in Nepal to support this position. A national study in 1996 of grade III levels of achievement, and the determinants, indicated that variations in classroom space per student were statistically significant in explaining differences in attainment. Crude figures indicated that the ten highest achieving schools had 50 percent more space per student than the lowest achieving ten percent. Other school-related factors were the frequency of school management meetings, attendance levels of students and per student school expenditure. The number of supervisory visits was the only significant teacher-related variable.

5. *Fiscal impact*

The share of education expenditure in GDP is 2.5 percent. Between the late 1980s and late 1990s, education's share of public expenditure increased from 10 to 13 percent. Much of this increase has resulted from greater contributions from donors who have increasingly raised the priority given to education. Through the 1980s, education received under 10 percent of total aid flows. Since 1994/95 the share has never been below 22 percent.

Of total education expenditure allocated for 1997/98, 67 percent was for the Regular Budget and provided entirely by HMGN. The remainder was allocated to the Development Budget. Of this, one quarter was funded by Government and three quarters by donors. Virtually all of the Regular Budget is for salaries of regularized staff and most of the Government's contribution to the Development Budget is for salaries/honorarium of unregularized staff and for textbooks. Just over 50 percent of total education expenditure is spent on primary education which compares to around 37 percent through the 1980s.

The growth of the Nepalese economy is slowing down and public finances have been deteriorating. In FY1998, economic growth was 1.9 percent (at producers' prices) compared to an average of 4.5 percent over the previous decade. Internal revenue was 11 percent of GDP in 1996 and has stagnated since. The growth rate of revenues in FY1998 is similarly low compared to that over the previous decade. In real terms, the Development Budget has remained at the same level over the past few years and the Government's contribution to it has fallen. Overall, budgetary constraints on increasing domestic resources for the educational sector over the coming years will be severe.

The Regular Budget for primary education in 1996/97 was NRs. 2719 million and the Development Budget NRs. 1492 million - a total of NRs. 4211 million. Of this, the Government directly funded the entire Regular Budget and NRs. 422 million (28 percent) of the Development Budget. Ninety eight percent of the Regular Budget is for grants in aid to schools and the rest is budgeted towards MOE administration. The 1997/98 Development Budget allowed for no real increase (a nominal increase of 3.6 percent). The main items of Government funding in the Development Budget are non-formal schooling, textbooks and project management. The annual average level of counterpart funding over the three year period of Phase I will be US\$800,000 or NRs. 54 million and will be at a similar level in the envisaged Phase II. This is equal to under two percent of current government expenditure on primary education.

Annex 5: Financial Summary
NEPAL: Basic and Primary Education Project

Phase I of an APL Credit to support the Basic and Primary Education Program

FINANCING PLAN FOR PHASE I - 1999-2002
(US\$ Million)

	Implementation Period (APL 1)			
	99/00	00/01	01/02	Total
Total Financing Required				
Project Costs				
Investment Costs	10.0	13.4	16.6	40.0
Recurrent Costs	4.6	5.2	5.8	15.7
Total Project Costs	14.6	18.6	22.4	55.7
Total Financing	14.6	18.6	22.4	55.7
Financier				
IDA	3.3	4.2	5.0	12.6
HMGN	0.6	0.8	0.9	2.2
DANIDA	4.6	5.9	7.1	17.6
EU	2.4	3	3.7	9.1
FINLAND	0.9	1.12	1.4	3.4
NORAD	2.8	3.63	4.3	10.7
Total Project Financing	14.6	18.6	22.5	55.7

Annex 6: Procurement and Disbursement Arrangements
NEPAL: Basic and Primary Education Project

Phase I of an APL Credit to support the Basic and Primary Education Program

Procurement

The specific procurement arrangements, summarized in tables A and B, shall be as follows:

a) Civil Works (US\$1.8 million).

1. *Construction of District Education Office buildings:* Buildings, consisting of office space on the ground floor and living quarters for the DE Officer on the upper floor, shall be constructed at about 30 program districts. The cost of such buildings (including fabricated roofing structures and roofing sheets) is estimated to be approximately US\$90,000 (NRs. 6 million) each.

2. Responsibility and authority for this procurement is to be decentralized to the concerned districts. The works shall be procured through NCB procedures with only the initial three district contracts and those contracts estimated to cost US\$100,000 and above being subject to prior review.

3. *Construction/rehabilitation and furnishing of classrooms:* The cost of such activity, for each school location, is estimated to be less than US\$30,000. The concerned School Management Committee (SMC) shall initially prepare a School Physical Improvement Plan (SPIP), reflecting the construction needs of the school in question. This plan shall be submitted to and be reviewed by the District Education (DE) Office. With DE Office approval of the SPIP, work would then be initiated through a community contract between the DE Office and the SMC. This contract shall clearly detail, inter alia, the funding mechanisms and the method of involvement/utilization of community participation. Cost reimbursement would be on the basis of the value of inputs (labour and material only) costed at prevalent district/market rates - whichever are lower.

4. To streamline and expedite this procurement, prior review shall be mandated at the outset only - involving IDA's initial review, pilot testing (five contracts) and clearance of the 'contract' documents, to be used on a repetitive basis, that shall contain clearly defined mechanisms for:

i) funding, cost reimbursement formulae and methods,
ii) involving and utilising local community participation,
iii) physical and financial monitoring/supervision by DE Office, and DOE and certification of completion.

5. *Construction of Resource Centers:* The cost of a typical resource centers, to be constructed in the premises of a selected school within each cluster, is estimated to be up to US\$20,000 (NRs. 1.4 million). The works shall be implemented by the DE Office, mostly through local contracting using NCB procedures. The project shall prepare applicable bid documents and procedures and obtain the Bank's clearance at the outset. Prior review of the initial five contracts and selective post award review will be carried out.

Some small (piecework) construction valued up to US\$10,000 (aggregate limit \$100,000) and undertaken on the basis of 3 quotations, would also be subject to post review.

6. *Construction through Force Account:* In the event that this is required in certain locations for DE Office and Resource Center construction, the DOE shall clear with IDA the conditions under which such procurement methods shall apply. Prior review and agreement will be required for contract works exceeding US\$20,000 - with the maximum aggregate value of such contracts being US\$250,000.

b) **Goods** (US\$2.3 million).

7. *Pre-Fabricated Steel Structures and Roofing Materials:* Pre-fabricated interchangeable components for roofing trusses which can be transported and assembled at site, and steel roofing sheets, shall be procured on a cost effective basis following a procurement plan and packaging acceptable to IDA. Contracts, valued at US\$300,000 and above shall be awarded to prequalified firms under ICB procedures with all such contracts being subject to prior review. Bids for contracts estimated to cost up to US\$300,000 may be invited under NCB procedures acceptable to IDA, and with contracts exceeding \$100,000 being subject to prior review.

8. To ensure that materials are continuously available to schools/communities, a network of primary and secondary stores will be developed and a delivery schedule/mechanism clearly defined such that stores have adequate inventories at all times. It is proposed that three large capacity primary stores be established at Pathlaiyya (for Eastern and parts of Central zone), Butwal (for central and western zones) and Nepalgunj (for mid-western and far-western zones). All material consignments shall be delivered to these primary stores. Secondary (temporary) stores, shall be established at appropriate highway/roadhead locations to ensure equitable access to and optimum ease of onward transportation and/or portage by the concerned SMC/communities covered by the store in question. At periodic intervals, materials from the primary depots shall be transported to these secondary depots based on demand projections made by these stores themselves. It may be more cost effective to use private/public transport companies, that have been selected through NCB procedures, for this transportation. Thus, firms may be contracted by DOE, on an annual basis, to provide their services at pre-approved rates (e.g., rate per unit of roofing materials per km, or rate per truckload per km).

9. With a gradual build-up in the institutional capacity for undertaking procurement, it is expected that roofing sheet procurement could be decentralized to the concerned program districts that have staff with adequate experience or training acceptable to IDA. In view of the widespread availability of roofing sheets at major market centres in Nepal, procurement of such materials would then be directly undertaken by the concerned DE Offices under NCB or acceptable national shopping procedures. Material specifications would be clearly defined in the bid documents, and adequate quality control measures instituted such that the procured materials satisfy the minimum stated (or standard project) specifications. Typical contract values would be US\$30,000 per annum in a district. Subject to IDA's review and clearance, of the documents and mechanisms to be repetitively followed, all such procurement could be a case of selective post review, including third party review during project supervision.

10. *Other Goods, Equipment and Vehicles in a Group:* Goods, equipment and/or vehicles, estimated to cost US\$200,000 and above, shall be procured through ICB procedures. All bidding procedures and contracts shall be subject to prior review.

11. All other contracts for goods (other than structural steelworks and roofing sheets), equipment and/or vehicles in a group, that are estimated to cost less than US\$200,000, may be procured through NCB procedures acceptable to IDA, with all contracts over US\$100,000 requiring IDA's prior review.

12. *Goods, Vehicles and Equipment valued at US\$50,000 or less:* Items under this category may be procured through International or National Shopping - up to an aggregate limit of US\$300,000. Applicable bid documents and procedures shall be reviewed and cleared by the Bank at the outset.

13. *Spare*s: Spares of estimated value up to US\$10,000, may be procured through direct contracting procedures. The Bank's prior review shall be mandatory.

c) **Services** (US\$1.3 million).

14. Contracts for International consultancy services and contracts exceeding \$200,000 will be awarded under other donor procedures applicable for the selection of International Consultants as this category will not be IDA financed.

15. Other contracts for consultancy services which are estimated to cost less than US\$ 300,000 equivalent per contract may be awarded under QCBS procedures. Contracts costing less than \$200,000 may be limited to National Consultants. All contracts valued at US\$100,000 or greater will be subject to prior review.

16. Small consultancies, institutional services and individual assignment contracts valued at US\$30,000 equivalent or less, up to an aggregate of \$300,000 will be selected on the basis of Consultants' Qualifications.

Procurement methods (Table A)

Table A: Project Costs by Procurement Arrangements
(US\$ million equivalent)

Expenditure Category	ICB	Procurement Method ¹		N.B.F.	Total Cost
		NCB	Other ²		
1. Works	0.0 (0.0)	6.3 (1.2)	3.8 (0.6)	0.0 (0.0)	10.1 (1.8)
2. Goods	4.4 (1.0)	2.5 (0.8)	1.0 (0.5)	0.0 (0.0)	7.9 (2.3)
3. Services	0.0 (0.0)	0.7 (0.1)	5.4 (1.2)	0.0 (0.0)	6.1 (1.3)
4. Miscellaneous	0.0 (0.0)	0.0 (0.0)	31.6 (7.1)	0.0 (0.0)	31.6 (7.1)
Total	4.4 (1.0)	9.5 (2.1)	41.8 (9.4)	0.0 (0.0)	55.7 (12.5)

1/ Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies

2/ Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

NOTE: (a) Goods include building materials (\$600,000).

(b) Under Services, Column "Other" includes \$4.4 million (\$1 million IDA) for Community Providers.

(c) Miscellaneous includes Scholarships, Grants, Local Training, Incremental Salaries and Incremental Operating costs.

Prior review thresholds (Table B)

Thresholds for Procurement Methods and Prior Review

Expenditure Category Subject	Contract Value	Procurement method	Contracts to Prior Review
1. Works:			
Civil Works Construction, rehabilitation, and water and sewerage systems	over \$30,000	NCB	First three contract awards and contracts of \$100,000 or more
Civil Works -Classroom and school upgrading -Resource centers	up to \$30,000	Community participation Local contracting at district level	Initial 5 for procedure testing Initial five contracts
Civil Works	\$10,000 or less. Aggregate limit \$100,000	small piece works through 3 quotations	Once at the outset
Civil Works	Small works \$10,000 or less Aggregate limit \$250,000	Force-Account	Agreed plan All
2. Goods:			
Fabricated steel materials and roofing sheets	\$300,000 and above	ICB	All
	up to \$300,000 in accordance with approved annual plan	NCB	\$100,000 and above
Equipment, Vehicle in group	\$200,000 and above	ICB	All
Goods, Equipment Vehicle in group	Less than \$200,000	NCB	\$100,000
Goods, Equipment and Roofing Sheets	Less than \$50,000 up to an aggregate of \$850,000	International or National Shopping	
Goods, Equipment and spares	\$10,000 or less up to an aggregate \$150,000	Direct contracting	All
3. Services:			
Consultancy Services, international	over \$200,000	NA other donor provision	NA
Consultancy Services	Less than \$200,000 per contract in accordance with approved annual plan	-National Consultants QCBS	\$100,000 or more

Community Service providers, NGOs, or Service Delivery Contractors	Up to \$100,000	QBS, Qualifications on Sole source subject to IDA agreement	
--	-----------------	---	--

Disbursement

Allocation of loan proceeds (Table C)

Category	Amount in US\$ million	Financing Percentage
Civil Works	1,585,300	22.5 % of eligible]
Consultants Services	355,400	" "
Community Service Providers	1,000,700	" "
Goods	2,095,800	" "
Local Training, Grants and Scholarships	3,472,700	" "
Incremental Salaries and Operating Costs	3,530,600	" "
Unallocated	481,500	
TOTAL /a	12,522,000	

a/ Represents 22.5% of Core Investment Program as IDA share of financing.

Financial Assessment Summary

Background. The financial control environment in Nepal has been weakened by the recent transfer of responsibility for the accounting cadre from the FCGO to the Ministry of General Administration. Organizational risks are present in the short-term in the context of the MOE's institutional transition from project approach to program approach. A planned Department of Education has only recently been established that will formally assume program and Financial Management responsibility from July 1999. In order to mitigate institutional development risks, capacity for Financial Management is being built up in accordance with a time-bound *action plan* which includes the phased recruitment, and temporary placement of key FM staff within the Change Management Group set up for the project (see PIP)

Accounting Process. The Project books of account will be kept on a cash basis. The Department of Education (DOE) of the MOE will take leadership in coordinating with District Education Offices (DEOs) and other central level agencies involved in the program execution on a regular basis to obtain the flow of accounting information. DEOs and other central level implementing agencies are required to submit monthly statements of expenditures to the concerned District Treasury Controller's Offices (DTCOs) and

DOE within seven days of the following month. The DOE Finance Section will be fully computerized. Accounting information received from district education offices and other central level implementing agencies will be regularly updated in the computerized system in the Finance Section to enable to timely generate PMRs. The Finance Section will maintain Loan, SOE and other Ledgers required by HMG.

Budget and Program Implementation . The Ministry of Finance (MOF) would allocate annual budgets to BPEP II program implementation as envisaged in the Annual Work Plan and Budget agreed between MOE and donor group. DOE would be responsible for overall program administration and management, which includes programming, budgeting, contract administration, monitoring of project progress, coordinating with donors and implementing agencies and submission of PMRs to HMG/N and donors. DOE would need to be sufficiently equipped and have adequate number of staff (technical, administrative and financial). The actual implementation of the district programs will be carried out through district education offices. Central level programs are to be executed through various central level agencies. Since the BPEP II program execution is being merged into DOEs regular program. Following effectiveness DOE would undertake an assessment of adequacy of accountants in district offices, and would indicate to the donor group arrangements to appoint additional accounting positions in those districts where staff strengthening is indicated.

Risks. There is a potential country risk due to a recent transfer of the accounting cadre of staff from the FCGO to the Ministry of General Administration. FCGO, however, retains overall responsibility and accountability for public financial management including maintaining central accounts (including donor accounts) and preparing the national accounts for timely external audit by the Auditor General. A further risk addressed in the MOE action plan is the timely compilation of accounts and completion of internal audit covering possibly 75 districts within six months of the end of each fiscal year. Even under optimal conditions this will be a significant challenge.

Financial Monitoring and Reporting . The FMIS in the DOE can be further developed through technical assistance as the program is implemented. The FMIS would facilitate timely and reliable project management information, and would be integrated with the Project Management Information System (PMIS) in order to map the financial data with physical data to monitor the performance of the Project. Under Japan PHRD funding, IDA is currently providing assistance to the MOE to develop the FMIS' linkage with the Project Management Reports (PMRs) as required under IDA's Loan Administration Change Initiative (LACI).

Based on the assessment and review of the current financial management system, until the capacity of the DOE is built up, existing disbursement procedures will be followed. The Bank will review progress made in establishing a sound financial management system after about a year, and will ascertain whether the Project is then eligible for PMR-based disbursements. If qualified, appropriate arrangements will be made to convert to PMR-based disbursements.

The Project will produce from the outset the following PMR statements – Financial Statement – Report 1A and Section 3 – Procurement Management Reports. In order to match with the government planning and reporting cycle, the PMRs would be produced on a trimester basis and submitted within 30 days of the end of each trimester. They would inform Project Management, the Government and the Donor Group of the project's physical and financial progress, and would feature commitment monitoring which will give advance indication of project expenditure status. Trimesterly project management reports, will be provided to all donors, will be valuable for progress monitoring and subject to close review and supervision. This will allow prompt follow-up to bring to HMG's attention any developing problems in the project's accounting, internal controls, financial reporting, etc.

Proposed Staffing Arrangements . Against this backdrop the implementing capacity of the newly created Department of Education (DOE) in the MOE has to be adequately staffed. The Action Plan (see PIP) is expected to result in a sound financial management system for BPEP II. Under the plan, the DOE would be provided with essential staff skills and a core of five accounting staff according to an agreed schedule to ensure that financial management capacity would be available by project startup in July 1999. It would provide staff to maintain a Financial Monitoring Information System (FMIS) being developed with consultant assistance. The FMIS would facilitate timely and reliable project management information, and would be integrated with the Project Management Information System (PMIS) in order to map the financial data with physical data to monitor the performance of the Project.

Audit Arrangements . Program Financial Statements, prepared in the formats as agreed with the Bank, will be audited annually by the Auditor General of Nepal who is considered an independent auditor for the Bank's purposes. This arrangement will be agreed during negotiations. The terms of reference for the audit will require the AG to provide a separate audit opinion in his audit report on: (i) the project accounts, to ensure that project funds have been spent in accordance with the terms and conditions of the project legal agreements; (ii) the PMRs/SOEs submitted for reimbursement purposes during the year, confirming these are properly supported by formal contracts and documentation checked and verified by the project accounting staff; (iii) the project's Special Account to ensure that this has been operated in accordance with Bank procedures. DOE will make available to the AG the PAD, project cost tables, legal agreements and such other information and explanations as the AG shall require from time to time to carry out his duties. Under the DG of the DOE, the Chief Finance Controller of the DOE will be the main financial liaison person with the AG's office to ensure the audit is carried out in a timely way and to formally answer all questions raised by the AG. The DOE, district education offices and other central level implementing agencies will provide the AG with the project annual financial statements (project accounts) and all supporting documents required by the AG within 60 days of the end of the fiscal year. The annual project accounts package together with the audit report thereon including the three audit opinions noted above will be submitted to the Bank within 6 months of the end of the fiscal year. The unaudited accounts will be submitted to the Bank within 3 months of the end of the fiscal year.

Use of statements of expenditures (SOEs):

For the interim period until the disbursement is based on PMR, IDA may require withdrawals from the Credit Account to be made on the basis of SOE for expenditure: (a) for civil works under contracts costing less than US\$100,000 each, (b) for equipment, furniture, materials and vehicles under contracts costing under US\$100,000 equivalent each, (c) for consultants' services under US\$50,000 in case of firms, and US\$20,000 equivalent in case of individuals, and (d) for all local training, grants, scholarships, incremental salaries, and operating costs.

Special account:

A Special Account in US Dollars may be established, on terms and conditions satisfactory to IDA. For the interim period until the disbursement is based on PMR, an arrangement would be made to have an authorized allocation of US\$1.2 million and would follow the existing disbursement procedure. DOE would submit replenishment applications for the Special Account on a monthly basis, or when 25% of the authorized allocation has been used, whichever occurs first. The replenishment applications would be supported by the necessary documentation including a bank statement and a reconciliation statement.

When the project qualifies for PMR based disbursements, the amount of the authorized allocation would vary to cover two trimesters expenditures financed by the credit. This authorized allocation of the special

account cannot exceed an amount representing 20% of the credit. The Special Account would be replenished at least trimesterly, based on the budget presented in the PMR, to assure liquidity of funds, and all replenishment applications would be accompanied by reconciled statements from the bank in which the account is maintained, showing all transactions in the Special Account. Supporting documentation would be maintained by the DOE and DEOs for at least one fiscal year after the year in which the last disbursement from the credit took place, and would be available for Bank staff and independent auditors review.

**Annex 7: Project Processing Schedule
NEPAL: Basic and Primary Education Project**

Phase I of an APL Credit to support the Basic and Primary Education Program

Project Schedule	Planned	Actual
Time taken to prepare the project (months)		25
First Bank mission (identification)		07/28/96
Appraisal mission departure	09/15/98	09/15/98
Negotiations	12/07/98	02/23/99
Planned Date of Effectiveness	03/15/99	07/16/99

Prepared by:

Ministry of Education, HMG/N

Preparation assistance:

Danida, NORAD; PHRD Grant (Japan)

Bank staff who worked on the project included:

Name	Speciality
Thomas Eisemon	Senior Education Specialist
Adriaan Verspoor	Principal Education Advisor
Grant Sinclair	Senior Implementation Specialist
Brajesh Panth	Education Specialist
Audrey Aarons	Education Specialist
Keith Hinchliffe	Senior Economist
Kowsar Chowdhury	Education Specialist
Bigyan Pradhan	Financial Management Specialist
Sara Gonzalez Flavell	Lawyer
Ranjith Wiratunga	Disbursement Officer
Robert Saum	Financial Management Specialist
Mark Schlagel	Operations Assistant
Gertrude Stubblefield	Team Assistant
Irajen Appasamy	Operations Analyst
Kiran Ranjan Baral	Procurement Specialist

Peer Reviewers: Sue Berryman (ECSHD); Linda Dove (OED); Elizabeth King (DECRG)

Annex 8: Documents in the Project File*
NEPAL: Basic and Primary Education Project

Phase I of an APL Credit to support the Basic and Primary Education Program

A. Project Implementation Plan

Basic and Primary Education Project (BPEP II), 1998-2002. *Project Implementation Plan (Main Report), Volumes I, II, and III*. His Majesty's Government, Ministry of Education, Nepal. April 1998

Basic and Primary Education Project (BPEP II), 1999-2004. *Project Implementation Plan (Main Report)*. His Majesty's Government, Ministry of Education, Nepal. August 1998.

B. Bank Staff Assessments

Pre-appraisal Mission Part II. Aide Memoire. January 1998.

Follow-up Pre-appraisal Mission. Aide Memoire. April 1998.

Appraisal Mission Part I. Aide Memoire. September 1998.

Appraisal Mission Part II. Aide Memoire. December 1998.

Nepal Country Assistance Strategy. November 1997/November 1998.

Nepal Country Economic Memorandum. November 1997.

Project Concept Document. July 1996

Project Information Document. May 1998.

C. Other

Bajracharya, H.R., B.K. Thapa, R. Chitralar. *Trends, Issues and Policies of Education in Nepal, A Country Case Study*. Research Centre for Educational Innovation and Development, Tribhuvan University, Tripureshwor Kathmandu, 1997.

Irvine, J. ROSA Report No. 22: *Monitoring progress towards education for all: reflections on data issues in South Asia*. UNICEF, 1997.

Finnish Support to the Basic and Primary Education Sub-Sector Development Programme (BPEP Phase II) in Nepal. His Majesty's Government of Nepal, Ministry of Education. Republic of Finland, Ministry of Foreign Affairs. February 1998.

Rapid Independent Assessment of Basic and Primary Education Project. Institute for Integrated Development Studies (IIDS). Kathmandu, Nepal. 1998.

The Basic and Primary Education Master Plan for 1997-2002. The Master Plan Team. His Majesty's Government, Ministry of Education, Kathmandu. May 15, 1997.

Component Plans. Basic and Primary Education sub-Sector Program, 1998-2002, Volume II. Ministry of Education, HMG/N. August 1997.

Financial Management Information System (Draft Design). Basic and Primary Education Project (BPEP II), 1998-2002. His Majesty's Government, Ministry of Education. Nepal. April 1998.

Secondary Education Action Plan (1997-2002). Secondary Education Development Project (SEDP), His Majesty's Government, Ministry of Education. Asian Development Bank (ADB) and Secondary Education Project (SEP), Department for International Development (DFID). June 1998.

*Including electronic files

Annex 9: Statement of Loans and Credits
NEPAL: Basic and Primary Education Project

Phase I of an APL Credit to support the Basic and Primary Education Program

Project ID	FY	Borrower	Purpose	Original Amount in US\$ Millions			Difference between expected and actual disbursements ^a		
				IBRD	IDA	Cancel.	Undisb.	Orig	Frm Rev'd
Number of Closed Projects: 54									
NP-PE-10509	1998	GOVT OF NEPAL	MULTIMODAL TRANSIT	0.00	23.50	0.00	18.65	2.18	0.00
NP-PE-10530	1998	HMG/N	IRRIG SECTOR DEVT	0.00	79.77	0.00	79.41	9.28	0.00
NP-PE-48026	1998	KINGDOM OF NEPAL	AGRI RES & EXTENSION	0.00	24.30	0.00	21.96	7.18	0.00
NP-PE-10516	1997	HMG	RURAL WS& SANITATION	0.00	18.28	0.00	15.85	3.63	0.00
NP-PE-10454	1994	MIN OF EDU.& CULTURE	HIGHER EDUCATION	0.00	20.00	0.00	14.07	11.09	0.00
NP-PE-10460	1994	GOV. OF NEPAL	POPULATION & HEALTH	0.00	26.70	0.00	18.03	14.51	0.00
NP-PE-10475	1994	HMG	ROAD MAINT.& REHAB.	0.00	50.50	0.00	15.40	13.67	0.00
NP-PE-10392	1992	HMG/N	POWER EFF IMPROVEMEN	0.00	65.00	0.00	15.29	11.79	0.00
NP-PE-10395	1992	GOVT OF NEPAL	BASIC & PRIMARY EDUC	0.00	30.60	0.00	1.39	-0.20	0.00
NP-PE-10396	1992	HMG/N	TELECOMS. V	0.00	55.00	0.00	14.12	11.45	0.00
NP-PE-10370	1991	HMG/NWSC	URB WATER & SAN REHAB	0.00	60.00	25.45	24.15	46.39	17.84
NP-PE-10348	1990	HMG/N	BHAIRAWA LUMBINI III	0.00	47.20	0.00	0.54	-4.24	0.00
NP-PE-10330	1989	HMG, NEPAL	HILL COMMUNITY FORES	0.00	30.50	21.52	0.32	21.01	-0.52
NP-PE-10333	1989	GOVERNMENT OF NEPAL	ENGINEERING EDUC.	0.00	11.40	0.00	4.00	3.03	-0.51
Total:				0.00	542.75	46.97	243.18	150.77	16.81

	Active Projects	Closed Projects	Total
Total Disbursed (IBRD and IDA):	270.90	884.59	1155.49
of which has been repaid:	0.00	58.81	58.81
Total now held by IBRD and IDA:	495.78	760.38	1256.16
Amount sold:	0.00	0.00	0.00
of which repaid:	0.00	0.00	0.00
Total Undisbursed:	243.18	0.00	243.18

^a Actual disbursements to date minus intended disbursements to date as projected at appraisal.

NEPAL
STATEMENT OF IFC's
Held and Disbursed Portfolio
31-Dec-1998
In Millions US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1975/93	Soaltee Hotel	0.00	0.00	0.45	0.00	0.00	0.00	0.45	0.00
1994	Himal Power	28.00	3.58	0.00	0.00	14.00	3.13	0.00	0.00
1996	Bhote Koshi	21.00	0.00	3.00	36.00	8.73	0.00	1.23	14.97
1998	Jomsom Resort	4.00	0.00	0.00	0.00	3.00	0.00	0.00	0.00
	Total Portfolio:	53.00	3.58	3.45	36.00	25.73	3.13	1.68	14.97

FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic
1994	KHIMTI KHOLA	0.00	0.00	0.00	5.00
	Total Pending Commitment:	0.00	0.00	0.00	5.00

Annex 10: Country at a Glance

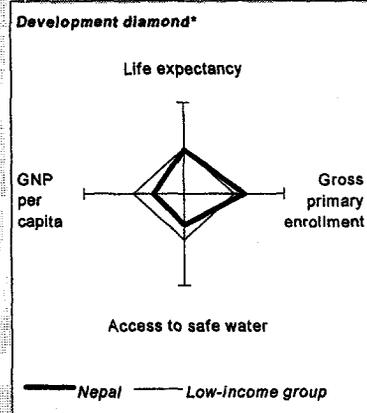
NEPAL: Basic and Primary Education Project

Phase I of an APL Credit to support the Basic and Primary Education Program

9/29/98

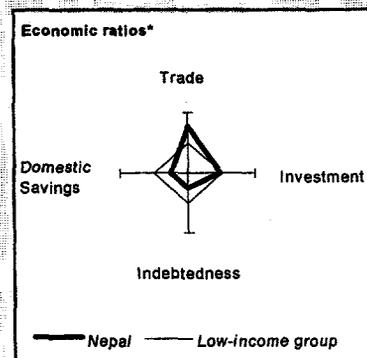
POVERTY and SOCIAL

	Nepal	South Asia	Low-income
1997			
Population, mid-year (millions)	22.6	1,289	2,048
GNP per capita (Atlas method, US\$)	210	390	350
GNP (Atlas method, US\$ billions)	4.7	502	722
Average annual growth, 1991-97			
Population (%)	2.7	1.9	2.1
Labor force (%)	2.5	2.2	2.3
Most recent estimate (latest year available, 1991-97)			
Poverty (% of population below national poverty line)	42
Urban population (% of total population)	11	27	28
Life expectancy at birth (years)	57	62	59
Infant mortality (per 1,000 live births)	82	71	76
Child malnutrition (% of children under 5)	49	63	61
Access to safe water (% of population)	48	77	71
Illiteracy (% of population age 15+)	73	51	47
Gross primary enrollment (% of school-age population)	110	99	91
Male	129	109	100
Female	89	89	81



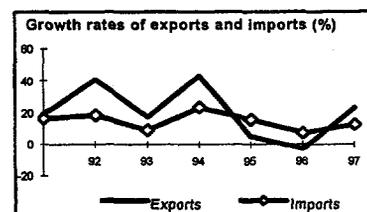
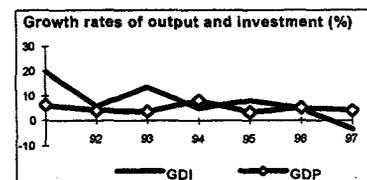
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1976	1986	1996	1997	
GDP (US\$ billions)	1.5	2.9	4.5	4.9	
Gross domestic investment/GDP	15.1	19.0	22.9	21.4	
Exports of goods and services/GDP	10.8	11.7	22.3	26.2	
Gross domestic savings/GDP	11.7	10.6	9.4	9.1	
Gross national savings/GDP	15.6	12.2	11.2	11.1	
Current account balance/GDP	0.3	-6.8	-11.7	-10.3	
Interest payments/GDP	0.0	0.4	0.7	0.6	
Total debt/GDP	3.4	26.5	53.5	48.6	
Total debt service/exports	1.0	7.5	7.7	6.8	
Present value of debt/GDP	25.6	..	
Present value of debt/exports	103.9	..	
(average annual growth)	1976-86	1987-97	1996	1997	1998-02
GDP	3.4	5.1	5.3	4.0	4.1
GNP per capita	0.7	2.5	2.5	2.0	1.7
Exports of goods and services	3.5	16.4	-2.7	23.4	5.2



STRUCTURE of the ECONOMY

	1976	1986	1996	1997
(% of GDP)				
Agriculture	69.3	51.5	41.5	41.4
Industry	8.9	15.9	22.9	22.2
Manufacturing	4.2	6.2	9.6	9.3
Services	21.9	32.7	35.6	36.4
Private consumption	80.8	80.3	81.4	81.8
General government consumption	7.4	9.1	9.2	9.1
Imports of goods and services	14.2	20.1	35.8	38.5
(average annual growth)	1976-86	1987-97	1996	1997
Agriculture	0.8	2.5	4.4	4.1
Industry	14.0	8.4	8.3	3.5
Manufacturing	6.9	10.5	9.0	5.7
Services	-5.5	6.5	5.4	3.5
Private consumption	3.4	5.1	9.9	5.5
General government consumption	6.5	5.1	9.4	0.3
Gross domestic investment	6.1	6.8	4.8	-3.3
Imports of goods and services	7.6	12.9	7.3	12.8
Gross national product	3.4	5.2	5.3	4.6

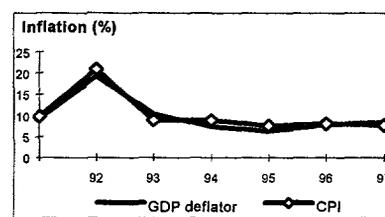


Note: 1997 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

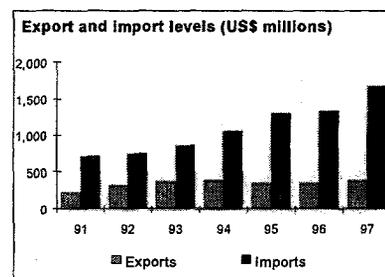
PRICES and GOVERNMENT FINANCE

	1976	1986	1996	1997
Domestic prices				
<i>(% change)</i>				
Consumer prices	..	16.0	8.1	7.8
Implicit GDP deflator	0.5	14.4	7.8	8.5
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	8.3	11.2	10.8
Current budget balance	..	-1.6	0.7	0.9
Overall surplus/deficit	..	-9.2	-7.5	-7.2



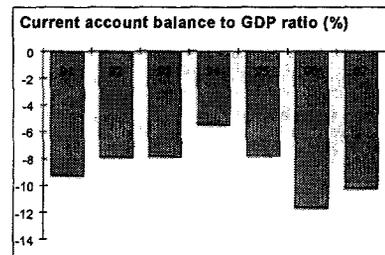
TRADE

	1976	1986	1996	1997
<i>(US\$ millions)</i>				
Total exports (fob)	..	156	360	394
Carpets	..	42	35	50
Garments	..	13	12	18
Manufactures	..	41	97	104
Total imports (cif)	..	474	1,348	1,683
Food	..	60	96	123
Fuel and energy	..	54	100	127
Capital goods	..	108	277	247
Export price index (1995=100)	..	63	106	108
Import price index (1995=100)	..	70	103	105
Terms of trade (1995=100)	..	91	103	104



BALANCE of PAYMENTS

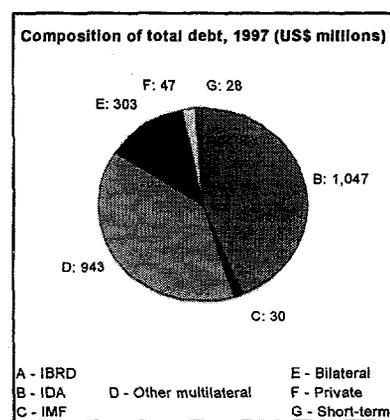
	1976	1986	1996	1997
<i>(US\$ millions)</i>				
Exports of goods and services	156	330	1,003	1,292
Imports of goods and services	205	569	1,612	1,898
Resource balance	-49	-239	-609	-605
Net income	5	0	-3	5
Net current transfers	49	45	84	95
Current account balance	5	-194	-528	-506
Financing items (net)	25	223	509	562
Changes in net reserves	-30	-29	19	-56

**Memo:**

Reserves including gold (US\$ millions)	..	146	669	678
Conversion rate (DEC. local/US\$)	12.0	19.5	55.2	57.0

EXTERNAL DEBT and RESOURCE FLOWS

	1976	1986	1996	1997
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	50	755	2,413	2,398
IBRD	0	0	0	0
IDA	9	295	1,049	1,047
Total debt service	2	28	85	97
IBRD	0	0	0	0
IDA	0	4	16	17
Composition of net resource flows				
Official grants	6	108	146	195
Official creditors	11	113	150	160
Private creditors	0	27	-10	-13
Foreign direct investment	0	0	0	0
Portfolio equity	0	0	0	0
World Bank program				
Commitments	46	81	0	146
Disbursements	4	56	62	54
Principal repayments	0	1	8	9
Net flows	4	55	54	45
Interest payments	0	3	8	8
Net transfers	4	51	46	38



**Additional
Annex No.: 11
NEPAL: Basic and Primary Education Project**

**Development Policy Statement and
Basic and Primary Education Policy Framework**

This *Sub-Sector Policy Statement* sets out the main features of His Majesty's Government of Nepal's (HMG/N) Basic and Primary Education Program II. A policy framework for the Basic and Primary Education (BPE) program is attached. The program represents a significant landmark in Nepal's investment in human resources development and poverty alleviation to meet the challenges of the 21st century. The Ninth Plan (1997-2002) has established a vision for twenty years. The program is designed to be consistent with the Ninth Plan and the Sub-Sectoral Development Program (SSDP: 1998-2003), both of which emphasized the need to adopt a longer-term perspective in the sub-sector.

By the end of the 10-year period, the government intends to extend the duration of basic education from the present 5 years to 8 years. The government will establish legal provision to ensure universal attendance of children building on the experience of Compulsory Primary Education (CPE) presently under experimentation in a few selected districts. All districts will plan, manage and implement basic and primary education programs in a decentralized planning and management framework. Authority will be devolved to local communities for school management and planning to promote community ownership of schools. Schools will prepare their own quality improvement activities and they will be funded based on performance. The quality of primary teaching force will be raised by upgrading their entry qualification from the present level (Grade 10) to at least Intermediate level (Grade 12) with a mechanism that provides incentives to teachers commensurate with their qualifications and experience.

The long-term goal of the BPE sub-sector is to: (a) establish the capacity to enroll primary school age children in schools or in alternate schooling programs as well as to ensure retention and completion, especially of girls and other socially disadvantaged groups; (b) improve learning achievement; and (c) build and strengthen institutional capacity at the national, district, and community levels to plan, monitor and improve the performance of primary schools.

The longer-term perspective will accommodate the magnitude of the task and the need to develop institutional and management capacity before the expected quality, efficiency and access objectives can be fully achieved. The availability of a long-term strategy will allow both the Ministry of Education (MOE) and the donor community to plan for continuing investments in education and to be in a better position to ensure support for basic and primary education beyond the five-year program period. Within this longer-term view, two phases of the investment program are envisaged, each phase of five-year duration. Within the first phase, the first three years of the program will give priority to institutional development. HMG/N, hereby, requests the World Bank's assistance in the form of a series of Adaptable Program Loans (APL), with an initial commitment of US\$50 million for the ten-years and a first APL of US\$27.6 million, to support implementation of this initiative. Along with IDA, other co-financiers of the sub-sector investment program include Danida, European Union (EU), Finnida, Norad, Jica, Unicef, and Asian Development Bank (ADB).

HMG/N and the World Bank have a long history of collaboration and involvement in BPE, which began in 1984 with the initiation of the Primary Education Project (PEP). As a result of positive experiences of PEP and the Seti Education for Rural Development Project (SERDP) initiated in early

1980s and subsequent emphasis of the 1990 Jomtien "Conference on Education for All," jointly sponsored by the World Bank, Unicef and UNESCO, HMG/N launched the Basic and Primary Education Project (BPEP I) in 1992. The 1995 Mid-Term Review (MTR) of the Project recognized that the Project made significant contribution in improving the access to basic education and emphasized the need to focus on capacity building and quality improvements. It also emphasized the need for a Phase II so as to consolidate and extend the Project activities nationwide within a sub-sectoral development framework. Given the magnitude of the task, it was envisaged that the program would be implemented with multi-donor funds.

Some important lessons have been learned from the experiences of BPEP I and other efforts in the sub-sector. First, in order to ensure quality enhancement it is necessary to give adequate attention to classroom practices and student learning together with supply of quality inputs. Secondly, centralized planning and programming cannot address local needs and conditions nor does it generate the sense of ownership on the part of the parents and other stakeholders. Thirdly, nationwide implementation of BPEP would require a strong technical institution at the central level to provide support to the districts that, in effect, will be taking the responsibility of planning, implementing and monitoring BPE activities. Finally, a longer-term vision and strategy is required to make marked improvements in processes and outcomes of primary education and that capacity building is a pre-requisite in achieving these two goals.

MOE intends to implement the ten-year program of BPE in two phases of five years' duration each, divided into three stages, each with a specific priority. The main emphasis of the first stage (July 1999-June 2002) will be to (a) develop capacity at central, district and community level institutions to improve school quality, (b) increase equitable access to nonformal and formal primary education, and (c) develop appropriate strategies for pre-service teacher training, nonformal primary education, and early childhood education. The first stage of the Program coincides with the MTR of BPEP II. Building into the capacity and strategy established under stage one, the second stage (July 2002 - June 2005) aims at (a) strengthening institutional capacity to deliver BPE, (b) continuing support for primary school quality improvement, and (f) delivering pre-service teacher training, nonformal primary education, and early childhood education programs. The third stage of the 10-year program (July 2005 - June 2009) is basically a consolidation stage emphasizing (a) continuation of capacity building to deliver school quality and ensure equitable access, (b) strengthening of primary school teacher education and training, (c) development of policy options to increase the basic education cycle from 5 years to 8 years, and (d) establishment of legal provision for compulsory primary education laws up to grade 5.

The intention of the MOE is to implement BPEP II (1999-2004) starting July 1999. To accomplish that, the following tasks have already been accomplished: (a) approval by the Cabinet to establish the Department of Education (DOE) and merge BPEP units into the regular structure of MOE/DOE; (b) appointment and functioning of Change Management Group (CMG) and Technical Support Advisory Group (TSAG); (c) commissioning of the baseline learning achievement assessment of Grade V students; (d) establishment of funds flow mechanism to allow flow of resources directly to MOE/DOE at central and decentralized levels; and (e) initiation of the preparation and approval of district education plans and school improvement plans.

The second stage of APL (4 years) will be processed following completion of the MTR, scheduled for 2002. By then, the following tasks will be completed: (a) establishment of an effective donor coordination mechanism within the MOE; (b) completion of follow-up national assessments of basic skills of Grade 3 and 5 children; (c) effective functioning of DOE; (d) implementation of district planning process based on school improvement plans, as the basis for budget allocation; (e) completion of piloting of pre-service primary teacher training; and (f) increased involvement of NGOs/CBOs as providers of nonformal primary education, special education, and early childhood education based on objective criteria

and procedures.

The third stage of APL (3 years) will start from July 2004/5 and will be a part of BPEP III (2004-2009). For the processing of this stage, the MOE intends to accomplish the following tasks: (a) implementation of human resource development program throughout MOE, including relevant agencies; (b) completion of follow-up national assessments of Grade 3 and 5 children; (c) approval of framework for a primary school teacher career development (education, training, incentives strategic and career paths); and (d) implementation of district planning strategies targeting disadvantaged communities.

MOE considers the quality, efficiency, and management objectives to be the most critical of the sub-sector. Therefore, an attempt has been made to develop a coherent and credible strategy for quality and efficiency improvements and capacity building. GER, NER and retention objectives have been defined in a five (BPEP II) and ten-year (BPEP III) perspective to reflect the program emphasis on quality and efficiency objectives. This strategic emphasis will contribute to the financial sustainability of BPE programs. This is particularly important in the context of the severe constraints on public expenditures that Nepal currently faces. The thrust of such a strategy is to narrow down the gap of almost 47% points between the NER and the GER by reducing the GER target to 106% and increasing the NER to about 90% by 2004. In order to reduce this gap, several measures have been proposed, including: (a) provision of appropriate education opportunities to underage and overage children who currently take up more than 30% of the available primary school places, (b) improvement in the timeliness and accuracy of educational statistics, (c) implementation of programs to improve the quality of instruction, and (d) creation of appropriate education opportunities for socially disadvantaged groups.

In order to manage a program of this magnitude and complexity successfully, the government recognizes the need to build strong and stable management at the national, district, and local levels. The capacity building strategy is proposed with a view to developing the capacity of institutions and personnel to enable them to undertake planning and implementation functions, particularly in the context of decentralized planning.

To achieve the quality, access and capacity building objectives of the program, several components have been developed establishing linkages and coherence among themselves. The key features of the BPEP II program are: (a) introduction of continuous assessment and liberal promotion policies; (b) support for piloting targeted interventions designed to provide education opportunities for socially disadvantaged groups and girls and expansion of those that are proven to be cost effective; (c) raising the percentage of female primary school teachers by adopting effective strategies to recruit females in teacher replacement positions; (d) improvement in teaching practices in the classroom through the provision of recurrent training, professional on-the-job support, and timely provision of textbooks and supplementary materials designed for multi-grade instruction; (e) strengthening capacity at the national and district levels to design and efficiently deliver quality education; and (f) strengthening community support for, and monitoring delivery of education services, including teacher attendance.

School physical facilities improvement is a key component of the program. The stock of classrooms suitable for effective teaching-learning is still inadequate. Most primary schools in Nepal lack sanitation and water facilities, school garden and compound walls or fences. Girls, in particular, suffer due to the lack of toilets in the schools. The lack of these basic facilities discourages children from attending schools and hampers daily classroom teaching-learning. BPEP I made provision for constructing toilets and drinking water systems. The coverage, however, has remained very limited. In addition to new classroom construction, BPEP II emphasizes creating an appropriate physical learning environment in schools, thereby motivating children to enroll and continue their schooling. All schools having programs of

classroom construction and rehabilitation will receive support to construct toilets and drinking water facilities, which are important for retention. The Core Investment Program (CIP) will include support for 5,400 new/replacement classrooms; 10,800 classrooms to be repaired; water and toilets for up to 8,000 schools; maintenance, and administrative buildings and Resource Center buildings.

An essential element of BPEP II is to ensure schooling opportunity of a comparable quality either through formal primary schools or other alternative arrangements. Alternative schooling provides a potential means of reaching the hard-to-reach groups. BPEP will support the establishment of non-formal education classes as alternatives to formal schooling for isolated small communities and for out-of-school children. The overall objective of alternative schooling program is to guarantee access to schooling to otherwise out-of-school children. This component will be launched through a three-pronged strategy as: (a) a school outreach program in which primary schools will conduct extension programs in their catchment areas, particularly for those who cannot come to schools, (b) an alternative primary education for a specific period of time at a fixed place, and (c) as a basic education program for adolescents. These strategies will be piloted so as to evolve viable interventions.

As 40% of primary school going-age girls are still out of schools, it is essential that the program address the issue of non-participation and low retention of girls. All components of the program have equally emphasized the gender and social equity. In order to minimize the direct costs of schooling, MOE will design and implement incentive schemes so that girls and children from disadvantaged communities can utilize the existing schooling facilities upon piloting.

BPEP II will support inclusive education of children with non-severe (mild to moderate) disabilities in primary schools. To achieve this aim, the program will support primary schools in identifying and assessing such children, train special education teachers, and provide appropriate teaching-learning materials designed to ensure effective mainstreaming of these children in primary schools. An important main focus of BPEP II, therefore, will be on developing a replicable model for identification of children with disabilities, training of teachers and implementation of inclusive schooling.

The development and accelerated implementation of a community-based Early Childhood Development (ECD) program will contribute significantly to achieve the quality and efficiency objectives of BPEP II. There is over-crowding in Grade I because of the presence of under-age children, who do not have access to pre-school services. Evidence suggests that more than 20% under-age children enroll in Grade 1. Most of them repeat and drop out, making primary schooling excessively costly and inefficient. An ECD program is a critical intervention to bring about the overall quality and efficiency goals of the primary education system. Experience suggests that the ECD centers at schools and communities can free many girls and women from child care to attend schools or join the workforce. ECD provisions also not only relieve girls from sibling care but also provide an educational advantage for the younger siblings. It is important that these centers are established near existing schools to achieve these dual goals. The ECD program will lower the tendency of enrolling under-age children in Grade I and thereby contribute to increase internal efficiency of primary education system. In this context, BPEP II will develop models and support the practice of community-based ECD centers. It is encouraging that international experience suggests that ECD programs are usually in high demand by communities. ECD activities will be targeted to poor communities where enrollment and retention of primary children, especially of girls and disadvantaged children, are low. Local VDCs and municipalities will be encouraged to supplement ECD program from their internal resources.

Community mobilization activities under BPEP II are designed and targeted on the large scale to address the inter-related issues of non-enrollment, non-attendance and low retention. This component

promotes initiatives to ensure community participation and ownership that are essential to ensure long-term sustainability. Based on the experience of the Village Readiness Program implemented during BPEP I the government has developed concrete plans to ensure bottom-up, community-based planning, including parents, teachers and other local stakeholders. Community mobilization will begin with the establishment of VECs and SMCS.

School quality will be improved through greater parental involvement and participation in school-based activities. For this, school management committees and community members will be involved in the preparation and implementation of school level plans.

In order to ensure that classroom instruction is supported by well-designed textbooks and instructional materials, BPEP II plans to renew primary curriculum, textbooks and teachers guides for all subjects of primary grades; develop optional textbooks; distribute textbooks and other materials; and set up a publishing unit in BPEPU to enable it to develop prototype copies. Continuous assessment of student learning achievement is a key element of a quality improvement strategy. Interventions under this sub-component are integral to the curriculum and textbook renewal.

BPEP II will adopt the liberal promotion policy (LPP) as a strategy for granting promotion to grade 1-3 children, linking it with a system of continuous assessment and recurrent teacher training. Under this policy, a minimum level of demonstrated learning will be determined for each grade and learning will be assessed continuously. Instructional methods will be modified accordingly, to help students achieve at least the minimum learning levels. For those unachieved cycle learning outcomes, the students will be provided opportunities to achieve them in next upper grade(s).

The government policy on primary teacher training is directed towards (a) establishing an overall teacher development strategy encompassing pre-service, in-service/recurrent and professional support system; (b) clearing the existing backlog of untrained teachers within the shortest possible time period; (c) stopping the entry of untrained teachers into the teaching force by strictly following the policy of a mandatory 10-month teacher training and making institutional arrangements for the provision of such training; and (d) introducing a teacher crediting system to recognize professional experience and participation in recurrent teacher training as partial credit in meeting professional training requirements.

Strategies to support teachers' ability to implement the curriculum will be done through school-based and cluster-based training programs, followed by regular professional support, organized by the school or the resource person at the school level. All teachers will receive a 10-day recurrent training every year. In order to increase the effectiveness of the recurrent training, a number of measures have been proposed. Recurrent training modules using a variety of approaches, including the whole school approach, will be delivered. Recurrent modules will be devised and implemented in such a way that they promote appropriate utilization of teaching-learning materials, including textbooks, supplementary readers, teachers' guides and instructional materials.

In order to re-orient the MOE/DOE to work as a technical support ministry, the development of human resources and strengthening of institutional capacity are emphasized in BPEP II. The first three years of the program (until MTR) will give greater focus on developing and strengthening institutional capacity at various levels of management. This is expected to enhance the capacity both at national and decentralized levels for education planning, management and administration and technical expertise in curriculum development, assessment, educational research and evaluation, and district and school level planning. Staff development activities have already begun under the Institutional Linkage Program (ILP).

To ensure coordination of BPE activities within the education sector and across the different line ministries, a Program Execution Board, headed by the Secretary for Education, will be established. This body, supported by TSAG, will oversee the program implementation, including monitoring.

MOE intends to implement BPEP II through the Department of Education (DOE) and other institutions at national, district and below-district levels. The Cabinet recently has given its approval to establish the DOE to take overall responsibility for planning, programming, implementing and monitoring activities related to primary education. The DOE will implement primary education programs and activities, including integration of technical functions such as teacher training and curriculum and textbooks development, delivered by NCED and CDC respectively. Likewise, a Nonformal Education Centre (NFEC) has been created to take responsibility for planning and programming of different NFE programs; development, production and distribution of NFE curriculum and materials, and implementation, supervision and monitoring.

To facilitate the smooth merger of BPEP components into the MOE and oversee the transition process, MOE has created a Change Management Group (CMG), under the chairmanship of the Secretary of Education. The transition arrangements, and planning and monitoring of execution during the merger phase, will be indispensable pre-requisites to executing the BPEP II program to achieve the BPEP II objectives set by MOE. Likewise, MOE has established a Technical Support Advisory Group (TSAG) to provide technical back-stopping to DOE, central MOE institutions and districts, and to coordinate technical assistance and training activities. It also will oversee the quality of technical works within DOE. The present BPEP office will be converted into Basic and Primary Education Development Unit (BPEDU) to function basically as a service providing entity.

A major focus of BPEP II is to shift planning and implementation responsibilities to the districts. In each district there will be a Basic and Primary Education Sub-Committee working under the District Education Committee. This sub-committee will consist of representatives of the DDC, VDCS, SMCs, HMs, teachers, NGOS, education experts, and RPs. The primary function of this sub-committee will be to formulate district level BPE plans and programs, co-ordinate all BPE activities in the district, mobilise local resources, review and follow-up annual programs and create a supportive atmosphere for the implementation of the BPE activities and programs. The Resource Centre (RC) system will be instituted nation-wide to provide technical and professional support to cluster schools. RCs will undertake cluster level planning, programming, and implementation of BPE-related activities. Each VDC will be encouraged to form a Village Education Committee consisting of representatives of the VDC, SMCs, NGOs, headmasters, teachers and RPs. The primary function of this committee will be to formulate village level BPE plans and programs, co-ordinate all BPE activities in the village, mobilise local resources, review and follow-up annual programs and create a supportive atmosphere for the implementation of the BPE activities and programs. It also will co-ordinate SMCs and NGOs and monitor their activities. VECs will be particularly responsible for implementation of early childhood development, alternative schooling, literacy, special education and community mobilisation activities.

Under BPEP II, the MOE intends to initiate a bottom-up planning process whereby each school would prepare a School Improvement Plan (SIP) through a micro-planning exercise. The SIP will include an action plan for the physical and instructional improvements of the school. The SIP process is currently under trial in select clusters of two districts. SMCs will be reorganised with a distinct majority of members from among elected parents, including mothers. The SMC will have powers in matters of recruitment of temporary teachers, monitoring of school operations, annual review of the performance of the school, reward and punishment of teachers, control of school finance, management of school funds and property, resource mobilisation and nomination of teachers for training and academic upgrading, distribution of

textbooks and scholarships. These tasks will be performed through the Headmaster.

The Basic and Primary Education Sub-sector Investment Program (BPESIP), prepared by the government and presented in the PIP, includes all development and recurrent expenditures anticipated for BPE for the five-year period, starting with the 1999/00 fiscal year. The overall cost of BPE subsector for the five-year period is estimated to be Rs. 29,030 million (US\$ 427 million), of which the Core Investment Program (CIP) consists of US\$ 112 million. The BPESIP is broken down in three parts (a) the CIP, (b) other development programs within the sub-sector, and (c) regular expenditures funded through HMG. BPEP II will follow a basket approach, whereby the five collaborating MESAs (Danida, EU, IDA and Norad) and HMG counterpart funds will form a basket to finance the major portion of the CIP. There has been considerable effort and co-operation by the donor group during the BPEP II preparation process in trying to achieve agreement on financing a common core program (basket). This offers many advantages to HMG in terms of convenience for co-ordination and reporting. It also offers the possibility of joint missions with rotating leadership and avoids the potential for conflicting advice and the risk of poorly integrated donor initiatives, since all programs would meet the agreed parameters discussed with MOE and subject to annual review. The donors in the basket and sub-basket are shown below:

Basket supported by MESAs	TA Sub-Basket
Danida, IDA, NORAD, EU and HMG/N	Danida, EU, NORAD, FINNIDA and UNICEF

The MOE intends to adopt a national and district level approach to funding, particularly at the district and school levels, that will encourage greater local involvement. All districts and schools would be eligible for national level activities, whereas eligibility for supplemental funding would be strictly linked to the strategic plan preparation by the district. There will be three types of funding modalities for the districts: (a) Basic Funding A, linked to the number of students/classes and in a range of Rs. 3,000- 7,000 annually per school; (b) Basic Funding B, where communities may submit a proposal, for matching funding (50-50) for facilities maintenance, to the DEO; and (c) Targeted Funding C, which primarily would be targeted to the 23 districts where the overall girls GERs/NERs are lower than referenced above. In addition, a formula for NGO funding also has been designed to promote greater participation of NGOs.

MOE will rely on monitoring and evaluation as key instruments for guiding program implementation and development. Monitoring and evaluation arrangements to be followed in BPEP II include: (a) routine Program Management Information System (PMIS) and educational management information system (EMIS), including reports to districts and national level authorities; (b) annual reviews of district annual work programs and budgets (AWPBs); (c) a Mid -Term Review to monitor changes in student achievement vis-a-vis a baseline survey of class III and V students undertaken for program preparation; (d) periodic evaluations of the impact of specific program interventions on classroom practices and learning to be carried out by NGOs and cooperating experts; and (e) biannual and joint supervision missions. The leadership of supervision missions will be rotated among the donors including MOE.

The periodic assessments of learning achievement will help us to monitor qualitative changes in primary education. The results of assessment studies will be useful tools for identifying program successes and shortcomings and adjusting program interventions. Ongoing monitoring of program performance will utilize participatory methods at all levels. Formative research studies will be conducted throughout the program period to feed data into program interventions.

The MOE officials and national experts will carry out annual internal supervision visits to implementation sites. In addition, MOE together with donors will conduct a joint Mid - Term Review (MTR) with participation by government and donors that will give information on implementation progress in the first three of the program. PMIS will provide information on the status of program implementation in terms of financial and physical indicators for a quarterly review of the program status. EMIS will be strengthened to provide reliable and relevant sectoral information on students, teachers, administrative personnel, school facilities, attendance, promotion, and retention of students.

The IDA procedures for fund flow and reporting, based on the Loan Administration and Change Initiative (LACI) Guidelines, appear to offer MOE a satisfactory basis for financial reporting to the donor group and for auditing of expenditures. MOE confirms the use of IDA LACI formats as the common basis for reporting expenditures to the donor group. During the first year of the program, necessary preparatory activities will be accomplished in order to adopt this instrument.

Visioning workshops have been held to orient MOE personnel to the BPEP II. In preparation of the program, MOE is currently preparing essential documents, such the BPEP II implementation manual, training manuals for educational personnel, district planning guidelines, transition planning and human resources development planning, and MOE restructuring and HRD plan. Policy and Human Resource Development (PHRD) funds of the World Bank are being utilized for these exercises.

Finally, we believe that the investments made in basic and primary education will bring about the necessary qualitative improvements in our human resource base critical for accelerated economic growth and social equity. Our partnership with the World Bank, along with other co-financiers, is a valued component in strengthening our prospects for the future.

Attachment: Policy Framework for Basic and Primary Education Program

February 5, 1999

Basic and Primary Education Policy Framework

Long-term Goal:

The majority of school age children will complete five years of primary school education that is of good quality and well supported by institutions at the community, district and national levels.

Medium-term Development Objectives :

To strengthen institutional capacity at the national and community levels to plan and deliver more efficient and better quality basic and primary education services thereby raising learning achievement and increasing equitable access, especially for girls and under-served communities.

Key performance indicators:

- preparation and implementation of annual operational and expenditure plans at national and district level
- number of months of staff development and training for education managers
- learning achievements based on national assessment at grades 3 and 5
- gross enrollment ratios*
- primary school completion rates*
- cycle costs
- teacher deployment
- teachers performance as measured by changes in classroom practice
- teacher quality based on the percentage of total primary teachers with Certificate of Primary School Teaching
- physically adequate schools, by targeted locations

*(10 districts with lowest girls' GER - total, by gender, and location)

Objective 1:

Strengthen institutional capacity at national, district and community level to deliver more efficient basic and primary education services

Policies	Strategies	Monitoring Indicators
MOE will be restructured and its policy, planning and monitoring capacity strengthened so that program delivery will be more efficient and of better quality.	<p>Preparation and implementation of annual work program and budget for basic and primary education based on efficiency, quality and equity criteria</p> <p>Conduct national system performance assessment of student achievement at grades 3 and 5</p>	<p>Annual work program and budgets at national and district levels based on priorities and past performance % government expenditure on education; % of education on basic and primary education Cycle costs of students graduating</p> <p>National assessment results grades 3, 5 98/99 and 2001</p>
	Strengthen staff's technical capacity complemented with out-sourcing for additional technical support and quality control.	<p>Change Management Group established and functioning HRD plan for staff development at national and district levels; Number of months staff development and training</p>
A Department of Education will be established within the MOE	Appoint technically qualified staff, male as well as female, on a competitive basis and establish key functional units for policy, planning and monitoring of basic and primary education.	<p>DOE legally established Qualified staff recruited, % female, to functional units. Percent staff transfers within two years</p>
	Merge the functions of the BPEP unit with DOE based on a transition plan	Implementation of a transition plan with a focus on change management
	Establish a technical support advisory group (TSAG) to assist MOE, and DOE central and district institutions	TSAG established with clearly defined roles, responsibilities, procedures and budget
	Target staff development and training programs to strengthen technical capacity of central institutions including DOE	Staff months of training by agency

<p>Number of government primary school teachers to remain at 1998 ceiling i.e., 83,000</p>	<p>Categorize and deploy teachers based on numbers of students enrolled</p>	<p>Numbers of teachers in schools allocated on the basis of teacher:pupil ratios - in small multigrade schools less than 36 students, 1 teacher - up to 70 students, 2 teachers - up to 105 students, 3 teachers - up to 140 students, 4 teachers - up to 175 students, 5 teachers - schools enrolling more than 250 students on the basis of one teacher for every 50 students</p>
<p>50% of new replacement teachers will be female</p>		<p>Percentage of teachers, female</p>
<p>National institutions capacity will be strengthened: - Curriculum Development Center (CDC), National Center for Education Development (NCED), Non Formal Education Center (NFEC)</p>	<p>Project units will be merged where appropriate with central institutions such as the CDC, NCED and NFEC A Transition Plan to be developed to cover changes arising from reorganization and merger An HRD plan including staff development and training for national institutions</p>	<p>Qualified staff from BPEP appointed and retained at DOE and central institutions Targeted staff development and training</p>
<p>Basic and Primary Education Sections will be established in DEOs, headed by a director of Primary Education</p>	<p>Pilot Lead Resource Centers (LRC) to support the technical wing of the DEO Qualified RPs will be recruited and redeployed provided with rigorous inservice training DEO supervision capacity and resources will be enhanced A Nonformal Education section will be established in the DEO headed by a NFE coordinator to monitor and support CBO and NGO program providers</p>	<p>Frequency of school visits by RPs, school supervisors and DEO Nonformal and basic education education programs delivered by NGOs</p>
<p>Planning and implementation of basic and primary education will be decentralized to district and local levels.</p>	<p>Composition of committees and roles and responsibilities reviewed to incorporate wide participation</p>	<p>Functions transferred from central to district level</p>

<p>District plans will be integrated within the national education annual plan and budget.</p>	<p>Strengthen capacity of DEO in EMIS/PMIS Prepare district education plan guidelines based on Basic and Primary Education Policy Framework Establish support group to review district plans</p>	<p>Number of districts preparing investment plans</p>
<p>Each school will prepare a time bound plan for its physical and academic upgrading (SIP)</p>	<p>SIPs will be piloted in CPE and other approved districts to test modalities before going to scale Formats to be prepared, eligible expenditures identified, processes described and mechanisms established for preparation of SIPs SIP guidelines and review criteria prepared</p>	<p>Number of SIPs prepared and implemented</p>
	<p>SMC modalities will be piloted in approved districts SMC composition and formation revised and supported by legislation Participatory process will include VDC/VEC and NGO's in different activities to support school and community planning</p>	<p>Number of functioning SMC's VEC established VECs, SMCs and head teachers trained in management and bottom up planning and implementation process</p>

Objective 2:

Raise learning achievement, especially in grades 1 to 3

Policies	Strategies	Monitoring Indicators
<p>No major revision of the curriculum and textbooks will be undertaken for at least 3 years</p>	<p>Consolidate implementation of the new primary school curriculum and textbooks introduced under BPEP</p>	<p>Implementation strategies for curriculum grades 1 to 3 reflected in district education plans</p>

<p>Curriculum implementation will focus on improving teaching and learning in grades 1 to 3 and all grades in multigrade schools.</p> <p>Liberal promotion in grades 1 to 3 will be linked to continuous assessment by teachers of students' progress.</p>	<p>Use feedback from national assessment grade 3 to review curriculum content, methods and materials for grades 1-3.</p> <p>Priority areas will be identified in Nepali language and maths for action research; for teacher training and materials development to support teaching and learning in grades 1 – 3.</p> <p>Learner centered approaches and methods to be encouraged through teacher training, provision of materials and professional support.</p> <p>Enforcement of age-of-entry policy for enrolment into grade 1 (at least six years of age) School and community awareness programs linked to ECD</p> <p>Develop learning benchmarks for teacher use in grades 1-3; Train teachers in continuous assessment techniques; Provide class sets of student workbooks developed to supplement Nepali and maths textbooks in grades 1-3 Optional language supplementary reading materials and bilingual teaching approaches will be developed for minority linguistic groups.</p>	<p>School development and recurrent training reflects language and mathematics teaching in grades 1 to 3</p> <p>Support for learner centered approaches reflected in district plans.</p> <p>Separate provision for under 6 years of age through community managed ECD programs</p> <p>Teachers ability to manage differences in children's learning processes.</p>
<p>Teachers deployment based on school enrollments; teachers in small schools strengthened in multigrade teaching and school management.</p>	<p>Deploy teachers on the basis of school enrollment criteria</p> <p>Conduct action research in small schools to develop alternative modalities for multigrade teaching; Prepare teachers' manuals and teacher/learning materials for use in multigrade teaching situations and train teachers in their use</p>	<p>Progress in teacher deployment</p> <p>Management of learning in small schools.</p>

<p>Distribute free textbooks to all children in grades 1-5 except boys in grades 4 and 5 in non-18 poorest districts</p>	<p>Pilot alternative modalities for timely distribution of textbooks.</p> <p>The free textbook distribution policy will be reviewed.</p>	<p>Textbooks available to students within 2 weeks of start of the school year</p> <p>Report and recommendations on free textbook available</p>
<p>Provide supplementary reading materials to all schools</p>	<p>Schools will purchase library books from a recommended list.</p>	<p>Quantity of readable books in school</p>
<p>Coordinated programs of training and professional support (pre-service, in-service and recurrent) will be linked to career development and incentive systems for primary school teachers.</p>	<p>Criteria for employment of new teachers will be SLC plus 10-month certificate training.</p> <p>An inservice certificate training course will be provided for teacher upgrading; permanent without a certificate will be required to complete at least one module (2.5 months) of the ten month course. Preference will be given to female teachers.</p> <p>All modules of the certificate training will be revised to reflect learner centered approaches and classroom practice and will be made available through distance education programs. Permanent teachers with 3 years of teaching experience will be permitted to sit the teaching certificate exams conducted by NCED/PTTCs each year. Preference for courses will be given to female teachers.</p>	<p>Preservice teacher training program piloted</p> <p>Preservice teacher training plan developed and costed</p> <p>Teachers having completed primary teacher training certificate</p>
<p>All serving teachers will receive 10 days recurrent training ever year followed by professional support at their school</p>	<p>Curriculum implementation will be linked to recurrent training and professional support for teachers in classrooms.</p> <p>Content of recurrent training courses will reflect teacher identified priorities and whole school development approaches.</p> <p>Set of flexible classroom teaching behaviors to be established.</p>	<p>Average daily attendance of teachers</p> <p>Number of days training per year</p> <p>Teacher performance as measured by variety of appropriate methods used by teachers</p>

	A school clustering and resource center system for recurrent training and professional support in schools will be implemented nation wide.	Resource persons (RPs) drawn from the teaching cadre appointed (% female) Number of days school visits made by RPs
Teacher accreditation and incentive systems will be based on certification, participation in recurrent training and professional experience	Primary school teachers to receive credit points towards financial rewards and career steps as a result of education, training and professional experience.	Teacher information system established

Objective 3:

Increase equitable access to basic and primary education especially for girls and disadvantaged children

Policies	Strategies	Monitoring Indicators
Provide alternative programs to meet the needs of children from disadvantaged groups, especially targeting girls	Pilot three major strategies <u>School Outreach Programs</u> for children in remote areas and disadvantaged groups, not adequately served by regular schools; provide three years of schooling within their own community A condensed primary school curriculum through <u>Flexible Schooling Programs</u> for out-of-school children Targeting the current <u>Out-of-School Program</u> to children and youth in the 10-14 years age group	Programs piloted in disadvantaged areas, and evaluated NGOs participating in providing programs
Provide special education programs in primary schools for disabled children	A <u>Special Education Program</u> will enroll 4,500 disabled children in primary schools. Community based awareness program to be conducted, for enrolment of disabled children in primary schools. An integrative approach consisting of special education centers, special classes and individual support; a specific teacher training program and supply of special education materials. District based coordinators and assessment service will be established.	Teachers trained for special education Disabled children enrolled in primary schools

<p>Committees will be mobilized to support school enrolment and retention and to establish early childhood development centers</p>	<p>Communities will be mobilized to support:</p> <p><u>Early childhood development centers</u> having trained facilitators, materials and kits- government to provide NR500 stipend per facilitator</p> <p><u>Women's education programs</u> conducted by NGOs; including flexible need based skill training. The WEP will be based on evaluation of the present WEP</p>	<p>Underage children not enrolled in class 1 of primary schools.</p> <p>ECD and women's education centers established in SIP school communities</p> <p>Evaluation reports of present WEP activities, and new programs developed.</p>
<p>Incentive programs targeted to out-of-school girls from the most disadvantaged groups.</p>	<p>Evaluations of the current scholarship program before piloting new models.</p> <p>Using evaluation report, different innovative incentive programs will be developed and piloted.</p>	<p>Evaluation done and reviewed.</p> <p>Innovative approaches piloted in targeted areas and evaluated.</p> <p>Incentives reaching targeted groups</p>
<p>Feeder hostels in secondary schools for girls from remote areas.</p>	<p>Existing feeder hostels will be rehabilitated and maintained</p> <p>A study will be conducted to provide basis for possible tuition and linkage to primary school teacher training</p>	<p>Hostels repaired and functioning.</p> <p>Secondary school girls from feeder hostels trained as primary school teachers/community facilitators.</p>

Objective 4:

Upgrade the quality of school physical environment through community management

Policies	Strategies	Monitoring Indicators
<p>The national stock of classrooms will be maintained at 1998/99 levels.</p>	<p>Facility improvements will be targeted to priority districts and schools with lowest GER of girls and disadvantaged children.</p> <p>Criteria are GER below 100 and girls NER below 60, and within the districts priority to clusters meeting similar criteria;</p> <p>CPE districts will also be targeted</p>	<p>Numbers of classrooms in disadvantaged, targeted areas</p>

No new schools will be set up by the community without prior government approval; no primary schools upgraded to lower secondary schools without government approval		Annual confirmation by districts of school numbers
All physical improvement interventions will be based on appraised district plans.	<p>The school construction program will expand district-wise</p> <p>Within districts, construction programs will be phased in on area based planning and focused on clusters with lowest girls NER</p>	<p>School mapping</p> <p>District plans prioritized based on GER for girls', enrolment growth pattern, classroom coverage, agreed teacher:pupil ratios</p> <p>Number of whole schools completed by end of program period</p>
	Physical facilities improvement (replacement and upgrading of classrooms) will be based on school need and demand analysis;	School Improvement Plans prepared by the school and community
	Incomplete classrooms and rehabilitation of classrooms are to be completed before any replacement can start;	VEC's will provide non technical verification of the completion of construction and site works
	<p>There will be third party quality assurance and auditing of school mapping</p> <p>Central support will consist of the provision of alternative designs and costs; occasional supervision, monitoring and evaluation;</p>	<p>Certificates of completion</p> <p>Physical Planning SMU in DOE strengthened to handle procurement, inspection and delivery planning, where factory manufactured components are used.</p> <p>Construction services consultants employed for contract documentation, quality assurance inspection and delivery checks.</p>
Schools designs will meet Nepal Building Codes standards especially those relating to earthquake and wind forces.	A whole school approach will be adopted to ensure schools are structurally safe; are well lit and airy; sites developed and have a water supply and toilets;	Safe schools constructed that meet earthquake and hurricane force design codes.
School construction to have minimum impact on the natural environment.	Timber will be used as little as possible and only where local and abundantly available	Documentation and designs for all upgrading

	<p>Architectural designs will reflect different regional climatic conditions and local material variations;</p> <p>Special designs will be prepared for multi-grade schools</p> <p>Water supply and toilets will be supplied to all schools targeted;</p>	Number of complete schools
Communities will participate in, and be responsible for, the planning and management of the school improvement program.	School improvement will be demand generated through community readiness activities and the involvement of the VECs;	Village Readiness Assessments
	School level SPIP and construction will be managed by the community	
	The community share of costs will aim at an average of 15% with a range varying between 25% and 10% depending on the type of school, number of houses in catchment area, and percentage of disadvantaged households.	Community contribution to school construction and maintenance
	There will be a construction management MOU between the DOE and SMC with specific conditions on community participation, quality of local materials, and school maintenance	MOUs signed
No new interventions will be funded without the communities commitment to maintenance.	<p>Will ensure adequate and regular maintenance of school facilities and grounds by the user community;</p> <p>Maintenance manuals developed and distributed to 15,000 schools</p> <p>2,000 VDC technicians and 820 overseers will be trained in the maintenance of school facilities</p> <p>Tool kits will be provided to schools if requested in lieu of discretionary funds.</p>	<p>Number of schools with a school maintenance plan</p> <p>Maintenance manuals distributed</p> <p>VDC technicians and Overseers trained</p> <p>Tool kits used</p>

**Additional
Annex No.: 12**

NEPAL: Basic and Primary Education Project

Proposed Common Procedures for BPEP II Donors

The Ministry of Education seeks to ensure that there is a transparent common approach to operational procedures by all five Major External Support Agencies (MESAs): Danida, The European Union, Finland, IDA, and Norway in their support for HMG's core programme of education under the Second Basic and Primary Education Programme.

Following discussions with donors represented in the brief December 1998 appraisal follow up mission, EU, Finland, IDA, Norad, and Danida who participated in observer status, the following are submitted by the Ministry for review by the donors and the MOE seeks confirmation that these constitute a generally appropriate basis on which to invite donors to negotiate/conclude/reaffirm their agreements with HMG with a view to proceeding expeditiously to start the BPEP II common program on July 15, 1999 as planned.

Common Financing Modality (Basket) . Initially the funds from each donor would be routed to separate bank accounts in the Nepal Rastra Bank and a separate ledger created. Each donor would provide an advance to these accounts in accordance with the individual donor agreements and within the ceiling established annually by the core donor group in consultation with MOE. Periodic replenishments would also be made in accordance with these agreements.

Periodically during annual implementation a consolidated expenditure report will be prepared by MOE and presented to the NRB for reconciliation in accordance with agreed funding procedures. Fund draw-down would be in direct proportion to each donor's confirmed investment in the core program. Sub-basket expenditure/financing procedures would be concluded directly with the individual donors concerned.

The MOE will shortly prepare a note on the steps involved for suggested incorporation in donor agreements.

Fund Flow Reporting Mechanisms . The MOE seeks a single reporting format acceptable to all MESAs. Accounting procedures to be followed will be satisfactory to all donors. The Ministry has developed a comprehensive accounting and monitoring system under the first Basic and Primary Education Project (BPEP) and it is intended by MOE that appropriate adjustments will be made under BPEP II particularly to reflect the extended decentralisation approach. It is intended by MOE that by start up in July 1999 a Financial Management Information System (FMIS) will be operational that will allow computerised record keeping at the central level and progressive introduction of computerisation at the district level.

IDA fund use will be reported on a trimesterly basis (three times per year) under three main categories: (i) Financial Statements; (ii) Project Progress Reports; (iii) Procurement Management Reports. This will be a comprehensive format that is to be standard for all IDA projects in Nepal. IDA is currently providing assistance to the MOE to develop the FMIS and to develop the Loan Administrative Change Initiative (LACI) reporting formats in accordance with the FMIS. These reports link eligible expenditures with actual physical progress and introduce a simplified system of disbursing funds by periodic advances to

the project account based on project management reports. It is suggested that as IDA funds will be an integral component of overall basket financing, that de-facto these reports be accepted by the donor group as appropriate evidence of acceptable financial management practices for core funding overall. Detailed information on the LACI approach is available from the WB office in Nepal. All reports prepared under this format would be provided to each MESA on a regular basis.

The MOE commits to establish accounting capacity in the DOE at the earliest stage possible, that qualified and competent personnel will be appointed and an appropriate procedural manual provided to all donors as a condition of project startup.

Auditing Mechanism . MOE proposes that the Auditor General of Nepal be accepted by the donor group. Additionally, any donor may request at their expense, access to inspect project accounts at all levels. Annual audits are to be completed within six months of the end of HMG's fiscal year.

Procurement Mechanism . The MOE commits to the use of appropriate competitive bidding procedures for the core programme. For EU funding this question does not arise as budget support is being provided. IDA procurement guidelines encourage competitive bidding practices appropriate to the size of procurement package, are widely used in Nepal and standard bidding documents have been agreed between HMG and IDA. It is proposed that these guidelines be adopted for BPEP II as a common approach acceptable to the other MESAs.

Donor Monitoring and Supervision . It is expected that joint donor program review/supervision will take place twice a year. The first visit each year (programming) will be linked to the annual planning, funding authorization and budget preparation processes. During this mission the donor group will conduct a review of the prior year's activities on the basis of reports prepared by the DOE and local offices of the MESAs. The second mission (implementation) will focus more on confirming progress, resolution of bottlenecks, field visiting and specific areas of review resulting from the programming mission. The proposed timing is for the period mid-March to mid April for the annual (first) programming mission and it is felt that this programming mission should establish each year with MOE the appropriate timing for the second mission alternatively mid-September or early November and the programming mission for the subsequent year.

The chair of the missions will rotate among the donors and HMG, a lead agency will be agreed for each mission.

Terms of reference will be prepared by the lead agency and circulated to the donor group and HMG for review one month before the planned review date.

MOE is responsible for co-ordinating with the donor community, other government institutions and non-government agencies.

The MOE will prepare annual operational action plans, expenditure plans, annual and semi-annual progress reports for BPEP II including for sub-projects.

Draft operational plans are to be distributed by MOE to the donors one month in advance of the mission. Following the programming mission the donor group will authorize the use of core funds up to agreed ceilings.

A report on the outcome of each mission will be prepared by the lead agency and circulated to the

donor group and HMG.

Danida is proposed as the lead agency for the first annual programming review in May 1999.

The date for the Mid-Term Review (MTR) will be March/April 2002. This will offer the possibility of coinciding with the more in depth third annual programming mission and will allow for three cycles of field visits during the second mission each year. It will come at about the mid-point of the cycle rather than after a bare two years. It is felt that this will yield more information on which to base judgment of progress. A further advantage would be that IDA would be able to present to the donor group and MOE its funding plans in respect of the second three/four year tranche of the APL and have this reflected in the annual funding plan for year four.