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# COUNTRY DEVELOPMENT COOPERATION STRATEGY (CDCS)

DECEMBER 2020 - DECEMBER 2025

Approved for Public Release



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## ACRONYMS

ADB	Asian Development Bank
CDCS	Country Development Cooperation Strategy
CEFM	Child and Early Forced Marriage
COVID-19	Novel coronavirus SARS-CoV2
CSO	Civil Society Organization
DO	Development Objective
DIS	Development Information Solution
DfID	United Kingdom Department for International Development
DRM	Disaster Risk Management
EU	European Union
FSR	Financing Self Reliance
G2G	Government to Government
GBV	Gender Based Violence
GDP	Gross Domestic Product
GESI	Gender Equality and Social Inclusion
GIS	Geographic Information System
GON	Government of Nepal
GPE	Global Partnership for Education
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
ICT	Information Communications Technology
IMF	International Monetary Fund
INGO	International Non-Governmental Organization
IR	Intermediate Result
J2SR	Journey to Self Reliance
JICA	Japan International Cooperation Agency
NDRRMA	National Disaster Risk Reduction Management Authority
NGO	Non-Governmental Organization
NPI	New Partner Initiative
NUP	New and Underutilized Partners
PFM	Public Financial Management
PMP	Performance Management Plan
PSE	Private Sector Engagement
RDR	Redefining the Development Relationship
TIP	Trafficking in Persons
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nation Children's Fund
WASH	Water, Sanitation, and Hygiene
WHO	World Health Organization
WYM	Women, Youth, and Marginalized

## EXECUTIVE SUMMARY

Nepal faces enormous and complicated development challenges, including social exclusion, inadequate basic service delivery, insufficient economic opportunity and sources of growth, relatively new and largely untested decentralized processes and institutions, incomplete reconstruction from the 2015 earthquakes, and vast natural resources and biodiversity that require protection. The COVID-19 pandemic has made existing development challenges even more pronounced and dire. It has widened the gap between those who have access to resources and power, and those who do not; it has decreased economic activity and opportunity; it has forced up to 1 million Nepali migrant workers home from over a dozen countries; it has undermined key sectors of the economy that Nepal depends on for survival; and it has threatened to erase hard earned gains in health, education, and public service delivery.

The next five years are crucial for Nepal, not just to recover from COVID-19 and continue its previous development trajectory, but also to make the gains needed to attain its own goal of reaching middle income country status by 2030. To achieve this progress, Nepal will need to tap deeper into its own productive resources, implement policies that attract investment, and more aggressively engage the private sector in higher growth and more productive economic sectors, all the while building connectivity within the region. It also needs to ensure that its federal experiment is successful by giving voice, power, and authority to all of its diverse population. This will provide Nepal with a strong foundation for long-term inclusive, equitable, and sustainable economic growth and social development.

Built on this context, USAID's goal for the 2020-2025 CDCS is "A more self-reliant, prosperous, and inclusive Nepal that delivers improved democratic governance and health and education outcomes." Over the strategy period, USAID will make significant investments to increase self-reliance, prosperity, and inclusiveness that will advance Nepal's development trajectory and allow Nepal to make impressive development gains that benefit all citizens. The first component of the goal, comprising the principles of self-reliance, prosperity, and inclusion cut across all aspects of the CDCS; they represent core elements crucial for Nepal's development and are key to how the Mission will adapt its approach to build the capacity and institutions necessary to advance the Journey to Self-Reliance (J2SR) in Nepal.

The second component of the goal focuses on advancing democracy and human capacity development, each of which are intertwined and are dependent on how successful Nepal is in establishing and implementing federalism. For example, the provision of critical public services - namely, health and education - is a measure of the success of federalism and its implementation, and is inherently linked to citizen capacity. COVID-19 further complicates the situation, disproportionately affecting both health and education outcomes, reducing access and quality - especially for the most marginalized - exacerbating existing inequality and vulnerability. Because Nepal has made federalism a fundamental component to the success of its democracy, it features prominently throughout the CDCS. Federalism is also one of the essential mechanisms for increasing self-reliance, inclusiveness, prosperity, democratic governance, and human capacity development over the next five years.

To support Nepal's development vision, USAID has woven three strategic approaches throughout the CDCS: Supporting the transition to federalism; Inclusion as a primary target of intervention; and, Integrating resilience into outcomes.

Building off of the J2SR Country Roadmap, evidence, and experience, USAID's CDCS constructs a results framework (see diagram below) that establishes meaningful, achievable, and instrumental results to further Nepal on its J2SR. In support of the goal, USAID will implement the CDCS through four Development Objectives (DOs): DO 1 More Effective, Participatory, and Equitable Democratic Ecosystem; DO 2 Broad-Based and Inclusive Economic Growth Fostered; DO 3 Inclusive Health and Education Systems Strengthened; DO 4 More Equitable and Improved Natural Resources and Disaster Risk Management.

During the course of this CDCS, the Mission will make several strategic transitions and engage in new areas of collaboration with the Government of Nepal (GON) towards advancement of the J2SR. USAID will strategically shift from post-earthquake recovery to climate and disaster risk mitigation, and from health and education service delivery to systems strengthening. As new areas, USAID will support Nepal in strengthening broad-based economic growth in partnership with the private sector, in addition to continued engagement on agriculture; and integrate rule of law programs as an additional measure to consolidate democracy and strengthen the entire federal governance ecosystem. To implement these transitions, USAID assistance will more explicitly focus on sustainability and self-reliance issues related to financing self-reliance (FSR), private sector engagement (PSE), and building upon or redefining our development relationship (RDR) with GON counterparts. In regular consultation with all levels of government, donors, and civil society, the Mission will also pursue opportunities for USAID to adopt more locally-owned and -led development models; strengthen the host-country government’s ability - at the central and local levels - to continue to take the lead in addressing, managing and funding their own development challenges; and support partnerships and approaches that expand access to finance, mobilize private capital, and improve access to markets.

### USAID/NEPAL CDCS 2020-2025 RESULTS FRAMEWORK DIAGRAM



## COUNTRY CONTEXT

Nepal is a relatively young democracy. In 2006, the country ended a decade long civil war. In 2017, two years after the adoption of the new constitution, Nepal began to devolve authority to local governments, as mandated in the constitution, to seven provinces and 753 new local governments in a process called federalism. While the central, provincial and local governments are meant to have harmonized policies and processes, several challenges - including, the limited capacity among sub-national governments, the distribution and allocation of resources, ethnic and linguistic heterogeneity, tax harmonization, intergovernmental relations, and most importantly lack of consensus on the approach and objectives of federalism - have delayed the devolution and implementation of authorities. Federalism promises to bring the government closer to its constituents and to improve equity in democracy and public services; however, it is a monumental undertaking involving central, provincial, and local government institutions that are understaffed and insufficiently prepared. Federalism in Nepal is not a *fait accompli*; potential challenges include poor service delivery, lack of will among those who prefer the centralized structure, corruption, lack of social inclusion and accountability, and/or a human-made or natural shock that destabilizes Nepal and its political and governance structures. The COVID-19 pandemic is perhaps the first real crisis and test for federalism in Nepal, requiring increased support from both the GON and development partners to local governments to ensure the governance system's effectiveness.

Buoyed by years of donor-driven reconstruction and earthquake recovery efforts, Nepal's economy is not performing adequately and needs systemic shifts to create job and investment opportunities and alleviate poverty.<sup>1</sup> The economy lacks diversity, relying predominantly on subsistence agriculture, which currently makes up 30 percent of GDP, employs about two-thirds of the economically active population, and is challenged by low productivity. Agricultural development alone will not be sufficient to drive Nepal into middle income status. The business environment remains inadequate to drive broad based and inclusive growth in Nepal, as evidenced by the low investment rates (Private Fixed Capital Formation-to-GDP of 17.41% for Nepal compared to 33.16% average for selected neighbors in the South Asia region; FDI-to-GDP in 2018 of 0.55% for Nepal compared to 1.48% region average<sup>2</sup>). Despite reductions in nationwide levels, poverty remains disturbingly high (up to three times the national average of 7.8%), especially in remote geographic areas and among marginalized groups including Dalits (Hill Dalits at 14% and Madhesi Dalits at 23.9%), Madhesi Other Caste (11.1%), and Muslims (12.7%).<sup>3</sup> Nepal will need to remove these constraints to inclusive, broad-based growth and catalyze increased trade and investment to build a more diversified and vibrant economy, and to sustainably reduce poverty.



Map of Nepal  
Source: CIA Factbook

Nepal continues to grapple with addressing deep-rooted historical discrimination based on gender, ethnicity, religion, and caste that hinders development progress. Gender-based violence (GBV) is experienced by 22 percent of women aged 15- 49 and gender discrimination remains prevalent, particularly for the Muslims, Dalits and Madhesi Other Castes.<sup>4</sup> The COVID-19 pandemic has exacerbated GBV and hampered efforts to curtail child, early and forced marriage (CEFM). Nepal has high rates of CEFM: 44.1% of girls marry before their 18th birthday, even though the legal age for marriage is 20 years of age, and is most prevalent among Madhesi Dalit (73.5%), Madhesi Other Castes (69.5 %), and Muslims (60%).<sup>5</sup> Women who marry early are at increased risk of domestic violence and of being impoverished throughout their lives.<sup>6</sup>

Public health and education efforts in Nepal have made tremendous strides in reducing childhood mortality and morbidity<sup>7</sup> and achieving universal access to basic education;<sup>8</sup> however, enormous unmet needs remain including: inadequate access to family planning; malnutrition; high rates of maternal and neonatal mortality, morbidity and mortality, caused by infectious diseases and poor water, sanitation and hygiene; disability; and education quality.<sup>9</sup> There also are disparities in health<sup>10</sup> and education<sup>11</sup> outcomes by caste, economic status, and gender. In addition, as responsibility for service implementation moves to the local level under federalism, existing systems have become disrupted, presenting risks to delivery of essential public services and threatening hard-won gains in health and education; COVID-19 only amplifies these risks.

With altitudes ranging from 60 meters to the highest elevation in the world of 8,848 meters above sea level, Nepal's location at the junction of two major biogeographic regions - the Indo-Malayan and the Palearctic - creates a unique environment with abundant natural resources and globally significant biodiversity. Nepal occupies only about 0.1 percent of the earth, yet it is the home to 118 distinct ecosystems with 3.2 percent of the world's flora and 1.1 percent of its fauna,<sup>12</sup> creating a comparative advantage with tremendous potential for sustainable, natural resource-based economic development. It is also endowed with extraordinary water resources for a country its size, including approximately 6,000 rivers.<sup>13</sup> Those rivers have the ability to produce 40,000 commercially viable gigawatts of energy from hydropower alone - over 30 times more than Nepal's current energy usage - with significant implications for investment, growth and regional energy market advances.<sup>14</sup>

Nepal remains among the most vulnerable countries in the world to natural disasters. Every year, tens of thousands of people are affected by disasters such as earthquakes, landslides, and floods, with landslides and floods becoming worse with climate change. Studies estimate that disasters reduce GDP growth in Nepal by an average of 1.5% per year, regularly pushing thousands of households back into poverty.<sup>15</sup> Approximately 700,000 Nepalis fell below the poverty line as a result of the 2015 earthquakes. These recurrent shocks hinder Nepal's ability to progress along its path to self-reliance and achieve its goal of becoming a middle-income country by 2030. The emergence of COVID-19 is the latest in the pattern of shocks and disasters in Nepal. Despite five years of rebuilding Nepal from the 2015 earthquakes, COVID-19 threatens to inflict deep and lasting economic damage to the country, and may exacerbate inequality throughout Nepal, especially in-service delivery, while also jeopardizing the most vulnerable populations' resilience to shocks. Already, the widespread damage wrought by COVID-19 has emphasized the importance of strengthening systems and boosting resilience to reduce the severity of these recurring shocks and foster self-reliance.

The U.S. Government (USG), starting through USAID's precursor and continuing with USAID, is Nepal's oldest development partner, working together for over 72 years. While the USG is the 3rd largest donor in Nepal (after the World Bank and Asian Development Bank (ADB)), it is the largest bilateral donor and the largest donor overall in terms of grant funding. In cooperation with other donors through the International Development Partners Group, USAID has provided its expertise and impact in several sectors, including democracy and governance, health, education, natural resource management,



agricultural development, and reconstruction and disaster risk reduction. To leverage donor efforts, USAID will continue to collaborate with the World Bank, DFID, and EU, among others to advance the transition to federalism. Over the course of this strategy, USAID will build on and expand coordination with donors to solicit feedback on new designs and continue to find opportunities for partnerships on shared goals.

### **IMPACT OF COVID-19**

The spread of COVID-19 in Nepal was delayed by a preventive 100-day nation-wide lockdown; however, after the lockdown was relaxed, cases rose significantly. The provision of most basic public services, including education and health, have slowed or ceased. Many public schools are unable to continue in-person teaching and are unable to transition to virtual classrooms. Access and use of health services have decreased due to public fears, health commodity shortages, and additional health needs, burdening an already strained and under-resourced health system. With hundreds of thousands of Nepali migrant workers returning to Nepal, and faced with a severe and complex public health crisis, the COVID-19 response immediately challenged GON institutions, officials, and elected representatives to provide the necessary response, policies, and services to control the virus. Although Nepal's official unemployment is rather low, the return of migrant workers will strain public services and create challenging community dynamics related to migrant reintegration, employment, and overall social cohesion. The financial hardships for households and businesses, in addition to the lack of capacity of local governments to implement basic services has challenged many citizens. Youth, women, and marginalized populations continue to bear a disproportionate burden of COVID-19 impacts, yet are still not able to substantially participate in decision-making on response and relief measures.

### **ALIGNMENT WITH GON PRIORITIES**

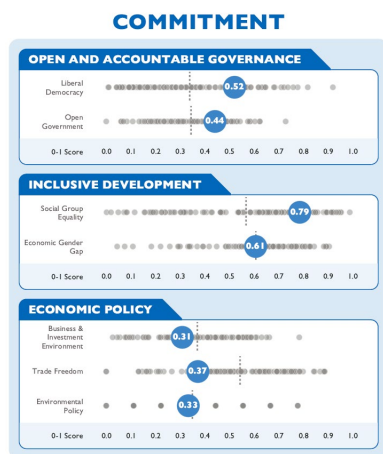
USAID's new CDCS is aligned with Nepal's recent 15th Periodic Plan (2019-2024), the strategy that defines the GON's development policy and direction, including: fully implementing the constitution (including inclusiveness and development for marginalized communities); improving economic growth (specifically energy, tourism, and agriculture); reducing absolute poverty; and coordinating among all tiers of government to balance development across the provincial and local levels.<sup>16</sup> The GON has expressed its preference for budget support, which will be an important area of consideration in USAID's new strategy period. The devolution of authority to the provincial and local levels presents new opportunities to support the GON with government to government (G2G) assistance, contributing to the Agency's goal of building upon and redefining its development relationship with host countries (RDR).

### **THE JOURNEY TO SELF RELIANCE (J2SR)**

Under this CDCS, USAID has strategically prioritized the sub-dimensions and metrics from the J2SR Country Roadmap for investment that are most critical for Nepal's development objectives.<sup>17</sup> The selection of these sub-dimensions and metrics reflect a mix of strengths and challenges from the Country Roadmap that together define the strategic areas that are most important for building capacity and commitment to further Nepal's journey to self-reliance.

### **COMMITMENT**

Open and Accountable Governance: The Liberal Democracy and Open Government metrics, while currently rated high, are threatened by the challenges associated with the shift to federalism and do not capture the issues associated with operationalizing the constitution. Nepal will need to prevent democratic backsliding and take positive steps to advance open government and governance that encourages citizen participation and collaboration, regardless of caste, ethnicity, gender, sexual orientation, and economic status.



*Nepal's Journey to Self-Reliance Country Roadmap Commitment Sub-Dimensions and Metrics*

**Inclusive Development:** While the Inclusive Development J2SR Country Roadmap sub-dimension appears high for Nepal, it is inflated largely due to gains made by women from elite Newari and Brahmin-Chettri populations, not the population at large.<sup>18</sup> Also, gender gaps vary greatly among different castes/ethnicities, classes, and regions. Disparities between marginalized and non-marginalized groups remain high, especially for the marginalized Hill and Madhesi Dalits, Madhesi Other Castes, Tarai Janajatis, and Muslims- who comprise nearly 40 percent of the population.<sup>19</sup> Women have gained a greater foothold in the labor market; however, this is likely due to the mass migration of male workers, which often leaves women with the additional burden of household labor. Inequity is often cited as one of the driving factors for conflict in Nepal, including the Maoist insurgency, and not adequately addressing deep-rooted social and historical inequities presents the risk that conflict will resurface.

**Economic Policy:** While the Economic Policy sub-dimension is considered average according to the J2SR Country Roadmap, the Business Environment metric within this sub-dimension remains inadequate in Nepal to build the vibrant private sector needed to lift a large part of the population out of poverty and propel the country into middle income status. The Trade Freedom metric is well below the J2SR Country Roadmap average, but is commensurate with the region. The Environmental Policy metric scored close to average; however, given Nepal's incredible biodiversity and natural resources - landscapes, forests, wildlife, and water resources - this area remains a priority as it is critical to providing the underlying natural capital that drives food security, energy development, resilience to climate risks, and sustainable economic growth - such as supporting the tourism sector that was robust before COVID-19. Given Nepal's few economic comparative advantages, coupled with the advent of decentralization and rapid infrastructure development that pose threats to protected areas, conservation of Nepal's natural resources is paramount for reducing disaster risks and furthering the J2SR.

**CAPACITY**

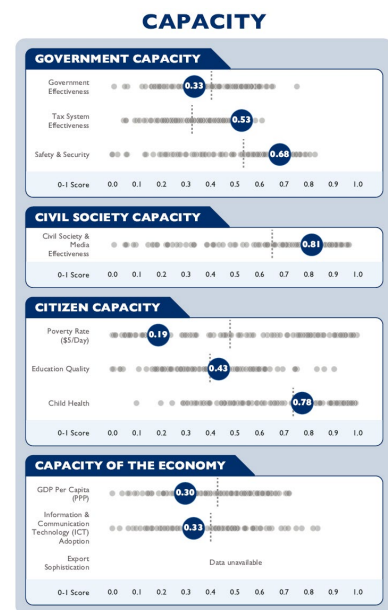
The Government Effectiveness and Tax System Effectiveness metrics are rated below average due to challenges in collecting, managing, and effectively expending public finances. The federal transition also poses immense challenges to the ability of sub-national governments to direct the limited resources where they are needed, rectify their limited government capacity, clarify new expenditure responsibilities, and resolve disputes over revenue sharing and taxation authority.<sup>20</sup>

**Civil Society Capacity:** Nepal's high civil society metric score likely reflects the prolific number of organizations registered, rather than

actual capacity. Civil society plays an important role in the consolidation of democratic institutions in order to deliver on the promise of democracy in Nepal.

**Citizen Capacity:** Nepal’s poverty rate metric is significantly worse than its peers on the roadmap. This is especially true for remote geographic areas and among marginalized groups that have higher poverty rates than the national average. The GON’s Sustainable Development Goals 2016 - 2030 report notes that there are large disparities in regional, caste/ethnicity, gender, and geographical outcomes.<sup>21</sup> The Multidimensional Poverty Index, using a more encompassing poverty definition, states that 34 percent of Nepal’s population were in multidimensional poverty in 2016 (the last available year for data).<sup>22</sup> The Poverty Probability Index is highest for Madhesi Dalits (23.9%), Hill Dalits (14%), and Muslims (12.7%).<sup>23</sup> Routine shocks regularly cause Nepalis who have made economic progress to fall back into poverty. Also, increasing environmental risks, caused by urban expansion and poor-quality infrastructure, disproportionately impact the poor, such as increased exposure to pollution and risk for water borne disease transmission. Health indicators have improved dramatically in Nepal over the past twenty years. For example, under-five and neonatal mortality rates have declined by nearly 70 percent and 60 percent respectively. However, there are still areas where progress lags behind (maternal mortality, malnutrition), and there are disparities in health outcomes by caste, wealth, and gender. Additionally, federalism and COVID-19 has disrupted every major health system (human resources, health information systems for evidence-based decision making, procurement and distribution of quality medicines, and others), and Nepal’s remarkable health gains are at risk of backsliding. On the surface, significant gains have been made in education - Nepal has achieved universal access to education and more Nepalis than ever are accessing higher education. Unfortunately, when measuring learning-adjusted years of schooling, a Nepali student only receives about 6.9 years of schooling despite attending school for 11.7 years<sup>24</sup> - a clear sign of quality issues that will only be exacerbated when the responsibilities for primary and secondary education devolve to unprepared local authorities and the full impact of COVID-19 is realized.

**Capacity of the Economy:** One of the reasons, identified in the Economic Policy sub-dimension, for Nepal’s low GDP per capita ranking in the Country Roadmap is the constant recurrence of natural disasters that divert productive resources - human and capital - from investment into the economy. It is estimated that due to Nepal’s lack of disaster preparedness for floods alone, over 1.5 percent in GDP is lost annually. This does not even account for the recurrent, generational catastrophes, like the 2015 earthquakes, that drove over 700,000 people into poverty, incurred a reconstruction cost of over \$8 billion, severely damaged or



*Nepal’s Journey to Self-Reliance Country Roadmap Capacity Sub-Dimensions and Metrics*

destroyed over 800,000 homes, 8,200 schools, 1,200 health facilities, and killed an estimated 9,000 people. Without addressing these significant and persistent climactic and environmental shocks,<sup>25</sup> Nepal will struggle to advance toward self-reliance.

Taken together, these metrics and sub-dimensions indicate that to further Nepal's self-reliance, USAID should strategically invest in programs that: (1) improve government effectiveness, particularly as it relates to supporting the transition to federalism, the provision of basic public services, and inclusion of all citizens to realize the potential of Nepal's promise of democracy; (2) reform economic policy and build economic capacity for all people (especially for women and marginalized groups) to provide new opportunities for economic growth; and (3) address the opportunities and risks that the environment poses to Nepal, reducing the risk of persistent shocks and also catalyzing future economic growth based on Nepal's unique and rich environmental resources.

During the course of this CDCS, the Mission envisions several strategic transitions on the J2SR: USAID will shift its focus to climate and disaster risk mitigation and away from post-earthquake recovery and reconstruction; health and education systems strengthening rather than service delivery; broad-based economic growth rather than focusing exclusively on agriculture; and consolidating democracy through partnerships that strengthen the entire federal governance ecosystem. To implement these transitions, USAID will more explicitly focus on sustainability and self-reliance issues related to financing self-reliance (FSR), private sector engagement (PSE), and building upon or redefining the development relationship (RDR) with Nepal. The Mission will also pursue opportunities for USAID to adopt more locally owned and led development models that put local actors in the lead; strengthen the host-country government's leadership ability - at the central and local levels - in addressing, managing and funding their own development challenges; and support partnerships and approaches that expand access to finance, mobilize private capital, and improve access to markets. The Strategic Approach below discusses how USAID will operationalize this transition towards self-reliance and lay the foundations for the more self-reliant Nepal of tomorrow.

## **STRATEGIC APPROACH**

The United States recognized Nepal in 1947, and the two countries established diplomatic relations in 1948. Helping Nepal build a peaceful, prosperous, resilient and democratic society is a key US objective. USAID's strategy will support Nepal to improve the livelihoods of its people through good governance, sound economic opportunity, improved public services, and world class environmental stewardship. During the development of the CDCS, three themes - federalism, inclusion, and resilience - repeatedly emerged as crucial and necessary approaches to realize Nepal's development vision. USAID has woven these three strategic approaches throughout the CDCS across development objectives to ensure that USAID's programmatic response adequately accounts for and integrates these factors that are crucial to successfully addressing Nepal's development challenges.

### **SUPPORTING THE TRANSITION TO FEDERALISM**

Nepal has embarked upon a difficult and complex, but strategic, transition to bring democracy closer to the people via federalism. Federalism, however, is not only a governance issue; it permeates all social and economic sectors and facets of life in Nepal and - if well implemented and managed - can serve as a vehicle to accelerate the country on its path to self-reliance. USAID will support the GON in the implementation of federalism as it is the model of democratic governance adopted by Nepal and is the approach through which the CDCS intends to plan, implement, and support to ensure success across all sectors. To work towards this goal, the Mission will: support policy development, systems, and practices across all levels of government; engage citizens and civil society organizations to actively participate in local decision-making and oversight; and help Nepal's efforts to improve public budget execution so that it can channel its resources towards productive investments, improving effectiveness, transparency, and accountability of public expenditures.

USAID will calibrate efforts at both the national and subnational levels to assist Nepal to implement policy and operational shifts that devolve services and responsibilities to the appropriate level. The Mission will pursue G2G agreements to strengthen systems under federalism and increase accountability in support of improved governance. This CDCS will also support improved public financial management of host government resources as a means to create greater transparency and accountability, both for the public and for all levels of government to ensure the effective devolution of responsibility, authority, and budget.

The devolution of public service responsibilities to the subnational level of government under federalism presents both an opportunity and a challenge, as local governments are eager to improve systems, but need greater capacity to deliver services. USAID will integrate federalism into its capacity building approach across all development objectives so that local actors - public officials, entrepreneurs, health care workers, educators, civil society organizations, and citizens - improve their understanding of federalism and contribute to its implementation. COVID-19 has exacerbated local government capacity gaps making local governments function less effectively. USAID will help increase capacity for local, healthcare, and education officials to ensure that they can better plan, respond, and account for their devolved duties under federalism and be responsive to citizen needs.

In support of federalism, USAID will work with a wide variety of actors - including national and local officials, citizens, civil society organizations, and local businesses - to strengthen the implementation and oversight of federalism, build capacity of local actors, ensure that public services benefit all Nepalis, and create the conditions for sustainable local economic growth. Over the life of this CDCS, locally elected officials, including more women, youth, and members of marginalized groups, will become stronger interlocutors for citizen engagement, public service provision, and public accountability.

To advance essential policy issues related to federalism, USAID will continue to play a significant role in coordinating support from donors, such as GIZ, DFID, the UN, World Bank, and EU, through the federalism working group. USAID will also maintain close collaboration with development partners engaged in health and education to ensure that donors supporting these tangible services - either through project or non-project modalities - under federalism are fully coordinated.

### **INCLUSION AS A PRIMARY TARGET OF INTERVENTION**

With an estimated 40% of the population in Nepal considered to be marginalized, inclusion is simultaneously a challenge, programming opportunity, and overarching goal for the CDCS. To ensure this goal is fully implemented, USAID integrated inclusion

*“Federalism is not only a governance issue; it permeates all social and economic sectors and facets of life in Nepal and - if well implemented and managed - can serve as a vehicle to accelerate Nepal on its path to self-reliance.”*

*- USAID/Nepal CDCS  
Strategic Approach*

within its strategy at every level, both to underscore the role inclusion must play to assist Nepal in achieving its development goals and to ensure that Mission programming directly addresses issues of exclusion throughout the implementation cycle. This approach has been further refined by an evidence-base illustrating which groups specifically have been historically marginalized and what fundamental rights remain unmet.

While GON policies are largely in place, gaps remain in terms of implementation and overcoming historical systemic discrimination for marginalized groups. USAID recognizes the catalytic role that civil society will play in advocacy for and oversight of GON inclusion policies, especially human rights, equal access to public services, gender-responsive budgeting of host government resources, and risk mitigation measures to ensure resilience. Increasing the equity of access to health and education service will be critical to building the human capacity needed to improve livelihoods for those most vulnerable to economic exclusion and poverty.

The Mission will undertake a concerted effort to more actively target marginalized groups and regions where appropriate (for example, removing barriers for women, youth and marginalized groups, which may include Dalits, Madhesi Other Caste, Tarai Janajatis, Muslims, and other ethnic and religious minorities). To further advance inclusion, USAID may coordinate efforts with other donors, such as the UN and contribute to the attainment of the UN's 2030 Sustainable Development Goals. The Mission will work closely with the U.S. Department of Justice and other development partners to implement human rights and counter trafficking in persons (CTIP) programming that address the problems that often arise from exclusion in Nepal.

## **INTEGRATING RESILIENCE INTO OUTCOMES**

Nepal is routinely struck with disasters and shocks that erode development progress, reduce the effectiveness of governance institutions, exacerbate exclusion, keep the most vulnerable in poverty, and drive others into poverty. Shocks refer to “external short-term deviations from long-term trends that have substantial negative effects on people’s current state of well-being, level of assets, livelihoods, safety or their ability to withstand future shocks. Shocks can be slow-onset like drought, or relatively rapid onset like flooding, disease outbreak, or market fluctuations.”<sup>26</sup> COVID-19 and its secondary and tertiary effects on public services, the economy, and social structures and institutions is a new and severe shock, and is the latest in a long line of shocks that impact Nepal, including the insurgency, earthquakes, flooding, landslides, and other disasters. To make sustainable and lasting development gains, this CDCS will utilize a systems approach that takes into account the roles of interconnected sets of actors throughout Mission programming needed to advance resilience; two key means to build that resilience include engaging the private sector and strengthening government capacity.

To promote resilience, the Mission will engage non-traditional stakeholders, including the private sector, to offer innovative, nimble, and sustainable approaches in the wake of natural disasters and other shocks. By promoting vibrant, diverse, and free market systems that are responsive to citizen needs, this CDCS will help to create an economy that provides ample opportunity for youth to seek employment at home, rather than turning to opportunities abroad as a mechanism to cope with shocks. It will also ensure that the economic makeup of Nepal is more diverse so that shocks to one sector or location are less capable of producing ripple effects that reverberate throughout the economy and threaten livelihoods on a large scale. Following a natural disaster, the private sector also has the potential to offer market-based solutions that can be more rapidly deployed than government or donor responses, while also reducing the strain on limited government resources. To implement this approach to resilience, the Mission will use an array of PSE tools - business incubation, business support services, entrepreneurial and financial support, information sharing, and workforce development - that will strengthen the capacity of the economy to progress, even when faced with the inevitable shocks and disasters.

To build more resilient government capacity, USAID will partner with the public health and education systems to plan, prevent, mitigate, and respond appropriately to shocks and disasters with available host country resources, minimizing the need for outside assistance. Working at both the national and sub-national levels, this CDCS will target health and education systems so they become more adequately prepared to mitigate and respond to current and future shocks so that they may continue to deliver services during crises and can recover more quickly from crises.

## RESULTS FRAMEWORK

### GOAL STATEMENT AND NARRATIVE

“A more self-reliant, prosperous, and inclusive Nepal that delivers improved democratic governance and health and education outcomes” is USAID’s 2020-2025 CDCS goal. Based on USAID’s J2SR Country Roadmap for Nepal, a preponderance of evidence and experience, and the development priorities that emerged from the Mission’s inclusive CDCS process, “self-reliance,” “prosperity,” and “inclusiveness” are the main ideals where the Mission will advance Nepal’s J2SR. “Self-reliant” relates to the J2SR that has come to define USAID’s overarching approach to development and the framework by which we measure progress. “Prosperous” refers to the GON’s ambitions to achieve middle-income country status by 2030 and to the J2SR’s Poverty Rate metric, which is relatively low compared to its neighbors. “Inclusive” has been woven into every Development Objective (DO) as an important concept and operating principle given the widespread marginalization of 40% of the population (including religious and ethnic minorities), the socio-economic consolidation and concentration of power in the country, and the impending risk and threat that COVID-19 will push more Nepalis into poverty and further exacerbate inequality. Inclusive also refers to the need for Nepal to address long standing equity gaps among specific marginalized ethnic and religious minorities to realize its development goals.

The second component of the goal statement focuses on supporting democracy and human capacity development, both of which are among Nepal’s greatest near-term development challenges that will shape development progress and its sustainability in the future. “Democratic governance” is key given Nepal’s recent transition and commitment to federal governance and the connection of federalism to almost all parts of socio-economic life in Nepal. The provision of critical public services - namely, health and education - is a measure of how well federalism is implemented and is an indicator of citizen capacity. Moreover, in the current context, COVID-19 disproportionately affects both health and education outcomes, reducing access and quality, especially for the most marginalized, exacerbating existing inequality and vulnerability.

In regular consultation with all levels of government, donors, and civil society, USAID is able to effectively coordinate and leverage its resources, reduce overlap, and ensure local buy-in. Throughout the CDCS, USAID will analytically and opportunistically target its development efforts across Nepal using three lenses: identifying areas and actors where there is a medium to high level of commitment for change, but a medium to low level of capacity; prioritizing areas where a maximum number of marginalized populations are either direct partners or beneficiaries; and selecting areas and actors with a high potential for impact on systems and outcomes for Nepal. In some cases, such as education, support may be nationwide, while in other cases, such as agriculture, support may be limited to select growers in the Feed the Future zone of influence. Through regular internal and external consultative processes, USAID will define the beneficiaries and systems for intervention that offer the best opportunities for an effective partnership that will yield expected results.

### **DO 1: MORE EFFECTIVE, PARTICIPATORY, AND EQUITABLE DEMOCRATIC ECOSYSTEM**

*Development Hypothesis Statement:* If Nepalis effectively engage with democracy, and if Nepali institutions include all citizens, and if governance institutions are capable of meeting citizen demand, then Nepal's

democracy will develop the systems and values needed to support a more prosperous, equitable, and self-reliant Nepal.

*Development Hypothesis Narrative:* Several assessments<sup>27</sup> highlight that one of Nepal’s primary development challenges is the successful implementation of federalism, in particular building capacity at the sub-national level.<sup>28</sup> Additional assessments, including the J2SR Country Roadmap, have also pointed to meaningful<sup>29</sup> and equitable<sup>30</sup> participation in decision-making across sectors and at all levels, as well as government effectiveness, as critical to maintaining public trust in elected representatives and building self-reliance towards a stronger democracy.

To address these gaps, “More effective, participatory, and equitable democratic ecosystem” is USAID’s first development objective. “Democratic ecosystem” describes the complex system formed by all of the interdependent structural (laws, institutions, systems, and the bureaucracy) and functional (civil society, media, and private citizens) parts that constitute a working democracy. Ultimately, the health and effectiveness of the democratic ecosystem is contingent on both the integrity of the structures and the trust and participation of the people.

This DO supports many self-reliance metrics, as well as the effective delivery of democracy through federalism, a GON priority. Moreover, this DO will work to strengthen democratic systems, including: the integrity of electoral processes; the independence of media and information integrity; a robust civil society that is capable of government oversight, civic engagement and advocacy on behalf of citizen interests, including the political participation of women; advancing the rule of law and instituting anti-corruption measures; and citizen-responsive governance that upholds and protects fundamental rights.

By strengthening government capacity/systems and building the foundations of accountable governance vital for reforms and broad-based economic growth, this DO will ensure that Nepal leads its own development efforts. Moreover, by improving accountability and reducing corruption through public financial management, this DO will also ensure that Nepal sustainably finances its own development efforts.

The emergence of COVID-19 has impacted governance systems and caught elected officials at all levels unprepared. Sub-national governments are overwhelmed, making it difficult to provide participatory, accountable, and transparent COVID-19 responses and ensure that women, youth, and marginalized groups’ (WYM) equities are represented in decision-making. Citizens also need access to accurate information on the pandemic through CSOs and media. To mitigate the impacts of COVID-19 in Nepal, this DO will support sub-national governments to be more participatory, accountable and transparent, and therefore more targeted, in their COVID-19 response, as well as make citizens aware of COVID-19 through information from CSOs and media. This DO will also take into account the increasing challenges of youth, women, and marginalized communities and their growing vulnerability to trafficking.

## **IR STATEMENTS AND NARRATIVES**

Three interdependent intermediate results (IRs) support DO I. Combined, they will strengthen both structural governance institutions to be more responsive to citizen demands and functional (civil society, media, and private citizens) governance components to create a more effective, participatory, and equitable democratic system.

### **IR I.1: INTEGRITY OF DEMOCRATIC SYSTEMS STRENGTHENED**

IR I.1: “Integrity of democratic systems strengthened” will strengthen the supply side of democratic institutions - specifically sub-national governance, electoral processes, and public financial management - to improve their transparency, integrity, and accountability, ultimately making them more effective in the face of corruption that threatens to undermine the democratic system.<sup>31</sup> While the overarching policies



to enact federalism at the central level exist, to be fully effective devolution needs strong democratic process policies at the subnational level. To address these needs, USAID will: improve awareness and capacity of newly elected local officials; build human resource capacity within the sub-national government bureaucracy; and harmonize local and national policies concerning devolution. By increasing effective sub-national governance, USAID will counter corruption at the local level<sup>32</sup> and strengthen the ability of local governments to deliver services as mandated under federalism.<sup>33</sup> USAID support for electoral processes will improve the integrity of political systems. To build greater transparency and government effectiveness, USAID will support public financial management (PFM) to reduce opportunities for fraud, waste, and abuse of public funds<sup>34</sup> both at the national and sub-national level.

### IR 1.2. EQUALITY UNDER THE LAW FOR WOMEN, YOUTH AND MARGINALIZED (WYM) COMMUNITIES IMPROVED

IR 1.2: “Equality under the law for women, youth and marginalized (WYM) communities improved” will enact recommendations from various assessments to support women, youth, and marginalized communities<sup>35</sup> via rule of law<sup>36</sup> to ensure that Nepal’s democracy delivers better on the constitutional promise of equality.<sup>37</sup> This IR will integrate gender equality and social inclusion via support for human rights, including continued assistance to counter human trafficking.<sup>38</sup>

While Nepali law and jurisprudence are relatively strong in comparison to its South Asian neighbors in terms of the rights of women and rights against discrimination, laws and court decisions lack enforcement. As a result, the most marginalized groups, comprised of Dalits, Madhesi other Castes, Muslims, and Tarai Janajatis, which make up 40 percent of the population,<sup>39</sup> have been excluded from meaningful political participation and the full exercise of their rights. Up to 81 percent of the Dom, Santhal, Halkhor, and Marwadi minority groups lack citizenship due to non-existent birth registrations and other necessary legal documents, effectively excluding them from accessing basic rights.<sup>40</sup> Compared to other groups, women and marginalized groups have far less knowledge about their fundamental civil and political rights and the affirmative policies meant to benefit them, a compounding disadvantage for women from marginalized groups. Ninety-two percent of Nepali women are unaware about where to lodge formal complaints and only 28 percent believe that justice is easily accessible to all citizens.<sup>41</sup> Weak enforcement is due to dominant social norms that discriminate on the basis of gender, caste, ethnicity, and religion. Equal protection under the law can be advanced by expanding leadership opportunities for local leaders from WYM groups who understand the challenges faced and can sustain efforts to produce institutional change. This IR will specifically focus on WYM and decreasing the culture of impunity experienced by minorities;<sup>42</sup> increasing accountability for ensuring

*“By increasing effective sub-national governance, USAID will counter corruption at the local level and strengthen the ability of local governments to deliver services as mandated under federalism.”*

*- USAID/Nepal IR 1.1*

GBV crimes are brought to justice; strengthening rule of law for the most marginalized; improving access to justice for WYM; and protecting the fundamental rights of WYM (including, but not limited to, advancing religious freedom, rights of LGBTQI and addressing GBV and CEFM). These efforts will ultimately ensure that equality under the law for all groups (including men and majority communities) is improved. To support local systems, this IR will work with municipalities and judicial actors (police, prosecutors, judiciary, judicial committees, traditional leaders, and community mediators), while also promoting community engagement and actively targeting WYM. Additionally, this IR will be able to address the needs of women through increased public accountability and gender-responsive budgeting.

### **IR 1.3. CITIZEN DEMAND FOR DEMOCRACY STRENGTHENED**

IR 1.3: “Citizen demand for democracy strengthened” will support the functional (civil society, media, and private citizens) components of the democratic ecosystem to increase citizen participation,<sup>43</sup> improve effectiveness and decrease corruption<sup>44</sup> of institutions.

This IR will enhance the leadership of civil society, improve oversight of public services, and support access to credible information.<sup>45</sup> Nepal's legal environment for the protection of civic space is complex, with multiple agencies and laws meant to oversee civil society organizations in Nepal. In addition, multiple draft pieces of legislation have recently been discussed in Parliament that could restrict fundamental freedoms of assembly, press, and association. In support of local systems, this IR will strengthen governance - at both the local and national levels where local civil society and media partners play a vital role in holding governments accountable to the public. Additionally, this IR will build the capacity of local systems, including non-government organizations, thematic networks, federations, and private sector actors (media houses) to support demand for democratic governance.

### **DO 2: BROAD-BASED AND INCLUSIVE ECONOMIC GROWTH FOSTERED**

Development Hypothesis Statement: If Nepal is able to identify and seize upon emerging economic comparative advantages and enact meaningful reforms that support market-oriented and inclusive economic policies, then the foundations for broad-based economic growth will be significantly increased, making Nepal more prosperous, equitable, and self-reliant.

Development Hypothesis Narrative: DO 2 “Broad-based and Inclusive Economic Growth Fostered” will contribute to the CDCS’s goal statement of a more self-reliant and prosperous Nepal. It also contributes to Nepal’s ambitious goal of reaching middle-income country status by 2030.<sup>46</sup> By supporting the transition of Nepal from over-reliance on less productive sectors with low returns to sectors that are more productive, and by increasing productivity for areas that are ripe for growth, this DO will foster economic growth that is both broad-based<sup>47</sup> and inclusive.<sup>48</sup> Analysis shows that increasing product diversity (broad-based) towards more complex products can accelerate an economy’s long-term growth rate by 1.6 percentage points for every one standard deviation increase in product complexity.<sup>49</sup> Similarly, a more inclusive economy boosts GDP growth; a 1% reduction in inequality increases GDP by 0.6% to 1.1%.<sup>50</sup> USAID investments will focus on high-growth sectors that demonstrate potential to meet domestic market demand, expand trade, generate income and employment, and reduce poverty.

This DO contributes to Nepal’s J2SR by promoting economic governance and business models that strengthen Nepal’s economic sovereignty and promote positive linkages to fair economic trade and international norms. This DO will contribute to development progress within seven areas covered in the J2SR Roadmap - Business Environment, Trade Freedom, Poverty Rate, ICT Adoption, Government Effectiveness, Social Group Equality, Economic Gender Gap - and three components - RDR, FSR, and PSE. To promote broad-based and inclusive growth, DO 2 will strengthen the competitiveness of agriculture and non-agriculture sectors, improve the investment climate and business enabling environment through targeted policy engagement, and address the systemic barriers that prevent the full

participation of socio-economically disadvantaged segments of the population. This DO's focus on economic activities that are primarily mediated through markets offer rich opportunities for the private sector to apply market-based solutions to development problems.

COVID-19 has exacerbated Nepal's constraints to the formation and growth of firms, imposing additional layers of constraint on enterprises, such as lack of profitability, cash flow problems, and solvency. Nepal will most likely experience one year without any growth in GDP, at a minimum, while impacts may last longer due to uncertainties as the outbreak continues to evolve. Should the impacts of COVID exceed current projections, the economy may continue to contract beyond the expected 12 months, which could lead to elements of an economic collapse and worsening food security. In response to COVID-19, the implementation of this DO will be strategically sequenced to provide relief, recovery, reform, and resilience. Beginning with relief, this DO will emphasize lifelines to firms on the verge of insolvency so that they can survive the pandemic. This may involve (under IR 2.2) advocating for a GON credit guarantee program and assisting firms to access GON financial assistance programs, or facilitating access to agricultural lending through farmers cooperatives (under IR 2.1). The recovery phase of the DO will support efforts to enable firms to re-establish profitability and thrive once the pandemic subsides. This may involve re-building disrupted supply chains (under IR 2.1), providing technical and vocational training and accelerating digitization, specifically targeting marginalized groups to increase their market participation and building private sector capacity to reach these vulnerable populations with services and inputs (under IR 2.2 and IR 2.4). Once firms regain solvency, this DO will shift to address longer-term capacity development to achieve profitability and competitiveness, such as accelerating the adoption of productivity-enhancing innovations and technologies, while pursuing policy reform opportunistically to improve the investment climate and business environment (under IR 2.1, IR 2.2, and IR 2.3). Throughout the life of the CDCS, this DO will concurrently reinforce resilience by integrating WYM, including harnessing the skills of migrant returnees, into markets to ensure that they connect to and benefit from the new economic opportunities that are created as the economy grows (under IR 2.4).

#### **IR STATEMENTS AND NARRATIVES**

Four IRs directly support DO 2 by linking economic growth with enterprise investment to improve productivity and enhance competitiveness, which in turn, attracts more investment as markets expand, and as a result creates a virtuous cycle that ultimately transforms an economy. Common traits characterizing transformed economies include: accelerated investment lasting more than a decade; increased world market orientation; increased share of more complex products for export; exponential growth in

*“This DO contributes to Nepal’s J2SR by promoting economic governance and business models that strengthen Nepal’s economic sovereignty and promote positive linkages to fair economic trade and international norms.”*

*- USAID/Nepal DO 2*

per capita GDP; decreased population growth rate; and increased investment in human capital.<sup>51</sup> Enterprises invest when presented with market incentives and enabled by access to inputs/resources, which are ultimately determined as a country lowers the cost and risk of doing business and improves the functioning of input markets (absence of distortions and enhanced competition) through good economic governance and a favorable business enabling environment. GDP growth, while a necessary factor of economic transformation, is not a sufficient condition for achieving inclusive progress in living standards. Therefore, it is necessary to integrate marginalized and vulnerable groups into markets to increase the likelihood for them to connect to and benefit from new economic opportunities created by a growing economy.

### **IR 2.1. INCLUSIVE, PRIVATE SECTOR-DRIVEN GROWTH IN AGRICULTURE PROMOTED**

USAID has been a steady partner in Nepal's agriculture sector since the start of FTF in 2010, successfully advocating for market-led reforms that lay the foundation for broader economic growth in the near term. To build on USAID's comparative advantage and strong GON support for the sector, IR 2.1 "Inclusive, Private Sector-Driven Growth in Agriculture Promoted" will address agriculture productivity and policy needs. The agriculture policy environment is improving; there is an increasing openness to key policy reforms and a market-centric approach in agriculture. By focusing on agricultural production, the IR acknowledges that increasing on-farm labor productivity is necessary to improve the sector's profitability and efficiency so that the labor can move to higher productivity non-agriculture areas. Gains in on-farm productivity alone will not propel Nepal to middle-income country status, but when coupled with strengthening off-farm market system actors, including all types of agribusinesses and food industries, and addressing critical gaps in food safety (sub-IR 2.1.2), it will form the foundation along with IR 2.2 to diversify Nepal's economic growth. USAID will take an inclusive market system approach to this IR, facilitating linkages among producers, market actors (including agribusinesses and food industries), and consumers, ultimately stimulating sustainable private sector-led agricultural development and improving food security. Throughout this IR, USAID will take into account the effects of climate change on agricultural productivity, which will ultimately affect investments in off-farm market systems up the value chain. USAID will pilot various approaches to better link women, youth, and marginalized groups to markets, ensuring that these groups have opportunities for advancement and participation at different levels of agricultural value chains. Other important local actors will include think tanks and universities - to spur innovation - and relevant government actors to foster a strong enabling environment.

### **IR 2.2 COMPETITIVENESS OF SELECT HIGH-GROWTH SECTORS INCREASED**

While Nepal's productive capacity, as measured by the complexity index of the products that the country produces and exports, is greater than what is expected given its level of income, its economy clearly has the potential to grow through product intensification and diversification and by increasing the competitiveness of select high-growth sectors.<sup>52</sup> Nepal's economy has not kept pace with its competitors, limiting market opportunities for Nepali enterprises and disincentivizing investment that ultimately weakens the country's growth performance.<sup>53</sup> Additionally, Nepal ranks 69th of 77 countries in terms of labor productivity (GDP per labor employed), which is the lowest in all of Asia.<sup>54</sup> Growing evidence<sup>55</sup> suggests that "diversification" serves as the initial driver of growth, for enterprises to acquire mastery over a broader range of productive activities first, which will open more opportunities for countries to advance to more complex export products. To respond to these critical needs, USAID will have a new area of focus under IR 2.2: "Competitiveness of Select High-Growth Sectors Increased" and partner with a discrete number of enterprises in high-growth sectors to strengthen their capacity and competitiveness. USAID support will focus on services that will benefit the sector as a whole, and may include improving the access or availability of business development services, workforce skills development, financial products and services serving the sector, and expanding access to productivity-enhancing technologies. To support local systems, USAID will strengthen the capacity of private Nepali SME agribusinesses and facilitate relationships between local actors in order to expand sustainable and

inclusive agriculture market systems. Where necessary, investments under this IR will take into account the potential effects of climate change on high-growth sectors and market systems. USAID will also partner with local private actors and encourage cost-sharing arrangements in the delivery of services, products and technologies that will improve the sector's competitiveness. The GON is making strides at policy reforms needed to spur competitiveness and attract FDI, and this IR will assist the GON to continue to streamline the policy approval process, enhance investment incentives and guarantees, and establish a robust dispute settlement regime. In addition, the GON has demonstrated a willingness to reform and requested the World Bank's assistance to enact regulatory reform in order to lower the cost and risk of doing business in Nepal relative to other countries. USAID will coordinate with the World Bank and other donors, private sector actors, and relevant government stakeholders to advance this IR.

### **IR 2.3 ECONOMIC GOVERNANCE AND BUSINESS ENABLING ENVIRONMENT IMPROVED**

In addition to competitiveness and private-sector driven growth, Nepal needs a business enabling environment that incentivizes productivity-enhancing investment, rewards competition, and facilitates new market entrants, in order to achieve its economic aspirations. The lack of competition that has emerged due to the unclear economic governance, and insufficient business-enabling and investment environments constrain the foundations to economic growth in Nepal.<sup>56</sup> As a new area for USAID, IR 2.3: "Economic Governance and Business Enabling Environment Improved" acts on this need. This IR will support Nepal to improve its economic governance and the business enabling environment by incorporating international best practices in the policy and regulatory framework governing trade and investment in Nepal. It will also strengthen the capacity of GON agencies that implement those policies and regulations, streamlining their processes to lessen the regulatory burden borne by enterprises. USAID will leverage its convening power and leadership within the donor community to bring together like-minded development partners in advocating for and complementing economic policy and regulatory reforms that will improve Nepal's investment climate and business enabling environment.

### **IR 2.4 MARGINALIZED AND VULNERABLE COMMUNITIES INTEGRATED INTO MARKET SYSTEMS**

As stated above, GDP growth alone is not sufficient to create broad-based economic growth that improves living standards for all Nepalis. For the most part, Nepal's women, youth and marginalized groups (WYM) often operate in the informal segments of the economy that do not provide security and fair benefits to workers. Of the 21 million Nepali working age population, 61% (12.7 million) are engaged in self-contained economic activities for final own-

*"If Nepal is to achieve its economic aspirations, it needs to create a business enabling environment that incentivizes productivity-enhancing investment, rewards competition, and facilitates new market entrants."*

- USAID/Nepal IR 2.3

household use. Of those engaged in economic activities for pay or profit, another 21% (4.4 million) are employed in the informal sector. Abundant empirical evidence<sup>57</sup> shows that improving economic inclusion boosts economic growth in the long-run and critical at this juncture of Nepal's development. IR 2.4: "Marginalized and Vulnerable Communities Integrated into Market Systems" will work to integrate marginalized and vulnerable groups into markets and increase the likelihood for them to connect to, and benefit from new economic opportunities created by a growing economy. This IR will: enhance the participation of WYM in formal economic activities through entrepreneurship and/or skills training and job placement to ensure that they are securely integrated into market systems; stimulate entrepreneurship by increasing WYM's access to business services that can enhance their productivity, including access to finance, technology, business licenses and registrations, and markets, including input markets, and; enhance meaningful private-sector representation of WYMs by expanding their leadership roles and ensure that private and public sector institutions prioritize WYM's interests in their development activities and services. There is still a significant need to formulate and implement gender sensitive and socially inclusive economic laws and policies to foster an enabling environment for WYM private sector stakeholders (this includes understanding and mitigating the effects of social/gender norms and gender-based violence that hinder women's economic empowerment). This IR will engage local actors such as WYM entrepreneur networks, vocational training centers, and various local private sector actors.

### **DO 3: INCLUSIVE HEALTH & EDUCATION SYSTEMS STRENGTHENED**

*Development Hypothesis Statement:* If the quality of health and education services is improved, equitable access to health and education services is expanded, and the capacity of the health and education systems to prepare for and recover from shocks is increased, then health and education systems will be more inclusive and strengthened.

*Development Hypothesis Narrative:* Marginalized groups in Nepal have not equally benefited from essential public services compared to other groups. In addition to the quality of education being unequal for girls, given a preference to invest in the sons' future, children of Madhesi Other Caste, Madhesi Dalit, and Muslim communities have significantly lower school attendance and completion than their peers of other groups.<sup>58</sup> Marginalized groups also experience lower uptake of crucial health services and practices including toilet facilities, vaccination, antenatal care, and hospital delivery.<sup>59</sup> This marginalization from public services may also have unintended consequences including gender-based violence, and child, early, and forced marriage.

Effective and inclusive health and education systems are important in and of themselves to build human capacity. In Nepal, they take on additional significance, as they represent the two basic and fundamental services by which Nepalis can tangibly see and feel the effects of federalism, as these services have been devolved to the local level to be more responsive to the needs of the constituents. The GON has recognized the importance of removing inequities through federalism in its Fifteenth Periodic Plan<sup>60</sup> and boosting social capital in order to meet Nepal's long term development goals. Assessments<sup>61</sup> and the J2SR Country Roadmap have demonstrated that effective and inclusive health and education systems are essential to fulfilling the promises of democracy and economic growth for all Nepalis, and are the basis for a more prosperous, stable, and independent Nepal. Based on these critical needs and gaps, DO 3 is "Inclusive health and education systems strengthened." Health and education "systems"<sup>62</sup> in this DO, refers to all the activities whose primary purpose is to promote, restore and/or maintain health and education, including the combination of people, institutions and resources, in accordance with established policies, to improve the health and education of the populations they serve. "Systems strengthening" therefore implies a process of identifying and implementing changes in policy and practice in a country's health or education system, so that the country can respond better to its health and education challenges.<sup>63</sup> The building blocks of health and education systems strengthening include: i) leadership and governance, ii) financing, iii) human resources, iv) products and technologies, v)

information and research, and vi) service delivery.<sup>64</sup> “Inclusive” refers to the need to build equity in health and education systems and comprises several dimensions, including, but not limited to: gender/sex, sexual orientation, people with disabilities, religion, ethnicity/caste, socio-economic background, and geographic location. Given the systems approach of this DO, interventions will occur at all levels of federalized Nepal - central, provincial, municipal, and community. Driven by data and need, local level interventions will be targeted to build on past achievements or address persistent gaps in service delivery systems and outcomes. In some cases, geographic selection will align with interventions from other DOs to allow for synergies (for example, WASH and watershed management, nutrition and agriculture programming, or schools and health facility reconstruction). Technical interventions within this DO will focus on strengthening systems to deliver public services and target private service delivery, where appropriate.

This DO contributes to the Goal by directly and indirectly advancing self-reliance metrics, as well as supporting the inclusive delivery of services to increase health and learning outcomes for all. This DO will contribute to development progress within four areas covered in the J2SR Roadmap - child health, education quality, social group equality, and government effectiveness - and three components - FSR, PSE, and RDR - to increase commitment through improved policy, transparency, accountability, and equity, and improve capacity through improved planning, implementation, and advocacy. Through a systems strengthening approach, this DO will target public financial management and governance issues to improve FSR. Similarly, by using G2G mechanisms in both education and health, this DO will be able to address key policy decisions and result milestones, advancing not only RDR, but also FSR. G2G mechanisms also allow this DO to leverage the contributions of other donors to multiply impacts. In the health sector, strengthening Nepali pharmaceutical companies, training of private providers, and public private partnerships will contribute to PSE efforts.

In the current context, the socio-economic effects of COVID-19 on health and education systems have been tremendous. This has included: mounting infections; exceeding of the capacity of the health system to manage all COVID-19 cases; interruptions in routine non-COVID-19 health care; and education at a virtual standstill. Health systems, from the Ministry down to the lowest local level, have redirected technical and managerial attention, as well as already scarce financial and human resources, to deal with COVID-19. A positive sign throughout the pandemic has been the strengthening of systems-building processes and capacity development, as well as closer USAID-government relationships and consultations. On the education side, schools have remained closed since March 2020, with only a fraction of schools using digital technology to continue learning. While the Ministry of Education, Science, and Technology has been able to provide distance learning options, such as print materials, radio, television lessons, and increasingly digital online platforms, the majority of students do not have consistent access to these services. It remains unclear the extent of learning taking place under distance education. Currently, a Nepali student attending school for 11.7 years, when measuring learning-adjusted years of schooling, only receives about 6.9 years of education.<sup>65</sup> Given the disruption of COVID-19 to the education system, this is projected to decline even further.<sup>66</sup> Health service outcomes and quality have suffered, especially with regard to maternal and child health.<sup>67</sup> Institutional childbirth has declined, resulting in increases in neonatal mortality, and decreases in quality of care. Child immunization coverage and family planning have decreased, not only because of the lockdown, but also because of disruptions to the health commodity supply chain, which has resulted in health commodity shortages. If COVID's impact worsens beyond current projections, deaths and infection rates may skyrocket, exceeding the health system's capacity and causing a collapse of the system. If continued school closures remain in effect, Nepali students may not rebound from the loss of education, leading to lost learning and enrollment outcomes, and eventually losses in workforce development and economic productivity. To address the effects of COVID-19 in the near term, this DO's focus on sustainable systems strengthening, with a particular emphasis on disaster/pandemic preparation and response, will facilitate the rapid diffusion of innovations from the fast-evolving science of COVID-19. In addition, USAID will

incorporate adaptive risk mitigation measures into its programming (including community-based programming and virtual outreach) to remain compliant with public health measures and protect all parties while finding alternative, safer means of achieving results.

## **IR STATEMENTS AND NARRATIVES**

In support of DO 3 there are three, mutually-reinforcing IRs that define the three necessary and sufficient results to strengthen the health and education systems in Nepal's context - quality, equity, and resilience. IR 3.1 and 3.2 unite many of the building blocks that comprise the definition of effective health and education systems. Given that Nepal is one of the most disaster-prone countries in the world, IR 3.3 will address the need to strengthen the resilience of the health and education systems so that they are better able to prepare for disasters and respond to them appropriately when they occur, and to continue effective service delivery in the face of crises.

### **IR 3.1. QUALITY OF HEALTH AND EDUCATION SERVICES IMPROVED**

IR 3.1: "Quality of health and education services improved" will address persisting quality gaps in health<sup>68</sup> and education.<sup>69</sup> In the Nepal context, high-quality systems require: governance and partnerships across sectors; platforms for service delivery; workforce numbers and skills; tools and resources, from materials to data; and the population's health and learning needs and expectations. Additionally, effective systems need to measure and use data to learn and improve interventions.<sup>70</sup> As sub-national governments are newly responsible for delivering health and education services, USAID will work with the GON to strengthen health and education systems' governance to address gaps in leadership, policy planning and implementation, public financial management, monitoring and supervision, and the availability and distribution of required materials/resources/supplies to where they are needed. Similarly, USAID will ensure that appropriate human resources are in the right places and with the right skills, which are critical to delivering quality services. Lastly, USAID will promote increased use of evidence-based interventions that reflect best practices, international standards, or innovative methods across the entirety of coverage areas to ensure that health and education outcomes are improved. Across this IR, USAID will engage with the GON to provide G2G assistance through various mechanisms, including results-based financing incentives, and technical assistance for systems strengthening. USAID will leverage support from other donors (WHO, UNICEF, DfID, GTZ, World Bank, ADB, JICA, Norway, Finland, EU, GPE) on sector-wide approaches, multi-donor funds, or common strategic frameworks for financing. To facilitate local ownership, interventions under this IR will work directly with both municipalities and provincial governments to assess capacity and develop tailored capacity-building interventions. Activities will work with other non-governmental local actors, such as sector committees (WASH, School Management Committee), operations and management committees (health facilities or schools), support groups, civil society organizations, and local businesses (such as media organizations or radio stations). By including a wide range of local actors in interventions designed to improve the quality of health and education services, these groups will help reinforce the responsiveness and sustainability of local service delivery systems.

### **IR 3.2. EQUITABLE ACCESS TO HEALTH AND EDUCATION SERVICES IMPROVED**

Despite improvements over the past 20 years in health service utilization and in universal free basic education, there remain geographic areas with highly vulnerable populations, out-of-school children, and low uptake of health services.<sup>71</sup> In health, there are disparities in service utilization by gender, geographic area, socio-economic status, education, and caste/ethnicity, as well as by the disabled, and age groups such as adolescents. Given that health services are not always accessible to these marginalized populations, their health outcomes are generally poorer.<sup>72</sup> In education, the net enrolment rate at the basic level (grades 1-8) is 92.7%. Specific "last-mile" efforts are, therefore, needed for improved quality of service delivery, and to ensure that interventions reach marginalized groups in terms of both access and relevance of education. Moreover, assessments have indicated that learning outcomes among marginalized or disadvantaged students, poor and remote districts, and public schools



compared to private, are well below average.<sup>73</sup> Also, children with disabilities receive inadequate accommodations in Nepal to allow them to attend school and learn once in the classroom. In certain geographic areas, cultural norms and traditions prevent adolescent girls from completing their education. To address these challenges, IR 3.2: “Equitable access to health and education services improved” will improve equitable access for the most marginalized. Within this IR, “equitable access” to services indicates the need for relevant services that meet the diverse needs of beneficiaries by gender/sex, caste/ethnicity, culture, language, disability, wealth quintile, age, and geographic location.<sup>74</sup> Development efforts will be specifically customized to the particular needs of some in order to enhance the opportunity of access to all. USAID will customize the modes of service delivery to remove barriers for specific groups and enhance the relevance of services through innovative and evidence-based models, and shape the contents of services packages to meet specific beneficiary needs. This will include continuing to address the needs for GBV prevention and survivor support. Additionally, policy work at the national and sub-national levels will ensure that service delivery takes into account the specific needs of marginalized communities. USAID will also work directly with local communities and community groups to build demand for quality services and ensure that these groups adopt high-impact interventions. This IR will leverage PSE and FSR to intentionally mobilize market-based solutions and domestic resources towards prioritized areas with inadequate service provision for marginalized groups.

### **IR 3.3 HEALTH AND EDUCATION SYSTEMS’ CAPACITY TO PREPARE FOR AND RECOVER FROM SHOCKS INCREASED**

As one of the most disaster-prone countries in the world, Nepal regularly experiences shocks that limit its ability to provide health and education services and maintain utilization of those services during and after the trauma. Currently due to COVID-19, health data indicate greater difficulty providing and accessing care, or self-imposed delays to seeking care due to fear of infection. Likewise, schools have remained closed, severely limiting education and learning since the onset of the pandemic. Aside from COVID-19, seasonal floods and landslides repeatedly interrupt service continuity and jeopardize health and education outcomes. As was the case following the 2015 earthquake, health and education systems have not been adequately prepared to limit risks, reduce the impacts on beneficiaries, and maintain service delivery. IR 3.3: “Health and education systems’ capacity to prepare for and recover from shocks increased” will address this need. This IR will increase measures in health and education systems and facilities to prevent COVID-19 transmission, mitigate disease outbreaks during other types of emergencies, and will ensure that health and education systems are adequately prepared for current and future shocks. To reduce the impacts of disasters on service provision, this IR will promote evidence-based practices including but not

*“USAID will customize the modes of service delivery to remove barriers for specific groups and enhance the relevance of services through innovative and evidence-based models, and shape the contents of services packages to meet specific beneficiary needs... Development efforts will be specifically customized to the particular needs of some in order to enhance the opportunity of access to all.”*

- USAID/Nepal IR 3.2

*“The environmental richness of Nepal presents an opportunity to lift Nepalis out of poverty; at the same time, natural disasters repeatedly push the vulnerable back into poverty and undermine economic opportunity and potential for all. Improving natural resources management and disaster risk management is crucial to Nepal’s long-term sustainable social and economic development, stability, and independence.”*

- USAID/Nepal DO 4

limited to: infection prevention control; comprehensive school safety guidelines and plans, including school re-opening guidelines; human resource allocations; safe facility construction; water reserves; and advance procurement of supplies. Additionally, the capacity of the health and education sectors will be strengthened to include alternative modes of service delivery. That can include: distance learning; virtual training and supportive supervision/mentoring; teacher/volunteer mobilization to teach smaller groups; accelerated and remedial education; multigrade teaching; and community-based distribution of medicines. This will both meet demand and inspire confidence in systems to safely deliver during shocks. It will also ensure that systems do not become overwhelmed, continue to deliver services during crises, and can recover more quickly from crises. To strengthen local systems and responses, USAID will work with existing emergency structures and local entities (state and non-state) at the municipal level, including municipal health and education departments, health facilities and schools, Operation and Management Committees, peer and community groups, and private sector actors.

#### **DO 4: MORE EQUITABLE & IMPROVED NATURAL RESOURCES & DISASTER RISK MANAGEMENT**

Development Hypothesis Statement: If Nepal effectively manages environmental opportunities and threats by protecting its natural resources, developing its energy sector, and reducing the damage caused by recurrent natural and human-made disasters, then more sustainable and broad-based livelihood opportunities will be created and promising new sources of economic development opportunities will be realized.

Development Hypothesis Narrative: Nepal, like other countries in the region, depends on its natural resources, including energy, water, land, and clean air for long-term growth. Yet the sustainability of these natural resources—and the vulnerable communities that depend on them for their livelihoods—are threatened by natural disasters, overuse, pollution, and infrastructure development that is not always mindful of environmental and social safeguards.<sup>75</sup> The environmental richness of Nepal presents an opportunity to lift Nepalis out of poverty; at the same time, natural disasters repeatedly push the vulnerable back into poverty and undermine economic opportunity and potential for all. Improving natural resources management and disaster risk management is crucial to Nepal’s long-term sustainable social and economic development, stability, and independence.

Nepal’s unique biodiversity and natural attractions offer a one-of-a-kind comparative advantage for tourism and create immense untapped energy generation potential. In 2018, the tourism sector generated \$2 billion in revenue, contributed to 7.9% of GDP and directly or indirectly generated employment for over a million Nepalis.<sup>76</sup> In 2019, ecotourism attracted 50 percent of the 1.19

million tourists to Nepal, with 35 percent visiting national parks and conservation areas and an additional 14 percent for trekking.<sup>77</sup> Nepal's abundant natural resources also present an opportunity for renewable energy to catalyze further economic development, with an immense hydropower potential of more than 80,000 megawatts (about 40,000 of which are considered economically viable), rich solar and wind resources, and growing cities ripe for economic development and sustainable transportation advances.<sup>78</sup>

Conversely, natural disasters (floods, landslides, earthquakes, fires, and glacial lake outbursts, among others) hinder growth and reduce Nepal's GDP growth by an average of 1.5% per year.<sup>79</sup> According to multiple vulnerability indices, Nepal is among the most vulnerable countries in the world to global climate change, and about 32% of the total area and 28% of the total population of Nepal is exposed to risks from three or more hazards.<sup>80</sup>

Nepali households' lack of resilience leaves them vulnerable to natural disasters and undermines their health, educational, and economic progress. An estimated 25 to 30 percent of Nepali households either fell into poverty for the first time or escaped poverty only to fall back into poverty between 2003 and 2013.<sup>81</sup> The World Bank estimates that 700,000 Nepalis fell below the poverty line after the 2015 earthquakes.<sup>82</sup> Thousands more have their lives and livelihoods swept away by floods and landslides every year. Poverty backsliding among vulnerable and socially excluded populations is compounded by the fact that these groups have limited social capital and possess little power in determining which services are prioritized and delivered from the government, the private sector, or other development actors.

Assessments<sup>83</sup> and the J2SR Country Roadmap demonstrate the need for continued efforts under natural resource management to improve biodiversity conservation, strengthen disaster risk management systems, advance energy sector reforms, and reduce the risks for marginalized groups who are more reliant on natural resources and also less resilient to shocks from natural disasters. DO 4 "More equitable and improved natural resources<sup>84</sup> and disaster risk management<sup>85</sup>" represents the junction where the environment intersects with economic growth opportunities (nature-based tourism and hydro-power) and where the environment intersects with resiliency and safeguard opportunities (disaster risk management and decreasing the impact of disasters on those most vulnerable).

Key interventions under DO 4 will be focused at the policy and planning level with national scale and impact. Site-based activities focused on enhancing natural resources (IR 4.1) will primarily focus on two conservation landscapes that the GON has identified as a high-priority due to their unique ecological attributes, significant biodiversity, and tourism value - the GON-designated Chitwan Annapurna Landscape and the GON-proposed Karnali Conservation Landscape. Securing these corridors is essential for nature-based tourism to meet its full potential as a driver of conservation and sustainable growth in Nepal. Disaster risk management (DRM) and resilience programming will be focused on disaster prone municipalities in each province as well as the Karnali River Basin, an area where the risks associated with floods and droughts are compounded by their overlap in areas of high poverty and low access to water and sanitation services.

Equitable and effective natural resources and disaster risk management is necessary to achieve the CDCS goal, given the extent to which Nepal's economy directly depends on its natural resource base, the extent to which disasters constrain growth and disproportionately impact vulnerable Nepalis, and the extent to which the livelihoods of a large percentage of its population depend directly on ecosystem services.<sup>86</sup>

This DO will contribute to development progress within three areas covered in the J2SR Roadmap - Government Effectiveness, Social Group Equity, Environmental Policy - and four components - PSE, FSR, and RDR. Private sector partners will alleviate some of the financing burden from the GON and provide innovative and sustainable natural resource management (NRM), energy, and DRM solutions, particularly

for biodiversity conservation and energy needs. FSR resources will be used to help the government mobilize and leverage financing to respond and recover quickly when disasters occur and for enhanced disaster risk reduction. These efforts will reduce the need for donor funding. USAID will apply RDR principles to lay the foundations for nascent disaster mitigation, preparedness, and response institutions - such as the National Disaster Risk Reduction Management Authority (NDRRMA) - ultimately supporting sustained government effectiveness through this DO.

In the current COVID-19 context, the lockdown and its economic fallout have increased unemployment, resulted in the return of substantial numbers of migrants, and strained overall resilience. To cope, more households turn to natural resources, threatening positive gains in conservation. Should effects exceed current projections, disaster preparedness, response, and management systems may become overextended. Additionally, households may become more vulnerable to shocks and resort to environmental crime and destruction as a coping mechanism. To mitigate impacts and risks, this DO will increase the capacity of the GON and civil society to conduct disease research and surveillance among humans, wildlife, and livestock at key interfaces. USAID will work to restore forests and wetlands to reverse fragmentation and degradation and increase habitat area and connectivity, thereby reducing potential zoonotic disease spillover threats. This DO will also: address the most damaging effects of COVID-19 on the energy sector (including decreased revenue collection and significant new financing constraints); build the institutional foundations through the NDRRMA and other institutions to contribute to the national COVID-19 response and to strengthen local disaster management committees as they respond to COVID-19 and future disasters; and support and improve the resilience of returning migrant workers, who could otherwise become more vulnerable and have a domino effect on the households they support through remittances, which are roughly equivalent to 25% of Nepal's annual GDP.

## **IR STATEMENTS AND NARRATIVES**

Four IRs support DO 4; USAID's investments to enhance natural resource conservation (IR 4.1), accelerate Nepal's energy sector transformation (IR 4.2), strengthen disaster risk management systems (IR 4.3) and increase the resilience of women, marginalized and vulnerable groups (IR 4.4) are necessary and sufficient intermediate results to achieve the overall development objective of more equitable and improved natural resources and disaster risk management.

### **IR 4.1. NATURAL RESOURCES CONSERVATION ENHANCED**

Biodiversity conservation and habitat protection have made impressive progress, most clearly illustrated by the recovery of the tiger population. This gain and others, however, are vulnerable to unplanned development, unequal enforcement of environmental and social safeguards, and the impacts of climate change.<sup>87</sup> IR 4.1 "Natural resources conservation enhanced" will improve biodiversity and natural resource safeguard elements that are core to the J2SR. Investments in this DO will address the underlying systemic issues of climate change impacts, habitat fragmentation, and wildlife crime that increase the risks of disease spillover, such as the current global pandemic caused by COVID-19. They also seek to mitigate the anticipated negative impacts on natural resources from an economic downturn and demographic pressures. This will be achieved through better management of watersheds and conservation areas, and creating additional livelihood opportunities for communities through natural resource-based enterprises that give them economic incentives to conserve resources, including biodiversity. Strengthening environmental and social safeguards will further mitigate the negative impacts of development and climate risks through, for example, green infrastructure and monitoring zoonotic diseases that can impact humans, wildlife, and livestock. Reducing environmental crimes, including illegal wildlife trafficking, mining and fishing, is a proven approach to conserving biodiversity, bolstering local governance systems, and reducing corruption. The GON has existing national level environment acts, policies, and strategies and is a signatory to international treaties,<sup>88</sup> but capacity gaps hinder effective implementation. Policies and strategies must also be adapted and applied to the federal context. In this

CDCS, improving safeguards policies, especially related to infrastructure development, facilitating economic incentive models for resource conservation, as well as social safeguards that protect indigenous people's rights and prevent sexual harassment will be priorities. In support of local systems, this IR will strengthen the natural resource governance capacity of local and provincial governments within the new federal structure by scaling up its current support of community-municipality co-management models, imparting technical know-how, connecting to private sector initiatives, and facilitating municipal, provincial, and national policy and legislation in the sector. USAID will support work with CSOs to increase their capacity for advocacy for better, inclusive natural resource management and help improve citizen scientist capacity for resource monitoring.

#### **IR 4.2 SUSTAINABILITY OF THE ENERGY SECTOR IMPROVED**

Despite recent gains, approximately 20-25% percent of Nepali households remain off-grid. At roughly 267 kilowatt hours per year, Nepal's per capita electricity consumption has increased significantly in recent years, but remains among the lowest in the world, constraining growth and productivity.<sup>89</sup> Developing Nepal's energy potential may ensure its energy security and position Nepal as a reliable and clean energy supplier for the South Asia region, directly contributing towards enhancing regional connectivity, stability, growth, and self-reliance. Developments in the energy sector in Nepal particularly need to have sound environmental safeguards in place to avoid potential negative impacts to its environment, tourism, and vulnerable communities, which all rely on rivers for livelihoods. Energy access and security are central to the health and welfare of Nepalis and to Nepal's future sustainable development, powering everything from health centers, to schools to new enterprises seeking to use IT in innovative and job-creating ways,<sup>90</sup> which is embodied in IR 4.2 "Sustainability of the energy sector improved." The private sector will be a key partner for most investments under this DO, particularly for increasing energy generation. Continued energy generation advances will require more transparent and competitive procurements and effective public-private business models to catalyze private sector investment. In line with FSR, this DO will continue to work closely with the Nepal Electricity Authority on commercial loss reductions and operational management and performance improvement opportunities, and with Nepal's new electricity regulator, the Electricity Regulatory Commission on developing the bylaws, directives and tariff guidelines that can help shape efficiency-improving competition and ensure cost recovery. To support local systems, interventions in support of this IR will carefully coordinate with relevant GON institutions to ensure our energy-sector partnerships adaptively meet the GON's sector assistance priorities, engage with key local private sector and academic actors, and provide robust support for the GON's plan to decentralize the energy sector.

#### **IR 4.3 DISASTER RISK MANAGEMENT SYSTEMS STRENGTHENED**

Investing in improved DRM is a proven and cost-effective means of advancing Nepal's self-reliance priorities. The 2015 earthquakes killed 9,000 people, destroyed or severely damaged 811,000 homes, 8,200 schools, and 1,200 health facilities. Reconstruction costs totaled \$8 billion. Investments in risk mitigation greatly reduce the need for response. Every \$1 invested in DRM reduces the need for response by \$6 on average.<sup>91</sup> For the 2015 earthquakes, less than 3% of the damage to buildings and infrastructure was covered by some form of insurance, and it is estimated that 80% of the Nepali population has no insurance for their real property.<sup>92</sup> Nepal desperately needs to complete and implement a Disaster Risk Financing Strategy that will ensure that the right investments are made ahead of the next disaster to not only support enhanced implementation of DRM but leverage global equity and insurance markets to ensure that they have the resources to adequately respond to future disasters when they strike. IR 4.3 "Disaster risk management systems strengthened" will continue to develop the nascent institutional and governance foundations for disaster risk management systems to respond to the various shocks that continue to threaten Nepali lives and livelihoods. Though progress has been made in recent years to formulate and pass laws, regulations, and codes to ensure public infrastructure, homes and commercial buildings are built to withstand natural hazards, enforcement of these rules is often lacking, especially in the informal sector, which produces the majority of housing in Nepal. USAID

will seek partnerships with private sector construction firms to increase compliance with disaster resilient building codes and international best practices for disaster resilient construction. To increase sustainability, USAID will help governments, businesses, and homeowners better calculate and price disaster risk in Nepal and make strategic decisions about when and how they will retain and transfer that risk, including through risk sensitive insurance pricing that will incentivize disaster resilient practices.

The first response in any disaster happens at a community level. Federalism has reinforced this reality by giving broad new DRM roles to local governments and local disaster management committees (DMCs). As a result, it is critical that community groups and the DMCs are adequately trained to implement lifesaving actions when early warning is given and in the immediate aftermath of a disaster. There is also deep local knowledge that can be tapped at a community level to help us better tailor activities designed to reduce disaster risk. To support local systems, this IR aims to strengthen the NDRRMA at the center, provincial and local disaster management committees, community-based organizations, as well as national and local businesses.

#### **IR 4.4 RESILIENCE OF WOMEN, MARGINALIZED AND VULNERABLE GROUPS INCREASED**

Vulnerability to the impact of disasters<sup>93</sup> and environmental shocks and stressors<sup>94</sup> is increased by gender inequality, particular gender norms and social marginalization. Moreover, data<sup>95</sup> reveals that marginalized groups are more likely to live in chronic poverty compared to others and overall resilience capacities across caste groups are highly impacted by their levels of education, household assets and social capital.<sup>96</sup> Disasters reinforce, perpetuate and increase gender inequality and social discrimination.<sup>97</sup> They compound existing inequalities and vulnerabilities - the poorest people are more likely to suffer death, injury and damage to property, as they live in more hazard-exposed areas and are less able to invest in risk-reducing measures - leaving the most marginalized furthest behind.<sup>98</sup> Under IR 4.4 “Resilience of women, marginalized and vulnerable groups increased”, USAID will work to address gender, caste and ethnic disparities that have made women and historically marginalized populations more vulnerable and less likely to recover from shocks and stresses. “Resilience” refers to the ability of people, households, communities, countries, and systems to mitigate, adapt to, and recover from shocks and stresses in a manner that reduces chronic vulnerability and facilitates inclusive growth. “Marginalized and Vulnerable” refers to people who are typically denied access to legal protection or social and economic participation and programs (i.e., police protection, political participation, access to healthcare, education, employment), whether in practice or in principle, for historical, cultural, political, geographical and/or other contextual reasons. The GON’s policy for grant disbursement for housing reconstruction was based on ownership, which posed a big setback for female headed households, joint families and households with no formal ownership.<sup>99</sup> These groups often suffer from discrimination in the application of laws and policy and/or access to resources, services, and social protection, and may be subject to persecution, harassment, and/or violence. To disrupt the endless cycle of poverty, particularly for women, marginalized and vulnerable groups, this IR will enhance leadership opportunities, meaningful participation in decision making, and improve the access to resources to ultimately improve resilience and equity. In support of local systems, USAID will utilize a process for identifying and engaging the marginalized and vulnerable communities to identify the key constraints and power dynamics that hinder meaningful participation in government, private sector, civil society and donor development assistance.

#### **MONITORING, EVALUATION, AND LEARNING**

USAID’s Monitoring, Evaluation, and Learning (MEL) approach will promote accountability, learning, and evidence-based programming. In order to measure progress of achieving the CDCS objectives, the Mission will utilize Collaborating, Learning, and Adapting (CLA) techniques to continuously monitor progress, evaluate performance and impact of its activities, learn from a wide variety of data sources, and adapt its implementation.

## **ANNEXES**

- A. Journey to Self-Reliance Country Roadmap
- B. Endnotes

# A. JOURNEY TO SELF-RELIANCE COUNTRY ROADMAP

## NEPAL

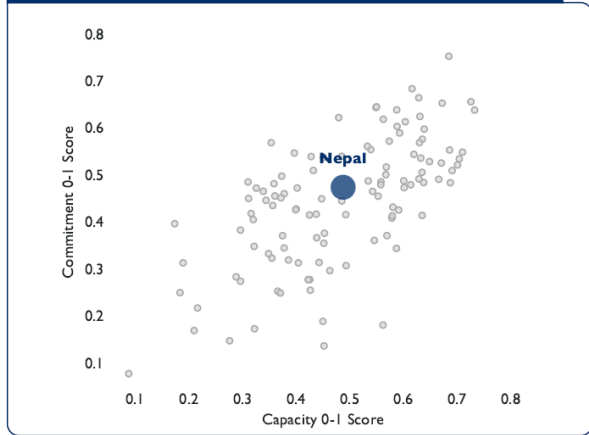
JOURNEY TO SELF-RELIANCE:  
FY 2021 COUNTRY ROADMAP



### LEGEND

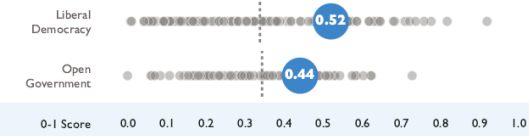


### LOW- & MIDDLE-INCOME COUNTRY SNAPSHOT

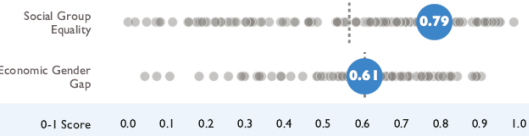


## COMMITMENT

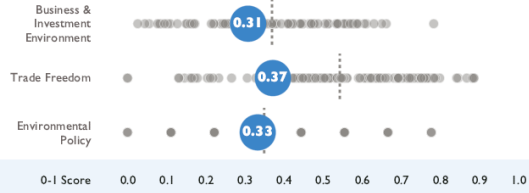
### OPEN AND ACCOUNTABLE GOVERNANCE



### INCLUSIVE DEVELOPMENT



### ECONOMIC POLICY

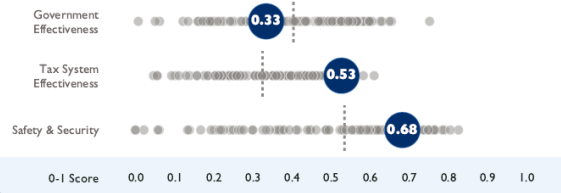


### RISK OF EXTERNAL DEBT DISTRESS

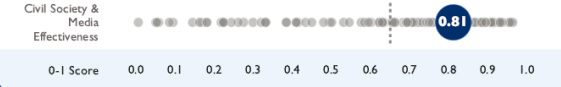


## CAPACITY

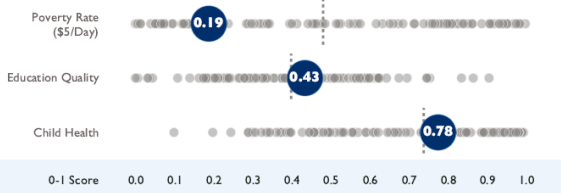
### GOVERNMENT CAPACITY



### CIVIL SOCIETY CAPACITY



### CITIZEN CAPACITY



### CAPACITY OF THE ECONOMY





# NEPAL

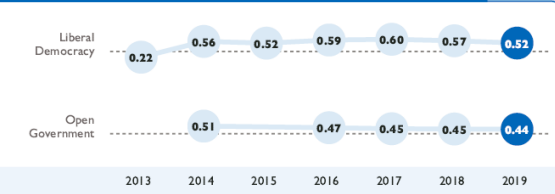
## JOURNEY TO SELF-RELIANCE: FY 2021 COUNTRY TRENDS

### LEGEND

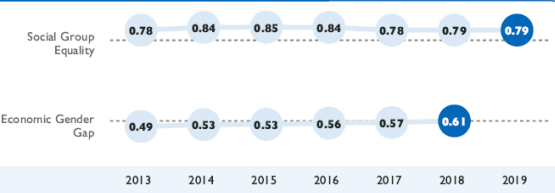


## COMMITMENT

### OPEN AND ACCOUNTABLE GOVERNANCE



### INCLUSIVE DEVELOPMENT



### ECONOMIC POLICY

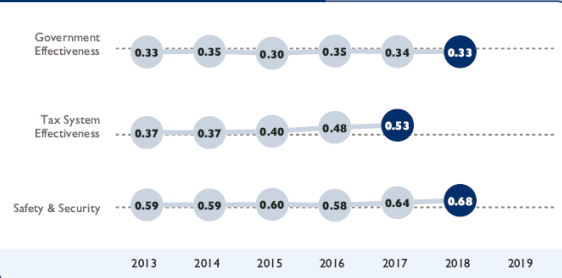


### METHODOLOGICAL NOTES

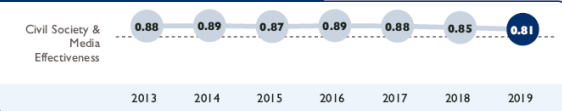
FY 2021 Country Roadmap results (darker shaded points) and prior year results (lighter shaded points) are normalized in the same manner to ensure comparability. In some instances, USAID has taken several additional measures to maximize comparability of results across time, including adjusting source reporting year to actual year of measurement and removing historical data that are no longer comparable due to methodological revisions. For more detail, please see the [USAID J2SR Country Roadmap Methodology Guide](#).

## CAPACITY

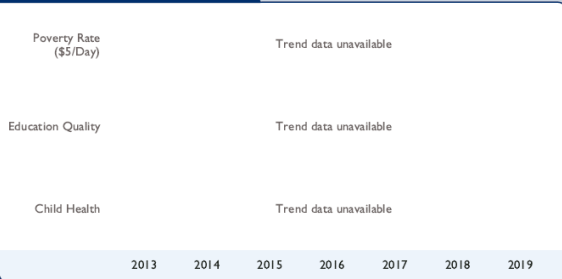
### GOVERNMENT CAPACITY



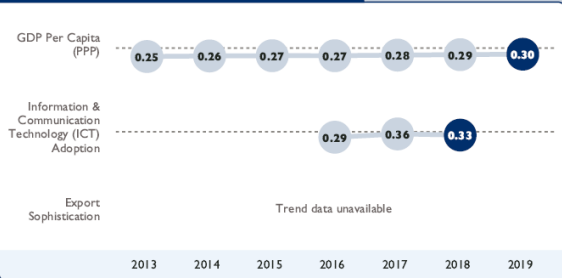
### CIVIL SOCIETY CAPACITY



### CITIZEN CAPACITY



### CAPACITY OF THE ECONOMY



## B. ENDNOTES

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- <sup>1</sup> MOF Budget Speech and NRB's Balance of Payments Statements include money coming in as Grants.
- <sup>2</sup> World Bank. Gross Fixed Capital Formation, Private Sector (% of GDP) and World Bank. Foreign Direct Investment, Net Inflows (% of GDP)
- <sup>3</sup> Gurung, Yogendra B., Pradhan, Meeta S. & Shakya, Dhanendra V. (2020). [State of Social Inclusion in Nepal: Caste, Ethnicity and Gender \[Evidence from Nepal Social Inclusion Survey 2018\]](#). Kathmandu: Central Department of Anthropology, Tribhuvan University
- <sup>4</sup> Brhane, M., Rana, P.S. & Shah, T.N. (2020). [Nepal Gender Equality and Social Inclusion Analysis 2020](#)
- <sup>5</sup> Gurung, Yogendra B., Pradhan, Meeta S. & Shakya, Dhanendra V. (2020). [State of Social Inclusion in Nepal: Caste, Ethnicity and Gender \[Evidence from Nepal Social Inclusion Survey 2018\]](#). Kathmandu: Central Department of Anthropology, Tribhuvan University.
- <sup>6</sup> Brhane, M., Rana, P.S. & Shah, T.N. (2020). [Nepal Gender Equality and Social Inclusion Analysis 2020](#).
- <sup>7</sup> Under-five and neonatal mortality rates have declined by nearly 70 percent and 60 percent respectively, over the past 20 years.
- <sup>8</sup> Ministry of Education, Science and Technology (2020). Integrated Education Management Information System (Flash I) 2019/20 shows the Net Enrolment Rates at 96.6% and 92.7% at lower basic (grade 1-5) and upper basic (grades 1-8) respectively.
- <sup>9</sup> Learning Adjusted years of schooling, a Nepali student only receives about 6.9 years of schooling despite attending school for 11.7 years - a clear sign of poor quality.
- <sup>10</sup> Ministry of Health Nepal, New ERA Nepal, and ICF (2017). [Nepal Demographic and Health Survey 2016](#), GON CBS and UNICEF (2015). [Nepal Multiple Indicator Cluster Survey 2014](#), Suaahara II 2019 Household Survey\_Family Planning, and the MOHP's information systems such as [Health Management Information System \(HMIS\)](#) and [Logistics Management Information System \(LMIS\)](#) data and trends indicate that despite progress, Nepal falls short on equitable health outcomes, especially for women of reproductive age/mothers, adolescents and children.
- <sup>11</sup> Bessières, H., Dolidze, N., Peano, S., Ray, S., Pant, B.B., Khanal, D. et al. (2019). [School Sector Development Plan \(SSDP\) Mid-Term Review](#) as well as the National Assessment of Student Achievement of grades 3, 5 and 8, have indicated that learning outcomes among marginalized or disadvantaged students, poor and remote districts, and public schools compared to private, are well below average.
- <sup>12</sup> [Nepal National Biodiversity Strategy and Action Plan \(2014 - 2020\), July 2014](#).
- <sup>13</sup> ADB, 2020, [Hydropower and Economic Development in Nepal](#).
- <sup>14</sup> ADB, 2020, [Hydropower and Economic Development in Nepal](#).
- <sup>15</sup> UN Office for Disaster Risk Reduction (2019) [Disaster Risk Reduction in Nepal: Status Report 2019](#).
- <sup>16</sup> Government of Nepal (2019) [Fifteenth Periodic Plan with Long Term Vision](#).
- <sup>17</sup> See <https://selfreliance.usaid.gov/country/nepal> for the latest Country Roadmap.
- <sup>18</sup> Pradhan, Meeta S. and Y.B. Gurung. (2020). ["Who are left behind? Tracking Progress on the Sustainable Development Goals in Nepal."](#) Kathmandu: Central Department of Anthropology, Tribhuvan University.
- <sup>19</sup> Gurung, Yogendra B., Pradhan, Meeta S. & Shakya, Dhanendra V. (2020). [State of Social Inclusion in Nepal: Caste, Ethnicity and Gender \[Evidence from Nepal Social Inclusion Survey 2018\]](#). Kathmandu: Central Department of Anthropology, Tribhuvan University
- <sup>20</sup> IMF (2019) Nepal Article IV Review: Selected Issues. Chapter 2 - Managing Effective Federalism.
- <sup>21</sup> The Government of Nepal National Planning Commission. [Sustainable Development Goals 2016-2030 National \(Preliminary\) Report 2015](#)
- <sup>22</sup> United Nations Development Programme and Oxford Poverty and Human Development Initiative. 2020. [Global Multidimensional Poverty Index 2020. Charting pathways out of multidimensional poverty: Achieving the SDGs](#)
- <sup>23</sup> Gurung, Yogendra B., Pradhan, Meeta S. & Shakya, Dhanendra V. [State of Social Inclusion in Nepal : Caste, Ethnicity and Gender \(2020\)](#), Kathmandu: Central Department of Anthropology, Tribhuvan University
- <sup>24</sup> World Bank. 2018. [The Human Capital Project](#)
- <sup>25</sup> See Annex F.
- <sup>26</sup> Sagara, B. (2018). Resilience Measurement Practical Guidance Note Series 2: Measuring Shocks and Stresses.
- <sup>27</sup> World Bank (2019). [Capacity Needs Assessment for the Transition to Federalism](#)
- <sup>28</sup> Lis, J., Pradhan, P., Pandey, C. & Pradhan, A. (2019). [Nepal Democracy, Human Rights and Governance Assessment](#)
- <sup>29</sup> USAID DRG Center (2019). [Nepal Development Context Assessment](#)
- <sup>30</sup> Brhane, M., Rana, P.S. & Shah, T.N. (2020). [Nepal Gender Equality and Social Inclusion Analysis 2020](#)

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- 31 Lis, J., Pradhan, P., Pandey, C. & Pradhan, A. (2019). [Nepal Democracy, Human Rights and Governance Assessment](#)
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