

COVER NOTE - COUNCIL FOR DEVELOPMENT POLICY

AGENDA ITEM 1

1. OVERALL PURPOSE For discussion
2. TITLE: Denmark-Nepal: Partnership policy 2013-2017 - Promoting peace, democracy and development
3. PRESENTATION FOR PROGRAMME COMMITTEE 14 October 2011

4. EXECUTIVE SUMMARY

The partnership policy for 2013-2017 takes its point of departure in Nepal's post-conflict context of Nepal. The overall objectives for Denmark's partnership with Nepal are twofold: (1) Contribute to the *consolidation of peace* and to strengthening the *respect for human rights and deepening democracy*, and (2) Contribute to *reducing poverty*. The objectives will be achieved by reaching tangible results within two strategic focus areas: (a) Peacebuilding, human rights and democracy, e.g. through support to relevant Peace Trust Funds, relevant national actors working for promoting and strengthening respect for human rights, and to local government and democratic institutions, etc., and (b) Green and inclusive economic growth, e.g. through support to the development of agriculture value chains, rural infrastructure, to improving access to renewable energy in rural areas, etc.

5. STRATEGIC QUESTIONS FOR THE COUNCIL FOR DEVELOPMENT POLICY

1. Does the policy paper provide a proper basis for addressing the root causes for the armed conflict and for promoting lasting peace and poverty reduction?
2. How can conflict transformation best possibly be mainstreamed in the Danish engagement in Nepal, including in efforts to promote economic growth?
3. How is the balance between on the one hand clear and long-term strategic objectives and interventions and on the other hand the need for flexibility to adapt to the fluid political situation with lack of legitimate accountable structures such as a national parliament, frequently changing governments and lack of a long-term planning framework such as multi-year plans and fiscal budgets?
4. What more could be done to promote the engagement of Danish and Nepali private sector under the present political circumstances?

Denmark-Nepal: Partnership policy 2013-2017

Promoting peace, democracy and development

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Executive Summary

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Specifically, Denmark's partnership with Nepal in the coming years aims at providing access to renewable energy solutions for more than 1 million rural households.]

Map

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Introduction

Nepal is one of the poorest countries in the world and is struggling to overcome the legacy of the decade-long civil war which ended in 2006. The current post-conflict phase is a historic moment of transition and change. The main challenges for Nepal are to sustain peace while building the legitimacy of the state, deepening the democracy, ensure fundamental rights of marginalized groups, emerge out of poverty and create inclusive growth.

The political situation has been and will continue to be a challenge in the coming years, but political milestones have also been achieved and socio-economic development has taken place since the end of the civil war. Denmark has been an important partner in this development and has since 1989 contributed to reducing poverty and strengthening democratic governance and lasting peace through support to human rights and good governance, renewable energy, education and implementation of the peace agreement. Some of the results achieved are for example access to renewable energy for around 5 million poor Nepalis in remote areas, scholarships to marginalised groups as girls and dalits to increase their school enrolment, increased respect of human rights following from strong advocacy by our civil society partners, rehabilitation and integration of former maoist combattants, and strengthened local village committees, who undertake oversight and ensure accountability of local governments. Continued Danish engagement takes its point of departure in the results achieved and the need and relevance of future support.

The aim of this policy paper is to outline the strategic frame for Denmark's engagement in Nepal from 2013 to 2017. The **overall vision** is to support the Nepali people in their right to a better life characterised by peace, stability, democracy, social and economic progress and respect for human rights.

The Danish engagement in Nepal falls well within the overall strong emphasis to Asia in Denmark's foreign policy. Traditionally, the focus of the Danish development engagement in Asia has been on South Asia complemented where possible with the promotion of economic cooperation and trade.

The partnership policy is divided into three major sections: **Part One** presents an analysis of the challenges, opportunities and risks in the coming years in Nepal. **Part Two** shapes an outline of the partnership policy – including objectives, instruments, strategic focus areas, and partnership principles. **Part Three** outlines planned actions and expected results of Denmark's engagement in Nepal. The annexes provide overviews of: (1) Denmark's development cooperation in Nepal, (2) Key economic and social data, (3) the progress made in Nepal towards achieving the Millennium Development Goals, and (4) Other development partners' engagement with Nepal.

Part One. Key Challenges, Opportunities and Risks in Nepal

The **decade-long civil war in Nepal**, which claimed 17.000 lives and displaced thousands of people, came to an end with the Comprehensive Peace Agreement in November 2006. At political level the change from authoritarian rule to democracy, the end of armed conflict, and the election of a Constituent Assembly in 2008 portray key achievements. Also the deal reached in 2011 on the former Maoist combatants, who have left or will leave their cantonments and enter the civilian or army life, has been a definitive progress towards sustainable peace.

Disagreements among the political parties and within the parties have led to several periods of **political instability and dead-lock**, and a new democratic and inclusive Constitution has not yet been adopted. In particular issues related to a possible federal structure are outstanding. However, many agreements have been reached on elements of the Comprehensive Peace Agreement to be included in the new Constitution, including agreements on equal access for women and Dalits.

Addressing the **root causes of the conflict**, of which most of them still exist in the form of chronic poverty, widespread exclusion and impunity from human rights violations, is a precondition for sustaining peace and development. Many of these root causes, including prosecution of conflict-related human rights violations, land reform, end to discrimination and the restoration of accountable local government, are mentioned as broad commitments in the Comprehensive Peace Agreement and followed up in the Governments development plans, but the commitments have not fully materialized yet. Not sufficiently addressing these challenges through long-term structural reforms, including a new Constitution, leaves Nepal in a very volatile situation.

The number of human rights violations has decreased after the armed conflict ended, but institutions that should protect **human rights and the rule of law** continue to lack capacity. Violence and intimidations persist, and human rights defenders and journalists face serious risks and constraints. A culture of impunity is prevalent, and there is a need for stronger state institutions, stronger judicial independence, increased accountability within the judiciary and judicial bodies, as well as strengthening effective law enforcement. The weak rule of law challenges the stability and further weakens the legitimacy of the state and the opportunities to capture the benefits of peace.

On **Transitional Justice**, the Government has provided reparations to a number of victims and families of individuals who were killed or disappeared during the conflict. However, individuals responsible for grave human rights violations or crimes during or after the conflict have not been held to account. Key bills on the establishment of transitional justice mechanisms have still not been adopted. The slow pace of improvements of the human rights underlines the importance for continued national and international support.

In Nepal, the question of deepening democracy is closely linked to inclusion. Nepal is a socially and culturally diverse country with a long **history of exclusion and marginalization** due to a very hierarchical caste system, which also affects some ethnic groups and women. Marginalized groups have been deprived their fundamental right to participate in and influence social, political and economic changes. A main challenge in the coming years will be the

implementation of structural reforms and changes, which are expected to be included in the new constitution, e.g. a new federal system, and respect for the rights of indigenous peoples and traditionally excluded groups. The issue of federalism has fuelled identity politics (caste, ethnicity, gender and region), with the risks of further fragmentation of the Nepali society. This must be addressed through dialogue and equity/equal rights in order to prevent societal polarization. Other critical constraints to a more inclusive development process include lack of employment and other economic opportunities such as access to infrastructure and productive assets.

At local level, there have been no elected representatives in the local governments since 2002 which has considerably weakened accountability mechanisms and increased vulnerability to corruption. The **lack of local democracy**, low capacity of local government systems and poor service delivery add to the fragile situation in the country.

Some positive changes have occurred in terms of formulation of laws and policies related to **women and children**, including the right to citizenship, and for women the right to vote. However, Nepal still needs to significantly increase law enforcement efforts, especially related to gender based violence and sexual and reproductive rights, as well as all types of trafficking, including bonded labor, forced child labor, fraudulent labor recruitment for the purpose of forced labor, and sex trafficking.

On **education**, net primary enrollment has increased impressively from 81 percent in 2002 to 94.5 percent in 2010, but retainment remains a major challenge, particularly for girls. Only 24 pct. of the Nepalese children enter secondary school, and still fewer complete it.

Nepal's **key socio-economic challenges** are linked to high poverty and unemployment, modest growth and low investments despite its geographic location between two of the fastest growing economies of the world – India and China. Over the last seven years the proportion of poor people has halved, and inequality has been reduced, which seems to be linked to the surge in **foreign employment and remittance** inflows. It is estimated that up to 5 million Nepalese out of a total population of app. 30 million is working abroad, mainly in the Gulf States, India and Malaysia. More than half of the Nepalese households receive remittances from relatives abroad. Cheap human labour is Nepal's largest export, and the money Nepalese workers send back is equivalent to nearly 25 pct. of the gross domestic product (second only to agriculture). However, only 2.9 pct. of the total remittance is used for capital formation and thus does not contribute to income generation and employment leading to further economic growth.

The political instability is one of the major factors hampering **economic development and investments**. At the same time preoccupation about the prolonged political transition has

Socio-economic challenges

Poverty: Nepal's Human Development Index ranks 157 among the 187 poorest countries in the world. Approximately 25 pct. of the population lived below the poverty line in 2011 compared to 31 pct. in 2009 and 42 pct. in 1996. The poverty rate is much lower in urban areas (15,5 pct.) than in rural areas (27,4 pct)

Unemployment: Unemployment is high, around 45 pct., and rising.

Agriculture: To third of the population depend on agriculture for employment and livelihood and it contributes to more than a third of GNP. Agriculture plays a critical role in fighting poverty.

Economic growth: 3.9 pct. in 2011

Foreign Direct Investment (FDI): Low, on average only 0.5 pct. of GDP.

overshadowed the Nepalese Government's focus on economic issues. As a result, inadequate attention has been given to issues of reforms that could improve the investment climate, stimulate growth and create more private sector jobs. Besides political stability there is a need for an effective public sector, a functional banking sector, a favorable regulatory and legal framework as well as adequate infrastructure, stable energy supplies and a well-educated workforce. These prerequisites are still not existing or fully in place in Nepal. According to World Economic Forum (2011/12) Nepal is the least competitive among South Asian countries. However, Nepal has a considerable development potential due to its large and relatively cheap labor force, raw materials, easy access to the Indian and Chinese markets, and a great potential for tourism. Given that agriculture is a crucial element of inclusive growth, enhancing the productivity in this sector will also be of key importance for rural livelihoods.

Socio-economic structural hindrances prevent a large section of the population to be in the mainstream of development and to benefit from economic growth. Especially high **unemployment** among the youth is a key challenge, and closely linked to the high level of migration. Lack of economic opportunities in areas with high population density, such as the lowlands (Tarai) also risks fueling e.g. criminal activities. Also for that reason jobs are desperately needed to reach long-term stability and sustainable peace.

Poor access to **energy** is the most serious infrastructure bottleneck to growth. At the same time, Nepal has one of the largest untapped hydropower resources in the world, which also is of geostrategic interest for India and China. Increasing access to electricity in a timely and cost-effective manner is one of the most significant development challenges facing Nepal today. It will have a direct effect on people's living conditions and possibilities of engaging in small scale enterprise and other activities.

Poor **physical connectivity** is another major challenge to Nepal's development efforts. Its road density is one of the lowest in South Asia. The quality of the road network and maintenance is also poor – 60 percent of the road network, including most rural roads, cannot provide all-weather connectivity. Improvement of connectivity and the reduction of transaction costs are also necessary in order to improve productivity of the rural economy.

Widespread systemic **corruption** is a major obstacle to development. Nepal's public sector is marred by corruption, which is perceived to take place at all levels and in all public institutions, including police and courts. In 2011 Nepal ranked as number 154 out of 182 countries on Transparency International's corruption perceptions Index. Weak public financial management and fiduciary risks constitute serious challenges to the implementation of the development cooperation.

The peace process is driven by the stakeholders in Nepal, but **regional and international actors** also play a strong role. Nepal is sharing its borders with India and China, and the influence of these two players is significant. They both have an interest in stability in Nepal in order to keep potential tensions low in their own countries, including in Tibet. Especially China has a slowly growing strategic presence through e.g. economic tools. The international community, including UN, EU, multilateral banks and bilateral partners, are key supporters of the implementation of the peace agreement and the wider development of Nepal.

Part Two. Denmark's partnership policy in Nepal

The overall vision of Denmark's engagement in Nepal is to support the Nepali people in their right to a better life characterised by peace, stability, democracy, social and economic progress and respect for human rights. Based on this, two strategic objectives have been selected for Denmark's engagement in Nepal:

- Contribute to the **consolidation of peace** through promotion of the implementation of the Comprehensive Peace Agreement, and to strengthening the **respect for human rights and democratic governance** through promotion of rule of law, access to justice and democratic governance
- Contribute to **reducing poverty** through support to green and inclusive economic growth with a focus on agriculture, rural infrastructure and renewable energy

The objectives are to a large extent based on the Government of Nepal's priorities of poverty reduction, support to human rights, democracy, peace and stability and economic development and the strategy for Denmark's development cooperation "The Right to a Better Life".

At the same time, it reflects Denmark's comparative advantages in areas where Denmark can add value to Nepal's own efforts and complement the work of other development partners.



Guidelines for Denmark's engagement in Nepal

In line with the international agreements on harmonization and alignment reconfirmed at the High Level Meeting on Aid Effectiveness in Busan in 2011, it is a priority to ensure Nepalese **ownership and empowerment**. To ensure local ownership Denmark's engagement will emphasise **transparency and accountability** both mutually in the partnership between Nepal and Denmark and towards intended beneficiaries of our cooperation. The conditions for providing general budget support are not in place at present, but opportunities will continuously be explored and capacity be developed to enable this modality in the future.

Likewise, harmonization of Denmark's engagement in Nepal with other development partners' engagement, including bilateral donors, the EU, the UN, multilateral banks and others is an important priority. Denmark's priorities are closely coordinated with the EU, and Denmark will continue to actively engage in formulating the EU's policies towards Nepal. Whenever possible, Denmark will work for a coordinated EU position in order to maximize the influence and results of EU's efforts in Nepal. There is not yet any joint EU development programming in

Nepal, however, Denmark will actively advocate for this to happen as soon as the conditions permit it. Denmark will constantly seek to improve coherence and complementarity between the different policy areas and fields of engagement.

Denmark applies a **human rights-based approach** to development. Thus, human rights is a core value in our partnerships, and the principles of non-discrimination, participation, transparency and accountability will be integrated in all aspects of our policy dialogue and development cooperation. Focus will be on the underlying power relations and fundamental causes of discrimination and poverty, giving priority to actions aimed at benefiting the poorest. This includes focus on equal rights and opportunities for all, distribution of resources, strengthening of capacity and sustainable and inclusive growth.

Denmark will be engaged in both policy dialogue at all levels and effective implementation of the programs, and will work towards harmonizing the programs with national objectives, plans and structures in Nepal's development strategy. The **development programs are designed to be flexible** and can adjust to the potentially changing context, challenges and risks in the country. They are balanced in their choice of partners and modalities, and sensitive to ethnicity and social divisions.

Denmark underlines the importance of engaging in a **conflict-sensitive manner** in Nepal, which involves assessing and understanding the complex context, processes and dynamics in the country in order to maximize the positive impacts of our engagement.

Denmark has a targeted approach to ensure that **gender and inclusion** is an integral part of all development programs and key issues in political dialogue with the Nepali Government and other relevant partners.

Denmark will also base its **monitoring** process as much as possible on the national monitoring systems and the indicators defined for each development program. Denmark will increase its participation in overall performance reviews and other possible exercises to strengthen the Government's effective and efficient management by results.

The reality of **high risk for corruption** is addressed in all the DANIDA development programmes, in the overall political dialogue with the Nepali Government and through a specific task force on Public Financial Management. Denmark will continue to strongly advocate for enhancing the Nepalese Government's focus on fighting corruption in order to further pave the way towards sound economic growth. Denmark is strongly raising its voice against corruption at the policy and at the programmatic level. Denmark is supporting public financial management, the revenue and taxation etc. in coordination with other development partners. Denmark will continue to participate in regular dialogues with the Government through programmes implemented through the World Bank's Multi Donor Trust Fund for Public Finance Management, which will run until 2016. A special Danish focus will be on better financial management at local level through local governance and decentralization programs.

Part Three. Strategic focus areas – results and indicators

Peace building, human rights and democracy

The several transitions Nepal is facing, among others moving towards peace, developing democracy and the development of a federal Nepal, all carry significant risks but also opportunities to reinforce the peace process and bring greater stability to the country. The context provides the political and operational space for Denmark to support more inclusive democracy, improved governance and greater respect for human rights.

Actions, results and indicators

In relation to the focus area regarding peace building, human rights and democracy, Denmark is addressing the objectives of consolidating peace and strengthen the respect for human rights and deepening democracy through three action areas, which will contribute to the following results:

Action areas	Contribute to peace building: Political dialogue and support to Peace Trust Funds and state and non-state actors on and local level peace building.	Strengthening respect for human rights: Support to relevant national actors (state, human rights institutions and civil society) for the promotion and strengthening the respect for human rights, especially regarding rule of law and access to justice.	Democratic Governance: Support to local government and democratic institutions, and promoting public debate on democracy. Support to free and fair elections.
Results	<ul style="list-style-type: none"> - Implementation of the Comprehensive Peace Agreement (CPA) and consolidation of peace based on respect for human rights. 	<ul style="list-style-type: none"> - Improved access to effective, independent legal systems, with a focus on access to justice for poor and marginalized groups and on ending impunity. - Strengthened accountability mechanisms at local and central level, which hold duty bearers accountable and ensure transparency, predictability and participation. 	<ul style="list-style-type: none"> - A functional and inclusive democracy at national and local level, based on respect for human rights and democratic governance. - Participation of marginalized groups as women and Dalits.
Indicators	<ul style="list-style-type: none"> - Demonstrable progress against key CPA milestones, incl. a new Constitution with equal rights for all and a democratic governance structure. - Integration and rehabilitation of former Maoist combatants. 	<ul style="list-style-type: none"> - Availability of services and mechanisms providing access to justice for poor and marginalised groups such as Dalits and women. - Level of adherence by state and non-state actors to human rights standards and principles, including accountability practices. 	<ul style="list-style-type: none"> - Democratic space at national and local level for critical engagement in political developments. - Participation of marginalised groups in the local governance process to establish citizen-centred and accountable local governance systems.

	- The nepali people's perception of security delivery, especially in former conflict areas.		
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Denmark will continue to actively engage in a dialogue with the Government of Nepal, political parties and civil society on the challenges and opportunities of **consolidating peace in Nepal**. Denmark will continue to urge all Nepalese political parties and key political players to show flexibility and willingness to compromise in order to build trust and forge consensus across the political divide to ensure that the outstanding issues of the peace process will be brought to a successful conclusion. Denmark will urge all relevant parties to maintain the respect for human rights and democratic principles. Implementation of agreements and laws is urgent in order to see clear results on peace and development.

The Danish Peace Support Programme has contributed to the consolidation of peace and implementation of the Comprehensive Peace Agreement since the end of the civil war. The support has included support to the Nepal Peace Trust Fund (NPTF), which is the principal Government vehicle for directly supporting the peace process, and support to the UN Peace Fund for Nepal (UNPFN), a multi-donor trust fund intended to channel support to areas of the peace process not addressed by the NPTF. The Peace Support Programme has also strengthened public security and service delivery, and it has supported media programming and radio in order to mitigate conflict and open channels for dialogue and communication. The Peace Support Programme will be merged with the Human Rights and Good Governance Programme from 2014 in order to ensure a holistic and longterm support to lasting peace, democratic governance and respect for human rights.

Dalit rights

Denmark's protracted engagement in supporting human rights organizations and sector programs focusing on discriminated and marginalized groups in combination with an active voice against caste-based discrimination have contributed to increased inclusion of Dalits and focus on Dalits' rights. The capacities of Dalits to participate in and influence democratic processes is enhanced, and they now play a more active and vocal role throughout the political landscape.

Denmark will continue its strong profile regarding the respect for human rights. This includes **advocacy against impunity for human rights violations**, including conflict-era human rights violations, and pressure for the establishment of transitional justice mechanisms in line with international standards. A Truth and Reconciliation Commission and a Commission to Inquiry of Enforced Disappearances are envisaged in the Comprehensive Peace Agreement. Denmark will also continue to encourage and support implementation and monitoring of the recommendations of the Universal Periodic Review through maintained dialogue with the Government, civil society and national human rights institutions. Some of the areas where Denmark is focusing, and where progress is expected, are laws against discrimination and torture and protection of human rights defenders. Denmark together with the EU will express serious and unequivocal concerns if developments in Nepal are in breach with international law and fundamental human rights obligations.

Support to key human rights actors and institutions will continue to be part of programme activities. The Programme for Human Rights and Good Governance has been focused on the promotion of an inclusive and democratic political culture through support for reforms, enhanced public dialogue, human rights monitoring, reporting and advocacy, and enhanced access to justice for poor and marginalized groups. The programme has included strong support to a national and multi-donor programme on local governance and community development, support to state institutions and strategic partnerships with local NGOs.

A challenge for Nepal in the coming years and for the new Danish Human Rights Good Governance and Peace Support programme will be to support the transformation of Nepal into a federal State. Denmark will continue to be a strong **advocate for the core values of democracy and inclusion** of all groups in the society. This is both done at central level and through a very broad civil society support with a vast geographical spread. A close dialogue with civil society, where Denmark continues to be a strong and visible partner, will be a key tool in advancing issues of democratic change, access to justice, human rights and an inclusive peace process at local level. Accountability will continue to be a key concern for Denmark when supporting the Government’s decentralization efforts. The support to local governance through the “Local Governance and Community Development Programme” has been the key instrument supporting this dialogue.

Denmark will continue to advocate for the respect and protection of the **rights of refugees**, including refugees from Tibet, as well as the need for a lasting solution to their situation. With regards to the refugees from Bhutan, who have lived in refugee camps in Nepal for around 20 years, Denmark will continue to play an active role in facilitating a comprehensive and durable solution to the situation.

Poverty reduction through green and inclusive economic growth

In relation to the second focus area, Denmark will actively advocate for a strong Nepalese focus on **poverty reduction through green and inclusive economic growth**. Inclusive growth as a tool to poverty reduction is focusing on not only the pace of growth, but also the pattern of growth. The green aspect of growth relates to the Danish priorities on using the natural resources in a sustainable way and support better use of the huge potential for renewable energy in Nepal. Another important aspect to draw on in efforts on poverty reduction and growth is Denmark’s experiences with a labour market model based on participation of social partners.

Trade as an instrument for change is challenging but extremely important in order to create sustainable growth. The potential for increasing Denmark’s trade cooperation with Nepal will continuously be explored, also considering the challenge that the present economic status constitutes.

Action areas	Inclusive Growth and Employment: Support to develop agriculture value chains, rural infrastructure and policies for inclusive growth and private sector led development.	Green Growth through Renewable Energy: Support to improving access to renewable energy in rural areas, including productive use of energy.
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Results	<ul style="list-style-type: none"> - Improved efficiency and effectiveness of selected agriculture valuechains which will strengthen Nepals competitiveness and increase their contribution to the economy. - Improved rural transport infrastructure, including motorable roads, motorable bridges, foot trails, trail bridges and gravity ropeways in the targetted district of Eastern Nepal. - Improved policy framework for private sector driven inclusive growth. 	<ul style="list-style-type: none"> - Access to renewable energy solutions for more than 1 million rural households. - Gender and excluded groups targeted at all levels of the programme. - Central Renewable Energy Fund (CREF) established and operational as the core financial institution for the effective delivery of subsidies and credit support to the renewable energy sector. - Increased employment by 19,000 persons by productive use of renewable energy.
Indicators	<ul style="list-style-type: none"> - Percentage increase in sales of the selected valuechains products in targeted districts of Eastern Nepal. - Percentage increase of all-weather proof rural roads in targeted districts of Eastern Nepal. - Members of associations of the prioritized value chains find that the business environment has improved significantly. 	<ul style="list-style-type: none"> - Number of households that receive renewable energy technologies, including subsidies and credits awarded for the promotion of renewable energy solutions/technologies. - Share of women and marginalized groups benefiting from the support to renewable energy solutions. - Support 1-2 projects/pilot projects each year from the Danida Business Partnership Programme. - Start implementation of one Danida Business Finance Project in the green energy sector.

From 2013 a new Danish **Growth and Employment program** will support Nepal in stimulating inclusive economic growth by creating better access to markets for small-scale producers, better employment opportunities and improved living conditions. The programme will focus on increase productivity and manufacturing in the agricultural sector through a value-chain approach and improving infrastructure, especially local roads. There will be a geographical focus on the Eastern part of Nepal to obtain focused impact and gather experience, which can be expanded later, both in terms of geographical areas and value chains selected. To promote gender-equality through this programme it will prioritize support to female entrepreneurs. Denmark will also use this new engagement to target the policy level for stimulating and improving the framework for private sector development and inclusive growth. Denmark's engagement in supporting inclusive growth and employment through private sector development in Nepal is an important tool for reducing poverty also among women and marginalised groups such as Dalits. Furthermore, it will be a Danish priority to contribute to better coordination among development partners in this field. Denmark will also work to attract foreign investment to Nepal with a focus on the creation of jobs and the transfer of technology and capacity.

The Growth and Employment programme will go hand-in-hand with “**Danida Business Partnerships**” (DBP), which focus on creating new or improved jobs locally as well as promoting strategic CSR/responsible business practices. DBP offers advisory services and financial backing to the establishment of long-term, commercially oriented partnerships between Danish companies and a wide range of Nepalese partners: private enterprises, civil society organisations, universities, research institutions and public authorities. Partnerships may revolve around e.g. introduction of cleaner technologies, increase in local productivity/efficiency, increased competitiveness for the local partner, better linkage between primary production and processing or between manufacturing enterprises and service providers.

Support to rural energy

The Danish support to rural energy in Nepal began in the late 1990s. Since then, about 1 million rural households, equivalent to about 5 million people, have received support to renewable rural energy. 533.000 households have installed new cooking stoves, 290.000 households now have electricity from solar panels, and 70.000 households now have electricity from small hydropower plants. The effects of the program include improved air quality in the houses, better health of the families, light for studying and electricity for small scale enterprises etc.

Denmark will continue its lead role in renewable energy in Nepal. This is done through the support to a **national rural and renewable energy program**, where Denmark is the lead donor, and through being the lead country in Nepal on the Norwegian initiative Energy Plus, which will be supporting Nepal efforts to transform the energy sector to achieve universal access to sustainable energy and decrease greenhouse gas emissions through scaling-up access to renewable energy sources and increase energy efficiency. This initiative is closely linked with the UN initiative SE4ALL – sustainable energy for all - where Denmark will play an active role.

The new “National Rural and Renewable Energy Program” is a single program approach to which both the Government and development partners have agreed. It will enable higher effectiveness of provided resources, lower

transaction costs and more transparency. Denmark’s support to rural renewable energy will complement the new growth and employment program in providing energy for productive use in rural areas. Linkages between the two programs will be explored in order to maximize the effect of improved access to energy on economic growth and employment in rural areas.

Denmark will also explore the possibilities of using the **Danish Business Finance instrument** to support larger infrastructure needs in the green energy sector e.g. transmission lines to support the hydropower sector. Engaging in the rural renewable energy programme is expected to lead to a larger market for renewable energy technologies; a higher number of poor and remote households getting access to affordable and effective energy solutions; and hence improved living standards for both women, men and socially excluded groups. The potential for establishing partnerships between Nepali and Danish companies through the **Danida Business Partnerships** will be explored.

Cooperation about multilateral issues

Nepal is expected to become increasingly more active on global issues. Nepal is playing an active role in the group of Least Developed Countries and has taken the lead of this group at various occasions, including on climate change. It is expected that Nepal will continue to play

an active role in this group. Nepal is also a big and important contributor of troops to UN peacekeeping missions.

Cooperation with Nepal about **multilateral issues** will be pursued at local and global level. At global level cooperation will focus on joint promotion and implementation of multilateral agendas, including promotion of sustainable energy and peace building. Particularly in the United Nations and other multilateral fora the partnership with the Least Developed Countries can boost the legitimacy of a common cause. Denmark will therefore seek to continue its cooperation with Nepal on global issues, whenever opportunities arise.

At local level the cooperation with Nepal on multilateral issues will among others include implementation of international human rights obligations, and the promotion of international principles for engagement in fragile states and for effective and accountable development cooperation.

While phasing out Danish bilateral support to the education sector in Nepal, Denmark will continue supporting the delivery of social services in Nepal as in other developing countries through its multilateral development assistance, e.g. through the support to the “Global Partnership for Education”.

Annex 1: Overview of Denmark's development cooperation in Nepal

Human Rights and Good Governance

Denmark has supported human rights and good governance in Nepal since the early 1990s. As an example, our protracted engagement in supporting human rights organizations and sector programs focusing on discriminated and marginalized groups in combination with an active voice against caste-based discrimination have contributed to increased inclusion of Dalits and focus on Dalit's rights. Hence, the capacities of Dalits to participate in and influence democratic processes is enhanced, and they now play a more active and vocal role throughout the political landscape.

Phase III of the program runs until the end of 2013 and has three components: 1. Strengthening democratic institutions and promoting public debate on democracy, 2. Human rights and legal protection, 3. Support for local governance. The budget is DKK 170 million (5 years). The number of components and partners has been reduced compared to previous phases of the program, and cooperation with civil society has changed from short-term project assistance to long-term strategic partnerships. There is a close coordination with the Peace Support program, and the two programs will be merged after 2013.

Peace Process

The Danish support to the Peace Process was initiated in 2007 after the signing of the Comprehensive Peace Accord. Through the support Denmark has contributed to progress in key enabling aspects of the wider peace process, for example through the promotion of dialog and peace mediation at various levels, strengthening of public security, including rebuilding of police posts etc.

The program is targeted at a variety of actors including the Nepal Peace Trust Fund (NPTF - the Government's peace fund), the UN Peace Fund for Nepal (UNPFN), NGOs and INGOs. Phase III of the program has a budget of DKK 70 million and covers five components: 1) Support to NPTF, 2) Support to UNPFN, 3) Support to Nepal Police - under the Ministry of Home Affairs, 4) Support to Civil Society activities aimed at strengthening public security policy and programming, and 5) Strengthening of peace-building initiatives at local level. The peace support is implemented in close coordination with the Human Rights and Good Governance program, and the two programs will be merged after 2013.

Education Sector

Denmark has been a leading supporter of the education sector in Nepal since 1992. As a result of Denmark's contribution to the School Sector Reform Program, the net enrolment of children at primary level has increased from 68 pct. to 92 pct. since the mid 90ies, and the difference between enrolment of girls and boys has almost disappeared. Since 2003 there has been an increase in the number of Dalits at primary level of 62 pct. The teacher's educational background has improved substantially, and today about 98 pct. of the teachers have completed the required basic training.

About 90 pct. of the Danish financial support to the Sector Wide Approach Program is channeled through the Nepalese Government's budget based on a Joint Financing Arrangement between the Government of Nepal and nine development partners. The remaining part of the Danish support is allocated to capacity development, technical assistance

and monitoring and evaluation. A final commitment of DKK 125 million covers the exit phase during 2012-13. Denmark will continue to support education globally through the “Global Partnership for Education”.

Renewable Rural Energy

The Danish support to rural energy in Nepal began in the late 1990s. Since then, about 1 million rural households, equivalent to about 5 million people, have received support to renewable rural energy. 533.000 households have installed new cooking stoves, 290.000 households have now electricity from solar panels, and 70.000 households have new electricity from small hydropower plants. The effects of the program have been improved air quality in the houses, better health of the families, light for studying and electricity for small scale enterprises etc.

Denmark has committed DKK 205 mill. for 2012-2017 for a new joint and government-led programme on rural renewable energy. It is co-financed by Norway, DFID, Germany, World Bank, Asian Development Bank, UNDP and The Netherlands. The Danish support includes: Technical and institutional support to strengthening of the public, private and civil society organizations in the renewable energy sector and access to renewable technologies in rural areas with a focus on women and excluded groups; supporting small enterprises in productive use of renewable energy; and support to establishment of an investment fund on renewable energy, which will be providing subsidies and loans.

Growth and Employment

Denmark has initiated the preparation of a new program on Growth and Employment in Nepal. The new program will support Nepal in strengthening economic growth with a focus on employment and improved living conditions. The program is expected to be operational from beginning of 2013. It will go hand-in-hand with the Danish business support mechanism “Danida Business Partnerships” through which Denmark focus on female entrepreneurs in the private sector and their access to productive resources.

Local Grant Authority (LGA) – flexible support to minor projects

Through the LGA Denmark supports non-governmental organizations. The LGA is used for strategic interventions through a limited number of partners and thematic areas. The areas are at present 1) Women, children and youth, 2) HIV/AIDS and 3) Culture. The thematic areas might change during the strategy period in order to take into account results so far, the focus of the Danish development cooperation and emerging concerns. Currently there are 15 ongoing projects but this number will be reduced in the coming years.

Annex 2: Key Economic and Social Data

Key economic data		Unit	Source *
Area (sq. km)		143,350	WB
Population (2011)		30 Million	WB
GNI per capita, Atlas Method (2011)		540 USD	WB
Annual economic growth (GDP) (2011)		3.9%	WB
Ease of doing business (Ranking out of 183 countries) (2011)		110	DB
Foreign Direct Investment, net inflows (% of GDP)(2011)		0.5%	WB
Economic sectors, value added (% of GDP) (2011)			
	Agriculture	38%	WB
	Industry	15%	WB
	Manufacturing (included in industry)	6%	WB
	Services	47%	WB
Net ODA received per capita (current US\$) (2010)		27 USD	WB
Foreign debt (2010)			
	External debt stocks, total DOD (Millions)	3,702 USD	WB
	Multilateral debt service (TDS) (Millions)	142 USD	WB
	Present value of external debt (% of exports of goods, services and income)	151%	WB
Key social data		Unit	Source
Human Development Index (rank out of 187 countries) (2011)		157	WB
Population growth (annual %) (2011)		1.7%	WB
Life expectancy (2010)		68 Years	WB
Mortality rate, under-fives (per 1,000) (2010)		50	WB
Low Birth Weight (% of infants less than 2,500grams) (2010)		21%	UNICEF
Improved water source (% of population with access) (2010)		89%	WB
Improved sanitation facilities (% of population with access) (2010)		31%	WB
Prevalence of HIV, total (% of population ages 15-49) (2009)		0,4%	WB
Adult literacy rate (% of people ages 15 and above) (2009)		59%	WB
Adult literacy rate, female (% of females ages 15 and above) (2009)		47%	WB

Net attendance ratio (%) (2005-2010)			
	Primary school participation, male	86%	UNICEF
	Primary school participation, female	82%	UNICEF
	Secondary school participation, male	46%	UNICEF
	Secondary school participation female	38%	UNICEF
Proportion of seats held by women in national parliaments (%) (2011)		33%	WB
Access to electricity (% of the population)		44%	WB
Military expenditure (% of GDP) (2010)		1.5%	WB
Distribution of income (% of national income) (2010)			
	Income share held by highest 10%	27%	WB
	Income share held by lowest 10 %	4%	WB

DB: Doing Business Report, World Bank

UNICEF: United Nations Children's Fund

WB: World Bank, World Bank Indicators

Annex 3: Progress Towards the MDGs in Nepal

GOALS	Will MDGs be achieved				
	Achieved	Likely	Potentially likely	Unlikely	Lack of data
GOAL 1: Eradicate Extreme Poverty and Hunger					
1A. Halve the proportion of people whose income is less than one dollar a day		X			
1B. Achieve full and productive employment and decent work for all				X	
1C. Halve the proportion of people who suffer from hunger			X		
GOAL 2: achieve universal primary education					
Ensure children everywhere – boys and girls – complete primary schooling			X		
GOAL 3: Promote Gender Equality and Empowerment of Women					
Eliminate gender disparity in primary and secondary education by 2005 and in all levels of education no later than 2015			X		
GOAL 4: Reduce Child Mortality					
Reduce under-five mortality by two-thirds		X			
GOAL 5: Improve Maternal Health					
5A. Reduce the maternal mortality ration by three-quarters		X			
5B. Achieve universal access to reproductive health				X	
GOAL 6: Combat HIV/AIDS, Malaria and other diseases					
6A. Halt and reverse the spread of HIV/AIDS		X			
6B. Achieve universal access to			X		

treatment for HIV/AIDS for all those who need it					
6C. Halt and reverse the incidence of malaria and other major diseases		X			
GOAL 7: Ensure Environmental Sustainability					
7A. Climate change					X
7B1. Reverse loss of forest			X		
7B2. Reduce biodiversity loss					X
7C1. Halve proportion of population without sustainable access to improved water source		X			
7C2. Halve proportion of population without sustainable access to improved sanitation				X	
7D. Improve lives of slum dwellers					X

Source: Government of Nepal, National Planning Commission, and United Nations Country Team of Nepal. 2010.

ANNEX 4: Other development partners' engagement with Nepal

Denmark is among the largest bilateral development partners to Nepal. The other main development partners are USA, UK, Japan, Norway, Finland, Switzerland, the Netherlands, Canada, Australia and Germany, as well as India, South Korea and China. The multilateral institutions also have comprehensive development program portfolios, among them the World Bank, the EU, the UN and Asian Development Bank. Semi-monthly coordination meetings among the development partners are being held in the International Development Partners Group.

The development partners' support to Nepal is targeting various sectors. Sector wide approaches are being used in the education and health sectors. Most development partners also provide specific support to the peace process and have developed a Peace and Development Strategy, which aims to provide a framework for how Nepal's development partners can work together to support implementation of the Comprehensive Peace Agreement. It seeks to improve impact and avoid duplication, gaps and missed opportunities that the OECD/DAC identifies as common risks to peace-building efforts in fragile contexts.