

**Memorandum of Understanding
Secondary Education Support Programme
Mid-Term Review
6-15 March 2006**

Introduction

1. The Secondary Education Support Programme (SESP) was launched in 2003 as a joint undertaking between His Majesty's Government of Nepal (HMG/N), the Asian Development Bank (ADB) and Denmark. SESP is implemented in accordance with a comprehensive Core Document (CD) that provides the background and context.
2. The CD is structured in four components:
 - Teaching-learning environment
 - Curriculum, assessment and examination
 - Teacher education and training
 - Institutional management and development
3. These components ensure the necessary balance between access to and development of quality secondary education.
4. The CD also addresses the cross-cutting issues, relevant to the population and topographical complexity in Nepal as well as poverty reduction.
5. The implementation supports national secondary education from Grades 6-10.
6. The three partners, Ministry of Education and Sports (MoES)/Department of Education (DoE), ADB and Danida, decided to carry out a Mid-Term Review (MTR) from 6-15 March 2006, in Kathmandu, Nepal. The key findings and recommendations are summarised in this Memorandum of Understanding.

National Education Sector Development

7. The SESP has been developed and implemented within the larger context of development in Nepal. This includes the national plans (currently the 10th Plan), Poverty Reduction Strategy Paper (PRSP) and the Medium Term Expenditure Framework (MTEF).

8. With respect to education, SESP is also seen as complementary to the Millennium Development Goals (MDG) and Education for All (EFA) strategies and policies.

SESP Progress

9. The overall progress of SESP was assessed, based on the DoE Progress Report of March 6, 2006. Satisfactory progress was noted in some of the activities whereas slow implementation was noted, particularly relating to curriculum, teacher education and training and institutional management and development.
10. Crosscutting issues, risks and assumptions were addressed as an integrated part of the assessment of the progress in the four components.
11. Rehabilitation and construction of schools in the Programme Intensive Districts (PIDs) were reported to be on-going. The PID concept has remained valid and will be retained. Implementation has met with a number of obstacles, of which the conflict is one.
12. There is a need to revisit the plan for improvement of the physical learning environment, including a strategy and action plan with expected outcomes for inclusion in ASIP 06/07. The established average unit costs have proved to be feasible and will, therefore, be maintained to safeguard the quality of school construction and rehabilitation, in line with the PID concept of improved learning environment.
13. The need for 400 additional classrooms outside identified PIDs to ease pressure due to overcrowding was brought to the attention of the review.
14. The National Curriculum Framework (NCF) is prepared, but awaits approval. Following the approval, a number of activities with regard to the curriculum, subjects, instructional materials, textbooks and other supportive materials will be planned, developed, published and distributed. A revised implementation schedule will be submitted shortly.
15. CDC and OCE need to develop adequate and specific software to support the further institutional capacity development and functionality. Funding for these requirements will be included in the ASIP and the AWP&B for the fiscal year 2006/07.
16. Teacher training institutions have been amalgamated into the apex of National Centre for Educational Development (NCED) as part of SESP implementation. NCED presented to the MTR a number of activities that aim to enhance all aspects of quality of education, including secondary grades through improving the teacher education and training programmes.
17. Progress has been slow and has been caused underspending in teacher education, training and development components as compared to the initial allocation of the SESP Core Document.
18. It is recognised that there is an urgent need for institutional capacity building at all levels of the NCED structure.

19. Efforts made to build capacity through training were appreciated. The general capacity building will need to be further accelerated. This applies to both management and administration as well as the technical institutions NCED, CDC and OCE.
20. A draft revised implementation schedule for SESP was prepared, commented upon and is attached as Annex 2.
21. It was agreed that SESP is implementable as originally designed. However, due to changing circumstances and emerging needs and priorities of the sub-sector, adjustments are required.

Programme Management and Financing Issues

22. MoES has overall responsible for SESP, and DoE is responsible for coordination of implementation and management.
23. In the context of decentralisation and in particular with regard to the 7th Amendment of the Education Act, devolution of authority is on-going but not fully achieved. This will require better communication and dissemination of information, further strengthening of involvement with stakeholders, enhanced local decision-making authority with regard to such key issues as resource utilisation and necessary adaptation of the school calendar to local circumstances. A comprehensive scheme for institutional capacity building of district and regional administrations as well as capacity building of SMC members and head teachers is needed to help achieve these objectives.
24. Overall disbursement on the programme has been slow. Up until the end of fiscal year 2004-05 total programme expenditure was \$13.47 million representing 22.2 % of total allocated funds or 18.0% of the total programme envelope. Of this, some \$1.39 million was expenditure on Danida direct funds and the balance from the pool. Slow disbursement has been accompanied by delayed submission of statements of expenditure (SOEs) to replenish the special account. Approximately \$3.9 million of reimbursement needs to be reclaimed from the ADB in respect of expenditure incurred in 2004/05.
25. In addition, \$1.396 million of expenditure has been recorded in the Financial Comptroller Generals Office (FCGO) submissions of 66 districts for the first six months of 2005/06, which has not yet been claimed for reimbursement. The liquidity impact of this slow reimbursement has been partly mitigated by Danida's decision to pre-fund the programme.
26. Compliance of SESP implementation with ADB loan covenants was noted, except fielding of consultancy services. DoE will submit a technical evaluation for the selection of the consultancy package to ADB and Denmark within three weeks of the completion of the MTR.

Agreed Recommendations for Action

27. SESP will continue to be implemented with necessary adjustments. To facilitate an accelerated and timely implementation and to meet requirements of changing circumstances, the following is recommended:

- a. MoES will submit a request to ADB for an extension of the programme-funding period to include the fiscal year 2008/09 as part of the follow-up to the MTR.
- b. DoE will assess programme implementation and ensure that the overall balance between access and quality is ensured.
- c. DoE will prepare a costed action plan to accommodate the adjustments, and preserve the PID concept, where it applies.
- d. DoE will resubmit the concise and comprehensive costed plan, justifying construction of 400 additional classrooms to meet overcrowding outside the PIDs. Action could be taken with regard to this, provided that the balance between access and quality can be maintained.
- e. MoES will ensure that there is a system in place to strengthen engineering and technical support for implementation of school improvement plans to ensure quality education.
- f. On the basis of the Aide Memoire 27-30 November 2005 and the DoE submission of 9 December 2005, DoE will take adequate steps to implement the revised scholarship management programme, allowing for 60,000 students, of whom 2/3 will be girls in addition to 2,560 scholarships for children with disabilities, Chepang, Raute, Mushahar and scholarships for hostel students. The further implication of the scholarship provision will be discussed at the SESP monthly meetings.
- g. DoE will address educational needs and requirements relating to impact of conflict and internal migration within the component allocations. Based on the presented proposal, DoE will explore if additional funding is required and the sources for this funding.
- h. CDC will submit a revised implementation schedule shortly.
- i. DoE will request CDC and OCE to develop adequate and specific software that can support the further institutional capacity development and functionality.
- j. NCED's activity plan will be finalised, including further planning and justification of the proposal to pilot "open learning" and funded partially through SESP. Technical assistance may be required to support the finalisation of this plan.
- k. NCED will ensure that monitoring mechanism for activities at the Resource Centre (RCs) level, especially training of Resource Persons (RPs), funded under the Teacher Education Project (TEP), will target RC activities with regard to secondary education as well.
- l. MoES will ensure that the Human Resource Development plan will be used as guidance and a checklist of identified needs for the development of concrete and prioritised plans of action to meet them. This will need to target strengthening of the institutional capacity, through building a critical mass of staff at all levels. Particular attention needs to be devoted to the quality aspects of education and capacity building of institutions like NCED, CDC and OCE.
- m. NCED and Faculty of Education (FoE) will seek to establish a linkage to support the further development of qualified teacher education and training. This may require some capacity building at FoE. Further linkages, including contact to institutions outside Nepal will also need to be brought into the capacity plan of both NCED and FOE
- n. Further development of institutional capacity in institutions in NCED, CDC and OCE will need to be further planned and implemented through institutional linkages
- o. Planning and budgeting of institutional capacity building activities for NCED, CDC and OCE respectively will be included in and funded through the ASIP and AWP&B for the fiscal year 2006/07 and onwards. This will be formalised through separate sub-headings budget in ASIP. Danish direct funding is available to support institutional capacity building.

28. Budgetary recommendations:

- a. Future consolidated Statement of Expenditures (SOEs) will show basket expenditure only. Danida will furnish an up to date statement of expenditure from direct funding on a trimester basis to allow for overall monitoring of programme expenditure to all partners.
 - b. A single common percentage share between Danida and ADB will be introduced across all loan categories. This percentage distribution will exclude Danish direct funding. Given the current respective drawdown from the partners, this has been estimated at 45% for Danida and 55% for the ADB
 - c. The proposal for simplification of the loan categories to 10 main categories and their equivalence with the indicated item code as presented in Annex 3 will be accepted with immediate effect upon the completion of formalities required by respective development partners, for submission in the 2005/06 financial year
 - d. The on-going monitoring and reporting of funds utilisation will be carried out on the basis of the distribution between four main components only (not the sub-components presented in the log frame).
 - e. Unallocated and contingency funds will be included in future basket planning and budgeting, except for \$1.5 million that remains as combined unallocated and contingency fund.
29. Component and category wise reallocation of funds was approved, taking into consideration the need to maintain balance between access and quality, the support to mitigate the impact of the conflict and the needs to ensure further access to secondary education. For further details on reallocations and details on further recommendations for adjustment of financial management, disbursement, accounting and reporting, see Annex 4.
30. Log frame targets have been and will continue to be revised according to changing circumstances and the recommended adjustments.

Future direction

31. SESP is designed to address development of education in grades 6 – 10. EFA addresses primary grades 1 – 5, together with ECD, out-of-school provisions, and non-formal adult (literacy) education. Higher Secondary Education (HSE) comprises grades 11 – 12. When put together, these educational provisions make up the basic and secondary education sub-sectors.
32. At the moment, there is fragmentation in the approach taken by the development partners in their support for educational development at the various levels of the sub-sectors. There is a recognised need, therefore, for the MoES and development partners to begin to move systematically towards a coordinated and holistic approach to support for development of education in line with the strategy and processes defined for a sector-wide approach (SWAp).
33. The proposed school sector approach is understood as a comprehensive school reform initiative, addressing all forms of basic, primary and secondary education and is intended to be launched from the fiscal year 2009/10. It is understood that all six EFA goals will be included in the plan to ensure the necessary balance between them. It is expected that the reform will have critical implications for all existing elements of the school sector activities. The relevant agencies will initiate reform initiatives within their mandate. A central inter-ministerial policy committee will be headed by the Minister of Education and Sports.

34. Based on the above, partners to SESP have thus agreed to begin preparations for the integration of their support to secondary education into a comprehensive framework of educational development, which brings together EFA, SESP and HSE (the latter with support from World Bank (WB)). This will require that preparations begin immediately after the conclusion of the MTR.
35. A further implication is that the SESP will - after the fiscal year 2008/09 – be converted into support for a full school sector approach.
36. Transitional funding provision, provided by ADB, will continue supporting preparation of the school sector approach. It will further address funding gaps, identified in the school education. Financial assistance addressing activities and funding gaps in secondary education may follow financial and implementation modalities of SESP. It is expected that the transitional funding provision will be implemented from fiscal year 2007/08.
37. The steps and timing for this process would be as follows:
 - a. MoES will prepare and share plans for the processes and formalities involved with partners during the EFA and SESP reviews in May 06. Consultations with the National Planning Commission (NPC) and the Ministry of Finance (MOF) will be held as deemed necessary during the period between MTR and the review in May 06.
 - b. Development partners would concretise the further steps in the process towards incorporation of future support to secondary education development into the Joint Financing Arrangement (JFA), based on the strategy of the sector-wide approach during the SESP review in May 2006. If feasible, this may also include information sharing and coordination with the WB on support to HSE to provide a more complete picture of the prerequisites for implementing the full sub-sector programme.
 - c. As part of preparation, a workshop on the sector-wide approach may also be arranged in the autumn of 2006.
 - d. In the event, a joint pre-appraisal is deemed necessary, this should be undertaken in 2007.
 - e. A joint appraisal process may best be carried out in two interlinked stages. The first stage would take place towards the end of 2007 or in early 2008, and the second at an appropriate time later in 2008. The possibility of ADB and Danida to begin providing coordinated funding, which reflects the modalities of the JFA, for inclusion in the national budget at an early stage may also be considered.
 - f. Agreements could then come into effect by beginning of 2009.
38. Provisions for technical assistance (TA) would need to be worked out and included in the agreed strategies, and confirmed during the course of the joint appraisal process.

Signed in Kathmandu on 15 March 2006

For His Majesty's Government of Nepal

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Annex one:

SESP MTR Terms of Reference, Programme and list of SESP MTR Participants

TERMS OF REFERENCE

SECONDARY EDUCATION SUPPORT PROGRAM

Mid-Term Review

6th - 15th March 2006

INTRODUCTION

1. The Secondary Education Support Program (SESP) has been developed by His Majesty's Government of Nepal (HMG/N) and supported by the Asian Development Bank (ADB) and Denmark to expand and enhance quality public secondary education. It was seen as the first five-year phase of a development program that might be extended for a further period of ten years. The SESP was formally launched on 5 August 2003.

2. SESP is a national program, aimed at improving the schools throughout the country in a phased manner beginning in ten program intensive districts low in human development and education indicators. Reform initiatives for the overall improvement of secondary education, such as improving the curriculum, assessment and teacher training systems, are nation-wide.

3. Since its inception, five Joint Review Missions have been held to discuss the pace and quality of program implementation. During those missions progress, problems and mitigating measures were discussed. Although some progress has been made, implementation has been hampered by program administration procedures that are cumbersome or not aligned with HMG/N standard practices as well as by difficulties in implementing program activities in the intensive districts. In addition, an increasing demand for access to secondary school, the impact of the conflict on secondary education, and a re-orientation of HMG/N's policy context to a school sector approach (comprising grades one to twelve) may require adjustment in some SESP activities.

OBJECTIVES

4. The Mid-Term Review (MTR) will review overall progress and problems and reach agreement on solutions that require adjustments within the existing program framework and agreements. These adjustments will expedite implementation of the program as currently designed.

5. Issues pertinent to the future inclusion of SESP in the sector wide approach to education will be considered. Preparations in this respect are expected to be initiated after the MTR.

OUTPUTS

6. The MTR will present its findings and agreements in a Joint Memorandum of Understanding (MoU) which will constitute the minutes of the meetings. The MoU will be prepared by a joint drafting committee led by MOES and will be produced in draft before the end of the review and finalised in the closing session of the MTR. The MoU will incorporate the following issues and where necessary additional papers will be provided to the MoU as annexes:

- a. Revision to overall program targets and indicators.
- b. Simplification of loan categories and adjustments to percentage-based cost sharing arrangements among partners.
- c. Revision to planning and budgeting procedures including consultation with National Planning Commission (NPC), Ministry of Finance (MoF) and Financial Comptroller General's Office (FCGO) and on preparation with partners of annual strategic implementation plans (ASIP), and on preparation of annual work plan and budgets (AWPB).
- d. Revision of the scholarship management system.
- e. Action plan for implementing capacity building activities based on the Human Resource Development Plan (HRD Plan) emphasising district- and school-level capacity building.
- f. Options for improving the overseeing of the engineering of school construction.
- g. A plan for providing emergency relief for secondary schools heavily affected by the conflict.
- h. A plan for improving the examination system which incorporates ideas from the SLC Study.
- i. An understanding of priority issues pertinent to the future school sector approach, such as the following:
 - i. school-based funding modalities,
 - ii. devolved school financing for construction and quality improvement,
 - iii. textbooks for disadvantaged students, and
 - iv. teacher salaries for unaided schools.

METHOD OF WORK

7. Composition

The MTR will include or consult representatives from:

- a) MOES, DOE and other central level education sector agencies;
- b) cooperating agencies including the NPC, the MOF, and the Financial Comptroller General's Office (FCGO);
- c) SESP development partners, and

- d) civil society and stakeholders.

Activities and Methodologies

The meeting of the MTR will be held in Kathmandu between 6 and 15 March 2006. The schedule of the meeting will be arranged by MOES, and it will be chaired by a senior representative of MOES. Administration of the meeting will be handled by MOES and DOE.

The MTR will include field visits, to be arranged by MOES and DoE.

Documentation

The following documentation will be arranged by MoES and DoE before the MTR and circulated to all relevant stakeholders by 20th February 2006:

- a) A progress report on SESP components and activities detailing accomplishments and problems and highlighting requested changes in targets and indicators.
- b) A paper proposing changes to the scholarship management system.
- c) A proposal for improving the engineering oversight of school construction.
- d) A proposal for providing emergency relief for secondary schools heavily affected by the conflict.

FINANCING OF ACTIVITIES

Any additional assistance required for the preparation of the MTR will be financed by ADB and Danida direct funding..

Annex 2:

Revised Implementation Schedule

sn	Components/ year	2003	2004	2005	2006	2007	2008	2009
1.0	Learning environment							
1.1	Rehabilitate and improve Secondary schools in poor communities and districts							
1.01	Improve Quality and Access, Civil works, 190 schools in 10 districts	30	60	100				
1.01.1	Additional 400 classroom construction			400				
1.01.2	Separate toilet construction for girls		425	63	106			
1.02	Develop Equitable Access through targetted interventions							
1.02.1	Conversion of 10 feeder hostels		5	5				
1.02.2	Construction and rehabilitation of 7 remote mountain hostels		3		4			
1.02.3	Female teachers' accommodation facility		125	125	125	125	125	
1.02.4	General Scholarships 5 years							
1.02.5	Special focused scholarships							

1.02.6	Support to conflict affected schools, students, teachers														
1.03	Cost Sharing and Community Resource Mobilization														
1.03.1	10 districts SIP fund		150		150										
1.03.2	75 districts SIP fund		76		1136 1				2697						
2.00	Curriculum and Assessment														
2.01	National School Curriculum Framework from grade 1-12														
2.01.1	Workshops														
2.01.2	Study														
2.02	Curriculum revision, renewal and development														
2.02.1	Workshops														
2.03	Teacher curriculum awareness raising														
2.03.1	Dissemination of student assessment, curriculum and text materials														
2.04	Instructional materials														
2.04.1	Special needs														
2.04.2	Lower secondary classroom instructional materials														

2.04.3	Secondary classroom instructional materials														
2.04.4	Distribution of learning materials			1136 1		1100 0		4000							
2.05	Improve Quality and Efficiency of student Assessment and Examination														
2.05.1	School assessment system														
2.05.2	Grade 8 examinations														
2.05.3	Civil works- construction of REDs							2		3					
2.05.4	Enhancement of district examination facilities			31		20									
2.05.5	Reforms in Examination														
2.05.6	Establishment of Security Printing Press														
2.05.7	Establishment of Mini Printing Press in OCE														
2.06	Establish a National Curriculum and Assessment Council														
3.00	Teacher Education, Development and Mangement														
3.01	Development of a single integrated framework for teacher development														
3.02	Developing a qualified teaching force for public secondary education														

3.02.1	Pre-service teacher training																		
3.02.2	Demand driven teacher training																		
3.02.3	In-service teacher training																		
3.02.4	Improving INSET facilities (Civil Works)																		
3.02.4.1	Upgrading existing SEDU's																		
3.02.4.2	Construction of Lead RCs							11		35		4							
3.03	Increasing number of female teachers and teacher from disadvantaged groups																		
3.04	ICT teacher training																		
3.04.1	Equipments for ICT at five regional campuses																		
4.00	Institutional Management and Capacity Building																		
4.01	Improve the Daily Management and operation of Public Secondary Schools																		
4.01.1	Orientation for SMC support																		
4.01.2	Head Teacher Training																		
4.02	Improve, Develop the long-term strategic community management of schools																		

Annex 3

Revised budget frames and categories

Component wise revision

Components	Budget	Actual Expenses 2003-2005	Future Expenses 2005-2009	Total Expenses 2003- 2009	Balance
Learning Environment	26,350,000	6,480,000	20,730,000	27,210,000	- 860,000
Curriculum Development	9,608,000	3,110,000	10,920,000	14,030,000	- 4,422,000
Teacher Education, Development & Management	12,914,000	1,570,000	11,638,955	13,208,955	- 294,955
Institutional Management & Capacity Building	8,000,000	910,000	6,870,000	7,780,000	220,000
TOTAL BASKET	56,872,000	12,070,000	50,158,955	62,228,955	- 5,356,955
DANIDA Direct Funding	5,976,000	1,394,713	4,581,287	5,976,000	0
TOTAL PROGRAM excluding interest & taxes	62,848,000				

Category wise Presentation of revised Percentages

		REVISED PERCENTAGES ACTUAL & FUTURE EXPENDITURES 2005-2009					
Categories		HMG		ADB		DANIDA	
1	Civil Works	6,605,278	30.0%	8,366,685	38.0%	7,045,629	32.0%
2	Equipment			1,663,529	55.0%	1,361,070	45.0%
3	Furniture			79,334	55.0%	64,910	45.0%
4	Teaching Aids/Resource Mat			2,137,912	55.0%	1,749,200	45.0%
5	Vehicles			27,500	55.0%	22,500	45.0%
6	Training/Workshop	1,935,391	30.0%	2,451,496	38.0%	2,064,417	32.0%
7	Funds (Scholarships, SIP, ICT)			12,709,555	55.0%	10,398,727	45.0%
8	Studies			20,213	55.0%	16,538	45.0%
9	Consulting Services			774,431	55.0%	633,625	45.0%
10	O&M	2,101,015	100.0%				
	Sub-Total	10,641,684		28,230,655		23,356,617	
	DANIDA DIRECT FUNDING					5,976,000	
11	Interest Charges			805,000	100.0%		
12	Unallocated			898,000		602,492	
13	Taxes & Duties	4,322,053	100.0%				
	GRAND TOTAL	14,963,737		29,933,655		29,935,109	
	Percentage Share	20.0%		40.0%		40.0%	

Category Presentation of Programme Expenditure

		TOTAL	TOTAL	TOTAL	BUDGET vs.	
	Categories	BUDGET	ACTUAL EXPENDITURE 2003-2005	FUTURE EXPENDITURE 2005-2009	ACTUAL & FUTURE EXPENDITURE 2003-2009	BUDGET vs. ACTUAL & FUTURE EXPENSES
1	Civil Works	22,403,000	2,217,592	19,800,000	22,017,592	385,408
2	Equipment	3,508,000	434,599	2,590,000	3,024,599	483,401
3	Furniture	42,000	4,244	140,000	144,244	- 102,244
4	Teaching Aids/Resource Mat	1,721,000	337,112	3,550,000	3,887,112	- 2,166,112
5	Vehicles	375,000	5,194	44,806	50,000	325,000
6	Training/Workshop	10,016,000	1,563,304	4,888,000	6,451,304	3,564,696
7	Funds (Scholarships, SIP, ICT)	14,451,000	7,208,282	15,900,000	23,108,282	- 8,657,282
8	Studies	206,000	16,751	20,000	36,751	169,249
9	Consulting Services	1,729,000	28,056	1,380,000	1,408,056	320,944
10	O&M	2,421,000	261,015	1,840,000	2,101,015	319,985
	Sub-Total	56,872,000	12,076,149	50,152,806	62,228,955	- 5,356,955
	DANIDA DIRECT FUNDING	5,976,000	1,394,713	4,581,287	5,976,000	0
11	Interest Charges	805,000			805,000	
12	Unallocated	6,673,500			1,500,492	
13	Taxes & Duties	4,506,000			4,322,053	
	GRAND TOTAL	74,832,500	13,470,862	54,734,093	74,832,500	

Annex 4

Financial Management, Disbursement and Accounting

Current Position

1. The partners agreed to finance most of the programme using a basket funding modality similar to that employed on the Basic Primary Education Programme (BPEP 2). 90% of programme funds (excluding loan interest) were to be allocated through the basket (\$ 67.7 million) with a further \$6.3 million to be provided as Danida direct funding
2. However there has been slow disbursement on the programme. Up to the end of the Government's fiscal year 2004-05, only 20 % of basket funds had been drawn down, while up to the end of 2005, only 21.6% of the direct funding allocation had been spent. The disbursements against budget are shown in the budget annexes to the MOU
3. The slow disbursement is linked to the delays in the reimbursement of the special account. As at the beginning of March, \$3.9 million of advances from the ADB account had not been reimbursed. This delay in reimbursement has occurred as a result of delays in submitting statements of expenditure for reimbursement. While Danida has continued to advance money to the programme, the ADB requires the submission of regular SOEs to provide liquidation of previous advances and the provision of further funding to the special account. As at the start of the mission, no SOE had been provided to the ADB for the financial year 2004-05, although the DOE said that it had been compiled. No consolidated SOE has been compiled for the current financial year, and only 29 SOEs for the 1st trimester had been recorded as being received from district offices in DOE headquarters
4. The submission of SOEs operates as a dual system. The submission of SOEs on a category wise basis by districts and other cost centres through the DOE to the ADB serves as the mechanism for replenishing the special account. The submission of SOEs on the HMG/N item code basis by the districts and other cost centres to the District Treasury Control Office (DTCOs) serves as the mechanism for releasing funds to the treasury system. Both mechanisms have to work for funds to be regularly released and accounted for. While the submission of SOEs to the DTCOs is considerably better than to the DOE, the MTR understands there are still outstanding returns for the 1st trimester of 2005/06 which may lead to delays in releasing funds for the 3rd trimester.
5. The consequences of non-release of funds are serious, first and foremost because of the negative impact on the delivery of the programme. The public secondary education system is under extreme pressure and requires all the funding that can be committed. Second the late submission of SOEs is reducing the amount of liquidity in the treasury system. Third the low disbursement rate threatens the P1 status of the programme as a priority for counterpart funding, and also compromises the ability of Government to negotiate for future support to the sector.
6. The development partners do not believe that the funding modality is the only or even primary reason for the low disbursement rate, as the BPEP 2 system with a similar component, category and item wise reporting worked very successfully for the last 2 years of the programme.

Nevertheless there are a number of simplifications that could be introduced to the system to facilitate the earlier and faster completion of SOEs and raise the disbursement rate.

Findings and Recommendations

(A) *Simplifying the Funding Modality*

7. One of the principal complications that arose in the original programme was that the ADB and the Government did not want the ADB loan to finance certain categories of expenditure. For example the ADB did not want to finance certain items of expenditure in the programme intensive districts and the Government did not want to use ADB funds for overseas training or consultants. In addition Danida agreed after the preparation of the Core Document that it would prefer the Government to purchase certain items of goods and services through the basket fund (albeit 100% funded by Danida) rather than use direct financing.
8. These decisions had three important and adverse consequences. First it created the need for different percentage drawdown rates from the partners for some of the loan categories. This removed one of the key simplicities of the BPEP 2 system, the use of a common percentage drawdown from all partners across the basket categories. Second it created some confusion about the status of direct financing, since all Danida direct financing was shown as 100% financed *in the basket* in the Programme Administration (PAM) which was not in fact the case. Third it increased the number of loan categories from the original document by adding sub-categories for the 100% Danida items (although most of these sub-categories were not relevant for districts).
9. The use of differential percentages has two major implications. First it makes the process of fund reallocation between loan categories much more difficult since all the percentage draw-downs therefore have to be changed to ensure that the bottom line drawdown from the partners at the conclusion of the programme is the same as originally planned. For the ADB (albeit not for Danida) this represents a major change in the programme and they cannot therefore be easily altered. Second at the Government level, it makes the process of submitting the SOEs much more complicated, partly because of an inability to implement a modality proposed by the Core Document namely to use a common source code. This means that the district offices have to allocate expenditure across the 3 partners using different percentages for different categories, when compiling returns to the DTCOs
10. The final complication is that expenditure ledgers for SESP are maintained on a government item code basis, not on the basis of loan categories. During the financial management review in 2004, it was proposed to create an Excel spreadsheet return that would automatically generate returns, both by category and item code. Given that virtually all district offices have computers, this would represent a distinct improvement on the current position where all returns are in hard copy and in a variety of formats. However for a number of reasons including the turnover of personnel, this system has not to date been implemented
11. At the beginning of the MTR, the DOE submitted a proposal for the simplification of loan categories and their equivalence on an almost one to one basis to Government item code. The MTR recognises that the simplifications propose should facilitate a more rapid completion of

the SOE returns to the DOE; and furthermore in the event of non-submission of returns to the DOE, may allow for the compilation of returns based on FCGO data.

12. In the light of these findings, the **partners recommend the following changes:**

- a. That the balance of Danida direct funding that is not to be used in the basket, is not shown in any future consolidated SOEs; and that Danida will furnish an up to date statement of expenditure from direct funding on a trimester basis to allow for overall monitoring of programme expenditure
- b. That with immediate effect from the 2005/06 financial year, a single common percentage share between Danida and ADB is introduced across all loan categories. Given the current respective drawdown from the partners, this has been estimated at 44.75% for Danida and 55.25% for the ADB and
- c. That the Government proposal for the simplification of the loan categories to 10 main categories and their equivalence with the indicated item code as presented in Annex 1 (to be attached) be accepted with immediate effect for submissions in the 2005 /06 financial year
- d. That the component wise system of reporting be retained only in respect of the main components (not the sub-components presented in the logframe)

(B) *Improving Management Control of the submission process*

13. In addition to the problems caused by complications in the funding modality, the MTR concludes that there have also been weaknesses in the control of the submission process by the DOE. Part of the reason for this has been some confusion over the necessity to provide a consolidated return on a trimester basis for reimbursement of the special account. In fact reimbursement can be applied for on a rolling basis for all SOEs in excess of \$100,000.

14. The MTR further notes the difficulties caused by the current conflict situation in the disruption of postal services. All returns are at present made in hard copy and sent by post. There also appears to have been no systematic monitoring of the filing of SOEs or follow-up by the DOE. At the time of the mission, only 25 districts (and 4 training centres) had filed returns for a total value of \$518,886 in the financial year 2005-06, in comparison with 66 districts who had filed returns with the FCGO for a total value of nearly \$1.4 million.

15. The MTR therefore **recommends the following:**

- a. The immediate adoption of an Excel spreadsheet for the production of SOEs as recommended in the 2004 Financial Management Report. This needs to be accompanied by a training course for all 75 DEO accountants so that the spreadsheet can be adopted for use in completing the 2005/06 returns
- b. The use of Excel files will facilitate the sending of files electronically rather than through the post. The DOE should investigate and report back to the May mission for the possibilities of transferring files electronically through either the DOE office or the DTCO office or through using private internet café facilities. Email training should accompany the training in Excel

- c. The DOE should expedite the replenishment of the special account through the immediate dispatch of the 2004/05 SOE to the ADB programme unit, and the preparation by the end of March 2005 of the first SOE for 2005/06. The DOE should subsequently seek to send SOEs for reimbursement when the minimum level of expenditure has been reached
 - d. The DOE should develop a more systematic and rigorous follow-up to the non-receipt of SOEs including the compilation of SOEs from non-submitting districts using FCGO data.
16. The MTR **further recommends** that an action plan for networking the district offices as envisaged in the ICT Master Plan be drawn up and implemented as soon as possible. This should be seen as a direct contribution to the institutional strengthening of the sector, envisaged under Component 4.

(C) Improving Planning, Budgeting and Reporting

17. The MTR notes that a major cause for slow disbursement has been the lack of decision making and financial autonomy particularly at the central level for the NCED, CDC and OCE. Proposals for activities appear to have needed clearance by the Steering Committee and this has added considerable delays to programme activities and disbursement.
18. The MTR notes that the primary vehicle for approving activities should be the Annual Strategic Implementation Plan (ASIP) process. Activities approved as part of this plan should not need subsequent approval by the Steering Committee unless their nature or value has changed by a significant amount.
19. The ASIP process represents a very important step in the development of a medium term planning framework for the sector. The MTR notes however that the ASIP document currently is an activity based presentation of the two main core programmes delivered in the sector (EFA and SESP), which are made in a different format. It notes that a more coherent approach and one in keeping with the sector wide (SWAp) approach, would be to present main areas of activity and expenditure by main cost centre and then show how the different activities are supported by various programmes and projects. This would also help planners and decision makers formulate cross-cutting proposals of relevance across the school sector rather than thinking within the boundaries imposed by individual programmes.
20. The MTR also notes the provision of indicative budget ceilings both for basket and direct funding would help organisations in the preparation of the ASIP.
21. The MTR **therefore recommends** the following:
- a. That the Steering Committee approves the decision to allow the ASIP to form the basis of all main activities in the SESP and that no further approval is necessary, unless activities are brought forward that were not in the original ASIP or allocations between different activities differ by a value exceeding \$200,000
 - b. That the ASIP for 2006-07 should, as an interim improvement measure, include an overall presentation of the costs and proposed activities of the NCED, CDC and OCE

- and how those costs are financed from the different programmes and projects (EFA, SESP, TEP, HSE etc)
- c. That for the 2007-08 ASIP, the newly appointed ESAT planning adviser should work closely with the MOES/DOE and development partners to facilitate the adoption of a more holistic cost centred approach to planning and its presentation
 - d. That Danida, after discussion with the concerned organisations, provide indicative direct funding allocations for NCED, CDC and OCE as part of the planning process for the remaining years of the SESP.
22. The level of information provided on the execution of the civil works programme was limited. This was vague on the financial and physical progress of the programme to date and non-existent in terms of the activities and disbursements needed to complete the programme. It also noted the lack of detailed information on a project-by-project necessary to sustain an overall evaluation of progress. An important contribution to future SESP planning as well as the development of a medium term term planning framework is the development of a rolling capital programme that is updated on a trimester basis.
23. The MTR **therefore recommends** :
- a. That a capital programme for the three remaining years of the SESP programme be formulated for each involved cost centre (including each of the 10 PIDs), and included in 2006-07 ASIP presentation. This should indicate overall programme budget fore each district and cost centre, expected expenditure by the end of the present financial year, expected physical progress and an estimated budget for completion allocated on a year by year basis.
 - b. That unit costs for the calculation of programme budgets particularly in the 10 PIDs should be calculated according to the revised proposals for building construction and these should be explained in the ASIP and
 - c. That a detailed half yearly report on the implementation of the capital programme including recommendations for re-allocations be presented to the partners

(D) Overall Programme Recommendations

24. The MTR **recommends** in the light of the slow disbursement that:
- a. The Programme be extended to the end of September 2009 to allow for a third full year of disbursements, and to allow the programme to coincide with the closure of the current EFA programme
 - b. The unallocated contingencies currently in the programme be released for allocation and that a revised financial plan for the remaining three years of the programme be presented for all expenditure except for the loan interest and taxes element.

Calculation of Funding Percentages between Development Partners

Basket	ADB	Danida	Danida Direct
Original	29.992	23.704	6.304
2A Eqpt		+ 0.053	-0.053
5A Vehicles		+ 0.275	-0.275
<i>Revised Total</i>	<i>29.992</i>	<i>24.032</i>	<i>5.976</i>
Exp to end FYR04/05	5.938	5.195	1.394 (Feb 06)
Balance Remaining	24.054	18.837	4.582
Less Interest	0.805		
<i>Pool for Common %</i>	<i>23.249</i>	<i>18.837</i>	
% Share (rounded)	55	45	