



# Initial Poverty and Social Assessment

---

Project Number: 36172  
July 2008

## NEP: Governance Support Program Cluster (Subprogram 1)

An initial poverty and social assessment (IPSA) is prepared in the early stage of the project cycle to assess the significance of social issues for a project. In accordance with ADB's public communications policy (PCP, 2005), the IPSA is disclosed upon completion. The final summary social assessment is included as an appendix to the project's report and recommendation of the President.

**Asian Development Bank**

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country/Project Title: **NEP-Governance Support Program Cluster (Subprogram I)**

Lending/Financing Modality: **Policy-Based**

Department: **SAGF/SARD**

### I. POVERTY ANALYSIS AND STRATEGY

#### A. Linkages to the National Poverty Reduction Strategy and County Partnership Strategy

1. There is a clear link between the proposed program and the Government's national poverty reduction strategy (NPRS) (as contained in the Interim Development Plan [2008-2010]) as well as the Asian Development Bank's (ADB's) Nepal country partnership strategy.<sup>1</sup> The Government's poverty reduction strategy is, in the first instance, and for the short term, geared towards ensuring a smooth transition to a modern, democratic, and federal state. The IDP reaffirms that for this to happen, local governance needs to be restructured, peace efforts should be solidified at the local level, and the problem of continued lower institutional capacity of local bodies needs to be suitably addressed. While the latter point refers to the traditional approach to strengthening local bodies, the others are new areas for the country which requires a novel approach to be taken.

2. ADB's latest country partnership strategy for Nepal (2005-2009) also asserts that good governance is central to Nepal's development and resolution of the conflict. In this regard, it accepts the argument that "greater attention to local service delivery (is one of the) ways in which conflict-related risks to progress in governance will be mitigated". In the area of governance, the CPS concentrates on strengthening inclusiveness in development, supporting the decentralization process (including fiscal decentralization), improving devolved service delivery, strengthening local capacity, and pursuing deregulation, among others. All these point to a good fit between this program and what the CPS has called for in Nepal.

3. The interim government that was formed in early 2006 had stated a vision of establishing a modern and democratic Nepal based on the principles of participatory democracy and federalism. Key among the reforms prioritized by the Government were devolution, inclusiveness, and State restructuring. The Government to be formed in the near future has already committed itself to working on a concrete policy framework to embed reforms specified in the IDP, but particularly those related federalism, local governance, and decentralization (as also to be reflected in the new Constitution to be drafted).

#### B. Poverty Analysis

##### 1. Key Issues

4. **Voice Mechanism.** The contribution of strong local governance to poverty reduction is well documented. As good local governance creates an institutional environment that is characterized by principles of accountability, transparency, predictability, and participation, it

---

<sup>1</sup> ADB. 2005. *Country Strategy and Program, 2005-2009: Nepal, and Country Operations and Business Plan, 2008-2010*. Manila.

gives poor people a say in how decisions are made in local bodies and how services are delivered. This voice mechanism ensures that local bodies become more responsive to the needs of the poor, and the marginalized, people, and this creates an important link between good local governance and poverty reduction. The experiences of civil society in countries such as Bangladesh in gearing service providers to be better attuned to the needs of poor people exemplify this.

5. **Peace Building.** In Nepal, interlinked with the notion of good local governance and poverty reduction is local peace building. Considering that the country has just come out of the throes of a rather benign, albeit at times rather violent, insurgency, and the national polity itself is undergoing substantive changes, it is critical that efforts at local peace building complement the work on good local governance. Good governance cannot be fostered without peace.

6. **Capacity Building.** One key component of effective service delivery by local bodies has to do with ensuring that human resource management is strengthened. Given that most of the leadership in local bodies is deputed from the center, there is a hollow core at the local level in terms of engendering local expertise. It is thus essential that ideas be tried out that will enable local bodies to rely on expertise that is locally available or develop its own. The proposal for a Local Government Service is based on this fundamental premise.

## 2. Design Features

7. Some important features of the Program are as follows.

- (i) It supports the Government to (prepare, for the first time, a sector-wide approach to development programming at the local level. All development partners have expressed strong support for this.
- (ii) It will employ the MC/PM tool to reward performance of local governments.<sup>2</sup>
- (iii) It supports more effective local governance by bringing in the role of meso-level organizations, an area that has tended to be rather neglected in development programming related to local governance.
- (iv) It adheres to the harmonized approach on community-led local development agreed to by all development partners in Nepal earlier in the year.
- (v) It is wholly aligned with the outcomes and new initiatives of the Government in the area of local governance and community development.

8. In addition, the component on “strengthening the national framework” under the Program includes several important features that further the Government’s intent to adhere to the provisions in the Interim Constitution, which includes preparing a shared, strategic vision of where Nepal is headed with respect to federalism, devolution, State restructuring, inclusiveness, and peace building; all these have significant impact on the nature of local governance in the years to come in Nepal. A pro-poor feature of the Program will be the attention on service delivery in an inclusive manner, which will ensure that historically marginalized populations and segments of society have a say in local governance, including holding to account service providers.

---

<sup>2</sup> Minimum conditions/ performance measures refer to the funds allocated to local bodies that exceed the performance indicators specified in the minimum conditions for funds access and performance measures.

## C. Poverty Impact Analysis for Policy-Based Lending

**Table A10.1: Poverty Impact Analysis Matrix**

Reform Summary							
Channel Effect		Effect on the Poor/Other Stakeholders					
General	Specific	Direct short run	Indirect short run	Indirect medium run	Major groups affected	Key issues for poverty reduction and targeting	Mitigation or enhancement measures to avoid negative social impact, if needed
<b>Labor Market</b>	Formal Informal	Possibility of impact of any changes in staff size in local bodies	Greater employment opportunities at local level	Labor migration; possibilities of PPPs in service delivery at local level	Local communities  Daily laborers  Migrants	Issue of migrant labor and integration into local economy; of protection of workers and increased flexibility of the labor market (more social insurance is needed for greater flexibility)	Work with central government to ensure labor market is not distorted
<b>Prices and Income</b>	For consumers, producers, mediators/ Transmission	Payment of bribes by consumers reduced in service delivery	Better service delivery reduces transaction costs	Greater productivity enhances cost savings in local bodies	All service users at local level	Possibilities of price rises in service delivery that has a disproportionate impact on the poor	Maintain price caps to ensure that better service delivery does not entail increased subsidiary costs down the road
<b>Access for Poor</b>		Better service delivery ensures that marginalized populations gain greater access to local bodies	Greater opportunities for income-generation activities and other options for the poor in the local grant system	Greater trust in the local public sector by the poor will have a positive impact on its ability to be more effective	All users of services who are considered to be poor and marginalized	Ensure that program impacts filter down sufficiently to the poor	Government, supported by civil society, has to be vigilant that the poor are benefiting from reforms in the Program
<b>Access to Assets</b>	Physical Financial Human Social Natural Legal and entitlement	Quicker access to specific funds and raw materials that impact income generation	Greater trust in local bodies		All those seeking income generation support	Ensure that transaction costs are lower for the poor populations	
<b>Transfers</b>	Private transfer Public transfer						
<b>Net Impact</b>			The net impact is positive but will take some time to be evident				

Reform Summary							
Channel Effect		Effect on the Poor/Other Stakeholders					
General	Specific	Direct short run	Indirect short run	Indirect medium run	Major groups affected	Key issues for poverty reduction and targeting	Mitigation or enhancement measures to avoid negative social impact, if needed
<b>Information Basis or Crucial Assumption</b>		1. That greater resource availability to local bodies will yield more effective service delivery  2. That more effective service delivery will positively impact the lives of the poor		That more effective service delivery will yield greater trust in local bodies by the poor			
<b>a. Brief Narrative</b>							
The poverty impact of the proposed Program is expected to be reflected in two particular streams: (i) in the short term, lower costs to access services (as a result of improved service delivery) will positively impact the lives of the poor and marginalized populations; and (ii) in the medium to long term, more efficient and effective service delivery at the local level will ensure that economic growth is sustained at a high level, and this will ultimately have a positive impact on the poor. The conceptual basis of (ii) is grounded on the positive impact of good local governance on growth.							

Source: Asian Development Bank.

## II. SOCIAL ANALYSIS AND STRATEGY

### A. Findings of Social Analysis

#### 1. Key Issues

9. The key socioeconomic issues that are evident in the program deal with the impact of mismanagement of public resources by local bodies such that there are negative effects on the lives of the citizens at the local level (largely through poor service delivery and greater costs of accessing services). These effects are evident not only in poor service delivery (and thus further marginalizing disadvantaged groups) but also in perpetuating a low trust in government – not the ideal recipe to initiate greater federalism and decentralization in the country.

10. Where local bodies tend not to be mindful of the prevailing socio-economic dynamics of the marginalized and disadvantaged populations, their situation continues to deteriorate unless catalytic interventions are introduced. While mismanagement and poor service delivery by local bodies cannot be completely be done away with, particularly in the time period specified in the national program (3-4 years), this program (in line with the national program) attempts to increase the capability of local bodies to be more in tune with the demands from the populations, and also to be able to hold them to greater accountability to service users. These are expected to have positive economic as well as social effects, including a greater public trust in Government, and more efficient and effective service delivery as a result.

11. The primary beneficiaries of the Program will be citizens that rely substantially on service delivery by government at the local level. Other beneficiaries include local community groups, associations of disadvantaged populations, non-government organizations (NGOs), local bureaucrats, and others.

## **B. Strategy to Address Social Issues**

### **1. Consultation and Participation**

12. Stakeholder groups engaged in the program formulation process include senior decision makers in central agencies such as Ministry of Finance, Ministry of General Administration, MLD, and other sectoral agencies; those in semi-autonomous bodies; and others outside government, including in NGOs, local bodies, political parties, and development partners. The decisions made through consultation and participation processes included (i) how to best structure the program so that it is aligned—and contributes substantially—to the Government's own program on strong local governance and community development; (ii) how to coordinate across the DPs; (iii) how best to mainstream successful initiatives such as in social mobilization, and to come up with new ones (such as, e.g., the local volunteer service); and (iv) how to secure commitment from top political and bureaucratic leaders and ownership by local communities.

13. Moving forward, the consultation and participation processes will involve ensuring that the program (through the Consultative Committee at MLD) is substantially engaged with the new Government to ensure that it is aligned to the new Government's stated outcomes.

14. What level of consultation and participation is envisaged during the project implementation and monitoring?

Information sharing     Consultation     Collaboration     Empowerment

15. Was a consultation and participation plan prepared?  Yes     No

16. No specific consultation and participation plan is prepared.

### **2. Gender and Development**

#### **(a) Key Issues**

17. There is empirical evidence to show that women suffer more than men when governments are not able to provide services effectively; this is because of the inherent biases in the system that inhibit proper access to them to needed services. It has also been observed that, when bribes do need to be paid to access services, women tend to have to pay more than men; furthermore, women tend to have to wait longer than men to see officials, and that when they do they are three times more likely to be 'queue-jumped' than men. These are experiences that were evident in neighboring countries like Bangladesh, and it is not expected that the situation is vastly different in Nepal. It has to be noted that this situation is further aggravated for women in disadvantaged communities. By addressing the problem of weak service delivery (with more attention on inclusiveness as required in the national program on local governance and community development) and by empowering communities, this program will have indirectly maximized impacts on women.

**(b) Key Actions**

18. Measures included in the design to promote equality between men’s and women’s access to and use of relevant services, resources, assets, or opportunities:

- Gender plan     Other actions/measures     No action/measure

19. There are specific actions or measures that are needed in the program to ensure that gender issues of service delivery are taken into effective consideration. This is currently being discussed both in Government and among working groups of DPs. The policy changes in the area of social inclusiveness are expected to have an impact across the full range of local governance and service delivery issues, of which gender is one. During the fact-finding mission, the Government confirmed that a GE/SI strategy would be prepared as part of the national program, and that greater focus would be placed on the GE/SI capability of the MLD. These provisions have also been built into the program as outputs and activities.

**C. Social Safeguard Issues and Other Social Risks**

**Table A10.2: Social Safeguard Issues and Other Social Risks**

Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
<b>Involuntary Resettlement</b>	There are no specific involuntary resettlement issues inherent in the Program		<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input type="checkbox"/> Resettlement Framework <input checked="" type="checkbox"/> No Action
<b>Indigenous Peoples</b>	There are no specific issues in the program that relate to indigenous people other than the greater focus on ensuring that they are participating in the local governance process		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> Indigenous Peoples Framework <input checked="" type="checkbox"/> No Action
<b>Labor</b> <input checked="" type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	<p>There is some possibility that issues might emerge about employment opportunities for marginalized populations as a result of more effective service delivery.</p> <p>There could also be some low level civil works in the program as a result of the need to rehabilitate destroyed physical infrastructure.</p> <p>Given that the program will involve some work on the local government service, any legislation relating to public service will need to be clear about how personnel</p>	<p>To the extent that it is necessary and possible, local bodies, as well as the Executing Agency, will ensure that women and men are given equal opportunities for such employment, and that contractors for rehabilitation will be made to consider equal payment for equal work.</p>	<input type="checkbox"/> Plan <input checked="" type="checkbox"/> Other Action <input type="checkbox"/> No Action

Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
	actions are to be made more merit-based and non-biased.		
<b>Affordability</b>	The only issue on affordability in the program could arise if local bodies decide to raise the cost of accessing services as part of the drive to meet costs from own revenues. This can be precluded by ensuring that local bodies have access to adequate resources to pay for such cost increases in service delivery.		<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action
<b>Other Risks and/or Vulnerabilities</b> <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input checked="" type="checkbox"/> Others	<p>1. There are no major risks or vulnerabilities to the poor and marginalized populations as a result of this program. There is a possibility that they may not see the direct benefits of the program in the short term as policy reforms related to service delivery take some time to be embedded.</p> <p>2. Lack of capacity of MLD and the local bodies is a potential risk in program implementation.</p>	<p>1. One way of dealing with the issue is to ensure that the marginalized populations have access to voice opportunities; this is incorporated in component 1 of the program.</p> <p>2. The strategy to mitigate the risk is to use the technical assistance currently being provided to MLD by various DPs to develop the said capacity.</p>	<input type="checkbox"/> Plan <input checked="" type="checkbox"/> Other Action <input type="checkbox"/> No Action

EA = executing agency.

Source: Asian Development Bank.

## D. Monitoring and Evaluation

20. Social indicators will be included in the program framework to facilitate monitoring of social development activities or social impacts during program implementation. These include, among others (i) measures of satisfaction of public access to services at the local level, (ii) public perception of good governance at the local level, (iii) citizens' report cards and their use, reports of public and social audits. Reviews and evaluation (including a mid-term one) in the program will also be done regularly, in some instances by independent NGOs, so that a more unbiased view is formed of the program outcomes.