

**REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
BOARD OF DIRECTORS
ON A
PROPOSED LOAN
TO THE
KINGDOM OF NEPAL
FOR THE
GOVERNANCE REFORM PROGRAM**

November 2001

CURRENCY EQUIVALENTS

(as of 29 October 2001)

Currency Unit	=	Nepalese Rupee/s (NRe/NRs)
NRe1.00	=	\$0.013105
\$1.00	=	NRe76.304

The Nepalese rupee is pegged to the Indian rupee (Re) at NRe1.60 to Re1.00 and is fully convertible on all current account transactions.

ABBREVIATIONS

ADB	-	Asian Development Bank
ARCMC	-	Administrative Reforms Coordination and Monitoring Committee
CIAA	-	Commission for the Investigation of Abuse of Authority
DANIDA	-	Danish International Development Assistance
DFID	-	Department for International Development, United Kingdom
EA	-	executing agency
GDP	-	gross domestic product
GRCU	-	Governance Reform Coordination Unit, MOGA
GRP	-	Governance Reform Program
IMF	-	International Monetary Fund
MOAC	-	Ministry of Agriculture and Cooperatives
MOES	-	Ministry of Education and Sports
MOF	-	Ministry of Finance
MOGA	-	Ministry of General Administration
MOH	-	Ministry of Health
MOWCSW	-	Ministry of Women, Children and Social Welfare
NGO	-	nongovernment organization
NRM	-	Nepal Resident Mission
PPAR	-	Program Performance Audit Report
PSC	-	Public Service Commission
SDC	-	Swiss Agency for Development and Cooperation
TA	-	technical assistance
UNDP	-	United Nations Development Programme
VERS	-	voluntary early retirement scheme

NOTES

- (i) The fiscal year (FY) of the Government ends on 15 July. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2000 ends on 15 July 2000.
- (ii) In this report, "\$" refers to US dollars.

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LOAN AND PROGRAM SUMMARY

Borrower	Kingdom of Nepal
The Proposal	A loan to support implementation of Nepal's Governance Reform Program.
The Program	
Rationale	<p>A major difficulty in achieving development effectiveness in Nepal is the lack of efficiency, predictability, transparency, and accountability in key government institutions. Capacity building for improved governance is a critical factor for achieving the Government's overarching goal of sustainable poverty reduction. Governance reform is a key element of the Government's broader economic and structural reform program, which seeks to sustain accelerated growth and economic stability.</p> <p>Poor public sector governance has contributed to a demoralized bureaucracy, misallocation of budget resources, and ineffective implementation of development programs. Increasing allegations of corruption at many levels represent a key constraint to effective delivery of essential services. Basic institutions essential to the effective functioning of a market economy do not exist or do not operate effectively. Poor governance and performance of public agencies waste limited public resources, affect the quality and quantity of public and private investment, constrain economic growth, and weaken the Government's poverty reduction program. The civil service also suffers from a significant gender imbalance. The Governance Reform Program will seek to remove administrative, financial, and gender weaknesses in the civil service by introducing institutional reforms to improve efficiency, transparency, accountability, predictability, and processes for redressing gender imbalance.</p>
Objectives and Scope	<p>The overall goal of the Governance Reform Program is to establish a civil service that is more results- and people-oriented and gender responsive, and that will contribute towards higher economic growth and reducing poverty.</p> <p>The objectives of the Program are to (i) develop internal capacity within the Government to lead and undertake the governance reform agenda, (ii) improve the efficiency of the civil service, (iii) improve governance and reduce corruption in the Government, (iv) enhance the competence and motivation of civil servants, and (v)</p>

establish processes for improving performance in key ministries.

Classification

Economic growth

Environmental Assessment

Category C

Environmental implications of the Program were reviewed, and no significant environmental impacts were identified.

The Asian Development Bank Loan

Loan Amount and Terms

It is proposed that a loan of Special Drawing Rights 23,484,000, equivalent to \$30 million, be provided from ADB's Special Funds resources to support the Government's Program. The loan will have a maturity of 24 years including a grace period of 8 years. The rate of interest will be 1 percent per annum during the grace period and 1.5 percent per annum thereafter.

Program Period and Tranching

The program period is expected to be four years, from December 2001 to December 2005. Disbursements will be made under the simplified procedures for program loans. The loan includes three tranches: a first tranche of \$12 million equivalent, followed by two tranches of \$9 million equivalent each. The first tranche will be released upon loan effectiveness. The remaining tranches will be released at intervals of approximately 18 months. The Program contains a number of tranche conditions and milestones that must be fulfilled for tranche releases and the successful completion of the Program.

Executing Agency

The Ministry of General Administration will have overall responsibility for the implementation of the Program. The Efficiency Unit in the Ministry of Finance, and change management units in the ministries of Agriculture and Cooperatives, Education and Sports, and Health will also implement selected program components.

Procurement

The loan proceeds will finance the full foreign exchange cost (excluding local taxes and duties) of items produced in and procured from ADB's member countries (other than those items specified in Appendix 7 and imports financed by other bilateral and multilateral sources). Procurement of eligible items will be on the basis of normal commercial practices for procurement by the private sector or standard Government procurement procedures acceptable to ADB for procurement by the public sector, except in the case of

goods commonly traded on international commodity markets, where procurement will be undertaken in accordance with procedures appropriate to the trade and acceptable to ADB.

**Utilization
of the Loan**

The loan will be disbursed within the first three years, until 30 December 2004. However, program activities will cover a four-year period prior to the loan closing date. Loan proceeds from the first tranche can be used to finance eligible expenditures incurred up to 180 days prior to the date of loan effectiveness.

**Counterpart
Funds**

The counterpart funds to be generated from the loan proceeds will be used to meet the financing requirements of the Program as follows: (i) the \$63 million cost for implementation of the voluntary early retirement scheme, (ii) pay changes that may possibly amount to \$37.7 million in the first phase of the scheme, (iii) staff induction and training costs of \$2 million, (iv) a performance improvement fund cost of \$1.5 million and, (v) other miscellaneous costs.

Technical Assistance

Cofinanced TA in three contract packages for a total of \$2 million will provide support for (i) core program management reforms, (ii) civil society support for reform measures, and (iii) independent program monitoring and reporting.

**Risks and
Safeguards**

A basic assumption in the formulation of the Program is that the Government and in particular a few central position holders are prepared to undertake major changes in the way the civil service is led, motivated, and evaluated, and to reduce corruption. It is also assumed that improvements in these important factors will underpin the likelihood of improved performance in key areas of implementation and service delivery. Political instability and a lack of political will to implement the reforms would certainly undermine the reform process. This risk is mitigated by (i) using three tranches over three years to ensure that government commitment is sustained and demonstrated over the medium term; (ii) providing performance incentive funds to motivate participating ministries to implement the reforms; (iii) actively engaging civil society in the program as advocates of the reforms to maintain pressure on the Government to implement the Program, to involve citizens in pushing for reforms, and to monitor implementation; (iv) strengthening anticorruption agencies and citizen involvement in identifying corruption cases; and (v)

providing cofinanced TA to strengthen institutional capacity. All political parties in Nepal have indicated that governance reform is one of their priority commitments.

There is a risk that the management skills in areas that are new to government employees may not be quickly learned. The program design takes account of this factor by providing training programs, mentoring and implementation assistance, and close monitoring of program implementation, with independent program monitoring as well.

I. THE PROPOSAL

1. I submit for your approval the following Report and Recommendation on a proposed loan to the Kingdom of Nepal for the Governance Reform Program (GRP).

I. INTRODUCTION

2. Civil service reform and elimination of corruption (collectively referred to as governance reforms) are two top priorities of the Government contained in the comprehensive Priority Reform Program discussed with the country's development partners at the Nepal Development Forum held in Paris in April 2000. The Asian Development Bank (ADB) country program for 2001 includes a program loan to support the implementation of governance reforms, in recognition of their importance to Nepal's development prospects.

3. The GRP was prepared as a result of extensive stakeholder consultations and policy dialogue with the Government. A Loan Reconnaissance Mission went to Nepal in March-April 2000 and held workshops with key stakeholders to identify the constraints to, and priorities and opportunities for governance reform. Further technical assistance (TA) to assist the Government in preparing for the reform program was identified as an urgent need. Stakeholder consultations were subsequently held by the Government to develop ownership for the GRP, and to prioritize required reform actions.

4. Recognizing the constraints facing the reform program, the Government requested advisory TA¹ to assist it in building the leadership capacity to prepare for and implement the reform program. Policy dialogue on reforms was initiated while the TA was being processed, resulting in the Government introducing a number of reform initiatives, including establishment of two reform change units in the Ministry of General Administration (MOGA) and Ministry of Finance (MOF) to manage the reform process. The Cabinet also approved formation of a secretary-level executive committee to steer the reform process and the GRP. The scope and implementation arrangements of the GRP were firmed up during a Loan Fact-Finding Mission in May-June 2001. Subsequently, a Loan Appraisal Mission further refined the program scope and policy matrix in August 2001.²

I. THE MACROECONOMIC CONTEXT

A. Development Objectives, Strategies, and Plans

5. It is acknowledged in the Ninth Plan document (1997-2002) that, despite previous attempts at administrative reform, Nepalese government administration has remained inefficient, with a poor record of service delivery. The objective of the Ninth Plan is to make public management clean, lean, transparent, economical, competitive, job-oriented, capable, productive, service-oriented, and accountable. The Plan document states that public resource management is to become effective, and the concept of good governance and effective government is to be promoted. The role of civil society in governance is also to be enhanced.

¹ TA 3622-NEP: *Institutional Support for Governance Reforms*, for \$1,525,000, approved on 18 January 2001.

² The Mission consisted of B. Fawcett, Senior Programs Officer/Mission Leader, PW1; C. Vandenabeele, Counsel, OGC; C. Steffensen, Senior Programs Officer, PW1; J. Jabes, Governance Advisor, SPD; K. Julian, Senior Programs/Implementation Officer, Nepal Resident Mission (NRM); R. Tuladhar, Senior Programs Officer, NRM; A. Shrestha, Gender Consultant, NRM; and S. Shrestha, Senior Governance and Capacity Building Officer, NRM. R. Vokes, Resident Representative, NRM, provided guidance to the Mission. Staff from NRM also provided support and assistance to the Mission.

The Budget Speech for FY2001 further stressed the need to make government administration people-oriented, transparent, and accountable. Emphasis was put on the need to take action against corrupt practices. To make the civil service productive, efficient, and effective, the Budget Speech highlighted the need to review positions and organizations, and to trim or “rightsized” the bureaucracy. The commitment to achieve these objectives was reaffirmed in the Budget Speech for FY2002.

6. The Government, in conjunction with the April 2000 Nepal Development Forum, approved a comprehensive program for reform and poverty reduction with a time-bound action plan. The strategic focus was on addressing the problems and weaknesses facing many sectors of the economy, and to develop a sustainable framework for poverty reduction. Major reform areas identified for priority action included (i) consolidation of the macroeconomic and fiscal structure, (ii) private sector development, (iii) financial sector reform, (iv) decentralization, (v) governance, (vi) aid effectiveness, (vii) civil service reform, and (viii) an enhanced role for civil society. In the important area of macroeconomic and fiscal reform, the Government has sought to (i) prioritize resource allocation at the public and national levels to key areas such as poverty reduction, employment promotion, and support for key sectors; (ii) improve resource mobilization; (iii) reform public expenditure management; and (iv) improve the fiscal structure, particularly the fiscal deficit.

7. The Government’s broader governance agenda, which is part of its overall Priority Reform Program, is to reorient the role of government and the bureaucracy to one of facilitation, policy formulation, and regulation within a competitive market economy. The Government seeks to strengthen public institutions so that they will adequately perform vital state functions to promote good governance, including fighting corruption. The Government’s goal for reform of Nepal’s civil service is to develop a much more results- and people-oriented governance environment that will contribute to accelerated growth and poverty reduction through the introduction of appropriate policies and mechanisms related to efficiency, performance, and human resource management. Such a civil service will be both efficient and ultimately focused on providing better public services for its clients. This vision will only be realized in the long term, over a period of perhaps 10-15 years.

A. Recent Macroeconomic Performance and Prospects

8. Nepal’s gross domestic product (GDP) is estimated to have grown by 5.8 percent in FY2001, compared with 6.4 percent in FY2000. Domestic revenue collection is estimated to be lower than budgeted for FY2001, remaining at the previous year’s level of about 11 percent of GDP. The budget deficit is expected to have increased to about 5.0 percent of GDP in FY2001, compared with about 4.0 percent in the previous year, as a result of increased spending on security, a salary increase for civil servants, and the implementation of a voluntary early retirement scheme (VERS). Inflation is projected to have increased only slightly in FY2001 from its 3.5 percent level in FY2000 as a result of stable food and beverage prices.

9. On the external front, satisfactory export growth and slower import growth has helped to narrow the trade deficit and subsequently the current account deficit, which is expected to be less than 5 percent of GDP in FY2001, below the average of 8 percent that prevailed during the 1990s. During FY2001, imports grew by 5.5 percent compared with 24.5 percent in FY2000, while exports grew by 15.6 percent, compared to 40 percent in FY2000. By the end of FY2001, Nepal had about \$1 billion in foreign exchange reserves, enough to cover about 8 months of imports. External debt is projected to be less than 47 percent of GDP in FY2001, below the average level of 53 percent that prevailed during the 1990s. The debt service obligation is

estimated to fall to about 4 percent of exports in FY2001 because of concessional lending terms to Nepal.

10. The goal of the FY2002 budget is to reduce poverty. The budget was ambitious with a total outlay of NRe99.8 billion (\$1.3 billion), representing an increase of 51 percent over the revised estimate of NRe60.7 billion (\$876 million) for FY2001. The fiscal deficit in FY2002 is expected to be about 5 percent of GDP. Development expenditures are projected to grow by 27 percent, to be financed mainly by foreign grants. Domestic revenue estimates are also optimistic, with a projected growth rate of 21 percent, particularly in light of the negative impact of the security situation on business activity and tax revenues. The FY2002 budget stresses the importance of continuing the reform agenda initiated during FY2001, which includes public expenditure management reforms, financial sector reform, and private sector development. Governance reform is also highlighted in the budget statement, including the need to address corruption, and to make the civil service responsive, accountable, and transparent.

11. While the Government has maintained a stable macroeconomic environment, Nepal's economic success in the medium term depends on the Government's ability to address structural weaknesses, particularly in the financial sector, governance and institutional issues, aid utilization, and the fiscal deficit. With the majority of the country's poor depending on agriculture for their livelihood, improving the performance of the agriculture sector is also critical. Sustained improvement of the trade deficit in the medium term will require institutional and policy reforms to broaden the composition of exports and destinations. To reduce the dependence on foreign assistance for the country's development expenditures, continued efforts are needed to mobilize domestic resources and reduce the fiscal deficit. The Government must also implement tax reforms, financial sector reforms, privatization of state-owned enterprises, and strengthening of the capital market. Ultimately, if the country is to achieve the levels of sustained growth necessary to lift it out of poverty, the Government needs to continue to pursue its broad-based reform agenda, with financial sector and governance reforms forming its core.

C. Poverty and Social Development

1. Poverty

12. About 42 percent of the population live below the national poverty line of NRe4,400 (\$77) per capita per annum, which is based on minimum caloric intake, housing, and other nonfood standards. The Nepal Poverty Analysis recently completed with ADB assistance³ shows that poverty incidence, intensity, and severity have not improved over the past quarter century, a finding mirrored in the country's low scores on human development indicators relative to those of other South Asian nations. Further, inequalities and the scores on human development indicators across ecological zones, geographic regions, and the rural-urban divide remain wide, as do those when the levels for specific gender, ethnic, and caste groups are compared with counterpart values for the population as a whole.

13. Specifically, the Poverty Analysis confirmed that poverty is much more prevalent, intense, and severe in rural areas, with the incidence of rural poverty almost double that of urban areas (44 percent of the rural population is poor compared with 23 percent in urban areas), and with 90 percent of the country's poor living in rural areas. Geographically, the

³ TA 3362-NEP: *SSTA for a Partnership Agreement on Poverty Reduction between ADB and the Government of Nepal*, for \$125,000, approved on 22 December 1999.

incidence of poverty in the Midwestern and Far Western development regions greatly exceeds the national average, as does the rate in the mountain districts.⁴ Gender-based exclusion in the country is pervasive and deep, resulting in reduced physical survival of girls and women, fewer health and educational opportunities, inequitable ownership of assets, limited mobility, and overall low cultural status. All of these findings indicate that, unless these trends are reversed or the current population growth rate of 2.4 percent is lowered, Nepal's poverty situation is likely to worsen over time. The Poverty Analysis identified a number of factors that contribute to poverty in Nepal, including (i) slow overall economic growth in the face of relatively rapid population growth; (ii) weak Government redistributive and institutional capacity; (iii) non-agricultural growth lacking any significant spillover effects on the rural poor; (iv) low productivity and slow growth of output in the agriculture sector; and (v) weak social and economic infrastructure (health, education, drinking water, transport, energy, and problems relating to land ownership and land quality), leading to inadequate access of poor households to the means for escaping poverty. It is also recognized that poverty in Nepal has been exacerbated by cultural practices that have tended to exclude women and other disadvantaged groups from the full benefits of development. A meaningful poverty reduction strategy needs to improve performance in all of these areas, while focusing on directly improving poor households' access to resources.

14. The Poverty Analysis and proposed approach to poverty reduction in Nepal were discussed at the High Level Forum on Poverty Reduction on 26 February 2001. The Forum stressed the crucial importance of improved governance as the key to Nepal's reform efforts. The current Government's priorities, in addition to restoration of law and order, are tackling corruption, and improved governance and civil service reform. There is also a need to reduce the pervasive role of the central government and decentralize government responsibilities within the context of a competitive market. The civil service suffers from institutional and human resource weaknesses. Frequent political changes have also disrupted the civil service and led to an increasing problem of politicization. The civil service needs to be reformed to enable it to become service oriented and to play a major role in effectively implementing the Government's poverty reduction strategy in an environment free from political interference. Corruption is also a key constraint to effective delivery of essential services. Public financial management and resource mobilization are also weak and need greater efficiency, transparency, and an integrated system to link policy with planning to produce realistic budgets and development expenditure targets. The Government, with external assistance, is introducing reforms in these areas, and ADB plans to continue to assist it in its governance reform program (including civil service reform and anti-corruption efforts).

15. The high level forum generally supported the findings of the Poverty Analysis, including the severity of poverty in Nepal, the strategy for poverty reduction, and constraints to implementation of the strategy. Based on the results of the Poverty Analysis, the Government finalized its Interim Poverty Reduction Strategy in May 2001. The Strategy will help set priorities for the remainder of the Ninth Plan, will provide an overall framework to coordinate the poverty reduction efforts of various funding agencies, and is expected to be the foundation for the Tenth Plan.

1. Social Development

16. Nepal ranked 129th out of 162 countries in the United Nations Development Programme's (UNDP's) 2001 *Human Development Report*. The people in the poorest regions of the country also have the lowest access to education and basic health services, highest rates of

⁴ Nepal is divided into three geographic regions: the Terai (flat plains), middle hills, and mountains.

infant mortality, and highest rates of child malnutrition. Poverty undermines efforts at promoting human development, since it prevents many parents from sending their children to school. The current literacy rate among individuals age 6 and above is 38 percent (52 percent for males and 24 percent for females). However, only 20 percent of the poor are literate compared with 60 percent of those in the higher income groups. Human development has significant gender differences. While 32 percent of poor men are literate, the literacy rate of poor women is much lower at 9 percent. Illiteracy, malnutrition, and disease reduce development and employment opportunities, worsening poverty. The major challenge facing Nepal remains how to overcome the low levels of human development and high population growth rate. The quality of service delivery needs to be improved to increase the level of human capital. This will require institutional strengthening and training of service providers, including teachers. The need to prioritize governance and social development interventions to address these challenges is recognized by the Government in its poverty reduction strategy.

17. Women in Nepal are deprived and severely underprivileged in rural areas. Nepal ranks 120th among 146 countries in UNDP's 1999 gender development index, published in 2001. The maternal mortality rate of 540 per 100,000 live births is one of the highest in the Asia and Pacific region. The gender empowerment measure, which reflects women's participation in economic, political, and professional spheres, was 0.191 in 1996 for Nepal, well below the average of 0.367 for developing countries in that year.⁵ Gender disparity persists in educational attainment, health status, and participation in the decision-making process. Disadvantaged castes and ethnic communities show higher levels of gender disparities in all areas. Efforts have been made by the Government to close the gender gap and to improve the status of women through various development programs and activities funded by bilateral and multilateral agencies. However, the results of these efforts are likely to remain limited unless the gender bias in the social system is reduced, if not eliminated. The GRP also needs to address this issue.

IV. THE SECTOR

A. Background and Recent Performance

1. Structure of the Civil Service

18. Nepal's public sector consists of three subsectors: the central Government, local and municipal authorities, and state-owned enterprises. The central Government has 21 ministries, 9 constitutional bodies, and 108 development boards. There are 5 regional administrations, 75 district development committees, and 3,914 village development committees. There are 46 state-owned enterprises. The civil service in Nepal was originally established for land administration, collection of land revenue, maintenance of law and order, and dispensation of justice. In 1952, an administrative reform commission was constituted to streamline the civil service, but remained on an ad hoc basis. The civil service was formalized with the passage of the Civil Service Act of 1957 and the Civil Service Rules of 1975. The present civil service in Nepal is governed by the 1993 Civil Service Act and Civil Service Rules. In May 1998, Parliament again amended the Civil Service Act.

19. The Nepalese civil service consists of ten services:⁶ administrative; agriculture; economic, planning, and statistical; education; engineering; forest; health; judicial;

⁵ The latest UNDP *Human Development Report* did not rank Nepal.

⁶ The health service is governed by the Nepal Health Service Act (1996) while the other nine services are governed by the latest Civil Service Act promulgated in 1993.

miscellaneous; and parliamentary. It does not include the military, police force, teachers, or staff of public enterprises and local authorities.⁷ The total size of Nepal's civil service is estimated at 105,000 approved posts, of which about 90,000 are currently occupied. Approximately 90 percent of civil servants are in the nongazetted (support staff) class, and of this group, almost 35 percent are cleaning staff and messengers. There are approximately 0.57 civil servants per 100 population, which is relatively small by developing country standards, particularly considering that only 10 percent of the civil servants are at officer level.⁸ In FY2001, personnel expenditures comprised approximately 20 percent of the total Government budget, which compares favorably with other developing countries (an average of 20-25 percent).

20. MOGA is the government ministry charged with the responsibility for administering the civil service rules and regulations, and is responsible for transfers and promotions within the civil service. MOF is responsible for preparation and administration of the government budget, and is therefore concerned with the level of civil service salaries and the overall wage bill. The Public Service Commission (PSC), a constitutional body, and therefore regarded as independent, is responsible for recruitment to the civil service, and is the guardian of the principle of merit-based recruitment and promotion in the civil service. The Commission for the Investigation of Abuse of Authority (CIAA) is an independent constitutional body responsible for investigating and recommending for prosecution cases of abuse of authority in the public sector at the national level. The Special Police are responsible for investigating corruption cases at the district level. The Auditor-General Office, a constitutional body, investigates irregularities in public sector expenditure, and prepares annual reports on its findings.

21. Women are a highly underrepresented group in the civil service, accounting for only about 8.6 percent of total positions, 5.1 percent of officer level positions, and 8.9 percent of support staff positions. Affirmative action to redress the gender imbalance in the civil service is required. At present, there are only three women in the special class, the highest level within the civil service, and 25 in class one, of whom 20 are in social sectors or non-administrative positions (accounting for only 4 percent of the total staff in these two classes). During the period 1997-2000, one woman was promoted to class one, and the trend is similar at all levels, indicating that cultural stereotypes prevent the development of an environment that is conducive to the promotion of women or to women's interests.

1. Recent Performance

22. Nepal has a lengthy history of weak implementation of public administrative reform. There were five administrative reform commissions from 1952 to 1992. The 1992 Commission made 116 principal recommendations aimed at making the public service more efficient, results oriented, accountable, motivated, and capable. Key proposals included the implementation of a 15-year development plan and a 5-year rolling plan, a reduction in the number of ministries from 21 to 18, "rightsizing" of the bureaucracy, placement of certain functions (such as the postal service) under autonomous authority, and devolution of power to local bodies. Originally, it was estimated that three years would be necessary to implement all the recommendations. However, many of them have yet to be implemented, although the Government has recently introduced a number of measures to streamline the bureaucracy (see

⁷ Personnel in the military total about 50,000; the police force numbers about 60,000; and there are about 127,000 teachers, approximately 55,000 staff of public enterprises, and 55,000 employees of development boards. These personnel are not included in the number of civil servants, but have a significant impact on the Government's overall wage bill.

⁸ India has 1.0 civil servants per 100 people; Pakistan, 1.5; and Sri Lanka, 4.5.

paras. 24-26). The main reason for the inability to implement the reforms was the short tenure of seven coalition governments from 1994 to 1999, prior to a majority government being elected.

23. Prior to September 1998, many laws including some form of decentralization were proposed, and elections were held for local bodies at the village and district levels. However, little was achieved in terms of extending actual local autonomy, and decision-making remained centralized. In September 1998, Parliament passed the Local Self-Governance Act. The extent of the resulting decentralization will depend on the central Government's willingness to delegate authority to a lower administrative and political level. The Government announced in the FY2002 Budget Speech that in FY2002 it plans to devolve responsibility for primary education, agricultural extension, and health service delivery to the village level, putting these services under the management of local committees. In addition, considerable effort is needed to strengthen the capacity for policy, program, and project formulation and implementation at both the central and local levels.

24. More recently, even prior to the implementation of TA 3622 in May 2001, the Government showed its commitment to the reform program by taking a number of actions. Several meetings of the high-level Administrative Reforms Coordination and Monitoring Committee (ARCMC, chaired by the Prime Minister) and the secretary-level executive committee on the reforms (chaired by the minister, MOGA) have been held since November 1999 to take decisions and guide the reform process. As an outcome of these meetings the number of ministries was reduced from 26 to 21 in mid-2000. Freezing of 5,000 vacant positions and abolition of 1,045 other positions was accomplished in FY2001, with savings of \$2.4 million. In addition, over 900 staff from the reserve pool were transferred to other offices. Permanent staff are now being used in development projects instead of contract staff, and the number of temporary positions has been reduced.

25. In FY2001, a VERS was offered to civil servants. The scheme was limited to lower level nongazetted staff, and over 2,600 applied, of whom more than 98 percent were approved. The positions of those retired will be eliminated. The Government improved and decompressed wage scales, with salary increases from peon (office helper) to secretary (head civil servant in a ministry) level of 50-88 percent, respectively. The compression ratio for wages increased from 3.1 to 3.6 for salaries and from 2.9 to 3.3 for take-home pay. The Government also approved a policy of not creating new development boards, which has often been used as a way of increasing staff numbers outside the civil service. Payroll consolidation and strengthening is also being introduced. A review of the Civil Service Act amendments has also been undertaken with the objective of streamlining and refining the Act. The effectiveness of the CIAA was strengthened by the appointment of a new chief commissioner and senior staff in December 2000, and it has started to show a degree of effectiveness and commitment by filing, in mid-2001, a high-profile case (among several others) against 10 senior individuals, including a former minister. The Government has also presented three anticorruption bills or amendments to Parliament to strengthen the anticorruption legislative framework. The Prevention of Corruption Bill consolidates existing legislation; an amendment to the CIAA Act will strengthen CIAA's powers, including establishment of a specialized anticorruption court; and legislation on specialized courts will allow the creation of this special anticorruption court. A Freedom of Information Bill has been drafted to compel public representatives to declare assets; and a Political Parties Bill has been drafted requiring an annual financial audit of all political parties. In summary, the Government has shown its commitment to governance reform through these actions.

26. A number of other significant reform actions have also been recently taken by the Government. MOGA established the Governance Reform Coordination Unit (GRCU) to form the nucleus of the governance reform implementation group, with the Government's strong commitment to improving overall performance being reflected with the strengthening of senior staff in MOGA to lead the reform program. The Prime Minister until recently also retained the MOGA portfolio because of the importance that is attached to the reform program. Change units led by senior staff have been formed in three key ministries—Agriculture and Cooperatives (MOAC), Education and Sports (MOES), and Health (MOH)—to implement the reform program. Regarding improvement in the overall efficiency of the civil service, in addition to the VERS, personnel expenditures are being reduced, and the Public Expenditure Reforms Commission has submitted a comprehensive report that the Government is committed to implement.

27. In addition to many workshops held from June 1999 to April 2000, a series of workshops with key stakeholders, including senior bureaucrats, politicians, civil society, and funding agencies, was held in mid-2000 to assist in raising the level of stakeholder ownership and commitment to the governance reform process, and to discuss the scope of the program and refine the policy matrix. Based on the workshops, in November 2000 the Government approved a discussion paper that outlined the scope of the GRP and the draft policy matrix for the proposed program loan.

28. The Government has continued the consultation process with key stakeholders through a number of workshops since mid-2000. These have included senior bureaucrats, civil servants, civil service unions, politicians, civil society, and aid agencies. The focus of discussions was reform priorities and addressing specific concerns about particular components of the reform program, including the need to increase the representation of females in the civil service. The overall objective of the consultations was to obtain further support for the reform process, particularly from politicians. This appears to have been achieved, since all political parties, including the opposition party, have publicly indicated their strong commitment to governance reform. The consultations will continue as part of the GRP implementation process. Periodic meetings with the all-party State Affairs Committee of Parliament to report on the status of GRP implementation have been held and will continue to be held. Support for the reform process is also present at the level of senior civil servants, and among several nongovernment organizations (NGOs) actively involved in advocating governance reform.

3. Previous Assistance

29. Preparation of an action plan on civil service reforms under TA 3117⁹ began in June 1999 and was completed in December 2000. The Executing Agency (EA) for the TA was MOGA. The TA was designed to lay the groundwork for broader reform efforts and to probe the seriousness of the Government's commitment to such a course of action. It used previous studies, especially the 1992 Administrative Reform Commission report prepared by the Government.

30. The initiatives under the TA included (i) conducting a civil service census; (ii) the establishment of a computerized personnel database; (iii) undertaking a functional review of ministries, departments, and offices to identify areas for streamlining, consolidation, or devolution; and (iv) considering a range of alternatives for fiscal decentralization.

⁹ TA 3117-NEP: *Formulating an Action Plan on Civil Service Reforms*, for \$630,000, approved on 14 December 1998.

31. The functional review of ministries was completed as planned. Utilizing ministry management and staff teams working with the consultants, each ministry identified opportunities for change, including reorganization of priorities, performance reward systems, and performance budgeting needs, which will be implemented during the GRP.

32. The Government is using the civil service census data prepared under the TA to cross-check its manual records, which are being computerized. The Government is in the process of linking the personnel database to its payroll. MOF issued an instruction that MOGA should be provided with a record of all sanctioned and vacant positions and a list of names of staff in the positions, and that salaries would not be paid to staff of offices that had not submitted the lists of sanctioned position holders in the civil service. All ministries complied with the instruction with the exception of MOH, whose staff are in a different service from other civil servants. This action will effectively link personnel records with the payroll. The computerization of personnel records is targeted for completion by early 2002.

33. The consultant team for TA 3622 was fielded on 14 May 2001. The TA is assisting the Government to move from the definition of its reform program, with which the previous TA 3117 assisted, to continuing to introduce the first steps in its long-term reform program. The pressing needs at the moment are (i) to strengthen the Government's capacity to implement the reforms; and (ii) to assist it in preparing policies and legislation, and in undertaking further reform actions. The TA is strengthening GRCU within MOGA, and the Efficiency Unit within MOF that the Government has established to lead the reform process.

34. TA 3622 is assisting the Government in further assessing options and priorities to implement the reform program in the most efficient, cost-effective manner to achieve the desired objectives. It is also contributing to broadening of the support base, and formation of a coalition in civil society to press for the reforms through stakeholder consultation and participation. The TA is supporting the Government in preparing for implementation of the program loan and has assisted the Government in meeting the proposed program loan's first tranche conditions. The TA will continue to support actions to meet the loan's second tranche conditions until October 2002.

A. Constraints and Issues

35. Prior to 1999, a number of attempts were made to reform Nepal's civil service, but these were largely unsuccessful (para. 22), which can be attributed to four main factors: (i) absence of serious political commitment; (ii) resistance from civil servants, (iii) lack of serious dialogue on reform opportunities with stakeholders outside the civil service, and (iv) lack of experience and appropriate skills to diagnose the real central issues, and develop a process for managing and implementing the needed changes.

36. Past lessons are clear. First, broad-based political commitment needs to be fostered if politicians, especially legislators, are engaged in the process of deciding on reform priorities and solutions. Second, resistance among bureaucrats and civil service trade unions must be overcome. Third, the Government needs to consult more widely with external stakeholders within Nepal—in particular, civil society, politicians, the private sector, and academics—to generate a wider range of options and support for reform. While consultations took place with external stakeholders during the process of developing the reform strategy, it is essential that continued participation of such groups is ensured in the process, to maintain the pressure for reform on the Government.

37. Perhaps the most important lesson, and hence the issue that has to be faced head on, and which is borne out by both international experience and the specifics of past efforts in Nepal, is that a change management process, such as the one now contemplated for the Nepalese civil service, must (i) be anchored around a reform agenda developed and owned by Nepalese; (ii) address central and cross-cutting issues at the heart of poor management processes and suboptimal performance; (iii) improve the basic and specific skills needed for new processes and new ways of doing business; (iv) be implemented by the civil servants themselves, towards agreed upon and stated ends that positively impact the general populace; and (v) be supported and demanded from both inside the bureaucracy and the population at large. The current government's commitment to reform, senior bureaucrats' realization of inefficiencies, and their willingness to seek systemic changes and to open a dialogue with stakeholders are positive signs that provide an impetus for change. The provision of TA to develop capacity to manage and implement change will reinforce this situation.

38. The principal constraints to operation of an efficient, service-oriented civil service are summarized in paras. 39-44.

1. Fiscal Problems

39. The Government must take decisive action to improve its internal efficiency before it can start to build a civil service that is capable of delivering better services. While wage bill pressures have in the past been relatively weak, the FY2001 pay increases that ranged from 50 to 88 percent have put further pressure on the substantially underfunded operating budgets for key government services. In addition, the new civil service pay levels were introduced without first shifting resources towards nonwage operational expenditures, and achieving fiscal savings in a situation in which no significant growth in government revenues can be anticipated in the short term.

40. Also, the public service wage bill lacks transparency, since personnel expenditures appear both in the development and regular budget, and the number of civil servants engaged is not closely related to the number of approved establishment posts. Civil servants are engaged on the development budget on temporary terms for so-called "project" posts, even though in many instances these are regular line positions.¹⁰ Similarly, teachers (who are not in the civil service) are hired, often on temporary terms, based upon pupil enrollment figures that are widely recognized as inflated. It requires a commitment at both the political and bureaucratic levels to make any significant progress in controlling the public service wage bill, including the teacher wage bill.

41. The purposes of instituting stronger wage bill and establishment controls are to (i) reduce substantially the number of temporary civil servants, and (ii) ensure that all new staff recruited fill a vacant post that has been properly authorized. The development of a computer-based personnel information system that can be linked to established posts and the civil service payroll is central to the second purpose.

1. Corruption

42. Corruption is a systemic problem that undermines the performance of the bureaucracy and the Government as a whole. The current Prime Minister has announced his determination

¹⁰ The Government has recently reduced over 1,100 existing positions, shifted redundant staff, and reduced the number of temporary posts, but these reforms need to be broader to achieve significant efficiencies.

to tackle the problem of institutionalized corruption. Corruption is manifested in a variety of transactions. These practices are fed by, if not caused by, the relatively low pay levels of civil servants. While the recent pay increases may have some mitigating impact on the incidence of corruption, more direct interventions to reduce corruption are essential in the short term. The present enforcement mechanisms are weak, and the legislative framework for preventing and controlling corruption in the past was inadequate, but recently proposed legislation will strengthen the framework. Both are priority areas that must continue to be addressed. Civil society needs to be fully involved in discussing the anticorruption program, and a coalition of stakeholders needs to be built, both within and outside government, to push for reform in this area, and for governance reform generally. New draft bills to control corruption and establish special courts to hear corruption cases, combined with strong leadership and qualified personnel at the CIAA are encouraging signs.

1. Low Staff Productivity and Morale

43. During the past decade there has been a marked deterioration in the productivity of the civil service, and staff morale is very low. The causes of this situation are complex, including (i) political interference in appointments and placements; (ii) noncompliance with the principle of meritocracy in promotion; (iii) opportunities for corruption that divert attention from official job functions; (iv) restricted training opportunities combined with training that is not job-related; (v) a failure to attract the best qualified persons, partly due to low pay; (vi) salary levels that do not meet basic living requirements; and (vii) ineffective staff appraisal systems. To the extent that the GRP is equitably applied and good performers are rewarded, it will go a long way towards reducing such motivational problems.

1. Performance and Service Issues

44. Although in recent years some sector ministries have made efforts to provide better services, these efforts have tended to be piecemeal. Bureaucrats tend to give first priority to procedures and paperwork, rather than being open and accessible to the public they serve, and oriented to providing needed services. Most of the work undertaken by senior civil servants remains nontransparent and is rarely communicated to the public. It is imperative that the Government improve the performance of its ministries, but this must be achieved in the most effective and appropriate manner and must take account of certain difficulties currently faced, such as the gender imbalance. The Government in the FY2001 and FY2002 Budget Speeches stated unequivocally that Nepal needs a civil service that is both results- and people-oriented. A coherent approach to improving the performance of Nepal's civil service is now required that will include giving the public a voice in determining the services that are desired and how they will be delivered. This approach must involve (i) extensive stakeholder consultation to refine and participate in the design and implementation of the new approach; (ii) new management practices and techniques, such as results-oriented management, performance contracting, and performance budgeting (as have been successfully applied elsewhere in Asia); and (iii) specific training that is oriented to the development of skills needed for the new ways of doing business. However, the specific methodologies, techniques, and internal processes to be used will need to be carefully tailored to Nepal's circumstances and management culture, and developed and owned by senior civil servants, managers, and staff, if needed reform changes are to take hold over the longer term. Such changes require the continuous commitment of successive governments and senior bureaucrats and necessitate an environment where provision of appropriate performance and service levels is reinforced over time.

A. Government Objectives and Strategy

45. The vision for Nepal's governance reforms is to create a civil service that is both results- and people-oriented, and gender responsive. Such a civil service will be both efficient and ultimately focused on providing better public services for its clients. The reforms will contribute to a redefinition of the role of government, focusing on facilitation and regulation within a competitive market economy. This vision will be realized only in the long term, over a period of perhaps 10-15 years, and will require sustained external support throughout that period.

1. First Phase of Reform (2001-2005)

46. The objectives of the first four-year phase of the reform program, which is already being implemented, are to introduce interrelated interventions that will catalyze and begin to effect fundamental changes in the civil service and governance environment. It will focus on the critical institutional constraints that cut across the whole of the civil service—such as issues of pay and human resource development—and it will specifically pilot techniques and approaches for doing business in a whole new way with the ultimate objective of improved service delivery in five key ministries (MOGA, MOF, MOAC, MOES, and MOH). These interventions will need to be supported by complementary actions to strengthen the budget process and to mobilize revenues more effectively. In subsequent reform phases, improved performance will be adopted on a wider scale throughout the civil service.

47. To ensure that the reform initiatives are implemented effectively and in a sequenced manner, effective mechanisms and structures for leading, supporting, and managing reform at a number of levels of government are a necessary first step in the reform process. Since political commitment is indispensable to reform, leadership must be centered on the Cabinet- and secretary-level governance reform committees that have already been established (see para. 74 for the composition of the committees). Developing an internal capability for leading reform is viewed as an integral part of this reform process. This will involve strengthening of GRCU within MOGA, the Efficiency Unit in MOF, and the change management units in the three pilot line ministries, MOAC, MOES, and MOH.

48. The second step of the governance reforms will focus on freeing up resources to enhance pay and to increase the proportion of operating expenditures in the regular budget. Appropriate measures would include stronger wage bill controls, reductions in establishment posts and staff, transfer and devolution of functions to the private sector and local authorities, improved record management, and revised pay policies. The primary focus for implementation of this set of actions will be MOGA and MOF.

49. A third necessary step to professionalize and motivate the civil service will include actions to develop leadership and management qualities of senior civil servants, to recruit talented staff, to enhance pay levels, and to redress the gender imbalance in the service. Coupled with appropriate tools and materials provided through a larger operating budget, civil servants should be better equipped to perform well. The focal point will be MOGA as the agency leading the reform process.

50. The fourth step will be to inject into pilot ministries a robust but simple performance improvement process to assist them to provide better services, again led by MOGA. The establishment of effective processes for improving the performance of the civil service will be implemented through two central ministries (MOGA and MOF) and introduced first in three key service delivery ministries—MOAC, MOES, and MOH—which are most visible and important to

all Nepalese citizens because the services being provided are basic to their survival and to poverty reduction. In addition, these are the three ministries chosen in the FY2002 Budget Speech as targets for devolution of functions to local authorities, a process that the GRP would support. The emphasis in introducing performance improvement will be on continuous improvement rather than the achievement of arbitrary performance targets. Tailored interventions to enhance staff skills and improve business processes will be built into the performance plans and will help underpin the delivery of improved and specified service standards. These will need to be accompanied by improvements in budget planning and implementation. Performance incentive funds will be established to reward ministries that successfully improve performance, based on agreed upon criteria.

51. Linked to the fourth step concerned with performance improvement, a fifth crosscutting step is the need to reduce corruption, for which the focal point will be CIAA and other concerned agencies engaged in anticorruption actions. Anticorruption activities will focus on passage of legislation to strengthen efforts to prevent corruption; on enforcement of anticorruption laws; and on institution building in key anticorruption agencies, particularly CIAA. Existing provisions for asset and income declarations by elected public representatives and civil servants will be enforced, and new provisions introduced as required. A public awareness program to inform the public of the role of anticorruption agencies and how to report corruption will be introduced. A schematic figure outlining the key steps and the objectives of the reform process is contained in Appendix 1.

2. Subsequent Phases of Reform

52. The actual details of how the vision for achieving the goal of the GRP will evolve will emerge through a process approach. However, in this subsection the manner in which the reforms might be implemented is described. If the first phase of reform succeeds in beginning the process of creating a more efficient, capable, and motivated civil service, subsequent phases would concentrate on introducing to other ministries the new approaches to improved performance first tested in MOGA, MOF, and the three pilot service delivery ministries (MOAC, MOES, and MOH). Over time the senior management teams in all ministries and departments would be able to execute these processes without the need for support from GRCU in MOGA. The role of GRCU would change to one of establishing the basic principles for managing performance and their subsequent monitoring to ensure consistent application throughout the civil service. The earlier focus of performance improvement on departments and divisions would cascade down to work teams and individuals; perhaps involving group or individual performance-related pay.

53. In future phases of the GRP, it is envisaged that government's service delivery functions would increasingly be delegated to corporate agencies operating at arms length from their parent ministries, the private sector, or local authorities, leaving central Government with largely policy-making and regulatory functions, consistent with the envisioned government role in the GRP. The long-term objective would be that such service providers would be more flexible, and able to respond quickly to the demands of their clients. They would adapt modern management methods to local cultural values, possibly including performance budgeting techniques. Local authorities assuming responsibility for devolved service delivery would require considerable long-term capacity building to assume these functions under a decentralized government structure.

A. External Assistance to the Sector

54. External assistance in the governance sector has been broad and generally focused on civil service reform, strengthening local governance and decentralization, public expenditure management, and financial sector reform including privatization. Almost all of this assistance has been grant financed except the ADB and World Bank assistance in the financial sector, which are loan financed. Most of the assistance by other agencies is focused on local governance and decentralization, generally aiming to strengthen the capacity of local governing bodies and community-based organizations to plan, implement, monitor, and coordinate development work in which local initiatives are integrated.

55. Assistance of the World Bank and International Monetary Fund (IMF) in the financial sector is focused on reforms to improve the efficiency of the financial sector in general, and management and performance of key financial institutions in particular. IMF is preparing for possible approval in 2002 of a Poverty Reduction and Growth Facility that will emphasize improved banking supervision and commercial bank reforms. The structural policy matrix for the Facility contains a number of reform conditions based on conditions for the proposed GRP loan.

56. The World Bank supported the work of the Administrative Reform Commission in the early 1990s that made a number of recommendations for improving the effectiveness and efficiency of the civil service. It also conducted a series of comprehensive studies on Public Expenditure Management in the mid-1990s and more recently supported the Government's own Public Expenditure Review and reform initiatives to rationalize and streamline public expenditure. The World Bank is preparing a Poverty Reduction Support Credit for possible approval in 2001, which also focuses on implementation of the recommendations of the Public Expenditure Review Commission, and therefore has conditions supportive of civil service reform. The World Bank is preparing a Country Procurement Assessment Report that will contain an action plan to make procurement more transparent and efficient. ADB, through the joint Country Portfolio Review Mission with the World Bank and the Japan Bank for International Cooperation, is supporting this initiative, which will lead to annual procurement plans for all projects and to preparation of public procurement legislation to improve governance in government procurement.

57. Since the mid-1990s UNDP has been supporting the Government's decentralization efforts through the Participatory District Development Program and the Local Governance Program, covering a total of 60 of the 75 districts. Since 1998, Danish International Development Assistance (DANIDA) has been supporting a wide range of good governance initiatives under its Human Rights, Good Governance and Decentralization Program. DANIDA has also been providing, since 1999, support for the decentralization process. The recently launched United Kingdom Department for International Development (DFID)-supported Enabling State Program seeks to promote pro-poor governance by addressing the twin problems of practical understanding of governance problems and the creation of a desire for change among key power holders. Additionally, DFID has supported the Government's privatization program aimed at privatizing selected public enterprises; and capacity building of NGOs and community-based organizations in selected districts through its Participatory Learning and Advisory Project. Since 1998, the Netherlands Development Organization has been providing assistance for strengthening the capacity of local governments and community-based organizations for transparent bottom-up planning and coordinating development efforts. The Swiss Agency for International Development and Cooperation (SDC) is supporting a number of governance-related interventions including strengthening of local government capacity, making public decision-making more transparent by promoting adoption of an integrity

code and civil society coalitions to advocate transparency, and building the capacity of community-based organizations and citizens to advocate governance reform. These activities are closely related to proposed GRP activities, and close coordination with SDC has been maintained and will be continued.

A. ADB Operations and Strategy in the Sector

1. ADB Operations

58. Based on the priorities enunciated in the 1999 Nepal Country Operational Strategy, the recent Poverty Analysis, the Government's Interim Poverty Reduction Strategy, and the High Level Poverty Reduction Forum held in Kathmandu on 26 February 2001, the overarching objective of ADB's Country Strategy and Program Update is to achieve a sustainable reduction in poverty through (i) generation of productive employment opportunities and increased rural incomes resulting from faster and broad-based propoor economic growth, (ii) equitable improvements in basic social services to enhance human development, and (iii) good governance.

59. Priorities that emerged from the Poverty Analysis and High Level Poverty Forum included (i) the need to achieve broad-based growth through employment promotion and improved productivity, with emphasis on the agriculture sector; (ii) the need for macroeconomic policies and reforms to support poverty reduction programs; (iii) social sector development; (iv) targeted programs for excluded groups, particularly women; (v) improved public expenditure management; (vi) improved governance; and (vii) improved poverty assessment and monitoring. ADB's Country Strategy and Program seeks to focus on some of the key priorities identified.

60. ADB has introduced a performance-based allocation system to allocate Asian Development Fund resources to eligible developing member countries. The system measures country performance in 19 areas, including governance and public sector management. The system also assesses performance related to country-specific criteria. For Nepal, specific criteria have been included to assess progress on governance reform. The World Bank's Nepal Country Assistance Strategy also ties future lending levels, among other indicators, to progress on governance reform. Governance is a key element of DFID's Country Strategy Paper. Several other aid agencies include good governance as a critical issue in their current country strategies. Working with other development partners, ADB will support the Government's efforts to implement institutional development strategies and the GRP endorsed in the Ninth Plan, and the discussion paper on the GRP approved by the Government in 2000.

61. Apart from the ongoing commitment to assist the Government with civil service reform and governance programs, ADB has previously assisted the Government of Nepal with program loans in the agriculture sector, including loans for crop intensification, agriculture, and forestry. ADB's recent Agriculture Program Loan¹¹ sought to address policy and institutional impediments to realizing the planned increase in agricultural productivity under the Agricultural Perspective Plan. The program included liberalization of fertilizer trade and reduction in distortions in irrigation, food grain marketing, and rural finance. The Industrial Sector Program Loan¹² was also provided to create a policy environment to increase the efficiency of the industry sector. The program supported increased reliance on market forces and increased participation of the private sector in the industrial development of the country. In sectors such as finance,

¹¹ Loan 1604-NEP: *Second Agriculture Program*, for \$50 million, approved on 22 January 1998.

¹² Loan 1229-NEP: *Industrial Sector Program*, for \$20.6 million, approved on 27 April 1993.

education, transport, environment, water supply, and energy, ADB assistance and policy dialogue have sought to introduce sector reforms to increase the effectiveness of government service delivery; legal, institutional and regulatory environments; and private sector participation, including beneficiaries, in the sectors.

2. ADB Experiences and Lessons Learned

62. ADB's experience with program lending in its member countries has had mixed results. Of the 37 program loans with completed program performance audit reports (PPARs), 10 have been rated as generally successful, 25 as partly successful, 1 as unsuccessful, and 1 was not rated. For public sector loans to Nepal, the results have also been mixed. Of the 37 loans with PPARs, 19 were rated as generally successful, 10 as partly successful, and 8 as unsuccessful. Of the 37 loans to Nepal with PPARs, 4 were program loans. One was rated as successful, and three were rated partly successful. The Crop Intensification Program loan¹³ was considered successful because increases in productivity and incomes in the program area were achieved. A partly successful rating was given to the Second Crop Intensification Program loan¹⁴ because policy reform and institutional development objectives were not achieved during the period of the program. A partly successful assessment was given to the Agriculture Program¹⁵ because the design lacked a detailed analysis of the fertilizer subsector. The Forestry Sector Program¹⁶ was rated partly successful because there was ineffective implementation of the policy reform and investment components. The most recent program loan in Nepal was the Second Agriculture Program. Performance on this loan was relatively satisfactory, with the Government having taken a number of difficult policy decisions regarding elimination of agricultural subsidies, and having fulfilled by June 2000 the conditions for release of the second tranche.

63. ADB has implemented several public sector reform programs, primarily in Pacific developing member countries. The major lessons learned from these programs, and from a large number of reform programs funded by other agencies, including the World Bank, are summarized here. Perhaps the most important factor contributing to a successful reform program is political commitment and ownership. Successful reform programs must be developed by and owned by governments rather than being externally driven. Political commitment is required both from government itself, at the cabinet level, and from opposition parties, to ensure that there is broad support for reform programs. This is required because reform programs introduce major changes in the way the Government operates, and directly affect the careers and prospects of civil servants at all levels of the bureaucracy. Government, including the civil service, needs to take the lead in this dialogue and convince civil society, parliament, and the public of their commitment to a reform program.

64. Civil service reform is a long-term process, and requires a commitment over a period of ten years or more to achieve lasting change. Sustaining commitment over an extended period until tangible results of the reform process begin to emerge is difficult, and key stakeholders may become impatient if results are not immediately visible. This requires careful program design, to ensure that easier reforms that produce quick and visible results are combined with the longer term, more difficult reforms, to maintain broad support for the reform process. Appropriate reward mechanisms must be made available to those who champion and lead reforms successfully. More importantly, to generate such broad support, it is critical that key

¹³ Loan 559-NEP: *Crop Intensification Program*, for \$4 million, approved on 15 December 1981.

¹⁴ Loan 669-NEP: *Second Crop Intensification Program*, for \$15 million, approved on 14 December 1983.

¹⁵ Loan 924-NEP: *Agriculture Program*, for \$55 million, approved on 24 November 1988.

¹⁶ Loan 1040-NEP: *Forestry Sector Program*, for \$40 million, approved on 23 October 1990.

stakeholders be involved in the design of a reform program, and that they are fully consulted and participate in implementation. By raising public awareness and building advocacy coalitions, adopting a transparent process of information sharing, and involving stakeholders, support for reforms is developed, and government commitment to them is increased.

65. Care needs to be taken in the design of reform programs to ensure that the scope is appropriate to the capacity and needs of the country. The use of a blueprint technical approach so often found in reform programs around the world has in most cases failed. The program scope needs to be simple, achievable, and not too ambitious in terms of its targets. The objectives of the reform program need to be clearly specified, with monitorable progress indicators and well-defined responsibilities among implementing agencies. Reform programs often consist of various levels of activity, including inputs, processes, outputs, and impacts. While success in implementing a program at all levels is required, there needs to be a constant focus on impacts. The end result of a reform program must be clear evidence to the public that the reforms have produced benefits in the form of better service provision and other intended program impacts.

66. Related to the need for careful program design is the need to phase the reforms carefully and realistically. The capacity and culture of the civil service need to be taken into account. The key principles are to keep the program relatively simple, implement a limited number of significant reforms at a time, carefully plan the phasing of reforms with full stakeholder participation, and allow for flexibility to test and make adjustments as needed. The phasing of reform actions must, of course, result in tangible and specified outcomes and impacts. Subsequent phases would then only follow if the initial stage has been successful.

67. Finally, the operating culture of the bureaucracy and politicians, and its impact on the way in which the civil service operates need to be taken into account. This requires a careful analysis of the institutional context in which the reforms will be introduced. Reform interventions need to be realistic, taking into account the prevailing institutional system, and need to take advantage of the strengths in the system while mitigating its weaknesses.

V. THE REFORM PROGRAM

A. Rationale

68. A major difficulty in achieving development effectiveness in Nepal is the lack of efficiency, predictability, transparency, and accountability in key government institutions. Capacity building for improved governance is a critical factor for achieving the Government's overarching goal of sustainable poverty reduction. Lack of support and political instability contributed in the recent past to failed reform efforts. Currently, governance reform is a key element of the Government's broader economic and structural reform program, which seeks to sustain accelerated growth and economic stability.

69. Poor public sector governance has contributed to a demoralized bureaucracy, inappropriate allocation of budget resources, and ineffective implementation of development programs. There are increasing allegations of corruption at many levels, and corruption represents a key constraint to the effective delivery of essential services. Basic institutions essential to the effective functioning of a market economy do not exist or do not operate effectively. Poor governance and the unsustainable financial performance of public agencies waste limited public resources, affect the quality and quantity of public and private investment, constrain the level of economic growth, and weaken the Government's poverty reduction

program. The civil service also suffers from a significant gender imbalance. The GRP will seek to remove administrative, financial, and gender weaknesses in the civil service by introducing institutional reforms to improve transparency, accountability, predictability, and processes for redressing gender imbalance.

70. By extending a governance reform loan, ADB will provide much needed support for the public administration institution-building process in Nepal. ADB is an appropriate agency to support governance reforms in Nepal because of previous and ongoing support in this area and because many of ADB's loans and TAs include components seeking to improve governance and service delivery. Accordingly, ADB has acquired considerable experience in this area. Also, building effective institutions is the strategic approach of ADB operations in Nepal. ADB has already provided two TAs to assist the Government in developing and implementing the reform program. Governance reform will require continuing commitment and follow-up support from ADB and other aid agencies throughout this period to achieve the ultimate goal of the GRP. ADB has the appropriate assistance modality (program lending) to implement governance reforms in conjunction with TA from other agencies for institutional support to implement the reform program. While different lending modalities were considered for this loan, including a program cluster modality, it is felt that a program loan with three tranches for the first phase of the reform program is appropriate, rather than a program loan with only one or two tranches, for which long-term commitment to reform might be lacking. The timing of tranche releases will be flexible, and contingent upon the Government's capacity and continued commitment to the reforms. The specific nature of tranche conditions is also somewhat flexible, since details of some tranche conditions will be developed during the implementation period, with the assistance of TA consultants.

71. As mentioned in paras. 54-57, the GRP supports the governance priorities and objectives of a number of external funding agencies. Their support for governance improvements is predicated on the assumption that ADB will take the lead in providing assistance for governance reform. ADB's assistance for corporate and financial governance¹⁷ is related to the governance reform program and is part of ADB's overall strategy to improve governance in Nepal and build effective institutions to support sustainable development.

A. Objectives and Scope

72. The overall goal of the governance reform program is to establish a civil service that is results- and people-oriented and gender responsive. Such a civil service will contribute to higher economic growth and poverty reduction. The objectives of the program are to (i) develop an internal capacity within the Government to lead and undertake the governance reform agenda, (ii) improve the efficiency of the civil service, (iii) improve governance and ensure that corruption in government is effectively prosecuted under the law, (iv) enhance the competence and motivation of civil servants, and (v) establish processes for improving performance in key ministries. The underlying logic, based on past experience with reform within the Nepalese civil service, and supported by international experience, is that the program objectives need to be limited and clearly defined; must be carefully sequenced to build on each other (see Appendix 1); must address some of the central, core constraints to performance; and must allow for experimentation, including entirely new ways of doing business. This flexible process approach requires that details of many elements of the reform program will only emerge as the

¹⁷ Loan 1811-NEP: *Corporate and Financial Governance Project*, for \$7.3 million, approved on 14 December 2000; and TA 3580-NEP: *Strengthening Corporate and Financial Governance*, for \$3.3 million, approved on 14 December 2000.

program is being implemented, with the support of TA consultants. Accordingly, the program framework and policy matrix should not be regarded as blueprints. As the reform program is implemented, details of some required actions will be developed, and some tranche conditions may also have to be adapted to evolving circumstances, upon the mutual agreement of ADB and the Government.

A. Policy Framework and Actions

73. Implementation of the action plan under the program will include a number of policy and institutional reforms to improve the performance of the civil service. The program framework is provided in Appendix 2. The reform policies and actions are summarized in the draft Policy Matrix and Development Policy Letter (Appendix 3). The five proposed components of the reform program and related actions are described in this section.

1. Develop an Internal Capacity for Leading Reform

74. The Government's ambitious and broad GRP will require strong leadership and management at both the political and bureaucratic levels. Senior politicians and bureaucrats together need to lead and reinforce improvement on key government management structures and processes for leading and supporting the reform effort. The objective of this component of the GRP is to improve these key management structures for leading and supporting the reform effort. As part of its ongoing reform initiatives, the Government has already put these structures in place. A principal element of this component will be to maintain an effective cabinet subcommittee (ARCMC, see para. 24)¹⁸ and secretary-level executive committee¹⁹ to provide strategic leadership for the reform program. ARCMC has already been expanded to include ministers from key service delivery ministries such as health, education, agriculture, and women. The minister of MOGA is directing the executive committee, which has been expanded to include secretaries of the same ministries represented in ARCMC.

75. Further, GRCU in MOGA and the Efficiency Unit in MOF have been established and staffed as change units to coordinate, direct, and support reforms in other ministries and departments. Change management units have also been established and consolidated in the three line ministries (MOAC, MOES, and MOH) responsible for implementing the reforms. The cabinet subcommittee and the executive committee will set policies, and the change units in MOGA, MOF, and the three pilot ministries will be responsible for implementing them. The executive committee will review and approve the annual progress of the GRP and prepare an annual public report that includes information on the Government's success in increasing women's representation in the civil service. Appendix 4 depicts these implementation arrangements.

76. A clearly articulated strategy and gender sensitive annual action plans to guide the GRP, based on the policy matrix conditionalities and required outputs and actions contained in the program framework, will be developed and implemented by GRCU, the Efficiency Unit in MOF, and the three change units in MOAC, MOES, and MOH. The plans will include tactics and

¹⁸ Chaired by the Prime Minister, with membership including the minister of General Administration; the ministers of Finance, Agriculture and Cooperatives, Education and Sports, Health, Women Children and Social Welfare; chairman of PSC; vice-chairman of the National Planning Commission; chief secretary; and joint secretary of the Monitoring Division in the Prime Minister's Office as member secretary.

¹⁹ Chaired by the minister of General Administration, with membership including the chief secretary, secretaries of CIAA, MOAC, MOES, MOF, MOGA, MOH, Law and Justice, National Planning Commission, PSC, Prime Minister's Office, Women Children and Social Welfare, and joint secretary of MOGA as member secretary.

sequencing of actions to support the implementation of governance reforms by building consensus. The executive committee has approved the first year's overall reform implementation plan as a first tranche condition. There will be several main outputs of the first component to develop an internal leadership capability for reform. These include the processes for implementing the reform program, reviewing progress, consulting with stakeholders, and reporting.

77. International experience in governance reform has shown that strong commitment of government and key stakeholders to the reform process, and the success of reform efforts, are reinforced by meaningful involvement of civil society in the design and implementation of reform programs. For this reason support will be provided for public awareness campaigns and other activities to help quickly foster broad-based support for governance reform in Nepal. The support will target key stakeholders, including politicians, civil service unions, nongovernment and other civil society organizations, the media, academia, and the general public. GRCU, supported by TA, will work continuously with civil society and NGOs active in the governance area to build a coalition advocating reform, and to obtain feedback on the program's implementation. GRCU will also keep the public informed of developments concerning the GRP. In essence, this component seeks to put in place the structures and leadership within and outside government by which sequenced governance reform actions as defined in the GRP are advocated and implemented. In addition, an independent NGO or individual under TA support will monitor GRP implementation and provide and publicize reports on results achieved.

2. Improve the Efficiency of the Civil Service

78. The objective of this component is to generate as quickly as possible the fiscal savings by "rightsizing" government and improving personnel management processes and systems to support enhanced performance and outcomes. A combination of measures will be required to generate quickly the efficiency gains needed to improve the remuneration levels of civil servants (part of component 4), since it is very unlikely that any one action will produce the volume of fiscal savings required. One of the key outputs of this component will be to reduce personnel levels and expenditures directly by attrition, and through targeted redundancy schemes as early as possible. As a second tranche condition, the Efficiency Unit in MOF and GRCU will review and refine financial scenarios and conditions of the existing VERS to develop an affordable and financially viable VERS for government approval and submission of amendments to the Civil Service Act to Parliament.

79. Based on the functional review work of all ministries previously completed under TA 3117, prior to the second tranche GRCU, the MOF Efficiency Unit, and the pilot ministry change units will prepare a gender-sensitive policy and detailed plans for approval by the executive committee to abolish, contract out, privatize, or delegate noncore functions of government to relevant agencies, including functions such as driving senior officials and maintenance. Some key functions such as agricultural extension, primary education, and health services will also be devolved to local authorities starting in FY2002. Consultations will be held with key stakeholders including politicians, civil society, business, and civil service unions to present the model and rationale for devolving noncore functions and the type of transactions, scope, and proposed timing. A framework for regulating and monitoring devolved noncore functions will be put in place. Establishing and implementing a program for restructuring the civil service around its core activities will not only help achieve quick efficiency gains through "rightsizing" to gain support for the program, but will also introduce processes to contribute to performance improvement (the objective of component 5).

80. A modern personnel information system is needed to provide accurate and timely information on personnel numbers, vacancies, staff movements, and payroll to support efficient management of the establishment (approved posts) and payroll, and to support preparation of longer term policies on pay and employment. A system will be finalized to provide a computerized linkage between the personnel information system and the payroll by the second tranche. Data will be used to establish the true nature of the wage bill and develop effective controls on its key elements. An important target will be to improve the system for determining the number of posts in the civil service establishment and the financing of the wage bill. Computerization of the civil service database will be completed by the end of 2001, and linked to the payroll during 2002 (prior to the second tranche). The number of temporary civil servants hired under the development budget will continue to be reduced. School enrolments and numbers of teachers in primary and secondary schools will be audited, and the number of teachers employed will be reduced according to actual enrolment by the second tranche. Such measures will be implemented quickly to avoid a protracted process of finding sufficient efficiency savings to justify moving to the next stage of reform. The longer it takes to generate efficiency gains, the more likely it is that support for and commitment to reform will be undermined.

3. Improve Governance and Reduce Corruption in Government

81. The objectives of this component are to strengthen the legal framework for combating corruption, enforce its implementation, and ensure the involvement of civil society in the anticorruption efforts of the Government. The key actions under the component will include legislative changes for prevention and enforcement, implementation and enforcement of existing and proposed legislation, institution building for key anticorruption bodies, and raising awareness among citizens of the role of key anticorruption agencies and how to become involved in reducing corruption. Legislation will be finalized or enforced to require elected public representatives and civil servants to declare their assets annually by the second tranche. Legislation requiring an annual financial audit of all political parties will be submitted and enforced. The Government has already submitted to Parliament the amendments to the CIAA Act to enhance its independence, the amended bill on specialized courts, and the bill on prevention of corruption. A special CIAA cadre is currently being established, recruited, and trained with the assistance of TA 3622 to investigate individuals suspected of corrupt practices. TA 3622 consultants are also assisting CIAA to develop a program to combat money laundering. This capacity building will be extended to district administration offices with an action plan and will be linked directly to the overall operations of the prosecution process and in particular CIAA.

82. Management audits of staff transfers and placements will be regularly conducted by MOGA. Additional anticorruption legislation will be submitted by the third tranche including legislation to protect those providing evidence in corruption cases (“whistleblower protection”) and legislation on antimoney laundering. The Cabinet Secretariat will develop rules of procedure for use by the Constitutional Council. A public awareness campaign to inform the public about CIAA functions and complaints procedures will also be initiated by the Prime Minister’s Office prior to the second tranche, and continuously thereafter. The interactive campaign will inform the public about CIAA procedures, the targets that it sets itself for action, and the constraints and risks that need to be overcome to achieve these targets.

4. Enhance the Competence and Motivation of Civil Servants

83. Civil servants in Nepal have low motivation and often lack necessary skills and competencies to do a better job. The objective of this component is to increase their motivation and skills by adopting modern human resource management principles. To increase staff motivation, a critical element of the component will be to adopt by the second tranche a long-term pay policy with a revised civil service salary structure to enhance pay and widen pay differentials. The differentials will underpin incentives for improvement in performance. The Government will also approve as a second tranche condition an affirmative action policy and program to increase the representation of women in the civil service, including the percentage of women occupying senior positions.

84. To strengthen recruitment and promotion of staff based on merit, the personnel administration function in MOGA will be strengthened with additional qualified staff and improvement of personnel systems. Civil service recruitment and promotion will be reformed based on merit principles, which will lead to promotions founded on transparent and accountable performance. GRCU will work together with PSC to develop merit criteria and the capacity to apply merit-based procedures, with appropriate attention to gender issues. The Civil Service Act will be amended by the second tranche to institutionalize merit-based principles, reduce political interference in transfers and placements, and strengthen grievance and disciplinary procedures. In the development and application of merit-based principles, stakeholders will be consulted to reach agreement on reducing the pervasive system of patronage. Desirable leadership qualities for senior civil servants will be developed by the second tranche through training and will be applied in promotion procedures; and management and skill development programs for selected civil servants will be introduced. Induction training for new gazetted officers will also be improved as a second tranche condition. Definition of institutional responsibilities and legal and regulatory changes will accompany these reforms. The actions required to implement the new processes will be consistent with the focus on performance-based management processes. A very important aspect of this component will be that all human resource management measures will be developed with utmost care to address issues related to women and increasing their participation in the civil service.

5. Establish Processes for Improving Performance in Key Ministries

85. The aim of this component is to deliver better services to citizens by reinforcing a new public management culture and work processes that are related to performance-based management in selected service and central ministries. Three service delivery ministries (MOAC, MOES, and MOH) and two central ministries (MOF and MOGA) will be supported under this component. Management performance plans will be developed for GRCU and the MOF Efficiency Unit, which are the focal points for leading the reform program. These plans will build on past TA work, and will include all areas of the ministries with a view to improving their own performance and transferring new procedures and capacities for support to the three pilot line ministries. All of the TA components will provide GRCU, the Efficiency Unit in MOF and the change units of the three respective line ministries, with customized training, and mentoring to ensure that needed leadership and technical skills are available for the design of the appropriate management and performance plans and their subsequent implementation. The central focus will be to establish the culture and processes related to performance-based management for selected public sector entities, and demonstrate the budget incentives, efficiency dividends, and benefits in terms of improved outcomes.

86. Annual performance improvement plans, including client service standards, will be developed for the three line ministries (MOAC, MOES and MOH) and publicized by the second tranche for MOAC, and by the third tranche for MOES and MOH. The annual plans will include a review process to identify further performance improvements and service quality standards. Performance plans will include performance indicators for programs under improvement. For example, a universal primary education performance plan may include measures in terms of number of children educated, student/teacher ratios, and number of children successfully finishing the school year. Such performance plans will also establish accountability and lead to efficiency savings. A key feature of the plans that will facilitate reform and provide incentives for the three line ministries will be the possibility of retaining efficiency savings within a medium-term expenditure management framework. To access these savings, a performance improvement fund will be introduced in a phased manner starting by the second tranche and provided to ministries that successfully introduce performance improvement plans. Institutional arrangements for the implementation of such a fund will be designed prior to the second tranche. The fund will be used for skills development, improved business processes, engaging specialist staff, and purchase of needed equipment such as computers. Management and in-service training will be provided to develop the skills needed to analyze current problems, design possible business solutions, and hence improve ministry performance as specified in the performance improvement plans. Annual reports on the execution of the performance improvement plans will be made public.

87. It is important to note that the improvements sought in these ministries are sequenced towards the end of the first phase of the reform program, since they need to be supported by the other GRP initiatives. Senior management leadership and direction are needed so that middle managers will be motivated to introduce the needed new processes. Staff discontent with the terms and conditions of their employment—pay levels, promotions, transfers, grievance procedures, and issues of inequality—needs to be remedied so that they are motivated. A merit-based promotion system that is centered on performance, transparency, and accountability needs to be introduced as part of the process of increasing motivation. The needed training and improved working conditions that can result from the performance improvement fund need to be approved, but based on targeted savings from cost reduction measures, so that there will be an opportunity for the plans to effect the needed improvements in service delivery standards. Equally, through the communications program with civil society and the independent program reporting mechanism, demand for services at appropriate levels needs to be established and maintained.

D. Social and Environmental Issues

1. General Social Issues

88. The planned GRP will introduce significant reforms in all sectors for which the Government is responsible, including critical social sectors such as agriculture, education, and health. Service delivery will be divided between central and local bodies, with improved service delivery in the agriculture, education, and health sectors contributing to improvements in social welfare. Attempts will be made to redress the gender imbalance in the civil service by adopting an affirmative action plan to increase the representation of women at all levels of the civil service, and to increase their participation in the reform process.

89. The GRP may lead to social costs caused by (i) reduced quality, timeliness, and volume of service delivery in the short term; and (ii) unemployment as a result of retrenchment of civil servants in agencies that are overstaffed or in non-essential areas of the civil service. The

reform process will necessarily be long term, and improvements in efficiency and effectiveness that will lead to benefits from economic growth and poverty reduction may not all be immediate. Reforms of ministries and other agencies may result in incremental funding requirements for offices, and should lead to improved working conditions through the provision of additional office space; better equipment and facilities; and training, capacity building, and institutional reforms for civil servants. These improvements will require provision of additional budget resources to upgrade agency equipment.

90. Measures are incorporated into the program to mitigate possible negative impacts of the reforms. The Government will take action during the reform process to (i) strengthen social sector reforms, (ii) mitigate any possible negative impacts of the governance reforms, and (iii) ensure transparency and broad acceptance of the reform program to avoid any negative social impact and build political support among all parties for the reforms.

1. Governance and Poverty

91. Governance reform will assist in poverty reduction through better allocation of resources and their more efficient use, more efficient social service delivery, and effective implementation of targeted programs. Inefficient social service delivery contributes to the low human development indicators in Nepal and potentially to inequality because of the disparity in quality of public service delivery to different segments of society. A reformed civil service with high morale, transparency, accountability, and a high degree of responsibility will not only promote economic growth but also implement other service delivery and targeted poverty reduction programs more efficiently and cost effectively. There is therefore a need to reorient the role of the bureaucracy to one of facilitation and regulation within a competitive market economy.

92. "Rightsizing" of the bureaucracy is an important aspect of the reform measures, and, if not properly designed and managed, could lead to large-scale retrenchment of employees, with resultant negative welfare impacts. Such measures need to be carefully designed, discussed with targeted employees, and implemented to minimize potential negative impacts. Ideally, both the Government and targeted staff should benefit from such programs, creating win-win situations. This can be accomplished using the VERS, for instance.

93. The full participation of local government bodies and the introduction of measures to empower socially excluded groups and women will lead to more active participation of these stakeholders in development activities and thus reduce the incidence of poverty. Local government bodies are often in a better position to identify target groups and to formulate and implement targeted programs. With the Local Self-Governance Act in place, central Government civil servants posted to the district level will be gradually transferred to local government authorities. This will eventually result in the creation of a regional cadre of civil servants recruited by local authorities and permanently based in the locality.

1. Governance and Gender

94. As with other aspects of governance, achieving the goals of gender equality as enunciated in the Ninth Plan will be possible only with strong political commitment, government intervention, and policy action. The low proportion of women in the civil service has unbalanced the equilibrium of the civil service system and reduced pressure for the introduction of measures to address women's interests and capacities. The Civil Service Act was amended in 1993 to include special provisions to promote women's entry into the civil service; but, despite these

measures, studies indicate a continuing decline in women's access to the civil service, and to decision-making positions in particular.

95. Entry into the civil service is contingent upon both men and women successfully passing the PSC examinations. However, gender inequality in schooling and formal training, women's lack of mobility and time constraints because of unequal responsibility for household chores, and information asymmetries constrain women to compete successfully for entry into the civil service. Government offices that are without toilet facilities for women; and the timing and location of PSC examinations are factors that women have identified as deterrents to their entry in the civil service. The Government has recently issued a directive to provide toilet facilities for women in all ministries.

96. The GRP will address gender representation imbalances by introducing affirmative action amendments to the Civil Service Act. The amendments will focus on alleviating constraints and creating new opportunities for women. These include (i) holding special coaching classes for women in the five development regions of Nepal to allow more women to take and successfully pass the PSC examinations; (ii) issuance of a directive to line ministries mandating women's participation in civil service staff development training activities; (iii) developing a merit-based approach to recruitment and promotion, keeping in mind the current gender imbalances in the civil service system; and (iv) developing new and gender-sensitive approaches to procedures and processes for handling grievance and transfer issues.

97. To secure horizontal integration of gender concerns in all stages of policy formulation (i) the executive committee will include the secretaries of the Ministry of Women, Children and Social Welfare; CIAA; and PSC; (ii) the change units in MOAC, MOES, and MOH will mandate women's representation in addition to assigning a gender focal point in each change unit; (iii) GRCU will include a female staff member to ensure that women's concerns are reflected in the reform process; (iv) PSC will designate staff to liaise with GRCU to keep itself informed of proposed gender reforms and provide feedback to GRCU; and (v) GRCU will be provided with TA to guide and monitor progress in mainstreaming gender concerns. To mitigate any likely negative impact on women while "rightsizing" the civil service, MOGA in consultation with the Ministry of Women, Children and Social Welfare, will prepare a promotion scheme that will offset sociocultural impediments to women's career advancement, and an incentive mechanism to retain and recruit more women. These will focus on changes in legislation and regulations that include provisions that women have identified as important, and that increase women's ability to compete with men for high-paying positions. Examples include innovations in maternity leave, specific in-service training for women, and gender-friendly physical facilities.

98. The achievement of gender-responsive outputs will form part of the tranche release conditions. The Government has agreed to approve an affirmative action policy prior to the release of the second tranche to increase women's representation in the civil service, including measures to increase the percentage of women in decision-making positions. The necessary amendments to the Civil Service Act will be submitted to parliament prior to the second tranche.

1. Governance and Environment

99. The GRP seeks to make the civil service more efficient, effective, and service-oriented and to reduce corruption in Nepal. Reform of the civil service is concerned primarily with improving staff capacities and institutional performance, and involves limited construction activities. Anticorruption initiatives will seek to prosecute individuals for contravening regulations for their own benefit. In general, improved public sector governance leading to enhanced

efficiency, predictability, accountability, and transparency will lead to improved environmental management. Improved operation of government and anticorruption agencies should also lead to fewer cases of environmental degradation in contravention of existing laws and regulations.

VI. THE PROPOSED LOAN

A. Amount of Loan and Source of Funds

100. It is proposed that ADB provide a loan of Special Drawing Rights 23,484,000 or \$30 million equivalent from its Special Funds resources to support the GRP. The proposed size of the loan is based on the scope and depth of the reform program, and on the costs of mitigating the negative social impact of the reforms, such as possible increases in unemployment from retrenchment or privatization. In addition to such general impacts, it will be necessary to monitor specific social impacts of the reform, for instance services that are devolved from the central to the local level. The adjustment costs of implementing the GRP will be to some extent offset by the savings achieved through reform actions (para. 129). Gross adjustment costs (excluding use of savings from the reforms) are estimated at \$104.1 million in the short term (first four years of the program) and \$45.8 million from years 5 to 8 of the program. These costs include (i) the \$63 million cost of the VERS targeted at about 10,000 lower level civil servants;²⁰ (ii) possible pay policy changes of \$37.7 million in the first phase of the program, and \$37.7 million from years 5 to 8 of the program; (iii) staff induction and specialized training costs of \$2 million; (iv) \$1.5 million for the performance improvement fund in MOAC, MOES, and MOH; (v) and other miscellaneous costs. The program adjustment costs and savings are indicated in Appendix 5.

A. Interest, Maturity, and Utilization Period

101. The loan will have a maturity of 24 years, including a grace period of 8 years, 1 percent interest during the grace period and 1.5 percent during the amortization period, and equal amortization. The borrower will be Nepal, and the loan will be utilized from December 2001 to December 2004, with the actual program period extending to December 2005 to allow for follow-up monitoring of program actions.

C. Implementation Arrangements

102. The reform program will be initiated across the civil service at the central and local level in a phased manner from 2001 to 2005. This will provide the time required for capacity building and institutional strengthening of government agencies based on the experiences learned from implementation of the reforms in the first five core ministries. Specific TA requirements to assist in these areas were identified and are described in paras. 116-124 and in Appendix 6.

103. The EA for the program loan will be MOGA. ADB will regularly monitor the progress of the GRP, with the support of the Nepal Resident Mission (NRM)—in particular, through the involvement of the senior governance and capacity building officer—using the indicators included in Appendix 2.

²⁰ This includes the \$16.9 million cost incurred in FY2001 for early retirement of about 2,550 civil servants. DFID also plans to provide about \$15 million budgetary support for the VERS, and conditionalities in IMF's Poverty Reduction Growth Facility's structural matrix are also tied to VERS implementation. Therefore, additional support for these costs is expected from sources other than ADB alone.

104. It is proposed that the program will receive overall guidance from the Prime Minister's ARCMC as a strategic steering group, with operational supervision provided by the executive committee headed by the minister of MOGA. Overall coordination of all program details will be exercised by the project director, who will be the head of GRCU, under the guidance of the secretary of MOGA.

105. Implementation arrangements will be critical to the success of the reform program. Based on the experiences of managing reform in both developed and developing countries, the following principles have guided the choice of these arrangements. First, the structures for setting the overall direction of the program should be well integrated within, not separate from, the Government's normal management processes. Second, implementation responsibility should rest with line ministries but be supported by the core ministries of the Government. Third, change units are needed in the core ministries to implement key change interventions. Fourth, collective ownership of reform needs to be secured among ministry secretaries for reform to succeed in their individual ministries. Fifth, popular or civil society support for reform efforts is essential to ensure continued political support for the reform process, particularly with respect to reform measures that bear short-term political costs.

106. The implementation framework agreed upon with the Government is provided in Appendix 4. The framework incorporates three key functions, including (i) strategic leadership of the overall program, (ii) support for specific reform actions, and (iii) implementation responsibilities throughout government.

107. At the core ministry level, program teams (GRCU and the MOF Efficiency Unit) have been created with responsibility for different aspects of the reform program. These teams will support and facilitate the introduction of reforms in line ministries, departments, and agencies. To ensure that ministries will implement a coherent overall program, as opposed to a series of disparate components led by different ministries, GRCU will be responsible for coordinating and monitoring the reform program and will report to the secretary of MOGA.

108. Finally, responsibility for the implementation of performance management and improvement will rest primarily with the line ministries. For the reforms to be owned by the ministries, they will need to have broad-based support from senior management. Therefore, it is proposed that specific reform programs be incorporated within the agenda of the ministries' regular management meetings. The establishment of separate change units—the approach employed to carry out the functional reviews under the TA to prepare the program—will not work on its own, since it tends to confine thinking about reform to a small group of people.

C. Procurement

109. The loan proceeds will be made available to finance the full foreign exchange cost of items produced in and procured from ADB's member countries (other than those items specified in the ineligible list shown in Appendix 7, and imports financed by other bilateral and multilateral sources) for which expenditures were incurred not more than 180 days prior to loan effectiveness. Procurement of eligible items will be on the basis of normal commercial practices for procurement by the private sector or standard government procurement procedures acceptable to ADB for procurement by the public sector, except that in the case of goods commonly traded on international commodity markets, procurement will be undertaken in accordance with procedures acceptable to ADB. The Borrower will certify that the volume of eligible imports exceeds the amount of ADB's projected disbursements under the program loan in a given period.

E. Disbursement

110. The details of tranche disbursement were carefully studied during loan processing, considering previous ADB experiences with policy-based lending. Given the time period required to implement such a wide-ranging reform program, and the need to have continuous tests of the Government's commitment to the reform process, it was concluded that a program loan over a three-year period, with three tranches, is preferable, with a fourth year after the third tranche to continue monitoring the program. The first tranche will be provided following the Government's fulfillment of the conditions for loan effectiveness, which are among the actions contained in the Policy Matrix. The remaining tranches will be disbursed within 18 months of the previous tranche, provided that tranche and loan milestone release conditions are met. Disbursements will be made under the simplified procedures for program loans. ADB will have the right to audit the use of the loan proceeds and to verify the accuracy of the Borrower's certification.

E. Counterpart Funds

111. The counterpart funds in local currency generated from the loan proceeds will be deposited in a special counterpart fund account to be established by MOF at Nepal Rastra Bank, and will become part of the Government budget every year. MOGA and MOF will decide on the allocation of the counterpart funds and closely monitor their use through GRCU and the MOF Efficiency Unit. The counterpart funds generated from the loan proceeds will be used to support the implementation of the governance program. Any counterpart funds not required for the program will be used first to finance women's higher education and training.

112. All financial transactions of the special counterpart fund account will be recorded separately in a manner that allows identification of expenditures from loan proceeds and counterpart funds. The accounts, together with records of expenditures, will be audited annually by the auditor general of Nepal or independent auditors, whose qualifications, experience, and terms of reference are acceptable to ADB. Nepal Rastra Bank will submit to ADB certified copies of audited accounts and records within 12 months after the end of each fiscal year. GRCU, in collaboration with the MOF Efficiency Unit, will prepare and furnish to the executive committee and ADB a progress report every four months in form and detail satisfactory to the executive committee and ADB. The progress report will particularly cover the status of implementation of policy and institutional reform measures and related time-bound actions, the progress of disbursements of loan proceeds, and the use of counterpart funds. Within three months of the loan closing date, the Government will also submit to ADB a detailed report on the performance of the proposed loan. The Government and ADB will agree upon the format and contents of the report.

E. Monitoring and Tranching

1. Monitoring

113. Monitoring will take place at several levels and by several entities, consistent with the implementation arrangements outlined in Appendix 4. The Government will take overall responsibility for overseeing the effective implementation of the GRP. For the GRP to succeed, the cabinet and ARCMC must take overall responsibility for ensuring that it is well implemented. The executive committee will take responsibility at the highest level of the civil service, while GRCU will continuously monitor the reform process. However, ultimately the three participating

line ministries must take ownership of the reforms to the extent of implementing them and critically monitoring their own performance. The ARCMC and executive committee will each meet at least twice a year to provide overall policy and operational guidance to the program. An independent agency will also be recruited to monitor program performance, and will prepare semiyearly reports prior to ADB review missions. TA consultants will also monitor and support the GRP.

114. The Government and ADB will jointly monitor and review the progress of implementation of the milestone and tranche performance conditions in the policy matrix to ensure that they are met. Indicators and targets for the program are indicated in Appendix 2. More detailed indicators will be developed as appropriate by the consultants of TA 3622, and by the independent monitoring agency. The Government will submit implementation progress reports to ADB as part of the review process every four months. The Government, ADB, and other key stakeholders, including interested funding agencies, will meet every six months to review progress. ADB will field review missions every six months to coincide with the review meetings. One major review meeting should be held prior to the scheduled release of the next loan tranche. GRCU will submit a program completion report to ADB within three months after the loan closing date. The report will evaluate implementation of the activities and outputs under the GRP components, and the impact of the GRP on the economy, including the social and poverty impact of the reforms; elaborate the lessons learned during the program; and identify the required future reform program and assistance required.

1. Tranching

115. The GRP is already being implemented, supported by TA provided by ADB. The loan is estimated to be of four years duration from the date of effectiveness. The loan proceeds will be disbursed in three tranches, with the first tranche of \$12 million equivalent followed by two equal tranches of \$9 million equivalent approximately 18 months after the release of the previous tranche. The first tranche will be released upon completion of the normal approval processes for the loan, with the succeeding tranches released subject to the Government's fulfillment of the conditions for their release (including milestones), which are contained in the policy matrix (Appendix 3). This approach has been taken to ensure that the Government shows its firm commitment to the reform process throughout the program period by meeting specified tranche and loan milestone conditions to the satisfaction of ADB. Because a flexible process approach is being used for program implementation, details regarding some tranche conditions will become available only after the TA consultants; GRCU; the MOF Efficiency Unit; and the MOAC, MOES, and MOH change management units have developed and approved policies and performance improvement implementation plans. The Government's continuation of the VERS, because of limited funds, will necessarily be related to its performance in meeting the tranche conditions in the policy matrix.

VII. THE TECHNICAL ASSISTANCE

116. Based on the five program components that have been identified, TA assistance will be required in the following areas: (i) change and program management, (ii) efficiency improvements in government, (iii) improving governance and reducing corruption, (iv) human resource management, (v) performance management, (vi) civil society support for reform measures, and (vii) independent program monitoring. TA will be provided to both GRCU and the MOF Efficiency Unit, and to the MOAC, MOES, and MOH change units. The primary role of the TA personnel will be to provide technical support and to transfer skills and knowledge to the five units. ADB and the Government are finalizing funding from bilateral agencies to finance the TA,

given ADB's TA resource constraints. Discussions have been held concerning cofinancing of the TA package with the Canadian International Development Agency, DANIDA, DFID, and SDC, which have all indicated their interest.

117. The TA will be packaged into three separate contracts dealing with (i) core program reform, including team leadership and change management, efficiency improvements, improving governance and reducing corruption, human resource management, and performance management, which will also address issues of gender; (ii) civil society support for the reform measures; and (iii) independent program monitoring. An international consulting firm in association with a local firm will implement the first contract beginning in November 2002, after the ongoing TA 3622 is completed, while local firms or organizations will implement the second and third contracts beginning in early 2002, with the possibility of an individual undertaking the third contract. The consultants will be engaged according to ADB's *Guidelines on the Use of Consultants* for TA administered by ADB. Outline terms of reference for the three TA packages are in Appendix 6.

A. Package One — Core Program Reform

118. There are five subpackages of this consultancy. The first will support the first component of the GRP. An international change and program management specialist with experience in team leadership will be provided for 18 months to support GRCU and the MOF Efficiency Unit, and the change units in the three line ministries, ensure consistency in the TA approach, effectively manage the various consultants, and establish appropriate working relationships with civil service counterparts. A domestic deputy team leader will support the international consultant for a 24-month period.

119. The second consultancy subpackage will support the second component of the GRP—to improve the overall efficiency of the civil service. The Efficiency Unit in MOF will be responsible for introducing measures to generate fiscal savings in line ministries, particularly to identify noncore functions of government that can be delegated to corporate agencies, privatized, contracted out, eliminated, or devolved to local authorities. An international specialist in devolving government functions supported by a domestic consultant will provide inputs of six and eight person-months respectively. A key objective of this subpackage will also be to enable the Government to control the public service wage bill through effective establishment controls. An international specialist in payroll systems development and application, supported by a domestic consultant will provide inputs of five and six person-months respectively.

120. The third consultancy subpackage will support the third component of the GRP—to improve governance and reduce corruption in government. An international anticorruption specialist supported by domestic consultant will provide four and six person-months of support respectively to assist in preparing new anti-corruption legislation and further training for anti-corruption agency staff.

121. The fourth consultancy subpackage will support the fourth component of the GRP, which involves a multifaceted approach to enhancing competence that addresses the selection, motivation, and development of personnel using modern principles of human resource management. An international specialist in civil service administrative procedures, leadership, training, and building institutional gender capacity will provide an input of three person-months, supported by eight person-months of domestic input.

122. The fifth consultancy subpackage will support the fifth component of the program—to establish processes for improving performance and service delivery in a limited number of key ministries once key institutional barriers have been removed. International and domestic performance management specialists will support GRCU, the MOF Efficiency Unit, and the line ministry change units. It is envisaged that this expertise will be required for a period of 10 person-months of international consultant input, and 12 person-months of domestic input.

A. Package Two — Civil Society Support for the Reform Measures

123. This package of consultancy inputs will cut across and support all areas of the program. In the past, reforms have been introduced in Nepal with minimal dialogue with concerned stakeholders. Consultations with civil society will be held throughout the reform process to obtain a broad spectrum of views concerning needed reforms, to inform the public of planned reforms, and to solicit widespread support and advocacy for the overall reform process, particularly by the active group of existing governance NGOs. Other stakeholders such as civil servants and their unions, and politicians will also be consulted and involved in the refinement and implementation of the reforms. Consultant inputs for the two subcomponents will total 44 person-months of domestic specialists.

C. Package Three — Program Monitoring and Reporting

124. This consultancy input will also cover all the objectives of the program, since it will provide an independent review and reporting mechanism, ensuring that all stakeholders, and particularly civil society, have detailed information on the program goals, plans, implementation successes, and failures. The contract will be awarded to a domestic individual or organization such as an NGO to promote greater transparency in government performance within the defined parameters of this important reform initiative. Consultant input of 12 person-months will be required over the program period.

VIII. PROGRAM BENEFITS AND RISKS

A. Program Benefits

125. Introducing a “rightsized,” better remunerated, and motivated civil service, trained towards concepts of “customer” service, with openness in its attempts to provide such service is a lofty goal, and one that may well take many years of sustained effort to achieve. The GRP supports the initial but vital steps of such a long-term vision. It will promote some of the key underpinnings, pilot new approaches such as performance plans, service delivery standards, and devolution of functions; and attempt to deal with issues of governance that currently hamper efficiency and lead to distrust in government operations. The program specifically targets some of the most important motivational and institutional factors, that when strengthened can be essential building blocks to achieve needed changes. It also addresses corruption, by delineating a legislative agenda as well as institutional strengthening mechanisms to reduce corruption both at the political and civil service level. These steps are needed to lay the foundations of the long course towards meeting the vision of the GRP, and also because the current operations of the civil service have fallen below the levels of acceptability, with a greatly reduced capacity to positively impact poverty through the proper utilization of resources.

126. The program provides an opportunity for government to clearly demonstrate to the Nepalese people that the civil service can be made more people- and service-oriented, resulting in better and deeper provision of services in key social sectors—agriculture, education, and

health. It also introduces for the first time the concept of “taxpayer rights” in the designs for eliciting the views of civil society into the program scope, feeding back performance results, and utilizing civil society to check on key provision of services at the grassroots level. Within a society that has not understood that modern governments should be obligated towards the concept of service, these changes, if successful, could provide the underpinnings for radical changes in the way services are expected, provided, and accepted.

127. Other design features of the program, particularly within the legal framework for improved governance, have the potential to increase greatly the transparency of government actions, with a resulting decrease in forms of behavior that are incompatible with efficiency and service delivery. Again, full disclosure by government under the program’s reporting mechanisms could greatly increase the trust and respect of the populace, while also serving to educate and better inform people about issues of financial propriety. By stressing consultation with and participation of key stakeholders and civil society and by emphasizing raising public awareness for governance, the program goes a long way to creating an open work environment and changing citizens’ attitudes towards government.

128. This program is but the first step in what is likely to be a lengthy transition. As such it is not comprehensive; rather it selects key aspects within the features and characteristics of the current civil service regime that government believes deserve attention and that can be the building blocks upon which further reforms can be introduced, refined, and implemented. The choice of three line ministries whose mission is intimately tied to service to the public and that deliver these services within the whole territory of Nepal makes success of the initial phase important to diffuse eventually the learning from it to the rest of the public service. If successful, further expansion of the concepts and programs should be much easier than the initial phase.

129. A number of benefits or savings will accrue to the government from implementation of the GRP measures. These are estimated to total approximately \$104.1 million for the first four years of the program, and \$243.9 million from years 5 to 8 of the program. Savings from the efficiencies that will be achieved under component 2 of the GRP include (i) salary and benefit savings from the voluntary early retirement of 10,000 employees of about \$14.4 million in the first four years of the program, and \$9.2 million from years 5 to 8; (ii) total savings from abolition of positions through attrition of about \$11.5 million; (iii) savings from contracting out and devolution of functions of \$32 million; (iv) savings from decentralization of functions of \$32 million; (v) savings from better management of temporary contract positions of \$10.5 million; (vi) savings of \$40.5 million from performance improvements; and (vii) savings through effective implementation of the medium-term expenditure management framework of \$197.9 million. The savings obtained during the first eight years of the GRP can be used to contribute to the financing of program adjustment costs, leading to a decrease in the gross adjustment cost mentioned in para. 100, and to finance salary increases for civil servants. For instance, the estimated net fiscal savings in the first four years of the program would permit a 14 percent increase in the wage bill. The estimated savings from the program are contained in Appendix 5.

A. Program Impact

1. Poverty Impact

130. The impact of governance reform measures on poverty is elaborated in Appendix 8. Poverty issues are directly addressed by the GRP through the positive impact that it will have on service delivery to the poor and socially excluded groups, and their increased participation and empowerment. While some unemployment can be expected because of retrenchment of

employees, careful management of such “rightsizing” using the VERS would benefit both the Government and the affected employees.

131. The potential benefits of effective implementation of governance reform measures are substantial and extensive, affecting the entire nation and economy. Growth prospects will be improved because of the introduction of measures to enhance efficiency and control corruption. These measures have the potential to stimulate private sector productivity and investment. Attainment of the Government’s development strategy of pro-poor, broad-based economic growth will be promoted, and the increase in growth will reduce the incidence of poverty through employment promotion and through increases in labor productivity. The improved provision of public services for social priority sectors and the enhanced quality of these public goods and services will augment labor productivity and consequently employee wage levels.

2. Gender Impact

132. By making gender responsiveness a key part of the overall goal, the GRP effectively links gender awareness in policy and programs to equitable, efficient, and sustainable outcomes. The GRP will contribute to redistributing power and equitable access to economic opportunity and social resources by securing more appropriate gender representation. This will contribute to reforming the bureaucracy to improve service delivery, and will have a positive impact on reducing poverty. Improving gender responsiveness is part of an overall process of institutional reform that will be achieved by systematically mainstreaming gender into the internal organizational structure, personnel policies, and working conditions of the civil service. Affirmative action will increase women’s options to participate in the civil service and actively increase women’s control and command over resources. In addition, opportunities for broad public debate will create the processes for greater participation of civil society and foster more pro-poor development. The gender impacts of the program are detailed in Appendix 9.

A. Program Risks

133. A basic assumption in the formulation of the GRP is that government and in particular a few central position holders are prepared to introduce and implement major changes in the way the civil service as a whole is led, motivated, and evaluated, in an environment of reduced corruption. In turn, it is also assumed that improvements in these important factors will underpin the likelihood of improved performance in key areas of implementation and service delivery. A key to the success of the reforms will be to further develop and sustain broad political and bureaucratic commitment to the reforms at the central and local levels. However, it is clear that there are several risks in embarking on a governance reform program in Nepal. The risks include changing commitment by the Government and individuals; resistance of politicians, civil servants, and others; and risks because of weak institutional capacity.

134. The political risks caused by continued political instability, frequent changes in the composition of the cabinet and leadership, and insurgency are addressed by the GRP in several ways. All political parties have been involved in discussions regarding the scope of the GRP, will continue to be briefed by the Government, and have indicated a strong commitment to and prioritization of the reform program, primarily because they realize that the governance environment in Nepal must be improved to address pressing poverty and insurgency issues. Key advocates of governance reform are influential members of cabinet. Advocates of reform are also found in strategic leadership positions in the bureaucracy. Efforts will be made to deepen the commitment of existing reform advocates, and broaden the reform constituency. The program is designed to mitigate the risk of reduced political and bureaucratic commitment

to the reform program by (i) using three tranches over three years to ensure that government commitment is sustained and demonstrated over the medium term; (ii) providing performance incentive funds to motivate participating ministries to implement the reforms; (iii) actively engaging civil society in the program as advocates of the reforms to maintain pressure on the Government to implement the GRP, to involve citizens in demanding reforms, and to monitor implementation; (iv) strengthening anticorruption agencies and citizen involvement in identifying corruption cases; and (v) providing TA to strengthen institutional capacity.

135. Beyond the issue of political will to sustain commitment to and implement the needed changes is the question of technical skills in areas that are new to government employees. Performance improvement plans; service delivery concepts; and issues of devolution, commercialization, and contracting out to the private sector are not the normal areas of knowledge and competency within a government bureaucracy. While steps will be taken to overcome the newness of the concepts and increase acceptance through various training programs, mentoring, and implementation of the TA, close monitoring will be needed to assess how well the concerned civil servants cope with these features of the program. There is also a risk that the public may resist the provision of services by the private sector. Regular communication with civil society to build awareness and obtain feedback under TA package 2 should help mitigate this risk.

136. Any change in the existing situation is likely to cause some individuals or groups to lose privileged positions or benefits, while many of the winners are likely to be outside the bureaucracy and hence not directly able to counter negative forces that are likely to arise. However, the program has attempted to mitigate this particular risk through an innovative approach to citizen and civil society advocacy and involvement, with a further feature that provides for independent assessment and reporting on program planning, processes, and results by an independent organization or individual under TA package 3. In addition, introduction, implementation, and enforcement of new procedures will curb negative responses. The performance incentive fund will also motivate civil servants to support the program.

137. The government bureaucracy is to an extent managed by an elite group, which makes little distinction between personal and public resources. Therefore, there is the risk that public interests may be sacrificed to retain control over access to power and authority, jeopardizing opportunities for institutional reform. To address this risk, the loan will be disbursed in three tranches over a three-year period. Compliance with tranche conditions and related milestones will be required for tranche release. This will allow constant monitoring of the Government's ongoing and continued commitment to the GRP by the GRCU, ADB headquarters staff, the NRM senior governance and capacity building officer, and the independent program monitoring consultant provided under TA Package 3. New champions of the GRP will constantly be sought, particularly if old champions move to other positions or retire, while existing champions will be supported and strengthened. The performance incentive fund also provides strong motivation to continue support for the reforms.

138. The Government delivery system may fail to ensure equitable outcomes for women because of its insensitivity and inability to mainstream gender and development issues, leaving gender hierarchies intact. The gender desk at MOGA will develop linkages among senior policy makers and program administrators for enhanced policy and program coordination on gender-specific activities. Outputs that improve women's access to civil service positions are also included as tranche release conditions.

139. While the Government and ADB will make every effort to secure bilateral cofinancing for the required TA for the GRP, there is a risk that such cofinancing may not be forthcoming, despite positive indications from DFID, the Canadian International Development Agency, DANIDA, and SDC. To mitigate this risk, the Government and ADB have agreed to consider funding the TA as required from their own resources in the event that cofinancing is not available.

IX. ASSURANCES

140. The Government has given the following assurances, in addition to the standard assurances, which will be incorporated in the legal documents:

- (i) Policies adopted and actions taken prior to the date of the Loan Agreement, as described in the development policy letter, will continue in effect for the duration of the GRP period.
- (i) The Government will promptly adopt the other policies and take the other actions included in the GRP as specified in the development policy letter and will ensure that such policies and actions continue in effect for the duration of the GRP period.
- (i) The Government will ensure that sufficient counterpart funds are made available to meet all financial requirements associated with implementation of the GRP, including those for addressing the social dimensions of civil service reform.
- (i) The Government will ensure that the change units in all the pilot ministries (GRCU in MOGA; the Efficiency Unit in MOF; and the change units in MOAC, MOES, and MOH) are adequately staffed and provided with the necessary financial, technical, and other resources, including equipment, to perform their functions under the GRP.
- (i) The Government will keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that have implications for the GRP implementation, and will provide ADB with an opportunity to comment on any resulting policy proposals. The Government will take ADB's views into account before finalizing and implementing any such proposals.
- (i) The Government will take all appropriate and necessary measures to mainstream gender and increase the percentage of women civil servants.

X. RECOMMENDATION

141. I am satisfied that the proposed loan would comply with the Articles of Agreement of ADB and recommend that the Board approve the loan in various currencies equivalent to Special Drawing Rights 23,484,000 to the Kingdom of Nepal for the Governance Reform Program, with a term of 24 years, including a grace period of 8 years, and with an interest charge at the rate of 1 percent per annum during the grace period and 1.5 percent per annum thereafter, and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board.

2 November 2001

TADAO CHINO
President

APPENDIXES

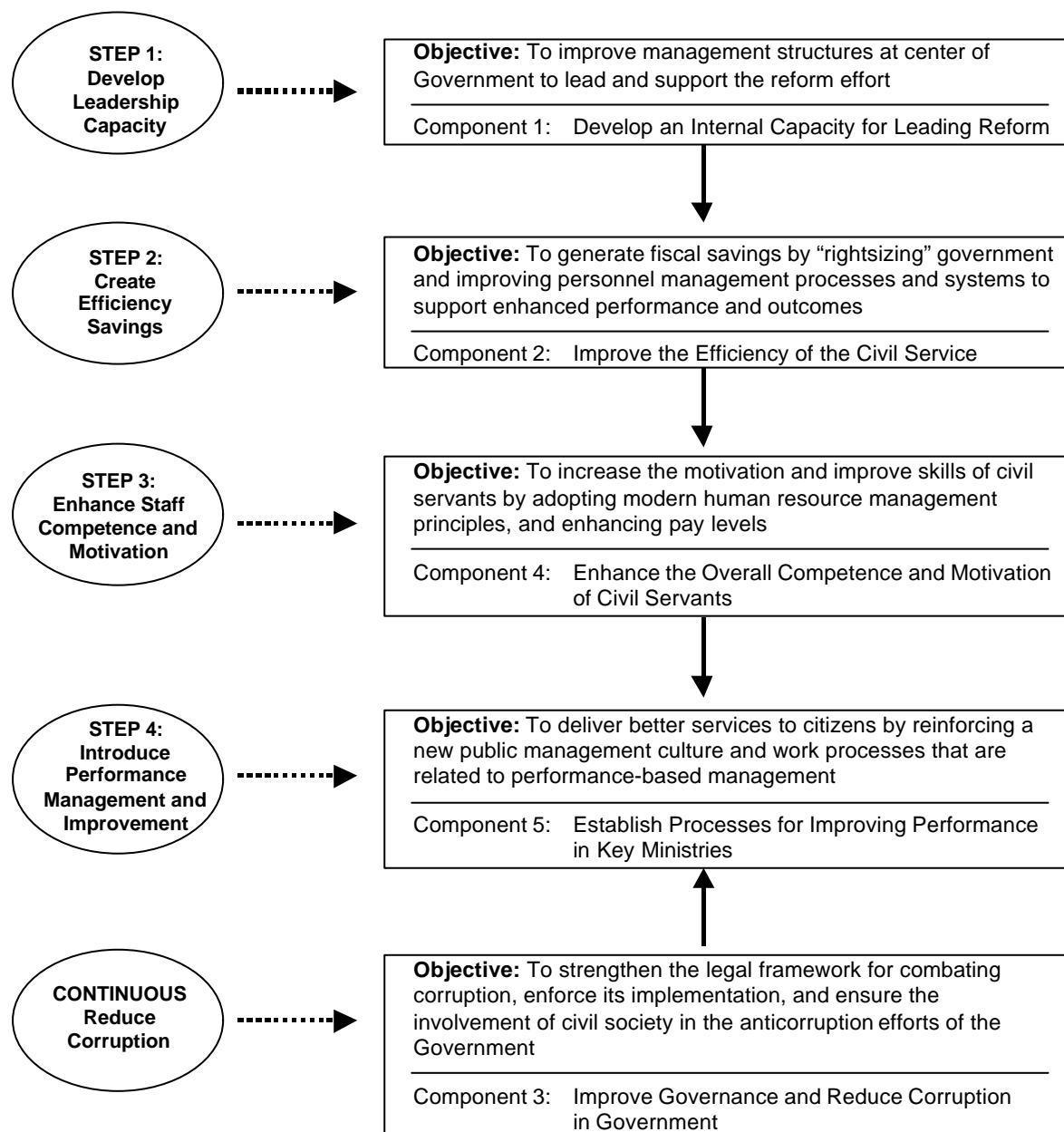
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SUPPLEMENTARY APPENDIXES

(available on request)

- A External Assistance in Good Governance
- B Detailed Program Framework
- C Detailed Terms of Reference for Technical Assistance

**GOVERNANCE REFORM PROGRAM PHASE ONE
IMPLEMENTATION CONCEPT AND PROCESS**



PROGRAM FRAMEWORK

Narrative Summary	Indicators and Targets	Monitoring Mechanism	Key Assumptions and Risks
<p>Goal</p> <p>A civil service that is results- and people-oriented, and gender responsive, reinforcing economic growth and poverty reduction</p>	<p>Improved access, quality, and efficiency of government services, provided by a well-trained, adequately compensated, and sufficiently motivated civil service</p>	<ul style="list-style-type: none"> • Client satisfaction surveys • Annual reports of various ministries and departments • Pay scales • Number of civil servants trained in service delivery courses 	
<p>Purpose</p> <p>1. Improved quality of Government services provided by ministries of Agriculture and Cooperatives (MOAC), Education and Sports (MOES), and Health (MOH)</p> <p>2. Improved efficiency of government services provided by MOAC, MOES, and MOH</p> <p>3. Improved access of general population to government services</p>	<p>End of Project 'Success' Status</p> <p>1. Improved quality: By Tranche 2, TA consultants / Government / ADB to develop monitorable proxy indicators and targets for MOAC, and by Tranche 3, for MOES and MOH</p> <p>2. Improved efficiency: By Tranche 2, TA consultants / Government / ADB to develop monitorable proxy indicators and targets for MOAC, and by Tranche 3 for MOES and MOH</p> <p>3. Improved access: By Tranche 3, TA consultants/ Government/ ADB to develop monitorable proxy indicators and targets</p>	<p>1. To be identified by TA consultants (e.g., client satisfaction surveys, annual reports of various ministries and departments, pay scales, and number of civil servants trained in service delivery courses).</p>	<ul style="list-style-type: none"> • Government commitment to reform • Political and economic stability • Staff are able and motivated to provide better services. • Improved ratio of personnel expenditures to operating costs • People have confidence in government services.
<p>Outputs / Components</p> <p>1. Develop Internal Capacity for Leading Reform</p>	<p>1.01 First year overall reform implementation plans that are gender sensitive approved by executive committee by Tranche 1; subsequent plans to be approved on an annual basis, and annual progress reports made public</p> <p>1.02 Coalition of stakeholder groups established, and actively demanding reforms, by Tranche 2</p> <p>1.03 "Critical mass" of full-time Governance Reform Coordination Unit (GRCU), Ministry of Finance</p>	<p>1.01 Executive committee annual public reports</p> <p>1.02 Assessment by all stakeholders at workshops</p> <p>1.03 Assessment by TA team, ADB, and Government</p>	<p>1.01 Ministers and top civil servants are committed to reform.</p> <p>1.02 Secretaries in central ministries and other key ministries are competent. Risk: Government unwilling to foster or engage with coalition</p> <p>1.03 Full-time personnel are selected to GRCU, the Efficiency Unit, and the change units on the</p>

Narrative Summary	Indicators and Targets	Monitoring Mechanism	Key Assumptions and Risks
<p>2. Improve the Efficiency of the Civil Service</p>	<p>Efficiency Unit, and change unit personnel are trained and demonstrate "satisfactory" application of change management and relevant technical skills. TA consultants / Government / ADB to identify / articulate those skills, develop criteria, and rating scale for monitoring, by Tranche 2 for GRCU ad Efficiency Unit, and Tranche 3 for change units</p> <p>1.04 "Critical mass" of senior officials demonstrate "satisfactory" level of agreed leadership qualities. TA consultants / Government / ADB to identify / articulate those skills, develop criteria and rating scale for monitoring, by Tranche 2</p> <p>2.01 Revised voluntary early retirement scheme (VERS) approved by Government, by Tranche 2</p> <p>2.02 Revised Civil Service Act submitted, by Tranche 2</p> <p>2.03 Procedures manual for VERS approved by executive committee, applied and accepted by donors, by Tranche 2</p> <p>2.04 Policy and detailed plans of rightsizing government – through commercialization, devolution to local authorities, contracting out, and/or elimination of selected functions – that also contribute to narrowing the gap between the number of male and female civil servants, approved by executive committee, by Tranche 2</p> <p>2.05 Detailed plans for rightsizing prepared by Efficiency Unit, and MOAC by Tranche 2, and MOES and MOH change units, by Tranche 3</p>	<p>1.04 Assessment workshop conducted jointly by TA team and Nepal Administrative Staff College</p> <p>2.01 Cabinet secretariat records, TA progress reports</p> <p>2.02 Cabinet secretariat records</p> <p>2.03 Minutes of executive committee, TA progress reports</p> <p>2.04 Minutes of executive committee, TA progress reports, budget</p> <p>2.05 Minutes of executive committee, TA progress reports, Ministry of General Administration (MOGA)/Public Service Commission (PSC) reports on numbers</p>	<p>basis of merit.</p> <p>1.04 Senior officials are willing to participate in the leadership development program.</p>

Narrative Summary	Indicators and Targets	Monitoring Mechanism	Key Assumptions and Risks
<p>3. Improve Governance and Reduce Corruption in Government</p>	<p>2.06 Rightsizing programs implemented by MOAC by Tranche 2, and MOES and MOH, by Tranche 3</p> <p>2.07 Policy and measures to achieve efficiencies in the teacher service approved by Government, by Tranche 2</p> <p>2.08 MOGA personnel records computerized and linked to post establishment and payroll, functioning "satisfactorily," by Tranche 2</p> <p>3.01 Revised legislation requiring elected public representatives, gazetted civil servants, members of constitutional bodies, members of parliament, members of council of ministers, and senior management of development boards and state-owned enterprises to declare property, assets, and income annually, including provisions on sanctions for noncompliance, and designating responsible agencies to receive declarations and monitor compliance, submitted by Tranche 2</p> <p>3.02 Annual review institutionalized by financial comptroller general, to oversee implementation of existing rules and financial rules and regulations for public disclosure of contract awards, by Tranche 2</p> <p>3.03 Government to submit bill on political parties including provisions on annual audit of funds of all political parties, by Tranche 2; compliance with annual audit of all political parties enforced by Government, annually from Tranche 2</p>	<p>employed in key ministries</p> <p>2.06 Minutes of executive committee, TA progress reports, budget</p> <p>2.07 Minutes of executive committee, TA progress reports, budget</p> <p>2.08 TA consultants / Government / ADB to determine criteria, targets, and time frame, prior to Tranche 2</p> <p>3.01 Parliamentary records, records of concerned agencies, minutes of executive committee, TA progress reports</p> <p>3.02 Minutes of executive committee, financial comptroller general reports, TA progress reports</p> <p>3.03 GRCU progress reports</p>	<p>Risk: Resistance to change increases in key ministries.</p> <p>3.01 Government has the necessary political will to propose and enforce such legislation.</p> <p>3.03 Government has the necessary political will to tackle high-level official corruption and enforce such compliance.</p>

Narrative Summary	Indicators and Targets	Monitoring Mechanism	Key Assumptions and Risks
4. Enhance the Competence and Motivation of Civil Servants	3.04 Amended Commission for the Investigation of Abuse of Authority Act, including establishment of a specialized anticorruption court submitted by Government, by Tranche 1	3.04 Cabinet secretariat records	3.04 Government has the necessary political will to combat corruption. 4. Continued political support to enhance the pay of civil servants • Civil servants accept personnel selection based on merit rather than seniority. • No political interference in transfer and placement decisions, nor in disciplinary actions • Size of the compensation package is not politically determined • There is political commitment to strengthened wage bill and establishment controls
	3.05 Amended bills on specialized courts, and prevention of corruption submitted by Government, by Tranche 1	3.05 Minutes of executive committee, GRCU progress reports	
	3.06 Legislation on whistleblower protection, submitted by Government, by Tranche 3	3.06 Minutes of executive committee, GRCU progress reports	
	3.07 Legislation on anti-money laundering submitted by Government, by Tranche 3	3.07 Minutes of executive committee, GRCU progress reports	
	3.08 Rules of procedure for constitutional council developed by Cabinet Secretariat, by Tranche 2	3.08 Cabinet secretariat records	
	3.09 Rules of procedure adopted by constitutional council, by Tranche 2	3.09 Minutes of executive committee, GRCU progress reports	
	3.10 Anticorruption public awareness campaign implemented, by Tranche 2	3.10 Minutes of executive committee, GRCU progress reports	
	4.01 Affirmative action policy approved and program implemented to increase representation of women in the civil service, including their percentage in senior positions, by Tranche 2	4.01 Minutes of executive committee, GRCU progress reports	
	4.02 Amendments to the Civil Service Act for more efficient and effective personnel assessment, merit-based recruitment and promotion, senior position succession, management of development programs, grievance and transfers, with appropriate attention to issues of gender, submitted and implemented by Tranche 2	4.02 TA consultants / Government / ADB to identify specific baseline indicators and targets for monitoring implementation of related aspects, by Tranche 2	

Narrative Summary	Indicators and Targets	Monitoring Mechanism	Key Assumptions and Risks
<p>5. Establish Processes for Improving Performance in MOAC, MOES, and MOH</p>	<p>4.03 New salary structure approved by Government, and 1st annual review conducted, by Tranche 2</p> <p>5.01 Operational procedures for performance incentive fund agreed upon by Ministry of Finance (MOF), by Tranche 2</p> <p>5.02 Annual performance incentive fund budgeted by MOF, by Tranche 2</p> <p>5.03 Performance management system and new service standards introduced in pilot ministries on phased basis, beginning with MOAC, by Tranche 2</p> <p>5.04 MOAC performance improvement plans developed and implemented, by Tranche 2</p> <p>5.05 MOES and MOH performance improvement plans developed and implemented, by Tranche 3</p>	<p>4.03 Minutes of executive committee, TA progress reports, budget</p> <p>5.01 Minutes of executive committee, GRCU progress reports</p> <p>5.02 Performance incentive funds audited on annual basis</p> <p>5.03 Minutes of executive committee, GRCU progress reports</p> <p>5.04 Minutes of executive committee, GRCU progress reports, Ministry of General Administration (MOGA) to monitor and publicize results of annual service performance for MOAC annually</p> <p>5.05 Minutes of executive committee, GRCU progress reports, MOGA to monitor and publicize results of annual service performance for MOES and MOH</p>	<ul style="list-style-type: none"> • There is political commitment to devolve noncore functions • The system is well managed by MOGA and staff are trained to maintain and update it. <p>Risk: Resistance in the bureaucracy to advancing affirmative action policies</p> <p>5. Ministries assume ownership of their performance improvement plans.</p>
<p>Activities for outputs and components</p>	<p>Schedule The schedule of monitoring activities for each of the output milestones will be monitored separately (by target dates).</p>		<ul style="list-style-type: none"> • GRCU unit staff work well with the consultants. • Government has the will and majority to pass legislation. • Recommendations are enacted. • MOF is willing to give ministries more budgetary discretion. <p>Risk: Gender not seen as a central issue within governance reform agenda</p>

Narrative Summary	Indicators and Targets	Monitoring Mechanism	Key Assumptions and Risks
Inputs 1. Develop an Internal Capacity for Leading Reform 2. Improve the Efficiency of the Civil Service	Resources 1.01 TA, 42 person-months: team leadership/ change management 2.01 TA, 25 person-months: devolution specialists, wage control specialists	1.01 TA contract, mission supervision 2.01 TA contract, mission supervision	<ul style="list-style-type: none"> • Government accepts TA. • Line ministries are interested in preparing plans. • Government leadership provided. • Government willing to accept newly proposed role; accept inputs from society; and cooperate in disclosure of progress.
3. Improve Governance and Reduce Corruption in Government 4. Enhance the Competence and Motivation of Civil Servants 5. Establish Processes for Improving Performance in Key Ministries 6. Civil Society Support for Reform Measures 7. Program Monitoring 8. Total	3.01 TA, 10 person-months: anticorruption specialists 4.01 TA, 22 person-months: performance improvement specialists 5.01 TA, 11 person-months: Human Resource/training specialist 6.01 TA, 44 person-months: communications, media, service delivery, workshop, survey specialists, rural development specialist 7.01 TA, 12 person-months: communications specialist \$2 million	3.01 TA contract, mission supervision 4.01 TA contract, mission supervision 5.01 TA contract, mission supervision 6.01 TA contract, mission supervision 7.01 TA contract, mission supervision	

POLICY MATRIX

Policy Measure	Actions and Implementation Arrangements	Tranche 1	Tranche 2	Tranche 3	Program Milestones
Component 1: Develop an Internal Capacity for Leading Reform <i>Objective: To improve the management structures at the center of government to lead and support the reform effort</i>					
	1.1 Governance Reform Coordinating Unit (GRCU) to conduct stakeholder consultations to refine the scope of the Governance Reform Program	A (completed in 2000)			
1.2 Establish an executive committee at the secretary level to manage and coordinate agreed upon reforms, including reviews of progress and formalization of consultation processes with stakeholders, parliament, and the public		A (completed in 2000)			
1.3 Establish and staff the Efficiency Unit in the Ministry of Finance (MOF), GRCU in Ministry of General Administration (MOGA) and change units in the Ministry of Agriculture and Cooperatives (MOAC), Ministry of Education and Sports (MOES), and Ministry of Health (MOH)		A (completed in 2001)			
	1.3.1. Secretaries of MOGA and MOF to adjust and fill an appropriate number of full-time positions in GRCU and the MOF Efficiency Unit, including a focal point for mainstreaming participation of women in Government		TC2		
	1.3.2 Concerned Secretaries of MOGA, MOAC, MOES, and MOH to adjust and staff an appropriate number of full-time positions in the three pilot ministry change units, including focal points for mainstreaming participation of women in the respective ministries			TC3	
	1.3.3 MOGA and MOF to approve adjustment of positions from other offices in the respective ministries to the units mentioned in 1.3.1 and 1.3.2				TC2 for 1.3.1 and TC3 for 1.3.2
1.4 Executive committee to approve first year overall reform implementation plan and annual plans to enable the Government to meet succeeding tranche conditions		TC1 (completed)			Annual from TC1
	1.4.1 GRCU to prepare gender-sensitive reform program plans for approval on an annual basis				Annual
	1.4.2 Efficiency Unit in MOF, GRCU in MOGA, and change units in MOAC, MOES and MOH to implement annual plans				Annual

A = by loan appraisal.

TC1/TC2/TC3 refer to tranche 1, 2, and 3 conditions, respectively. Conditions for each tranche, including milestones should meet the satisfaction of the Government and ADB prior to tranche release.

Policy Measure	Actions and Implementation Arrangements	Tranche 1	Tranche 2	Tranche 3	Program Milestones
1.5 Executive committee to review and approve annual progress, and prepare an annual public report including information on women			TC2		Annual from TC1
	1.5.1 GRCU to work with civil society organizations for public dissemination and feedback				Continuous
	1.5.2 Independent agency to monitor GRP implementation and publicize its reviews				Continuous
Component 2: Improve the Efficiency of the Civil Service					
<i>Objective: To generate fiscal savings by "rightsizing" Government and improving personnel management processes and systems to support enhanced performance and outcomes</i>					
2.1 Cabinet to approve a revised voluntary early retirement scheme and Government to submit a revised Civil Service Act that reflects this			TC2		
	2.1.1 Efficiency Unit in MOF and GRCU to review and refine financial scenarios and operating procedures to develop an affordable and financially viable voluntary early retirement scheme				TC2 milestone
2.2 Cabinet to approve a policy and executive committee to approve detailed plans for MOAC, MOES, and MOH on rightsizing government through commercialization, devolution to local authorities, and contracting out or elimination of selected functions while ensuring that rightsizing will lead to narrowing the gap between the number of male and female civil servants			TC2	TC3	TC2 for MOAC plan TC3 for MOES, MOH plans
	2.2.1 Efficiency Unit to prepare policy paper on rightsizing government and devolution of functions. The paper should be based on past TA on the procedures, modalities, and decision-making powers for its implementation and will be gender sensitive				TC2 milestone
	2.2.2 Efficiency Unit, and change units in MOAC, MOES, and MOH to prepare and begin implementation of detailed plans for rightsizing their respective ministries				TC2 for MOAC TC3 for MOES, MOH
2.3 Cabinet to approve the policy and measures prepared under 2.3.1 to achieve efficiencies in the teacher service			TC2		
	2.3.1 Efficiency Unit, GRCU, and MOES change unit to prepare policy paper on teacher recruitment, remuneration, and number of posts that is gender-sensitive				TC2 milestone
	2.3.2 Efficiency Unit, GRCU, and MOES to computerize teacher personnel and post information system to support rightsizing of the teacher service		TC2		

Policy Measure	Actions and Implementation Arrangements	Tranche 1	Tranche 2	Tranche 3	Program Milestones
	2.4 MOGA to computerize its personnel records and commence the process of linking these to approved posts	TC1 (completed)			
	2.5 MOGA to link its fully computerized personnel records to approved posts and the payroll system		TC2		
Component 3: Improve Governance and Reduce Corruption in Government					
<i>Objective: To strengthen the legal framework for combating corruption, enforce its implementation, and ensure the involvement of civil society in anticorruption efforts of the Government</i>					
3.1 Government to reaffirm and publicize its commitment to combat corruption		N (completed in 2001)			
	3.1.1 Financial comptroller general, through annual review, to oversee the implementation of existing rules under financial rules and regulations for public disclosure of contract awards				Annually from TC2
3.2 Government to submit bill on political parties, to include provisions on annual audit of funds of all political parties			TC2		Legislation approved
	3.2.1 Agency designated under 3.2 to enforce compliance of annual audit of funds of all political parties				Annually from TC2
3.3 Government to submit revised legislation to require elected public representatives, gazetted civil servants, members of constitutional bodies, members of parliament, members of the council of ministers, and senior management of development boards and state-owned enterprises to declare property, assets, and income annually, based on review under action 3.3.1; such legislation will include provisions on sanctions for noncompliance, and will designate responsible agencies to receive declarations and monitor compliance			TC2		
	3.3.1 GRCU to make comprehensive overview of all existing legal provisions related to property, asset, and income disclosure declarations				TC1 milestone
	3.3.2 Government (MOGA for gazetted civil servants, and other responsible agencies as identified under 3.3.1 or as designated under 3.3) to enforce compliance with legislation on property, asset, and income declarations				Annually from TC1

N = by loan negotiations.

Policy Measure	Actions and Implementation Arrangements	Tranche 1	Tranche 2	Tranche 3	Program Milestones
	3.3.3 Government (MOGA for civil servants, and other responsible agencies as identified under 3.3.1 or as designated under 3.3) to develop procedures for, and conduct annual random checks of property, asset, and income declarations			TC3	Annually from TC3
	3.3.4 MOF to provide sufficient funds to concerned agencies to enable them to undertake the measures under 3.3.2 and 3.3.3				Annually from TC2
3.4 Government to submit amended Commission for the Investigation of Abuse of Authority (CIAA) Act including establishment of a specialized anticorruption court		TC1 (completed)			Legislation approved
3.5 Government to submit amended bill on specialized courts		TC1 (completed)			Legislation approved
3.6 Government to submit prevention of corruption bill		TC1 (completed)			Legislation approved
3.7 Government to submit whistleblower protection legislation				TC3	Legislation approved
3.8 Government to submit anti-money laundering legislation				TC3	Legislation approved
3.9 Constitutional council to adopt rules of procedure			TC2		
	3.9.1 Cabinet secretariat to prepare rules of procedure for constitutional council				TC2 milestone
3.10 Prime Minister's Office to establish an anticorruption unit which will implement an effective ongoing anticorruption public awareness campaign on the role of concerned agencies involved in corruption control, and develop and implement a program for their interaction with civil society			TC2		Annually from TC2
Component 4: Enhance the Competence and Motivation of Civil Servants <i>Objective: To increase the motivation and improve skills of civil servants by adopting modern human resource management principles and enhancing pay levels</i>					
4.1 Cabinet to approve an affirmative action policy and program to increase representation of women in the civil service, including their percentage in senior positions			TC2		

Policy Measure	Actions and Implementation Arrangements	Tranche 1	Tranche 2	Tranche 3	Program Milestones
	4.1.1 MOGA and Ministry of Women, Children and Social Welfare to introduce appropriate nonmonetary benefits and procedures to increase representation of women in the civil service and address other gender issues as described in points 4.1.2 - 4.1.4				TC2 milestone
	4.1.2 MOF to provide necessary funds to organize coaching classes for women to prepare for the civil service entry examinations for gazetted Class III officers, and GRCU to monitor implementation				Continuous from FY2002
	4.1.3 MOGA to review annual progress on increased representation of women				Continuous from FY2002
	4.1.4 MOGA to issue a directive to line ministries to include women in civil service staff development training activities	TC1 (completed)			
4.2 Cabinet to approve new salary structure and conduct annual reviews			TC2		Annual review from TC2
	4.2.1 Efficiency Unit in MOF, in consultation with MOGA, to prepare policy paper on new salary structure, and establish process for annual reviews				TC2 milestone
4.3 Cabinet to submit amendments to the Civil Service Act in the areas described for action under 4.3.2 4.3.3, and have approved regulations in the areas described under 4.3.4 and 4.3.5, with the objective of making the processes more efficient and effective for the whole service, with specific attention to issues of gender			TC2		
	4.3.1 GRCU and Nepal Administrative Staff College to revise curriculum and duration of formal training courses for induction and improved management development and include training on anticorruption legislation, personnel assessment, and gender issues				TC2 milestone
	4.3.2 GRCU to establish procedures to strengthen annual personnel assessments and to commence training to improve related skills				Continuous training from TC2
	4.3.3 GRCU to establish a gender-sensitive, merit-based approach to recruitment and promotion				TC2 milestone
	4.3.4 GRCU to prepare and introduce a human resources succession plan for senior positions in the civil service, including appropriate management development programs				TC2 milestone
	4.3.5 GRCU to review and prepare new approaches to procedures and processes for handling grievance issues that are also sensitive to women				TC2 milestone

Policy Measure	Actions and Implementation Arrangements	Tranche 1	Tranche 2	Tranche 3	Program Milestones
Component 5: Establish Processes for Improving Performance in Key Ministries <i>Objective: To deliver better services to citizens by reinforcing a new public management culture and work processes that are related to performance-based management</i>					
5.1 Cabinet to approve a performance incentive fund, its operating procedures, and its budget			TC2		
	5.1.1 MOF to budget for an annual performance incentive fund				Annually from TC2
	5.1.2 MOF Efficiency Unit and GRCU to study the operating procedures for a performance incentive fund				TC2 milestone
	5.1.3 MOF and GRCU to agree on operating procedures for a performance incentive fund				TC2 milestone
	5.1.4 Efficiency Unit and GRCU to approve MOAC's first performance incentive plan		TC2		
	5.1.5 Efficiency Unit and GRCU to approve MOES' and MOH's first performance incentive plan			TC3	
	5.1.6 Performance incentive funds to be audited on an annual basis				Annually from TC3
5.2 Based on TA 3622 findings, MOF, GRCU, and MOAC to establish, announce, and commence implementation of a performance management system, with performance improvement plans and new service standards with necessary funding made available from the budget			TC2		
5.3 MOF/GRCU, MOES, and MOH to establish, announce, and commence implementation of a performance management system, with performance improvement plans and new service standards with necessary funding made available from the budget				TC3	
	5.4.1 GRCU to communicate to the public on the performance management system, with performance improvement plans and service standards program				Continuous
	5.4.2 GRCU, MOF, MOAC, MOES, and MOH, with the Nepal Administrative Staff College to design, conduct, and evaluate appropriate management and in-service training linked to ministry-based performance improvement plans				TC2 MOAC TC3 MOES, MOH
	5.4.3 MOGA to monitor and publicize results of annual service performance				Annually from TC3



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Ref: 322

Development Policy Letter

October 18, 2001

Mr. Tadao Chino
President
Asian Development Bank
Manila, Philippines

Dear Mr. Chino,

The Ninth Development Plan (1997-2002) of His Majesty's Government of Nepal recognizes that despite previous efforts at administrative reform, the task of making the Government operations less expensive, efficient and people-oriented still remains to be a challenge. The Government is attempting to improve such performance with the objective of making public sector management lean, transparent, economical, competitive, job and service oriented, and accountable. In short, public sector management is to be improved, the concepts of good governance and effective government are to be promoted, and the role of civil society is to be enhanced by assimilating it into this process. The Budget Speech of FY2001 stressed the need for Government administration to become more people-oriented, transparent and accountable, with an emphasis on the need to take corrective action against corrupt practices, at whatever level such practices might occur.

In conjunction with the April 2000 Nepal Development Forum in Paris, the Government has approved a comprehensive reform program and poverty reduction with a time bound action plan. Within the several key areas identified for reform were those of governance, civil service, and an enhanced role for civil society. It is high time to expedite the process of reform in the above areas so that these objectives might be realized.

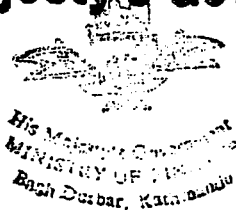
Before detailing the objectives, outputs and impacts that are expected to achieve with the assistance from the Asian Development Bank on governance reform, we would like to draw your attention to the progress being made with the assistance of the Asian Development Bank, which is complimentary to our current goals.

In December 2000, ADB's Board approved a loan of \$7.3 million for the Corporate and Financial Governance Project. Under this project, we are undertaking a number of governance reforms in the corporate and financial sectors, including regulatory and institutional reforms aimed at encouraging increased competition and higher standards in accounting, audit, and legal services. These reforms are being closely aligned with financial sector reform processes.

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In addition, the Government has demonstrated its commitment to reform by taking a number of actions associated with technical assistance on Formulating an Action Plan for Civil Service Reform, which began in June 1999. Under this assistance the Government: (i) conducted a census of civil servants; (ii) initiated the preparation of a computerized personnel database; (iii) undertook a functional review of key ministries, departments and offices, and (iv) considered a range of alternatives for fiscal decentralization. Several meetings of the Administrative Reforms Coordinating and Monitoring Committee and the Executive Committee on Reforms, were also held from November 1999 to the present time to take decisions and guide the governance reform program. These meetings and decisions resulted in the number of ministries being reduced from 26 to 21 in mid-2000. The freezing of 5,000 vacant civil service positions, and the abolition of 1,045 posts, with estimated savings of \$2.4 million in FY2001 accompanied this move. In addition, over 900 staff from the reserve pool were transferred to other offices and development offices. The Government also introduced a voluntary retirement scheme, targeted to low level positions and non-gazetted officers. To date, 2,365 people were retired, at a cost to our own resources of approximately \$17 million. Recognizing that Government salary scales are well below those of the private sector, and thus greatly inhibiting our ability to attract and retain well-qualified staff, we have increased salary levels for Government employees ranging between 50-90 percent, while simultaneously improving the compression ratio between grades. To ensure that these financial improvements are most effective, we have also begun the process of strengthening our payroll and personnel management systems.

The Government is firm in its commitment to wipe out corruption and enhance good governance in the country. The Commission for the Investigation of Abuse of Authority (CIAA) has shown its strong commitment to combat corruption by filing many significant cases against the suspects in the Court of Law. CIAA has also speeded up the investigation of the complaints. The government has already submitted a draft legislation to widen the scope of CIAA and empower it by providing more autonomy.

Despite these efforts, a great deal needs to be done, and we are pleased to note that ADB's Board approved technical assistance on Institutional Support for Governance Reforms in January 2001, which is providing us with needed expertise until December 2002. To expand the scope of the reform program, enable the Government to offset a portion of the associated costs, and alleviate the social impact of the reform program (particularly with regard to efforts to right-size the Government operations), the Government attaches great importance to the support of the ADB. We recognize that the program, as described in the following paragraphs is ambitious in terms of its implementation aspects, but we believe that our commitment and recent actions towards

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overall governance reform demonstrate our willingness and determination to implement the entire program.

Briefly, the key areas of the program will include:

(i) Development of an Internal Capacity for Leading Reform

The Government will need to expand membership in the Administrative Reforms Coordinating and Monitoring Committee and the Executive Committee to include ministers from key line ministries who will spearhead strategic reform efforts. We will also need to operationalize several central staff units (i.e., Efficiency Unit in the Ministry of Finance, Governance Reform Coordination Unit and Personnel Information Systems Unit in the Ministry of General Administration). Additionally, we will need to create, train and utilize change units and improved senior management skills in the Ministries of Agriculture and Cooperatives (MOAC), Education and Sports (MOES), and Health (MOH), to meet the agreed program goals.

(ii) Program for Improving the Overall Efficiency of the Civil Service.

To improve overall efficiency, Government must shift resources from salary and emoluments to the operations and maintenance part of the recurrent budget. To achieve this change in mix, Government must secure additional savings in our personnel costs, as well as improve the current impact of O&M expenditures. In addition, Government must further extend the program of voluntary retirements, use the improving databases on personnel to remove ghosts employees, and introduce a pilot program of devolving non-core services, either through abolition, contracting out, or some form of commercialization. Government will also move to remove personnel who are inappropriately employed under the development budget, and critically review the number of public school teachers and their terms of employment, with a view to rationalizing their numbers and employment methods. In due course under the program, we will extend the techniques and experiences gained in the education sector to cover the MOAC and MOH.

The introduction of a communication program to report on progress under the overall reform program needs to be strengthened. We intend to develop and implement a public outreach and interactive communication program with every part of our society—politicians, labor unions, academia, and the public. Appropriate media will be used to disseminate information and explain the reform program we intend to implement, and to ensure that important input and feedback shapes the ongoing policy development and helps us judge and amend our performance.



श्री ५ कोषी सरकार

अर्थ मन्त्रालय

१. वी. म. २५९९९३
 राजस्व म. २५९८१३
 बजेट म. २५९८०१
 वैदेशिक म. २५९८३७
 प्रशासन म. २५९८०४
 आ. का. वी. म. २५९८२६
 आ. प्र. म. २५९७७५

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काठमाडौं नेपाल ।

processes within government service to make it more efficient and effective, and with appropriate attention to issues of gender.

Moreover, to achieve horizontal integration of gender concerns in all stages of policy formulation: (i) the Executive Committee will include the secretaries of MOCSW, CIAA and the Public Service Commission (PSC), (ii) the change units in the agreed ministries will consider women's representation in addition to assigning a gender focal point in each change unit, (iii) GRCU will include a female staff to ensure women's concerns are reflected in the reform process, (iv) PSC will designate a person(s) to liaise with GRCU to keep itself informed of proposed gender reforms and provide feedback to GRCU, and (v) GRCU, in collaboration with the TA consultants, will guide and monitor progress on mainstreaming gender concerns.

Additionally, we intend to improve our training programs. Initially we will critically review, revise and then introduce new training programs for new entrants and gazetted staff. Beyond this we also recognize the need for specific skills enhancement within certain areas of the program that are new within government, such as the devolution and commercialization of government functions. Here too training programs are to be delivered as an integral part of implementing the intended actions.

(v) Establishing Processes for Improving Performance in Key Ministries

MOAC, MOES and MOH have been selected as those where we can achieve the greatest impact on our delivery of services and thus contribute in both financial and social terms to a direct and positive impact on poverty reduction. Performance Improvement Plans will be developed next year for MOAC, to be followed by MOES and MOH. To provide an incentive to these ministries and to leverage the impact of these plans, it is intended to set up a Performance Improvement Fund. The Fund would provide those ministries with approved plans with added resources and more control over their own budgets. The funds would allow for the provision of additional training, purchase of additional equipment, and engagement of temporary specialists. With the assistance of the ADB we intend to provide all involved staff with specialized training in the creation and implementation of these plans, which will focus specifically on developing and then delivering improvements in Government services.

The five major areas described above form the program platform over the next five years. We expect to further develop this program and implement it seeking benefit from "best practice" experience elsewhere during its implementation.



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While recognizing the risks that this program entails and slow progress in the past, we believe the program as presented is the optimum approach to governance reform in Nepal. We are confident that our strong ownership of this program, and much needed financial and technical assistance from the ADB, will help us to achieve these reform goals.

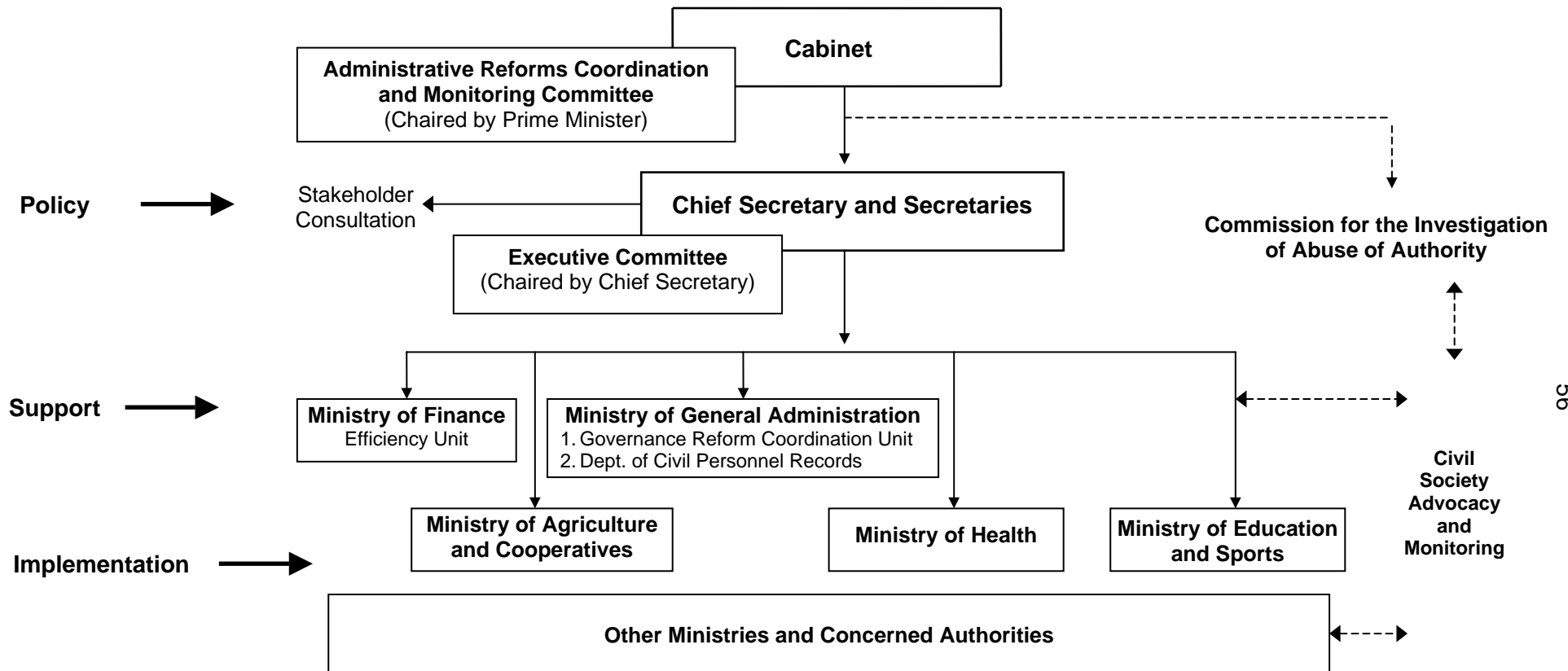
Yours Sincerely

A handwritten signature in cursive script, appearing to read 'Ram S. Mahat', written over a horizontal line.

Ram S. Mahat
Finance Minister



GOVERNANCE REFORM MANAGEMENT AND IMPLEMENTATION ARRANGEMENTS



Components:

- Leadership
- Efficiency
- Anticorruption
- Staff Competence
- Performance Improvement

BUDGETARY IMPLICATIONS AND STRUCTURAL ADJUSTMENT COSTS OF POLICY MEASURES

Policy Measure	Description	Phase I Budgetary Impact (Years 1-4)	Longer Term Budgetary Impact (Years 5-8)
<p>Approve a revised voluntary early retirement scheme (VERS)</p>	<p>The VERS was introduced in FY2001. Limited to lower level non-gazetted staff, about 2,600 applications were received and 2,550 approved. The target is to voluntarily retire a total of 10,000 staff over three years. The positions of those so retired will be eliminated. Savings are estimated at NRe100,000/ employee.</p>	<p>Cost: \$62.8 million Savings: \$14.4 million</p> <p>Source: The Department for International Development Assistance (DFID) has separately agreed with Government to provide \$15 million to cover the cost of 3,000-5,000 retirees in FY2001 and FY2002 (included in the above costs).</p>	<p>Cost: \$0 Savings: \$9.2 million</p>
<p>Approve Policies and Plans for Rightsizing Government</p>	<p>Attrition: About 1,100 positions will be vacated and abolished under the reform program.</p>	<p>Cost: \$0 Savings: \$1.5 million</p>	<p>Cost: \$0 Savings: \$10 million</p>
	<p>Contracting Out: Current Civil Service Act provisions prevent contracting out of normal positions. About 12,000 positions have been identified as eligible. If half this number are contracted out under the reform program, it would yield 6,000 times the average annual payroll cost of NRe100,000/ employee, to be offset against the contract amount of about 50 percent of this amount.</p>	<p>Cost: \$0 Savings: \$6 million</p>	<p>Cost: \$0 Savings: \$26 million</p>
	<p>Decentralization: Implementation of the Government's decentralization plans should save about 3,000 positions times the average annual payroll cost of R100,000/employee.</p>	<p>Cost: \$0 Savings: \$6 million</p>	<p>Cost: \$0 Savings: \$26 million</p>
	<p>Temporary Contract Positions: About 10,000 temporary positions are financed out of the annual development budget. Improvement in the management, administration, monitoring, and control of these positions could yield savings of 10 percent, or 1,000 positions, an average annual savings in payroll of NRe100,000/employee.</p>	<p>Cost: \$0 Savings: \$2 million</p>	<p>Cost: \$0 Savings: \$8.5 million</p>
	<p>Pay Policy Changes: After a review of salary structures and pay policy, salary increases to provide civil servants with competitive wages could lead to substantial salary increases, which are here assumed to be a modest 3 percent (\$9.4 million) annually, which would use the estimated savings in the first phase of the reform program.</p>	<p>Cost: \$37.7 million Savings: \$0 million</p>	<p>Cost: \$37.7 million Savings: \$0 million</p>

Policy Measure	Description	Phase I Budgetary Impact (Years 1-4)	Longer Term Budgetary Impact (Years 5-8)
Introduce Performance Management System and Improved Service Standards	Performance Improvements – Institutional: Administrative improvements will be made with respect to procurement and contract management systems. Assume a 5 percent improvement will be made in negotiations, management, and prevention of leakages.	Cost: \$0 Savings: \$7.5 million	Cost: \$0 Savings: \$33 million
	Implementation of Medium Term Expenditure Management Framework: Medium term expenditure framework or performance-based budgeting will result in better control and decision-making over the annual budget of Ministry of Agriculture and Cooperatives (MOAC), Ministry of Education and Sports (MOES), Ministry of Health (MOH), Ministry of General Administration (MOGA), and Ministry of Finance (MOF) of NRe25 billion (\$333 million), assuming a 5 percent savings will be achieved through lower budget amounts and slowdown or cap on the rate of annual increase in the budget.	Cost: \$0 Savings: \$66.7 million	Cost: \$0 Savings: \$131.2 million
Program Management	Program Unit Staff Costs (Governance Reform Coordination Unit, Efficiency Unit, Change Units) – Additional Expenditures: Assumes a 36-month program management period	Cost: \$60,000 Savings: \$0	Cost: \$60,000 Savings: \$0
	Computer Hardware/ Personnel and Payroll Systems: Assumes a 36-month program management period	Cost: \$15,000 Savings: \$0	Cost: \$5,000 Savings: \$0
	Performance Improvement Fund: Assumes three ministries (MOAC, MOES, and MOH) have access to this Fund	Cost: \$1.5 million Savings: \$0	Cost: \$5.0 million Savings: \$0
	New Induction Courses and Specialized Training Associated with Program Implementation: Assumes 5,000 people are either trained or retrained; costs include salaries, per diem, additional college costs	Cost: \$2 million Savings: \$0	Cost: \$3.0 million Savings: \$0
Reduce Corruption in Government	Public Awareness Campaign for Commission for the Investigation of Abuse of Authority	Cost: \$25,000 Savings: \$0	Cost: \$25,000 Savings: \$0
Total Costs		\$104.1 million	\$45.8 million
Total Savings		\$104.1 million	\$243.9 million
Net Savings/(Costs)		\$0 million	\$198.1 million

OBJECTIVES, SCOPE, AND TERMS OF REFERENCE FOR TECHNICAL ASSISTANCE

A. Overall Approach to the Consultancy

1. The objective of the technical assistance (TA) is to build upon the Government's improving ability to lead, coordinate and implement its chosen long-term governance reform program. Under TA 3622¹ the Government is receiving 100 person-months of TA to begin the process of building the reform program over the first 12 months of this four-year program, until October 2002. The proposed TA packages will provide supplemental assistance starting in year one (early 2002) of the program (Packages 2 and 3) and new assistance for years two through four (Package 1, beginning in November 2002), building on what is expected to be completed within the first year by adding resources for new initiatives as the program develops in later years.

2. The overall approach will be to assist the Government's own staff to plan, implement and monitor the agreed upon reform program. The Government has already established change units in the key ministries—Finance (MOF), General Administration (MOGA), Agriculture and Cooperatives (MOAC), Education and Sports (MOES), and Health (MOH).

3. The skills and working style of the international and domestic consultants will need to be appropriate to the objectives of the assignment, providing support to the staff. While consultants will need to have technical competence in their respective areas, it will be important that they do not undertake the work for the civil servants, but rather act as mentors and facilitators in the various areas to be covered. The consultant teams should be gender balanced. The TA will be organized into three separate packages: (i) Package 1, entitled Core Program Reforms, will cover all five program components (as contained in the policy matrix); (ii) Package 2 will cover Civil Society Support for Reform Measures; and (iii) Package 3 will cover Project Monitoring.

B. Package 1: Core Program Reforms

4. Package 1 will provide 6 international and 6 domestic consultants for a total of 46 person-months of international input and 64 person-months of domestic input. This package of assistance will provide inputs as described below. Each input area is related to a specific program objective. This package will continue the work started by TA 3622.

1. Component 1: Develop an Internal Capacity for Leading Reform

5. **Rationale and Objectives.** The Government has recognized that in the past it had no central focal point for managing a process of crosscutting governance reforms. As such it has created a number of focal points so that needed reforms have (i) a central strategic focus—the Administrative Reforms Coordination and Monitoring Committee, chaired by the Prime Minister; (ii) a central planning and monitoring focus across government—the executive committee of secretaries, chaired by the minister of general administration, and implementation units at the center; (iii) the Efficiency Unit in MOF; (iv) the Governance Reform Coordination Unit (GRCU) in MOGA; plus (v) change units in the three affected line ministries—MOAC, MOES, and MOH. The proposed TA aims to provide managerial and facilitation support to these groups to

¹ TA 3622-NEP: *Institutional Support for Governance Reforms*, for \$1,525,000, approved on 18 January 2001.

exercise their new terms of reference in undertaking needed policy decisions and implementation actions.

6. **Scope and Range of Services.** The TA will fund an international change management and management development specialist for 18 person-months who will also be the team leader, supported by a domestic consultant for 24 person-months, over a three-year period starting November 2002. The change management and management development specialist will be responsible to the secretary of MOGA and have overall responsibility for facilitating the work of the key committees and the five change units mentioned in para. 5, developing leadership and change skills of committee and change unit members, building confidence, and supporting preparation of draft policies and action plans by the respective committees and change units. The change management and management development specialist will also provide input into the design and presentation of leadership courses to be run for the staff of the change units in MOGA, MOF, and the line ministries.

2. Component 2: Improve the Efficiency of the Civil Service

7. **Rationale and Objectives.** Over past years the number of civil servants and teachers employed has increased beyond the ability of the budget to cope, thus reducing the amount of funds available for required operation and maintenance needed to make them productive in providing services to the populace. The planned efficiency initiatives involve a number of technical and administrative areas, such as payroll monitoring, development of computerized systems for personnel management, and auditing of numbers and payments where current skills and confidence levels among civil servants to undertake these actions are low. The TA aims to support the various change units at the center and in the line ministries to review the current problems in these areas and help them to devise and implement appropriate solutions to improve systems and procedures that will deliver savings and better impact for resources applied.

8. **Scope and Range of Services.** The TA will support the areas mentioned in para. 7, and will be implemented by the various units at the center and in affected line ministries. An international and domestic devolution specialist will work six and eight person-months respectively, and an international and domestic payroll specialist will provide five and six person-months of inputs respectively for this aspect of the TA.

3. Component 3: Improve Governance and Reduce Corruption in Government

9. **Rationale and Objectives.** The Government is making the reduction of corruption one of its key priorities. It has prepared legislation that will require asset declaration from politicians and gazetted civil servants, strengthen the Commission for the Investigation of Abuse of Authority (CIAA), and establish special courts. The Government intends to adopt additional anticorruption legislation such as those on whistleblower protection, and antimoney laundering.

10. **Scope and Range of Services.** An international and a domestic consultant will provide four and six months of assistance respectively between November 2002 and the end of 2004. The consultants will report to the chief commissioner of CIAA and liaise with the secretary of MOGA with the following key tasks: (i) provide support to draft new anticorruption legislation such as on antimoney laundering and whistleblower protection, (ii) advise the government on a comprehensive legal program for its anticorruption initiatives, and (iii) provide training to the staff of CIAA and other organizations involved in ensuring compliance with anticorruption legislation.

4. Component 4: Enhance the Competence and Motivation of Civil Servants

11. **Rationale and Objectives.** The Government has identified a number of areas that directly affect the competence and motivation levels of staff, including issues of remuneration, principles for hiring, promotion, discipline, and lack of specialized training. Under the ongoing TA 3622 the areas of remuneration, human resources policies for hiring, promotion, and grievance, are already being addressed. However, the issue of specialized training and the need for a reformulation of the induction courses and courses for gazetted officers remain. As well, gender imbalance needs to be more comprehensively addressed as a crosscutting issue. The TA will support human resource management processes, such as hiring, staff resource management techniques, grievance, transfer, and promotion procedures based on merit which have to be addressed. Additionally, annual performance reviews and procedures for succession planning of senior civil servants will be introduced. These are all to be underpinned by further refinements to the pay policy and a new wage scale.

12. **Scope and Range of Services.** The international and domestic consultants will respectively provide three and eight months of assistance from November 2002 to the end of 2004, reporting to the secretary of MOGA, and also working with management of the Nepal Administrative Staff College and the Public Service Commission. The international and domestic consultants will both have experience in building institutional gender capacity to translate gender concepts into the reform process and outputs, including increasing women's representation in organizations.

5. Component 5: Establish Processes for Improving Performance in Key Ministries (MOAC, MOES, MOF, MOGA, and MOH)

13. **Rationale and Objectives.** In recent years some sector ministries have made attempts to provide better service delivery but these efforts have tended to be fragmented and piecemeal. In keeping with the Government's overall goal of improving service delivery, three core service delivery ministries will undertake a program of improving their service delivery performance, as monitored against established service standards. Further, in terms of overall performance, this effort is to be leveraged through the creation of a performance improvement fund, whereby ministries with approved plans gain additional control over resources allocated under the budget. Additionally, the two central ministries, MOGA and MOF, need to have their program support units—GRCU in MOGA and the Efficiency Unit in MOF—strengthened so their staff can provide guidance to the line ministries under the Program, and also within the wider aspects of their day-to-day responsibilities.

14. **Scope and Range of Services.** The scope of this initiative, which will start with MOA under the ongoing TA 3622 contract, and be extended to MOES and MOH during the second to fourth years of the program, requires expertise in performance management. The performance management specialist, working with other specialists will assess the skill levels and needs of line ministry personnel and management in relation to preparation of performance improvement plans, and will provide direction on covering areas directly relevant to production of the plan. The services of performance management specialists (10 person-months of international expertise and 12 person-months of domestic expertise) will be required.

C. Package 2: Civil Society Support for Reform Measures

(44 person-months of domestic input)

15. **Rationale and Objectives.** The Government has decided that, to build political and civil society support for the Reform Program, it will conduct a widespread communication campaign regarding all the major aspects of the Reform Program. Internally this will include civil servants, politicians, and the unions directly affected by the scope of the Governance Reform Program. Externally, it will address civil society and nongovernment organizations. In the communication effort, the gender-sensitive aspects of the Program will also be emphasized. It is intended not only to inform, but also to seek discussion and inputs from civil society as a way of making the Program more transparent and ensuring that where the public are directly concerned—such as the use of services—they have mechanisms for input and feedback on performance.

16. **Scope and Range of Services.** The contract will cover two areas: (i) general communication on the Governance Reform Program to a variety of audiences; and (ii) specific communication to the public on issues of service delivery standards, including mechanisms for input to the standards and feedback on performance.

D. Package 3: Program Monitoring (12 person-months of domestic input)

17. **Rationale and Objectives.** The Government has recognized that, as part of its efforts to increase transparency and increase civil society confidence in its efforts for governance reform, it will be necessary to utilize the services of a reputable, independent organization or individual to review the program, procedures, plans, and results achieved, and to have these findings distributed and discussed in the widest possible forums. The proposed TA will fund these program monitoring services.

18. **Scope and Range of Services.** Needed inputs are for a program evaluation specialist (12 person-months) over the 48-month program period.

E. Implementation Arrangements for the Consulting Services

19. The prime Executing Agency for all proposed TA will be MOGA, in conjunction with MOF and the three line ministries implementing the program actions. As detailed above, each package and its component parts will be provided for various periods during the program, and will be tailored to fit the progress being made under each element of the overall Program. In total the TA will require 46 person-months of international input, as defined above, and will utilize 120 person-months of domestic consulting services, with (i) Package 1 using 46 person-months of international and 64 person-months of domestic, (ii) Package 2 using 44 person-months of domestic, and (iii) Package 3 using 12 person-months domestic consultant input. Total costs of the proposed TA packages are summarized in Table A6.1, and amount to \$2.4 million, of which about \$2 million may be financed from bilateral aid agencies, or the Government.

Table A6.1: Cost Estimates and Financing Plan

Item	Foreign Exchange	Local Currency	Total Cost
A. Bilateral Financing (3 Packages)^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	#REF!	0	#REF!
ii. Domestic Consultants	0	#REF!	#REF!
b. International and Local Travel	50,000	30,000	80,000
c. Reports and Communications	0	24,000	24,000
2. Equipment	34,000	0	34,000
3. Seminars and Meetings	0	45,000	45,000
4. Consultations with Civil Society	0	30,000	30,000
5. Miscellaneous Administration and Support Costs	0	25,000	25,000
6. Representative for Contract Negotiations	9,000	0	9,000
7. Contingencies	#REF!	#REF!	#REF!
Subtotal	#REF!	#REF!	#REF!
B. Government Financing			
1. Office Accommodation and Transport	0	150,000	150,000
2. Remuneration and Per Diem of Counterpart Staff	0	100,000	100,000
3. Facilities for Seminars and Meetings	0	80,000	80,000
4. Other Administrative Expenses	0	100,000	100,000
Subtotal	0	430,000	430,000
Total	#REF!	#REF!	#REF!

^a Financing for the three TA packages is being sought from a number of bilateral financing agencies.

Source: Staff estimates.

INELIGIBLE ITEMS

1. The proceeds of the proposed loan may be used to finance the foreign currency expenditures of imported goods (excluding any duties or taxes) required during the implementation of the Program. All imported goods financed from the proposed loan must be produce in and procured from the member countries of the Asian Development Bank (ADB).

2. Notwithstanding the provisions in para. 1, no withdrawals may be made for:

(i) expenditures for goods included in the following groups or subgroups of the United Nations Standard International Trade Classifications, Revision 3:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured; tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls; precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors and parts thereof; fuel elements (cartridges, non-irradiated, for nuclear reactors)
897	897.3	Jewelry of gold, silver, or platinum group metals (except watches and watch cases); goldsmiths' wares or silversmith's wares (including set gems)
971	-	Gold, nonmonetary (excluding gold ores and concentrates) instruments

(ii) expenditures for goods intended for military or paramilitary purpose or for luxury consumption;

(iii) expenditures for pesticides categorized as extremely hazardous or highly hazardous (Class 1a or 1b, respectively, of the World Health Organization's *Classification of Pesticides by Hazard and Guidelines to Classification*);¹

(iv) expenditures for goods supplied or to be supplied under any contract that a national or international financing institution or any other financial agency has financed or agreed to finance, including any contract financed or to be financed under any loan from ADB; or

(v) expenditures incurred more than 180 days prior to the date of effectiveness of the loan.

¹ United Nations Environmental Programme. *The WHO recommended Classification of Pesticides by Hazard and Guidelines to Classification* 1996-1997, Geneva, 1996.

SOCIAL AND POVERTY IMPACT ASSESSMENTS

A. Social Assessment

1. There is higher poverty incidence in Nepal in more remote areas and among more socially excluded and vulnerable groups. The change process is even slower where human development indicators are low, and consequently the barrier of social stratification is stronger. Ethnic minorities and caste groups are often lower in the social hierarchy, with unequal distribution of access to resources. Women also face discrimination; they have always been assigned a lower position than men in every aspect of life. Various socioeconomic indicators have been improving in Nepal since their collection was started roughly four decades ago. However, as the country started with very low values for such indicators and progress in most cases has been at a relatively low pace, the current situation is characterized by low levels of socioeconomic indicators even by South Asian standards. Almost 60 percent of the adult population cannot read or write—almost 80 percent for females and 43 percent for males; less than 30 percent of the population does not have access to safe drinking water; the country has the highest infant mortality rate (75 per thousand in 1999) in South Asia; and about 47 percent of children below five years of age are malnourished.

B. Poverty Assessment

2. The first effort to gauge the incidence of poverty was attempted by the National Planning Commission in 1976/77. The Nepal Living Standards Survey (1996)¹ provides the latest information on the dimensions and characteristic features of poverty. According to the Survey, the poverty line is set at NRe4,404 per person per year,² based on a food consumption basket of 2,124 calories and an allowance for nonfood items of about 35 percent of the cost of the food basket.

3. Poverty in Nepal is widespread, with 42 percent of the population living below the poverty line. This figure does not, however, convey the depth and severity of poverty in Nepal. Large segments of the poor are hardcore poor, barely eking out a subsistence living from fragile, vulnerable ecosystems, and large areas of the country lack even the most basic infrastructure, which is reflected by low socioeconomic indicators at the district level. There are wide variations based on the rural-urban divide, geography, ethnic group, and occupational caste. About 44 percent of rural households and 23 percent of urban households are estimated to lie below the poverty line. Given that close to 88 percent of the total population reside in rural areas, poverty is much more severe in rural areas. It does not vary much between the hills and the Terai, but is much higher in the mountains.³ The distribution of poverty incidence across the five development regions indicates that the number of households below the poverty line in the eastern and central development regions is less than those of the other regions.

C. Social and Poverty Impact of the Civil Service Reform Program

1. General Impact

4. The social and poverty importance of governance reforms is analyzed in terms of their anticipated impacts upon the labor market, prices of goods and services, service delivery, public

¹ Central Bureau of Statistics with support from the World Bank.

² This comes to \$80 adjusted to inflation and at an exchange rate of \$1 to Re70 for FY 2000.

³ Nepal is divided into three geographic regions, the lowlands (Terai), the middle hills, and the high mountains.

social expenditure, participation and empowerment, and poverty. Civil service reforms touch upon major issues related to reducing the size of the bureaucracy, enhancing morale through improved pay scale and implementation of a merit-based recruitment and promotion system, reducing corruption through the use of transparent procedures and creating a framework for prosecuting corrupt politicians and civil servants, and promoting leadership qualities among civil servants. These measures are intended to improve social sector service delivery, enhance resource allocation efficiency and its use, generate a greater sense of accountability, monitor public and private sector performance more effectively, and promote more transparent and participatory decision-making. The reform measures are thus meant to facilitate the implementation of strategies to achieve poverty reduction through pro-poor, broad-based economic growth; social sector development; and targeted poverty reduction programs.

5. Governance reforms are expected to have significant social impacts due to efficiencies in resource allocation and resource use. Human development indicators can be significantly improved if social services in the areas of basic and primary education, basic general and reproductive health services, and safe drinking water can be provided effectively when needed. The economy's growth prospects will improve as the reforms begin to stimulate revenue generation of the Government, better management of public expenditures, efficient and effective implementation of development projects, and closer regulation of private sector activities to promote competition. A sustained high growth rate based on successful reform is a precondition for poverty reduction.

2. Impact on the Labor Market

6. The impact on the labor market can be expected in both the number of employment opportunities and the quality of the labor force in terms of labor productivity. Reducing both the size of the bureaucracy and the number of public enterprises will create structural unemployment. Retrenchment creates possible problems through the impact of voluntary early retirement schemes on the Government's financial position, and through early retirement of more efficient personnel rather than redundant, inefficient staff. Hence, mass retrenchment should be avoided, and personnel numbers should be gradually and selectively reduced. To retain valued personnel, a negative list may need to be developed to prevent such staff from leaving the civil service.

7. Pay increases and a merit-based recruitment and promotion system will augment the efficiency of labor. As the pay structure of civil servants is extremely low, such reform measures will improve their economic status. The privatization of noncore functions will possibly create unemployment. However, since many of the affected staff are likely to be hired by the private sector to provide the services, they will benefit from improved service delivery, and individual employment will most likely to be positive. For those who are not easily absorbed by the private sector, training programs are required to minimize the impact of structural unemployment. Apart from the direct impact upon employment, indirect effects through better project implementation are also likely. Delays in project implementation of many labor-intensive infrastructure development programs could be expected to diminish and as a result the demand for such labor will be steady and wage income more regular as projects are effectively implemented.

3. Impact on Prices of Goods and Services

8. Experience in the past has shown that pay increases are often accompanied by a rise in the prices of goods and services. This phenomenon was significantly reduced recently with the introduction of a liberal economic policy seeking to diversify sources of supply of goods and

services, and making them more competitive. So pay hikes are likely to have a negligible negative impact in terms of price rises.

9. The privatization of noncore functions could raise the prices of such services, as such services were previously available at a lower price, and at a lower efficiency level. However, increased efficiency will gradually compensate for the increase in prices. It is a general trend worldwide to provide public services either free of cost or at unrealistically low prices. As service charges are introduced or raised, prices of such services are bound to rise. However, consumers in Nepal have demonstrated in many sectors that they are willing to pay if they receive better services on a sustained basis. To minimize the impact of such price increases on the poorer income groups, prices can be increased at a differential rate—higher rates for higher level of consumption of the goods and services under consideration.

10. The reform measures could also lead to better delivery of economic services by some of the public enterprises, resulting in price stabilization efforts as more efficient operations are achieved. At the moment, prices are raised on a regular basis to meet the interest on costs and other leakages. Such services include electricity, communications, and water supply.

4. Impact on Service Delivery

11. A significant impact can be expected upon service delivery in terms of the timeliness and quality of service delivery. Despite the availability of physical facilities even in remote areas of the country, these services are often very poor. Hence, any incentive to civil servants to deliver services more effectively and efficiently through these service outlets will lead to an increase in human development indicators like literacy rate, infant and child mortality rates, and so on. They will also help lower the maternal mortality rate and improve life expectancy levels. As the poorer people mostly consume these public services, any efficiency gain in service delivery will directly benefit the poor. For goods and services provided only by the public sector, differential price policies are needed to protect the poorer groups.

5. Impact on Public Social Expenditure

12. Civil service reforms by themselves will not have much impact on social public expenditure. In the context of the 20/20 compact,⁴ the Government is trying to increase public expenditure for social priority sectors to the desired level. However, since there is evidence of allocated resources not being spent, increasing social public expenditure would be difficult, if not impossible. In this context, the reform measures can contribute to better management of public expenditure, and in the process the impact of these social priority programs will be enhanced.

6. Impact on Participation and Empowerment

13. The other significant expected impact of the reforms is on participation and empowerment. There are different aspects of this possible impact. The Local Self-Governance Act has established the framework for active participation of local government bodies, and any reform measures now have the potential of engaging all local government bodies more productively. However, due to weak institutional capacity, the local government bodies by themselves will not be able to take up the responsibilities. They can be expected to play a greater role in the management and financing of primary schools and health services centers if capacity-building assistance is provided to them.

⁴ Agreed at the World Summit for Social Development, 6-12 March 1995 in Copenhagen, Denmark.

14. Likewise, the governance reforms could result in greater participation and empowerment of socially excluded groups and women through capability-building measures, such as support for courses to prepare targeted people to appear in the civil service and similar examinations. Similar courses could be developed for the purpose of promotion. One other measure could be to make candidates from such targeted groups eligible to join the civil service once they pass the written examination.

7. Impact on Poverty

15. The governance reform measures will have significant impact upon poverty reduction. The Government is the main service provider to poorer people. So any efficiency gain in providing services in basic education, basic health services, and increasing access to safe drinking water will reduce poverty. They will also boost labor productivity, providing a positive impact upon incomes as well. Improving the quality of the services should be viewed as a mitigation measure to possible price increases or high prices of private sector service providers.

16. The services provided by the private sector usually do not reach the poor people, but they have the potential of releasing government resources to focus on specific target groups. Moreover, private sector involvement in providing services helps expand the number of jobs and in the process create employment opportunities. Enhancement in the efficiency of public expenditure management is expected to improve the absorption capacity of the social sector. It will facilitate further allocation of public resources on these sectors and make these services available to targeted groups and areas.

17. Reducing implementation delays in infrastructure development programs will lessen the fluctuation in demand for labor and will make wage income more regular. Wage income is one of the major nonfarm income sources and is a coping strategy at the time of natural disasters. Privatization of noncore functions of the Government and greater private sector involvement in providing utility services, particularly in the urban areas, are likely to increase the prices of such goods and services. They will increase the cost of living of the urban poor. To minimize such impacts, services at the community level could be provided at reduced prices.

8. Impact on Gender Issues

18. Downsizing the bureaucracy, reducing the size of the teacher service, and transfer of some functions to local authorities could reduce the total number of women civil servants, although perhaps not the percentage. However, women in general are expected to benefit significantly by way of efficient service delivery, greater access to services, gender empowerment, attempts to increase female representation in the civil service, gender sensitization of the civil service and government policies and programs, and increased public social expenditure. As the number of women civil servants may be reduced, gender auditing and gender sensitization of government policies and programs are likely to suffer. To combat this, inclusion of a gender sensitization component in different training programs, and a guideline to incorporate gender perspectives could minimize such impact, which is essentially short term. A social impact matrix summarizing impacts of the reform program is contained in Table A8.1.

Table A8.1: Social Impact Matrix

	Social Impact			
	Direct	Indirect	Macro	Overall
Labor Market	Some structural and temporary unemployment	Large employment generation in the private sector	Employment opportunities, increase in nonfarm sources of income, structural change in the economy	Higher growth rate
Service Provision	Quality and efficient service delivery in education, health, and drinking water provisions	Larger and more competitive services from private service providers	Coverage of larger population base	Improved labor productivity and higher wage and income level
Social Public Expenditure	Higher allocation of public resources on social priority sectors	Greater public resources can be directed to social sector as the coverage of private sector will grow	Achieving international norm as per compact 20/20 in public resource allocation in social priority sectors	Competitive and quality manpower
Human Development	Improvement in literacy rate and health status, and reduction in waterborne diseases	Greater working period in a year, reduction in mortality rates, more productive human resources	Improvement in per capita income and human development, and decline in population growth rate	Improvement in income and human development indicators
Poverty	Some retrenched low level staff can face hardships. Price increase can lower the access of poor to some of the services, particularly from the private sector	Many of the unemployed, due to privatization of services, will find jobs in the private sector, and higher efficiency and higher wage level	Employment generation at various levels	Improvement in poverty indicators and inequality in income
Participation and Empowerment	Improvement in social composition of bureaucracy, initial friction in work relationships	Greater social harmony and interaction	More transparent recruitment and promotion system, more market based labor market and labor relationships	More responsible citizens and political culture, strengthening of democracy and market-based economy
Gender Issues	Reducing the size of bureaucracy and transfer of functions of some ministries to local bodies will reduce the number of women at decision-making level in civil service. So is the case with number of women teachers.	Women will largely benefit from reform measures through training, gender sensitization, and more efficient service delivery. Possible reduction in women civil servants could negatively affect gender auditing and gender sensitization of government policies and programs	Improvement in status of women due to economy wide and nation wide impact gender sensitization measures.	Higher status of women, and improvement in gender related indicators.

GENDER IMPACT ASSESSMENT

A. General Background

1. Women in Nepal lag far behind men in social development, access to economic resources, and positions of power and decision-making roles. The adult female literacy rate is the lowest in South Asia, and the maternal mortality rate is the highest. On the other hand, Nepal's agriculture, particularly in the hills, depends largely on women. Women's share in the agricultural labor force increased from 45 percent in 1991 to 56 percent in 1999.¹ Women are also coming out to work in the industry and service sectors, constituting 31 percent of the non-agricultural labor force and 15 percent of the manufacturing labor force. Despite increasing involvement in the economy, women's participation in policy-making at higher levels, and their placement in political, administrative, and managerial positions is very low. Nepal also lags far behind other countries on many indicators concerning women, including the gender development index, even within the South Asia Association for Regional Cooperation region (Table A9.1).

Table A9.1: Selected Indicators of Women's Status (1997-1998)

Country	Female Population (% of total)	Female Labor Force (% of total)	% Literate Female Adults	MMR (per 100,000 births)	Gender Development Index	Women in Adm.& Mgt.	Women in Civil Service (%)
Nepal	50	42	25	540	0.441	9.1	7.66
Bangladesh	49	41	27	440	0.428	5	7.88
Bhutan	50	na	30	1600	0.444	na	na
India	48	32	39	410	0.525	2	6.80
Maldives	47	na	96	202	0.711	14	na
Pakistan	46	29	25	340	0.472	4	5.35
Sri Lanka	50	36	88	60	0.712	18	21.1
South Asia	48	33	37	405	0.511	3^a	na

MMR = Maternal Mortality Rate, na= not available.

^a Does not include Nepal.

Source: Mahbub ul Haq Human Development Center: *Human Development in South Asia*, 2000.

2. Given this situation, involving women in the development process on an equal footing with men has been an issue of particular concern to the policy-makers in the country since the early 1980s. The Sixth (1980-1985) and subsequent five-year plans have emphasized women's involvement in the developmental process on a more equitable basis. Particularly, after the advent of democracy in Nepal in 1990, the five-year plans have emphasized the need for increasing women's access to decision-making levels in all walks of life. But progress has been slow and the proportion of women in senior decision-making positions in the civil service and politics has not progressed beyond tokenism, except at the lowest ladder of the political hierarchy, the ward committees. This exception at the ward level was achieved by a blanket reservation of 20 percent of the seats for women.

3. In light of the slow progress in mainstreaming women in the national development process and to conform to the Beijing Platform for Action (1995), in the current Ninth Plan (1997-2002) the Government changed its approach to gender issues. Policies enunciated in the Plan are divided under mainstreaming, eliminating gender inequality, and empowerment.

¹Central Bureau of Statistics: *Population Monograph of Nepal*, 1994 and *Nepal Labor Force Survey 1998/99*, 2000.

Among other things, mandatory representation of women in the formulation of policies and programs at all levels and affirmative action have been promised, as empowerment of women presupposes the participation of women in the overall governance process of the country.

4. The Constitution of Nepal (1990), while embodying the principles of equality of all citizens, irrespective of their religion, race, sex, caste, ethnicity, etc., recognizes the specific responsibilities of the state towards the development of women and other disadvantaged groups (Article 26.7, 9 and 10). Moreover, the Government has repeatedly committed itself to taking the necessary measures to implement this responsibility in several international conventions and declarations, including the Beijing Plan of Action.

B. Women in Nepal's Civil Service — Current Status

5. In spite of numerous policy declarations and government commitments, the issue of increasing female representation in the civil service has not received serious mainstream attention so far. The administrative reform commissions, which have produced several reports, have assumed the civil service to be gender neutral. On the other hand, the cabinet has approved a Nepal National Strategy (1997) for the implementation of the Beijing Plan of Action, which explicitly specifies the need for affirmative action and recommends a 20 percent reservation of civil service positions at all levels.

6. The Government has also initiated certain measures to promote women's entry into and promotion through the civil service, by including special provisions on women in the Civil Service Act (1993). These provisions give women a five-year concession on entry age (35 years for men and 40 years for women), a six-month advantage in the probation period (one year against six months), and a one-year advantage regarding the minimum period of service for promotions. The act also requires joint posting of spouses in the same district if both are in government service. To improve women candidates' capacity to take the Public Service Commission (PSC) examinations, some preparatory courses have been organized since December 1996 for Class Three level positions in the administrative service on the initiative of the Ministry of Women, Children, and Social Welfare (MOWCSW).

7. In the meantime, women's representation in the civil service has continued to remain at less than 9 percent in total, and less than 5 percent at the policy level (Table A9.2). Moreover, the rate of increase in their proportion has been slow, particularly at the decision-making level (3 percent in 1978, and 5 percent in 2001). A matter of greater concern is the fact that there has been a decline between 1999 and 2001. The intake of women in the civil service is minimal, and promotions have been negligible. After the current pool of first class and second class women officers retire in the next 2 – 3 years, this proportion is expected to decline further. For example, between 1995/96 and 1999/2000, 544 persons were recommended by the PSC for officer level intake to the Administrative Service. Only eight of them (1.4 percent) were women. All of them were for the third class level. Of the 56 recommendations for Class II and I, none was a woman, despite the fact that eight women had taken the examination for Class II and 14 for Class I.

Table A9.2: Percent Women in the Civil Service (1978-2001)

Positions	1978	1993	1999 June	2001
Gazetted Officers^a	3.23	4.39	5.16	5.12
Special and First (Policy Level)	1.00	2.31	4.87	4.02
Second	2.49	4.48	3.16	5.04
Third	3.66	4.54	5.24	5.34
Nongazetted (Support Staff)^b	2.37	na	8.20	8.93
Total	2.62	na	7.81	8.55

na = not available.

^a Gazetted class is the officer or professional staff.

^b Nongazetted class is support staff.

Sources: MOWCSW, 2000; MOWCSW: Beijing Plus Five -Country Report, 2001; MOWCSW, unpublished data for 2001; Acharya, M.: *Statistical Profile of Nepalese Women*, 1979; Acharya, M.: *Gender Equity and Empowerment of Women*, 1997, Kathmandu.

8. Similarly, 120 officers were promoted from Class III to Class II overall in the civil service, but none was a woman, while among the 61 persons promoted from Class II to Class I, there was only one woman. Further, in April 2001, 17 secretary level positions were filled. No woman figured in the shortlist. It seems that relatively few women apply for entry to the civil service, especially at higher levels, and even fewer succeed. In the PSC entry examinations for Class III officers for the Administrative Service discussed above, among nearly 57,000 applicants, only 4 percent were women, despite the fact that in 1991 women constituted about 18 percent of the graduate population.

C. Constraints on Entry and Promotions in PSC

1. Entry

9. In the last few years several studies have tried to analyze why few women apply for the PSC examinations and fewer succeed. The promotion process and the examination process have also been analyzed in some detail, with stakeholder involvement.² Common constraints on women's entry into and promotions in the civil service that emerge from these studies are summarized below.

10. **Social Attitudes.** Marriage and children are still considered the first priority for women, educated or not. This pressures families to marry their daughters by the time they are in their early twenties. By the time women are ready to take entry examinations, mostly they are married and engaged in rearing children, which leaves little time to prepare for the competitive PSC examinations for government jobs. A rearing that prepares girls to accept only a secondary role in public life creates lack of confidence among women and their family members on their capacity to compete and to succeed in the PSC examination.

11. **Market Conditions.** The low percentage of female graduates and the tough competition in the PSC examinations also result in low female application rates for civil service jobs. Growing job opportunities in the teaching and other nongovernment sectors including the private sector offer women a better work environment and facilities. This has resulted in a lack of interest in

² Adhikary, *Women in the Civil Service* 1998; MOWCSW: *Gender Dimensions in Civil Service*, 2000; SAHAVAGI, *Engendering the Nepalese Civil Service with Specific Reference to Entry in Administrative Services and Promotion System*, 2001.

government jobs among urban women, who have the necessary educational prerequisites, whereas their rural counterparts lack the required qualifications. Parents who are in the civil service also provide a negative impression of the civil service, complaining about the low pay and rampant favoritism and nepotism.

12. **Work Environment.** The work environment in government jobs is not perceived to be woman-friendly. Women government officers complain that their male colleagues and superiors underestimate the capabilities of female staff. Stagnation of women officers in lower positions for a long time compared with their male colleagues due to gender-biased promotion criteria also creates an image problem, even for those women graduates who want to join the public service. Lack of flexibility in work hours and other facilities such as adequate leave and physical facilities (daycare centers, toilets, etc.) discourage women further from joining the civil service.

13. **PSC Examination System.** The PSC examinations, up until the recent past, even when revisions were introduced, were outdated, vague, wide in scope, and not favorable to fresh graduates. The questions, focused especially on general knowledge and social studies, are memory testing type questions, rather than testing the capacity of the candidates. Women candidates have less time to memorize these facts and figures. Further, the requirement to write the examination in Nepali while university education is mostly in English, the practice of allocating additional marks for higher divisions in academic qualifications and to additional degrees at the oral interview even after being called for an interview, and lack of examination centers at the regional level all combine to discourage women from taking the PSC examinations. All of these constraints are applicable to male aspirants from rural areas and disadvantaged groups as well, but they hinder women more than men because of the social constraints on their mobility and their household responsibilities. Lack of sufficient preparation time due to the system of holding examinations immediately after the two important festivals in Nepal is also a further reason why few women apply for civil service openings.

2. Promotions

14. The major factor responsible for the lower promotion rate of women as compared with men emerging from almost all stakeholder surveys and studies is the current marking system. The system of allocating more marks for higher academic qualifications (bachelor versus advanced degrees) and training diplomas has put women in a disadvantageous position because fewer women have advanced degrees. They are unable to compete with men on an equal footing in this respect if they had no master's level degree at the time of their entry into the service.

D. Likely Impact of the Governance Reform Program

1. Overall Impact

15. Some of the elements in the reform program such as reducing corruption, limiting the number of ministries and departments, statutory boards and authorities, and the staff development efforts will benefit women no matter how they are designed. To make them more gender sensitive, efforts must be made to include the maximum possible number of women in the institutions being considered and to provide gender training to the whole civil service establishment. Major problems may arise when the issues at stake are "rightsizing" and freezing recruitment, and designing procedures for staff evaluation.

2. Women's Representation in the Civil Service

16. The proportion of women in decision-making levels is one of the most important indicators of their empowerment. Their representation at decision-making levels in the civil service is important not only on equity grounds but also on efficiency grounds. Women constitute half of the nation, and involvement of the stakeholders in policies and programs must include them for program efficiency. Thus, increasing female representation in the civil service is an important intervention for female empowerment and equitable development. Prioritizing gender issues in the civil service implies simultaneous interventions in three areas: (i) increasing the representation of women in the civil service; (ii) reforming the acts, regulations, rules, and processes to facilitate gender-balanced development; and (iii) beginning a process to change the attitude of those who are in decision-making roles. An administrative reform designed to overhaul the whole system, with both short- and long-term perspectives, must be gender responsive and plan interventions in all three directions within the framework of the overall reform.

17. The freezing of recruitment will close all entry possibilities for women. Rightsizing will also mean a reduction in staff numbers and transfers of staff and their functions to local authorities. These transfers will probably reduce women's representation in the civil service at decision-making levels, as a majority of women at higher levels within the civil service are in technical services in the three pilot ministries (Agriculture and Cooperatives, Education and Sports, and Health).

E. Implementation Mechanisms

18. The administrative reforms coordination and monitoring committee and executive committee should include the minister of MWCSW and the secretary of MOWCSW to provide continuous gender input to the reform program. Similarly, a gender focal point should be included in the Governance Reform Coordination Unit in the Ministry of Genral Administration, and the Efficiency Unit in the Ministry of Finance.

19. Terms of reference for the management teams in ministries and departments to be created to manage and implement reform must provide for gender focal points. These teams should also include representatives of women's units in departments and ministries where they exist. Consultations with internal stakeholders on reforms must include women's representatives.

F. Monitoring Arrangements

20. All monitoring mechanisms designed under the reform program should contain gender-disaggregated information and gender impact analysis. MOWCSW should create a unit for monitoring the governance reform program or assign specific responsibility to an existing unit.