



Technical Assistance Report

Project Number: 36172
August 2006

Nepal: Preparing the Governance Reforms and Decentralization Cluster Program I (Financed by the Japan Special Fund)

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 August 2006)

Currency Unit	–	Nepalese rupee(s) (NRe/NRs)
NRe1.00	=	\$0.013468
\$1.00	=	NRs74.2480

ABBREVIATIONS

ADB	–	Asian Development Bank
CBO	–	community-based organization
GRDCP	–	Governance Reforms and Decentralization Cluster Program
ICT	–	information and communications technology
NGO	–	nongovernment organization
OPMCM	–	Office of the Prime Minister and Council of Ministers
PPTA	–	project preparatory technical assistance
RRP	–	report and recommendation of the President
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Law, economic management, and public policy
Subsectors	–	National government administration, subnational government administration
Themes	–	Governance, capacity development
Subthemes	–	Public governance, anticorruption, institutional development

NOTES

- (i) The fiscal year (FY) of the Government ends on 15 July.
- (ii) In this report, "\$" refers to US dollars.

Vice President	L. Jin, Operations Group 1
Director General	K. Senga, South Asia Regional Department (SARD)
Director	A. Sharma, Governance, Finance, and Trade Division, SARD
Team leader	G. Bhatta, Senior Governance Specialist, SARD
Team members	S. Shrestha, Senior Governance and Capacity Building Officer, Nepal Resident Mission, SARD
	X. Fan, Economist, SARD

I. INTRODUCTION

1. The Government of Nepal has requested the Asian Development Bank (ADB) for project preparatory technical assistance (PPTA) to prepare the Governance Reforms and Decentralization Cluster Program (GRDCP) I included in the country strategy and program 2005–2009.¹ The PPTA is programmed for ADB's 2006 TA program for Nepal. The PPTA Fact-Finding Mission² visited Kathmandu, Nepal, from 12 February to 3 March 2006 to ascertain the context, scope, and direction of the proposed TA. In light of the political changes that took place in Nepal in April 2006, a subsequent mission³ from 26 June to 7 July 2006 assessed the implications of the changing governance situation for the proposed TA. During the second mission, an agreement was reached with the Government on the impact, outcome, outputs, implementation arrangements, costs, financing arrangements, and terms of reference for the PPTA. The design and monitoring framework is in Appendix 1.⁴

II. ISSUES

2. **Background.** With a low per capita gross domestic product (of about \$311), and a poverty incidence of 38%, Nepal is undoubtedly one of the poorest countries in the world. Compounding the problem in the past decade or so—and until only very recently—has been a violent insurgency, which has not only aggravated life for ordinary people in rural areas but also contributed to political instability at the central level. In April 2006, popular demonstrations against the King, who had usurped total power in 2005, led to the reinstatement of Parliament and the restoration of democratic freedoms. There is hope that Nepal will now finally see a sustained period of political stability, although much work to create a sustainable political system remains.

3. This recent political change in Nepal should be seen as a positive step in the Government's fight against poverty. The causes of poverty in Nepal are varied: inadequate access to basic social and education services, poor public sector governance, and uneven distribution of the benefits of growth to the population are but a few. Improving public sector governance is essential and includes, among others, (i) transparency in government work, (ii) increased decentralization to local governments, and (iii) improved delivery of public services.

4. **Government Approach.** Plans for good governance in Nepal have hinged on the following: (i) people-centered and inclusive governance, (ii) effective public service delivery, (iii) improved government accountability and transparency, and (iv) accelerated decentralization. Systems reforms in the country have centered on reorganizing central administration, and improving its relationships with local administrations.⁵ This set of reforms, for now, has concentrated on some key aspects, including the beginnings of a legal basis for good governance, and a decentralization program, to make public service delivery more effective.⁶

¹ ADB. 2004. *Country Strategy and Program (2005–2009): Nepal*. Manila.

² The Mission comprised Gambhir Bhatta, Senior Governance Specialist, SAGF/SARD, Mission Leader; and Surya P. Shrestha, Senior Governance and Capacity Building Officer, Nepal Resident Mission, SARD.

³ The second mission consisted of the members of the first one, as well as X. Fan, Economist, SAGF/SARD.

⁴ The TA first appeared in *ADB Business Opportunities* on 13 June 2006.

⁵ At present, five development regions, 14 zones, 75 district development committees, 58 municipalities, and almost 4,000 village development committees compose noncentral government in Nepal.

⁶ The Government is also currently targeting changes in the civil service. There are proposals to move the civil service structure from a positional one (clerks, undersecretary, etc.) to one based on levels (support staff, professional, and executive levels, with grades or steps in each). However, the Government has also proposed

5. On governance reforms at the central level, the previous government had issued the Ordinance for Realization of Good Governance in early 2006, which focused on (i) demarcating the responsibilities of elected politicians from those of career civil servants, (ii) minimizing conflict of interest in government work, (iii) increasing transparency in administration, (iv) improving access to information about government work, and (v) delegating bureaucratic authority. The Ordinance is still valid, even as far-reaching political changes are being debated and the current government has yet to fully express its support for it.

6. On subnational administration, the Constitution of Nepal 1990 envisages decentralization as a fundamental element of multiparty democracy. This is expected to be enshrined even more deeply in a new constitution that will be prepared by a constituent assembly in 2007. However, at present, there is little harmonization between the various sectoral acts and the Local Self Governance Act, 1999. In early May 2006, the new government annulled the municipal elections of February 2006, and also canceled the appointment of regional and zonal administrators who had been appointed by the King. This means that the Government's decentralization policy is now in need of a substantive review, and these reforms must be channeled to improve effectiveness of service delivery at the local level.

7. **ADB Strategy.** ADB's strategy for development in Nepal—which includes measures for poverty reduction, economic growth, inclusive social development, and good governance—is consistent with the Government's priorities in governance reforms, decentralization, and effective service delivery. The PPTA being considered here is also consistent with ADB's strategy for development in Nepal for 2005–2009, which focuses on improving the delivery of public services, supporting practices that increase the accountability and transparency of public service delivery, and supporting civil service reforms.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

8. The PPTA will support the initiatives of the Government in ensuring good governance, as reflected in more transparent, predictable, and accountable local government administration, as well as better frontline service delivery and less corruption in the public sector, through active public participation. The intended outcome of the PPTA is the design of a program that will contribute to better development outcomes by improving governance. The program is critical not only in attaining the development goals stated by the Government but also in resolving conflict and broadening the development space in the country, given the fact that the conflict centers on the exclusion of vast segments of the rural populations from government services, as well as opportunities for economic growth.

9. The expected outputs of the PPTA are (i) an analysis of service delivery standards and lessons from experience gained elsewhere, to serve as benchmarks for the program; (ii) reports on unmet needs and lack of capacity at the central agencies to improve service delivery, and assessments of local service delivery needs; (iii) realistic action plans for strengthening the capacity of central institutions and local governments, as well as community-based organizations, to deliver better services (including ways of increasing transparency and accountability, and reducing corruption in local service delivery); (iv) clear, and achievable, plans for effective decentralization (including monitoring systems) in the education and

time-bound movements upward for civil servants up to the rank of section officer, and civil servants up to the post of undersecretary can now join trade unions. The bill is expected to be presented in Parliament shortly.

agriculture sectors; (v) redesigned tools (such as citizens' cards and public expenditure tracking surveys) to ensure that local service providers can be held accountable for their performance; and (vi) a well-designed report and recommendation of the President (RRP) for consideration by ADB.

B. Methodology and Key Activities

10. **Principles and Premises.** The PPTA, and the ensuing loan program in the first phase, will be focused primarily on local service delivery in partnership with community groups and other local actors.⁷ It will also target governance at all levels (at the central level with relevant government ministries, at the intermediate level with intermediary institutions,⁸ and at the local level with local nongovernment organizations and civil society groups). A key area of focus of the program will be inclusive development and ways of ensuring better access to public services for marginalized and disadvantaged social groups. The marginalization of these groups is a central factor in the ongoing conflict in the country.

11. The other broad principles of the program include (i) drawing from—and, where relevant, supporting—other ADB projects and programs;⁹ (ii) being practical and realistic, including starting out in a few selected sectors¹⁰ before widening sectoral and spatial coverage; (iii) ensuring proper phasing and sequencing (Supplementary Appendix A); (iv) considering innovative and novel ways of improving local service delivery (such as the use of international volunteers to provide sector-specific expertise); and (v) considering existing systems in local governments when designing improvements in service delivery.¹¹

12. **PPTA Components.** The PPTA will comprise four parts: (i) part A: review of service delivery protocols in central bodies, (ii) part B: assessment of service delivery needs in specific sectors at the local level, (iii) part C: improvement of service delivery, and (iv) part D: design of the GRDCP.

13. **Part A: Review Service Delivery Protocols in Central Level Bodies.** The institutional, financial and fiscal, business process, and other provisions of service delivery policy (including

⁷ ADB experience has shown that decentralized delivery of public services has been effective in situations where there has been increased participation of, and partnerships with, civil society. Experience from the Decentralization Support Program in 2002 (ADB. 2002. *Report and Recommendation of the President on Proposed Program and Technical Assistance Loans to the Islamic Republic of Pakistan for the Decentralization Support Program*. Manila [Loans 1935-PAK, 1936-PAK, 1937-PAK, and 1938-PAK, approved on 21 November]) has also shown that, in implementing decentralization programs, there is need to ensure, among others, that (i) districts act substantially in accordance with the spirit of the relevant acts, (ii) management plans are well designed with clear implementation priorities and targets (including the kinds of expertise required), and (iii) rigorous monitoring and evaluation systems are in place.

⁸ Three key intermediate-level actors that are relevant to the program are the (i) Municipalities Association of Nepal; (ii) Association of District Development Committees, Nepal; and (iii) Association of Village Development Committees, Nepal.

⁹ Such as information and communication technology for public service delivery (Project No. 38347).

¹⁰ The Government's intent is to start devolution across the board; but given the need to ascertain first the demonstrational aspects of local governance and development, only the education and agriculture sectors (where the public has the most interface with government) will be included in the first phase of the loan program (until the end of 2009). (See Supplementary Appendix A for a description of the program phasing and sequencing.) Which services will have nationwide improvements in delivery and which others will have service delivery improvements confined to specific districts will be ascertained during the PPTA stage in consultation with the central Government, local governments, and other stakeholders.

¹¹ Bhaktapur, Kaski, and Morang districts, for example, are currently experimenting with the Medium-Term Expenditure Framework, and the PPTA and loan program will ensure that service delivery improvements in these districts are tied to the Medium-Term Expenditure Framework exercise, to the extent that they need to be.

devolution arrangements and provisions for the local government service) at the ministry and central agency level will be ascertained.¹² Work in this part of the PPTA will also include determining relevant issues and ways of devolving specific fiscal authority to the local level, including all the relevant fiscal transfer issues, for effective service delivery.

14. Part B: Assessment of Service Delivery Needs in Specific Sectors at the Local Level. The institutional, financial and fiscal business processes,¹³ and other provisions of service delivery policy at the district and local levels will be ascertained. Part of this assessment will be on whether devolved authority for service delivery devolved to district and local authorities has parallel assigned authority for budget and expenditures. Corruption mitigation measures will also be incorporated in the design of business processes.

15. Part C: Improve Service Delivery Provisioning. The improvements will also entail building the capacity of local governments (and the local government service when it is established), as well as community-based organizations, to deliver more effective service; and using tools, such as citizens' report cards and public expenditure tracking, so that service providers can be held accountable for their performance.

16. Part D: Design the GRDCP. The PPTA will finally prepare a loan program for possible funding from the Asian Development Fund. The focus will be on sustained governance reforms over the long term at the central government level, and service delivery effectiveness at the local level. Before drawing up the program, the PPTA will carry out preparatory studies to examine the feasibility of each project component and to comply with various ADB policies and requirements for possible loan financing (including preparing an indigenous people's development plan, if required). An initial poverty and social analysis is in Appendix 2.

17. These proposed components are interrelated: the central Government must have the capacity to manage the devolution and governance process; otherwise, frontline service delivery at the local level is not likely to succeed. The Government is still in the initial phases of its plan to initiate full decentralization, and for this plan to succeed, and service delivery to improve, all the components must be addressed as a whole.

C. Cost and Financing

18. The PPTA is estimated at \$600,000 equivalent, of which ADB will finance \$500,000 on a grant basis from the Japan Special Fund, funded by the Government of Japan. The Government will provide \$100,000 equivalent to finance part of the local currency cost to cover counterpart staff, office facilities, administrative support, and other expenses such as in-country facilitation. The detailed cost estimates and financing plan are in Appendix 3. The Government has been informed that approval of the PPTA does not commit ADB to finance any ensuing project.

¹² This component of the PPTA is expected to benefit from a series of discussions that the TA team will help organize both at central and district levels. The discussions will deal with just how service delivery is to be improved and what roles community groups, the private sector, and local governments can play in this. The TA team will also organize sessions to debate and discuss the envisioned governance reforms at all levels.

¹³ One particular area of work in this component will be considering the status of relevant procurement laws, regulations, and associated administrative rules governing current procurement practices and the implications of decentralization (including the needed capacity to manage local procurement).

D. Implementation Arrangements

19. The Office of the Prime Minister and Council of Ministers (OPMCM) will be the Executing Agency. This will ensure that governance and service delivery is widely seen as a crosscutting theme. A senior official of OPMCM (of at least the rank of joint secretary) will be designated as the program director. A steering committee will be established, to be chaired by the chief secretary at OPMCM, and to have representatives of the sector line ministries and other agencies as members.¹⁴ The steering committee will meet once every 3 months, and provide policy oversight to—and monitor and guide the implementation of—the PPTA, and resolve issues that may arise during PPTA execution.

20. The PPTA will be implemented by a team of five national consultants from a domestic firm for 60 person-months. The team will comprise a governance expert (12 person-months), who will also be the team leader; two sector administration and service delivery experts (12 person-months each) in the education and agriculture sectors; and two subnational government administration and decentralization experts (12 person-months each). All consultants will be selected and hired according to ADB's *Guidelines on the Use of Consultants*. The quality- and cost-based selection method (with simple technical proposal) will be used to select the domestic firm that will provide the consultancy services. The project is complex and specialized and will have a high impact on the service delivery capacity of government in a post-conflict environment, and, therefore, the quality of the consultancy service is considered more important than the costs in this project. The outline terms of reference for the consultants are in Appendix 4.

21. Equipment will be procured through the shopping method, according to ADB's *Procurement Guidelines*.¹⁵ After the PPTA, all equipment will be retained by the government agency that is using them. PPTA implementation is expected to last 12 months, from December 2006 to November 2007.

22. The steering committee will disseminate the results of the PPTA project, and the PPTA evaluation results will be made publicly available on the ADB website.

IV. THE PRESIDENT'S DECISION

23. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis to the Government of Nepal for preparing the Governance Reforms and Decentralization Cluster Program I, and hereby reports this action to the Board.

¹⁴ Other agencies involved could include: (i) Ministry of General Administration, (ii) Ministry of Local Development, (iii) Public Service Commission, (iv) sectoral ministries in agriculture and education, (v) National Planning Commission, (vi) Ministry of Finance, (vii) National Vigilance Center, and (viii) intermediary institutions (such as the Association of Village Development Committees, Nepal; Association of District Development Committee, Nepal; and Municipalities Association of Nepal).

¹⁵ The procurement guidelines, and particularly harmonization of the procurement procedures, were key issues addressed by the 2004 and 2005 country portfolio review missions. While the current government has decided to review all policies promulgated by the previous royal government (including a 2006 ordinance on procurement reforms), it has also given its assurance that it will take initiatives for procedural reforms through the 34-point policy and program document for fiscal year 2006. The law, which is aimed at making procurement procedures of government agencies more transparent, lays out a mechanism for establishing a public procurement monitoring office to supervise, monitor, and regulate all public purchases and ensure uniformity of procurement procedures.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Ensuring good governance as reflected in increased transparency, predictability, and accountability of local government administration, as well as improved frontline service delivery, through the involvement of CBOs and NGOs, and reduced corruption in the public sector</p>	<ul style="list-style-type: none"> • Progressive increase in positive public perception of government efforts to improve delivery of services and to increase accountability and transparency in the public sector • Year-on-year increase in number of people at the local level that are covered by programs in the education and agriculture sectors • Year-on-year increase in satisfaction levels of people that access services in the foregoing two sectors • Continuous decrease in the number of poor service providers as the poor providers are publicly identified and held to account 	<ul style="list-style-type: none"> • Public perception surveys • Formal and nonformal feedback from local bodies as well as central agencies • Reports from government agencies as well as independent watchdog groups • Parliamentary briefings and statements • ADB's PPTA evaluation missions 	<p>Assumptions</p> <ul style="list-style-type: none"> • There is effective cooperation between central administration and local bodies • End users have adequate scope, tools, and leverage to report on poor service delivery • NGOs and other watchdog groups keep a sharp eye out for poor service delivery, and bring such cases out before the public impartially • There is political stability <p>Risks</p> <ul style="list-style-type: none"> • There is low political commitment to governance and decentralization reforms • Local bodies lack capability
<p>Outcome Design of an integrated program of governance reforms and decentralization that is acceptable to the Government and ADB and that focuses on effective, transparent, predictable, and accountable local service delivery, and on capacity building and institutional development at the central and local levels</p>	<ul style="list-style-type: none"> • Rigorously designed (and to ADB standards) program of governance reforms and devolved service delivery with input and support from all major stakeholders 	<ul style="list-style-type: none"> • Program administration and implementation plan • Public consultation feedback • Feedback from all relevant stakeholders on form, content, and logic of the Governance Reforms and Decentralization Cluster Program • Steering committee reports • Reports and statements of government agencies • ADB review missions • ADB internal review processes 	<p>Assumptions</p> <ul style="list-style-type: none"> • Government is willing and able to make a long-term commitment to governance and decentralization reforms • Relevant agencies live up to their public assertions and statements about improving service delivery <p>Risks</p> <ul style="list-style-type: none"> • Bureaucrats and interest groups oppose governance reforms • Communication with stakeholders is inadequate • Program is scaled back (either sectorally or spatially) because of pressures on government
<p>Outputs 1. Reports on needs and capacity gaps at central and local agencies on facilitating improved service delivery 2. Realistic plans to strengthen relevant central institutions and local</p>	<ul style="list-style-type: none"> • Government is able to determine realistic goals and vision on governance and devolved service delivery by the end of 2006 • All legal and nonlegal 	<ul style="list-style-type: none"> • Steering committee reports • ADB review missions • PPTA consultant reports • Stakeholder responses in workshops, surveys, and consultations • Reports of NGOs and 	<p>Assumption</p> <ul style="list-style-type: none"> • All stakeholders cooperate to make the plans meaningful and realistic <p>Risks</p> <ul style="list-style-type: none"> • There is inadequate communication, and engagement, with

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>governments, and CBOs, to improve service delivery in the education and agriculture sectors</p> <p>3. Clear and achievable action plans with monitoring indicators for effective decentralization (including monitoring systems) in education and agriculture</p> <p>4. Tools (such as citizens' report cards) for giving voice to end users to ensure that service providers can be held accountable for their performance</p>	<p>provisions, as well as other necessary actions, relevant to governance reforms and devolved service delivery finalized by the end of the PPTA period</p> <ul style="list-style-type: none"> • Provisions, and standard operating procedures, for gathering feedback from end users, and disseminating that to the service providers concerned • Appropriate measures for ensuring that service providers are listening and responding to end users 	<p>other watchdog groups</p>	<p>stakeholders including local bodies</p> <ul style="list-style-type: none"> • Security concerns persist, thus inhibiting PPTA consultants from getting firsthand knowledge in remote areas
<p>Activities with Milestones</p> <p>Component 1. Review Service Delivery Protocols in Central Bodies</p> <p>1.1 Analyze service delivery standards and lessons from experiences elsewhere to set benchmarks for the program (4th quarter, 2006–1st quarter, 2007).</p> <p>1.2 Assess organizational mandates and capacity of—and institutional, financial and fiscal, and business process provisions within—sectoral ministries in education and agriculture related to sector service delivery, as well as the capacity of the Ministry of Local Development to create an enabling environment for service delivery improvements in the two sectors (4th quarter, 2006–1st quarter, 2007).</p> <p>1.3 Review existing service delivery policy, and protocols, in education and agriculture (4th quarter, 2006–1st quarter, 2007).</p> <p>1.4 Identify, and hold dialogue with, all relevant stakeholders at central and intermediate levels (including intermediate institutions) to ascertain service delivery gaps and needs (1st quarter, 2007).</p> <p>1.5 Use the results of 1.1–1.4 to prepare realistic plans to strengthen relevant central and intermediate-level institutions to facilitate the delivery of services (1st quarter, 2007).</p> <p>Component 2. Assess Needs for Service Delivery at Local Level</p> <p>2.1 Assess organizational mandates and capacity of—and institutional, financial and fiscal, and business process provisions (including capability to manage procurement) within—selected district development committees across Nepal (4th quarter, 2006–1st quarter, 2007).</p> <p>2.2 Identify, and hold dialogue with, all relevant stakeholders (including NGOs, CBOs, and local administrations) in the selected districts to ascertain gaps and needs (with particular reference to providing better services in the education and agriculture sectors) (1st quarter, 2007).</p> <p>2.3 Ensure that the needs and expectations of women and indigenous people, in particular, are considered in service delivery and in the design of the loan program (1st quarter, 2007).</p> <p>2.4 Use the results of 2.1–2.3 to prepare realistic plans for strengthening district development committees to deliver better services, and to specify service delivery improvements for pilot-testing (1st quarter, 2007).</p> <p>Component 3. Improve Service Delivery</p> <p>3.1 Drawing from outputs in component 2, identify areas in selected districts where service delivery improvements can be pilot-tested (2nd quarter, 2007).</p> <p>3.2 Ascertain the process of—and decision rule(s) for—considering the funding of pilot service delivery improvements (2nd quarter, 2007).</p> <p>3.3 Provide needed support for pilot service delivery improvements (2nd–3rd quarter,</p>			<p>Inputs</p> <p>ADB</p> <ul style="list-style-type: none"> • PPTA financing of \$500,000 on a grant basis from Japan Special Fund • National consultants (60 person-months) • Pilot service delivery improvement initiatives (\$80,000 PPTA resources) • Workshops, meetings (\$35,000 PPTA resources) • Equipment (\$26,200 PPTA resources) • Surveys (\$15,000 PPTA resources) • Administrative support (\$21,800 PPTA resources) <p>Government</p> <ul style="list-style-type: none"> • Government's in-kind contribution to PPTA (counterpart staff, office accommodation and transport, administrative services)

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>2007).</p> <p>3.4 Field-test tools (such as citizens' cards, public expenditure tracking, technical audits) for improving accountability of service providers, and apply the tools nationwide, using the lessons learned (3rd quarter, 2007).</p> <p>3.5 Using the lessons from the pilot-testing of service delivery improvements, specify how positive results can be replicated nationwide (4th quarter, 2007).</p> <p>Component 4. Design Governance Reform and Decentralization Cluster Program</p> <p>4.1 Prepare draft program (3rd quarter, 2007).</p> <p>4.2 Secure feedback from all stakeholders, including international experts as necessary (4th quarter, 2007).</p> <p>4.3 Finalize program and submit for consideration as Asian Development Fund-funded loan (4th quarter, 2007).</p> <p>Perform Project Supervision and Administration</p> <p>5.1 Establish steering committee (4th quarter, 2006).</p> <p>5.2 Engage consultants for PPTA activities (4th quarter, 2006).</p> <p>5.3 Conduct reviews:</p> <ul style="list-style-type: none"> (i) steering committee review (quarterly), and (ii) ADB review missions (at least once per quarter). <p>5.4 Prepare and submit:</p> <ul style="list-style-type: none"> (i) PPTA inception report (4th quarter, 2006), (ii) first PPTA interim report (1st quarter, 2007), (iii) second PPTA interim report (2nd quarter, 2007), (iv) draft PPTA final report (3rd quarter, 2007), and (v) PPTA tripartite and final report (4th quarter, 2007). 			

ADB = Asian Development Bank, CBO = community-based organization, NGO = nongovernment organization, PPTA = project preparatory technical assistance, TA = technical assistance.

INITIAL POVERTY AND SOCIAL ANALYSIS

A Linkages to the Country Poverty Analysis

<p>Is the sector identified as a national priority in country poverty analysis? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Good governance is one of the four pillars of the Government's Poverty Reduction Strategy Paper, which is an integral part of its Tenth Plan, now being implemented. The Poverty Reduction Strategy Paper emphasizes effective implementation to ensure better delivery of outputs and service to rural communities—the primary areas of focus in this technical assistance.</p>	<p>Is the sector identified as a national priority in country poverty partnership agreement? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>There is no country poverty partnership agreement with Nepal, but the Asian Development Bank's (ADB's) Nepal Country Strategy and Program 2005–2009 has a focus on governance reforms and decentralization as part of its emphasis on good governance.</p>
<p>Contribution of the sector or subsector to reduce poverty in Nepal:</p> <p>(i) More inclusive growth. (ii) More effective service delivery in two sectors (education and agriculture) at the district level with direct impact on the lives of end users in rural areas, where poverty is deepest. (iii) Engagement/Participation of communities to ensure accountability of service providers for effective service delivery.</p>	

B. Poverty Analysis

Targeting Classification: General intervention

What type of poverty analysis is needed?

Analysis of the extent of service delivery that misses the poor and marginalized populations, particularly in the education and agriculture sectors.

C. Participation Process

Is there a stakeholder analysis? Yes No

While very preliminary stakeholder consultation was carried out with government counterparts and representatives of local government and local government associations during the project preparatory technical assistance (PPTA) fact-finding mission in February/March and again in June/July 2006, the PPTA itself will ensure that more sustained stakeholder engagement is put in place so that the loan program will reflect more accurately the needs of the population across the country. This engagement will take place with nongovernment organizations, community-based organizations, and local administrations (including municipal bodies, district development committees, and village development committees). Consultations will also take place with other funding agencies that are currently involved in the various facets of governance reforms in Nepal.

Is there a participation strategy? Yes No

Not yet; but the PPTA will look at how the form and level of participation of various stakeholders in the project implementation phase is identified and followed through. There is provision for feedback through public awareness surveys and other appropriate assessments and surveys to be conducted under the PPTA.

D. Gender Development**Strategy to maximize impacts on women:**

- (i) Assessing how gender needs are different in rural areas, particularly in relation to how women access (or do not, as the case may be) services in education and agriculture, and how the situation can be improved. This has been incorporated as a priority preparatory activity in the PPTA.
- (ii) Mainstreaming gender issues in the civil service. This was initiated by the ADB-supported Governance Reform Program.

Has an output plan been prepared? Yes No (to be prepared during PPTA)

E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	No issues related to resettlement are likely to be significant under the ensuing program loan.	<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
Affordability	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	Access to goods and services for the poor will be greater because delivery costs are expected to be lower.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	<p>There could be some public sector restructuring in the process of business process reengineering but this is not likely to be significant at all. Some positions may shift from central ministries to field offices in the districts. However, it is not expected that separate labor market policies or investments will be needed.</p> <p>National consultants will be recruited according to standard ADB guidelines, which were accepted in all previous ADB-funded projects in Nepal.</p>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	The needs and expectations of the indigenous peoples will feature in the design of the loan program but a separate plan to capture those needs and expectations—and to ensure their inclusion in the loan program—is not seen to be necessary.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	There are no other risks or vulnerability related to poverty and social issues in the PPTA.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. National Consultants (60 person-months)	192.00
b. Local Travel	40.00
c. Reports and Communications	15.00
2. Equipment and Technology (Computers, Printers, and Vehicle Leasing) ^b	26.20
3. Workshops and Meetings	
a. Facilitators	10.00
b. Local Workshops and Meetings ^c	25.00
c. Pilot Service Delivery Improvement Initiatives ^d	80.00
4. Surveys	15.00
5. Representative for Contract Negotiations	10.00
6. Miscellaneous Administration and Support Costs for Program Office	21.80
9. Contingencies	65.00
Subtotal (A)	500.00
B. Government Financing	
1. Office Accommodation and Transport	30.00
2. Remuneration and Per Diem of Counterpart Staff	50.00
3. Administrative Support	15.00
4. Others	5.00
Subtotal (B)	100.00
Total	600.00

^a Financed from the Japan Special Fund, funded by the Government of Japan.

^b Equipment includes four desktop computers, two printers, one fax machine, and two heaters, and the leasing of three vehicles for 1 year for the technical assistance activities (\$500 per month per vehicle).

^c Local workshops and meetings are for stakeholder discussions on service delivery gaps, mechanisms, and implementation plans (in various districts).

^d Pilot service delivery improvement initiatives are for component 3 activities (see Design and Monitoring Framework).

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Scope of Work

1. The PPTA will be implemented by a team of five national consultants¹ for 60 person-months. The consultant team will comprise a governance expert (12 person-months), who will also be the team leader; two sector administration and service delivery experts (12 person-months each) for the education and agriculture sectors; and two subnational government administration and decentralization experts (12 person-months each). The consultants' responsibilities are described below.

1. **Governance Expert/Team Leader** (12 person-months). Working as the team leader, the expert will:
 - (i) Be responsible for the on-time delivery and quality of the outcomes of all the various components of the project, and for the programming, coordination, and direction of the work and specialist inputs. In that regard, the team leader will (a) work closely with Office of the Prime Minister and Council of Ministers (OPMCM) and the steering committee to ensure that PPTA interventions are properly implemented, and (b) ensure that all consultants fulfill their terms of reference.
 - (ii) Engage in consultations with all relevant stakeholders at all levels (central, regional, and local) in designing the loan program.
 - (iii) Work closely with (a) the PPTA team for the information and communication technology (ICT) for public service delivery project, to ensure close harmonization of activities between the two TAs; (b) the World Bank on its District Medium-Term Expenditure Framework program; and (c) other development partners, as necessary.
 - (iv) Take the lead role in organizing discussion sessions across the country (both at the center and at the district level) to provide an opportunity for the PPTA team to better understand the context of governance reforms in relation to service delivery (including central-level reforms and their impact on local governance). This task includes assessing just how service delivery is to be improved and what roles community groups, private sector, and local governments themselves can play in this.
 - (v) Assess how intermediary institutions (Association of District Development Committees, Nepal; Municipalities Association of Nepal; and Association of Village Development Committees, Nepal) can best contribute to strengthened local governance for improved service delivery.
 - (vi) Be responsible for ensuring that all relevant baseline information in the education and agriculture sectors is adequately and rigorously collected.
 - (vii) In consultation with the Ministry of Finance, consider how to establish dedicated funds from the loan amount ("ring-fencing") for specific program-related components.
 - (viii) Determine, in consultation with all stakeholders including central government and local governments, (a) the services in the areas of sectoral coverage that will be limited to specific districts and those that will cover all districts; (b) ways of devolving specific fiscal authority to the local level, considering all relevant fiscal

¹ Given the nature of the interventions in this PPTA, and the fact that expertise in this particular area is readily available in-country, it is recommended that consulting services be provided by a firm of national consultants.

transfer issues, for effective service delivery; and (c) the status of relevant procurement laws, regulations, and associated administrative rules governing current procurement practices and the implications of decentralization (including the needed capacity to manage local procurement).

- (ix) Be responsible for developing and managing the process of considering the pilot service delivery improvement initiatives, and for coordinating with the Executing Agency and ADB on the funding, evaluation, and replication aspects of the initiatives to be pilot-tested.
- (x) Be responsible for submitting all reports of the PPTA consultant team to the steering committee, OPMCM, and ADB (see **B. Reporting Requirements and Arrangements** below).
- (xi) Be responsible for all consultant inputs in the standard ADB format for the RRP for the Governance Reforms and Decentralization Cluster Program. This includes: (a) considering innovative tools (such as the use of international volunteers) by the loan program for which the RRP will be developed; and (b) carrying out the preparatory studies required to examine the feasibility of each project component, in compliance with the safeguard, poverty and social assessment, performance measurement, and other policies of ADB.
- (xii) Identify any environmental and involuntary resettlement issues, particularly relating to affected persons (e.g., households headed by women), that the loan program must consider and that must be reflected in the loan document.
- (xiii) Prepare terms of reference for the consultants for loan consulting services.
- (xiv) Draft a procurement plan for the subsequent loan program, in line with ADB's *Procurement Guidelines*.
- (xv) Assist ADB and the Executing Agency in drafting any project administration memorandum.
- (xvi) Ensure that the PPTA team assists the Government in meeting the tranche 1 conditions of the program loan (which will need to be fulfilled at the time of loan effectiveness).

2. Qualifications and Experience of the Governance Expert/Team Leader. The Governance Expert/Team Leader is expected to fulfil the following qualifications and experience requirements:

- (i) Extensive experience in project and program formulation and management, governance reforms, and public service delivery in Nepal.
- (ii) Extensive familiarity with the political and economic development history of Nepal, along with a good understanding of current political and economic developments and their implications for the planning and programming of development activities in the country.
- (iii) A degree in public administration, economics, or a related sector, and broad experience gained from working for at least 10 years in a responsible position in government or in a public service delivery organization.
- (iv) A proven track record in coming up with new and innovative ways of doing things in the organization or the sector of operations.
- (v) Experience working in governance reform and decentralization projects.
- (vi) Extensive experience working in Nepal (and preferably other similar countries), and sound knowledge and familiarity with the governance system of Nepal, including firsthand knowledge of the situation in the districts, and the institutional makeup of development actors in the country.

- (vii) Demonstrated experience in managing a team of highly skilled individuals from diverse backgrounds.
- (viii) Experience in dealing with officials at the highest levels of government, including leaders at the district and local levels.
- (ix) Extensive familiarity with the agenda, modes of operation, and governance reform programs of Nepal's development partners.
- (x) Familiarity with ADB programming methodology (a distinct advantage).

2. Two Sector Administration and Service Delivery Experts (for the education and agriculture sectors; 12 person-months each, for a total of 24 person-months). The experts, under the supervision of the team leader, will do the following in their respective sectors of expertise:

- (i) Assess governing rules and regulations, organizational structure, mandates, and capacity of the particular ministry and relevant agencies in the sector. This task includes assessing, in conjunction with the subnational government administration and decentralization expert, how particular mandates of the ministry and agencies can be made subject to the subsidiarity principle.
- (ii) Assess service delivery systems and problems in education and agriculture in the districts. To this end, the experts will (a) conduct a baseline survey and collect baseline performance indicators for monitoring progress in their respective sector of work; and (b) identify innovative methods and interventions to deliver services in their sectors, pilot-test these innovations, and specify the ways in which the successful ones will be institutionalized in the loan program.
- (iii) Assist the subnational government administration and decentralization expert, and sectoral staff in district administrations, in ascertaining how service delivery in the particular sector of coverage can be made more effective.
- (iv) Coordinate with experts from the ICT for public service delivery TA to help conduct business process reengineering in relevant central organizations, and if necessary, district administrations, so as to come up with a plan that specifies what local administrations are responsible for in the particular sector, and how they can best meet their responsibilities.
- (v) Work with the subnational government administration and decentralization expert in developing a template for assessing capacity gaps in local administrations so that realistic and useful plans can be prepared to best fill the gaps before the transfer of functions from the central ministries in education and agriculture.
- (vi) Help establish and use tools to ensure transparency and accountability in local service delivery, including corruption mitigation measures made part of the design of business processes.
- (vii) Work with the team leader in designing the Governance Reforms and Decentralization Cluster Program.
- (viii) Assist the team leader as required.

3. Qualifications and Experience of the Sector Administration and Service Delivery Experts. The Sector Administration and Service Delivery Experts are expected to meet the following qualifications and experience requirements:

- (i) Extensive experience in sector development program formulation and management, and public service delivery in Nepal.
- (ii) Familiarity with the political and economic development history of Nepal, along with a good understanding of current political and economic developments and

- their implications for the planning and programming of development activities in their particular sector of operations.
- (iii) A degree in the particular sector of expertise, and broad experience gained from working for at least 10 years in a responsible position in government or in a public service delivery organization.
 - (iv) A proven track record in coming up with new and innovative ways of administering sector programs and providing local services.
 - (v) Familiarity with conducting baseline surveys and analyzing the results for incorporation in the design of the eventual loan program.
 - (vi) Extensive familiarity with capacity gap analysis in their particular sector of expertise.
 - (vii) Extensive experience working in Nepal, and sound knowledge and firsthand familiarity with the situation in the districts, and the institutional makeup of development actors in the country.
 - (viii) Experience working in a team with diverse skills and orientation.
 - (ix) Experience in dealing with officials at the highest levels of government, including leaders at the district and local levels.
 - (x) Extensive familiarity with the agenda, modes of operation, and reform programs of Nepal's development partners in their particular sector of focus.
 - (xi) Experience in developing and using tools to ensure transparency and accountability in service delivery at the local level, including corruption mitigation measures made part of the design of business processes.
 - (xii) Familiarity with ADB programming methodology (a distinct advantage).

3. Two Subnational Government Administration and Decentralization Experts (12 person-months per expert, for wider district coverage, for a total of 24 person-months). The experts, under the supervision of the team leader, will do the following:

- (i) Help the Ministry of Local Development in critically analyzing decentralization policies and issues in Nepal, including fiscal transfer issues, and in preparing a realistic decentralization implementation plan that has practical and realistic mechanisms for devolving service provision and other responsibilities, including the matching fiscal responsibilities.
- (ii) Assist the sector administration and service delivery experts in assessing how the principle of subsidiarity can be best applied in education and agriculture.
- (iii) Work closely with sector administration and service delivery experts in conducting surveys at the district level to ascertain how service delivery can be made more effective, and in conducting institutional assessments—and identifying capacity gaps—in the selected local administrations to strengthen their service delivery capabilities. These consultants will also assist the sector experts in conducting a baseline survey and collecting baseline performance indicators for monitoring progress in their respective sectors of work.
- (iv) Work with the team leader in assessing the status of relevant procurement laws, regulations, and associated administrative rules governing current procurement practices, and the implications of decentralization (including needed capacity to manage local procurement).
- (v) Assess how tools such as citizens' report cards and public expenditure tracking can be used at the local level to give more voice to end-users in ensuring the accountability of service providers.

- (vi) Recommend specific changes in relevant legislation and rules and regulations to ensure meaningful functional and fiscal devolution, including helping the Ministry of Local Development in the design of a possible Local Service Act, and any other associated legislative arrangements that will affect functional and fiscal devolution and service delivery mechanisms in education and agriculture.
- (vii) Work closely with (a) the PPTA team on ICT for public service delivery, to ensure that ICT can be most effectively used in local administration to help attain government outcomes in education and agriculture; (b) the World Bank on its district-based Medium-Term Expenditure Framework program; (c) other funding agencies that may have a presence in the districts, especially on service delivery improvements at the local government level; and (d) consumer groups, local nongovernment organizations, and community groups, to prioritize improvements in the services and in the methods of service delivery.
- (viii) Work with the team leader on the design of the Governance Reforms and Decentralization Cluster Program.
- (ix) Assist the team leader as required.

4. **Qualifications and Experience of the Decentralization Experts.** The Decentralization Experts are expected to meet the following qualifications and experience requirements:

- (i) Experience in decentralization program formulation and management in Nepal.
- (ii) Familiarity with the political and economic development history of Nepal, along with a good understanding of current political and economic developments and their implications for the planning and programming of development activities at the district and local levels.
- (iii) A degree in political science, economics, public administration, regional planning, or a similar sector, and broad experience gained from working for at least 10 years in a responsible position in government or other public sector agency.
- (iv) Extensive experience working in Nepal and sound knowledge and firsthand familiarity with the situation in the districts and the institutional makeup of development actors in the country.
- (v) Experience working in a team with diverse skills and orientation.
- (vi) Experience in dealing with officials at the highest levels of government, including leaders at the district and local levels.
- (vii) Extensive familiarity with the agenda, modes of operation, and reform programs of Nepal's development partners, particularly in decentralization programs.
- (viii) Extensive familiarity with practical and realistic mechanisms for devolving service responsibilities, including the matching fiscal responsibilities.
- (ix) Familiarity with conducting baseline surveys and analyzing the results for incorporation in the design of the eventual loan program.
- (x) Familiarity with capacity gap analysis and institutional assessment methodology.
- (xi) Demonstrated familiarity with the design and methodology of accountability tools (such as citizens' cards, etc.), and their application at the local level.
- (xii) Extensive familiarity with relevant legislation and rules and regulations in local governance and decentralization in Nepal.
- (xiii) Experience working at the district and local levels in Nepal.
- (xiv) Familiarity with ADB programming methodology (a distinct advantage).

B. Reporting Requirements and Arrangements

5. The following reports, all in the English language, will be submitted by the consultants to the Government and ADB:

- (i) **Inception report.** An inception report should be submitted within 1 month of the start of the services. It should outline any changes in the approach, methodology, or work plan, as well as the cost implications of the consultants' services that are required to fulfill the terms of reference.
- (ii) **First and second interim reports.** Two interim reports should be submitted (the first within 4 months, and the second within 7 months, of the start of the consultancy services). The reports will cover (a) progress on the various components of the PPTA for that particular period, and (b) any potential risks that may have arisen and the way these risks will be managed.
- (iii) **Draft final PPTA report.** The final TA report will be submitted in draft form within 10 months of the start of the services. The report should incorporate relevant information needed to complete the RRP.
- (iv) **Final PPTA report.** The final report with the comments of the Government and ADB on the draft will be submitted within 1 month of receipt of the comments. The report will also include the details and decisions made following the tripartite review by the Government, ADB, and the PPTA team.

6. **Reporting Arrangements.** The consulting firm will ensure that the team leader and the other experts are responsible for their own terms of reference. The firm, through the team leader, will report to the project director at OPMCM, and will be responsible for demonstrating to the steering committee that all the outputs and activities of the PPTA are on schedule and can deliver the stated outcomes. The firm will also work closely with ADB (the project officer from headquarters and the designated individual or individuals, if any, at the Nepal Resident Mission). The team leader will supervise the sector administration and service delivery experts and the subnational government administration and decentralization experts.