



Technical Assistance Report

Project Number: 40554
February 2007

Nepal: Preparing the Rural Reconstruction and Rehabilitation Sector Development Program

CURRENCY EQUIVALENTS

(as of 1 January 2007)

Currency Unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.0141
\$1.00	=	NRs71.10

ABBREVIATIONS

ADB	–	Asian Development Bank
DDC	–	district development committee
DOLIDAR	–	Department of Local Infrastructure Development and Agricultural Roads
DRILP	–	Decentralized Rural Infrastructure and Livelihood Project
HDI	–	human development index
IEE	–	initial environmental impacts
LIDP	–	Local Infrastructure Development Policy
MLD	–	Ministry of Local Development
NGO	–	nongovernment organization
NPC	–	National Planning Commission
PMU	–	project management unit
PRSP	–	Poverty Reduction Strategy Paper
RIIP	–	rural infrastructure investment plan
TA	–	technical assistance
VDC	–	Village development committee

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sectors	–	Multisector (transport and communication; water supply, sanitation, and waste management; energy)
Subsectors	–	Roads and highways, water supply and sanitation, renewable energy generation
Themes	–	Sustainable economic growth, inclusive social development, governance
Subthemes	–	Fostering physical infrastructure development, other vulnerable groups, public governance

NOTES

- (i) The fiscal year (FY) of the Government of Nepal ends on 15 July. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2006 ends on 15 July 2006.
- (ii) In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. During the Country Programming Mission of the Asian Development Bank (ADB) in July 2006, the Government of Nepal requested project preparatory technical assistance (TA) to design a rural reconstruction and rehabilitation project. ADB granted the Government's request and included the TA in its Country Operations and Business Plan for 2007–2009.¹ The Government further requested ADB to develop and finance a sustainable rural reconstruction and rehabilitation sector development program.

2. The ADB Fact-Finding Mission visited Nepal from 8 to 14 December 2006 and consulted with representatives of the Government, nongovernment organizations (NGOs), and development partner agencies. The Mission visited two rural road schemes in Kavre valley and discussed with beneficiaries the impacts on employment generation. The Mission discussed with the NGO forum and shared proposed program activities with NGOs. The Mission presented its findings to the development partners and explored cofinancing prospects. This report is based on the Mission's findings and understanding reached with the Government on the purpose, outputs, methodology, key activities, cost and financing, implementation arrangements, and terms of reference for the TA. The TA design and monitoring framework is in Appendix 1.

II. ISSUES

3. With a per capita gross domestic product of \$270 per year (2004 data), Nepal is one of the poorest countries in the region. Out of the country's population of 24 million people, 31% live below the poverty line. Geographically, the incidence of poverty is more severe in rural areas (35%) than in the urban areas (10%). Over time, poverty incidence has declined at a rate of about 1% a year from 42% countrywide in FY1996 to its current level of about 31%. While a number of social indicators of poverty have shown an uptrend recently, substantial scope exists for further improvement as shown by the fact that only 14% of the population have access to electricity, 16% to sanitation, 23% to paved roads, 41% to health services, 71% to drinking water; and only 38% are literate. As enunciated in its *Poverty Reduction Strategy Paper*² (PRSP), Nepal has placed a priority on poverty reduction in its various development programs.

4. The root cause of poverty in Nepal is the lack of economic opportunity, aggravated by lack of connectivity between the rural communities that predominate nationwide and the areas that could provide economic opportunities to the rural population. About 36% of the country's total population live at least 2 hours walk from the nearest all-season road. The inadequate access to public services has effectively isolated farming communities from sources of advanced technologies such as fertilizers and high-yielding seeds. Under such a situation, farm visits by agricultural extension agents are few and far between; marketing of farm produce also becomes challenging. Mothers and growing children in particular suffer due to lack of access to health services, which are invariably available only in larger towns. The degree of isolation is even greater for women and disadvantaged ethnic groups and castes in rural areas.

5. The Government has taken remedial measures to address the problem of isolation, exclusion, and connectivity to public services as enunciated in its *Local Infrastructure Development Policy*³ (LIDP). To improve access to public services in the rural areas, the LIDP stipulates the devolution to local bodies such as the district development committees (DDCs)

¹ The TA first appeared in *ADB Business Opportunities* on 30 November 2006.

² National Planning Commission. 2002. *Poverty Reduction Strategy Paper/Tenth Plan*. Kathmandu

³ Ministry of Local Development. 2004. *Local Infrastructure Development Policy*. Kathmandu.

and village development committees (VDCs) of the tasks of planning, designing, constructing, and maintaining local infrastructure. The devolution is seen as an effective way to foster a sense of ownership and strong commitment of local governing units and direct users of the facilities, which is expected to result in cost-effective operation and maintenance of such facilities.

6. The current drive toward decentralization is guided by the Local Self-Governance Act, promulgated in 1999. The large number of DDCs (75 nationwide), municipalities (58), and VDCs (3,913), and the numerous technical staff need to be fielded in the course of devolving development authority from the central to the local level, have posed a great challenge to the various line ministries of the Government. In a number of cases where the needed expertise is not available at the local level, line ministries have resorted to temporary deputation of their staff. Although the institutional strengthening component under the ongoing ADB-assisted Decentralized Rural Infrastructure and Livelihood Project (DRILP)⁴ contributes to enhancing the capacities of members of DDCs and VDCs, institutional reforms on decentralization are urgently required for undertaking better service delivery at the local level by focusing on devolved governance, inclusiveness, accountability and transparency, effectiveness, and equity.

7. The signing of the peace accord in November 2006 between the Seven-Party Alliance and the Communist Party of Nepal–Maoist, and the resulting cessation of hostilities in the countryside present an excellent opportunity for the Government to restore and rehabilitate the rural infrastructure that have fallen into disrepair during the decade-long conflict. As demands for investment funds are high and in many cases urgent, the Government is prioritizing investment projects to satisfy the maximum number of people with competing needs. As the PRSP will be completed in July 2007, the Government is formulating a 3-year development plan for the interim period, an interim plan for FY2007–FY2009.⁵ The interim plan will adopt a strategy of quick-disbursement modality including grants to rural communities for reconstruction and development activities by implementing development programs at the local level through accelerated decentralization and reconstitution of the DDC and VDCs.⁶

8. Preparing a program ensuing from the TA will be guided by experience gained in implementing various projects in the rural infrastructure sector funded by ADB and development partners, in particular, from the ongoing DRILP. Lessons include the following: (i) local participation is essential to ensure success in planning, designing implementing, and maintaining rural infrastructure projects; (ii) although the decentralization process has been initiated, DDC/VDC implementation capacity will be strengthened only when real devolution of authority takes place; (iii) the criteria for selecting subprojects, once agreed upon, should be adhered to closely so as to replace the ad hoc, often political, prioritization procedures of the past; (iv) the wide variation in the terrain and in social conditions across subproject sites dictates some measure of flexibility in designing subprojects; and (v) strict adherence to standard designs and specifications across various districts of the country should be waived as warranted.

9. In line with the Government's strategy for rural infrastructure development, and ADB's country assistance plan and operational strategy, the program resulting from the proposed TA will help Nepal realize broad-based economic growth. This goal would be achieved not only through improvements in access of rural communities to basic social services through direct

⁴ ADB. 2004. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and a Technical Assistance Grant to the Kingdom of Nepal for the Decentralized Rural Infrastructure and Livelihood Project*. Manila (Loan 2092-NEP and TA 43-97-NEP, approved on 24 September).

⁵ The interim plan will comprise various strategy-specific plans based on the four-pillar strategy of the Tenth Plan, including economic growth, rural infrastructure reconstruction and rehabilitation, social inclusion, and governance.

⁶ The TA will support the strategy of quick disbursement for rural infrastructure reconstruction at DDC/VDC level.

investments in rural roads and related infrastructure, but also through policy and institutional reform for building capacity and enhancing local governance to boost the poverty effect of infrastructure, and to more directly benefit marginalized and disadvantaged ethnic groups and castes in rural areas. As the Government requested to have a flexible lending modality for a quick-disbursement approach to deliver immediate assistance in the reconstruction, rehabilitation, and peace-building effort, the sector development program modality was selected, comprising investment and policy reform components.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

10. The TA aims to help the Government prepare a sector development program that will promote rural rehabilitation, economic growth and poverty reduction, particularly in remote areas, through policy and institutional reforms, and rural infrastructure investment in accordance with the LIDP prepared by the National Planning Commission (NPC) in 2004 and the rural infrastructure action plan currently being prepared by the Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR). The TA will also help the Government provide opportunities for increased income to residents in conflict-affected areas by employing them in the construction of rural roads and other rural infrastructure. The outcome of the TA will be the agreed-upon design of a program with the Government.

11. The TA outputs will include (i) an investment plan for reconstruction and rehabilitation of rural roads, and other infrastructure,⁷ (ii) a policy reform matrix, (iii) implementation arrangements, and (iv) an assessment of the feasibility of the investment component package.

B. Methodology and Key Activities

12. The TA will be implemented by means of a participatory process involving extensive consultations with stakeholders in relation to the planning, design, and implementation of rural infrastructure under the Government's rural infrastructure investment plan (RIIP), which is being prepared and will be presented to the Nepal Development Forum in 2007. In addition to the participatory consultations, the TA will assist the Government's leadership in developing the investment packages with active participation of the development partners. The TA will have four key components: (i) review of a draft Government RIIP, (ii) sector analysis and preparation of a policy matrix, (iii) design of implementation arrangements, and (iv) assessment of the feasibility of the investment package.

13. **Review the Rural Infrastructure Investment Plan.** The TA will review the Government's draft RIIP, which is expected to be discussed at a workshop in February 2007. On the basis of the plan, suitable subprojects will be prioritized in line with agreed-upon screening criteria and packaged into an investment project suitable for ADB financing. In addition, the Government's rural development strategy will be examined to address the post-conflict circumstances. The District Transport Master Plan prepared by DOLIDAR will be similarly reviewed to guide the packaging of the investment project at a district level. Lessons from completed and ongoing projects financed by ADB and other development partners will be examined.⁸

⁷ For possible inclusion of water supply and sanitation, micro-irrigation, and micro-hydropower.

⁸ ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan for the Community-Based Water Supply and Sanitation Sector Project*. Manila (Loan 2008-NEP, approved on 30 September); ADB. 2004. *Report and Recommendation of the President to the Board of Directors on a Proposed*

14. **Undertake Sector Analysis and Prepare the Policy Matrix.** The TA will (i) undertake a comprehensive sector analysis, covering policy and institutional gaps and constraints; and (ii) determine whether the existing and envisaged policy framework and institutional development plan form an appropriate basis for ADB support. Based on the review of the RIIP, the TA will prepare the medium- and long-term development framework and the schedule of policy steps for an acceptable policy reform program to be undertaken during the program period.

15. **Design the Implementation Arrangements.** The TA will review the Local Governance Act of 1999 to ensure clear delineation of powers and decision making between the central Government, DDCs, and VDCs to identify any need for revising the Act to meet the implementation arrangements under the new Interim Constitution. The implementation strategy will adopt a decentralized, demand-driven, community-based approach. The decentralized mechanism for public services delivery would include mechanisms for monitoring investment programs. In addition, the TA will define the financing modality for subprojects and clarify procedures for expediting the flow of funds from the central to local bodies. DDC capabilities in financial management as well as the technical aspects of designing and implementing subprojects will be assessed and remedial measures proposed. The implementation framework will be discussed at the workshop on the overall findings of the TA.

16. **Assess the Feasibility of the Investment Project Package.** The TA will formulate an investment project suitable for ADB financing, and carry out the preparatory studies required to examine the feasibility of each subproject. Initially five core subprojects representing the totality of all subprojects will be examined in detail. The assessments will cover (i) compliance with ADB's safeguard and other policies, (ii) economic and financial analyses, (iii) poverty and social assessment, (iv) a monitoring and evaluation system, (v) environmental and social impacts, (vi) a resettlement framework and core subproject resettlement plans, and (vii) an indigenous peoples development framework and/or development plans, as required. An initial poverty and social analysis is in Appendix 2. The investment plan will be discussed with potential cofinanciers, such as the World Bank, United Kingdom's Department for International Development (DFID), Swiss Development Cooperation (SDC), as well as other development partners in Nepal.

C. Cost and Financing

17. The cost of the TA is estimated at \$600,000 equivalent, of which the Government requested ADB to finance \$500,000. The TA will be financed on a grant basis by ADB's technical assistance funding program. The Government will finance the remaining \$100,000 equivalent to cover the costs of counterpart staff, office accommodation and utilities, and office equipment. The Government has been informed that approval of the TA does not commit ADB to finance any ensuing program. Further details of the cost estimates are in Appendix 3.

D. Implementation Arrangements

18. The Ministry of Local Development (MLD) will be the Executing Agency. A project management unit (PMU) will be established under MLD. The PMU will be headed by a project director at the level of joint secretary, who will be responsible for day-to-day TA implementation

Loan and a Technical Assistance Grant to the Kingdom of Nepal for the Decentralized Rural Infrastructure and Livelihood Project. Manila (Loan 2092-NEP and TA 4397-NEP, approved on 24 September); World Bank. 2005. *Rural Access Improvement and Decentralization Project.* Washington, DC; DFID. *Rural Access Program.* Palace Street: United Kingdom; SDC. 2002. *District Road Support Program;* World Bank. 2003. *Poverty Alleviation Fund.* Washington, DC; and World Bank. 1994. *Rural Water Supply and Sanitation Fund Board.* Washington, DC.

and regularly report to the secretary of MLD and ADB about the TA progress. A steering committee will be chaired by a member (infrastructure) of NPC. Secretaries of MLD, Ministry of Water Resources, Ministry of Physical Planning and Works, Ministry of General Administration, Ministry of Environment, Science and Technology, and Ministry of Finance will be members of the steering committee. The TA implementation modality needs to be flexible in order to include other line ministries that may be required during the TA implementation period.

19. The secretary of MLD will provide overall guidance to the PMU and review and endorse all the consultants' recommendations and suggestions to be made part of the TA outputs. An ADB project specialist will work closely with MLD in supervising the consultants and monitoring TA progress. Under the PMU, two full-time persons will be assigned to administer the TA activities. As the Executing Agency will carry out training, seminars, and conferences, an advance-payment facility will be established and the whole budget allocation will not be under the consultants' contract.

20. The TA will be implemented over 4 months from February to June 2007. Individual consultants will be engaged by ADB for a total of 56 person-months in accordance with ADB's *Guidelines on the Use of Consultants* (2006, as amended from time to time). Two international consultants for 7 person-months will be recruited: a rural development specialist/team leader and a project economist. Sixteen national consultants will be recruited to serve for a total of 49 person-months; they will include (i) a participatory planning specialist, (ii) a poverty reduction specialist, (iii) a local governance specialist, (iv) a financial management specialist, (v) an environment specialist, (vi) a social development specialist, (vii) a resettlement specialist, (viii) a monitoring and impact evaluation specialist, (ix) five rural road engineers, (x) a rural water supply and sanitation specialist, and (xi) two other rural infrastructure specialists for the sectors, which could possibly be selected in the area of architectural designs, irrigation, alternative energy, telecommunication, and airports. The outline terms of reference for consultants are in Appendix 4. As the TA needs to be urgently implemented as per the Government's request, advance contracting for recruiting individual consultants will be allowed. The Government was informed that ADB's approval of advance contracting, and retroactive financing, if any, do not commit ADB to subsequently approve the program. The equipment will be procured in accordance with ADB's *Procurement Guidelines* (2006, as amended from time to time), and will be handed over to the MLD on completion of the TA.

21. The team leader of the consultants will submit an inception report, which will summarize the activities related to mobilization and succeeding preparatory works and, as needed, discuss changes in the agreed-upon approach, methodology, or work plan, as well as the overall cost implications of the TA. Monthly progress reports and interim reports will be submitted by the consultants to MLD and ADB for effective monitoring of TA progress. The consultants will organize (i) five regional workshops, one in each region covered by the TA; and (ii) two national workshops in Kathmandu to advise stakeholders of findings under the TA and to solicit their comments thereon. After each workshop, a report summarizing the input, output, and outcomes will be submitted. The final TA report, including a project proposal in ADB format, will be submitted after reflecting the comments of the Government and ADB on the draft final report.

IV. THE PRESIDENT'S DECISION

22. 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 Rural Reconstruction and Rehabilitation Sector Development Program, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Preliminary Program Framework

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved rural infrastructure through participatory development</p>	<p>By end of program, the rural population of 5.5 million will have access to improved rural roads and other rural infrastructure</p>	<p>Monitoring and evaluation reports from areas served by the resulting program</p>	<p>Assumptions</p> <ol style="list-style-type: none"> 1. Adequate funding is available to meet project cost 2. Strong participation by local bodies and communities is evident 3. Terms of the Peace Accord are faithfully followed by all parties <p>Risks</p> <ol style="list-style-type: none"> 1. Political instability may be due to factions with opposing agenda 2. Cases of inadequate technical capacity may still occur among some districts
<p>Outcome Agreed-upon design of the resulting program</p>	<p>Final report on a program package envisaged by the Government for funding agencies' assistance</p>	<p>Periodic TA reports to the Government and ADB</p>	<p>Assumptions</p> <ol style="list-style-type: none"> 1. Competent consultants are mobilized on a timely basis 2. Participants at national and regional workshops reach consensus on project issues <p>Risk</p> <p>Local body may have limited implementing capacity</p>
<p>Outputs</p> <ol style="list-style-type: none"> 1. Review of investment plan 2. Prepare the policy matrix 3. Design of implementation arrangements 	<ul style="list-style-type: none"> • Prioritized list of projects • Investment requirements with resource gaps • Comprehensive sector assessment • A policy matrix for specific actions and their timing • Project director and PMU staff appointed, • Technical officers fielded in 75 districts • Agreement on funds flow between central and local bodies 	<p>Three-year Interim Plan prepared by National Planning Commission Consultants progress report</p> <p>Sector assessment report A policy matrix</p> <p>Proceedings of national workshop Consultants progress report</p>	<p>Assumption</p> <p>Adequate data and technical staff are made available on a timely basis</p> <p>Risks</p> <ol style="list-style-type: none"> 1. There is a delay in availability of planning data 2. Technical staff at local level are lacking 3. No consensus regarding implementation arrangements and delegation of authority is reached

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
4. Feasibility assessments of investment package	<ul style="list-style-type: none"> • Five core subprojects proposed at feasibility study • Subprojects for first year program prepared • Project-wise rate of return calculated 	Field data collected by consultants	
<p>Activities with Milestones</p> <p>The Government will</p> <ol style="list-style-type: none"> 1.1 Complete the analysis of macroeconomic data on public sector expenditure by 31 January 2007. 1.2 Complete first draft of rural infrastructure investment plan by 10 February 2007. 1.3 Hold a workshop on the investment plan by 10 February 2007. 1.4 Organize project management unit by 10 February 2007. <p>The TA will</p> <ol style="list-style-type: none"> 2.1 Field TA consultants by 15 February 2007. 2.2 Review the rural infrastructure investment plan by 28 February 2007. 2.3 Designate sites for five core subprojects by 15 February 2007 and notify respective DDCs. 2.4 Prepare priority list of subprojects by 15 February 2007. 2.5 Agree on funds flow and other implementation details by 28 February 2007. <ol style="list-style-type: none"> 3.1 Prepare a policy matrix by 30 April 2007. 3.2 Complete feasibility studies of five core subprojects by 30 April 2007. 3.3 Submit resettlement framework and resettlement plans by 30 April 2007. 3.4 Submit an indigenous peoples development framework and indigenous peoples development plans as required by 30 April 2007. 3.5 Complete draft feasibility study report by 15 May 2007. 3.6. Hold a national workshop by 31 May 2007. 			<p>Inputs</p> <ul style="list-style-type: none"> • ADB – \$0.5 million • Government – \$0.1 million

ADB = Asian Development Bank, DDC = district development committee, TA = technical assistance.

INITIAL POVERTY AND SOCIAL ANALYSIS

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Contribution of the sector or subsector to reduce poverty in Nepal:			
<p>Nepal is one of the poorest countries in the world with a per capita gross domestic product of \$270 and a poverty estimate of 31%. The country's economic growth rate of around 4% over the past years barely exceeded the population growth rate, which increased from 2.1% in 1991 to 2.3% in 2001. Although poverty declined sharply, falling from 42% in 1996 to 31% in 2004, the decline was driven by increases in remittances, higher agricultural wages, increased connectivity, and a decline in dependency ratio. However, much of the growth accrued largely to the middle and upper class urban households ; as a result inequality between the rich and the poor widened. Disparities in levels of poverty and human development indicators exist between different development regions and between rural and urban areas. The decade-long conflict that started in the mid west imposed the heaviest toll in districts with the highest poverty and poor infrastructure and development indicators. Lack of opportunity, rising expectations , and grievances against the government in terms of service delivery are key factors contributing to the spread of the insurgency.</p> <p>Inequality in access to resources, power relations, and cultural and social interest have sustained unequal access to economic opportunity and social resources. As a result, disparities in income and social indicators remain highly pronounced at regional, urban-rural, gender, and ethnic/caste levels. This disparity has systematically kept away large segments of the rural people from participating in development initiatives. The growing rural impoverishment, the lack of self-employment opportunities , and fragmentation of land into nonviable farm units have transformed subsistence farms into wage-dependent households. Thus, Nepal faces the dual challenges of accelerating growth and sharing it more broadly across the population. The effect of investments in rural development works is expected to be pro-poor as the benefits of infrastructure are capitalized primarily through increased shares of nonfarm employment. Improving rural connectivity and physical infrastructure will open up more rewarding job opportunities, and improve access to basic services such as schools and health facilities for populations living in distant and scattered settlements not yet reached by support services such as technology, extension, and market access. The project preparatory technical assistance (TA) envisages the preparation of an investment package that will provide the rural population with new opportunities for rural employment, increase income, expand access to rural infrastructure to enable the rural population to access affordable basic services while assisting them to rebuild their lives.</p>			

B. Poverty Analysis

Targeting Classification: General intervention

What type of poverty analysis is needed?

Pockets of poverty coincide with the distribution of occupational castes and ethnic minorities. Country-wise, the incidence of poverty is higher among Tibeto-Burman-speaking ethnic minorities such as the Limbus, Magars, Tharus, and Tamangs, and disadvantaged occupational castes, many of whom inhabit areas where cultivation conditions are marginal, rainfall is variable, and service infrastructure and market access are less developed. The family size of ethnic minorities and disadvantaged groups is higher than the national average; their participation in political life, decision-making bodies and government civil services is low; and support services remain inaccessible to them. Population density between the districts is variable with the eastern Terai having the highest population density at 365 per square kilometer, more than double the average population density of 158 persons per square kilometer. The majority of the poor are food-sufficient for no more than 6 months a year, and are forced to migrate out as wage laborers.

Given that labor is the primary asset of landless and wage-dependent households , rural poverty has prevailed in rural wage earning households. New strategy that encourages increased and diversified local employment will be identified to address the high incidence of poverty. It is necessary for a clear understanding of how rural households structure, their livelihood and income base. In addition, the nature of households' dependence on rural and urban sources of income and risk management will need to be assessed during the TA, and elements of pro-poor growth identified for incorporation into the project design.

The TA will ensure that the benefits accrue to all including the poor, women, ethnic groups, and other disadvantaged groups ; identify mechanisms to link resource-rich areas with resource-poor areas ; identify where growth and organic development of networks between and within districts are taking place; and determine what measures are needed to support these growth corridors (capacity building and investment), and chart out priority areas of support and implementation modality that addresses reconstruction and rehabilitation needs of the country. The project design will be based on social inclusion of different ethnic groups and castes, community-based participatory approaches to promote ownership of the process, gender sensitivity, and accountability of local bodies and their leaders for transparent management of resources.

C. Participation Process

Is there a stakeholder analysis? Yes No

Since stakeholders influence the achievement of project objectives, the TA will identify at the outset all potential stakeholders. They include government (central and district line agencies), local bodies, nongovernment organizations, indigenous groups, women, disadvantaged groups, and locally based civil society organizations. The TA will assist in identifying individuals to represent the various stakeholder groups and ensure that all are represented and that there is gender balance in the consultations. The TA will assess the institutional capacity of these stakeholders so as to define what role each stakeholder group is best equipped to play, agree on how best to engage them, and determine the type of participation for each group. At least one stakeholder consultation per development region district is envisaged. The stakeholder analyses and participation strategy will be adopted in preparing resettlement plans.

Is there a participation strategy? Yes No

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

Women's control over financial resources is severely limited as evidenced by the low land (10%) and home ownership rates (6%) for women and this impacts negatively on their decision-making role in strategic areas related to development. The country's gender development index (GDI) of 0.51 has improved vis-a-vis the human development index (HDI) of 0.53. However, the magnitude of gender inequality in HDI indicators is acute in the rural areas. This creates gaps and imbalances in the application and use of knowledge and skills. About two thirds of Nepali women are classified as illiterate, compared with one third of the men. Similarly, the number of years of schooling for females is only about half that of males.

Gender-based poverty has been intensified by the ongoing conflict. Widow-headed households and farm-related work burden have increased dramatically because male members have left the villages. Increasingly, women are being recruited as active participants. It is reported that every third insurgent is a woman and that 70% of women insurgents are from ethnic groups. The reason for women's increased involvement in Maoist activities is their perception that conflict is the only means to change their situation in the society and gain self-esteem and confidence. Women's low social status leaves them vulnerable to gender-based violence, in the household and outside, and has devastating impacts on their morale and confidence, driving them into trafficking and other precarious circumstances.

The Tenth Plan adopts gender mainstreaming as a strategy to maximize development impacts on women and to promote greater gender equity. The TA will prepare a gender action plan with targets for women's participation and define how gender-responsive and inclusive processes may be strengthened.

Has an output been prepared? Yes No

E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Short or full resettlement plans will be written to deal with all resettlement requirements if these arise. ADB's resettlement policy and its objectives will be complied with, and the project will take steps to ensure that full, fair, and timely compensation will be paid for any land or assets that are lost. A resettlement framework will be prepared.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Short <input type="checkbox"/> None
Affordability	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	The TA will take steps to ensure that the cost of inputs is reasonable and that poor men and women farmers have equal access to TA benefits through appropriate arrangements and/or targeted interventions	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

E Social Safeguards and Other Social Risks

Labor	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	<p>The project foresees incremental employment generation through rural infrastructure works. Project impact on the labor market in increasing employment opportunities and enhancing the quality of labor productivity, as well as the distribution of benefits to men and women, will need to be assessed. The incidence of child labor varies by district. The TA will ensure that the design of community infrastructure will facilitate increased access by poor households and women. In construction activities, the project will ensure equal pay between men and women for the same work.</p>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	<p>The TA will assess the anticipated effect on indigenous groups and occupational caste groups, and develop mitigating measures where applicable. Ethnic groups and occupational caste groups remain largely excluded from the processes of development, and exhibit higher levels of disparities and severe deprivation of opportunities in all aspects of life. A more focused strategy to increase equitable participation of ethnic and occupational caste groups is required. The TA will explore the possibility of self-targeting, e.g., project benefits are available to all, but in practice are of interest only to indigenous groups, or target infrastructure to poorer areas. A plan will be prepared.</p>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	<p>Potential risks include political instability, disruption in the peace process, weak capacity, delays in implementation, and inadequate interagency coordination.</p>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank (ADB) Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	140.0
ii. National Consultants	204.0
b. International and Local Travel	38.0
c. Reports and Communications	13.0
2. Equipment ^b	10.0
3. Training, Seminars, and Conferences ^c	20.0
4. Miscellaneous Administration and Support Costs ^d	25.0
5. Contingencies	50.0
Subtotal (A)	500.0
B. Government Financing	
1. Office Accommodation and Transport	34.0
2. Remuneration and Per Diem of Counterpart Staff	10.0
3. Facilities for Workshops and Meetings	16.0
4. Database	40.0
Subtotal (B)	100.0
Total	600.0

^a Financed by ADB's technical assistance funding program.

^b The equipment to be purchased includes two computers, one printer, one photocopier, and one facsimile machine for use by consultants and to be turned over to the Ministry of Local Development upon completion of the technical assistance.

^c Including costs for subcontracting local nongovernment organizations, facilitators, and resource persons.

^d Including office utilities and supplies, and secretarial expenses.

Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The project preparatory technical assistance (TA) will require a total of 56 person-months of consultants' inputs: two international consultants for 7 person-months and 16 national consultants for 49 person-months, all with substantial experience relevant to rural development policy, institutions, and rural infrastructure improvement.

A. Rural Development Specialist/Team Leader (international, 4 person-months)

2. The team leader will (i) manage the team, (ii) coordinate with counterpart staff, (iii) arrange for the collection of relevant documents and socioeconomic data, (iv) review lessons from other projects, (v) review the sector's policy environment, and (vi) propose specific policy actions to achieve the ensuing project's objectives. On the basis of the Government's rural infrastructure investment plan, the team leader will (i) incorporate identified lessons from the rural infrastructure projects, in particular, the Decentralized Rural Infrastructure and Livelihood Project (DRILIP); (ii) analyze the emerging policy and institutional environment in the postconflict period; (iii) undertake comprehensive sector analysis; (iv) determine structural constraints to sectorwide development and linkages to macroeconomic indicators; (v) identify reforms that could be implemented quickly and over the medium term with Asian Development Bank (ADB) financial support; (vi) develop selection criteria from the analytical framework for the proposed rural infrastructure investments; (vii) prepare draft and final reports of the consultants; (viii) prepare a TA document to support project implementation and strengthen local governance; (ix) prepare a comprehensive program proposal, including an investment component and a policy lending component in a format suitable for further ADB loan processing; (x) ensure that benefits accrue to all, including the poor, women, ethnic groups, and other disadvantaged groups; (xi) identify mechanisms to link resource-rich areas with resource-poor areas; (xii) identify what measures are needed to support capacity building and investment; and (xiii) chart out priority areas of support and implementation modality that addresses reconstruction and rehabilitation needs of the country.

B. Project Economist (international, 3 person-months)

3. The project economist will (i) review lessons in relation to welfare impact, distribution analysis, sustainability, and cost-effectiveness from improving rural infrastructure and enhancing the management capacity of the local government; (ii) assess the adjustment costs and economic impacts of policy and institutional reforms that may be undertaken in the immediate postconflict period; (iii) conduct detailed economic analysis of the core subprojects, and prepare a generalized project economic analysis on the basis of the core subprojects in accordance with ADB's *Guidelines for the Economic Analysis of Projects* and determine the project benefits; (iv) verify the screening and selection criteria to be used for selecting infrastructure under the program; (v) verify field surveys and field data collected to determine the program outcomes, taking into account seasonal variation, and procedures for determining the influence areas of rural infrastructure; (vi) undertake economic analyses of each rural infrastructure; (vii) compare ranked results of the analyses with a ranking of agricultural production increases for zones of influence of roads; (viii) conduct a sensitivity analysis of rates of return of rural infrastructure in relation to changes in key assumptions and parameters; and (ix) prepare cost estimates in the COSTAB format.

C. Participatory Planning Specialist (national, 3 person-months)

4. The specialist will (i) review the Government's medium- and long-term strategies and plans for agriculture and the rural development sector; (ii) organize stakeholder workshops to identify mechanisms for effective involvement of stakeholders and beneficiaries in the development of rural

infrastructure; (iii) examine the lessons in reducing poverty through increased agricultural production and incomes as a result of rural infrastructure development; (iv) assess the scope of agriculture production clusters to increase production on a commercial scale and examine the possibility of increased marketing by improving rural infrastructure; (v) organize stakeholder workshops to identify effective methods of participation in agriculture and rural development; (vi) provide the basis for giving priority to select rural roads that connect production clusters and encourage farmers to produce on a commercial scale; (vii) identify potential new crops and livestock products and markets for areas to be connected by rural roads in core project areas; (viii) assess how these initiatives will fit into the district development committees' (DDCs) local development planning, implementation, and monitoring mandates; (ix) identify what other support and services required for increasing agriculture production and establishing market infrastructure are available, and how they can be addressed within the framework of the proposed program; (x) examine how increased agriculture production and income will benefit small and marginal farmers and entrepreneurs, women, disadvantaged communities, and ethnic groups; and (xi) suggest training and capacity-building support required for institutions and beneficiaries.

D. Poverty Reduction Specialist (national, 3 person-months)

5. The poverty reduction specialist, using ADB's *Handbook on Poverty and Social Analysis*, will (i) collect social data as required and possible within the limited time frame; (ii) analyze the socioeconomic data required for benchmark information on poverty and its distribution and poverty impact ratio analyses; (iii) develop poverty and social selection criteria; (iv) develop a results-based monitoring and evaluation system; (v) prepare an overall poverty profile and map of the 75 districts; (vi) prepare poverty criteria for prioritizing project investments so as to maximize poverty reduction impacts; (vii) develop selection criteria for selecting beneficiary communities based on characteristics, including poverty incidence, willingness to participate in construction, and capacity for maintenance; (viii) analyze the institutional capacity of DDCs and relevant stakeholder organizations to implement the poverty reduction aspects of the program; and (ix) prepare an action plan for poverty reduction through labor-intensive and off-farm income-generating activities, which include responsibility and time-bound measurable indicators for stakeholders, including DDCs, village development committees (VDCs), nongovernment organizations (NGOs), and local staff of the Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR).

E. Local Governance Specialist (national, 4 person-months)

6. The local governance specialist will (i) review the capacity of the local government institutions and DOLIDAR in relation to governance, transparency, financial management and accounting, local resource mobilization, gender and development, and participatory methods; (ii) identify local institutional reforms and capacity-building measures that could be implemented quickly with high impact in the postconflict period with ADB financial support; (iii) recommend the coordination of DDC and VDC with NGOs and government officials at the local level; (iv) recommend institutional arrangements for participatory processes currently used by DOLIDAR and local governmental institutions; (v) develop inputs to stimulate community participation; (vi) recommend how government line agencies might improve service delivery to DDC and VDC; (vii) assist DOLIDAR in preparing for DDC and VDC staff and local bodies a training program in governance, transparency, financial management and accounting, local resource mobilization, gender and development, and participatory methods; (viii) review the institutional capacity of various line agencies involved in the project activities; (ix) review the division of responsibility for local activities among various agencies at different levels; (x) prepare an action plan to improve institutional strengthening in consultation with the Ministry of Local Development (MLD); (xi) facilitate stakeholder workshops to discuss the action plan with stakeholders; (xii) prepare TA

requirements to implement the action plan through the project; (xiii) prepare an action plan for local governments to enhance the capacity of local bodies in planning and implementation including (a) strengthening VDCs; (b) increasing local resource mobilization by VDCs; (c) establishing institutional linkages between VDCs, NGOs, and government agencies at the local level; (d) ensuring community participation by women; (e) identifying, planning, and implementing demand-driven local development schemes; and (f) obtaining support for service delivery by line department officials at the local level.

F. Financial Management Specialist (national, 3 person-months)

7. The financial management specialist will (i) help the team leader determine the types of analyses to be used to assess roads to determine the program's financial feasibility; (ii) undertake financial analysis in line with ADB's *Guidelines on the Financial Management and Governance of Investment Projects Financed*; (iii) identify issues in financial management of DOLIDAR and implementing agencies, in particular, VDCs' capacities to manage rural infrastructure; (iv) review financial functions of DOLIDAR and implementing agencies, including planning and budgeting, quality of financial data; (v) review accounting systems, procurement and payment systems; (vi) review resource management by DOLIDAR and implementing agencies; (vii) design the fund flow, disbursement mechanism, and audit arrangement; and (viii) assess financial management by the Executing Agency/implementing agencies, including internal control and accounting, and recommend necessary measures.

G. Environment Specialist (national, 3 person-months)

8. Building on guidelines and processes established under DRILIP, the environmental specialist will (i) evaluate the environmental aspects of the program; (ii) prepare an initial environmental examination (IEE) and summary IEE for the project; (iii) undertake specific assessments for sample schemes; (iv) identify needed action; (v) assess the potential environmental impacts of the proposed project, including physical, ecological, and social environments; (vi) conduct a comprehensive appraisal of the environmental impact of the project activities in line with ADB's *Environmental Assessment Guidelines (2003)* and *Environment Policy (2002)*; (vii) propose appropriate mitigating measures for the identified environmental impacts; (viii) identify budget needs to strengthen DOLIDAR's capacity to implement environmental monitoring and management; (ix) review an IEE report prepared by DOLIDAR and prepare an IEE for the program; (x) indicate whether the IEE indicates a full environmental impact assessment is required and, if so, provide the terms of reference; (xi) assist the team leader in reviewing all infrastructure designs, their proposed construction technology, and the project implementation plan to identify any potential adverse environmental impacts; (xii) prepare environmental assessment and review procedures in consultation with the Ministry of Environment, Science and Technology and DOLIDAR; (xiii) analyze DOLIDAR's capacity to conduct environmental reviews and monitor investment projects; and (xiv) prepare a capacity improvement program that will give DOLIDAR adequate environmental monitoring capacity.

H. Social Development Specialist (national, 3 person-months)

9. The social development specialist will assess lessons from ongoing rural development projects for the distribution of benefits to poor men and women, ethnic groups, and disadvantaged castes to define mechanisms that ensure greater social inclusiveness and equity in access to services, resources, and opportunities. In particular, the specialist will (i) review MLD's development strategy; (ii) assess the implementation modality of DOLIDAR and identify mechanisms to make improvements so as to speed service delivery to the poor; (iii) identify

economic opportunities for the participation of women, ethnic groups, and disadvantaged castes; (iv) define capacity-building needs of implementing institutions to ensure sensitivity to issues of gender and culture; (v) ensure that the design of rural infrastructure projects will facilitate increased access to poor households, and disadvantaged ethnic groups and castes; (vi) identify appropriate social targets and indicators (disaggregated by gender) to be included in the design and monitoring framework, prepare a gender action plan and a mechanism for monitoring the social and gender impacts of the project; and (vii) ensure all monitoring is carefully scheduled, fully budgeted, and supervised.

I. Resettlement Specialist (national, 3 person-months)

10. As a nonsignificant involuntary resettlement impact may occur in areas where new roads will be built, the resettlement specialist will, building on guidelines and processes established under DRILIP, prepare—in full consultation with those affected—a short resettlement plan, a resettlement framework to cover resettlement impacts, noncore subproject resettlement plans, and sample core subproject resettlement plans for five selected subprojects to ensure compliance with ADB's policy on *Involuntary Resettlement* (1995) and related OM Section F2 on Involuntary Resettlement (2006). The plans should be disclosed to those affected and the resettlement framework should be endorsed by DOLIDAR. The specialist will (i) review applicable policy and legal instruments for land acquisition and resettlement; (ii) identify any socially negative impacts of rural infrastructure resulting from permanent land acquisition; (iii) assess risks and opportunities; (iv) prepare livelihood regeneration strategies and options; (v) prepare an entitlement matrix; (vi) consult with the people affected; (vii) develop specific measures to improve the status and incomes of vulnerable groups; (viii) prepare detailed budgets, implementation schedules, and management arrangements; (ix) identify requirements for building the capacity of resettlement staff; (x) prepare a mechanism for internal and independent monitoring and evaluation; (xi) examine indigenous peoples and ethnic minority issues in areas of significant settlement by indigenous peoples; (xii) ensure participation by indigenous peoples and ethnic minorities in project design and implementation; (xiii) propose specific action for affected indigenous peoples to ensure that benefits will accrue to them and that negative impacts will be mitigated; and (xiv) prepare an indigenous peoples development framework and/or indigenous peoples development plans.

J. Monitoring and Impact Evaluation Specialist (national, 3 person-months)

11. The monitoring and impact evaluation specialist will assess the capabilities, capacity, and functional gaps of the current monitoring and evaluation system for DOLIDAR from a results-based management aspect. In particular the assessment will focus on what system enhancements will be needed to accommodate a results-based management approach to the program. The specialist will assess current framework and business processes on the basis of results orientation, degree of integration across each process stage, and strategic objectives and program objectives so that data can be aggregated. The specialist will assess awareness and ability to determine indicators, responsibility of ownership and ability to capture data from potential sources of DOLIDAR to work with, and/or take full advantage of tools for monitoring results. The specialist will also assess the monitoring and evaluation system infrastructure? including the level of knowledge and ownership by those responsible for carrying out this task, as well as their capacity to manage it? and functionality; and expectations in terms of reporting and analysis.

K. Rural Roads Engineers (national, 5 at 3 person-months each)

12. The rural roads engineers will (i) examine the overall Government strategy and plan for the development of rural roads over the medium and long term; (ii) review the selection and eligibility

criteria being used by DOLIDAR in screening subprojects for inclusion in the project; (iii) suggest improvements in the selection criteria to ensure that technical, economic, social, and environmental factors are included in the screening process; (iv) assess DOLIDAR in preparing a suitable package of rural roads to be included in the program; (v) determine unit costs of rural road development under several construction conditions; (vi) calculate the operation and maintenance (O&M) cost of a kilometer of road per year, using labor-intensive methods; (vii) assist in aggregating project costs taking account of rural infrastructure other than rural roads; (viii) examine guidelines for site surveys, feasibility and evaluation studies, and construction supervision; propose improvements for efficient implementation of the program; (ix) define appropriate construction standards for rural roads; (x) provide input into the economic analysis of rural roads; (xi) define amounts and types of appropriate construction equipment for project implementation; (xii) assist in arranging regional workshops

L. Rural Water Supply Specialist (national, 3 person-months)

13. The specialist will (i) evaluate the water- and sanitation-related section of the rural infrastructure investment plan; (ii) assess the selection and eligibility criteria applied by Government departments; (iii) assess the existing total financial envelope available for the water supply and sanitation sector, including resources provided by central and local governments and funding agency pipelines; (iv) prepare a situation analysis of the sector that includes a problem tree, analysis of capacity constraints, institutional mapping, and stakeholder analysis; (v) collect information on the status of subsector indicators, including the Millennium Development Goals, for rural and urban populations by gender and population group in each district, and estimate the requirements to achieve targets; (vi) review the status of the current decentralization practices in the sector; (vii) propose alternative approaches to strengthening the process; (viii) describe, map, and quantify the condition of basic amenities and services in rural areas, highlighting needs and deficiencies in the subsectors; (ix) develop technical, economic, social, and environmental criteria for selecting schemes to be developed under the program; (x) determine and verify various unit costs and estimate the investment cost for the types of construction envisaged; (xi) examine the ability of the key institution to implement envisaged works with regard to technical capacity and the amount of annual works; (xii) review existing operation and maintenance (O&M) arrangements and prepare a revised strategy for community implementation of rural schemes, including technical procedures to ensure efficiency and sustainability and proper financial, accounting, and managerial arrangements for O&M; and (xiii) conduct a full prefeasibility study for up to two separate subproject schemes, by screening all viable technical options and completing the technical design for selected least-cost options, in consultation with stakeholders and local communities.

M. Unallocated Rural Infrastructure Specialists (national, 6 person-months)

14. In the course of implementing the TA, additional national consultants will be recruited, who at this stage cannot be identified owing to the uncertainty of including a number of minor components of rural infrastructure such as minihydropower systems, small irrigation systems, government building for local bodies, or rural telecommunication. The consultants will be tasked to (i) examine the subsector's investment program (medium- and long-term); (ii) review the inventory of subprojects being proposed; (iii) design screening criteria applicable to the subsector and apply them to the proposed subprojects; (iv) estimate the construction costs of selected subprojects; (v) carry out the necessary technical, social, environmental, and economic analyses of subprojects; (vi) recommend appropriate O&M procedures for completed facilities, and estimate the cost thereof; and (vii) assist in the results-based management system of monitoring and evaluating the projects included in the respective subsectors.