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CURRENCY EQUIVALENTS

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ABBREVIATIONS

ADB	–	Asian Development Bank
ASIP	–	annual strategic implementation plan
CIDA	–	Canadian International Development Agency
DDC	–	district development committee
DFID	–	Department for International Development of the United Kingdom
GESI	–	gender equality and social inclusion
GSP	–	Governance Support Program
JFA	–	joint financing arrangement
LGAF	–	local governance and accountability facility
LGCDP	–	Local Governance and Community Development Program
LPC	–	local peace committee
MCPM	–	minimum conditions and performance measures
MLD	–	Ministry of Local Development
NAC	–	national advisory committee
PCU	–	program coordination unit
SDC	–	Swiss Agency for Development and Cooperation
SWAp	–	sector-wide approach
TA	–	technical assistance
UN	–	United Nations
VDC	–	village development committee

NOTES

- (i) The fiscal year (FY) of the Government ends on 15 July. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2008 ends on 15 July 2008.
- (ii) In this report, "\$" refers to US dollars, unless otherwise stated.

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I. INTRODUCTION

1. This progress report outlines achievements under subprogram 1 of the Governance Support Program (GSP)¹ and reflects the program performance reviews undertaken from October 2008 to September 2009.

2. Subprogram 1 provides support to the Government's Local Governance and Community Development Program (LGCDP) to attain the following outcomes: (i) citizens and communities engaged actively with local bodies² and hold them accountable; (ii) better management of resources and delivery of services in an inclusive and equitable manner by capable local bodies; and (iii) strengthened policy and national institutional frameworks, including legal frameworks, for decentralization, devolution, and community development. The Ministry of Local Development (MLD) is the Executing Agency for the LGCDP, and implementing agencies include the Ministry of Peace and Reconstruction for work related to the local peace committees (LPCs) and such participating local bodies as district development committees (DDCs), village development committees (VDCs), and municipalities. Local development officers coordinate the LGCDP in districts, as do executive officers in municipalities, and secretaries in VDCs.

3. Subprogram 1 is a 4-year program grant (2008–2012) designed to be released in three tranches, subsequent to the Government of Nepal (the Government) meeting the corresponding tranche release conditions. The first tranche, for \$20 million, was disbursed upon grant effectiveness in January 2009, as the Government fulfilled all policy actions required under the program. The second tranche, for \$45 million, is to be disbursed upon the preparation of the joint financing arrangement (JFA) by interested development partners, and upon the satisfactory fulfillment of the corresponding tranche release conditions. The third tranche, for \$41.3 million, will be disbursed within 12 months after the release of the second tranche, subject to the satisfactory fulfillment of the corresponding tranche release conditions.

4. Technical assistance support for the successful implementation of the LGCDP is provided by several development partners, including Norway, Denmark, Switzerland, and United Nations agencies.

II. DEVELOPMENTS IN NEPAL AND PROGRAM IMPLICATIONS

5. Subprogram 1 was designed following the formulation of the LGCDP by the Government in early 2008. The LGCDP focuses on several areas of reforms, including (i) social mobilization of communities and disadvantaged populations to enable them to hold local bodies to account; (ii) equitable access to greater fiscal resources for local bodies; (iii) capacity enhancement in local bodies and fine-tuning local body service delivery mechanisms and processes; (iv) a policy framework for further decentralization; and (v) strong central government and national nongovernment institutions to provide appropriate support to local bodies.

¹ ADB. 2008. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Cluster and Grant for Subprogram 1 to the Federal Democratic Republic of Nepal for the Governance Support Program*. Manila (Grant 0118-NEP, \$106.3 million).

² In Nepal, local bodies refer to 3,915 village development committees, 75 district development committees, and 58 municipalities. The new constitution under development is very likely to change the local government architecture along federal lines, but there is as yet no certainty on what form this will take. In the meantime, all planning and resource allocation to local bodies is done using this framework.

6. The context of subprogram 1, which is ADB's support program for the LGCDP, has not changed substantially in the year since it was declared effective. There have been other developments, however, that impinge on its success:

- (i) **Constitution-drafting process.** The Constitution-drafting process is running behind schedule because of differences among the major political parties.³ There is a danger that this will push back the date of the promulgation of the new constitution. This has implications for the LGCDP as local elections will not be held without the constitution, and the existing legislative basis of local governance work, the decade-old Local Self-Governance Act, does not fully reflect the realities of today's Nepal.
- (ii) **Impact of global economic crisis.** While this is not likely to be very severe in the short term, possible crisis impacts are mixed. Overall, the impact should be limited by the financial system's narrow exposure to the global financial market and products. Tourist inflows will be hurt, particularly from where the economic crisis is severe, such as North America, Europe, and Japan. Remittance inflows will be affected if the global slowdown worsens.⁴ Nonetheless, as the bulk of Nepal's foreign employment is in countries not necessarily hard hit by the global crisis, remittance inflows may remain relatively intact for the time being. The significant growth rates in these inflows seen in recent years may not be sustained in the medium term, however, in view of the emerging crisis in other host countries such as the Republic of Korea and Malaysia.
- (iii) **Business environment.** One of the most serious emerging issues in Nepal is the rising tide of developments unfriendly to business. The list of companies and businesses affected by shutdowns due to labor disputes or other reasons is long although the problem seems to have abated a bit in the past 6 months or so. Trade unions affiliated with political parties often close down factories and businesses at huge cost to the economy.⁵ For these reasons, the World Bank's *Doing Business Survey 2009* ranked Nepal last among the eight South Asian countries in terms of employing workers. The most recent budget statement, for fiscal year (FY) 2010, explicitly recognizes the problem of a weak business environment and puts in place some measures designed to enhance it, including making business processes simpler and putting in place a business-friendly tax system and guarantee of contract enforcement. The Government has allocated \$80 million for special security measures for the whole country, which includes funds to pay for extra security on highways.
- (iv) **Stronger focus on disadvantaged groups, including women.** The Government has nearly completed the mapping of disadvantaged groups across the country, with the only district remaining to be completed being Kathmandu.

³ This is reflected in the fact that, of the 14 committees in the Constituent Assembly, only 6 have so far submitted their reports for further plenary discussion, even though all such committee work and discussion is to be completed by the end of the year.

⁴ Having said this, the Nepal Rastra Bank (NRB), in its report on the macroeconomic situation at the end of the fiscal year 2008/09, reported that workers' remittances went up 47% in 2008/09 compared to a year ago, showing that the adverse impacts of the crisis were yet to be fully felt in the Nepali economy.

⁵ In 2008, for example, 55 factories in the Hetauda industrial area, 8 of which belong to multinational companies, were closed. The price of these closures, according to the Hetauda Industrial Area Management, was NRs6.6 million–NRs10 million a day.

The maps, which delineate areas in four degrees of concentration of disadvantaged groups, are used extensively in selecting development projects, determining funds transfers, and reconfiguring local planning purposes, with districts rated 3 and 4 getting priority.⁶ This focus on disadvantaged groups is expected to be in place for some time yet as the Constituent Assembly debates the broad contours of a political and development system wherein social inclusiveness will be central.

- (v) **Local peace committees (LPCs).** The Government has decided to emphasize the work of the LPCs in the run-up to preparing the constitution. To this end, the number of LPCs in the country's 75 districts is at present 62. The work of the LPC is strengthened when there is cooperation and collaboration among political parties, particularly as evident in the all-party mechanism at the local level. The mechanism functions in some districts but evidently not in others.
- (vi) **Broad and wide-ranging reforms for service delivery.** Despite the difficulties highlighted above, the Government is committed to good governance and providing to citizens rapid and easy access to services. To make service delivery more effective, the Government enacted in 2007 the Good Governance (Operation and Management) Act, following up with its regulations in 2008. This provides for integrated service delivery centers to meet the needs of people in the villages and municipalities. Despite earlier shortcomings in similar endeavors, the end of the conflict presents a unique opportunity to transform the way government reaches out to citizens.

III. PROGRAM PERFORMANCE AND STATUS OF POLICY ACTIONS

A. Summary of Progress

7. Overall progress in the GSP is marked by three features: (i) continued government ownership of, and commitment to, the GSP; (ii) a coordinated approach among development partners, evident in the JFA; and (iii) impacts of emerging issues in local governance.

8. **Continued ownership of, and commitment to, reforms.** This is evident in three main ways:

- (i) The Government has declared the LGCDP to be a priority 1 project⁷ and has agreed to ensure adequate resource allocations for it, including consideration of capacity development and other resource requirements.
- (ii) At the center, there has been strong leadership and support exhibited by (a) Ministry of Finance through the adequate and timely provision of counterpart funds, (b) MLD through strong support to the program coordination unit and making available various output managers,⁸ and (c) Ministry of Peace and Reconstruction, which implements all program activities related to LPCs.
- (iii) Locally, there has been extensive engagement of VDCs, DDCs, and municipalities in the LGCDP. The application of minimum conditions and

⁶ These are districts with the proportion of disadvantaged groups higher than in other districts.

⁷ All development programs and projects in Nepal are given ranked priority 1 or 2 or just general. About three of every five such programs and projects get a priority 1 ranking.

⁸ Making the undersecretaries in the ministry the output managers for the LGCDP has mainstreamed the GSP in the work of the ministry, rather than merely grafting on a program unit that is divorced from the ministry's core business. Indeed, MLD has in 2009 added three output coordinators to assist the national project director.

performance measures (MCPM) standards has provided the right incentives to local bodies to exceed the conditions expected of them in order to receive increased block grant funds. All local bodies (i.e., 3,915 VDCs, 75 DDCs, and 58 municipalities) are now very aware of the resources available from the LGCDP and have taken to heart MCPM standards.

9. **Development partner coordination.** A unique feature of the LGCDP is strong development partner coordination in its design and implementation. In 2008, eleven development partners signed a letter of intent to provide assistance to the Government for the LGCDP.⁹ During program design, six proceeded to finalize the JFA to institutionalize their coordination. Other than finalizing the JFA, strong development partner support has been evident in (i) active work and participation in the National Advisory Committee (NAC), including participation in the sub-NAC and thematic groups; (ii) involvement in recruiting program staff to introduce an element of independent consideration of the candidates; (iii) peer review of LGCDP documentation; (iv) support for technical capacity building through the provision of resources and international and national consulting expertise; and (v) monitoring and appraisal of LGCDP activities.¹⁰ This encouraging participation by development partners demonstrates the appeal of the LGCDP in reforming local governance financial architecture and development processes.

10. **Issues in local governance reforms.** The Government is keenly aware that further comprehensive reforms are necessary to strengthen local governance. However, two constraining developments are (i) there being no sign that local elections will take place any time soon, which will continue to stunt local accountability measures, and (ii) a little less than a third of VDCs, or approximately 1,100 of them, being without secretaries. In essence, then, the lack of elected representatives, and of secretaries in many VDCs, has hindered local governance. The recent monitoring field visit by ADB, in partnership with MLD, Canadian International Development Agency (CIDA), and Denmark, showed that this could pose some risks, even though awareness of, and interest in, the LGCDP is high.

B. Second Tranche Policy Actions

11. Appendix 1 contains the policy matrix for subprogram 1. Appendix 2 contains the design and monitoring framework. And Appendix 3 summarizes the compliance status of the policy actions under subprogram 1. As mentioned earlier, all 11 policy actions (plus the requirement of finalizing the JFA) have been fully complied with.

- (i) **Requirement that the Joint Financing Arrangement (JFA) will have been finalized** (fully complied with). ADB had made the JFA a prerequisite before consideration could be made of other tranche release conditions. This was to ensure that cooperation and donor harmonization were institutionalized from the very beginning. In early September 2009, the JFA was signed by ADB and the embassies of Denmark and Norway; two other development partners, the Swiss Agency for Development and Cooperation (SDC) and the United Kingdom's Department for International Development (DFID), have expressed interest in

⁹ These development partners included ADB, Denmark, the United Kingdom's Department for International Development, Norway, Swiss Agency for Development and Cooperation, United Nations agencies, and World Bank. A copy of the signed letter of intent is on file at SAFM.

¹⁰ In September 2009, representatives of MLD, Denmark, and Canadian International Development Agency accompanied the ADB mission on a monitoring visit of the far-west region to assess the realities of the LGCDP. The field visit was organized by the program coordination unit. The districts visited were Baitadi, Dandeldhura, Kanchanpur, and Kailali.

signing the JFA very soon.¹¹ The significance of the JFA should be recognized in the context of Nepal:

- a. First, it helps in the work toward a sector-wide approach (SWAp), a stated goal of the Government with respect to the LGCDP. This is a desirable objective, especially as developing a SWAp in the area of governance is rather difficult.
 - b. It facilitates the entry of other development partners that wish to come together to support the Government.
 - c. It minimizes transaction costs for MLD and other Government ministries by allowing it to deal with development partners as one group rather than as several individual partners,¹² as well as facilitating donor coordination, which is a substantial gain for the Government.
- (ii) **Condition 1: Government to endorse the LGCDP document** (fully complied with). The Government endorsed and approved the LGCDP in July 2008. This is a particularly significant development for various reasons: (a) It is the first governance program to achieve such strong ownership from the Government. (b) It is a substantial program, in terms not only of area of coverage but also of the size of financing, with more than 65% of the total resources being committed by the Government. (c) It combines both demand and supply sides of good governance, and its focus on community development is very apt given current political trends in Nepal where center-dictated reforms are increasingly relegated to community-driven initiatives. The LGCDP is a product of the extensive involvement of all major development partners currently operating in Nepal.
- (iii) **Condition 2: MLD to prepare the local governance and community development annual strategic implementation plan for FY2010 in accordance with the objectives and performance targets of the LGCDP, and have it endorsed by JFA development partners, including ADB** (fully complied with). The annual strategic implementation plan (ASIP) for FY2010 was prepared by the Government and approved by the NAC in July 2009. All three JFA development partners—ADB, Denmark, and Norway—were present at the July 2009 NAC meeting at which the ASIP was approved.¹³ The ASIP provides detailed information on activities, costing, and implementation schedules for all seven outputs of the LGCDP. As this is the first such ASIP prepared for LGCDP, there are likely to be midterm revisions to the plan, which will be suitably discussed by the NAC. Both the JFA and other development partners were actively involved in peer reviewing the ASIP during its preparation.
- (iv) **Condition 3: NPC and the Ministry of Finance to approve the annual work plan and budget for FY2010 for the LGCDP** (fully complied with). Both the

¹¹ A copy of the signed JFA is with SAFM and is available for review. SDC has committed \$4 million and DFID \$30 million to the LGCDP. CIDA has expressed interest (its contribution of C\$9 million to the LGCDP—of which C\$1 million will be for technical assistance—is to be provided under a cofinancing arrangement with ADB). However, CIDA's program of support for this purpose has yet to be made formal, so it has delayed signing the JFA.

¹² In accepting the JFA, the Government has highlighted that (i) any changes in the JFA provisions will have to be approved by the Ministry of Finance after the NAC has endorsed it; (ii) any other donor interested in joining the LGCDP can do so, with the Financial Comptroller General's Office coordinating entry; and (iii) there should be no overlaps either in the area of coverage or in the focus theme.

¹³ The minutes of the meeting are on file at SAFM.

National Planning Commission and the Ministry of Finance have approved the annual LGCDP work plan and budget for FY2010. This approval was necessary to ensure that funding commitments from the Government would be reflected in its Red Book, the official document in which budget allocations are shown. For the current fiscal year, the Red Book shows NRs634.79 million for meeting recurrent expenditures on salaries and other operational expenses and NRs2.686 billion for capital expenditure as Government commitment to the LGCDP.

- (v) **Condition 4: MLD to approve a social mobilization strategy, including a detailed action plan with budget allocation that is relevant to disadvantaged groups** (fully complied with). The social mobilization strategy that has been approved by MLD with full support from the National Advisory Committee focuses on raising awareness, with a special focus on the Dalit and Janajati groups. As originally conceived in the LGCDP, the social mobilization strategy had a more “transactional” approach, in which social mobilization was seen as a process of group formation to organize people for community development and whereby groups are mainly responsible for delivering services and mobilizing resources for their members. Following the active involvement of development partners in conceptualizing a more dynamic form of social mobilization (one that is termed “transformational”), the strategy that has now been approved focuses more on empowering and enhancing capabilities to build the groups’ voice, claim services, and influence decisions, as well as hold local government officials to account for effective service delivery. This approach is found to positively influence the equitable allocation of resources and local bodies’ prioritization of equitable allocation. A central service provider to coordinate among several such local providers will be selected through competitive bidding after the social mobilization guidelines have been framed, by the end of October 2009. Finally, as per the approved strategy, the capacity of social mobilizers or service providers is to be strengthened, particularly in the 1,600 or so VDCs identified in disadvantaged group mapping as level 3 and 4 (footnote 6).
- (vi) **Condition 5: MLD to approve a gender equality and social inclusion strategy, including detailed implementation arrangements with budget allocation** (fully complied with). The NAC approved in July 2009 the gender equality and social inclusion (GESI) strategy, for which the relevant manuals are to be finalized by the end of December 2009. The strategy provides guidance on integrating GESI in all aspects of LGCDP implementation. It details the existing situation of women and level of gender equality and social inclusion in local governance and community development mandates and outlines strategies for mainstreaming GESI across the program areas. The proposed strategy includes forming ward citizens’ forum, enlarging the Integrated Planning and Coordination Committee, establishing a GESI desk in DDCs, and increasing budget allocations for women and excluded groups from 15% to 25% in the VDC block grants. To support the coordination of this task at the center, a GESI section has been established in MLD, headed by an under secretary. Several development partners are currently finalizing support provisions for the GESI desk in districts, and considerable capacity development is needed for gender focal points in all 75 districts.

- (vii) **Condition 6: MLD to establish a local governance and accountability facility (LGAF) aimed at ensuring that local bodies are held accountable for service delivery** (fully complied with). The concept of the facility—while agreed in principle at the time of the Government’s approval of the LGCDP in July 2008—was very difficult for development partners and the Government to find agreement on, largely because of different views on the facility’s degree of autonomy and how it would go about doing its work. Sorting out the differences among these parties on the modalities and guidelines of the LGAF took a long time. However, a full year after the implementation of the LGCDP, the NAC approved the LGAF, which has been established with terms of reference and a committee setup approved. Importantly, resource allocation for the LGAF has been made for \$1.668 million in the ASIP for FY2010. As proposed by the LGAF, a national committee comprising representatives from the program coordination unit (PCU) in MLD, development partners, civil society, local body associations, and the relevant output managers from the LGCDP has been formed. All development partners strongly support the proposal to have the LGAF established to strengthen mechanisms for local and community advocacy and the monitoring and oversight of local government actions. Adequate funding has been made available in the LGCDP, as documented in the ASIP, and from technical assistance from development partners to make the LGAF effective. The first meeting of the LGAF took place on 9 October 2009.
- (viii) **Condition 7: MLD to approve allocation criteria and a rollout plan for additional block grants** (fully complied with). Prior to finalizing the LGCDP, the Government had in place a decentralization-support program, which had piloted additional block grants in 25 districts in the country. The UN-supported project was successful, and it was decided that this would be rolled out across the country through the LGCDP. The Government has approved the allocation criteria for additional block grants across the country. The allocation criteria and their respective weights vary by type of local body (Table 1).

Table 1: Allocation Criteria for Additional Block Grants
(%)

Basis	For DDCs	For Municipalities	For VDCs
Population	40	40	40
Area	10	10	10
Cost price	25	20	20
Poverty	25	30	30

DDC = district development committee, VDC = village development committee.

Source: Ministry of Local Development.

The use of the cost price criterion and the weight assigned to it are significant. The criterion measures the cost variance in service delivery across DDCs that are more remote and where service delivery costs may be higher, even though the other variables may have the same weight. Guidelines specify the areas in which DDCs are allowed to invest the additional block grants. Other provisions in the guidelines deal with public participation in the development process, matters related to users' committees, cost management, transparency, and monitoring and evaluation. The additional block grants were last year tried in 47 districts; this year the number rose to 67 (8 of them failed to meet the minimum conditions).

- (ix) **Condition 8: MLD to issue guidelines to local bodies regarding local own-source revenue collection** (fully complied with). The Government prepared in 2005 very detailed guidelines for local bodies on own-source revenue collection. This is an important point to consider in the LGCDP. It is clear that practically all local bodies in Nepal rely extensively on the center for resources. Partly to encourage local bodies to seek new sources of own revenue or enhance existing ones (though remaining within the parameters of the Local Self-Governance Act, 1999), the Government has now issued new guidelines that focus on (i) revenue assignment by different types of local bodies, including provisions on revenue sharing and necessary institutional arrangements for own-source revenue collection, and (ii) capacity for revenue collection and enhancement of their revenue potential.
- (x) **Condition 9: MLD to issue guidelines on topping-up grants to local bodies** (fully complied with). The topping-up exercise for grants to local bodies is based on the premise that local bodies will have complied with MCPM requirements.¹⁴ The guidelines that have been developed by Government clearly specify (i) the manner in which MCPM standards impact the level of topping-up for the local body; (ii) provisions relating to capital grants for local bodies, which are based on specific criteria; (iii) the list of proposed projects that may be carried out through grants from the LGCDP; (iv) procedures for designing and implementing local projects; (v) provisions related to consumers' committees ensuring that service recipients are able to provide feedback to service providers; (vi) provisions related to auditing; and (vii) provisions related to monitoring and ensuring transparency in plans and service provision.
- (xi) **Condition 10: NAC to approve an action plan on how to improve MLD's capacity to coordinate programs on local governance and community development** (fully complied with). One of the underlying premises of the LGCDP was that effective implementation required the capacity of MLD, the Executing Agency, to be enhanced. Indeed, several development partners—in particular, Denmark, SDC, and United Nations Development Programme—continue to provide much-needed technical assistance to bolster the capacity of the PCU in MLD.¹⁵ ADB has also programmed capacity development technical assistance to help support specific aspects of MLD work with respect to the LGCDP.¹⁶ MLD's capacity development plan details how its capacity is to be enhanced in six domains: (i) organization structure, working culture, and environment; (ii) coordination and linkage development; (iii) strategic management, including regarding sectoral devolution, fiscal transfer SWAp, accountability, social mobilization, etc.; (iv) developing the capacity of MLD staff members; (v) fiscal and financial management; and (vi) planning and information management. These have been included in the ASIP for this fiscal year, which has been approved by the NAC (see policy condition 2). The ASIP for FY2010 has set aside a little less than \$0.3 million for the year to implement the capacity

¹⁴ As per the application of the MCPM requirements, 47 districts were recipients of additional grants in FY2008, the number rising to 67 in FY2009. The remaining 8 districts were unable to fulfill the minimum conditions.

¹⁵ DFID commissioned a major study of the capacity gaps of the ministry, the results of which have been used as a basis for preparing the capacity development plan.

¹⁶ ADB. 2009. *Technical Assistance to Nepal for Support to Local Governance and Community Development Program*. Manila (\$550,000).

development plan (though support will need to be increased). A formal meeting of the NAC to approve the capacity development plan was held in mid-October.

- (xii) **Condition 11: MLD to complete a fiduciary risk assessment of intergovernmental fiscal transfers** (fully complied with). MLD completed a detailed fiduciary risk assessment, the draft version of which has been shared with development partners for feedback.¹⁷ The assessment identified several local fiduciary risks that merit immediate attention, including (i) inadequate and untrained human resources; (ii) inadequate physical infrastructure and logistics; (iii) lack of transparency in budget matters, even though there are provisions for public audits, etc.; and (iv) a weak law and order situation, which limits the freedom of staff members to do their work. The report specified mitigating measures, which the Government is considering how to implement. One point that the assessment highlighted is that, as long as there are no elected local representatives, local accountability in financial management is unlikely to improve. This is an exogenous risk affecting the LGCDP, which has no mitigating measures in itself.

C. Status of First Tranche Policy Actions Already Complied With

12. As per the provisions in the attachments and schedules of the Grant Agreement, the Government confirms that conditions satisfied under the first tranche are being maintained (Table 2).

Table 2: Status of Tranche 1 Policy Conditions

Tranche 1 Policy Condition	Current Status
MLD to issue a public audit and social audit guidelines for local bodies on the delivery of services and ensuring transparency in local governance	All local bodies are required to conduct such audits at least once a year. MLD reports that districts adhere to these guidelines, which are also alluded to in the MCPM assessment criteria. These audit guidelines have to be seen in consonance with the public service delivery guidelines, which have public audit requirements as well. There is representation in these audits of the media, political parties, and civil society. MLD is of the opinion that there is a need for greater sensitization among local bodies to look at these audits more positively and in a learning mode.
MLD to complete a methodology for collecting baseline information on various performance benchmarks related to local governance and community development	This methodology was used in the design of the baseline work that MLD is currently carrying out. Results of this will be forthcoming by the end of the year.
MLD to issue a common physical reporting system, including standardized reporting formats, for block grant allocations as per the district management information system	Local bodies use the reporting system in conjunction with the format required by the National Planning Commission, which is incorporated in the JFA. MCPM assessors use the reports to ascertain compliance with guidelines.
MLD to approve a manual for assessing minimum conditions and performance measures for DDCs	The manual has undergone two rounds of application and some revision and is extensively used. Minimum conditions and performance measures have been assessed for DDCs, while only

¹⁷ The assessment itself was done keeping in mind local risks. It was very extensive and considered 25 indicators across study areas in five domains: (i) planning, programming, and budgeting; (ii) execution/expenditure and revenue; (iii) accounting and recording; (iv) transparency and accountability; and (v) reporting. Some key indicators included (i) aggregate expenditure outturn compared with the original approved budget, (ii) stock and monitoring of expenditure payment arrears, (iii) comprehensiveness of information included in the budget documentation, (iv) transparency of intergovernmental fiscal operations, and (v) the quality and timeliness of annual financial statements.

Tranche 1 Policy Condition	Current Status
	<p>minimum conditions have been reviewed for the initial year for municipalities and about 25% of the VDCs. These will be expanded next year to cover all local bodies, and there will be only one set of guidelines for all local bodies and both types of grants, the regular government one and the expanded one. A review currently under way is looking at the quality assurance part of the MCPM standards and their application. Assessors that go out to the local bodies to ascertain compliance with the standards have been trained in the proper use of the provisions in the manual.</p>
<p>MLD to approve a framework of social and environmental safeguards for use by local bodies</p>	<p>The framework is in place, and the necessary training has been provided to selected local body officials. Approximately \$0.58 million has been allocated for implementation this fiscal year. This is an encouraging sign, but resources are woefully inadequate. There are, however, other resources set aside for the MLD Environment Division, which is separate. Each district receives NRs30,000 for building capacity in its environment section, which is again not significant. To strengthen implementation arrangements, ADB has recently approved capacity development technical assistance to provide support to the MLD Environment Division.^a</p>
<p>MLD to approve gender budget audit guidelines</p>	<p>These guidelines have been issued and have been in operation in local bodies. The Government has set aside some resources for their implementation, though there could certainly be more resources directed toward this. The gender focal point in each district is responsible for ensuring that these guidelines are adhered to in district planning and budgeting. The focal point from MLD coordinates across districts.</p>
<p>Government to reconstitute an all-party mechanism for local government</p>	<p>This condition continues to be operational. Though it seems to be functional in some districts, in a few others it has not been able to provide the desired support for local body planning and development. Still, it is clear that, in the absence of elected local representatives, this is a suitable arrangement, even though the transaction costs for local bodies can be rather high.</p>
<p>Government to complete an assessment of the work of existing local peace committees and recommend follow-up actions</p>	<p>Pursuant to this assessment, LPC operational guidelines have been drafted and are being finalized. LPCs have been established in 62 districts, though they are not fully operational in all of them. The Ministry of Peace and Reconstruction has managed to provide training to about 1/3 of district facilitators of such committees and is seeking funding from the United Nations Development Programme for work on the local peace process. The ministry has mooted the idea of setting up 1,200 VDC peace committees in localities where the conflict is more serious. The Government is considering how to resource such a scheme.</p>

ADB = Asian Development Bank, DDC = district development committee, JFA = joint financing arrangement, LPC = local peace committee, MCPM = minimum conditions and performance measures, MLD = Ministry of Local Development, VDC = village development committee.

^a ADB. 2009. *Technical Assistance to Nepal for Support to Local Governance and Community Development Program*. Manila.

Source: Asian Development Bank.

IV. PROGRAM ASSURANCES

13. Appendix 4 details the status of program assurances provided by the Government at the time of agreement in securing ADB assistance to the LGCDP. The appendix shows that all assurances provided by the Government continue to be valid.

V. PROGRAM IMPLEMENTATION

14. **Program coordination unit and its performance.** The PCU for the GSP is fully staffed and has adequate physical resources.¹⁸ For this fiscal year (i.e., FY2010), the Government has provided to the PCU NRs1.9 million as budget for meeting recurrent costs, and resources for meeting operation and maintenance expenses are supplemented by development partners, notably SDC, Denmark, and UN agencies. Since the inception of the LGCDP, the PCU's role in its effective implementation has been evident. Despite some capacity gaps in the PCU, the strong support provided by the MLD leadership—complemented by generous support, both financial and expert, from selected development partners—has meant that the PCU has been able to continually place strong focus on implementation matters, including its own capacity enhancement. The arrival of a short-term expert on program implementation has also helped the PCU in its work. There is room for improvement in several areas of PCU operation, such as procurement, implementing the social and environmental safeguard framework, and better coordination with development partners through the engagement of a process manager, but the role that the PCU has played so far in the LGCDP has been, by and large, very positive.

15. **Program monitoring.** LGCDP work is monitored at several levels, including (i) review of the application of MCPM standards; (ii) review meetings of the NAC;¹⁹ (iii) frequent on-site visits by MLD (the five cluster offices of the LGCDP have been instrumental in this regard)²⁰, (iv) development partner review of LGCDP activities through the proposed quality assurance mechanism and the LGAF; and (v) the establishment of baseline data.²¹ MLD has prepared and presented to ADB two progress reports, for July–December 2008 and January–July 2009, and several ad hoc reports on specific activities that have taken place in the LGCDP. The reports are detailed and provide information on program activities, progress, and problems. The monitoring reports have made several key observations that merit mention here:

- (i) As there are many development partners that are keen to assist, at times transaction costs for MLD have been high, and it is only with JFA finalization in September 2009 that there are expectations of lowered transaction costs;

¹⁸ These include one full-time program manager working under the constant supervision and guidance of the national project director, who is a joint secretary in MLD; four other full-time staff members (two section officers, one accounts officer, and one store keeper); and eight specialists in the areas of monitoring and evaluation, gender equality and social inclusion, fiscal decentralization and SWAp, financial management, social mobilization, geographic information system, local governance, and capacity building. The PCU has its own building and vehicles.

¹⁹ NAC has held four meetings to date, and there have been several more sub-NAC meetings, attended by representatives of one multilateral and one bilateral development partner, the four output coordinators, the national program director, and the program manager. There have been several meetings of the seven thematic groups, which meet once every 2 months to cover areas such as GESI, social mobilization, and capacity building.

²⁰ The five offices are in Nepalgunj (western plains region), Hetauda (central plains region), Biratnagar (eastern plains region), Pokhara (western hills region), and Dhangadhi (far-west plains district of Kailali) which has only recently been established.

²¹ This work on the baseline data is in keeping with the requirements of subprogram 1. Two key products merit mention here: (i) The Local Bodies Fiscal Commission Secretariat has prepared a detailed analysis of the fiscal situation of local bodies, which includes baseline information on variables such as income and expenditure for VDCs, DDCs, and municipalities. (ii) A baseline survey methodology that uses multistage random sampling has been approved, and work is currently going on in 33 local bodies to collect updated information on areas related to the LGCDP. For this latter work, the Central Bureau of Statistics and other Government agencies have worked with MLD. The indicator set is aligned to those listed in the design and monitoring framework of subprogram 1 (see Appendix 5 for progress toward attaining program targets). The Local Bodies Fiscal Commission report is on file at SAFM. Work on the baseline survey is expected to be completed by the end of 2009. Development partners have been involved in the design of the baseline survey, including preparing the necessary benchmarks, to which the JFA refers.

- (ii) The absence of elected local representatives has generally limited the smooth operation of the LGCDP;
- (iii) The lack of security is a key consideration for effective implementation, particularly in the eastern plains; and
- (iv) Marginalized and disadvantaged groups continue to claim that their interests and voice are still not being championed or heard in the LGCDP.

16. **Budgetary tracking.** As required by subprogram 1, budget tracking in the LGCDP is evident at two levels:

- (i) The Government of Nepal Budget FY2009 (Red Book) has explicitly mentioned the yearly allotment of LGCDP funds as per the set Government rules and regulations;²²
- (ii) Each DDC sends to MLD every 4 months a detailed financial progress report, which is collated at MLD across the 75 districts for the whole year. These are detailed reports that document, among other things, the total budgeted amount, amount received, and number of beneficiaries for each development activity in the district. MLD then seeks to verify the data, though this has not been regularly carried out because of capacity and technology constraints in the ministry.

17. **Support from development partners.** The Government of Nepal receives assistance for the LGCDP from various development partners, which, apart from ADB, include UN agencies, Denmark, Norway, and Switzerland, with DFID and CIDA wishing to contribute very soon. Assistance from other development partners has been available in many areas: capacity building and the operations of the PCU and the LGCDP,²³ LGAF, and other policy support. A separate technical assistance project from ADB provides support for the following specific aspects of the LGCDP: (i) capacity enhancement on procurement matters for the LGCDP; (ii) implementation of the social and environmental safeguard framework; and (iii) own-source revenue management in municipalities and private sector participation in municipality service delivery (footnote 16).

18. **Status of risks in the Governance Support Program.** At the time of Board approval, several vectors of risk had been identified in the GSP,²⁴ and a detailed assessment of the fiduciary risks evident in the GSP had been carried out. Steps have been taken to mitigate several of the risks, such as weak capacity in financial management and procurement in MLD, which development partners have addressed by providing technical assistance, particularly in the PCU. Other risks such as staff instability in local bodies and a growing lack of consensus

²² Records received from the Financial Comptroller General's Office show that a bank account (Account no. 153232; Group Kha 5A, Account name "Sthaniya shasan tatha shamudayak bikash karyakram") was opened with Nepal Rastra Bank on 14 January 2009 and the equivalent in local currency (NRs1,562,000,000) of ADB's first tranche contribution of \$20 million was credited to the account the next day. MLD sent letters of authorization to 47 DDCs with copies to the Financial Comptroller General's Office, Office of the Auditor General, and respective district treasury control offices on 12 February 2009 instructing fund releases for the LGCDP. NRs635,250,000 was subsequently transferred to the Financial Comptroller General's Office account (Account no. 1416301 KESA) on 16 February 2009 to be released to DDCs via the district treasury control offices.

²³ One component of capacity development support has been study tours for MLD and program leadership to assess decentralization programs abroad. In the first half of 2009, the Embassy of Denmark funded a trip to Mozambique, Tanzania, and South Africa for 10 senior officials of MLD, National Planning Commission, Financial Comptroller General's Office, Office of the Prime Minister and Council of Ministers, among others, to assess the implementation of the LGAF in Africa. The second trip, also in the first half of 2009, was to Uganda to assess the decentralization SWAp in that country and see how the JFA was put into action. The Embassy of Denmark funded five senior officials of MLD for that trip.

²⁴ These included risks associated with the (i) legislative and policy framework, (ii) institutional dimensions, (iii) government business processes, (iv) accountability and transparency, and (v) program-related risks.

among political parties with respect to local governance continue to be evident. This has adversely affected the local implementation of development programs, including the LGCDP.

19. To get a better appreciation of local risks and how to more effectively mitigate them, ADB asked, as part of the broader suite of tranche 2 policy conditions, that a follow-up fiduciary risk assessment is carried out during the first year of the GSP. Generally, macro public financial management risks are being addressed.²⁵ However, with respect to the risks of mismanagement, which lead to corruption, even well-resourced local bodies such as Kathmandu municipality²⁶ have not had much success in being transparent about their financial affairs. This requires that Government take a more concerted approach to addressing this risk.

20. One particular risk continues to be delays in fund flows to local bodies, not necessarily from the Financial Comptroller General's Office to the DDCs but from the DTCOs to the VDCs. It is necessary for Government to ensure that this risk does not jeopardize the attainment of LGCDP outcomes. VDCs must have encouragement and support to complete their planning processes and meet other criteria for the early release of capital expenditure grants. For its part, the Government is acutely aware of the situation on the ground and has expressed a commitment to continually assess how it can help local bodies better mitigate this risk. Development partners, too, are providing what assistance they can to strengthen institutions, such as the National Vigilance Center and the Office of the Auditor General, and processes, such as public auditing and citizen report card exercises. Ultimately, however, the Government realizes that effectively addressing the risks requires strong political commitment.

21. The exogenous risks to the Program (which were identified in para. 6 as new developments) are beyond the scope of the Program. Having said that, despite the constitution-drafting process being delayed, this has not had substantive impact on Program implementation other than to continue the situation on the ground with respect to having to engage with the all-party mechanism, the transaction costs of which can be heavy at times. The other development that the Program has addressed squarely is the stronger focus on disadvantaged groups, including women. The LGCDP has given specific, and substantial, consideration to improving support to these groups. The Local Peace Committees also continue to be supported by Government, and other development partners are now considering ways to enhance that support, which can only be good for local governance in the country. Finally, the Government has now actively begun to fill the vacant VDC secretary posts.

V. CONCLUSION

22. **Uniqueness of the LGCDP.** Subprogram 1 supports a unique program in Nepal, one that has not been tried before in terms of its breadth of scope or depth of intervention at the core of the planning and budgeting process at the lowest level of government. The coverage of the LGCDP extends to all local bodies in the country and multiple domains, including fiscal devolution, social and environmental safeguards, local governance, community planning processes, and gender equality and social inclusion. All this, taken together, will help the Government attain the objective of putting in place a SWAp in the very near future, and for which development partners need to continue to support a well-managed national program.

²⁵ For example, the Government has established a central public expenditure and financial accountability steering committee, and several ministries, including MLD, have established separate public expenditure and financial accountability units.

²⁶ See, for example, *The Himalayan*. 2009. Lack of Transparency Slur on KMC's Budgetary Allocation. 12 September. Kathmandu.

23. **JFA and the role of development partners.** Support from development partners has scope to be properly channeled to the Government through the JFA. While the country has applied JFAs before, such as in education, this is the first time that a JFA is being applied in governance. With some development partners, such as the UN agencies, supporting the LGCDP outside the parameters of the JFA, coordination and harmonization among development partners become even more paramount. To date, this has been achieved in the LGCDP very satisfactorily through the work of the NAC and its smaller derivatives, such as the sub-NAC.

24. **SWAp and deepening the reforms.** The LGCDP's success in putting in place a truly national mechanism for local governance and community development, and bringing together the various development partners into one forum through the JFA, means that the necessary groundwork preparing for the eventual transition to a federal Nepal is truly under way, even as politicians at the center fail to find common ground on the eventual shape of that federal government. Continuing the strong support rendered by the Government and the development partners means that the objective of getting to a sector-wide approach (SWAp) on local governance by the end of the Program period is a distinct possibility. Succeeding phases of subprogram 1 will certainly deepen the reforms by strengthening local institutions and mainstreaming in local development such values as gender equality and social inclusion, transparency, and accountability.

25. **Release of the second tranche of funds.** Given the notable progress against the second tranche policy actions, and the imperative of continuing to strongly support the Government in making this national flagship program successful and to meet the costs of compliance of the third tranche policy actions, the release of the second tranche is considered crucial. In the succeeding phase of subprogram 1, the Government will implement the ASIP, in particular providing extended block grants to eligible local bodies and achieving the benchmarks collectively determined by the Government and development partners for the LGCDP, and support the operations of the LGAF as well as the quality assurance mechanism. Releasing the second tranche will (i) provide an incentive to the Government to stay on the reform path with respect to local governance; (ii) send a strong message to other development partners of continued ADB commitment to local governance reforms in Nepal;²⁷ and (iii) allow for continued institutional and organizational strengthening, without which the impetus for policy reforms on local governance could wane. Now that ADB is a signatory to the JFA, its involvement in the Program will be in accordance with the provisions in the JFA so that there is better donor harmonization in the continued implementation of the Program.

VI. THE PRESIDENT'S DECISION

26. In view of the progress made in the implementation of the overall program and the full compliance with all 11 conditions as well as finalization of the JFA for the release of the second tranche, the President has authorized the release of the second tranche of \$45 million for subprogram 1 of the Governance Support Program. In accordance with established procedure, the tranche release will be effected not less than 10 working days after the circulation of this progress report to the Board.

²⁷ As ADB is the largest donor by far in the LGCDP, providing support greater than that provided by the other donors combined, releasing the second tranche funds will send a powerful signal to development partners and the Government that ADB is fully committed to seeing the reforms continue and reform efforts to date rewarded. Other development partners thus look to ADB for continued leadership in this area.

GOVERNANCE SUPPORT PROGRAM CLUSTER (SUBPROGRAM I)—POLICY MATRIX

Objectives	First Tranche (Upon grant effectiveness)	Second Tranche (Subject to finalization of the JFA)	Third Tranche (Within 12 months of the second tranche)
<p>(1) Citizens and communities engaged actively</p> <p>(2) Better management of resources and delivery of services</p> <p>(3) Strengthened policy and national institutional framework for decentralization</p>	<p>MLD to issue public audit and social audit guidelines for local bodies in the delivery of services and ensuring transparency in local governance (Letter that shows what the disclosure requirements are, MLD)</p> <p>MLD to complete a methodology to collect baseline information on various performance benchmarks related to local governance and community development (Document that shows the methodology, MLD)</p> <p>MLD to issue a common physical reporting system, including standardized reporting formats, for block grant allocations as per the district management information system (DMIS) (Document that shows the reporting formats, MLD)</p> <p>MLD to approve a manual for assessing minimum conditions and performance measures for DDCs (Manual, MLD)</p> <p>MLD to approve a social and environmental safeguards framework for use by local bodies (Guidelines, MLD)</p> <p>MLD to approve gender budget audit guidelines (Guidelines, MLD)</p> <p>Government to reconstitute all-party^a mechanism for local government (Directive letter, MLD)</p>	<p>Government to endorse the LGCDP document (Program document, MLD)</p> <p>MLD to prepare the local governance and community development annual strategic implementation plan (ASIP) for FY2010 in accordance with the objectives and performance targets of the LGCDP, and have it endorsed by JFA development partners, including ADB (ASIP, MLD)</p> <p>NPC and MOF to approve the annual work plan and budget for FY2010 for the LGCDP (Letters of approval, NPC, MOF)</p> <p>MLD to approve a social mobilization strategy, including a detailed action plan with budget allocation, that is relevant to disadvantaged groups (Strategy document, MLD)</p> <p>MLD to approve a GESI strategy, including detailed implementation arrangements with budget allocation (Strategy document, MLD)</p> <p>MLD to establish a local governance and accountability facility aimed at ensuring that local bodies are held accountable for service delivery (Letter confirming establishment of the facility, MLD)</p> <p>MLD to approve allocation criteria and a roll-out plan for additional block grants (Document that shows the allocation criteria, MLD)</p>	<p>MLD to prepare the local governance and community development ASIP for FY2011 in accordance with the objectives and performance targets of the LGCDP, and have it endorsed by JFA development partners, including ADB (ASIP, MLD)</p> <p>MLD to achieve, in a manner acceptable to ADB, the performance targets set in the ASIP for FY2010 (Performance report, MLD)</p> <p>MLD to approve a time-bound action plan with resource allocation on the implementation of the recommendations of the midterm review of the LGCDP (Action plan, MLD)</p> <p>MLD to prepare an approach paper on how to continue the reform agenda on local governance and community development, including the possibility of using a sector-wide approach (Approach paper, MLD)</p>

Objectives	First Tranche (Upon grant effectiveness)	Second Tranche (Subject to finalization of the JFA)	Third Tranche (Within 12 months of the second tranche)
	Government to complete an assessment of the work of existing local peace committees and recommend follow-up actions (Assessment report, Ministry of Peace and Reconstruction)	<p>MLD to issue guidelines to local bodies regarding local own-source revenue collection (Guidelines, MLD)</p> <p>MLD to issue guidelines on topping-up grants to local bodies (Guidelines, MLD)</p> <p>NAC to approve an action plan on how to improve MLD's capacity to coordinate programs on local governance and community development (Action plan, MLD)</p> <p>MLD to complete a fiduciary risk assessment of intergovernmental fiscal transfers (Assessment report, MLD)</p>	

ADB = Asian Development Bank, GESI = gender equality and social inclusion, JFA = joint financing arrangement, LGCDP = Local Governance and Community Development Program, MLD = Ministry of Local Development, MOF = Ministry of Finance.

Notes:

1. The program policy matrix blends provisions from a traditional program lending modality with provisions to be determined under the JFA.
2. Tranche 2 will be released only when the JFA is in place and all other policy requirements for that tranche have been achieved.
3. While progress under the program for tranche 1 release will be monitored by ADB, the tranche 2 release will be made based on annually agreed performance targets in the ASIP and review by development partners, as well as some policy milestones that will refer to achievements attained from the time of tranche 1 release. This is because, in tranche 2, the achievements of the first tranche will not have been captured in the JFA; as such, separate policy achievements have been specified for tranche 2.
4. Tranche 3 will rely entirely on JFA provisions.

^a This refers to those political parties securing more than 10% of valid votes in the April 2008 Constituent Assembly elections.

Sources: The Government of Nepal and the Asian Development Bank.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Impact Contribution through the LGCDP to poverty reduction through socially inclusive, gender-responsive, strong, and accountable local governance and participatory community-led development</p>	<p>Reduction in poverty levels by 7 percentage points among disadvantaged groups across the country^a</p> <p>HDI and human empowerment index of excluded communities increases by 10%</p> <p>Gender Development Index goes up to 0.556^b</p> <p>60% of disadvantaged groups and citizens surveyed in selected districts say that local public service delivery has improved</p> <p>Leadership roles of women and disadvantaged groups in local governance system increased as compared with 2007–2008</p> <p>Community engagement in participatory planning in all local bodies improved compared with 2007–2008</p> <p>20% of local bodies plan and allocate own resources</p> <p>GESI section in MLD effectively functioning</p> <p>60% of CBOs of disadvantaged groups, including women, are better organized and can fulfill their functions without external support</p>	<p>National surveys</p> <p>Reports of midlevel agencies, NGOs, MLD, and development partners</p> <p>Program evaluation reports</p> <p>Data from Central Bureau of Statistics</p> <p>Reports of the UN and other international agencies</p>	<p>Assumptions Inclusive service delivery impacts poverty reduction</p> <p>Local politicians able to work together</p> <p>Viable interim local councils established</p> <p>Societal norms allow for social inclusiveness and gender sensitivity</p> <p>Local bodies transformed into local governments</p> <p>Risks Political uncertainty may directly affect local development space.</p> <p>Government priority on devolution may not be matched by resources.</p>
<p>Outcomes (i) Citizens and communities actively engaged with local bodies and hold them accountable</p>	<p>Yearly increase in number of disadvantaged groups utilizing program resources</p> <p>Number of formal interactions between CBOs and local bodies increases compared with 2007–2008</p> <p>Decrease in number of failures by local bodies to satisfactorily respond to community concerns</p> <p>Positive attitudinal and behavioral changes in local body staff toward women and disadvantaged groups reported</p>	<p>MLD reports</p> <p>Baseline and final survey reports</p> <p>Midlevel agency and NGO reports</p> <p>Joint annual review report</p> <p>Program evaluation reports</p> <p>Parliamentary reports</p> <p>Independent assessments by development partners</p>	<p>Assumptions Government is not averse to having some services delivered by NGOs and private sector.</p> <p>Midlevel agencies are capable of playing a greater role in local service delivery.</p> <p>Enabling conditions are in place for local bodies to put to use their enhanced capability.</p> <p>Risks Public rhetoric of federalism</p>

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>(ii) Better management of resources and delivery of services in an inclusive and equitable manner by capable local bodies</p> <p>(iii) Strengthened policy and national institutional framework for decentralization and community development</p>	<p>More local bodies can apply inclusiveness in service delivery, as compared with 2007–2008^c</p> <p>Local body fund utilization increases yearly</p> <p>Reduction in complaints by service recipients of the work of local bodies, as compared with 2007–2008</p> <p>All local bodies in compliance with the social and environmental safeguards for subprojects</p> <p>Increased allocation in block grants for programs directly benefiting women and disadvantaged groups as compared with 2007–2008</p> <p>Relevant legal provisions for devolution are adequately provided</p> <p>Perceived capacity gaps at MLD to support local governance are lower</p> <p>Local body associations are more able to advocate for local bodies, as compared with 2007–2008</p> <p>Decentralization SWAp by FY2009/10</p> <p>GESI strategy operationalized in MLD and GESI focal persons activated in 80% of DDCs and municipalities</p>		<p>may not be matched by transfer of effective powers to the local level.</p> <p>Local bodies may not exhibit the necessary political will to substantially reengineer their processes.</p> <p>MLD and local bodies may not be able to effectively utilize resources for capacity building.</p>
<p>Outputs</p> <p>1.1. Empowered communities and CBOs that participate in local governance processes</p>	<p>At least 33% of the capital expenditure grants provided to local bodies are spent on projects prioritized by women and disadvantaged groups</p> <p>90% of local bodies' annual plan prepared using participatory planning process</p> <p>Social mobilization in 100% of VDCs and 50% of municipalities</p> <p>Increased number of women and disadvantaged groups mobilized as compared to baseline</p> <p>More women and disadvantaged groups trained in local governance, community mobilization, conflict resolution,</p>	<p>MLD annual reports</p> <p>Baseline and final survey reports</p> <p>Reports of local bodies, local body associations, and NGOs</p> <p>Reports of development partners related to social mobilization and community-led development</p> <p>Joint annual review report</p> <p>Ministry of Women and Children reports</p> <p>Survey reports on satisfaction with local</p>	<p>Assumptions</p> <p>Continued commitment of Government for resourcing local bodies adequately</p> <p>Targeted and holistic social mobilization is accepted by disadvantaged groups</p> <p>Politicization of community organizations will be minimal</p> <p>Training providers are capable of handling the increased workload of training members from local bodies and CBOs</p> <p>Risks</p> <p>Immediate gains not forthcoming, thus weakening the case for</p>

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>1.2. More capable communities, including disadvantaged groups, that assert their rights and hold local bodies accountable</p> <p>2.1. Access to greater fiscal resources for local bodies in equitable and appropriate ways</p> <p>2.2. Appropriate measures to build capacity in all levels of the local body service delivery system</p>	<p>coordination, leadership, etc.</p> <p>Participation of women and disadvantaged groups increased by 50% in program activities as compared with 2007–2008</p> <p>33% of CBOs made federations or cooperatives</p> <p>At least 60% CBOs of women and disadvantaged groups are trained in local governance, management skills, planning, leadership, etc.</p> <p>Greater number of women federations strengthened compared with 2007–2008</p> <p>Formula-based fiscal transfer system with equalization practiced at all local body tiers</p> <p>Local own-source revenues increased by 50% as compared with 2006–2007</p> <p>MCPM adopted in all DDCs and municipalities and piloted in at least 33% of VDCs</p> <p>MCPM revised from GESI perspective and updated with GESI indicators</p> <p>GESI-responsive budgeting operationalized</p> <p>All gender focal points in the districts strengthened and performing effectively</p> <p>70% of DDCs self-report on MCPM to MLD</p> <p>At least 50% of office bearers of all local bodies oriented and trained on local good governance</p> <p>All CBOs of disadvantaged groups have at least one opportunity to be trained in areas such as resource mobilization, empowerment.</p> <p>All local bodies have at least three opportunities to be trained in resource mobilization or administrative and financial management, etc.</p> <p>All local bodies are trained on GESI strategy</p> <p>All local body associations</p>	<p>service delivery</p> <p>Citizen report cards</p> <p>Survey results</p> <p>Ministry of Finance and MLD reports on fiscal transfers</p> <p>Reports from LDTA and other training providers</p> <p>Local body annual plans</p> <p>Parliamentary submission on Local (Government) Service</p> <p>HRD plans of MLD and local bodies</p>	<p>reforms</p> <p>Low level of participation from disadvantaged groups in integrated planning committees will jeopardize socially inclusive and gender-responsive service delivery</p> <p>Inherent gender biases may continue to inhibit participation of women, particularly from disadvantaged groups, in program activities</p> <p>Local bodies may not take the accountability mechanisms seriously</p> <p>Application of Government's formula-based fiscal transfer methodology may not be rigorous enough</p> <p>Parliament may not be able to debate the Local (Government) Service Bill in time for promulgation during program period implementation</p>

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>2.3. Fine-tuned local body service delivery mechanisms and processes</p> <p>3.1. Policy framework for decentralization to enable an environment for effective, transparent, accountable, and inclusive local governance</p> <p>3.2. Strong central government and NGOs that provide appropriate support to local bodies</p>	<p>confirm capacity improvement</p> <p>At least 50% of local bodies comply with social and environmental safeguards for subprojects</p> <p>At least 80% of vital events registered in local bodies</p> <p>Use of public hearings, public and social audits, and citizen report cards institutionalized by 90% of DDCs, 75% of municipalities, and 40% of VDCs</p> <p>Conditional cash transfer piloted in 50 VDCs</p> <p>Local PEM and PFM procedures fine-tuned by 2010</p> <p>Decentralization SWAp ready by FY2009/10</p> <p>Roles and responsibilities of local body staff delineated (job descriptions, performance evaluation system, etc.)</p> <p>GESI capacity development plan prepared and implemented for MLD and local bodies</p> <p>Human resource policies, particularly those related to affirmative action, strengthened and implemented</p> <p>Better coordination between central line agencies and MLD on implementation of GESI strategy</p> <p>HRD plans implemented in MLD, all DDCs, and 30 municipalities</p> <p>HRD plans include affirmative action policy</p> <p>Results-based monitoring system in MLD</p> <p>DMIS functional and linked with DPMAS</p> <p>Government's devolution strategy prepared and operationalized by 2009</p> <p>Updated devolution policies and regulations incorporate GESI aspects</p>		

Activities with Milestones	Inputs																																		
<p>1. Communities engaged actively to hold local body accountable</p> <p>For Output 1.1</p> <ul style="list-style-type: none"> – Establish integrated planning committee in DDCs and VDCs (August-end 2008). – Develop social mobilization strategy and define modality for its coverage (end of October 2008). – Establish criteria for choice of VDCs for rollout (end of 2008). – Conduct social mobilization with CBOs (from 2009 onwards). <p>For Output 1.2</p> <ul style="list-style-type: none"> – Identify core information, education, and communications messages to disseminate and contact media (end of September 2008). – Disseminate basic messages about local governance (from September 2008). – Provide media training and information on local governance issues (from January 2009). – Establish LGAF (by end of 2008). – Provide support to local body associations for LGAF operation (from January 2009). – Monitor LGAF performance (regularly with one evaluation in 2010 and in 2011). – Assess needs of CBOs led by disadvantaged groups (once a year, 2009–2011). – Provide TA and advisory services to such CBOs (continuous). <p>2. Increased capacity of local bodies</p> <p>For Output 2.1</p> <ul style="list-style-type: none"> – Review local body block grant formula and disburse (first by end of 2008 then continuous). – Prepare and pilot MCPM and design MCPM assessment for local bodies (by end of 2008). – Train local bodies in VDC MCPM assessment methodology (sessions twice a year). – Support MLD and LBFC to contract out MCPM assessments (by Q3 2009). – Update local government revenue collection and administration manuals (Q3 2009). – Train local body officials and elected or nominated representatives (session every two quarters). <p>For Output 2.2</p> <ul style="list-style-type: none"> – Prepare formula for and disburse community development grants to local bodies (formula by end of 2008, then continuous). – Monitor utilization of grants and adjust (annually). – Elaborate capacity-building block grant strategy and implementation arrangements (by end of 2008). – Prepare guidelines for DDC backstopping and mentoring of VDCs and provide training (guidelines by end of 2008, training continuous). – Support DDCs in developing capacity-building plans and using capacity-building grants (from January 2009). – Contract core capacity-building service providers and monitor them (by end of 2008, then continuous). – Provide standard training to local development officers and VDC secretaries (continuous). – Elaborate training materials on various forms of service delivery (by end of 2008). – Define certification process for service providers (by Q3 2009). <p>For Output 2.3</p> <ul style="list-style-type: none"> – Fine-tune procedures for procurement, bottom-up planning and budgeting, O&M and asset management, and social inclusion mechanisms (by Q3 2009). – Prepare reporting, monitoring, and evaluation software (by Q3 2009) 	<p>National Program Line Item Budget (\$ million)</p> <table border="1" data-bbox="1127 359 1435 806"> <thead> <tr> <th>Line Item</th> <th>Amt</th> </tr> </thead> <tbody> <tr> <td>Government of Nepal block grant</td> <td>260.8</td> </tr> <tr> <td>Development partner block grant</td> <td>130.7</td> </tr> <tr> <td>TA</td> <td>6.2</td> </tr> <tr> <td>Capacity building</td> <td>26.9</td> </tr> <tr> <td>Social mobilization</td> <td>17.1</td> </tr> <tr> <td>Communications, operations</td> <td>2.4</td> </tr> <tr> <td>Equipment</td> <td>0.4</td> </tr> <tr> <td>LPC strengthening</td> <td>4.5</td> </tr> <tr> <td>Other</td> <td>0.5</td> </tr> <tr> <td>Contingency, unallocated</td> <td>20.2</td> </tr> <tr> <td>Total</td> <td>469.7</td> </tr> </tbody> </table> <p>Program Contributions (\$ million)</p> <table border="1" data-bbox="1127 911 1435 1041"> <thead> <tr> <th>Source</th> <th>Amt</th> </tr> </thead> <tbody> <tr> <td>Government</td> <td>260.8</td> </tr> <tr> <td>ADB</td> <td>106.3</td> </tr> <tr> <td>Total</td> <td>367.1</td> </tr> <tr> <td>Funding Gap</td> <td>102.6</td> </tr> </tbody> </table> <p>The Government expects to meet the funding gap through commitments of support from other development partners. Those that have indicated their intention to support the program include the Canadian International Development Agency (CIDA) for C\$10 million,^d the United Kingdom's Department for International Development for \$30 million, Denmark for \$15 million, Norway for \$10 million, the Swiss Agency for Development and Cooperation for \$4 million, and other United Nations agencies for \$25 million (United Nations Development Programme for \$5 million, United Nations Population Fund for \$9 million, United Nations Volunteers for \$0.5 million, United Nations Children's Fund for \$8.5 million, and United</p>	Line Item	Amt	Government of Nepal block grant	260.8	Development partner block grant	130.7	TA	6.2	Capacity building	26.9	Social mobilization	17.1	Communications, operations	2.4	Equipment	0.4	LPC strengthening	4.5	Other	0.5	Contingency, unallocated	20.2	Total	469.7	Source	Amt	Government	260.8	ADB	106.3	Total	367.1	Funding Gap	102.6
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Activities with Milestones	Inputs
<ul style="list-style-type: none"> – Scope safety net and social assistance programs and implement pilots (by Q3 2009). – Monitor and evaluate safety net pilots (Q1 of 2010 & 2011). – Scope sector conditional grants and implement relevant pilots (Q3 2010 & 2011). – Monitor and evaluate sector conditional grant pilots (Q4 2010 and 2011). <p>3. Strengthened policy and national institutional framework for devolution</p> <p>For Output 3.1</p> <ul style="list-style-type: none"> – Prepare local body audit strategy (by Q2 2009). – Develop aligned procedures for development partner modalities (PFM) (by Q2 2010). – Develop results framework and reporting systems for use of funds (by Q3 2009). – Develop appropriate staffing policy for key seconded civil servants (all of 2010). – Support development of capacity-building strategy (all of 2009). <p>For Output 3.2</p> <ul style="list-style-type: none"> – Provide relevant TA and advisory services to LBFC and others (from January 2009). – Support policy processes (e.g., dialogue with local body associations) (from January 2009). – Develop intergovernmental fiscal and development grant policies (by Q3 2009). – Assess capacity of local body associations and needed support (by Q1 2009). – Strengthen MLD’s human resources department, including LDTA (continuous). – Review monitoring indicators and results of MCPM system (all of 2009). – Prepare local body reporting system and regularly refine it (by end of 2009, then continuous). – Support DMIS development and functions in MLD and linkage to DPMAS (by end of 2009). – Restructure MLD, including establishing a GESI section (by Q3 2009). – Train staff on GESI issues (continuous after Q4 2009). – Conduct capacity development programs for local bodies (1 session every 3 quarters from Q2 2009). – Review OAG audit capacities and provide needed support (from Q1 2010). <p>4. Program supervision and management</p> <ul style="list-style-type: none"> – Establish NAC (by September 2008). – Establish program coordination unit (by September 2008). – Recruit core technical support staff (Q4 2008). – Ensure basket funds for procurement of short-term TA (Q4 2008). – Conduct reviews: (i) NAC (twice a year), and (ii) ADB review missions (annually). – Prepare and submit (i) program inception report (Q4 2008), (ii) first program interim report (Q2 2009), (iii) semiannual program interim reports (2009–2011), (iv) draft final report (Q1 2012), and (v) final report (Q2 2012). 	<p>Nations Capital Development Fund for \$2 million).</p> <p>CIDA has informed the Government that it will channel its contribution through a cofinancing arrangement with ADB.</p>

ADB = Asian Development Bank, Amt = amount, CBO = community-based organization, DDC = district development committee, DMIS = district management information system, DPMAS = district poverty monitoring and analysis system, GESI = gender equality and social inclusion, HDI = human development index, HRD = human resource development, LBFC = Local Bodies Fiscal Commission, LDTA = Local Development Training Academy, LGCDP = Local Governance and Community Development Program, LGAF = Local Governance and Accountability Facility, LPC = local peace committee, MCPM = minimum conditions and performance measures, MLD = Ministry of Local Development, NAC = national advisory committee, NGO = nongovernment organization, O&M = operation and maintenance, PEM = public expenditure management, PFM = public financial management, SWAp = sector-wide approach, TA = technical assistance, TYIP = three-year interim plan, UN = United Nations, VDC = village development committee.

^a Mirrors the Government target of 24% of population below the poverty line by TYIP-end (the current level is 31%).

^b This is the target sought for the country as a whole in the TYIP.

^c To be based on the measures specified in the GESI action plan for the program (see Appendix 11 in the RRP).

^d This amount has since been reduced to C\$9 million (C\$8 million for the LGCDP itself, and C\$1 million for technical assistance for the same).

STATUS OF SECOND TRANCHE POLICY ACTIONS

Policy Action	Status
JFA agreement in place	Fully complied with
1 Government to endorse the LGCDP document	Fully complied with
2 MLD to prepare the local governance and community development annual strategic implementation plan (ASIP) for FY2010 in accordance with the objectives and performance targets of the LGCDP, and have it endorsed by JFA development partners, including ADB	Fully complied with
3 NPC and Ministry of Finance to approve the annual work plan and budget for FY2010 for the LGCDP	Fully complied with
4 MLD to approve a social mobilization strategy, including a detailed action plan with budget allocation, that is relevant to disadvantaged groups	Fully complied with
5 MLD to approve a GESI strategy, including detailed implementation arrangements with budget allocation	Fully complied with
6 MLD to establish a local governance and accountability facility aimed at ensuring that local bodies are held accountable for service delivery	Fully complied with
7 MLD to approve allocation criteria and a rollout plan for additional block grants	Fully complied with
8 MLD to issue guidelines to local bodies regarding local own-source revenue collection	Fully complied with
9 MLD to issue guidelines on topping-up grants to local bodies	Fully complied with
10 NAC to approve an action plan on how to improve MLD's capacity to coordinate programs on local governance and community development	Fully complied with
11 MLD to complete a fiduciary risk assessment of intergovernmental fiscal transfers	Fully complied with

ADB = Asian Development Bank, ASIP = annual strategic implementation plan; FY = fiscal year, GESI = gender equality and social inclusion, LGCDP = Local Governance and Community Development Program, MLD = Ministry of Local Development, NAC = National Advisory Committee, NPC = National Planning Commission.

Source: ADB. 2008. *Report and Recommendation of the President to the Board of Directors on Proposed Program Cluster and Grant for Subprogram 1 to the Federal Democratic Republic of Nepal for the Governance Support Program*. Manila (Appendix 5).

STATUS OF PROGRAM ASSURANCES

Program Assurance	Status (as of September-end 2009)
1 The Government will ensure that counterpart funds in local currency generated from the proceeds of the ADB grant will be used to meet the financial requirements associated with the implementation of the LGCDP; for that purpose, the Government will establish a special account at Nepal Rastra Bank immediately after grant effectiveness. Throughout program implementation, adequate allocation of counterpart funds will be made, approved, and released in a timely manner to ensure the proper implementation of the LGCDP.	The Government has ensured that counterpart funds in local currency have indeed been used to meet the financial requirements associated with the implementation of LGCDP. Program funds have generally been released in a timely manner (from the Financial Comptroller General's Office to the districts but not necessarily from the districts to the VDCs). MLD is acutely aware of these delays and is working with the local bodies and district treasury control offices to properly address them for the coming fiscal year.
2 Of the total ADB contribution, the Government will earmark in equal amounts from each tranche and for the program period (i) \$4.5 million to support the work of LPCs, and (ii) \$1.8 million to support the capacity of local bodies and MLD to conduct environmental and social assessments and manage related safeguard review, monitoring, and reporting activities.	As assured by the Government, \$0.67 million from the first tranche funds were made available for the work of local peace committees (confirmed by the Ministry of Peace and Reconstruction), and \$0.60 million (for FY2008/09) for application of the environmental and social assessments. However, given the low capacity of the Environment Division within MLD, the latter allocation has not been adequately utilized. ADB has provided relevant follow-up technical assistance for Support to Local Governance and Community Development Program to ensure that the funds are well utilized. ^a
3 Within 1 month of grant effectiveness, MLD will have established a budget tracking system to track the use of counterpart funds generated by the grant on a four-monthly basis until such a time that a JFA is in place in support of the LGCDP, at which time the provisions of the JFA will apply.	The budget tracking system is now in place (main text, para. 16). Expenditure reports from DDCs have been coming in and the PCU is in the process of compiling all these reports, which is expected to be completed by the end of October 2009. From September 2009, the JFA provisions have been in effect.
4 MLD will ensure that all local bodies, as and when they are included under the LGCDP, will be adequately staffed and provided with the necessary financial, technical, and other resources (including equipment) to perform their functions under the program.	MLD has now interacted with all local bodies on the LGCDP, and relevant orientation sessions have been regularly held (particularly with the district level facilitators of this program; to date about a third of them have been taken through the orientation package). MLD has also very recently given four options to the cabinet to ensure that the 33% vacant VDC secretary posts are quickly filled (i) by transfer from other sectoral ministries, (ii) horizontal transfers of the civil servants at the local level, (iii) temporary assignment of the role of VDC secretary to employees of local bodies (non-civil servant) until the civil servants are located; and (iv) creating an officer level post at VDC based on resources and workload. Finally, LGCDP has nominated and placed district facilitators in all the districts of the country.
5 MLD will ensure the timely and effective implementation of the GESI action plan agreed between ADB and MLD, as well as the GESI	While the GESI strategy was approved, the relevant manuals are still being developed (expected to be completed by December-end 2009). The GESI focal

Program Assurance	Status (as of September-end 2009)
strategy and guidelines to be approved for the LGCDP.	point at MLD is expected to be actively involved in helping mainstream gender equality and social inclusion across the local bodies.
6 MLD will ensure the implementation of the LGCDP in accordance with the provisions of the social and environmental safeguards framework for the LGCDP to ensure compliance with ADB's environmental assessment and applicable government environmental requirements, as well as ADB's requirements on involuntary resettlement and indigenous peoples development plans.	The safeguards framework has been translated into Nepali and shared with the local development officers. An 11 days' training on environment and social safeguards has also been given to concerned planning and monitoring officers (first batch of 19 people). Despite this, there is a clear recognition by Government that the capacity within MLD to take up the reform agenda immediately is rather weak. In that respect, ADB TA (footnote a) will assist the Environment Division of MLD to disseminate information on, and implement, the relevant guidelines.
7 MLD will ensure the provision of allocated financial resources for the LGAF throughout the program implementation period.	Now that the LGAF has been approved, the ASIP for FY2010 shows \$1.668 million as being allocated for the operation of the facility. Resources have been set aside for the following actions within the facility: (i) establish LGAF, (ii) monitor its performance, and (iii) assign LGAF grants.
8 The baseline dataset for the program will be continually updated to ensure the proper application of results-based management.	Baseline data gathering is progressing satisfactorily (although the work was a bit delayed primarily since there had been some concerns on the original monitoring and evaluation methodology that had been prepared). Data for some variables in the design and monitoring framework has already been collected; the rest is being done at the moment.
9 MLD will ensure to review the program budget assumptions at the end of the inception phase of the LGCDP; MLD will make necessary reallocations across budget line items in keeping with the agreed strategies, action plans, and program approaches that will have been developed by then.	The ASIP for FY2010 takes into consideration this assurance, the budget for which is within the overall budget ceiling specified in the LGCDP document but the composition of which has been amended as needed.

ADB = Asian Development Bank, EA = executing agency, GESI = gender equality and social inclusion, IA = implementing agency, JFA = joint financing arrangement, LGCDP = Local Governance and Community Development Program, LPC = local peace committee, MLD = Ministry of Local Development, NRM = Nepal Resident Mission.

^a ADB. 2009. *Technical Assistance to Nepal for Support to Local Governance and Community Development Program*. Manila.

Source: Asian Development Bank.

PROGRESS UNDER DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Progress as of September-end 2009
<p>Impact</p> <p>Contribution through the LGCDP to poverty reduction through socially inclusive, gender-responsive, strong, and accountable local governance and participatory community-led development</p>	<p>Reduction in poverty levels by 7 percentage points among disadvantaged groups across the country^a</p> <p>HDI and human empowerment index of excluded communities increases by 10%</p> <p>Gender development index goes up to 0.556^b</p> <p>60% of disadvantaged groups and citizens surveyed in selected districts say that local public service delivery has improved</p> <p>Leadership roles of women and disadvantaged groups in local governance system increased as compared with 2007–2008</p> <p>Community engagement in participatory planning in all local bodies improved compared with 2007–2008</p> <p>Measures of satisfaction regarding public access to services increases yearly.</p> <p>20% of local bodies plan and allocate own resources</p> <p>GESI section in MLD effectively functioning</p> <p>60% of CBOs of disadvantaged groups, including women, are better organized and can fulfill their functions without external support</p>	<p>To be reviewed toward the end of the Program</p> <p>To be reviewed toward the end of the Program</p> <p>To be reviewed toward the end of the Program</p> <p>To be reviewed toward the end of the Program</p> <p>To be reviewed toward the end of the Program</p> <p>There is anecdotal evidence that this is not yet working very smoothly</p> <p>To be reviewed toward the end of the Program</p> <p>To be reviewed toward the end of the Program</p> <p>The section is in place, and active</p> <p>Information to be collected toward the end of the Program</p>
<p>Outcomes</p> <p>(i) Citizens and communities actively engaged with local bodies and hold them accountable</p> <p>(ii) Better management of resources and delivery of services in an inclusive and equitable manner by capable local bodies</p>	<p>Yearly increase in number of disadvantaged groups utilizing program resources</p> <p>Number of formal interactions between CBOs and local bodies increases compared with 2007–2008</p> <p>Decrease in number of failures by local bodies to satisfactorily respond to community concerns</p> <p>Positive attitudinal and behavioral changes in local body staff toward women and disadvantaged groups reported</p> <p>More local bodies can apply inclusiveness in service delivery, as compared with 2007–2008^c</p> <p>Local body fund utilization increases yearly</p> <p>Reduction in complaints by service recipients of the work of local bodies, as compared with 2007–2008</p> <p>All local bodies in compliance with the social and environmental safeguards for subprojects</p>	<p>Data for FY2009 (to be used as benchmark data) is being collected at the moment; the final report is expected by the end of the year</p> <p>To be reviewed later on in the Program</p> <p>To be reviewed later on in the Program</p> <p>To be reviewed later on in the Program</p> <p>To be reviewed later on in the Program</p> <p>To be reviewed later on in the Program</p> <p>To be reviewed later on in the Program</p> <p>Not been much progress to date in this area; ADB TA resources are to be used from Q4 2009 to help in compliance</p>

Design Summary	Performance Targets/Indicators	Progress as of September-end 2009
<p>(iii) Strengthened policy and national institutional framework for decentralization and community development</p>	<p>Increased allocation in block grants for programs directly benefiting women and disadvantaged groups as compared with 2007–2008</p> <p>Relevant legal provisions for devolution are adequately provided</p> <p>Perceived capacity gaps at MLD to support local governance are lower</p> <p>Local body associations are more able to advocate for local bodies, as compared with 2007–2008</p> <p>Decentralization SWAp by FY2009/10</p> <p>GESI strategy operationalized in MLD and GESI focal persons activated in 80% of DDCs and municipalities</p>	<p>The allocation has been improved but the extent of direct benefits to women and disadvantaged groups has not been established clearly yet</p> <p>Currently being debated at the Constituent Assembly^a</p> <p>The gaps have already been identified; support from development partners is being used to address the gaps</p> <p>To be reviewed later in the Program; baseline data being complied</p> <p>Work on this on going; MLD fully expects to have this in place by the end of the Program period, if not earlier</p> <p>The strategy is being operationalized with the preparation of the operational guidelines; data is being collected to assess the level of progress on number of persons activated</p>
<p>Outputs</p> <p>1.1. Empowered communities and CBOs that participate in local governance processes</p> <p>1.2. More capable communities, including disadvantaged groups, that assert their rights and hold local bodies accountable</p> <p>2.1. Access to greater fiscal resources for local bodies in equitable and appropriate ways</p>	<p>At least 33% of the capital expenditure grants provided to local bodies are spent on projects prioritized by women and disadvantaged groups</p> <p>90% of local bodies' annual plan prepared using participatory planning process</p> <p>Social mobilization in 100% of VDCs and 50% of municipalities</p> <p>Increased number of women and disadvantaged groups mobilized as compared to baseline</p> <p>More women and disadvantaged groups trained in local governance, community mobilization, conflict resolution, coordination, leadership, etc.</p> <p>Participation of women and disadvantaged groups increased by 50% in program activities as compared with 2007–2008</p> <p>33% of CBOs made federations or cooperatives</p> <p>At least 60% CBOs of women and disadvantaged groups are trained in local governance, management skills, planning, leadership, etc.</p> <p>Greater number of women federations strengthened compared with 2007–2008</p> <p>Formula-based fiscal transfer system with equalization practiced at all local body tiers</p> <p>Local own-source revenues increased by 50% as compared with 2006–2007</p> <p>MCPM adopted in all DDCs and municipalities</p>	<p>Data being collected</p> <p>MCPM assessments show this target is on track to be achieved</p> <p>Data being collected</p> <p>Baseline data being collected</p> <p>Baseline data being collected</p> <p>To be reviewed later on in the Program</p> <p>To be reviewed later on in the Program</p> <p>To be reviewed later on in the Program</p> <p>To be reviewed later on in the Program</p> <p>All DDCs and municipalities already covered; about 25% of VDCs also covered</p> <p>To be reviewed later on in the Program</p> <p>MCPM already adopted in all DDCs;</p>

Design Summary	Performance Targets/Indicators	Progress as of September-end 2009
2.2. Appropriate measures to build capacity in all levels of the local body service delivery system	<p>and piloted in at least 33% of VDCs</p> <p>MCPM revised from GESI perspective and updated with GESI indicators</p> <p>GESI-responsive budgeting operationalized</p> <p>All gender focal points in the districts strengthened and performing effectively</p> <p>70% of DDCs self-report on MCPM to MLD</p> <p>At least 50% of office bearers of all local bodies oriented and trained on local good governance</p> <p>All CBOs of disadvantaged groups have at least one opportunity to be trained in areas such as resource mobilization, empowerment, etc.</p> <p>All local bodies have at least 3 opportunities to be trained in resource mobilization or administrative and financial management, etc.</p> <p>All local bodies are trained on GESI strategy</p> <p>All local body associations confirm capacity improvement</p> <p>At least 50% of local bodies comply with social and environmental safeguards for subprojects</p> <p>At least 80% of vital events registered in local bodies</p>	<p>minimum conditions in all municipalities and piloted in 25% of VDCs</p> <p>Work ongoing</p> <p>Work ongoing</p> <p>Gender focal points have been identified but their capacity gaps have still not been properly addressed To be reviewed later on in the Program</p> <p>To date, about 25% of DDC officials have been trained in specific aspects of local governance To be reviewed later on in the Program</p> <p>To be reviewed later on in the Program</p> <p>To be reviewed later on in the Program</p> <p>Work ongoing; data to be collected later</p> <p>To be reviewed later on in the Program</p> <p>Data being collected, but anecdotal evidence suggests this to be rather low at the moment</p> <p>To be reviewed later on in the Program</p>
2.3. Fine-tuned local body service delivery mechanisms and processes	<p>Use of public hearings, public and social audits, and citizen report cards institutionalized by 90% of DDCs, 75% of municipalities, and 40% of VDCs</p> <p>Conditional cash transfer piloted in 50 VDCs</p> <p>Local PEM and PFM procedures fine-tuned by 2010</p>	<p>MLD reports all local bodies are required to have at least one public audit a year; fuller dataset is being gathered</p> <p>To be reviewed later on in the Program</p> <p>To be reviewed later on in the Program</p>
3.1. Policy framework for decentralization to enable an environment for effective, transparent, accountable, and inclusive local governance	<p>Decentralization SWAp ready by FY2009/10</p> <p>Roles and responsibilities of local body staff delineated (job descriptions, performance evaluation system, etc.)</p> <p>GESI capacity development plan prepared and implemented for MLD and local bodies</p> <p>Human resource policies, particularly those related to affirmative action, strengthened and implemented</p> <p>Better coordination between central line agencies and MLD on implementation of GESI strategy</p>	<p>See earlier comment on outcome (iii)</p> <p>To be reviewed later on in the Program</p> <p>Capacity building plan prepared for MLD (and to be implemented in part in FY2009/10)</p> <p>To be reviewed later on in the Program</p> <p>Work ongoing</p>

Design Summary	Performance Targets/Indicators	Progress as of September-end 2009
3.2. Strong central government and NGOs that provide appropriate support to local bodies	HRD plans implemented in MLD, all DDCs, and 30 municipalities	To be reviewed later on in the Program
	HRD plans include affirmative action policy	To be reviewed later on in the Program
	Results-based monitoring system in MLD	Work ongoing (particularly through the benchmarking exercise in the ASIP)
	DMIS functional and linked with DPMAS	Work ongoing
	Government's devolution strategy prepared and operationalized by 2009	Not possible to attain this target given the delays in the constitution-making process
	Updated devolution policies and regulations incorporate GESI aspects	To be reviewed later on in the Program

CBO = community-based organization, DDC = district development committee, DMIS = district management information system, DPMAS = district poverty monitoring and analysis system, GESI = gender equality and social inclusion, HDI = human development index, HRD = human resource development, MCPM = minimum conditions and performance measures, MLD = Ministry of Local Development, PEM = public expenditure management, PFM = public financial management, NGO = nongovernment organization, SWAp = sector-wide approach, VDC = village development committee.

^a As of now, these provisions are expected to be in place by November 2010 (i.e., up to the maximum time specified for the promulgation of the new constitution).

Source: Asian Development Bank.