



Technical Assistance Consultant's Report

Project Number: 37181 (TA 4249)
August 2005

Nepal: Strengthening Performance- Based Management

Prepared by Yeoman Ward International

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TA 4249-NEP

**Strengthening Performance
Based Management**

**FINAL
REPORT**

Yeoman Ward International

August 2005

Executive Summary

This, the Final Report, is the sixth and last report due under the Consultants contract. It marks the completion of the Consultants input to TA 4249-NEP, although it is understood that there is a proposal to extend the TA for some 6 months with input from two additional new Consultants who have not had any previous involvement in the Project.

The report provides a full summary of progress and achievements under the TA and identifies "lessons learned" and provides recommendations for the way forward, both in terms of implementation of Performance Based Management Systems (PBMS) and the overall Government Reform Programme (GRP).

A concise summary of the Recommendations is included at the end of Executive Summary for ease of reference.

Background

TA 4249 commenced in March 2004 and was targeted for completion in May 2005. It comprised 6 months International and 15 months Local Consulting input, which, due to the design of the TA, required the Local Consultant to operate alone for long and often critical periods, without support.

The Inception Report, submitted in April 2004, made plain that many of the "building blocks" essential for the successful introduction of a Performance Based Management System (PBMS), and which were expected to have been put in place under two earlier TA's, were not in fact in place. This included the fundamental pillars of any Government Reform programme:

- Review and finalisation of new Mandates;
- Development of strategic plans to meet Mandates;
- Functional analysis and review of organisation structures to best meet the Strategic Plan objectives;
- Implementation of "rightsizing" to ensure all functions could be met effectively and efficiently;
- Timely and compassionate planning for dealing with excess staff.

Without such fundamental reforms in place the Consultants advised that the introduction of a PBMS could only be of very limited benefit-at worst, it ran the risk of consolidating 'old habits' since none of the new structures and processes to support performance management were in place.

With the agreement of GRCU and ADB a significant part of the Consultants initial input was therefore directed towards capacity building and developing a deeper understanding of the interaction and linkages of the various components of the reform process before starting to develop PBMS models.

Consultants Work plan

The Consultants submitted a detailed Work plan incorporating the issues outlined above as part of the Inception Report, which was subsequently approved by GRCU and the ADB. The Work plan was subdivided into 7 stages summarised below as follows:

Stage	Period	Description/Activities
1	1-29 March 04	Mobilisation, review GRP progress, IR.
2A	29 March – 26 April 04	Capacity building, detailed review of previous TAs and review of progress against integration of reform cornerstone activities
2B	19 April – 4 June 04	Capacity building/mandate review/ review of existing PIs (where developed). Leadership/ management training/
3	7 June – 11 July 04	Review progress re PIF + identify additional mechanisms
4	12 July – 13 Aug. 04	Capacity Building in designing high level PI's etc coaching of CUs.
5A	16 Aug. – 24 Sept. 04	Design and preparation of pilot PBMS in MOAC
5B	27 Sept. 04 – 11 March 05	Coaching + support to implement pilots
6	14 March – 29 April 05	Refinement + extension of pilot schemes
7	May 05	Project completion + Final Report

Progress

Notwithstanding the various constraints that have affected the TA, including Bandhs, Valley blockades and major political changes, as well as the lack of the critical 'building blocks' on which to establish a performance Based Management System, the Consultants have none-the-less achieved some 80% of targeted activities.

The primary slippage in progress against targets occurred in the first half of 2005, where a declining security situation and subsequent major political changes resulted in a loss of momentum, and the incapacity to work in the target districts due to security problems. This occurred at a critical time when the first PBMS model was to have been trialled in MOAC.

The situation was further compounded by the lack of support for the Consultants proposal for additional input during this critical period, when the Local Consultant was left to operate alone for 7 months. This was the period, which should have seen the pre-pilot phase of the PBMS model rollout in MOAC and the consolidation of models in MOH and MOES. Additional input during this crucial period would have enabled the Work plan to be completed as planned.

Achievements

Notwithstanding the often-frustrating constraints that have challenged the TA, there has been significant progress made towards introducing pilot PBMS models in MOAC, MOH and MOES and to assisting Government to meet ADB Tranche 2 and 3 conditions.

General achievements have included:

- Greatly increased support for the overall reform process at senior levels within Government;
- Briefing of the Office of Prime Minister and briefings for the Chief Secretary, as well as with the GRCU coordinator on a regular basis;

- Assisting in drafting press releases for HMG, GRCU in relation to the reform process and PBMS in particular;
- Re-invigorating the CUs in MOH, MOES and MOAC- most especially MOAC;
- Establishment of semi-permanent counterpart staff in MOAC (in addition to the CU);
- Agreeing a model PBMS for the pilot districts of Kavre and Bara in MOAC and ongoing assistance and coaching at District level(as security permitted);
- Assisting with the review of Tranche 2 Conditionalities, including preparation of a detailed paper for ADB;
- Continued formal and informal training and day to day capacity building including combined workshops for Senior staff and Change Unit Members in all pilot Ministries, especially on practical requirements to link all aspects of the reform process;
- Agreement with MOF on the establishment of a 3 year rolling plan framework and its introduction to MOAC. This is a fundamental component of an effective PBMS but it requires that both the Ministry of Finance and the line Ministries change the concept and manner of budget preparation. It still requires further endorsement and support from the Ministries of Finance and Planning if progress is to be sustainable.
- Agreement with MOF on broad parameters for establishment of a Performance Improvement Fund, commencing FY 2004/05 and continuing 2005/06 and 2006/2007 initially targeting MOAC.

Achievements within Individual Ministries

At the level of individual Ministries, progress- both through the efforts of the TA team and most particularly the Change Units, has included:

- M
O
A
C**
- Four performance based models have been developed for MOAC, and the most appropriate model further developed and approved by the Secretary, MOAC;
 - Kavre, Bara and Solukumbu have been selected for piloting the model; (Solu to be implemented at a later stage, given limited resources);
 - Performance indicators, linked to the 10th Development plan, have been developed for key commodities at service delivery level and result level;
 - Draft Three Year Rolling Plans (3YRP) have been developed by two districts for FY 2006/2008 and submitted for consideration. However the Plans are not yet in the comprehensive form envisaged by the Consultants, which should include all outputs and activities to be undertaken- not just those to be funded under the performance Improvement Fund.
 - Draft, detailed Performance Indicators have been prepared for Bara and Kavre, based on agreed production and productivity targets across key commodities;
 - The format for data collection and farmer's evaluation of MOAC input and performance at district level has been designed and approved;
 - Key input requirements based on Performance Indicators and linked to 3YRPs have been discussed at several Workshops and ongoing coaching in their preparation has occurred. These input requirements will then form

the basis for funding under the Performance Improvement Fund during Pre-Pilot phase and piloting period. Whilst drafts have been prepared they are not yet in the agreed format or to a standard which will be acceptable for funding under the Performance Improvement Fund;

- A limited "pre-pilot performance monitoring and performance improvement" phase was trialled in Kavre and Bara in the last quarter of FY 2004/2005;
- Full rollout of the PBMS model is now targeted for January/February 2006 although this will be ambitious without continued assistance. Further assistance is required to develop comprehensive 3YRPs with measurable Performance Targets and input requirements for funding under the Performance Improvement Fund, clearly linked to the 3YRPs- not just comprising a 'wish list' for funding.

M O H

- An outline PBMS model has been developed;
- Three districts, Chitwan, Mustang and Morang have been selected for piloting the model (after review due to security constraints);
- Individual PI's have been developed for selected staff at Sub Health Posts and discussed and agreed in workshops with affected staff;
- Review and assistance with prioritising of District Performance Indicators developed by the CU;
- Pilot rollout is targeted for early 2006. However as with MOAC, this will be ambitious without continued assistance. Further assistance is required to develop comprehensive 3YRPs with measurable Performance Targets and input requirements for funding under the Performance Improvement Fund, clearly linked to the 3YRPs- not just comprising a 'wish list' for funding.

M O E S

- Continued efforts to engender enthusiasm and to obtain some cohesion between the CU and the Task Force for Organisational Review. However, momentum was difficult to sustain and progress slow;
- Continued development of the Teacher Management Information System which, while not part of this TA will form a valuable base for management and monitoring of performance of teachers;
- Selection of a pilot District (Kathmandu District Office KDEO);
- Assistance with a basic Functional Analysis to determine what is currently being undertaken, to establish a base line to determine what should be undertaken;
- Coaching on the requirement to link key planning tools (10th Plan Education For All) with District Performance indicators and Targets; assistance to a newly constituted Task Force to develop their role and to support the KDEO with a basic functional Analysis in preparation for determining priorities and Performance Indicators.

Tranche 2 and 3 Conditionalities

The ToR for TA 4249 requires that the Consultants work with the Ministries to achieve Component 5 of the Tranche 2 Loan Conditionalities. The objective of this component is: To deliver better services to citizens by reinforcing a new public management culture and work processes that are related to performance –based management. The TA Team have used a process based methodology and ongoing coaching and training to facilitate the achievement of this objective. In addition the four sub objectives and indicators under Component 5 have been met or partially met

The TA team have also assisted in the fulfilment of the key Tranche 3 Conditionality which is relevant to this TA. As per Tranche 3 conditions, MOAC is required to implement a 3 Year Rolling Plan from FY 2005/06. The Ministry has endorsed a framework for preparation of the Plans, developed by the Team and both the CU and District Officers have been coached in development of the Plan and preparation of budget requirements. The 3YRP Framework has provision for the inclusion of Performance Improvement Requirements to be funded under the Performance Improvement Fund.

The Introduction of a Performance *Improvement* Fund

The concept of a PIF as described in the **ADB RRP: NEP 32238 GRP Report and Recommendation on a proposed loan for the Governance Reform Program** is as follows:

“Performance Improvement fund, to be used for skills development, improved business processes, engaging specialist staff and purchase of needed equipment such as computers.”

The fund was to be provided to Ministries that introduce performance improvement plans, as proposed in the Loan Document. MOAC is the only pilot Ministry which is likely to have 3YRPs and Performance Improvement requirements in place in FY2005/6.

A Performance *Improvement* Fund provides funds for special inputs, which will assist in achieving performance outputs as agreed, based on 3YRPs;

A Performance *Incentive* Fund provides financial or non-financial rewards for achievement of targets *not* support to achieve the targets.

The concept of a Performance Improvement Fund is therefore very different to a Performance Incentive Fund.

MOF have proved guidelines for the financing of a Performance *Incentive* Fund, based on savings achieved in individual Ministries, which can then be redistributed as incentives. Very little has been done in any Ministry to achieve savings. Savings can only be achieved through rigorous organisation review and ‘rightsizing’.

Whilst it is *not* possible to implement an Incentive Fund until key functions have been agreed, organisation restructuring to achieve functions has been undertake and individual performance targets developed, it is possible to introduce an Improvement Fund as an interim measure whilst concerted steps are taken to right-size, integrate, and improve the efficiency of the Ministry. Limited funds have been set aside by the Ministry of Finance for introduction of the Improvement Fund, for 2005/6, and the TA Team have stressed the importance of earmarking adequate budget for the introduction of an Improvement Fund

Implementing Structures

- *A new independent high level reform implementation unit (RIU) should be established within the Office of the Prime Minister. Its mandate should be to supervise the development and implementation of the Master Plan;*
- *The Head of the Unit should have clear authority to act across all Ministries;*
- *All RIU staff should be full-time personnel engaged under a clear performance contract, linked to the Reform Master plan targets and independent of line Ministry functions for the duration of the primary reform process and, it is suggested, funded directly by the supporting Donors to help promote the independence of RIU staff;*
- *Remuneration and bonuses for RIU staff should reflect the difficult and often unpopular nature of their tasks;*
- *Change Unit staff must be full time on reform and restructuring activities which are occurring within their Ministries. They should report regularly to the RIU as well as within their own Ministries;*
- *Mechanisms for coordinating reforms across Ministries, including the more widespread introduction of a PBMS must be introduced under the direction of the RIU;*
- *One or two International External Advisors should be appointed to assist the RIU, and to provide technical oversight of reform design and implementation;*
- *There should be a full review of the implementation of GRP1 before the commencement of GRP2 and funding for and implementation of GRP2 should not commence until the basics as above are in place.*

TA and Consultants Contracts

- *The RIU, in consultation with the Donors, should supervise the hiring of Consultants for the reform process as they deem necessary and in accordance with the reform Master plan. The emphasis must be on the hiring of very experienced, practical reform specialists who can apply lessons learned elsewhere;*
- *TA structures should reflect the specialised and sensitive nature of such consultancies as well as the lengthy time required for achieving consensus and change;*
- *The obstacles placed in the way of isolated local consultants undertaking such reform work alone must be recognised in TA design;*
- *The current suggestion to extend TA 4249 and hire 1 or 2 new local consultants operating without International support should be reviewed. The suggestion of using the MOAC counterparts, who have already been trained by the current consultants, should be considered as an alternative.*

Performance Based Management Systems

- *All of the above recommendations impact on the capacity to implement a PBMS! In addition the following recommendations apply:*
- *Full-time staffing with suitable remuneration and incentives for Change Units, or similar, is essential if real progress is to be achieved;*

into all pilot Ministries by the end of 2006. As above, however, even release of Improvement Funds is contingent upon approval of 3YRPs and Performance Indicators.

Lessons learned

The following "lessons" have become evident:

- To be effective, a government reform process must be a linear but iterative process. That is: Steps must follow in logical progression, linked to the overall role of State, mandates for each Ministry an efficient organisation structure and clear job descriptions and performance targets. This forms the basis for an effective performance management system and an output- driven organisation;
- PBMS cannot be effectively introduced until the above steps have been completed, although small pilot schemes may be introduced to develop familiarity with the concepts;
- There is still no overall Master plan for Reform. The Policy Matrix forms a basis for activities but encourages activities to be undertaken in isolation from each other. It also does not easily lend itself to donor coordination of reform activities;
- A line ministry, (MOGA), which itself is the subject of reform, is unlikely to be the most effective vehicle to drive the reform process. The process must be driven from an overarching level, generally the Office of the Prime Minister;
- Change Units must comprise full-time dedicated staff, who have clear time bound performance contracts and authority to act across Ministries at the highest levels;
- TA contracts must be better balanced International and Local inputs, when they are focused on reform processes both and recognise that the reform process is highly sensitive and often more effectively driven by "neutral", external advisers. It must be also recognised that no matter how good, local consultants have not been widely exposed to implementing reforms and require external support;
- The ARC must take a far more active role in overseeing the Reform process including TA progress.

Recommendations for the Way Forward

Based on progress achieved and lessons learned during the TA and the Consultants extensive international experience of other reform programmes, the following recommendations are made in good faith, to help guide the way forward both in terms of PBMS and also the overall GRP:

The Reform Process

- ***The process must be visibly driven from the highest levels of Government;***
- ***There must be a clear time bound reform Master plan addition to the Policy Matrix;***
- ***Steps in the reform process must follow logically and linearly; a sustainable PBMS cannot be effectively introduced until preceding steps have been properly completed;***

- *Recognition that 3YRPs form the basis of an effective Performance based management System;*
- *Continued pressure must be applied to pilot Districts to complete comprehensive Rolling Plans, which include all output requirements as well as Performance Indicators. Improvement and Incentive Funds should not be allocated until these steps have been satisfactorily completed;*
- *Effective monitoring and evaluation systems for the PBMS models must be developed and implemented;*
- *The initial Performance Improvement Fund must flow into a Performance Incentive Fund as soon as satisfactory performance has been established –by effective monitoring and evaluation-and preferably within 3-4 years*
- *As soon as the pilots have been satisfactorily trialled, the model should be progressively extended to other districts*

Finally, whilst the above recommendations are those of the Consultants and represent their professional views, it is most encouraging to note that many of the recommendations are broadly consistent with the views of the current Secretary, MOGA as expressed at the final Wrap up meeting in September 2005.

In particular there is a strong consensus that the reform process must be seen to be driven and lead by the very highest levels of HMG and further, that now is the time to conduct a thorough review of performance to date as outlined in this Final Report.

The Consultants firmly believe that if implemented the above recommendations could pave the way for a new era of Government reform in Nepal.

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Abbreviations used in the Report

ADB	=	Asian Development Bank
ARC	=	Administrative Reform Committee
ARCMC	=	Administrative Reform Coordination and Management Committee
CU	=	Change Unit
DADO	=	District Agriculture Development Office
DDC	=	District Development Committee
DFID	=	Department For International Development
DLSO	=	District Livestock Service Office
DOA	=	Department of Agriculture
DOLS	=	Department of Livestock Service
EFA	=	Education for All
EU	=	Efficiency Unit
GRCU	=	Governance Reform Coordination Unit
GRP	=	Governance Reform Programme
HMIS	=	Human Resource Management Information System
IC	=	International Consultant
IR	=	Inception Report
LC	=	Local Consultant
M & E	=	Monitoring and Evaluation
MOAC	=	Ministry of Agriculture and Cooperatives
MOES	=	Ministry of Education and Sports
MOF	=	Ministry of Finance
MOGA	=	Ministry of General Administration
MOH	=	Ministry of Health
MOLD	=	Ministry of Local Development
MOLRM	=	Ministry of Land Reform and Management
NEP	=	Nepal
NGO	=	Non-Government Organisation
ORC	=	Organisational Review Committee
PBMS	=	Performance Based Management System
PIF	=	Performance Incentive Fund
PIs	=	Performance Indicators
QA	=	Quality Assurance
T2/T3	=	Tranche 2/3
TA	=	Technical Assistant
TMIS	=	Teachers Management Information System
ToR	=	Term of Reference
VDC	=	Village Development Committee
WB	=	World Bank
3 YRPs	=	Three Year Rolling Plans

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The TA Consultant Team wish to acknowledge the support of the Secretaries of each of the Ministries of Agriculture and Cooperatives, Health and Population, and Education and Sports.

We wish to especially thank the Co-ordinator of GRCU, Mr Shyam P. Mainali and the Joint Secretary of MOAS, Dr. K. B. Shrestha - with whom we have worked very closely in order to meet Tranche 2 Conditionalities within MOAC - who have supported the Project and the Consultants consistently and always with good humour.

We have appreciated the input of all CU Chiefs and Team Members. The Change Units in the Ministries have persevered under difficult and often frustrating circumstances, which we acknowledge and trust that through the implementation of the recommendations of the Report they will be able to effectively pursue the process of reform.

We also wish to acknowledge the very high quality inputs of our two counterparts within the MOAC, Mr Prashant Amatya and Mr Sunil Lohani who worked tirelessly with the Consultants on the design of Performance Based Management models for MOAS- despite having many other duties.

Finally, we wish to thank Dr. Surya Prakash Shrestha, Asian Development Bank for support and technical interest far beyond that usually expected, throughout the TA period.

I also acknowledge the input of my colleagues: Dr Rajendra Suwal Deputy Team Leader, Mr Nigel Bright, YWI Performance and Planning Specialist and Mr. Ram Hari Khatri, Logistics Support.

We wish His Majesty's Government of Nepal sustained success in their reform efforts and confirm our commitment to assist in facilitation of the progress.



Lyn Yeoman
Team Leader
Director

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INTRODUCTION

1.1 Overview of the Government Reform Programme

The 1992 Administrative Reform Commission forms the basis for the Governments reform initiatives, including the ADB supported Governance Reform Program (GRP). The GRP (ADB RRP NEP 32238) specifies four phases of reform to be undertaken within the period 2001-2005 in order to introduce interrelated interventions that will catalyse and begin to effect fundamental changes in the civil service and governance environment. It will focus on the critical institutional constraints that cut across the whole of the civil service and will specify pilot techniques and approaches for doing business in a whole new way with the ultimate aim of improved service delivery in three key Ministries MOAC, MOES AND MOH, with MOGA coordinating the reform process and MOF facilitating the process through financial support and eventually the introduction of output based budgeting.

These phases are:

- Strengthening leadership at Cabinet and Secretarial level including strengthening the GRCU, EU and Change Management Units in the three line Ministries above.
- Freeing up of financial resources, including undertaking a functional analysis, identifying core and non core functions, and reducing non core activities, reduction in Establishment posts and staff through contracting out to the private sector and through decentralisation, improved records management and revised pay policies.
- Develop leadership and management qualities of senior staff, recruit talented staff, enhance pay levels and reduce gender imbalance.
- Inject into pilot Ministries a robust but simple performance improvement process to assist them to provide better services, with an emphasis on continuous improvement rather than the achievement of arbitrary performance targets. This includes strengthening the legal framework for combating corruption, enforcing its implementation and ensuring the involvement of civil society in the anticorruption efforts.

Two previous ADB TAs - as well as inputs from other donors - have been directed toward achieving phases 1, 2 and 3 above.

These were TA 3117 (Formulating an Action Plan on Civil Service Reforms) commencing June 1999, and, TA 3622 (Institutional Support for Governance Reform) commencing May 2001.

1.2 Terms of Reference for TA 4249

As per the Consultants Terms of Reference:

*"The objective of the TA is to assist the Government to implement the reform component of the ADB-assisted Governance Reform Program (GRP) to improve the quality, efficiency and access of services provided by key ministries. **The purpose of***

the TA is to establish a system for developing, adopting, communicating and monitoring performance targets in selected service and central ministries with a first set of targets in place by the end of the TA. The specific deliverables of the TA will include: performance management system, performance improvement plans, performance improvement fund, and service standards. Emphasis will be placed on building skills, confidence and change leadership in Ministry of General Administration's Governance Reform Coordination Unit (GRCU), Ministry of Finance's Efficiency Unit (EU) and the Change Units in the three pilot ministries. The TA will also assist the Government in meeting Tranche 2 and 3 conditions under the performance improvement component of the GRP, as specified in its Policy Matrix."

Outputs and Key Actions are stated as:

To establish/implement the culture and processes related to performance-based management, and demonstrate the budget incentives, efficiency dividends, and benefits in terms of improved outcomes. Three service delivery ministries (Ministry of Agriculture and Cooperatives, Ministry of Education and Sports, and Ministry of Health) and two central ministries (Ministry of Finance and Ministry of General Administration) will be supported by the TA, and the TA will **review the work initiated on performance management by TA 3622. With the support of the TA, GRCU and EU will develop management performance plans.** GRCU and EU will also transfer **new procedures and capacities to support the three pilot line ministries.** The TA will provide GRCU, EU and the Change Units with customised training and mentoring to ensure that needed leadership and technical skills are available for the development of the appropriate management and performance plans and their subsequent implementation. In addition, **management and in-service training** will be provided to develop the **skills needed to analyse current problems and design possible solutions to help improve ministry performance** as specified in the performance improvement plans.

The TA will support the three line ministries (Ministry of Agriculture and Cooperatives, Ministry of Education and Sports, and Ministry of Health) to **develop and implement annual performance improvement plans, including client service standards.** The Government will work in partnership with Pro-Public (an NGO contracted under TA Package 2 of GRP) to make the public aware and to solicit broad support and advocacy for the performance plans. **Performance plans will include performance indicators for programs under improvement to establish accountability and lead to efficiency savings.** The annual plans will include a review process to identify further performance improvements and service quality standards. The possibility of retaining efficiency savings will be a key feature of the plans to facilitate reform and provide incentives for the three line ministries. To access these savings, a **performance improvement fund** will be introduced in a phased manner and provided to ministries that successfully introduce performance improvement plans. **The performance fund will be used for skills development, improved business processes, engaging specialist staff, and equipment purchase.** The TA will assist Ministry of Finance (MOF)/Ministry of General Administration (MOGA) to design institutional arrangements, modalities and procedures for the implementation of such a fund."

1.3 Preconditions for Achieving the Terms of Reference

The ToR envisaged that TA 4249: NEP would build on the foundations laid under two previous, more extensive, TA's viz, TA 3117 and TA 3622.

Unfortunately, as was made plain in the Inception Report and endorsed in the subsequent Progress Reports many of the essential "building blocks" necessary for TA 4249: NEP to build upon were, for various reasons, not in place and it became necessary for TA 4249 to devote much of its initial efforts into establishing the basic "foundations" within GRCU and the line ministries on which to establish Performance Based Management Systems.

In particular:

- TA 3117 (Missions Objectives and Performance Indicators of Ministries, and Constitutional Bodies) was designed and completed in 2002 to provide: missions, objectives and performance indicators, upon which TA 3622 would build into an Institutional Support for Governance Reform Programme. The outcome, however, was a summary of what Government was **currently** doing, as reported by staff, not what Government agreed it should be doing. It was not based on agreement on the role of State, review of the scope and size of Government- and therefore what functions and performance indicators were required.
- TA 3117 was not ever endorsed or implemented by Government.
- TA 3622 (Institutional Support for Governance Reform) included an investment of 100+ person months of TA. It largely comprised a collection of isolated reports which were not integrated or implemented. The TA was supposed to focus on: Management of the Reform Process; Improved efficiency of the Civil Service; Anticorruption measures; Enhanced competence of staff; a Performance Improvement Model and Plan, including the design of a Performance Improvement Fund. This TA should have provided the framework for the introduction of a Performance based Management system. However, it was also not endorsed or implemented by Government.
- TA 4249 (the present TA) was expected to build upon the results and actions of the previous two TA's. The establishment of a Performance Based Management System requires Government consent on Mandate and role of Government and endorsement of the 'Integrated Performance Based Planning and Management Model, prepared under TA 3622.
- TA 3117 did not provide a framework for the review of the role of Government. TA 3622 could not effectively design an integrated performance based model since no performance targets were agreed under TA3117.
- TA 4249 was expected to be based on a clear and agreed statement of missions and performance indicators so that a performance management system could be implemented.
- Because neither of the previous TA's had provided the groundwork necessary for the introduction of Performance Based Management Systems, the ToR were revised to try to cover to the degree possible, the building blocks which should have been completed and endorsed under the previous two Technical Assistance Programmes.

- An important component of this TA has been to recognise 'what went wrong' and why the two previous TAs were neither endorsed and implemented- or rejected and revised.

Overall, in the short time frame of TA 4249, whilst it has not been possible to fully redress limitations to outputs expected in the two previous TAs. It has been possible to provide coaching in the basic building blocks and the linkages between all aspects of the Government Reform Process as well as establish the culture and processes related to performance- based management.

1.4 Reports

The ToR requires submission of 6 reports:

- Inception Report (end of month 1)
- Progress Report (end of month 4- Local Consultant)
- Mid-Term Report (end of month 7/8¹)
- Progress Report (end of month 11- Local Consultant)
- Draft Final Progress Report (month 14/15- primarily Local Consultant)
- Final Report (month 15)

This, the final 'deliverable' under TA 4249, provides a summary of progress and achievements and makes recommendations on the way forward, both for the PBMS and for the GRP overall.

¹ TA inputs were reallocated to enable the team to consolidate the activities underway during months 5-7 and build upon the momentum established. This involved using an additional 1.5 pm during this stage, with a request for additional input time during the next crucial stage in months 10/11. Unfortunately for reasons that were not explained the request for additional input and time was not approved, despite a clear acknowledgement by all parties of its importance to project success.

PREVIOUS REPORTS SUBMITTED UNDER TA 4249

2.1 The Inception Report

The Inception Report (IR) was submitted in April 2004 and accepted by both GRCU and ADB as required by the TOR, it included a review of the previous two TA's: TA 3117; and TA 3622; identified issues which would impinge on TA 4249 achieving its objectives; and, made recommendations to overcome the constraints so identified.

The Inception Report stated:

"The lack of practical plans and implementation under the previous two TAs, especially the lack of a functional analysis means that the building blocks for this TA are not in place to the degree expected. This means that the TOR for this TA could not be effectively completed without preliminary additional activities being undertaken.

This places considerable pressure on the very small TA team".

Requirements for additional International input were discussed and documented.

The Work plan developed within the first month of the project (March 2004) which was approved by MOGA as the executing Agency and ADB as the Funding agency, has been the guiding framework for project implementation. It was designed to address many of the 'building blocks which were anticipated to have been completed in the early stages of the GRP without detracting from the overall objectives of the current TA.

A Situation Analysis resulted in identification of number of Risk Management Priorities to enable the TA to avoid some of the difficulties faced by the previous TAs. In particular the Inception Report noted that:

- Agreement must be reached early after the submission of the Inception Report, on priority outputs, including how much more effort can be directed toward completing the building blocks which were not addressed fully in previous TAs, to enable the TOR for TA4249 to be met.
- Secretaries must be encouraged to be involved and be seen to endorse the introduction of performance measures. This will also require the monitoring and endorsement of the GRCU, EU and CU plans and activities.
- Secretarial endorsement must be obtained for Change Management staff to be dedicated full time to this task. The GRCU and the EU must be strengthened and mechanisms for combined planning and coordination of activities be established.
- Provision of capacity building training in integration of reform activities including obtaining efficiency gains, must be offered to Change Units and selected others, as a priority activity. Change units must be re-enthused and see that they can achieve something useful.
- Action Plans for each Unit must be reviewed and refined, following initial capacity building. Regular support including progress reviews, must be provided throughout the duration of the TA. The Action Plans must be practical, understandable, free of management jargon and address the real priorities of each Ministry.

- Any further review activities must be short, practical have a clear purpose and be linked to the Change Management Action Plans. The consultants must get some 'runs on the board' quickly and be seen to be making a difference from the outset.
- *The TA input must offer practical solutions, be open in approach and deliver results.*
- The TA team must work closely with MOGA and MOF in the early stages of the TA to review and develop funding and efficiency options and a practical, defined system for allocation of performance bonuses, or neither the change Management Units nor the target staff will have any incentive to participate.
- The TA Team must do what can be done, find ways to minimise project disruption and achieve progress where it is possible, including through modifications to TA outputs as agreed with ADB and MOGA, if necessary.

2.2 Progress Report Number One

Progress Report Number One was submitted in August 2004. It covered a period when the Local Consultant was partly alone on the project and included a review of factors impinging on progress.

Several important factors were identified:

- The lack of seriousness with which some Ministries were approaching the work plan tasks which had been prepared by the TA Team and Ministries during Stages 2;
- The impact of the budget preparation, particularly on the availability of the MOF/EU, to discuss PIF mechanisms;
- The difficulty found by a sole Local Consultant in maintaining impetus in 3 line ministries, supporting 2 additional ministries and coordinating with MOGA;
- The requirement for more balanced input between Local and International inputs- especially given the need to revisit many tasks envisaged to have been completed under previous TAs;

2.3 The Mid-Term Report

The Mid-term Report indicated that whilst the Consultants had been able to achieve good overall progress, especially during the last quarter, various factors had impacted on the TA's ability to deliver all tasks identified in the work plan. These included:

- The absence of any real reform to date, notably "rightsizing" within the target ministries and the lack of development of organisational structures clearly linked to essential functions and to the mandate of the ministry (as should have been achieved under previous TA's). In the absence of such reforms, there is neither a clear understanding within Government of reform processes and linkages with PBMS a firm culture, nor structure in place to realistically permit the introduction of sustainable Performance Based Management systems.
- As above, without significant restructuring, substantial "efficiency gains" are not possible, and hence 'savings' from efficiency gains are not currently available to support any PBMS by way of incentives. Whilst all line ministries consider they have "undertaken organisational restructuring", this has only been done at 'first level' and more rigorous review will be needed to support significant performance improvements.
- An initial absence of serious commitment to reform at the highest levels, although this particular situation has improved substantially in recent months.

- The lack of recognition and understanding of the magnitude of the tasks facing the GRCU and individual CU's, which is reflected in the fact that most CU's are still not permanently staffed. Permanent, fulltime staff are required in all target Ministries. MOGA as the Project Co-ordinator must support this requirement. At present, Ministries' requests for fulltime staff have not been implemented, despite this being a Tranche 2 requirement.
- The lack of facilities and equipment, or a travel budget, and, more importantly, incentives to encourage CU staff to take on what is a difficult and challenging assignment.
- The structure of the current TA, which, even after rescheduling by the Consultants in conjunction with MOGA and ADB, still leaves the Local Consultant alone for significant periods to carry out what are often difficult and sometimes onerous assignments across three main target ministries and two secondary ministries, with little authority to insist on adherence to programme. It should also be noted that having reviewed the ToR, Yeoman Ward International elected to provide an additional senior consultant, at their own cost, to support the TA.
- The lack of a counterpart from MOGA who could have both contributed to GRCU capacity building and learned from the establishment of a PBMS in MOAC such that she/he could then assist with replication in other Districts or Ministries.
- Continuing decline in security, including the various Bandhs, the "Valley Blockade", the curfews following the tragic murder of the 12 Nepali nationals in Iraq, and the overall lack of public confidence in Government's capacity to maintain control. These have all combined to disrupt and delay the Consultants programmes and mobility. Security concerns have also made it difficult for the TA to maintain enthusiasm and commitment from Central and District level officials for the process, when there are very clearly many more pertinent and pressing issues on people's minds.

Several important recommendations were made in the Mid-term Report:

1. ADB to approve a minimum of 2 person months additional input for the International Consultant (1.5 field + 0.5 office based support to the local consultant). It is stressed that this is the minimum. Requirements should be reviewed in Feb/March 2005. Relative to the cost of the total three TAs which comprise GRP the funding of additional time is a small investment.
2. ADB to facilitate discussions with MOGA to ensure cooperation in securing full time CU positions in line ministries.
3. ADB and MOGA to facilitate the continuation of the two MOAC counterparts on a full time basis until at least the end of the TA, as well as their appointment as full members of the CU.

Unfortunately none of these important priorities for implementation were authorised by MOGA and the pilot Ministries. This has had a significant impact on sustainability of both inputs and staff development within the Change Units.

2.4 Progress Report Number Two

Progress Report Number was submitted in February 2005 and covered the period November 8 to December 15.

As per the Original Terms of Reference, only the Local Consultant was in the field during this period.

This very brief Report focussed largely on the difficulties in obtaining serious commitment from Change Units, exacerbated by the lack of decision making by Senior Officers on the amount of time which Change Unit Members in all Ministries could spend on GRP activities. The Consultants had made it clear in all previous reports that CU members must be full time - at least until the end of the TA and this has not occurred in any Ministry.

In MOGA the two exceptionally dedicated Counterparts with whom the TA had worked on a daily basis for 3 previous months, were under pressure to return to their line positions, and were never made members of the CU although in fact it was the two counterparts who had and continue to undertake the bulk of the PBMS work. The issues faced by the Local Consultant and raised as of most concern, were the lack of motivation of the CUs, the lack of support from senior staff, the willingness to attend meetings but the lack of action between meetings.

2.5 Draft Final (Progress) Report

The Draft Final (Progress) Report covers the period November 2004 to May 2005. During this critical period, as per the ToR design, only the Local Consultant was in the field.

This, together with continuing political unrest and security problems, placed considerable pressure on the Local Consultant. The difficulties faced by a sole local consultant attempting to maintain scheduled work was pointed out from the commencement of the project. However a request for two person months additional international input for carrying out the tasks more effectively was denied.

Prior to departure of the International Consultant in the beginning of November, a work program had been developed for each of the CUs and initial briefing meetings conducted with CU personnel to familiarise them with the work program and the expected output during the rest of the TA period.

Because of ADB Tranche 3 conditions which require MOH and MOES to prepare and implement pilot Performance Improvement Plans (PIPs) in their Ministries, the Secretary of MOGA through GRCU instructed the pilot Ministries that PIPs were to be prepared for MOH and MOES too, similar to the PBMS scheme developed for MOAC. Hence, an internal review of the work plan was undertaken and revised after discussions with Coordinators of CUs from MOAC, MOH and MOES. However, it differed considerably from the overall plan as agreed by the Team Leader, ADB and the GRCU in October 2004. This has had considerable bearing on progress against the benchmark- the **original** Work plan.

The 'Revised Work plan' was not discussed, agreed and signed off by the Team Leader who was not in the field during this period.

This 'Revised Work Program' (for this period only) focused primarily on developing 3 YRPs for pilot districts of MOAC and simple PIPs for MOH and MOES to help meet Tranche 2 and 3 conditions. The overall focus of the TA activities during this six months period was on provision of support to three pilot Ministries to develop Performance Improvement Plans. In particular to MOH and MOES.

PROJECT PROGRESS

3.1 Work Plan

The Inception Report included the Consultants detailed Work Plan.

The Work Plan divided the TA period into seven main stages as follows:

Stage	Period	Description/Activities
1	1-29 March 04	Mobilisation, review GRP progress, IR.
2A	29 March – 26 April 04	Capacity building, detailed review of previous TAs and review of progress against integration of reform cornerstone activities
2B	19 April – 4 June 04	Capacity building/mandate review/ review of existing PIs (where developed). Leadership/ management training/
3	7 June – 11 July 04	Review progress re PIF + identify additional mechanisms
4	12 July – 13 Aug. 04	Capacity Building in designing high level PI's etc coaching of CUs.
5A	16 Aug. – 24 Sept. 04	Design and preparation of pilot PBMS in MOAC
5B	27 Sept. 04 – 11 March 05	Coaching + support to implement pilots
6	14 March – 29 April 05	Refinement + extension of pilot schemes
7	May 05	Project completion + Final Report

More detailed work plans against specific targets were developed for each stage.

As can be seen from the Work Plan, Stages 2 and 3, covering the period April – Mid July 2004 were primarily directed towards establishing a firm understanding of the reform "cornerstones" and "building blocks" essential for the establishment of a sustainable PBMS, and determining what could be achieved in the absence of all 'building blocks'.

Stages 4 and 5A were directed towards establishing an outline PBMS in Pilot Districts in target ministries (especially focusing on MOAC as required under T2 conditions). Stage 5B related to implementing, coaching and consolidating the process established under stages 4 and 5A. Stage 5 also identified how to deepen the necessary reforms and provides coaching in options and implementation.

Stage 6 envisaged review and extending the pilot process, as appropriate, whilst stage 7 covered project completion and submission of the final report including recommendations for expediting further reform measures after completion of TA 4249.

The Work plan further provided for the International Consultant's 6 months of input over the 15 month contract period to be spread over three periods, rather than the

two periods of 4 and 2 months as contracted, to better support the Local Consultant and to provide a more regular balanced input into the project.

It should also be noted that having reviewed the ToR and realised the magnitude of the task facing the two contracted consultants, particularly in a scenario whereby the Team Leader was only provided with 6 months input over a 15 month contract period, Yeoman Ward International, at the request of the Team Leader, elected to field an additional International Consultant **at their own cost** to support the contracted team throughout the entire 6 months of International Input.

3.2 Actual versus Planned Progress

Actual progress achieved against planned progress is shown against the original Work plan and the Revised Work plan for Stages 5B, 6 and 7, in Appendix 1.

Notwithstanding the various constraints which have impinged on the Consultants progress, as detailed in Section 3.3 below, **the Consultants have been able to achieve some 80% of targeted activities.**

An analysis of slippages indicates that significant slippages occurred during the stages when a single Consultant was on the ground, unsupported by the Team Leader; these slippages were generally recovered and the programme brought back on target when the full, enhanced team was on the ground.

It is also evident that the largest slippage occurred in the first half of 2005, when major political changes and a declining security situation resulted in a significant loss of inertia within the pilot Ministries at a critical time when the first PBMS model was to have been trialed in MOAC and models in MOH and MOES consolidated. It also meant that only limited field visits could be undertaken within MOAC and that the selection of MOES and MOH Districts (and therefore pilot studies) was significantly delayed further curbing progress in these two latter Ministries.

This situation was further compounded by the decision not to endorse the Consultants proposals, as set out in the Mid-Term Report, for additional input across this critical period. This then left the Local Consultant isolated and unsupported throughout the final crucial 7 months of the 15 months contract period.

The analysis of slippages further confirms the Consultants contention that a more balanced distribution of International and Domestic Consultants inputs would have benefited the TA and further that the magnitude of the tasks involved in endeavouring to develop PBMS across three pilot Ministries in parallel exceeded the capacity of a single Consultant, notwithstanding other constraints imposed on the TA.

3.3 Impediments to Progress

The following factors have, to varying degrees, impacted on the Consultants progress under the TA:

Institutional Issues

- Political and social instability and, in consequence, senior officers (understandably) more concerned with their political survival and security issues than reform;
- An inherently ineffective Government reform implementation structure, which places a line ministry (MOGA), itself the subject of reform, as the reform facilitator

and administrator (GRCU). This has put GRCU and particularly the Joint Secretary in the difficult position of trying to enforce reform activities in other Ministries from within a Ministry which is itself the target of reform. It has resulted, here- and elsewhere- in limiting both the capacity to facilitate reform and the capacity to manage reforms within MOGA.

- Lack of timely decisions on the Consultants recommendations;
- Lack of endorsement of either office- based time so the International Consultants could better support the Local Consultant, or approval for two months additional time;
- The absence of any full-time staff in any Change Unit;
- Lack of any incentives for often enthusiastic, part-time staff to tackle the sometimes onerous tasks associated with reform and setting up PBMS in particular;
- Regular changes of key players and senior management and consequential loss of institutional memory regarding reform in general and PBMS in particular;
- Lack of clarification of the role of Counterparts (MOAC) relative to the role of the Change Unit;
- The infrequency of the meetings of the ARC- and therefore the lack of regular involvement of senior decision Makers in the reform process;
- The Efficiency Unit in the Ministry of Finance appears to meet infrequently and there was no real participation from the Ministry in either Workshops or activities. Planning by the Ministry of Finance, for funding of the Performance Improvement Fund, is still at an early stage since it has not been a priority within the Ministry. The new Joint Secretary, appointed in August 2005 is not yet fully aware of the project.

Reform Issues

- The absence of any real reform to date, notably "rightsizing" within the target ministries and the lack of development of organisational structures clearly linked to essential functions and to the mandate of the Ministry;
- In consequence the lack of a firm change culture or structure in place to realistically permit the introduction of sustainable Performance Based Management Systems in the pilot ministries;
- In the absence of significant restructuring, substantial "efficiency gains" are not possible and hence funds are not currently available to support an incentive based PBMS.

TA Structure

- An unbalanced TA structure which provided for the Team Leader 6 months input over a 15 month period, leaving the Local Consultant to work alone and unsupported for considerable periods of the TA (it should be noted that the original ADB Report of November 2001 envisaged a much more balanced TA with 10m/m of international consultants input and 12 m/m of domestic consultants input);

- The lack of provision of office based time for the Team Leader to supervise and support the Local Consultant- resulting in some technical deviations from plan and processes, which could have been avoided if additional time for the Team Leader had been provided as agreed;
- The allocation of all non- fee budget items to the Local Consultant, undermining the capacity of the Team Leader to control budget, priorities or invoicing, (notwithstanding the professional integrity of the Local Consultant).

PROJECT ACHIEVEMENTS - OVERVIEW

4.1 Overview

Notwithstanding the often-frustrating constraints that have challenged the TA, most **broad** components of the TOR have been completed or are in process. In particular:

- increased understanding of the overall reform process at senior levels within Government;
- specification or refinement of Mandates for pilot Ministries;
- review of functions necessary to meet mandate;
- facilitation of establishment of performance indicators for selected functions;
- establishment of a framework for a Performance Improvement Fund to focus on skills development, business processes and necessary equipment to achieve specified targets in pilot Ministries commencing FY 2004/05 and continuing 2005/06 and 2006/2007 initially targeting MOAC;
- facilitation of provision of (limited) funding for the commencement of a Performance Improvement plan;
- agreement on establishment of a Performance Incentive Fund (to recognise excellent or poor performance and apply incentives accordingly) for introduction at a later stage, once Ministries are able to generate savings from improved efficiency;
- establishment of two pilot schemes in the Ministry of Agriculture and Cooperatives; identification of suitable pilot districts in Health, and Education and Sports and development of frameworks for pilot projects;
- development of performance targets and plans the Ministries of Health, and Agriculture and Cooperatives, to varying degrees of completeness, based on the interest of the Ministry and the availability and willingness of Change Units to apply themselves consistently throughout the project period;
- provision of ongoing and extensive coaching and technical training to counterparts in the Ministry of Agriculture and Cooperatives, at both central level and within the pilot districts of Kavre and Bara;
- provision of on going- but less intensive- support to the Ministry of Education and Sports particularly focused on coaching, planning, organisational review to prepare for the introduction of performance based management. The Change Unit within this Ministry however was at a much earlier stage of conceptualising the process and were also less able to continue work in the absence of the Consultants due to competing demands;
- briefing of the Office of Prime Minister; briefings for the Chief Secretary, as well as with the GRCU coordinator on a regular basis; and assisting in drafting press releases for HMG and the Office of the Prime Minister in relation to the reform process and PBMS in particular;

- re-invigorating the CUs in MOH, MOES and MOAC- most especially MOAC;
- establishment of semi-permanent counterpart staff in MOAC (in addition to the CU);
- review of PBMS options and agreement on a model PBMS for the pilot districts of Kavre and Bara in MOAC;
- assisting with the review of Tranche 2 Conditionalities, including preparation of a detailed paper for ADB;
- continued formal and informal training and day to day capacity building including combined workshops for Senior staff and Change Unit Members in all pilot Ministries, especially on practical requirements to link all aspects of the reform process;
- agreement with MOF on the establishment of a 3 year rolling plan framework and its introduction to MOAC. This is a fundamental component of an effective PBMS but it requires that both the Ministry of Finance and the line Ministries change the concept and manner of budget preparation. It still requires further endorsement and support from the Ministry of Finance and the National Planning Commission if progress is to be sustainable.

4.2 Briefing Papers

With increasing enthusiasm for the PBMS process within the target Ministries and a real sense of progress emanating from the enthusiasm and drive within MOAC towards implementing a pilot Performance Improvement scheme, the Consultants issued a number of briefing papers to keep the Prime Minister, Chief Secretary and senior management abreast of developments and, also to provide Secretaries with the necessary background information to secure endorsement of models and approaches to the pilot PBMS. These and other practical notes for individual Ministries are available from the CUs.

Several Key Papers were reproduced in the Mid-term report. These included:

- Working Paper on the Establishment of a Performance Improvement Fund;
- Key Issues in the establishment of a Pilot Performance Based Management System and;
- Options for the introduction of a Performance Based Management System within the Ministry of Agriculture and Cooperatives;
- Other short papers and background on technical issues arising have been prepared as required;
- Overview of progress toward achieving Tranche 2 Conditionalities.

4.3 Capacity Building Workshops

As the process has rolled out, the Consultants conducted an increasing number of targeted, customised workshops to ensure that all involved parties developed an understanding of the technical complexities of PBMS and, as importantly, to ensure the active participation and endorsement of the key players.

These included:

- A two day training workshop on GRP, function based reform and prerequisites for performance based management (Godovari, April 2004);

- Ongoing capacity building for MOAC counterparts;
- Multiple workshops at all levels and a follow-up presentation workshop to senior staff in MOAC, initially to describe options for PBMS and their implications to senior MOAC personnel, and then to present the PBMS model endorsed by senior staff and steps toward implementation;
- A second cross-ministry Capacity Building Workshop for GRCU, EU and all target ministries to compare and discuss development. Each Ministry presented a progress report and overall progress was reviewed by the TA Team. This was chaired by the Chief Secretary and attended by all target Ministry Secretaries and Joint Secretaries (October, 2004)
- Focal Group Workshop for MoH: December 2004;
- Capacity building and review of progress and issues in MOH which resulted in a direct request for additional TA support to assist the Ministry to develop a pilot PBMS in selected districts;
- Workshop on Performance Based Management and planning for performance production and productivity indicators: Bara, August 2004;
- Workshops on Performance Based Management and planning for performance production and productivity indicators: Kavre, September 2004: August 2005
- Review of performance Indicators, Kavre January 2005;
- Progress Review Workshop for senior Staff MOAC: January 2005;
- Focal Group discussions on 3YRP preparation: March/May 2005 Kavre: April 2005 Bara;
- MOH Task Force Review; Dec. 2005;
- Workshop on developing Performance Indicators with Sub- Health staff, Biratnagar Jan 2005;
- Workshop with Sub- Health staff: Chitwan March 2005;
- Review of performance Indicators with MOH staff May 2005;
- Ongoing facilitation with MOES, MOH and MOAC.

4.5 Counterparts

The Ministry of General Administration is the key liaison point for TA 4249. The TA team had office space allocated within MOGA and had very frequent dialogue and good relationships with the Joint Secretary and Secretary. Three issues continued to be of concern throughout the Project:

- The MOGA counterpart allocated to the TA Team during the initial phase of the project was transferred from MOGA after 3 months and despite requests from the TA team, including identification of a suitable candidate, was never replaced. Valuable opportunities for capacity building have therefore been lost;
- Changes of Secretary in MOGA, MOH and MOAC during the course of the project have meant that additional time in briefing and capacity building for PBM was required;

- 'Full time' MOH counterparts were only established in the last 5 months of the project but even then, they needed to deal with over operational tasks outside the GRP;
- In MOAC it is likely that the involvement of the two Counterparts, who have worked with the Team throughout the process, will cease now TA4249 is completed. The key focus of the TA is capacity building. The MOAC work plan for a PBMS can only be implemented successfully if the current counterparts continue. It is too late in the process for replacements at this critical stage of development.

4.6 Coordination with Other Projects

The TA team initiated contact with donors undertaking projects, which may have an impact on TA 4249 and GRP generally. In particular, they worked closely with staff involved with the DFID supported Agriculture Perspective Plan support programme who, it was anticipated, with the agreement of DFID staff, could play an important role in observing pilot programmes under this TA possibly using 'lessons learned' to replicate PBMS at district level following the TA pilot assessment. Largely due to the lack of capacity for extensive fieldwork due to slow of progress in MOH and especially MOES, as well as security, this did not eventuate.

Similarly the TA Team were involved in the plenary meeting with MOH and the World Bank to finalise the Health Sector Development Project, funded under a World Bank consortium. This project is directed toward improved capacity and productivity and will include Functional Analysis, Job Analysis, Staffing Analysis, Skill Needs Analysis, Training and Leadership and Management Development. This project is unlikely to commence before late 2005 but it is essential that it is coordinated with GRP efforts in Health.

In MOES, considerable donor input has been allocated to the establishment of a Teachers Management Information System. This will eventually be of use in monitoring performance and so is indirectly linked to the current project. Observations and several meetings indicated that the TMIS is continuing to develop very successfully.

4.7 Tranche 2 and Tranche 3 Conditionalities

The ToR for TA 4249 requires that the Consultants work with the Ministries to achieve Component 5 of the Tranche 2 Loan Conditionalities. The objective of this component is: To deliver better services to citizens by reinforcing a new public management culture and work processes that are related to performance-based management. The TA Team have used a process based methodology and ongoing coaching and training to facilitate the achievement of this objective. In addition the four sub objectives and indicators under Component 5 have been met or partially met.

The TA team have also assisted in the fulfilment of the key Tranche 3 Conditionality which is relevant to this TA. As per Tranche 3 conditions, MOAC is required to implement a 3 Year Rolling Plan from FY 2005/06. The Ministry has endorsed a framework for preparation of the Plans, developed by the Team and both the CU and District Officers have been coached in further development of the Plan and preparation of budget requirements. The 3YRP Framework has provision for the inclusion of Performance Improvement Requirements to be funded under the Performance Improvement Fund.

The Mid Term Report and a separate document ' Brief Overview on Progress toward Tranche 2 Conditionalities, provide briefing notes on the status of fulfilment of Tranche 2 Conditionalities as at September 2004.

Only moderate progress toward fulfilling Conditionalities has occurred since then. However, the Local Consultant has continued to work with MOAC on the relevant Tranche 3 Conditionality during the last 7 months.

4.8 Performance Improvement and Performance Incentive Funds (PIF)

The concept of a PIF as described in the **ADB RRP: NEP 32238 GRP Report and Recommendation on a proposed loan for the governance Reform Program** is as follows:

"A Performance Improvement Fund, to be used for skills development, improved business processes, engaging specialist staff and purchase of needed equipment such as computers."

The fund was to be provided to Ministries that introduce performance improvement plans, as proposed in the Loan Document.

Such a Performance *Improvement* Fund does *not* provide incentives based upon individual performance achievements. It provides funds for special inputs which will *assist in achieving outputs* as agreed in the Performance Improvement Plan or 3 Year Rolling Plan.

A Performance *Incentive* Fund provides financial or non-financial rewards for achievement of targets, *not* support to achieve the targets.

The concept of a Performance *Improvement* Fund is therefore very different to a Performance *Incentive* Fund.

Appendix 2 describes in more detail, the concept for and requirements necessary for the introduction of a small scale Performance Improvement Scheme. The introduction of a Performance Improvement Fund requires a different starting point to an Incentive Fund, and can be introduced into selective service delivery units *whilst the preconditions for a PBMS and Incentive scheme are being addressed*.

MOF have allocated 'PIF Funds' for the year FY2004/2005. However, these are being used to facilitate the general 'work' of the CUs, and are not specifically directed toward implementation of a Performance. In MOES, for example, funds have been allocated to facilitate development of the EMIS and most of the total budget has been spent on computers and equipment.

Current Allocations (2004/5) are as follows:

MOES:	Rs. 3.5 million
MOAC:	Rs. 1.5 million
MOH:	Rs. 2 million
EU:	Rs. 2 million
GRCU:	Rs. 1 million
Others	Rs. 1 million
Total	Rs. 11 million

Funding of an Improvement Fund at present cannot therefore come from the allocated PIF funds which are required for CU activities.

Funding therefore will have to come from MOF allocation against approved Improvement Plans.

In terms of progress toward the establishment of priorities for the introduction of an Incentive Fund based on rolling plans, only the pilot districts within MOAC are close to a position of implementation. Establishment of PIF funding mechanisms has been slow-largely due to competing demands in MOF.

A mechanism will have to be developed using the resources of the GRCU to continue working with MoF to enable further development and ensure budget allocation- or the progress made in MOAC will halt through lack of funding.

At present it is not possible to specify exact budget requirements for the introduction of a Performance Improvement Fund in all pilot Ministries. The budget must be clearly based on the Key Inputs identified to assist to meet Performance Indicators, based on clear, measurable Three Year Rolling Plans. Appendix 3 contains an overview of the 3YRP guidelines which have been presented and discussed during workshops and which have been suggested as the framework for introduction of the 3YRP concept to all Ministries over time.

ACHIEVEMENTS WITHIN PILOT MINISTRIES

5.1 MOGA:

This Ministry has overall responsibility for coordinating the GRP and implementing the Governance Reform Policy Matrix and has prepared a road map of reform programs. It is pursuing the reform programs through CU, ARC and ARCMC meetings. Greater coordination with CUs by MOGA would, however, ensure that 'lessons learned' are transmitted between GRCU and line ministries.

There is currently no overall Masterplan to govern the reform process and the Policy Matrix does not suffice for widespread and longer term planning and cohesion. In preparation for development of a Master Plan, however, a thorough and candid review of progress to date is needed, including identification of outstanding activities which, for Tranche 2 and 3 purposes, may be considered 'complete' but where, in fact, the real groundwork is still insufficient to support effective reform.

5.2 MOF:

MOF has indicated it is committed to introducing an output based budgeting system. It understands the urgent requirement to link Ministry performance indicators with budgeting and performance monitoring. MOF has allocated a budget for Change Unit activities in three line ministries as well as for activities in MOGA/GRCU and the MOF Efficiency Unit. The budgeted activities are not related to an overall change management plan for each Ministry, however, and until rigorous plans for efficiency improvement are in place, the individual inputs will have limited effect.

Output based budgeting, within the 3 year rolling plan framework is essential to performance improvement. MOF are committed to this concept. However, until there are measurable performance indicators within each Ministry, output based budgeting is not possible.

5.3 MOH:

The installation of a national HMIS to monitor performance and staffing at service delivery level; the requirement for monthly and quarterly reports against service delivery targets; and the linking of non-performance- including non-submission of reports- to withholding of budget and individual salaries, have been significant achievements. Reporting under the HMIS is carefully monitored and release of salary is contingent upon submission of monthly reports but it does not seem that there are yet rewards for achievement of targets. Decentralisation activities are taking place in the Ministry. Sub-health posts are being handed over to VDCs. A Health sector reform strategy paper has been prepared and is now being implemented but the CU does not seem to have a role in its implementation. The MOH has also set up an Organisational Review Committee (ORC) to both review organisational structure against functions and to ensure the establishment of a high level CU on a full time basis. During the last 8 months considerable progress has been made and linked to ongoing activities in MOH. Most particularly:

- An outline PBMS model has been developed;
- Three districts, Chitwan, Mustang and Morung have been selected for piloting the model (after review due to security constraints);
- Individual PI's have been developed for selected staff at Sub Health Posts and discussed and agreed in workshops with affected staff;
- Review and assistance has been provided with prioritising of District Performance Indicators developed by the CU;
- Pilot rollout is targeted for early 2006.

5.3 MOAC:

Three Agriculture districts offices (Kavre, Bara and Solukhumbu²) have been selected for identifying service standards and implementing a performance based management system. Pilot schemes have been designed in conjunction with 2 districts and performance indicators based on production and productivity targets have been developed and submitted to the Joint Secretary for approval. Both the Livestock and the Agriculture Divisions in Kavre and Bara have made considerable progress. In particular:

- Four performance based models have been developed for MOAC and the most appropriate model further developed and approved by the Secretary, MOAC;
- Performance indicators, linked to the 10th Development Plan, have been developed for key commodities at service delivery level and result level;
- A format for data collection and farmer's evaluation of MOAC input at district level has been designed and approved;
- Key input areas for funding under the Performance Improvement Fund during Pre-Pilot phase and piloting period have been identified;
- Draft Three Year Rolling Plans (3YRP) have been developed by two districts for FY 2006/2008 and submitted for approval although, as noted elsewhere, these are not yet in the comprehensive format required for effective PBMS or PIF funding and additional training is clearly required;
- A limited "pre-pilot performance monitoring and performance improvement" phase was trialled in Kavre and Bara in the last quarter of FY 2004/2005;
- Full rollout of the PBMS model is now targeted for January/February 2006.

5.5 MOES:

Strengthening of a Teachers Management Information System in the Ministry is being undertaken as part of the Policy Matrix and Software is being developed. This will pave the way for more rigorous identification of Ghost Workers as well as providing a platform for the introduction of better teacher performance monitoring and reporting. Considerable effort has been invested in organisation review and review of staffing requirements, Progress has been slow, in part because many of the CU and planning staff have been allocated to other important activities. This has changed to some

² No pilots were able to be established in this District due to security problems- as advised by the Secretary MOAC.

degree in the last few months with efforts from the Consultant being directed more toward MOH and MOES activities have focused on:

- Continued efforts to engender enthusiasm; however, momentum was difficult to sustain and progress slow;
- Selection of a pilot District (Kathmandu District Office KDEO);
- Coaching on the requirement to link key planning tools (10th Plan; Education for all) with District Performance indicators and Targets;
- Assistance to a newly constituted Task Force to develop their role and to support the KDEO with a basic functional Analysis in preparation for determining priorities and Performance Indicators.

5.6 Additional Ministries:

Two more Change Units were created: in the Ministry of Local Development and Ministry of Land Reform and Management. The Joint Secretary of MOGA requested that these two Ministries were also involved in training under the T.A. whilst dedicated input was not possible, given the shortness of the TA; both Ministries were participants in cross-ministry training workshops.

LESSONS LEARNED

6.1 Overview

Table 6.1 provides a summary of the key observations and recommendations made in earlier reports for ease of reference:

Table 6.1
Summary of Key Observations and Recommendations

Report/Paper	Issue	Observation/Recommendation	Comment
Inception Report-review of TA 3622	Management of Reform Process	<ul style="list-style-type: none"> • RMU's need clear mandates • RMU's must be led by most senior personnel • A clear, prioritised implementation strategy is required • To effectively implement PIPs some basis fundamentals of function based organisations and strategies should be in place 	Not clear On paper, but part time No "Master plan" Not in place
Inception Report-review of TA 3622	Improve Efficiency of Civil Service	<ul style="list-style-type: none"> • A focused implementation plan should be developed; activities should be prioritised 	Not developed
Inception Report-review of TA 3622	Enhance Competence of Staff	<ul style="list-style-type: none"> • A clear ordered priority based implementation strategy is required • Proposals must be practical • Additional training required 	No "Master plan" in place On the job training
Inception Report-review of TA 3622	Performance Improvement Programme	<ul style="list-style-type: none"> • Essential key staff be trained and retained with appropriate incentive package/contract 	Not in place-staff still part-time
Inception Report	Additional Consultants Input	<ul style="list-style-type: none"> • Restructuring of International Consultants input proposed • Need for additional IC input highlighted 	Approved April 2004 Not approved
Progress Report No1	Difficulty of lone Local Consultant maintaining impetus	<ul style="list-style-type: none"> • Requirement for a more balanced input into TA to better support local Consultant and to cover additional tasks required to remedy shortfalls in earlier TA's 	Not approved
Progress Report No1	Lack of Commitment by Pilot Ministries	<ul style="list-style-type: none"> • Need for high level leadership "by example" • Need for full-time CU staff 	Limited improvements Not implemented
Mid Term Report	Absence of full time staff in CUs	<ul style="list-style-type: none"> • Full time staff essential; MOGA must support requests from CU's 	Not implemented
Mid Term Report	Lack of incentives for CU staff	<ul style="list-style-type: none"> • GRP to provide incentives-travel budget and equipment initially 	No provision

Mid Term Report	Lack of MOGA counterpart	<ul style="list-style-type: none"> Appoint counterparts (at outset of TA) 	Implemented, but counterpart left
Mid Term Report	TA Structure	<ul style="list-style-type: none"> Need for more balanced structure to better support Local Consultant 	Not approved
Mid Term Report	Additional Consultants input	<ul style="list-style-type: none"> Proposal for additional 2 months IC input to cover critical start-up of PBMS in MOAC 	Not approved by MOGA Secretary
Progress Report No2	As Progress Report No1+increased bureaucratic delays	<ul style="list-style-type: none"> As per issues raised in earlier reports With change of Government, lone Local Consultant had to devote considerable time to assisting HMG process required approvals etc. 	Not implemented

Note: RMU = Reform Management Unit and includes GRCU/EU and CU's as implementing units.

From the above summary it is clear that there are a number of key issues which have recurred throughout the project and have not, to date, been adequately addressed. These are detailed in the following Sub-Sections.

6.2 Observations on Government Reform Process and Structure

As can be seen from Table 6.1 the following issues have been raised at various stages throughout the TA:

- There is no clear overall time bound, "Master plan" to guide the reform process (a similar observation was made by TA 3622 in their Draft Final Report);
- Reform activities are not prioritised and do not follow in a logical coordinated manner; in consequence activities such as PBMS are being initiated before crucial preceding steps i.e. "rightsizing" have been properly completed;
- With some notable exceptions, there remains a lack of serious commitment to the reform process at the highest levels;
- With the exception of a brief period in MOAC, there are no full-time staff at any level of the Reform implementation structures;
- No realistic incentives are available to encourage CU staff to tackle what are, at times, extremely onerous and unpopular tasks;
- Regular staff changes continue to disrupt capacity building and training efforts;
- Apart from a brief initial period, there has been no MOGA counterpart available to the Consultants;

6.3 Observations on Structure and Terms of Reference for TA 4249

The following issues can be seen to have been raised as concerns from the outset of the TA:

- The ToR for TA 4249-NEP were drafted on the premise that previous TA's had "set the scene" for the introduction of PBMS; this was found to be not the case and considerable initial efforts had to be directed towards remedying this situation to the degree possible;

- The TA structure which provided for 15 months of Domestic Consultants input and only 6 Months of International Consultants (and Team Leader) input over the 15 month period, was grossly unbalanced;
- This imbalance left the Local Consultant to work alone and unsupported for extended periods of time-and the Team Leader with little or no control over 60% of the Consultants activities!
- The Consultants gave notice at the outset that additional input would be required if the ToR objectives were to be fully achieved. In particular, the Mid Term Report included a formal proposal for an additional 2 months input for the Team Leader to oversee the critical start-up of the PBMS model in MOAC and to better support the Local Consultant during this crucial period;
- This request was rejected, to the considerable detriment of the Project, as is evident from a review of actual progress achieved against planned activities during the latter part of the TA.

Recommendations to address these observations are contained in Section 7.

SUMMARY OF KEY RECOMMENDATIONS FOR CONTINUED PROJECT PROGRESS

7.1 Recommendations for the Way Forward

It is essential to the success of the overall GRP that the many lessons from GRP 1 be taken on board by all parties and both the implementation process and structure be critically reviewed to better prepare them for the challenges ahead under GRP 2 and beyond. In particular it is recommended that:

The Reform Process

- *The process must be visibly driven from the highest levels of Government;*
- *The Master Plan should be made public to enable the public to understand Governments objectives, to contribute to the same and to monitor Governments achievements against the Master Plan;*
- *There must be a clear time bound reform Master plan addition to the Policy Matrix*
- *Steps in the reform process must follow logically and linearly. A sustainable PBMS cannot be effectively introduced until preceding steps have been properly completed.*

Implementing Structures

- *A new independent high level reform implementation unit (RIU) should be established within the Office of the Prime Minister. Its mandate should be to supervise the development and implementation of the Master Plan;*
- *The Head of the Unit should have clear authority to act across all Ministries;*
- *All RIU staff should be full-time personnel engaged under a clear performance contract, linked to the Reform Master plan targets and independent of line Ministry functions for the duration of the primary reform process and, it is suggested, funded directly by the supporting Donors to help promote the independence of RIU staff;*
- *Remuneration and bonuses for RIU staff should reflect the difficult and often unpopular nature of their tasks;*
- *Change Unit staff must be full time on reform and restructuring activities which are occurring within their Ministries. They should report regularly to the RIU as well as within their own Ministries;*
- *Mechanisms for coordinating reforms across Ministries, including the more widespread introduction of a PBMS must be introduced under the direction of the RIU;*
- *One or two International External Advisors should be appointed to assist the RIU, and to provide technical oversight of reform design and implementation;*

- *There should be a full review of the implementation of GRP1 before the commencement of GRP2 and funding for and implementation of GRP2 should not commence until the basics as above are in place.*

TA and Consultants Contracts

- *The RIU, in consultation with the Donors, should supervise the hiring of Consultants for the reform process as they deem necessary and in accordance with the reform Master plan. The emphasis must be on the hiring of very experienced, practical reform specialists who can apply lessons learned elsewhere;*
- *TA structures should reflect the specialised and sensitive nature of such consultancies as well as the lengthy time required for achieving consensus and change.*
- *The obstacles placed in the way of isolated local consultants undertaking such reform work alone must be recognised in TA design;*
- *The current suggestion to extend TA 4249 and hire 1 or 2 new local consultants operating without International support should be reviewed. The suggestion of using the two MOAC counterparts, who have already been trained by the current consultants, should be considered as an alternative. This would also go some way to compensate them for their considerable, largely unrecognised, input to the development of the MOAC Model and act as an incentive to others.*

Performance Based Management Systems

- *All of the above recommendations impact on the capacity to implement a PBMS! In addition the following recommendations apply:*
- *There is a need for a performance based culture to be embedded in the revised Reform structure from the outset, by way of performance contracts for all staff clearly linked to the Master Plan outputs, with suitable bonuses for achieving or bettering targets and corresponding penalties for underperformance.*
- *Full-time staffing with suitable remuneration and incentives for Change Units, or similar, is essential if real progress is to be achieved;*
- *Recognition that 3YRPs form the basis of an effective Performance Based Management System;*
- *Continued pressure must be applied to pilot Districts to complete comprehensive Rolling Plans, which include all output requirements as well as Performance Indicators. Improvement Funds should not be allocated until these steps have been satisfactorily completed;*
- *Effective monitoring and evaluation systems for the PBMS models must be developed and implemented;*
- *The initial Performance Improvement Fund must flow into a Performance Incentive Fund as soon as satisfactory performance has been established – by effective monitoring and evaluation and preferably within 3-4 years;*
- *As soon as the pilots have been satisfactorily trialled, the model should be progressively extended to other districts.*

Finally, whilst the above recommendations are those of the Consultants and represent their professional views, it is most encouraging to note that many of the recommendations are broadly consistent with the views of the current Secretary, MOGA as expressed at the final Wrap up meeting in September 2005.

In particular there is a strong consensus that the reform process must be seen to be driven and lead by the very highest levels of HMG and further, that now is the time to conduct a thorough review of performance to date as outlined in this Final Report.

The Consultants firmly believe that if implemented the above recommendations could pave the way for a new era of Government reform in Nepal.

CONCLUSIONS

Notwithstanding the various constraints that have challenged the TA, the Consultants have achieved some 80% of the original Work plan activities.

A PBMS model has been developed in MOAC and partly trialed in the two pilot districts of Kavre and Bara. Three Year Rolling Plans have been developed for these districts and submitted to the ministry for approval and full roll-out is now targeted for early 2006. However, there remains a need for ongoing training and supervision in the preparation of simple, measurable, time bound 3YRPs.

In MOH a PBMS model is under development and is expected to start trials in three pilot districts of Chitwan, Mustang and Morung in early 2006. In MOES Kathmandu District Education Office has been selected as the pilot district and an initial functional analysis conducted and preliminary indicators are under development.

However whilst these models have been developed as required by the ToR, the fundamental "building blocks" essential for the successful introduction of a sustainable PBMS are still not in place.

There is an urgent need to critically review the overall GRP process and implementation structures. A new comprehensive time bound Master plan should be developed to guide the process and all new Reform Units should have performance contracts linked to clear measurable outputs under the Master plan.

In developing the Master plan, it is essential that the process be revisited and that the fundamental pillars of the reform process be properly established before introducing widespread PBMS models. There are no simple short-cuts in a reform process and each step must follow in a logical, linear manner if the desired result of a more efficient, responsive Civil Service is to be achieved. Refinements, such as PBMS, cannot be successfully introduced until the "basics" have been completed.



WORKPLAN AND CONSULTANTS' ACTIVITY SCHEDULE

Actual v Planned Progress

March - September 2004

Table 1

STAGE/ DESCRIPTION	TASKS	RESPONSIBLE CONSULTANT	2004 MONTH (Month 1 = March 2004)												2005 MONTH						STAGE OUTPUTS	COMMENTS					
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18							
STAGE 1: Mobilisation, review of GRP and overview of GRP progress in MOGA, MOF, MOES, MOAC, GRCU and EU agree priorities and complete Inception Report		ALL																									Stage 1 completed on schedule
	1.1) Mobilisation	ALL																									
	1.2) Review progress with Ministries & review previous TA	ALL																									Completed & Incu-BY33ided in Inception Report
	1.3) Plenary meetings on issues and approaches	ALL																									* Inception Report as per Approved Work Plan MOGA/ADB
1.4) Complete Inception Report	ALL																										

 Planned activities
 Actual activities

WORKPLAN AND CONSULTANTS' ACTIVITY SCHEDULE

Actual v Planned Progress

March - September 2004

STAGE/ DESCRIPTION	TASKS	RESPONSIBLE CONSULTANT	2004												2005						STAGE OUTPUTS	COMMENTS																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
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WORKPLAN AND CONSULTANTS' ACTIVITY SCHEDULE

Actual v Planned Progress

March - September 2004

STAGE/ DESCRIPTION	TASKS	RESPONSIBLE CONSULTANT	2004												2005						STAGE OUTPUTS	COMMENTS					
			MONTH (Month 1 = March 2004)												MONTH												
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18							
STAGE 2:																									1 month overrun on key stage 2 B activities		
Capacity Building and integration of reform cornerstone activities	Phase 2B	RS																								Business Plans completed and approved by secretary	Not fully completed
	2B.1) Coaching to produce integrated business plans for Ministries	RS																									
	2B.2) Coaching to produce draft performance indicators for high level functions	RS																								* High - level performance indicators linked to functions developed	Completed for MOAC under stage 4
	2B.3) Secretaries to endorse unit workplans	RS / LY																								* Unit workplans endorsed and implementation commence	Workplans prepared
	2B.4) Review Tranche 2 progress	RS / LY																								* Impediments to achieving conditionalities addressed	Completed
	2B.5) Progress Review all units	RS / LY																									

WORKPLAN AND CONSULTANTS' ACTIVITY SCHEDULE

Actual v Planned Progress
March - September 2004

STAGE/ DESCRIPTION	TASKS	RESPONSIBLE CONSULTANT	2004 MONTH (Month 1 = March 2004)												2005 MONTH						STAGE OUTPUTS	COMMENTS	
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18			
STAGE 3: Review progress with PIF and identification of additional mechanisms for recognising quality performance																						2-3 month slippage on stage 3 activities	
	3.1) Review mechanisms for administering PIF with MOF and MOGA	RS																					
	3.2) Identify initial cost savings and efficiency improvement mechanisms	RS																				* Identification of initial cost savings outline only.	
	3.3) Continue coaching units	RS																					* Ongoing coaching to units
																							Coaching ongoing
	3.4) Discuss establishment of PI against unit plans	RS/LY																					Concluded by Team Leader October 2005
Progress Report		LY / RS																					*Progress Report Submitted

WORKPLAN AND CONSULTANTS' ACTIVITY SCHEDULE

Actual v Planned Progress

March - September 2004

STAGE/ DESCRIPTION	TASKS	RESPONSIBLE CONSULTANT	2004												2005					STAGE OUTPUTS	COMMENTS		
			MONTH (Month 1 = March 2004)												MONTH								
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17			18	
STAGE 4: Capacity Building on designing high level performance indicators and management and monitoring mechanisms		ALL																					Stage 4 recovering slippage from stage 2B & 3
	4.1) Review progress/ Study tour requirements	ALL																					* On the job training ongoing Continues
	4.2) Implement on the job training	ALL																					* Performance bonus' reviewed Reviewed and replaced with Performance Improvement Programme
	4.3) Review work plans against performance indicators	ALL																					* Work Plans reviewed against PI's
	4.4) Workshop 2	ALL																					
	4.5) Agree on monitoring and regulatory functions	ALL																					* Monitoring and regulatory unit established See MOAC Work Programme
	4.6) Identify staff for monitoring and regulatory unit	ALL																					* Service contracts discussed Discussions ongoing- not concluded
	4.7) Coach staff	ALL																					*Study Tour requirements agreed Ongoing Process
	4.8) Review Performance bonus	ALL																					
4.9) Review concept of service contracts	ALL																						

Actual v Planned Progress

March - September 2004

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WORKPLAN AND CONSULTANTS' ACTIVITY SCHEDULE

Actual v Planned Progress

March - September 2004

STAGE/ DESCRIPTION	TASKS	RESPONSIBLE CONSULTANT	2004 MONTH (Month 1 = March 2004)												2005 MONTH					STAGE OUTPUTS	COMMENTS																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						
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WORKPLAN AND CONSULTANTS' ACTIVITY SCHEDULE

Actual v Planned Progress

March - September 2004

STAGE/ DESCRIPTION	TASKS	RESPONSIBLE CONSULTANT	2004												2005					STAGE OUTPUTS	COMMENTS				
			MONTH (Month 1 = March 2004)												MONTH										
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17			18			
STAGE 6: Refinement and extension of performance improvement management and monitoring systems and project review	6.1 Progress Review workshop	ALL																						* Operating pilot performance improvement management schemes and monitoring systems.	* See revised work plan for stages 5B - 7
Draft Final Report	6.2 Review requirement for additional pilot schemes																								
	6.3 Review achievements with pro-public																								
Draft Final Report		LY / RS																							* Draft Final Report

Table 2

Revised Work Plan: Stages 5B, 6 and 7 (October 2004- May 2005)

Stage/ Description	Tasks	Responsible Consultant	2004						2005			Comments/ Assumptions
			Sept. (7)	Oct. (8)	Nov. (9)	Dec. (10)	Jan. (11)	Feb. (12)	March (13)	April (14)	May (15)	
Stages 5B, 6 & 7	State 5B, 6 and 7					5B				6	7	Additional input from IC assumed.
	1- MOAC											Completed on schedule
	1.1 Present options + agree PBMS model with MOAC Secretary											Completed on schedule
	1.2 Review production/productivity data and determine PI's											Completed on schedule
	1.3 Send PI's to selected districts for confirmation/discussion											Completed on schedule
	1.4 Capacity building workshop and agree/discuss institutional and operation issues for model 4 - stage 1											Completed on schedule
	1.5 Agree 3 YR Plan format and M & E procedures /mechanisms with MOAC Department Heads											Concluded by International Consultant
	1.6 Agree new 3 YRP + budget formats with MOF and PIF funding arrangements											Concluded by International Consultant
	1.7 Revisit districts to: • finalise and agree PI's • develop/agree 3YRP's support + inputs • discuss/agree formats M & E input with DDC											<ul style="list-style-type: none"> • Visits delayed for security reasons. • 3 YRP's not completed fully. • Additional training required

Stage/ Description	Tasks	Responsible Consultant	2004					2005					Comments/ Assumptions
			Sept. (7)	Oct. (8)	Nov. (9)	Dec. (10)	Jan. (11)	Feb. (12)	March (13)	April (14)	May (15)		
	1.8 In conjunction with MOAC planning division final adjustment to 3 YRP's												Not completed
	1.9 Secretaries MOAC, MOGA and MOF to endorse final proposals and secure budget												Limited budget secured late for trial pre-pilot
	1.10 Establish and support PBMS monitoring and evaluation team within MOAC M & E Division												No action
	1.11 District to commence implementation of pre-pilot phase PBMS (Jan. – June 2004)												Very limited trial only
	1.12 Coach and support district implementation of pre-pilot phase												Ongoing support but for development of 3 YRP
	1.13 Pro-Public to disseminate information on PBMS model + support process												No action
	1.14 Review progress + implementation of pre-pilot phase												Deferred Aug 2005
	1.15 Based on review + lessons learned" during pre-pilot phase, districts to prepare up-dated 3YRP's + agree MOAC, MOGA, MOF + MOF to ensure timely release of funds + implement full pilot.												FY 2005/06 Pre-pilot Now scheduled to start Jan. 2006

Stage/ Description	Tasks	Responsible Consultant	2004				2005				Comments/ Assumptions		
			Sept. (7)	Oct. (8)	Nov. (9)	Dec. (10)	Jan. (11)	Feb. (12)	March (13)	April (14)		May (15)	
	2.11 In conjunction with district, develop 3 YRP's linked to PI's + individuals												Sept.-Oct. 2005
	2.12 Finalise funding mechanism												"
	2.13 Agree final proposals with Secretaries MOH, MOGA + MOF												December 2005
	2.14 Implement FY 2005/6, but only when funding is approved/ secured												→ FY 2006/07
	3 – MOES												
	3.1 Ongoing (intermittent) assistance to complete business plan												
	3.2 Review + strengthen functions/prepare SMART indicates												For Pilot Districts only
	3.3Coach in linking functions and organisational structure/ review revised organogram												Partly completed for pilot district
	3.4 Facilitate appointment of full-time CU staff												Not completed
	3.5 Determine value in introducing pilot PBMS (in view of extensive donor inputs already in place)												Not completed
	3.6 Facilitate use of EMIS to identify excess staff												Not completed
	3.7 Facilitate preparation/review of "right-sizing" plan												Not completed

Stage/ Description	Tasks	Responsible Consultant	2004					2005					Comments/ Assumptions
			Sept. (7)	Oct. (8)	Nov. (9)	Dec. (10)	Jan. (11)	Feb. (12)	March (13)	April (14)	May (15)		
	3.8 Facilitate /coach in preparation of an efficiency improvement plan based on "Right-sizing" plan												Not completed
	4. TA Capacity Building Reports												
	4.1 Second Capacity Building Workshop												
	4.2 Mid-Term Report												
	4.3 Progress Report												
	4.4 Draft Final Report												August 2005
	4.5 Final Report												August 2005
	4.6 Final Workshop												August 2005
	4.7 Office Based Support												Not approved

Contracted international consultant input (Note: Final visited deferred until August 2005 due to slow progress in 2005)

Proposed additional international consultant input = 1.75 person months (field) (Note: Not approved)

Proposed office-based support 3 days/month (total 14 days over 5 months) (Note: Not approved)

Planned activities

Actual Progress

Note: to be read in conjunction with detailed work programme for MOAC and MOH

Activities Required for Implementing a Performance Improvement and Incentive Scheme

The Introduction of a Performance Incentive Fund to targeted Ministries of HMGN (October 2004)

1. Background

The introduction of a Performance Incentive Fund is the fourth stage of a four-year reform programme, assisted by ADB, to support implementation of HMGN's Governance Reform Programme.

The three other phases were:

- Strengthening leadership at Cabinet and Secretarial level including the strengthening GRCU, EU and Change Management Units in three line Ministries - MOAC, MOH, MOES.
- Freeing up of financial resources, including undertaking a functional analysis, identifying core and non core functions, and reducing non core activities, reduction in Establishment posts and staff through contracting out to the private sector and through decentralisation, improved records management and revised pay policies.
- Development of leadership and management qualities of senior staff, recruit talented staff, enhance pay levels and reduce gender imbalance.

This fourth phase comprises:

- Injecting into pilot Ministries a robust but simple performance improvement process to assist them to provide better services, with an emphasis on continuous improvement rather than the achievement of arbitrary performance targets. Performance Incentive Funds will be established to reward Ministries that successfully improve performance, based on agreed criteria.

Each of the first three phases must be completed or nearly completed before a Performance Based Management Scheme can be introduced effectively.

Similarly a Performance Incentive Fund (PIF) can only be introduced once the desired performance is clear and measurable.

2. What is a Performance Base Management Scheme (PBMS)?

Performance Based management is the outcome of a series of 'rightsizing' activities to ensure that the organisation is best placed to fulfil agreed functions and to achieve agreed delivery targets. It ensures all efforts of the organisational at all levels are directed efficiently toward outputs. To do so requires the elimination of activities which do not contribute and the elimination of staff who are no longer necessary.

Performance Based Management is a continuous and cyclic process which will lead to gradual but significant improvement in the organisation toward achieving 'the best outputs (quality and quantity) for the least effort, in the most efficient manner.

Whilst performance improvements, including performance incentives can be implemented in isolated 'pockets' within a Ministry, this will not result in the widespread reforms proposed under the GRP.

3. What is a Performance Incentive Fund?

A Performance Incentive Fund is a fund developed to both motivate and reward performance. It can operate at the level of the whole ministry, individual departments and divisions, individuals – or all three levels. It must be clearly linked to performance targets and once introduced it must be sustainable. If lack of funds in years subsequent to its introduction result in its discontinuation, it is likely that performance will quickly drop off- often to levels below that prior to introduction of the fund.

It is NOT a substitute for ensuring that wage and salary levels are appropriate to job requirements. This must occur to ensure baseline performance requirements are met before an Incentive Fund is introduced.

International 'Lessons Learned' makes it quite clear that a Performance Improvement Fund will fail unless certain preconditions are first met. It is likely to act as a 'disincentive fund' and further reduce performance and morale, if established hastily, without first 'cleaning up' the organisation.

4. Pre-conditions for the Establishment of a Successful Performance Incentive Fund

A Performance Incentive fund can only function effectively once the groundwork for a performance based management system is completed. The following activities must be undertaken (If they are only completed to superficial degrees they will not support an effective PBMS):

- Mandate and service delivery functions are clear;
- Measurable service delivery performance indicators have been set for the overall Ministry, and linked to performance Indicators at all levels;
- A practical functional analysis is undertaken, based on service delivery *requirements* not based on existing functions!
- A new organisation structure has been approved, based on functions – not people;
- Non core functions are identified, stopped or contracted out;
- The size of the organisation has been significantly changed to reflect revised functions and the minimum staff needed to carry out each function;
- Unit, divisional, and individual Job Descriptions including measurable performance indicators have been developed, based on requirements, not on what people are used to doing each day;
- A job reclassification is undertaken, based on positions not people;

- Staff are appointed to new positions according to skill requirements rather than seniority only, and excess staff at all levels are identified;
- Plans for shedding excess staff are developed and implemented;
- A minimum of a three year rolling budget process is in place (One year is too small a period for changes in performance to be visible and sustainable);
- An output based budget system is introduced in MOF
- Timely release of Budget according to outputs, occurs; where budget requirements cannot be met, negotiation between the Ministry and MOF for reduced performance outputs, consistent with budget. There must be a clear match between budget and outputs;
- The establishment of effective monitoring and evaluation functions to monitor internal performance at all levels, particularly verification of baseline data and progress against targets;
- The establishment of information systems to manage personnel records, baseline and performance data;
- The regular involvement of customers in providing feedback on the appropriateness and effectiveness of service delivery.

Several other key activities must also be established:

- A workable Voluntary Retirement Scheme
- A formula and fund for calculating redundancy payments
- Changes to the Civil Service and other relevant acts to allow redundancies and also to allow incentives to be administered.
- Mechanisms to eliminate the premature transfer of staff before the minimum 2-year period except in extreme cases.
- Establishment of a robust procurement process to supervise contracted out activities.

Attachment 1 shows the linkages between the above activities. The implementation of the model described in Attachment 1 is necessary for the introduction of effective performance based management and an associated Performance Improvement Fund.

Unless the above processes and activities are completed thoroughly and practically any Performance Incentive Fund will be more harmful to performance improvement than helpful and will only cement existing practises.

5. Consequences of introducing a Performance Incentive scheme in the absence of establishing a sound basis for Performance Based Management

Lessons learned elsewhere through introducing a PIF in the absence of the necessary preconditions are costly:

- Inability to shed excess staff or functions due to lack of legal or political frameworks;

- Unclear or un-measurable performance Indicators resulting in difficulty in determining whether they have been met;
- Bloated organisation structures so that responsibilities for outputs are blurred;
- Measuring the 'wrong things'- *you get what you measure!*
- Lack of transparency such that the 'wrong' people are rewarded;
- Increased capacity for corruption;
- Budget less than required to meet performance indicators;
- Budget not released on time;
- Poor monitoring or lack of establishment of accurate baselines and, therefore, increased capacity to manipulate data;
- No money for VERs or other social safety nets, or lack of sustainability of such schemes, once introduced;
- No capacity to re-classify staff- so re-appointments made on seniority or favour, not on skill requirements;
- Recognition only given to senior staff, undermining the effort of willing junior /middle staff.

HMGN has the capacity to learn from the above lessons and to ensure that the building blocks for establishing a sound Performance Based Management System and associated Performance Incentive Fund are in place before commencing.

6. Progress toward Establishing the Pre-conditions for a PBMS and PIF

The Table below indicates very broadly, progress made to date. Whilst many of the activities have been achieved in part, in many case they have been undertaken in isolation or not to the meticulous degree required for introduction of a PBMS. Many of the preconditions will now have to be re-visited at more detailed levels and in an integrated manner to ensure that the above pre-conditions can be met.

Table 1
Preconditions for Establishing a PMBS and PIF:
Progress as of October 2004

Preconditions	M O G A	M O F	M O A C	M O E S	M O H
• Mandate and service delivery functions are clear	y	ip	y	ip	y
• Measurable service delivery performance indicators have been set for the overall Ministry	n	n	ip	ip	ip
• A practical, current, functional analysis is undertaken, based on service delivery requirements	n	n	ip	ip	ip
• A new organisation structure has been approved, based on functions	y	n	n	y	y
• Non core functions or functions are identified, stopped or contracted out	n	n	n	n	n
• The size of the organisation has been significantly changed to reflect functions and minimum staff needed to carry out each function.	n	n	n	n	n

• Unit and divisional Job descriptions including measurable performance indicators have been developed, based on requirements, not on what people are used to doing each day	n	n	n	n	n
• A job reclassification based on positions not people has been undertaken and implemented	n	n	n	n	n
• Staff are appointed to new positions according to skill requirements rather than seniority only, and excess staff at all levels have been identified	n	n	n	n	n
• Plans for shedding excess staff are developed and implemented	n	n	n	n	n
• A minimum of a three year rolling budget process is in place.	n	n	n	n	n
• An output based budget system is introduced in MOF		n			
• Timely release of Budget according to outputs (or negotiation between the Ministry and MoF for reduced performance outputs if the budget is required)		n			
• The establishment of effective monitoring and evaluation functions to monitor internal performance at all levels, particularly verification of baseline data	n	ip	n	ip	ip
• The establishment of information systems to manage personnel records, baseline and performance data	ip	n	n	ip	ip
• A workable, sustainable Voluntary Retirement Scheme	n	n			
• A formula and fund for calculating redundancy payments	ip	ip			
• Changes to the Civil Service and other relevant acts to allow redundancies and also to allow incentives to be administered.	ip				
• Mechanisms to eliminate the premature transfer of staff before the minimum 2 year period except in extreme cases.	ip				
• Establishment of a robust procurement process to supervise contracted out activities.	n	n	n	n	n

It is clear that whilst considerable work has occurred, most preconditions are not established to a stage that would support a PBMS. Even where preconditions have been met with regard to some individual activities this is not yet consistent throughout the organisation. In many cases supporting functions external to the Ministry are not yet established, limiting capacity to implement a PBMS even if the Ministry were ready.

7. Role review

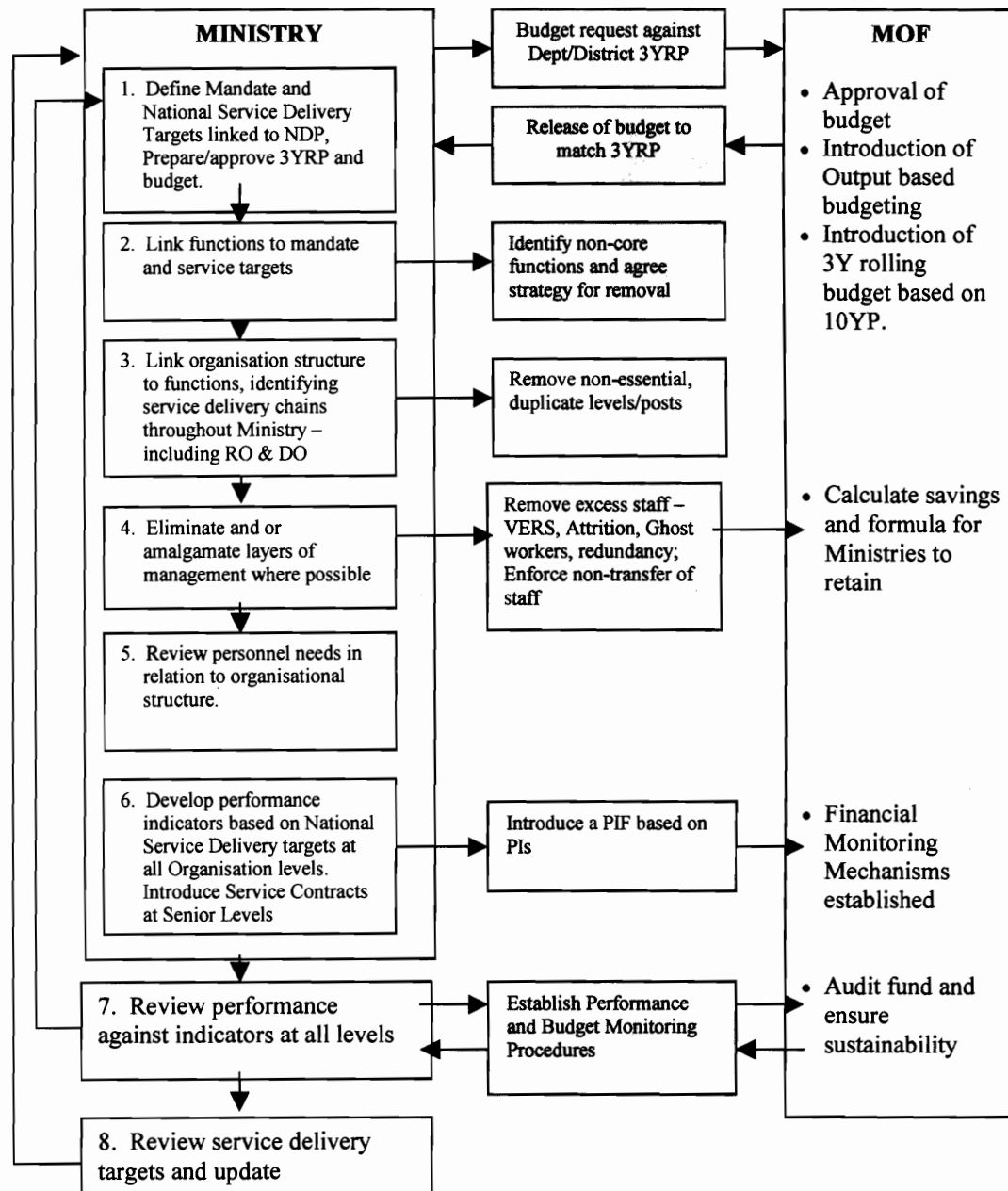
A review of the organisation prior to the establishment of a PBMS enables questions to be asked regarding whether certain functions should be amalgamated or stopped altogether as well as whether the organisation as a whole should be eliminated and essential functions transferred elsewhere. It is important that this level of functional review takes place *before* a PBMS and PIF are introduced. It is much harder to do this later and requires additional re-work.

One such candidate within the target Ministries is: the Regional Directorates. In many Ministries, the role of Regional Directorates is no longer essential, given the strengthening of the District Offices and the devolution of responsibilities to the districts.

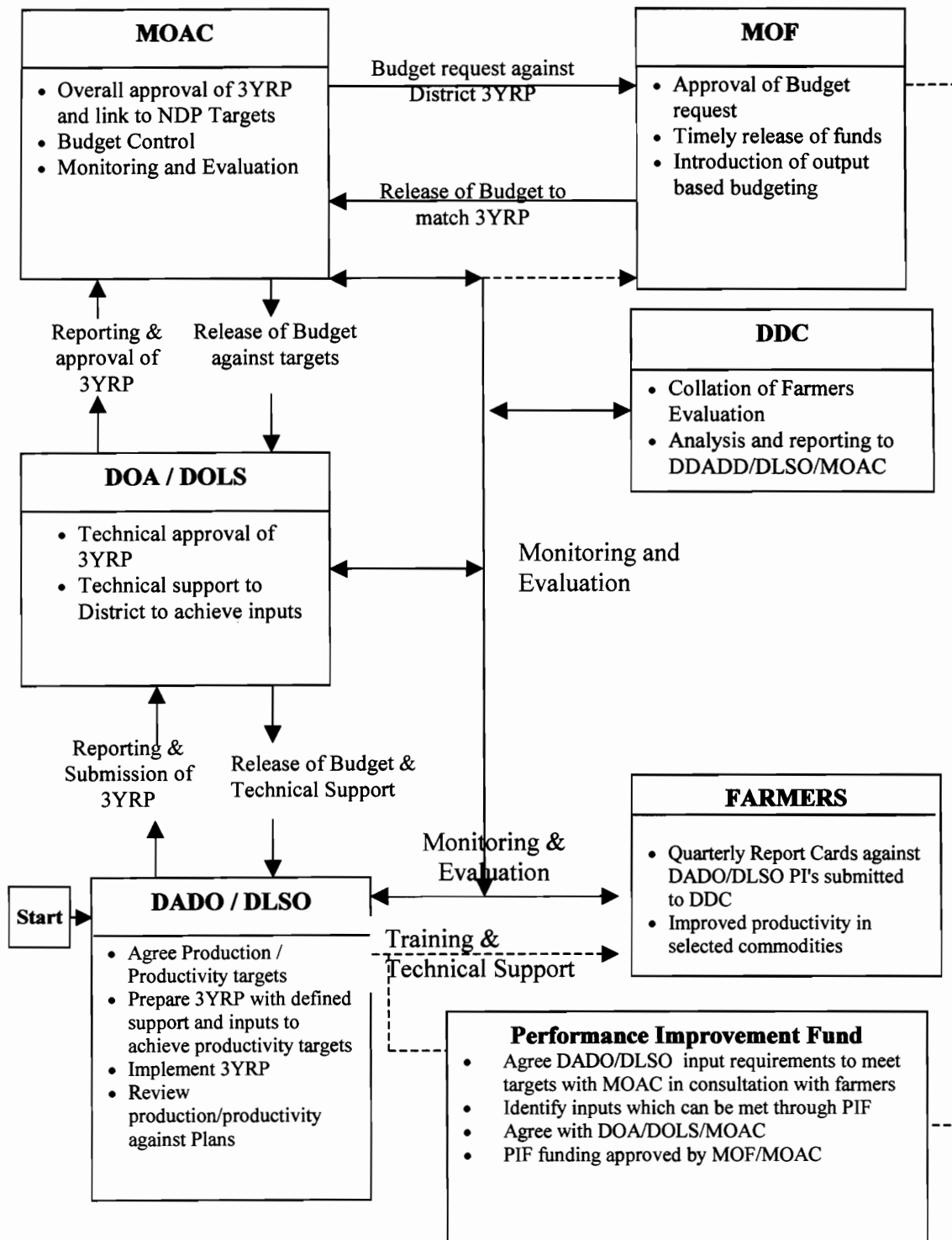
In some cases (such as Education) there may be a strong case, however, for continuing this monitoring role via R.Ds. In others it may now simply be an additional level of expensive management where cost savings could be effected.

All such options for eliminating now redundant roles should be explored and action taken as part of the refinement of the organisation, necessary before the introduction of PBMS. This will also release funds for allocation to a PIF.

Attachment 1: Pre-conditions for Establishing an Effective Performance Based management System and Performance Incentive Scheme



Attachment 2: Process for Establishing a Performance Improvement Fund as a Pre-cursor to a Ministry-Wide Performance Based Management System (Using FY 2062/3 and 2063/4 MOAC as an example)



Key Issues arising in the Establishment of a Pilot Performance Based Management System

Progress to Date

After considerable deliberation between the TA team and the MOAC, over options for the introduction of an initial performance based management scheme the MOAC have confirmed their preferred approach. This has now been agreed by MOGA and plans to further detail the preferred options and implement the schemes are underway in two pilot districts. These are Kavre and Bara. It is also proposed to introduce the scheme in Solukhumbu once "lessons learned" from the first two districts have begun to emerge. This will provide representative pilot studies in the Hill Districts, the Mountain Districts and the Terai. The capacity building inputs of the TA Team, initial field work visits and analyses of National and District based data have already led to identification of some important issues which have now been, or must be, addressed in work plan design. Key issues are noted below.

Key Issues

1. Inputs versus Outputs

Performance improvement schemes are generally best directed toward *outputs and outcomes* rather than inputs. The *inputs* required to achieve the defined outputs are then most effectively left to the design of those groups responsible for the *outputs*. This model of Performance Based Management works well when those responsible for inputs can define a direct link between inputs, outputs and outcome.

Agriculture is one of the most complex sectors within which to establish such linkages. The intervening variables *outside* the control of the Ministry are greater than those *within* its control. Any performance based management system within the Ministry of Agriculture and Cooperatives must, therefore, require a combination of an input and output based model. Inputs will not have a linear relationship with outputs, particularly in the short-term. For example, whilst we can measure the number of Agriculture Extension courses which have been conducted for Farmers, we cannot demonstrate directly that the training has resulted in an improvement in productivity, or productivity (measured as yield per hectare, in Agriculture). This is very different to the health sector, for example, where it is possible to link the number of vaccinations with a reduction in the disease, especially over time and with reliable monitoring.

However, even in Agriculture and Livestock, over a period of time outputs should demonstrate an upward trend if inputs are being successfully and consistently applied so long as it is recognised that there are many variables beyond the control of either Farmers or especially District Officers.

The first step in establishing performance based management is to establish a baseline for performance. This must be based upon what has been achieved in the past. In the case of MOAC a 5 year period is being used. This enables us to determine what the *minimum* outputs should be, in the future and to determine minimum inputs (training, vaccinations, crop advice etc.) necessary to meet them.

Then performance standards beyond the minimum necessary can be set.

This approach has now been accepted by MOAC and MOGA. The pilot districts of Kavre and Bara are now in the process of verifying both baseline data regarding performance achieved over the last 5 years, and performance indicators (PIs) for the next 5 years, for key agriculture and livestock commodities.

Once PIs have been agreed, based on production, productivity and market values, input requirements will be identified by the districts and strategies to meet them will be developed. This activity is also now underway in Bara and Kavre. The input requirements will then be developed into Three Year Rolling Plans (Issue 2). These Plans will be used to select activities which may be suitable for assistance under a Performance Improvement Fund (Issue 5).

2. Three Year Rolling Plans (3YRPs)

The current planning and budgeting process does not effectively lend itself to successful performance management. Ministries (including Regional, Departmental and District offices) are required to submit annual plans, which are linked at ministry level with 10 and 20 years plans. However several issues arise with this process:

- a. District level plans are not directly linked to National (Periodic) Plans
- b. The budget process and release of funds is not output based. In many cases budget released is significantly below that required to meet outputs as planned, particularly at District level. The process needs to be *either* clearly budget driven *or* driven by planning requirements. The expectation at present is that plans will drive the budget process; the perception of most ministries is that the budget drives the planning process. Performance based management requires that plans are agreed and budgeted accordingly. If budget can not be met, plans and outputs should be re-negotiated;
- c. A one-year planning period based on Fiscal Year is too short to link inputs (and programmes) with outputs. Plans and funding must match the "gestation period" of the product and the cycle of inputs required before 'measurable' improvement is possible. In Livestock, for example, the period between inseminations of new blood-lines to assessment of impact on milk production/productivity is up to 5 years.

There is a requirement for a 'rolling plan' and budget cycle. A three-year rolling plan cycle is recommended. This is short enough to ensure continuity of planning but long enough to ensure outputs (and outcomes) are not artificially fragmented through use of a one year (Fiscal Year) planning horizon. The impact of fund release based on FY results in short term planning overriding longer-term continuous improvement. This undermines performance based management processes.

The introduction of 3YRPs requires review of the way in which budgets are prepared and presented both by the MOAC and then by MOF, to ensure funding is in fact estimated for the three-year period. The basis for accounting for PIF, and whether or how this should show as a budget item also must be decided. Discussions are underway with MOF on these issues

3. Requirement for Improvement in Data Management System

One major issue before the TA team for implementing PBMS is to establish baseline performance targets without which PBMS would not be operative. Baseline data was collected from both the centre and the pilot districts (Bara and Kavre) and compared.

The data from the district and the centre vary considerably - in some cases by more than 30 percent. It is not now possible to verify, historically, whether the national statistics or the district data is the more reliable. This means we have difficulty in effectively determining baselines.

The PBMS cannot be successfully implemented if the baseline data on which it is based itself is not reliable and valid.

Data is currently amenable to substantial manipulation. It was found during the field visits that the targets set and the achievements recorded for area and production were identical in many cases! The two reasons frequently mentioned by the District Officers for this were: (i) to date, no one has asked about this and hence they did not give serious attention to it and (ii) because of fear of having to provide explanations for the differences.

This example also draws attention to weaknesses in monitoring at all levels.

Another example of data manipulation emerged on enquiring as to why performance had substantially decreased across many commodities in a given year, within one pilot district. The team were informed that District data was altered to ensure it matched the figures of the National Agriculture Sample Census carried out by the Central Bureau of Statistics every 10 years.

Sound baseline data is essential to performance management. It will take some time, now, to establish reliable and verifiable data. To do so will require significant review and improvement in the processes of data collection, management and validation at all levels.

4. Need for a Strong Monitoring System

Until the investigations of the TA Team, the magnitude of the discrepancies between performance data records at District and Central level seems to have been unknown, or if known, not addressed. If efforts to improve Performance are to be successful, monitoring systems at all levels need to be improved. Monitoring itself will improve performance to some degree, without any other intervention - simply by people taking the time to notice!

This will require:

- Establishment of regular field visits to Districts from the MOAC Monitoring and Evaluation Unit.

- Establishment of commodity-specific 'spot check' and sampling, according to standardised procedures.
- Recording actual production/productivity data, including verification of market values.
- Establishment of an 'independent' body for verification of production/productivity. This may be through use of the CBS at District level, NGOs or via DDCs.
- Improving record keeping
- Involvement of farmers in reporting on district office inputs-both type of input and impact of input, via a reporting card system.

Whilst beyond the scope of the current project, there is clearly a need for a thorough review of all monitoring and Evaluation processes within MOAC. This is far beyond simply computerisation of data. It requires an institutional review of systems, processes, staffing levels and skills, staff job descriptions and systems for performance monitoring of staff and improving staff accountability.

It is also important that the existing 'culture' associated with all Monitoring and Evaluation processes, changes from simply recording performance to facilitating performance improvement by regular feedback, identification of underlying factors contributing to performance and ensuring the inclusion of issues identified- and their resolution- in forward planning processes.

Stage 1 implementation of the pilot PBMS will require the allocation of monitoring responsibilities for the scheme, and the addressing of key institutional issues which at present may be impeding effective monitoring.

5. 'Ownership' of the Performance Based Management System and Improved Monitoring Process

The level of commitment and support provided by the Joint Secretary/ Coordinator of the Change Unit and the outgoing Secretary has been extremely high and very much appreciated by the ADB TA Team. We anticipate this continuing under the leadership of the incoming Secretary this week and look forward to ensuring that inputs from TA 4249 meet the expectation of MOAC and that MOAC avail themselves of every opportunity for skills transfer.

Requirement for Fulltime Involvement of Change Unit Members

Two "honorary" members of the Change Unit - Mr. Sunil Lohani and Mr. Prashant Amatya have been working with the TA team for the past 1.5 months. Their input and understanding of the Agriculture sector in Nepal has been invaluable to the TA team. Similarly, both counterparts have had the opportunity to address new data management issues and issues of performance management, and benefit from the experience of the TA Team.

For the introduction of the Performance Based Management Scheme to be successful, the continued involvement of both Lohani and Amatya on a near - full time basis until the end of the TA in May - June 2005 is essential. Their replacement by other officers at this

stage will delay programme outputs and will not allow MOAC to benefit fully from the combined efforts of both MOAC Counterpart staff and the TA Team. There is little value to MOAC in the TA team establishing the PBMS without the full commitment and involvement of MOAC and the capacity of staff to then replicate the scheme in other Districts.

The requirement for full time involvement of C.U. officers is also a component of ADB T2 Conditionalities.

6. Performance Improvement versus Performance Incentive Fund

This topic is addressed in the paper entitled 'Introduction of a Performance Based Management System within MOAC (Sept. 2004)' prepared by the TA Team and MOAC counterparts.

Much needs to be done to ensure a strategy for improvement and a monitoring system are in place to support performance improvements at pilot district level. These are fundamental requirements before any Incentive scheme can be introduced.

A performance *Improvement* scheme (attached as Stage 1 of the preferred Model 4, also attached) is, therefore, necessary for a period of about 2 years whilst MOAC simultaneously embarks upon a rigorous functional and organisational review (attached as Stage 2 of Model 4).

The introduction of a performance *Incentive* Scheme requires 'rightsizing' of the MOAC at all levels and clear definition of outputs and responsibilities as well as plans and implementation of plans for reduction of staff and budget. Budget savings can then be allocated to the PIF (see above paper). The capacity to introduce a Performance Incentive Scheme also requires substantial changes in strategy, policy and legislation in other Central agencies.

Each of the above is a pre-requisite to an effective performance Incentive Scheme.

7. Increased Finance versus Improved Strategy

It is not the case that more money will necessarily result in improved outputs. An effective Performance Based Management Scheme requires attention to strategy. Pilots schemes in Kavre and Bara require that District Staff define the level of production/productivity improvement which can be achieved based on what has been achieved over the last 5 years. Sustaining achievement is the minimum necessary. Increasing beyond the minimum is required. Districts must, therefore, identify strategies to improve outputs, not simply request more funds. These may include for example, changes in crops or crop rotation cycles, changes in marketing targets or approaches to marketing, looking toward longer term market penetration (especially export markets) mechanisms to reduce the "copy-cat" approach to commodities, where for example, the success of a few farmers with a new crop leads to widespread adoption, often before market research on demand has occurred and often, then, a reduction in market value due to market saturation.

The PBMS must encourage improved performance within existing budget limitations as well as identify where increased budget is fundamental to specific performance improvements.

8. PIF: How will It be Implemented?

This topic is still under discussion with MOF and MOAC. Initially, it is proposed to introduce a Performance Improvement Fund to support key, appropriate input requirements identified by the Pilot Districts, which are contained in the 3YRPs and will, over time, result in production/productivity improvements. It is suggested that this scheme will start during the current Fiscal Year on a small scale, as a Pre-pilot, and be used to assist to establish the systems and skills necessary for full implementation of the scheme commencing FY 2005/6. Pilot districts are currently identifying input requirements, which will be reviewed and combined with set up requirements, particularly capacity building, establishing of monitoring systems and an independent monitor of production/ productivity, and coaching the farmers so they can have greater involvement in production verification as well as provide feed back on District performance across agreed indicators.

This will identify further input requirements which may be incorporated into the scheme next FY. During this period Pilot Districts will work with the TA team and MOAC staff to prepare 3YRPs which will contain performance indicators and input requirements for the following three years.(2005/6, 2006/7 2007/8).

The performance Improvement Fund is NOT a bonus and can not be used to top up salaries. It will be directed toward:

- ☐ Institutional support
- ☐ Training and access to information
- ☐ Disaster mitigation
- ☐ Improving commercial returns

9. Implementation

In accordance with the approved Model 4, implementation is based on a two stage approach:-

- Stage 1 is directed toward the introduction of a District level Performance Improvement Scheme (PBMS) and will be implemented at Pilot stage during the current TA period which runs to May 2005 commencing with a Pre-pilot set up stage during the remainder of the current FY.
- Stage 2 focuses on 'Rightsizing', contracting out and privatisation of commercial functions, and will result in 'efficiency gains and some budget savings. These funds can then be applied to a Performance *Incentive* Fund within MOAC. It is anticipated that Stage 2 will commence in FY 2006/7. This enables the 'cleanup' required within Stage 2 to be commenced whilst the Pilot Projects are continuing under Stage 1. Stage 2 will therefore not be undertaken as part of the current TA which finishes in May 2005.

It is not necessary for Pilot schemes and the Performance Improvement Fund to be eliminated at the end of Stage 1. Its continuation will depend on the result of the evaluation at the end of Stage 1 and budget availability. It may be that MOAC wish to apply funds saved through the implementation of the efficiency improvements to replication of Improvement schemes in other districts rather than to an Incentive Fund, especially if other related activities, such as job classification and salary review (which must form part of Stage 2), reduce the requirement for an Incentive Fund.

A detailed work plan for Stage 1 together with an outline plan for Stage 2 is attached.

TA 4249-NEP
MOAC CU Work Programme to Implement Model 4- Stage 1 PBMS
24 September 2004 – 31 May 2005

Stage/ Description	Tasks	Responsible Persons	2004					2005					Comments/ Assumptions	
			Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May			
Model 4, Stage 1 District driven PBMS linked to input requirements	1.1 Review Production/ Productivity data from Districts and Identify/agree anomalies	Full TA Team + MOAC CU Members											Anomalies are not excessive and data can be used.	
	1.2 As for 1.1 but utilising CBS data + compare with district data													"
	1.3 Produce minimum Performance Indicators based on last 5 years growth trends.													
	1.4 Validate District PI's against statistical projections													
	1.5 Send PI data to districts for confirmation/discussion	Full TA Team + MOAC CU Members												
	1.6 Confirm institutional and operational issues + discuss/ agree at MOAC workshop													
	1.7 Finalise Performance Improvement Fund financing and administration details with MOF and MOAC.													
	1.8 Districts to prepare outline 3 YRP's to include pre-pilot period Jan-June 2005 and costs, consistent with PI's established under (1.5) above												Districts respond as per programme	

Stage/ Description	Tasks	Responsible Persons	2004						2005			Comments/ Assumptions
			Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	
1.9 Develop and agree M & E policy and with mechanism at national level – MOAC/MOLD												
1.10 In conjunction with Planning Division, review preliminary District 3 YRP's and costs to ensure format is acceptable to MOF and inputs permissible under PIF for funding												
1.11 Combined CU's workshop to review common issues												
1.12 Revisit districts to: • finalise and agree PI's • confirm/agree 3 YRP's, support + inputs • discuss/agree on farmers M/E role with DDC's • initiate the process in Solu												
1.13 As (1.12) but coach districts to establish PI inputs necessary to implement 3 YRPS through dialogue with DDC/Farmers												
1.14 In conjunction with Planning Division final adjustments to model PBMS following district visits												
1.15 Secretaries MOAC, MOGA and MOF to endorse final proposals + secure budget												
1.16 Identify staff for PBMS monitoring and evaluation team within M & E division, MOAC												

Stage/ Description	Tasks	Responsible Persons	2004					2005				Comments/ Assumptions
			Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	
	1.17 Review data anomalies, current practices etc and agree on input requirements to improve monitoring and data reliability	↓										
	1.18 Support M & E Team + Implement agreed M & E Improvement programme	↑										
	1.19 District to commence implementation of pre-pilot phase PBMS (Jan-June 2004)											MOF release funds.
	1.20 Confirm mechanisms for independent verification of baseline data											M & E Division agreement
	1.21 Coach and support district implementation of pre-pilot phase											
	1.22 Coach farmers in application of feedback role, completion of report cards and verification of market values of selected commodities											
	1.23 Coach DDC in application of monitoring role and collection of feedback from farmers	Local Consultant + MOAC CU Members + International Consultant - Feb. + May 2005										
	1.24 Pro-public to disseminate information on model and support process											
	1.25 MOAC/MOF workshop to publicise model											
	1.26 MOAC/TA to review implementation + progress + M/E quarterly + provide support advice as necessary	↑										

Stage/ Description	Tasks	Responsible Persons	2004						2005			Comments/ Assumptions
			Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	
	1.27 "Annual" and Trimester reviews of progress v 3YRP targets + M/E process	Full TA Team + MOAC CU Members										Integrated into MOAC planning process.
	1.28 Based on "lessons learned" during pre-pilot phase and "annual review", districts to prepare up-dated 3 YRP for FY's 2005/2006 with detailed component for FY 2005, + agree with MOGA, MOAC, MOF + MOF to ensure timely release of budget											
	1.29 Implement full pilot project in 3 districts commencing FY 2005/2006	MOAC										MoF budget and release funds.
	1.30 Review pilot at end of 3 year pilot phase and agree future strategy	MOAC										TA exit

TA 4249 - NEP
MOAC CU Work Programme to Implement Model 4* - Stage 2 PBMS

2006 - 2008

Stages/ Description	Tasks	Responsible Persons	FY 2006/07				FY 2007/08				FY 2008/09	
			#1	#2	#3	#4	#1	#2	#3	#4	#1	#2
Model 4, Stage 2 Rightsizing and Privatising/ Contracting out of all commercial functions	2.1 Initiate new functional review based upon agreed mandate and principles of PBMS.											
	2.2 Identify core and non-core functions including commercial functions for privatising/contracting out.											
	2.3 Develop exit strategy and time table for non-core functions											
	2.4 Establish safety net provisions and VERS for excess staff											
	2.5 Establish effective procurement process for contracting out/monitoring											
	2.6 Secretary MOAC to approve exit strategy and time table.											
	2.7 Secretary MOGA to endorse/ approve strategy and timetable											
	2.8 Cabinet to approve exit strategy and timetable											
	2.9 Implement exit/contracting out strategy											
	2.10 Confirm PI's, functions and adjust organisational structure to reflect functions											
	2.11 Confirm budget savings from 2.2 to 2.9 and identify further efficiency gains and implementation/ operation strategy (Particularly information management and monitoring)											

Stages/ Description	Tasks	Responsible Persons	FY 2006/07				FY 2007/08				FY 2008/09	
			#1	#2	#3	#4	#1	#2	#3	#4	#1	#2
	2.12 Agree Performance Incentive Fund strategy and operation including financial/non financial incentives as well as penalties for non-performance											
	2.13 Agree/approve performance contracts for Secretaries, Joint Secretaries and Under Secretaries											
	2.14 Confirm PIF budget and agree details with MoF											
	2.15 Ensure PIF budget sustainability											
	2.16 Undertake job reclassification and prepare JD's and PI's at middle and lower levels and advertise/reappoint staff											
	2.17 Review performance monitoring procedures and ensure a robust PMS is in place											
	2.18 Training workshop and coaching											

Notes: * Model 4 combines Model 2, the district driven input model with model 3, the rightsizing, privatising /contracting out model.
1 denotes first quarter of implementation year 1, typically 2006

Full Time
Intermittent

Options for the Introduction of a Performance Based Management System within MOAC

**Prepared by ADB TA 4249 Team
in Conjunction with MOAC Counterparts**

Section 1: Introduction

1.1 The Governance Reform Program

The 1992 Administrative Reform Commission forms the basis for the Governments reform initiatives, including the ADB supported Governance Reform Program (GRP). The GRP (ADB RRP NEP 32238) specifies four phases of reform to be undertaken within the period 2001-2005 to effect fundamental changes in the civil service and governance environment. It will introduce approaches for doing business in a whole new way with the ultimate aim of improved service delivery in three key Ministries MOAC, MOES and MOH, with MOGA coordinating the reform process and MOF facilitating the process through financial support and eventually the introduction of output based budgeting.

These phases are:

Strengthening leadership at Cabinet and Secretarial level including strengthening the GRCU, EU and Change Management Units in the three line Ministries above.

Freeing up of financial resources, including undertaking a functional analysis, identifying core and non core functions, and reducing non core activities, reduction in Establishment posts and staff through contracting out to the private sector and through decentralisation, improved records management and revised pay policies.

Develop leadership and management qualities of senior staff, recruit talented staff, enhance pay levels and reduce gender imbalance.

Inject into pilot Ministries a robust but simple performance improvement process to assist them to provide better services, with an emphasis on continuous improvement rather than the achievement of arbitrary performance targets.

The Policy Matrix governing the reform initiatives contains two policy components and several subcomponents which must address the fourth phase above which is the introduction of a robust but simple performance improvement process. These must be met as part of ADB Tranche 2 conditions.

1.2 ADB TA 4249

TA 4249 is the third TA in a series of Technical Assistance projects facilitated by ADB to assist progress under the Governance Reform Programme (GRP), initiated by the Government of Nepal. The two previous TA's were TA 3117 and TA 3662. The current TA, TA 4249, Strengthening Performance Based Management, has the objective of:

Developing, adopting, communicating and monitoring performance targets in the selected service and central ministries with the first set of targets in place by the end of the TA.

The T.A. commenced on March 01, 2004, and provides for 6 months input from the International Consultant and 15 months from the Local Consultant.

1.3 TA Outputs and Key Activities to fulfil requirements for the introduction of Performance Based Management

The ADB ToR specify the following outputs and activities as necessary to fulfil the performance based management component of the GRP:

- Establish culture and processes related to Performance Based Management.
- Provide customised training and mentoring to ensure leadership and technical skills are available for development/ implementation of management and performance plans.
- Provide management/ in-service training in problem analysis and identification of solutions to improve Ministry performance.
- Develop/ implement performance improvement plans, including performance indicators.
- Transfer new procedures and capacities to support the three pilot line ministries (MOAC, MOH, and MOES).
- Develop client service standards.
- Establish a review process to identify further performance and service quality standards.

Activities under points 1, 2 and 3 above are well underway in all target ministries. Activities 4, 5, and 6 are under development, including the review and establishment of performance indicators at both Central level and within pilot districts. As identified in the Policy Matrix, MOAC is the key pilot ministry and the TA team have been focusing largely on this ministry over the last two months. Field visits have recently been undertaken in two districts identified for pilot studies: Bara and Kavre. Problem analysis in conjunction with staff from the districts and sub-districts has identified issues which will impinge on the introduction of a performance based management system at district level. Work is underway to determine how problems in implementation can be resolved and built into design options.

Section 2: Outline of Model Options

Section 2 presents three models for the introduction of a Performance Based Management System into MOAC. Each of the models has benefits and dis-benefits which must be considered. All models are consistent with the requirements of the GRP. All models require the development of three year rolling plans (3 YRPs).

Model 1 provides for a whole of Ministry restructuring to ensure all functions are most efficiently represented in the organization structure and that staff are selected or retained to best meet the Functions, Performance Indicators and Performance Management Systems can only be introduced after these activities have been completed.

Model 2 focuses only on pilot Districts and targets 3 Year Rolling Plan and Productivity Indicators. It does not require widespread restructuring to commence model 2. However, this model will not have the impact of models 1 and 3. It does allow for 'rightsizing' and whole of Ministry efficiency gains under GRP 2 as a secondary step. There will not, therefore, be a substantial budget to fund a substantial Performance Incentive Fund based on efficiency gains as proposed by MoF. Under this model a Performance Improvement (rather than Incentive)³ Fund is suggested using the small amount of funding already earmarked by MoF.

Model 3 encompasses HMG's strategy and commitment to rightsizing. It requires a rigorous review of all aspects of the Ministry and a reduction in functions to key policy, planning, research, monitoring, evaluation and technical support. It proposes that the MOAC should not be involved in any commercial activity and that all potential commercial activities should be privatised or left the private sector. This model will require about 1-2 years to complete but will result in a lean, efficient structure focused on policy and regulatory functions.

It should be noted that under all models it is recommended that Regional Offices be disbanded, since this level of management is no longer required and only serves to add additional cost and complicate the reporting structure.

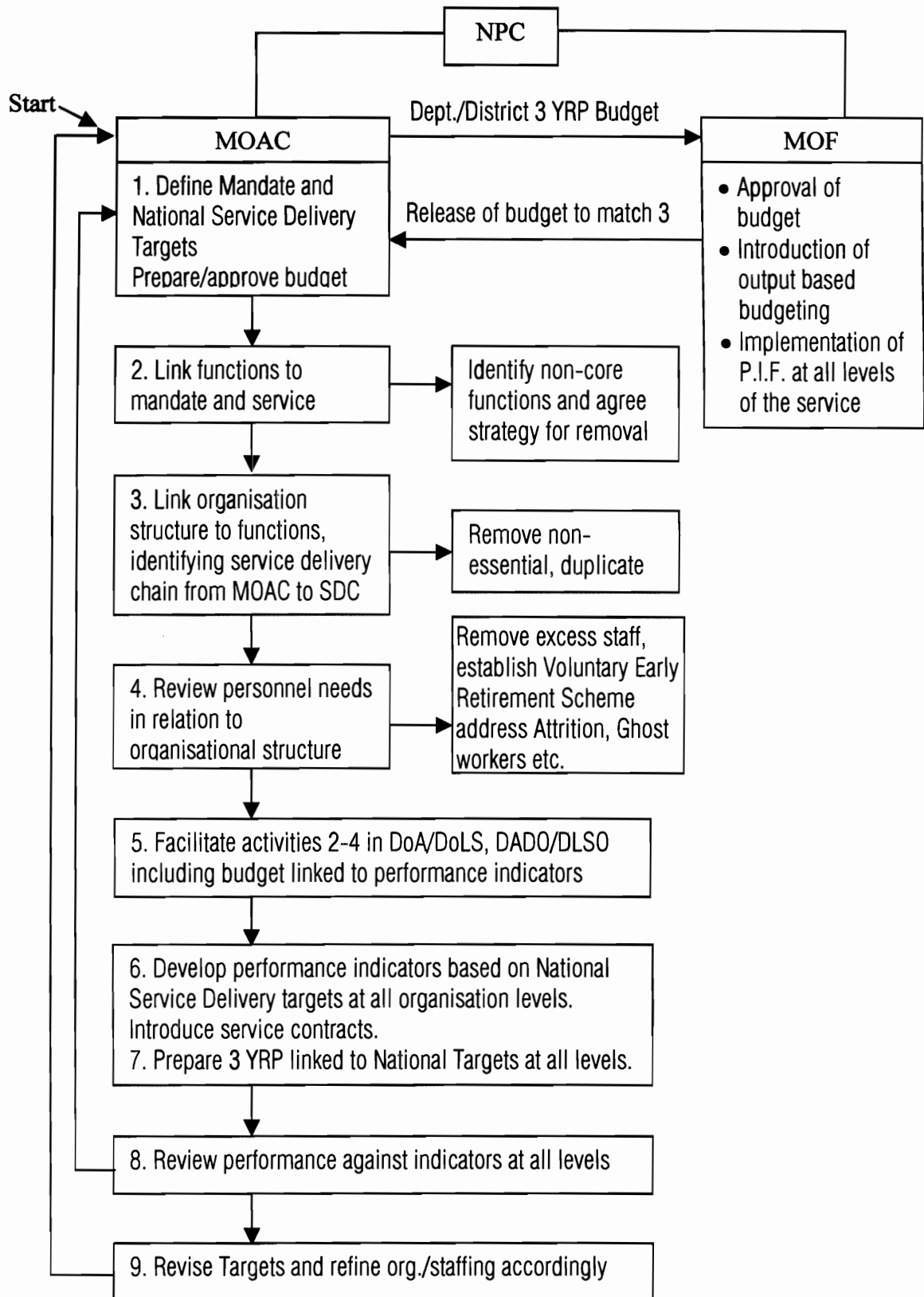
Model 1: Traditional 'Top down', Reform Driven, Performance Based Management; Performance Incentive Fund (PIF) linked to Service delivery targets at Unit or Individual level

Characteristics:

- Performance indicators are developed based, on a clear mandate.
- The functions necessary to achieve the mandate are specified.
- The 'Service Chain' of functions, processes, activities and staffing is identified at all levels of the organization.
- Functions are re-allocated to remove duplication and inefficiencies
- Performance indicators are developed for functions at all levels.
- Performance incentives are developed for all service delivery functions based on P.I.s, once the MOAC has been reorganised to best fulfil its functions.
- Essential non-service based functions are reviewed and agreed (e.g. planning, monitoring and evaluation).
- All other non - core activities are identified and exit strategies developed and implemented.

³ See attached notes on P.I.F.

Model 1: Ministry-Driven PBMS. Traditional Reform Based Model



Benefits and Dis-benefits

A Benefits

- Thorough model which aligns all aspects of the organization, across all levels
- The mandate- the overall 'reason for existence' -drives the process so all extraneous activities and positions can be identified.
- Combines a key GRP platform (right sizing) with the establishment of mandate-driven performance indicators.
- Ensures the MOAC is 'cleaned up' first so that PIs are targeting the 'right' performance.
- Will achieve efficiency gains and budget savings which will be available by the time of the introduction of P.I.s and the P.I.F

B Dis-benefits

- Very lengthy process (1-3 years) which involves significant staff losses, and requires the establishment of safety nets, VERs as well as some legal review.
- Requires that the Ministry has the authority to drive reform at all other levels.
- Works best in a centralized environment or at least where the Ministry retains some budget control.
- Service delivery chains difficult to identify accurately in MOAC and significant restructuring may be required to enable organization structure to match functions.
- Consequently, allocation of incentives in a sector as complex as agriculture and Cooperatives may be inaccurate, lead to employee dissatisfaction, and potentially to performance dis- incentives if the above activities are not carried out satisfactorily.
- Can not be implemented within the time frame of this TA although design can be refined for introduction under GRP2

Model 2: District-Driven Performance Based Management System. Performance improvement Fund linked to Input Requirements

Characteristics:

- District driven.
- Focuses on district support, training, information dissemination and commercial marketing services to improve Farmers productivity.
- Utilizes P.I.F. to fund agreed input requirements to meet agreed targets rather than as an incentive fund.
- Links district inputs and services to agreed target improvements in key commodities.

- Relatively simple initial model requiring few significant organizational changes
- Does not preclude wide-spread efficiency improvement and reform in MOES as a secondary phase, under GRP 2
- Inputs to be funded under the Performance Improvement Scheme should focus on:

Institutional:

- transport
- communication
- data processing

Training/Information services:

- Farmers/DADO/DLSO/DDC
- Access to information to improve technology

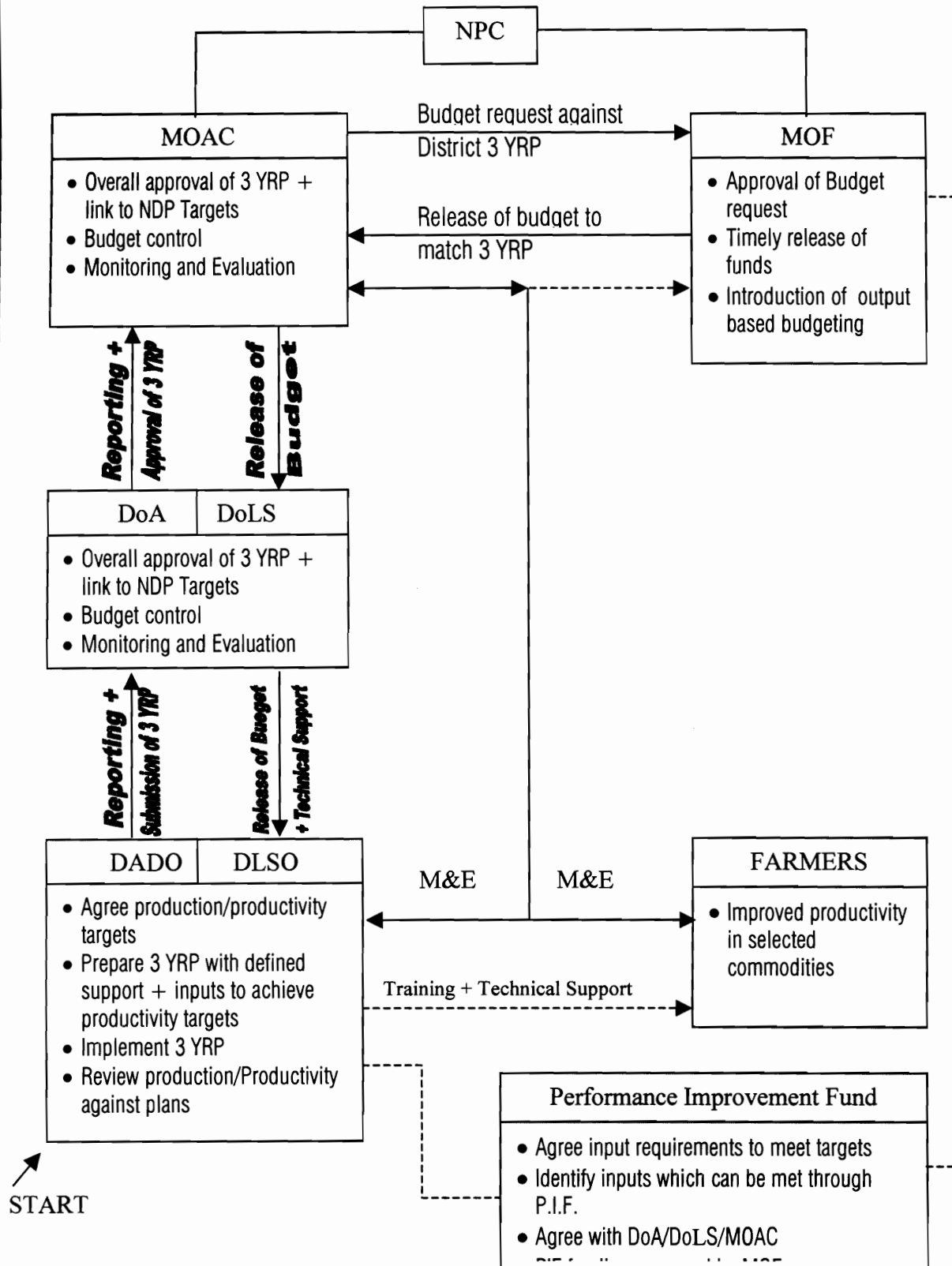
Disaster Mitigation:

- Early warning weather systems
- Disease control/mitigation
- Soil/seeds/fertilizer quality control

Commercial returns:

- Improved performance of Cooperatives
- New market identification
- Improved access
- improved returns

Model 2: District-Driven PBMS; PIF linked to Input Requirements



Benefits and Dis-benefits

A. Benefits

- Facilitates clear, easily measurable, SMART indicators based on 3 YRP and focusing on inputs and activities required to achieve plans
- Uses measures of production/productivity of commodities to monitor overall/on going impact of inputs.
- Service delivery personnel at district level are responsible for setting and achieving-prescribed targets and P.I.s
- Enhances district planning, management and decision making capacities.
- Requires limited support and inputs from Department and Ministry levels.
- Attracts a relatively 'clean', identifiable service delivery chain with easily identifiable players.
- Can be implemented relatively easily at the start of FY2005/6, utilizing existing P.I.F. allocation, by focusing on Performance Improvements (within the boundaries of the fund) rather than on Performance Incentives which require savings from efficiency improvements.
- Initially will require no significant organizational restructuring.
- Not dependent or interlinked with other service agencies, such as DDC/MOLD.
- Can be linked to widespread restructuring during GRP2.
- Will facilitate early achievement of ADB T2 Conditionalities.
- Can include 'right sizing' and Ministry-wide efficiency gains as a second stage?

B. Dis-benefits

- Does not address the broader issue of improving performance management throughout the entire Ministry in the initial stage.
- Will not generate the essential 'efficiency gains' ultimately required to support the model in the longer term (which can only come from restructuring).
- Will require stringent monitoring and evaluation to mitigate abuse of the P.I.F, to ensure that all inputs are correctly utilized and are properly linked to achieve productivity improvements.
- Will reduce the pressure to achieve real reforms.

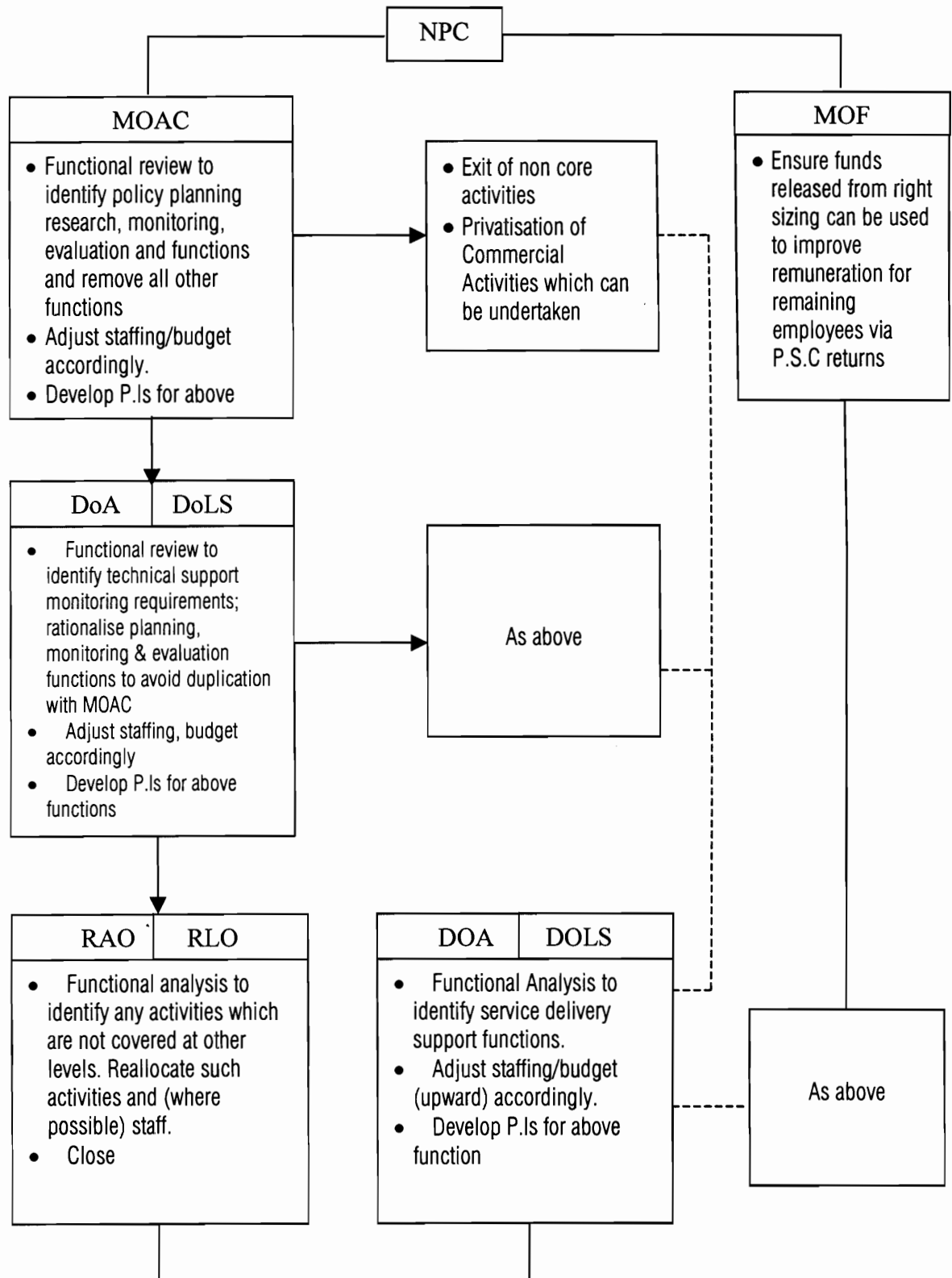
**Model 3: 'Right-size' against Key Policy Planning, Monitoring,
Regulatory and Technical Support Functions;**

**Privatize/halt all commercial or potentially commercial
functions within MOAC Performance Improvement Fund to
be directed at farmers not MOAC**

Characteristics:

- Requires functional reviews at all levels.
- Requires right- sizing and refocusing of MOAC around key functions:-
MOAC: Policy, planning, regulatory, monitoring and evaluation;
DOA/ DOLS: technical support
RAO/RLSO: Transfer any key functions to other levels and close
DADO/DLSO: service delivery support functions
- Requires identification of outstanding functions which may not need to be undertaken by MOAC (e.g. NARC) and determination of a more appropriate/ commercially based model for achieving functions.
- Privatize or halt all commercial activities since Government does not need to compete with the private sector.
- Establish /review Industry Standards and establish regulatory mechanisms, including tariff policies if necessary.
- Use efficiency gains to (i) introduce a Performance Incentive scheme for remaining staff; (ii) introduce a Performance improvement Scheme for farmers. This may include training, information dissemination, and assistance with market access, disaster mitigation assistance, for example (as listed under Model 2, above).

Option 3. Right size against Key Monitoring, Regulatory Technical Support Functions; Privatisise/halt all Commercial Activities



Benefits and Dis-benefits

A Benefits

- Focuses on efficiency gains from the outset.
- Reduces the MOAC to essential functions.
- Reduces unnecessary layers of management.
- Frees Government/MOAC from the conflict between the roles of policy, monitoring, evaluation, technical and service delivery support and responsibility for productivity/ production, over which it has no direct control.
- Provides those directly responsible for productivity and production with assistance without undermining their responsibility.
- Recognizes that farmers already have their PI scheme: best returns for least effort at a quality and volume which is market driven.
- Is consistent with the intent of the GRP.

B. Dis-benefits

- Unpopular and politically/socially difficult to implement in current environment.
- Requires lengthy time frame although not as long as model 1.

Section 3: Fundamental Requirements and Assumptions

Each of the above models is based on an underlying set of assumptions and requirements: Key preconditions for the success of *any* of the models are listed below:

- Introduction of 3YRPs which target input and performance requirements.
- A rigorous monitoring system.
- An enforceable anti-corruption mechanism.
- All players must be within the direct control of MOAC.
- Effective data management systems.
- All base performance data is independently verified.
- MoF to introduce output based budget and ensure funds are released timeously to meet approved 3YRP activities.
- MOAC to ensure that funds are transferred intact, on schedule as per 3YRP requirements.
- Appropriate delegation of authority commensurate with responsibilities is introduced to expedite decision making.

Section 4: Summary of Options

- Each of models, if implemented as proposed, will result in improved performance management within MOAC.
- Models 1 and 3 are consistent with the overall objective of the GRP reform program to 'right-size and improve efficiency and will result in significant lasting, efficiency gains and performance improvements across the whole of the Ministry.
- Both models 1 and 3 require extended time frames to implement, typically 1-3 years (model1), and 1 year (model2).
- Model 2 can be implemented rapidly with minimal organisational changes and will meet ADB T2 conditions within the required time frame.
- Model 2 can make immediate use of the existing P.I.F fund; others models will require a different financing structure.
- Model 2 will result in only limited performance improvement, primarily at district level.
- The introduction of Model 2 may reduce the incentive for wide- ranging reform within MOAC.

The table below provides a comparison of the options denoted above:

Comparison Summary of Options

Option/Model	Benefits	Dis-benefits	Comments
Model 1 Traditional, Top down, Reform Driven Performance Based Management	<ul style="list-style-type: none"> Thorough model which aligns all aspects of the organisation. Mandate driven Combines a key GRP platform (right sizing) with mandate-driven performance indicators Will achieve efficiency gains and budget savings which will be available for the PIF. 	<ul style="list-style-type: none"> Very lengthy process (1-3 years). Involves significant staff losses. Requires establishment of "safety nets", VERS and legal reviews. Significant restructuring may be required. 	<ul style="list-style-type: none"> Cannot be implemented in the timeframe of this TA.
Model 2 District-Driven Performance Based Management	<ul style="list-style-type: none"> Does not require widespread restructuring. Facilitates clear, easily measurable, SMART indicators. Service delivery personnel at district level are responsible for setting and achieving prescribed targets and PI's. Enhances district planning capacity. Requires limited support and inputs from Department and Ministry levels. Not dependent or interlinked with other service agencies (i.e. DDC/MOLD) 	<ul style="list-style-type: none"> Does not address the broader issue of improving performance management throughout the entire Ministry. Will not generate the essential "efficiency gains" ultimately required to support the model in the longer term. Will require stringent monitoring and evaluation to mitigate abuse of the P.I.F. 	<ul style="list-style-type: none"> Can be implemented relatively easily at the start of FY 2005/06, using PIF fund. Will facilitate early achievement of ADB T2 Conditionalities. Will reduce the pressure to achieve real reforms, but, Can be linked to widespread restructuring during GRP2.
Model 3 "Right size" against Key Monitoring, Regulatory and Technical Support Functions	<ul style="list-style-type: none"> Focuses on "efficiency gains" from the outset. Reduces MOAC to essential functions Reduces unnecessary layers of management Frees MOAC from conflict of roles between policy, M & E etc and production/productivity, over which it has no direct control. Is consistent with the intent of the GRP. 	<ul style="list-style-type: none"> Unpopular and politically/socially difficult to implement in current environment. Requires lengthy timeframe, although not as long as model 1 	<ul style="list-style-type: none"> Cannot be implemented within the time-frame of this TA Requires strong, committed government to implement.

GUIDELINES for the Introduction of Three Year Rolling Plans

1. Three Year Rolling Plan Guidelines

A typical 3YRP format is given at the end of these guidelines for ease of reference. This is largely as presented at the first workshop in Godivari and in subsequent internal workshops in MOAC.

This format has been agreed in principle with EU, MOF as the basis for release of PIF funds although it may need to be reviewed further as more experience is gained in its implementation.

It should be stressed that the 3YRP is the foundation on which PBMS is built. It is not simply a document that has to be produced once a year to secure release of funds and is then forgotten. It is an active management tool that forms the basis for assessing Unit or individual performance against planned performance under the 3YRP.

If it is to be practical it is essential that the 3YRP be kept as clear and straightforward as possible such that it can be easily understood and followed by all involved parties at all levels. A complex academic document that cannot be easily interpreted is of no value in a PBMS.

To prepare the 3YRP:

- Use the format given at the end of these guidelines
- List **all** projects being undertaken in the district, irrespective of the source of funds
- List the activities associated with each project
- List the **PIF support inputs** under each project which will contribute to improved performance of that project and clearly link these inputs to specific activities
- Show time lines against each activity clearly showing when the activity will start and finish; if the activity repeats at intervals show this over the 3 year period
- Show the estimated cost of the project and source of funds
- Show the estimated cost of the PIF inputs
- Show the individual or unit responsible for each project
- Show the agreed PI's for the district

To use the 3YRP:

- Every quarter show actual progress against each project and activity timeline
- Use the appropriate columns to record progress status i.e. "on target:", "1 month delay", etc and reasons for delays where appropriate
- M&E division should review progress in the district with all involved staff; reasons for delays should be discussed and if possible solutions found to improve slow progress.

This might involve redeploying staff or reallocating PIF support inputs to better support a particular project etc.

- At the end of each year PI's should be calculated and actual figures compared with the target indicators. The indicators will measure the impact of the districts overall programme and its contribution to achieving National Planning targets.
- At the end of each year the overall progress of each programme should be reviewed and the impact of the PIF support inputs assessed.
- After review the 3YRP for the next three years should then be developed; activities not completed in the previous year should be carried forward into the current plan.
- PIF support inputs should be critically reviewed and if appropriate new requests submitted.

2. Performance Assessment

The performance of a district can be assessed at three levels:

1. by comparing actual progress against planned progress shown on the 3YRP
2. by determining the improvements realised from the selected PIF support inputs
3. by comparing the actual PI's against targeted PI's

3. Monitoring And Evaluation

Professional interactive monitoring and evaluation of progress against the 3YRP is absolutely critical to the success of the PBMS. It must be carried out quarterly in the district with all involved players.

It must not be a "rubber stamp" exercise as is often the case at present, but a genuine review of actual against planned progress. The M&E team must work closely with the field staff and where delays are occurring work together to find solutions to the problems-in so far as they are within the control of MOAC.

Feedback on successes is as important as highlighting problems and it is essential that accurate information is available to management to plan and manage forward processes.

Multiple sources should be involved in the monitoring and review process: MoF; the CU; the Secretary and end users. In MOAC, for example, plans and formats are in preparation to include farmers in the evaluation process.

4. Performance Improvement Fund (PIF)

MOF has made plain that any **incentive Fund** must be supported from genuine efficiency savings within the Ministry. This cannot be achieved until effective "rightsizing" is completed.

However what has been agreed is that a Performance **Improvement** Fund can be made available initially to provide inputs which can be clearly shown to contribute towards improved performance.

To access these funds it has been agreed that districts should prepare 3 YRP's as described above. These must clearly demonstrate the linkage between the requested inputs and activities and expected outputs/improvements. A simple isolated list of inputs spread over three years is **not acceptable**.

Once districts are able to demonstrate that the requested PIF support inputs are indeed resulting in improved performance, it is envisaged that the scheme can be progressively upgraded to an incentive scheme with benefits available for improved performance. This of course requires that the Ministry also conducts a comprehensive "rightsizing" programme to realise the efficiency gains to support the incentive programme.

3 Year Rolling Plan Suggested Template

Project/Activity	Responsible Unit/Person	Year												Progress	Comments	PI's	
		2006				2007				2008						Target	Actual
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
A Project A																	
A1 Activity 1																	
A2 Activity 2																	
A3 Activity 3																	
A PIF Support																	
PA1 Farmers Workshop																	
PA2 Bicycles (50)																	
PA3																	
Project Funding (Source)	Total Costs																
Estimated cost																	
Budget request																	
Budget Allocation																	
PIF funding																	
Budget request																	
Budget Allocation																	
B Project B																	
B1 Activity etc.																	
B. PIF support																	
PB1 Etc.																	
Project Funding (Source)	Total Costs																
PIF funding etc.																	
C Project C etc.																	
Total Project Costs																	
Total PIF Funding																	

Note: Cost Estimates can be entered on 3 YRP per quarter against each activity or separate cost estimation sheets may be used.