

GOVERNMENT OF NEPAL



MINISTRY of FEDERAL AFFAIRS and LOCAL DEVELOPMENT

Mid-Term Review of the LOCAL GOVERNANCE and COMMUNITY DEVELOPMENT PROGRAMME (Phase II)

The changed context begs to re-set the focus

(Final report)

Kathmandu
22nd of May 2016

Preamble

Since 2008, the Ministry of Federal Affairs and Local Development (MoFALD) has been implementing the Local Government and Community Development Programme (LGCDP) in collaboration with a large number of development partners. Through UNDP, lead manager of the joint donor basket for technical assistance, Dege Consult Aps (registered in Denmark), was hired to field a team to carry out a mid-term review of the second phase of the said programme. A well-elaborated Terms of Reference, covering a total of 28 pages, and a summary of which is provided in Annex 1, guided the review.

A contract for the assignment was negotiated during the first half of February 2016, and part of the team carried out an inception mission from Monday 22nd of February to Wednesday 02nd of March 2016 which led to a draft inception report, on which both Government and development partners commented. Amongst others, it led to a review matrix (presented in Annex 2) summarising the main evaluation questions.

The main mission, with the full team as presented below, took place from Sunday 27th March to Tuesday 12th of April 2016, which ultimately led to the production of a draft report that was presented 02 May 2016, after a snapshot of findings and conclusions had been presented during a meeting on Tuesday 19th of April 2016. Latter debriefing meeting was chaired by MoFALD's Secretary and attended by concerned government officials as well as development partners (see Annex 3 for copy of the presentation).

The team received comments on the draft report on Tuesday 17th of May 2016. Factual errors and a number of other issues as pointed out in the comments have been addressed in the text. In order to safeguard the spirit of an independent review and the fundamental right of all parties to agree to disagree, other comments are attached in this final version of the report as Annex 4, together with a short response from the MTR team.

During the assignment the team met with the Chief Secretary, the Secretary of MoFALD, the National Programme Director, the National Programme Manager, the MTR steering group and all output leads (in most cases several times) and with all the directly involved as well as some of the aligned development partners. In addition, the team made field visits to 6 districts (Kavrepalanchowk, Banke, Kailali, Dadeldhura, Mahottari and Dhanusa), where it held meetings with officials at various levels/types of Local bodies (DDC/Municipality/VDC), had discussions with members of Ward Citizens Fora (WCFs) and Citizen Awareness Centres (CACs), whilst it also visited a number of Local Body (LB) implemented projects and where it was able to talk with user groups and beneficiaries. In addition, the team exchanged views and ideas with an important number of distinguished resource persons.

The team wishes to thank all those that have supported us during our work and spend time with us. We sincerely hope that the report and its recommendations do justice to those efforts. We especially wish to thank Mr. Mahendra Man Gurung, Secretary of MoFALD, Mr. Reshmi Raj Pandey, Joint Secretary and LGCDP National Programme Director (NPD), Mr. Eshor Poudel, Under Secretary and National Programme Manager (NPM) for their thoughtful guidance and the contributions by their staff, in both ministry and PCU/RCU. We thank Anil Chandrika, head of the DP Cell for his cheerful invisible hand behind the entire assignment. Through Deepak Elmer and Tom Wingfield, chair and co-chair of the Development Partner group for LGCDP respectively, we thank all the development partners for their contribution to our work.

Despite all this, only the team bears responsibility for what is written and not written in this report. And it may be clear that this report, by an independent review team, does not necessarily always reflect to position of the Government of Nepal, MoFALD or the development partners. Rather, the purpose of this report is to stimulate reflection and discussion amongst the stakeholders, which should lead to jointly chart out a best way forward.

We hope that the report and the ensuing discussions will contribute to put in place viable local governments in Nepal in the spirit of the Self Local Governance Act of 1999 and the provisions of the Constitution of 2015, and that it may contribute for Nepal to move beyond transition.

For Dege Consult,
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Note: The layout for this document is prepared for double sided printing and binding. It means that in some cases textboxes on even (left side) pages come before the text (on the right side page) that refers to them.

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General observations

The first phase of the LGCDP (covering the period 2008-2013) was designed shortly after the end of the Maoists led insurgency, the peace deal and the interim constitution (2006). As the transition to normalisation took longer than initially anticipated, LGCDP-II (2013-2017) was largely a continuation of the first phase - albeit some changes were made to the internal project set-up which in itself are less relevant for the bigger picture, but symptomatic for the inward looking culture that gradually crept in.

There was, however, one big change, which with the benefit of hindsight went largely unnoticed. Whereas under phase-I part of the block grants were foreign funded, under phase II, government agreed to put forward its regular local body block grants (to DDCs, Municipalities and VDCs) as part of the programme, thereby - with a total budget of USD 1.4 billion (!) for four years - making it one of the biggest - if not *the* biggest- local governance support programme ever seen. Next to these government grants, and as part of the programme, the Programme Document (ProDoc) foresaw a contribution of USD 210 million (or 15% of the total budget) by development partners to fund activities ranging from social mobilisation to capacity development to policy making.

In the end, and in part because the ProDoc had been deliberately very ambitious, the actual commitment of the development partners (DPs) only reached USD 100 million, thereby necessitating a scaling down of the activities. This was not necessarily bad, but because no formal re-budgeting exercise was performed and because no budget-expenditure overviews are available against the original budget it is impossible to analyse in any useful level of detail to which activities and output areas the DP-project funds, under the Joint Financing Arrangement (JFA) have gone. Proper accountability starts with a realistic budget and expenditures linked to that budget, while largely un-funded budgets totally flout that ground rule, affecting the solidity of the analysis.

All other evidence points towards the conclusion that the output around social mobilisation (output-1) received most attention, and is considered by the programme management in the ministry as the flagship component. With some 4,500 social mobilisers placed in every Municipal ward and Village Development Council (VDC) all over the country the LGCDP has contributed to a 'silent revolution that had to take place' by empowering local people to speak out and speak up through the WCFs and CACs. LGCDP is the only programme that has engaged in such activities whilst having a nationwide coverage and should be applauded for that. This positive conclusion, however, does not automatically mean that activities around social mobilisation need to be externally funded by DPs indefinitely. Neither does it mean that government should be the (only) official provider of social mobilisation. With a pluralistic view on society, many parties would/could be engaged in social mobilisation. In fact, if successful, in the end it becomes part and parcel of the routine functioning of society rather than a specially funded activity.

As part of the activities around social mobilisation, the LGCDP is making financial contributions to WCFs and CACs, which are often called LGCDP-grants. These grants, notably those to the CACs, are distinctly different in nature from the LB-grants as they are 'conditional' and to a large part private in nature (i.e. not funding *public* goods). Having the two types of very different grants under the same programme is an illustration of its wide span of activities.

Across this span of activities, capacity development (CD) has been a cross cutting theme within LGCDP. The work of the social mobilisers (funded under output-1) should certainly be seen as capacity development, although - since the VDCs do have so few staff - it can

also be seen as capacity substitution. In several places visited social mobilisers were seen to take on functions that naturally are part and parcel of the work of the local bodies. Another chunk of capacity development is found under output 5 (with an original budget of USD 35 million for the 4 year period), but the size and nature of the operations actually funded (and which may have well been much lower than the mentioned budget) was difficult to ascertain. A third stream of CD activities is funded under the Policy and Programme Support Facility (PPSF) managed by UNDP, and which itself is divided in three parts as follows: (i) long term national expertise for the Programme Coordination Unit (PCU) and the six Regional Coordination Units (RCUs) as well as experts attached to DDCs and municipalities; (ii) short term national and international consultants and (iii) funding of TA for strategic policy support and which also includes funding of the so-called DP cell, created late 2014 as liaison office between the government and the DPs for LGCDP. Both PCU and the RCUs have been instrumental in the implementation of the Programme, but at the same time they could be seen as capacity substitution that makes the Programme less integrated in the ministry than it actually looks at first sight. More importantly, because each of the PCU specialists is linked to an individual section (or undersecretary) in the ministry, while there is (apart from the half yearly national advisory coordination meetings) no mechanism for overall policy dialogue. In that sense, the more recently created liaison office between the government and the DPs (called DP cell) is a very useful addition to the programme set-up as it helps to focus the Programme and stimulate the absolutely needed policy dialogue. It serves not only as a bridge between DPs and government but also facilitates the connection between the PCU - as a whole - and the ministry.

Likely because of both the limited political space, and the preferential attention for social mobilisation, outcome-1 focusing on the *demand side* for public service delivery, received more attention under the JFA funded activities than the other three outcomes combined, all around policy development and the supply side of public services through local bodies. Obviously, there is an argument to start with the demand side, especially when the space for manoeuvre on the supply side is limited, but with the new constitution adopted in 2015, the latter situation has changed. There is need to also address the issues on the supply side, and pay attention to putting local government systems in order - which is much wider than just having elected councils in place.

Assessment against the main evaluation questions

For sure, LGCDP has made a tremendous contribution to improve the relation between citizens and the state through its support for the WCFs and the CACs, in which an estimated 4-5% of the total population is directly engaged. Latter institutions have instilled a sense of ownership in development planning, also because in many cases concrete funding followed the expression of needs. There is a general perception that because information as well as resources are more widely shared, the accountability for the use of those funds has improved.

Visits to projects funded with grants however showed that the LGCDP risks becoming a victim of its own success. Because of the enormous needs for public goods and the increased expression of demands the amounts allocated to each project are extremely small - and sometimes the total project costs (of e.g. one classroom) is spread out over three years, thereby reducing the need for annual plans (as one plan binds the budgets for three years or otherwise results in all kinds of unfinished projects). Because the projects are small and implemented over a long period of time, technical supervision and backstopping becomes problematic - yet absolutely needed. The MTR saw a classroom being constructed over a three-year period with a concrete ceiling but with only brick walls

and no pillars to support it. Apparently the walls had been built for an iron sheet roofing - but plans were changed later on - as concrete roofs were said to have the advantage of possibly adding multiple stories, clearly a disaster in the making. Overall, and as much as the direct beneficiaries are happy to receive a few hundred dollars for a small project, in terms of broad based service delivery the small amounts were often not adding up. In that sense, our findings are similar to the World Bank *Study on local service delivery* that in its first finding notes that 'Nepal's approach to local government has historically emphasized local participation and empowerment over creating institutions for service delivery'. The LGCDP has so far been a follower of that tradition.

But the same also has an implication for the accountability mechanisms as most projects are implemented through user groups, which are by definition groups of beneficiaries. Transfer of monies to user-groups inverses the accountability relation. The beneficiaries are not holding government to account but government (who provided the monies) should be keeping the groups to account. It means that as long as the above mentioned traditional local government approach is followed, the main purpose of giving people a voice is 'to get part of the pie', whilst accountability of the use of those funds is improved because people are aware of the funds made available and have become vocal to speak out - at the level of their own smaller user group. User groups are also kept in check because of the mandatory mechanisms of social audits and social accountability for all projects above a certain amount. Even though in instances the latter are seen as 'tick the box' exercise, all this helps to improve genuine use of the available funds but it still does not make a local body administration accountable to the population as a whole.

Whereas the WCFs are mainly a platform for citizens to raise their concerns, through the Integrated Planning Formulation Committees (IPFCs) at DDC, Municipal and VDC level the LGCDP initiated (or kept alive) local government alike resource allocation mechanisms, as these committees perform roles that would otherwise have been performed by the meeting of elected members. It is noted that especially the WCFs played an important role as established and easily to activate local level organisations when it came to the distribution of earthquake relief. Hence, rudimentary elements of a local government structure have been planted. However, as the upcoming local government system under the new constitution is likely to see an increase of scale in the geographical size of the local bodies (several VDCs being grouped together to form one rural or urban municipality whilst in future also the wards will cover larger areas), as compared to their current form, the local bodies will have to be re-composed completely. Also the role of the forum at the present ward level - which in many cases are likely to become sub wards - is to be redefined. After almost 15 years without elected representatives there seems little usefulness in having elections for the structures soon to be changed or abolished. For that reason it seems better to go for local elections under the new system as soon as possible.

Recommendations for the future

R1: Community development and local government reform are interrelated yet very distinct sets of activities that deserve to be treated separately, as having them together under one umbrella is stretching the scope of the Programme too wide. Under LGCDP-II most attention has gone to aspects of social mobilisation, which are highly relevant and important, but to be able to sustainably institutionalise the impact of social mobilisation, work needs to be done on local government structures which has - for a variety of reasons, and partly beyond the control of MoFALD - received relatively little attention over the past years under LGCDP.

R2: Support for social mobilisation needs to find its natural niche. The LGCDP has focussed on social mobilisation (the demand side) for the past 8 years. Tremendous results have been achieved, especially also because the activities were implemented on a national scale. It was the only programme of this nature that reached out to each corner of the country. But time has come to start considering a gradual transition of 'social mobilisation in donor funded project mode implemented by government' to a situation where it is either considered a regular service delivery function of the local bodies or where, as part of a pluralistic society, it is taken on by civil society itself.

R3: A next phase or new programme to focus on the establishment of a local government structure. In the spirit of the provisions of the LSGA (1999), the new constitution embeds the (re-)establishment of local government units as urban and rural municipalities under a federal system. It can be expected that over the years to come, an estimated 500-700 new municipalities are to be put in place almost from scratch, staffed, and that staff to be trained and equipped for the job. Institutional arrangements for the level(s) below the municipalities are yet to be worked out. This is the work that LGCDP has been waiting to do (supporting the supply side) - and now that the opportunity is there it should fully concentrate on it. Already during the remainder of LGCDP-II it should start working in this direction.

R4: Use JFA to establish an indicator based financing mechanism. The Joint Financing Arrangement, whereby government implements activities using its own funds whilst being reimbursed afterwards, is potentially a very strong joint donor financing mechanism supporting a government owned programme. As compared to the present situation, where funds are made available on a 'cash flow basis' without any accountability against the original budget, for a future 3rd phase or new project it is proposed to develop a mechanism where transfers are made on the basis of pre-defined triggers or key indicators. Examples of key indicators could be: comprehensive CD plan for all present and future municipality staff ready for implementation; elections for all municipalities in the new set up held; municipal CD plan implemented; etc. relatively few indicators for substantial amounts, that would also give enough space to the government to fund additional activities other than those required to meet the indicators.

R5: Need for a relatively small dynamic TA set up. Putting in place a new local government set-up can be seen as a 'huge project' - i.e. an activity of temporary nature. For this the ministry may not need a large number of TA on a permanent basis but rather have a very small highly competent and dynamic structure that can call in the required expertise in a very flexible manner, if and when needed. The same unit, which could take the shape of a decentralisation secretariat, would support policy dialogue and assist government with the project to establish a system of viable service delivery oriented local governments.

R6: establish a small task force to work out the contours of a possible new project. This MTR broadly indicated the direction in which future support of DPs could go as a follow on to LGCDP. It raises a number of issues that merit a much deeper discussion within government as well as between government and the DPs. Such discussions cannot be completed within the timeframe of a programme review mission, hence the suggestion that if both parties (Government and DPs) broadly agree on the recommendations, a small taskforce, with both national and international expertise is formed to elaborate the contours of a new programme over the next months. This work could be complemented by necessary background studies.

1. Background and Introduction

1.1 Developments in Nepal and origins of LGCDP

The promulgation of the Local Self Governance Act 2055 (1999) was a major landmark in Nepal's history of decentralisation as it provided for the devolution of power and resources to local bodies, and for citizen participation in local level planning. The promising path of decentralisation that Nepal set out since then was not without impediments though, one major challenge being the decade-long conflict (the Maoist's "People's War") that crippled large parts of the country from 1996 to 2006, and which also led to the suspension of local elections in 2002. Nepal has effectively been without elected local bodies since then.

The Local Governance and Community Development Programme - LGCDP - started in 2008, shortly after the Maoist led insurgency had come to an end. One of its broader objectives was to pay 'peace dividend' and help build the nation by rebuilding the relation between people and the state whilst using the provisions of the 1999 Local Self Governance Act (LSGA), which reflects a strong local government spirit. While the absence of elected local representatives has for sure been hampering many local development and accountability efforts, the LGCDP-I was to serve as a precursor for democratic local governments as soon as the situation would normalise.

The design of LGCDP-I builds on the lessons and elements of two important predecessor programmes being the Decentralised Local Governance Support Programme (DLGSP), which was predominantly a social mobilisation and community driven development projects (implemented by UNDP and funded by Norway), and the Decentralised Financing and Development Programme (DFDP), a UNCDF district development fund programme, financially supported by DFID, that was seeking to build district capacity and improve service delivery at the local level. As such, and after prolonged and sometimes protracted discussions, the LGCDP programme, and as reflected in its name, represented from the start two schools of thought that found, on the demand side, consensus in the transformational social mobilisation approach. As will be described in this report, the demand side has so far received most attention under the programme, while - also because the political environment was not conducive - attention for the supply side has been lagging behind.

Ever since it was designed, the LGCDP has been operating in an uncertain political context, as a programme 'in waiting'. LGCDP-II was designed, in 2013, basically as a continuation of LGCDP-I, with the major changes being in its operational modalities, not in the objectives or mix of activities.

In 2015, -when LGCDP-II was about half way-, Nepal's transitional period reached a new phase with the adoption of the new constitution that provides for a transition of the country from a unitary state to a federal state, with provinces, for which the boundaries are still disputed, as the federal units, and as such as the highest sub-national level of decentralised (i.e. devolved) government. The institutional changes to emanate from the constitution will have a great impact on both the assessment of past achievements as well as on the way forward.

1.2 LGCDP-II in a nutshell

1.2.1 Objectives, outcomes and activities

As per the programme document, the overarching goal of LGCDP-II is "*to contribute towards poverty reduction through better local governance and community development*" and its stated objective (purpose) "*to improve local governance for effective service delivery, local development and citizen empowerment*".

Textbox 1.1: Snapshot of work undertaken to achieve LGCDP's 9 outputs (see also textbox 2)

As outlined in the ProDoc, LGCDP-II is composed of four outcomes, nine outputs and, as described in the Strategic Implementation Plan (SIP), seventy different activities.

Output 1, can be characterised by three main activities:

- (i) Placement of over 4,500 social mobilisers, one for each Village Development Committee (VDC), employed through a local service provider;
- (ii) hiring of over 500 Local Service Providers each providing (next to the VDC mobilisers) one person to oversee these VDC level social mobilisers (around 10 person on average)
- (iii) Provision of a flat annual grant of NRP 30,000 to each of the over 4,500 Citizen Awareness Centres (CACs), that reach out to mobilise the ultra poor and provision of one-off community livelihood grants (the livelihood improvement programme and community infrastructure grant)

Output 1 also deals with the establishment and institutionalisation of the Ward Citizen Forums (WCFs), which are sub-VDC level groups of some 27 people representing different walks of the community, that, in the absence of the elected councils, serve both as 'transitional substitute' for elected councils enabling structured citizen participation in local public sector decision making as well as play a watchdog/oversight function. In general, the WCFs have five functions as follows:

- o support local bodies in planning and enable ward level needs to be expressed
- o project monitoring and involvement in project implementation
- o provide civic oversight of line ministries (an activity that is yet to materialise)
- o help reduce social malpractices
- o support the national government in the execution of national programmes

Output 2 deals with the Local Governance Accountability Facility, application of accountability tools by the WCFs and civil society led compliance assessments. The establishment of a grievance handling system, that initially fell under output 6, is now also under this output.

Output 3 deals with expanding the Local Bodies' tax base and own revenue generation. At the same time, in the LGCDP-II budget (see below) this component deals with all the conditional and unconditional grants that the Ministry (MoFALD) sends to the local bodies (DDCs, municipalities and VDCs respectively). In terms of volume, there appears to be a huge imbalance between the grants (USD 1.2 billion for the grants) and the local revenue.

Output 4 is concerned with the fiscal management that mainly comprises of activities to improve the accounting systems, procurement, financial reporting, fiduciary risk mitigation and audit.

Output 5, directed to achieve "Institutional and human resource capacities of LBs and central level", embraces mainly three elements:

- (i) implementing generic capacity development programmes for LB staff
- (ii) improve LB capacity for LB service, and
- (iii) strengthen the Local Development Training Academy (LDTA) at the central level.

Output 6 deals with service delivery by Local Bodies, which in the present context is focussed on (limited to) vital registration, registration for and payment of social security benefits, community mediation and small scale VDC level infrastructure, for which output 6 seeks to introduce technical standards.

Output 7 covers the planning for 'service delivery', and this output is the custodian of the 14 step planning model that is presently being revised (to make it more simple).

Finally, the outputs under Outcome 4 are dedicated to strengthen the "policy and institutional framework for devolution, sub-national governance and local service delivery".

Output 8, was to focus on improving the existing governance system at the sub-national level in the transition period through doing preparatory works like reviewing decentralisation; preparing a fiscal decentralisation road map, activating the Decentralisation Implementation and Monitoring Committee (DMIC) chaired by the prime minister but which has not met for the past so many years; rationalising the jurisdiction of local bodies; and developing/codifying the relevant guidelines and manuals

Output 9 is focussing on policy development for local bodies under the new dispensation. The concrete activities foreseen are to facilitate MoFALD's Federal Affairs Unit (FAU) and the Local Government Restructuring Commission (LGRC) to prepare a policy paper on sub-national governance options, develop a transition plan, align and identify existing and new policies/laws, design inter-governmental oversight arrangements, administrative structure of LBs, and draft metropolitan city legislation, prepare SWAPs for the federal structure.

Overall, it is our impression that, as is, the gravity of the activities funded from the DP basket lies with output 1 and, to a lesser extent, with outputs 5 and 7.

The higher-level programme log-frame is summarised in Textbox 1.2 below. It shows that under the overall objective, the programme has four expected outcomes and nine expected outputs.

Textbox 1.2: LGCDP higher level log frame			
Overall Objective: (purpose level)		Effective service delivery, local development and citizen empowerment	
Outcomes		Outputs	
1.	Accountable local governance	1	Citizens and community organisations empowered
		2	Accountability mechanisms re-informed
2.	Responsive local bodies	3	Local bodies' access to resources increased
		4	Public financial management systems improved
		5	Capacity of local governance actors strengthened
3.	Efficient and effective local service delivery	6	Access & quality of services of local bodies improved
		7	Coordination amongst local governance actors improved
4.	Conducive policy and institutional framework	8	Refined policy on local governance
		9	Devolution and federalism policy developed

Whereas outcome-1 deals with the *demand side* for public services, the other three outcomes cover the supply side, i.e. they deal with the way local bodies provide services and the way they interact with the public.

A first snapshot of the activities undertaken by LGCDP-II to achieve both outputs and outcomes is provided in Textbox 1.1 overleaf

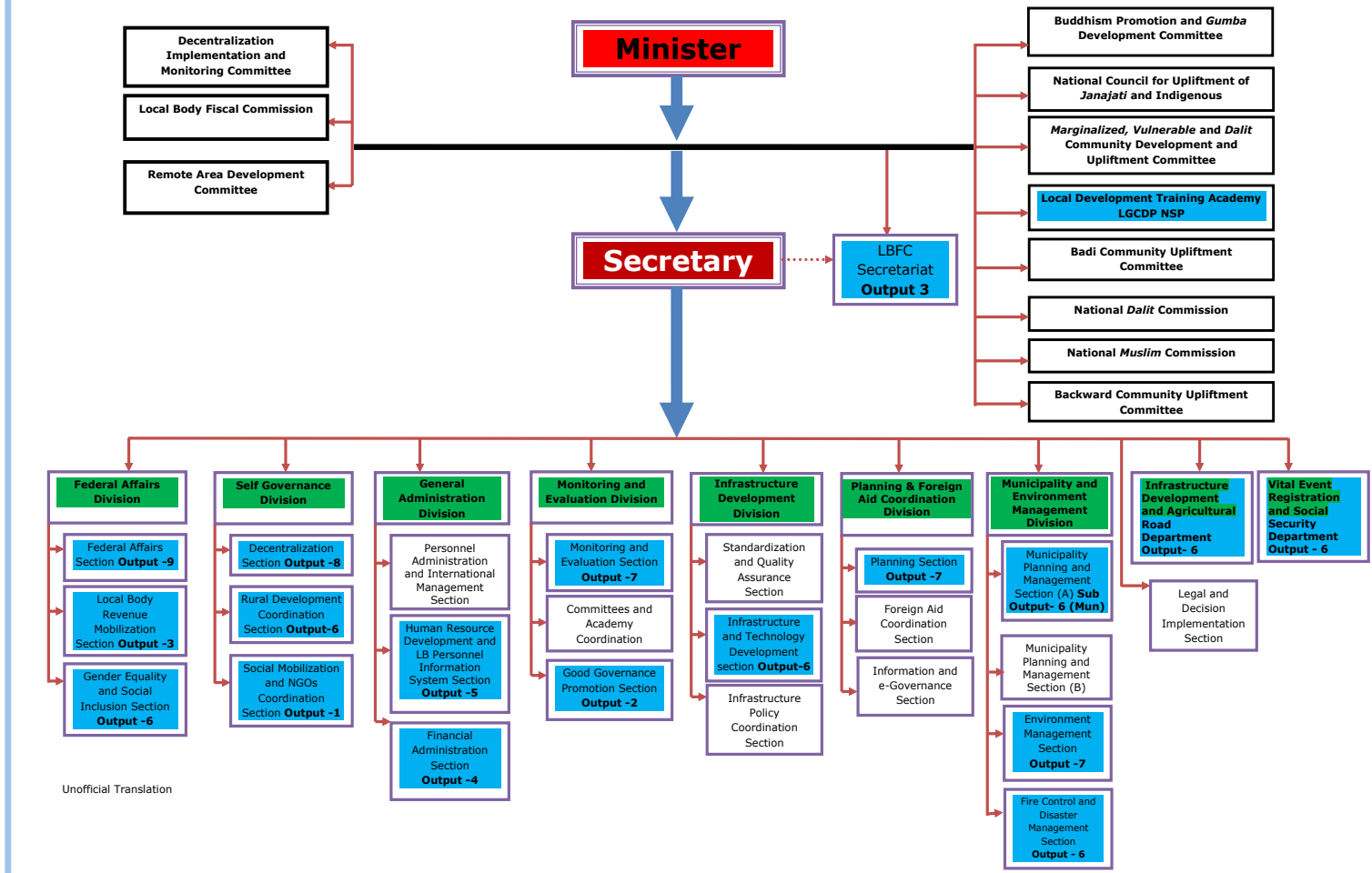
1.2.2 Institutional set-up

For the Government of Nepal, the LGCDP-II is exclusively implemented by the Ministry of Federal Affairs and Local Development (MoFALD). Under-Secretaries (those that handle sections; Joint-Secretaries handling divisions) are appointed as output leads and virtually every division in the Ministry is responsible for one or more outputs (see Figure 1 – the blue boxes show where programme outputs are institutionally 'housed'). Most outputs are linked to one particular unit (and hence to one Under-Secretary) but some outputs, notably output 6, cover activities implemented by various sections. As can also be seen from Figure 1, it is difficult to distinguish LGCDP from MoFALD and vice versa, at least on paper, and the programme/project seems well mainstreamed.

The Joint-Secretary for the Self-Governance Division, and under which social mobilisation resides, is the National Programme Director (NPD), whilst there is an Under-Secretary (in the same division) who takes the role of the National Programme Manager (NPM), responsible for the day-to-day management of the programme. The Ministry's Secretary is the chair of the National Advisory Committee (NAC) that meets twice a year. Given that various Joint-Secretaries are responsible for parts of the project, it could be argued that, institutionally, it would be logical for the Secretary to take the role of NPD and for a joint secretary to take the role of NPM, to emphasise the Secretary's active involvement.

At the moment there is a very limited role, if any, for other line ministries in the programme. All activities are managed and implemented under the direct control and responsibility of MoFALD. This is quite peculiar for a decentralisation programme that is to drive the agenda of devolution as envisaged in the LSGA, and support the role of LBs as a genuine platform for coordinated, locally planned services, at least as far as the devolved sectors are concerned.

Organogram of Ministry of Federal Affairs and Development



1.2.3 LGCDP-II: Funding, Budgets and Expenditure

The total budget for LGCDP-II as per the Programme Document is an astounding NPR 115.8 billion or USD 1.4 billion in equivalent.¹ Equally extraordinary, 84.5% of this amount are grants provided by the Government of Nepal, whilst the budget has a calculated contribution of USD 210.5 million by the development partners, representing 'only' 15.5% of the total budget (see Table 1.2 overleaf).

In fact, there are not two but three funding streams for LGCDP-II as follows:

- The fiscal grants released by central government, as conditional and unconditional grants to local bodies (DDCs, Municipalities and VDCs), that existed (though smaller) before LGCDP-II and that are likely to exist beyond the life of LGCDP-II;²
- Funding provided by a group of development partners, under the Joint Financing Agreement (JFA), to finance the set of complementary activities under LGCDP-II as shown in Table 2 (column JFA). The funded activities include so-called 'LGCDP grants', which are, despite the same name ('grants'), very different in nature as compared to the above referred grants to Local bodies; and
- Funding, by DFID, Denmark, Norway, for the Policy and Programme Support Facility (PPSF), managed by UNDP, which basically serves to hire staff and technical assistance against market conditions (i.e. not following government scales and procurement rules). A total amount of USD 14.7 million has been committed.

As compared to the planned budget for the JFA (of USD 210 million), the actual DP commitment, through the joint basket had, till early 2016, reached a level of around USD 98.3 million only, which would have been finished by end of the fiscal year. Recently, an additional commitment of USD 10.5 million was added (by DFID, Denmark and Norway) to avoid a complete funding gap for the last year of the programme (even though the lower budget may need to further cut in the activities).

Also the grants released by government are slightly below the initial budget provisions. In December 2015, government communicated that for the first 2 years of the programme some USD 407.1 million has been transferred, representing 35% of the amount foreseen for 4 years.

For the JFA, and due to the fact that books are kept following the government cost coding system (and whereby budget codes run across activities without a specific code linking it to an activity or output), no expenditure overview is available by activity, output or outcome. Hence, no budget expenditure overview can be made against the originally approved budget. Neither is it known where the actual savings are being made in the budget to cover the shortfall of over 50% in actual available resources as compared to the original budget. Given that the costs under especially output 1 (salaries of the 4,500 social mobilisers and their local service providers) are considered 'pretty fixed', it is assumed that savings are made especially in output 5 (Capacity development) for which USD 35 million was budgeted, as well as outputs 3, 6 and 7, but there are no data to confirm this.

Table 1.1: LGCDP-II - summary of financial means, budget and estimate of expenditures

Financing window	Source	Initial Budget	Actual available budget	Estimate of actual expenditures to date
LB grants	Government of Nepal	USD 1.152,6 M	USD 850 M (est)	USD 600 M (est)
JFA	DFID, Norway, Denmark, SDC, ADB, UNDP, UNCDF, UNICEF, UNFPA, UN Women	USD 210,5 M	USD 98.3M+10.5M = USD 108.8 M	Close to USD 86M (estimate)
PPSF	DFID, Denmark, Norway	USD 13.5M	USD 12.5M + 2.2M = USD 14.7 M	USD 8.4 M
TOTAL		USD 1,4 billion	~ USD 975 M	~ USD 700 M

¹ With that amount, and in terms of budget, LGCDP-II could easily be the biggest local governance programme worldwide.

² These grants will be further discussed and analysed in Chapter 2

Table 1.2:

LGCDP II: TOTAL BUDGET BY ACTIVITY and SOURCE of FUNDING					in USD	
	GoN	JFA / JFTA		TOTAL		
OUTCOME 1: Accountable Local Governance	0	93,314,824	44.3%	93,314,824	6.9%	
Output 1: Citizens and Community Organisations empowered	0	88,331,294	41.9%	88,331,294	6.5%	
- Social mobilisation and related activities	-	11,984,706	5.7%	11,984,706	0.9%	
- WFCs and related activities	-	4,741,176	2.3%	4,741,176	0.3%	
- CAC and related livelihoods activities	-	5,001,176	2.4%	5,001,176	0.4%	
- Mainstreaming accountability and monitoring at the local level	-	4,117,647	2.0%	4,117,647	0.3%	
- Improve effectiveness of targeted grants to Women, Children and DAGs	-	441,176	0.2%	441,176	0.0%	
- Expand Child Friendly Local Governance	-	1,764,706	0.8%	1,764,706	0.1%	
- Other - Unspecified	-	60,280,706	28.6%	60,280,706	4.4%	
Output 2: Accountability mechanisms for local governance in place	0	4,983,529	2.4%	4,983,529	0.4%	
- Introduce Local Governance Accountability facility (LGAF)	-	521,176	0.2%	521,176	0.0%	
- Civil society led compliance monitoring in 75 districts	-	2,964,706	1.4%	2,964,706	0.2%	
- integrate accountability tools in the Social Mobilisation process	-	1,497,647	0.7%	1,497,647	0.1%	
OUTCOME 2: Responsive Local Bodies	1,151,645,259	53,026,998	25.2%	1,204,672,257	88.4%	
Output 3: LBs' access to resources increased	1,151,645,259	10,200,588	4.8%	1,161,845,847	85.3%	
- Improve own source revenues	-	282,353	0.2%	282,353	0.0%	
- Improve and expand (Performance based) grant allocation system	-	1,371,176	1.2%	1,371,176	0.1%	
- Provide local bodies with performance based annual block and other grants	1,151,645,259	-	0.0%	1,151,645,259	84.4%	
- Pilot MARS in Kathmandu Metropolitan City	-	3,529,412	3.0%	3,529,412	0.3%	
- Establish reward and sanction mechanism in LBs' finance (L)	-	5,017,647	4.3%	5,017,647	0.4%	
Output 4: Public financial management system improved	0	8,095,822	3.8%	8,095,822	0.6%	
- Roll out improved accounting system at local bodies	-	6,637,059	3.2%	6,637,059	0.5%	
- related specified activities	-	1,458,763	0.7%	1,458,763	0.1%	
Output 5: Capacity of local governance actors strengthened	0	34,730,588	16.5%	34,730,588	2.5%	
- Strengthen LB capacity for service delivery	-	12,876,470	6.1%	12,876,470	0.9%	
- Provide programme support	-	20,130,588	9.6%	20,130,588	1.5%	
- capacity building central actors and other activities	-	1,723,529	0.8%	1,723,529	0.1%	
OUTCOME 3: Efficient and effective local service delivery	0	63,035,294	29.9%	63,035,294	4.6%	
Output 6: Access to and quality of services administered by LBs improved	0	14,910,588	7.1%	14,910,588	1.1%	
- Improve QA of local infrastructure	-	2,935,294	1.4%	2,935,294	0.2%	
- Develop local-level community mediation services (M)	-	429,412	0.2%	429,412	0.0%	
- Improve local management of vital and social security registration	-	4,611,765	2.2%	4,611,765	0.3%	
- Implement LED activities in municipalities and peri-urban VDCs	-	3,023,529	1.4%	3,023,529	0.2%	
- Develop NGO/CSO-based service delivery options for high risk/remote areas	-	2,635,294	1.3%	2,635,294	0.2%	
- Improve grievance mechanism	-	1,275,294	0.6%	1,275,294	0.1%	
Output 7: Coordination amongst local governance actors improved	0	48,124,706	22.9%	48,124,706	3.5%	
- Review and update periodic plans of LBs & support planning	-	11,729,412	5.6%	11,729,412	0.9%	
- Improve coordination between local bodies and local service providers	-	952,941	0.5%	952,941	0.1%	
- Mainstream GESI, CFLG & EFLG, disaster management etc. into plans	-	34,688,235	16.5%	34,688,235	2.5%	
- Strengthen monitoring and reporting systems at national and local levels	-	530,588	0.3%	530,588	0.0%	
- Introduce a citizens' perception survey	-	223,529	0.1%	223,529	0.0%	
OUTCOME 4: Conducive policy and institutional framework	0	1,205,882	0.6%	1,205,882	0.1%	
Output 8 : Refined policy on local governance	0	758,824	0.4%	758,824	0.1%	
Output 9 : Policies developed for devolution and federalism	0	447,059	0.2%	447,059	0.0%	
GRANT TOTAL	1,151,645,259	210,582,998	100.0%	1,362,228,256	100.0%	
	84.5%	15.5%		100.0%		

In case government manages to release the same amount for LB-grants during the second half of the Programme period as it has been able to do in the first 2 years, or slightly higher, the total programme outlay still oscillates between USD 900 million and one billion (see table 1.1). This remains a very considerable amount, representing an average of almost USD 250 million a year, equivalent to USD 8.35 per capita (per year). These are amounts to a tune that the Programme should be able to pull off some substantial reforms.

1.3 Understanding of LGCDP-II's rationale and focus of the MTR

The basic rationale of the LGCDP-II, and the basis for the Government of Nepal (GoN) and the DPs to enter into the partnership for the second phase, must be (even though this is nowhere explicitly written) that the financial resources the DPs put on the table (the USD 210 million as per the budget and USD 110 million in actual materialised commitments so far) are meant to (i) improve the quality of spending of the USD 1.2 billion local body grant money made available by GoN, and at the same time to (ii) build, or at least prepare the ground for, a local governance/government system that is grounded on democratic principles (with elected representatives) and that delivers services that people need and prioritise.

As indicated above, the financial volume of the Programme is amazing, but also the fact that government agreed to have its own resources included in the Programme thereby providing the DPs with the opportunity to assist the government, through policy dialogues around the Programme, in building systems for participatory inclusive local governance.

Whereas some see LGCDP-II as budget support to the Ministry next to the LB-grants that run their own course, the MTR-team considers the objectives and the stakes to be much higher, as indeed the Programme must be understood to include both the grants *and* the funding for 'software' activities to improve the spending of the grants. As the LB grants were there before LGCDP-II, and are likely to be there also after, the JFA could be seen as a project (defined as a temporary intervention to change a particular situation), whilst the total budget (LB grants and JFA) could be seen as a programme.

Against that background and understanding, four main evaluation questions were formulated in the final version of the inception report as follows:

- How has the project (i.e. JFA and PPSF) helped to improve the spending of the local body grants?
- How has the project helped to improve service delivery through the use of the grants?
- How has the LGCDP as a programme been contributing to laying the foundation for a system of democratic local governments?
- In how far have the institutional and organisational arrangements, and notably those around the JFA basket fund, been effective in the achievement of the above three questions?

On the basis of the inception report, it was agreed to primarily look at 'bigger picture issues', and only look back to be able to better plan for future interventions. The MTR report should be seen as opportunity to sit back from the day-to-day operational hassle and reflect on the original 'big picture' objectives of the Programme and see whether it is still aligned with its core values and in line with the changed context, given the new constitution.

1.4 Structure of the report

At first sight, the LGCDP is a very big and complicated programme. Partly this is because over the years it has been naturally growing into different directions, whilst also different DPs have been bringing different activities under the same umbrella through the so-called aligned programmes. Various kinds of what could be considered, as compared to the original ProDoc, fringe activities have been added. In this report we have endeavoured to stay focused on the main aspects of what, in our view, matters most.

In the above, in this first Chapter 1, we have tried to provide a relatively simple picture of the programme, and we continue to do so throughout the report by focussing on main building blocks before drawing conclusions and from there move towards main recommendations.

Chapter 2 analyses the funding available to local bodies, notably through the fiscal grants that form the heart of the LGCDP-budget. Chapter 3 deals with social mobilisation and social accountability whilst Chapter 4 reviews issues of service delivery. Chapter 5 deals with institutional issues and capacity development, which are closely related to the way the project is set up whilst -as explained in that chapter- the CD activities appear to have been limited in volume.

At its inception, LGCDP was to be seen as peace dividend to restore the relation between citizens and the state. Yet, the longer-term objective has always been to help put in place a local governance system as a precursor for the establishment of local governments following the Local Self Governance Act of 1999. This spirit has now been captured in the Constitution adopted last year, making the establishment of local governments a legal requirement. Chapter 6 makes an assessment of the achievements of LGCDP-II in the light of the new context of the impending federal system and the expected establishment of urban and rural municipalities as main local government units across the entire country. Through the chapters 2-6, all nine outputs are covered as shown in the table below. Chapter 7 finally brings out six major 'big picture' recommendations.

Table 3: Relation between chapters and outputs

Chapter	topic	Related outputs / topics
Chapter 1	Intro	LGCDP - general programme overview
Chapter 2	LB finances	Outputs 3 and 4
Chapter 3	Social mobilisation	Outputs 1 and 2
Chapter 4	Service delivery	Output 6 - with elements of outputs 5 and 7
Chapter 5	Institutional issues and CD	Output 5
Chapter 6	Assessment	In the light of the evolving context / outputs 8 and 9
Chapter 7	Recommendations	Looking at the future - beyond LGCDP-II

One final word before the main chapters: this report is not written to provide the sole answer or universal truth. It is written to serve as a starting point for discussion between the GoN and the DPs (as well as other interested stakeholders) on what are priority areas for attention and support in the area of local governance beyond LGCDP-II.

2. Funding and Financial Resources for Local bodies

2.1 Introduction

Nepal has adopted a policy of promoting decentralisation by awarding more authority and resources to Local Bodies (LBs) as a measure to improve outreach of public service delivery and to enhance accountability. The legal and regulatory framework for this policy is among others guided by the Local Self- Governance Act and the Local Self Government Regulations (1999), the Local Body Finance and Administration Regulations (2007), the White Paper on Local Development and Self-Governance (2007), and the new Constitution adopted in 2015, replacing the interim constitution of 2006.

As per this legislative framework, certain service delivery functions were assigned to village (VDC), municipal, and district (DDC) level councils. The LBs were legal entities functioning as a body corporate that were governed by their councils of elected representatives, as their supreme body. These councils were to meet twice a year to decide policies, approve budgets and accounts. However, this was all interrupted by the suspension local elections since 2002. An “all party mechanism” was put in place, as a transitional solution, maintaining the functions of the councils for an interim period, until the arrangement was formally dissolved in January 2012. In many ways, however, their presence and influence, in one form or another, continues unabated as evidenced through the MTR’s fieldwork. Officially, councils are for the moment composed of the MoFALD representative at each level (i.e. the Local Development Officer at the DDC level, and the secretaries at municipal and VDC level), being the chair, plus, if available, like at DDC and Municipal level, a few other heads of departments.

The LBs are required to prepare development plans and budget in collaboration with other stakeholders in their jurisdiction, including NGOs and other civil society representatives. All LBs are required to maintain accounts and records of income, expenditure and assets, arrange for audit of accounts and clearance of audit queries and monitor staff employed.

Despite the absence of elected members of the councils, a participatory planning process is, in principle, implemented in most LBs. The District Implementation Plan process begins with a seminar to share ideas about functions of the local offices of central ministries, guiding policies at both national and district levels. Key participants are VDC chairpersons, heads of line agencies, NGO and other community representatives as well as DDC staff.

Programme proposals (or rather requests) are formulated at the ward level. They are subsequently reviewed and prioritized at the VDC level with participation of the VDC chairperson, chairpersons of user groups, social workers, and representatives of political parties, NGOs and community-based organizations. At the DDC level, sector committees review the proposals. These committees include the representatives from the line agencies and NGOs. An Integrated Planning Committee (which are nowadays also operational at VDC and municipal level as replacement of the all-party system) reviews the recommendations before it is submitted to the council for approval and reporting to the National Planning Commission (NPC).

LBs on average do mobilize some own resources through various revenue assignments (approximately a third of their total resource envelope for VDCs and Municipalities), with the balance provided as grant transfers and direct payments from the central government. In addition to the common financial management provisions for the entire public sector, there are specific provisions guiding management of different grants for each of the LB levels, among others related to expenditure and revenue assignments. These

assignments³ are based on decisions from central government and only to a limited extent guided by local demands. Despite a gradual increase in responsibilities to LBs, authority in decision over spending has not increased. Most devolved functions remain centrally funded and executed centrally managed.

2.2 LB funding by MoFALD and grants under LGCDP

2.2.1 Overview of grants to Local Bodies

The central government provides different types of grants to LBs which include annual block grants (conditional and unconditional⁴), administrative grants for financing administrative expenditures such as salary and allowances of staffs assigned from central level agencies and office operating costs, and special grants to match central contributions to programmes implemented by LBs and community groups.

The unconditional capital grant is the only fund where LBs have discretionary power to use and allocate resources to development projects and programmes. The other types of grants are conditional and mostly provided to meet the recurrent costs of LBs. However, LBs are entirely free to spend internal revenue sources on local priorities as they see fit.

LGCDP promotes a transparent formula based system for grant allocation. As such it is a move in the direction of improving predictability for LBs in grant allocation. According to the government accounts there were as much as 54 recurrent and capital grants released under MoFALD for LBs and this has been increasing over recent years. As can be seen from the Table 2.1, MoFALD overall expenditure has risen threefold and, with variations, the total amount of grants going to LB's has more than doubled over the past 8 years. The thing worth noting is that most of the grants going to LB's is covered by GoN own budget allocations. The DPs only contribute roughly a third of grants and these are all conditional grants through the JFA mechanism and these grants are very different from the LB grants.

Table 2.1: MoFALD total expenditure, LGCDP expenditure⁵ and LB grants, 2008/9 - 2015/16

Fiscal Year	Total MoFALD Exp	Total LGCDP exp	Grants to LBs	GoN Grants	Foreign Grants*
FY 2008-09	24,843,882,000	-	9,781,398,000	-	-
FY 2009-10	30,560,983,000	14,529,524,000	14,301,464,000	11,322,249,000	2,979,215,000
FY 2010-11	37,168,681,000	16,244,948,000	16,021,495,000	9,688,586,000	6,332,909,000
FY 2011-12	34,694,744,000	-	26,682,657,000	-	-
FY 2012-13	33,736,261,000	13,608,007,000	13,464,819,000	11,516,390,000	1,948,429,000
FY 2013-14	38,646,687,000	17,933,411,000	17,837,957,000	16,480,086,000	1,357,871,000
FY 2014-15	47,703,532,000	22,176,668,148	21,832,295,798	17,451,504,581	4,380,791,216
FY 2015-16	77,239,308,000	26,297,958,321	23,614,271,000	16,971,057,000	6,643,214,000

Source: MoFALD Grant Analysis by DP Cell

*) JFA, ADB, WB, UNCDF, Japan

In addition to the recurrent and capital block grant allocations to the LBs, the other grants were allocated through different programmes/separate budget heads although a majority of them with only minor allocations. In addition, several other ministries allocate conditional grants to the LBs that are earmarked for specific sector related purposes.

³ The municipalities, VDCs and DDCs are assigned 10, 11 and 16 functional expenditure categories respectively which include agriculture, water supply, construction and transport, education and sports, irrigation and river control, physical development, health, forestry and environment, language and culture, tourism and cottage industry, social welfare, labour wages, women and children, disabled people, hydropower, land management and rural settlements.

⁴ Article 36 of the Local Self-Governance Act 1999 provides for the annual block grant to local bodies (LBs) (DDCs, VDCs and Municipalities). Four types of grants are being provided to LBs as follows: (i) Unconditional Recurrent Grants; (ii) Conditional Recurrent Grants; (iii) Unconditional Capital Grants and (iv) Conditional Capital Grants. The "unconditional" block grants also have restrictions on their use and are subdivided into recurrent and capital expenditure menus i.e. they are not entirely "unconditional" to be used at LBs own discretion.

⁵ LGCDP data (budget and expenditures) include the grants to LBs as reflected in Table 2.3 below.

However, with multiple grants with overlapping “investment menus” and multiple conditions, there is, as recognised by various previous studies and reviews, a difficulty in establishing what all the different funding streams actually fund in terms of local projects. If this is to be verified it would require a tracking of grant transfer to the end user/project and backward tracking from projects to source since many of the multiple grants may have funded the same projects (and this doesn’t even include the sector grants allocated from other ministries for sector specific initiatives).

Where LBs are provided with earmarked grants or transfers, they take on the associated functional responsibilities, or some would say that they perform a central government task locally. This is most obviously the case for social protection and the related cash transfers. On a delegated basis, VDCs and municipalities administer the vast majority of the government’s cash transfer programmes (old age pensions, widows’ allowances, child grants, grants for disadvantaged households, etc.), using social security grants or transfers from MoFALD. This is also the case for a variety of local infrastructure responsibilities, especially local roads, for which LBs often receive conditional grants from MoFALD. DDCs, in particular, are provided with substantial funds (in the form of conditional grants) for the maintenance and/or improvement of district-level road networks. The provision of such conditional grants ensures that LBs meet (some of) their assigned infrastructural responsibilities.

Table 2.2 below shows the for a three year period the national budgets (as well as average relative share) of six key service delivery ministries. It shows that MoFALD is, in terms of budget size, the biggest Ministry after Education. As shown above, a substantial part of this budget (see Table 2.1) is used for transfers to local bodies.

Table 2.2 : The budget share of service delivery ministries (NPR, billion)

	Ministry	2012/13	2013/14	2014/15	Average	Share national budget (%)
1	Ministry of Education	63.43	80.96	86.03	76.81	15
2	Ministry of Federal Affairs & Local Development	36.74	46.54	57.44	46.91	9
3	Ministry of Physical Infrastructure/Transport	30.60	35.28	41.12	35.67	7
4	Ministry of Health and Population	20.24	30.43	33.52	28.06	5.5
5	Ministry of Agricultural Development	12.30	21.40	23.28	18.99	4
6	Ministry of Urban Development	10.89	18.27	21.46	16.88	3

Source: Redbook, Ministry of Finance

2.2.2 Volume and Trends in discretionary CG funding of Local Bodies

Under LGCDP (see also chapter 1) five different types of grants are distinguished as follows (see also Table 2.3):

- DDC grant
- VDC grant
- Municipal grant
- Local Development Fee fund, a compensatory revenue sharing arrangement; and
- LGCDP grants

The first four are grants to local bodies as part of a system of fiscal decentralisation, of which especially the first three are important as the last, the Local Development Fee fund, is a compensatory revenue sharing arrangement that is gradually being phased out. All four are grants, that are under LGCDP-II, fully funded by the GoN.

On the contrary, the LGCDP grants, which the Livelihood improvement (LIP) grant and the Community Infrastructure Grant (CIG), are all funded by development partners via the JFA mechanisms.

Table 2.3: MoFALD Grants, NPR

MOFALD: LGCDP Grants by Year

Budget Sub Head	Economic	Expenses type	Actual releases						Budget
			FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
			FY 2066-67	FY 2067-68	FY 2068-69	FY 2069-70	FY 2070-71	FY 2071-72	FY 2072-73
DDC Grant (365801)									
65801	26311	Unconditional Recurrent Grant to Local Bodies	1,183,504,000	1,237,613,000	1,503,805,000	1,711,761,000	2,093,610,000	515,727,406	-
65801	26312	Conditional Recurrent Grant to Local Bodies	-	65,088,000	45,652,000	27,265,000	-	1,712,611,729	2,304,996,000
65801	26321	Unconditional Capital Grant to Local Bodies	1,046,106,000	1,095,710,000	1,710,585,000	1,246,522,000	1,288,054,000	1,176,643,227	1,369,610,000
65801	26322	Conditional Capital Grant to Local Bodies	10,000,000	-	-	32,972,000	1,027,036,000	1,229,870,161	-
Total DDC Grant			2,239,610,000	2,398,411,000	3,260,042,000	3,018,520,000	4,408,700,000	4,634,852,523	3,674,606,000
VDC Grant (365802)									
65802	26311	Unconditional Recurrent Grant to Local Bodies	1,565,661,000	1,565,089,000	1,565,740,000	1,565,599,000	1,565,979,000	1,563,094,822	1,417,405,000
65802	26312	Conditional Recurrent Grant to Local Bodies	-	-	-	-	-	-	-
65802	26321	Unconditional Capital Grant to Local Bodies	5,711,311,000	6,181,062,000	6,836,951,000	4,231,006,000	6,565,119,000	5,741,038,445	6,634,422,000
65802	26322	Conditional Capital Grant to Local Bodies	-	14,279,000	-	-	-	-	-
Total VDC Grant			7,276,972,000	7,760,430,000	8,402,691,000	5,796,605,000	8,131,098,000	7,304,133,267	8,051,827,000
Municipal Grant (365803)									
65803	26311	Unconditional Recurrent Grant to Local Bodies	60,875,000	109,300,000	108,684,000	109,719,000	10,800,000	60,442,731	-
65803	26312	Conditional Recurrent Grant to Local Bodies	4,072,000	-	2,500,000	-	-	353,755,247	1,230,198,000
65803	26321	Unconditional Capital Grant to Local Bodies	282,012,000	582,008,000	1,150,505,000	937,346,000	1,147,838,000	1,131,651,500	4,321,707,000
65803	26322	Conditional Capital Grant to Local Bodies	3,334,000	-	-	80,000,000	280,788,000	2,846,438,543	743,893,000
Total Municipal grant			350,293,000	691,308,000	1,261,689,000	1,127,065,000	1,439,426,000	4,392,288,020	6,295,798,000
Local Development Fee Fund (365817)									
65817	26311	Unconditional Recurrent Grant to Local Bodies	369,354,000	399,993,000	399,362,000	449,740,000	643,147,000	602,873,111	-
65817	26312	Conditional Recurrent Grant to Local Bodies	-	-	-	-	-	-	-
65817	26321	Unconditional Capital Grant to Local Bodies	-	-	-	-	-	-	-
65817	26322	Conditional Capital Grant to Local Bodies	1,616,674,000	2,085,518,000	1,736,917,000	1,251,080,000	1,953,121,000	1,960,669,808	1,080,069,000
Total LD Fee Fund Grant			1,986,028,000	2,485,511,000	2,136,279,000	1,700,820,000	2,596,268,000	2,563,542,919	1,080,069,000
LGCDP (365819)									
65819	26311	Unconditional Recurrent Grant to Local Bodies	213,266,000	1,474,000	-	-	1,256,163,000	-	-
65819	26312	Conditional Recurrent Grant to Local Bodies	-	624,491,000	879,305,000	1,027,867,000	6,302,000	2,890,647,426	4,511,971,000
65819	26321	Unconditional Capital Grant to Local Bodies	-	-	-	-	-	-	-
65819	26322	Conditional Capital Grant to Local Bodies	2,235,295,000	2,059,870,000	722,850,000	793,942,000	-	46,831,642	-
Total LGCDP Grant			2,448,561,000	2,685,835,000	1,602,155,000	1,821,809,000	1,262,465,000	2,937,479,068	4,511,971,000
Grand total for all Grants in above budget heads			14,301,464,000	16,021,495,000	16,662,856,000	13,464,819,000	17,837,957,000	21,832,295,798	23,614,271,000

Source: Prepared by MoFALD and the DP Cell at the request of the MTR mission.

Four each of the five grants items four economic categories are distinguished:

- Recurrent conditional
- Capital conditional
- Recurrent unconditional
- Capital unconditional

Data for all the categories for the period of seven years is presented on the opposite page. Especially the budget for 'unconditional capital grants' is important to analyse, as it reflects that part of the fund flow from central government to local bodies that can be used for development to the discretion of the local bodies, precisely because it is unconditional.

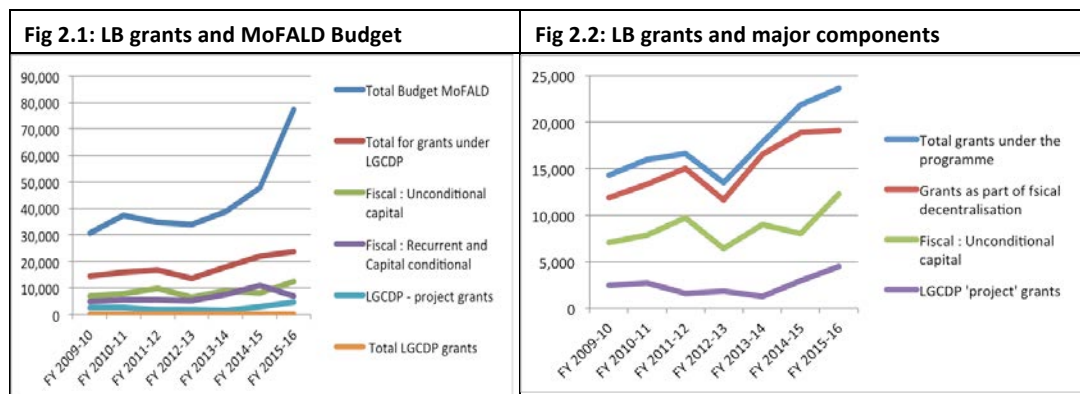
Compared to the sharp increase in the total budget of MoFALD over the past years, the growth in the volume of discretionary funding to LBs has been fairly modest with an increase from NPR 7.0 billion in FY 09/10 to a budget of NPR 12.3 billion in the current FY (see fig 2.1). As a result, the relative share of unconditional capital grants in the total budget of the Ministry has gone down. (See Table 2.4)

Although it fluctuates a bit -but without a clear trend-, the unconditional capital grants are over the years between 55 and 65% of the total amount for fiscal grants.

At the same time the data show that the budget for LGCDP-project grants, which are by their nature all classified as 'conditional', constitute a relatively small part (on average below 15%) of the total grant volume.

Table 2.4: LGCDP grants and total expenditure of MoFALD, FY09/10-15/16, NPR million

	Actual expenditures / releases						budget
	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	
Total Budget MoFALD	30,561	37,169	34,695	33,736	38,647	47,704	77,239
Total for grants under LGCDP	14,301	16,021	16,663	13,465	17,838	21,832	23,614
Fiscal : Unconditional capital	7,039	7,859	9,698	6,415	9,001	8,049	12,326
Fiscal : Recurrent and Capital conditional	4,813	5,477	5,363	5,228	7,574	10,845	6,777
LGCDP - project grants	2,449	2,686	1,602	1,822	1,262	2,937	4,512
Total LGCDP grants	14,301	16,021	16,663	13,465	17,838	21,832	23,614
Unconditional capital as % of MoFALD budget	23.0%	21.1%	28.0%	19.0%	23.3%	16.9%	16.0%
Unconditional capital as % of LGCDP grants	49.2%	49.1%	58.2%	47.6%	50.5%	36.9%	52.2%
Unconditional capital as % of fiscal grants	59.4%	58.9%	64.4%	55.1%	54.3%	42.6%	64.5%



During field work, however, it has been noted that what is classified as 'unconditional grants' at the national level is labelled conditional at the level of the local bodies, especially because of the instruction that certain percentages of the grant (35% of total) should be upfront set aside for women, children and ethnic minorities.⁶ It reflects a way of looking at local governments and of guiding them by the most detailed instructions possible (rather than turning the paradigm, and let them make the choices with some performance measuring afterwards, and mechanisms to adjust.

⁶ In the comments on the draft report, it was mentioned that there is also 15% to be set aside for agriculture, bringing the total allocated to 50%. Whatever the precise figure, the message is that a substantial part of the unconditional grant is actually conditional through this process of earmarking.

2.2.3 Applied allocation formula for MoFALD grants

Since FY 1995/96, the GoN provides an annual block grant of Nepali Rupees (NPR) 300,000 as an 'flat' equal annual amount to all VDCs, irrespective of area, population or other characteristics that would have a bearing on costs and or a reflection of needs.

In FY 1997/98 the annual VDC grant was increased to NPR 500,000 per VDC, but the size of population, cost and area for services greatly varies among VDCs in Nepal. Some VDCs have more than 40,000 inhabitants some have less than 1,000 and land size varies considerably. Similarly, the cost of services is at least 4 to 5 times more expensive in the hills and mountains compared to the Terai (lowland) areas. Despite such differences the annual block grant allocation had not considered those factors and provided equal amount of block grant to all VDCs.

In 2008/09 LGCDP developed an allocation formula for the annual block grant to VDCs. Later on the formula for other LBs were also revised including the block grant allocation to Municipalities and District Development Committees (DDCs). The current formula for Block Grant Allocation in Nepal is given in Table 2.5 below.

Table 2.5: Annual Block Grant Allocation Formula Indicators

Indicators	VDCs	Municipalities	DDCs
Population	60%	50%	40%
Area in Sq Km	10%	10%	10%
Weighted Cost	30%	-	25%
Weighted poverty	-	25%	25%
Weighted Internal Tax Revenue	-	15%	-

Source: Local Body Resource Mobilization Guideline 2012

2.2.4 Performance based grant system

The GoN, as per provision of LSGA 1999, has constituted the Local Body Fiscal Commission (LBFC). MoFALD chairs the LBFC and it furthermore has representation from Association of DDCs, VDCs and Municipalities plus key government representatives from the Ministry of Finance and the National Planning Commission. LBFC is mandated to design inter-governmental fiscal transfer system, performance assessment of LBs, research on resource mobilization of LBs, capacity development and advocacy for LB's.

The LBFC has been central in the implementation of the annual performance assessment (or minimum Conditions and Performance - MCPMs in short) of LBs since they were initiated in FY 2005/06. All minimum requirement and performance indicators are designed and approved by the LBFC.

Table 2.6: MCs and PMs Indicators

Local Bodies	Minimum Conditions	Performance Measures	
	Number of Indicators	Number of Functional Areas	Number of Indicators
District Development Committees (Manual 2008 revised in 2011)	9	5	46
Village Development Committees (Manual 2009 revised in 2011)	7		13
Municipalities 2010	10	5	40

LBFC annually conducts the performance assessment of LBs and then analyse the data generated and prepare the assessment report. Based on the assessment report LBFC recommends to either sanction or reward a LB in regard of its performance in relation to the unconditional grant. Any LB that fails to meet MCs will not receive the unconditional grants for the subsequent year. The PMs consists of a number of functional areas along with number indicators in PMs. The functional areas are core functions of LBs such as

planning and budgeting, budget execution, internal and external audit, monitoring and evaluation, assets management, and pro-poor policies.

For the performance measures this will have impact for all DDCs, VDCs and Municipalities on LBs grant allocation as follows:

- The upper 25% LBs who scorer high marks (DDCs/VDCs and Municipalities will receive 15% additional grant.
- The second group of 25% LBs, which has less score than first group but above than third group will receive 10% additional grant.
- 10% budget sanction will be applied for the third group of 25% LBs who has obtained score below than first and second.
- 15% budget sanction will be applied for the fourth group of 25% LBs whose score is below than above three groups.

If effectively integrated into the regular performance assessment system of LBs, the MCPM-system has the potential to identify on a regular basis capacity gaps of LBs. As such, it has drawn attention to the need for support on record keeping and information management system. It contributes to keep LBs transparent, efficient and accountable. Despite its success there are also areas for the improvement of the utility of the MCPM-system, notably with regards to ensuring that the MCPM is linked to identifying capacity gaps as well as CD measures to address them and for which funding should be available through the unconditional grants.

The performance-based system is only applicable to the unconditional capital development grants. Based on the data presented in Table 2.3, the Table 2.7 below presents that unconditional capital development for the different LB-levels for the past 3 years (of LGCDP-II) as actual releases.

Over this period, for the DDC level the share of the unconditional capital grant (as part of all fiscal grants to DDC, VDC and Municipality) seems to show a downward trend and typical below 40%. For the VDC and the Municipality (and apart from the odd figure for the Municipality in 14/15) the share of the unconditional capital grant has been persistently high and around 80%.

So for the VDC and the Municipalities the MCPM system applies for the majority of the grants received. This is much less for the DDCs where the MCPM applies only to one-third of the regular grants. However, apart from these regular DDC grants, especially the districts receive a lot of other sector related grants, which means that that the MCPM is only applicable for a relatively small part of the funding they receive.

Table 2.7: Annual Allocation of Block Grant to LBs (NPR '000) *)

Types of Grants	FY 2012/13		FY 2013/14		FY 2014/15	
	Total Grant	% Grant	Total Grant	% Grant	Total Grant	% Grant
DDC grants	3,019	100.0%	4,409	100.0%	4,635	100.0%
- Unconditional Capital	1,247	41.3%	1,288	29.2%	1,177	25.4%
- Other 3 Grant lines	1,772	58.7%	3,121	70.8%	3,458	74.6%
VDC grants	5,797	100.0%	8,131	100.0%	7,304	100.0%
- Unconditional Capital	4,231	73.0%	6,565	80.7%	5,741	78.6%
- Other 3 Grant lines	1,566	27.0%	1,566	19.3%	1,563	21.4%
Municipal grants	1,127	100.0%	1,439	100.0%	4,392	100.0%
- Unconditional Capital	937	83.2%	1,148	79.7%	1,132	25.8%
- Other 3 Grant lines	190	16.8%	292	20.3%	3,261	74.2%
All three grants combined	9,942	100.0%	13,979	100.0%	16,331	100.0%
- Unconditional Capital	6,415	64.5%	9,001	64.4%	8,049	49.3%
- Other 3 Grant lines	3,527	35.5%	4,978	35.6%	8,282	50.7%

Source: Table 2.3 *) data are slightly different from those in table 2.4 as LD Fee fund is not included here

The GoN decided to link the outcome of the annual MCPM-assessment to the grant transfer system, but, as mentioned, only for the unconditional capital development grant. The MCPM assessment does not have any impact on other types of grants. Even within the unconditional capital development grant, GoN has made the decision to provide flat base amounts irrespective of MCPMs results. Out of the total unconditional grant the GoN provides equal amounts of NPR. 4 million to all DDCs, NPR 3 million to all municipalities and NPR. 1.5 million to all VDCs. Table 2.8 presents the distribution of unconditional capital development grant as a % of total grants of LBs. For the FY2014/15 the government has allocated a total of NPR. 14.85 billion to LBs, which consists of NPR. 8.21 billion (55.2%) unconditional capital development grants. Out of total NPR. 8.21 billion unconditional capital development grant NPR. 5.79 billion (70%) is provided to all LBs as minimum grants, and not linked to MCPMs.

Table 2.8: Unconditional Grants to LBs for the FY 2014/15, budget data (NPR '000)

Types of Grants	DDCs	VDCs	Municipalities	Total
Total Grant to LBs	3,347,000	7,360,300	4,148,000	14,855,300
Total Unconditional grant to DDCs	1,272,925	5,794,000	1,150,000	8,216,925
% Unconditional to total LBs Grants	38	79	28	55
Minimum unconditional grant to LBs	4,000	1,500	3,000	
Number of LBs	75	3,276	191	3,542
Total Minimum unconditional grant/LBs	300,000	4,914,000	573,000	5,787,000
Performance based unconditional grants	972,925	880,000	577,000	2,429,925
PB Grant as % of total unconditional grant	76%	15%	50%	30%

Source: MoFALD/LBFC⁷

So only about NPR 2.43 billion is directly linked to MCPMs or in other words only about 16% of the entire LB's grants are linked with the MCPMs system. Therefore, despite the high degree of GoN ownership for the performance based grant system the actual allocation for the system is covering a smaller share of the total allocations with a high level of entitlement. International experience would suggest that the more coverage of the MCPMs the more effective the "carrot and stick" approach becomes in trying to leverage change and reform at local government level. Discussions around these topics, however, do not seem to have been very high on the agenda during implementation of LGCDP-II.

The MTR Team does not question the need for both unconditional and conditional grants, but the proliferation of grants is posing a serious problem for the MCPM system. The fact that conditions are posed on the unconditional grants and that conditional grants are also not linked to the MCPM degrades the system and makes it less transparent and less performance enhancing than it could be.

2.3 Local Bodies own source revenues: Volume and trends

The overall realisation of local revenues in LB's in the three fiscal years⁸ (FY11/12 to FY13/14) has been on an upward trend with an annual nominal growth rate of 16.8%, well above the target of '10% annual growth in own source revenue' as outlined under Output 3. DDCs show the most modest nominal growth of 7%, whereas a more sizable growth was posted in VDCs (15%) and Municipalities (29%).

Despite these prising growth rates in own revenue collection, and which is good for a sense of local ownership, overall LB revenues are and will for the foreseeable future remain to be dominated by intergovernmental transfers. Own source revenues (OSR)

⁷ The analysis was done for a workshop paper *Concept of Local Development Fund and Experiences from Performance-Based Grants*, SDC/LoGIN LG Initiative and Network Workshop on Local Development Funds, Mongolia (July 7-9, 2015), Dege Consult.

⁸ The analysis of own source revenues is taken from: Medium Term Budget Framework (MTBF), MoFALD, FY2015/16 to FY2017/18 - June 26, 2015

accounts for a small and even diminishing share of total LB revenues, dropping from 17.5% in FY 2006/07 to 13% in FY 2014/15. LB taxes are mostly nuisance taxes with limitations on setting rates and the tax base.

There is however still according to many observers a significant gap between the actual level of collected local revenues and the tax base potential. Local revenues for newly formed municipalities are expected to increase by at least 25% in the coming fiscal years primarily due to implementation of Integrated Property Tax in these municipalities.

Under LGCDP, support for initiatives to focus on orientation to municipal taxpayers as well as establishment of credible taxpayer database are on-going. Refinement and implementation of Local Revenues Operations Manual is going to be completed, and MoFALD will follow implementation of the Municipal Administration and Revenue System (MARS) in Kathmandu municipality, identifying opportunities to replicate the model to other municipalities.

In fact, LBs' revenues have increased six-fold over the past six years without a corresponding overhaul of their institutional framework. As discussed above there remains considerable work to be done in increasing and realising the OSR potential of LBs and LGCDP II has only recently begun this process.

2.4 Local funding of Community projects

User Committees are a primary vehicle for carrying out LB-funded projects. A 2009 report reviewing over 200 VDCs found that 79% of projects funded out of block grant resources are implemented through user committees (UCs), 7% by school management committees, 5% by community organizations and the remaining 11% by NGOs and VDCs themselves.

The formation, operation, management and implementation of UCs are provided for in the LSGA and further regulated by the Local Body Financial Administration Regulations (LBFAR) and Resource Mobilization Procedures. Originally it was thought as a method that could be applied in remote and hard to reach areas and a way of mobilising local funds and labour. But the system is increasingly being applied in urban areas also even with availability of contractors. UCs are formed by an assembly of users at the project site in the presence of LB officials or designated social mobilizers. The assembly is supposed to record the involved households and create a UC with 7 to 11 members, of which 33% must be women. UCs are authorized to carry out programs of up to six million rupees (roughly US\$ 60,000). Funds of more than 50,000 rupees must be held in a bank account, which is jointly operated, by the UC chairperson, secretary and treasurer, requiring each of their signatures. The UC is required to mobilize cash and/or in-kind labour from the population to help fund the project cost. UC officials are supposed to receive training on operations, accounting and construction. The UCs also have to disclose project progress reports and are subject to social audits. The LB's supervision of the project implementation work carried out by UCs is generally limited. In practice, however, UCs are often not constituted as prescribed. In some cases, UCs may be dominated by political party representatives; in other cases, UCs act as 'fronts' for contractors. In addition, there are numerous reported cases of UCs acting in collusion with contractors and frequent reports of corruption and financial mismanagement by UCs. The integrity of UC social audits has also been called into question.⁹

The annual Results Based Progress Reports from the RCUs in Nepalgunj showed that most community projects focused on four key areas, namely (i) Roads, bridges and culverts, (ii) Irrigation, (iii) Education and (iv) Promotional activities (which has not clear breakdown on categories). These account for over 60% of the VDC based projects for any given year.

⁹ See Local Service Delivery, April 2014, World Bank (Report no. 87922 NP)

2.5 How funds are used by Local Bodies

In line with GoN priorities most LB's put emphasis on funding projects that are linked to the following main priorities:

1. Local roads networks (connecting VDCs by road network) is a major priority area of MoFALD. The reason given are that 584 VDCs are yet not connected with local road network and has importance on socio-economic development.
2. Construction of suspension bridges are instrumental in developing market linkage of the local (agricultural) products.
3. Institutional capacity building of 133 new municipalities without adequate office building and other resources.
4. Safeguarding the senior citizens, single women, persons with disabilities and other weaker sections of society is the welfare obligation of a state. GoN is providing different allowances for welfare funds and Local Bodies have been given the responsibility to ensure distribution.

It is difficult to get an overview of aggregate spending patterns which give the actual funding of projects at LB level. Available consolidated fiscal reporting at the central level provides minimal characteristics of expenditures. It must be noted that the below proportions are based on reports on the use of centrally provided transfers, i.e. conditional and unconditional grants. Expenditures from own source revenues are not included.

The indications from the MTR fieldtrips is (confirming earlier observations by other studies) that there are high levels of capital expenditure but that cash transfers for social benefits through the LBs have increased dramatically over the past 10 years, now comprising nearly one-third of LBs' expenditures. Outside of vital events registration and where there are delineated tasks such as social protection and the local road network, LBs are not clearly responsible for any public services. In particular, they are not responsible for ensuring delivery of services or making decisions about the quantity or quality of these services. LBs may take on such a role, but there is little legal impetus to do so. Accountability arises rather in the process of allocating and providing financing in a manner that meets local demands for small projects.

LBs use their discretionary resources for a wide range of activities. Discretionary funds are own source revenues, shared revenues and block grants. Although the recent RMOM Guidelines require LBs to spend at least 35% of their block grant allocations on targeting certain categories of beneficiaries (women, children, and disadvantaged groups such as Dalits) and a minimum of 60% on the development of economic and social infrastructure, they do not include sector-specific spending requirements.

Key features of VDC budgets are:

- Overall, administrative costs, social security payments and local roads account for about 60% of the expenditures. The remaining 40% is spread out across a large number of sectors – education, water & sanitation, community infrastructure, agriculture, electrification, environment, health, police stations, temples and miscellaneous activities.
- A significant proportion (30-35%) of VDC expenditure is accounted for by social security payments (pensions, widows' allowances, etc). This is in line with earmarked grants to VDCs for social security and the exclusive mandate of VDCs to administer such cash transfers.
- Spending on the construction and maintenance of local roads is also an important part (roughly 15%) of overall VDC expenditure. Financed out of block grants, spending on local roads is both a response to demand and a reflection of VDCs' mandate and the absence of other agencies to finance such activities.

2.6 LGCDP-II and fiscal decentralisation

One main feature of fiscal decentralisation in Nepal is that there primarily has been a re-assigning of sector related functions to LB's without a corresponding increase in the unconditional funding and revenue sources to lower tiers of government to cater for these functions. Though functions are, in principle, a LB's responsibility they continue to be controlled and funded through central government programmes and grants. On the other hand, while LBs receive general grants, the rules for what to use these are not very clear.

The enactment of the LSGA was and is an important milestone for local governance in Nepal. It has empowered LBs for enhancing capital expenditure in a range of social and economic sectors for delivering social services at local level but as de-concentrated entities of central government ministries. This can have positive influence on district economic growth and through capital investment in socio-economic sectors and augmenting the basic service delivery. But the areas of capital expenditures of the DDCs are imbalanced and driven not by local priorities but by central ministry priorities. This is evidenced through the greater portion of capital expenditure on roads. A smaller portion of expenditures goes to the other sectors like education, health, and agriculture (see Table 2.2 above). Greater local discretion over allocation of grants would ensure a better balance between all sectors and be based on local demands.

The LSGA has provided the DDCs and Municipalities – and to a lesser degree VDCs - with many financial powers, which they are not utilising properly. As a result, dependency on central grant is increasing and the dependency on central government transfers. The reforms must try to encourage more generation of own source revenues in DDCs/Municipalities.

Municipalities are largely autonomous of DDCs, while VDCs are more closely subordinated to DDCs by law and in practice. This can be seen by the fact that the disbursement of fiscal transfers to VDCs is subject to DDC authorization in practice, but the same is not true of municipalities. VDC internal audits are carried out by DDCs, which also play a role in approving the selection of VDC external auditors. Municipal internal and external audits are not subject to any involvement on the part of DDCs.

2.7 LGCDP-II and Public Financial Management

Overall Nepal's PFM reform environment is characterised as high fiduciary and corruption risk. Despite reported improvements on trends relating to aggregate-level budget credibility and the overall GoN commitment to PFM reform activity key weaknesses and risks remain. These relate mainly to the overall capacity constraints throughout the PFM system with widespread budget irregularities, and weak enforcement of rules and internal control systems. Furthermore, blurring of responsibilities between accounting officers and internal auditors and issues in budget execution (delays, weak credibility of disbursement, extra-budgetary funds) expose the limited functioning of oversight institutions.

This was all highlighted in the findings emerging from the Sub-National PEFA Assessment,¹⁰ where namely issues such as LB's budget credibility, budget comprehensiveness, budget formulation process, accounting and reporting and audits are in need of strengthening and have resulted in PFM still being the Achilles heel of LB's.

The PEFA report identified the key issues to be addressed urgently in improving local PFM as follows:

- **Lack of personnel:** This is particularly acute at VDC level where the VDC Secretary has multiple PFM responsibilities and very few staff. The staffing issue has become

¹⁰ Sub-National Public Expenditure and Financial Accountability (PEFA) Assessment, Final Draft Report, January 2016, ADB TA 8173 Strengthening Public Management Program

more problematic in recent years due to a tenfold increase in fiscal transfers to LBs over the last decade with no commensurate increase in capacity to spend budgets effectively.

- **Low capacity of LB staff:** The educational and skill levels of LB staff tend to be low, partly because of high staff turnover rates and poor remuneration. PFM training programs are provided, often with development partner support. However, as in many other countries attempting to implement PFM reforms, staff, once trained, tend to seek more lucrative opportunities outside Government (e.g. private sector, development partners, or other countries). The pace of PFM reform tends to slow down until new staff are recruited and trained. In turn these may leave for the same reason, whereupon the cycle repeats itself.
- **LBs have not had functioning elected legislatures for many years:** An ad-hoc review process is in place, but this is not a satisfactory substitute to an elected legislature which can hold the executive branch of government to account through scrutiny of the draft budgets submitted to the legislature for approval and scrutiny of the audit reports submitted by the Auditor General and statutory auditor.

Finally, both LGCDP and LB's have problems in generating useful financial in-year reporting and this has several problems¹¹:

1. The Financial Management Reports (FMRs) are based on fiscal transfer to LBs by Central Government rather than expenditure by Local Bodies. MoFALD uses Financial Comptroller General Office (FCGO) rather than LB data to prepare FMRs. Hence tracking of local government expenditure (and LGCDP funding through LBs) is poor (but it is also not a disbursement requirement). Issues have been raised in relation to financial reporting from DDCs, including their availability, credibility, reliability and timeliness.
2. Bank reconciliation is not happening on daily basis (but rather a yearly basis) in DDCs and VDCs - due to the non-mandatory reporting requirements.
3. Financial reporting from VDCs (lack of clear requirements and too many templates).
4. LGCDP-II Reporting (FMR) prepared by MoFALD does not fully capture (integrate) non-financial performance data (outcome/output) against Annual Strategic Implementation Plan (ASIP) (though this is captured separately by DP Cell). In other words, there is no FMR linked to expenditure of LGCDP-II in relation to agreed outputs/outcomes.

While LGCDP-II is trying to improve on the financial reporting at the VDC level, VDC Accounting Software has been provided to nearly 2,000 VDCs and initial training also carried out, a lot still needs to be done. Hopefully the targeted VDCs should be able to generate the financial statements and information using the accounting software, so as to enable timely and accurate financial reports that allow internal auditors to check the system generated information and perform a system's audit. Selected VDC staff should be able to operate the accounting software by using the user's manual on the basis of training received.

The general lack of FMR shows that PFM reform is still dogged by inconsistencies in reporting of expenditures. This was evidenced for JFA expenditure under LGCDP II but also through the field visits where it is next to impossible to find direct links between grants transferred to LB's and the financial expenditure statements of LB's.

¹¹ Annual Statement of Progress (2015) for LGCDP-II, January 2016, DfID/Crown Agents

3. Demand for public services and role of social mobilisation

3.1 Rational for social mobilisation

Elected, and therefore political, representatives form the bridge between citizens and the government for the governance level they are elected. *Political accountability* towards the constituencies is an inherent characteristic of a representative democratic system. But since the dissolution of local elected bodies in 2002, there have been no local elections. Without such elected bodies, this downward accountability of the local government runs a risks of being compromised as the administrators (from MoFALD), by default, become answerable to their central government bosses and not necessarily downwards towards the people. Further, in the absence of people's elected representatives, linkages between the citizens and the state risk to become weak.

The LSGA (1999) accords the role of the "development manager" to the local bodies (DDC/VDC/Municipalities), a role to be exercised by elected representatives. Principal in this role is to identify through a participatory planning process the priority needs of the people and allocate resources accordingly. In the absence of elected leaders, MoFALD representatives have assumed the role of the elected representatives in the local bodies. Although this measure may be technically and legally proper, it does not lend an environment conducive for competitive politics, political processes and local democratic governance in general.

In order to safeguard, at least in part, the sanctity of democratic governance, an alternative (and interim) measure was needed to be established so as to create an environment wherein the state could engage with the citizens directly (in the absence of their representatives).¹² It was against this background that LGCDP was designed and implemented.

Outcome 1 of the LGCDP was designed to meet the "governance-gap" in two areas emanating from the absence of local elected representatives and the ensuing aberrations in the system of democratic local governance:

- i. **Social Mobilization for 'citizen-state' engagement in planning and resource allocation:**
 - a. Create a proxy for the erstwhile Ward Committee in the form of Ward Citizen Forum for ward-level citizens to voice their demands/proposal. The demands are prioritized are submitted by WCF to the IPFC for its deliberation and then onward to VDC Council for approval.
 - b. Restructure IPFC (for DDC, VDC and Municipalities) to include different sections of the population including the political parties. VDC/Municipality IPFCs deliberate on the demands that come from the ward levels and recommend a portfolio of programs covering all the wards for approval by the VDC/DDC/Municipal Council (comprising of LDO/VDC, and head of line agencies - Agriculture, Livestock and/or Health.
 - c. Create an environment for the "most-disadvantaged population/group" to enable them to engage with the state. The strategies towards creating this enabling environment include group formation, delivery of standardized Reflect lessons and undertaking of collaborative activities by the group.

¹² Even on countries with elected councils such mechanisms of direct contact between citizens and the (local) government administration are set up as often the mechanisms of elections alone (once every so many years) is not enough to keep the elected members alert enough of taking care of the interests of the constituents. Such arrangements are known by the term *social accountability*

Textbox 3.1: Summary of activities undertaken for outcome 1 / outputs 1 and 2

Key activities under Output 1: Citizens and community organizations empowered

- Social Mobilisation guidelines were updated for DDCs, VDCs and Municipalities to include social harmony, GESI, CFLG, EFLG and other aspects;
- Guidelines for operationalizing Livelihood Improvement Program for matured CAC members and LIP were developed and 31,518 members of 4,647 CACs benefited from LIP.
- Guidelines were developed for operationalizing "Community Infrastructure Grant (CIG): Contributing for Poverty Reduction" and 3,416 CIG projects were initiated benefitting 373,563 CAC members
- CAC were categorized and "phase-out strategy" for CAC was developed. The concept of using Local Resource Person (LRP) from among the CAC members has been introduced in the case of graduated CACs.
- 2,905 CACs were formed under LGCDP II. The total number of CACs as of March 2016 is 7,225 (including CAC formed in LGCDP I) which together benefit a total of 209,525 members.
- A total of 510 LSPs have been recruited. The total number of LSP that will be required is 555 based on the assumption that 1 LSP serves 13 VDCs in the Terai, 10 VDCs in the hills and 7 VDCs in the mountains and in the municipalities up to 10 wards.
- WCFs were expanded in all wards of municipalities and VDCs.
- Through D/M SMC, initiated steps towards harmonizing social mobilisation programmes. In most DDCs and municipalities only one round of meetings have been held to map out who is doing what, where and how.
- Local Planning Trainings/orientation were given to IPFC members at DDC, VDCs and municipalities.

Key activities Output 2: Accountability mechanisms for local governance are in place

- A new LGAF modality was established and integrated it into MoFALD institutional structure. LGAF was restructured and internalized within the terms of reference of Good Governance Promotion Section of MoFALD.. The LGAF is governed by a Board chaired by Secretary, MoFALD with representatives from NPC, NVC, Local Body Associations and NGOs. The secretariat is the Good Governance Promotion Section with the chief of this Section (also the Output Manager of Output 2) serving as the member secretary of the LGAF Board
- Guidelines and Manuals were prepared for the operation of the new LGAF.
 - LGAF operational Guidelines, 2013
 - Compliance Monitoring Guidelines, 2014
 - Grievance Redressal Guidelines, 2015
 - Local Bodies' Management Audit Guidelines, 2015
 - Training Manual for Compliance Monitoring
- Annual Governance Report 2013/14 & 2014/15 were prepared
- 66 CSO were selected by LGAF to cover all districts. The coverage of each of the CSO is limited to DDC offices, 15 to 33 number of VDCs in each district and 3-9 municipalities within each district. The aligned programme with LGAF i.e. Strengthening Accountability in Local Government Programme (SALGP) has covered 9 districts, 432 VDCs and 12 Municipalities. Thus the total coverage nationwide is 75 DDC offices, 2073 VDCs and 197 municipalities. CSOs have been mobilized with multi-year contract. The coverage of CSOs are as follows:

Level	LGAF		SALGP	Total
	1 st year (2014-15)	2 nd (2015-16)		
District	65	65 + 1 = 66	9	75
Muni	132	132 + 58 = 190	12	202
VDCs	453	453 + 1188 = 1,641	432	2073

- CSO contracted for SA activities provided orientation to WCF members on SA tools and the concept behind social accountability.
- IEC Strategy was developed by MoFALD with the aim of orienting all parties concerned (MoFALD, LBs and CSOs) as to what to communicate and how.
- 76 FM stations across the country were contracted by CSOs for civic education and the FM stations run weekly transmissions.

ii. **Establish systems and procedures for "downward accountability"**

- a. Establish mechanism such as Local Government Accountability Forum (LGAF) to implement activities that enhance downward accountability. These activities include empowering people with the information regarding duties of the duty bearers, information regarding the services provided by the local bodies, complaints hearing mechanisms, funding third-party compliance monitoring of local bodies, ensure proper practice of social accountability tools, etc.

3.2 Achievements of social mobilisation

The key activities undertaken in each of these Outputs are summarised in Textbox 3.1 on the opposite page. Table 3.1 below summarises the various institutions, systems, procedures, tools and guidelines that have been put in place to achieve the Outcome and Outputs envisaged in the LGCDP II.

Table 3.1: Institutions, Systems and Guidelines related to Outcome-1

Institutional Mechanisms, Processes and Guidelines	Outcome 1: Citizens and communities hold their local governance actors accountable		
	Output 1: Citizens and community organizations are empowered to actively participate and assert their rights in local governance		Output 2: Accountability mechanisms for local governance are in place
Institutional Mechanism Adopted to attain the Outputs and Outcome	<ul style="list-style-type: none"> • Community Awareness Centres (CAC) for the most disadvantaged members of the communities to empower them socially, and economically so that they can assert their rights and take part in the local governance processes. 	<ul style="list-style-type: none"> • Ward Citizen Forum (WCF), in the absence of elected Ward Committees, to collect, discuss and prioritize ward level development needs; • Integrated Program Formulation Committee (IPFC) for a broad-based engagement at the VDC/District/Municipality level to prioritize the proposals received from ward citizen forum/llaka level. 	<ul style="list-style-type: none"> • Local Governance Accountability Facility (LGAF)
Key Processes /Tools / Strategies	Social Mobilization Guideline (SMG); Social Mobilization Manual; Local Bodies Resource Allocation and Operation Guideline, Reflect Manual; Based on the experiences in LGCDP I, SMG was amended in 2015 to include (i) Livelihood Improvement component and (ii) Community Infrastructure Grant		LGAF Operational Strategy and Guideline; Information, Education and Communication Strategy; SA Guidelines (Public Hearing, Public Audit and Social Audit)

The progress for the area of Social Audit is 'less than satisfactory', notably because, as was reported, the Mandatory Public Hearings and Public Audits are done as ritual tick-the-box exercises and not in conformity with the guidelines issued by MoFALD.

Although CSO led compliance monitoring is said to cover all 75 districts, the MTR team did not find evidence of its effectiveness in the VDCs that the team visited. For the VDCs, the coverage is thin.

3.3 Assessment of achievements on the demand side of accountability

3.3.1 Observations on engagement in planning and resource allocation

Through the WCFs, IPFCs and CACs, LGCDP-II has been able to create an enabling environment to safeguard the sanctity of democratic governance. The engagement of a large number of citizens in planning and resource allocation (notably the discretionary capital grants) is effective. There is, however, the danger of "planning fatigue" if the demands made on a yearly basis remain unmet year after year. In order not to allow the planning fatigue to set in planning has to be done in line with the anticipated resource base. Or, in other words, planning, also at the ward level needs to be done within a given resource envelope.

A budget size of around NPR 300,000 per ward is disproportionately minuscule compared to the level of engagement, time and effort that is spent by WCFs and relevant stakeholders. Moreover, the meagre resources are fragmented (as the available envelope for a ward maybe divided into three to four projects of about NPR 100,000 each), which results in too many projects of insignificant size. The large number of projects cannot be possibly matched in an efficient manner by limited technical assistance that is currently available in the VDCs. As such the quality of many project is not of satisfactory standard. The projects do not add up to make visible impact even at the ward level. The planning process would become more worthwhile if (i) the budget is increased and (ii) the planning encompasses other sectors such as agriculture, health, livestock, etc.

3.3.2 Social mobilisation

Social mobilisation is only a means to an end. It is a term used to denote the process of putting people (citizens) together for a cause. There are different models of social mobilization practiced in Nepal with different end-products. Some SM approaches put people and groups together to form agriculture cooperatives, some to engage in social campaigns, some to manage forests and other resources. It is neither feasible nor practicable to adopt one uniform approach to social mobilization. LGCDP-II, however, seems to be guided by the notion that there is one and only one model of social mobilisation.

Even in the case of LGCDP, social mobilization has been used for two different outputs - (i) to motivate and put groups together to form WCFs and (ii) to identify, motivate and put DAG members together to create CAC. They both constitute social mobilization but for different purposes. While CAC are subjected to Reflect courses over a 52-week period, such exposures are not given (and not required) in the case of WCF. Thus, there can be no "one single" model for social mobilization.

LGCDP (and its management) should, therefore, appreciate the sanctity of the different models of social mobilisation being practiced in Nepal without attempting to harmonize/impose a uniform one.

3.3.3 Ward Citizen Forums

WCFs as a proxy Ward Committees and a transient solution to engage citizens and collect their voices have been seen to be effective. There has been political buy-in after the understanding amongst the political parties that none of them will make an attempt to monopolize the Forum. As such, it has been able to remain 'a-political'. At VDC level, however, party leaders have retained their right to engage in political negotiations at the IPFC and VDC level meetings.

But WCFs are not versed in planning and neither are the members 'politically' competent to convince the citizens on the recommendations they make in terms of selecting the projects. As such, in order to appease everybody, they often recommend four to five times more number of projects than what the ward would be entitled to in terms of budget envelope. This practice pushes down the indicator (presently at around 46%) of the number of projects proposed by the WCFs that get actually funded. For example, a WCF may submit a demand for 12 projects without regard to what the resource envelope is. Given the resource volume, the VDC can fund only 5 projects in that ward. Although all of the 5 projects are from the list (i.e. 100% from the list that was submitted) only 5 out of 12 (i.e. close to 50%) are funded. The percentage can be improved by one or both of the following strategies: (i) make sure that WCFs demand fewer number of projects commensurate with the anticipated resources allocated/to be allocated to the ward and (ii) enlarge the unconditional grant to the VDC and therefore to the Wards. Overall, the role of WCF in terms of providing a forum for citizens to voice their demands and lodge their

complains was evident and was observed to be effective. It has been an effective instrument as 'sounding board" and as a vehicle for taking the voices of the poor to the VDC secretary

The role of WCF as an oversight body is less clear and the evidence of WCF providing oversight was not too apparent during the field visit by the MTR team. It was reported that public hearings and public audits are done as 'tick the box ritual exercises' and not in conformity with the guidelines. The Field visit by the MTR did not find much evidence of WCFs practicing Social Accountability tools and MoFALD does not have data on this either. The knowledge of SA tools and the concepts inherent therein are not well understood by WCF members or so it seems. In fact, the practicality of WCFs undertaking this function (practicing SA tools) may need to be reconsidered.

In brief, the target in terms of mobilizing citizens for planning purposes is achieved. The role of WCF as an effective instrument for monitoring is still to be evidenced.

As to the future role of the WCFs, i.e. after the re-establishment of the elected Ward Committee, WCFs will have to be re-engineered. Once the election is held and elected representative assume their functions, WCF will in theory be redundant insofar as their current function is concerned. They could continue to play the role as intermediate sounding board between the elected committee members and the population. They could also, and these options are not mutually exclusive, transform themselves into civil society organizations. As such, it would not be contingent upon the state to sponsor WCFs, but instead create an environment for multitude of civil society organizations to emerge and engage with and hold government to account.

3.3.4 Citizen Awareness Centres

One of LGCDP's major achievements is the 'social transformation' that is taking place through the CAC. It was amply evident to the MTR team during its field visit to the CACs that within the period of three years the CAC members have been able to position themselves at a much more dignified level in the society. CAC members, mostly women of the most disadvantaged groups, were confined within the periphery of their homes mostly engrossed with daily household chores. In three years time they are now able to articulate their voices, engage in meaningful dialogues with officials at the VDC, explore and link up with other service providers in the VDCs, secure funding and manage collective activities and undertake social campaigns in areas such as anti child marriage, removal of social evils, and other areas of common social interest. Asked (by MTR team) what had been the one single-most major change in them, the answer was unanimous across CACs - "the ability of speak-out and claim our rights". The CAC members are also perceived as "social change agents".

Given the impact of the activities around the CACs, there would be merit in scaling it up. But there are a few caveats:

- So far, the approach is limited to one CAC of 30 members in each VDC and urban ward, irrespective of the level of poverty. It would be prudent to upscale CAC commensurate with the incidence of poverty than to adopt a flat-approach of one CAC per VDC or two CACs per VDCs. Mid and Far-west may warrant more attention than other regions of the country.
- If the approach were to be up-scaled, to cover a more sizable part of the population there is the question of what would be considered a reasonable target. At the moment CACs may have reached an estimated 0.5% of the total population, or through a family member, some 2.6% of all households. With an overall poverty rate for Nepal is 25 per cent, it would require a fifty-fold up-scaling to reach all those poor

individuals, or a 10 fold up-scaling to reach all poor households, which may not be realistic.¹³

- LGCDP has now been engaging with the existing CACs for an extended period of time, from three to five years. Over 4,000 CACs have been created and receiving support from LGCDP for over three years now. Such 'over-indulgence' with small groups (a CAC consists of about 30 members) for such an extended length of time may be seen by others as discriminatory. Over time these beneficiaries will have surpassed the level of those that have not been included in the program. Thus it is important to discontinue the support and move on to form other CAC groups.

Table 3.2: Aging of CAC

Age of Community Awareness Centers				All age
< 1 year old	Between 1 and 2 years old	Between 2 and 3 years old	> 3 years old	Total number of CACs
2,555	150	200	4,320	7,225

- CAC-type activities are akin to traditional 'livelihood Improvement and poverty alleviation programs that seek to enhance the asset-base (social, physical, human, political and economic assets) of the poor and the disadvantaged. The importance of such programs, addressing the livelihood needs and assets (and which includes social capital) of the marginalized groups can hardly be overemphasized. It is, therefore, contingent on the state to assure funding for such programs. How such programs ought to be implemented (directly through government agencies (which government agency) or in partnership with local civil society organizations) is a matter of further analysis
- For LGCDP, in order to do justice to both the LG part and the Community Development and Livelihood part, time may have come to consider segregating the LG and the CDP so that each of these components get their fair share of attention and focus. It might also be prudent to start deliberating on how CDP ought to proceed in terms of where it ought to be positioned, institutionally, the choices being MoFALD, Ministry of Poverty Alleviation, Poverty Alleviation Fund or others.

¹³ Calculations are based on the fact that there are some 4,650 CACs each with 30 members, hence a total number of 140,000 members that are, at best, part of 140 thousand households. For the calculations, a population figure of 30 million was used - representing a reported number of 5.4 million households, whilst the poverty rate is taken as 25%.

4. Organisation and supply of public services

4.1 Introduction

In this chapter we turn our eye to the supply side of public service delivery at the local level. The approach to and management of public sector service delivery has undergone several changes since the 1980s. The liberal attitude towards a market led economy, allowed for a greater private sector involvement in economic activities and social development from the 1990s onwards. Throughout, decentralization has remained a main vehicle for people participating in politics and development at local level.

In the absence of elected councils since 2002, Local bodies have become more dependent and centrally guided. In such a situation, the participation of local people in service delivery is more of a bureaucratic-centric than democratic, but LGCDP has been seeking to create a governance structure to overcome the existing political void and balance the demand and supply side of service delivery at local level.

4.2 General service delivery mandates of Local bodies

4.2.1 Local functions as per the Local Self Governance Act of 1999

The LSGA 1999, LSGR 1999 and LBFAR 2007 are the main regulatory regime through which the present local bodies in Nepal are established. These acts and rules specify the functions, duties and powers of VDC, Municipality and DDC. The Local Bodies Resource Mobilization and Management Guidelines (LBRMMG, 2011) provide the basic operational guidelines regarding the types of grants, planning process, selection of projects and programme. It further provides the guidelines for the operation and management of projects, their monitoring and evaluation, authorization of budgets, their release and fund management. It also deals with the good governance, special arrangement for VDC, and the implementation arrangement regarding sectoral conditional grants.

According to LSGA (1999), VDC can deliver various types of services from agriculture, drinking water, works and transport, education and sports, irrigation, soil conservation, river control, physical development, and land management. Services also include health service, forest conservation to environmental protection, language, culture and tourism promotion and cottage industries. In addition to this, VDCs are supposed to render services in the areas of social welfare, notably pertaining to women, children and people with disability, and the eradication social evils. Promotion of income generation, employment creation, and cooperatives are other activities it has to perform or caused to perform in the VDC areas. Finally, vital registration and management of responses to natural calamities are also major functional responsibilities of the VDC.

Municipalities have to perform almost all the similar types of activities in the municipal areas, but with greater scale and intensity, particularly in the areas of physical planning and development, transport and road management, and urban amenities like slaughter house management, street lights, waste management, fire brigade, entertainment, etc. DDCs, finally, are supposed to perform the similar functions as of VDCs and Municipalities but in broader scales with higher responsibilities (e.g. VDC takes care of health post while DDC takes care of hospital).

However, despite having these wide ranges of functions and duties, in reality the functions actually performed are just a fraction of the above. Functions and duties that receive most attention are economic, social and physical infrastructure; and promotional areas such as nutrition, sanitation (ODF) and vital registration. On top of this there is priority influence of sectors (roads, drinking water, irrigation...) and national priority influence (like for example directing the resources - 35% of the capital budget- towards certain target groups like (women, children and minority groups).

4.2.2 Local functions as per the Constitution of 2015

The new constitution of Nepal has two provisions regarding the power and functions (duties) at local level, in Schedule 8 and 9, respectively. Schedule 8 lists 22 areas that are the exclusive responsibility of the local level, while Schedule 9 provides for 15 concurrent functions, the responsibility for which is shared between the national, provincial and local levels.

Table 4.1: Functions for the local level under the new constitution

Functions as per Schedule 8	Concurrent Functions / Schedule 9
<ol style="list-style-type: none"> 1. Management of local services 2. Management of local markets (and presumably other municipal services) 3. Primary and secondary education 4. Basic health and sanitation; 5. Agriculture and livestock, extension 6. NRM management (Watershed conservation, forest and mines) 7. Local infrastructure (roads, irrigation) 8. Water supply, small hydro projects 9. Disaster management, 10. Social welfare (including elderly, disabled and disadvantaged) 11. Culture, language & heritage conservation 12. Cooperatives 13. Land allocation and records 14. Municipal police 15. Tax collection 16. Local statistics and records keeping 17. Statistics of unemployed 18. FM radio 19. Local development projects & programs 	<ol style="list-style-type: none"> 1. Education 2. Health, 3. Agriculture; 4. Electricity, drinking water, irrigation 5. Mines and minerals 6. Forest, wild animals and birds, water resource, environment, bio-diversity 7. Disaster management; 8. Social security and poverty reduction; 9. Culture and Archaeology 10. Cooperative; 11. Vital event registration; 12. Landless people 13. Service fees 14. Vehicle license. 15. Royalty from natural resources

Compared to the existing LSGA 1999, the new constitution provides some higher order of functional power, such as police and land certification to the local governments. However, as can be seen from the table above, many -if not most of the functions as defined for the local level, are overlapping with the concurrent functions.

The MTR team was informed that, MoFALD is currently preparing, under Outputs 8 and 9 of the LGCDP, acts and rules to make the division of tasks more specific. In the new governance structure the roles of district are limited to coordinate municipalities and village councils, whilst the provincial government, as a political body, coordinates the Districts.

4.3 Service delivery of MoFALD through Local Bodies

All central level projects of MoFALD are implemented through DoLIDAR, the Department of Local infrastructure Development and Agricultural Roads. Currently, DoLIDAR is implementing 17 donor-supported projects through its 75 District Technical Offices in the areas of rural road, drinking water and sanitation, bridge, irrigation, and rural reconstruction. Many sectoral line agencies' implement projects and programmes through their own channels separately, which are reflected in the District Annual Plan and also in 'red book', but not necessarily be well deliberated and influenced by the Districts IPFC. They are more of centrally set and determined projects/programmes. Programmes and budgets of INGOs and local NGOs' are included in the District Annual Plan. Inclusion of such programmes is more of a ritual rather than having strategic or operational value that the DDC can leverage to coordinate the development activities and resources for optimal outcomes in the district.

Although the local bodies are formally autonomous, MoFALD has oversight on their functioning to ensure they are compliant with the Local Bodies Resource Mobilization and

Management Guideline, which describes the planning process, budget allocation and financial requirements. In many ways MoFALD gives a free hand to local bodies to spend their resources (including grant monies) independently, but at the same time, it checks whether the allocations are according to guidelines (such as the mandatory 35% for women children and disadvantaged groups) as well as other, centrally set priorities such as for drinking water projects which has been labelled priority one.

4.4 Projects and spending of the capital grants by sector

Based on data from the LGCDP/RBM, Table 4.1 shows, for the last two trimesters (Shrawan-Kartik to Mangsir-Falgun) of the fiscal year 2015/16 the expenditures as well as the number of projects, funded from LBs, by sector and type of LB. It indicates that the local bodies' investment priority, in terms of relative financial volume, for DDCs, VDCs and municipalities alike, is on roads, bridges and culverts (between 30 and 45% of the total financial resources). Social infrastructure comes second (with 22% in total). Remarkably, according to the data (and this may well be a mistake somewhere somehow) municipalities would account for 90% of total funds; DDCs 8% and VDCs 2% only.

The data show the enormous number of projects undertaken on an annual basis : over 93,000 in total of which over 50,000 in municipalities which would be an average of 200 projects per municipality on average. Where these data may again be wrong somewhere, the average costs per project comes close to field observations. As shown in Table 4.1, the average costs of a VDC project would be NPR105,000 (or USD 1,000) which is indeed very small for any infrastructural work.

4.5 User groups as main arrangements for service delivery

Chapter 4 of the LBRMMG on Programme and Project Operation and Management' provides the basis for service delivery at local levels. Local bodies can deliver the services through Users' Committees, Public Private Partnerships (PPP) or Contractual arrangements. Based on the legal provisions in the LSGA, but also grounded on the policy drives towards social mobilization the user group concept has for long been one of the preferred service delivery models in Nepal. Its successful application in the forestry and irrigation sectors is replicated in other sectors like drinking water, sanitation, rural roads, and school's building construction.

Given the relatively small budgets (the capital funding of a typical VDC being limited to NPR 1-2 million per year max) and the need to satisfy many demands, the user groups get (very) small amounts that make it difficult to complete projects in any given year, even though some of them are labour intensive and local material based.

Textbox 4.1: Small fragmented projects leading to poor / inefficient service delivery

In Janaktpur, the MTR team visited a school in a Dalit community that had received funds to put the roof on a classroom. The total cost for the one classroom project was said to be a NPR 1.1 million (being the same amount as the VDC's annual capital budget). Funding for the project had been spread out over several years.

Other classrooms on the school compound had CIS roofing, but on this classroom a concrete roof had been placed. Concrete roofing is better against the heat, but in this case the structure was totally unsuitable for a concrete roof as the walls had no concrete pillars. With a quake, the entire (concrete) roof is likely to come down. Apparently, the walls had been built (in an earlier phase) with a CIS roof in mind and the plan was changed afterwards. People in the village even mentioned as an added advantage of the concrete roof that it would allow having multiple stories.

This example clearly illustrates the lack of technical supervision, in part due to the fact that investments are made through user groups that take charge, but that do not have the technical capacity.

Table 4.1: Number of project & budgets, by sector and LB type - Shrawan to Falgun 2015/16**Number of projects funded from the Capital development grant**

Sector	DDC		VDC		Municipality		Total	
	Projects	%	Projects	%	Projects	%	Projects	%
Roads, Bridges & Culverts	3,544	24%	5,855	21%	17,123	34%	26,522	28%
WASH	1,147	8%	2,758	10%	2,548	5%	6,453	7%
Irrigation	525	4%	1,156	4%	1,279	3%	2,960	3%
Economic Infrastructures	796	5%	1,678	6%	1,099	2%	3,573	4%
Environment	409	3%	768	3%	2,403	5%	3,580	4%
Education	1,200	8%	3,030	11%	2,405	5%	6,635	7%
Social Infrastructures	1,746	12%	2,052	7%	2,629	5%	6,427	7%
Health	373	3%	1,557	6%	1,108	2%	3,038	3%
Agriculture	420	3%	2,155	8%	1,411	3%	3,986	4%
Promotional Activities	3,870	26%	5,164	19%	15,504	30%	24,538	26%
Targetted activities	825	6%	1,578	6%	3,430	7%	5,833	6%
TOTAL	14,855	100%	27,751	100%	50,939	100%	93,545	100%

LB budget for all capital grant projects, in NPR million

Sector	DDC		VDC		Municipality		Total	
	Projects	%	Projects	%	Projects	%	Projects	%
Roads, Bridges & Culverts	4,063.7	34%	988.0	34%	60,252.9	45%	65,304	44%
WASH	1,804.1	15%	191.2	7%	8,646.0	6%	10,641	7%
Irrigation	306.8	3%	91.4	3%	1,116.6	1%	1,515	1%
Economic Infrastructures	458.6	4%	145.8	5%	6,357.0	5%	6,961	5%
Environment	248.8	2%	64.1	2%	1,475.7	1%	1,789	1%
Education	330.1	3%	226.8	8%	2,886.9	2%	3,444	2%
Social Infrastructures	2,260.3	19%	203.2	7%	30,022.5	22%	32,486	22%
Health	223.5	2%	135.7	5%	4,273.7	3%	4,633	3%
Agriculture	73.3	1%	229.9	8%	13,619.1	10%	13,922	9%
Promotional Activities	1,842.8	15%	461.8	16%	4,525.0	3%	6,830	5%
Targetted activities	379.2	3%	166.6	6%	486.8	0%	1,033	1%
TOTAL	11,991.3	100%	2,904.6	100%	133,662.1	100%	148,558.0	100%

Average project budget, by sector and type of LB, in NPR '000

Sector	DDC		VDC		Municipality		Total	
	Projects	%	Projects	%	Projects	%	Projects	%
Roads, Bridges & Culverts	1,147		169		3,519		2,462	
WASH	1,573		69		3,393		1,649	
Irrigation	584		79		873		512	
Economic Infrastructures	576		87		5,784		1,948	
Environment	608		83		614		500	
Education	275		75		1,200		519	
Social Infrastructures	1,295		99		11,420		5,055	
Health	599		87		3,857		1,525	
Agriculture	175		107		9,652		3,493	
Promotional Activities	476		89		292		278	
Targetted activities	460		106		142		177	
OVERALL AVERAGE	807		105		2,624		1,588	

Source: RBM 2015_16, LGCDP-II

Several projects visited, such as a canal construction in Ward no. 7 of Mahadevpuri VDC, gravelling of a road in Udrapur VDC of Banke District, and a drinking water scheme in Aasigram VDC of Dadeldhura show that these projects are implemented in a piecemeal manner, carried over several years, at least more than a year, to complete the projects. The local participation is well observed, but in most cases the required technical knowledge and skills to construct the various projects is greatly lacking (See Textbox 4.1).

Apart from technical capacity, the concept of users' committee as self-governed units appears to be weak because of diffused accountability within the community system. In fact, when user groups receive funds from the VDC, they can no longer hold the local body to account for delivery, and the question becomes who is holding whom to account?

4.6 Service delivery constraints

4.6.1 Organizational and technical competency

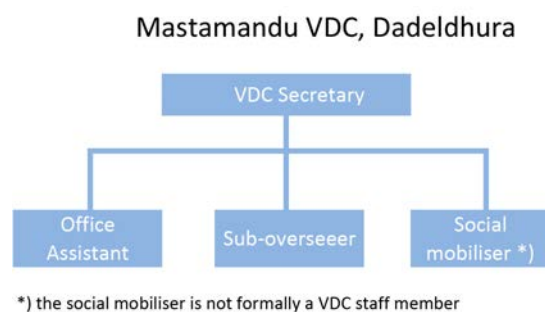
Local bodies have limited human resource and technical capacity to oversee projects and provide technical assistance to users' committees. Amargadi municipality, for example, has 2 technical staff, one overseer and a sub-overseer, to look after more than 100 construction projects. Many of these projects are small and require a disproportional amount of time of the limited human resources. Likewise, Lamkichuwa municipality has planned to implement 50 projects, including 10 km of gravelling of feeder roads in this fiscal year with the technical staff of one engineer and one technician which seems difficult, even if these projects are implemented through users' committees.

The situation with the District Technical Office of Dadeldhura is even worse when it comes to technical staff and their competency.

In Dadeldhura, a team of one engineer (DTO Chief) and 5 drinking water technicians are running the District Technical office. Some donor supported projects (like RAP, RVWRMC) are attached to the DTO, but have their own project staff. Meanwhile, the DTO and his team are for FY 2015/16 managing a budget of NPR 55 million for 74 projects in various sectors, which is a challenge with the present staff strength. The DTO Chief mentioned that his office is working with the same structure as 14 years ago and they are overwhelmingly understaffed to be able to perform their duties.

The District Technical Office of Banke DDC is somewhat well equipped with the total technical staff of 10 (4 engineers, 4 sub-engineers and 2 drinking water technicians). However, to manage NPR 196 million capital expenditure for the fiscal year 2015-16, the DTO requires a great deal of organizational capacity.

The situation with VDCs is not different, although their capital budget outlay is relatively less compared to Municipalities and DDCs/DTOs, but still overwhelmingly difficult to manage those development activities. For instance, Mastamandu VDC of Dadeldhura has one sub-overseer, whom has to supervise more than 10 projects of around NPR 1.5 million in total.



Augmenting massive social mobilization through WCFs and CACs has tremendously increased the service demands and the reach of local people to the resources at local level. This has also built their confidence for resource planning and negotiation with the local body officials especially on VDC grants. Conversely, the existing organizational capacity of the local bodies at all levels lags far behind to address and implement those demands/projects.

4.6.2 Appropriate mix of service delivery to suit local condition

All the visited VDCs and municipalities proudly claimed with great enthusiasm their open defecation free (ODF) status. WCF and CAC members explained how the communities had been mobilised for this sanitation campaign to achieve the ODF status. This is a classical example of local bodies working closely with communities where social mobilizers play crucial role in a mass campaign, particularly changing the behaviour of local people towards hygiene and sanitation. There are many such examples like immunisation, literacy and smoke free campaigns where the communities are successfully mobilised to bring changes in the lives of local people. The participation of locals in service

delivery yields better results where human behaviour is involved to mobilise social capital for a common cause.

However, this has certain limits where the communities need certain management and technical skills; for instance, the construction of schools or public buildings, suspension bridges, canals, roads, and drinking water. The community can contribute their labour and local materials to construct a school building, but the building has to meet certain technical standards so that the building can be used for the purpose it is built for. The community becomes more effective in the operation of the school through participating in the School Management Committee for quality of teaching, resource generation, and other school development related activities.

Understanding of technicalities of services in the delivery chain and providing critical support in the design, construction, operation and maintenance of services requires a right mix of intervention and support strategy to suit the local condition. The choice of in-house support or outsourcing the technical support are the choices for local bodies, but both needs service delivery management capacity; the former requires more of a structural change while the later asks for capacity enhancement to engage the private and third sector.

4.6.3 **Service delivery relationships**

Service delivery is a transactional phenomenon. It is a relationship between two or more than two parties (individuals, organizations) who agreed to perform as per mutual contractual agreement. The compactness in service delivery is achieved when both organizations, i.e. DDC or VDC with Users Committee, are competent enough to fully comply with the basic transactional features, such as the tasks and responsibility to be performed by respective organizations, financing, reporting and monitoring in service delivery, enforcement and arbitration. Same with the third party private sector involved in service provision with DDC/DTO/VDC.

Existing service delivery relationships exhibit that the agreement (3 pager) type of working relationship between DDC/VDC with UC appeared to be less legal binding with weak provisions to instruct, monitor and enforce the agreements. Although this arrangement is based on co-production approach giving more emphasis on social capital value, equally posed vulnerability when there is a governance failure on both sides – DDC/VDC lacks an effective mechanism for accountability and overseeing, and UC to have a strong self-governing system within the UC members.

Observing the contract documents of DTO/DDC (Banke and Dadeldhura) revealed that the relationship between DDC/DTO and private company has embraced legal discourse in service delivery with detailed terms and condition securing results with the clear cut financial provision, and the obligations to be fulfilled by both parties; as a principal (DDC/DTO) and an agent (service provider). There is a legal treatment for defaults and remedial measures in this service provision.

From the service market point of view, both types of sectoral actors – third sector, NGOs, CBOs (at local, regional and national level) and private service providers, mostly construction companies (at regional and national level) - are adequately available. Third sector service providers have shown greater strength in the areas of capacity building, awareness campaign and community development whereas private firms are involved in engineering and technical services for construction works. However, as discussed earlier, it is on the part of local bodies that suffer mostly to build the successful service delivery relationship with service providers. Appropriating the service delivery mix by adopting a social capital approach separately or combined with technical assistance through market

intervention requires re-examining of the existing service delivery policy and strategy. Nonetheless, capacity issues of local bodies remained at the heart of the reform agenda in service delivery.

4.6.4 **Summary of 'in-house' issues**

It is observed that the demand side of governance structure is well established through the social mobilization process. CACs and WCFs have been very active to put forward their concerns following the 14 step planning process. However, the corresponding supply side is grossly weakened due to organizational constraints to deliver services.

Emphasis needs to be put on building the organizational capacity of the local bodies. The needs for service delivery compliance with regard to monitoring, appropriate procurement management system, technical supervision and enforcement mechanism are needed the most, which the present local bodies' (DDC/DTO, municipality and VDC) structure and management system do not support.

The role of DTO is essentially imperative to meet the technical challenges, especially those of infrastructure construction like roads, bridges, irrigation canals, building and drinking water. For other services like operation of health posts, agriculture extension services, education services, DDC should work closely with the respective line agency offices for their effective service provision.

Many issues need policy intervention from the central level in the given political context like the provision of technical staff, compliance, and enforcement; but equally the capacity building, management and organizational restructuring of local bodies are urgently needed for service delivery improvement. How good the oversight and accountability mechanisms being instituted in the service delivery loop (planning, implementing, monitoring and evaluation) do not help much unless, whichever service delivery models the local bodies choose, the basic organizational readiness of local bodies is there to engage the service providers effectively.

Dhulikhel Municipality has established a procurement unit to look after the public procurement activities. Some local bodies are doing this through DTOs with or without Planning Units (or Planning, Monitoring and Administrative Officer, particularly with Users Committees) of DDC, which is appreciated, but not good enough to address the inherited service delivery issues.

Local bodies must be able to design, structure, finance, implement, monitor, and enforce service delivery transaction relationship either through formal contract or users/committee (or social organizations), or public private partnership, or through themselves. In all aspects, the local bodies are found weak to regulate the service delivery transaction relationship with the service providers, either in a contractual form or in a collaborative form including partnership approach.

4.7 **The bigger picture of service delivery - an opportunity so far missed**

Apart from the issue regarding service so far raised, and which are largely confined to improve the present situation by better management and mix of implementation modalities, in the context of decentralisation and public service delivery there are also 'bigger picture issues to raise' - which LGCDP has so far not addressed, at least not in detail.

First of all, for citizens to be able to hold their LB to account, it is necessary to know what services the LBs are required to deliver. As shown in this chapter, even for the new Constitution the roles and functions of the local bodies are to be defined in much more detail. As part of that definition, local bodies may be given some discretion, a 'general mandate', that allows them to do everything unless specifically prohibited or denied. Which such general mandate local bodies would be able to best respond to local needs as locally expressed. But it is also possible to be more specific. Bottom line is that citizens should know what they can expect from their local governments.

Secondly, and in line with the foregoing, there is scope to think out of the box. For long a number of sectors have been declared 'devolved', yet this has not fundamentally changed service delivery is organised or planned for at the local level, as each ministry has stayed in its own silo. Some say that the LBs are run as de-concentrated MoFALD offices - while, in the spirit of preparing for decentralisation, they should gradually become the coordinating office for all the devolved sectors.

In that context the question can be asked why e.g. the ministry of agriculture / livestock is not more closely involved in the livelihood grants. In the same vein, it would facilitate discussions on the question raised in the previous chapter, on where, if within government, social mobilisation is best housed.

Analysis on the utilisation of the LB fiscal grants raises more fundamental questions regarding the government's approach to service delivery. If through user groups, it will have complications for quality and the way accountability needs to be defined - as in way it would pull the rug from under the rationale of LGCDP to empower people to hold government to account. Whereas user groups may work for certain situations (e.g. with low population densities and people living in remote places) or where the services have characteristics of private goods, the benefit of which is restricted rather than open (e.g. irrigation), for more genuine public goods (like roads, education, health) that benefit the entire community, the user group approach is likely to become more and more problematic and new approaches to service delivery - whereby government does take its responsibility so that it can be held to accounts - may be required.

As part of the outputs focussing on the supply side, notably outputs 6, 7, 8 and 9, a discussion on these issues should be started in the light of the new municipalities to be put in place (see Chapters 6-8).

5. Institutional arrangements & approach to capacity development

5.1 Introduction

The LGCDP-II defines capacity development as “...*strengthening the institutional capacities and human resource capabilities of MoFALD, DoLIDAR, LBFC, local bodies, line agencies and other local governance bodies*”. Though a large part of the capacity development (CD) interventions is managed under Output 5, capacity development is one of the main cross-cutting areas, and many activities requiring CD inputs.

Capacity development is a wide professional area encompassing material as well as human resources capacity. The MTR has concentrated its review effort on human resource capacity as the most important and relevant. In most development projects and programmes, capacity development features prominently as a necessary prerequisite for successful implementation and completion, and LGCDP-II is no exception. Under LGCDP-II, capacity development is more than training and other educational activities. Capacity development is *all measures, actions and activities aimed at improving the stakeholders' capacity to undertake and successfully and timely complete her/his/its assignment* in the programme.

The MTR also scrutinised the institutional arrangements for CD. This has been done through field trips to several DDCs, municipalities, VDC's, RCUs, The Local Development Training Academy (LDTA), and the Nepal Administrative Staff College. The issue of institutional arrangements has also been discussed with the PCU, the three local government associations and with DPs on national and district levels. The MTR team has noted, with few exceptions, the absence of women among the employees of MoFALD, in DDC's, municipalities, VDC's and RCU's. It is peculiar to find so few women in a programme that aims to contribute to gender equality.

5.2 Joint Financing Agreement and provision of technical assistance

There is direct and aligned support to TA and CD in LGCDP-II. The direct support is provided by development partners as either funding through the JFA or as joint funding for the Policy and Programme Support Facility (PPSF), a joint TA-funding arrangement under the UN joint programme. The PPSF with an original budget of USD 13.5 million (of which USD 1 million was unfunded) was later increased by USD 2.2 to USD 15.7 million, still with 1 million unfunded. The PPSF is, LGCDP's main mechanism for technical assistance, both national and international.

It is implemented through the national implementation (NEX/NIM) modality, which creates ownership and adds flexibility allowing the government to have services to the programme that are difficult to realise through the GoN's regular rules and practices. The PPSF TA activities are included in the strategic implementation plan and integrated in the annual strategic implementation plan of LGCDP-II. For the PPSF, three types of TA are distinguished, which are called pillars.

Pillar I is providing Technical Expertise, used to assist MoFALD in the implementation of LGCDP activities at both, national and sub-national levels and to build the capacity of the ministry and the local bodies. The staff employed in the Programme Coordination Unit (PIU) and in the six Regional Coordination Units are part of this pillar. So are the experts, like the district/urban governance experts (DGEs/UGE's), and the 'University Youth ICT volunteers' (ICTVs), dealing with ICT, stationed in DDCs and in the 58 old municipalities. In addition, Pillar I is financing short-term national experts working in the Programme.

However, overall, the notion of TA is not widely known in the DDCs, municipalities and VDCs. When asked if the DDC has any TA personnel, the answer is usually 'no'. This despite the fact that the DDC or municipality has governance experts and ICT volunteers, but also social mobilisers (latter being paid under JFA/output-1) within their staff

establishment. At present, there are some 250 TA personnel funded by pillar 1, 192 of whom have been recruited via the UN/Joint PPSF programme (see Textbox below)

Text box 5.1: Staff employed under PPSF/ Pillar 1

15 technical specialists are working in the PCU in Kathmandu, of which 2 positions (a federalism expert and a local revenue expert) have just recently been added, and selected experts are yet to take up their work at the time of the MTR. In addition there are 2 UN volunteers in the PCU.

There are 36 TA personnel in the six RCUs, 6 in each RCU, and 5 support staff, including 3 drivers assigned to each RCU. One of the support staff is funded through the JFA. Although the number of technical experts stayed the same, some positions have changed – 2 positions were merged to create the social mobilisation & livelihoods expert post and 1 PFM expert was added in each RCU recently. In addition, 1 UN volunteers (ICT expert) is placed in each RCU, bringing the total number of technical staff in the six RCUs to 42. There has been a high staff turnover among the RCU experts whereby the remaining staff have to cover for vacant positions, regardless of differences in expertise and workload.

133 district/urban governance experts are placed in the 75 DDC's and 58 ("old") municipalities, however, 33 of those have resigned as of April 2016, most likely in anticipation of their contracts ending in July 2016. The GoN is in the process of recruiting 2 programme officers for each DDC/municipality to replace the outgoing DGE/UGEs. These programme officers should have been in place by March 2016 to ensure proper handover and capacity development but there have been delays and it is not yet clear when they will be taking up their work. In addition, 133 ICT volunteers (of which 126 were in place as of April 2016) are providing technical assistance in DDCs and the 58 old municipalities. These are young graduates selected through Tribhuvan University and funded through the PPSF. As from next FY (July 2016) these ICTVs are supposed to be placed also in the new municipalities, funded through the JFA.

Pillar II: Policy, Research and Capacity Development Support is used to support CD initiatives, at both national and local levels, for new areas of work, policy development, and technical reviews and studies, in addition to field-testing of reforms and innovations. This pillar can provide high-level policy advisory services on issues such as LB restructuring and decentralisation, including fiscal decentralisation and to address emerging policy development needs jointly identified by the GoN and DPs. Activities like the review of the MCPM system, and activities relating to LB revenue have been covered under this pillar. It is unclear to the MTR however, if this pillar really has been used to its "full potential", and as a strategic mechanism to fund policy advice, research and piloting.

Pillar III of the PPSF is for programme coordination and oversight. It covers the costs of coordination of DP support to LGCDP-II and activities to ensure efficient and effective liaison between the DPs and GoN. Pillar III includes TA to provide strategic policy support to the DPs and GoN as well as analytical support, quality assurance and programme monitoring, reviews and evaluations of LGCDP-II, including this on-going MTR, thematic evaluations and an independent evaluation towards the end of the programme period. Funding of the modest DP Cell, with 5 staff including support staff and established in 2014, at the request of DPs, is also covered under this pillar.

The PPSF framework, and its three stands of TA support provides the programme with a mechanism for national and international short term technical support for policy advice, quality assurance, oversight and the testing of policy development initiatives.

In addition to the PPSF, specific CD activities are being offered under output 5. It was, however, difficult to establish what was actually done, and our impression is that actually the level of activities has been substantially lower than the initial provision with a budget of USD 35 million for 4 years. The LDTA (see also below) appears to be performing sub optimal at best, mainly because of weak management, whilst the *CD strategy* that was prepared in 2014, is yet to be approved and put into practice; As many other consultant reports that have been produced for LGCDP over the years, it has mainly been collecting dust it seems. The CD strategy prepared in 2010 met a similar fate.

5.3 Mainstreaming of TA provision and assuring a policy dialogue

Projects, and development projects are no exception, are set up to make a difference; they are meant to facilitate a change. Sometimes, the in-house (technical) capacity and/or competence of an organisation does not meet the requirements of that project in which case external - own funded or foreign funded - technical assistance comes in.

However, for the LGCDP, the MTR notes that neither the staff of the PCU nor the RCUs are playing the role of “change agents”. The PCU staff operates largely in a support function to MoFALD where they are assisting the Output Managers rather than being proactive coaches and motivators of the LGCDP (or the local government officers). On the other hand - as a mitigating explanation - it should be noted that the PCU staffs are not routinely coached and supervised themselves in their role as programme coaches. Hence, it is probably difficult for the experts in the PCU to avoid playing the, from MoFALD’s perspective, more attractive role of “gap filler” or “capacity substitution” in the ministry.

This aspect of assuming line functions is reinforced by the fact that in the PCU each technical specialist is attached to one output through the respective section/output manager in MoFALD, without an overarching hierarchical structure amongst the specialists. Hence, for them it is difficult - both individually as well as a group - to be the go-between the pool of technical expertise on the one hand and the ministry on the other hand and play the role as provider of knowledge, skills and experience - broadly speaking a “learning tool” for MoFALD’s staff, thereby also engaging in policy dialogue. The involvement of technical experts in policy dialogue is limited, and many policy recommendations prepared over the past years (e.g. in the area of fiscal decentralisation) have not been discussed let alone applied. In the view of the MTR there is clearly a task for UNDP as provider of the TA to make sure that mechanisms for policy dialogue between the PCU, as a whole, and LGCDP management in MoFALD were established.

The MTR also found that there is little discussion with PCU and RCU staff on either the direction of the Programme or on progress and achievements. Many of the staff met are still in the mind-set of previous projects they worked in, which hampers their role as change agents for a democratic local governance programme.

To some extent, the more recently created DP Cell fills this gap. It is playing an active and constructive role as the liaison agency between the DP’s and GoN. And the DP Cell¹⁴ provides the clearly needed “fuel” and energy to the Programme, as a temporary structure, to activate and implement ‘the project’. More importantly, it also seeks to ensure that the project starts focussing on the main strategic issues, by raising the same handful of topics over and over again. Obviously, it is temporary in nature, and can ‘evaporate’ without negative consequences once the LGCDP is ‘completed’.

There are other TA positions in the Programme that would merit being integrated in the regular government (or LB) establishment. However, the *Programme Recruitment Facility*, which was expected to assume responsibility for recruitment of technical assistance personnel and volunteers as envisaged in the Programme Document, has not yet been established, as MoFALD has been facing legal, financial and procurement constraints, part of which are beyond MoFALD’s mandate and power of influence. It is unfortunate that this facility is not in place as it ought to be the responsibility and duty of the GoN to recruit, select and employ staffs in their own organisations. On the other hand, a clear distinction

14 A better name would have been something like “GoN-DP liaison office for LGCDP”, to reflect that this DP-cell serves as a bridge between two parties; and not exclusively serving one party.

may need to be made between temporary ('project' affiliated) positions and positions that are (or are to become) part and parcel of the future government of local body set-up. The MTR has the impression that sometimes the PRF agenda is pushed too much on the basis of principles and theory without sufficient consideration for practical solutions and the -by principle- temporary nature of a project, and without the distinction between temporary TA positions and TA positions that fill regular staffing gaps.

The MTR Team is of the opinion that technical assistance under LGCDP is of great importance especially as the local capacity and capability is limited in LBs - far beyond the level of any substantive gap filling. Hence, TA should be used to build capacity especially in the old, new and yet to be created municipalities. The best approach of technical assistance to local governments in Nepal is rapid transfer of skills and knowledge coupled with opportunities for professional experience.

5.4 Provision of TA - LGCDP core and other development partners

Ten core DPs are providing financial support to LGCDP through the JFA (see Chapter 1), and hence also to CD activities under output-5 and across the programme.

Some of those ten DPs, notably DFID, Norway, Denmark, and UNDP, UNCDF and UNV provide financial and other support to the PPSF. Others, like SDC, UNICEF, UNFPA and UN Women contribute to the JFA but opted to stay out of the PPSF, amongst others in order not to be bound by the common rules (e.g. on allowances). Latter UN agencies implement activities through both the GoN systems but also directly. UNICEF focuses on Child Friendly Local Governance (CFLG) partly through government under the JFA, partly (i.e. in other districts) directly; UN Women focuses on gender responsive budgeting; whilst UNFPA supports 18 districts on reproductive health, gender based violence, gender equality and population dynamics, with one district development officer hired for each district. As much as these DPs are part of the LGCDP-II, some of them also run their own similar programmes in other parts of the country (parallel to LGCDP-II).

Some of the DPs are providing CD services, in particular the UN organisations that are active in training local staff and social mobilisers on subjects such as reproductive health, gender based violence and development planning. UNICEF has standardised training modules on CFLG issues which are incorporated in trainings for CACs, WCFs, SMs, VDC secretaries and others. These modules come as basic and annual refresher training packages. UNFPA provides trainings on e.g. planning and monitoring, with a focus on reproductive health and gender based violence to district and village level officials, SMs, etc.

However, there does not appear to be a clear overview in the LBs on what trainings are on offer or on what has been provided. On a positive note, at least for some trainings, they are now better coordinated by adding "modules" on certain issues to on-going trainings programmes, rather than each of them organising separate events.

LBs are supposed to coordinate the activities of NGOs, DPs, government programmes etc. in their respective area. The capacity to coordinate and analyse development plans is limited though, not helped by the large number of programmes and actors, particularly at district level. Most of these programmes (incl. GoN's own programmes) come with separate guidelines and requirements, making it difficult to keep an overview let alone coordinate. Often thematic, sector, issue-based or other committees are created to "coordinate" – e.g. in Dadeldhura over 60 committees exist at district level, about 50% of which the LDO has to chair. Such capacity limitations cannot be filled by CD but need more structural reforms.

In consideration of all CD activities taking place in districts and municipalities it is definitely necessary to designate and train at least one officer who should be responsible for Human Resources Development and Capacity Development and who should be assigned the role of coordinator of HRD/CD planning and activities in the district/municipality. Such HRD function should be introduced in line with a nationwide recognition of the role of HRD/CD, with a national HRD/CD function within MoFALD. It is imperative that these persons should be deployed in one station for a longer period of time (more than two years) in order to be able to acquire a comprehensive picture of the CD situation and to be able to manage and coordinate HRD/CD in the District/municipality in a professional way.

5.5 Aligned Programmes/projects

A number of DPs, some of them LGCDP core DPs, are also engaging in aligned programmes, outside of the core LGCDP framework. For example, DFID contributes to the JFA as well as PPSF, but is also organising and financing training through aligned programmes, outside of the core LGCDP framework. Similarly, SDC is contributing to the JFA but it also directly implements an accountability programme. Among other activities, USAID is running a similar programme as LGCDP in the Mid- and Far Western Region. USAID provides social mobilisers and supervisors to selected VDCs in the programme districts. ADB supports MoFALD in the PFM area and has advisors in the MoF and other institutions. JICA is undertaking to assist LDTA in its reconstruction, and supporting the training of community mediators and other activities on community mediation. GIZ is heavily involved in CD programmes, focusing mainly on new municipalities and institutions assisting municipalities.

The CD support includes organisational development, improvement of systems and networks and improvement of knowledge and skills of the individuals, notably of individuals working in LBs. Also, a “peer learning” (or “advice”) system is being tried out, whereby expertise, present with municipal staff, in some municipalities is shared with other municipalities lacking such expertise. Moreover, GIZ is supporting the regional training centres (RDTTC) in Nepal, in particular the urban regional training centre (UPTC) that is training municipal staff. GIZ is also supporting the Municipal Association of Nepal (MuAN) and the 5 regional learning centres (RLC). These RLCs are managed by the municipalities themselves and are in principle organised learning opportunities but not for training. LDTA has received assistance from GIZ in the past, but as the structural and managerial capacity was not in hand, that assistance has ceased.

GIZ’s support to capacity development to LBs is well managed, innovative and has shown substantial results. The MTR team supports the recommendations made by GIZ, e.g. decentralisation of management and partial autonomy to the RDTTCs and development of a human resources development plan.¹⁵

Some of the development partners have, for different reasons, chosen to only align to the programme and to not be fully part of it. One of the lessons learnt from development programmes and projects around the world is that joint efforts and mainstreaming of development programmes and projects benefit the receiver and lends synergy to the implementation (with a sum greater than the addition of the components: 1+1=3!). But if done for the wrong reasons, labelling projects like ‘aligned’ can easily create an extra

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We acknowledge that the MTR happened to be able to get a good insight in the CD work of GIZ. Time did not allow to visit and study all DP contributions and other projects in a same manner, but for sure other aligned and non-aligned projects would have similar good lessons to learn from.

burden, rather than reduce the burden or increase the benefits. Sometimes it seems easier to let projects that cannot be part of national programme operate on their own (rather than spending time and effort to constantly align things that are not entirely the same). As for the core DPs, that also need to compromise in seeking a common bottom line, aligned programmes need to commit and adhere to common ground rules, and apply those across the board. As, in our view, it does not make sense for JFA partners to carry out similar activities in part of the country through other programmes, whilst in other parts of the country funding the LGCDP implementation mode. Likewise, aligned partners should be willing to accept rights and obligations stemming from the membership (with the bottom line that it is always difficult to be a partial member anywhere).

5.6 Assessment of the approach to technical assistance

Technical assistance as provided under LGCDP-II is substantial and playing different and important roles in the execution of the programme. In fact, it is difficult to envisage how this extremely large and diversified programme could have been implemented without the support of the PCU assisting the MoFALD in many capacities. The RCUs are significant for the coordination of the programme work out in the districts, and transfers of skills and knowledge to LB's and notably to social mobilisers. As executed and focussed, and with a strong emphasis on outputs 1 and 2 requiring a focus on field level execution, the LGCDP implementation would probably have been delayed and complicated if the RCU's did not exist.

Part of the LGCDP's achievements should, at least in part, be credited to the availability of technical assistance personnel working in partnership with both ministry and the local bodies. It is, as usual, a problem that some TA staff are used as "gap fillers" which jeopardises their sustainability. It is to be noted that the situation where the PCU has its own office, even though close to MoFALD, is less ideal as it shows as if they are not part and parcel of the ministry. This is even more so the case for the RCUs, each covering a number of districts, at a regional level that is not a formal government administrative level, which makes them by definition parallel institution, not tied to any particular local body or central government set-up.

For the TA, and this is probably unclear in the approach, a clear distinction needs to be made between TA staff that is there for a clearly defined assignment for a limited period of time, and those positions that are in the end to be absorbed and become permanent for the achievements to become sustainable. This could in a way be the case for the social mobilisers, and the governance advisors who are now to be recruited by the LBs themselves. But in a way it points to a TA design flaw in the sense that TA is, by its very nature, a short-term measure for situations where capacity, capability or specialisation is in short supply. As soon as programme implementation becomes overly dependent on TA, the issue of sustainability must be raised. MoFALD needs to start thinking (and planning) on how important elements of the programme that are supposed to be part and parcel of the ministry's routine mandates can be sustained without TA.

5.7 Assessment of the approach to capacity development

Output 5 on capacity development has seven indicative activities to be undertaken:

1. Institutional *assessments* and supporting MoFALD, DoLIDAR, LDTA, LBs and local governance actors in preparing and implementing capacity development and institutional reform plans;

2. *Developing and delivering competency based training programmes* based on plans for addressing the CD needs of both demand side (e.g. WCF, CAC, IPFC) and supply side (e.g. LB, line agencies) officials and stakeholders;
3. *Enhancing LB capacities* by clearly linking the MCPM assessment results with capacity development grant and supply-driven training modules, with the aim to fully support low performing and failing LBs;
4. *Assessing and rationalising staffing requirements* of LBs and support to assess the feasibility of introducing technical service centres at the Ilaka level;
5. *Mapping CD service providers* at national and local levels and orienting the service providers selected for enhancing CD of local actors through a restructured LDTA with an enhanced capacity, monitoring CD service providers for the efficacy of their training programmes, and introducing certification systems in local governance tools such as social accountability, MCPM, participatory planning etc.;
6. *Capacity building* for implementing/ mainstreaming *cross cutting themes* such as CFLG, GRBA, CC; and
7. *Supporting LB associations* to advocate on devolution and to build local political capacity for local good governance.

The MTR observed that the level of implementation of these activities varies. Institutional assessments of MoFALD and DoLIDAR have started with a survey of capacity development needs. The survey results are expected soon, to be then analysed by MoFALD for further action to be taken. Assessments of LTDA, LB's and other local governance actors are yet to be done. A number of training interventions, courses, seminars and workshops have been developed and delivered by the LGCDP-II with an overall emphasis on training of social mobilisers. In addition, but on a limited scale, training and other capacity development activities such as on-the-job training, conferences, seminars and workshops have been conducted either by MoFALD staff, UNDP, UNICEF, UNFPA, and a wide range of service providers.

However, during the MTR it also became clear that none in LGCDP or in MoFALD, despite serious attempts, has a comprehensive overview of the capacity development being provided to local bodies and related agencies in the area of LGCDP's intervention. This situation makes it difficult to even try coordinating CD taking place in and for local bodies.

Delivery of MoFALD/LGCDP trainings has sometimes proven difficult as non-governmental training providers (through other programmes or DPs) are offering higher compensation to resource persons than MoFALD/LGCDP is allowed to do. Moreover, the general high turnover of government staff in any position has put pressure on LGCDP as there is constant inflow of new staff and other stakeholders that need to gain the required knowledge and capacity. And evidently, despite efforts to train and upgrade local government officials' skills and knowledge, much more needs to happen in terms of CD. When entering central government, all civil servants need to take a 6 month long induction training programme. There is no such provision for their colleagues in the local bodies.

A link between CD and the MCPM would assure that the supply is linked to demand as the CD would respond to an identified concrete capacity gap. However, there is no systemic link between CD and MCPM results. On the one hand, the MCPM assessments results are not always internalised by and discussed with the LBs. On the other hand, there is no system ('market') in place where LBs can easily procure or acquire CD as per their needs.

The capacity development strategy developed in 2014 has yet to be approved, two years after it was presented to MoFALD. The assessment and rationalisation of staffing requirements has not yet taken place. The mapping of service providers at national and local level has started, but is has not been completed due to the deplorable situation within

the LDTA. Some of the service providers have been oriented on the LGCDP but not all. The prevailing situation in the LDTA is an obstacle for CD development and quality assurance of CD service provision. LDTA is an institution with limited capacity due to a lack of decisions to recruit more training staff. Several DPs have tried to assist LDTA (e.g. Denmark in the 1990's and early 2000's, more recently GIZ) but the political will to restructure the LDTA to become an important CD institution has so far been strikingly low. It is a central CD institution which ought to provide CD services and consultancies to LBs in Nepal. This is of particular importance as Nepal is in the process of moving into federal structures where capacity development will be pivotal to success. JICA has now started a new project on restructuring of LDTA, which could be used as opportunity to address the above-mentioned issues. It is, however, beyond JICA, or any other DP, to solve the LDTA's more political issues.

CD has taken place for implementing cross-cutting themes (e.g. CFLG, GRBA etc.). Information on how many staff members have been trained could not be obtained.

LGCDP should, according to the activities to be performed under Output 5, support the three LB associations to advocate on devolution and to build political capacity for local good governance. The MTR team has visited the three associations who confirm that they are supported financially and by resource persons from MoFALD who lecture at training events. The support is, however, limited to these two activities. The three associations provide training and other capacity development interventions to their members. E.g. the Municipal Association is organising not only training programmes on financial management and audit but also arranges exchange meetings between municipalities who perform well on revenue collection and those that perform less.

The MTR notices that capacity development to a great extent is focused on "field staff" i.e. social mobilisers and coordinators. The importance of having well trained capable social mobilisers is acknowledged, but as now the system of social mobilisation is established and in place, it is time to put more focus on district, and notably on municipal and VDC staff. MoFALD and other service providers conduct training of such staff as and when available, often as more or less "tailor made" training for certain officers of DDC's and municipalities, but there is no comprehensive nation-wide capacity development programme behind it. Given the federal governance structure and the future organisation of local government to be put in place, it is an urgent matter to develop a generic capacity development programme for all local government officers. The MTR team believes that it is necessary to develop a "Local Government Corps identity" where notably local body staff and other employees can be proud of their jobs and seek to develop themselves.

It is compulsory for all civil servants that are part of the (central) government establishment to attend a 6-month introductory CD programme at the start of their career. Later on, these civil servants are invited to a compulsory in-service training course of 6 months. But there is no such CD programme for staff directly employed by the local bodies. The MTR is of the opinion that it is necessary for MoFALD and LGCDP to introduce a compulsory local government CD programme for all staff in local bodies. The first step would be to conduct a capacity development needs assessment in selected representative municipalities and VDCs, to obtain an idea of the capacity needs for the future local bodies. Thereafter, to develop a CD programme and a simple CD policy to explain government priorities and directions. As the LDTA is under reconstruction it is probably not possible to entrust these tasks to LDTA.

As a temporary measure, the Nepal Staff College could undertake to develop and implement the needs assessment. The Staff College, which offers "tailor made" training

programmes and consultancies, should also be approached for designing a comprehensive generic local government CD programme and later implement and conduct the programme. Of course, such a programme should be worked in close cooperation with MoFALD, and LB Associations should be given the opportunity to provide inputs. The MTR is further recommending to consider merging the LDTA with the Staff College as the Staff College is a functioning and appreciated institution and has an excellent reputation for professionalism and well-designed up-to-date training, whilst the LDTA has now for years been struggling to play a meaningful role in capacity development. The Staff College could probably "breath life" into the LDTA as a professional institute not always marred by the whims of political decisions.

5.8 Effectiveness of LGCDP programme management

For the aspects of technical assistance and capacity development programme management i.e. output managers and staff in MoFALD seem to be overloaded with regular MoFALD duties. Despite the fact that LGCDP-II appears totally integrated in the MoFALD structure, according to themselves, they have to perform their LGCDP assignments over and above their regular duties making it difficult to find time and energy for these assignments. It can be questioned if the current set up is the ultimate organisation solution for programme management. Programme implementation for capacity development is slow and few seem to have an overview of the programme and its activities. The LGCDP programme managers only meet ad hoc and there is no real regular interaction and/or communication between the units. Hence, LGCDP-II programme management is facing a risk to work in "silos". But in fact, LGCDP should not to be seen as an "outside" programme. Its activities should be perceived as part and parcel of MoFALD, and in that respect not pose an additional burden to MoFALD staff but rather support and transform MoFALD's operations. In fact, the programme may not be as well mainstreamed as the organogram in chapter 1 suggested.

5.9 Main recommendations specifically on Capacity Development

- The MTR recommends to commission the Nepal Staff College to undertake a capacity needs assessment for staff in DDCs, municipalities and VDCs, but notably the Municipalities and VDCs, as a requirement for the design of a comprehensive generic local government CD programme.
- After successful completion of the task and an analysis of its results, development of a comprehensive, compulsory CD programme and a CD policy. Implementation of a limited test programme. Revision of the programme. Establishment of the programme and full scale implementation.
- Explore the possibilities, pros, cons and risks of merging the LDTA and the Nepal Staff College; and if such study proves positive, consider a merger between the LDTA and the Nepal Staff College.
- Consider a web-based catalogue of training programmes that are being supplied ('on the market) to start creating a CD market place.
- A Capacity Development Newsletter (web-based) could also be considered for publishing CD and CD related experiences and ideas from different parts of Nepal.

6. Assessment against the OECD/DAC evaluation criteria

6.1 Introduction

Based on the observations as presented in the previous chapters, this chapter presents an assessment of LGCDP-II against the standard evaluation criteria of relevance, effectiveness, efficiency impact and sustainability as developed and defined by the OECD as the criteria for evaluating development assistance. In chapter seven an assessment of the LGCDP-II against the reality of a new constitution is made. Both chapters (6 and 7) will lead into the forward-looking conclusions and recommendations that are presented in the last chapter.

6.2 Relevance

Despite all the remittances of Nepalese migrants working abroad, and which has improved the country's GDP ranking, Nepal remains a low-income country. Given the hilly and mountainous physical conditions, service delivery is a challenge. And it would be a challenge even in the absence of the added complications of a decade of open civil unrest followed by a period of transition that is taking place against a politicised and political sensitive background that seeks clientele. Traditionally, Nepal has a stratified society where some parts of the population were considered less equal than others. Against that background, the objectives of the LGCDP to contribute to poverty reduction by improving effective service delivery, stimulate local development and empower people are considered to be highly relevant.

Initially, LGCDP-I started as peace dividend, making sure that the state was seen to provide funding to all corners of the country based on people's demands and, thereby, restoring the relation between people and the state by creating thrust, but also, as planning needs discussion and consultation, the relationship between people amongst each other. In this context, notably the Ward Citizen Forum (a LGCDP creation, with high profile within the Programme) as well as support for the Integrated Plan Formulation Committees (not an LGCDP creation and somewhat neglected by the Programme) are both relevant. The Citizen Awareness Centres can be seen as a contributory activity of affirmative action to get marginalised people to the fore to link up with the WCFs and the IPFCs.

But in assessing the continued relevance of the programme the crux is in the relation of the three components as mentioned in the objective of the programme: citizen empowerment, local development and service delivery, as well as in the right balance of attention for each of these three components. The rationale of the programme must be understood in that by empowering people, they know what services to ask for and assure a better spending of public money, hence leading to improved public service delivery, which in turn is expected to contribute to local economic development, whereby in the end the latter two start reinforcing each other as more local economic development increases the LB's own revenues leading to larger budgets for service delivery, etc. Hence the rationale starts with creating the demand side, to put pressure on the supply side, which also will be supported to become more effective and efficient. The explicit mission for LGCDP-II was to pay attention to the supply side.

So far, and in part because of the circumstances of a prolonged transition period in the country, the emphasis within the programme has been heavily lopsided towards the demand side (outputs 1 and 2). But given the fact that Nepal is expected to put in place a new federal governance system as per the provisions of the new constitution, which also has clear provisions for local governments in the spirit of the LSGA (1999), for the programme to stay relevant it will have to refocus its attention to the supply side

(outcomes 2, 3 and 4) to put in place local government systems geared for inclusive public service delivery.

6.3 Effectiveness

In answering the question whether the programme 'does the right things to achieve its objectives' it should first of all be noted that the span of activities as per the design is enormous. It ranges from working with small groups of less than 30 people (like user groups and CACs) in all VDCs and urban wards (output-1) to working on policies, issues of fiscal decentralisation and federalism. It cuts across all nine divisions of the ministry. Yet, management of the programme is entrusted to one Joint secretary, presently the one for the division of Local Self Governance (under which output 1 falls).

There is no doubt that the results of social mobilisation are impressive, as is the scale of the operation with over 4,500 social mobilisers all over the country. WCFs are appreciated by those involved and have been well established as was shown in them taking up their roles with the earthquake relief operations. The link up to the VDC level IPFCs which, after the all-party mechanism, play a role in resource allocation (as otherwise an elected council would do) and in some instances seen, these IPFCs had a positive impact on social cohesion. Through the CACs, the LGCDP played a role in the 'silent revolution' that is taking place in the country.

As per the original budget, some 42% of the total JFA budget was earmarked for output-1. Although, as explained in Chapter 1, we do not know what percentage of the actual expenditures has gone to output-1. But it is safe to say that under the JFA, the actual share of output-1 in the total expenditures is (far) more than all other eight outputs combined, which, objectively, must be considered quite un-balanced.

Obviously, some outputs (such as output 8 and 9 around policy development) require by their nature less (financial) resources as compared to others; but even though, as discussed in Chapter 5, it appears that relatively little was done for the important topic of capacity development of LB staff.

The general observation is that, over the years, social mobilisation 'got a life of its own', thereby overshadowing the other outputs that were supposed to deal with policy and institutional issues around the supply side.

As much as the CACs can be seen as the lowest level of a vocal citizenry, the way the activities shaped up, notably with regards to the project grants (the community infrastructure grants and livelihoods improvement grants), drew the attention further away from the structural and institutional issues around LBs. Chapter 2 showed that 'project grants' (which are fundamentally different from the institutionalised intergovernmental fiscal grants) constitute only a small part of the total grants - yet they receive most attention of the entire 'project machinery'.

Effectiveness is influenced by context. For sure, in the first years of the LGCDP a focus on social mobilisation made perfect sense. However, and this is the same point as in the previous paragraph, given the fact that over the next few years a new local government system has to be put in place, the activity mix needs to shift in favour of the outputs related to the supply side.

6.4 Efficiency

In answering the question of value for money, it may be useful to distinguish between the fiscal grants and JFA.¹⁶ However, and as explained in Chapter 1, data are lacking to make a proper analysis and assessment of the efficiency in the use of the JFA funds.

Regarding the GoN grants, and also this is a discomfoting conclusion albeit of a completely different nature, the success of the Programme, that is the success of social mobilisation and creating voice and demand, may contribute to a lower value for money, as the available resources are fragmented in many small pieces that lead to high overhead costs and low quality (see chapter 4). In order to satisfy as many demands as possible (amongst others from the WCFs), many small projects are awarded or bigger projects are awarded in stages, which means that the construction of even a classroom may take three years. This spreading of funding over several years has a serious implication for the annual planning exercises, which become redundant as in year-1 the LBs commit already a serious part of the budget for the next year (or years) or pay the price of only partly completed projects.

The huge number of small projects, the implementation of which may be stretched out over years, poses a serious challenge for proper technical guidance. The set-up is bound to be inefficient and there are serious concerns about the effective use of the capital development grants. This as much as people appreciate them - and this is probably the issue: small capital development grants were initially needed to (re)build the relation between citizens and the state. But as this happens, on a learning-and-progressing-by-doing basis, the systems (or arrangements) need to evolve and gradually improved. As illustrated in Chapter 5, such type of policy development has not been LGCDP-II's strongest point also as the TA arrangements were not conducive in picking such issues up. In part this goes back to the fact that the focus was on other things - but it highlights the need to start taking a step back and look at the more structural/institutional issues around LBs and service delivery.

Efficiency of grant use can be improved by certain relatively simple measure (of imposing a minimum project size, introducing the requirement that projects need to be completed in 1 (or 2) year. It will make the planning more difficult because 'hard' choices have to be made - but that is what prioritising and planning is all about. Proper planning for efficient resource allocation of public funds is certainly not about 'keeping everybody happy with an empty shell'. That may work for a short while, but for the longer term there is need to strategize about the next steps. Which brings the discussion back to the point as raised in the previous paragraphs, highlighting the need to also start paying attention to the supply side of local service delivery.

A shorter-term solution to improve the situation, and make planning with concrete choice more palatable, is to work out say 'VDC long and short term vision plans', in which plans that cannot be funded this year still have a placeholder. The aligned USAID project has experience with this.

More long term, but work could already start now, is to think through how technical backstopping can be provided to LBs, but also how different departments are to get involved in a common approach towards local level service delivery to avoid overlap and duplication.

¹⁶ The question how the latter (JFA) helped to improve value for money on the first (fiscal grants) will be addressed further below.

6.5 Impact and sustainability of impact

LGCDP-II is considered a flagship programme, not least because of its sheer scale, with MoFALD staff as well as social mobilisers in all VDCs and all urban wards in the country. As such, the Programme has made a great contribution to mobilising people and giving them a 'voice' (through IPFC, WCF and CACs), and such has been achieved at a national scale and there is no other social mobilisation programme that can make such a claim. Managing such a programme (even for output 1 alone) is a monumental task that cannot be easily overestimated. The ministry and the concerned staff should be credited for that.

Through the IPFCs, WCFs and CACs, the programme would have interacted, and in most cases changed the mind-set, of well over a million people (at least 4-5% of the total population, maybe more). Such achievements, even though not always easy to pinpoint or measure, are real and will be sustained as empowerment and enhanced capacity in all those individuals.

The activities to provide people with voice were part and parcel of a wider picture where also supply of local service delivery would be addressed, and in a way that in the end, the 'voice' would find its institutional home in a 'representative and responsive locally elected council'. Whereas, on the demand side good progress is made (and impact to show for) the supply side remains wanting. Even in the absence of a new constitution the MTR would likely have come to the same conclusion, that more attention is needed for the supply side. The adoption of the new constitution last year is only an extra reason, which at the same time provides a fantastic opportunity to re-arrange the focus of the Programme; not because what was done was not good but because something else is also needed. In the next chapter we will assess which assets of the LGCDP-II are useful attributes for the new LG setting that is likely (and hopefully) to emerge over the coming years.

The second phase of LGCDP was by and large a mere extension of the first phase, in part because the context had not yet changed enough to make a clearer move to the supply, even though the latter was the underlying assumption. In fact, for long, the LGCDP has been a programme 'in waiting' - for the environment to become favourable. In the meantime, and as may be implied from the foregoing the Programme had not been too pro-active in that field either - although it is also recognised that the political arena, may not have left that much space for the bureaucracy to be pro-active. But if true, it means that for the design of any future phase or new project, the political level needs to get involved one way or another.

7. Assessment of LGCDP-II in the light of the new Constitution

7.1 Introduction

As much as LGCDP was initially to be seen as peace dividend to restore the relation between citizens and the state, from the beginning the more long-term objective was to support the establishment of a local governance system following the Local Self Governance Act of 1999. Since the suspension of the local elections in 2002, however, the LSGA was, for its better part, side-lined.

With the adoption of the Constitution (2015), the context for LGCDP has formally changed as the spirit of the LSGA is now captured in the Constitution, which makes the establishment of local governments a legal requirement.

In this chapter we assess how far 'LGCDP-assets' are likely to be useful for putting in place this new local government system as well as what remains to be done now and in a future phase or project (if any). But, in order to be able to do that, we first have to describe how the new LG system may look like.

7.2 Likely future system of local governments

Past mid-March, the government formed a nine member Local Body Restructuring Commission (LBRC) under the headship of a former secretary of GoN. As per the provisions of Art. 295 of the constitution the LBRC is a mechanism to determine the number and boundaries of Village Bodies, Municipalities and Special, Protected or Autonomous Regions that are to be formed under the clauses (4) and (5) of Article 56 of the Constitution.

Even in general terms, the number of future local bodies under the federal structure is somehow difficult to predict, given the actuality of the present trend of declaring municipalities and decreasing the number VDCs. LBRC is to follow the criteria set by the GoN while determining the number and boundaries of the local governments. The commission, as per the new Constitution, is to make recommendations within a year of its formation.

To date, there are 3157 VDCs and 217 municipalities, but there appears to be consensus on merging both wards into larger units, and several VDCs into larger units to make them an appropriate viable service delivery unit. These larger (future) VDCs are now sometimes also referred to as rural municipalities. This would mean that in future (i) the entire country would be covered by urban and rural municipalities; (ii) that there will still be wards under these units, but that (iii) the size of those wards as well as the size of the rural municipalities will be bigger as compared to the present wards and VDCs. If this scenario materialises, it would mean that, apart from the present urban municipalities, most other local governments will be newly established units in terms of the geographical areas they cover.

The Provincial Governments (seven as of today) will be at the helm of governance at the regional level which will also act as a linchpin between the Central Government and Local Governments. The new Constitution has set out the power, functions, duties and responsibilities of the Central Government, Provincial Governments and Local Governments. However, many operational arrangements such as detailed revenue and expenditure assignments, election process, structure, staffing, planning, internal working system and so forth are yet to be determined and implemented through appropriate regulations, decisions and actions. This is an area where MoFALD/LGCDP-II should have an active role and be able to contribute on the basis of its mandate and experience.

7.3 Key assets of LGCDP-II that fit the LGs under the federal system

The Constitution envisions strong local governments with local legislature, local executive, local financial procedures and judicial committee. In this context, the MTR team found the following as major good works initiated by LGCDP-II that can be carried forward or provide useful input during the implementation of the new constitution:

- **Ward committees as consultative forum:** As per Art. 222 and Art 223 of the Constitution (in both cases sub-article 4), a Ward Committee will be in place in every VDC and Municipality Ward, which comprises of a chairperson and four members.

During fieldwork, many of the local politicians interviewed praised the relevance of WCFs as instilling a culture of consensus among the politicians and people when there is the question of development. Most of the discussants also opined that in the absence of the WCF, there is again a risk of monopoly in the allocation of resources. Also the WCF has offered the opportunity to capacitate women, DAG and others to raise their voice and concerns openly and freely which otherwise was not a case before. The female respondents also revealed that the mandatory provision of inclusion of 33 per cent of women in the WCF has opened the mind of the society to observe and recognize the value of women's involvement in the community development process. Therefore, the local governments may use WCFs as common forum to collect needs and aspiration of common people so that the local planning process is facilitated apart from its visible role of acting as a civic oversight.

The future Ward Committees, which in many cases will cover a larger area as compared to the present wards, are in no way as extensive and representative as the present WCFs created under LGCDP (which have between 25 and 30 members). The new Ward Committees are (as the present ones) supposed to articulate the demands (voice) of local people, but they are smaller in the number of members and further away from the grassroots. As such, and taking into account the LGCDP experiences and the wishes of the current WCF members, an additional provision of a 'citizen sounding board' at a lower level (level of the present wards) and open to a wider range of people could be contemplated as a measure of social accountability. Other options are replicating the tools of budget meeting, public hearing, and other events around social accountability at the (new) ward level.

- **Community Mediation and Dispute settlement:** Art. 217 of the Constitution makes provision for a three member Judicial Committee coordinated by its Vice-Chairperson in the case of a Village Body and by its Deputy Mayor in the case of a Municipality and represented by two members, elected by the members of the Village Assembly or the Municipal Assembly from amongst themselves. The Judicial Committee is destined to settle disputes under their respective jurisdictions in accordance with law.

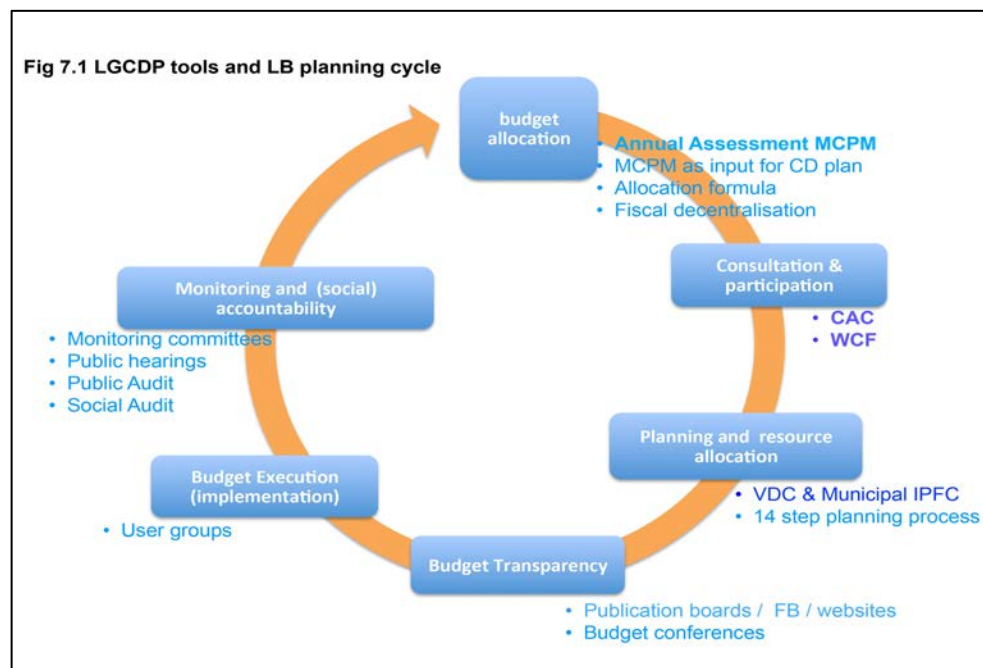
Community Mediation Centres (CMCs) are specifically mentioned in the Programme Document. However, the activity seems to have received little priority during the implementation of LGCDP-II. Other (aligned) projects (like USAID and JICA) have picked it up. The present CMCs are constituted by 27 trained mediators that are people of every walk of life and coordinated by a coordinator selected by merit examination. They appear to be doing a good job. During the field visit in Titihiriya VDC of Banke District, it was observed that the CMC had resolved 9 cases out of 14 within three month of its establishment. The greatest benefit of the arrangement is that the disputes are settled locally with a minimal financial and social cost for all parties (win-win).

As for the WCF, the question here is how the CMCs will link to or complement the Judicial Committees with have a much more narrow membership. Could they exist next to each other or should the CMCs give way to the new Judicial Committees?

- **Other tools for social accountability:** Public hearing, public audit and social audit as instruments of social accountability can be instituted at the new ward level by making these processes mandatory in the acts and regulations of local governments. Article 226 of the Constitution has specifically mentioned that the Village Assembly and the Municipality Assembly can make appropriate laws pertaining to their jurisdiction as provisioned in the Schedule 8 and 9 of the Constitution. As such, a separate provision needs to be made in the local government act regarding social mobilisation, and taking the best part of the existing ‘Social Mobilisation Guideline 2071’, to guide the new local governments.

7.4 Structures that can be mainstreamed under a new set up

People close to LGCDP often claim that the main asset of the Programme has been that it has kept, at least a rudimentary, structure of local government alive over the past one-and-a-half decade. That may very well be true and is in itself an achievement. The MoFALD’s own structure, with the Local Development Officers (LDOs) in the DDC, and the Executive officers and secretaries in the municipalities and VDCs respectively, is the backbone of the system kept alive and, importantly, aspects of consultation and participation in decision making have been added over the years, as well as tools of social accountability.



Many people spoken too, assert that ‘accountability’ at the local level has improved through the interplay between notably the WCFs and the IPFCs on the one hand and the application of social accountability tools on the other. This seems notably the case for the VDC and municipality levels. The district level is ‘too far away’ for most people and as much as the DDC budget is difficult to apprehend, also mechanisms of social accountability were found to have little impact at that level. Such a finding falls in line with the fact that in future the district level is no longer be considered as a local government level.

The improved accountability as perceived by people (but also illustrated by a lower intensity of media reports on local level corruption cases as compared to a few years ago) is largely based on people having become more vocal and to which LGCDP has contributed (but other factors also play a role such as increased exposure through migrant travel, increased levels of education and internet access through mobile phones as society is opening in general). This, however, is not the type of accountability that is reflected in the 'books of account', and sometimes it appears that people perceive or say that accountability has improved because they were more involved in the planning process and hence perceive the allocations (distribution of resources that come to the LB) to be 'more fair', and which is important but still something different from sound public financial management, in which area, as argued above, a lot remains to be done.

But overall, and apart from keeping the basic administrative structure of local governments intact, the LGCDP has added features to it that allow people's participation and which is generally appreciated even if in some cases people would argue that it has been elite-captured. The main 'hundred million dollar' question now is, in how far these mechanisms can be transferred to the new system as designed under the new Constitution.

Table 7.1 below shows on the left side the different admin/governance layers as they are there right now, as well as the institutional/organizational structures the LGCDP is supporting right now. On the right side it shows the likely future constellation. As the districts will become an administrative/coordination level for higher levels of government, it loses a good part of its relevance for a Programme that focuses on local governments, other than in a support and monitoring role. The core focus of the new LG system would be the urban and rural municipalities of which the first already are in existence, at least in part, while the boundaries of the latter are yet to be established. If the argument is to create viable units, the total number of the latter could roughly and based on international experience and best practice, be anywhere near to 500-700 units, that are to be put in place over the years to come, with a staff that should be (to make them viable units) be well over the aggregate of the present VDC staff

Table 7.1: Comparison of present and future situation for 'transfers' of structures and tools

Present situation		Future situation	
Present governance level	Institutions LGCDP focussed on	What will (or is likely to) happen?	Relevance given the new situation
Districts	DDC, IPFC	Districts to become an administrative level, part of higher levels of government	No longer a local body and as such no longer relevant for a local governance programme
Municipalities	MC, IPFC	Urban municipalities	The urban and rural municipalities to become the core local government units
VDCs	VDC, IPFC	Several VDC to be merged to become Rural municipalities	
Wards	WCF	Same in urban areas Especially in rural areas increase of size by mergers	Continued relevance for activities of social accountability Consider need for 'sub wards CFs' (area of present wards) to make link between smaller committees at the lower level and the grassroots
Settlement		These groups are not directly linked to formal governance structures	No direct role in LGs other than being the base of critical citizenry

CACs, as relevant as they are for mobilising and mainstreaming marginal groups - and as such an important tool for social accountability - would in any future structure not be part of the formal local government structure that is to be set up.

Overall, very few of the 'institutional bodies' that were supported under LGCDP can be transferred to the new system 'lock stock and barrel'. The role of the IPFCs will be taken over by the elected councils. Many of the WCFs will likely need to be reconstituted, as the geographical boundaries of the wards will change. There is also the question, raised above, on whether the WCFs, if they were to be continued, should be situated at the level of the new wards (where also a ward committee will be established as per the constitution) or whether it should be re-created at the level of 'sub wards', to keep a bridge between the lowest formal level of local governments and the population.

In general, these observations illustrate the point that many of the tools as developed under LGCDP (and as summarised along a local government planning cycle in Fig 7.1 above) need to be re-adjusted and re-configured for the new system. This aligns with the point hammered down in the previous chapter that more attention needs to be given now to the institutional / structural aspects of local governance also to provide an institutionally embedded 'home' for social mobilisation - as part of a local government/local governance system.

The main contribution of the LGCDP is that it has helped to change the mind-set of people and prepare them for the re-establishment of fully-fledged democratic local governments. But to capitalise on that, it is needed that indeed these local governments are established and hence our suggestion to shift focus to that whilst putting the - both rural and urban - municipalities in the centre of attention.

8. Main findings and forward looking conclusions

8.1 Introduction

In this section the main findings are presented in the light of the formulated evaluation questions mentioned in the inception report and in Chapter 1 above and once more reproduced in Textbox 8.1 below. As such, the assessment is based on the understanding that LGCDP-II is composed of two parts: the GoN fiscal grants to local bodies (that constitute 85% of the total budget) and the activities funded under the Joint Financing Agreement (making up the remaining 15% of the budget). The latter is being complemented by a provision for technical assistance under the PPSF. The grants are part and parcel of a permanent government system and the JFA/PPSF are a foreign funded temporary intervention, meant to enhance the performance of the permanent system.

Text box 8.1: Main underlying big picture evaluation questions

- How has the project (i.e. JFA and PPSF) helped to improve the spending of the local body grants?
- How has the project helped to improve service delivery through the use of the grants?
- How has the project been contributing to laying the foundation for a system of democratic local governments?
- In how far have the institutional and organisational arrangements around the basket fund (the 'JFA') been effective in the achievement of the above three questions?

8.2 Main findings as response to the 'big picture' evaluation questions

LGCDP has provided a useful contribution to instilling in people a sense of ownership of and involvement in "local development planning" through (i) the WCFs that served to identify and collect priority needs at ward-level and (ii) through the IPFC for prioritising & selecting projects across wards. As such, in terms of discussing budget allocations, the IPFCs transitionally mimicked the role of the suspended councils. Both the WCFs and CACs have raised the awareness of people in terms of the resources coming into their VDCs and municipalities, and the opportunity to have a say in its use. This, together with the increasing practice of SA tools has led to fewer cases of malpractices and misappropriations.

Overall, in terms of spending the resources under the fiscal grants, most attention has been on "voice" and "making claims", that is the initial steps of the local planning process (see Fig 7.1). LGCDP paid relatively less attention on making LB budgets more transparent, on improving budget execution and on regular accountability and reporting. In part this is reinforced by the fact that, at VDC and municipal level, a large part of the funds is spent through user groups which shifts the whole prism of accountability. As soon as the user group (which is a smaller part of the entire population in the jurisdiction of the local body) has received the funds, it is no longer those people asking to hold government to account, but government (on behalf of the population) holding the user group to account. As such, the voice component became very much focussed on small groups of people (user groups) 'getting a part of the pie' instead of on 'general service delivery for all within the LB's jurisdiction'. It leads to the bigger and maybe more philosophical, yet relevant, question of whether it is the task of government to provide funding to help people to help themselves or whether it is the responsibility of government to make sure that those services are delivered (and that people can hold government to account for that). Traditionally, views in Nepal were geared to the first, but it could be time to reconsider that

position, especially as the findings and analysis regarding the use of the fiscal grants have shown that user groups do not create an accountable local government. Field visits to the projects showed that increased demand is leading to fragmentation of projects that take long to complete and of which the quality is not always up to standard. In this light, the MTR team has serious concerns on the efficient use of funds in terms of their contribution to overall inclusive service delivery.

Understandably, people appreciate receiving the funds, even if small and fragmented. For the same reason, national MPs like it and for reason the budget has been increasing over the past years. But, in terms of political economy, this may exactly be the problem as nobody is interested to blow the whistle drawing attention to the fact that the focus (and the discussion) should shift to 'inclusive service delivery for all, and how that is realised in a decentralised context where all relevant government departments have a role to play.

LGCDP, also during its second phase has helped to keep the basic administrative structure of local governments in tact during the past ten years, and it has added supplementary tools and mechanisms that provide for consultation (notably the WCFs) and participation (notably the IPFCs). Going through these routines for several years would have changed peoples' mind-set to prepare them for a local government set-up that has institutionalised channels of consultation and participation. But while, overall, multiple VDCs are likely to be merged into larger VDCs (also called rural municipality) whilst also the size of the wards is to change (some have suggested the present VDCs to be tomorrow's wards) a lot of re-tweaking will need to be done. The same applies for the social accountability tools that have been promoted under LGCDP, but that may need to be repositioned. All these questions have received relatively little visible attention over the past years (as the focus was on output-1). But it is not too late - it can still be done and LGCDP has useful contributions to make. It is crunch time though and it requires a shift in focus of the Programme. Aspects that require more attention are the LG institutional arrangements beyond the constitution; functional assignments and fiscal decentralisation; the relationship of the urban and rural municipalities LGs with line ministries and finally, as a separate set of activities in the light of progressing urbanisation, how to deal with urban functions (which cannot be equated to the functions of municipalities, which are much broader).

It has been a large missed opportunity, by GoN and DPs alike, to have missed the chance of engaging in a policy dialogue starting from the use of the fiscal grants, leading to a discussion on service delivery systems and the role of the future local governments in general during the implementation of LGCDP-II. Firstly, in part, the opportunity was missed because many did not see the fiscal grants as integral part - or even the backbone - of the Programme. Some thought the much smaller temporary project grants, that are often private rather than public in nature, were more interesting or important, and in a way this made the Programme become too big and a little unwieldy. Secondly, the opportunity was missed because of the way the Programme was designed with activities across many units of the entire ministry, and how the TA was set up, with specialists attached to the units, but no connection at the top level between TA and senior management in the ministry, a function that is now fulfilled by the DP-Cell manager.

In principle, the JFA mechanism is a potentially strong tool for joint DP support to a government led programme but under LGCDP-II it was missing the policy matrix and triggers for fund release. Also that could have helped a policy dialogue.

8.3 Forward looking conclusions and recommendations

8.3.1 Separate community development and support for local governments

As reflected by its name, the Programme unites two strands of work that are interrelated yet, in their approach and nature of activities also very different. Both are relevant in their own right, although the question can be asked if government (part of the supply side) is best placed to provide long-term support to the demand side. In a pluralistic society the two would be functionally separated whilst, as part of their interaction, they push each other to greater heights.

During phase-II, output-1 that covers social mobilisation used a large share of the Programme's resources (more than all other outputs combined), thereby overshadowing the other outputs, most of which (those under outcomes 2, 3 and 4) relate to the supply side. Especially considering the new Constitution the latter needs more explicit attention.

It is therefore suggested to start considering to separate these two components as - and apart from the more theoretical considerations just mentioned - having them together under one project umbrella is stretching the span of attention too wide.

The suggestion is further based on two other considerations. Firstly, because putting in place a new local government system is a monumental task that requires all attention from the ministry. Secondly, social mobilisation under LGCDP has had great impact. As shown however, the increased voice does not necessarily lead to better project or better service delivery, hence the need to now also start paying attention to the supply side.

8.3.2 Question whether the supply side can provide support to the demand side

The LGCDP has focussed on social mobilisation (the demand side) for the past 8 years. Tremendous results have been achieved, especially also because the activities were implemented on a national scale. The achievements are in the form creation of social harmony, gradual eradication of untouchability, eradication of early marriage, increase of ODF and child friendly districts, increase of full immunisation and literate districts and so forth through social mobilisation processes. Additionally, LGCDP-II also has strengthened the relationship between the Government and its citizens through various forums and instruments of social mobilisation such as CACs, WCFs, IPFCs and various tools of social accountability. It has helped increase the nearness between the local bodies and the citizens and it contributed significantly to empowering the citizens and raising their awareness and it has been infusing the notion that it is a citizen's right to hold the government to account.

But so far social mobilisation has been done in 'donor funded project mode implemented by government' and a few questions need to be asked: (i) would government be willing to consider gradually taking over the costs of the social mobilisers? or (ii) should the new local governments be given the opportunity to continue with the social mobilisers from their own budget? But behind this there is also the more fundamental question raised above: should government, now it has laid a nation-wide basis, continue to support the demand side - and if yes for how long?

Longer term, and from a holistic local governance pluralistic view, there appear only two options: either social mobilisation is considered a regular service delivery function of the local bodies (and then staff gets gradually mainstreamed) or it is considered part and parcel of an emerging pluralistic society and taken on by civil society itself, so that supply and demand get into a healthy dualistic relationship that in part underlie the principles of decentralisation.

8.3.3 **Focus attention on establishing the new LG system (with LGCDP assets)**

Although this does short of the achievements on the area of social mobilisation, in a way, LGCDP has been a programme in-waiting for the local councils to be re-established. Given the new Constitution, we have to believe that such moment is now imminent. Therefore, LGCDP should gear up to capitalise on what many within MoFALD consider its biggest achievement: having kept the local government structure alive in the dry spell.

But as per the provisions of the new Constitution the circumscriptions of most VDCs and their wards are likely to change because of a need to make the units bigger to become more viable in terms of service delivery. This will require a re-engineering of the social account ability tools promoted under LGCDP in terms of level where they operate (e.g. for the LGCDP/WCF would it be the new larger wards or the sub-wards), what the membership is.

After the Commission for the determination of local bodies has done its work, the task of putting in place the (500-700?) new rural municipalities will be a tremendous undertaking, and a government led project in itself. This would easily be an exercise of at least 5-10 years that will come close to a total public sector reform, also because the staff establishment for these new municipalities is expected to be quite different from the collective staff establishment of the present local bodies. Staff requirement estimates need to be made as well as programmes for training and capacity development. It will be a huge undertaking that will require the full attention of the entire MoFALD.

It is therefore suggested that for any next phase or other project (if any), the attention is shifted to the supply side, and especially towards the LG reform project of putting the new local governments in place. Topics may include, but are not limited to:

- Institutional arrangements further detailing the provisions of the constitution with the experiences of LGCDP in mind;
- Functional assignments and fiscal decentralisation
- Roles of sector ministries vis-à-vis the new urban and rural municipalities
- Specific functions and mandates of urban municipalities

Work on all these topics was foreseen under LGCDP-II but did only materialise to a limited extent. Already during the remainder of LGCDP-II work should be reoriented in this direction.

8.3.4 **JFA upgrade (vs 2.0)**

The Joint Financing Arrangement, as used under LGCDP-II, whereby government implements activities using its own funds whilst being reimbursed afterwards, is potentially a very strong joint donor financing mechanism supporting a government owned programme. Under LGCDP-I reimbursement was done after verification by a specially hired third party, which was later considered as micro-managing. Under LGCDP-II, however, the pendulum has gone to the opposite side as funds are being made available without such verification but also without being able to see any budget-expenditure statements against the original Prodoc budget and agreed activities (as the financial system of the ministry uses a cost coding system that does not allow tracing of expenditures to the output level).

For a next phase or new project (if any) it is suggested to develop a mechanism where transfers are made on the basis of pre-defined triggers or key indicators (results based financing), which could have the shape of a 'LG reform policy matrix'.

Examples of key indicators could be:

- Comprehensive CD plan for all present and future municipality staff ready for implementation;
- elections for all municipalities in the new set up held;
- first year of the municipal CD plan implemented; etc.

The number of indicators should be relatively few for substantial amounts, so that government has space to fund additional activities other than those required to meet the indicators.

8.3.5 Rethink TA and be serious with LG Capacity Development

Managing a local government reform, including the creation of a large number of local municipalities (or larger VDCs) is a big project, of temporary nature, that may take several years. For this the ministry may not need a large number of TA on a permanent basis. It would probably be better served by a relatively small highly competent and dynamic unit, that has the budget to call in additional expertise of high quality in a flexible manner, if and when required. Such a unit could take the shape of a decentralisation secretariat. Such a secretariat would assist government with the project to establish a system of viable service delivery oriented local governments, but also support policy development.

Instead of too much attention on TA, a future project (if any) would need to pay serious attention to capacity development and training of local government staff on a regular basis. The new LG system may require thousands of additional LG staff that need to be induced but also regularly trained. In order to blow new life into the Local Development Training Academy, a merger or any other forms of collaboration with the Nepal Staff College that would make it more professional and shield it off from undue political interference should be considered.

8.4 Concrete recommendations for the remainder of this phase

8.4.1 Slowly start changing focus

LGCDP is a flagship but also like a big tanker that does not easily change direction, and sudden manoeuvring can be dangerous and should be avoided. That is why the above conclusions largely look beyond LGCDP-II.

For the remainder of the present phase, no drastic changes are proposed as only one year is left with a reduced budget. Yet, it could start changing direction by putting more emphasis on;

- Support to existing (old and new) municipalities, to prepare and gain experience for the tasks ahead
- Prepare a large scale generic capacity development programmes for staff of the municipalities (including estimate of numbers, qualifications, training needs, etc.)
- Policy development by MoFALD as future Ministry of Local Governments
 - LG Institutional arrangements (roles future wards/sub-wards)
 - Consider the option of the so-called 'One Stop Shops' at ward level
 - Functional assignments and fiscal decentralisation
 - Roles of sector ministries vis-à-vis the new municipalities

It is furthermore suggested not to spend time and resources on new activities outside the above frame. Other activities may need to be phased out.

It is certainly not suggested to discontinue the social mobilisers immediately, but following the suggestions above there is a need to see how they can either be phased out over time or over to another project, or absorbed by the local governments. If over the coming months a clear time path emerges towards the establishment of the new local governments within a period of say 2 years, it could maybe even be suggested to the DPs to extend the programme with one year and a modest budget - to facilitate the transition to the new system.

8.4.2 Start preparing for what is going to come

If the parties, GoN and JFA/DPs, broadly agree on the various suggestions above it is important that over the months to come discussions on the issues as raised in the report are deepened also to explore the space for a successor programme. It may be useful to consider the establishment of a small 'independent' task force or think-tank, with both national and, if deemed necessary, international expertise to explore and reach agreement on the outline of such a new intervention. Notably the tasks force would need to work out an agreement and consensus on

- the principles for a new project (issues as raised above)
- the broad content of such a programme and
- the triggers / milestones for funding

The task force would work under the guidance of the DP/GoN Cell, especially as it will be brokering a deal between the parties. Work of the task force may be backed up by necessary background studies e.g. with regards to policy development on the 4 topics as mentioned under 8.4.1.

As decentralisation reforms are by definition a political process, exploratory work for a new project may need to explicitly include the involvement of political actors.

8.5 Concluding remarks

As much as this report has been critical, it wishes to acknowledge the great achievements that LGCDP has realised, and the commitment of the people that have made that possible. With the social mobilisation at the grassroots level of the entire country it has raised levels of civic awareness and drawn attention for more marginalised groups; it created awareness around the right to demand for accountability. It has laid a foundation for a vibrant demand side. Given the new constitution it is now the time to also give due attention to the supply side of local government service delivery. The new constitution deserves support to put viable local governments in place and that 'draws fire' from the grassroots based demand foundation laid by LGCDP.

Kathmandu/Copenhagen/Yangon, revised 22nd of May 2016

- Annex 1:** Summary of the Terms of Reference
- Annex 2:** Review Matrix (as presented in the inception report)
- Annex 3:** Copy presentation wrap up meeting dd. 19 April 2016
- Annex 4:** Comments on draft report and response MTR team

**Mid-Term Review of
Local Governance and Community Development Programme Phase II
A summary**¹⁷

1. Background

The Government of Nepal (GoN) is committed to improving people's standard of living through citizen – centric governance and effective service delivery based on democratic values and rights-based development. The Local Self-Governance Act is landmark legislation in the devolution of power and resources in that it established an important foundation for the provision of socially inclusive services to the citizenry through grassroots democracy. The Act not only makes arrangements for ensuring that local bodies are accountable to their citizens but also dictates that citizens be involved in local democratic processes. The promulgation of the new constitution, which sets the stage for further decentralization through federalism, is the latest development, which will have an impact on the existing legislation, policies and regulations.

The first phase of the Local Governance and Community Development Programme (LGCDP), a national flagship programme in the area of local governance and community development was designed to meet the growing expectations of people to access efficient and effective service delivery from the state apparatus and to engage in a meaningful way in the local governance process.

Given the success achieved in the implementation of LGCDP I, the Government of Nepal (GoN) and the LGCDP development-partners (DFID, SDC, Norwegian embassy, Danish embassy, ADB, UNDP, UNICEF, UNFPA, UNV and UNWOMEN) decided in 2013 to continue the programme into a 2nd phase.

The core principal approach of LGCDP-II is to strengthen the supply side while also emphasizing support to the demand side focusing on delivering tangible benefits and services to the citizen through improved service delivery while strengthening the citizen voice so that they are able to better articulate their priorities and hold officials account. This combination of support has resulted in a programme design which strengthens inclusive local bodies (better local governments) through local governance reform and improved service delivery by strengthening and developing local capacities through overarching principles of capacity development.

During the implementation of LGCDP-II, the GoN has restructured local bodies by increasing the number of municipalities from 58 to 217 while reducing the number of VDCs from 3915 to 3157. Moreover, the new Constitution has made the provision of the Gaon Palika (Village Council) municipality with limited responsibility to District Assembly. [LGCDP remains] a high-risk programme given the continued uncertainty over the political and federal transition and Nepal has been without local elections since 1997.

In the Joint Financing Agreement (JFA) between GoN and LGCDP DPs, there is a provision that the GoN will conduct a midterm review (MTR) of LGCDP-II in collaboration with the JFA-DPs. The MTR will assess progress made by the programme thus far in achieving its objectives, identify areas and actions for considerations to improve performance in rest of the life of the programme in consideration of the fast changing political scenario, and explore options for furthering local governance beyond LGCDP-II.

¹⁷ The original ToR had 28 pages, of which this is a summary with the objective to clearly bring out the main expectations of the MTR. The summary is totally based on the original text. No words or sentences have been added - only deleted, whilst in few cases the order of sentences was changed.

2. Review Context

Overall Objective of LGCDP: The overall goal of the programme is to contribute towards poverty reduction through better local governance and community development. The programme provides an overall framework for strengthening decentralization, devolution and improved local governance system for the effective delivery of basic services and the empowerment of citizens, especially women, children and Disadvantaged Groups (DAGs) and their institutions. LGCDP II has been designed as a framework programme with four outcome and nine output areas. The four outcomes encompass citizens' empowerment (demand side improvement), capacity development (supply side improvement), enhanced service delivery, integrated planning processes and citizen-centric policy development.

The programme is aligned with national development goals and will contribute either directly or indirectly to their realization by empowering citizens and responding to their priority needs while at the same time strengthening decentralized local governance system, community development, infrastructure development, economic development and integrated service delivery.

LGCDP-I and its major achievements: LGCDP I was designed with three overarching outcomes related to citizen empowerment, local government operations and local government policy making and execution. Together these outcomes aimed to strengthen the demand and supply side of local governance by empowering citizens to actively engage with local government bodies and to increase the capacity of the government to deliver basic public services through a devolved system of local government.

The most significant achievements of LGCDP I have been the re-establishment of link between state and citizens in the aftermath of the conflict; reinforcement of a participatory planning process in the absence of elected officials; and creation of citizens' institutions across the country. The programme has promoted inclusive and participatory development and built government partnerships with Civil Society Organizations (CSOs) for citizens' empowerment. Allocation of fiscal transfer has been rationalized and performance culture has been introduced at local level. LGCDP I has also promoted social accountability processes such as public audit, public hearing and social audit throughout the country. Moreover, the programme has been highly successful in mainstreaming disadvantaged groups into development process by taking a rights-based approach to local governance.

Key Areas of Reform in LGCDP II

1. Social Mobilisation

LGCDP has adopted a transformational social mobilization process to strengthen the demand side of governance. The Ward Citizen Forums (WCFs) and Citizen Awareness Centres (CACs), a grassroots level forums formed in LGCDP-I are strengthened to fulfil their coordination and accountability functions related to planning, prioritization, monitoring & oversight and to facilitate the building of linkages with service providers at local level. WCFs and CACs are engaged in addressing social problems such as dowry system, untouchability, illiteracy, Chaupadi, witchery, child marriage, early marriage, domestic violence and caste-based discrimination.

In addition, downward linkages are being established with Citizen Awareness Centers (CACs) and other social mobilisation groups, while upward linkages will be created with local bodies and other service providers. CACs will be made the primary vehicle for livelihood improvement schemes.

2. Social Accountability

The Local Governance and Accountability Facility (LGAF) is the main instrument for executing the social accountability function in local governance system. The scope of LGAF is being further strengthened by entrusting it with the responsibility for carrying out citizen-centred independent third party monitoring, independent citizens' survey, and building civic oversight capacity of CSOs including WCFs. LGAF is envisaged to establish a national dialogue forum

for all accountability actors and other related programmes. In addition, LGCDP has supported MoFALD to establish grievance system at local bodies which allows local concerns to be resolved internally.

Village and Municipality Supervision and Monitoring Committees are to be strengthened along the lines set out in Local Bodies' Resource Mobilization Guidelines to ensure institutionalised capacity and coordination of monitoring and civic oversight. Moreover, the capacity of WCFs is being further developed to allow them to engage in downward accountability activities that include planning (as members of Integrated Planning Formulation Committees), civic facilitation, community monitoring, coordination, community mediation and civic oversight.

3. Service Delivery and Resource Mobilisation

LGCDP II has placed a greater emphasis on supply side of local governance programming than in phase I. Phase II has emphasized service delivery and improved citizens' access to basic services through the core functions of MoFALD: social security payments, vital registration, community mediation and local infrastructure projects identified and prioritized through integrated planning process. More than 140,000 disaster resilient local infrastructure projects, such as community roads, culverts, trails, school buildings and health posts are expected to be added to the country's social inventory by the end of the programme.

Resource mobilisation is also a strong focus in this phase of the programme, including improving and broadening the coverage of performance-based fiscal transfer system. The scope of Minimum Conditions and Performance Measures (MCPM) system are to be expanded to cover all GoN regular grants to local bodies.

4. Local Economic Development and Livelihood Improvement Schemes

LGCDP II will see the introduction of local economic development and livelihood improvement schemes within the MoFALD programming mandate. The Local Economic Development programme is to be rolled out on a public/private partnership basis in selected municipalities and urban-centric VDCs. The main target for livelihood improvement schemes are poor and disadvantaged group. They are linked up with local resources, I/NGOs and local microfinance institutions (MFIs) in order to engage their members in income generating and livelihood improvement activities.

5. Public Financial Management Reform and Management of Fiduciary Risks

The need for a strong public financial management (PFM) system and importance of addressing systemic fiduciary risks are recognized to be critical elements of LGCDP II. Many of the risks were clearly identified in the Public Expenditure and Financial Accountability (PEFA) review that was carried out in LGCDP I and for which the Financial Risk Reduction Action Plan (FRRAP) was developed. The Strengthening Public Management Programme (SPMP) is an integral part of LGCDP II to address many of the issues identified in relation to PFM and management of fiduciary risks.

Additional measures are also being taken to strengthen PFM in local governance system. As part of its PFM activities, MoFALD is supposed to investigate how to achieve better synchronization of programme budgeting and funds release within the project planning and implementation cycle. This is expected to ensure the timely release of budgeted funds from central level down to DDCs and from DDCs down to the VDCs, as well as ensuring that they are properly allocated to and spent for, women, children and DAGs as per the block grant guidelines.

6. New System of Local Governance

In its current role as the Ministry of Federal Affairs and Local Development, the Ministry is to undertake certain preparatory initiatives with the promulgation of new constitution. The specifics of new system of local government are to be further elaborated following the constitutional order not to be political in this regard, it is important that the Ministry tries to begin to prepare for some of the implications of a new federal system. For example, both the Ministry (from a policy and systems perspective) and local bodies (from a capacity perspective) are to be prepared to hand over responsibilities or respond to the needs of

elected local bodies once elections have been held and the final form of delineated roles and responsibilities for devolved local governance has been determined. LGCDP II will help strengthen MoFALD's system-wide capacity in programming, monitoring, evaluation and quality assurance. This will include both strengthening the ministry level capacity in results based management (RBM), monitoring & evaluation (M&E), and building LB's capacities in M&E.

7. Aid Effectiveness and Institutional Development

The GoN and a range of DPs have agreed to implement LGCDP II by pooling their resources into single framework with three distinct, albeit complementary, financing modalities namely, (i) Joint Financing Arrangement (JFA), (ii) Joint Funding for Technical Assistance Arrangement (JFTAA), and (iii) Programme Alignment Arrangement (PAA). The Technical Assistance Framework (TAF) is to serve as guidance to mobilize and manage technical assistance of the LGCDP II to ensure effective implementation of the programme based on GoN ownership and results oriented and harmonised approach.

Joint Financial Agreement: LGCDP II has a provision of both direct and aligned financial support. The direct support is being provided by development partners in two ways: (1) as programme grants to LGCDP through the Joint Financing Arrangement as part of the total transfer pool of the central budget; or (2) as part of the Joint Funding for Technical Assistance (JFTA). Aligned support is also being provided in two ways, either by (1) aligning existing and new governance programmes and local infrastructure programmes with the LGCDP II by agreeing to use WCFs and District or Municipal Social Mobilization Committee (D/MSMCS) for prioritizing spending, or by (2) providing targeted TA to MoFALD as part of an already existing and/or new TA programme which has a larger focus than LGCDP and/or MoFALD alone.

Financial Management: Local Bodies, devolved line agencies and GoN agencies at local levels receiving funds from LGCDP are expected to follow Local Self-Governance Act (LSGA) and Local Self-Governance Regulation (LSGR) and Local bodies Financial Administration Regulation.

There is a separate operational procedure for the management of funds received for financing of TA activities under the JFTA, including the Policy and Program Support Facility (PPSF). The operational procedures for this arrangement are to be set out in an agreement between the GoN and DPs as recommended by the NAC and discussed in TASC. UNJP NEX system being applied in the implementation of three pillars of the PPSF.

Technical Assistance Arrangements: An arrangement for a joint pooling fund management of technical assistance, either through the UN system or other channels, have been agreed based on TA Framework (TAF). By 2015, as a part of the graduation and ownership process, it was envisaged that GoN would establish a government modality for LGCDP TA and management arrangements. This will enable the DPs to channel TA funds through the government system.

The total TA has been divided into three main pillars, namely:

- Pillar I: TA for Programme Implementation Support
- Pillar II: Policy, Research and Capacity Development (CD) Support
- Pillar III: Policy and Programme Support Facility (PPSF)

8. Cross-cutting Themes

[T]he main cross-cutting areas in LGCDP II are:

- i) Capacity Development
- ii) Gender Equity and Social Inclusion (GESI)
- iii) Child-Friendly Local Governance (CFLG)
- iv) Gender Responsive Budget
- v) Environment-Friendly Local Governance (EFLG)
- vi) Results-Based Management.

3. Key Objectives of the Mid-Term Review of LGCDP-II

[T]he objectives of MTR are [to] :

- a) Review the relevance, effectiveness, efficiency and sustainability of LGCDP II to date against its results framework and programme objectives.¹⁸ What lessons can be learned?
- b) Provide recommendations for necessary adjustments in order to adapt rapidly changing context so that current programme can attain its principal objectives. Should there be a mid-course correction (on outcome basis), also considering the changed political context?
- c) Provide design options for a follow-on or new local governance reform programme in new political context. Can and should current approaches be up-scaled in the new political context?

Approach: Approach to the review will be a formative. However, outcomes are [to be] assessed to the extent that they are visible. LGCDP II started in July 2013 and the political context has significantly changed recently, posing some threat for sustainability of the approaches and initiatives of the programme. Therefore, outputs of the programme shall also be reviewed to inform a possible mid-term course correction. The review will closely look into [the] theory of change underpinning the programme and evidence that support key assumptions in the theory of change.

Scope: The MTR will assess overall LGCDP II implementation to date as well as the implementation of its parts, in light of current political, economic and social context in Nepal. Political economy factors underlying implementation dynamics will require particular attention. Also will assess the implementation mechanism and operational strategy of the program and specifically assess the strengths, weaknesses, opportunities and challenges of the program so as to build on the best practices of the program.

[T]here are core reform areas in LGCDP II which will require more focus during the MTR. The breadth and depth of review will be informed by the questions that seek answers on the following aspects:

- a) Social accountability: Demand side strengthening including downward accountability
- b) Effectiveness of the program after the scope extended to include all unconditional grants
- c) Service delivery and Institutional capacity development
- d) Alignment of the program activities across different sectors and programs at local level
- e) Public Financial Management i.e. administrative accountability
- f) Policy reform in local governance
- g) Strengthening political accountability through policy reforms
- h) Development partner alignment with the principles of LGCDP
- i) Aid effectiveness and technical assistance

4. Methodology

The overall methodology for the review will be participatory. The experts will use a mix of qualitative and quantitative methods to gather information and evidence that is representative. The review team will work under the guidance of MoFALD. The Review Team will be accountable to the MTR Task Team led by MoFALD and collaborate closely with MoFALD, through the LGCDP – Programme Coordination Unit (PCU), and the JFA Development Partners. The Development Partner Cell will facilitate the process of MTR conduction and also provide logistical support.

The review must also include an assessment of the extent to which the design, implementation and results of the project have incorporated a gender equality perspective and rights-based approach. The Review Team will also review UNEG's Guidance in Integrating Human Rights and Gender Equality.

¹⁸ The full length ToR has a set or questions for each of these traditional evaluation areas.

[The] analysis should be rights-based and gender sensitive to the greatest extent possible, with evaluation data and findings disaggregated by sex, ethnicity, age etc.

Substantive field visits to representative districts, municipalities and VDCs is mandatory in order to ensure that the findings of the review are verified with field reality and are sufficiently credible, sustainable and reliable.

The Review Team is expected to have interaction with officials of GoN, mainly with MoFALD and line ministries, various stakeholders and implementing partners both at center and local level, development partners and also with the beneficiaries.

The MTR process is to follow the steps given below:

a) Desk review	e) Draft MTR report
b) Inception report including review of design matrix	f) Debriefing to GoN/DPs
c) Meeting and interview with GoN, DPs and stakeholders	g) Final MTR report
d) Field visit	

5. Review Team

The MTR will be an independent review which will guide the GoN not only for midterm course correction of LGCDP but possibly also for future local governance reforms. Therefore, the review team should possess independent expertise in local governance including, demand and supply side of local governance, public financial management and institutional reform. Team Leader is a senior international development professional with proven international experience in decentralized local governance (knowledge in federalization issues will be an added advantage) and expertise in all aspects of project management, particularly in project evaluation and reviews. MTR team will have following experts :

- Local Governance/ Decentralization Expert cum Team Leader (International)
- Public Financial Management cum Fiscal Decentralization & Internal Revenue Expert (International)
- Capacity Development Expert (International)
- Social Mobilization cum Accountability Expert (National)
- Local Service Delivery cum Decentralized Planning Expert (National)
- Institutional / Organisational Expert (National)

6. Deliverables ¹⁹

The Review Team is expected to produce the following outputs

- **Inception Report Including Review Design Matrix** (to be submitted by 4th of March 2016). The Inception report will outline the methodology and approach for undertaking the assignment and include the proposed table of content of the final MTR report. Inception report is expected to have a review design matrix, that will flash out the guiding questions by adding normative, descriptive and cause and effect sub-questions, and a list of key informants/stakeholders to be interviewed.
- **Draft MTR Report** (to be submitted before 22nd of April): The main output of the MTR shall be a detailed review report including a thorough situation analysis, review of on-going activities and comprehensive and specific recommendations. The MTR report should be objective and factual. The length of the report should not exceed 50 pages (excluding annexes).
- **Final MTR Report:** The final report is to be submitted to MoFALD within two week after receiving the comments and suggestions on the draft MTR from stakeholders, mainly from GoN and LGCDP DPs, which should be incorporated in the final report.

¹⁹ The dates in the section are updated to reflect actual agreement upon contract signing

ANNEX 2:
Evaluation review matrix

Thematic area	Lead Guiding Questions
Overall leading questions	<ul style="list-style-type: none"> ○ Supply side: In how far has LGCDP-II contributed to putting in place the foundations for a viable system of inclusive local governments? <ul style="list-style-type: none"> ▪ In terms of defining the roles and responsibilities of different levels of governance, in order to ensure transparent and efficient delivery of public services ▪ By defining the relationship between these levels of governance ▪ By creating platforms for participation, joint decision making and oversight ▪ By ensuring full disclosure of budgets and expenditures allowing transparency and follow up transparency ○ Demand side: In how far has LGCDP-II contributed to establish systems for social accountability, such that ordinary citizens can also directly engage with their local bodies / service providers, either directly or indirectly such that office bearers feel the 'pressure' of the population they serve. ○ Overall: In how far is LGCDP-II a funding mechanisms for numerous small activities and projects selected in a participatory manner, and in how far has it contributed to improve service delivery and establish a generic system of public service delivery that serves, grounded on democratic principles and a rights based approach, the entire population in a systemic manner, including the poor and the vulnerable and the marginalised?
Fiscal decentralisation / grants	<ul style="list-style-type: none"> ○ What is the composition of the grants made available to the LBs - in terms of VDC, DDC and Municipal grants? What share is conditional/unconditional; what are the trends over time also in terms of % of total MoFALD and GoN budget? ○ How are all these funds allocated and how is coordinated expenditure ensured? ○ How is budget execution organised? Who does oversight for which grants? ○ How do the grants relate to line ministry expenditure at the local level? ○ What are the allocation criteria for the different grants? For what % of the grants is the allocation performance based? ○ How has the link between accountability and performance assessments been functioning in the absence of local elected bodies and a high staff turn over
Social mobilisation and target group approach	<ul style="list-style-type: none"> ○ In how far would it be a continued government responsibility to organise social mobilisation, and in how far is it a government responsibility to make grants available to groups of individuals (rather than providing services in a more generic manner)? ○ What has been the role of the WCFs? Are they first and foremost 'transitional substitute councils', involved in budget allocation, or are they more like community organisations with a social function? ○ Currently WCFs appear to act like a substitute for the missing elected representatives; hence there is a question regarding their role once locally elected leaders are in place and whether WCFs will become obsolete or e.g. assume a "watchdog"/ civic oversight like function. During our initial field visit, WCF members themselves raised these questions.

Annex 2: continued

Thematic area	Lead Guiding Questions
Social mobilisation and target group approach	<ul style="list-style-type: none"> ○ How do WCFs and CACs actually relate in a local governance context? Did they contribute to providing more equal access for all to public services? Is there composition representative or are they been prone to elite capture? ○ How does a strong centrally driven target group approach with direct project implementation relate to the objective of creating independent local bodies that have -within the context of general policy guidelines- a certain discretion to take local level decisions? In general how does targeting facilitate or obstruct broad based <i>public</i> service delivery ○ In the end, this may come down to the question how the two components under LGCDP as reflected in its name (local governance and community develop) relate, and in how far they are complementary (or not).
Decentralised service delivery: Planning and delivery	<ul style="list-style-type: none"> ○ How is core service delivery (roads/bridges, education, health, water, municipal functions such as waste management, drainage, management of public spaces, street lights, street cleaning, facilitation of local economic development; vital registration and handling of social security allowances) organised at present at the local (DDC, Municipal, VDC) level? ○ Is local service delivery organised in the form of projects or is a more institutional arrangement desirable? ○ Has the programme built capacity of institutions that provide service (institutional service providers)? ○ What is (would/should be) the role of local bodies in broad based core service delivery? ○ If planning for service delivery is fragmented at the moment, what would be needed to make it more harmonised and coordinated?
Capacity development and programme implementation	<ul style="list-style-type: none"> ○ Are the JFA and JFTA mechanisms adequate and appropriate? ○ How are the aligned projects/programmes contributing to capacity enhancement? ○ Are the aligned projects/programmes contributing to achievement of the program objectives? ○ To what extent are cross-cutting themes (like GESI, CFLG and ELFG) relevant for the attainment of the overall programme objectives? ○ How can we assess capacity development versus capacity substitution? ○ What amount of capacity development support is appropriate? ○ Are there alternatives for the JFTA arrangement (other than through biased government procurement rules)?
Institutional aspects: Building local service delivery structures	<ul style="list-style-type: none"> ○ Which of the local governance structures supported under LGCDP-II will possibly be relevant under the likely new constellation? In other words, which approaches can be up-scaled in a sustainable manner? ○ What can LGCDP-II do to increase its relevance towards the federal structure? ○ Should LGCDP-II during the remainder of its present phase focus more on Municipalities? ○ How can the WCF-experience play a role into the future? ○ What is the role of the line ministries versus the local bodies - Now and in future? ○ What are the roles of the Local Bodies Fiscal Commission and the Ministry of Finance in fiscal decentralisation?



GOVERNMENT of NEPAL
Ministry of Federal Affairs and Local Development
in association with multiple development partners

Mid Term Review
Local Governance and
Community Development Program
LGCDP / phase II (2013/14 - 2016/17)

Wrap up meeting to present main findings
for discussion and further input prior to final report writing

Tuesday 19th of April 2016
Gerhard van 't Land, Deependra Thapa, Amrit Kumar Rai, Arun Adhikari,
Hans B. Olsen, Bo Synnerholm and Alexandra Walcher

As in introduction (1/4) How we approached the assignment

Given the context (notably the adopted new constitution)

- We have opted (and agreed) to look at 'bigger picture' issues

Implicit (and interrelated) objectives of LGCDP (I and II)

- **A peace dividend**
 - to restore the relationship between citizens and the state
 - to improve relationships amongst citizens / enhance 'equality'
- **A precursor for democratic local governments**

LGCDP-II consists of two (interrelated) parts (see LGCDP budget)

- **Government grants to Local bodies** (85% of the budget)
- **Activities under Joint Financing Agreement** (15% of budget) and provisions for joint funded technical assistance

LGCDP – a Programme and a project Budget and Expenditure overview

BUDGET SIDE

LGCDP II: TOTAL BUDGET BY ACTIVITY and SOURCE of FUNDING

	GoN	JFA	TOTAL	in USD
OUTCOME 1: Accountable Local Governance	0	93,314,824	44.3%	93,314,824
Output 1: Citizens and Community Organisations empowered	0	88,331,294	41.9%	88,331,294
Output 2: Accountability mechanisms for local governance in place	0	4,983,529	2.4%	4,983,529
OUTCOME 2: Responsive Local Bodies	1,151,645,259	53,026,998	25.2%	1,204,672,257
Output 3: LBs' access to resources increased	1,151,645,259	10,200,588	4.8%	1,161,845,847
Output 4: Public financial management system improved	0	8,095,822	3.8%	8,095,822
Output 5: Capacity of local governance actors strengthened	0	34,730,588	16.5%	34,730,588
OUTCOME 3: Efficient and effective local service delivery	0	63,035,294	29.9%	63,035,294
Output 6: Access to and quality of services administered by LBs improved	0	14,910,588	7.1%	14,910,588
Output 7: Coordination amongst local governance actors improved	0	48,124,706	22.9%	48,124,706
OUTCOME 4: Conducive policy and institutional framework	0	1,205,882	0.6%	1,205,882
Output 8: Refined policy on local governance	0	758,824	0.4%	758,824
Output 9: Policies developed for devolution and federalism	0	447,059	0.2%	447,059
GRANT TOTAL	1,151,645,259	210,582,998	100.0%	1,362,228,256
	84.0%	15.5%		100.0%

In addition, there is some USD 16.0 million for the PPSF (JFTA)

LGCDP – a Programme and a project Budget and Expenditure overview

EXPENDITURE SIDE

Government grants

- For the government grants the equivalent of USD 407 million was released by end of 2015 being 35% of the budget for 4 years

JFA

- For the JFA, out of the budget of USD 210 million only 100 million has so far been committed
- This available amount is said to be exhausted by end of this year
- Books are kept using a different coding system, expenditures are recorded, tracked and audited, but no accurate budget-expenditure overview as per the Prodoc/SIP is available (which is JFA requirement)

JFTA / PPSF

- Out of the USD 16.0 million made available, USD 8.4million is used

As in introduction (2/4) Four leading questions

- How has the JFA helped to improve the spending of the MoFALD grants to Local Bodies?
- How has the JFA helped to improve public sector service delivery?
- How has the JFA been contributing to lay the foundation for a system of democratic local governments?
- In how far have the institutional / organisational arrangements around the basket fund (the 'JFA' and the 'PPSF') been effective in achieving the above?

As an introduction (3/4) Team's Programme of work

- Inception period (10 days – 22/2 – 2/3)
 - Meetings with
 - NPD, NPM, steering committee
 - 8 (out of 9) output managers
 - most DPs
 - Field visit to Kavrepalanchok district
- Main mission from 24/3 to 11/4
 - Meetings with secretary, NPD, all output managers
 - PCU / RCU specialists, other resource persons, DPs
 - visits to the districts of Banke, Kailali, Dadeldhura, Mahottari and Dhanusa
 - in districts: DDC, Municipality, VDCs, WCFs, CACs and grant funded projects (DDC/Municipal/VDC/LIP/CIP grants)

As in introduction (4/4) Structure of the report & presentation

Structure of the report :

- Ch 1 Introduction
- Ch 2 Funding and Financial Resources for LBs
- Ch 3 The demand side: Social mobilisation
- Ch 4 Supply side of public services at local level & role of LGCDP-II
- Ch 5 Institutional arrangements and approach to CD
- Ch 6 Assessment of LGCDP-II against its objectives
- Ch 7 Assessment of LGCDP-II in the broader scheme of things
- Ch 8 The five main areas of forward looking conclusions

Part I

Funding and Financial Resources for Local bodies

DDC / Municipal / VDC grants / own revenues & PFM

Budgets and budget/expenditure transparency outputs 3 and 4

Funding and Financial Resources of Local bodies (1/9) Types & composition of MoFALD grants

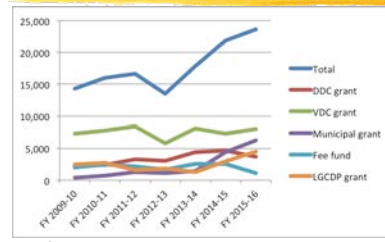
- **5 types of grants**
 - DDC grants
 - Municipal grant
 - VDC grant
 - LD Fee fund (revenue sharing arrangement)
 - "LGCDP" grants (LIP, CIG, etc.); This is a part of JFA+
- **Four categories are distinguished**
 - Recurrent conditional
 - Recurrent unconditional
 - Capital conditional
 - Capital unconditional

GoN

Funding and Financial Resources of Local bodies (2/9) MoFALD grants under LGCDP

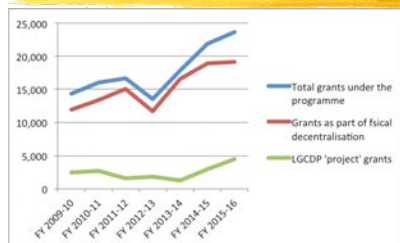
Programme	Economic	Expenditure type	Actual amounts						Budget
			FF 2009-10	FF 2010-11	FF 2011-12	FF 2012-13	FF 2013-14	FF 2014-15	
DDC Grants (503801)									
503801	26311	Unconditional Recurrent Grant to Local Bodies	1,263,300,000	1,207,411,000	1,263,800,000	1,725,702,000	2,389,833,000	225,727,000	
503801	26312	Conditional Recurrent Grant to Local Bodies	45,588,000	45,588,000	45,588,000	77,285,000	1,711,611,729	8,304,999,000	
503801	26321	Unconditional Capital Grant to Local Bodies	1,000,000,000	1,000,000,000	1,020,000,000	1,040,122,000	1,200,000,000	1,376,400,000	1,300,000,000
503801	26322	Conditional Capital Grant to Local Bodies	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Total DDC Grant			2,219,816,000	2,263,007,000	2,340,388,000	3,815,109,000	4,608,706,000	6,644,851,123	6,674,600,000
VDC Grants (368001)									
368001	26311	Unconditional Recurrent Grant to Local Bodies	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,517,400,000
368001	26312	Conditional Recurrent Grant to Local Bodies	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000
368001	26321	Unconditional Capital Grant to Local Bodies	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000
368001	26322	Conditional Capital Grant to Local Bodies	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000
Total VDC Grant			6,000,000,000	6,000,000,000	6,000,000,000	6,000,000,000	6,000,000,000	6,000,000,000	6,017,400,000
Municipal Grants (503801)									
503801	26311	Unconditional Recurrent Grant to Local Bodies	401,875,000	395,300,000	398,684,000	398,735,000	398,600,000	401,442,111	
503801	26312	Conditional Recurrent Grant to Local Bodies	4,072,000	4,072,000	4,072,000	4,072,000	4,072,000	4,072,000	4,301,188,000
503801	26321	Unconditional Capital Grant to Local Bodies	262,121,000	262,000,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
503801	26322	Conditional Capital Grant to Local Bodies	1,114,000	1,114,000	1,114,000	1,114,000	1,114,000	1,114,000	1,114,000
Total Municipality Grant			669,182,000	662,586,000	4,076,000	4,076,000	4,076,000	4,076,000	4,301,188,000
LD Fee Fund (364010)									
364010	26311	Unconditional Recurrent Grant to Local Bodies	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000
364010	26312	Conditional Recurrent Grant to Local Bodies	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000
364010	26321	Unconditional Capital Grant to Local Bodies	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000
364010	26322	Conditional Capital Grant to Local Bodies	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000	500,374,000
Total LD Fee Fund Grant			2,001,500,000	2,001,500,000	2,001,500,000	2,001,500,000	2,001,500,000	2,001,500,000	2,001,500,000
LGCDP (364010)									
364010	26311	Unconditional Recurrent Grant to Local Bodies	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000
364010	26312	Conditional Recurrent Grant to Local Bodies	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000
364010	26321	Unconditional Capital Grant to Local Bodies	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000
364010	26322	Conditional Capital Grant to Local Bodies	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000	213,204,000
Total LGCDP Grant			848,816,000	848,816,000	848,816,000	848,816,000	848,816,000	848,816,000	848,816,000
Grand total of all grants in all budget heads			10,484,944,000	10,484,944,000	10,484,944,000	10,484,944,000	10,484,944,000	10,484,944,000	10,484,944,000

Funding and Financial Resources of Local bodies (3/9) MoFALD grants under LGCDP, total



- Sharp increase since 2012 (NPR 23.6 billion in 2015/16)
- Increase mainly for Municipal grant and LGCDP grant
- VDC grants fairly stable in absolute terms but in relative terms their share fell from around 50% to 30-35%

Funding and Financial Resources of Local bodies (4/9) Grants under LGCDP, FD vs project grants



- Some 80% of total amount are 'fiscal decentralisation'
- 'Only' 20% for LGCDP 'project' grants, yet under JFA most resources are oriented towards these 'project grants'

Funding and Financial Resources of Local bodies (5/9) DDC, VDC and Municipal grants



- Between 70—75% of total is for capital / development
- According to national data: 100% is unconditional, i.e. within guidelines LBs can spend as they see fit

Funding and Financial Resources of Local bodies (6/9) Observations on grants / LB discretion

Usually : *unconditional grants* are seen as a characteristics of freedom of decision making for Local governments and unconditional capital grants are seen as "LG friendly development funding" and 'the portion of the budget to watch' but ...

- Available data do not seem to treat categorisation of conditional / unconditional in a consistent manner
 - What is unconditional at national level is called conditional locally
 - Partly because grants are used as matching funds
 - LBs see the capital grant as a conditional grant because 35% is to be set aside for specified target groups
- It reveals a way of looking at local bodiesas there are two ways to realise this targeting:
 - As done: the shares for the target groups are set aside and made part of a separate planning exercise
 - Planning is done in full discretion for the full amount and at the end, it is verified whether those % are achieved and corrections made

Funding and Financial Resources of Local bodies (7/9) Observations on grants / LB budgets

- Difficult to get a good handle on especially the DDC budgets
 - what is in / what is out ? Eg. VDC grants / de-concentrated sectors
 - we decided not to pay too much attention
- VDC budgets can be better understood
 - Typical core VDC budget
 - NPR 4-6 million (USD 20-60K)
 - 60-80% capital grant for development funding / 10-20% recurrent grant / 10-20% % own revenues.
 - On top of this VDCs may receive a range of other funds as the total amount flowing to LBs is (far?) bigger than the grants
 - But it is important to clearly single out the core budget (which is difficult at the DDC level) / ref building LB financial systems
- Municipality budget look like VDC budgets – but sizes vary and difficult to provide a "typical municipal budget"
- Simple budget formats prerequisite for budget transparency

Funding and Financial Resources of Local bodies (8/9) some conclusions

- Difficult to track and analyse the grants
 - in absence of systematic classification (eg conditional/unconditional)
- Data on how funds are used e.g. by sector not easily available - but we got them and they will be analysed
- The GoN (DDC/VDC/Municipal) Grants receive relatively little attention in the context of the LGCDP programme
 - while they are the centre piece
- The VDC and Municipality grants allow some local priority setting – but this is not leveraged in terms of fiscal decentralisation and building LB (financial) systems
 - Limited advancement on improving allocation formula
 - performance assessment system is becoming a monitoring tool – rather than a performance enhancement tool

Funding and Financial Resources of Local bodies (9/9) PFM issues in relation to grants & other funding for LBs

- As long as budgets are not transparent, PFM and social accountability risks to remain elusive
 - DDC budget is extremely complicated (and includes VDC grants and so many other grants / funding sources); yet devolved sectors are not included
 - VDC and Municipal budgets are more comprehensible, especially when focussing on the core (capital and recurrent grants and own revenues) – all 'other projects / grants' complicate the picture
- In several (but not all) VDCs people had a fairly good insight in the VDC budget
- ...but there is scope to simplify procedures for budget transparency and make those uniform (especially for VDCs and Municipalities)
 - See recommendations Local PEFA

Part II

The demand side for good governance and public services

Social mobilisation and social accountability
outputs 1 and 2

Demand for governance and public services (1/3) Social Mobilisation: Rationale and activities

- Social mobilisation has always been at the heart of LGCDP
 - Initially: as peace dividend to restoring relations
 - between the state and citizens / between citizens themselves
 - Later: Providing people with a voice with regards to public matters
- The link between the two is found in **democratic local governance structures that work for local development**
 - Hence link to the LB grants
 - Link to the planning and budgeting process (WCF, IPFC)
 - Link to budget executing and accountability (transparency measures, public hearings, public audit, social audit)
- CACs : at the lowest level to ensure that above processes are inclusive – that nobody is left behind

Demand for governance and public services (2/3)
Social Mobilisation: Achievements

- The results of social mobilisation are impressive
 - CACs – 'a silent revolution' that had to take place'
 - WCF – highly appreciated by people as a means to a 'voice'
 - VDC level IPFCs : means to social cohesion and heavily involved in 'resource allocation'
- Different levels 'talk to each other'
 - all be it more upward then downward
 - social accountability part is less developed
 - Most attention on "how to get access to funds"
- Social mobilisation got a life off its own
 - especially through the CACs and individualised grants
 - schism between attention for the private and public domains

Demand for governance and public services (3/3)
Role of social mobilisation under LGCDP

- In terms of creating accountability systems a main question is
 - Is it the task of government to create voice from below to keep that same government on its toes ? Can one bite the hand that feeds you ?
- In terms of LIP and CSP grants a question is
 - could this be seen as a particular niche of LB service delivery in the line of social protection?
- Overall, the main question is
 - Are livelihood grants needed for people to get a voice and participate in governance processes?

Part III

**The supply side
for good governance and public services**

**Space for participation & social accountability
Provision of public services
outputs (5,) 6 and 7**

Supply of good governance and public services (1/3)
Service Delivery by LBs & role of grants

Observations in general :

- Under LGCDP service delivery is narrowly defined
 - MOFALD provides services like vital registration, registration and payment of social security, local infrastructure, remote area development, gender & social inclusion
 - Social mobilisation could be seen as a core service (but at present it is treated differently)
 - Same could apply for e.g. the mediation centres
 - The 'devolved sectors' have not been actively engaged to form part of the 'embryonic local government setup' (as was envisaged in the project design moving into a LG SWAp)

Supply of good governance and public services (2/3)
Service Delivery by LBs & role of grants

Specific observations around the grants:

- small amounts per project (few hundred USD max)
- Projects are spread over several years
- Sometimes of technically poor quality
- Huge number of projects – high transaction costs
- Amounts are transferred to specially created bank accounts of the user groups
 - adds to high transaction costs
 - more importantly: funds are formally moved out of the public domain – and it makes user groups accountable to government (rather then the other way around)
 - It challenges the system of 'voice' and 'accountability' as promoted by LGCDP (under outputs 1 and 2) as user groups become accountable to government

Supply of good governance and public services (3/3)
Service Delivery by LBs & role of grants

- The main question is
 - is it the task of government to provide funding to help people to help themselves?
 - or
 - is it the tasks of government to provide those basic services themselves – so that people can hold the local body (local government to account (instead of the other way around) ?
- Traditionally, views in Nepal were in favour of the first
 - is it time to reconsider this position ?
 - User groups do *not* create an accountable government
 - People like small grants but, in terms of service delivery, it is likely not the most effective way of using funds

Part IV

LGCDP-II Institutional arrangements and approach to capacity development

local governance/governments policy development
institutional embedding and capacity development
outputs 5, 8 and 9 and JFA/JFTA (now PPSF)

Institutional Arrangements & Capacity Development (1/3) TA and capacity development

- **General observations**
 - Difficult to know what was done / where money was used
 - Little coordination on CD
 - Little use being made of the CD strategy (was it good?)
 - Weak link with the annual MCPM
- **No generic big scale training, skill upgrading programs**
 - neither on generic issues
 - nor on professional issues
 - nor on issues related to local governance
- **With the needs of the new Municipalities and the ones yet to be created scope for a substantial CD program**
 - LGCDP could have its hands full of only that

Institutional Arrangements & Capacity Development (2/3) PPFS (JFTA) and the DP cell

in general: a project is there to make a difference

- 'in house' TA (PCU and RCU) is not playing the role of change agents
 - They are not routinely coached and supervised in that role
 - Little orientation and discussion on the direction of the project
- The DP Cell (unfortunate name) provides the dearly needed "energy and bubbles" –
 - It is an important external and independent part of the total TA package for LGCDP

Institutional Arrangements & Capacity Development (3/3) Joint Financing Agreement

- We have found it very hard to find out what has actually been financed under the JFA apart from output 1
 - No budget-expenditure overview available by output or activity
 - no overview of what was done under eg. output 5
 - budget USD 35 M – how much was spent ? what was done ?
 - For outputs 2-9 *expenditures* were, presumably, done but not possible for us to see for which activities
- JFA is not pegged to triggers – it's replenishment for expenditure statements
 - not very satisfactory – something is missing in the JFA instrument
 - not based on budget expenditure overviews by output / activity
 - not linked to results –LGCDP-I was on basis of verification - too much micro-managing
 - There are alternatives (with examples in country) to improve JFA

Part V

Assessment against evaluation criteria

- Relevance
- Effectiveness
- Efficiency
 - Impact
- Sustainability

Assessment against Evaluation criteria (1/5) Relevance of LGCDP

- The LGCDP has always been relevant
 - Initially as peace dividend
 - Restoring relations people2people & state-citizens
- it is now more relevant then ever before
 - over the coming years Nepal will put in place a new governance system as per the constitutional provisions
 - that have a clear component for local governments
- provided the attention is organised around putting in place local government systems geared towards inclusive public service delivery

Assessment against Evaluation criteria (2/5)

Effectiveness

- The project endeavours to cover a very wide scope
 - from support to individual groups (user committees and CAC of 10-30 people in size) to making national decentralisation policy (for the entire nation)
 - Very difficult to be equally effective in all domains for such a tremendous field of work
 - Unbalanced in terms of implementation of different outputs
 - Some parts of the project (output 1) got more attention than all others parts combined
- Effectiveness (question of are we doing the right things) is determined by the context
- Need to change attention from one side of the spectrum (output 1) to the other side of the spectrum (outputs 8/9) and putting the envisaged LGs effectively in place

Assessment against Evaluation criteria (3a/5)

Efficiency

On utilisation of the Government Grants

- The 'project' has sustained, and to some extent even encouraged a system of inefficient / sub optimal resource allocation
 - Projects are very small
 - Huge number of projects
 - funding often spread out over several years
 - implementation by user committees with their own accounts diverts funds from public scrutiny
 - the projects are too small and too many to receive proper technical guidance
- Serious concerns on the effective use of the funds (in terms of value for money for the public goods) -
- Need to build in certain guarantees e.g.
 - Minimum size for projects (to force efficient choices)
 - VDC short and long term vision
 - Assure proper technical guidance, backstopping and monitoring

Assessment against Evaluation criteria (3b/5)

Efficiency

in terms of delivering the project / spending of JFA funds

- Difficult to assess
 - in the absence of
 - a budget linked to the available funds
 - expenditure statements by output/activities
 - detailed progress reports

Assessment against Evaluation criteria (4/5)

Impact of LGCDP

- The programme has made a **great** contribution to mobilising people – and giving people a 'voice'
- In part this was done in the spirit of an emerging local government setting
 - notably through the WCF
 - but also through the IPFCs that received much less 'publicity', but have a clear role in resource allocation
- Preparations for a LG system are less evident
 - output 1 got a life of its own / output 2 not very visible
 - outputs 8 and 9 played a minor roles
 - missed opportunities to (i) streamline systems of representation and accountability and (ii) involve devolved sector line agencies

Assessment against Evaluation criteria (5/5)

Sustainability of the impact

- For the LGCDP as a programme :
 - Enhanced capacity to raise voice will remain
 - (but not the task of government to financially sustain community groups)
 - established structures need to be remodelled for the new structure as provided in the constitution
 - WCF and IPFC most clear institutions that can be carried forward as mechanisms for resource allocation (whilst in future WFCs can play role in social accountability)
 - Mechanisms of social accountability need to be re-engineered as at present the roles of those that plan / those that implement / those that oversee and ask for accountability are too blurred – and which will be easier once elected councils are in place

Part VI

Assessment in the light of the bigger scheme of things

Assets of LGCDP and the Provisions for local governments in the new constitution

Assessment of achievement in the bigger picture
How will the LG-system look like ?

- LGs are explicitly mentioned in the new constitution in roles similar to the LSGA, 1999
- LG governments are under the provincial/federal units
- Two types of LGs: Urban & Rural Local Governments
 - that have same status
 - same governance set-up
 - urban LGs have to deal with municipal functions
 - the total number will be substantially reduced (as multiple VDCs will be merged)
- Districts to disappear as a LG tier
- Process of up-scaling in size (to create viable units)
 - wards to become bigger (present VDCs to become wards?)
 - and present wards to become sub wards

Assessment of achievement in the bigger picture
Which assets can be migrated to the new system ?

In terms of local governance layers LGCDP has paid attention to		Future status in a LG set up
Districts	DDC, IPFC	No longer relevant
Municipalities	MC, IPFC	Highly relevant
VDCs	VDC, IPFC	Possibly Relevant as lower level of LG Depends on arrangements around FD
Wards	WCF	Sub-wards ? Continued relevance for popular consultations, and social accountability around user groups;
Settlement level	CAC	No direct role in LGs other than being the base of critical citizenry

Part VII

The 4 main evaluation questions

Summary

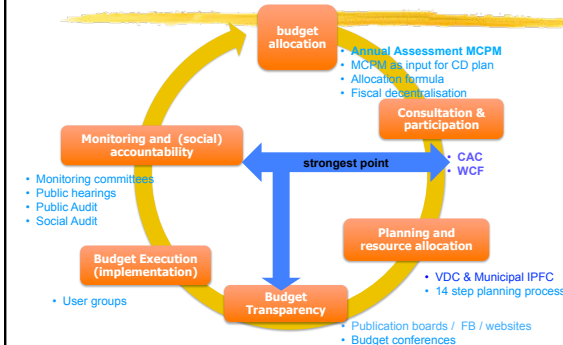
Main evaluation questions

1. Improvements in grant spending? (1/3)

- Engagement between "state" and "citizens" through
 - (i) WCF for collecting and identifying priority "ward-level" development interventions and
 - (ii) IPFC for prioritizing & selecting projects across "wards" has instilled a sense of ownership of and involvement in "development planning"
- WCF and CAC have raised the awareness of the people in terms of the resources coming into the districts/municipalities/VDCs and the "application of funds".
- This coupled with the increasing practice of SA tools have led to fewer cases of malpractices and misappropriations.

Main evaluation questions

1. Improvements in grant spending? (2/3)



Main evaluation questions

1. Improvements in grant spending? (3/3)

- Focus has been on voice and making claims (initial steps of the local planning process)
- less focus on
 - budget allocation and given budget envelopes
 - budget execution
 - accountability
- Missed the interplay that those who ask for services become beneficiaries (through the user-groups) – blurring the accountability relationships
- The voice component becomes focussed on 'getting a part of the pie' instead of on 'general service delivery for all'
- Increased demand is leading to fragmentation of projects
- General perception that 'accountability' has improved
- Serious doubts on efficient use of funds (fragmentation, quality)

Main evaluation questions

2. Improvements in Service Delivery?

- Improvements in services under MoFALD mandate
 - notably Vital registration (for marginalised groups)
- CACs are a clear case of improved service delivery
- Overall, people appear happy seeing more public funds coming in their direction – perceived as improved services
- Main service delivery (education, health, water supply, rural infrastructure, agriculture) still takes place by sector line departments (including DOLIDAR) outside the direct purview of the LBs.
 - no real cross sector coordination collaboration – even for the devolved sectors
 - LDO-office operates as a de-concentrated office of MoFALD that makes investments across sectors
- Roles of other actors (line ministries, civil society, private sector) have not been addressed

Main evaluation questions

3. Is the foundation for a LG system laid?

Local governance

- Attributes of democratic local governance
 - Vibrant civil societies
 - pluralistic societies founded on pluralistic values
 - robust private sector
 - development management steered by political leadership, multi-party politics and political processes, informed and vigilant citizens that can hold the government to account are some of the elements of democratic local governance
- The Project contributed significantly in empowering the citizens and raising their awareness
- It has been instilling the notion that it is a citizen's right to hold the government to account.
- The other elements of democratic local governance have not been followed through.
- The Project has fallen short of taking a holistic local governance approach

Main evaluation questions

3. Is the foundation for a LG system laid?

Local governments

- Partly, and especially on the consultation and planning side
 - But the new LG set-up is likely to change things
 - Process of up-scaling sizes (VDC to become Wards, wards sub wards)
 - role of CACs in the consultation process becomes a 'local affair'
- Districts always got lots of attention but to disappear as LG level – Very little that can be carried over straight away
- but **LGCDP has lessons learnt to bring to the table**
- upfront difficult to say which ones – but MoFALD needs 'to keep a close eye on the ball at all times' – Main issues:
 - LG Institutional arrangements
 - Functional Assignments and Fiscal decentralisation
 - Relationship of the Municipal LGs with Line ministries
 - How to deal with urban functions

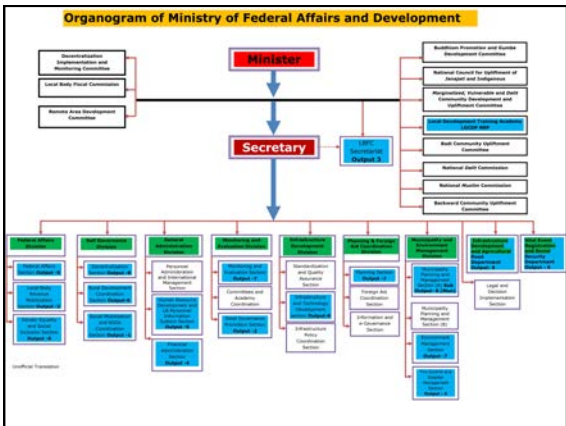
Main evaluation questions

4. Effectiveness of the JFA/JFTA setup?

- As per the organogram the project is well mainstreamed into the ministry
- Ministry staff take great pride and take ownership

but

- too many command centres
- no institutional leader (on the basis of the organogram)
- JFTA/PPSF: not dynamic enough / not a change agent
 - no clear 'command centre' / limited supervision
 - no mechanisms to influence policy development
 - PCU is (physically and otherwise) not mainstreamed
 - most staff are 'professional project implementers'
 - PCU staff take on line functions



Part VIII

Forward looking conclusions

(tentative recommendations)

Forward looking conclusions

1. A split of the two streams of work is unavoidable

- The span of activities (from social mobilisation to fiscal decentralisation policies in a federal context) is very wide
- The two main components
 - Social mobilisation and community development &
 - Establishing Democratic local governmentsare clearly linked but not always create synergy when done together in one hand
- Community development is done at the lowest level – LGs are moving upwards to Municipal level
- Given the enormous task to put the new LG system in place (imagine alone the creation of say 500 new municipalities)
 - Over the next few years, a split of the two components under the project appears unavoidable

Forward looking conclusions

2. Supply of Social mobilisation

- The importance of a critical citizenry is beyond discussion
- But specific action (as under LGCDP) of Government to create a 'vocal and critical citizenry' can not be 'indefinite'
- Broadly two options for 'civic education' in the longer run
 - as a service delivery responsibility of LGs?
 - as an activity organised by the civic society? with or without outside assistance ?
- In Nepal, outside LGCDP there is ample 'supply' of support for social mobilisation, voice and accountability (including the Governance Facility)
- GoN/LGCDP laid a foundation for others to now take over?

Forward looking conclusions

3. Support programme to establish the new LGs

- The Commission for the determination of local bodies and the electoral commission (that also takes care of LB elections) have to complete their work over the next 2 years
 - task of putting the new LG structure in place will be a tremendous undertaking
 - Requiring the full attention of entire MoFALD
 - But it will be an exercise of at least 5-10 years that will come close to a total public sector reform.
- Whilst building on the assets of LGCDP (creating a voice at the local level) – more attention needs to be given to:
 - Institutional arrangements (roles future wards & sub-wards)
 - Functional assignments and Fiscal decentralisation
 - Roles of sector ministries vis-a-vis the new municipalities
- topics that so far have received less attention under LGCDP

Forward looking conclusions

4. Till end of Phase II

- Continue as foreseen – additionally committed funds permitting
- put emphasis on the following
 - Support to old and new Municipalities, to prepare and gain experience for the tasks ahead
 - Prepare a large scale generic capacity development programmes for staff of the municipalities
 - policy development regarding (MoFALD as MoLG)
 - LG Institutional arrangements (roles future wards/sub-wards)
 - One stop shops at ward level?
 - Functional assignments and Fiscal decentralisation
 - Roles of sector ministries vis-a-vis the new municipalities
 - do not spend time and resources on new activities outside the above frame – and phase out as appropriate

Forward looking conclusions

5. Policy matrix & result indicators for payment

- DPs should not be micro-managing
- But are entitled (if not obliged) to ask for results
 - At present, JFA releases are not micro managed on the contrary) but also not directly linked to results
- For an eventual next project
- explore releases against triggers or a policy matrix
- (as ADB is doing or the P4R modality that WB nowadays uses in many other countries).

Forward looking conclusions

6. Look for alternative TA modalities

- Putting a new institutional order in place is a big project
- Look for a technical support facility that allows for
 - local ownership
 - in combination with high levels of expertise
 - Allows working cross government
 - creativity, flexibility and dynamics
 - can create momentum
- such facility does not have to be 'institutionalised'
- By definition a project is something of temporary nature
- a temporary decentralisation secretariat ?

Concluding remarks

- The LGCDP has made great achievements to be proud of
 - social mobilisation at grassroots level in entire country
 - it raised levels of civic awareness
 - draw attention for more marginalised groups
 - created demand for accountability
 - role of IPFCs in consensus building
- The change of context calls for a change of focus
 - Putting the local government system in place as per the provisions of the new constitution is a gigantic task that requires all attention and ample resources

Concluding remarks

If GoN and DPs broadly agree on the above our suggestion is

- to Establish a small 'independent' task force (with national and international expertise) under the guidance of the DP/GoN Cell to work out (before end 2016) an agreement on
 - the principles for a new project (issues as raised above)
 - the broad content of such a programme and
 - the triggers / milestones for funding

The new constitution

- deserves support to put viable local governments in place
- and that builds on the grassroots foundation laid by LGCDP for Nepal and its public sector to move beyond transition

Comments from Government on draft MTR report



Government of Nepal
 Ministry of Federal Affairs and Local Development
Local Governance and Community Development Programme
(LGCDP)
 Programme Co-ordination Unit

Ref. No.- 397/16

Singha Durbar,
Kathmandu, Nepal.

17th May 2016

To

Gerhard Van t' Land
MTR Team Leader
Dege Consult Aps
Klosterstrædet 23, 1st floor,
1157 Copenhagen City, Denmark

Sub: Ministry of Federal Affairs and Local Development's official comments and suggestions on the draft LGCDP-II MTR Report.

Dear Gerhard,

Greetings from Kathmandu !

The Ministry of Federal Affairs and Local Development, Government of Nepal thank the entire LGCDP-II MTR team for submitting the draft MTR report for the consideration of the ministry.

The MTR Report of LGCDP II is comprehensive and has captured the important components of LGCDP II. It has rightly pointed out that programme management in the ministry has considered social mobilization as flagship component. Moreover, it has also pointed out that LGCDP has made a tremendous contribution to improving the relation between citizens and the state through the WCFs and the CACs. This is in line with the policy of the GoN to engage in social mobilization as one of the important activities to empower citizens and to engage them in the decision-making process of local bodies. In fact, it has strengthened local level planning process, awareness creation, and community engagement, which are an integral part of local governance, participatory and inclusive development through meaningful participation of citizens and communities. Definitely, social mobilization is in the process of creating a "silent revolution" in Nepalese society as correctly pointed out by the MTR mission.

MoFALD appreciates the MTR recommendation to extend the programme for one year with additional budgetary support. It also appreciates MTR view that "it does not make sense for JFA partners to carry out similar activities in another part of the country through other parallel programmes, whilst in other parts of the country funding the LGCDP implementation mode".

The MTR has rightly pointed out that the political context is changing rapidly, and that future support will inevitably be needed to prioritize the enormous demand of the transition to new constitutional arrangements.

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 National Programme Director
 LGCDP




Having recognized the efforts made by the MTR Mission in the report, it is felt that there is some inadequacy in the evident based analysis. For instance, it is mentioned that supply side of governance is weak, but there is no explanation which part of the supply is weak, what factors has impeded in strengthening supply side, what are the strength of supply side etc. Moreover, the report is silent on 22 areas of investment of LGCDP II in general and cross – cutting issues like GESI, CFLG, GRB, EFLG, and community mediation in particular. Hence, it expected to provide more details in the gaps in supply side which will help MoFALD to make the necessary course correction to be able to strengthen the supply side of the governance:

The report has covered more than necessary in sub-sections on overview of grants to local bodies, volume and trends in discretionary funding, applied allocation formula, and performance-based grants system. It appears to be more like an academic exercise and is less relevant to the report. Hence, it is suggested to put the sub-sections 2.2.1, 2.2.2, 2.2.3, and 2.2.4 in the annex of the report.

In reviewing the report, under each sub-sections, there seems to be only the analysis part of the report, where no background reference is provided, which is particularly important, as the MTR Mission was a big team with six experts both national and international. Hence it would be reasonable to expect each of the expert's report to be part of the annex of the report, which will provide us an opportunity for in-depth insights of the review, that will help the ministry and all the stakeholders in taking necessary steps towards addressing the gaps that have led to the current conclusion of the MTR team. Therefore, MoFALD recommends to include the work of individual consultants of the MTR team in the annex of the report without which this report will be considered incomplete.

The study does not make any explicit recommendations for bringing aligned Development Partners into JFA. Being guided by the Paris Declaration of Aid Effectiveness Principles, the underlying objective of designing LGCDP was to bring various development partners working in local governance under a single umbrella; and thereby reduce transaction cost. However, still a significant number of DPs are out of JFA. Their programme activities in practice are not fully aligned with LGCDP. In some cases, it has added an extra burden on LGCDP mechanism. Because of the different operational procedures and norms, it has been a herculean task to harmonize the programme activities at the local level. Also, some of the DPs who are part of the JFA, have provided conditional funding with some defined activities, which does not commensurate with the spirit of JFA basket funding and creating complication both in terms of resource allocation, implementation and reporting.

MTR has provided six recommendations which are relevant but need some elaboration to consider in policy decisions. Following are specific comments and suggestions on recommendation:


National Programme Director
LGCDP

Recommendation 1. Community development and local government reform are interrelated yet very distinct sets of activities that deserve to be treated separately.

Comments: In the context of LGCDP, the concept of local governance and community development should be clearly understood before accepting the recommendation. It is pertinent to differentiate what activities fall under “local governance” and what activities under “community development”. WCFs and CACs are integral part and parcel of the local governance system. MoFALD is responsible for the local governance and community development. As per the scope of work of MoFALD, the ministry does not treat local government reform and community development separately. The ministry is clear that no governance can be done in a vacuum, hence governance need to be part of some specific aspect, like governance for development, governance for service delivery, governance for community development. This is the ministry’s understanding and position.

Recommendation 2: Support for social mobilization needs to find its natural niche.

Comments: Philosophically and in principle the recommendation is acceptable however, given the current context of Nepal it might be premature to implement this recommendation, especially, when the country is still in transition and there is no elected representatives in local bodies and the current arrangement through WCF and CAC are helping to address this gap and this cannot be continued without active engagement of the social mobilizers. The MTR team’s interaction with few WCFs and CACs does not represent the real picture.

As human resources need to be strengthened at sub-national governments, the role of WCFs and CACs are important to establish the linkage between citizens and local government. In a situation where the state needs to further strengthen its service delivery, to give the responsibility of social mobilization to civic society/ private sector will not be appropriate. It is the policy of GoN to continue the social mobilization process under its own leadership at least in a present political transition phase (after the armed conflict and continued political disturbance in some part of the country).

GoN has a policy to actively engage NGOs and CSOs through the governmental agencies and local bodies and has a strong reservation on the implementation of social mobilization at all level through NGOs with external donor support, without the government’s strategic guidance and monitoring. Given the dynamics and nature of the society and current state of transition, the government can’t promote externally funded social mobilization through I/NGOs. Hence, current social mobilization should continue until elected representatives are in place in local bodies. Even after the presence of elected representatives in local bodies, platforms like WCFs will continue as civic oversight forums. CACs will continue to function and their coverage will be expanded to improve the socio-economic conditions of marginalized and disadvantaged groups including women in line with the national goal. Therefore, there is a need to develop a detail transition plan to shift gradually from DPs supported social mobilization to GoN supported social mobilization. It is practical to continue transformation social mobilization and transitional

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National Programme Director
LGCDP



approach of social mobilization through CACs to improve the socio-economic condition of backward society with a robust exit strategy.

Recommendation 3: A next phase or new programme to focus on the establishment of a local government structure.

Comments: The Local Body Restructuring Commission is working on the number and boundaries of local government as per the provision of Constitution of Nepal 2072. It is quite obvious new programme needs to focus on the establishment of a local government structure. Moreover, it is mentioned that remaining period should focus on the local bodies restructuring, but this recommendation is very vague hence, it should be made more concrete and specific in the context of fund deficit in LGCDP II. The ministry appreciates MTR team for highlighting service delivery in the next phase of LGCDP in consistent with our comments in the previous para.

Recommendation 4: Use JFA to establish an indicator based financing mechanism.

Comments: MoFALD is open to this option provided predefined triggers are acceptable to both the parties. In which case there can't be a reimbursement based funding mechanism. However, Nepal is in transition, predefined indicators may not be suitable all the time. Those tranche conditions which are political in nature and are beyond the control of the ministry will need to be reviewed on a case to case basis and the DPs should be flexible to change the indicators according to the changing context.

Recommendation 5: Need for a relatively small dynamic TA set up.

Comments: The country is in transition and this will continue until sub-national governments are in place in line with Constitution of Nepal. In this context, TA is required to strengthen local bodies. MoFALD is of the view to adopting two pronged TA strategy. The first prong of TA strategy is to support Village and Urban Municipalities which will require long term TA and it will be in the form of a grant to sub-national governments through JFA (similar to approach by LGCDP to support the services of Programme Officer/ LGCDP focal person to DDCs). The second prong is in line with the recommendation of MTR to have small and dynamic TA at the central level. However, in the remaining period of LGCDP II, the present TA support at PCU and the RCUs level will be same. MoFALD needs to continue TA in PCU and RCUs to support in a transition period as per the broad framework of Development Cooperation Policy of the GoN.

Recommendation 6: Establish a small task force to work out the contours of a possible new project.

Comments: The country is in transition and expected to conduct a local election by November 2016. Moreover, it is expected that Local Body Restructuring Commission will submit their report by April 2017. The new situation will be clearer after April 2017. In this context,

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National Programme Director
LGCDP

MoFALD views this as logical to extend the LGCDP II duration with additional funding support from development partners since designing a new phase with new funding commitment will take at least a year. Therefore, MoFALD agrees to form a small task force to bridge between the extended period and the new phase of the programme.

Specific comments are as follows:

Page No. and paragraph	Statement	Comments and feedback
pp.v, Para 6	“since the VDCs do have so few staff - it can also be seen as a capacity substitution. In many areas, social mobilisers were seen to take on functions that naturally are part and parcel of the work of the local bodies”	In some cases, the social mobilizers may have supported the concerned VDC offices in their spare time, but this cannot be generalized.
PP no 1 Para 3	a classic UNCDF districts development fund The programme, financially supported by DFID, that was seeking to build district capacity and improve service delivery at the local level. As such, and after prolonged and sometimes protracted discussions, the LGCDP programme, and as reflected in its name, represented from the start two schools of thought that found, on the demand side, the consensus in the transformational social mobilisation approach.	This has been pointed out in the inception report comment as well; there is nothing “classic about DFDP”. As far as GoN is concerned all programmes and projects are at par and kindly remove the “ Classic”
PP no 2 Table 1.1	Output 4 is concerned with the fiscal management that mainly comprises of activities to improve the accounting systems, procurement, financial reporting, and audit.	This output also deals with fiduciary risk mitigation as well.
PP no 3 section 1.2.2	The Ministry’s Secretary is the chair of the National Advisory Committee (NAC) that meets twice a year – but even though different divisions (and hence different Joint-Secretaries) are involved in the programme	The ministry does not agree with this argument “the Secretary in the ‘week-to-week’ operational affairs are not very explicit”? The Secretary provides the strategic guidance to the LGCDP through NAC, Fiduciary

	<p>implementation, the role of the Ministry's Secretary in the 'week-to-week' operational affairs is not very explicit.</p>	<p>Risk Mitigation and Policy Coordination committee meetings and Ministerial Development Action Committee meetings (annual and Trimester) and provides issue-based guidance as and when necessary. Therefore, this statement should be either refined or removed.</p>
Page 7	<p>It is mentioned in the report that JFA is a project and evaluation questions formulated as ?</p> <ul style="list-style-type: none"> • How has the project (JFA, PPSF) helped to improve the spending of the local body grants ? • How has project helped to improve service delivery through the use of grants? • How has been projecting contributing to laying the foundation for a system of democratic local governments? • In how far have the institutional and organizational arrangements around basket fund (JFA) been effective in the achievements of the above question? 	<p>JFA is not a project, it is one of the mechanism of funding in LGCDP II, hence question should be restructured as follows and carry out analysis accordingly</p> <ul style="list-style-type: none"> • How has the LGCDP helped to improve the spending of the local body grants ? • How has LGCDP helped to improve service delivery through the use of grants? • How has been LGCDP contributing to laying the foundation for a system of democratic local governments? • In how far have the institutional and organizational arrangements been effective in the achievements of the above question?
Page 17	<p>There are numerous reported cases of UCs acting in collusion with contractors and frequent reports of corruption and financial mismanagement by UCs. The integrity of UC social audits has also been called into question</p>	<p>UCs are assigned to take their role of doing a public audit. Each project consists of 5 members 'Facilitation and Monitoring Committee' where 2 members must be from WCF and they facilitate the public hearing. There exist strong mechanism to ensure transparent and corruption free UCs.</p>

<p>page 23,</p>	<p>The progress for the area of Social Audit is 'less than satisfactory', notably because, as was reported, the Mandatory Public Hearings and Public Audits are done as ritual tick-the-box exercises and not in conformity with the guidelines issued by MoFALD.</p> <p>Although CSO led compliance monitoring is said to cover all 75 districts, the MTR team did not find evidence of its effectiveness in the VDCs that the team visited.</p>	<p>These are very anecdotal remarks and do not necessarily reflect the whole reality as the accountability tools are practiced on a national scale. Therefore, this sentence needs to be reframed accordingly. As there are plenty of evidence of social audit and CSO led compliance monitoring which are very strictly followed and are part of the MCPM mandatory requirement.</p>
<p>page 25</p>	<p>The role of WCF as an oversight body is less clear and the evidence of WCF providing oversight was not too apparent during the field visit by the MTR team. The field visit by the MTR did not find much evidence of WCFs practicing social accountability tools and MoFALD does not have data on this either. The knowledge of SA tools and the concepts inherent there in are not well understood by WCF members or so it seems. In fact, the practicality of WCFs undertaking this function (practicing SA tools) may need to be reconsidered.</p>	<p>Since the compliance monitoring is initiated only in 2014/15, hence the coverage is small, however, the coverage is gradually increasing. MoFALD has established a database on the use of social accountability tools at the local level. LGAF secretariat has organized a series of training to orient WCFs 'members on social accountability tools. Therefore, this statement is premature at this stage.</p>
<p>Pp 25 section 3.3.4</p>	<p>if the approach were to be up-scaled, to cover a more sizable part of the population there is the question of what would be considered a reasonable target. At the moment, CACs may have reached an estimated 0.5% of the total population. With an overall poverty rate for Nepal is 25 percent, it would require a fifty-fold up scaling to reach all those, which may not be realistic.</p>	<p>These figures are factually incorrect as there are 5.4 million households, this means the life of LGCDP-II it will be covering about 540,000 HH under CAC, which is actually 10% of the total HHS, this means out of the 25% HHS under poverty, that is about 1.3 Million HHS, the programme will successfully support 42% of the HHS under poverty and hence will not require as mentioned "fifty fold upscaling"</p>

PP 31	VDC Organization Chart	This organogram is wrong as the Social Mobilizers are not on the payroll of VDC and hence cannot be considered as the VDC staff.
PP 43. Section 5.9 Bullet 3 and 4	Study of the possibilities, pros, cons and risks of merging the LDTA and the Nepal Staff College. If the study proves positive, merger between the LDTA and the Nepal Staff College.	This is beyond the jurisdiction of this ministry and hence, would kindly request the mission to remove this statement of merging this two institution, which are actually created by the individual Acts by the parliament.
Page 53	A large part of the funds is spent through user groups which shift the whole prism of accountability.	User group system in Nepal is in practice since 1982. It has a long history and has been accepted good mechanism, because the users themselves are responsible and accountable for the utilization of the funds. There is a mechanism the user groups make the user's committee accountable to them through the public audit. Conducting public audit is mandatory in each project of the local bodies.
Pp no 55, second last para, point 8.3.2	But so far social mobilisation has been done in 'donor funded project mode implemented by government'	<p>Firstly, the tone of the statement to be refined. Because social mobilization is carried out in regular government funded programmes as well. "Bissheshwar with Poor", social mobilization in forestry and women development are also funded by government' core fund.</p> <p>Secondly, it will be too early for the programme to make an exit from the social mobilization. As reiterated in the previous paragraphs that CACs and WCFs have made significant contributions in improving local governance, parallel interventions in both supply and demand sides are required.</p>



Pp no 57, Point 8.3.2 second para,	Instead of too much attention on TA, a future project (if any) would need to pay serious attention to capacity development and training of local government staff.....	The study has come up with the very valid recommendation of providing TA assistance at local units. In the restructured political system, Urban and Village Municipalities will be key service delivery entities of the government at the local level. It would be better if the MTR had outlined the institutional mechanism to enhance the capacity of local bodies/ governments.
Page 57	Policy development by MoFALD as future Ministry of Local Governments	It is beyond the scope of work of MTR. Please remove this statement as this will draw unnecessary political attention in the MTR.

We hope that the MTR team will consider all the above mentioned comments and address them accordingly.

With warm regards

Reshmi Raj Pandey
Joint Secretary and National Programme Director
Ministry of Federal Affairs and Local Development / LGCDP

National Programme Director
LGCDP

Consolidated Comments from DPs on draft MTR report

**Local Governance and Community Development Programme Phase II (LGCDP II)
Feedback by DPs on the draft Mid-Term Review Report**

17 May 2016

Dear Gerhard,

The DPs thank the entire team for its efforts to conduct the Mid-Term Review (MTR) of LGCDP II as set out in the objectives of the Terms of Reference. The draft MTR report is well structured and very analytical, backed-up by intensive field visits and interactions with all the key stakeholders. We furthermore appreciate the wide consultation undertaken by the MTR team, from interacting with social mobilizers to the Chief Secretary of the country. Hence, the report provides a relatively comprehensive overview of LGCDP's achievements and challenges, and it provides general recommendations on possible future focus areas in which the GoN and the DPs could engage in order to strengthen local governance in Nepal over the coming years.

With the current political transition of the country from a unitary state towards a federal set-up, the task at hand is humongous and challenging for the GoN. This transition will take several years and will need very strategic and continued support from the DPs, both in terms of supporting and in terms of contributing to the efforts of Nepal in setting up a functioning inclusive and democratic federal state. We consider the MTR report as a first joint effort between GoN and DPs to work together in this direction, and we hope that it will lay the foundation for an active future partnership to manage this transition.

Please find below general observations, specific comments and factual errors raised by some of the DPs. There are also comments that relate to specific views/positions taken by the MTR team. They have been grouped below per agency, and it has been decided not to consolidate them. We request the MTR team to kindly review the comments provided by each agency below, and to incorporate them wherever appropriate. We would also appreciate if you could respond to DPs offering different views to the ones expressed by the MTR team while submitting the final report.

We are available for any clarifications or follow-up questions.

Best regards,

Diepak Elmer
LGCDP DP Chair
Embassy of Switzerland in Nepal
Kathmandu, 17.05.2016

DP Specific Comments

DFID Nepal Comments

I. LGCDP MTR Key Findings

- **Transparency:** Total donor funding of LGCDP II was actually USD 100m, not the originally budgeted USD 200m. But it is difficult to see how the project coped with this reduction, as financial reports only show 'one-line' transfers to local bodies, not which of the project's 9 outputs received the most money.
- **Focus on demand side:** Despite this transparency issue, it seems a very large amount of focus has been on output 1 (social mobilisation) and the demand-side aspects of the project, with relatively little attention paid to reforms of the supply side (e.g. PFM, local gov't training institute)
- **Breadth:** LGCDP does a very wide range of things: from policy reform to social mobilisation to livelihood improvement grants – probably too wide for its own good.
- **Role of local governments:** The LGCDP focus on many small, community-identified projects has reinforced the notion that local governments in Nepal *"have historically emphasized local participation and empowerment over creating institutions for service delivery"*
- **Capacity substitution:** While arguably necessary in some respects, it is clear that social mobilisers in some respects make up for the weak capacity of VDC functionaries; and the UNDP TA makes up for the weak capacity of MoFALD. This has helped the project to deliver some of its objectives (i.e. grants) but has undermined others (i.e. capacity development and supply-side reforms)
- **Citizen-state relations:** LGCDP's greatest success has been restoring/maintaining links between the state and citizens at the local level in the absence of local democracy – a "tremendous contribution".
- **Value-for-money:** High levels of public 'demand' for LGCDP grant-funded projects have led to 'thin-spreading' of resources which mean a larger number of beneficiaries but smaller projects, higher transaction costs, and reduced quality assurance - this undermines value-for-money.
- **User committees:** The practice of user groups being employed to implement projects (rather than monitor them) inverts the accountability relationship – user groups become accountable to government, not the other way around.
- **Weak policy focus:** The UNDP Policy and Programme Support Fund (PPSF) has almost entirely focussed on programme support (large numbers of staff posted mostly at district-level), with very little in the way of policy or research.
- **Changing context:** While the panoply of WCFs, CACs and IPFCs have kept alive the citizen-state relationship at the local level, future aggregation of VDCs into much fewer municipalities may require a complete restructuring of these social accountability/participatory planning structures

II. MTR Recommendations

1. Community development and local government reform are very different activities that need to be treated separately – any future local governance support should not combine both.

2. After 8 years, support for social mobilisation needs to find a permanent home (either inside or outside of government) rather than being funded through a project (by definition a temporary thing)
3. Any new phase of local government support should focus on implementing the proposed restructuring of local government under the new constitution. This is an enormous undertaking, involving (i) the creation of 7 new province-level governments, (ii) potentially the consolidation of over 3000 VDC-level units into possibly 500-700 municipalities, resulting in (iii) a significant reduction in the importance of district level government.
4. In future, the JFA could be organised according to an indicator based financing mechanism – given weak financial reporting at the local level, donors are better off providing finance to ‘reward’ policy reforms.
5. Establish small, dynamic TA focussed only on reform – e.g. a decentralisation secretariat.
6. Use a small task force to scope future local governance programming over the coming months

Switzerland

1. Overall, we would like to appreciate the efforts of MTR team to reach to the findings and conclusions as per the objectives set out in the Terms of Reference. We believe, the report is quite useful in setting the priorities for the future both by DPs and the Government. Respecting its independent status, the report is quite balanced and we broadly agree with the findings and recommendations (six recommendations mentioned in the executive summary). However, we firmly believe, the purpose of this report is not to agree or disagree, but to stimulate the reflection and discussion amongst the stakeholders which should lead to jointly charting out the best way forward, as rightly mentioned by the TL of MTR team.
2. The report addresses nicely the backward looking part and the forward-looking part focusing more on the bigger picture, however, cross-cutting areas like GESI including CFLG and EFLG are completely missing. We can understand the team’s limitation to focus on nitty-gritty but we cannot justify its negligence in some of the core cross-cutting area like GESI. What we believe is LGCDP has also achieved significantly in strengthening gender equality and social inclusion despite some pertinent issues to be addressed.
3. On the key reform areas of LGCDP II, **only social mobilization** is highlighted and analyzed substantially throughout the report. Rest of the areas notably, downward accountability (Output 2), public financial management (mainly the implementation of Fiduciary Risk Reduction Action Plan), the policy reform (output 8 and 9) are not analyzed substantially. Those analyses are very crucial not only for backward looking but also for forward-looking on the basis of lesson learnt in this phase. The systemic engagement of CSOs to monitor the compliance of local bodies’ service delivery is one of the keys of local governance reform. Similarly, PFM is the cross-cutting of whole reform process of local governance. Through LGCDP, we had tried to fix the FRRAP at an overarching level to address the issues which encompass all the sectors and outputs. But, unfortunately, it seems, these all are going to be missed out from MTR lens.
4. While coming to the recommendations for the future, while we agree broadly with all the recommendations, we also found that the priorities for the remaining years of LGCDP have been put in a very generic way. We had expected some sorts of concrete recommendations. It would have been better if the recommendations were divided into two broad categories a) for the remaining year of LGCDP and b) for the next phase or programme.

5. LGCDP was also considered a good example of donor harmonization and the objective was to move towards SWAP-based on the lesson learnt from this programme. In this sense, the current JFA provisions could be reviewed and recommendations can be made accordingly but it seems it does not come in that line.
6. With these general remarks, here are couples of specific reflections on the report.
 - a. On the approach of undertaking the assignment, still treating JFA as a project somehow gives the wrong connotation. It would have been better if output 1 and 2 are targeted to improve the overall performance of remaining outputs.
 - b. We agree with the MTR team in appreciating the progress in regard to Social Mobilization. We also agree with the recommendations to institutionalize it in the future. **However, again we would like to reiterate our earlier feedback and position that the primary responsibility of strengthening the demand side lies with the state. It is indeed one of the roles of the government to ensure that the demand side is heard and that there is space for a vibrant civil society able to hold the supply side accountable – in short, the government should continuously act as an enabler for the demand side to raise its concerns and demands.** VOICE and ACCOUNTABILITY should be separated but modality could be different based on the lessons learnt from implementation. It is not either the state or the CSOs but both. In addition, other crucial dimensions of social mobilization are not touched upon. Social mobilization is also the basis of inclusive service delivery based on UCPA analysis however this dimension is completely missed out in the analysis. In some cases, CACs and WCFs are treated in the same manner (page 24 -3.3.2) but these are completely different structures. These are also created to address the holistic (WCF) vs targeted intervention (CAC) in the society. Are they really been able to break some power structure in the society as we had envisioned?
 - c. Agree with the findings and conclusions in regard to current TA framework. In addition, the issue of accountability and quality assurance of TA could be added in the analysis. However, we found the recommendation in regard to future TA setup is a bit generic in terms of its structure. So, better to specify and elaborate a bit.
 - d. On the institutional and management part, LGCDP II is also considered as a framework programme of MOFALD. To what extent it was mainstreamed inside MOFALD? What is the overall implementation status of JFA provisions and its spirit including the result matrix? are again missing in the report. The quality of the report, result based reporting, baseline Vs target, the current structures of decision making (outputs groups, Sub NAC, NAC fiduciary risks reduction meeting) etc. are also not properly analyzed. This is again also linked with the quality of TA.
 - e. On the EFFICIENCY (in page 46), the result of the success of social mobilization should not be linked with the fragmentation of the projects from the block grant. There are much more reasons for this fragmentation including the poor prioritization system.
 - f. While we agree on the need of more supply-side strengthening in the future structural setup but it should not mean that demand side will be on the less priority. We strongly believe that there is equal need of demand side strengthening at least for some years to come. Also, it would have been good if the fiduciary risk was also been analyzed while recommending the need of supply-side strengthening in the days to come. (p 47).
 - g. The recommendations in regard to CD (page 43) does not match with the future structural changes that are foreseen by the new constitution. With the constitutional mandate of local bodies with different staff services at the provincial and local level, we don't believe that staff colleges can be given such mandate. Instead, both Staff College and LDTA need to be devolved in the new set up.

UNCDF Comments on MTR draft report are as follows:

1. The report has made important links with past programmes and assumptions about the future scenario in Nepal; some of these are not consistent with the perceptions of other stakeholders, particularly about the trajectory of political empowerment. The difference in perceptions is the “glass half full” analogy.
2. The review has done well to go into detail where required, and avoided an audit perspective. However, the lack of data or inability to secure data on the use of funds transferred to the LGs stands out as a concern that would need to be addressed through follow-up action by the close of the project.
3. The apparent lack of emphasis on service delivery and local development, may, in part related to the opaqueness on the use of transferred funds, as well as the limitations of citizen engagement in these areas; it would, to a greater extent, be because of the gross inadequacy of the small volume of funds that are actually deployed vis a vis the massive needs. More fundamentally, the scope of local government action, as an investor and developer, is also limited. Evidently, these dimensions have not been strategically addressed in the design of LGCDP II, nor been taken up as a priority.
4. The recommendations 1 & 2 are food for thought which will be subject to political dialogue on the priorities in nation building, particularly in the context of striking differences in asserting the mandate of the state in the core and the periphery (remote areas).
5. Recommendations 3 & 4 is an area where significant preparatory work can be initiated in the remaining period of the LGCDP.
6. Recommendation 5 reflects the internal contradiction between a programme approach and a projected implementation, which will need to be sorted out. While the initial purpose of TA was for providing specialized inputs to introduce changes related to the innovations to be introduced through the “project element”, it has been absorbed into the “routine” of a ministry’s programme implementation.
7. On taking another look at the recommendations as a whole, there is a reiteration of the critical question about the design and implementation of indicator based financing to drive transformation, and the imperative to have elected local governments and fully established national governments in place to meaningfully implement the approach. Many of the weakness pointed out relate to this “mismatch” at the local this point of time when there are no elected local governments. This is likely to change – hence, it would be prudent to reflect on the gaps from a longer-term perspective, in terms of positioning citizen groups as well as revising accountability and financing mechanisms that have been reviewed.
8. The table 2.4 explains % of unconditional capital grants which should add % of grants linked to MCPMs as a total transfer (Page 13)
9. 15% instead of 20% budget sanction will be applied for the fourth group of 25% LBs whose score is below than above three groups (second para of page 15)
10. The report has mentioned about the four types grants that consist of unconditional grants plus three other grants. However, no analysis is made why there is a need for other three types of grants? Do all four types of grants required or could it be reduced? (Page 15 and Page 16)
11. The report says that out of Rs. 5.79 Bn unconditional grant only Rs. 2.43 Bn (42%) has been linked to MCPMs (Page 16). In the absence of elected representatives, MCPMs is the only powerful tool that has been considered for transparency and accountability, LG efficiency and identifying capacity issues.
12. The current budget allocation trend and no extra provisions of CD grant linking with MCPMs assessment are lacking in the report (Page 16) need more analysis. This is also

- confirmed by MTR that CD programs do not have a systemic link between CD and MCPM results. It means what are the recommendations of MTR?
13. The PB grant as % of total unconditional grant for DDCs is 76%. However, this % comes down to 29% as a total grant. MCPM is becoming weak because of the majority of resources are siphoned through other measures (Page 16-need more elaboration).
 14. The forced allocation or reservation of 35% of the unconditional grant to DAG/Women and Children has weakened the LG discretionary authorities and constructing a sizable community infrastructure projects. Similarly, the report is silence on how these reserved allocations have been used and what are its tangible benefits.
 15. The report mentioned about the use of financial software and training in 2000 VDCs. Has the MTR seen use of financial software in DDCs and Municipalities? Are there any mechanisms for quality control? What should be done and how it should be?
 16. MoFALD has issued a number of operational manuals and guidelines and sometimes they contradict each other. What are recommendations for this?
 17. What suggestions are provided to improve the quality of Public Hearing and Public Audits improving from ritual tick the box (Page 25)
 18. Para 4.6 Service Delivery: The small size of budget allocations for community infrastructure is the main causes of a low number of technicians for services and also have a fiduciary risk. Very low budget is allocated compared to high need and therefore, budget utilization has not been effective. The selection of projects and budget allocations are done following the participatory planning process. The weaknesses of the planning process are itself for having very small of projects in terms of resource allocation and implementation. The MTR need to more elaborate on the strengths/weakness of the current planning process and suggestions.
 19. Agreed on the effectiveness of TA support status in LGCDP. However, it is very important to understand that LGCDP would not have been moved at least at this stage without this TA support. There is very high risk for the quality of the report and LGCDP management when this TA support was replaced by LBs hired staff.
 20. What should be done to internalize MCPMs results? For example, reduce or abolish conditional grant and increase unconditional grant. Second, increase the size of the grant on performance so that LBs will have more motivation to improve the performance (Page 40/41).
 21. The use of MCPMs was one of the important gradients that were taking confidence to DPs an pouring resources on LGCDP. However, the MTR has done a weak assessment on MCPM methodology, indicators, and the quality assurance system. The MCPMs for VDCs is done through DDCs means even there is a greater concern about the quality. Is it possible for MTR to do some additional review on existing practices of MCPMs

GIZ Comments

1. The report is very analytical, well founded and researched, providing important input for further deliberations. Nevertheless, some clarifications on the following points would be helpful for this task:
2. If more focus is to be placed on service delivery (i.e. "supply side") by LGs combined with the diminished relevance of districts under the new constitution, the question of links across ministries becomes more prominent. Municipalities being "more closely affiliated" to MoFALD, while they are assigned tasks to sector ministries (schedule 8 and 9), how could this be addressed under a possible future project?

3. The role of Aligned Partners is generally recognized in the report, nevertheless, there is no recommendation on how to integrate these contributions strategically in the future. Not all DPs are able to support on-budget, nevertheless, their contributions can bring specific added value in different areas of this kind of project. Indications could be given based on observations made by the team.
4. Currently, there is a push to hire additional staff under LGCDP to be placed temporarily also with municipalities for the remaining limited period of the programme. Especially in the case of New Municipalities, which are facing immense shortages in (qualified) personnel and which are currently in the process of hiring their own, permanent staff this provides only a temporary relief. There is a potential for overlooking the need to also hire permanent staff for the positions currently filled by LGCDP personnel, thus, the problem is only postponed, in addition, this temporary placement makes ongoing CD-measures unsustainable and poses a threat to continuity of systems and processes being introduced at the municipal level. Thus, there should be a caution regarding temporary placement of personnel in new municipalities and an urge to immediately initiate to hire permanent staff for positions currently filled via LGCDP.

UNDP Comments

1. The report is well structured and written. It has been able to raise some of the fundamental issues the program has been facing. It presents a focused analysis on important issues instead of spreading too thin.
2. The report lacks an overall analysis of the context in which the Program is operating. A better understanding and articulation of the overall political environment, longstanding transition, public administration and reform setting etc would have helped better understanding of the role and constraints of the Program. Similarly, a stronger analysis of where the Program sits *vis-à-vis* other projects and programs, and the institutional context in terms of civil service management, the incentive structure of the civil servants at the national and local level etc. would also be pivotal in clarifying the big picture.
3. The second phase of the Program was designed with the aim of strengthening the supply side against the assumption that there has been a mismatch between demand and supply. The MTR states that the focus continues to be on the demand side in this phase as well. This is a fundamental and systemic question. An analysis of the reasons why this has been the case will be critical for future Program on local governance. The Program is supposed to move from the program to sector-wide approach on local governance and hence, the four budget items of the Government's regular budget are put in the basket. There is a need to see how far the Program is moving in that direction and what the issues around that.
4. 2.2: It would be better to analyze why the government has not allocated additional budget for unconditional grants as committed in the Program document. As per the document, the government has to allocate % of the national budget as unconditional grants. Also, there should be a proper analysis of how predictable the funds are to the LBS for planning and implementation.
5. The policy of allocating 15% of the LBs grants to agriculture is missing. The Agriculture grants will make the total conditional grants 50% though this is not measured in MCPM.
6. Table 2.2: The practice of putting all the grants that go to LBs as MOFALD budget should be questioned. Putting all LBs' budget under MOFALD shows that the LBs are not regarded as autonomous entities. There have been recommendations in the past to have a separate category on the sub-national finances rather than including all the budget going to LBs as MOFALD budget.

7. 2.5: Social security expenses should not be counted as LBs budget and analysis should be done accordingly. If this is to be counted, there will be too many budgets (s) handled by the DDCs.
8. 2.6: "One main feature of fiscal decentralization in Nepal is that there primarily has been a re-assigning of sector related functions to LB's without a corresponding increase in the unconditional funding and revenue sources to lower tiers of government to cater to these functions." This is may be true in particular cases but overall the LBs are provided grants without making the rules clear and this has been one of the issues of FD in Nepal.
9. It important to highlight what has been done in FD in the II phase and if not done, needs further analysis.
10. 4.5: The number of projects in table 4.1, thinning of resources and prolonged implementation should be seen in the context of the participatory planning process that Nepal has been practicing over the decades and LGCDP has been following. This is a philosophical question.
11. 5.3: Mainstreaming of TA provision
"For the aspects of technical assistance and capacity development programme management i.e. output managers and staff in MoFALD seem to be overloaded with regular MoFALD duties. Despite the fact that LGCDP-II appears totally integrated into the MoFALD structure, according to themselves, they have to perform their LGCDP assignments over and above their regular duties making it difficult to find time and energy for these assignments. It can be questioned if the current set up is the ultimate organization solution for programme management." (5.8)
12. "Moreover, the high turnover of government staff in any position has put pressure on LGCDP as there is a constant inflow of new staff and other stakeholders that need to gain the required knowledge and capacity." (5.7).
13. TA's role should be seen in the environment in which the Program is operating. It would be better to see TA's role in the background of the above statements. The above findings point that the LGCDP as a whole is regarded as something additional. Therein lies challenges.
14. 5.7: Capacity building is focused on training; institutional and organizational capacity building is not paid much attention.
15. 5.9: Many of the recommendations may not suit the evolving context as they relate to the existing setup.
16. 6.2: it is not that the Constitution is in the spirit of the LSGA. The LSGA was not referred in writing the constitution and the Constitution is much more progressive than the LSGA.
17. 6.4: The review loses sight of the big picture of the public sector reform. The issues raised are beyond the scope of the Program and even the Ministry. For example, having too many small projects is practiced not only by the LBs but also by almost all the central government bodies, including the Planning Commission.

UNICEF

1. While the report has made some good recommendations we were a bit disappointed with the process and the MTR report. Our comments on the inception report has not been addressed. In addition, the report has not made an effort to review or analyses some of the contribution made by Development partners such as UNICEF to support the Government National Strategy eg "Child Friendly Local Governance "through LGCDP even under the section on "Aligned programs"
2. Also am a bit surprised that major recommendation has been made for output 7 and 1 but as DP lead for output 7 and co lead for OUTPUT 1, UNICEF was not even consulted

- once. Wondering if other DP leads were consulted??? The only mail I received was for a meeting on aligned program when I was in the field. I was told I would be contacted if any information is required. Anyway please find i) our comments on MTR recommendation and ii) our concerns on the report
- a) MTR recommendation
 - b) In principle agree to the recommendations 1,3,5,6
 - c) Re points 2, 4, we cannot comment at this point. Since we were not consulted we will need some further analysis and also some discussion in house before we agree.
- 3. Comments and concerns on the Report. UNICEF have also shared these comments with Mr. Bijay Raj Subedi, chief of RDS (CFLG focal section in MOFALD) and he too agrees.**
4. The MTR report has conveniently ignored all the cross cutting issues. Any MTR report should at least mention how the cross cutting issues and themes have contributed to achieving the LGCDP outputs.
 5. Under LGCDP program document Child Friendly Local Governance CFLG is not only a cross cutting issue but is one of the 22 elements and specific CFLG related indicators contributing to local governance is clearly mentioned under Output 1 Output 7 and Output 5. This strategy is led by the government.
 - 6. Also UNICEF has made a substantial contribution through JFA and through direct funding** (as agreed with MOFALD through CPAP, rolling work PLAN and LGCDP program doc) to support the implementation of MOFALD's "National Strategy on Child Friendly Local Governance" through LGCDP. **But on page 30 "Aligned Program /Projects"** there is mention of UNICEF's support. Was it an oversight???
 7. The MTR report has highlighted the success of social mobilization and has provided details even on the activities in boxes. On page 21 C, it points out that one of the main objectives of output one – social mobilization is to "create an environment for the most disadvantaged group to engage with the state" But the policy provision made by MOFALD/LGCDP to support this output eg listen to the voices through annual consultation with children (through *bal bhelas*) which **is also a key output indicator under OUTPUT 1** is not mentioned. The policy provision to consult with children through *bal bhelas*, the policy provision to ensure children participation (one boy and one girl) in the lowest level of local governance structures eg WCF, IPC, CFLG committees and the decision made by LGCDP to allocate resource to consult with children in every VDC and municipality of Nepal in the 2015-2016 ASIP is not even mentioned . This is an example that other countries can also learn from. This is a small but important achievement. The report needs to further analysis some of the great initiatives made by LGCDP.
 8. As DP lead for output seven, I can say that LGCDP has initiated some good work to strengthen local governance and sectoral convergence while facing some challenges. The emphasis on Periodic planning (DPP), strengthening Results based Planning, linking DPP to Annual Planning and the efforts made by MOFAD to take Child Friendly Local governance forward through LGCDP by declaring VDCs and Municipalities "Child Friendly" is slowly showing results. These are contributing to strengthening local governance, social accountability, service delivery and sectoral convergence but these have not been looked it. The lessons learnt could be useful as we plan phase 3. These areas therefore require more analysis

Response of MTR team on comments received

First of all, the team wishes to acknowledge with thanks the comments that were received with regards to the draft report from Government and the DPs (notably DFID, Swiss Embassy, GIZ, UNDP, UNCDF and UNICEF). We wish to thank DFID and UNCDF for providing, as part of their comments, a brisk summary in bullet points of the report's main findings, key recommendations as well as issues to act upon in the remainder of this phase.

As a team, we have studied the comments and would like to respond as follows:

General remarks

- We have addressed the factual errors that were pointed out in the comments, but note that most of the comments reflect either difference in opinion or are requesting for more information. With regards to the latter, the comments are sometimes contradictory, e.g. MoFALD suggested to shift parts of Chapter 2 to an annex (suggesting this chapter was less relevant), whilst UNCDF was suggesting that sections in this chapter be developed in more detail. Hence, as team, we decided to keep the chapter as-was, because it provides a snapshot overview of fiscal decentralisation as it stands.
- Part of the comments seem to stem from an expectation that a mid term review is at the same time an output review that goes in all directions in much more detail. For us, the purpose of an MTR is to critically challenge the project design itself, because normally it would have been designed several years earlier (and for LGCDP it is actually over 9 years ago), whilst the context may have changed. And indeed, for Nepal that context has changed dramatically, a situation the Ministry will have to deal with.
- As much as it was agreed that the MTR would be forward looking, some comments seem to be asking for details on the next phase that would be part of a formulation mission for such a next phase or a new project. In fact, one of the MTR recommendations was to form a task force, which could also oversee specific studies, to outline the contours of such a new project in more detail.
- From the inception report onwards, it was agreed that the MTR would take a macro (bigger picture) perspective and in order to do so (and allow the reader to see the forest for the trees) we had to make choices on what we considered, after investigation, bigger issues which were: (i) the lopsided attention for social mobilisation, (ii) the sub-optimal use (or even neglect) of the system of grants in steering the local bodies and the services they deliver; (iii) the, and this is the flipside of the previous two points, relatively low levels of attention to policy development (outputs 8 and 9) and finally (iv) the absence of a serious systemic broad-based capacity development mechanism.
- The latter point may sound as a 'glass half empty' approach, but in our view the purpose of an MTR is not to 'give each other a pat on the back and move on with business as usual' but to critically review whether the set of activities, and the way they are linked to each other still makes sense, and if not make suggestions for a re-orientation. We have in the report expressed our appreciation for the impact of social mobilisation and the fact that LGCDP has kept the discussion on local governments alive, which is a recommendable achievement. We indeed did label social mobilisation the flagship component of LGCDP so far. But the main message of the MTR to the Ministry is to build on this strength and make a next step, taking the new context into account.

- In this regard it may be useful to discuss a little further the difference between community development on the one hand and local governance on the other, which seems to be implicitly underlying much of the debate and the position taken by MoFALD. For us, local governance is about the way people and groups of people relate to each other, and notably how they relate to the state, for collective action.²⁰ Local governance is about institutions and institutional structures with a clear connotation to local governments and public services (services and actions that pertain to all). Community development, and certainly the way it is operationalized through CACs on the contrary, is much more individualised, even though it deals with groups, as those groups are specific targeted groups, and the benefits are restricted to the members of those groups (hence not public). In that sense there is in practice a very clear distinction between WCFs and CACs: WCFs are about local governance and CACs are about community development. On the ground, and we have seen this first hand in several communities visited, the social mobilisers deal with both CAC and WCF in a similar manner, with a bias towards the CACs as they get direct funding. In the schedule of grants (see also Table 2.3 in the report) local governance grants are blurred with livelihood grants - whilst the governance grants, when channelled through user groups (which is, as mentioned in the report, the case for almost 80% of the VDC projects) these grants also get 'individualised' and lose the character of a 'public good', thereby reinforcing a clientele system. WCFs are there for all people, CACs cover 30 people, or say 30 households, in every VDC. Hence they cannot be mentioned in the same breath, as both being part and parcel of a local governance set-up. They are distinctively different and need separate approaches. Building strong local governments is very different from livelihood support.
- We have raised the issue that channelling of public funds through user groups has implications for the accountability relations between citizens and the state, in fact reversing them: the citizens in the user groups become accountable to their local government rather than the other way around, a point made several times in the report. The fact that user groups have been a common practice in Nepal for decades does not change the validity of the point made. It is to be understood that "User Committees" have important roles to play during the planning phase to support the government make sound decisions and in the maintenance of micro-infrastructure projects without taking on the responsibilities themselves. The responsibilities lie with the local governments to deliver public services and be accountable for them. User Committees lose their moral obligation to hold the governments to account once they engage themselves as the agencies for service delivery. It is, therefore, necessary to revisit the concept behind "Users Committees" and redefine their role without compromising the imperatives of downward accountability of local governments towards the citizens.
- We offered two options for Social Mobilisation to find its own niche (either it be considered a function of the Local Bodies, which would mean that government or the local bodies would gradually have to take over these costs or it is left to the civil society, that may have their own ways of funding). We are happy to note that government accepts the first option, in which case the proposed transition plan is mainly about phasing-in local funding and phasing-out foreign funding. This would be independent of any local elections, unless the proposed idea is that the new local bodies will be given

²⁰ See for example an article by Shah and Shah (2006), titled *The new vision of local governance and the evolving roles of local governments*, which defines local governance as "encompassing the direct and indirect roles of formal institutions of local government and government hierarchies, as well as the roles of informal norms, networks, community organizations and private sector in pursuing collective action by defining the framework for citizen-citizen and citizen-state interactions, collective decision-making and delivery of local public services".

the option to fund the social mobilisers or not, which is a recognition of our remarks in both inception and draft report that *de facto* social mobilisers are (to become) VDC staff.

- We would, however, like to point out that choosing either option has implications for the purpose of social mobilisation. If social mobilisation is about “empowering” or organising people around the planning process, or livelihoods it can be done through government. If it is supposed to primarily focus on holding local government to account, then the government channel may be less desirable. From the above, we would assume that government wishes to favour the livelihood / community development approach over the local governance approach.

Reaction of some specific issues raised

- **Limited support for the supply side:** The report noted that three of the four outcome areas (areas 2, 3 and 4) relate to the supply side and that only outcome-1 (outputs 1 and 2) relates to the demand side. As explained in the report, it was impossible to ascertain the expenditure levels by output or outcome (an observation the Ministry does not at all comment on), and as such it is difficult to say with precision what share of the total resources was used for the demand side and the supply side respectively, but we estimated (a statement that has not been contested) that, from the JFA, expenditures for outcome-1 were more than the expenditures for outcomes 2 to 4 combined. We did not argue that the ‘supply side was weak’ (as mentioned in MoFALD’s comments), but we did say that substantially more resources were devoted to ‘community development’ as compared to ‘local governance’ and building the foundation of local governments (in terms of the definitions used above).
- **Aligned projects:** Above we acknowledged that we paid relatively little attention to the topic of aligned projects, because, also explained above, we considered other issues more important. Our position on aligned projects is clear and we agree with the background of a comment made that they are over-stretching the ability of government to handle an already complex programme, and are for that reason to be avoided as much as possible. One is ‘in’ or ‘out’ - and not ‘half in half out’ and seeking to be fully in when it suits and fully out when this suits. Some DPs (like UNICEF) are funding certain activities in certain areas, and then expect government to do the same in the remaining (larger) part of the country with a smaller budget, which is clearly a violation of the spirit of a national programme and a joint financing mechanism. However, asking the MTR of LGCDP for concrete recommendations on how to bring aligned partners on board seems beyond our mandate. Yet, the solution is fairly simple as all donor-funded projects are agreed with and signed off by government.
- **Capacity development:** It seems that with suggestions to critically look at the functioning of the LDTA we have hit a sensitive nerve. We understand that the LDTA and Nepal Staff College are institutions under a different jurisdiction, but that does not prohibit us from making remarks that could trigger a discussion on how to make the LDTA functional. Neither does it excuse the ministry to reflect on the question why the College performs so much better than the Academy. As argued, when all the new urban and rural municipalities are to be put in place over the years to come, with a substantial number of additional personnel to be employed, the ministry must have a solid CD programme and delivery mechanism in place, which is at the moment not the case.

- **Team-member reports:** The question to annex reports of individual consultants to the final report surprises us. This is certainly not usual practice. Moreover, in the inception report it was clearly indicated which team-member would be responsible for which chapter. So, the chapters are the reports by the individual team-members, but our understanding of a team effort is that the team delivers a team product. Through the team-leader, all team-members are behind the total content of the report. Why contract a company if individual products were required?

Concluding remarks

- Whereas some comments asked for more detail on the recommendations on what to do during the remainder of the present phase, others (like UNCDF) nicely summarised, on the basis of the report, immediate action that was proposed. As argued in the report, the LGCDP is like an oil tanker for which it is not easy to change direction suddenly. Our suggestion to start redirecting the ship over the next 12 months in the overall direction as indicated and summarised as follows: (i) to develop and start implementing a transition plan for social mobilisation; (ii) use LGCDP resources to contribute to the local government policy dialogue in which functional assignments and fiscal decentralisation should be areas of prime interest (activities as foreseen under outputs 8 and 9 but in the light of the new contexts; (iii) on the ground increasingly focus support on the existing Municipalities which are likely to stay and finally (iv) think through the human resource aspect of the emerging local governments and start preparing a capacity development strategy.
- Finally, we do acknowledge that because of the bigger picture approach that we have taken, some issues, like GESI, CFLG, EFLG, as well as the details around PFM and the contribution of the aligned projects were not treated in the detail that some would have desired. As for GESI, positive achievements were noticed, in particular through the CACs, many of which have successfully taken up issues of gender and caste discrimination. On field visits in the Far-West female CAC members voiced a clear refusal of the *chaupadi* practice, while they spoke about their right to register for citizenship (which important as the basis for accessing a number of other public services). These are all commendable achievements that have brought some fundamental changes to peoples lives, although it should also be noted that LGCDP is not the only *change agent* in the field.
- While some would have liked to see more of such details, other comments note that ‘the report is quite balanced’ whilst ‘it has been able to raise some of the fundamental issues the program has been facing’. As a team we had to walk a fine line between such fundamental issues and detail. As such, and with the above remarks from our end, we decided to include the comments from both government and development partners in their totality (including the few factual errors that have been addressed in the text), and not to change our conclusions or recommendations, in the firm believe that the purpose of the report is not to reflect 100% consensus between all parties (which will always remain difficult) but to form the basis for fruitful reflection (including self reflection) and subsequent discussions within the ministry and between government and the development partners to jointly chart out the best way forward.

Gerhard van 't Land

For Dege Consult and for the MTR team

Kathmandu / Copenhagen / Yangon, 22th May 2016

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Acronyms and Abbreviations

ADB	Asian Development Bank
ASIP	Annual Strategic Implementation Plan
CAC	Citizens' Awareness Centre
CD	Capacity Development
CFLG	Child-Friendly Local Governance
CSO	Civil Society Organization
DAC	Development Assistance Committee (under the OECD)
DAG	Disadvantaged Group
DDC	District Development Committee
Dfid	Department for International Development (UK)
DIMC	Decentralization Implementation and Monitoring Committee
DP	Development Partner
DRM	Disaster Risk Management
DoLIDAR	Department of Local Infrastructure Development and Agricultural Road
EFLD/G	Environmentally Friendly Local Development/Government
EO	Executive Officer (Municipalities)
FMR	Financial Management Reports
GESI	Gender Equality and Social Inclusion
GoN	Government of Nepal
ICTV	University Youth ICT volunteer
JFA	Joint Financing Agreement
JFTA	Joint Funding for Technical Assistance
JICA	Japan International Cooperation Agency
LB	Local Body (Refers To All Levels of Local Government)
LBFAR	Local Body Financial Administration Regulations
LBFC	Local Bodies Fiscal Commission
LBRC	Local Body Restructuring Commission
LBRMMG	Local Bodies Resource Mobilization and Management Guidelines 2068 (2011/12)
LDO	Local Development Officer (MoFALD's head of the DDC)
LDTA	Local Development Training Academy
LED	Local Economic Development
LG	Local Government
LGAF	Local Governance Accountability Facility
LGCDP	Local Governance and Community Development Programme
LIP	Livelihood Improvement Programme
LSGA	Local Self-Governance Act 2056 (1999)
LSGR	Local Self-Governance Regulations
LSP	Local Service Provider
M&E	Monitoring and Evaluation
MARS	Municipal Administration and Revenue System
MCPM	Minimum Conditions and Performance Measures
MoFALD	Ministry of Federal Affairs and Local Development
MOGA	Ministry of General Administration
NAC	National Advisory Committee
NPD	National Programme Director
NPM	National Programme Manager
NPR	Nepali Rupees (USD 1 equals NPR 103, April 2016)
OECD	Organisation for Economic Co-operation and Development
OSR	Own source revenue
PBGS	Performance Based Grant System
PCU	Programme Coordination Unit
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPSF	Policy and Programme Support Facility
ProDoc	LGCDP Programme Document

QA	Quality Assurance
RCU	Regional Coordination Unit (MoFALD/LGCDP)
RLC	Regional Learning Centres
SA	Social accountability
SDC	Swiss Development Cooperation
SM	Social Mobilization
SMG	Social mobilisation guideline
SWAp	Sector Wide Approach
TA	Technical Assistance
UC	User Committee
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNV	United Nations Volunteers
VDC	Village Development Committee
WCF	Ward Citizen Forum