LOCAL GOVERNANCE & COMMUNITY DEVELOPMENT PROGRAMME (LGCDP)

MID-TERM REVIEW
Final Report

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Acknowledgements

The Mid Term Review team for the LGCDP is grateful to the many people who helped us or participated in the course of our preparations, field visits, presentations and discussions. LGCDP is a large and vital program that presents a challenge to management and reviewers alike. Without the generous assistance extended by the program management and other stakeholders we could not have climbed the steep learning curve to make our contribution as reviewers.

The LGCDP Project Coordinating Unit and Quality Assurance Mechanism members were key to the design of our itinerary, taking all of our requirements and hopeful plans and turning them into feasible field visit schedules and useful meetings with the government, donors, local bodies and many other groups participating in the program. A special thanks is due to Dr. Raghu Shrestha of the Project Coordination Unit who supported us throughout the arduous schedule, helping us to discover and understand, and prodding the learning forward with his own keen curiosity. The support of Dr. Prem Sharma of the Quality Assurance Mechanism was also deeply appreciated, for his ability to animate the field discussions, for injecting good humour at all times, and for his field photographs – some used in this report. Cluster Coordinators and staff also were instrumental in preparing our field visits, and their excellent presentations of cluster programming was a great way to start or end the regional visits.[1]

Ministry of Local Development and other national level officials, and development partners made themselves available as needed, pointing out the achievements of the program as well as the areas where more was expected or hoped for in the remaining time. We hope that we have listened well and captured the key suggestions, and that we have reflected in the report the commitment that we sensed to make a success of the LGCDP.

The review took us to various parts of Nepal, where we were well received by communities and local officials eager to share their stories and hopes. We noted the deep challenges faced in encouraging good local governance under some very difficult circumstances. But we were also struck by the dedication and creativity of community members and local officials. The effort to make local bodies more accountable and better able to provide valued services in an inclusive manner is crucial – particularly in a governance context missing local elections. We have seen indications of the contribution that the LGCDP can make, and believe that it is well positioned to accomplish much more in the years to come.

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[1] The first photograph on the cover page is derived from a Cluster Coordination Unit report.

Executive Summary

Introduction

1.   The consultants conducting the mid-term review (MTR) of the Local Governance and Community Development Programme (LGCDP) have concluded their assessment of the progress made in this national programme managed and implemented by the Ministry of Local Development (MLD). The purpose of the four year LGCDP is improved access to locally and inclusively prioritized public goods and services. Its design combines performance based block grants with capacity development and a strong demand side.

2.   The field work for the review was carried out between September 4 and October 7, 2010. The MTR team applied the following methods of data collection and analysis.

    i.   desk review of relevant documents (see Appendix 3);
    ii.   discussions with the Government of Nepal (GoN), Joint Financing Agreement (JFA) and related development partners (DPs), LGCDP staff, and other stakeholders;
    iii.   interviews with LGCDP user groups/contractors in selected programme sites, and observation of facilities/activities;
    iv.   briefing and debriefing sessions with the MLD/DPs to obtain feedback.

The key informants met in the course of the MTR are listed in Appendix 4. Project sites visited were as follows:

- districts: Bara, Dhankuta, Kailali, Pyuthan;
- municipalities: Tulsipur, Dharan, Nepalgunj;
- Village Development Committees (VDCs): eight, in visited districts or adjacent to visited municipalities;
- User Groups (UGs) in the visited local bodies (LBs);
- Cluster Coordination Units (CCUs); Pokhara, Nepalgunj, Biratnagar, Dhangadhi, Hetauda.

3.   The selection of project sites visited did not aim for a representative sample, though an effort was made to cover the main regions.

Achievement of outputs

4.   Achievement of the outputs, and progress toward outcomes for the program, was difficult to ascertain. This was due to the early stage of some activities, the late preparation of a baseline and the incomplete Monitoring and Evaluation Framework for LGCDP, and the incomplete and late financial reporting. Drawing from key informants and available data, the MTR team was able to arrive at the following observations:

5.   Output 1 (with a focus on social mobilization and the local planning process) and Output 2 (information, education, and communication activities, and the Local Governance and Accountability Facility) are particularly lagging, with most activities still in the preparation stage. *The SM and other demand side activities are crucial to the eventual success of the program and the MTR team urges the LGCDP to make these activities a priority*.   The

MTR team learned that there are some concerns at local level regarding the roles of existing actors (including previously established groups), and new groups and Social Mobilization efforts to come. *The MTR team observed that VDC Secretaries felt marginalized with regard to LGCDP initiatives relating to social mobilization, integrated planning and the Citizen Awareness Centre (CAC). It is necessary to bring VDC Secretaries on board in LGCDP initiatives, in accordance with the intent of the Local Self Governance Act (LSGA).* While future orientation and training for Local Service Providers (LSPs), Social Mobilizers and VDC Secretaries will undoubtedly address these concerns, *the MTR team urges LGCDP to pay particular attention to the coordination amongst CAC, VDC, and previously mobilized groups to develop a harmonious and mutually reinforcing partnership. A close monitoring of Social Mobilization process will need to be undertaken and necessary modifications introduced to avoid possible conflicts.*

6.   Output 3 is most advanced, consisting of the performance based grants to LBs, and annual assessments of minimum conditions/performance measures (MC/PM). The group managing the grants in the Local Bodies Fiscal Commission (LBFC) is vibrant and continues to improve the MC/PM system.   The group includes a leading international expert in performance based granting.   In a recent review he states that District Development Committees (DDCs) in particular have improved in planning and programming, public financial management, good governance, and transparency. This claim appears justified in some respects. The MC/PM has certainly been a positive influence in the local governance scene.

7.   As a result of the block grants, there is considerable service oriented project activity at local level. Projects are implemented largely through UGs. Spending patterns are complex; there is a preponderance of roads and education projects, with health projects notably few. *Fiduciary risk is high at the local level, in part because of the lagging demand side, delayed release of funds and insufficient Capacity Development (CD) measures*.

8.   CD for all actors (Output 4), from local to national, has started but it is not evident that the focus has been on the VDC, as stated in the LGCDP CD Strategy. Moreover, the bulk of the effort appears to be short term and one off orientations, training, or study tours. Organizational/system issues are neglected. The rush of guidelines, poorly harmonized, has lead to some frustrations at local level, and to deviations from the norms they contain. *Several measures will be needed for LGCDP to make its CD approach more robust, including developing guidelines with greater involvement of stakeholders, ensuring the guidelines are more accessible to ordinary people, and following up on the CD interventions to note application success and further support needed*.

9.   Output 5 activities are not very advanced, particularly in terms of the financial management interventions. Only the sector conditional grant (SCG) has seen a full year of implementation, and its inadequate preparation and narrow coverage of five districts strongly suggests that its influence has been minimal to this point. Even with this limited coverage, the SCG is outstripping the capability of the program to design and monitor it effectively. A Social Protection pilot is also being prepared and appears to be an even more complex undertaking than the SCG.   *The MTR team is concerned that "large" pilots may overwhelm the Programme Coordination Unit (PCU) and distract the attention from core LGCDP activities , especially those that are lagging behind, i.e., Output 1, Output 2 and intensive CD at VDC/UG level that are badly needed to increase quality and reduce fiduciary risk.*

Pilots may stand a better chance of adding value to the program if undertaken in the next phase (of LGCDP). The MTR team suggests that pilots be reviewed to decide it they should be continued, dropped, or dealt with outside of the LGCDP, and that this review be conducted quickly within the NACS and based on agreed criteria.

10. Outputs 6 and 7 relate to policy oriented studies and strengthening of the policy process and other aspects of key national institutions concerned with LBs. Some initiatives are underway, but their combined effect to date does not appreciably contribute to the outputs. It has to be said however that if the narrowly focused activity level indicators found in the M&E Framework are used as guides, then there is some achievement. However, meaningful progress toward output achievement is hampered by the low quality of the preparation for the many learning/exploration activities under these two outputs. *The MTR team acknowledges that many of the planned and implemented studies have relevance to LGCDP, but believes that some could be dropped, others integrated, and most need to be made more relevant to the specific challenges met in the field and the state restructuring challenges that lie ahead*. Noting the challenges in attaining quality in these two outputs, *the MTR team also stresses the importance of enlisting the assistance of an interested and capable Thematic Group for Outcome 3 products.*

11. In terms of program structures (Output 8), much progress has been seen in the "machinery" of the LGCDP, and learning is taking place in how it should best operate. At the local level however, the District Facilitator and assistants in the DDC and municipalities are struggling – suffering from a mismatch between the formal/other tasks thrusts upon them, and their background and experience. In part because of the unexploited potential of the DF role in change management, many of the new structures of LGCDP, or previously established structures at local level, exist only on paper or struggle to operate, e.g., monitoring committees of UGs and DDCs/municipalities, Integrated Planning Coordination Committees. Getting these to work as intended will require, among others, a different approach to "facilitation." Toward this end, *the MTR team suggests that the National Advisory Sub-Committee (NACS) provide Local Development Officers (LDOs) with a framework for recruiting District Facilitators (DFs), and that the program add CD specialists in the CCUs to backstop DDC based DFs (and Assistant DF/Assistant Municipal Facilitators), or supplant these entirely by responding directly from the CCU to demands from DDCs/Municipalities.*

12. Continuing with program structures, the MTR team notes the good staff placed in the CCU, and believes that it is possible to use the staff to their full potential by demanding more analytical work from them, and giving them greater authority to respond to regional/local challenges and to propose regional/local solutions to the PCU. The MLD also stands to gain much by using this platform to learn how to support LBs from the scale of a region, rather than from Kathmandu. *The MTR team encourages the MLD and PCU to make the most of the CCU level, treating it as a "pilot" to learn what it means to support local governance from that vantage point, hence connecting the CCU pilot to the pending state restructuring.*

Achievement of outcomes

13. It is not worthwhile to assess the achievement of program outcomes in a rigorous way at this time. However, the MTR team flags some limiting factors standing in the way of their

achievement, principally the missing local elections that make it extremely difficult to work towards accountable local bodies.

14.   Recognizing the above structural impediment, *the MTR team supports the efforts of MLD to make the provisional All Party Mechanisms (APM) more accountable*, and adds some suggestions to the measures contemplated (APM election of chair with co-signing authority with VDC Secretary/Executive Officer/LDO; link between APM and governance of LB associations). In conjunction with the above change, *the MTR team encourages the LGCDP to provide a tailored orientation to the political parties at the district and central level on the importance and significance of LGCDP to local development, with demand side features being prominent*.

15.   *The MTR team underscores that the outcomes are unlikely to be achieved in a fulsome way unless the program is implemented according to its original design; with significant and well executed demand side activities accompanying the enhanced block grants*. The scrutiny and engagement of civil society is critical to reducing fiduciary risk and to achieving equitable and inclusive service delivery.

16.   The MLD will find that it needs to foster a government wide approach on some reforms necessary to achieve outcomes. *The MTR team suggests that the MLD should develop a policy development approach that makes use of analytical and empirical evidence, and links this information to discussion forums, communication strategies and alliance building with the view to advocate reforms to decision-makers.*

Use of program funds at national level

17.   The use of program funds is difficult to ascertain with precision and reliability due to the financial planning and reporting weaknesses in LGCDP. Financial reports are late, incomplete and do not sufficiently discuss variance. Reporting against program outputs and outcomes is particularly weak. These weaknesses aggravate fiduciary risk and deny management a clear picture to help in steering the program. It appears that both the GoN and DPs are nearly "flying blind" on the overall use of funds/spending rate. To place the LGCDP on a proper financial footing, *the MTR team recommends a timely audit of the overall programme by the Office of the Auditor General (OAG), with the help of a private audit firm, to give a clear picture of the financial standing of the LGCDP that can help it to move forward with greater confidence in the use of funds, projections and financing commitments*.

18.   The MTR team is concerned about the way important allocative decisions are being made in the LGCDP. These relate in particular to the additional Rs. 91 million used for the TU grants and other uses in 2009/2010 (shifted out of recurrent funds) and the weak proposal to allocate USD 27 million to Social Mobilization for the coming year. It appears that the budget shift was done without proper consultation with DPs. Such ad hoc and unilateral decisions should be avoided in the future as they undermine the sense of partnership being fostered in the LGCDP. With respect to the Social Mobilization (SM) proposal the MTR team notes that a strategic analysis and discussion has not been seen (e.g., in the Thematic Group, leading to a well presented strategic discussion at the NACS level). *The MTR team recommends a review of the SM budget of the LGCDP that makes clear the strategy for this component,*

particularly in terms of the required intensity of interventions seen against the backdrop of eventual exit/sustainability considerations.

Use of program funds at local level

19.   The MTR team believes that most of the fiduciary and project quality risk is found at the LB/User Group (project implementation) levels. Some of these risks are precipitated by the late release of funds to LBs and user committees or other actions (or inaction) of national level actors. The key shortcomings seen by the MTR team in the field are as follows:

- Coping strategies for late disbursement e.g., advances to UG or contractors.
- Poor understanding of guidelines/inappropriate guidelines, e.g., VDC secretary awarding unaccountable grant to school management committee (with no proposal or reporting).
- Corruption (vulnerability was noted), e.g., multiple sources of funding for same project (possible double funding).
- Lack of effective monitoring/accountability and support systems, e.g., insufficient support from Registered Auditors (RAs) from DDC level to VDC.
- Long term projects without overall planning with time period and costs e.g., continuing projects given funding every year without knowing total costs and time required to complete the same.
- Ineffective fund tracking system, e.g., incomplete and inadequate financial record keeping, reporting and auditing system of LBs.
- Payoffs to counter threats to safety, e.g., extortion by criminal elements.

20.   Project implementation is of variable quality, though the MTR team could not ascertain if projects are any better or worse than other projects in the past or those now alongside the LGCDP. It is clear that if the LGCDP wishes to attain quality and sustainability in local projects it must bolster technical support for projects, particularly at VDC/UG level, and strengthen monitoring as well – at all levels.

21.   The LGCDP will also need to reflect on the great reliance placed on user groups as vehicles for project implementation. *The management and accountability limitations found in user groups can be mitigated through explicitly addressing these in SM and CD efforts. But it may also be appropriate to more clearly open up the chance for LBs to use NGOs and the private sector*.

22.   There is much that can be done by the LGCDP/MLD to reduce fiduciary risk, and some actions can be taken immediately. *The MTR team endorses the MLD CD strategy prioritization of the VDC/UG level*, which has yet to be realized, and offers the following suggestions:

Largely under MLD control	Requires engagement with other national institutions
Short Term	
• Formalize the chair of APM and make the chair the co-signer of cheques with the VDC Secretary. • Ensure there is at least 5% of	• Give priority attention to the quality of blended block grant guidelines as they contain some important measures/reforms (some of which may also be listed in this table): • translate drafts, and get DPs fully on board;

blended (capital) block funds available for VDC purchase of technical assistance. • Reorient VDC secretary to proper procedures and the new blended guidelines. • Put in place a simplified spending tracking form for UCs, with simple budget heads for tracking typical small project expenditures. This form, and minutes of meetings, should be the essentials of the "project book".	• prepare supporting paper if necessary to justify the new blended guidelines; • discuss guidelines in December National Advisory Committee meeting to gain other stakeholders as allies in lobbying Cabinet – particularly the Ministry of Finance and Ministry of General Administration. • Do VDCs internal audits on trimester basis by DDC Internal Auditor and final audit with trained RAs within 3 months of the end of fiscal year. • Ensure that due process (social preparation) is followed in the formation of User Groups, including proper orientation on the roles and responsibilities, formation of monitoring committees, tools for enhancing transparency, ownership, post-construction operation and commitment for operation and maintenance. • Engage The Institute of Chartered Accountants of Nepal (ICAN)/Accounting Standards Board/Auditing Standards Board to prepare accounting and auditing guidelines for VDCs/ Municipalities/ DDCs.
Longer Term	
• Change the secretary placement practices to keep them in the same VDC longer	• Place an accountant and a junior Technical Assistant (overseer) in each VDC (as core positions), and an engineer/senior overseer within a cluster of VDCs. Alternatively, make provisions for VDC and UCs to procure technical services from draw-down technicians from pre-approved roster. The DFs in consultation with the User Groups should appraise the performance of the technicians through client satisfaction techniques. • Upgrade civil servant status of VDC Secretaries. • Support ICAN to strengthen capacity and quality of RAs and increase the scope of audit by OAG to carry out final audit of VDCs and municipalities. Enhance capacity of OAG.

23.   Fiduciary risk also arises when targeting is not well done. Resources do not flow to the intended beneficiaries due to:
  i.   misunderstanding of the 30% DAG rule;
  ii.   the lack of well defined identification and tracking of beneficiaries;
  iii. inappropriate requests for people's participation, notably in the form of financial contributions.

24.   The tendency to favour well-off groups in part arises from the late disbursement - it is easier to deal with well prepared groups when time is pressing.   To counter this tendency, **the MTR team strongly supports the MLD intention to raise the 30% floor for Disadvantaged Groups (DAG)/Gender Equality and Social Inclusion (GESI) to 35% in the blended block guidelines applicable for 2011/2012, and recommends that further orientations and Information, Education, and Communication (IEC) activities seek to better explain the intent of the 30%/35% requirement.**

25.   Counting of beneficiaries has been problematic in the LGCDP. As it is important to know how <u>all projects</u> have benefitted the poor/marginalized, **the MTR team urges LGCDP to standardize its approach to beneficiary counting (including noting the proportion of the block grant that accrues to each group) and provide more guidance to the cluster and LB officials concerned on the proper approach to counting**.

Security risk effect on LGCDP implementation

26. Insecurity impairs implementation and feeds fiduciary risk. The situation is dire in some regions, particularly in the Terai areas.

Cluster and Aggregate Totals	Total VDC	VDC Secretary Positions Filled	VDC Secretary Positions Vacant	Secretaries providing services from own VDCs
Grand Total	3915	3180	735	1971
Total Terai Districts	1290	1107	183	490
Total Hills/Mountain Districts	2625	2073	552	1481

27. A set of policies is needed to blunt both insecurity and the fiduciary risk it aggravates. **The MTR team encourages the MLD to consider an assertive set of policies that will send a clear message to all local actors that safeguards are in place for VDC Secretaries**. Consideration could be given to the following measures in areas facing security risk:

- recruit VDC Secretaries that are from the locality;
- find ways of placing resources at VDC cluster level, as shared funds requiring more than one secretary signature to use;
- arrange for standard operational guidelines to facilitate office sharing arrangements among neighbouring VDCs to accommodate VDC Secretaries seeking a temporary secure operating site (it does not have to be the district headquarters);
- issue a code of conduct for Secretaries under threat that indicates to potential extortionists that there is little prospect for success;
- disseminate good practices to thwart extortionists, such as the community mobilization practices seen in Dhankuta.

Possibility of a Sector Wide Approach (SWAp) in decentralization/local governance (D/LG)

28. **The MTR team does not favour rushing into the planning of a SWAp, without considering some of the fundamental issues that need much discussion**. Hopefully these issues will be given some attention in the nearly concluded Scott-Wilson study. Some are offered below:

- Is the LGCDP the right platform to bring together all GoN and all DPs active in decentralization/local governance? (in general, and to discuss a SWAp)?
- Is the LGCDP already the desired SWAp, or is it just part of the SWAp? Are the three layers in the LGCDP already suited to a SWAp (i.e., Joint Financing Agreement, Joint Technical Assistance Agreement, aligned partners)?
- Where do other sectors (education, health etc.) fit in a D/LG SWAp? What level of policy coherence across sectors is required to provide a firm base for DP alignment of assistance given to the D/LG "sector" and the regular sectors?

- Where is the biggest payoff to SWAp like efforts? Is it at national level (how much more progress is realistic?) or local (e.g., LBFC policies for local on-budget aid and Donor Transparency Initiative)?
- What would be incremental steps worth considering in progressing toward a SWAp (e.g., code of conduct; seeking complementarity with pipeline programs like the World Bank Programme for Accountability in Nepal)?
- What is the payoff of working hard on a SWAp in the context of a shrinking role of the national level in the management of LBs? Would an anticipatory stance toward a complete, or large, state role toward LBs be more promising?

29.   **It is best for the MLD to place its energies in making the LGCDP work well, thus safeguarding the programmatic approach now in place.** In the future, there may be a larger payoff to coordinating DP assistance at local and state level.

Monitoring and evaluation and quality assurance in LGCDP/MLD

30. MLD has not produced proper annual reports showing progress against program outputs and outcomes, in part due to the unsatisfactory formulation of the requirements in the JFA. **In moving forward, the GoN/DPs should come to an agreement on what constitutes satisfactory progress reporting toward program outputs and outcomes.**

31. The baseline survey is just now being finalized but feedback from MLD/DPs suggests that while it is rich in coverage it is weak in some respects. It is clear that its structure and indicators are not strictly matched to the Monitoring and Evaluation (M&E) Framework. It will be necessary to **review how the M&E Framework matches with the baseline, with the intent to build on the relevant and robust parts of the baseline and the M&E Framework itself.** The result of this work will indicate whether a subsequent survey is required. If a survey is needed, it may be in a reduced form.

32. On a final note on the monitoring/evaluation issue, it should also be noted that the Asian Development Bank (ADB) has prepared its own design and monitoring framework (akin to the original logic model in the program document). Having a parallel monitoring system appears unnecessary in a program based approach like the LGCDP tries to be. **The MTR team suggests that the ADB design and monitoring framework be judiciously incorporated into the M&E Framework of LGCDP.**

33. It would be advisable to not start the end of program evaluation until the first trimester past the end of program (July 2012). **The MTR team suggests that the task of undertaking the second survey be rolled into a two-stage assignment that combines the survey with the end of program evaluation**. This approach would guarantee that the evaluation will be able to make good use of the survey results. The survey timing should therefore be pushed back to 2012.

34. **The MTR team recommends that the Quality Assurance Mechanism (QAM) conducted Annual Technical Reviews be discontinued for the last two years**. Sufficient assessment activity will be undertaken by employing the QAM more effectively and making use of other assessments efforts: public expenditure review, end of program evaluation, Local Governance and Accountability Facility (LGAF) funded reviews. The QAM should be used to

explore program performance in terms of key themes that bring risks or are vital to success. These themes may require a wide range of skills, indicating it may be best for QAM to undertake those that play to its strengths – and manage specialized researchers for the rest. Accordingly, **the tasks of QAM for the remaining two years should be to manage research and analytical efforts that address important program risks or opportunities, employing external resources where necessary.**   Recognizing that the reworking of its role may be provisional and incomplete in the remaining time of the program **it should be possible in the interim to clarify how QAM should operate in relation to its reporting and its access to DPF and NACS/National Advisory Committee (NAC) meetings**.

Environmental Safeguards

35. Progress has been made at district level in establishing an Environment Desk, and guidelines have been issued for environmental monitoring of field projects. The MTR team notes the MLD's desire to grow the Environment Management Section, including adding more advanced technical skills. In moving forward, **the MTR team suggests that the CCU be supported to better track the development of capabilities of the Environment Desk and the success of its specific grant.** This should be recognized as a kind of "pilot", particularly in relation to the relationships and division of labour struck with relevant district level line agencies. **The CCU should also make greater efforts to track UG and LB adherence to the environmental safeguards in project design and implementation**.

36. At the national level, the MTR team is concerned that the intended approach to strengthening MLD capabilities in this field may be counterproductive to the national effort to shift responsibility to the states and to rationalize the national support role.   **The MTR team encourages the MLD to explore how its environmental support to LBs fits within the anticipated national institutional configuration as the nation makes the transition to a federal structure**.

Program management

37. To some extent, the slow pace of demand side activities can be attributed to complexity, and the novelty of some concepts (the transformational aspect of SM and the semi-independent nature of the LGAF in particular). However, the missed opportunity to link the supply and demand sides in a timely way may also have to do with a lack of urgency, reflecting insufficient appreciation of the importance of the demand side of the LGCDP. As a general recommendation, **the MTR team encourages the MLD to "rediscover" the uniqueness and strength of the original LGCDP concept, and if again convinced of its merits, to redouble its efforts to execute the demand side activities of the program.**

38. In line with the NAC's request that the next plan reflect the requirements of paragraph 43 in the JFA, **the 2010-2011 and subsequent Annual Strategic Implementation Plans (ASIPs) should have a strategy related narrative**. To be more strategic means changing emphasis – doing more of some things and less of others, i.e., directing scarce management resources to core or vital activities. **Dropping activities that are not central to LGCDP or are of dubious value will lessen the management burden, and allow for a more intensive deployment of management efforts on key activities (e.g., lagging demand activities and reducing fiduciary risk).**

39. Fuller integration of the LGCDP into the MLD is desirable, but this needs some careful thinking as the program is already trying managing the changes entailed in refocusing – but *in the longer term the LGCDP should further explore integration possibilities.*

40. Communication between the MLD and DPs is improving, though not without glitches. Continuous effort is needed in this regard, particularly around the issue of fiduciary risk. *The MTR team encourages both sides to follow through on the commitment to trimester meetings on this topic. On the GoN side, a trust building measure would be to share the case management of discovered irregularities, indicating the incident, location, actors involved, investigative action, status of the investigation, sanctions applied and systemic changes made or underway to reduce risk.*

41. To support the refocusing of the LGCDP, DPs themselves will need to change the way they support the program. *DPs may need to reduce their role on some fronts, and try to support in a more strategic way.* DPs are also seen, particularly by government partners, to have numerous requests and expectations. *DPs need to be mindful of the burden placed on the government side by the accumulation of requests or expectations – these can distract from the core commitments, where performance is more important.*

42. It has been suggested that the DPs need a secretariat to organize their efforts. *The need for a secretariat to help the DPs play their part in the LGCDP needs to be further discussed among the DPs.* The MTR team does believe that the JFA partners should be supported by in-house expertise that will allow them to stay on top of the LGCDP issues and better support their government partners. This is particularly important for the JFA DP that takes on the chair role in the DP group. *The MTR team suggests that the chair of the DP group supporting the LGCDP should be able to draw on substantial in-house expertise in governance (especially local governance) and decentralization.*

Extension of the LGCDP

43. Several DPs need to make funding commitment decisions soon with respect to the LGCDP, in particular ADB (third tranche release), Danish International Development Agency (Danida), and further down the road the Canadian International Development Agency (CIDA). The response of the GoN to the MTR of LGCDP is a crucial consideration in making these decisions.

44. As the MTR team has conveyed to the LGCDP partners, the full impact of the demand side will not be felt until past the current end of program date. *As the findings and recommendations of the MTR team suggests, the program will ideally be continued past its current end point of July 2012, and be refocused to enable it to make accelerated progress toward its objectives.*

45. The above recommendation raises three important decision points, and the MTR team suggests considerations for each:

Decision	Key Dates	Decision Considerations
Commitment of DPs to funding for last two years of LGCDP	• November 2010 for GoN response to MTR • December 2010 NACS/NAC joint discussion/agreement	GoN and DP response to Mid-Term Review of LGCDP.
Extension of LGCDP for one year (2012/2013)	• QAM and other inputs by October 2011 • GoN proposal for extension by November 2011 • December 2011 NACS/NAC joint discussion/agreement on one year extension	Evidence to October 2011 of refocusing of LGCDP, with emphasis on: • accelerated demand side; • reduced fiduciary risk; • better monitoring and reporting; • strategic program management.
Extension of LGCDP for additional year (wind-down of DP role over that year) or Phase II (possibly 4 more years, with DP support)	• End of program evaluation conducted in September – October 2012 • December 2012 NACS/NAC joint discussion/agreement on further extension of one year or Phase II	Achievements of LGCDP in first four years, including consistency with refocusing effort, and: • Evidence of improving local demand and engagement; • Mitigation of fiduciary risk; • Adequate and timely reporting on program results; • Early indications of systemic improvement in inclusive/equitable services

Conclusion and summary of key recommendations

46.   The LGCDP was a timely response to the post-conflict scene in Nepal, and must be lauded for the way it brought DPs together in a programmatic effort in a field that was very fragmented.   Evidently the program was very ambitious, and it has not been possible to implement it as designed.   It seemed politically important at the time to proceed while the program was still being developed.   However, channelling more funds to the LBs without the checks and balances of the anticipated demand side and sufficient supply side capacity development has left the program in a highly vulnerable position.   Project quality is threatened and fiduciary risk is high.

47.   The LGCDP needs to refocus, shedding some activities while giving more attention to the demand side and reducing fiduciary risk.   The full impact of the demand side will not be felt until past the current end of program date.   Ideally, the program will be extended, but it must show fairly soon that it can realize the promise of its bold and unique design.

48.   The key recommendations embedded in the text of this report are summarized below in terms of their time frame and with the degree of urgency attached to them (key actions versus others).

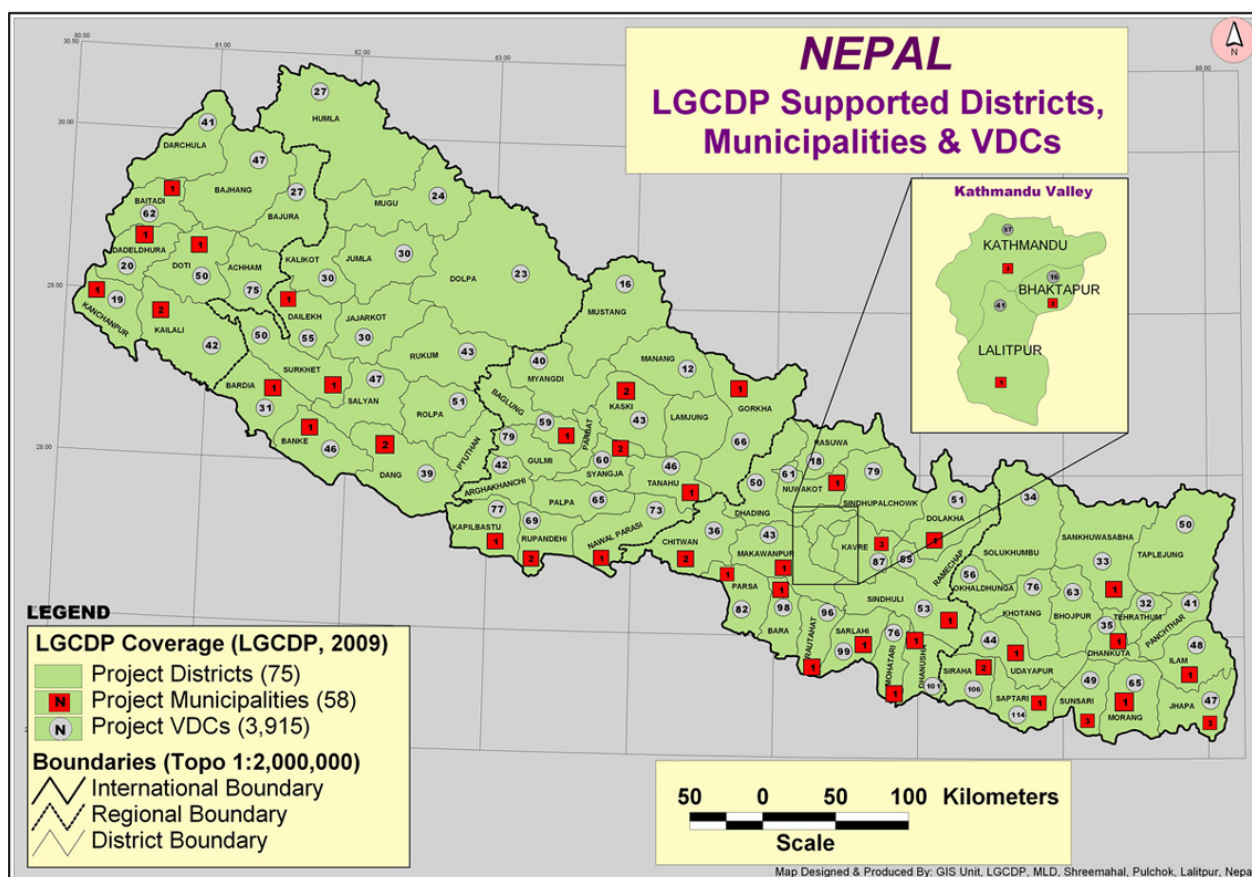| Time horizon	Key actions	Others
Actions achievable in the short term	• Commit to refocusing LGCDP as per MTR in the December 2010 NAC. • accelerate demand side roll out (SM/LGAF/IEC) • Shed, integrate, shift, or postpone lower priority activities (studies, pilots) • Finalize blended guidelines in rigorous way, noting MTR input • Agree on reporting improvements in LGCDP • Establish Compliance and Compilation sub-unit in MLD • Meet on trimester basis on fiduciary risk, and report on case management as per MTR suggestion	• Reorient QAM to thematic approach (e.g. SM). • Strategize how policy aims beyond MLD control can be achieved • Orient local actors to 35% rule/goal of LGCDP • Refine and integrate M&E Frameworks • Make annual plans and reporting more strategic • Keep working on partner communication
Actions achievable by end of program	• Recruit/deploy VDC Secretaries to mitigate security/fiduciary risk (local; cluster approach; slow rotation). • Add Accountant in each VDC • Add/buy technical staff at VDC level • Formalize APM, with co-signing authority • Bolster and demand more of CCU, analytically and in support to LBs	• Revise recruitment and deployment of DFs. • Orient VDCs/public to code of practice/safeguards to mitigate threats to LB officials • Undertake CD with attention to institutional issues • Strengthen Thematic Group on policy issues, especially regarding state restructuring • Redefine SWAp to highlight local level • Link longitudinal survey and final evaluation efforts
Actions with effort/implications beyond current end date of program	• Upgrade VDC Secretaries/LDOs • Undertake more comprehensive and process rich state restructuring study for LBs/MLD/states	• Examine expenditure pattern of TU grant and service delivery issues. • Support LB associations to revitalize through APM engagement • Explore how to better embed LGCDP or its elements into MLD

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Map of Program Locations in Nepal

List of Abbreviations and Acronyms

ADB	Asian Development Bank
ADDCN	Association of District Development Committees of Nepal
ASB	Accounting Standards Board
AUSB	Auditing Standards Board
CIDA	Canadian International Development Agency
CDG	Capacity Development Grant
CAC	Citizen Awareness Centre
CF	Citizen Forum
CCU	Cluster Coordination Unit
DAG	Disadvantaged Group
Danida	Danish International Development Agency
DIMC	Decentralization Implementation Monitoring Committee
D/LG	Decentralization/Local Governance
DDC	District Development Committee
DFDP	Decentralised Financing and Development Programme
DFID	Department for International Development
DP	Development Partner
DTO	District Technical Office
ECMR	Environmental Compliance Monitoring Reports
FCGO	Financial Comptroller General Office
GESI	Gender Equality and Social Inclusion
GoN	Government of Nepal
GTZ	Deutsche Gesellschaft fur Technische Zusammenarbeit
ICAN	The Institute of Chartered Accountants of Nepal
IEC	Information Education and Communication
JFA	Joint Financing Agreement
LBFC	Local Bodies Fiscal Commission
LBs	Local Bodies
LGAF	Local Governance and Accountability Facility
LGCDP	Local Governance and Community Development Programme
LSGA	Local Self Governance Act
MTR	Mid-Term Review
MC	Minimum Conditions
MoF	Ministry of Finance
MLD	Ministry of Local Development
MuAN	Municipal Association of Nepal
NAC	National Advisory Committee
NAVIN	National Association of VDCs in Nepal
NPC	National Planning Commission
NGO	Non Government Organisation
NORAD	The Norwegian Agency for Development Cooperation
NSP	National Service Provider
OAG	Office of the Auditor General of Nepal
PCU	Programme Coordination Unit

PD	Programme Document
PER	Public Expenditure Review
PFM	Project Funding Matrix
PM	Performance Measure
QAM	Quality Assurance Mechanism
RA	Registered Auditor
SMC	School Management Committee
SCG	Sector Conditional Grant
SM	Social Mobilization
SDC	Swiss Development Cooperation
TA	Technical Assistance
ToR	Terms of Reference
TU	Topping up (DP funded portion of block grant)
UC	User Committee
UG	User Group
UNCDF	United Nations Capital Development Fund
UNICEF	United Nations Children's Fund
UNFPA	United Nations Population Fund
UNDP	United Nations Development Programme
UNIFEM	United Nations Development Fund for Women
VDC	Village Development Committee

MAIN REPORT

Introduction

The LGCDP and the requirement for a Mid-Term Review

49.   The consultants were asked to undertake a review of the Local Governance and Community Development Programme. This mid-term review was supported by the MLD and the DPs involved in LGCDP. The LGCDP was declared effective by the government of Nepal in 2008 and is a national programme managed and implemented by the MLD. It is financed by the GoN (USD 260.8 m.) and its DPs (USD 161.5 m.). A Joint Financing Arrangement was reached on September 2009 with three development partner signatories, and this was later expanded to six.[2]

50.   LGCDP is contributing towards poverty reduction in Nepal through improved and more inclusive local governance and service delivery. The programme encompasses the following key activities:

    i.   community empowerment, participation and involvement in local governance processes;
    ii.   provision of expanded block grants to all tiers of the local government system in Nepal;
    iii.   capacity building of local governance and service delivery stakeholders;
    iv.   piloting and fine-tuning of local level service delivery mechanisms and processes;
    v.   establishment of a policy environment conducive to good local governance, community-led development and decentralized service delivery;
    vi.   development of national level capacities to support local governments and decentralized service delivery; and
    vii.   core administrative and logistical support.

51.   The importance of the LGCDP to Nepal must be understood in terms of the prevailing context and expectations. In the post-conflict period there is a great desire for equitable and rapid development. The national scale of LGCDP, its reach to all local bodies and accessibility to community groups, reflects the government's commitment to this end. Additionally, there is a commitment to respond financially to good performance of local bodies, and to provide the means for all local bodies to improve their performance.

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[2] ADB, Embassy of Denmark, and Embassy of Norway, Swiss Agency for Development and Cooperation (SDC), CIDA, and Department for International Development (DFID).

52.   The LGCDP is operating in a complex political context, where the state is seeking a more appropriate structure, down to subnational level, and where local bodies have not had elected members since 2002.   Even so, the program seeks to promote an inclusive approach to development through the local bodies and the social mobilization of communities.

53.   DPs are active in providing support through pooled funds (JFA), a Joint Technical Assistance Agreement (UN agencies) and aligned programs.   This DP cooperation is expected to lead towards a more developed SWAp in the future.

54.   The LGCDP has a built in agreement calling for quality assurance and evaluation. Specifically, the JFA stipulates that a mid-term review of LGCDP progress will be carried out with a scope of coverage as follows:

   (i)   degree of attainment of Program outcomes, including the continued applicability of the assumptions specified during Program design, and the need, if any, for redesign of the Program's logical framework;
   (ii)   use of Program funds; and
   (iii)   application of capacity development measures, including ways to improve implementation of LGCDP on the ground.

55.   The MTR team was guided in the review by specific Terms of Reference (ToR) prepared by all signatories to the JFA, and these contain a list of tasks that were clarified in the initial week of the assignment (see Appendix 1).   Coordination with the LGCDP QAM was built into the assignment, particularly on use of funds/fiduciary risk issues.   The MTR team reported formally to the Signatories as a whole.

Structure of Mid Term Review report

56.   The MTR report begins with an executive summary, capturing the main findings and recommendations. It then proceeds to the main report, following the structure below:

   Section 1: The LGCDP and the scope of the review— provides an overview of the LGCDP, in terms of its design, and establishes expectations/delimitations for the review.

   Section 2: The methodology of the review—explains the approach, driven by the terms of reference. The section explains the limited use made of the LGCDP M&E Framework, and outlines the roles within the MTR team.

   Section 3: LGCDP's political and development context—acknowledges the turbulent political and development context within which LGCDP operates, and suggests what this means for the way findings are viewed and success is assessed.

   Section 4: Findings on output level attainment—treats each output, indicating completion rate against planned activities and products. It captures management and substantive successes. Challenges of implementation are noted.

Section 5: Use of program funds— the spending patterns at project level are examined, and the fiduciary risks in the flow of block grant funds. Issues of financial and output/outcome reporting are also addressed.

Section 6: Progress toward program outcomes—based on achievements to date in terms of processes and outputs, judgements are made about the prospects for attaining the desired outcomes.

Section 7: Cross-Cutting Issues – special topics are addressed; monitoring and evaluation of the program and its local projects/activities, progress toward the SWAp, and the impact of local insecurity on program implementation, and environmental safeguards.

Section 8: Program management — leadership, coordination and management practices in LGCDP, and the possibility of greater integration of the LGCDP in the MLD.

Section 9: Conclusions and summary of recommendations – overall conclusions, possible extension of LGCDP, and a summary of recommendations that makes it easier to generate an action plan for LGCDP.

1. LGCDP and scope of the review

1.1. LGCDP results chain

57. The long term vision of the LGCDP is to bring improvements to the living standards of the people of Nepal through local democracy, good governance and inclusive local development. The goal of the programme is to:

> contribute towards poverty reduction through inclusive responsive and accountable local governance and participatory community-led development that will ensure increased involvement of women, Dalits, Adibasi Janajatis, Muslims, Madhesis, disadvantaged groups in the local governance process.

58. The purpose of the LGCDP is improved access to locally and inclusively prioritized public goods and services. The main strategies to achieve the objectives are to improve;

(i)   communities' decision rights and participation in local governance;
(ii)   availability of resources at the disposal of local governments;
(iii)   increased capacity of local governments and MLD; and
(iv)   improved institutional and policy framework for local governance.

59. Appendix 2 provides the Monitoring and Evaluation Framework adopted by LGCDP, indicating the outputs and outcomes being sought.

1.2. Expectations and delimitations/limitations of the Mid-Term Review

60. Because this review comes at the mid-point of the four year programme begun in July 2008, it is not realistic to judge the goal or purpose level impacts. It is possible to assess processes and outputs, and to determine if these are on track toward meeting outcomes. With two more years left, there is sufficient time for critical adjustments "to more effectively attain the outcomes" in the words of the ToRs for this review.

61. In view of the importance of the review in improving the implementation of LGCDP, the review was participatory, encompassing five occasions for presentation/discussion with DPs/MLD:

i.   September 9 on methodology – DPs;
ii.   September 9 – MLD (PCU/Output and Activity Managers);
iii.   September 28 – preliminary findings – DPs;
iv.   October 1 preliminary findings and recommendations – MLD and DPs;

v.   October 7 discussion of End of Mission (EoM) Report - DPs.

62.   As senior officials were travelled overseas in the first week of October, they could not participate in the EoM discussion. They were invited to provide comments on the report on their return to Nepal.

63.   The specific tasks outlined in the ToRs show the wide range of issues covered in the review, ranging from physical and financial/physical progress, to capacity development objectives, to overall programme outcomes. Some of these "specific" tasks are nonetheless formulated as rather general areas of inquiry. The MTR team fleshed out the ToRs in a matrix that listed the key informants and the specific issues that would be relevant for them. This matrix was explained in the first meeting with DPs, September 9. At this meeting the ToRs were also discussed and the MTR team indicated how, or to what extent, the ToRs could be fulfilled.

64.   The main delimitation explained at this early stage of the mission related to constraints on analysis in view of the weak reporting and unreliable data found in the LGCDP – a situation apprehended in the first week of the review. The MTR team also made clear in the initial meetings with MLD and the DPs that the M&E Framework was not sufficiently developed to be a key reference for the review. The review also gave more attention to the JFA contributions; the MTR team hopes that the basket funding and aligned programs (and how all three components interact) will be better highlighted in the SWAp study currently underway. In terms of institutions covered at national level, the MTR met with relevant institutions, but focused its analysis and recommendations on the MLD and the LB associations.

65.   In terms of limitations of this review, the MTR team points out that the observations/cases noted in field visits could not be used as a base for nationwide generalizations or projections. Rather, they are used as indications of potentially systemic challenges. In the case of fiduciary risk, documentation was perused on site, but not obtained; the review was not an audit or an investigation and thus the MTR team does not identify the specific localities/actors implicated in fiduciary risk (Bara is an exception as this district has been announced by the MLD as a case under investigation). The MTR team also points out that in places the analysis in the report is insufficient to lead to strong recommendations (e.g., management at outcome level, secretariat for development partners). Some issues are therefore simply raised and framed to give partners in LGCDP some direction in deliberating them further.

1.3.   Link to other programme performance assessments

66.   In accordance with the JFA, development partners established an independent mechanism for quality assurance (QAM) of the performance of the LGCDP.   The mechanism complements the regular monitoring carried out by MLD that is guided by GoN requirements.

67.   The MTR team made use of the regular reporting and findings from QAM, and this was particularly important on issues of LGCDP fiduciary risk assessment. A strong link with the QAM was achieved by placing a QAM staff member within the MTR team (Governance Expert Professor Dr. Prem Sharma). Several meetings were also held with QAM to discuss the previous technical review conducted by QAM, recent external/MLD fiduciary assessments, and views on the role of the QAM itself.

2. Methodology of the review

2.1.   Performance Measurement Framework of the LGCDP

68.   The development and refinement of an M&E Framework for LGCDP was undertaken in 2009, supplanting the general logical framework found in the Program Document. This effort was done in a participatory way with key stakeholders from the MLD, government agencies and DPs. Results statements were connected to indicators, and recommendations were made on the establishment of indicator baselines, targets, means of verification, the frequency of collection and the responsible person or unit for collecting the data (Appendix 2). The MTR team did use this framework as a general guide, but were not able to make the expected use of this framework for several reasons:

- The baseline for the LGCDP M&E Framework was only conducted in 2009, and the final report was not yet available.
- The M&E Framework indicators/targets were not completed (especially Output #2).
- LGCDP has yet to track the progress of the program against the M&E Framework.

2.2.   Methods of data collection and analysis

69.   The MTR team applied the following methods of data collection and analysis.

  i.   desk review of relevant documents (see Appendix 3);
 ii.   discussions with GoN, JFA and related DPs, LGCDP staff, and other stakeholders;
iii.   interviews with LGCDP user groups/contractors in selected program sites, and observation of facilities/activities;
 iv.   briefing and debriefing sessions with MLD/DPs to obtain feedback.

The key informants met in the course of the MTR are listed in Appendix 4. Project sites visited were:

- districts: Bara, Dhankuta, Kailali, Pyuthan;
- municipalities: Tulsipur, Dharan, Nepalgunj;
- VDCs; eight in visited districts or near visited municipalities;
- User Groups (about 10);
- Cluster Coordination Units; Pokhara, Nepalgunj, Biratnagar, Dhangadhi, Hetauda.

70.   The selection of project sites visited did not aim for a representative sample, though an effort was made to cover the main regions (the mountain region trip was foiled by flights that

would not depart for Jumla). The main intent was to obtain experiences of good, average and bad performing LBs and User Committees (of the User Groups), and to try to understand the dynamics associated with their performance.

2.3.   MTR team roles

71.   The MTR team consisted of a team leader (international) and three national consultants. Additionally, the Quality Assurance Mechanism group (staff of three) worked with the team on the fiduciary risk/use of funds issues. The M&E specialist in the PCU also supported the team closely. While a team approach was adopted, the emphasis for each core member is shown below:

> *Gabe Ferrazzi - Team leader:* service delivery/sector pilots, policy/national support, sector wide approach, national aspects of monitoring and evaluation/QAM, and program management.
> *Basu Dev Neupane - CD team member:* MC/PM assessment, CD support, planning and reporting documents, local aspects of monitoring and evaluation system, Local Service Providers (for CD for LB).
> *Arun Dhoj Adhikary - Governance team member:* community participation and social mobilization (including CD for these), Information, Education and Communication activities; Local Governance and Accountability Facility, security effect on program implementation (in general), Local Service Providers.
> *Nanda Kishor Sharma - Finance team member*: fiscal transfers, expenditures/variances, procurement process, compliance with norms/fiduciary risk (in conjunction with QAM/Finance Team of LGCDP/MLD); security impact on program (disbursements); use of funds for bulldozer roads.
> With assistance from
>   o QAM: *Finn Lauritsen, Dr. Prem Sharma, Krishna Neupane*
>   o PCU: particularly *Dr. Raghu Shrestha,* M&E Specialist

72.   The team leader retained the main responsibility for ensuring good planning and an effective implementation, taking the lead in the development of the methodology, and in the synthesis of the EoM report and the draft/final Mid Term Review report.

2.4.   General schedule of the Mid-Term Review

73.   The MTR team followed quite closely the initial schedule of the review, but made some changes to take into account the availability of key informants and logistical challenges. Appendix 5 provides the daily list of key activities undertaken, while the general schedule of activities and deliverables is shown below:

Field work begins in Nepal	Sept. 4
Methodology report	Sept. 9
Regional field work	Sept. 13-19; Sept. 21-26; Oct. 2-5
End of Mission report	October 7
Draft of Mid-Term Review report	October 25
Final Mid-Term Review report	November 8

3. LGCDP's political and development context

3.1.   The context of the LGCDP

74.   All development programs are conditioned by their context, but this reality is particularly felt in Nepal, and brings considerable consequences for a large and ambitious program like LGCDP. The political and development context for LGCDP makes itself felt in several ways.

75.   ***Expectations of a peace dividend in the face of rising inequality;*** while economic growth of around 4.5 % has reduced poverty over the last few years, the distribution of benefits in Nepal has been uneven, and the promised peace dividend has not been forthcoming for many, particularly disadvantaged groups (DAG). The Gini Coefficient has risen to an alarming figure of 0.47 (2004)[3] over the course of the last 15 years. Programs like LGCDP are expected to deliver the goods, to help stem inequality and make the case for peaceful coexistence among the diverse groups making up Nepal.

76.   ***Turbulent political leadership*** undermines the drive to consolidate peace and security. There is a widespread sentiment that the overall governance climate is dipping again after some hopeful signs at the conclusion of hostilities. The preoccupation with party politics in particular aggravates some governance ills, and denies the country of direction and a sense of progress. Violence and fund extortion flare up in the context of political campaigns and power struggles. VDC staff in particular feel threatened and are not afforded the protection from the state that would be needed for them to remain at their posts and serve the public as they should. This situation threatens to lessen the scope and impact of important LGCDP components.   It exacerbates fiduciary risk, arising from national level inaction, where a lack of discipline and supervision prevails in these turbulent times. It exacerbates fiduciary at the local level, where capacity gaps and lack of supervision from higher levels opens up vulnerabilities (about 80% of the LGCDP grants flow to the generally weak and poorly supervised VDCs).

77.   ***Administrative drifting*** resulting from the political turmoil prevents resolute action on pressing management problems. The lack of an agreed national budget limits the resources and scope for action of national government, particularly in being able to travel and hold events that could be supportive of good local governance.   The lack of political and administrative leadership is felt in management practices that have a narrow, and personalized, logic; such as the rotation of posts in less than the two year stipulated minimum. There is also a more chronic and widening gap between the demand for good governance and the production of an able and committed professional government cadre. The gap observed in the OAG in terms of staff and

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[3] ADB (2007). Inequality in Asia – Key Indicators.

stable leadership is one national indicator, but these large gaps are found at local level as well, for instance in the improper selection and preparation of district facilitators (within the LGCDP) or the lack of effective supervision over the LDOs, and the lack of facilitation of the All Party Mechanism.

78.   **Unfinished state restructuring**; this is a result of political gridlock and the complexity of imagining and negotiating a federal, democratic and inclusive state model.   This delay introduces uncertainty in the capacity development strategies of LGCDP, pertaining to both local and national levels.

79.   **Unelected local bodies** deny local bodies more legitimate political representation as the restoration of elected bodies is placed at the end of a chain of events that may take several years to unfold (new constitution, establishment of federal states, and subsequent national/state elections). The lack of elected bodies magnifies the challenge of ensuring accountability of local bodies to citizens – a key commitment of LGCDP.

80.   **Challenges in pursuing aid effectiveness**;   on the GoN side there is a growing assertiveness in taking the lead in DP supported development efforts, but this is not yet matched by the ability or commitment to manage efficiently and communicate adequately with DPs.[4] On the donor side, there is still a great range of views on how espoused aid effectiveness principles should be applied. The ever present disbursement pressure also inhibits commitments to donor coherence and thoughtful approaches. These factors combine to frustrate efforts to achieve greater sector wide coherence and reduced transaction costs for government. As the LGCDP was designed in part to unify approaches and administration of support in decentralization/local governance, these challenges could limit progress, with consequences at national and local level.

3.2.   Implications in reviewing LGCDP's progress

81.   The LGCDP inherited the spirit (and in cases staff and approaches) of several cherished donor supported initiatives. These legacies encumbered the LGCDP to some extent, but an effort was also made to view opportunities with fresh eyes, mindful of the political exigencies of the moment. The pressure to make the state present at the local level was greatly felt in the early days of the peace, after many years of strife. Getting money to local groups and local bodies figured highly in political calculations – a reality accepted by the DPs, many of whom would have liked a more thorough preparation for the LGCDP. Consequently, the DPs chose to place their hopes in large part on the demand side activities. As the appraisal team noted, much preparation was still needed in 2008 when the government formally launched the program, particularly on the demand side. This meant that "the ship was being built as it sailed." This greatly complicated implementation, and the MTR team is mindful of the extra burden this imposed on all partners and stakeholders.

82. The LGCDP has taken on the task of devising effective mechanisms for injecting participation and accountability mechanisms where elected officials do not exist – this presents an additional challenge not faced in many similar programs in other countries. The commitment

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[4] See the GoN-donor exchanges reported from the Nepal Portfolio Performance Review 2010, in Humangain Mukul and Prithvi Man Shrestha (2010). Donors Flay Politics in Work, *The Kathmandu Post*.

to coherence and quality on the demand side activities (particularly for DPs) reflects this concern for participation and accountability, but coherence and quality demand time to achieve.

83.   The LGCDP is also evolving as it recognizes the magnitude of the challenges it faces. The strengthening of the cluster offices in Social Mobilization (SM) backstopping for instance is an indication of the flexible response of the LGCDP in view of recent lessons learned (e.g., in GTZ's SM support in Pasra). There are more such challenges that have yet to receive an adequate program response, and will strain the capacity of the program. For instance, the lack of a VDC secretary – or the light presence of one that must share duties between two or more VDCs, may require LGCDP to aim for systemic changes and to make its guidance for citizen engagement with VDCs flexible, to encompass these situations.

84.   Following from the last point, the LGCDP must be seen to be a learning opportunity, where risk is being taken on a number of fronts. As one DP put it, if LGCDP was to be placed on a two by two risk-reward matrix, it would be situated in the High Risk-High Reward quadrant. It must be expected that some things will not go well. But those setbacks can also be learning occasions. And all actors stand to learn much from the successes. It can even be surmised that the LGCDP will, as it evolves, indicate how the learning is best achieved.

85.   The MTR team is also mindful of the early stage of implementation, in part reflecting the difficult context within which LGCDP operates. Some stakeholders wished to postpone the review, to give more time for the implementation to proceed, and that might have been sensible. On the other hand, provided the MTR team is careful to avoid being too definitive with assessments and conclusions, this could be the right time to conduct the review, giving more time for the adjustments that may be recommended.

4. Findings on output level attainment

4.1. Output 1: Communities and community organizations participate actively in local governance processes.

4.1.1. Community Participation in planning, implementation and oversight

86.   The program document sets out the intention to "establish institutional mechanisms through which communities and community organisations can participate in the local planning, implementation and oversight process." These were not spelled out in detail, and later studies and guidelines focused on the social mobilization of Community/User Groups, the preparation of Ward level citizen forums (CF), and the VDC level Citizen Awareness Centres (CAC). At the DDC level the Integrated Planning Coordination Committee was to be enlarged to accommodate a larger cross section of civil society.

87.   User Groups could be those long established or new ones. To date, the groups that have accessed the LGCDP top up grant have largely self-mobilized or have been facilitated by social mobilizers outside the LGCDP (some likely employing "transactional" forms of mobilization). LGCDP has provided some orientation and training on planning or capacity development to User Committees (UC) but it is not clear from what pool these were drawn from – those undertaking projects from the top up/GoN grants or the general pool.

88.   One of the cluster reports perused by the MTR team records User Groups established, but these seem to correspond to the number of projects undertaken, which could mean that all projects are undertaken by newly established User Groups. This may be an error in reporting – it would run counter to the inclusion principle to only be working with new groups. Other reports and direct observations suggest that existing groups are also receiving funds (e.g., School Management Committees).

89.   There have not yet been any efforts to support the ward level CF or the village level CAC. Support to the Integrated Planning Coordination Committee is also in early stages, largely undertaken by the District Officer. The guidelines for planning are still being prepared - they are being reworked by the Association of District Development Committees of Nepal (ADDCN) after the commissioned contractor offered a low quality product. The MTR team learned that there are some concerns at local level regarding the roles of existing actors (including previously established groups), and new groups and Social Mobilization efforts to come, and how they will interact in local forums (see Figure 1 for a map of the actors and interactions). The MTR team observed that VDC Secretaries felt marginalized with regard to LGCDP initiatives relating to social mobilization, integrated planning and the CAC. *It is necessary to bring VDC Secretaries*

on board in LGCDP initiatives, in accordance with the intent of the LSGA. While future orientation and training for LSPs, SMs and VDC Secretaries will undoubtedly address these concerns, *the MTR team urges LGCDP to pay particular attention to the coordination amongst CAC, VDC, and previously mobilized groups to develop a harmonious and mutually reinforcing partnership.*

Figure 1: SM actors/interactions

90. As Figure 1 shows, there is a potential weakness in the bottom-up planning process that will place a great strain on the Social Mobilizers to compensate for it – the lack of a formal political process at the ward level where proposals are inserted in the process by citizens and groups. If proposals miss this step, they are unlikely to enter at the even more remote village/municipal level. It will be challenging for the Social Mobilizers to facilitate communities and groups (and to form groups) to enter at this level and to facilitate some kind of consensus on prioritization at this level, through the actions of the local bodies officials designated to operate at this level, and the Citizen Forum. *The MTR team urges the LGCDP to make clear, in the SM and planning guidelines, how the poorest will be able to "get on board" and contest for resources through the ward level mechanisms.*

4.1.2. Social Mobilization

91.   This activity has suffered from a protracted preparation, in part due to the necessity to gain program convergence on the conceptual basis – the Transformational approach, as compared to "Transactional" social mobilization, the mainstay of previous efforts in Nepal. While the added care taken in the LGCDP to gain consensus (through the relevant thematic group in particular) has added quality to the concept and the guide, there will no doubt be challenges in translating the original intent into training packages and application with communities in the selected VDCs. There are some indications that the Nepali version of the guidelines are difficult to understand (see section Output 4, Capacity Development, for relevant recommendations).

92.   Some progress has been seen in the organizational side of this effort. DDCs have struck their District Social Mobilization Committee (DSMC) and 57 of 75 DDCs have selected their LSPs for social mobilization. The LSPs have in turn selected VDC based Social Mobilizers, who have been given 6 month contracts, beginning their work in the last quarter of 2009/2010.

93.   Where districts have not selected LSPs, this has been due to contenting views among the members of the All Party Mechanism (APM) regarding suitable LSPs. In the Terai districts, some LSPs were not contracted due to the obstructive influence of "forces seen and unseen." The late LSP contracting has in turn slowed the selection of Social Mobilizers. Even so, Social Mobilizers have been selected for 984 out of 1649 targeted VDCs. These VDCs are DAG 4/3

villages. In 2010/2011, the total VDCs reached should be 3000, with the final year seeing all VDCs (and half the wards of municipalities) with a Social Mobilizer in place.

94. The very recent selection of the national level service provider (NSP) for SM left the contracted LSPs and Social Mobilizers without direction. They have therefore focused only on preparatory activities, such as compiling a village profile and identifying local groups. That they are working at all in 2010/2011 is to be commended, given that they have not been paid in this fiscal year; the LGCDP work program was only approved by the Ministry of Finance (MoF)/National Planning Commission (NPC) in late September 2010 (and then only for recurrent expenses).

95. The inability to undertake actual mobilization activities on the ground has considerable implications for the LGCDP. As the SM guidelines state

> citizens at community and ward level need to be aware of local body planning processes and how resources are allocated so they can engage and voice their views in an appropriate way. Social mobilisation therefore synchronise with local body planning and implementation processes.[5]

96. Even with a concerted effort from this point on, it will take at least four months to properly orient LSPs/SM Facilitators, and a few more months before mobilization activities are at full speed. It will therefore be too late to catch the 2011/2012 planning cycle. The program may yet be able to catch the tail end for the current planning cycle, and after that it could join the planning cycle that pertains to the implementation year 2012/2013 (beyond the program duration as currently foreseen). It is unfortunate that this important pillar of the demand side of local governance has not yet complemented the supply side efforts (grants and capacity development of local bodies) which have gotten an earlier start.

97. *The SM and other demand side activities are crucial to the eventual success of the program and the MTR team urges the LGCDP to make these activities a priority. The MTR team suggests that the progress of SM be closely monitored by MLD/PCU in partnership with QAM. It might be prudent to take stock of the progress every trimester, carried out through intense field visits with the objective of identifying performance gaps and resource constraints so that these deficiencies are addressed early on to avoid further delays.* Its absence on the ground to this stage has some important consequences – these will be addressed in later sections.

4.2. Output 2: Increased capacity of citizens, communities and marginalized groups to assert their rights and hold local governments accountable

4.2.1. Information, Education and Communication

98. An Information, Education and Communication (IEC) strategy was devised by the program. This strategy aims to raise awareness among citizens of their roles, rights and responsibilities in the procedure and process of local governance. The IEC activities are expected to lead to Local

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[5] LGCDP (2010). Social Mobilization Guidelines, pg 10.

Bodies becoming more transparent and accountable to citizens. The strategy (or related guidelines) has yet to be disseminated widely.

99. An IEC Action Plan and Conceptual Design have been prepared, and IEC messages are currently being developed by a national service provider. The recent recruitment of an IEC expert in the PCU is giving activities greater impetus.   The messages to be developed for citizens will point out the existence of block grants going to LBs and how these can be accessed and utilized in keeping with local good governance practices.

100. For FY 2009/2010, a grant of Rs 100,000 was given to each DDC, to be spent on IEC activities. As the national messages had yet to be prepared, the DDCs were simply given guidance on the type of communication media they may use. In many cases, DDCs printed extracts or condensed versions of key guidelines, e. g., on the block grants. Some DDCs did employ more imaginative means; street drama, citizen charters and radio announcements.

101. District Information Centres and enhanced DDC web sites are also foreseen. But the DDC channel is not the only modality for IEC activities. Sensitization of the media, use of national and regional level newspaper and electronic media, and dissemination of the results of LGCDP are some of the activities to be rolled out in the future.

102. The MTR team believes that the effect of IEC activities to date is likely to be minimal. If the DDC modality for IEC is to be kept, the messages now being prepared at the national level would have to be effectively conveyed to them. **The DDC IEC activities need to be complemented soon with the larger scale efforts being contemplated. The messages need to be tailored to regional dynamics, such as those relating to security/fiduciary risks** (see for instance the policies recommended to mitigate security concerns in Section 7.1).

4.2.2. Local Governance and Accountability Facility

103. Much discussion was had among LGCDP partners on options for strengthening the demand side with a more "independent" arrangement, a discussion that continued after the preparation of the Program Document in July 2008. A tenuous agreement on the Local Governance and Accountability Facility emerged – a semi-independent body, combining on its National Committee members from government, DPs, Local Bodies associations and civil society.

104. The work plan of the LGAF has only been delineated in a general way, with the expectation that the implementing body would flesh out the approaches and tools. Unfortunately, it has taken a long time to procure the NSP, an effort that was only concluded on October 1/2010. A complication in the last few weeks of the procurement was how to ensure accountability of funds to the GoN – and a solution[6] was reached only after what seemed an unnecessary delay.

105. The overall delay in this effort, and the dynamics in the preparations as a whole, have led some DPs to wonder if the MLD's heart is truly in this effort. The signing of the contract with the NSP, who will now essentially act as a secretariat for the NC, should calm those concerns, but only a determined and unobstructed effort to roll out the LGAF at the cluster level and activate field level activities will provide clear evidence that there is commitment on all sides.

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[6] Placing a Financial Comptroller General Office (FCGO) accountant in the NSP staffed secretariat of the LGAF.

The MTR team suggests that while the LGAF rollout needs to be national, some initial geographic and thematic emphasis on regions facing elevated security and fiduciary risks should be considered.

4.3.   Output 3: Local governments gain access to greater fiscal resources in equitable and appropriate ways

106. Output 3 has seen the most intensive effort and results in the LGCDP, adhering generally to the schedule and approaches laid out in the Program Document (PD). Block grants (top up from donors and the GoN portion) have flowed in the two years of LGCDP. In the first year, there was rather little guidance accompanying the grants, and a wide range of spending practices ensued. The guidance was tightened in the second year of the program, with the Expanded Block Grant Guidelines. While somewhat weak in quality, these have been reviewed and strengthened for the third year of implementation (2010/2011 – these precede the TU grants for this year, as the grants have yet to be disbursed).

107. The PD called for a phasing of eligible districts, but all districts were eligible for grants from year 1. The roll out for VDCs has been in more in line with the PD, with phasing based on DAG designations. Municipalities have only received one grant, in 2009/2010 but all were eligible (it was to be phased over three years according to the PD). The amounts for all LBs over the first two years are shown in Box 1.

Box 1: Block Grant Summary

- Municipalities received 348 m. Rs. (2009/10) – 56 of 58 municipalities (disbursement data)
- DDCs received:
  - 635 m. Rs. (2008/2009) - 47 of 75 DDCs   (92% expended)
  - 850 m. Rs. (2009/2010) - 67 of 75 DDCs   (disbursement data)
- 2749 VDCs received 1,200 m. Rs. (2009/2010) (disbursement data)

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108. The guidelines have been prepared for the block grants. A key feature of these grants is their allocation – based on a transparent formula, and furthermore on performance in terms of financial management/governance processes of local bodies. This approach, spread nationally now through the LGCDP, is a significant achievement.

109. Minimum conditions have been applied to all VDCs that could be reached with the assessment. Both MC and performance measures[7] have been applied to DDCs and Municipalities. These assessments have been made in relation to practices employed in FY 2007/2008 and 2008/09 (influencing grants allocated in 2009/2010 and 2010/2011 respectively). Quality Assurance exercises for the MC/PM assessments were conducted in eight districts in 2010, to check the assessment pertaining to the operational year 2008/2009.

110. Much learning has been gained in the first two years of the block grants, and the LBFC staff working on this activity have gained confidence and skills in its management, supported by an international consultant. This consultant recently returned to assess progress and noted

> DDCs have improved performance in the intended areas; namely, planning and programming, public financial management, good governance, and transparency. There is a strong belief amongst all stakeholders ranging from central and local government politicians

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[7] The MCPM assessments was introduced and tested in 20 districts of Nepal on a plot basis beginning in 2005/6.

and officials, DPs and associations that the system has an overall positive impact despite the introduction in a challenging environment.[8]

111. The MTR team has not had the opportunity to delve deeply into the MC/PM results, but the above claim may be justified in many districts. The MTR team raises some questions about the depth of this progress and its implications for the LGCDP pursuit of equitable/inclusive service delivery (see Box 7), but there is no doubt that the MC/PM has been a positive development. As the media, and the MTR team's own observations bear out, the MC/PM scores are being discussed, and hotly debated at times, at the local level. Localities are comparing themselves to neighbours or good performers. They question with much insight what is depressing scores, how reasonable some indicators might be, and whether indicators reflect central or local performance. Whatever the limitations of the MC/PM, this ferment is healthy.

112. Challenges faced in the implementation of the MC/PM have been, principally:

a) initial loose guidance in the first year;
b) apparent lack of response to appeals from LBs (rectified in the second year); and
c) late announcement of the block grant allocations for each LB
d) uncertain value of the Quality Assurance mechanism

The last two remain unaddressed concerns. The late announcement has meant that the block grant funded projects had to be selected after the local planning process was concluded - in principle (the practice is hard to pin down) from lists of projects prioritized earlier. On the last item of the above list, the LBFC now has scaled down expectations by referring to the effort as a "Quality Audit," but this does not address the issue of "weaker" auditors assessing the original assessors (who have more experience and were attracted to the larger and prior tendered work). The QAM has floated the idea of undertaking the Quality Audit itself, but this could be just one of several options that the QAM could well explore. The QAM has other more pressing tasks that could absorb it fully.

113. Currently, blended guidelines are in preparation – a significant breakthrough that brings the grants in conformity with the stated intent of the PD. The guidelines will be valid for the 2011/2012 grant, and will ideally be disseminated and supported in the planning period that precedes the grant. The LB level accounting will no longer distinguish between the two sides of the grant, simplifying the work for LBs. Much

> **Box 2: Desirable aspects of guidelines - from field interviews**
>
> Top-up grant:
> - Hoarding board on project site (for substantial projects)
> - Project Book maintained by User Group (for substantial projects)
> - Monitoring Committee of User Group
> - Project Funding Matrix
> - Social Audit and Public Audit
> - GESI allocation of 30%
>
> Government grant:
> - Flexibility to use on operations and maintenance, new roads/gravelling, income-generation.

is at stake in the way the blended guidelines are fashioned as the top up and government block grants had quite different requirements. The MTR field work (see Box 2) suggests that **several features of the top-up grant are well received and should be maintained, while some**

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[8] Quoted from original report of the international consultant (Jesper Steffensen), in Project Coordination Unit (2010). <u>Output 3: local governments gain access to greater fiscal resources in equitable and appropriate ways</u> (obtained from the Project Manager, October 21).

features of the government grant are seen as more advantageous because they are less restrictive and should also be considered for the blended block guidelines.

114. The verbal explanation of the guidelines given to the MTR team (there is no translation yet) suggests that the blended guidelines will be somewhat more flexible than the top-up (TU) grant guidelines, but will retain some of the TU grant features that lend transparency and financial management discipline. They will also contain some "reforms" that would normally be promoted as significant policy changes, with resource implications (e.g., adding an accountant in each VDC). Whether the approval of Cabinet of the guidelines, with these changes, signals a true readiness to make the attendant investment is uncertain at this time. *The MLD should be ready to mount a lobbying effort to achieve the necessary policy changes contained in the guidelines and other related changes to stem fiduciary risk and improve project quality offered in this review*.

115. One of the shortcomings of the MC/PM initiative is that its findings do not seem to be well connected with either the supply or demand side of capacity development. The MTR team was struck by the geographic concentration of failed VDCs (that did not meet minimum conditions) – some districts had a very high rate. The CCU staff did not seem to have been digging into the causes (which may be caused by bad assessors, poor DDC support, missing VDC secretaries, APM that would not meet etc.), and more importantly, the CCU could not say if the DDCs and VDCs in question had a plan for succeeding in the following year. *The MTR team believes that the CCU can add extra value by being more analytical, and helping the DDC and VDCs to adjust their CD efforts to aim for greater success in the MC/PM assessments.* Other comments on the validity or value of the MCPM assessments are made in Section 5 "Use of program funds."

116. Other activities falling under Output 3 have been postponed, i.e., on LB own-source revenues, – for reasons of lack of capacity to undertake these at this time. One of the delayed studies is now underway (to identify sources of revenue mobilization) – its delay is attributed to a protracted procurement process.

4.4.   Output 4: Appropriate capacity building services passed on to all levels of the local government service delivery system

4.4.1. Capacity development for LBs and other stakeholders

117. The reporting on CD undertaken comes mainly from the CCU reports, and is only available for 2009/10. The reports do not properly differentiate between supply side training (uniform and conducted through national management) and demand side (determined as local needs and managed by the LBs) that would spring from the DDC/Municipal Capacity Development Plans. Moreover, the reporting does not track the training from the DDC CD grant that should be used to strengthen VDCs – this should use 70% of the CD fund.

118. Notwithstanding the above systemic weaknesses in the CD approach of LGCDP, the program has been able to support the preparation of CD plans in all 75 districts and 57 or 58

municipalities.[9]   A fairly wide range of predominantly training and orientation activities delivered to LBs are reported by the CCUs, suggesting that some demand driven activity has taken place. Generally a DDC/municipality organized 3-5 training activities in 2009/10.

119. Although there is not a complete reporting of supply versus demand side CD activities, the cluster reports do indicate that some supply activities have taken place. These are listed in Table 1, and were undertaken largely through the support of the CCUs.

Table 1: Supply side training delivered to Local Bodies

	Title of Orientation/Training
1	Procurement system
2	Block grant
3	Gender, equity and social inclusion
4	Orientation on LGCDP
5	Account and record keeping system of VDCs
7	VDC level planning and budgeting
8	Orientation on capacity development process of LBs
9	Social and environmental safeguard framework
10	Planning, implementation and monitoring of DDC/LGCDP
11	Orientation on social mobilization in LGCDP

120. Special capacity development funds were set aside to support Dalit and Janajati committees and DAG Community organizations. The MTR team learned that in some cases these were used for small capital projects, rather than CD. As the MTR team has been made aware that with the future blended guidelines the fragmented CD funding will end, this problem should disappear. The marginalized groups will simply make use of the general CD fund of the DDC, and the block grant – with its 35% provision, will go towards their capital investment/operations & maintenance needs.

121. Notwithstanding the future arrangement mentioned above, it is not clear how User Groups are to receive CD support. This could conceivably happen through the SM effort, or through the VDC portion of the CD funds flowing through the DDC. Because direct support to User Groups has been minimal, it is too early to say how these two, or other vehicles, will adequately address the needs of the User Groups in project management (see also section 5.6 on Readiness and accountability of User Groups in project implementation).

122. VDC supply driven activities included mobilizing 264 Registered Auditors in 60 districts to provide support for 952 VDCs. The training, several days in duration, was given to the VDC Secretaries. Trainer's Training was conducted in 54 districts, involving 802 participants who will in turn train VDC level actors in planning process, budgeting, and project implementation (but the latter training has yet to unfold). An important set of manuals relating to financial management for VDC level was under preparation at the time of this review. The MTR team

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[9] CD plans were also to be prepared in 150 VDCs & 58 Municipal wards on sample basis in 2009/2010, but no reporting against this piloting has been made.

notes that the Program Document placed considerable stress on enhancing the DDC's general ability to backstop the VDCs, across key governance/financial management processes. Specific training and manuals for the DDCs to be effective in this effort were anticipated. That this effort has yet to be mounted in a fulsome way has large implications for the quality of projects of the VDC/User Groups and for fiduciary risk.

123. Several of the training efforts, for all LBs, involved explaining several of the 21 guidelines produced under the LGCDP. Feedback to the MTR team, and to the Cluster and other MLD monitors, suggests that the guidelines were appreciated in some respects, but were of variable quality, and some came too late to assist in the processes they underpinned. In many cases, the guidelines were only accompanied by light and one-off training or orientations. There has not yet been an attempt to systematically note the degree of application of the training provided.

124. **Several measures will be needed for LGCDP to make its CD approach more robust**. For efforts directed to the LBs/User Groups and citizens, the MTR suggests the following efforts:

i.   closer involvement of target audiences and their collectivities (e.g., LB Associations) in the preparation of guidelines;
ii.   translation of some guidelines into local languages, and thorough testing of the effectiveness of the communication attempted in the guidelines;
iii.   combining guidelines where possible, to bring out a holistic view at LB/user level;
iv.   greater use of needs assessment information that is available, or updated needs assessments using robust methodologies;
v.   follow-up of training and other CD efforts to note their application and implications for further steps.

4.4.2.   The role and preparation of the District Facilitator

125. The crucial role of District Facilitator (DF) in CD has emerged as the program developed. This role is thinly sketched in the PD, which limits itself to establishing the temporary position as a "local hire" while ensuring that the qualification will be set by National Advisory Committee. The DF is responsible for DDC reporting to the CCU/PCU. S/he is also to "provide technical support wherever possible for designing and costing of infrastructure projects funded through LGCDP." The MTR team believes that the responsibility for reporting should be with the DDC office (LDO), lest the DF be used as a program officer, making it harder for the LGCDP to become integrated in the DDC. In some LBs, the DF is asked to act as a second engineer – essentially part of the District Technical Office (DTO), but this also should not be the role.

126. The Assistant District Facilitators (ADFs - 48 in number) and Assistant Municipal Facilitators (AMFs - 52) are even less integrated within the DDC and municipalities respectively. The AMF are a misnomer at this time, as they have no Municipal Facilitators to assist yet. For both ADFs and AMFs, the two year stint as volunteers makes their positions appear to be even more transitory and external to the local bodies than the DFs, who will last as long as the LGCDP lives perhaps.

127. By virtue of other tasks assigned to the DF, and the many organizational changes, training and other programmatic efforts of the LGCDP, the role of the DF has perforce become one of

facilitating change toward good governance practices.   This requires a seasoned and institutionally savvy CD professional. The PD asks that the NAC set the parameters for the LDO to recruit DFs, but the NAC does not seem to have done so, and the LGCDP Operating Manual has a job description, but no "Qualifications/Experience" guidance."   Whether for lack of guidance, or not adhering to guidance of the NAC (if this exists), the LDOs have recruited young, inexperienced and technically oriented (e.g., engineering) cadre that now feel unsuited to the challenge and are largely marginalized. The volunteer Assistant DFs and MFs are also on the fringes of the work they could potentially be doing. There is a high turnover of DFs as a result and poor utilization on the processes that are crucial to LGCDP success.

128. In part because of the unexploited potential of the DF role in change management, many of the new structures of LGCDP or previously established structures at local level exist only on paper or struggle to operate (e.g., monitoring committees of UG and DDCs/municipalities, Integrated Planning Coordination Committees). Getting these to work as intended will require program adjustment on a number of fronts. Part of the solution, according to the MTR team, is for **the NACS to provide LDOs with a framework for recruiting DFs, and to add CD specialists in the CCU to backstop DDC based DFs (and ADF/AMF), or supplant these entirely by responding directly from the CCU to demands from DDCs/municipalities.**

4.4.3. Institutionalization of Gender Equality and Social Inclusion (GESI)

129. In terms of project number and total number of beneficiaries, the LGCDP seems to have done well; 30% of total projects appear to be aimed at women and DAG, and the total number of beneficiaries from these two groups combined appears to be over 30%.   However, as explained in Section 5.4 of this report, it is not possible to say if 15% of the resources for women and 15% for DAG have been attained.

130. An ADB Governance Support Program[10] assessment of the implementation of the LGCDP GESI plan, conducted through a sample of districts and VDCs, shows that some plan targets are being met; the 33% percentage of women in user groups in particular. As some forums have yet to be established (Ward Citizen's Forum and Village Citizen's Forum) the targets relating to these have, understandably, yet to be realized. Women's participating at the District level is more visible, with the Gender Mainstreaming Coordination Committee being active, though it has yet to receive support from LGCDP.   Districts have received the Gender Equality budget audit guidelines, and some have received an orientation. However, the GESI assessment team notes that the guidelines are not followed consistently.

131. The GESI assessment team also notes that representation of disadvantaged groups on district coordination committees is being achieved, but meaningful participation at the VDC level is not yet evident. Moreover, the All Party Mechanism (presumably at both VDC and district level) appears to not respect the prioritization that has been previously attained in a participatory fashion.

132. In terms of LGCDP specific structures, the very important Social Mobilization effort is only partially complete, as noted earlier. It is not possible at this time to know if the target of 60%

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[10] The team consisted of the gender and social development consultant of ADB NRM and GESI expert of LGCDP/PCU.

for the percentage of women and DAG, as Social Mobilizers and LSPs, has been reached to this point. While numbers are also not available for DFs, it appears from direct observation that most are male, and have a background that is weak on GESI issues; according to the GESI assessment team, they would greatly benefit from the GESI sensitization training.

133. At the national level, the MLD established a GESI unit in 2008 under the General Administration Division. The section is headed by under secretary, and contains two section officers and two assistant level staff. The under secretary in charge of the unit also leads the GESI Thematic Group in the LGCDP. However, the unit's influence in integrating GESI for all sections of the MLD is limited. Most of the impetus in the LGCDP is presently coming from the LGCDP GESI expert, who is providing expert advice/inputs, and pursuing the integration of GESI in the LGCDP. The GESI unit needs to be strengthened for it to take the lead role, and to work beyond the program boundaries of the LGCDP, e.g., supporting LBs to be more inclusive in hiring practices. While the LGCDP is largely focused on women and ethnicity/caste, the GESI unit will need to interpret social inclusion to address other groups being excluded, such as the disabled or those of different gender identity.

134. As the GESI activities unfold (and these will at times be inextricably linked to SM and other LGCDP efforts), ***it will be important for LGCDP to track the GESI mainstreaming effort in terms of addressing discrimination and inequalities based on gender and social identities; women's participation in dialogues and actual decision making; and women's exercise of their rights, particularly their rights to productive resources such as water, land, credit, and labour***. Tracking of progress toward GESI targets could be accomplished through regular reporting, thematic explorations, LGAF designed activities, and the end of program evaluation (2012). The regular reporting could be facilitated by the GESI Officer position that is expected to be created at the CCU level.[11]

4.5.   Output 5: Local governments service delivery mechanisms and processes fine-tuned

4.5.1. Financial management support

135. A wide range of Public Expenditure Management and Public Financial Management systems and procedures (with an emphasis on DDCs and VDCs) were to be reviewed, updated, and embedded in training efforts the effect the changes made. Some of these reviews are underway, after some delay, but the preparation of related training is understandably in early stages or postponed. The MTR team is concerned that the pressures to push these efforts through in a reasonable time frame may be encouraging the MLD to use the most direct way to undertake the reviews and produce the manuals – through a procurement process that does not make room for the legitimate role of key institutions. For instance, the role of ICAN/AuSB/ASB in auditing and accounting guidelines and training is key to the eventual acceptance and sustainability of changes in this domain. Similarly, the role of LB associations should be factored into the effort in a more meaningful way. It should still be possible to enlist contractors in a tendering process while designating relationships of the contractor to key institutions that will have a bearing on the ultimate success of the new procedures. ***The MTR team encourages***

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[11] The possibility of this additional CCU based position was brought to the MTR team's attention in the UN Joint Program feedback on the draft report for this review.

LGCDP to develop procedures/guidelines and other products dealing with financial management by involving the relevant and legitimate institutional actors in appropriate roles. The use of LGCDP Thematic Groups in this area would seem to be key to ensuring institutional soundness.

4.5.2. Pilots in the LGCDP

136. The PD encouraged piloting, to gain experience that might be later scaled up. To gain the learning from pilots it called for, inter alia, "special implementation and monitoring arrangements" including "A small and dedicated field team, responsible for establishing, supporting and monitoring pilots."

137. The Social Protection Pilot is still under design, and its complexity has called for a national level task force combining key agencies, including the Ministry of Education and the NPC. This sets the pilot on a sound institutional base, though the MTR team notes that there are strong and opposite views on the appropriateness of this pilot in terms of design or fit with LGCDP.

138. The Sectoral Conditional Grant (SCG) pilot, on the other hand, shows no significant bridging to relevant Ministries as explicitly called for in the PD, and saw funds distributed preceding any guidelines. There was no clarity in what was to be learned and no plan for extracting the learning. No special team can be said to have guided this pilot in any sense foreseen in the PD. It is working in an environment that is not very conducive toward devolution, and the effort may be made more complicated by progress towards a federal system; where devolution would take place in a different modality than that being piloted.

139. A contracted party (Inlogos) is now examining the SCG results in the field. It was fielded late and missed the anticipated close cooperation on the ground with an international advisor who came in August 2010. A report is expected in several weeks' time, after the Inlogos team is gathered in Kathmandu to be given an explanation of the intent of the pilot – apparently in the current field work they were simply asked to gather data with no preparation regarding what the pilot was all about.

140. The Environment Desk created in the DDCs, and funded with Rs. 250,000 in 2009/2010 is also a kind of pilot (even if it covers all DDCs), in the sense that the dedicated funding is provisional and the desk/DDC's spending on environmental projects will need to be given a more permanent basis. However, it also lacks the kind of attention and learning mechanism that a pilot requires.

141. Pilots can be useful vehicles for learning, influencing policy, and supporting national programmatic changes that are too risky to proceed with otherwise. LGCDP should rightly be the incubator for such well designed and executed piloting. However, the LGCDP must discern which pilots are central to its mission, and which are draining attention from core activities as it tries to refocus and spur the lagging demand side. At this critical juncture in the LGCDP life cycle *the MTR team is concerned that the decisions to undertake "large" pilots may*

> **Box 3: Possible criteria for screening LGCDP pilots**
> - Can yield empirical findings that add value to core principles/expected results of LGCDP
> - Have appropriate institutional support or prospects for such support
> - Do not claim more management resources than the added value would justify at a time when the program needs to refocus on core activities.

overwhelm the PCU and distract the attention from core LGCDP activities , especially those that are lagging behind, i.e., Output 1, Output 2 and intensive CD at VDC level that are badly needed to increase quality and reduce fiduciary risk. Pilots may stand a better chance of adding value to the program if undertaken in the next phase (of LGCDP). The MTR team suggests that pilots be reviewed to decide it they should be continued, dropped, or dealt with outside of the LGCDP, and that this review be conducted quickly within the NACS and based on agreed criteria (such as those in Box 3).   This screening should also be applied ex-ante to the "DDC- Line Agencies coordination pilot" that was foreseen in the PD but has yet to be planned in detail, and to the Environment Desk/Grant that is not formally recognized as a pilot.

4.6.   Output 6: Policy framework for decentralization promoted a more enabling environment for effective, transparent and accountable local governance

142. The PD foresaw a number of review or policy development activities, placed under the themes of (paraphrased and removing some redundancy) "decentralization and sector devolution"; "decentralization SWAp"; "enabling environment for the "demand" side of local governance"; "improved staffing policies for local governments"; "national capacity development strategy for local governments"; and "evidence-based policy-making"; "feeding pilot learning into national policy".

143. Several of these have been conducted (e.g., CD Strategy), or are still in implementation stage (e.g., SWAp), or are just now being prepared (e.g., review of decentralization). A list of those planned in 2009/10, and 2010/2011, with available information on their status, is provided in Appendix 6. This list also picks out some learning/exploration activities from other output areas that are very related – all to show that considerable resources are being used for such activities, but that they are greatly overlapping. While the MTR team has not reviewed each activity/set of products, those that have been examined show that there are a number of potential difficulties to realizing the value that can come from these efforts, including:

- Lack of connection between the various activities; they are ill timed to work well together, and insufficient attempts are made to connect them.
- The activities are weighty if done well, but resources are inadequate to the tasks.
- For work already started, on occasion the contractors have bid very low – perhaps not comprehending the magnitude of the task, or perhaps responding to poorly framed tasks.
- The learning opportunities/studies are not sufficiently linked to the specific issues that LGCDP is struggling with in the field.
- There is too much attention to history, and an assumption that existing structures will persist whereas change will be discontinuous in the near future (e.g., sectoral devolution from central Line Ministries in the LGSA mode versus state restructuring as a new base for functional assignment).

144. Moreover, the studies are not well linked to policy development processes; they are not evidently hooked into forums, larger debates or decision-making bodies. Even for the LGCDP focused studies (e.g., the CDS), it is not possible for the MTR team to trace how the recommendations were received and processed into LGCDP policy and action.

145. It also appears that some TA outputs (ToR or products) are of rather low quality – perhaps due to a combination of factors. They may not be subjected to the same rigorous quality checks (e.g., thematic groups) as other products and/or they are affected by a weak procurement approach. In some instances, the difference between budgets and winning bids is enormous. The MTR team understands that some learning has taken place as a result of these procurement experiences, and that the procurement process is now based on a technical response to an announced budget ceiling. The latter approach seems preferable to past practices.

146. ***The MTR team acknowledges that many of the planned and implemented studies have relevance to LGCDP, but believes that some could be dropped, others integrated, and most need to be made more relevant to the specific challenges met in the field and the state restructuring challenges that lie ahead***.

4.7.   Output 7: Capacity of central government and national non-government institutions strengthened to provide appropriate support to local governments

147. The PD separates (perhaps rather artificially) the substantive policy oriented efforts of Output 6 from the specific efforts to support "GON local governance policy analysis and policy making functions", aimed at MLD, MoF, line ministries, NPC, Prime Minister's Office and other central government officials. Special attention is also given to the LBFC and the LB associations (ADDCN, MuAN, and NAVIN). In this output, the preparation of the National Capacity Development Strategy for Local Government is to be assisted, in the implementation stage – which strictly speaking belongs to the next step after "policy-making."

148. A crucial activity falling under Output 7 is the design and implementation of the "MLD LG performance monitoring and evaluation system." The activity aims to improve the quality and extent of MLD monitoring of LBs performance. Further activities are the mainstream of gender equality and social inclusion and child/youth inclusion in MLD activities; capacity building programme for decentralisation focal units of various line ministries; provision of CD support to FCGO, OAG and ICAN; and support for policy coordination and exposure (on sector devolution).

149. Some progress has been seen in some of the above activities. A GE/SI unit has been established in the MLD for instance. CD grants have been given to the LB associations, including some funds to find a more permanent building.

150. Overall, little progress can be seen in Output 7, and some linkages to key organizations have yet to be meaningfully constructed. There is too much reliance on CD for national institutions that is simply translated as "study tours", poorly organized to ensure learning and to extract benefits upon return of the participants.

151. The above approach to CD for MLD in particular is likely to have few returns on investment. The MLD finds it challenging to support local bodies and other local actors. This is due in part to a persistent mindset that favours remote central level control through numerous ad hoc directives and guidelines (sometimes not harmonized or of dubious value), rather than intensive and on-site facilitation and backstopping. At times it seems as if the

directives/guidelines are more of an attempt to show that the MLD has "taken care" of the problem – but the lack of consistent follow-up, such as determining the level of application, providing additional support, or identifying and sanctioning deviations from norms, reduces the value of this form of guidance, and undermines respect for central government rule making and support roles.

152. To be fair to the MLD, it has not yet structured itself to provide the support that is needed at local level. While the central government unduly intrudes by placing central level staff (LDO/VDC Secretary/Executive Officer, DTO Chief, LGCDP District Facilitator, FGCO Accountant) it does not have a meso level platform to bridge the gap between far flung regions and Kathmandu (see following section on the role of CCU in this regard).

153. Having painted a rather unsatisfactory picture for this output, there are some important glimmers of good practices, indicating that there may be some changing attitudes, and a greater responsiveness of some institutions to local actors. The MLD staff, and leadership of the LGCDP, are taking the opportunities presented by the CCU facilitation/training to gather views at regional level and to bring these back to the centre for discussion. The LBFC is more determined now to respond to all appeals on the MC/PM assessments – even objections to the downward scoring resulting from the Quality Assurance exercise. The Secretary of the MLD openly acknowledges that the avalanche of MLD guidelines has put a strain on local actors, and that there is a need for other kinds of support - policies that have an organization/system dimension (e.g., upgrading the VDC Secretary position, making the APM more accountable). These are encouraging signs.

4.8.   Output 8: Support provided for programme implementation

154. The MTR team found a well elaborated program structure on its arrival (see Box 4). Starting from the top, the National Advisory Committee, established early on, was found to be rather unwieldy and not suited to guide the many decisions that filtered up from thematic groups and other sources; hence the more frequently convened Sub-committee was struck in the second year of the program.

155. By the end of the first year, the PCU was fully staffed in terms of specialists (14). An international Process Management & Implementation Specialist was added in late 2009 to assist in planning, procurement management, and communications; this position has enabled the PCU to make small but important operational management improvements, and more are in the offing.

Box 4: Established LGCDP structures
• National Advisory Committees (NAC)
• NAC sub-committees (general, Technical Assistance)
• Thematic Groups
• PCU, with Output and Activity Managers and Specialists
• Thematic Groups
• Cluster Coordination Units (Coordinator, Monitoring and Reporting Officer, Program Associate, and soon SM Coordinator)
• Quality Assurance Mechanism (QAM)
• LGAF National Committee
• Donor Focal Point group

156. The five Cluster Coordination Units were established and lead by a Coordinator. It took some additional months for the full complement of program staff to join the CCU (the Monitoring Officer and Program Associate). In some CCUs, these were added near the end of FY 2009/2010. At least one Social Mobilization Coordinator has joined the CCU, and others are expected to do so before the end of October 2010.

157. The MTR team has noted the good staff placed in the CCU, and believes that it is possible to use the staff to their full potential by demanding more analytical work from them, and giving them greater authority to respond to regional/local challenges and to propose regional/local solutions to the PCU. The MLD also stands to gain much by using this platform to learn how to support LBs from the scale of a region, rather than from Kathmandu. ***The MTR team encourages the MLD and PCU to make the most of the CCU level, treating it as a "pilot" to learn what it means to support local governance from that vantage point, hence connecting the CCU pilot to the pending state restructuring.*** Box 5 provides some suggestions for a bolstered CCU (the MTR team has recently learned that the possibility of adding a GESI Officer has also been raised – this is in line with our stance).

Box 5: Ways of bolstering and maximizing the value of the CCU
- Expedite SM Coordinator
- Expedite LGAF Governance Officer placement
- Second MLD staff for periods of time to work alongside other CCU staff, and to familiarize MLD with vantage point of CCU
- Make the Monitoring Officer more analytical
- Consider expanding support in Capacity Development, Planning, and Accounting in this or next phase.
- Pilot with having more senior Facilitators placed as a shared resource (with some specialization) at CCU level rather than in DDCs.

158. In a subsequent phase of the program, the CCUs could be expanded, and greater MLD interaction with it could be organized. A study could be undertaken to explore the possibility of expanding the number of clusters if a new phase is undertaken, to better align with potential state structures – all within the LGCDP, to avoid politicizing the issue.

159. The MTR team also notes that the establishment of the LGAF National Committee has been achieved. This is comprised of representatives from the PCU, DPs, civil society, LB associations, and the relevant output managers. The national secretariat is about to be established, now that that the NSP has been contracted.

160. What is notably missing in the program is an adequate unit that could ensure timely and regular budget monitoring, preparation of reliable financial reports and comparison of program outputs with financial expenditures. Such a unit may best be placed within the MLD, rather than the PCU as it should be a permanent feature of the MLD, but in the short term it could focus on providing information to keep LGCDP on track and reduce fiduciary risk.

161. In summary, and leaving aside issues of strategic direction, the machinery of the project is fairly well established at the mid-point of the program, and this augurs well for a more intensive approach to implementation. However, the lack of a fully developed (or empowered) monitoring and reporting function leaves the program unable to properly track its performance.

4.9.   Overall view of program outputs attainment

162. According the LGCDP, USD 201.3 m. has been committed to the programme by the DPs participating in the Joint Financing Agreement. The MTR team tried to gather financial reporting data (which has been difficult to obtain for various reasons – see the use of funds section) but cannot give a detailed view of the status of activities and expenditures. However, sufficient information has been gathered to note that in terms of <u>activity</u> based progress, Output 3 is faring well, with Output 4 considerably behind, followed by the others farther back. As noted in the earlier output discussion, it is particularly evident that the "demand" side activities are lagging far behind the initial PD planning, as indicated in Table 2.

Table 2: Lagging demand side activities on the ground

	SM	LGAF	IEC	Demand CD
National	Guidelines available NSP recently contracted	LGAF National Committee struck NSP contracted October 2010	IEC messages being prepared	CD strategy
Cluster	SM Coordinator in place by October 2010	Not yet	No role	Involvement in supporting CD plans of LBs
LBs	DSMC in 75 districts Contracted LSPs in 57/75 LSPs have recruited SMers in 984 out of 1649 VDCs	Not yet	100,000 grant to DDCs; variety of media, mainly using materials from guidelines	CD plans and District CD Committees in 75 districts
Community	SMers have started to familiarize themselves with Communities/User Groups	Not yet	Not yet	Some orientation of user groups

163. A more meaningful assessment of the progress at output level is prevented by a lack of financial data on expenditures; lack of a finished M&E Framework (indicators are missing or tend to be related to activities rather than a reasonable proxy for the higher level achievement); a baseline survey that is only partially congruent with the M&E Framework indicators, was late in being implemented, and has not yet been followed up by a survey to note progress. This forces the MTR team to use its own judgement, and the team does so cognizant of the limitations of this approach.

164. It is also important to note, that if the intent of the M&E Framework is to capture overall progress, contributed by LGCDP and others, then one can posit that some progress toward the outputs has surely been achieved over the last two years. However, limiting the judgement to the LGCDP specific intervention, it has to be concluded that progress seen in Output 1 and Output 2 indicators (where progress is noted) it is not likely to be appreciably influenced by the LGCDP. Where some influence might be expected, the measurement is difficult to make at this stage. It is possible that the LGCDP block grants have lead to an increase in the number of DDCs that have conducted social or public audits – or that the orientations on planning have had some initial effect, but this is not knowable at this time. Therefore, from a conceptual position, the MTR team believes that the sparse ground presence of the demand side activities, as noted in Table 2, make it very unlikely that LGCDP has contributed significantly to Outputs 1 and 2.

165. Output 3 indicators of output achievement are restricted to inputs (grants disbursed) and assessments conducted. On this narrow basis, the output could be said to be achieved. But the output is worded not only in relation to accessing resources; it also expects LBs to do so equitably and appropriately. These qualifiers will require judgement, and a particular point of view – that may differ among stakeholders (or reviewers). The MTR team believes that the incentives do introduce the notion of equity (formula based granting) and merit (on MC/PM

scoring), but that it is debatable if it is equitable that the shortcomings of the LBs should result in reduced resources/services directed to citizens of those LBs. This debate echoes in other countries undertaking performance based granting, and demands a particular value position to resolve. Over time it may be that alternative forms of incentives and sanctions, aimed particularly at officials and elected members, can be developed. For now, it is appropriate to leave the judgement of Output 3 up for discussion in this respect.

166. Output 4 indicators combine inputs (funds for CD) and some outputs of CD processes (e.g., CD Plans, number of guidelines). On this basis, the performance of LGCDP has been good. But it is hard to know if the CD has been "appropriate," as stated in the wording of Output 4. The heavy reliance on training, one-off exercises, and the sheer number of guidelines (lacking in harmonization and proper timing) undermines the apparent achievement based on the figures alone.

167. Output 5 has barely gotten off the ground, in terms of the financial management interventions. Only the SCG has seen a full year of implementation, and its narrow coverage of 5 districts strongly suggests that its influence has been minimal to this point.

168. Output 6 indicators relate entirely to the production of study documents. On this basis, the output could be said to be partly achieved. But it would be going too far to conclude that the completed studies/drafts have significantly contributed to a more enabling environment for effective, transparent and accountable local governance. As mentioned in the relevant section, the studies tend to be isolated activities, with insufficient MLD and other stakeholder involvement – and no apparent pathways to influence policy.

169. Output 7 is also not accompanied by a good set of indicators, in this case to measure the increased capacity of government to provide appropriate support to LBs. But here the MTR team believes it has caught glimpses of some changing attitudes, and a greater willingness to see the local governance challenges from the point of view of local actors. The response is still sluggish and the style is little changed, but the MTR team would hazard that some movement has been made toward this output achievement. Sharpening the indicators for this output to be more sensitive to these changes would be helpful.

5. Use of program funds

5.1.   Overall use of program funds.

170. The use of program funds is difficult to ascertain with precision and reliability due to the financial planning and reporting weaknesses in LGCDP. This is not to say that there is great fiduciary risk throughout the program's flow of funds. The MTR team believes that most of the risk is found at the LB/project level (see following sections) – but this risk is high. The system wide weaknesses add additional risk and deny program managers a clear picture of expenditures against budgets. This in turn makes program correction and planning more difficult. This state of affairs also creates some uncertainty among JFA contributors. While their concern centres on program integrity and fiduciary risk, it is even difficult to ascertain whether the DP disbursements are accompanied by GoN contributions in the ratio committed to in the PD.

Table 3: Tentative financial progress of LGCDP

Output	Planned program budget Yr 1	Planned program budget Yr 2	Planned program budget first two years	Planned program budget	Budget/ Expenditure data for 2008/2009 *	Budget/ Expenditure data for 2009/2010 *
Output 1	$1,056,250	$2,976,250	$4,032,500	$17,054,263		$3,609,236
Output 2	$1,065,000	$2,645,000	$3,710,000	$8,700,000		$327,703
Output 3	$12,430,000	$27,835,000	$40,265,000	$121,045,000		$19,319,865
Output 4	$5,845,000	$7,272,500	$13,117,500	$26,372,500		$319,635
Output 5	$245,000	$1,110,000	$1,355,000	$2,435,000		$383,054
Output 6	$470,000	$420,000	$890,000	$1,495,000		$559,595
Output 7	$580,000	$575,000	$1,155,000	$1,990,000		$231,689
Output 8	$885,000	$590,000	$1,475,000	$2,325,000		$2,624,912
sub-total	$22,576,250	$43,423,750	$66,000,000	$181,416,763	$8,738,014	$27,375,689
Unallocated Budget	$2,500,000	$2,500,000	$5,000,000	$10,255,000		
Contingency	$1,248,563	$2,304,188	$3,552,751	$9,633,588		
GoN block grant	$65,200,000	$65,200,000	$130,400,000	$260,800,000	$143,110,000	$115,660,000
total	$91,524,813	$113,427,938	$204,952,751	$462,105,351	$151,848,014	$143,035,689
			DP block grant	$124,725,000		

* These are provisional expenditure data, or in cases budget figures; expenditure data has yet to be reconciled with FCGO data

171. Table 3 lacks detailed data for 2008/2009, and some data for 2009/2010 is budget rather than expenditure data. The latter remain to be reconciled against FCGO accounts. If there is any utility in such a summary, it is to indicate how important it is to improve the financial reporting of LGCDP. If it is to be trusted at all, the data points to probable under spending in

the non-block funding, compensated (or more than compensated) by accelerated spending on the block grant.

5.2.   Financial reporting and classifications

172. The financial reporting for LGCDP is generally late (the 2009/10 third trimester report was shared with the MTR team in late September). It is also not able to provide spending at LB/UG level for training, or the broader category of capacity development (both cut across outputs). Reporting for any outputs is difficult as disbursements are made on an output basis, but the reports are received and consolidated according to government budget heads. LBs (and MLD) record expenditures under recurrent and capital budget heads (each broken down into sub-heads; recurrent heads includes salary, allowance, fuel etc, and the capital heads include furniture, building construction etc.). Expenditure by function or program category (e.g., agriculture, road, drinking water, or capacity development) are not readily available at LB level. Likewise, MLD as a rule does not report based on LGCDP activity and output level. Hence, when these formats are needed, they need to be painfully constructed by selecting the right combination of recurrent and capital sub-budget heads.

173. Late reports are also due to incomplete and manual record keeping at LBs and the sheer amount of work involved when consolidation is attempted infrequently. That the LGCDP figures are dispersed between UNDP, FCGO and MLD/PCU also complicates the work of PCU in trying to provide a timely and complete picture. The UNDP TA related figures, based on a calendar year, makes the integration with government data, based on the mid-July start fiscal year, less than straightforward. Further complicating the integration is the idiosyncratic financial reporting of the UNDP, which has to be massaged and sifted to make sense to the external user. Eventually, when the various figures for the LGCDP are compiled and prepared on a kind of "activity/output basis," there is minimal budget versus actual analysis.

174. A further idiosyncrasy is seen in the categorization of Social Mobilization as a Capital Grant. It threatened to endanger the SM effort in recent months as the national budget has yet to be passed for FY 2010/2011 (only recurrent funds are flowing), impeding the spending for the capital classification. But the PCU reassured the MTR team that this item has been reclassified as a recurrent expenditure for the current fiscal year; funds should be flowing soon for SM.

175. In any case, the late approval of the LGCDP in this fiscal year (it only was approved in the last days of September) has meant that the District Officers and Social Mobilizers have not been paid for 2 ½ months; the MTR team learned that some (in the Hetauda region at least) have been advanced funds from the national recurrent budget, which was approved earlier in the fiscal year. The PCU and Cluster staff have not suffered from this delay as their pay comes from outside of the JFA (from the UN system).

176. The late disbursements seen in the program hamper implementation and give rise to poor practices (and fiduciary risk) that can be seen in part as a way to cope with the late disbursement (see section 5.4).   In 2009/10, authorization letters were sent on 2066/7/11 (October 28, 2009) and 2067/2/10 (May 24, 2010). In part due to the busy end of year period caused by the late disbursements, and thus unfinished projects, VDCs have submitted financial reports to DDC but their books of account were not closed by balancing the books/ledgers.

177. In moving forward, it is essential to improve financial reporting for LGCDP, but this should be done in a way that strengthens overall financial reporting from LBs to the MLD. *The MTR team suggests that an existing unit within MLD be given explicit responsibility to develop a Compliance and Compilation sub-unit with the authority to integrate and process data from LBs and other national government units/DPs.* This added capacity will be essential for the MLD to undertake timely and effective supervision of LBs, which is the basis for effective steering and support efforts.

5.3. Pattern of expenditures of the TU grant

178. It is important to understand the block grants' expenditure pattern.   However, the PCU/MLD did not compile this information for 2008/2009 and any summary for 2009/2010 may not be ready until the December annual report. For 2009/10, the MTR team has noted some specific LB data in the field visits, and has also been able to use the Cluster Offices reports to piece together the project tallies and an approximate picture of the magnitude of "sectoral" allocation from the TU funds.

179. The number of projects seen in 2009/2010 is shown in Table 4, for the various LB types. It should be evident from these numbers that it is an enormous challenge to ensure support and probity for all of these projects, particularly the over 9,000 projects at VDC/UG level. With the blended block grant, the scope of the reporting to the LGCDP partners will expand significantly, particularly if the requirements on minimum project size are dropped or eased (the GoN block grant does not have the stringent minimum value and number of projects in the TU grant, guidelines that appear to have been applied consistently).

Table 4: Projects by Local Body type and cluster region

Cluster Region	DDC	Munici pality	VDC	Total
Western (Pokhara CCU)	225	115	2,149	2,489
Mid Western (Nepalgunj CCU)	171	55	1,110	1,336
Far Western (Dhangadhi CCU)	162	57	1,377	1,596
Eastern (Biratnagar CCU)	155	62	1,555	1,772
Central (Hetauda CCU)	268	192	2,833	3,293
Total	756	481	9,024	10,261

180. At LB level, the data for 2009/2010 is clearly skewed, and it remains so at cluster and fully aggregated levels. The TU grant is used primarily for roads/culverts and education, while health is unexpectedly low (see Table 5). There are probably a number of reasons behind the pattern seen in Table 5. It may well persist, even in the blended block grant to come. The pattern probably has some connection to demand side dynamics; which groups are organized and ready to propose projects. It may also be due to grant restrictions (capital investment and project size minimums, for the topping-up grant) and the investment menu communicated to LBs. Moreover, in view of grant rules, spending strategies of decision-makers at LB level could also

be at work; in one village, all water projects were taken up in the topping up grant for instance, and the government grant was used for smaller projects in other sectors.

Table 5: Expenditure pattern of TU grant

	DDC*		Municipality**		VDC***	
	NRs. ('000)	%	NRs. ('000)	%	NRs. ('000)	%
Others	37,924	6.22%	10,051	3.86%	11731	2.24%
Irrigation	46,590	7.65%	16,437	6.31%	22064	4.22%
Economic Infrastructure	6,856	1.13%	-	0.00%	10973	2.10%
Electrification/Energy	22,369	3.67%	2,324	0.89%	49887	9.53%
Roads/Culverts	**255,787**	**41.98%**	**163,952**	**62.95%**	**151850**	**29.01%**
Environmental Conservation	21,132	3.47%	600	0.23%	1878	0.36%
Social Infrastructure	44,322	7.27%	3,291	1.26%	55535	10.61%
Education	98,538	16.17%	37,500	14.40%	113616	21.71%
Health	**24,876**	**4.08%**	**6,735**	**2.59%**	**30703**	**5.87%**
Water/sanitation	50,981	8.37%	19,552	7.51%	75216	14.37%
Total	**609,375**	100.00%	**260,442**	100.00%	**523,453**	100.00%

* Biratnagar missing; ** Biratnagar and Dhangadhi missing; *** Biratnagar, Nepalgunj and Dhangadhi missing

181. An understanding of the causes of the pattern will allow LGCDP to make adjustments as necessary to keep the pattern aligned with the aims of the program. For instance, the Program Document intended that the investment menu be "*reviewed and defined in order to ensure that the investments made by each tier of the LB system, are in accordance with the principles of subsidiary and the expenditure assignments across tiers of the LB systems.*" **The MTR team urges the LGCDP to embed in the upcoming Public Expenditure Review, QAM, or other assessment mechanism, a thorough review of the expenditure pattern of the block grant** in the context of overall LB expenditures, to determine if the block grant is supporting expenditure roles as envisaged in the LGSA and the PD.

5.4.   Fiduciary risk at Local Bodies/User Group level

182. The MTR team has ascertained some practices and gained some impressions from the field visits, where a determined effort was made to discover where fiduciary risk (broadly defined) is greatest. The MTR team also was able to gain the views of the DDC staff/DTO and APM in Bara, which has been the focus of much concern among MLD/DPs. All of the risks noted by the MTR team and reported in this section have been categorized to help in explaining what gives rise to them – and to give some direction for mitigating them.

183. While some risks depend on the character and skills of local actors, it should be evident that some of the categories (coping strategies for late disbursements, and poor understanding of the guidelines, and lack of security) have more to do with the actions (or inaction) of national level actors. The case of Bara shows that both levels need attention (see Box 6). In listing these risks, the MTR team does not distinguish the source of the block grant/funds that are

placed at risk, in view of the blending of the TU and government side block grants as of next year.

Box 6: Lessons from Bara DDC's misuse of funds

While this case is now being investigated by the MLD, the MTR team feels compelled to make some observations from information gathered from DDC officials on Oct. 3. Spending guidelines were not followed by the LDO, allowing funds that should have gone to VDCs to be diverted. The last installment of TU grants to VDCs for Rs.7.955 million could not be transferred to VDCs' accounts due to lack of funds; when the authorization letter reached the bank, there was negative bank balance (overdrawn) of Rs.33.025 million in the internal revenue account, due to the prior drawing of cheques without assessing the availability of funds. The accounting staff of the DDC appears to not have been vigilant. Hence funds are now in the hands of people who are not target groups for the LGCDP. Furthermore, transactions and accounting practices in the DDC are suspect. There were a number of payments made to a DDC staff (Program Officer); 16 cheques were issued for Rs.10.8 million within 7 days of the end of fiscal year in 2009/10 from 69-4-814 account - related to roads.

Against this background, it is hard to explain why the LDO in question appears to not have been called to account. What is clear is that the DDC is drifting – and continuing to engage in management (banking) practices that should raise eyebrows. There is a general feeling at local level that those responsible for the misuse of funds are not being firmly treated. The MTR team cannot comment on the validity of these views, but finds it worrisome that the MLD investigation effort has been anemic. In many countries, a Ministry appointed official or private sector administrator would have been put in place early on to sort out the misuse of funds and DDC paralysis. The supervision system of the MLD (and perhaps the legal framework) does not seem to support such firm corrective measures.

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1. Coping strategies for late disbursement
    a. Advances to UG or contractors
    b. Giving one large instalment to UGs, rather than several, based on completion of stipulated work (leads to risk of mismanagement and incomplete projects).
    c. Keeping funds at end of FY
    d. Pre-financing or incurring liabilities by UG or LB before project final approval
2. Poor understanding of guidelines/inappropriate guidelines
    a. Rerouting "frozen" funds from DTCO back to DDC's operational account
    b. VDC secretary awarding unaccountable grant to SMC (where no proposal, or reporting or scrutiny, is required)
    c. DDC supporting profit making cooperative
    d. DDC providing SCG directly to Red Cross
    e. Substituting labour for bulldozer – and covering tracks on documentation
    f. Fund release to VDCs only after accumulation of requests from many of them (instances of time gap of a month between request and release was noted)
3. Corruption (vulnerability was noted)
    a. Continuation of projects without clear planning and completion milestones
    b. Receiving grants for work done in the previous year (but not recorded; e.g., bulldozer use allowed extra road length that is not reported - could lead to abuse in the use of following year's nearly automatic allocations for continuing projects)
    c. Multiple sources of funding for same project (possible double funding)
    d. Abuse of DDC level co-signing authority with VDC Secretary (unofficial fee for signing possibly)
    e. Disbursement of security checks not matching with total figures reported
    f. FCGO accountant in DDC not alert to LDO misuse of funds

4. Lack of effective monitoring/accountability and support systems:
   a. Books of account not maintained properly by LBs, not updated in a timely manner and reports submitted to FCGO/MLD not matched with the underlying books of account.
   b. Delay in auditing and no follow up action plan for audit recommendations at all levels, including at MLD/PCU
   c. Under staffed internal audit department at DDC (in terms of quality and quantity, no monthly internal auditing, no report submission and auditing of VDCs at DDC).
   d. Insufficient support from RAs from DDC level to VDC
   e. Possibility of RAs providing support to also be auditing same VDC (even if not, lack of firewall between support and auditing functions can allow for lax auditing)
5. Payoffs to counter threats to safety
   a. Sister organization to political parties "asking" for donations
   b. Extortion by criminal elements (the MTR team received acknowledgment that some accommodation was reached)

184. Risk has been noted in all types of LBs, but given that VDCs account as the destination for over 80% of the grant funds flows (a proportion that is likely to increase in subsequent years) it is critical that the VDC/User Group level be given priority attention. In view of this fact, **_the MTR team confirms that validity of the LGCDP capacity development strategy - of prioritizing the village level where fiduciary and project risk is highest._** In this regard it should be noted that several stated or implied assumptions in the PD have not come to pass. VDCs did not have the capacity that would have warranted increasing grants without a great deal of prior CD and civil society scrutiny. And the back up support from DDCs foreseen in the PD (e.g., technical support from the DTO) has proven to be practically impossible in view of the vast number of VDCs and increasing number of projects.

185. Concrete measures to address the local level risks are laid out in Table 6. These are grouped as either measures that are largely under the control of the MLD, or those that entail engagement with other key national organizations. They are also divided, albeit in a rough way, between measures that can be taken on in the short term, versus those that may spill over into the next phase of the program (to achieve the policy or effect significant change that has to occur incrementally).

Table 6: Suggested measures to reduce fiduciary risk at local level

Largely under MLD control	Requires engagement with other national institutions
Short Term	
• Formalize the chair of APM and make the chair the co-signer of cheques with the VDC Secretary. • Ensure there is at least 5% of blended (capital) block funds available for VDC purchase of technical assistance. • Reorient VDC secretary to proper procedures and the new blended guidelines.	• Give priority attention to the quality of blended block grant guidelines as they contain some important measures/reforms (some of which may also be listed in this table): • translate drafts, and get DPs fully on board; • prepare supporting paper if necessary to justify the new blended guidelines; • discuss guidelines in December National Advisory Committee meeting to gain other stakeholders as allies in lobbying Cabinet – particularly the Ministry of Finance and Ministry of General Administration. • Do VDCs internal audits on trimester basis by DDC Internal Auditor

• Put in place a simplified spending tracking form for UCs, with simple budget heads for tracking typical small project expenditures. This form, and minutes of meetings, should be the essentials of the "project book".	and final audit with trained RAs within 3 months of the end of fiscal year. • Ensure that due process (social preparation) is followed in the formation of User Groups, including proper orientation on the roles and responsibilities, formation of monitoring committees, tools for enhancing transparency, ownership, post-construction operation and commitment for operation and maintenance. • Engage The Institute of Chartered Accountants of Nepal (ICAN)/Accounting Standards Board/Auditing Standards Board to prepare accounting and auditing guidelines for VDCs/ Municipalities/ DDCs.
Longer Term	
• Change the secretary placement practices to keep them in the same VDC longer	• Place an accountant and a junior Technical Assistant (overseer) in each VDC (as core positions), and an engineer/senior overseer within a cluster of VDCs. Alternatively, make provisions for VDC and UCs to procure technical services from draw-down technicians from pre-approved roster. The DFs in consultation with the User Groups should appraise the performance of the technicians through client satisfaction techniques. • Upgrade civil servant status of VDC Secretaries. • Support ICAN to strengthen capacity and quality of RAs and increase the scope of audit by OAG to carry out final audit of VDCs and municipalities. Enhance capacity of OAG.

186. There are also opportunities to reduce fiduciary risk at district and municipal level. For instance, it can be made mandatory that for moving funds over a given threshold, internal auditor must also become involved – in a kind of pre-audit. As well, the quality of the individual FCGO accountants placed in the DDC/Municipality can be increased (to avoid the ease with which funds were misused in Bara district). For the LGCDP particularly, having a capable senior accountant in the CCU to support LBs in adhering to procedures could also be helpful.

5.5.   The special case of bulldozer roads

187. The LGCDP favours the use of manual labour in infrastructure, to create employment and spread the benefits of infrastructure development, and to reduce the possibility of environmental damage. Presumably the latter comes from poorly executed projects relying on hurried and poorly conceived work undertaken with bulldozers.

188. The findings of the MTR team in the field indicates that bulldozers do substitute for labour in some projects, and that UG/VDCs seek to hide this fact in the records of the project. Moreover, the use of bulldozers allows the LBs to hide progress that is beyond that anticipated (had labour been used); this opens up the possibility of misuse of funds if a continuing project is submitted and approved for the work that has in fact already been accomplished.

189. In addressing this issue, the MTR team acknowledges the initial concerns that gave rise to this policy. However, it must be recognized that the chronic late disbursement in the LGCDP promotes the use of bulldozers, as it is more feasible to finish projects with this method than with labour, when under extreme time pressure. Achieving earlier announcements and disbursements is therefore important. Additionally, in moving forward*, the MTR suggests that in preparing the blended block grant guidelines, consideration be given to more nuanced*

guidelines on bulldozer use, rather than an outright prohibition. The guidelines should be developed with LB involvement, and may have the following features:

    i.   explain the preference for labour;
    ii.   indicate where bulldozer use may be appropriate, setting out clear criteria for appropriate use of bulldozers;
    iii.   stipulate clearly the environmental safeguards that must be fulfilled;
    iv.   require documentation of the decision-making, to be explicitly aided by the guidelines criteria.
    v.   monitoring, support, and sanctions for non-compliance

190. The prohibition approach has not been heeded, and there has not been significant or consistent monitoring and consequences for breaching the guidelines. The inconsistent follow-up further undermines what was already a guideline of dubious value.

191. The more flexible approach will hopefully encourage a more honest approach to project record keeping/accounting/reporting. This will give monitoring entities (e.g., DDC, CCU, MLD) the information to assess if decisions are being well made, and to fashion support where weaknesses are noted. Sanctions need to be consistently applied when the rules are broken despite adequate understanding/support having been provided.

5.6.   Readiness and accountability of User Groups in project implementation

192. The vast majority of LGCDP field projects are implemented through User Groups, in accordance with the guidelines of the LGCDP. On occasion, at the DDC level, use is made of private sector contractors or NGOs. The MTR did not have the opportunity to obtain specific data on the breakdown of these implementation modalities, but it would be useful for the PCU to track these in the future. It is also important to determine what mix is desired in the blended block grant guidelines to come.

193. The great reliance on UGs has consequences for the LGCDP. UGs have the opportunity to involve users who should be concerned with the operation and maintenance of infrastructure, increasing the chance of sustainable benefits flowing from the investment.   Benefits of employment can be spread throughout the community. The UGs can also increase scrutiny on the implementation and reporting. However, the membership and leadership of the UGs are not always well defined or stable.   Their readiness to handle technically challenging projects is highly variable, but generally low. Their record keeping and accounting practices tend to be weak in general. It is not possible for individual citizens and LBs (or the state in general) to apply significant sanctions on an errant UG. They cannot easily be brought to court, and the responsibility within the group is diffuse. It is worth noting that the three self-acknowledged leaders of one group met by the MTR team did not seem able to pry Rs. 60,000 from the members to pay lenders and meet the contribution pledges made by the entire group. As many groups are not in the business of implementing projects on an ongoing basis, it is difficult to develop interactive norms with LBs that would "discipline" the groups – as would be the case in an "iterative" context.

194. The above description indicates some of the limits of the UG implementation modality. The project quality and fiduciary risk they entail can be mitigated with better preparation of

these groups – the social preparation or "transactive" forms of support that have been noted in Nepal and elsewhere. This preparation can make the group more cohesive and better able to keep records and engage in practices that are about transparency and accountability (e.g., keeping a project book, preparing a public sign with basic project basic data, conducting a social audit). Recognizing the importance of this kind of support leads the MTR team to suggest three ways for the LGCDP to make the most of this modality and to move beyond it where necessary:

i.   The LGCDP approach to SM – deemed transformational – needs to explicitly acknowledge the useful practices in building group cohesion and management for effective project implementation that are part of the "social preparation" or "transactive" forms of SM. These must be reflected in the operational guidelines for the LSPs and the Social Mobilizers.

ii.   The 70% capacity development to be spent at VDC level in a demand orientation should be clearly explained as one of the vehicles that can be used to strengthen User Groups. The ward and village level citizen forums or other forums connecting to the VDC should be used to assess User Group needs and craft a VDC response to them.

iii. The blended block guidelines should more clearly open up and guide the opportunity for NGOs and the private sector to be used in project implementation where this is appropriate.

195. As a final comment on the above conclusions/suggestions, the greater use of NGOs and private contractors in project delivery promises to introduce more options for the LBs, a healthier competitive environment, and a more sensible division of labour between actors. It also can tap capacities at the local level that cannot be expected to inhere in User Groups. This is not to say that NGOs and the private sector do not have their own challenges, structurally or as they are operated in Nepal at this time. However, they tend to have more technical capability, financial management skills, and they can be taken to court more easily, and their interaction with LBs will more likely be "iterative," giving the LBs a way to encourage good practices if the NGOs/contractors are looking for repeat business.

5.7.   Other reviews of fiduciary risk

196. The MTR team has been brought up to date by the QAM on its review of fiduciary risk assessments; by LGCDP in the PD of July 2008, QAM's own analysis (in the context of the Annual Technical Review and as a response to the MLD report), ADB (2010) and MLD Special Team monitoring (2010). QAM's review expands the scope of what the MTR team could possibly examine in the limited time and information access available to it. While the MTR team does not comment on the QAM review (placed in Appendix 7) it does endorse its further use in combination with the MTR team's own findings in follow up work on fiduciary risk. It should be noted that the assessments reviewed by QAM extend to other parts of the system, whereas the MTR is more focused on local level risk, which it believes needs an urgent response.

197. With respect to follow up steps, the MTR team underlines that some are entirely within the control of LGCDP/MLD, while others will need careful interaction with other organizations. It is worth mentioning that the FCGO has conceded that it needs to make some improvements, but it is waiting for the MLD to make formal requests for changes, or for their roles in mitigating fiduciary risk to be clarified.

5.8.   Ad hoc decision-making in allocations

198. The MTR team is also concerned about the way important allocative decisions are being made in the LGCDP. The concern relates to several aspects:

i.   The financial reporting is not adequate to provide certainty to DPs regarding
   - the proportion of DP, versus GoN, funds applied in the LGCDP
   - the rate of funds use over time and its trajectory to the end of program, in comparison to initial commitments or expectations.
ii.   The recent proposal for a USD 27 million allocation for the delayed Social Mobilization activities.
iii.   The apparently unilateral decision of the GoN in early 2010 to shift additional funds (Rs. 91 million) from the recurrent category to the capital category- enhancing the TU grants to municipalities and DDCs for 2009/2010.

199. The first item is worrisome as the program heads into its third of four years; both partners need a proper fix of where they are in their expenditures as compared to original or subsequent commitments.

200. The MTR team was not given the proposal for the Social Mobilization during its field work, but was later able to obtain the proposal introduced by MLD in the NACS at the end of September 2010. The proposal puts forward the following items:

i.   Salaries for project coordinators in LSPs (USD 0.78 m.)
ii.   Community facilitators at VDC/ward level (USD 4.84 m.)
iii.   Increasing number of Citizen Awareness Centres in each village (USD 4.03 m.)
iv.   Village cadre and small infrastructure development (USD 13.43 m.)
v.   Increased budget for SM at VDC level (USD 4.48 m.)

201. The key concerns of the MTR team are that this proposal is not compared to initial projections, and that there is no discussion of how the proposal lines up with the SM strategy agreed in the first two years of the program. It appears that there are new elements embedded in this brief financial proposal, but their strategic import is not made explicit. Specifically, the MTR team believes that clarification would be helpful on several aspects of the proposal:

a)   Is the proposal advocating a more intensive approach to SM than anticipated, and for what reasons?
b)   Related to the above, what is the larger exit or sustainability strategy for the SM component in view of the proposed investment?
c)   Is the small infrastructure component to be off-budget in relation to LBs? and if so what are the considerations/advantages for having another/parallel delivery structure for small infrastructure?
d)   In view of the challenges seen in the existing block grant (internalization and application of guidelines) and pending changes in the grant delivery and guidelines, is it appropriate to add another fund that will need more guidelines and orientation?

202. The MTR team notes that a strategic analysis and discussion of the SM proposal has not been seen (e.g., in the Thematic Group, leading to a well presented strategic discussion at the NACS level). It is not clear to the MTR team if the SM strategy is to be a kind of "crash program" to accompany the enhanced block grants, or if the proposal is consistent with a model where SM (through the LBs or modified arrangement) becomes a permanent feature of local associational life. *The MTR team recommends a review of the Social Mobilization budget of the LGCDP that makes clear the strategy for this component, particularly in terms of the required intensity of interventions against the backdrop of eventual exit/sustainability considerations.*

203. Turning to the fund shift issues, the reallocated funds that became a "top-up to the top-up" were at least allocated according to the agreed formula. From the explanation received from the PCU, the original budget had been in error, allocating too much money to the recurrent category. It is hard to imagine how nearly USD 1.3 million could be wrongly allocated. Accepting this claim, it is nonetheless important that such solutions have the concurrence of the DPs. While the PCU staff believes this budget shift was discussed with DPs, it does not appear that the appropriate decision-making forum (NAC/NACS) was used; DPs have no recollection of this exchange in any case. As it turned out, the new "capital funds" were used for a wide range improvements, from TU top-ups (around Rs 70 million) to salaries and incentives for District Facilitators, and office equipment (about Rs. 20 million for these latter uses).

204. The allocative style depicted in this section suggests that the steering of the LGCDP is much too ad hoc, and lacking in rigour. Moreover, it appears that both the GoN and DPs are nearly "flying blind" on the overall use of funds/spending rate. And it must be added that to the extent that decisions are unilaterally made, this will undermine the spirit of partnership that LGCDP is trying to foster.

5.9.   Beneficiary targeting

205. Targeting is an important program policy, one that can even be subsumed under the concern for fiduciary risk; the money spent should benefit the intended beneficiaries. The LGCDP effort to apply DAG mapping is commendable, and the intent to revisit the methodology is sensible given that it was not initially designed to be the basis for allocations.[12] While it may have some weaknesses, the DAG mapping has allowed for an orderly roll out of the VDC block grant and Social Mobilizer placements, focusing first on DAG 4 and 3 communities.

206. When it comes to the allocation of the grant, the minimum of 30% has also been a useful condition. Furthermore, the future application of the transformational approach to SM is bound to amplify the voice of the poorest toward LBs and other service related entities.

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[12] It is appropriate to check if stakeholders are responding appropriately to the classifications. Allocation systems can at times encourage communities to lower their assessment scores/classification to attract more funds, an effect seen in the designation of poor village in Indonesia in the 1990s for instance. The DAG mapping indicators in use in Nepal draw from UNICEF supported work with MLD to harmonize and field test indicators from many other initiatives. A collective review of the methodology would be valuable as more resources are linked to the DAG categories. UNICEF has indicated it would welcome more discussion on the need for a review.

207. However, several factors impede the realization of the program's overall goal of "*poverty reduction through inclusive responsive and accountable local governance and participatory community-led development.*" These are, principally:

  iv.   Misunderstanding of the 30% DAG rule
  v.   The lack of well defined identification and tracking of beneficiaries
  vi.   Inappropriate requests for people's participation, notably in the form of financial contributions

208. The case of Dharan shows that municipality considers 30% of projects (or more) for DAG/GESI as having fulfilled its obligation toward the poorest. Several of its projects are obviously directed to better off groups/neighbourhoods, i.e., they are specifically for those neighbourhoods, with few indirect benefits to others in three of the four cases visited. Its reasoning:

  a) funding and guidelines were late – they were "forced" to direct funds to UGs that were "ready;"
  b) some UCs, though not the poorest, are well backed by members of the APM;
  c) the better off UGs can pre-finance the work and make it more likely that they will be done by fiscal year end, even if they receive the funds late.

209. While Dharan is a fairly well off municipality, and may therefore not be representative, there is evidence that there is little appreciation in LBs that ideally the entire block grant should be "pro-poor", with the 30% being a floor that makes room for projects that necessarily bring benefits to DAG/GESI target groups and better off groups. It appears that some LBs are seeing the 30% as a threshold they must get to before they can direct funds to projects as they see fit – in cases this appears to include targeting the better. **The MTR team strongly supports the MLD intention to raise the 30% floor for DAG/GESI to 35% in the blended block guidelines applicable for 2011/2012, and recommends that further orientations and IEC activities seek to better explain the intent of the 30/35% requirement.**

210. There may be an additional misunderstanding involved in the 30% rule. This should refer to the <u>proportion of the block grant</u> applied to DAG/GESI groups. It appears that at times this is misunderstood to refer to proportion of projects that must go to these groups. If that were so, then the danger of LBs allocating smaller projects for DAG/GESI and larger ones for the general (or well-off) population could appear. More clarity is therefore needed on the meaning of the 30/35% rule, and proper reporting. The MTR team noted that the beneficiaries recorded at the cluster level are not weighted by the resources that went to them. This could result in a very misleading picture. Moreover, the counting/estimation of beneficiaries has differed over time and probably between locations – the figures are far from reliable. As it is important to know how <u>all projects</u> have benefitted the poor/marginalized, **the MTR team urges LGCDP to standardize its approach to beneficiary counting (including noting the proportion of the block grant that accrues to each group) and provide more guidance to the cluster and LB officials concerned on the proper counting approach**.

6. Progress toward program outcomes

211. The three outcomes continue to be relevant, and their interplay is particularly important. Better resourced LBs are expected to be more responsive, in part because of the more vocal and well directed citizen demand on LB to deliver services and allow citizen participation in decision-making. National institutions support both the supply and demand side to provide an enabling environment for this local level engagement. This three pronged approach draws from the lessons in local governance learned from national and international experience.

212. Having made the case for the general architecture, the understanding of what outcome achievement entails and how it is measured (particularly for outcome 3) needs attention. With this caveat, some comments on the progress toward each outcome are given below.

6.1.   Outcome 1: Citizens and communities engage actively with local governments and hold them accountable

213. It is not possible or meaningful at this stage to try and roll up the specific outputs (discussed previously) to make a judgement of the achievement at the outcome level for this outcome. Most planned activities have yet to be rolled out to the local level. Also, the outcome indicators in the M&E Framework rely heavily on the baseline survey – which will only be repeated in 2011 (the MTR team suggests 2012).

214. However, it is important to point out that local level actors continue to lament the lack of elected officials. They point out that accountability is difficult in the current set-up, where local civil servants are mainly accountable to the central government in far away Kathmandu. The MTR team shares this general view, and has seen numerous examples of where the local leadership (the provisional All Party Mechanism and the executive side) have failed to act in ways that would be expected of local government led by elected officials. Moreover, this situation undermines the legitimacy of the LB associations, which continue to operate, but with an aging and increasingly depleted leadership of the governing boards that were in place in 2002.

215. While the Secretary of MLD hopes to promote early interim (3 year period) local elections, the view of many key informants is that this idea cannot be sold to some political parties at this time. It is essential then that the second best option put forward by the Secretary be promoted – to add compensatory mechanisms that increase the accountability of the APM to citizens. **The MTR team strongly endorses the MLD intent to make the APM more accountable, and the objective of raising the governing regulatory instrument to an Executive Order.** In this respect, the APM modifications suggested by the MTR team in the case of the VDCs (Table 6) should also be considered for the other LBs. In conjunction with the above change, **the MTR**

team encourages the LGCDP to provide a tailored orientation to the political parties at the district and central level on the importance and significance of LGCDP to local development, with demand side features being prominent.

216. In looking to the end of the program in 2012, there is some hope that the demand side will begin to make itself felt in the LGCDP, but the lack of elections will limit how accountable the LBs can be made. Efforts to make the APM more accountable are therefore important to the (partial) achievement of this outcome.

6.2.   Outcome 2: Increased capacity of Local Governments to manage resources and deliver basic services in an inclusive and equitable manner

217. In large part through the significant achievement mentioned for Output 3, Outcome 2 can also be deemed to be partially met. Some of the Outcome 2 indicators could well show some progress. At this stage, the reporting from LBFC is not complete. The data that has been shared shows a rather surprising picture (Table 7).

Table 7: Summary of MC achievements for all LBs over the two years assessed by LGCDP

Local Body	Assessed		MCs met		% met	
	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10
VDCs	3830	3626	3409	3356	89%	93%
Municipalities	58	56	58	53	97%	91%
DDCs	75	67	75	64	89%	85%

218. Only the VDCs show an improvement in meeting the minimum conditions; municipalities and DDCs declined in their performance - that determines the bulk of the block grant allocation. And if the much higher number of VDCs (289) that were not assessed at all in 2009/2010 are taken into account (VDCs that met are compared to total number of VDCs) then there is no real movement for VDCs. While it is not formally reported why the number of VDCs that have not been assessed has increased, it has been suggested by the cluster staff that the conflicts in the Terai areas are to blame (particularly in Mahotari, Sarlahi, Saptari).

219. On the PM side, the DDCs and municipalities have shown the progression shown in Table 8. These results are mixed, with municipalities improving, and DDCs falling back.

Table 8: Summary of PM achievements for DDCs and municipalities over last three years

Local Body	Assessment year 2007/2008	Assessment year 2008/2009	Assessment year 2009/2010
Municipalities	N/A	49	55.00
DDCs	55.65	66.12	62.11

220. Because of the lag in the assessment data (the assessment conducted in FY 2009/2010 related to data for 2008/09, and influences the grant for 2010/11) it is not worth putting too much stock on these numbers yet (except for the increase in VDCs not assessed!). But much attention should be paid to the next assessments, as they should measure improved

performance that directly results from the presence of LGCDP, and the multiple data points will give a clearer picture of the trend line.

221. It is not clear in the LGCDP, at this point, that better financial management and governance processes, spurred by the block grant MC/PM system, is resulting in equitable and inclusive service delivery (see also Box 7). Other factors can get in the way. For instance, the understanding of the 30% rule, and the wide range of per capita block grants across VDCs, raise questions about equity. Also, there is no measure in the MC/PM system for service results, requiring the use of the existing (and problematic) sectoral and MLD reporting systems.

Box 7: How valid are MC/PM scores?

The performance of an LB is surely reflected in some way in the MC/PM scoring – but the kind of performance it reflects is a matter for judgment – and debate. The most recent synthesis of performance based granting, presented in the Global Forum on Local Development "Pursuing the MDGs through Local Governments," held in Kampala, October 5-6, 2010, is positive on these schemes, but acknowledges that capacity development for governance does not always yield improved governance performance. When it posits a link between the MCPM governance processes and ultimate service delivery results, it qualifies this by noting that other tools and accountability mechanisms need to be in place to secure the linkage.[13] Evidence from other governance support efforts suggest that the link is far from automatic.[14]

Preliminary indications in Nepal also suggests a complex situation. The cases of Bara and Dharan are instructive. Bara has progressed in its MC/PM results, missing the MC on one occasion but meeting it recently and improving PM scores over the last three years (46, 55, 58). Yet, recently the DDC appears to have allowed the misuse of funds, and is practically dysfunctional in terms of its management and accounting practices. Shifting attention to Dharan, a relatively well off municipality, scoring 8th highest among 58 municipalities, its targeting of TU grants shows a technical concern for meeting guidelines, but a lack of commitment to the targeting intent of the program; Dharan clearly favours the better off communities in the municipality with the bulk of its TU grant expenditures.

These two cases are not likely representative of the LB universe, but they suggest that some attention needs to be paid to the improvement of MC/PM so that indicators are those that matter most for eventual "equitable and inclusive service delivery." This last point has been raised before in the LGCDP (and elsewhere) and has generated some debate – how far should the MCPM be oriented to service delivery results? It may not be worthwhile burdening the MC/PM with this expectation. But if the current financial management focus is maintained, other ways of determining the performance, and its drivers, of service delivery need to be found. This is what the MTR team means when it urges (see Section 8.6) integration or alignment of the MC/PM with the regular monitoring systems government uses to assess LB performance, including sectoral sub-systems.

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222. The converse may also be true, that poorly scoring (or even MC failing) LBs may actually be able to boast of significant achievement on governance and service delivery efforts – we have not probed enough to know.

223. The SCG pilot under this outcome (output 5) that was to make links to Line Agencies has not been well organized and executed.   On the whole, the LGCDP has yet to focus on key challenges of local service delivery. Funnelling additional funds through LBs to user groups is

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[13] Steffensen, Jesper (2009). International Experiences from Performance Based Grant Systems - Concept and Lessons Learned, prepared for UNCDF.

[14] For instance, Ferrazzi and Beuencamino note that the "high flyers" in governance performance (defined in similar ways to the MC/PM) in Mindanao scored poorly on actual service delivery results, even after more than five years of support; see Ferrazzi Gabriele and Grace Buencamino (2010). Local Governance Support Program of the Autonomous Region of Mindanao – Final Evaluation, conducted for CIDA, February 19.

one mechanism among several that can yield better and more inclusive/equitable services. But there are others (e.g. greater use of the private sector); these remain in the background of LGCDP. In particular, the role of the LBs in assuming full responsibility and a proactive stance in the provision of specific services (not necessarily the production), in accordance with the LGSA or the subsidiarity principle, needs attention.

224. The shift from the top-up restrictions on LBs to a blended guideline that would give LBs greater flexibility in addressing service delivery, allowing coverage of operation and maintenance in particular, is a healthy direction.

225. Unfortunately the anticipated menu for "investments" seems to not encourage LBs to assume responsibility for specific services, but rather allows them to "dabble" in overlapping range of projects. Some rules of thumb may be emerging (e.g., VDC takes on smaller and less complex projects) but these do not sufficiently enhance clarity and accountability for specific services. **The MTR team encourages the finalization of blended guidelines that will better enable LBs to address the provision of specific services in a more pro-active, holistic and accountable way. Moreover, the MTR team encourages LGCDP to take all opportunities in its current activities to move toward a more rationalized approach to service provision**. These opportunities will be found across outcome areas, and some are offered in Box 8.

> **Box 8: LGCDP opportunities to fine-tune service delivery responsibilities and accountability**
>
> - Clarity on the investment menu part of the blended block grant guidelines
> - Recording expenditures in a more fine grained way – in accordance with LGSA/service categories
> - If the SCG is continued, limit it to specific services consistent with LGSA/subsidiarity
> - SM guidance that informs citizens of which LB/LA to make claims towards for specific services (vs. shotgun or sequential "proposal" approach)
> - Design and deliver training related to revenue and expenditure assignment that is robust on this point
> - Cover service responsibility issues in CD plan preparation, under the institutional dimension.

226. Looking forward to the end of program in 2012, the MC/PM focused indicators for the outcome will likely show considerable achievement by program end. But there is only one indicator for actual services in the M&E Framework, and this is perception based, not an objective measure (responses on perception based indicators are often heavily tainted by cultural or other influences). There will continue to be uncertainty over outcome achievement unless sectoral data on service delivery is made the basis for the assessment.

6.3. Outcome 3: Strengthened policy and national institutional framework for devolution and local self-governance

6.3.1. Policy related products

227. There is a considerable gap between the activities under Outcome 3 (e.g., studies, guidelines, draft legal instruments, study tours) and the indicators that are used to track its achievement in the M&E Framework (e.g., # of women or Dalit in LBs, or % of LDOs that believe ADDCN is doing a better job). There may be some movement in the said indicators, but they are probably not going to be appreciably caused by the activities undertaken by LGCDP to the end of 2012.

228. Well conceived and implemented studies, guidelines and draft legal products can have a significant effect on policy if they are brought to fruition, and their production can be used as

vehicles for institutions to strengthen their policy development capabilities. Quality work on the activities now listed in the M&E Framework could make a contribution to Outcome 3, over a reasonable period of time (though suitable indicators would be needed to determine the effect). It may be worthwhile for LGCDP to aim for greater quality, in part by subjecting the activities under outputs 6 and 7 to the thematic group review process. The MTR team heard from MLD staff that the last thematic group meeting related to this outcome had been held four months previously. *It is important to enlist the assistance of an interested and capable Thematic Group for Outcome 3 products if these are to add value. The group should consider how studies add knowledge and solutions to the challenges faced in LGCDP implementation, and how they prepare MLD, local actors, and DPs to adjust to state restructuring that impinges on local governance.*

229. Additionally, the MLD must develop a robust policy development process, particularly for reforms that are not under its control. *The MTR team suggests that the MLD should develop a policy development approach that makes use of analytical and empirical evidence, and links this information to discussion forums, communication strategies and alliance building with the view to advocate reforms to decision-makers.* DPs can be helpful in this regard, providing examples of policy development processes from other countries.

6.3.2. DIMC and devolution support

230. The DIMC was able to hold a meeting last year, after laying dormant for many years. It was facilitated by LGCDP, though the role of the MLD/LGCDP appears rather limited in this regard. The DIMC has set in motion some task group activities, but seems listless, and LGCDP support beyond that initial meeting appears unclear. The relevant output manager could not provide an update on the status of the DIMC task groups.

231. In the current fractious governmental context, it is not realistic to think about a coherent policy on devolution, at least in terms of significant progress on the trajectory imagined in the past (the 2001 LSGA, 2002 Decentralization Implementation Plan or the 2007 proposal from the MLD on further sectoral devolution). Sectoral ministries think they have their own, and correct, approach to decentralization, and have not initiated any effort to harmonize sectoral legislation to be in line with the LSGA. They are "decentralizing" directly to community groups or para-statals, or engaging in self-designed pilots, all of these with no meaningful connection to the MLD/LGCDP.

232. *The MTR team believes that LGCDP should refocus its policy development efforts on the challenges uncovered in its own "field experiments," learning how it is truly advancing service delivery, identifying blockages and offering solutions to bring about accountable and inclusive service delivery that are in keeping with the future state restructuring.*

6.3.3. Local Bodies Associations

233. Following from the earlier comment on the stagnant governance of the LB associations, the "regenerational" connections of the associations to their LBs are made impossible by the lack of elections. These rather disembodied associations struggle on and seek to compensate by staying in touch with the local scene. Even so, the forcefulness with which they can make their

voices heard has been diminished, and the inability to muster their members for advocacy campaigns, including bringing them out in peaceful shows of force on the streets of Kathmandu, deeply undermines their effectiveness.

234. LGCDP has not been able to affect this slide in the voice and legitimacy of the LB associations. The support for CD efforts (strategic plans, CD plans) has been helpful. The potential new buildings could make the administrations more efficient. The involvement of the associations in the LGCDP decision-making has also been positive. The associations have made meaningful contributions to discussions or decision-making on the NAC/NACS, Thematic Groups and the LGAF. DPs in particular have welcomed their role in the LGCDP. All of these positive aspects pale before the threat of continued political neutering, particularly for the ADDCN.

235. It is telling that the Constitutional Assembly (CA), through one of its committees, may have "predetermined" the dissolution of the District Councils/DDCs, when in the spirit of federalism this option should probably have been left to the putative states. Even the meddlesome federal government of India has left the states to determine the number of levels of Panchayat if they are under a certain population level (2 million). The ADDCN has tried to reverse this decision, but in the present circumstance its efforts seem doomed. That leaves the LGCDP prospects for strengthening the ADDCN in jeopardy. NAVIN and MuAN are not under the same existential threat, but the likely impact of LGCDP support is also extremely limited in the absence of local level elections and the regeneration and voice they can provide to the associations.

236. While the LB associations are clinging to their 2002 boards, these are shrinking as members move on (are elected to national office, lose interest, die...). In time it will even be difficult to fulfill quorum requirements. If the MLD is to push hard for a more accountable APM, this should be seized by the LB associations as an opportunity to regenerate and regain some of their former clout. A mechanism for involving elements of the APM may not lend the LB associations the full legitimacy they cherish, but this has been slipping away in any case with the unchanging, disconnected and diminishing boards.

237. **The MTR team encourages the LGCDP (GoN and DPs) to engage the LB associations in a dialogue that can lead to more effective strategies to maintain legitimacy and voice** as it appears that Nepal will face several more years without local elections. This suggestion assumes that local elections will have to follow the long chain of: conclusion of a new constitution, restructuring to form the states, and then national and state elections.

6.3.4. MLD

238. The LGCDP effort to strengthen the MLD is fraught with challenges, in terms of organizational culture, incentives and the pending state restructuring. It appears that there is no roadmap for MLD to guide it to the kind of organization it needs to be in the transition and following restructuring. Lacking a vision for its future, it is not able to say what is good performance for itself, so it tends to focus on the performance of the LBs (e.g., MC/PM), forgetting that the success or shortcomings of the LBs also reflects on MLD itself. Making this link more explicit would help the MLD to build a road map and set benchmarks or indicators for MLD performance that are meaningful. It might be asked, for example, why the MLD does not measure its own success by the proportion of filled VDC Secretary posts or proportion of Secretaries working out of their VDC offices.

239. The MLD does think about its future, but in narrow terms. Some units wish to add staff, but appear to not consider how they relate to existing national organizations, and whether it makes sense to add capacity in the MLD – and if so, what kind of capacity. The MLD has expressed its intent to restructure very soon, but with the current "preparation" this initiative may be premature, as the effort is unlikely to be guided by a sound long term perspective.

240. The results of the MLD institutional study conducted by the firm Atos points to some useful issues that need to be further discussed. Perhaps the restructuring suggested in that study was also premature, but the reflection on the mandate of the MLD it called for was worth heeding. In particular, **the MTR team encourages the MLD to consider more deeply how LBs will be managed at the state level and to chart a transition course for the MLD that will be helpful in supporting the options put forward.** As has been mentioned earlier, the CCU "pilot" can make a modest contribution to this transition.   Regardless of the eventual details, to imagine the MLD, state managed LBs institutions, and LBs of the future, the MLD will need well designed inputs and processes.   If the opportunity is not properly seized, other national institutions will propose the details of what the state management of the LBs will look like, how the states and LBs will be supported, and how they will be made accountable to the national level.

6.4.   Assumptions in the LGCDP

241. As the MTR team was asked to comment on the LGCDP assumptions in the logical framework, the following can be said (see Table 9 below), against the backdrop of prior comments on outputs and outcome achievement:

Table 9: MTR team assessment of LGCDP assumptions

Assumption	MTR team Assessment of risk and risk management
Viable and stable interim local councils established.	This was not a reasonable assumption to make, if it is understood to have been the situation at the start of the program. It is more appropriate to see this as an objective, to be embedded explicitly within program interventions. For instance, the MTR team encourages LGCDP to give more attention to the All Party Mechanism, to make this a more tenable assumption.
Cultural and societal norms allows for social inclusiveness or gender sensitivity.	The MTR team would not agree that long established norms exist in what is still a caste based society with great disparities in material goods and access to decision-making. However, it notes an increasing receptivity to examine long standing norms and to adjust these to meet with new national and universal standards. The acceptance of the 30% GESI/DAG rule (to be 35% next year), even if too narrowly interpreted at times, shows that there is this growing acceptance - the LGCDP needs to do more to disseminate the spirit of this rule, thereby nudging societal norms toward inclusiveness and gender sensitivity.
Staff policy followed in local governments.	This assumption is too vague and generic to be useful in risk management. If understood to mean that government would give sufficient attention to the recruitment, motivation and guidance to key staff (e.g., VDC Secretaries and District Facilitators) then it would be very relevant.
GON priority on local governance continues with fiscal resources	This was a valid assumption, and it is borne out by the policies and efforts of the government. A test of this commitment will come in the decision to refocus the LGCDP and to extend it on the basis of performance indicators that show true

and donor funding.	commitment to meaningful governance improvements.
Development partners align themselves within a single framework of support for decentralisation.	This assumption was not framed in the best way possible. If it relates to a spirit of cooperation among DPs, then it is reasonable and relevant. If it relates to the Paris Declaration principle of alignment in a strict way, then it is not well borne out in the current context; there is no coherent decentralization policy around which DPs can align. The MTR team believes that it will not be coming anytime soon. Rather, it will likely be superseded by a state restructuring policy and implementation that will require substantial rethinking of what a SWAp means in the new federal system.

242. The above assessment does not imperil the basic design of the LGCDP. As stated at the start of Section 6, the three outcomes continue to be relevant, in terms of their broad features; how they are pursued (through activities and outputs) is another question, to which the MTR team gives considerable attention. Additional design features of the LGCDP (such as the programmatic approach) also continue to be relevant, even if they must be understood in light of current circumstances.

243. Notwithstanding some of the formulation weaknesses, most of the above assumptions continue to be relevant, in the sense that they draw attention to aspects of the program that are critical. They should not be understood as "given," but rather as important influencing factors that must in turn be influenced by the LGCDP. Normally, the rules for constructing logic models for projects/programs require that assumptions relate to influences beyond the reach of program interventions. But the scale and ambitions of the LGCDP places it in a special category in this regard. It can aspire to make the assumptions chosen in the program document more tenable.

7. Cross-cutting issues

7.1.   Security

244. Several dimensions of the degraded security in Nepal have had an impact on the first two years of LGCDP. The demands or threats to gain "donations" by sister organizations to parties or criminal elements jeopardize the budgets of local bodies. The crime situation and general threat of violence has also made some LB officials wary of staying in their posted communities, making more difficult for citizens to meet with the VDC Secretary and for the latter to conduct his work. Direct threats aiming to displace the VDC Secretaries have also been made. It may also be the case that the security threat is skewing projects somewhat though this would be hard to determine (the MTR team did note that in one village a sturdy school fence was deemed priority over an awful approach road to the school).

245. Because some LB officials warned the MTR team to be wary of "security" issues being used as a catch all excuse for poor performance, the MTR team sought to obtain an overall picture of the security threat, from various sources. The available evidence does suggest that in certain places, the persistence of disturbances does degrade the ability of LGCDP to operate. Sporadic outbursts of violence or threats appear on an almost monthly basis in Nepal, as captured in the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) updates. This organization has mapped the number of VDC secretaries not at their post in 2008 and 2009, showing a marked deterioration over the one year of tracking. Those regions showing the worst deterioration are the Eastern Mountain Hills, Western Mountain Hills, and Western Terai. More recently, the Terai districts appear to have seen some spikes.[15] The MTR team happened to visit VDC Sitapur, where cadres of an underground insurgency apparently abducted and murdered the VDC Secretary on January 26, 2010, for not going along with an attempt at extortion. The new VDC Secretary hinted that he had come to a compromise with those seeking a VDC contribution to their cause/treasury. The stakes are high, and resistance and compromise both have their price.

246. Unfortunately there is no OCHA mapping for 2010 to show if the worsening trend seen in 2008-2009 is continuing, and the monthly updates for 2010 are only partly helpful as they do not follow-up on previous updates to indicate where the situation has returned to normal.

247. To obtain a more recent and empirical overview, the MTR team opted for a sounding of the LGCDP staff; cluster monitors drawing from DFs at district level. The following summary was obtained, as shown in Table 10.

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[15] See OCHA report "NEPAL: Reports of Security Incidents, 1 January-28 February, 2010" available at http://www.un.org.np/maps/metadata.php?id=687

Table 10: VDC Secretary - Vacant positions and duty location

Cluster and Aggregate Totals	Total VDC	VDC Secretary Positions Filled	VDC Secretary Positions Vacant	Secretaries providing services from own VDCs
Grand Total	3915	3180	735	1971
Total Terai Districts	1290	1107	183	490
Total Hills/Mountain Districts	2625	2073	552	1481

248. These estimates paint a bleaker picture than most guesses heard by the MTR team. For instance, one LDO in the Terai area opined that about 1000 of the approximately 3,900 VDC secretaries are not at their post. The sounding through LGCDP suggests that only 50% of VDCs have Secretaries at their posts, with the rest of the VDCs having the position vacant or having Secretaries operating from elsewhere.

249. The number of positions thought to be vacant is also striking; 735 out of the total 3915 number of VDCs, or 19%. Predictably, the situation is more dire in the Terai districts, at least in terms of Secretaries operating from elsewhere. Only 490 VDCs out of 1290 Terai VDCs (i.e. 38%) are served by VDC secretaries residing in their respective VDCs. In the case of hills and mountain districts this percentage is 56% (regional/cluster variations are shown in Appendix 8).

Box 9: VDC Secretaries in Dhankuta district withstand threat

In July 2010, a letter from representatives of the Limbu provincial movement was sent to all VDC secretaries in Dhankuta demanding that they leave their posts. The VDC Secretaries resigned en masse and located themselves in the district capital. The DDC facilitated a meeting of the VDCs and key stakeholders (e.g., CDO, NGOs, political parties). Delegations from villages also came to the capital to show their support. The groundswell of support from all sides convinced the VDC secretaries to resume their posts, two weeks after the initial resignations.

250. The situation is not entirely bleak. In Dhankuta, 33 of 35 VDCs had full time secretaries at their posts. One vacant position was due to the central government shifting the individual to the tax department. Nearby secretaries covered the two vacant VDCs. Threats have been made against the VDC secretaries in Dhankuta district, but these were countered soon afterwards with a show of communal solidarity (see Box 9).

251. Insecurity is worrisome on its own, but it also feeds fiduciary risk. A set of policies is needed to blunt both threats. ***The MTR team encourages the MLD to consider an assertive set of policies that will send a clear message to all local actors that safeguards are in place for VDC Secretaries.*** Consideration could be given to the following measures in areas facing security risk:

- recruit VDC Secretaries that are from the locality;
- find ways of placing resources at VDC cluster level, as shared funds requiring more than one secretary signature to use;
- arrange for standard operational guidelines to facilitate office sharing arrangements among neighbouring VDCs to accommodate VDC Secretaries seeking a temporary secure operating site (it does not have to be the district HQs);

- issue a code of conduct for Secretaries under threat that indicates to potential extortionists that there is little prospect for success;
- disseminate good practices to thwart extortionists, such as the community mobilization practices seen in Dhankuta.

7.2.   The possibility of a SWAp in decentralization/local governance

252. The MTR team elicited various views on what constitutes a SWAp, and the extent to which the LGCDP is a SWAp or could move toward a SWAp. The discussions with key informants in the education and health ministries were helpful, to a point. They did indicate that the lead ministry has to have considerable capacity to manage the SWAp, and that it takes much time and learning to begin to get it right. But the specific lessons from these well structured sectors, with well developed services and ways of measuring performance, are probably not very transferrable to the decentralization/local governance (D/LG) sector.   Moreover, the reimbursement based approach seen in these sectors may not be easily reproduced in the D/LG sector.

253. A study on a SWAp in the D/LG sector has been commissioned by the LGCDP, awarded to Scott Wilson – Nepal in mid 2010. It is expected to be completed by the end of October 2010. The ToRs did not provide very clear direction, and the contracted firm has struggled to obtain this from the MLD. DPs were not aware of the study, until staff of Scott Wilson contacted them recently to seek their views. The researchers involved in the study are well placed to make a good contribution, despite the modest resources, time, and opportunities for interaction with MLD and other stakeholders. Among the researchers is a former Secretary of MLD, Mr. Ganga Awasthi, who led the effort to establish the LGCDP. Even so, a study can only be a starting point for the deep discussions that are necessary to set realistic goals for a SWAp in a challenging context, in terms of stances on aid effectiveness among GoN and DPs, and the pending state restructuring.

254. The study would do well to recognize that the MLD and DPs have come a long way already on the journey toward a SWAp, from the days when projects proliferated in uncoordinated fashion. The LGCDP is a three layered programmatic approach (Table 11), composed of the following relationships and members:

Table 11: Programmatic layers in the LGCDP

Joint Financing Agreement	Basket Funding TA Arrangement	Programme Alignment Arrangement
ADB, DFID, Danish Government, CIDA, Government of Norway, SDC	UNDP, UNCDF, UNICEF, UNFPA	GTZ, JICA, UNICEF, UNFPA

255. There is still some distance to go before getting to a more fulsome SWAp. Standing outside of the current LGCDP layered arrangements are some DPs who are within the LGCDP with some resources but also have parallel projects, aimed at LBs or "sectoral" stakeholders. Other DPs also stand entirely outside the LGCDP, principally the World Bank and USAID. India and China also are outside of the LGCDP, thought they provide support to local actors in Nepal. Little is known about the extent and modalities, though it is assumed that some aid is going

directly to beneficiaries, or to Local Bodies. Additionally, national NGOs and INGOs are active, many using funds obtained from governmental DPs. Their relationship to any level of government is ad hoc at best, a reality lamented by DDCs in a recent workshop on Donor Transparency Initiative.[16]

256. What might draw the current configuration of DPs tighter, and within the existing LGCDP orbits, would be a coherent whole of government policy on decentralization/local governance. This would need to take into account the current transition and the eventual restructuring of the state. Because of the special nature of this "sector," this policy would need to have MLD support as well as significant buy-in from MoF, NPC and key sectoral ministries. That is what makes a SWAp so difficult in this sector. It also explains why there has not been a true SWAp in this sector anywhere in the world. It is well to recognize that the main requirement for a SWAp is a reasonable <u>government</u> policy framework that can serve as the organizing principle to effect DPs alignment. This policy framework will not come easily in Nepal, particularly in this transition period, and the lack of it will frustrate any effort to growing the current "SWAp." This reality suggests to the MTR team that attention **might be better placed on some specific aspects of the GoN-DP relationship, without necessarily making a SWAp the immediate goal**. If the MLD and DPs nonetheless wish to use the LGCDP as a platform for exploring a more robust SWAp, the **MTR team suggests that some fundamental issues be discussed:**

- Is the LGCDP the right platform to bring together all GoN and all DPs active in decentralization/local governance? (in general, and to discuss a SWAp)?
- Is the LGCDP already the desired SWAp, or is it just part of the SWAp? Are the three layers in the LGCDP already suited to a SWAp (i.e., Joint Financing Agreement, Joint Technical Assistance Agreement, aligned partners)?
- Where do other sectors (education, health etc.) fit in a D/LG SWAp? What level of policy coherence across sectors is required to provide a firm base for DP alignment of assistance given to the D/LG "sector" and the regular sectors?
- Where is the biggest payoff to SWAp like efforts? Is it at national level (how much more progress is realistic?) or local (e.g., LBFC policies for local on-budget aid and Donor Transparency Initiative)?
- What would be incremental steps worth considering in progressing toward a SWAp (e.g., code of conduct; seeking complementarity with pipeline programs like the World Bank Programme for Accountability in Nepal)?
- What is the payoff of working hard on a SWAp in the context of a shrinking role of the national level in the management of LBs? Would an anticipatory stance toward a complete, or large, state role toward LBs be more promising?

257. **In summing up the SWAp opportunity, the MTR team believes it is best for the MLD to place its energies in making the LGCDP work well, thus safeguarding the programmatic approach now in place.** In the future, the effort to gain coordination and integration (on-budget/on-treasury) at the LB (and eventually state) level may have more payoff than an intensive effort to enlarge the LGCDP at national level. Efforts should be made to maintain the current level of programmatic effort, and opportunities to make incremental improvements should be seized, but much more progress can be made at local level, and this

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[16] Proceedings of the Donor Transparency Initiative for Aid Effectiveness Workshop, Bhairahawa, May 18, 2010.

effort will not be lost under any kind of state restructuring effort. For the local level, the LBFC has recently issued guidelines on DP coordination that need follow-up, and the Donor Transparency Initiative could also figure prominently.

7.3.   M&E system

7.3.1. JFA reporting requirements

258. Financial, output and outcome based reports are required to be submitted to the Signatories, as set out in the provisions and Annex 1 of the JFA; the Annual Consolidated Financial Report, Annual Consolidated Output-based Report and Annual Report on Outcomes are all scheduled to be produced by November. The MTR team could not make use of the 2008/2009 reports as these were not prepared. The MTR team is encouraged that the PCU intends to prepare a consolidated annual report for 2009/2010, even if this will come too late for this review effort.

259. The Trimester based Financial Management Reports are being prepared, but they are chronically late. The Third Semester Report for 2009/2010, which should have been produced by August 2010, was provided to the MTR team in the last week of September.

260. It must be stated however, that the JFA Annex 5 providing the format for the output based report merely lists activities (organized by program output) and updates on the status of the "outputs" in the generic sense of the term. What is asked for in the form is a record of physical and financial progress for each activity planned for the year, with a column allowing for brief comments on the problems met. It does not call for a summative judgement of progress toward each of the seven higher level "Program Outputs." Hence the Annual Consolidated Output-based Report is a misnomer. Furthermore, the JFA gives no understanding or guidance for the Annual Report on Outcomes (which should not have the same format, with activities just grouped under outcomes!).

261. That MLD has not produced proper annual reports showing progress against Program Outputs and Outcomes is in part due to the unsatisfactory formulation of the requirements in the JFA. However, that does not absolve the partners of the responsibility to report against the program outputs/outcomes, with an eye to the M&E Framework that has been prepared in 2009. The Process Management & Implementation Specialist in the PCU has suggested that a slightly elaborated form of the Trimester Report would be a significant improvement on the current reporting and planning. A column would be added to indicate what is the next step in view of the progress achieved in each activity; this would be essentially the plan for the following semester. This reporting modification and other ideas for improving the reporting system should be discussed soon, preferably in a NACS meeting. ***In moving forward, the GoN/DPs should come to an agreement on what constitutes satisfactory progress reporting toward Program Outputs and Outcomes.***

7.3.2. M&E Framework for LGCDP

262. The PD contains a Logical Framework and a Results Framework. These were reworked into an M&E Framework in 2009; somewhat late, but according to the PCU early enough to influence the preparation of the LGCDP baseline survey. The effort to establish a baseline is commendable

– it is too often a missed or perfunctory step that carries implications later when performance assessments are desired.

263. The baseline survey was contracted to a consulting group that made use of a university based statistics specialist. The group's draft report was prepared by mid 2010. Currently the PCU is receiving feedback from DPs and others on the report, and this will be finalized shortly. While the review of the draft baseline report is not yet completed, views from the PCU and DPs (and those of the MTR team) suggest that it is flawed in some important respects. The weaknesses are attributed to the selection of a bidder that barely met the technical requirements, but came in with a low financial bid to edge out stronger technical proposals that were accompanied by higher financial bids. As in the case of other Technical Assistance (TA) procurement that have followed this pattern, this has consequences for the level of expertise and level of effort that the winning firm can offer.

264. There is much that is of interest to LGCDP in the baseline study, which relied on a survey of households, COs, LBs, and MLD. However, its structure and indicators are not strictly matched to the M&E Framework, providing much more in some areas (interesting but not crucial to the M&E Framework), or addressing the general issues with different indicators. The baseline also reports findings in ways that shake the reader's confidence in the validity of the data collection, or the understanding of the researchers or the respondents on certain issues/questions. In some cases, the right information was probably collected, but the reporting is not appropriate (e.g., perceptions of what is "better" is not accompanied by neutral/negative responses).

265. It will be necessary to **review how the M&E Framework matches with the baseline, with the intent to build on the relevant and robust parts of the baseline and the M&E Framework itself.** The result of this work will indicate whether a subsequent survey is required. If a survey is needed, it may be in a reduced form. The PCU, aided by DPs, will need to:

   i.   extract from the baseline the indicators that are worth tracking (in longitudinal surveys);
   ii. assess whether the survey should be repeated at all, and if so in what reduced scope (e.g., what is the match with the framework and is it worth repeating for that overlap);
   iii. complete the M&E Framework with targets, or revise targets based on the baseline findings;
   iv. possibly drop some M&E Framework indicators that are not supported by the baseline or are problematic in other ways.

266. The MTR team has undertaken a quick review of the M&E Framework and baseline survey results to determine the match and illustrate the analysis required to complete the Framework. This preliminary analysis is provided in Appendix 9, as suggestions for the refinement process that is now underway.

267. It should also be noted that the ADB has prepared its own design and monitoring framework. It contains some indicators that are found in the original PD logic model, and which are no longer relevant in view of the detailed design of the program (these inappropriate indicators have rightly been excluded from the LGCDP M&E Framework). Having a parallel

monitoring system appears unnecessary in a program based approach like the LGCDP tries to be. *The MTR team suggests that the ADB design and monitoring framework be judiciously incorporated into the M&E Framework of LGCDP.*

7.3.3. Follow-up survey to baseline and final evaluation

268. In view of the rather late development of the baseline, and the methodological weaknesses of the survey, it is important to initiate planning for the next survey (to provide longitudinal comparison) as early as possible, but to push back the implementation of the survey to the last trimester in 2011/2012, to allow for maximum time between the two surveys.

269. The above suggestion assume that the program will be extended by at least one year. The survey results would then be available right at the end of the 3rd trimester of the fourth year of the program. It would be advisable to not start the end of program evaluation until the first trimester past the end of program (July 2012). *The MTR team suggests that the task of undertaking the second survey be rolled into a two stage assignment that combines the survey with the end of program evaluation*. The commissioned firm would have the chance of refining the second survey methodology. This approach would guarantee that the evaluation will be able to make good use of the survey results. A combination of international and national consultants may be the best arrangement for the combined work.

7.3.4. LGCDP Quality Assurance Mechanism

270. Section X of the JFA calls on the DPs to establish an independent mechanism for quality assurance of the performance of the LGCDP, as an addition to the monitoring carried out by the MLD. The QAM was to prepare an Annual Technical Review (ATR) and carry out the Mid-Term Review, procuring consultants as needed.

271. The QAM was established rather late (January 2010), and was staffed by a Senior Technical Expert and two national experts. This team undertook the ATR in-house, a substantial piece of work. The scope of the ATR was quite broad, though the general issues of fiduciary risk was prominent. Subsequently, QAM was asked to continue to focus on fiduciary risk assessment, and has been working to summarize recent ADB and MLD studies, in part to assist this review to be more complete in reviewing "use of funds." Additionally, QAM is developing a ToR for a Public Expenditure Review exercise. This will be focused on the block grant (GoN and DP) and focus on fund flows at local levels, including the user group level. QAM has also been involved in the MTR field work.

272. While the QAM was initiated by the DPs, the issues addressed by the QAM have equal relevance to the GoN, and QAM was to report to all signatories of the JFA (which includes government). Yet the perception in the PCU is that QAM is serving the DPs; the focus on fiduciary risk accentuates that perception. It was expected to assist the PCU to develop the "Monitoring and Evaluation Framework," but this has not been pursued vigorously. MLD voices also add that the ATR, because of its breadth, did not provide information that was appreciably new to the PCU.

273. Several other considerations need to be weighed in continuing the work of QAM:

i.   DPs have mixed views on the value of the reporting done to date by QAM
ii.   The Mid-Term Review is being conducted separately from QAM – at variance with the JFA provisions.
iii.   Framing the Annual Technical Review as an exercise that seeks to assess performance against outputs and outcomes (as suggested in past ToRs) may undermine MLD's sense of responsibility to do so themselves.
iv.   Obtaining information from the MLD/PCU to assess overall performance is an arduous task, and will be more difficult if they are made to feel that QAM has taken that load on.
v.   MLD has made no requests from QAM, aside from suggesting it move within the MLD building.

274. After the initial field trips, QAM has not been in the field again (aside from the member embedded in this Mid-Term Review).   Its patchwork of staffing and logistical support (from Inlogos, funded by GTZ, and Danida/Hugou) is somewhat awkward, but funds appear to be available for it to do substantive work; DFID has indicated that it has set aside USD 100,000 for it. That it has not made use of these funds is indicative of its difficulties in finding its role.

275. DPs have recently been revamping the terms of reference for the QAM, lead by CIDA, and with Danida involvement as well. The effort promises to yield a firm work plan for the next six months. Decisions on the makeup of the QAM team are being made as well for that period of time. The July 2010 draft foresees a more resourced QAM, with an expanded set of objectives. It is made clearer that the QAM can use other researchers to undertake some of these tasks. While some aspects of the TORs are promising, the MTR team suggests that past experience points to the need to change the focus and the way QAM works, recognizing the limitations of a small team.

Box 10: Priority Themes for QAM

1. **Social Mobilization**: what types of SM are actually been done in LGCDP (transactional? transformative? both? Other)? Pace of progress? Can various approaches coexist or is greater convergence needed? Are participation and contribution levels appropriate; are they knocking out the poor? Are groups accumulating debt?
2. **Fiduciary risk**; continue to assist GoN/DPs in tracking and mitigating the risk
3. **Security**: how is the security situation affecting the program – what activities are affected, to what degree, and are there good examples of local responses and general mitigating strategies?
4. **CD**: monitoring of CD plan quality and implementation
5. **EBG Guidelines**: do blended rules combine the best combination of requirements/ limitations/ flexibility?
6. **TA procurement**: are procurement systems for TA in government improving (synchronized with program needs, able to attract quality contractors, reductions in overlap within program and outside with other initiatives)?

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276. The extension foreseen for the QAM is only for six months, followed by a 14 month period where the QAM work will be tendered. The MTR team finds this to be a cumbersome and time wasting procedure in view of the steep learning curve presented by the LGCDP – should the QAM team used in the next six month period be found to be productive, it would be best to find a way to simply keep the team (as constituted at the end of that six month period) together for the additional 14 months.

277. The role of QAM will be essential in guiding the DPs and GoN to make full use of the MTR report over the period October to December 2010, when decisions on program strategy/refocusing should be finalized.   Subsequently, they can be helpful in supporting a more output oriented form of reporting, and making the annual plan more strategic. Closely related to this effort is helping MLD to refine the M&E Framework; unifying it with

the ADB design and monitoring frame, and exploring how the M&E Framework can be embedded in the regular assessment framework MLD uses to track LBs performance and its own performance. Near the end of the program, the QAM could assist in developing the ToRs for the second survey to extend baseline longitudinally, and to join this with end of program evaluation (ideally in a single contract to a capable mix of international and local firms).

278. The MTR team recommends that the Annual Technical Reviews **be discontinued for the last two years**. The planned February 2011 comes too soon after the rather comprehensive Mid-Term Review formally is completed in November 2010. The 2012 ATR will also be superfluous to the program completion evaluation that would come just a few months after that. The previously noted PER is being prepared for implementation in late 2010 or early 2011. This exercise can also serve to identify fund flows and related risks (and it should lessen its focus on decentralization issues). Moreover, some activities related to the LGAF will be in progress in 2011 and 2012, and they will also add scrutiny of LGCDP's implementation.

279. The above course of action contravenes a strict reading of the JFA, which calls for the Annual Technical Reviews. However, the JFA Signatories have already decided to arrange the MTR separate from the QAM, so the precedent for being pragmatic has been set – the intent should be to move forward with what is most workable rather than rigid adherence to the JFA. This approach to 2012 does not preclude revisiting the ATR requirement should the program live beyond its current phase.

280. As suggested in the current draft TORs prepared by CIDA, **the QAM can play a vital role if it makes it its key objective to "identify, recommend, and manage action oriented research, studies and analysis on key issues or program constraints deemed a priority."** These themes may require a wide range of skills, indicating it may be best for QAM to undertake some it is suited for, and otherwise manage other researchers. Accordingly, a key **task of QAM for the remaining two years should be to manage research and analytical efforts that address important program risks, employing external resources where necessary**. A possible set of priority issues is listed in Box 10. This was shared with the DPs immediately following the October presentation of the End of Mission report. It is consistent in many respects with the analysis put forward by QAM itself in its "QAM as a permanent mechanism" paper of June 2010. Even so, in keeping with earlier comments, it would be appropriate to also sound MLD on the priority issues it would like QAM to pursue.

281. As a concluding thought on QAM, and **recognizing that the reworking of its role may be provisional and incomplete in the remaining time of the program, it should be possible in the interim to clarify how QAM should operate in relation to its reporting and its access to DPF and NACS/NAC meetings**. A decision on whether the QAM have total access to these meetings, or need to be specifically invited, would be helpful to them.

7.4.   Environmental safeguards

282. Monitoring of environmental aspects of project implementation in the LGCDP falls under the Output 2 activity of "Integrating pro-poor environmental priorities in the local planning process." It is to be conducted at various levels: Users Committee, VDC, DDC and the PCU/CCU. High risk infrastructure projects are to be avoided and adverse impacts minimized otherwise. Guidelines prohibit some projects (new tracks) or technology (bulldozer use), but in

most cases the program relies on a checklist approach to help project stakeholders adhere to good practices. Environmental Compliance Monitoring Reports (ECMR) are to be prepared and sent to DDC and Cluster Coordination Unit of the LGCDP. The CCU is to verify whether environmental clauses are included in project documents and if the mitigation measures are properly implemented.

283. The MTR team has ascertained that most districts have implemented Environment Desks in 2009/2010 (notable exceptions are found in Terai regions, such as in Sarlahi & Dhanusha DDCs). The accompanying grant to each DDC been used to implement a wide array of bio-engineering projects/environment safeguard measures (e.g., river training). The LGCDP has also prepared basic documents to allow the environmental monitoring to proceed as intended; the environmental and social safeguard checklist (July 2009), MLD guide on Environmental Monitoring of Infrastructure Projects (April 2010). Moreover, in the current year it is working on IEC messages relating to pro-poor environmental planning, to reach VDCs obtaining the TU grant. It is also seeking to mainstream environmental issues in the MC/PM and general planning guidelines. Following up on the establishment of the Environment Desk (and grant) at DDC level in the past year, the LGCDP foresees providing training for the District Environment Desk Officers.

284. The MTR team notes that the checklists provided appear to be useful in principle. The drive to integrate environmental aspects in other guidelines is laudable. The MTR team was not able to verify to what extent the guidelines have been applied at the local level, but the recent vintage of the guidelines indicate that application is likely in early stages. The MTR team also notes that orientation on environmental safeguards has been given to both DFs and Environment Focal Points, but the aggregated reporting at cluster level makes it impossible to know if all Focal Points in DDCs have receive the orientation. CCU explanations to the MTR team also suggest that monitoring takes place in an ad hoc fashion, by the DDC staff and the supporting CCU. Compliance with the provision for preparation of ECMR is not reported by the CCUs.

285. In moving forward, **the MTR team suggests that the CCU be supported to better track the development of capabilities of the Environment Desk and the success of its specific grant.** This should be recognized as a kind of "pilot", particularly in relation to the relationships and division of labour struck with relevant district level line agencies. A strategy for the exit/formalization (sustainability) of this "pilot" should emerge in the current life of the LGCDP. **The CCU should also make greater efforts to track User Groups and LB adherence to the environmental safeguards in project design and implementation**.

286. At the National level, the MTR team notes the strong support given by the PCU Environment Specialist to the Environment Management Section of the MLD. It also notes the high hopes expressed by the MLD manager of this unit, in terms of the expansion of the unit in the future, particularly staff with more advanced technical skills.

287. While the MTR team is limited in what it can say about the environment initiatives of the LGCDP, it is concerned about the overall approach taken by the MLD to its role in supporting the LBs in this area. As the 2009/2010 third quarter progress report of the LGCDP for this activity states "Some of the activities of PEI [Poverty Environment Initiative] are directly or indirectly

related to activities proposed by other agencies. Such activities having similar nature should have been done through one package in integration with activities of other agencies." The report adds that this approach reflects the weak coordination and information sharing of the MLD. The MTR team shares this concern, and notes that the MLD desire to grow the Environment Management unit, including adding more advanced technical skills, may be counterproductive to the transition effort of the national level in shifting responsibility to the states and in rationalizing the national support role in this area.

288. It should be asked whether the MLD is the best place to lead on a technical level (now or in the future) the effort on environmental assessments, climate change, economic analysis of resource use, and rural infrastructure development. These are all being undertaken within the LGCDP environment envelope – and with insufficient links to other national organizations according to the LGCDP progress report. It may be that the Ministry of Environment, Environment Division of Ministry of Physical Planning, or the National Planning Commission would be more appropriate agencies in the long term to support environmental efforts at local/state level – at a technical level.

289. The MLD, if it exists in the future, may have more of a general coordination/guidance role towards the LBs/state government. This argument may be equally valid for the work now conducted in the MLD (under the LGCDP umbrella or otherwise) in DOLIDAR and Social Protection. *The MTR team encourages the MLD to explore how its environmental support to LBs fits within the anticipated national institutional configuration as the nation makes the transition to a federal structure*.

8. Program management

8.1.   Explaining the lagging "demand side"

290. With considerable pressure to deliver on the peace dividend, the MLD moved ahead with a large number of initiatives in the LGCDP, accepting that it would meet up with implementation challenges. It is evident that the MLD has placed its attention primarily on the block grants – these have been disbursed in the DAG 3 and 4 VDCs and other Local Bodies, even ahead of the PD schedule. The supporting capacity development and demand side efforts that make the program unique have not been given the same level of attention, as seen in Table 2.

291. To some extent, the slow pace of demand side activities can be attributed to complexity, and the novelty of some concepts (the transformational aspect of SM and the semi-independent LGAF in particular). However, the missed opportunity to link in a timely manner the supply and demand sides may also have to do with a lack of urgency, reflecting insufficient appreciation of the importance of the demand side of the LGCDP.

292. Performance based granting (PBG) schemes do operate in other countries with modest accompaniment of capacity development, and little effort at social mobilization – and they still manage to generate some improvements in financial management of local governments. But the LGCDP design can be said to be a unique Nepali model. It is more ambitious and comes from a particular historical context of strife and marginalization of certain groups. Conceptually, it is pushing the envelope on incentivizing local government, by adding to financial incentives those that come from a mobilized and demanding public. In no other PBG program known to the MTR team has there been such an imaginative and significant effort to link supply with demand – in the design. Sadly, the demand side appears unlikely to be significantly felt in the four year life of the program.

293. In the sections that follow, the MTR team offers some practical recommendations on various aspects of management. But as a general recommendation, *the MTR team encourages the MLD to "rediscover" the uniqueness and strength of the original LGCDP concept, and if again convinced of its merits, to redouble its efforts to execute demand side activities of the program.*

8.2.   Delegation, and planning/reporting in the LGCDP

294. Management of a complex program will never be entirely smooth, and a certain amount of ad hoc response or fire-fighting is unavoidable. MLD/PCU has sought to formalize certain aspects of management over time, for instance by:

- Clearly delegating responsibilities to Activity Managers
- Preparing an operational manual for LGCDP
- Preparing operational plans and procurement plans
- Developing a format for tracking procurement

295. The above are important efforts, requiring consistent follow through to gain the expected benefits. The delegation to Activity Managers is particularly significant. These are Under-Secretary level officers (Section Heads); there are 14 in the MLD and all have been involved in one way or another in the program through this delegation. They are given leadership and support from the three Joint-Secretaries in MLD. Observers of the LGCDP had formerly noted that decisions, even trivial ones, would travel upward, and pile up on the desk of the National Project Director (Joint Secretary) level, and sometimes also at MLD Secretary level. Hence the current delegation is an important step in making management more effective, instilling ownership, and "integrating" the LGCDP into the MLD.

296. Having chosen the above form of delegation, the MLD is presented with a challenge; how to effectively manage "outputs/outcomes" of the LGCDP, as these do not map in a congruent fashion on the MLD structures – which is the basis for the delegation. Joint-Secretaries (and the Program Director/Program Manager) are guiding Section Heads who have been made responsible for activities that cut across outputs and outcomes.

297. A simple, but perhaps wrong, approach to obtaining management from the vantage point of outputs (if not outcomes – that would be largely for the program leadership to consolidate), would be to delegate this level of management to Output Managers. Indeed, Output Managers are identified in the PCU structure, but it is clear that they do not have familiarity with all activities falling within their purview and the M&E Framework indicators relevant to them, and that they have yet to truly manage the entire range of relevant activities/Activity Managers. Whether formal delegation would solve this problem is debatable. "Managing for results" is not yet a natural instinct or a rewarded approach in the MLD (or other parts of the Nepalese administration).

298. This management challenge would not be so daunting had LGCDP constructed robust reporting systems, that provide trimester and annual snap-shots of progress in terms of outputs. As it is, there is much activity in the LGCDP, but it is nearly "flying blind" when it comes to the financial progress and progress on output/outcome levels. That may in part account for the lack of alarm and lack of urgency in correcting the lag on the demand side.

299. It is evident that the Annual Strategic Implementation Plan (ASIP) is not what the JFA intended; there is no strategic narrative or benchmarks/milestones to guide management. It cannot benefit from a prior reflection, as the LGCDP has not prepared an annual progress report (there is a commitment to doing one for 2009/2010), and more importantly, it does not prepare timely semester reports that can feed into the next semester and annual period.

300. The late trimester (financial) reports rely too much on disbursement rather than expenditure data and do not adequately explain variances. The formal follows JFA Annex 5 – which does not call for any reporting against Program Outputs, just activities completion

(physical/financial). JFA requirement for reporting on outcomes has no identified format in the JFA. The financial reporting for non-JFA TA has no set format, and so its consolidation is not a straightforward task. All of these weaknesses in reporting compound the challenge of managing for results.

301. The MTR team has already suggested in a previous section of this report that a Compliance and Compilation unit be established in the MLD. Additionally, **the MTR team recommends a timely audit of the overall programme by the Office of the Auditor General (OAG), with the help of a private audit firm, to give a clear picture of the financial standing of the LGCDP that can help it to move forward with greater confidence in the use of funds, projections and financing commitments**. Beyond these measures, there needs to be an effort to become more strategic on the substantive aspects of the program.

8.3.   Becoming more strategic

302. <u>Making the annual plan more strategic</u>: In line with the NAC's request that the next plan reflect the requirements of paragraph 43 in the JFA, **the 2010-2011 and subsequent ASIPs should have a strategy related narrative**. In reviewing the ASIP, DPs had also suggested that the plan should "*Describe & justify activities that were not covered in the original LGCDP document and also for deleted activities*". As a more general point aligned with this suggestion, the annual plan, to be truly strategic, should explain why activities are continued, dropped, modified, or intensified. All of these comments should make it easier to see how outputs and outcomes are to be achieved. The strategic character comes in linking what has been done with an updated view of what needs to be done to meet the outputs/outcomes or milestones along the way. It is important to not confuse the need for a strategic character to the ASIP with the subsequent need for detailed work plans. The big picture must come first; detailed work plans can be made following the ASIP.

303. <u>Streamlining</u>: some activities do not seem to be adding much value, or are not placed in a unit of MLD that is likely to add the desired value. It might be asked, for instance, if the Legal Advisory Section is best placed to review a broad range of guidelines and directives produced by LGCDP (e.g., directive on integrated planning, monitoring guidelines, minimum conditions and performance measures, block grant guidelines) to "assess their pro-poor and pro-environmental impacts at the local level."[17] Criteria for deciding on the appropriateness of pilots have also been offered in Box 3, in an earlier section. Some TA in Outputs 6/7 have been identified as not essential (e.g., too backward look on decentralization/devolution). Other activities may not be essential - at this time, or unlikely to be absorbed well with the current technical preparation of MLD staff (e.g., the impact evaluation effort may be one). Vague and poorly understood activity titles (perhaps designed to give flexibility) may also need to be reconsidered. In some cases, activities may best pursued under different institutional leadership – connecting to the MLD but in a less burdensome way. It should also be possible to pursue valued efforts by folding them in a more integrated and larger effort that makes for efficiency – this is particularly relevant for studies. **Dropping activities that are not central to LGCDP or are of dubious value will lessen the management burden, and allow for a more intensive deployment of management efforts on key activities (e.g., lagging activities and the need to address fiduciary risk)**.

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[17] See Activity 6.10.1 and 6.10.2 in the LGCDP (2010). Responsibility Matrix: Legal Advisory Section.

8.4.   Coordination and procurement of technical assistance

304. The Technical Assistance Sub-Committee (TASC) is expected to ensure that TA support to LGCDP's implementation is "effective, aligned with LGCDP's goals, and provides value." It is recently struck and it may be too early to assess its functioning – it has to meet a few times before anyone can say. Some DPs wonder why it has not been set up as a Thematic Group. This is a fair question to ask, but perhaps in practice it is not important to revisit that decision, as long as the Thematic Groups have equal access to the main NAC subcommittee where decision-making takes place.

305. An important task of TASC is to come to an agreement on norms for procurement. This is an excellent initiative, and it ought to distil the learning that has taken place to date in LGCDP.

The MTR team has heard from the MLD/PCU, DPs, and several consultants commissioned in the program, of several weaknesses, including those listed in Box 11. Efforts to establish norms that avoid these weaknesses are to be commended.

306. One aspect that may be eluding procurement management in the LGCDP is how the LGCDP TA is linking with that of other projects in the "sector." For instance, it might be asked why the LGCDP, in FY 2010-2011, needs to undertake a "Study on local body restructuring in the context of the new constitution" when GTZ has a dedicated Federalism Support Program that works with LB

> **Box 11: Procurement weaknesses identified in LGCDP**
>
> - Budgets are not in line with magnitude of the tasks
> - Budgets are not utilized; bid scoring has favoured unrealistic low financial bids – leading to poor quality or even unfinished work.
> - Fee rates are set near bottom of ranges – making it difficult to attract high quality consultants.
> - Efforts that should be handled in holistic way are cut up into small bits of TA – lacking continuity and delaying ultimate integration/results.
> - Scope of TA shows unacknowledged or unresolved duplication between separate procurements
> - Some ToRs are not well developed, or passed through Thematic Groups.
> - Formats for tracking TA procurement exist but are not updated

associations and others to examine this same issue. Perhaps a combined effort would be best, or some clarity on the division of labour.

8.5.   Learning and adapting mechanisms in LGCDP

307. Learning and continuous adjustment are essential features of challenging programs like the LGCDP. This spirit is evident in the structures that have been established to inject quality in LGCDP products, ascertain performance, and recommend adjustments (Box 12). Moreover, the MLD has reflected on early experiences and made adjustments in the management approach (e.g., delegation to activity managers, establishment of the NAC subcommittee, backstopping the CCU).

308. Good communication has been recognized as key to a learning and pro-active form of management. Information sharing on important issues is more frequent today than in early stages of the program. The recent letter of intent between DPs and the Secretary of the MLD, committing both parties to meet on a trimester basis to discuss fiduciary risk is evidence of this trend.

309. The MTR team is encouraged by the above mechanisms and commitment. ***It also urges continued efforts, particularly in noting and processing the many useful suggestions that***

are made in various studies commissioned by the LGCDP. Some of these will not be appropriate or feasible, but it is important to show that they have been considered, and not just left "hanging." Tracking the progress of policy or programmatic initiatives or changes in a more systematic manner will also be helpful in making the program more effective.

Box 12: LGCDP learning and improvement mechanisms

- Thematic groups; these have varied in their intensity, but have proven useful in injecting quality in LGCDP products.
- CCU backstopping; this office has been important in several areas, such as improving reporting from LBs, and the quality of CD plans of LBs.
- MC/PM scoring system – the results of the scoring has been widely announced, covered by the press, and the focus of local discussions.
- NACS; these subcommittees have made decision-making, and thus program adjustment, a more regular feature of the program – currently TA norms are under discussion
- QAM; this mechanism has been launched in early 2010 and has potential to contribute more once its role is better defined.

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310. Related to the last point made, the LGCDP should consider developing a formal policy on Knowledge Management. Because of its unique character, and the various learning mechanisms it contains, there should be scope for squeezing knowledge outputs that are not only useful for the program, but that can also inform larger communities of practice.

8.6.   Integrating the LGCDP into the MLD

311. There are various possible degrees of integration of the program within the MLD. At one extreme, it could be run by typical "program management unit," as seen in many DP supported projects still. At the other end of the continuum, the tasks could be woven seamlessly within the regular tasks and staffing of the MLD. In this way, the achievement of the program outputs and outcomes would have consequences for performance evaluations and other career issues. As it stands, the structure and function of the PCU suggests that the present arrangement is somewhere in the middle of these two poles.

312. Fuller integration would require greater involvement of regular staff in the relevant sections, and greater use of government planning and reporting systems. These systems are not fully developed or ideal in some cases, so full integration may not be the right aim – unless it is accompanied by some enhancements in the government systems.

313. A healthy discussion is needed in the MLD, supported by DPs, of how far it makes sense, at this time, to integrate the LGCDP further in the government system. Would it be possible to weave the activities of LGCDP in the regular work plans of the MLD for instance, preparing only one work plan? The ASIP would then be purely a strategic document, indicating the directions to be taken. If DPs wished to see the LGCDP activities, these would simply be highlighted or abstracted from the MLD work plan.

314. As for the PCU, it would be used to provide advice, examples, coaching and backstopping. It would perhaps be housed in the main building, but spread in some way across the relevant units. But being more proximate would not mean being used as MLD staff, undertaking technical and administrative work. Its role would still be to assist in coordination while at the same time sustainably enhancing the capacities of the MLD itself, including seeking to improve systems so that the LGCDP integration could be deepened.

315. The above integration scenario may not be what is most workable at this stage, or it may be too ambitious to attempt it when the program needs to be refocused – it may need to be put

off until the next phase. Notwithstanding these cautions, ***the LGCDP should further explore integration possibilities, including***

    i.   ***a more embedded role for the PCU,***
    ii.   ***Making a unit responsible for compiling financial and progress reports and for carrying out overall analysis of progress of the LGCDP programme and tracking of flow of funds - within a broader MLD wide role,***
    iii.   ***joint work planning,***
    iv.   ***greater alignment of outputs/outcomes of the program with MLD's own mandate and division of work, and***
    v.   ***greater convergence in monitoring and evaluation systems (LGCDP M&E Framework, MC/MP assessment, and GoN own system for monitoring LBs and MLD's own performance).***

8.7.   MLD – DP relations regarding LGCDP

316. As noted earlier, communication between the MLD and DPs is improving, though not without glitches. Continuous effort is needed in this regard. There are some perceptions and sensitivities that can get in the way of good communication. DPs tend to see MLD as the cause of delays, but MLD officials point to cases where DPs are the reason for the slow progress. DPs can become frustrated with the apparent inability of MLD to take strong positions and forceful action. But they underestimate how difficult that can be in a context where the fate of officials has little to do with evidence based arguments or adherence to formal rules, but much more with hierarchy, seniority, affiliation, loyalty and finding an adequate level of institutional and personal resources. Undoubtedly, the Nepali administrative system has to become more transparent, predictable, sufficiently resourced, and based on results and merit, but the transition is bound to be incremental and difficult – ***and it is important to have both parties (DPs and MLD) communicating with an appreciation of each other's pressures and difficulties, maintaining mutual respect at an individual/group level in all communications***.

317. Particularly around the communication on fiduciary risk, ***the MTR team encourages both sides to follow through on the commitment to trimester meetings on this topic. On the GoN side, a trust building measure would be to share the case management of discovered irregularities, indicating the incident, location, actors involved, investigative action, status of the investigation, sanctions applied and systemic changes made or underway to reduce risk.***

318. On technical issues, ***the MLD could be helpful by making a greater effort to translate key documents in a timely way.*** This does not mean translating all drafts – critical documents only. If there is to be a strong support role, DPs need to have access to key drafts and final products. Only then can they make a significant contribution through the Thematic Groups. Moreover, international consultants that are asked to provide inputs are hampered by the lack of timely and good quality translation. Obtaining good translation is difficult, so it is advisable to nurture a pool of translators, making an effort to familiarize the translators with the LGCDP and the concepts/terminology used. This will pay off after the one or two years.

8.8.   DP approach to supporting the LGCDP

319. The decision making processes among donors in the DFP group could also be improved. It is efficient and preferable to have a chair as the conduit to the MLD. However, some DPs are nonetheless finding the support role demanding, in terms of time and skill sets. It is difficult for the DPs to stay close to the program. Perhaps it is not possible to stay close on all issues. ***DPs may need to reduce their role on some fronts, and try to support in a more strategic way***.

320. Somewhat related to the above point is a tendency, noted particularly by the government side, for DPs to place many conditionalities or expectations on the government side. To some extent this relates to a desire to attain quality. But in other cases the requests appear to be administrative procedures that are not essential, or expectations that are not reasonable under the circumstances (e.g., to give particular attention to districts where DPs have particular activities or interest). ***DPs need to be mindful of the totality of the burden placed on the government side by the accumulation of requests or expectations – these can distract government from the core program commitments, where performance is more important.***

321. It has been suggested that the DPs need a secretariat to organize their efforts. It is telling that the MTR team composition only was confirmed on the first day of its work in Kathmandu. ***The need for a secretariat to help the DPs play their part in the LGCDP needs to be further discussed among the DPs***, but the MTR team is unable to provide guidance on this issue at this time. However, it is apparent that the DPs need to have readily available governance/local governance and decentralization expertise at hand. The UNCDF is now providing this kind of back up for the DP group, but it is fair to expect that the JFA partners have such capacity in their Nepal offices as well. This is particularly relevant for the JFA DP that takes on the chair role in the group. ***The MTR team suggests that the chair of the DP group supporting the LGCDP should be able to draw on substantial in-house expertise in governance (especially local governance) and decentralization***.

9. Conclusions and summary of recommendations

9.1.   Overall conclusions

322. The program can be proud of some significant achievements, particularly in getting the grants to LBs on a performance basis, and improving the guidelines and assessments over time. It has, by its mid-point, put in place the national and regional infrastructure that will allow it to press forward intensively on key design elements. It is learning and adapting as it moves forward.

323. The demand side of the program has evidently lagged the supply side, and a fulsome implementation of social mobilization, the LGAF, and IEC will not be seen till the last year of the program. To give it a chance to play out its role in relation to the supply side, it would seem that at least two more years should be given beyond the stated end in mid-2012.

324. The LGCDP was seen from the beginning to be a "high risk – high benefit" proposition. It was unique and ambitious in design – a performance based granting scheme that was matched by a formidable demand side effort. It is to be expected that the program will face difficulties in realizing its ambitions. The LGCDP operates in a very difficult environment, and is treading in uncharted territory in many respects.

325. MLD and DPs alike appear committed to the program, and favour remaining ambitious. To get to 2012 on a high note, the program will need to refocus, prioritizing actions that will make the biggest difference in expediting lagging program activities, reducing fiduciary risk, and providing reporting and assessments that can show the success of the program. Attaining this focus will mean managing differently in some respects. Being able to show results on the ground, and an adaptive management approach, can provide the foundation for an extension or second phase of the program – to give it the necessary time to bring about in a more complete way the very important results it seeks.

9.2.   Extension of the LGCDP

326. Several DPs need to make funding commitment decisions soon with respect to the LGCDP, in particular ADB (third tranche release), Danida, and a bit later CIDA. The response of the GoN to the LGCDP MTR report is a crucial consideration in making these decisions. *As the findings and recommendations of the MTR team suggests, the program will ideally be continued past its current end point of July 2012, and be refocused to enable it to make accelerated progress toward its objectives*.

327. The above recommendation raises three important decision points, and the MTR team suggests considerations for each in Table 12:

Table 12: Possible decisions and considerations for DP commitments to LGCDP

Decision	Key Dates	Decision Considerations
Commitment of DPs to funding for last two years of LGCDP	• November 2010 for GoN response to MTR • December 2010 NACS/NAC joint discussion/agreement	GoN and DP response to Mid-Term Review of LGCDP
Extension of LGCDP for one year (2012/2013)	• QAM and other inputs by October 2011 • GoN proposal for extension by November 2011 • December 2011 NACS/NAC joint discussion/agreement on one year extension	Evidence to October 2011 of refocusing of LGCDP, with emphasis on: • accelerated demand side; • reduced fiduciary risk; • better monitoring and reporting; • strategic program management.
Extension of LGCDP for additional year (wind-down of DP role over that year) or Phase II (possibly 4 more years, with DP support)	• End of program evaluation conducted in September – October 2012 • December 2012 NACS/NAC joint discussion/agreement on further extension of one year or Phase II	Achievements of LGCDP in first four years, including consistency with refocusing effort, and: • Evidence of improving local demand and engagement; • Mitigation of fiduciary risk; • Adequate and timely reporting on program results; • Early indications of systemic improvement in inclusive/equitable services

9.3.   Summary of key recommendations

328. The key recommendations embedded in the text of this report are summarized below in Table 13 in terms of their time frame and with the degree of urgency attached to them (key actions versus others).

Table 13: Summary of key MTR recommendations

Time horizon	Key actions	Others
Actions achievable in the short term	• Commit to refocusing LGCDP as per MTR in the December 2010 NAC. • accelerate demand side roll out (SM/LGAF/IEC) • Shed, integrate, shift, or postpone lower priority activities (studies, pilots) • Finalize blended guidelines in rigorous way, noting MTR input • Agree on reporting improvements in LGCDP	• Reorient QAM to thematic approach (e.g. SM). • Strategize how policy aims beyond MLD control can be achieved • Orient local actors to 35% rule/goal of LGCDP • Refine and integrate M&E Frameworks • Make annual plans and reporting more strategic • Keep working on partner

	• Establish Compliance and Compilation sub-unit in MLD • Meet on trimester basis on fiduciary risk, and report on case management as per MTR suggestion	communication
Actions achievable by end of program	• Recruit/deploy VDC Secretaries to mitigate security/fiduciary risk (local; cluster approach; slow rotation). • Add Accountant in each VDC • Add/buy technical staff at VDC level • Formalize APM, with co-signing authority • Bolster and demand more of CCU, analytically and in support to LBs	• Revise recruitment and deployment of DFs. • Orient VDCs/public to code of practice/safeguards to mitigate threats to LB officials • Undertake CD with attention to institutional issues • Strengthen Thematic Group on policy issues, especially regarding state restructuring • Redefine SWAp to highlight local level • Link longitudinal survey and final evaluation efforts
Actions with effort/implications beyond current end date of program	• Upgrade VDC Secretaries/LDOs • Undertake more comprehensive and process rich state restructuring study for LBs/MLD/states	• Examine expenditure pattern of TU grant and service delivery issues. • Support LB associations to revitalize through APM engagement • Explore how to better embed LGCDP or its elements into MLD

Appendix 1- Tasks of Consultants in Terms of Reference

The tasks are taken from the last version of the TORs, provided to the MTR team on September 5, by QAM. The original and additional tasks are separated. They also show, on the right hand column, the qualifications suggested by the MTR team, discussed and accepted in the first meeting with DPs, held to discuss the MTR methodology (September 9, in DIFD).

I.   *Attainment of Outputs and Outcomes*

Original Tasks	MTR Commitment
a. Analyze whether the Program outcomes and assumptions as specified in the logical framework of the LGCDP document continue to be relevant,	YES
b. If not, specify how the outcomes should be reconfigured or program design needs to be changed and, if necessary, the logical framework should be revised, in order to more effectively attain the outcomes	YES
c. Conduct an assessment against the logical framework of how well - time wise and quality wise - the outputs are being delivered with a clear analysis of both demand and supply side of governance, and the extent to which they will lead to the achievement of the expected outcomes,	YES (drawing on recent Cluster reports, and upcoming Third Trimester report, and interviews)
d. Assess both JFA and technical assistance resources being used for LGCDP's implementation to determine their adequacy in carrying out LGCDP's processes and in delivering quality outputs;	YES (drawing on funds and staff employed, and perceptions of product quality held by stakeholders - MTR team)
e. Look into any particular strands of work which have not yet started or are substantially delayed, including an analysis of the potential knock-on impact on outputs and outcomes and provide recommendations for getting them underway,	YES – but recommendations may include shedding or delaying some work.
f. Review management of the program and MLD's interactions with local bodies and identify measures to improve LGCDP's implementation at central government and local levels,	YES– but will rely on past assessments of MLD in large part, and some new key informants
g. Assess the impact of the security situation on the program implementation.	YES – largely in terms of impact on pace and quality of implementation

Additional Tasks	MTR Commitment
h. Review procurement of TA and the use of its results in the implementation of LGCDP	**YES,** by sampling and views from stakeholders - in terms of processes, efficiency (not comprehensive)

b. Assess the extent that participation/access of women, poor and excluded have increased in the local governance processes	**YES,** but only data and perceptions from regional field visits (can draw from baseline, but not yet any longitudinal data)

II.   Progress toward SWAp

Original Tasks	MTR commitment
a. Determine the degree to which LGCDP is on track to be transformed into a full sector-wide approach (SWAp) after 2012; also assess commitment and readiness of development partners implementing local governance programs; and explore learning from other SWAps – Education, Health & Agriculture	**YES**, but will not be in-depth; will indicate key issues and steps that need to be taken to obtain full assessment and road map.

III.   Use of Program funds

Original Tasks	MTR Commitment
a. Conduct a variance analysis of the stipulated – and actual – usage of Program funds as well as adequacy of funds in carrying out LGCDP's planned activities, processes and in delivering quality outputs (both the program and TA parts),	**YES**, but not completely, due to lack of sufficient data.
b. For non-compliance with the stipulated norms, specify the reasons for the same	**YES,** with non-compliance determined on a best effort basis (complete data not available)
c. Assess the severity of the problem of (i) untimely release of program funds; (ii) high volume of fund transfer at the end of the FY; and (iii) "freezing" of funds at the end of the fiscal year and explore its impact on the work of the local bodies	**YES,** based largely on cases seen in the regional field visits (but aggregate numbers may be available at central govt.); key is to understand impact rather than getting numbers perfect.
e. Assess the use of LGCDP funds for bulldozer roads and its reflection in the audits of VDCs.	**YES**, in relation to environmental safeguards, and possible irregularities in substituting labour with bulldozer use – leaking funds in the process. The latter will be unearthed to the extent that local accounting/audit records can tell the story.

Additional Tasks	MTR Commitment
d. Recommend practical measures to improve the efficiency and effectiveness of Program fund utilization (JFA and TA) and, if additional resources or modified operations are required to achieve these, broadly scope how these should be done.	**YES**, (related to prior tasks)
f. Assess the use of LGCDP targeted funds for women, children and excluded groups in meeting their needs.	**YES**, but only from local figures (against norms) and perceptions of users in selected COs visited by MTR team.

IV. *Application of capacity development measures*

Tasks	MTR Commitment
a. Assess the relevance, and feasibility, of all relevant capacity development measures specified in the LGCDP, taking into account the degree of input at both central as well as local level,	**YES**, but only main CD measures
b. Analyse the extent of application of such measures,	**YES**,
c. Specify the difficulties faced by local governments in benefitting from the capacity development measures and in implementing LGCDP on the ground,,	**YES**,
d. Point out clearly how such measures could be better applied in the Program (including the specific roles of the different stakeholders, such as the development partners, local governments, MLD, etc.).	**YES**,
e. Assessment on the extent to which capacity development of the local government bodies is linked to the MCPM assessment.	**YES**,

Additional Tasks	MTR Commitment
f. Assess the extent that GESI CD plan is developed and implemented and assess the use of CD grants for institutionalization of GESI in LGCDP at central and local level.	**YES**, drawing largely from regional field visits
g. Assess the extent that CD of the local government	**YES**, drawing largely from regional

bodies are strengthened to promote downward accountability, and inclusive and equitable service delivery.	field visits – but may be too early for LGCDP effects to show
h. Assess the extent that technical capacity building support is provided to citizen's institutions for demand side strengthening, SM, participation in planning, decision making, resource allocation and advocacy	**YES,** recognizing that these are very overlapping categories, and may be too early for LGCDP effects to show

Appendix 2 – LGCDP M&E Framework

Indicators	Indicator Baseline	Indicator Target	Means of Verification	Responsibility	Frequency
Goal: Contribute towards poverty reduction through inclusive responsive and accountable local governance and participatory community-led development					
see PMAS, Nepal Human Development Report Nepal MDG reports					

Indicators	Indicator Baseline	Indicator Target	Means of Verification	Responsibility	Frequency
Purpose: Improved access to locally and inclusively prioritized public goods and services					
a) ACCESS TO PUBLIC GOODS					
• Average time for *rural* households to reach the nearest of **15 key facilities**[4] in minutes and hours	1 h 59 m (2003/4)	1 h 30 m (2012)	NLSS (cross section)	CBS	7 years
ROADS					
• % of *rural* households that have access to a **dirt road** (vehicle passable) within 30 minutes	67.6% (2003/4)	75% (2012)	NLSS (cross section) / LGCDP Sample Surveys	CBS / MLD M&E Section	7 years / 2 years (2009, 2011, 2013)
• Mean time taken by *rural* households to reach nearest **dirt road** (vehicle passable) in hours and minutes	3 h 7 m (2003/4)	2 h 30 m (2012)	NLSS (cross section) / LGCDP Sample Surveys	CBS / MLD M&E Section	7 years / 2 years (2009, 2011, 2013)
DRINKING WATER					
• % of rural households with sustainable access to **improved water source**	80.2 % (2006)	To be determined (TBD)	Nepal Demographic and Health Surveys	MHP	not known
b) ACCESS TO PUBLIC SERVICES					
• % of citizens that say that the services of **DDCs** are more accessible than they were one year ago	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	LGCDP Sample Surveys	MLD M&E Section	2 years (2009, 2013, 2011)
• % of citizens that say that the services of **VDCs** are more accessible than they were one year ago	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	LGCDP Sample Surveys	MLD M&E Section	2 years (2009, 2011, 2013)
• % of citizens that say that the services of **municipalities** are more accessible that they were one year ago	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	LGCDP Sample Surveys	MLD M&E Section	2 years (2009, 2011, 2013)

Indicators	Indicator Baseline	Indicator Target	Means of Verification	Responsibility	Frequency
Outcome 1: **Citizens and communities engaged actively with local governments and hold them accountable (15.7m USD)**					
a) ENGAGEMENT WITH LOCAL GOVERNMENTS					
• % of citizens that think that they are now more involved in the decision-making process of **DDCs** than one year ago	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	MLD Sample Surveys	MLD M&E Section	2 years (2009, 2011, 2013)
• % of citizens that think that they are now more involved in the decision-making process of **VDCs** than one year ago	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	MLD Sample Surveys	MLD M&E Section	2 years (2009, 2011, 2013)
• % of citizens that think that they are now more involved in the decision-making process of **municipalities** than one year ago	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	MLD Sample Surveys	MLD M&E Section	2 years (2009, 2011, 2013)
PLANNING					
• % of all **ward committees** of VDCs and municipalities which hold at least one planning meeting per year	TBD by LGCDP Sample Survey (See Note 1)	90% (12/2012)	Sample Surveys / administrative data[5]	MLD M&E Section	2 years (2009, 2011, 2013) / annually
• Total number of **citizens** who participate in planning meeting at **ward** level per year in Nepal	TBD by LGCDP Sample Survey (See Note 1)	900,000 (12/2012)	Sample Surveys / administrative data	MLD M&E Section	2 years (2009, 2011, 2013) / annually
• % of participants at all ward level planning meetings in Nepal per year who are **Dalits** (as proxy for *all* DAGs)	TBD by LGCDP Sample Survey (See Note 1)	TBD after the LGCDP Sample Survey	Sample Surveys / administrative data	MLD M&E Section	2 years (2009, 2011, 2013) / annually
• % of participants at all ward level planning meetings in Nepal per year who are **women**	TBD by LGCDP Sample Survey (See Note 1)	TBD after the LGCDP Sample Survey	Sample Surveys / administrative data	MLD M&E Section	2 years (2009, 2011, 2013) / annually
• % of project proposals submitted by **women's groups** in VDC annual plans	TBD by LGCDP Sample Survey (See Note 1)	TBD after the LGCDP Sample Survey	Sample Surveys / administrative data	MLD M&E Section	2 years (2009, 2011, 2013) / annually
IMPLEMENTATION					
• % of VDCs and municipality **block grants spent** on projects requested by **women's or disadvantaged groups** through the ward committee (as defined in the Interim Constitution)	TBD by LGCDP Sample Survey (See Note 1)	30% (12/2012)	Sample Surveys / administrative data	MLD M&E Section	2 years (2009, 2011, 2013) / annually
REPRESENTATION					
• Number of poor households (based on 8 indicators used in MLD DAG mapping) where no member was **previously engaged in any organization** in the last 3 years, but now is engaged in either school management committee, health management committee or VDC	TBD by LGCDP Sample Survey (See Note 2)	TBD after the LGCDP Sample Survey	Performance system of LGCDP social mobilizers	MLD M&E Section through social mobilizers	annually
• % of women in all **Integrated Planning Committees** at VDC level	TBD by LGCDP Sample Survey (See Note 3)	TBD after the LGCDP Sample Survey	Sample survey/ administrative records	MLD M&E Section	Annually
• % of members of disadvantaged groups in all Integrated Planning Committees at VDC level	TBD by LGCDP Sample Survey (See Note 3)	TBD after the LGCDP Sample Survey	Sample survey/ administrative records	MLD M&E Section	Annually

INCLUSION					
• % total budget of DDCs which explicitly **targets women** (as defined in the Gender Budget Audit guidelines)	TBD by LGCDP Sample Survey (See Note 4)	15% (12/2012)	Gender Budget Audits	GESI Section of MLD	Annually
• % total budget of DDCs which explicitly **targets members of disadvantaged groups** (as defined in the DAG Budget Audits)	TBD by LGCDP Sample Survey (See Note 4)	15% (12/2012)	Sample DAG Budget Audits	GESI Section of MLD	Annually

Note 1: This will be determined only after Ward Committees are set up
Note 2: This number will be "0" initially
Note 3: This will be determined after Integrated Planning Committees at VDC, DDC and municipality level have been set up
Note 4: This will be determined after first Gender Budget Audits and DAG Budget Audits are conducted

b) ACCOUNTABILITY					
MUNICIPALITY					
• % of citizens who can identify at least three concrete, **completed activities** of the municipality in the past 12 months	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	MLD Sample Surveys	MLD M&E Section	2 years (2009, 2011, 2013)
• % of citizens who can approximately identify current year **total annual budget** of the municipality (+/- 20%)	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	MLD Sample Surveys	MLD M&E Section	2 years (2009, 2011, 2013)
VDCs					
• % of citizens who can identify at least three concrete, **completed activities** of the VDC in the past 12 months	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	MLD Sample Surveys	MLD M&E Section	2 years (2009, 2011, 2013)
• % of citizens who can approximately identify current year **total annual budget** of the VDC (+/- 20%)	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	MLD Sample Surveys	MLD M&E Section	2 years (2009, 2011, 2013)
DDCs					
• % of citizens who can identify at least three concrete, **completed activities** of the DDC in the past 12 months	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	MLD Sample Surveys	MLD M&E Section	2 years (2009, 2011, 2013)

*to be finalized: one or two indicators on the level of activities and effectiveness of **evaluation societies***

Indicators	Indicator Baseline	Indicator Target	Means of Verification	Responsibility	Frequency
Output 1: Communities and community organizations participate actively in local governance processes (17.0m USD)					
• **Social Mobilization Guidelines** drafted	No (04/2009)	Yes (2010)	Social Mobilization Guidelines	M&E Section of MLD	One-off
• **DAG mapping** by households completed	No (04/2009)	Yes (2010)	DAG mapping report	M&E Section of MLD	One-off
• No. of VCDs **covered by social mobilization** through LGCDP	0 (04/2009)	3,915 (2012)	LGCDP administrative records	LGCDP PCU	Trimesterly
• No. of municipalities covered by social mobilization through LGCDP	0 (04/2009)	58 (2012)	LGCDP administrative records	LGCDP PCU	Trimesterly
• **Performance system** for social mobilizers in place	No (04/2009)	Yes (2010)	Performance system guidelines	LGCDP PCU	One-off
• % of citizens who say that they are satisfied with the performance of the **local social mobilizer**	pending design of performance system	pending design of performance system	Social Mobilizers Performance system	LGCDP PCU	annually
• % of citizens from **DAG households** who say that they are satisfied with the performance of the local social mobilizer	pending design of performance system	Pending first PM TBD after sample survey	Social Mobilizers Performance system	LGCDP PCU	annually
• Number of **Ward Citizen's Committees meetings** functional in VDCs and municipalities (at least 2 meetings per year)	pending first data collection	pending first data collection	Administrative data in MLD	M&E Section in MLD	annually
• Number of **Integrated Planning Formulation Committees** (IPFC) (at least 1 meeting(s) per year)	pending first data collection	pending first data collection	Administrative data in MLD	M&E Section in MLD	annually
• % of 75 DDCs that conduct a **Public/community Audit** per year	pending first data collection	pending first data collection	Administrative data in MLD	M&E Section in MLD	annually
• % of 75 DDCs that conduct a **Social Audit** per year	pending first data collection	pending first data collection	Administrative data in MLD	M&E Section in MLD	annually
Output 2: Increased capacity of citizens, communities and marginalized groups to assert their rights and hold local governments accountable (8.7m USD)					
indicators to be defined once key activities are better defined (e.g. information, education and communication activities; Local Governance and Accountability Facility)					

Indicators	Indicator Baseline	Indicator Target	Means of Verification	Responsibility	Frequency
Outcome 2:					
Increased capacity of Local Governments to manage resources and deliver basic services in an inclusive and equitable manner (150.8m)					
a.) MANAGING RESOURCES (DDCs)					
• % of all 75 DDCs that meet all 15[6] **minimum conditions** (as defined in 12/2008 by the MLD based on LSGA 1999) per fiscal year	63% (06/2008)	100% (12/2012)	National Synthesis Report by LBFC	LBFC	annually
• % of DDCs that score above 50 points in all 62[7] **performance measurements** and meet the minimum score in all 8 functional areas	41% (06/2008)	90% (12/2012)	National Synthesis Report by LBFC	LBFC	annually
• % of all 75 DDCs that **spend more than 80% of planned capital development budget**[8] per year	TBD after analysis of LBFC financial records in 2009	TBD after analysis of LBFC financial records in 2009	LBFC financial records	LBFC	annually
• % of all 75 DDCs that spend more than **10% of internal income** explicitly on women, children, DAGs, disabled and old people per fiscal year	29% (06/2008)	75% (12/2012)	Annual MC/PM assessment report for DDCs	LBFC	annually
• % of all 75 DDCs that have **less then 2% irregular expenditure**[9]	9% (06/2008)	80% (12/2012)	Annual MC/PM assessment report for DDCs	LBFC	annually
MANAGING RESOURCES (MUNICIPALITIES)					
• % of all 58 municipalities that meet the **Minimum Conditions** (as defined by MLD based on LSGA in 1999) per fiscal year	MC/PM assessment.2009	100% (2012)	National Synthesis Report LBFC	LBFC	annually
Indicator(s) on performance measurements to be defined pending the finalization of the municipality MC/PM guidelines					
MANAGING RESOURCES (VDCs)					
• % of all 3915 VDCs that meet the **Minimum Conditions** (as defined by MLD based on LSGA in 1999)	MC/PM assessment 2009	100% (2012)	National Synthesis Report by LBFC	LBFC	annually
MONITORING AND REPORTING					
• % of **outcome indicators** for which data supposed to be available are updated per year	TBD after assessment in 2009	100% (2012)	LGCDP indicator tracking sheets	M&E Section of MLD	annually
• % of **DDCs** that submit to MLD an **annual report** based on a template designed by MLD which includes a synthesized report on VDCs within August 15th	template not yet designed	100% (2012)	Reports from DDCs submitted to MLD	M&E Section of MLD	annually
b.) BASIC SOCIAL SERVICES					
• % of citizens who say that the **infrastructure** (roads, drinking water, electricity) offered by the local governments better meet their needs than last year	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	Sample surveys	M&E Section of MLD	annually
• % of DDCs which increase their **internal revenues** (excludes revenue sharing and central grants) by at least 15% compared to the previous fiscal year	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	Financial records of LBFC	LBFC	annually
• Number of LGCDP **pilot projects** which were scaled up with government or development partner funds outside the LGCDP budget	0 (04/2009)	3 (04/2012)	MLD reports	M&E Section of MLD	annually

Indicators	Indicator Baseline	Indicator Target	Means of Verification	Responsibility	Frequency
Output 3: Local governments gain access to greater fiscal resources in equitable and appropriate ways (121.0m USD)					
• Number of **DDCs assessed** on MC/PM by MLD on MC/PM per fiscal year	75 (06/2008)	75 (2012)	Annual MC/PM Assessment for DDCs	LBFC	annually
• Number of **municipalities assessed** by MLD on MC/PM per fiscal year	0 (04/2009)	58 (2010)	Annual MC/PM Assessment for municipalities	LBFC	annually
• Number of **VDCs assessed** by DDCs through out contracting per fiscal year	0 (04/2009)	3915 (07/2009)	DDC Assessment Compilation report	LBFC	annually
• **Block grand** funds disbursed through LGCDP to **DDCs** in million USD per fiscal year	8.2m (2008/9)	11.25m (2012/13)	LGCDP financial records (block grant allocation)	LGCDP PCU	Trimesterly
• **Block grand** funds disbursed to **Municipalities** in million USD per fiscal year	0m (2008/9)	2.5m (2012/13)	LGCDP financial records (block grant allocation)	LGCDP PCU	Trimesterly
• **Block grand** funds disbursed to **VCDs** in million USD per fiscal year	0m (2008/9)	29m (2012/13)	LGCDP financial records (block grant allocation)	LGCDP PCU	Trimesterly
Output 4: Appropriate capacity building services passed on to all levels of the local government service delivery system (26.4m USD)					
• % of DDCs and municipalities that receive **capacity development grants** through LGCDP per fiscal year	0% (4/2009)	100% (2012)	LGCDP financial records	LGCDP PCU	Trimesterly
• **Funds of capacity development grants** disbursed per fiscal year in million USD to DDCs and municipalities	0m (4/2009)	3m (2012)	LGCDP financial records	LGCDP PCU	Trimesterly
• Number of **guidelines and operational manuals** produced through LGCDP	1 (04/2009)	12 (2012)	LGCDP Trimesterly reports	LGCDP PCU	Trimesterly
• Number of **procurement plans** by DDCs produced with LGCDP support per fiscal year	0 (04/2009)	75 (04/2012)	LGCDP Trimesterly reports	LGCDP PCU	Trimesterly
• Number of DDCs having Capacity Development Plan	TBD by LGCDP BLS 2009	75 (04/2012)	LGCDP Trimesterly reports	LGCDP PCU	Trimesterly
Output 5: Local governments service delivery mechanisms and processes fine-tuned (3.4m USD)					
• Number of decentralization **pilots** funded through LGCDP	0 (03/2009)	2 (2012)	LGCDP Trimesterly reports	LGCDP PCU	Trimesterly

Indicators	Indicator Baseline	Indicator Target	Means of Verification	Responsibility	Frequency
Outcome 3:					
Strengthened policy and national institutional framework for devolution and local self-governance (5.8m USD)					
SECTOR-WIDE APPROACH					
• Number of development partners (DPs) that sign **Joint Financial Agreement**	0 (04/2009)	10 (2012)	Joint Financial Agreement	LGCDP PCU	Trimesterly
• Total **funds** paid into **Joint Financial Agreement** basket in million USD	0 (04/2009)	600 million (2012)	LGCDP financial records	LGCDP PCU	Trimesterly
SECTOR DEVOLUTION					
• Number of **secretary-level meetings, participated in by** at least five line ministries that explicitly includes agenda on decentralization, held per year	0 (2008)	3 (2012)	Meeting minutes	Policy Coordination Committee/Decentralization Section at MLD	annually
STAFFING POLICIES					
• **Local Service Commission Act** passed to regularize local recruitment	No (04/2009)	Yes (2012)	Local Service Commission Act	MLD M&E Section	one-off
• % of **local government staff** (DDCs, municipalities and VDCs) that are **women**	TBD by LGCDP BLS 2009	33% (2012)	Sample survey / administrative data	MLD Personnel Administration Section	2 years / annually
• % of **local government staff** (DDCs, municipalities and VDCs) that are **Dalits** (as proxy for *all* disadvantaged groups)	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	Sample survey / administrative data	MLD Personnel Administration Section	2 years / annually
LOCAL BODIES FISCAL COMMISSION / DMIS					
• **LBFC database** contains data on internal and external revenue generation disaggregated by all DDCs, all VDCs and all municipalities	No (04/2009)	Yes (2012)	LBFC database	LGCDP PCU	one-off
• Number of unique visitors on **DMIS website** per Trimester	0 (04/2009)	TBD	MLD website	MLD M&E Section	Trimesterly
LOCAL BODIES ASSOCIATIONS					
• % of LDOs of DDCs who think that **ADDCN** is performing better now then one year ago	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	LGCDP Sample Surveys	MLD M&E Section	2 years
• % of Executive Officers of municipalities who think that **MuAN** is performing better now then one year ago	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	LGCDP Sample Surveys	MLD M&E Section	2 years
• % of VDC Secretaries who think that **NAVIN** is performing better now then one year ago	TBD by LGCDP BLS 2009	TBD after LGCDP BLS	LGCDP Sample Surveys	MLD M&E Section	2 years
MAINSTREAMING GENDER EQUALITY AND SOCIAL INCLUSING					
• % of DDCs that conduct **GE/SI audit** per year (proxy for implementation of GE/SI strategy)	0 (04/2009)	50% (2012)	MLD administrative data	MLD M&E Section	annually
CHILD-FRIENDLY LOCAL GOVERNANCE					
• Number of local bodies (VDCs, municipalities and DDCs) that have adopted child-friendly local governance	0 (04/2009)	122 (2012)	MLD annual reports	MLD M&E Section	annually

Indicators	Indicator Baseline	Indicator Target	Means of Verification	Responsibility	Frequency
Output 6:					
Policy framework for decentralization promoted a more enabling environment for effective, transparent and accountable local governance (1.5m USD)					
• **Review** of decentralization and sector devolution policy drafted	No (04/2009)	Yes (2012)	Review document	LGCDP PCU	One-off
• **Child-friendly national framework and guidelines** developed	No (04/2009)	Yes (2012)	Approved document from MLD	LGCDP PCU	One-off
• Sector devolution **guideline** published	No (04/2009)	Yes (2012)	Guideline document	LGCDP PCU	One-off
• **SWAP framework document** drafted	No (04/2009)	Yes (2012)	SWAP framework document	LGCDP PCU	One-off
• Number of reviews of lessons learned on „demand" side of local governance linked to LGCDP	0 (2009)	1 (2012)	Review documents	LGCDP PCU	Trimesterly
• **Local Service Commission Act** drafted	No (04/2009)	Yes (2012)	LSCA draft document	LGCDP PCU	One-off
• **National Capacity Development Strategy** drafted	No (04/2009)	Yes (2012)	Strategy document	LGCDP PCU	One-off
• Number of **outcome and impact studies** published under LGCDP	0 (04/2009)	1 (2012)	Study documents	LGCDP PCU	Trimesterly
Output 7:					
Capacity of central government and national non-government institutions strengthened to provide appropriate support to local governments is enhanced (2.0m USD)					
• Number of new articles on **policy analysis** published by MLD in Journal of Local Governance	0 (2008)	48 (2012)	Journal Swashasan at http://mld.gov.np	MLD Information and Publication Unit	Trimesterly
• **Formula** for intergovernment fiscal transfers revised	No (04/2009)	Yes (2012)	Formula document	LGCDP PCU	One-off
• **Fiscal Decentralization Roadmap** updated	No (04/2009)	Yes (2012)	Roadmap document	LGCDP PCU	One-off
• Number of **Revenue Potential Studies** of VDCs, DDCs and municipalities conducted by LBFC	0 (2008)	3 (2012)	Study documents	LGCDP PCU	Trimesterly
• **Capacity assessment** of all three LB associations (ADDCN, MuAN, NAVIN) published	No (04/2009)	Yes (2012)	Capacity Assessment documents	LGCDP PCU	One-off
• All three **Local Bodies associations** (ADDCN, MuAN, NAVIN) have a furnished office building	No (04/2009)	Yes (2012)	Observation of office buildings	LGCDP PCU	One-off
• **DMIS data** is available online	No (04/2009)	Yes (2012)	DMIS website	LGCDP PCU	One-off
• Number of senior Local Government staff **trained on Gender Equality / Social Inclusion** under LGCDP	0 (04/2009)	TBD	LGCDP administrative records	LGCDP PCU	Trimesterly
• Number of decentralization focal points of line ministries **trained in decentralization** under LGCDP	0 (04/2009)	TBD	LGCDP administrative records	LGCDP PCU	Trimesterly
Output 8:					
Support provided for programme implementation (2.3m USD)					
• Total **funds** in million USD dollars spent on pilots (output 8)	TBD (2009)	2.3m (2012)	LGCDP financial records	LGCDP PCU	Trimesterly

Appendix 3 – Key documents used in the Mid-Term Review

In addition to specific documents referenced in the body of this review report, the following reference material was used by the MTR team.

Broad Topic	Document
Program Planning	LGCDP program document of July 11/2008
	Programme operational manual
	Annual strategic implementation plan (ASIP) April 2009
	Annual strategic implementation plan (ASIP) April 2010
	Procurement Plan for 2009/10
	LGCDP Monitoring and Evaluation Framework (prepared 2009)
Financial Management	OAG Annual Audit Report 2008/09
	Financial Monitoring Report Trimester reports (those available)
	Revenue Potentiality/Expenditure Needs of Himali Districts
	Performance based (MCsPMs) Grants (FY 2008/9)
	Block Grant study (draft)
	MC/PM Assessment 2008/09 implementation year
	MC/PM Assessment 2009/10 implementation year
National Advisory Committee	Aide Memoire of meetings of NAC and NACs (selected)
	NAC Decision on SM 2009
JFA related documents	Joint Financing Agreement
	ToRs on Study on options for SWAp in local governance
JDPWG minutes	Joint Development Partner Working Group minutes (selected)
QAM	Annual Technical Review 2009/10
	Briefing Notes
MCPM Manuals	DDC MCPM Assessment Manual revised 2008 (Nepali)
	VDC MC Assessment Manual (Nepali)
	Municipal MCPM Assessment Manual (Nepali)
Baseline and thematic LGCDP reports/ studies/ manuals	Summary of survey baselines 2008-2009 (tied to LGCDP M&E framework)
	MoLD CD Action Plan
	ToR Decentralization/sector devolution review
	Social Mobilization Guidelines (final draft 28.12.09)
	Concept Note for LGAF
	LBs CD manuals and CD plans (Nepali)
	DAG Guideline (Nepali)
	IEC spending patterns of DDCs from CCUs
	DAG Guideline (only in Nepali – need English)
	Social protection Pilot Concept
	GESI policy and ADB review
	Fiduciary risk assessment reports from ADB, MLD
	OCHA Maps and reports of security sensitive areas
	Audit manuals for DDCs, VDCs, and Municipalities
	Proceedings of "Interaction" on federal state structure
	Environmental checklist and guidelines from MLD

Non-LGCDP documents that may be held by program (or collected during the Review)	LB association annual reports 2008 and 2009
	LSGA and LSGR 1999
	Media articles as collected by the programme and internet searches
	Government 3 Year Plan
	Local Bodies Fiscal Commission Report

Appendix 4 – General Work Plan of Mid-Term Review of LGCDP

MLD/LGCDP/PCU
Krishna Gyawali, Secretary, MLD
Som Lal Subedi, National Project Director, LGCDP
Gopi Khanal, Program Manager, LGCDP
Naranyan Band, Procurement Specialist, PCU
Bishwa Basaula, Financial Manager, PCU
Laxman Datt Pant, IEC Expert, PCU
K. L. Devkota, Fiscal Decentralization and Public Financial Specialist, PCU
Durga Devkota, S.D., PCU
Indra Karki, Decentralization/Local Government Specialist, PCU
Sangram S. Lama, Governance Specialist, PCU
Amrit Lamsal, Administrative Officer, PCU
Bruce Pollock, Process Management & Implementation Specialist, PCU
Rhagu Shrestha, Monitoring and Evaluation Specialist, PCU
Niranjan Shrestha, Environmental Specialist, PCU
Nimala Thapa, GESI Specialist, PCU
Jiwan Dhital, Capacity Development Specialist, PCU
Dr. Hikmat Bista, Chair, LGAF

Output and Activity Managers MLD
Narayan Gyawali, Output Manager 1 (Municipality Management Section)
Govinda Bdr. Karki, Activity Manager (Municipal Planning Section)
Ganesh Pd. Pandey, Output Manager 2, (Local Bodies support Section)
Indu Ghimire, Activity Manager, (Information, Publication & Documentation Section)
Indra Kr Chongtenli, Activity Manager, (Legal Advisory Section)
Devi Pd. Gnyawali, Output Manager 3, Financial Administration Section
Badri Nath Ghimire, Activity Manager, (Local Bodies Financial Commission Secretariat)
Yama Nath Sharma, Activity Manager, (Local Bodies Financial Commission Secretariat)
Saligram Gijal, Activity Manager, (Local Bodies Financial Commission Secretariat)
Uttam Nagila, Output Manager 4, (HRD and Internal Management Section)
Sudha Sharma, Activity Manager, (GESI Section)
Dhan Bdr. Shrestha, Output Manager 5, (Monitoring and Evaluation Section)
Bishnu Pd. Gauli, Activity Manager, (Population VERS)
Bimal Raj Bogale, Section Officer (Population and Vital Registration Section)
Bhupendra Rayamajhi, Section Officer (Monitoring and Evaluation Section)
Ramesh Aryal, Section Officer (Monitoring and Evaluation Section)
Sanubabu Adhikari, Section Officer (Monitoring and Evaluation Section)
Narayan Bdr Thapa, Output Manager 6, (Decentralization Action Plan Coordination Section)
Binod Prakash Singh, Activity Manager, (Environment Management Section)
Prem Prakash Upreti, Activity Manager, (Personnel Administration)
Purushottam Nepal, Output Manager 7, (Planning & Foreign Aid Coordination)

QAM
Finn Lauritsen, Senior Technical Expert

Krishna Neupane, National Expert
Prem Sharma, National Expert

Other ministries/bodies
Rameshore Prasad Khanal Secretary, Ministry of Finance
Surya Prasad Acharya, Joint Secretary, Human and Financial Resources, Ministry of Health
Hari Pd Dahal, Joint Secretary Planning, Ministry of Agriculture
Dr. Labaddev Awasti, Ministry of Education
Bhawa Datta Bhatta, Joint Secretary NPC
Khem Prasad Dahal, Acting Auditor General
Som Raj Pokharel, Assistant AG
Moha Datta Timilsina, Deputy AG
Pathak, Deputy Comptroller General

Local Bodies associations
Parashuram Upadhayay, Executive director, National Association of VDCs in Nepal (NAVIN)
Kalanidhi Devkota, Executive Secretary, Municipal Association of Nepal (MuAN)
Krishna Prasad Jaisi, Spokeperson, ADDCN
Hem Raj Lamichane, Executive Secretary, ADDCN

Development partners
Rachana Shrestha, Governance and Capacity Building Officer, ADB
Paolo Spantigati, Principal Country Specialist, ADB
Ed Doe - Counsellor (Development), Canadian International Development Agency
Prabin Manandhar, Director, Canadian International Development Agency
Lars P. Christensen, DANIDA
Kate Whyte, Governance Advisor, DFID
Arun Kumar Regmi, Head of Section, GTZ-UDLE
Horst Matthaeus, Principal Advisor, GTZ-UDLE
Elisabeth Capeller, Swiss Agency for Development and Cooperation
Bimala Rai Paudyal, Swiss Agency for Development and Cooperation
Beth Verhey, UNICEF
Dovan Lawoti, UNICEF
Rojee Joshi, UNCDF
Alexandra Walcher, Program Officer, UNCDF
Neil Webster, UNDP
Rafeeque A. Siddiqui, UNDP
Sharad Neupane, UNDP
Bijay Thapa, UNFPA

Consultants to LGCDP/NGOs
Mike Winters – MLD Capacity Development Strategy
Rajendra Giri – DMI
Jit Palkirat, Janajati Pratisthan
Shuva Sharma, Scott Wilson Nepal
Ganga Datta Awasthi, Scott Wilson Nepal

Rabindra Adhikari, Scoot Wilson Nepal
Khushiram Dhauniya, Livelihoods and Forestry Program, Dang
Bikash Chaudhary, Rural Reconstruction Nepal, Dang
Shubha Laxmi Joshi, Nepal MSR Center, National Service Provider (SM)
Jaya Sharma, Gender and Social Development Consultant, ADB
Hari Bastola, CECI – Nepal
Prahlad Thapa, Team Leader/Sahakrya, CECI - Nepal

LGCDP Cluster Office
Biratnagar:
Mahesh Nepal, Cluster Coordinator
Binesh Roy, Monitoring and Reporting Officer
Sujan Dhakal, Program Associate
Kailali:
Sujit Man Rajbhandari, Monitoring and Reporting Officer
Padma Sorali Magar, Program Associate
Chandra Prasad Sigdel, Cluster Coordinator
Nepalgunj:
Tika Ram Panthi, Cluster Coordinator
Madan Acharya, Monitoring and Reporting Officer
Pokhara:
Dhana Bhusal, Cluster Coordinator
Sushil Neupane, Monitoring and Reporting Officer
Lila Diyali, Program Associate
Hetauda:
Saroj Shrestha, Cluster Coordinator
Gujeshwori Shrestha, Social Mobilization Coordinator
Manoj Krijha, Monitoring and Reporting Officer
Punam Chaudary, Program Associate

Dhankuta District
District Development Committee:
Babu Ram Gautam, Local Development Officer
Tirtha Prasad Dhital, Planning Officer
Deepak Rai, District Facilitator
Bhim Pokharel, Internal Auditor
Sita Ram Gautam, Program Officer
Devendra Poudel, Accountant
Lokendra Kunwar, Assistant Accountant
Anup Lal Shah, District Agriculture Development Office
Bhupal Biswakarma, DADO
Puskar Prasad Pokharel, DTO
All Party Mechanism:
Bhim Rai, NCP UML
Gopal Bahadur Biswakarma, NCP United
Bikash Pradhan, Rastriya Jana Morcha
Ghanshyam Rai, NCP Maoist

Hari Bhakta Bantawa Rai, Rastriya Janamukti Party
Radhika Bhudhathoki, NCP Male
Civil Society Organizations/Local Service Providers:
Narayan Joshi, SOLVE
Parsuram Nepal, HUSADEC
Min Prasad Subedi, PRODEV
Khem Ghimere, HUSADEC
J.P Bhujel, SOLVE
M& E Committee:
DDC Planning Officer
Village Development Committee – Rajarani:
Narayan Khanal, VDC Secretary
User's Committee (Hospitality Management Course in a local school):
Agam Bahadur Thapa
Ambika Baniya
Dandagaun VDC:
SMC Chair

Dharan Municipality
Municipality Officials:
Chakra Rai,
Raju Pokharel, Engineer
Suraj Shrestha, Engineer
Rajendra Kumar Poudel, Executive Officer
Liran Bhujel, Assistant Planning Officer
Ram Kumar RAi, Legal Assistant
Ganesh Prasad Khatiwada, Administrative Officer
Shailesh Shakya, Financial Management Technician
All Party Mechanism:
Manohar Karki, Rastriya Janashakti Party (APM)
Lakhan Shah, Madheshi Janaadhikar Forum Nepal (APM)
Govardhan Shah, Nepal Sadbhavawana Party (APM)
Jay Kumar Rai, NCP (UML)
Lal B. Limbu, Rastriya Janamukti Party
Kumar Themseng, MSSLRP
Jitendra Biswakarma, DJP
Purna Bahadur Basnet, Rastryia Prajatantra Party

Banke District
Nepalgunj Municipality:
District Development Committee:
Sambhu Pd. Luitel, Local Development Officer
Vim Bahadur Malla, District Facilitator
Prabhakar Bhattaria, Assistant Municipality Facilitator
All Party Mechanism:
Navin Sharma, NCP Maoist
Krishna Pandey, Rastriya Jana Morcha

Samsuddhin Siddhaqui, NCP UML
Warish Ali Ansari, Rastriya Prajatantra Party Nepal
Urmila Maghi, NCP Male
Bir Bahadur Oli, NCP (Marxist)
Hari Bhandari, NCP United
Dr. Rajendra Gupta Nepal Sadbhawana Party
Hazi Jan Mahommadesh, Madheshi Jana Adhikar Forum (D)
User's Committee:
Manju Nepali, Badi Tole Bikash
Shankar Pokharel, Ward No 16
Goma Acharaya, Ward No 5
Kamala KC
Laxmi Pokharel
Sadan Kurmi

Tulsipur Municipality
Municipality:
Hari Datta Kandel, Executive Secretary
Shubas Gautam, Administrative Officer
Deepak Bhattaria, Assistant District Facilitator
Social Welfare Focal Person
Accountant
User's Committee (School Building)
User's Committee (Drainage)

Pyuthan District
District Development Committee:
Bhuwan Prakash Bista, Local Development Officer
Tufan Singh KC, Planning Officer
Tulsi Bhattarai, Engineer, DTO
Laxman Acharya, Program Officer
Bimal Kumar Shrestha, Accountant
Chandra Bahadur BC, Social Development Officer
Bhuwan Pokharel, District Facilitator
All Party Mechanism:
Hari Prasad Rijal, NCP UML
Madhav Sharma, NCP United
Dhaneshwor Gautam, NCP Male
Tika Ram Poudel, NCP United
Buddha Bahadur GC, Rastriya Prajatantra Party
Government Line Agencies:
Damodar Sharma, Nepal Red Cross Society
Ram Lall Khadka, District Education Office
Sathjit Kumar Shrestha, District Health Office
Giri Raj Poudel, District Agriculture Development Office
Civil Society Organizations/Local Service Providers:
Nirmala Pokharel, RECODEF

Binod Pokharel, JJCDC
Shiva Ram Pandit, JBSN
Hira Thapa, WCF
Devendra Barma, Tikuri Active Youth Group
Gyan Kumar Tamang, CARE, CSP
Dal Bahadur KC, MRDCC
District Social Mobilization Committee
Dal Bahadur KC, National Association of VDCs in Nepal
ASta Kumar Shrestha, Child Welfare Committee
Lokendra Acharya, Women Development Office
Sita Poudel, Women Development Office
<u>User's Committee (Lutyan Tallo Dhari), Khaira VDC:</u>
Ganesh Bahadur GC, VDC Chair/Secretary
Madan Aryal
Mukunda Pokharel
Hasta Bahadur Basnet
Himu Giri
Netra Bahadur Basnet
Hem Raj Aryal
Gopal Magar
<u>User's Committee (Women's Saving and Credit Cooperative):</u>
Bhawani Acharaya
Tulasa Basnet
Ganga Giri

Bara District
<u>District Development Committee:</u>
Shital Dumar Gupta, Local Development Officer (Officiating)
Pradeep Poudel, Planning Officer
Rajesh Lall Karna, Engineer
Badri Bahadur Thapa, Assistant, Planning Section
Bina Pandey, Assistant District Facilitator
Prem Babu Patel, Asst. Accountant
Surendra Chaudhary, Asst. Accountant
<u>All Party Mechanism:</u>
Trilok Chaudhari, NCP UML
Ahmad Firoz, Nepal Sadbhavawana Party
Suresh Sahani, Rastriya janamukti Party
Jaya Chandra Chaurasiya, Nepali Congress
Mahendra Prasad Mandal, Sadbhavana Party
Raj Narayan Shah, Rastriya Prajatantra Party Nepal
Karna Thapa, Rastriya Jana Morcha
Devata Mani Upadhaya, Nepali Janata Dal
Mohan Prasad Yadav, Rastriya Prajatantra Party
Birendra Prasad Yadav, Rastriya Janashakti Party
Bachha Prasad Yadav, Rastriya Jana Morcha

Beniyani VDC
VDC Secretary
User's Committee (School Building)
All Party Mechanism
Bariyarppur VDC
VDC Secretary
User's Committee (Community Hall)
All Party Mechanism

Political Party Representatives
NAVIN, MuAN and representatives from major parties.

Appendix 5 – List of Persons Met in the MTR

DATE	Activity
Aug. 16-Sept 2	• Contracting/mobilization of national consultants • Preparations, with national consultants on the ground and Team Leader in Canada
Sept. 3-4 (Friday)	• Travel from Toronto to Kathmandu for Gabe • Arrive Sept. 4 late in the day
Sept. 5 (Sunday)	• Consultant team meeting • Meeting with QAM/PCU
Sept 6 (Monday)	• Orientation to LGCDP by PCU • MTR meeting
Sept. 7 (Tues.)	• Separate meetings with UN (UNDP,UNFPA, UNCDF); Norway, Swiss (SDC); Danida
Sept. 8 (Wednesday)	• Meeting with LGCDP program specialists, and an MLD output manager • CIDA meeting • Finalization of draft Methodology and dissemination
Sept. 9 (Thursday)	• ADB meeting • Meeting with some PCU Output/Activity Managers and specialists • Meeting with NAVIN • DFID (DP Focal group chair) lunch meeting • *Donor Focal Point meeting on Methodology report*
Sept. 10 (Friday)	• Meeting with GTZ • Reading of resource material
Sept. 11	• MTR meeting
Sept. 12	• Meeting with Administrative Officer - PCU • Meeting with National Project Director LGCDP • Meeting with Ministry of Health and Population • Meeting with MoF, OAG, FCGO • Meeting with Ministry of Finance • Meeting with UNCDF
Sept. 13-16	• Travel to field locations (District Dhankuta; DTCO Dhankuta; Municipality Dharan; VDCs Rajarani and Danda Bazaar; COs/projects; SMC - kitchen equipment for Hospitality Training School, Chair of Indigenous group -Community Hall, Senior Citizen Centre retaining wall, dam enhancement (gabions); SMC – New School building)
Sept. 16 (Thursday)	• LGAF National Committee • Ministry of Agriculture
Sept. 17 (Friday)	• MUAN • Ministry of Education • Social Mobilization Regional gathering (GTZ and others) • DFID (Donor Focal Point)
Sept. 18	• Team meeting to analyze findings

DATE	Activity
(Saturday)	
Sept. 19 (Sunday)	• Meeting with ADDCN • Cluster Coordination Office, Pokhara • Meetings with PCU/MLD accountants
Sept. 20 (Monday)	• Pokhara; regional coordination meeting • Meetings with PCU/MLD accountants
Sept. 21-24	• Travel to field locations and return to Kathmandu • Team #1: Cluster Coordination Unit, Nepalgunj Municipality, User Group projects in Nepalgunj, CSP Monitoring and Supervision Officer, DED Municipal Learning Centre Coordinator, LDO of Banke District, VDC Sitapur and market site User Group, District Kailali, road project User Group in Dhangadhi Municipality, Malakecht VDC Secretary/APM/SMC and projects/User Groups (school boundary wall, culvert), Godauri VDC Secretary/Technical Officer. • Team #2: Tulsipur Municipality: Meeting with Executive Secretary, Planning Officer, Accountant, Program Officer, Assistant Municipality Facilitator. Meeting with All Party Mechanism, Meeting with User's Group -- School building and drainage, meeting with LFP, RRN, RMO. Pyuthan District: meeting with DDC officials (Local Development Officer, Program Officer, Planning Officer, CD Focal Person, M&E Committee, SM Committee), DTCO, Government Line Agencies (Agriculture, Education, Health and Livestock), meeting with All Party Mechanism, meeting with Local Service Provider. Meeting with VDC Secretary/Technical Officer, (Khaira VDC), meeting with User's committee - Irrigation and Women Cooperative. • Consultant for MLD CD study (Mike Winter)
Sept. 25	• Team meeting • DMI (Consultant – Rajendra Giri)
Sept. 26	• Meeting with Output Manager 3 and LBFC
Sept. 27 (Monday)	• Meetings with PCU administrator/other staff/QAM • Preparation for briefing with DPs
Sept. 28 (Tuesday)	• DIMC secretariat/working group • DPs focal points • Meeting with Scott Wilson • Meeting with ADB
Sept. 29	• Meeting with MSR • Meeting with Consultant on Blended Block Grant Guidelines (G. Awasthi)
Sept. 30	• Meeting with USAID • Meeting with UNICEF • Meeting with MLD Secretary
Oct. 1	• *Presentation/discussion of preliminary findings and conclusions with DPs/GoN* • Meeting with NPC • Janajati Pratisthan • Meeting with UNCDF
Oct. 2- 5	• Field visit to central-eastern Terai region (Hetauda CCU, Bara district DDC, Babuain and Bariyarpur VDCs and User group projects) • Preparation of End of Mission Report
Oct. 6	• Meeting with political parties/NAVIN/MuAN

DATE	Activity
	• Meeting with QAM (fiduciary risk assessments)
Oct. 7 (Thursday)	• *Presentation and discussion with JFA/UN DPs on End of Mission Report* • Consultant coordination meeting before separating
Oct. 9-25	• Draft Review Report is prepared and shared with DP/GoN on October 25
Nov.6- 8	• Final MTR Report prepared and submitted

Appendix 6 – List of decentralization related explorations

The activities below are drawn from 2009/2010 trimester reports and the 2010/2011 Responsibility matrix (they may not be strictly additive), and include both JFA and UN system funding. They are lumped together to indicate the range of activities and resources relating to learning/exploration activities that are closely connected (and might have been better integrated and shaped to respond to future challenges of state restructuring).

Activity Code	Title of Activity	Budget (Rs.)	Status
3.6.1	Assess and recommend own source revenues of local bodies	3,040,000	Not yet started
5.3.1	Design sector conditional grant system pilot and appropriate software	45,000,000	
6.3.2	Formulation of Investment Plan for grant expenses in devolved sector	760,000	Dropped
6.4.1	Review staffing policies for local government	500,000	Contract awarded
6.1.1	Review previous policies on decentralization in line with interim constitution	15,200,000	Not yet started
6.1.2	Study on local body restructuring in the context of new constitution	1,998,000	Not yet started
6.1.3	Formulation of local governance policy in the federal context	299,996	Not yet started
6.2.1	Workshop/orientation on decentralization, devolution and self-governance	360,010	Not yet started
6.8.1	Preparation of Sector Devolution Action Plan	759,980	Not yet started
7.1.1	Support MLD in devising & developing policies on local governance in the context of federalism including orientation to legislators (one workshop	365,000	completed
7.1.2	Study, training, workshop & exposure visit for capacity building of the officials of MLD & local bodies including south-south experience sharing	2,520,000	completed
7.2.1	Provide technical assistance in defining the role & functions of Fiscal Commission in the context of federalism	7,992,000	Not yet started
7.2.5	International training /study tour/exposure visit	1,520,000	completed
7.4.1.	Review and recommend on organizational development of MLD	500,000	Not yet started
7.5.1	Review & revise existing M&E arrangement for local bodies	500,000	Contract awarded
7.7.1	Capacity building of Decentralized focal persons	2,500,000	
7.9.1	Exposure visit on local decentralization –policy level	2,660,000	Not yet
7.9.2	Exposure visit on decentralization – local body level	2,280,000	completed
"7.9.2"	Policy coordination among the central level ministries and other agencies	1,900,000	Just begun

Appendix 7 – QAM review of previous fiduciary risk assessments

Risk	Recommendations	Progress
Viable and stable interim local councils are not established	• Active measures will be taken at the VDC level to foster village level councils. If not established the project will continue to work through local government.	Not initiated yet
	• Local pressure created through inbuilt Social Mobilization component within LGCDP and commitment expressed by the major political parties towards empowering local governments for service delivery.	Social mobilisation activity of LGCDP in process to be implemented
	• A number of other measures are in place, including social audit, public hearing, public disclose of LB performance etc.	Implemented
Cultural and societal norms do not allow for social inclusiveness or gender sensitivity	• There is an increasing activism amongst marginalized groups to ensure "voice" – and this will be resisted with difficulty by local elites. In addition, this and other programmes will work hard to provide incentives for disadvantaged groups to voice themselves and to be heard.	In process by LGCDP by stipulating budget percentages norms for target groups
	• Civil society/community's pressure to all the stakeholders will be inclusive through SM component	SM component in process to be implemented in line with establishing citizens´ forums
	• SMs will receive training in these issues	National service provider has been recruited in Sep 2010 for the training
Fund flow processes prove ineffective and inefficient	• DPs through regular joint monitoring, feedback and reviews put pressure on the government. Mitigating measures and adjustment of funding flows may be considered, but the first step will be to strengthen the control and capacity of involved partiers in flow of funds.	Fund flow processes and review of these have not yet been discussed at the regular meetings between DPs and GoN. The release of funds from Government has been delayed
Weak financial management capacity in MLD	• Technical Assistance will be provided for key areas	Networking account system is being considered
Weak financial management capability of community groups that are able to access a portion of the top-up grants	• There should be a system to ensure that prior to any communities being allocated any level of resources, there is not only an assessment of the capability to manage the resources, but also that there is a protocol in place to monitor such use	Proper guidelines for the establishment of Monitoring Committees and functioning are still required
	• Some part of the capacity development grant can be set aside for use by community groups so that they are better able to manage the resources that they would lay claim over	Has not been initiated at the user level yet
	• Regular monitoring by local bodies would also help	Need improvement

Poor capacity to audit and lack of follow-up on audit, poor internal audit and absence in some LBs	• Support to OAG, development of LB audit guidelines, training, and support to system with QA of VDC audit. • The MC/PM system promote LB incentives to follow-up on irregularities identified in the audit reports • The MC/PM system promotes LB incentives to follow-up on irregularities identified in the audit reports. MCPM system will be continue at the DDC level; to be extended at municipal level; and DDC will introduce a simple mechanism of MCPM for VDC level (with the support of MLD); Internal audit system will be strengthened and audit report will be published for transparency. • The MC/PM system promotes internal audit and has had an impact in the 20 districts where it has been piloted. Rolling out of the system is likely to improve financial management performance and internal audit, based on MTRs of DFDP and external fiduciary risks assessments (DFID, 2006).	Adopted as activities in LGCDP but not implemented yet Additional indicators on MC/PM are required for reporting External and internal audit systems still need to be improved and an overall independent institution is necessary More training to accountants is needed
Weak procurement capacity and experience in MLD and LBs	• The new Procurement Act and Regulations are useful tools in strengthening of the public procurement • Standards are set and in place by MLD • Transparency in procurement ensured • Training will be provided in application of the new Procurement Act and Regulations. • Core TA includes recruitment of a procurement specialist • MC/PM system covers LB procurement performance and promote improvements	More time consuming process. Consistency between planning cycle and procurement process are need. Competent TA provider for procurement process has not been initiated
Staff instability in local governments	• The Government has indicated that it does wish to address this issue – and this commitment will be carefully monitored. LGCDP will react rapidly to any signs of undue staff turnover in local governments, as well as bolster the ability of local interim councils to insist on staff stability • Regular review meeting between the DPs and MLD to minimise frequent staff transfers, backed by review of staff performance • Training for staff will be conducted	Compliance with GoN´s rules for transfer is still low. Recruitment of sufficient competent local staff is still to be improved. Regular meetings between DPS and MLD have to discuss about staffing along with the performance review Selection of trainees and training will help to improve the performance and motivation
GoN fiscal resources and donor funding decrease dramatically	• GON's finances have improved now that the conflict has ended and donors are committed to providing assistance in the post-conflict period	The practice of utilisation of resources and timely reporting need to be improved

Development partners prove reluctant to align themselves within a single framework of support for decentralisation	• The Paris Declaration and commitment of some key development partners should mitigate against this • Program adopts flexible approaches to accommodate different modalities or MLD allows DPs to operate within a framework. • DPs will meet on a regular basic (monthly) with MLD to coordinate LGCDP. JFA will be elaborated and gradually expanded. The DPs have agreed to coordinate their capacity building support. • MLD will take a strong lead in DP coordination.	Programmes of DPs outside LGCDP are still ongoing. DPs still need to fine tune funding modalities. Different modalities are applied NAC subcommittees established with regular monthly meetings. Number of signatories of JFA has increased. Study of future SWAp modalities initiated but donor harmonisation is still lacking
Negative environmental impact of LB projects	• The MC/PM system promotes proper planning processes • Most projects will be small scale projects without environmental impact • Screening tools will be developed to ensure that the LBs considers this important issue in planning and implementation	Planning included but impact assessment for all projects has not been included Most projects are small scale projects. Screening tool applied at cluster level.
Weak financial management performance of LBs	• The MC/PM system should be up-dated annually to incorporate lessons learned and to further deepen and widen fiduciary safeguards as necessary. This should be combined with a major programme of supply- and demand-driven capacity building for the LBs (the AT endorses this part of the PD, but sufficient funds should be allocated to these important initiatives). It should be emphasized that the assessments should be done in an impartial, independent and external manner with a strong level of quality assurance. • Support to FCGO, OAG, ICAN will be provided • Support to improve reporting and monitoring systems	Updating and refinement of the contents not regular More coordination and consultation needed. Support provided through LGCDP - in process

Proposed fiduciary risk management plan for LGCDP, ADB June 2010

Risk	Recommendations	Progress
Efficient, transparent and accountable use of Block Grant by Local Bodies compromised because GoN and DP contributions are not	The planning for the blending of GoN´s and DPs´ contributions for FY 2011/12 Preparation of consolidated Block Grant Guidelines to ensure: - Classification and coding of the block grants gets streamlined accordingly	Starting FY 2010/11 Work ongoing FY 2010/11: - Will be implemented by FCGO according to

blended		international standards of accounting
	– LBs receive reliable indicative planning and budget figures on the size of the grant prior to the start of their planning process, i.e. no later than December – – LBs receive one comprehensive authorization per year for the expended block grant – The block Grant is released to the LBs in three instalments over the FY – July, November and March in line with the ASIP disbursement schedule – The investment menus for the block grant and capacity building grant are clear and strictly comply with – Reporting on the block grant is done on the basis of one consolidated reporting format, covering the needs of MOF, NPC, MLD and the partners to JFA It is recommended that the guidelines get drafted as a joint effort between MLD and JFA partners	– Ceilings will be provided timely along with directives – There is only one – MLD and MOF to comply with – MLD and DDCs to provide and follow up on. Investment menus have been revised in the blended grant guidelines – FCGO will design later on and AOG will confirm The consolidated guidelines have been reviewed by the PFM thematic group. This will be covered by an ongoing study about accounting and procurement process
Lack of clarity on the flow of funds and the utilization of the block Grant at DDC/VDC level	– Design and implementation of a public expenditure tracking system around the block grant	Outline for the contents of public expenditure review and tracking study is included in the MTR. LGCDP have guideline for the number of projects and size as well as the types for implementation.
Delays in financial reporting by LBs compromise accountability and transparency in the use of the block grant	– Make timely LB reporting on fund utilisation a trigger for future releases of block grant (requires a change in the MC/PM indicators) – Strengthen the capacity of MLD to handle the reports and follow up	Timely reporting for FY 2009/10 has increased significantly. Provisions for punishment in case of delays are in place but not enforced. Requirement will come into effect from FY 11/11. Adopted in the blended block grant guidelines for DDCs and VDCs Software for reporting from all local bodies is in the process to be implemented
Freezing of left over funds at the end of the	– MOF/FCGO waives the freezing of Block Grant funds for FY 2010/11	The single account system (and abolishment of the A, B

Fiscal year leads to substantial delays in the implementation of investment projects that are financed from block grant		and C account system) and direct payment of the service provider will be piloted in 25 districts in FY 2010/11 and covered by all districts from FY 2011/12. This is already piloted in six districts
Capacity constraints at LB level – in terms of staff endowments, frequent and unpredictable transfer of staff, and knowledge and skills	– Maintain high-level policy dialogue with GoN on structural staffing constraints at LB level. The issue of preparing job descriptions and minimum qualifications for relevant posts at the LB level should be part of this dialogue. – Full-fledged implementation of the Capacity Development Strategy for DDCs, municipalities and VDCs	– Initiatives are taken to fill vacancy posts in VDCs. Government has fail to comply with its own decision of transferring staff after 2 years – First quarter of 2010/11. All DDCs, except Kathmandu have submitted their respective CD plans by the end of July 2010. CD plans are endorsed by LBs. Review of plans provided by MLD clusters.
Social mobilization areas of the LGCDP not yet under full implementation, which compromises demand side accountability	– MLD and JFA partners to look into opportunities to strengthen social mobilisation under the LGCDP	Learning from GTZ´s technical assistance to social mobilisation will be assessed. Methodology has been transferred from the national service provider to the district service provider (GTZ –PASRA has already supported 5 SM coordinators assignments in each CCU of LGCDP as TA)
Un warranted – and occasionally violent – interference in the local level procurement processes	– Monitoring of local level procurement through the LGAF – High level policy dialogue with GoN on challenges posed by the security situation at LB level	Priority area for LGAF activity The Home ministry has agreed to guarantee for the security of VDC secretaries if they needed to work in VDC office
Unwarranted political interference in the allocative decision making process at the local level	– Engagement with political parties – Stronger focus on advocacy and IEC, including disseminating success stories where things occur – Monthly joint monitoring work visits	Starting FY 2010/11. Process of making accountable all party mechanism has considered Starting FY 2010/11. Some districts have already started
The potential role of QAM has not yet been fully utilized	– Strengthening the staffing of QAM in phase 2 and provide QAM with a work plan structured around concrete outputs	A specific work plan for the task of QAM and a re-organisation will be provided for the extension period

The personalisation of the LGAF has been delayed which has compromised the external accountability function in LGCDP	- Finalise ongoing bidding procedures and start implementation	Bidding procedures have been finalised for selection of NSP and the implementation has started. Semi - autonomy status yet to conform and work plan not in circulation
Process Management Risks		
Occasionally weak process management for LGCDP results in high transaction costs in the implementation of the program	Preparation of a concise LGCDP Operational Manual, laying down roles and responsibilities for all involved actors. The Operational Manual should expand on the JFA and include clear arrangements for: - Oversight and coordination - Management and administration - Flow of funds and financial management - Reporting and evaluation	The second draft of the manual has been released. Initiatives for expanding arrangements and updates have been taken
The effectiveness of the various thematic groups appears to be sub optimal, which compromises their contribution to the LGCDP, and creates meeting fatigue	Organise the thematic groups around specific concrete outputs. Immediate suggestions would include: 1. The preparation of the operational manual 2. The finalisation of the blended EBG guidelines 3. The finalisation of the CD strategy 4. The design of a Public Expenditure Management Tracking System around the EBG	In process Has been finalised Has been finalised In process

The Assessment of Fiduciary Risk of Intergovernmental Fiscal Transfer, 2009 ordered by LGCDP

Risk	Recommendations	Progress
In many parts of the country law and order situation and security part is very weak, and local level employees are unable to work under the given governance structure. The communication and coordination as well as supervision part also being weaker	Take initiatives to establish elected local bodies or authorise all party mechanism to be made more accountable and engagement in planning and monitoring Establish an independent Local Public Service Commission to look after the local level public service. Capabilities of staff will be certified To improve the accountability part, a separate Local level Accounting and Auditing Board should be developed to improve standards of accounting and audit The LSGA 1999 should be reviewed intensively considering the approach of restructuring of the country. The institutional arrangement should be made as according to optimum autonomy and as a status of local governments of existing local bodies Capacity building of LGs must be the uppermost	MLD has taken initiatives to make all party mechanism responsible Proposal has been drafted by MLD for Cabinet decision. LBFC has also authority to make proposals for the Central Government Accounting board. LBFC can fulfil the purpose until the restructuring has taken place Awaiting the restructuring of the state The PFM cycle is covered by LGCDP to enhance management capabilities.

	priority of the government along with gradual transfer of the powers, responsibilities and functions to the LGs.	Transfer of tasks is related to the progress on LBs ´amount of resources. This issue is related to the issues of sector devolution and fiscal decentralisation. Resource mobilisation is part of LGCDP e.g. study on tax collection.
To minimize the fiduciary risk, the overall reform is required in local level public financial management from budgeting to reporting and audit	The budget formulation cycle must be formalized with clarification of rules and responsibilities of all the actors involved	LSGA and the Budget and Planning Commission have defined the roles and responsibilities
	Predictability regarding DDC revenues. Grants and disbursement schedules are known to the local authorities at the beginning of the budgeting process and that the committed funding is actually released	Not all revenues are yet predictable e.g. the specific size of grants. The size of the local taxes is not yet considered properly. MOF and Council of Ministers to address the issue.
	The annual budget should reflect the objectives and priorities and priorities of the medium term development framework that annual resource appropriations must be linked to measurable outputs	To be addressed in the three year annual plan and the multiyear budgeting
	The budget structure needs to be revised to facilitate tracking and performance monitoring	The budget structure can reflect program and line item structures.
	A further step in improving the budgeting process would be the adoption of a performance budgeting approach where budget resources allocations are related to activity programs with clear, measurable outputs and performance standards. A sound system of budget control and performance assessment must be designed to ensure compliance with statutory financial and fiduciary requirements, and monitor progress in the implementation of the annual work plan.	Performance budgeting can be developed at the local level in conjunction with PFM reform of the central government. But basic PFM capacities should be sufficient developed first.
	The new structure of accounting should be developed to show segregation of development activities, general administration, separation of DDCs ´own functions and delegated functions and logical classification of revenues	The structure is now adapted in the blended block grant guidelines
	DDC and line ministries de-concentrated offices should better coordinate their programming/ budgeting policy and processes to ensure that new facilities are adequately appropriate in respect of corresponding operation and maintenance costs.	An update on division of legal assignments of tasks could be adopted in the review of decentralisation and sector devolution policy
	Local authority leadership should be aware of	Can be adopted through

	the obligation to comply with internal control requirements and the consequences of failing to do so.	LGCDP IEC and training activities
	Efforts are to be made towards ensuring better quality of administrative and technical services simplifying the process including the establishment of separate LB service cadre, etc.	Local body service commission is established to control the local body service commission proposed to establish to control the performances of the staff
	Introduce a comprehensive/updated accounting and auditing manual useful in the context of fiscal decentralisation	Ongoing activity in LGCDP to be finalised by December 2010
	Accounting procedures to be followed at DDC level need to be made explicit of treasury functions and operative level.	DTCO is made responsible for government resources
	Appropriate classification of staff and standard job description is to be introduced	Staff policy in place but staff plan need to be finalised and implemented
	Revenue mobilisation effort could be considered as a performance indicator included in the formula used for allocation of central grants to DDCs	To be considered in the inter governmental fiscal arrangements recommended to be commissioned by December 2010. Proper implementation of revenue sharing process is delayed
	A system of staff performance assessment should be established, including transparent norms and modalities for incentives and rewards	Included in the annual work plan 2010/11 of LGCDP Performance evaluation of PCU team is also in process
Other improvements at the implementation level	Establish a system and culture of providing rewards to local government units based on performance achieved.	To be assessed on regular basis by MOGA and MLD
	Develop concrete and clear-cut measurement indicators of financial law compliance.	
	Identify the persons who are responsible for defaults and lower level expenditures as well as lower financial law compliance, budget providers, planners, policy makers, implementers of supporting staffs	
	Prepare and implement the package of capacity development of VDCs, and small and low capacity base municipalities Provide orientation training about the newly	

adopted Local Body Financial Administration Regulation 2007 to the staffs as well as key political representatives of local bodies; provide financial management training to LDOs, planning staff, internal auditor, accountant, revenue staff jointly, provide orientation on self governance related laws to political workers who are responsible to work in close consultation of local bodies employees	Study of special issues related to the annual accounting like the freezing of funds by the end of the FY could be conducted.
	Implemented as required
According to the size and volume of economic transactions, manage to provide additional staffs to local bodies based on workload. Stop frequently change and transfer of leading bureaucrats	The accounting system has been reviewed are under implementation. Additional studies of gaps between legal provisions and
Prepare simple and clear manual about financial affairs and train the concerned persons, account and planning staff about it	implementation is undertaken as part of the LGCDP work plan
LBFAR 2007, Rule 221 has made the provision of punishment and action to be taken, which does not maintain or submit the accounts in proper time duration and has not submitted the account. This is implemented rarely. If the responsible person is identified punish him/her as per law timely	Manual developed for the municipal level. IT software to be developed. Joint programmes ADB and GTZ.
Prepare the mechanism of assessing fiduciary risks in each local body and establish a tradition of providing the additional resources as per score marks obtained. In this regard, consider the provision made by LSGA 1999 (section 236) which has mentioned the criteria for providing grants including level of accounting of income and expenditure status of audit, and maintaining fiscal discipline	
Increase the frequency of monitoring, supervision, guidance and facilitation to LBs and encourage implementing the provisions of social and public audits as the rule 201, LBFR	
Carry out a detailed review of existing LGs´ accounting system to determine and ensure the adequacy of information required, maintaining of record properly and the ability of the system to be user friendly of all kind of LGs.	Initiated by the Information, Publication and Documentation Section of MLD
Introduce stepwise action plan for institutionalisation of accrual based accounting system in municipalities immediately, LGs and	

	corporate bodies	
	Establish a statistical unit within MLD to collect and record all LG level information and develop an information linkage between such statistical unit and other concerned agencies	Blended block grant guidelines have made a uniform format. The PFM manual for VDCs will be reviewed for preparation of needs
	Identify horizontal and vertical reporting needs of LGs, review the existing reporting systems and formats, and make necessary modifications to ensure uniformity, transparency, timeliness and user friendliness	
	Review the existing Internal Audit Section of DDCs and municipalities, and broaden it for extensive coverage of all financial activities. At the VDC level, continue the existing internal audit system until restructuring of VDCs	Internal audit organisation and reporting system not implemented effectively yet. The scope of internal audit tasks should be defined by LBs themselves
	Develop transparent and uniform operational modalities and guidelines for social audit and its institutionalisation at the local levels	Implemented
	Develop uniform and standard final audit system for all levels of LGs. For this, an independent LG audit board should be established. Audit guidelines and manuals for each sector and level of LB should be developed	The idea of establishment of an independent LG audit board will be assessed later on and included in LGCDP. The legal provisions for final audit are adopted
	Introduce computerized/automatic public financial management system at each level of local governments but with the utmost priority given to DDCs and municipalities at the first stage and extend the same to VDCs gradually	In process
	Provide capacity enrichment and other human resource development trainings and orientations to the LGs officials and staff in various aspects of local public financial management including planning, budgeting and reporting	Started

QAM´s suggestions to mitigate findings from MLD Special Team monitoring visit (CLMCC), August 2010

Risk	Recommendations	Progress
1. Users´ Committee 2. Arrears amount 3. District Council decisions 4. Guidelines, instruction and authorisation 5. Plan formulation, project	1. Capacity building measure 2. Strengthening the technical back up of DDCs to deliver the needed capacity support back up to VDCs. 3. Strengthening the monitoring and evaluation unit in MLD and accountability	Action Plan to be provided by MLD

decision and project implementation 6. Project information, communication and documentation 7. Financial management (Budget release and expenditure, financial assistance and internal audit).	relations between MLD and local governments 4. Clearance of arrears of amounts 5. Improvement of legal provisions, public financial management standards, and measures of transparency and accountability	

Appendix 8 – Rapid Survey of VDC Secretaries deployment (as of 12 October 2010)

National Aggregate Analysis (All Clusters)	Total VDC	VDC Secretary Positions Filled	VDC Secretary Positions Vacant	Secretaries providing services from own VDCs
Grand Total	3915	3180	735	1971
Total Terai Districts	1290	1107	183	490
Total Hills/Mountain Districts	2625	2073	552	1481

Analysis for All Clusters	H/M	Terai	Total	Remarks
VDC Sec. position vacant (%)	21%	14%	19%	In 21% of H/M districts and 14% of Terai districts, the position of VDC secretary is vacant. The sum total % of vacant position is 19% (i.e. in 735 VDCs) out of the total number of VDCs (i.e. 3915)
VDC Sec. working from duty VDC station (% of VDCs)	56%	38%	50%	VDC secretaries are in their designated duty stations (VDC) in 1971 VDCs out of the total 3915 VDCs. This is 50% in aggregate terms. In the case of Terai, in only 490 VDCs out of 1290 VDCs, the secretaries are in their VDCs (i.e. 38%). In hills, this is 56%.

Disaggregated by Clusters

Analysis for Far West Cluster		H/M	Terai	Total
VDC Sec. position vacant (%)		21%	7%	19%
VDC Sec. working from duty VDC station %		67%	80%	69%
Analysis for Mid West Cluster		H/M	Terai	Total
VDC Sec. position vacant (%)		13%	0%	11%
VDC Sec. working from duty VDC station %		83%	60%	80%
Analysis for West Cluster		H/M	Terai	Total
VDC Sec. position vacant (%)		22%	17%	21%
VDC Sec. working from duty VDC station %		62%	78%	66%
Analysis for Central Cluster		H/M	Terai	Total
VDC Sec. position vacant (%)		22%	15%	19%
VDC Sec. working from duty VDC station %		40%	21%	31%
Analysis for Eastern Cluster		H/M	Terai	Total
VDC Sec. position vacant (%)		26%	15%	21%
VDC Sec. working from duty VDC station %		37%	28%	33%

Note: based on the information provided by planning officers, administrative assistants, PO,DF to LGCDP CCUs on 11/12 October 2010

Appendix 9 – Analysis of LGCDP M&E Framework

The analysis in this appendix is focused on the fit of the M&E Framework with the Baseline Survey[18] (and other sources) and the relevance of the M&E Framework indicators.

M&E Framework	Framework Indicators match with Baseline indicators	Comment/Action suggested by the MTR team
Purpose level: Access to public goods/services	The "hard/objective" purpose level indicators are relevant (4.1, on road access, educational enrollment, electricity and drinking water, health posts use). There is some contradiction between M&E Frame's baseline of 80.2% coverage of drinking water and the LGCDP Baseline (Survey) finding of 67.7%	However, because DDCs, VDCs and Line Agencies have no clear functional boundaries, and questions are asked about sectoral services rather than specific services, the responses are all suspect – one cannot guess if the respondent appreciated which services come from DDC versus VDC, versus Line Agencies. Perception based indicators are incomplete (report only "better" and not neutral or worse) and in any case not very reliable given methodological/cultural hurdles. As the LGCDP makes only a small contribution toward the service delivery in question, the purpose level indicators should not have a target set by LGCDP – they should relate to national targets for set time frames (e.g. localized MDG commitments) – if LGCDP wishes to track them that is fine, but it should not further invest its resources to do so; it should use data from other agencies.
Outcome 1: Citizens and communities engaged actively with local governments and hold them accountable		
a) Engagement with Local Government	Questions in M&E Frame relating to perceptions of being "more involved" in LBs may have some validity but have no direct match with Baseline Survey questions.	Eliminate in the future as there is no direct question in Baseline Survey – rely on other, more objective, measures.
Planning	Ward meetings question is answered in Baseline Survey and is less than LGCDP target.(VDC is 77% vs. LGCDP target of 90% - that's ok then) Ward level participants is also met in the Baseline (reported for VDC, though question was also asked of urban wards), but with current level vastly lower than LGCDP target. (VDC ward level is 28,070 vs. 900,000 – for both VDCs and urban) % of ward participants who are Dalit and Women is in Baseline Survey (though reported only for VDCs) % of proposals to VDC from Dalits and Women is also in Baseline Survey (with figures closely matched to participant share – makes one nervous about likelihood of such a match)	LGCDP should be able to bring about some change in these indicator levels, therefore: Reset the target to a more realistic level of participation in ward level meetings - separately for both VDC and urban. Dalit participation is 8% and women 12%; need a target from LGCDP (yet to be set). Check to see in raw data of survey if proposal rate is truly same as participation rate for Dalit/Women at VDC level; then set LGCDP target
Implementation	% of VDCs and municipality block grants spent on projects requested by women's or disadvantaged groups (Dalit proxy) is in Baseline Survey but shown under Outcome 2. It show much lower achievement than the 30% target (VDC: 3.2, 3.9; urban: 10.9, 16.4)	Keep 30% target since that is a minimum set by program guidelines (do raise to 35% as intended in blended block guidelines); it is in line with program goal of poverty reduction. Be careful to distinguish between total resources vs. # of projects going to groups.
Representation	"Number of poor households where no member was previously engaged in any organization in	The Framework question is more relevant/interesting, but given Baseline

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[18] The Summary report of the LGCDP Baseline Survey is the basis for this analysis in reference to the baseline survey report.

	the last 3 years, but now is engaged in either school management committee, health management committee or VDC" is not in Baseline Survey, but latter shows similar query with a year to year increase in engagement measure.	Survey approach, better to replace the Framework indicator with that found in the Baseline Survey, but make reporting more explicit for VDC (now buried under "others").
	% of women in all Integrated Planning Committees at VDC Level – is in Baseline Survey , 27.8%	Set LGCDP target
	% of members of disadvantaged groups in all Integrated Planning Committees at VDC level- is in Baseline Survey, 19.4% (Dalit as proxy)	Set LGCDP target
Inclusion	% total budget of DDCs which explicitly targets women – in Baseline Survey and reported for municipalities, not for DDC	As these are important (LGCDP minimum is 15%) it needs to be reported for DDC as well
	% total budget of DDCs which explicitly targets members of DAG – in Baseline Survey and reported for municipalities, not for DDC (just internal revenue allocation)	As these are important (LGCDP minimum is 15%) it needs to be reported for DDC – and for budget as a whole, not just internal revenue
b) Accountability	% of citizens who can identify at least three concrete, completed activities of the municipality (and VDC) in the past 12 months – found in the Baseline Survey	Set LGCDP target
	% of citizens who can approximately identify current year total annual budget of the municipality (and VDC) (+/- 20%) - found in the Baseline Survey	Set LGCDP target
	% of citizens who can identify at least three concrete, completed activities of the DDC in the past 12 months - found in the Baseline Survey	Set LGCDP target
Output 1: Communities and community organizations participate actively in local governance processes		
	Social Mobilization Guidelines drafted	These require MLD reports only, not a Baseline Survey
	DAG mapping by households completed	
	No. of VCDs covered by social mobilization through LGCDP	
	No. of municipalities covered by social mobilization through LGCDP	
	Performance system for social mobilizers in place	
	% of citizens who say that they are satisfied with the performance of the local social mobilizer- in Baseline Survey but ambiguous and poorly reported (only "satisfied" share)	Validity of mixing those who have heard or not heard of SM, or who have been targeted or not part of SM effort, is doubtful. Not reporting on other categories other than "satisfied" negates any value in reported responses. Needs to be more focused, or dropped.
	% of citizens from DAG households who say that they are satisfied with the performance of the local social mobilizer - in Baseline Survey but ambiguous and poorly reported (only "satisfied" share)	
	Number of Ward Citizen's Committees meetings functional in VDCs and municipalities (at least 2 meetings per year) – in Baseline Survey for VDCs and municipalities	Set LGCDP targets
	Number of Integrated Planning Formulation Committees (IPFC) (at least 1 meeting(s) per year) – in Baseline Survey for all LBs (with functional/not functional differentiation)	Set LGCDP targets

	% of 75 DDCs that conduct a public/ community audit per year – found in Baseline Survey, but as Public Hearing and Public Audit	Clarify terms and set LGCDP targets (can get data through regular reporting).
	% of 75 DDCs that conduct a Social Audit per year – in Baseline Survey	Set LGCDP targets (can get data through regular reporting)
Output 2: Increased capacity of citizens, communities and marginalized groups to assert their rights and hold local governments accountable		
	IEC and LGAF activities have yet to be well defined and to be given any indicators	Develop a few and easy to track indicators that do not rely on a repeated large scale survey. Could be inspired by some questions in Baseline Survey – e.g. on DDC information centres.
Outcome 2: Increased capacity of Local Governments to manage resources and deliver basic services in an inclusive and equitable manner		
a) Managing Resources (DDCs)	% of all 75 DDCs that meet all 15 minimum conditions per fiscal year	These are not in Baseline Survey – they are gathered annually through MC/PM assessments by the LBFC.
	% of DDCs that score above 50 points in all 627 performance measurements and meet the minimum score in all 8 functional areas	FGCO may actually have the figures on the capital budget (actual expenditures > 80%) as it is the one that "freezes" unspent funds of DDCs.
	% of all 75 DDCs that spend more than 80% of planned capital development budgets per year	Except for latter indicator, all others already have a baseline figure.
	% of all 75 DDCs that spend more than 10% of internal income explicitly on women, children, DAGs, disabled and old people per fiscal year	The LBFC is still compiling the annual report with detailed figures (have only released some summary data)
	% of all 75 DDCs that have less than 2% irregular expenditure9	
Managing Resources (Municipalities)	% of all 58 municipalities that meet the Minimum Conditions per fiscal year	
	Indicator(s) on performance measurements to be defined pending the finalization of the municipality MC/PM guidelines	These guidelines should already be available – need to set performance indicators
Managing Resources (VDCs)	% of all 3915 VDCs that meet the Minimum Conditions	Baseline will be set as VDCs join MC process – should set soon; data is available (LBFC)
Monitoring and Reporting	% of outcome indicators for which data supposed to be available are updated per year	Too vague (not operational); refocus – based on template of MLD
	% of DDCs that submit to MLD an annual report based on a template designed by MLD which includes a synthesized report on VDCs within August 15th	Template to be prepared by MLD is not yet finalized – needs to be expedited
b) Basic Social Services	% of citizens who say that the infrastructure (roads, drinking water, electricity) offered by the local governments better meet their needs than last year	See Purpose level comments; better to rely on facility based data flowing through sectoral Ministries – and then treat findings carefully given modest role of LGCDP
	% of DDCs which increase their internal revenues (excludes revenue sharing and central grants) by at least 15% compared to the previous fiscal year	LGCDP does not act sufficiently on this issue to warrant this indicator
	Number of LGCDP pilot projects which were scaled up with government or development partner funds outside the LGCDP budget	Should be dropped in favour of a more modest indicator(s) – related to completion and learning process, and what it lead to (see similar question under Output 5)
Output 3: Local governments gain access to greater fiscal resources in equitable and appropriate ways		
	Number of DDCs assessed on MC/PM by MLD on MC/PM per fiscal year	Baseline should be 0 for all of these since they relate exclusively to LGCDP (one now contains a figure that relates to prior pilot through UN system support?)
	Number of municipalities assessed by MLD on MC/PM per fiscal year	

	Number of VDCs assessed by DDCs throughout contracting per fiscal year	LBFC (MC/PM) and FGCO/MLD (funds flow) should have the annual data for all of these indicators.
	Block grant funds disbursed through LGCDP to DDCs in million USD per fiscal year	Indicators do not cover other important dimensions/activities in this output – need to be developed.
	Block grant funds disbursed to Municipalities in million USD per fiscal year	
	Block grant funds disbursed to VCDs in million USD per fiscal year	
Output 4: Appropriate capacity building services passed on to all levels of the local government service delivery system		
	% of DDCs and municipalities that receive capacity development grants through LGCDP per fiscal year	Baselines should all be 0 by definition (one has a "1" –for guidelines produced); should not have baseline start date after the program launch for these kinds of indicators. LGCDP reports should yield this information, as intended.
	Funds of capacity development grants disbursed per fiscal year in million USD to DDCs and municipalities	
	Number of guidelines and operational manuals produced through LGCDP	
	Number of procurement plans by DDCs produced with LGCDP support per fiscal year	
	Number of DDCs having Capacity Development Plan	Baseline Survey says 57.3%. Target of 100% is fine, but not a good measure – better if Cluster Officers "scored" the CD plans against benchmarks. Do not need survey in the future – just LGCDP reporting.
Output 5: Local governments service delivery mechanisms and processes fine-tuned		
	Number of decentralization pilots funded through LGCDP [this is the only indicator –rather skimpy for this important output]	Only three planned; OK as indicator, but hardly satisfying - add something about the learning process and what it should lead to (see similar question under Outcome 2).
Outcome 3: Strengthened policy and national institutional framework for devolution and local self-governance		
Sector Wide Approach	Number of development partners (DPs) that sign Joint Financial Agreement	These are fine, but there are other indicators of a programmatic approach that would be missed, and are either more likely to be achieved than these indicators, or more meaningful (e.g., alignment of projects, agreement on a code of conduct)
	Total funds paid into Joint Financial Agreement basket in million USD	
Sector Devolution	Number of secretary-level meetings, participated in by at least five line ministries that explicitly includes agenda on decentralization, held per year	Not a meaningful measure, should search for others. Why is DIMC not mentioned?
Staffing Policies	Local Service Commission Act passed to regularize local recruitment.	This is beyond the program reach; drop it.
	% of local government staff (DDCs, municipalities and VDCs) that are women; found in Baseline Survey, with low figures	Keep it – but remember that LGCDP can only have a minor contribution to make; and will take long time to get to 33%
	% of local government staff (DDCs, municipalities and VDCs) that are Dalits (as proxy for all disadvantaged groups); Found in Baseline Survey, with low figures	See above comment. Need to set target now that figures are in
Local Bodies Fiscal Commission	LBFC database contains data on internal and external revenue generation disaggregated by all DDCs, all VDCs and all municipalities	Keep it
	Number of unique visitors on DMIS website per Trimester	If web site was up, then last year's figures for unique visitors should be baseline
Local Bodies	% of LDOs of DDCs who think that ADDCN is	These might have some validity- would be

Association	performing better now than one year ago– in Baseline Survey at 72%	worth keeping in any further survey, but only the positive is reported; if the neutral and negative is not also reported, the value of the figures is reduced.
	% of Executive Officers of municipalities who think that MuAN is performing better now than one year ago – in Baseline Survey at 56.9%	
	% of VDC Secretaries who think that NAVIN is performing better now than one year ago– in Baseline Survey at 34.5%	
Mainstreaming GESI	% of DDCs that conduct GE/SI audit per year (proxy for implementation of GE/SI strategy)	Keep it (MLD supplied)
Child Friendly Governance	Number of local bodies (VDCs, municipalities and DDCs) that have adopted child-friendly local governance	Not sure how this is determined – seems vague (assume that there are clear sub-indicators?)
Output 6: Policy framework for decentralization promoted a more enabling environment for effective, transparent and accountable local governance		
	Review of decentralization and sector devolution policy drafted	These are fine, but tell very little about the achievement of the output; should think harder about some additional ones (while staying modest).
	Child-friendly national framework and guidelines developed	
	Sector devolution guideline published	
	SWAP framework document drafted	
	Number of reviews of lessons learned on „demand" side of local governance linked to LGCDP	
	Local Service Commission Act drafted	
	National Capacity Development Strategy drafted	
	Number of outcome and impact studies published under LGCDP	
Output 7: Capacity of central government and national non-government institutions strengthened to provide appropriate support to local governments is enhanced		
	Number of new articles on policy analysis published by MLD in Journal of Local Governance	Not very meaningful; unless these relate to crucial LGCDP efforts/issues/findings
	Formula for intergovernmental fiscal transfers revised	Any revision, or one that.....
	Fiscal Decentralization Roadmap updated	Which Roadmap?
	Number of Revenue Potential Studies of VDCs, DDCs and municipalities conducted by LBFC	Ok, but not a great indicator
	Capacity assessment of all three LB associations (ADDCN, MuAN, NAVIN) published	As in CD Plan for LBs, this is very superficial
	All three Local Bodies associations (ADDCN, MuAN, NAVIN) have a furnished office building	Ok, but not very meaningful in the overall range of indicators possible
	DMIS data is available online	Should be clarified
	Number of senior Local Government staff trained on Gender Equality / Social Inclusion under LGCDP	If senior staff is seen to be that of the central govt., fine (but focus should be on national level changes)
	Number of decentralization focal points of line ministries trained in decentralization under LGCDP	I would not say "trained"; focal points will be quite peeved. They think they are decentralizing, in the right way! Needs to focus more on a collegial form of dialogue...
Output 8: Support provided for programme implementation		
	Total funds in million USD dollars spent on pilots	Seems to be a narrow way to look at programme support – there could be more useful ones.