

## LGCDP – RISK ANALYSIS

#	Description	Category	Impact & Probability	Countermeasures
1	Peace process stalls or fails and the CA fails to develop or endorse the new Constitution	Political Security	Development environment deteriorates and implementation becomes impossible or difficult; national resources from development diverted into security Possible	GoN, the UN and other donors are currently deeply engaged in ensuring peace in Nepal Wider civil society involvement exerts pressure to maintain peace and constitutional process on track
2	National policy will not prove conducive to local government	Strategic	The project objectives can not be met Unlikely	This seems highly unlikely given that all political actors seem committed to some kind of decentralised polity. LGCDP will make available more resources to LGs and thus increase interest in and awareness of decentralisation as a service delivery modality
3	Viable and stable interim local councils are not established	Political Operational	Implementation can still continue while some outputs and activities might have to be reviewed that require politicians Possible	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 bureaucracy 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. A number of other measures are in place, including social audit, support to watchdog facilities, public disclosure of LB performance etc.
4	Cultural and societal norms do not allow for social inclusiveness or gender sensitivity	Strategic	This will negatively impact outputs and activities on related to increased inclusiveness Probable	There is an increasing activism amongst marginalised 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. Civil society/community’s pressure to all the stakeholders to be inclusive through SM component SMs will receive training in these issues
5	Non-institutional mechanisms for consultation and participation prove ineffective	Strategic Operational	Pilot activities would have to be reconsidered Possible	Establishing non-LSGA bodies to improve consultation and participation is unlikely to be resisted. LGCDP will build in incentives for such mechanisms to flourish and will ensure appropriate capacity building. MCs/PM system provides incentives for consultation and participation
6	Fund flow processes prove ineffective and inefficient	Technical	Flow of funds modalities will be adjusted Possible	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 parties in flow of funds.
7	Weak financial management capacity in	Technical	May reduce efficiency in allocation/spending Possible	In built LGCDP capacity building component Conditionality on release of funds (instalments, reporting etc.)

	LBs and MLD			LBs provided with incentives to improve financial management from the MC/PM system and other measures like disclosure of results and social audit, report cards etc.
8	Financial malfeasance	Technical	Possible	Capacity building component Social Mobilization for community empowerment- ensures accountability Social/public auditing, and transparency MC/PM system will promote better performance
9.	Poor capacity to audit and lack of follow-up on audit	Technical	Possible	Support to OAG, development of LB audit guidelines, training, 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
	Poor internal audit and absence in some LBs	Technical	Possible	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 DFPD and external fiduciary risks assessments (DFID, 2006).
10	Weak procurement capacity and experience in MLD and LBs	Technical	Possible	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. MLD arrangement and with checks and balances Core TA includes recruitment of a procurement specialist MC/PM system covers LB procurement performance and promote improvements
11	Staff instability in local governments	Operational	Institutional memory is lost and continuity in relations interrupted. Dedication of staff sub-optimal Probable	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 minimize frequent staff transfers, backed by review of staff performance
12	Local governments prove unwilling to undertake pilot activities	Strategic	Output 5 will be negatively affected. Possible	LGCDP offers major fiscal incentives as leverage.
13	GoN fiscal resources and donor funding decrease dramatically	Financial	Block grants and capacity development activities will have to be down scaled. Possible	GoN's finances have improved now that the conflict has ended and donors are committed to providing assistance in the post-conflict period
14	Lack of political will to use performance-based incentives and sanctions	Strategic Political	Seriously affect the objective of the project Unlikely	It is GoN policy to use performance-based incentives and sections in connection with grant transfer. MoF and NPC are keen to apply PB funding mechanisms and will support MLD in this respect. Requires high level advocacy support from donors.

				<p>People are made aware of these systems through SM</p> <p>The system will be based on solid experience from testing in 20 districts.</p>
15	Local taxation proves controversial	Strategic	<p>This will not seriously compromise project implementation</p> <p>Probable</p>	<p>LGCDP will build in incentives for increase own revenue collection through tax collection</p> <p>Consultations and interactions with tax payers.</p>
16	Development partners prove reluctant to align themselves within a single framework of support for decentralisation	Strategic	<p>This will significantly reduce the impact of the programme</p> <p>Possible</p>	<p>The Paris Declaration and commitment of some key development partners should mitigate against this</p> <p>Program adopts flexible approaches to accommodate different modalities or MLD allows DPs to operate within a framework.</p> <p>DPs will meet on a regular basic (monthly) with MLD to coordinate LGCDP.</p> <p>JFA will be elaborated and gradually expanded. The DPs have agreed to coordinate their capacity building support.</p> <p>MLD will take a strong lead in DP coordination.</p>
17	Negative environmental impact of LB projects	Operational	Possible	<p>The MC/PM system promotes proper planning processes</p> <p>Most projects will be small scale projects without environmental impact</p> <p>Screening tools will be developed to ensure that the LBs considers this important issue in planning and implementation</p>