

Draft Report

Institutional Assessment of the Ministry Of Local Development



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List of Abbreviations

ADB	Asian Development Bank
ADDCN	Association of District Development Committees in Nepal
CA	Constituent Assembly
CIDA	Canadian International Development Agency
CPA	Comprehensive Peace Agreement
CPN	Communist Party of Nepal
CPN-UML	Communist Party of Nepal – United Marxist Leninist
CSO	Civil Society Organisation
DDC	District Development Committee
DFDP	Decentralised Financing and Development Programme
DFID	Department for International Development (UK)
DIMC	Decentralisation Implementation and Monitoring Committee
DLGSP	Decentralised Local Governance Support Programme
DMIS	District Management Information System
DOLIDAR	Department of Local Infrastructure Development and Agricultural Roads
DPs	Development Partners
FY	Fiscal year
GE	Gender Equality
GE/SI	Gender Equality and Social Inclusion
GON	Government of Nepal
HR	Human Resources
HRD	Human Resource Development
HRM	Human Resources Management
ICT	Information and Communication Technology
JFA	Joint Financing Agreement
JICA	Japan International Cooperation Agency
JS	Joint Secretary
LB/LBs	Local Body/Local Bodies
LBFAR	Local Body Financial Administration Regulation 2056 (1999)
LBFC	Local Body Fiscal Commission
LDO	Local Development Officer
LG	Local Government
LGCDP	Local Governance and Community Development Programme
LSGA	Local Self Governance Act 2056 (1999)
M&E	Monitoring & Evaluation
MC/PM	Minimum Conditions and Performance Measures
MIS	Management Information System
MLD	Ministry of Local Development
MoAC	Ministry of Agriculture and Cooperatives
MoE	Ministry of Education & Sports
MoF	Ministry of Finance
MGA	Ministry of General Administration
MoHP	Ministry of Health and Population
MWC&SW	Ministry of Women, Children and Social Welfare
MuAN	Municipal Association of Nepal
NAC	National Advisory Committee
NAVIN	National Association of Village Development Committees in Nepal
NC	Nepali Congress
NPC	National Planning Commission
NPD	National Programme Director
OAG	Office of the Auditor General
OPM	Office of the Prime Minister
PAF	Poverty Alleviation Fund
PCU	Programme Coordination Unit
PFM	Public Financial Management

PM	Programme Manager
QA	Quality Assurance
SDC	Swiss Development Cooperation
SI	Social Inclusion
SM	Social Mobilisation
SWAp	Sector Wide Approach
TA	Technical Assistance
TOR	Terms of Reference
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
VDC	Village Development Committee
VDF	Village Development Fund
WB	World Bank

Executive Summary

The Local Governance and Community Development Programme (LGCDP) is a major Government of Nepal initiative to deepen and widen support for decentralisation, local governance and community-led development.

This institutional assessment provides a review and assessment of the internal organisation and procedures of the Ministry of Local Development (MLD), its links and coordination arrangements with other government departments, autonomous institutions and its capacity in terms of organisation structures and staff, in order to assess its ability to deliver the LGCDP. Additionally, this assessment considers how MLD fits within the current and emerging structure of sub-national government in Nepal and whether future constitutional reforms may require some changes in the way in which the programme is managed.

LGCDP

LGCDP is an innovative programme. It combines support for stronger and more effective local government institutions with support to improve the participation of communities and citizens in decision making and oversight of local governance processes, in the absence of elected local representatives. It includes components supporting decentralisation and devolution in the context of the restructuring of the state toward a federal structure, improvements in participatory development involving communities in decisions on planning, budgeting for and implementation of local service delivery, and development of capacity at local and central level, for stronger and more inclusive and accountable local governance.

The goal of LGCDP 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, Adivasi Janajatis, Muslims, Madhesis, disadvantaged groups in the local governance process.

The purpose of LGCDP is: *improved access to locally and inclusively prioritised public goods and services, delivered through three areas of action:*

- Developing capacity for development at community level – the demand side;
- Improving the capacity of local bodies on the supply side to respond to the demand from communities;
- Ensuring that policies and procedures developed at the centre support the first two areas of action.

Both supply and demand side interventions are planned:

- **Empowerment of citizens and communities for active engagement with local governments and strengthening downward accountability** - social mobilisation and enhanced downward accountability. This is critical in the absence of democratic representation at the local level, especially those from disadvantaged and

marginalised groups;

- **Top-up block grants for community led local development** – bringing together development partner and central GON funding, resources for community-led local development will be channelled through increased block grants, not projectised, and will be allocated locally on the basis of bottom-up planning and budgeting processes.
- **Capacity development of local governments for effective service delivery.**
- **Policy support for decentralisation and local governance** at the centre.

From an MLD perspective, the major change is that LGCDP makes the focus on community development and social mobilisation both explicit and prominent: in the past MLD has been perceived as focused on development, not local governance, and the importance of community groups in the prioritisation of resource allocation and oversight of the use of local level public funds has not necessarily been made this clear.

The context of decentralisation

LGCDP is being established at a critical time, when Nepal is undergoing a rapid political transformation, in particular in the local governance sector. The manifestos of all major parties for the Constituent Assembly elections make a commitment to significant decentralisation and a move to Federal structures. Decentralisation is a means to bring the state closer to the people, improve delivery of services, and give a stronger voice to regions and people that, until now, have felt excluded from the formal system – a key cause of the growth of conflict in Nepal in recent years. There is strong popular demand at local level for better services from the local governments and for stronger involvement by the communities in the planning and execution of these services.

Over the coming two years, Nepal faces the considerable challenge of developing a multiple tiered structure of local government. This will have an impact on LGCDP. Current management structures, output areas, key activities and focus may need to change to enable it to support the emerging agenda of local governance reform in Nepal. The Constituent Assembly is likely to complete its work towards the end of 2010, at which point things may be clearer about the future structure of governance at decentralised levels in Nepal. This happens to be the mid point of LGCDP. MLD and development partners need to plan (and budget for) for a wide-ranging review of LGCDP at this point, to review lessons learned in phase one and refocus LGCDP on the critical areas to start to support the planned changes to local governance in Nepal.

Focus of LGCDP

LGCDP must build both the demand and the supply side of effective local governance: merely building capacity and providing resources from the centre will not have an impact. But in the light of the future developments in local governance and as Nepal moves towards a decentralised Federal structure, careful consideration must be made of where LGCDP should focus. There is a tendency in LCGDP – both explicit and implicit – to focus over much at DDC level. However, it is far from clear whether the District structure will exist in its current state in 4 years' time. Even if the need for a middle tier, between village/municipality and province, is identified, this will probably not be a level focusing on implementation, but one that focuses on coordination and consolidation of performance information. As a result, there is a risk that the capacity building efforts at DDC level will be nugatory. Of course, many of the systems and processes that LGCDP will develop at DDC levels can be transferred upward to a future provincial level: participatory planning,

prioritisation, strengthened downward accountability, equitable fiscal transfers, financial management and audit and performance monitoring. However, given the likely future structures of local governance, a greater focus on capacity building at VDC and municipality level is needed. Workplans for each output and all LGCDP activities must concentrate on municipality and VDC. Detailed capacity building action plans including roll out of new systems and processes at VDC and municipality level are required and the target of rolling out top ups to block grants to 900 VDCs by the end of Year One is a critical one to be achieved. If this target is met, LGCDP will be succeeding in developing systems that can roll out to all VDCs to build capacity within the life of the programme.

Management of LGCDP

A critical aspect of LGCDP is that it will be integrated into the day to day operational management of MLD – not run as a separate project. In addition, GON systems and processes will be used wherever possible. The National Programme Director (NPD), Programme Manager (PM) and Output Managers (OMs) are all MLD senior officials. They will be supported by a small team of long term national Technical Advisers (TAs), but the responsibility for implementing LGCDP and delivering its outputs rests with the OMs. There are a number of issues that need to be addressed to ensure that the management of LGCDP is effective:

- Ensuring that the PM (who is at the same or lower rank as the OMs) can hold the OMs to account for delivery of LGCDP outputs. Tight TORs for the OMs can help address this (and this is in hand), but we recommend review of LGCDP management arrangements after one year to monitor effectiveness;
- Identifying ways of incentivising OMs, given that performance incentives are not possible in the GON system. OMs will be asked to commit to personal performance frameworks, but these are not – at present - integrated into the overall GON performance management system, which places little emphasis on outputs delivered. Ensuring that OMs regularly report on an individual basis to monthly meetings and twice yearly National Advisory Committee (NAC) meetings can also help in the shift to an increased output focus;
- Providing effective direction to the programme. The NAC is meant to be LGCDP's Steering Committee, but it comprises a somewhat large and unwieldy group of stakeholders and is only due to meet twice a year. Some smaller subgroups drawn from key interested and relevant NAC members (perhaps focused around the different output areas) need to be set up to meet more regularly and on a less formal basis to provide monitoring and oversight of LGCDP delivery and effective performance;
- Technical Advisors are exactly that, and must take a 'hands off' role, rather than slip into an executive, implementation role. Unless TAs remain in a facilitation role, the capacity building in MLD will not be sustainable;
- GON procurement rules may not be flexible or rapid enough to meet the needs of LGCDP. The Programme Coordination Unit (PCU) needs to develop procurement guidelines which fit with GON policies and procedures, but also find ways of enabling rapid procurement, especially of TA. A 'basket' of funds set aside by development partners, upon which the PCU can draw in a timely manner using simple procurement processes, is required.

Capacity building needs

Critical areas for strengthening in MLD to enable it to deliver LGCDP include:

- **Monitoring and evaluation** – a weakness across all GON but critical to the output focused approach of LGCDP, which cannot succeed without effective monitoring and evaluation at the centre, which reaches the lowest levels of local governance. Current performance monitoring systems are rudimentary or do not exist, hence a lack of strategic oversight of implementation against plans and targets to hold sections of MLD, and, even more importantly, local bodies, accountable. To develop robust reporting systems and a culture of results, MLD needs to develop robust performance indicators, establish systems to collect information from the lowest levels, and to monitor the quality of this information, and develop competence in analysis and communication of the results;
- **Financial Management.** At central levels there are good systems, albeit some weaknesses in implementation of these systems. However, financial management systems will need strengthening at DDC and even more at VDC level if fiduciary risks are to be addressed. Financial management at VDC level is rudimentary at present – there are no standard formats for and limited expertise in planning and budgeting. Financial management competences are low and although existing audit procedures are generally complied with, these procedures are inadequate to provide accountability, focusing only on verifying total transaction levels. If LGCDP is to meet its obligations to improve output focus, monitoring and evaluation and accountability, these weaknesses must be addressed;
- **Gender Equality and Social Integration (GE/SI).** Community development through social mobilisation is at the heart of LGCDP. There are a range of activities planned, including identifying a focal person in DDCs, and introducing GE/SI responsive planning and budgeting systems. Municipalities and VDCs will be helped to develop appropriate GE/SI responsive programmes and significant capacity building will be provided at all levels. Every local body will be expected to develop GE/SI capacity development plans; GE/SI budgeting and audit will assist in embedding good ideas and initiatives, as well as monitoring implementation. The issue for MLD is to make the cultural change from seeing GE/SI as a specialist activity, to mainstreaming it across all of its work. GE/SI is a cross-cutting, not a narrow sectoral issue: it will need focused monitoring and tracking to ensure that this change happens;
- **Poverty tracking – baseline surveys.** If LGCDP is to achieve its goals, it needs to make improvement to planning, prioritisation with a GE/SI focus, monitoring and evaluation of impact. Poverty tracking, through household surveys, can identify issues to help targeting local programmes and higher level policy for social interventions, make linkages between the key LGCDP activities at a local level and provide a firm basis for monitoring of impact;
- **Environmental impact assessments and monitoring.** Appropriate environmental impact assessments are already carried out for larger rural and urban projects. But at VDC level, no environmental impact assessments appear to be undertaken – despite the fact that even a small infrastructural project in an environmentally sensitive area can have a significant negative impact. A simple environmental impact assessment tool needs to be developed and – even more importantly – at all levels of local governance, monitoring of impact and effective implementation of mitigation measures

needs to be undertaken.

Overriding all of these areas for capacity development, it is the ‘softer’ issues of corporate culture and ways of working will have a critical impact on the effective implementation of LGCDP. MLD has a generally positive and collegiate culture, but needs to improve its team-working and integration across sections (and LGCDP Outputs) if the programme goals are to be met. Retention of key staff will be important – at both MLD and DDC levels. The forthcoming risks of the appointment a new Minister and a change of Secretary will have to be managed: both bring risks that the current culture - which is relatively non-hierarchical and supportive of the community development and social mobilisation focus of LGCDP - is not sustained.

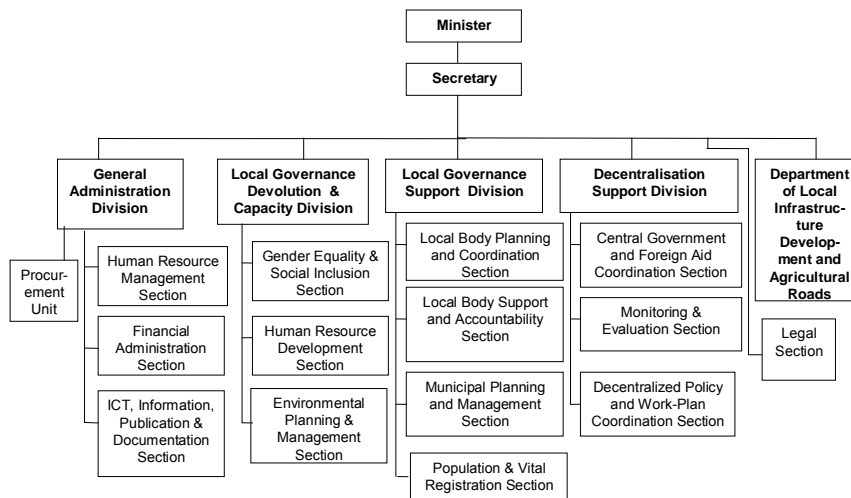
Of critical importance for MLD is the major cultural change from an organisation involved in direct implementation of projects to one that is facilitating implementation being undertaken at lower levels. MLD is accustomed to relatively small projects, with project management units reporting to one individual in MLD. It must now move to a large and integrated project, where it is a facilitator and monitor, not directly involved in implementation. From the top of MLD, throughout the organisation and down to the lower levels of local governance, all officials will have to learn how better to delegate, and how to maintain a light touch perspective.

MLD organisation structure

Restructuring ministries in Nepal can be complex and time consuming, but minor adjustments to the MLD structure, to address overlap and duplication, better balance workloads across sections and to support LGCDP, but mapping more closely the programme Outputs may be permitted to go ahead in the short term.

We propose the following organisational structure, maintaining the same number of Divisions and Sections as the existing structure.

MLD: proposed structure



The major changes are:

- A separate Local Governance Capacity Division focused on key cross-cutting issues such as Gender Equality & Social Inclusion, Environmental Planning and Management, and Human Resource Development at all levels in the local governance structure, to strengthen both the decentralisation process and governance mechanisms;
- A new GE/SI section to work alongside HRD and Environmental Planning & Management section in the Local Governance Capacity Division;
- Changes in the focus of the work of Environmental Planning & Management to ensure it covers both rural and urban issues and takes on responsibilities for environmental safeguards, monitoring and capacity building, rather than administration and delivery;
- Support to local bodies and their activities, which will be provided by the Local Governance Support Division. The focus of this Division will be on those critical issues of social mobilisation, community development and downward accountability that are critical to decentralisation and are the core of LGCDP Outputs 1 and 2. Social mobilisation to strengthen the social and economic capital at local levels is of the essence for decentralisation will be the main focus of the new Local Body Planning and Coordination Section. Issues relating to service delivery and downward accountability, which are essential for making decentralisation processes effective, transparent and accountable, will be managed by the new Local Body Support and Accountability Section;
- Mergers of the Municipal Planning and Municipal Management Sections, and the two Personnel Administration Sections;
- Establishment of a separate Procurement Unit under the General Administration Division, in line with the requirements of the Public Procurement Act;
- Changes to the responsibilities of the Legal Section, to include those for the areas of grievance, complaints and anti-corruption, including proceedings on grievance and petitions and acting as the focal point for activities relating to the Commission for Investigation of the Abuse of Authority;

Local bodies

The early phases of LGCDP will require detailed capacity gap assessments in all key LGCDP output areas at local levels to design capacity building activities. However, some critical aspects were identified in this institutional assessment. Local bodies currently work in a context of ambiguity. In the absence of elected representatives at a local level, functions are often unclear: the role and responsibilities of the public services at local body level need to be clear, specific, and results oriented. The role and scope of local bodies at different tiers must be clearly defined, to ensure that strict principles of subsidiarity are adhered to and there is no creeping centralisation of service delivery. Key areas of capacity development include:

- **Improvements in responsiveness** through much greater implementation of participatory planning systems, actually making use of priorities identified in community based planning process at higher levels and increasing transparency over decisions and actual allocation and use of resources;
- **Strengthening accountability systems**, in particular those to support downward accountability: strengthened communications and public information, encouragement to community groups, public hearings, public audit, community audit and social audit. The planning tools, reporting formats and information systems currently in use do not capture the quality of accountability in relationships between centre and local bodies and between local bodies and community groups and their members;
- **Service delivery** – where the proposed ‘Minimum Conditions/Performance Management’ approach to top up grants at local levels can make a contribution to standards setting to ensure equity in access to services;
- **Effective working with politicians**. The requirement is for effective consultation and improved ways of working together to build accountability and to ensure that politicians and government officials understanding their roles and responsibilities.

Work also needs to be done to improve DDC/VDC coordination, improve social mobilisation capacities at VDC levels, mobilise technical support to VDCs from the District level and enhance the staffing and overall competence at VDC levels.

Coordination with other agencies

Coordination between MLD and other ‘central’ ministries and agencies is good. Coordination with key sectoral ministries is a little more problematic. Communications and consultation are good, but there are few tangible activities undertaken which would strengthen coordination of service delivery at lower levels. These ministries are all pursuing their own agendas for decentralisation (which are essentially ones of deconcentration). With the impending major changes in scope and function in all sectors as a result of the Federalisation agenda, it is unlikely that more tangible progress will be made, until decentralisation proposal are clarified and a road map for devolution is made available. Until then, work at a central policy level should not be ambitious, but focus on small scale systems and procedures building on the statutory framework of the LSGA, with the aim of keeping the topic of decentralisation in focus across GON.

At lower levels, there are serious weaknesses in coordination. The machinery for coordination at DDC level is ineffective. Line agencies perceive the DDC as unresponsive. Vertical accountability to the central ministries in their sectors dominates the planning process, and horizontal coordination is weak. The DDC has limited discretionary spend, and so is seen as marginal to the work of sectoral line agencies. Sectoral committees exist, but appear to meet only rarely and to be bureaucratic mechanisms, not used as a management and coordination tool. Work needs to be undertaken urgently at DDC level to identify means of improving sectoral coordination to improve delivery of basic services. One issue that can be addressed in the relatively short term is the planning timescales: planning processes of line agencies and DDCs are uncoordinated, with line agencies typically starting the process in December, DDC planning much later in the fiscal year, by which time budgets of line agencies are fixed. If planning processes at DDC can be brought forward, its coordination role could be enhanced.

At VDC level, capacity for coordination is weak, and some of the line agencies operating at this level are more focused on the community and do not see a role for State

involvement in service delivery. At VDC there is an absence of coordination with line agencies and also relatively weak coordination with NGOs and private sector, even though these are often the key to delivery of critical services in the village. Mechanisms for coordination need to be simple, taking into account the current staffing capacity of VDCs.

Looking to the future

It is too early to speculate on the future shape of local governance in a Federal state. A full Federal system may mean limited requirement for a fully-fledged Ministry of Local Governance at the centre, but certain responsibilities will remain, including:

- Fiscal transfers, probably through an autonomous Local Governance Fiscal Commission;
- Policy support to Ministers on local governance issues;
- Support in developing and drafting legislation at the national level;
- Audit of local governance bodies, wider feedback on performance, specific reporting on failures to deliver services, and mechanisms for sanctions in cases of significant abuse of local powers
- An appellate body to arbitrate on and resolve conflicts and issues emerging at local levels;
- Monitoring implementation and adherence to national laws and policies by local governments
- Monitoring effective delegation and the delivery of services, which includes the setting of norms and standards for locally delivered services to ensure equity, and the monitoring of compliance with these;
- Coordinating the work of central government Ministries, NGOs and development partners with local government activity.

Development of equitable and transparent systems for fiscal transfer will be critical – and this is something that LGCDP is able to support. International lessons learned in decentralisation, indicate that the process may be less effective if:

- There are capacity constraints at the local level;
- There is lack of transparency in or inadequate reporting of the activities of local bodies;
- There is no central agency with powers to criticise and sanction local governments for inefficiencies or abuse of office;
- Participatory approaches to planning and accountability are not adopted.

This reinforces the criticality of LGCDP at this point in Nepal's development. LGCDP is capable of creating some of the foundations for decentralisation, addressing key capacity

constraints at a local level, assisting in clarity of responsibilities, supporting social mobilisation and participatory approaches for planning and accountability and for promoting transparency.

.Conclusions

.LGCDP can make a significant contribution to the key institutional changes and capacity building efforts to prepare local bodies for decentralisation and to put in place some of the building blocks for its implementation. If effectively managed, with a view to the wider decentralisation agenda, LGCDP is capable of providing:

- Support in increasing participatory planning, prioritisation and social mobilisation;
- Improvements in political participation, in the absence of elections;
- Enhanced accountability structures;
- Flexible and tailored capacity building support to local bodies;
- A sound basis for transfer of block grants – including on a performance basis – which could form the foundation for fuller local government fiscal transfer systems;
- A mechanism for ensuring the funds from development partners flow using GON mechanisms and using fiscal rules.

LGCDP is a major opportunity for Nepal, not only because of its size and the benefits of bringing development partners together and coordinating them, but because it provides the only opportunity to start to prepare the lower levels of governance in Nepal for the major changes in demand that will be placed upon them when decentralisation is implemented.

There is no doubt that LGCDP is a high risk programme. It is of a very large size, to be led by a ministry that has very limited experience of managing a programme of this size and complexity. It is, by necessity, an experimental programme – one where a process approach will need to be taken to many of the components: seeking windows of opportunity for new approaches, learning lessons and changing direction as the environment changes. However, these risks need to be considered in the light of the risks that Nepal would face, if LGCDP does not happen. The issues of systems and process, of capacity at different levels of government and need for significant cultural change will be even more significant when major decentralisation decisions are implemented in 4-5 years time. Making decentralisation work will be difficult in Nepal – LGCDP provides a unique opportunity to start to address some of the key capacity gaps, as the future of decentralisation is decided. LGCDP can be the mechanism to enhance capacity across local government, supporting and improving existing State structures as they are readied for the challenge of decentralisation.

1. Introduction

1.1 Background

Over the recent months, the Ministry of Local Development (MLD), assisted by several development partners, has invested considerable time and effort into developing the Local Governance and Community Development Programme (LGCDP). LGCDP is a major GON initiative to deepen and widen support for decentralisation, local governance and community-led development. The programme is some \$500m in size and will be managed by MLD. A key element of LGCDP is a Joint Financing Arrangement (JFA), which will mark a major step towards the development of a Sector Wide Approach (SWAp) for decentralisation and community development in Nepal.

This institutional analysis of MLD was commissioned to explore the capacity of the central government agencies involved, particularly MLD, to manage the programme effectively and to deliver the capacity building support required to the different parts of the sector in the short to medium term.

1.2 Terms of reference

The objective of this institutional assessment is to provide an assessment of the internal organisation and procedures of the MLD, its links and coordination arrangements with other government departments, autonomous institutions and its capacity in terms of staffing, in order to assess its ability to deliver the LGCDP. Additionally, the assessment considers how the MLD fits within the current and emerging structure of sub-national government in Nepal and whether future constitutional reforms may require some changes in the way in which the programme is managed in line with the restructuring of local bodies.

The work can be split into three broad areas:

- **Internal Management and Structures of MLD:**
 - Review of the internal structure and functions of the MLD and suggestions of ways in which this could be made more effective;
 - Staff review: numbers; skills; roles and responsibilities, performance and incentives etc;
 - Analysis of staff capacity in critical areas, such as financial management, procurement, planning, monitoring, reporting and budgeting;
- **Management of the LGCDP:**
 - Relationship with the rest of MLD and governance structures;
 - Roles and responsibilities of task managers;
 - Analysis of staff numbers, skills etc. required to implement the programme and analysis of physical requirements;
 - Change management approaches;
 - Roles and responsibilities of the LGCDP PCU and of the Advisory Committee;
 - Action plan for capacity development;
- **Wider relationships**
 - Relationship of MLD to other government departments and in particular to devolved sector ministries and to Ministry of General Administration;

- Other ongoing civil service reform and restructuring plans, for example steps to create a separate local personnel service for the local bodies.

1.3 Approach to the work

The work was undertaken by one local and one international consultant – working very closely with MLD staff – in late July and August 2008. Following review of relevant documentation, interviews were held with all key MLD staff, with critical development partners, with other stakeholders (in particular the various associations of local bodies) and with senior staff in other line ministries, in particular thus with devolved functions. Two field trips were undertaken: to Dhading and Rupandehi. These provided the opportunity to visit three Village Development Committees (VDCs) and two District Development Committees (DDCs) and to meet with Village Secretaries, VDC staff, DDC officials and political representatives at VDC level and – in Dhading - at DDC level. It should be noted that the time available for this assignment did not provide opportunity to visit any municipalities. This omission should not be taken to indicate a view that municipalities are of any lesser importance in terms of local governance structures. Indeed, the LGCDP results framework and workplan have subsections specifically devoted to actions in the municipalities, which will roll out sooner than many at VDC level. However, any comments made in this report relating to municipalities are based on information passed to us by stakeholders and drawn from other reports and materials.

Emerging findings were presented to MLD and to development partners, and the issues discussed at those meetings have been incorporated into this report.

A list of those interviewed during this assessment can be found in Appendix A. Key documents reviewed can be found in Appendix B.

1.4 Structure of this report

After this brief introduction, this report is structured as follows:

- Section two reviews the background to LGCDP and discusses some key cross-cutting issues;
- Section three discusses LGCDP and its proposed management structures;
- Section four looks more generally at MLD's organisation, reviews capacity at the local body level and considers relationships with other parts of government;
- Section five sets out a summary of key areas for capacity building at different levels of local governance;
- Section six reviews the issues emerging from the wider decentralisation agenda;
- Finally, section seven sets out an implementation action plan.

1.5 Acknowledgements

Our thanks are due to all those who gave put their time to support this institutional assessment and who contributed ideas and worked through issues with us. These include DFID, officials in Ministries across GON, development partners, staff and stakeholders in districts and villages and those in wider stakeholder organisations. We are grateful to all of the MLD officials who made significant contributions to this institutional assessment, in particular the NPD, others in the LGCDP PCU and the Secretary, MLD. Particular thanks are due to Babu Ram Gautam, Under Secretary, Human Resource Development Section, MLD, for his tireless work in making arrangements for interviews and visits, and playing an important role in the fact-finding work.

2. Background and key issues

In this section, we examine the background to LGCDP and review some of the key issues that will impact on the effective delivery of the programme.

2.1 Why local government matters in Nepal

LGCDP is being established at a time when Nepal is undergoing a rapid political transformation. Over the past three years, a people's movement ended royal rule and reinstated Parliament. This created the necessary conditions for an end to the ongoing conflict and a new round of peace talks. A Comprehensive Peace Agreement was signed and elections were held in April 2008 to a Constituent Assembly (CA). Decentralisation and the pursuit of a federal structure is a core commitment of the Comprehensive Peace Agreement and the manifestos of all major parties for the CA election make a commitment to significant decentralisation. Decentralisation is being sought as a means to bring the state closer to the people, improve delivery of services, and give a stronger voice to regions and people that, until now, have felt excluded from the formal system – a key cause of the growth of conflict in Nepal in recent years. There is a strong popular demand at local level for better services from the local governments and for stronger involvement by the communities in the planning and execution of these services.

Until decisions are made about the future governance structures in a federal system, the structures of the pre-democratic, centralised regime remain. There are 75 districts, 3,915 VDCs, and 58 municipalities. DDCs in each district lead on coordination of development work at the local level with oversight by MLD. MLD appoints Secretaries in VDCs, Executive Officers in municipalities, and Local Development Officers (LDOs) in DDCs. In DDCs, it also deputes additional professional staff such as accountants, engineers, and planners. Local bodies both at VDC and DDC level generally appoint lower level staff, and some DDCs have started to appoint professional staff by themselves.

VDCs and DDCs were originally established as democratically elected local government bodies with defined organisational structures, responsibilities and functions. But both at VDC and DDC level, this structure was negatively impacted during the conflict years. Local elections have not been undertaken, so, since 2002, both VDCs and DDCs have operated without a political mandate – essentially with government staff leading on the management of day to day operations. Not only are there no elected representatives at the local level, this situation is likely to remain the case for several years, while decisions are being made on the future structures of local governance in a federal system. Furthermore, in some VDCs the Secretary is still performing his/her functions from outside the VDC – either because of lack of security or because of damage to or destruction of facilities at the village level.

The legal basis of decentralisation is the Local Self-Governance Act (LSGA), 1999. The Act gives VDCs, municipalities, and DDCs greater political, administrative, and financial powers to lead, facilitate, and manage local affairs. LSGA has, to some extent, been overtaken by more recent developments, in particular the Interim Constitution of 2007, which makes several provisions on devolution, including scope to create interim bodies at local levels based on political consensus; a commitment to equitable resource mobilisation and allocation and greater delineation of the roles and responsibilities of local bodies to make them more accountable in planning and implementation of local service delivery, with particular focus on socially and economically disadvantaged communities.

There are some other relevant legislative and policy documents including:

- Local Bodies Fiscal Commission (2002);
- Local Body Finance and Administration Regulations (2007);
- Governance (Management and Operation) Act, 2008. which spells out key functions of public servants at all levels, including commitments to development of citizen charters, conduct of public hearings, managing grievances, increased monitoring and evaluation and annual reporting on results;
- The Three-Year Interim Plan (2007/08 to 2009/10) which specifies decentralisation as a main means of enhancing good governance and sets out a strategy for promoting peoples' participation and people's empowerment;
- White Paper on Local Development and Self-Governance (2007) which encourages functional devolution to local bodies; increased participatory, responsive, accountable, inclusive, and transparent processes across the public sector; steps to counter corruption and patronage and targeted programmes for disadvantaged communities to increase access to and equity of services.

The critical factor for LGCDP is that Nepal is moving from its former approach to decentralisation – which was, essentially, deconcentration of central functions, while retaining central control over most key decisions – to one of genuine devolution of responsibilities to a local level. There is general agreement across Government and key stakeholders (including at the political level) that this is the way to proceed to enhance local governance and community development.

Decentralisation is important in a country like Nepal with its significant geographic, cultural and ethnic diversity and where the difficult terrain, poor infrastructure and poor communications mean that large numbers of districts and villages are distant from the centre. If implemented effectively, decentralisation can:

- Bring government decision making about priorities and resource allocation closer to the people. This will enable it better to reflect local needs and priorities;
- Improve accountability and oversight of the people over the actions of government;
- Increase the degree of autonomy, both in decision making and in implementation of decisions;
- Improve the speed of decision-making;
- Enable more effective resource mobilisation;
- Allow for increases in local revenue collection (through local taxes, fees and charges)
- Address regional disparities in service delivery.

2.2 LGCDP

This positive policy environment noted above, combined with the reestablishment of political presence at local levels and a real commitment from development partners to harmonise their support to local governance, has led to the development of LGCDP

LGCDP is an innovative programme. It combines support for stronger and more effective local government institutions, support to improve the participation of communities and citizens in decision making and oversight of local governance processes, in the absence of elected local representatives. It includes components supporting decentralisation and devolution in the context of the restructuring of the state toward a federal structure, improvements in participatory development involving communities in decisions on planning, budgeting for and implementation of local service delivery, and development of capacity at local and central level, for stronger and more inclusive and accountable local governance.

The goal of LGCDP 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.

The purpose of LGCDP is: *improved access to locally and inclusively prioritised public goods and services.* This will be achieved through both supply and demand side interventions – specifically, through increasing the size of block grant allocations for service delivery, which will increase the opportunity for shared community decision-making over resource allocations and strengthening community oversight responsibilities. It will contribute to the wider state restructuring process by working at local levels to make the state more accountable to people in terms of allocation of fiscal resources, and through increasing the size of block grants and local revenues. This public finance aspect of local government capacity building will be integrated with work to enhance community participation and develop community led initiatives at local levels.

LGCDP operates in four strategic areas

- **Empowerment of citizens and communities for active engagement with local governments and strengthening downward accountability.** This focuses attention on social mobilisation and enhancing downward accountability of local governments. The absence of democratic representation at the local level makes it critical that LGCDP supports community organisations as the means by which *all* citizens – especially those from marginalised groups - can interact with the local authorities and other service providing agencies to have a say in the prioritisation of resource allocation and oversight of the use of local level public funds;
- **Local bodies top-up block grants for community led local development.** The intention is that public funding for goods and services for community-led local development will be increasingly channelled through block grants, not projectised, and will be allocated locally on the basis of bottom-up planning and budgeting processes. LGCDP will provide support both to improving these funding mechanisms and to improving planning, budgeting and overall management at local levels.
- **Capacity development of local governments for effective service delivery.** This

covers capacity building and procedures at all levels, promote more effective delivery of basic infrastructure and services, based securely on demand-driven approaches.

- **Policy support for decentralisation and local governance.** This aspect involves development of enabling policy, regulatory and support frameworks for the wider issues of devolution, local governance and community development, in particular at national levels.

Three main outcomes and eight outputs have been identified:

- **Outcome 1: Citizens and communities engaged actively with local governments and hold them accountable:**
 - *Output 1.* Communities and community organisations participate actively in local governance processes;
 - *Output 2.* Increased capacity of citizens, communities and marginalised groups to assert their rights and hold local governments accountable;
- **Outcome 2: Increased capacity of local governments to manage resources and deliver basic services in an inclusive and equitable manner:**
 - *Output 3.* Local governments gain access to greater fiscal resources in equitable and appropriate ways;
 - *Output 4.* Appropriate capacity building services passed on to all levels of the local government service delivery system;
 - *Output 5.* Local governments service delivery mechanisms and processes fine-tuned;
- **Outcome 3: Strengthened policy and national institutional framework for devolution and local self-governance**
 - *Output 6.* Policy framework for decentralisation promoted a more enabling environment for effective, transparent and accountable local governance;
 - *Output 7.* Capacity of central government and national non-government institutions to provide appropriate support to local governments is enhanced;
 - *Output 8.* Support provided for programme implementation.

Perhaps the biggest change for MLD is that LGCDP makes the focus on community development both explicit and prominent – which has not necessarily been the case previously. Essentially, LGCDP has three main thrusts:

- Developing capacity for development at community level – the demand side;
- Improving the capacity of local bodies on the supply side to respond to the demand from communities;
- Ensuring that policies and procedures developed at the centre support the first two areas of action.

There will be a range of funding modalities for LGCDP, but the focus is on moving gradually towards a genuine Sector Wide Approach (SWAp) over the next 3-4 years. From the start, development partners are committed to providing support in a coherent, comprehensive and coordinated manner, with the intention of reducing the overlaps, funding gaps and lack of coordination that have characterised projects in the local governance and community-led development sector in Nepal in the past.

The key funding mechanisms are:

- Basket funding arrangement in the form of a JFA – this is the key mechanisms, with a single budget. This JFA will, in particular, support and top up the GON block grants to local bodies, but can be used for a number of other purposes, using GON procedures;
- Basket funding to procure technical assistance which goes direct to central and local bodies, managed jointly by MLD and the UN system, using mutually agreed national implementation guidelines and based on experience in previous UNDP supported programmes;
- Funding of special budget lines of LGCDP where development partners prefer this, but nevertheless with strong coordination of the support to ensure synergies and complementarity.

GON's audit procedures and systems will be applied.

As LGCDP progresses, certain key features of sector wide management will be developed, leading over time to the conditions which allow a fully-fledged SWAp to be adopted:

- Development of a single clear sector policy and a strategic framework that links the policies and expenditure plans for the sector, so that the allocation of resources reflects the priorities for the sector;
- Annual programmes and budgets which specify the activities to be carried out under each strategic objective and by local bodies;
- A structured system for reporting on activities and against output focused performance indicators, with common reporting and performance monitoring arrangements.

2.3 Previous projects – lessons learned

MLD and development partners have worked together on the strengthening of the local governance and community development sectors for many years. Indeed, MLD's publication setting out *Key Achievements of 2007* (published March 2008) lists 21 separate donor funded projects as well as 17 GON funded projects currently being delivered. Many of these projects have been of high quality and have had significant impact on community infrastructure, social mobilisation and community development in Nepal, and have formed a strong foundation for LGCDP. However this multiplicity of projects of different sizes has had some less positive impacts:

- It has led to gaps in coverage, as well as overlap and duplication in certain districts and villages;
- It creates a significant burden of communications and reporting, as well as the burden of separate review processes and missions;
- The projectised approach – often relatively small projects in discrete localities – has encouraged a culture in MLD where it performs an implementing role, acting directly to deliver the projects, rather than working as a facilitator.

LGCDP is designed to avoid these issues, enabling wider coverage, eliminating potential overlap and duplication, enabling simpler (but more robust) reporting, monitoring and review and focusing all development activities toward common, agreed goals and objectives.

Lessons learned from recent projects in the local governance and community development sector include:

- **Social mobilisation is critical to effective local governance and community development improvements.**
- **Mechanisms for community focused accountability can be effective.** Work by CIDA and other DPs has indicated that social audit, public audit, implementation of citizens' charters and similar mechanisms can give voice to disadvantaged groups and can increase transparency and accountability at local levels;
- **It remains difficult to increase the quality of participation of women and disadvantaged groups in community development.** Although inclusion can be built into programmes, this only rarely leads to sustainable improvement in effective participation;
- **The need for flexibility and a process approach.** LGCDP is being undertaken in an environment of almost unprecedented change – the whole structure of local governance will be transformed during the life of the programme. And many of the LGCDP outputs can only be delivered by utilising an experimental approach, during which, new processes, procedures and ways of working are developed;
- **The criticality of taking a results focused approach,** whereby the focus is on outputs delivered, and the impact that these results achieve. MLD staff admit that, in the past, a relatively traditional approach has often been taken to project monitoring, meaning that focus has been on activities rather than results. If the appropriate exploratory approach to LGCDP is to be taken, lessons must be learned, and the focus of monitoring must therefore be on effectiveness of interventions and the results that they deliver.

2.4 The role of MLD – Governance or Development?

A fundamental question, in the current, rapidly evolving political environment, is the role of MLD: is it a Ministry of Local Governance, with a core focus on bringing about effective governance at every level in Nepal, or is it purely a Ministry of Local *Development*, essentially coordinating development activities at the local level? When MLD was first established, it was to fulfil the development role, not to bring about effective local governance. According to the Nepal Government (Work Division) Regulation, 2006, MLD has a key role in 'expediting local development activities through the decentralised governance system', which again prioritises development.

Indeed, some key stakeholders in other parts of GON - for example in the Ministry of Finance – view MLD's role specifically as coordination of development activities, and VDCs and DDCs as 'development agencies' not local government structures.

However, over the years, when MLD has focused on its development role, it has found it difficult to resist being drawn into direct implementation of programmes: an inappropriately centralised function, particularly in this era of decentralisation.

MLD's objectives, as set out in the *Key Achievements of 2007* publication, include both the development function - with a critical emphasis on social inclusion and including capacity building for self governance – and the issues of local governance:

The Objectives of the Ministry

- *Contribute to poverty reduction by mobilizing local means and resources, utilizing skill and technology to the optimum level and creating employment opportunity;*
- *Enhance access of socially and economically disadvantaged groups, region and community to the service and facility delivered;*
- *Capacity building of local government through local self governance and contribute to promote local good governance;*
- *Empowerment of women, dalit, indigenous, Madheshi, Muslim, disabled and ultra-poor people through social mobilization and their mainstreaming into the wave of development;*
- *Ensure inclusive development by enhancing people's participation in decision making*

Senior officials in MLD, key stakeholders in the various associations of local bodies, and former Secretaries all perceive that MLD's role to support the development of effective local governance is critical. Indeed, LGCDP has been designed with this role in mind – the programme document sets out the MLD mandate as involving a “majority of the people in the decision-making process of the governance system and empowering them for overall development through local self governance”.

Issues of the scope of Ministry portfolios are for the political directorate at the centre to decide. However, LGCDP will not deliver its key benefits if the role of MLD and local bodies is seen to be focused merely on coordination and delivery of development. As the political environment evolves, MLD and development partners will need to monitor whether MLD is to be allowed to deliver the critical function of facilitating effective participatory governance at a local level. If this role is not mandated to MLD, some of the critical aspects of LGCDP may not be delivered.

Over the past decade, repeated reviews of MLD have recommended that its name be changed from the Ministry of Local Development to the Ministry of Local Governance, to reflect the importance of the latter role. **We also recommend that - if the political directorate are in agreement – MLD be renamed the Ministry of Local Governance** and should have a mandate to establish, develop capacity of and facilitate participatory local government institutions and co-ordinate decentralised government systems to ensure that they deliver accessible, affordable and equitable services to local populations, enhance social inclusion and foster integrated social and economic development.

2.5 Wider issues of decentralisation

The current context of decentralisation to a federal system was discussed in section 2.1 above, and its implications for MLD will be discussed further in section six below. Over the coming two years, Nepal faces the considerable challenge of developing a multiple tiered structure of local government – although the actual implementation of this new structure is not expected to take place during the life of LGCDP, in other words for at least 4- 5 years. Even though there is general agreement about certain key elements in the

decentralised structure, a very large number of issues will need to be resolved in this short time:

- The State Restructuring Commission to manage decentralisation must start its work;
- Transitional mechanisms to enable political involvement in decision making and accountability at each existing level of governance will need to be developed and supported, until the point where elections can be undertaken (which will probably not be for 4-5 years, when the new structures are implemented);
- Decisions need to be made about the number of levels of local government. Assuming that there is a federal system with Provinces or States, the question is whether the next level down should be village/municipality, or whether there is a continuing role for districts or their equivalent;
- Decisions also need to be made about what functions are fully devolved to the provincial level, and which remain as central functions, including which functions at the centre are shifted to autonomous bodies;
- A detailed review needs to be undertaken on how vertical and horizontal linkages work: in other words, how the centre relates to the different tiers of government and how different sectors and functions of governance relate to each other at the different tiers;
- The size and number of local bodies needs to be reviewed. Most parties believe that the number of villages will need to be reduced, increasing the size of the basic unit at the foundation level of the system. This is to enable local governments to be large enough to afford adequate staff and to be effective as revenue mobilisers, service providers and capacity builders at the local level;
- Mechanisms for accountability at a local level must be strengthened;
- Decisions need to be made on personnel issues, and how local levels recruit, manage and reward their staff;
- The rules for fiscal transfers need to be defined. As a part of this, the scope for local revenue mobilisation need to be understood, and rules defined for the amount that is retained at a local level. Then fiscal transfers need to be identified, in a manner that is fully transparent – reflecting the different needs and priorities at a local level, and the conditions that will be placed on local bodies in order to receive these transfers
- Financial management systems need to be developed and implemented in order to reduce fiduciary risk. This must take place before the new local government structures can be effectively implemented

As can be seen, although many of these decisions will be taken at a higher political level, there are key actions that need to be taken in the next couple of years, where LGCDP can make a major contribution. LGCDP can make a significant contribution to the key institutional changes and capacity building efforts to prepare local bodies for decentralisation and to put in place some of the building blocks for its implementation. If effectively managed, with a view to the wider decentralisation agenda, LGCDP is capable of providing:

- Support in increasing participatory planning, prioritisation and social mobilisation;
- Improvements in political participation, in the absence of elections;
- Enhanced accountability structures;
- Flexible and tailored capacity building support to local bodies;
- A sound basis for transfer of block grants – including on a performance basis – which could form the foundation for fuller local government fiscal transfer systems;
- A mechanism for ensuring the funds from development partners flow using GON mechanisms and using fiscal rules.

LGCDP is a major opportunity for Nepal, not only because of its size and the benefits of bringing development partners together and coordinating them, but because it provides the only opportunity to start to prepare the lower levels of governance in Nepal for the major changes in demand that will be placed upon them when decentralisation is implemented.

2.6 Risks

There is no doubt that LGCDP is a high risk programme. It is of a very large size, to be led by a ministry that has very limited experience of managing a programme of this size and complexity (although other large programmes are being delivered in the education and health sectors, LGCDP is a multi-sector programme which increases the complexity). GON systems (for example for financial management, procurement, audit, monitoring and evaluation) are to be used – many of which are in need of strengthening (and which are discussed on more detail below). LGCDP will call for major cultural change from the centre and from local bodies. And most of all, LGCDP is being established in a climate of considerable political uncertainty, much of which relates directly to the local governance sector, which will change dramatically during the life of this programme.

Issues such as fiduciary risk will be reviewed in a separate exercise, and this institutional assessment is the start of the process of addressing some of the capacity risks. However, we expect that LGCDP will continue to be a high risk programme throughout its life. It is, by necessity, an experimental programme – one where a process approach will need to be taken to many of the components: seeking windows of opportunity for new approaches, learning lessons and changing direction as the environment changes. This places a considerable burden on MLD, on the National Advisory Committee (NAC) for LGCDP, and indeed on the development partners working with LGCDP.

However, these risks need to be considered in the light of the risks that Nepal would face, if LGCDP does not happen. The issues of systems and process, of capacity at different levels of government and need for significant cultural change will be even more significant when major decentralisation decisions are implemented in 4-5 years time. Making decentralisation work will be difficult in Nepal – as many other countries have found. There are many things that can go wrong, creating a decentralised system that is inefficient and does not deliver the benefits for citizens that were sought from the process. LGCDP provides a unique opportunity to start to address some of the key capacity gaps, as the future of decentralisation is decided. The local governance sector can, through LGCDP, start to move towards appropriate reforms to structures and processes, with targeted capacity building, in particular at the level of local bodies, before the issue

becomes over politicised. LGCDP can be the mechanism to enhance capacity across local government, supporting and improving existing State structures as they are readied for the challenge of decentralisation. It can deliver the preparatory work and the planning for the much larger programme to support the implementation of decentralisation five years in the future. The key for LGCDP is to identify and then to focus on some of the priority areas in the first couple of years at least – bearing in mind what is feasible, given the capacity gaps and the ever-changing political environment.

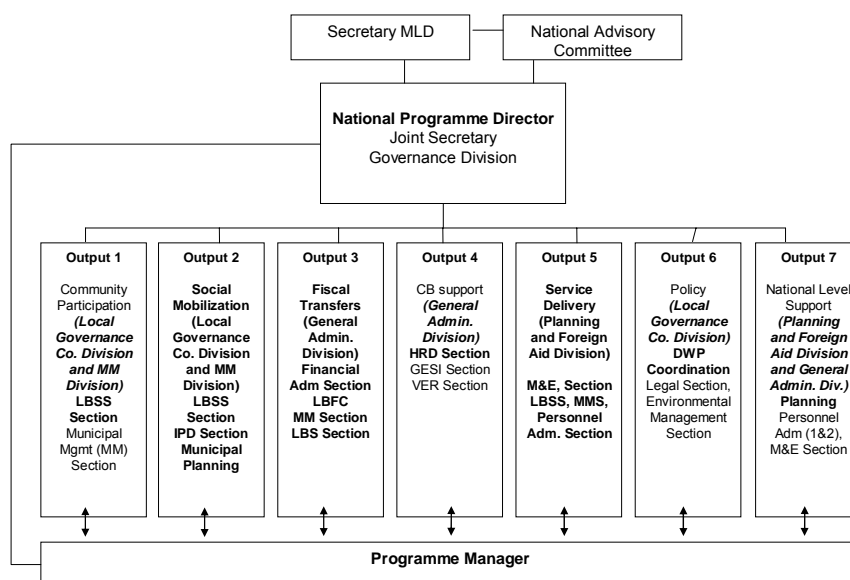
3. LGCDP

In this section, we focus on an assessment of the structures, processes and people in place to deliver LGCDP, and put forward recommendations for capacity development in terms of individual and corporate capacity building, systems and processes.

3.1 Management structures for LGCDP

The proposed management structure of LGCDP is set out in the figure below.

LGCDP Management structure



The National Programme Director (NPD), Programme Manager (PM) and Output Managers (OMs) are already identified and the United Nations Capital Development Fund (UNCDF) is supporting the development of terms of reference for all posts. The key to LGCDP is that its management will be integrated into the day to day operational management of MLD – not run as a separate project. To that end, Output Managers are to be Under Secretaries leading relevant Sections within MLD (as identified in the figure).

3.1.1 The role of the Programme Manager

The first issue that this management structure raises is that of the role and authority of the Programme Manager, who has operational responsibility for managing LGCDP implementation and is responsible for day-to-day programme management, coordination and performance. The terms of reference for the role indicate a wide range of coordination, management and reporting responsibilities. The concern arises because the post is to be held by someone who is at Under Secretary level, the same or a lower rank

than that held by the OM postholders, but who is expected to hold these OMs to account for delivery of LGCDP outputs. To address this issue, the terms of reference for the PM make it clear that the OMs are required to plan, provide information and report to the NPD (a Joint Secretary position) through the PM. And the most recent set of TORs setting out the specific responsibilities of the OMs, also generally makes it clear that the line of reporting for management is through the PM to the NPD. MLD staff have consistently expressed the view that these reporting lines will not be a barrier to responsiveness and effective delivery. But, in particular given the 'siloes' ways of working that operate across GON, it remains a concern that issues of hierarchy will interfere in the delivery of LGCDP.

We recommend that the TORs for the OMs are reviewed finally by NPD, to ensure that it is clear that the PM has authority to manage the OMs for the purposes of delivering the LGCDP objectives and outputs.

We also recommend that a short review of the effectiveness of the management structures for LGCDP be undertaken in mid 2009, so that any emerging problems and issues of responsiveness and accountability can be addressed before the programme is too far into implementation.

3.1.2 Incentivising OMs to deliver

The culture of GON as a whole is not results focused. Given the need for LGCDP to deliver outputs in a challenging environment, there is a real need to increase the focus on results, and incentivise OMs to deliver. MLD has decided to draw up an outputs focused performance framework for each OM, and to review progress against this framework, holding each OM accountable for delivery of the outputs in the framework. There is no intention of making these formal performance contracts; there is no link between performance against this framework and promotion, which is based on other assessments managed by the Ministry of General Administration (MGA). The planned performance framework will not be taken into account in terms of future prospects.

We are clear that that – at present and despite the preferences of some development partners – there is no scope for including incentive payments for OMs. The Ministry of General Administration recently attempted to pilot a performance incentive scheme in certain parts of the Ministry of Agriculture, but it proved impossible to implement. There is no current likelihood of further experimentation in this area. So, to provide performance related rewards would go against current civil service terms and conditions, and would not be advisable in the context of trying to work within GON's systems and processes for implementation of LGCDP.

One way to incentivise OMs to focus on results will be to use some of the planned LGCDP mechanisms. Although the key mechanism for accountability for delivery of LGCDP outputs is the twice-yearly National Advisory Committee (NAC) meetings, there is also a planned series of monthly meetings with development partners. It has been suggested that – rather than merely getting the NPD to summarise performance reports prepared by the OMs - OMs are required individually to report and answer questions on the performance of the outputs for which they are responsible on a monthly basis. The need to report monthly will focus minds and actions on results. This approach does have disadvantages for development partners, some of whom are already pushing for the meetings to be only every two months, and the monthly meetings will undoubtedly become longer if each OM has to report. We believe that this inconvenience should be seen through the perspective of cultural change. A major shift to results orientation will not happen in MLD without effort, and the effective management of monthly meetings in

the first year or so of LGCDP could make a significant contribution to this change.

We recommend that MLD General Administration Division should liaise further with the Ministry of General Administration to identify means whereby performance against the LGCDP frameworks can be included in the overall assessments of performance for staff involved in LGCDP.

We recommend that meetings with development partners to review progress and issues should happen monthly, at least for the first year of LGCDP, and that each OM should be required individually to report on progress for their output.

3.1.3 National Advisory Committee

The NAC is the high level government committee for overall coordination, policy advocacy and supervision of the programme, as well as for making strategic recommendations concerning its implementation. This National Advisory Committee will be chaired by the Secretary MLD and will consist of the MLD's Joint Secretaries and other senior officials, representatives of relevant Line Ministries, local bodies' associations and representatives of development partners. Given its name, it has been questioned whether the NAC's role is as an *advisory* committee or a *steering* committee. A review of the NAC's terms of reference, and discussions with key stakeholders makes it clear that – whatever the semantics – it is the steering committee for LGCDP.

There are two concerns about NAC. The first is that it is a rather unwieldy group of members, some of whom will be closely involved in LGCDP management on a day to day basis and others who have a role to play, but who will not necessarily be up to speed with details of implementation. The other is that NAC is only expected to meet regularly twice a year. One of these regular NAC meetings will focus on review and approval of the annual LGCDP work plan and budget for the coming fiscal year. The other regular NAC meeting will take place mid-way through the fiscal year and will focus on a mid year review of performance. The role of oversight and monitoring of a programme as complex and high risk as LGCDP cannot be restricted to two meetings a year.

We recommend that – at the first meeting of NAC – the Committee establishes some smaller subgroups drawn from key interested and relevant NAC members (perhaps focused around the different output areas), which can meet more regularly and on a less formal basis to provide monitoring and oversight of LGCDP delivery and effective performance, linking to the monthly meetings with development partners.

3.1.4 Use of technical assistance

LGCDP has already identified indicative technical assistance (TA) needs for individuals to work in the Programme Coordination Unit (PCU) of LGCDP, which is set out in the Programme Document:

Outputs	Technical Assistance	Timing
Outputs 1 and 2	1 SM Nat. Professional	48 person/months
Outputs 3 + 5	1 PFM National Professional	48 person /months
	1 Fiscal Decentralisation National Professional Fiscal Decentralisation - short term internationals	48 person /months 7 person /months
Output 4	2 CD + HRD National Professional	96 person /months

	1 National GE/SI Professional Short term international	48 person/months 6 person /months
Output 6	1 SWAp Nat. Professional 1 Sector Devolution Nat. Prof 1 Advisor on Children & Youth - friendly Local Governance) 1 Policy Adviser International short term	48 person /months 48 person /months 48 person /months 12 person /months
Output 7	1 M&E Nat. Professional 1 short term MIS 1 GIS Nat. Prof.	48 person /months 24 person /months 48 person /months
Programme management support	1 Procurement Specialist Nat. Prof. 1 Programme FM Specialist Nat. Prof.	24 person /months 24 person /months
Unallocated National Professionals (as and when required)		96 person /months

MLD clearly recognises the areas where it lacks capacity at present, and is taking steps to fill these gaps. The individuals appointed (or seconded) to PCU to date are competent and experienced, with a wealth of experience of their subjects of expertise to bring to LGCDP.

There is, however, a risk in using long term TA embedded in the PCU. This risk is that – over time – the technical experts increasingly take on a direct implementation role. Large projects elsewhere in GON have been undermined by this tendency in the past: the project may deliver its outputs, but little sustainable capacity is built in government as a result. The TA currently identified must remain in an advisory, not an executive position. It is relatively easy, at present, for OMs to pass implementation responsibilities to the long term experts. This is not the intention of LGCDP, but – as noted above – the incentives for OMs to take responsibility for delivering their outputs must be enhanced. **We recommend that that NAC and the development partners monitor on a regular basis that OMs are not relying on the TA specialists to take on an executive role in LGCDP management, and that this issue specifically reviewed at the end of the first year of LGCDP.**

Following the fact-finding phase of this institutional assessment, we believe that the TA requirements – particular at the outset of LGCDP – have been underestimated in some areas. MLD's emphasis is on single experts, working full time throughout the life of LGCDP providing support to relevant OMs. This sort of long term support will be critical to effective delivery of the LGCDP output. But, as discussed in more detail below, the amount of TA support needed in certain areas, in particular in monitoring and evaluation, financial management, GE/SI and capacity building at local levels is probably higher than that currently budgeted. Much of this TA will be for national specialists, although in some areas drawing lessons from and use of models from international best practice will also be needed.

We recommend that NPD and the rest of PCU revisit and revise upwards the TA requirements, in the light of the findings of this institutional assessment. In particular, the additional requirements should be outsourced as specific packages of short term support, to mitigate the risks noted above of TA drifting into executive roles. Development partner funding may need to be earmarked for this. **We recommend that a facility is established, using a 'basket funding' mechanism by development partners, upon which the PCU can draw in a timely manner using simple procurement processes for these additional requirements.**

3.1.5 Mid term review

The political environment will change dramatically in the first two years of LGCDP. The current management structures, output areas, key activities and focus have been designed bearing in mind the current context of local governance in Nepal. But LGCDP is likely to fail to deliver on one, if not all of its key output areas, if the programme is not refocused on the high level direction of local governance reform in Nepal. Although the CA is supposed to complete its work after two years (in other words by June 2010) the speed of Government formation to date suggests that the additional 6 months allowed before final decisions are made will be needed. At that point, things may be clearer about the future structure of governance at decentralised levels in Nepal.

Above, we have recommended a short review of LGCDP management structures after 12 months. **However we recommend that the key review point should be at the end of 2010. At this point, MLD and the development partners should plan (and budget for) for a wide-ranging review of the programme from first principles, in the light of lessons learned in phase one and in the light of the planned changes to local governance.**

3.2 Focus of LGCDP

LGCDP must build both the demand and the supply side of effective local governance: merely building capacity and providing resources from the centre will not have an impact. The emphasis – both explicit in places in the LGCDP programme document and implicit in our discussions with stakeholders – is that the focus of capacity building will be at DDC level.

There are a number of reasons for this:

- At the time when design of LGCDP started, the State structures for local governance were in disarray at the lower levels – Village Secretaries were dislocated from their posts, infrastructure at village level across much of the country had been damaged or destroyed, and it was not clear whether this level would return to effective functioning;
- For both MLD and development partners, capacity building and support in 75 Districts appears a demanding but apparently achievable task, whereas work in some 4,000 local bodies appears dauntingly unmanageable;
- DDCs have a level of capacity already (in terms of individual capacity, systems and infrastructure) so impact may be seen more rapidly;
- DDCs include relatively senior staff appointed from MLD and known to MLD staff (most of who have been Local Development Officers (LDOs) themselves, and so understand the responsibilities and scope of work).

However, it is far from clear whether the District structure will even exist in its current state in 4 years' time. Even if the need for a middle tier, between village/municipality and province, is identified, this will probably not be a level focusing on implementation, but one that focuses on coordination and consolidation of performance information. As a result, there is a risk that the capacity building efforts at DDC level will be nugatory.

Of course, many of the systems and processes that are developed at DDC levels for participatory planning, prioritisation, empowerment of citizens and communities,

strengthening downward accountability, improved service delivery, equitable fiscal transfers, financial management and audit and performance monitoring will be relevant and capable of being transferred to the new provincial level of governance. But unless adequate focus is given to the VDC level in terms of new systems, processes and capacity building, the building blocks for decentralisation will not be developed.

We recommend that a much greater focus on capacity building at VDC and municipality level is built into the planning for LGCDP. There is time for this to be done in the inception phase, but it may involve additional impetus in terms of capacity building assessment and planning. Given the need to develop many basic capacities and processes at District level (which may have relevance to the future provinces), **we recommend that one of the key tasks for LGCDP for the first two years should be to establish systems at DDC level – seeing this as the point of entry for local governance, but to focus on identifying and piloting systems appropriate at VDC level. We recommend that DDCs, with LGCDP support should also develop – for VDCs in each District - detailed capacity building action plans including roll out of new systems and processes at VDC level.** An important interim target is the roll out of top ups to block grants to 900 VDCs by the end of Year One. If this is achieved, LGCDP is well on its way to developing systems that can roll out to all VDCs to build capacity within the life of the programme. One of the benefits of a thorough-going mid term review will be the capacity to review these systems and plans and refine them in the light of emerging decisions on decentralisation.

3.3 Key areas for capacity building to implement LGCDP

In this section we highlight some of the key gaps in capacity identified by MLD staff and other stakeholders, which will negatively affect implementation of LGCDP.

3.3.1 Monitoring and evaluation

Of all the competences, monitoring and evaluation is the one most often highlighted as the key capacity gap. This is true across GON, so MLD's self-confessed weaknesses in this area should come as no surprise. But LGCDP is an output focused programme and cannot succeed without effective monitoring and evaluation at the centre, but going down to the lowest levels of local governance. The Under Secretary in MLD's current section for monitoring and evaluation (also the identified OM for Output 7) admits that what monitoring is done by MLD at present is 'traditional' enumeration of inputs and some project activities, but not output focused reporting against robust performance indicators. At present, fewer than 35% of DDCs report on a timely basis, even using the limited reporting that is in operation. Very little exists at VDC level.

This institutional assessment has highlighted weaknesses in current arrangements for driving and managing performance across the sector, which will negatively impact implementation of LGCDP. Performance monitoring systems are rudimentary or do not exist, hence there is a lack of strategic oversight of implementation against plans and targets to hold sections of MLD, and, even more importantly, local bodies, accountable. In addition, because of the 'siloed' nature of MLD operations, there is duplication of requests for performance information. Performance information is currently already collected in critical sectors, such as Education and Health. **Our key recommendation is that strengthening of the current MLD section for monitoring and evaluation to take responsibility for development of performance reporting system to report in LGCDP and the monitoring of the delivery of results against plans.**

A recent and very thorough assessment¹ of monitoring and evaluation in MLD and at DDC level sets out the strengths and weaknesses of monitoring and evaluation at MLD and DDC level, identifies the key capacity gaps and sets out actions to address these gaps. Performance monitoring is critical for LGCDP by ensuring that information about outputs and impact is made available to make informed decisions.

The areas that need to be developed and where actions need to be taken include:

- Review of LGCDP plans to identify key performance indicators;
- Ensuring that performance indicators can collect information about impact on key issue such as gender, impact on the poor and specifically excluded groups and on other key cross cutting areas;
- Establishment of systems to collect indicators absent each key output area that are suited to the needs, capacity and infrastructures available at the different tiers;
- Capacity building to develop competence in monitoring at MLD, DDC, VDC and municipality levels;
- Monitoring the performance of government both at the level of individual project activities, at LGCDP output levels and at each tier of local governance;
- Undertaking regular follow up of all parts of the local governance system – particularly at lower levels, that performance information is being gathered by their internal systems on an ongoing basis;
- Gathering performance data monthly/quarterly from local bodies against plans and performance indicators;
- Analysing the data to identify trends in performance, collating and analysing performance data received from all parts of the local governance sector, and producing appropriate summary and synthesis reports for key stakeholders at the central level. Specifically this will involve reporting on performance for the Minister, for senior officials in MLD, for the NAC and possibly even at higher levels such as at Cabinet level. These individuals will be able to use the information to make decisions on where action may be required to address performance issues or how good performance can be fostered and replicated;
- Reviewing performance information to verify verifying the data by which progress towards results is being measured at local levels to ensure robustness, completeness and accuracy;
- Undertaking or (more likely) commissioning regular evaluation activities to deify impact of LGCDP.

This is a major set of tasks and marks a significant change in roles, approach and overall culture for both the section for monitoring and evaluation and all parts of the local governance sector.

There are infrastructural and logistical issues to consider, but much of the IT infrastructure

¹ Monitoring and Evaluation Assessment , Decentralised Financing and Development Programme, 30 July 2008

exists at MLD and DDC levels already. The issue now is appropriate software, and statistical competence to use that software. There is a need to link with the reporting systems already in operation in Health and Education at local levels, and a need to develop simple output based reporting systems and formats, probably using a very simple spreadsheet format for VDCs.

We recommend that a key focus for the inception period of LGCDP should be on developing effective monitoring systems and a plan for impact evaluation. A national expert has already been appointed to the interim PCU to provide support, but given the scale of the tasks faced by MLD and the entire sector, one person will not be enough to set up the appropriate systems identified above in the time available. We recommend that additional TA is contacted for the first 12 months of LGCDP to develop effective monitoring and evaluation process, under the leadership of the OM and advised by the long term M&E specialist.

Additional TA support might include:

- At MLD level
 - 3 months of an international public sector monitoring and evaluation specialist to bring a perspective of international best practice and to review the proposed systems for LGCDP
 - 12 months of a national monitoring and evaluation specialist to establish robust systems in MLD and develop and implement a capacity development plan for MLD staff, working with the PCU Monitoring and Evaluation specialist
- At DDC level
 - 6 months for each of two national monitoring and evaluation specialists to develop robust reporting systems and to carry out detailed needs assessments to design capacity building interventions
- At VDC level
 - 3 months for each of two national monitoring and evaluation specialists to undertake capacity assessments on a sampling basis, to design some simple formats for use at VDC and municipality level and to develop capacity building interventions.

We recommend that the action plan set out in the *Monitoring and Evaluation Assessment* of July 2008 is reviewed and used as a basis for a more detailed plan of action for LGCDP to be developed over the coming 6 months.

A small number of development partners have identified that, with the size and scale of LGCDP, there is a requirement for some independent monitoring and evaluation. This would be at a more strategic level than the operational monitoring and evaluation undertaken in MLD. Reviews by development partners will provide good and independent monitoring and evaluation, but there is a strong argument for appointing a single independent monitoring and evaluator or commissioning a rolling programme of independent evaluations of different aspects of LGCDP. One or other of these approaches **We therefore we recommend that the NAC should, at its first meeting consider a paper from the NPD setting out the need to commission independent monitoring and evaluation.**

3.3.2 Aspects of financial management

MLD has made considerable improvements in its financial management in recent years. But, for LGCDP, the concerns are at the local body levels. At present, funds are transferred from MLD to DDCs. There have been concerns raised about lateness of some transfers, but the situation appears to have improved considerably in the past year, with delays only being seen at DDC levels in the case of some capital grants. But even though funds are released to DDCs on a timely basis, there are issues in terms of release from DDC to VDCs. Recent analysis² suggests that funds can remain at DDC level, rather than being transferred to VDC, causing delays in implementation at VDC level. One of the reasons for this is the need to receive project completion reports for the release of tranches II and III, which themselves are delayed because of lack of timely support from DDC technical staff who are required to sign off these reports. As MLD moves forward with the JFA, the systems that are proposed should mean that there are fewer issues in transfers from the Ministry of Finance to local bodies. However, the timeliness of releases and the reasons for delays are issue that require regular monitoring. Financial reporting from DDCs to MLD is working well. Overall, as reported by other reviews of financial capacity across GON, there are well developed policies and systems in place at the centre, although there are gaps in implementation in certain areas. Nevertheless, key officials in MLD recognise that LGCDP will bring new challenges, particularly in working on strategic and policy issues, and managing financial transactions in a decentralised environment.

But concerns exist at DDC, and even more at VDC level. In devolved Districts, financial transactions appear to be working effectively. The Under Secretary in MLD's Financial Administration Section reports that financial reporting on a monthly basis is taking place. But concerns remain about the DDC's capacity to plan, transfer money effectively to lower level and to carry out internal audit. Financial accountability will be key to the success of LGCDP's efforts to increase block grants, to address community supported development of plans. The systems are in place, but the issue is whether they will be able to adapt – with appropriate levels of transparency and accountability – to a greater flow of funds.

At VDC levels, there are even more concerns. Financial management at VDC level is rudimentary at present. A recent assessment of VDC block grants³, which undertook fact-finding in a sample of 14 VDCs covering six Districts reveals a budgeting, financial management and accountability system which is in general operation across the sector, but is very limited in scope. Specifically:

- There are no standard formats for compiling plans and budgets and a lack of expertise in most VDCs;
- There is no system for consideration of performance or quality of services delivered, so the shift to assessment of minimum conditions and performance measures (MC/PM) is going to be difficult;
- VDC Secretaries lack competence in financial management;
- Current internal and external audit procedures are generally complied with, but these are inadequate to provide accountability, focusing only on verifying total transaction levels;

² Interim Report on Preparing Governance Reforms and Decentralisation Cluster Program I, ADB (inlogos, PRAD and TMS), April 2008

³ Assessment of VDC block grants, Decentralised Financing and Development Programme, June 2008

- Very little technical support is provided to VDCs from DDCs.

If LGCDP is to meet its obligations to improve output focus, monitoring and evaluation and accountability, these weaknesses must be addressed. This is as urgent an area to be addressed as the set of capacity gaps identified in the area of monitoring and evaluation. The Under Secretary, Financial Administration Section in MLD (who is also OM for Output 3) is well aware of the scope of the task, as is the Public Finance Adviser in the PCU, who is already in post. However, the agenda under LGCDP's Output 3 is very demanding, covering strategic and policy areas as well as the need to establish these basis systems at local body levels. In line with comments made above about work planning and reviews, we **recommend that LGCDP should plan to have built capacity at VDC level, specifically, so that a move can be made to transferring block grants, using MC/PM assessment of performance, to all VDCs from the mid point of the programme.** Unless this target is met, the larger objective of readying local bodies for decentralisation will not be achieved.

Specific areas of focus will include:

- Setting up basic standard formats for budgeting and financial management at VDC level;
- Linking financial reporting to monitoring activities at VDC level;
- Enhancing the internal audit function at DDC level, and increasing its focus on performance auditing at VDC level;
- Improving the level of technical support from DDC to VDC.

The plans set out in LGCDP are well thought through, although they perhaps understate the work that needs to be done to build capacity in internal audit. In addition, the consultancy support to assess MC/PM has only been extended down as far as DDC level and in municipalities. Given the wider agenda of decentralisation, this is not enough: work must also be started at VDC level. As with monitoring and evaluation we perceive that the level of TA required has been underestimated. We agree that one full time specialist, supported by short term international experts, is going to be needed to support the OM, over the life of the programme, but recommend that in the first two years. Although the overall spend set out in the LGCDP document (including the Core TA, and estimates for capacity building) is over \$1.5m, the work needed to be undertaken is considerable, and specifically, the internal audit issues have not been explicitly covered. **We recommend that the NPD, OM for outputs 3 and the PFM Adviser review the TA and capacity building budget for output 3, and seek to increase the TA support in this area.**

3.3.3 Procurement

LGCDP intends to use GON systems – including for procurement. In 2007, GON enacted a Public Procurement Act: umbrella legislation that applies to all parts of the public service, including local bodies. The act is based on international best practice. A Public Procurement Monitoring Office has been established in the Office of the Prime Minister with responsibility and authority for setting policy, monitoring practices and reporting on overall system performance. This is a positive step forward for Nepal. But there are concerns about the possible slow speed of the procurement process, in particular for procurement of short term TA, the need for which is commonly identified and required on the ground in quite a short timescale. Large scale projects in this sector in other countries

have been derailed because of the impossibility of procuring TA in a timely manner.

It has not yet been possible to identify a procurement expert for PCU. This is a significant gap in capacity, as it is critical to develop procurement rules for LGCDP, which comply with the Public Procurement Act, but are appropriate to the needs of the programme. **We recommend that this post is filled as a matter of urgency. We also recommend that clear rules are drawn up for the rapid procurement of TA – potentially using parallel donor funding for this activity.**

3.3.4 Gender Equality and Social Integration

Gender Equality and Social Integration (GE/SI) is the critical focus of LGCDP. MLD needs to integrate GE/SI issues into all the support that it provides to local governments. There are a range of activities planned, including identifying a focal person in DDCs, and introducing GE/SI responsive planning and budgeting systems. Municipalities and VDCs will be helped to develop appropriate GE/SI responsive programmes. Significant capacity building will be provided at all levels. Every local body will be expected to develop GE/SI capacity development plans and GE/SI perspectives will influence all the activities undertaken under Outputs 1 and 2. A critical element of this will be GE/SI budgeting and audit, which will, if implemented properly, assist in embedding good ideas and initiatives, as well as providing resources for monitoring implementation.

The Ministry of Women, Children and Social Welfare, which has the cross government responsibility for such issues is committed to providing support to MLD in this effort to mainstream GE/SI at local levels, and will provide technical support at central and – where possible - at District levels.

The issue for MLD is to make the cultural change from seeing GE/SI as a specialist activity, to mainstreaming it across all of the work of MLD. At present it is too often seen as a sectoral issue, not something cross-cutting and critical to all MLD activities. The awareness of the need to change is widespread in MLD. But it will need focused monitoring and tracking to ensure that this change happens. This is one area, for example, where regular external monitoring and evaluation to identify the impact over time of the GE/SI focus of LGCDP and to identify ways of enhancing impact. **We support the plan that NPD and the GE/SI specialist in PCU develop a plan for monitoring the impact of GE/SI – including external monitoring and evaluation – with the support of interested donors.** The TORs⁴ in preparation with support from CIDA and ADB are clearly the place to start this process.

3.3.5 Poverty tracking baselines

If LGCDP is to achieve its goal of 'contributing towards poverty reduction through inclusive responsive and accountable local governance and participatory community-led development', it needs to make improvement to planning, prioritisation with a GE/SI focus, monitoring and evaluation of impact. Poverty tracking, through household surveys, can make a significant contribution to this. In a particular district, municipality or village, who are the poor? It is easy to make assumptions about this, but experience in other countries suggest that a detailed poverty tracking household survey, linked to GIS, can bring new information that can help targeting local programmes and even higher level policy for social welfare and other interventions. This sort of detailed baseline information is critical to developing effective social mobilisation and community development plans, can serve

⁴ Draft TORs and Draft GE/SI Action Plan, ADB/CIDA, July 2008

to make linkages between the key activities of LGCDP at a local level and provides a firm basis for monitoring of impact through further surveys.

The National Planning Commission already has processes for high level poverty tracking, and a recent exercise to map disadvantaged groups across Districts (DAG mapping) has been successful. Whatever is developed in MLD must align with this. LGCDP is already investing in monitoring and evaluation and GIS. **We recommend that to get the most benefits from these investments, and to provide a firm basis in detailed knowledge of poverty and exclusion on the ground, that attention is focused on developing and supporting a series of poverty tracking baseline surveys in the early stage of LGCDP.**

3.3.6 Environment

ADB, among others, has raised concerns about environmental safeguards for LGCDP. Infrastructural development is one of the biggest areas of development expenditure, whether this is through the projects operated by the Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR), or small projects at a local level. These concerns are real. In terms of larger projects, appropriate environmental impact assessments are already carried out – by DOLIDAR for rural projects and by the Environmental Management Section in MLD for municipal projects. But at VDC level, no environmental impact assessments appear to be undertaken – despite the fact that even a small infrastructural project in an environmentally sensitive area can have a significant negative impact. **We recommend that a simple environmental impact assessment process is developed for all infrastructural projects at VDC level. The District Technical Office will need to take responsibility for undertaking these.** Of even more concern is the fact that monitoring does not take place, MLD does not check whether the mitigations agreed after an environment impact assessment are actually put into action, and does not monitor the final impact on the environment of projects. **We recommend that processes for systematic monitoring of the environmental impact of infrastructural projects are developed and implemented.** Development of these processes will be a role for the Environmental Management Section, although implementation will be delegated to lower levels.

LGCDP is likely to increase the number of (small) infrastructure projects undertaken, as this is one of the highest priority areas (after education) for local discretionary spend at local levels. Both DOLIDAR and the Environmental Management Section report that there is a thriving market for these services in Nepal, and that, rather than recruit additional staff to MLD, the approach should be to outsource any additional burden of impact assessments. **We recommend that this approach is taken, and that budget is allocated to DDCs in particular to enable them to contract this work.**

3.4 Cultural issues

Even more than some of the processes and system reviewed above, the ‘softer’ issues of corporate culture and ways of working will have a critical impact on the effective implementation of LGCDP.

3.4.1 Integration across sections

Many of the officials on MLD have commented on a ‘silo’ mentality and a lack of

coordination and communication across the organisation as whole. To some extent this may be the result of the large number of relatively small programmes that exist in MLD – each reporting upwards through a PCU to a single MLD point of contact and thence to the Secretary. Whatever the causes, as a result, different sections of MLD at the centre make demand on local bodies in an uncoordinated manner. If LGCDP is to be effective then this must be addressed. Each Output requires collaborative working across sections – even if one Section is clearly in the lead. And LGCDP as a whole will only have its desired impact if it is effectively integrated. Working across Outputs and realisation of synergies between Outputs will be critical factors in obtaining the most impact from the programme. Many issues will cross over more than one Output, and information collected in one output area (most notably the monitoring and evaluation information) must inform decisions and activities in others.

The need for integration is recognised, but **we recommend that the NPD, supported by the Secretary, MLD focus on ensuring that work planning and internal reporting emphasise the need for integration across Outputs in the first year of the programme.** Some focused capacity building in team working, including approaches to integrated team planning may also be of assistance.

3.4.2 Retention of key staff

In recent years, turnover of staff has been high across GON. Postings and transfers occur very rapidly. The World Bank indicates⁵ that in 2006, over 9,000 civil servants, from a total of some 80,000, were transferred – although the figures for 2007 appear to be lower. For LGCDP there would be significant negative impact were OMs and LDOs to be transferred just after capacity building investments have been made. The Ministry of General Administration is clear that its systems cannot be altered for a particular programme. Individuals are free to apply for posts at any time, and the needs and aspirations of individuals are considered of more importance in the posting process than the requirements of organisations. However, the Civil Service Act has brought in expectations that individuals should be posted for a minimum of two years. It remains to be seen whether this will apply in reality. And MLD should have a degree of influence over the internal transfers of LDOs from one District to another. **We recommend that, where feasible, LDOs should stay in post for at least two years.**

3.4.3 Cultural issues

There is a lot that is positive about MLD's culture. It is open and collaborative, and relatively non-hierarchical, at least in comparison to other parts of GON. Despite the issue of 'silo' working discussed above, there is a culture of sharing information across the organisation. But much of the cultural tone of MLD is set by the leadership of the current Secretary, who is due to retire in a few months. A new appointment may bring a very different culture to bear in the organisation. This is a major risk for LGCDP, as the programme has been designed with implicit assumptions about the prevailing culture and way of working. There is, of course, no way that MLD, nor indeed development partners, can intervene in GON appointment procedures. However, **we recommend that NAC committee at an early stage that changes to key posts for LGCDP – in particular NPD, PM and OM's, once agreed, cannot be changed, unless the postholder moves on as a result of promotion.**

There is, of course, a similar risk involved in the appointment of a new Minister. Were

⁵ Nepal Governance and Anti-Corruption Assessment, World Bank June 2008

MLD to be headed by a Minister who was highly 'centralist' for example, it is unlikely that LGCDP will be able to deliver the outputs that are sought. This is not something that can be addressed in advance of any political appointment, so it remains an area for monitoring.

Another cultural issue needs to be taken into account in implementation of LGCDP. Across GON, policies and procedures that are developed are generally of high quality. The issue for Nepal is the effectiveness of implementation of these policies and procedures. This is a particular concern for LGCDP, where much of the first two years will be spent in developing policies and procedures. Effective measures to implement these will need to be developed, and implementation monitored.

The major cultural change for MLD is to shift from an organisation that gets involved in direct implementation of projects to one that is facilitating implementation being undertaken at lower levels. MLD is accustomed to relatively small projects, with project management units consisting of a couple of contract staff reporting to one individual in MLD. It must now move to a situation where it coordinates a large and integrated project, where it is a facilitator and monitor, not directly involved in implementation. From the top of MLD, throughout the organisation and down to the lower levels of local governance, all officials will have to learn how better to delegate, and how to maintain a light touch facilitation management perspective. Simple communications to all in MLD, ensuring everyone knows what LGCDP is and what benefits it will bring MLD and the staff working at all levels in the local governance sector can play a part in bringing about this change. This cultural shift will only be brought about by consistency in management at the top. The Secretary, MLD, NPD, NAC and development partners all have a role to play in making sure that there is consistency in direction to enable MLD to take on its appropriate facilitative and coordinating role.

4. MLD at the centre and local levels

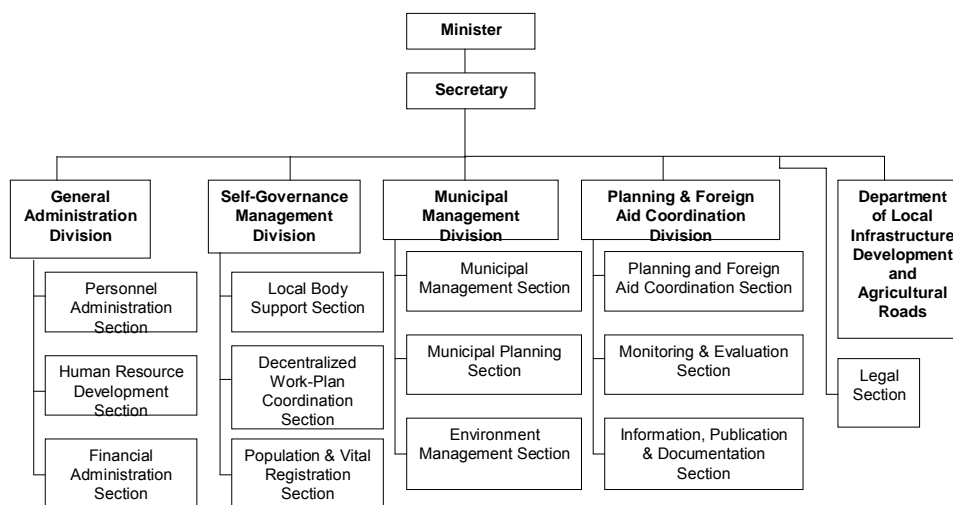
In this section, we discuss some issues relating to the organisation structure and operational of MLD and of local bodies, which will influence the implementation of LGCDP.

4.1 MLD

4.1.1 Organisation structure

MLD's current organisation structure was developed some eight years ago, in a very different political environment to today. All parties agree that there are sections that are overloaded with work, and others that are less stretched. Equally importantly, the LGCDP Outputs – which will constitute some of the most important elements of the work of MLD for the next four years – do not map well on to the current structure of MLD, which is shown in the figure below.

MLD: current structure



Restructuring ministries in Nepal can be a complex and time consuming affair, with a need for Cabinet level approval. However, the Secretary MLD believes that if minor adjustments are made to the existing structure, retaining four Divisions and 14 sections, then this may not be deemed a restructuring and MLD may be permitted to go ahead in the short term. We have discussed this issue with the Ministry of General Administration (MGA), who could give no guarantees that this is the case – all would depend on the case put forward to MGA by Secretary MLD.

4.1.2 Proposed changes to the organisation structure

According to the Nepal Government Work Division Regulation, 2064, the major roles and responsibilities of MLD, which should dictate its key functions and organisation structure are as follows:

- Formulation of policies, plans and programs related to local self-governance, local development, remote area development, rural and community development, and water supply drainage and sanitation at local level and their implementation, monitoring and evaluation;
- Training, research and investigations related to local self governance, local development, rural and remote area development, community development, and water supply and sanitation at local level;
- Demarcation and mapping of Village Development Committees, municipalities, districts, zones and development regions;
- Coordination of local development plans, local human resources and programmes;
- Mobilisation of local human resources and people's participation;
- Making necessary arrangements for local development-related international conferences and other international relations;
- Management of local level fairs and markets;
- Coordination of and development of cordial relations among local bodies;
- Administration of vital registration;
- Policy formulation, implementation and monitoring related to decentralisation and devolution;
- Identification of local technologies and its promotion;
- Activities related to rural development;
- Local infrastructure and agricultural road construction and maintenance;
- Activities related to the development of indigenous, dalits and janajatis;
- Social security;
- Coordination with regional and international organisations for rural and local development.

Many stakeholders in MLD have identified issues with the current structure. Some sections are overloaded. Others have a much lower workload. This imbalance may be exacerbated with the coming of LGCDP, where Under Secretaries in charge of Sections will also function as OMs. The more that can be done to harmonise the MLD structure and LGCDP, the less opportunity there will be for confusion, duplication or gaps.

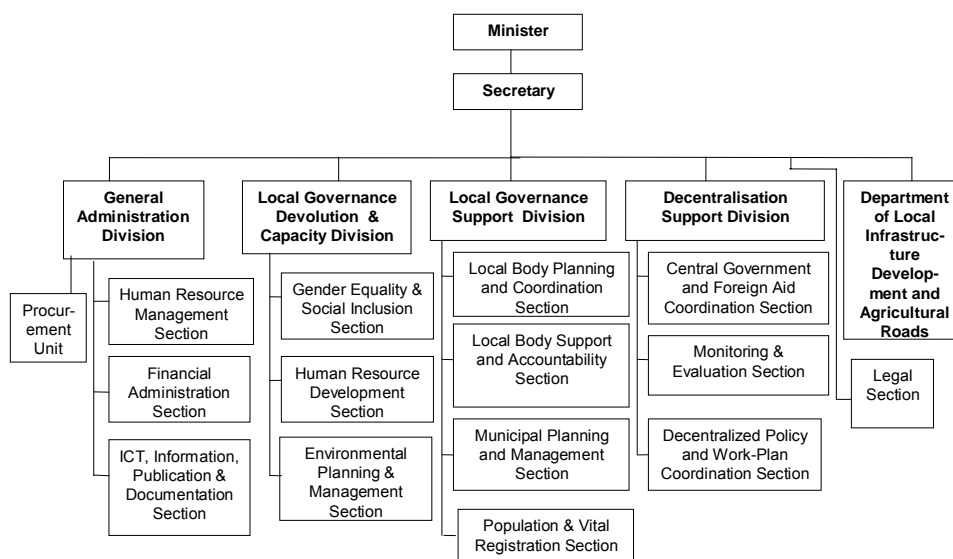
A further issue highlighted in our fact-finding interviews is the need for a number of key cross-cutting issues to be mainstreamed, not only across LGCDP, but across all the work that MLD undertakes. GE/SI, environmental protection and capacity development at local levels are critical to effective local governance, but at present are not given the

prominence they deserve in the structure. GE/SI issues are partly incorporated into the work of the HRD section, other aspects into the work of the M&E section. Neither section focuses adequately on the issue, despite its criticality to LGCDP - and indeed the work of MLD as a whole. The HRD section's location in the General Administration Division highlights its role in developing centrally-appointed MLD staff, but does not emphasise the need to focus on capacity development at the lowest levels, let alone within the community. And the Environmental Management Section focuses almost exclusively on environmental impact assessment for municipalities, as a result of its location in the Municipal Management Division.

MLD's objectives, set out in its publication *Key Achievements of 2007*, place significant focus upon social mobilization, inclusion, governance and poverty issues. A number of stakeholders have reported that the Local Body Support Section, which is where such responsibilities are currently held along with other key functions, is overloaded. The current responsibilities of the Local Body Support Section mean that it has a critical role in both Outputs 1 and 2 of LGCDP. This is the other key area where changes need to be made

We propose the following organisational structure for MLD.

MLD: proposed structure



The proposed structure maintains the number of Divisions and Sections as in the existing structure. The names of the four Divisions have been changed in order to reflect the modifications to their activities: the Local Governance Capacity Division will address the key cross cutting issues, the Decentralisation Support Division will focus on those overarching central policy areas that will promote the decentralisation process.

The major changes in the proposed structure are:

- To strengthen both the decentralisation process and governance mechanisms, we propose that cross-cutting issues such as Gender Equality & Social Inclusion, Environmental Planning and Management, and Human Resource Development at all

levels in the local governance structure need to be addressed adequately. Placing these sections in a separate division (the Local Governance Capacity Division) will enable greater focus to be made on these areas;

- A new GE/SI section will be established to work alongside HRD and Environmental Planning & Management section in the Local Governance Capacity Division;
- Significant changes in the focus of the work of Environmental Planning & Management will be made, to ensure it take on responsibilities for environmental safeguards, monitoring and capacity building, rather than administration and delivery, and it will focus on environmental planning and management in rural as well as urban situations;
- Support to local bodies and their activities will be provided by the Local Governance Support Division. The focus of this Division will be on those critical issues of social mobilisation, community development and downward accountability that are critical to decentralisation and are the core of LGCDP Outputs 1 and 2. Social mobilisation to strengthen the social and economic capital at local levels is of the essence for decentralisation. It will be the main focus of the new Local Body Planning and Coordination Section. Issues relating to service delivery and downward accountability, which are essential to make decentralisation processes effective, transparent and accountable, will be managed by the new Local Body Support and Accountability Section;
- To enable these new Sections to be established, the Municipal Planning and Municipal Management Sections can be merged, as can the Personnel Administration Sections 1 & 2. The new Section should be renamed Human Resource Management Section, to reflect the more strategic and policy roles it is taking on, in addition to personnel administration.

Other key proposed changes include:

- Setting up a separate Procurement Unit (i.e. not a part of the Financial Administration Section) under the General Administration Division, in line with the requirements of the Public Procurement Act;
- Changes to the responsibilities of the Legal Section, to include responsibilities in the areas of grievance, complaints and anti-corruption, including proceedings on grievance and petitions and acting as the focal point for activities relating to the Commission for Investigation of the Abuse of Authority;
- A change in the title of the existing Planning and Foreign Aid Coordination Section to the Central Government and Foreign Aid Coordination Section to reflect the range of responsibilities it needs to undertake.

Terms of Reference for each of these Divisions and Actions – making minor modifications to those set out in the Ministry of Local Development Brief Profile of March 2007 can be found in Appendix C.

4.1.3 Overlap with the Ministry of Physical Planning

There have always been issues relating to overlap between the Municipal Management Division and the role of the Ministry of Physical Planning. The issue may become more complex if the current negotiations to establish the government results (as has been suggested in some quarters) in the creation of a Ministry of Urban Development. Although

the thrust of the changes proposed as a result of this institutional assessment would not change, the precise delineation of roles of the Municipal Management and Planning Section and DOLIDAR would need to be reviewed and defined in relation to these changes imposed on from above. **We recommend that the Secretary MLD review the proposals for minor restructuring of MLD above in the light of any changes to Ministerial portfolios made in the coming weeks.**

4.1.4 LDТА

The Local Development Training Agency (LDTA) is an autonomous body established by law to deliver training to local bodies. It has 9 training centres across the country, and delivers a range of training, focused in particular on municipalities (from Pokhara) and DDCs, but also including training for Village Secretaries. However – as is the case with many public sector training organisations, across the world - LDTA’s main strategic thrust at present appears to be in developing high level and accredited courses through links with academic institutions at home and abroad, not on extending its training downwards to increase capacity at lower levels. LDTA’s current strategy is to focus on capacity building at DDCs and to expect that DDCs can therefore be equipped to cascade training to VDC levels.

Questions had been raised about LDTA’s ability to respond to demands for additional capacity building at the local levels as a result of LGCDP. At the end of the last fiscal year, LDTA shed 32 training staff through voluntary retirement. This has reduced delivery capacity – although LDTA accepts that it was overstaffed in relation to current demands.

Other stakeholders (including in MLD) are clear that there is a thriving market in the private sector in Nepal for training. Indeed, the local body representative associations expressed a belief that LDTA has no continued role in local body capacity building. This is probably an extreme view, in particular because - albeit in need of updating in several cases – the infrastructure and facilities will be valuable resources, which can be expected to pass to Provinces in the new Federal structure. It is not clear whether there will remain a role for LDTA after decentralisation, but certainly each Province will need its own training facility.

We recommend that MLD should seek to put all capacity building opportunities to the market. LDTA will be able to compete – along with the providers in the private and NGO sectors to deliver this training.

4.1.5 Infrastructure

MLD is housed in an old building, which creates constraints in terms of appropriate modern working practices. However, steps are already in place to move to a newer building. Given this – and indeed the uncertainties of the future - infrastructural development at the centre should remain minimal. LGCDP’s PCU is being housed in a more modern building on the MLD compound. Adaptations to the building are ongoing. IT provision is good across MLD, networked and with internet access for all key posts.

As one goes further down the local governance structure, so the infrastructure deteriorates. DDCs appear to have reasonable, infrastructure, including IT equipment and internet access, although not necessarily fully networked. Provision at VDC level is very rudimentary. Minor amendments and upgrading must, of course, be made over the coming four years. However, it is sensible to wait until the future structures of governance are clearer before large scale investments in infrastructure and technological upgrading is

made.

4.2 Local bodies

4.2.1 Key issues at local levels

In this section we review capacity gaps and weaknesses at local levels – DDCs and VDCs. As was noted in section 1.3 above, it was not possible within the time available to visit any municipalities as well as DDCs and VDCs. So, for the purposes of this report, we have focused on the local governance bodies with which we had an opportunity to interact. From discussion with stakeholders and also from meetings during the field visits, one issue is clear: the role and responsibilities of the public services at local body level need to be clear, specific, and results oriented. LGCDP has been designed to address this, through developing more effective planning, financial management and accountability mechanisms, which will create more effective participation by the county in the governance process, both in terms of planning and accountability. But the role of the DDC and VDC in this structure is often unclear. A particular risk is that LGCDP may seek – explicitly or inadvertently – to grow the scope of local government control in activities that are, at present, delivered at community level with little government intervention. This is a risk that must be guarded against. The role and scope of local bodies at different tiers must be clearly defined, to ensure that strict principles of subsidiarity are adhered to and there is no creeping centralisation of service delivery. Although it will be difficult to reach final decisions about the roles and functions of DDCs and VDCs without the existence of a set of elected representatives, to whom they are to provide an administrative service, and before the larger issues of decentralisation to a federal structure are made, **we recommend that LGCDP makes it a priority, in its work in Outputs 1 and 2 to clarify the roles of government in service delivery to the citizen, and that the perspective, in terms of defining what responsibilities should be taken at each level (community/ VDC or municipality/district/centre), should be bottom up, not top down.**

4.2.1.1 Responsiveness and Accountability

Almost all stakeholders believe that local governance is weaker because of the lack of elected representatives. The present ‘All Party Board’ functions more as be as advisory board than responsive and accountable decision making body. In many areas, planning and decision making remains at the bureaucratic level.

As a result, downward planning still prevails. Participatory approaches are used in a number of areas, but these do not add up to an integrated, upward and participatory planning process. The participatory planning process invites citizens to identify their priorities. Unfortunately, to date, participants have rarely found their opinions truly reflected in the plans compiled at higher levels and translated into action. There is a general lack of transparency over decisions and actual allocation and use of resources. This, of course will be one of the most critical things to be addressed by LGCDP, in particular through Outputs 1 and 2, but the current low level of planning capacity needs to be recognised if effective participatory and community based planning is to develop.

The mandate for local agencies for planning, whether at DDC or VDC level is unclear, and so is its role in ensuring that there are effective accountability mechanisms.

A further weakness is that, because of the lack of integration of planning and – at VDC

levels – a lack of standardised approaches and capacity – plans emanating from the lowest levels are merely ‘wish lists’. They do not prioritise in the light of resources available, and as a result, the plans that are produced cannot be translated into reality. Expectations from citizens of the State are currently high. If they are not to be disappointed, citizens must understand what is feasible and affordable in their own localities. Public information has an important role to play. And supply and demand need to be matched. It is not enough to develop public hearings and participatory processes which generate demands. To be a credible part of an accountable process, the demand side needs to understand the fiscal constraints in which they work and to identify and agree on priorities. And the supply side needs to deliver against the plans.

.Accountability systems are weak at all levels. However weak some aspects of the planning systems are at local level, they do exist. Ultimately, it matters less what is agreed to go into the budget, but what services are actually delivered. There are numerous reasons why local budgets are not fully implemented. Nor does expenditure guarantee service outputs. Accountability for actual service delivery is therefore a critical element in local governance. Local accountability can be strengthened through the availability of information, but much depends on the strength of civil society locally. The prospects for effective accountability systems, particularly by the poor, increase as the focus moves downwards (for example to village or community level). But, Nepal, both local bodies and community groups need strengthening if accountability is to be effective.

Accountability systems at a local level are perhaps the most critical issue of all to be addressed by LGCDP. As elected representatives are not in place in the local bodies, alternative institutional mechanisms for downward accountability are needed. Local capacity building essentially means ensuring that basic accountability systems are in place. There are, of course, many initiatives that can be taken to start to build accountability mechanisms in the absence of an elected government – strengthened communications and public information, encouragement to community groups, public hearings, public audit, community audit and social audit. Most of these are identified for Outputs 1 and 2 already as are tools that can be used by local bodies to ensure downward accountability. These approaches focus upon review of past performance through a two way process of information sharing with the citizen. Downward accountability needs to start from the centre. In order for it to be effective, policies and guidelines to ensure that these approaches are used consistently and appropriately need to be formulated and framed. The planning tools, reporting formats and information systems currently in use do not capture the quality of accountability in relationships between centre and local bodies and between local bodies and community groups and their members. LGCDP has a strong focus on institutional mechanisms for downward accountability and its initiatives will focus on building the capacity of communities to hold decision makers accountable. Key tools to be implemented on a wide scale include public hearings, public audits, social audits, publication and communication of annual plans, budgets and expenditure, and mechanisms to report corruption and misappropriation of goods and funds. There is a particular role for community and social audit in the current context. **We recommend that, through Output 2, public audit, community audit and social audit approaches should be standardised and guidelines developed and implemented to promote a clear accountability among the primary and secondary stakeholders in the districts.**

4.2.1.2 Service Delivery

As noted above, if communities are to have confidence in the planning and accountability processes, the supply side must be seen to be matching the demand side.

Resource constraints remain a major issue for implementation of effective decentralized programmes – and despite the larger discretionary resources that will be available as a result of LGCDP block grants, the resource constraints will remain. Not only are community groups disappointed that their needs are not met, the DDC's influence as a coordinator of other line agencies at a local level is adversely affected if it cannot provide additional resources for services to meet local needs. This situation is unlikely to be addressed in the short term, although some additional discretionary spend will be generated through LGCDP. However, the need for significant resources to enhance locally responsive service delivery at a local level is critical, and will need to influence decisions about fiscal transfers to the local level as the principles are developed through LGCDP and for further decentralisation. Local bodies need to be economically viable and also set up functionally for service delivery.

At the same time, at present, services are effectively delivered in many sectors and in many parts of Nepal by the community. It is for communities to choose to involve local bodies in the delivery of such services, not the other way round. LGCDP has an important coordinating role in identifying which services are most appropriate delivered at community levels in different VDCs and municipalities, and then seeking to define the gaps that should be filled by local bodies. A balance needs to be struck between community delivered services and those delivered directly by VDCs, municipalities or DDCs.

It is clear, however, that there is a need to set quality standards for delivering goods and services – they must not only meet the local requirements of citizens, but be based on a set of standards and norms. Again, this is something that LGCDP can explore – in particular through the MC/PM approach to performance based grants. However, this is an issue that will become particularly important in a Federal system – where the divergence of standards of service delivery in different parts of the country needs to be avoided for reasons of equity.

4.2.1.3 Coordination

LGCDP is designed to support a comprehensive social mobilisation effort to ensure that communities and community groups are able to fulfil their roles in local governance. One of the reasons why they are currently unable to do so is the lack of clear systems and mechanisms for coordinating and mobilising NGO, CBO and civil society and private sector. There may be a policy and legal framework, but implementation is patchy and often weak. Considerable work in this area is planned for LGCDP, but **we recommend that LGCDP seeks to address the need for developing and embedding simple and sustainable systems to be applied at the local levels for coordination and mobilisation of community groups.**

4.2.2 DDC issues

Visits were made to Dhading and Rupandehi DDCs. This is not, of course, a representative sample, but a very clear impression was gained of a structure at District level, which is more a part of central government than a locally responsive service. Of course, the main reason for this is the lack of elected representatives at the District level, to provide the focus on local needs and priorities. However, DDCs probably cover too large an area, with too many complex issues to address to be able to reflect local needs in an effective and responsive manner.

4.2.2.1 Lack of clarity about the role of DDC

At present, DDCs play multiple roles in local governance. They currently act in place of any elected decision making body, they have a role in coordination, and at present they are the key implementation arm at local levels. There are long lists of powers and functions of local bodies (for example set out in LGSA). But there is considerable overlap and duplication between the powers at DDC, municipality and VDC levels. On top of this, the multiple roles cause confusion, and also pose ongoing problems, in particular in terms of prioritising areas for capacity development. In addition, there are numerous central directives and policy instruments relating to local governance that have been issued over past decades. Often, these contradict earlier directives. However, no work has been undertaken to clarify the situation. This presents a problem - not only is the basis for many key policy and implementation areas unclear and likely to create confusion, but there is a risk of potential misuse and manipulation. **We recommend that work is undertaken to identify outdated or superseded regulations, directives and instruments and to abrogate them.**

As noted in sections 3.1 and 3.2 above, the future role of the DDC is unclear. However, it is unlikely that DDCs will have an executive role in any Federal system. As a result, **we recommend that the initiatives for capacity building at DDC level under LGCDP are focused on developing the capacity of DDCs in coordination of lower level activities, provision of specialist technical expertise and performance monitoring.**

4.2.2.2 Monitoring and Evaluation

As already noted in section 3.3.1 above, DDC capacity for performance monitoring is very weak. Addressing this is critical. **We recommend that steps are taken to establish separate units in each DDC to focus on performance monitoring – and in some cases evaluation.** To start with, one person carrying the overall responsibility, with administrative support and IT facilities will be adequate. As time goes on, a comprehensive approach to monitoring, focusing in particular on outputs rather than activities, and starting to address impact in terms of outcomes, must be adopted.

4.2.2.3 VDC-DDC Coordination

During our field visits, we identified that there was very little synchronization between VDC plans and the DDC plan. In many cases, VDC priorities and proposals were not reflected in the DDC plan. This undermines the planning process entirely. The recent *Interim Report on Preparing Governance Reforms and Decentralisation Cluster Program I* also identified that projects developed and prioritised through participatory planning at DDC level were not finally included in plans and budgets, undermining the entire process. **We recommend that techniques to integrate the outputs from participatory planning exercises and VDC plans in a bottom up planning process, is reviewed as a part of LGCDP Output 1.**

4.2.2.4 Effective working with politicians

The feedback we received from interactions with political representatives at local levels is that there is dissatisfaction within the current operations of political consultation. Three issues stand out:

- It is perceived that, at present, the larger parties dominate DDC activities. Smaller political parties perceive that they are overlooked, even if they represent important sub sectors of the community at a District level.
- Political representatives perceive that the DDC is a bureaucratic organisation, rather than an output-oriented body providing support to local level decision making and action.
- Political representatives are dissatisfied with budget allocation, which they do not see as practical and rational. The current 'flat rate' to all VDCs irrespective of requirement, was perceived as inappropriate.

We recommend that one focus of capacity building at DDC level is on helping DDCs better to engage constructively with political representatives and how to use inputs from the political representatives in decision making.

Of course, capacity building at DDC level is only side of the issue. There is also a critical need to build capacity of the political representatives, to assist them in understanding their roles, and how the public service can work in parallel and in support of politicians – particular in the current transition state of local governance. A particular focus need to be the on the difference between and executive and operational role, and the need for separation of these two aspects from a political perspective. If this sort of capacity building is not provided, the foundations for effective local governance may not be there in 4-5 year's time. **We recommend that programmes to build basic capacity of political representatives are developed and implemented urgently at DDC and lower levels.**

4.2.2.5 Human Resource Development and wider Capacity Development

There appear to be shortcomings in terms of human resource development at DDC level. Although there is commonly a function focusing on human resource development, this appears to focus more on DDC staff, rather than on looking at human resource development at lower levels, particularly in communities. **We recommend that DDCs take responsibility for undertaking capacity gap analyses of VDC staff and community groups within the District, identifying capacity gaps and planning capacity building interventions to address these gaps.**

Building on this, each DDC needs to start to develop a comprehensive capacity development plan focusing on systems, institutions, human, financial and infrastructural capacities, to cover all tiers from the DDC to user committee levels. This is critical if the MC/PM framework is to be implemented effectively at lower levels.

4.2.2.6 Technical Support to VDCs

A common complaint by VDCs was that it was difficult to obtain timely technical support from the DDC. We have noted above that lack of timely support from DDC technical officers is a key cause of delays in realisation of tranches of funding to VDCs. If additional resources flow to local bodies as a result of LGCDP, the demand for provision of technical support, in particular for small infrastructural projects will grow. **We recommend that mechanisms for prioritising and providing timely technical support to lower levels is considered as a part of LGCDP.**

4.2.3 VDC issues

The impression from our very brief (and unrepresentative) visit to VDCs was that the VDC – and indeed its political representatives – are focused on the needs of the local community as a priority. Although VDCs lack infrastructure and staff, their interest in meeting local needs and grounding in the realities of the communities in which they are located mean that they have potential to be further developed through capacity building.

4.2.3.1 Staffing of the VDC

VDCs have very limited staffing. Many have only a single Secretary, paid for by central government. Other VDCs have managed to find resources for additional staff, either in administrative support roles or to fill technical roles. However, the changes in the role of the VDC mean that it will be impossible, over the life of LGCDP, for a single person to undertake the range of responsibilities. As recommended by numerous reports before, **we recommend that VDCs should be of a senior enough grade to be able to ensure competency in both administrative and wider management areas. We recommend that, over the life of LGCDP, MLD should seek to assist VDCs in increasing their staffing (whether by local funding or deputed from the centre) to at least the following: Secretary, administrator, social mobiliser, financial administrator and overseer/ sub-engineer.**

We further recommend that, in anticipation of the staffing issues that are likely to be encountered in the light of decentralisation, MLD should develop policies and take steps to ensure that Village Secretaries come from the regions where they are appointed. This will play a part in ensuring that staff turnover in the run up to implementation of a federal system does not disrupt the effective delivery of services at a local level.

4.2.3.2 Social mobilisation and accountability

Social mobilisation activities are seen as critical in all the VDCs we visited. However, all concerned accept that the focus on social mobilisation has to be continued and strengthened for mass awareness, social and financial capital formation.

In terms of accountability, the situation is not as satisfactory. Whilst mechanisms such as public hearings, public audit, social audit and community audit are known about, their actual implementation appears rare. Research recently undertaken and reported on in the *Interim Report on Preparing Governance Reforms and Decentralisation Cluster Program I* identified that social audit and public hearing processes were very weak at VDC levels. At VDC levels, accountability will be most effective when focused around simple and transparent mechanisms, and on service areas where individuals and groups can easily determine who is responsible for action and inaction and where outcomes are readily observable. Accountability at local levels is critical to effective governance; **we recommend that capacity in different aspects of accountability at VDC levels must be one of the major focuses for the coming three to five years, whether through LGCDP or other mainstream MLD activities.** Capacity in these areas at local levels must be developed.

4.2.3.3 Working effectively with politicians

At the VDC level, the current arrangement of "All Party Representatives" has made decision making slower and implementation of decision more complex. Some of this is perhaps more due to the unfamiliarity of the process to all concerned. However, political

participation is critical to the effective implementation of community development. The *Interim Report on Preparing Governance Reforms and Decentralisation Cluster Program I* draws comparison between VDCs where political representatives are involved and committed, and momentum builds for development actions and those where at least one of the major parties is reluctant to become involved, and where, as a result, progress is stalled. As at DDC level, **we recommend that capacity building is implemented as a matter of urgency both on the VDC side and also provided to political representatives, so that there is clarity about individual roles, effective ways of working and what can and cannot be achieved at VDC levels.**

4.3 Coordination with other line Ministries and their agencies

4.3.1 Coordination at the centre

At the centre, MLD appears to have good relations and effective coordination with most of the key central ministries and bodies: Ministry of Finance, National Planning Commission, Ministry of General Administration, and Office of the Prime Minister.

In term of relationships with the key sectoral ministries (Health, Education, Agriculture etc.), the picture is more mixed. There is ongoing dialogue, but little in the way of practical actions to improve coordination. Essentially, there is a limited amount of coordination, but these ministries appear to believe that they are pursuing decentralisation in the own way, and do not necessarily see a role for MLD in coordinating and facilitating this. However, the line ministries are, essentially, pursuing a process of deconcentration – in particular at District levels. It is a rather sensitive time for MLD to start to increase pressure on these ministries to assist the to play their roles in taking decentralisation forward. As high-level political plans for decentralisation become clearer, then more ambitious central coordination work towards it can be undertaken. We concur with the LGCDP's view that work at a central policy level will initially focus on small scale 'systems and procedures, ways of doing business, and the like, building on and consistent with the statutory framework of the LSGA', while keeping the topic of decentralisation in focus across GON as major decisions are made.

4.3.2 Coordination at DDC level

As will be clear from the previous section, there is a considerable number of issues relating to coordination at DDC levels. The State machinery for coordination at DDC level is not effective. Line agencies perceive the DDC as unresponsive. The DDC has limited discretionary spend, and so is seen as marginal to the work of sectoral line agencies. Often the LDO is at the same level or less senior than officers deputed to line agencies, and so finds it difficult to assert authority. Overall, however, as long as the DDC remains essentially an outpost of central government, looking upwards to MLD and implementing national projects and initiatives that originate at the centre, it will not focus properly on coordination and facilitation of services at a more local level. Only if the DDC starts to focus primarily on local issue and requirements, and to seek to develop more localised and tailored solutions to these, will it see the value of more effective coordination, and make an effort to improve the process.

The principles of coordination are understood in theory, but in practice they are not implemented. Sectoral committees exist, but appear to meet only rarely and to be

bureaucratic mechanisms, not used as a management and coordination tool. **We recommend that support is given to DDCs to enable them to identify more effective means of working through sectoral committees, to improve service delivery.**

Three are real potential benefits in more effective coordination at District levels. Looking across the technical staff in line agencies, there is a considerable array of management and technical skills that could be more effectively deployed to plan and ensure delivery of basic services. There is competence in planning in a number of areas (Agricultural Officers, for example, typically have good participatory planning skills) and several line agencies have financial management competence at a local level, which can be coordinated to boost the financial management practices at DDC and VDC levels. And different agencies can make different but complementary contributions. As an example, the Secretary, Ministry of Women, Children and Social Welfare suggested to us that LDOs should take the lead in introducing GE/SI budgeting. Women Development Officers at District level can then take responsibility for monitoring and evaluating its implementation.

The issue of coordination across sectors at DDC level is a complex one, with a real negative impact in performance at this level of governance when it is not well done. **We recommend that, as an initial activity, detailed fact-finding is undertaken in a sample of Districts to assess the issue of lack of coordination in more depth, and to develop strategies to address the problem. This would be followed by an implementation phase, where new approaches to coordination across sectors can be piloted in a sample of 8-10 Districts.** This would require additional TA managed under Output 2.

Essentially, the problem is that line agencies plan in isolation to each other and to the DDC and VDC. Line agencies operate on a system of vertical accountability to the relevant central sectoral ministry and this dominates the planning process; horizontal coordination is weak. Most line agencies at the local level work in a 'deconcentrated' manner, with linkages upward, but not horizontally. Coherent district level planning has little importance to line Ministries, who allocate resources from the centre with limited regard to the more local planning processes. One issue that can be addressed by LGCDP in the relatively short term is the planning timescales. The planning processes of line agencies and DDCs are currently uncoordinated. Line agencies typically start planning in December, and have finalised plans by January. DDC planning starts later, by which time the budgets of line agencies are settled and the amount of flexible and discretionary funds that the DDC can offer is too small to have any impact on plans. **We recommend that an early effort is made to review planning timescales and identify whether earlier planning efforts by DDCs to coincide with the line agency planning timetable would enhance the coordination role of DDCs.**

4.3.3 Coordination at VDC level

As at DDC level, there is a clear an absence of communication linkages between the VDC and those line agencies that operate at village level. Capacity issues are one reason why this has not happened. A further complication is that some of the key agencies operating at the lowest level of governance are heavily focused on community level actions (forestry and education, for example). They are focused on working with local peoples and community groups, not liaising with other parts of government. There may be reluctance to get involved with the local bodies and concerns about the risks creeping takeover of local service delivery by the State if they do. Overall, there is an absence of coordination with the activities of line agencies and also relatively weak coordination with NGOs and

private sector, even though these are often the key to delivery of critical services in the village. Mechanisms for coordination need to be simple, taking into account the current staffing capacity of VDCs.

In order to keep process simple and to reduce burden in VDCs of new initiatives, **we recommend that capacity building support relating to coordination should initially be incorporated into the capacity building for improved planning processes which will be delivered at VDC level.**

5. Key areas for capacity development

In this section, we briefly summarise the key areas for capacity development that have been identified for MLD, at DDC level and at VDC and municipality level.

Capacity can be defined as “the ability of individuals and institutions to perform functions, solve problems, and set and achieve objectives in a sustainable manner.”⁶ Capacity development is thereby the process through which the abilities to do so are obtained, strengthened, adapted and maintained over time. Capacity development is more, therefore, than training. It includes development of systems and processes, including the wider institutional processes that support any guidelines, manuals standards and formats, and changes in ways of working as much as formal or informal training processes.

5.1 Capacity development in MLD

The key areas for capacity development identified in MLD are set out in the table below.

Area for capacity development	Comment
Monitoring and evaluation	<ul style="list-style-type: none"> • Output focused monitoring • Development of systems for collating and coordinating information • Identifying, obtaining and collating information from sectoral agencies • Verification, audit and QA of performance information • Basic analysis • Use of MIS in monitoring • Communicating performance information • Using performance information for corrective action and development of new initiatives • Basic understanding of evaluation • Commissioning evaluation studies
Baseline surveys and poverty tracking	<ul style="list-style-type: none"> • Management of surveys • Commissioning of surveys • Basic statistical analysis • Feeding findings into policy making and initiative development
GE/SI	<ul style="list-style-type: none"> • General awareness • Techniques for mainstreaming • Building GE/SI into performance monitoring
GE/SI budgeting and audit	
Team working	<ul style="list-style-type: none"> • Team building • integrated work planning • Working across sections

⁶ UNDP – Capacity Assessment Methodology – Users’ Guide, May 2007

Change management	<ul style="list-style-type: none"> • How to manage change • Managing issues and conflicts • Working with stakeholders • Managing communications
Introduction to SWAp	<ul style="list-style-type: none"> • Basic understanding and impact on work • Lessons learned from elsewhere

The key priorities for capacity development in the short term at MLD level are:

- Monitoring and evaluation;
- Team working;
- Baseline surveys and poverty tracking;
- GE/SI mainstreaming.

5.2 Capacity development in DDCs

DDCs already have reasonable capacity, but it is not well coordinated so that effective delivery occurs. The critical issue for DDCs is to move from a position where it operates as the key implementation agency, to a point where implementation occurs at lower levels and DDCs focus on facilitation, coordination and performance monitoring.

The key areas for capacity development identified in DDCs are set out in the table below.

Area for capacity development	Comment
Monitoring and evaluation	<ul style="list-style-type: none"> • Output focused monitoring • MC/PM • Development of systems for collating and coordinating information from VDCs • Identifying, obtaining and collating sectoral information from line agencies • Verification, audit and QA of performance information • Basic analysis • Use of MIS in monitoring • Communicating performance information
Planning	<ul style="list-style-type: none"> • Coordination across sectors • Basic understanding of key sectoral areas and their issues and priorities • Development of District plans • Translating national plans into local priorities • Planning within resource constraints • Prioritisation approaches • Matching supply and demand
Participatory planning processes	
Social mobilisation	<ul style="list-style-type: none"> • Basics of social mobilisation • How to approach SM development

GE/SI	<ul style="list-style-type: none"> • General awareness • Techniques for mainstreaming • Basics of GE/SI budgeting
Working with politicians	<ul style="list-style-type: none"> • Effective consultation • Decision making with politicians
Working with NGOs	<ul style="list-style-type: none"> • Coordination in planning and service delivery • Approaches to effective collaboration • Obtaining performance information from NGOs
Accountability	<ul style="list-style-type: none"> • Effective implementation of internal audit • Planning and implementing internal audit at VDC level • Reviewing outputs of VDC audits • Introducing performance audits • Identifying process improvements • Managing complaints and grievances
Downward accountability	<ul style="list-style-type: none"> • Different mechanisms – social audit, public audit, public hearings • Making use of the information gathered • Communication of results and decisions
Procurement of goods and services	<ul style="list-style-type: none"> • Compliance with Public Procurement Act • Procurement procedures • Developing output focused contracts • Obtaining value for money
Managing service delivery	<ul style="list-style-type: none"> • Management and coordination skills • Quality assurance of services • Obtaining feedback on services
Understanding of PPP	
Environmental protection	<ul style="list-style-type: none"> • Environmental assessment of small projects • Monitoring environmental impact
For political leaders at DDC level	
Basic introduction to local governance	<ul style="list-style-type: none"> • What is local governance • Role of political representatives and public servants • Rules, regulations and key legislation • Planning and accountability for service delivery • Leadership development

The key priorities for capacity development at DDC level are:

- Monitoring and evaluation;
- Planning and coordination across sectors;
- Accountability and financial management;
- Environmental protection.

A number of key stakeholders have urged that, in the light of the likely changes in staffing and staffing management in the run up to decentralisation, when prioritisation takes place for capacity buying at DDC level, that priority needs to be given to locally appointed staff rather than focused on those appointed by the centre. Those appointed at the centre (whether by MLD or other line ministries) are much more likely to move to alternative posts in central Ministries and agencies. Those recruited locally to DDCs are much less likely to seek to move posts as decentralisation unfolds.

5.3 Capacity development in VDCs and municipalities

The key areas for capacity development identified in VDCs and municipalities are set out in the table below.

Area for capacity development	Comment
Monitoring and evaluation	<ul style="list-style-type: none"> • Basics of output focused monitoring • Development of simple systems for collating and coordinating information • Basics of MC/PM • Obtaining information from NGOs and community groups • Verification of performance information • Communicating performance information
Planning	<ul style="list-style-type: none"> • Participatory approaches • Planning within resource constraints • Prioritisation • Achieving consensus • Simple approaches to budgeting
Financial management	<ul style="list-style-type: none"> • Basic systems for financial management • Use of spreadsheets • Improvements to processes
Social mobilisation	<ul style="list-style-type: none"> • Basics of social mobilisation • How to approach SM development
GE/SI	<ul style="list-style-type: none"> • General awareness • Techniques for inclusion • Targeting groups and indentifying community organisations • Approaches to communications •
Working with politicians	<ul style="list-style-type: none"> • Effective consultation • Decision making with politicians
Working with NGOs	<ul style="list-style-type: none"> • Coordination in planning and service delivery • Approaches to effective collaboration • Communicating with NGOs
Public information	<ul style="list-style-type: none"> • Approaches to public information
Procurement of goods and services	<ul style="list-style-type: none"> • Simple approaches to procurement • Obtaining value for money
Accountability	<ul style="list-style-type: none"> • Basic issues of accountability • Downward accountability – social audit, public audit and public hearings • Making use of information collected • Making use of the information gathered • Communication of results and decisions • Managing complaints and grievances
Environmental protection	<ul style="list-style-type: none"> • Environmental assessment of small projects • Monitoring environmental impact
For political leaders at VDC level	

Basic introduction to local governance	<ul style="list-style-type: none"> • What is local governance • Role of political representatives and public servants • Rules, regulations and key legislation • Planning and accountability for service delivery • Leadership development
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The key priorities for capacity development at VDC levels are:

- Monitoring and evaluation
- Planning;
- Financial management;
- GE/SI;
- Accountability.

5.4 Next steps

This short institutional assessment has been able to highlight key areas for capacity development. It is not, however a full assessment of capacity gaps at the different levels of the local governance system. **We recommend that, in order to develop fully costed plans, and to identify the most appropriate delivery mechanisms for capacity development, a detailed capacity assessment is undertaken.** The next steps for LGCDP are:

- To agree on the key priorities for capacity building;
- Undertake a capacity assessment, in particular at local levels using an appropriate sampling approach;
- Develop detailed costed plans for capacity building;
- Identity approaches for capacity building implementation;
- Develop plans for monitoring capacity improvement as a result of interventions.

6. The future of local governance

In this section, we look briefly at what the future structures – post decentralisation – might look like and examine their implications for MLD. Although it is too early to make any firm plans about the future restructuring that will be needed in the light of the advent of a Federal state, this section is included to assist MLD in its preliminary thinking.

6.1 Possible models for decentralisation

Almost every country that has a significant degree of decentralisation has different model. There are so many variants, relating to a country's history, specific environmental and demographic factors and because of different views of the political leadership. However, for the purposes of this report, there are essentially two models:

- Full federalism, where elected bodies at the State/Province level take full responsibility for delivery of almost all services;
- Partial federalism, where some services remain delivered at the centre, although most 'primary' services are under the management of decentralised bodies at the State/Province level.

6.1.1 Full federalism

Full federalism is the model found in those long established countries which usually come to mind when federal systems are discussed, such as Canada and Australia. In these models, elected Provincial or State governments have full autonomy to deliver services, raise revenue and make decisions about their development. They usually recruit and manage their own personnel, and have separate police and judiciary. The only services that remain at the centre of government are those relating to foreign and international affairs, national security, defence, international aspects of finance and economic development and some key regulatory functions.

India also is a fully federal state – although there are issues in many States in India relating to the links between the State level government and the elected bodies at the local level (panchayat raj). Essentially, in India, almost all services are delivered at District and lower levels in a 'deconcentrated' manner, administered from line Departments at State level, with no transfer of funds or decision making powers to elected bodies at lower levels: there is no elected structure at District level and few powers and functions at the lower levels where elected bodies exist.

One country which is cited as demonstrating good practice in decentralization, and which may have relevance to Nepal, is the Philippines. The current structure came about in 1991, and has a structure of autonomous Provinces, with cities, municipalities and 'barangays' (villages) as the next tier of elected governance. The provincial government is a microcosm of the national government with separate executive, legislative, and judicial branches of government. Indonesia is another country that has moved to a federal structure in the relatively recent past (1974, but with significant increases in devolution in 2001), and where most services are autonomously delivered at the province and district levels.

6.1.2 Partial federalism

Other countries which have implemented a decentralised structure have chosen to make less radical devolution of powers. In countries such as Uganda, basic services such as primacy and first line secondary health care and education, local economic development, agricultural development, infrastructure and some aspects of law and order. Higher level services, for example tertiary health care, specialist secondary education and higher education remain the responsibility of the centre. Other branches of government, for example the judiciary remain at the centre.

This is a possible model also for Nepal: political pressures to retain power at the centre may counterbalance the commitments to greater decentralisation.

6.2 Possible impacts on MLD

It is very unlikely – in either scenario - that there will be a Ministry of Local *Development*. By definition, local development is exactly that. But there may remain a need for a Ministry of Local Governance. Functions that must remain at the centre include:

- Fiscal transfers, probably through an autonomous Local Governance Fiscal Commission;
- Provision of policy support to Ministers on local governance issues;
- Support in developing and drafting legislation at the national level;
- High level body with functions that include audit of local governance bodies, wider feedback on performance and specific reporting on failures to deliver services, again usually provided by an autonomous body;
- A mechanism for sanctions in cases of significant abuse of local powers – this can be an autonomous body, or be part of the judicial structure;
- An appellate body to arbitrate on and resolve conflicts and issues emerging at local levels;
- Monitoring implementation and adherence to national laws and policies by local governments
- Monitoring effective delegation and the delivery of services, which includes the setting of norms and standards for locally delivered services to ensure equity, and the monitoring of compliance with these;
- Coordinating the work of central government Ministries, NGOs and development partners with local government activity;
- International relationships in the area of local governance.

Other areas that might remain at the centre include:

- Recruitment and management of local government personnel;
- Coordination of human resource development at the local levels;

- Inspection to ensure that services are delivered effectively by local bodies and provision of support to these bodies to improve efficiency and effectiveness of service delivery;
- Classification of local bodies and creating of new ones as demographics change.

In the first model, of full federalism, probably only the first set of functions remain at the centre, some of which – such as the monitoring and coordination functions - are operated with a very light touch. And in countries with this model of federalism, there is rarely a dedicated Ministry. Some functions are the responsibility for autonomous bodies, reporting to Parliament. Others are generally included in the portfolio of another central Ministry – often the Office of the Prime Minister, although in the Philippines, for example, it is part of the Ministry of Home Affairs.

In the second model, of partial federalism, it is common to find a Ministry of Local Governance, which places a much heavier emphasis on the monitoring and coordination functions than in the full federal model.

Whichever model is ultimately selected for MLD, it is clear that a role will remain at the centre. The MLD Decentralisation Support Division and its Decentralised Policy and Work-Plan Coordination Section will have a major role to play in the development of plans for decentralization – probably also providing secretariat support to the State Restructuring Commission.

Although the focus of the work of MLD will clearly change, and there may be no actual 'MLD' in the future, the functions as set out above are closely linked to the functions that exist in MLD today. The direction in which MLD is travelling, in particular as a result of LGCDP, is appropriate. It will start to prepare MLD for its new coordinating and regulatory role. One part of MLD that will see considerable change is DOLIDAR. It is clear that the operational and implementation functions of infrastructure development should move to provincial level. No implementation capacity is needed at the centre: over the coming five years DOLIDAR will increasingly be devolved. But there will be an important standards setting, inspection and quality assurance role to be developed at the centre, in particular for environmental protection and safety reasons.

One of the most important elements to be developed is the system for fiscal transfers. Mechanisms have to be found to ensure resources reach the point of service delivery, whether that is through inter-governmental transfers to local governments or through. Issues that need to be considered to ensure that transferred resources actually reach the appropriate levels and have an impact, in particular on the poor and disadvantaged at a local level at the point of service delivery, involves a number of critical issues:

- the design of inter-governmental fiscal transfers and the allocation criteria;
- identifying and then applying appropriate conditions to ensure that resources are allocated appropriately in local budgets to address GE/SI issues, alleviate poverty and foster social and economic growth;
- Ensuring that the transferred resources are actually used for service delivery, both through systems of monitoring (upwards accountability) and through local accountability.

Nepal will face a number of challenges in the design and development of this system of fiscal transfers if they are to be equitable and transparent, particularly given limited

baseline data, and weaknesses in the availability of performance information. Transfers also need to be predictable and provide appropriate incentives to local governments.

There is always a strong temptation to put conditions on these transfers, which are intended to ensure that resources are used to deliver the services that are identified as critical from the centre, and in particular to ensure that GE/SI issues are addressed. But as decentralisation moves forward, central direction must be balanced by local discretion in decision making, if the benefits of decentralisation are to be fully obtained.

For the next four to five years, in the light of the changes and the uncertainties in which it will need to work, MLD's main areas of focus (apart from implementing LGCDP) will need to be:

- Developing the policies and procedures that will support decentralisation and a more effective democratic process, and putting these into operation;
- Improving systems for upward coordination and downward accountability;
- Promoting inclusive, participatory and democratic approaches at the local levels
- Ensuring block grants are effectively allocated their implementation monitored;
- Liaising and coordinating at the centre to promote effective decentralisation.

6.3 Foundations of effective local governance

There are no definitive conclusions about what makes a decentralisation process effective. However, it is generally accepted that decentralisation will not be effective if:

- There are capacity constraints at the local level;
- There is lack of transparency in or inadequate reporting of the activities of local bodies;
- There is no central agency with powers to criticise and sanction local governments for inefficiencies or abuse of office;
- There is elite capture of local governments;
- Participatory approaches to planning and accountability are not adopted.

This reinforces the point made above: LGCDP is capable of creating some of the foundations of decentralisation, addressing key capacity constraints at a local level, assisting in clarity of responsibilities, supporting social mobilisation and participatory approaches for planning and accountability and for promoting transparency.

And the issues relating to fiscal transfers, discussed in section 6.2 above, will clearly start to be addressed by work undertaken in Output 3 of LGCDP, where new approaches can be tested out over the coming four years, and feed into the critical policy level decision making.

6.4 Personnel issues

The issue of staff management always causes concerns in a decentralisation process. This affects all ministries and not just MLD:

- Will staff currently working for central ministries but at a local level be automatically transferred to provinces?
- If this does occur, will they remain part of the central public service, or will each province have its own public service?
- How will structures such as the Public Service Commission be altered? Will a single Commission remain, will there be an overall Local Service Commission or Loci Personnel Service, or will each province develop their own.

It is too early to comment on future structures. A commitment has been made at the political level to establish some form of local personnel service, but recent discussions with MGA has revealed that no detailed thinking has yet been undertaken in relation to how this commitment will be worked out in reality.

It will, nevertheless, be the case that, as LGCDP move further into implementation, many of the critical actors – including those at DDC levels and in line agencies working at a local body level will be the ones most significantly affected by these changes. Their motivation and focus on work may well be negatively affected as a result of uncertainties about their future. For those seeing centrally based posts, we can anticipate increased levels of turnover of posts. These risks and mitigation actions need to be built into LGCDP planning.

7. Action Plan

In this section we set out an action plan for implementation of our key recommendations. It is split into actions that can be taken in the short term – in other words within 6-9 months of this report, and those that should be taken in a 1-3 year timescale. We set out the action, the person or organisation responsible and other relevant comments on the actions.

7.1 Key risks

Below, we set out a very brief risk assessment, which take the key risks identified as a result of the institutional assessment and assesses the likelihood of this risk materialising along with an assessment of the likely impact. This risk assessment is presented to assist MLD and development partners to identify priorities for action.

Key risks	Likelihood	Impact
Minister appointed who is not attuned to thrust of LGCDP	Medium	Medium
New Secretary seeks change of focus and emphasis in LGCDP	Medium	High
LGCDP encourages creeping centralisation of community delivered services by the State apparatus	Medium	High
LGCDP is focused on capacity building at DDC levels rather than lower levels	Medium/ High	High
Organisation changes to MLD cannot be made	Medium	Medium
Reporting by OMs through PM does not work effectively.	Medium	High
OMs are not focused on delivering outputs	Medium/High	High
TAs take an executive rather than advisory role in LGCDP implementation	Medium	Medium
Robust monitoring and evaluation systems are not established	High	High
Improved financial management systems are not developed at DDC, municipality and VDC levels	High	High
Effective systems for timely procurement of TA are not developed	Medium/Low	Medium
GE/SI is not mainstreamed into all aspects of LGCDP	Medium	High
Poverty tracking not undertaken to establish baselines	High	Medium
Environmental impact assessment not undertaken in VDCs and monitoring not undertaken	High	Medium
MLD culture does not change to hands off facilitation	High	High
Key staff are not retained in MLD/local bodies	High	Medium/High
Organisation changes to MLD cannot be made	Medium	Medium
LGCDP has no impact in improving responsiveness and accountability at lower levels	Medium	High
LGCDP fails to enhance position of disadvantaged groups and women	Medium	High
DDCs fail to coordinate effectively across sectors	High	Medium/High
Working relationships with politicians at a local level are not effective	Medium	Medium

7.2 Short term: actions to be taken in the coming 6-9 months

Action	Responsibility	Comments
Actions to implement LGCDP		
Final review of TORs for OMs to ensure that need to report to PM is clear	NPD, UNCDF	
Liaise with the Ministry of General Administration to identify means whereby performance against the LGCDP frameworks can be included in the overall assessments of performance for staff involved in LGCDP	Jt Secy Gen Admin Division, MLD	
Procurement Specialist TA post filled for interim PCU	DP group and NPD	
Develop LGCDP Procurement guidelines	Procurement specialist, PM and MPD	
DPs develop a basket funded parallel account from which short term TA can be drawn in a responsive manner	DP group, NPD, PCU	Implementation depends on appointment of a procurement specialist
Agree pattern and format for monthly meetings with development partners to review progress and that each OM should be required individually to report on progress for their output.	NPD, DPs	Each OM should be required individually to report on progress for their output to assist in cultural change
At the first meeting of NAC ensure that smaller subgroups drawn from key interested and relevant NAC members to assist responsive direction and management of LGCDP	NAC, Secretary MLD, DPs	
Strengthen the current MLD section for monitoring and evaluation to take responsibility for development of performance reporting system to report in LGCDP and the monitoring of the delivery of results against plans	NPD, OM7, M&E Specialist	
Revise LDFP M&E recommendations and action plan and build into LGCDP plan	OM7, M&E Specialist	
Develop plan for impact evaluation	NPD, OM7, M&E Specialist	
Confirm and contract additional M&E TA requirements	NPD, OM7, Procurement	At MLD level: <ul style="list-style-type: none"> • 3 months of an international

	specialist	<p>public sector monitoring and evaluation specialist to bring a perspective of international best practice and to review the proposed systems for LGCDP</p> <ul style="list-style-type: none"> 12 months of a national monitoring and evaluation specialist to establish robust systems in MLD and develop and implement a capacity development plan for MLD staff, working with the PCU Monitoring and Evaluation specialist <p>At DDC level</p> <ul style="list-style-type: none"> 6 months for each of two national monitoring and evaluation specialists to develop robust reporting systems and to carry out detailed needs assessments to design capacity building interventions <p>At VDC level</p> <ul style="list-style-type: none"> 3 months for each of two national monitoring and evaluation specialists to undertake capacity assessments on a sampling basis, to design some simple formats for use at VDC and municipality level and to develop capacity building interventions. <p>Cost: \$300,000</p>
Review by NAC of options for commissioning independent monitoring and evaluation	OM7, NPD, NAC	Total costs (including both international and national experts) over 4 years likely to be between \$350,000 and \$720,000 – depending on amount of international input)
Review of TA requirement in the light of this assessment	NPD	
Review workplans to ensure that adequate emphasize is being placed on capacity development at VDC level	NPD, OMs, DPs	
Develop GE/SI workplan	NPD, PMs 1&2 GE/SI specialist	TA support already identified
Develop plan for and commission and supporting a series of poverty tracking baseline surveys in the early stage of LGCDP	OM 7, M&E specialist	Total cost in the region of \$250,000 - \$350,000, depending on amount of international input

Ensure that work planning and internal reporting emphasises need for integration across Outputs in the first year of the programme.	NPD, Secretary MLD	
Implement team building capacity development for OMs	NPD	Cost of \$10,000
Agree that changes to key posts for LGCDP – in particular NPD, PM and OM's, -once agreed, cannot be changed, unless the postholder moves on as a result of promotion.	NAC	
Agree that all capacity building opportunities to the market	NPD	
Develop plan for downward accountability	OMs 1, 2 & 4	Capacity building grants already earmarked in budget which can cover the cost of these. Costs likely to be in the region of \$200,000 to deliver
Develop plan to support engaging with politicians	OMs 1, 2 & 4	Capacity building grants already earmarked in budget which can cover the cost of these. Costs likely to be in the region of \$200,000 to deliver
Develop training to build basic capacity of political representatives are developed	OMs 1, 2 & 4	Could be incorporated under the capacity building grants. Costs likely to be around \$350,000
Develop policies and take steps to ensure that Village Secretaries come from the regions where they are appointed	Jt Secretary, General Administration	
Commission detailed fact-finding is undertaken in a sample of Districts to assess coordination issues, and to develop strategies, plus implementation support across sectors, piloted in a sample of 8-10 Districts	OMs 1, 2 & 4	TA of \$125,000 (\$35,000 + £90,000 implementation)
Review planning timescales and identify whether earlier planning efforts by DDCs to coincide with the line agency planning timetable would enhance the coordination role of DDCs.	OM 3 and PFM specialist	
Undertake detailed capacity assessment across DDCs, VDCs and municipalities.	OM 4	Planned for and implementation costed under Output 4. Up to \$120,000 additional TA may be needed

Actions to implement changes in MLD		
Discuss change of name of MLD to Ministry of Local Governance with Minister and then take to Cabinet	Secretary, Minister (when appointed)	
Review the proposals in the light of changes to Ministerial portfolios made in the coming weeks.	Secretary MLD, Jt Secretary, Municipal Mgt Division, DG DOLIDAR	
Agree changes to MLD structure and TORs for sections	Secretary, MLD senior officials;	
Prepare paper for submission to MGA	Secretary MLD	
Brief Minister	Secretary MLD	
Agree approach with MGA	Secretary MLD	
Implement changes	Secretary MLD	

7.3 Medium term: actions to be taken in the next 1-3 years

Action	Responsibility	Timing	Comments
Short review of the effectiveness of the management structures for LGCDP be undertaken in mid 2009	DPs, NPD, NAC	Nov 2009	
Monitor use of TA, to ensure that OMs are not giving up executive role to long term specialists	NAC, DPs	Regularly over Yr1 and Yr 2	
Plan and budget for a major at mid point.	NAC, DPs	November 2011	A wide-ranging review of the programme from first principles is needed, in the light of lessons learned in phase one and in the light of the planned changes to local governance.
Ensure target of roll out of top ups to block grants to 900 VDCs by the end of Year One.	OMs1, 2 & 3, NPD	January 2010	
Using DDC level as an entry point, identify and pilot systems in planning, FM and accountability appropriate at VDC level	OMs, NPD	November 2011	Capacity building support included in Output 4

Assist DDCs to develop detailed capacity building action plans for VDCs to support roll out of new planning, FM and accountability systems and processes at VDC level.	LDOs, OM1 & OM2	November 2011	Up to \$175,000 of national TA
Identify capacity needs for MLD staff in financial administration in strategic / policy issues, and managing financial transactions in a decentralised environment.	Under Secretary, Financial Administration Section	July 2009	
Develop plan to build capacity in financial management VDC level	OM3, FM specialist	March 2009	Up to £200,000 short term TA
Develop simple environmental impact assessment process for all infrastructural projects at VDC level	OM2	June 2009	\$20,000 national TA
Develop and implement processes for systematic monitoring of the environmental impact of infrastructural projects	OM2	November 2009	Additional resources for 4-5,000 minting activities over the life of LGCDP in the region of \$200,000
Take steps to ensure that, where feasible, LDOs stay in post for at least two years.	Jt Secretary, General Administration, Secretary MLD	June 2009	
Clarify the roles of government in service delivery to the citizen	OMs 1 & 2	November 2010	
Identify outdated or superseded regulations, directives and instruments and abrogate them.	Secretary, MLD and MLD senior officials, Legal Section	June 2010	May require some limited TA assistance
Develop system of community-based auditing to promote a clear accountability among the primary and secondary stakeholders in the districts	OM2	November 2010	Budget already in place
Develop and embed simple and sustainable systems to be applied at the local levels for coordination and mobilisation of community groups.	OM1	June 2011	Budget already in place
Take steps to establish separate units in each DDC to focus on performance monitoring – and in some cases evaluation	OM 7	January 2010	Some additional costs in staffing at DDC level
Integrate VDC plans in DDC plans in a bottom up planning process	OM1	November 2009	

Help DDCs better to engage constructively with political representatives and how to use inputs from the political representatives in decision making	OMs 1 & 2	November 2010	Costs of up to \$350,000 identified in previous action plan
Undertake capacity gap analyses of VDC staff and community groups within the District, identifying capacity gaps and planning capacity building interventions to address these gaps.	OMs 1, 2 & 4, LDOs	November 2010	Costs already built into LGCDP, but additional TA support at a local level could be up to \$375,000 over 4 years
Improve mechanisms for prioritising and providing timely technical support to lower levels from DDC	LDOs	June 2010	
Upgrade VDC posts at least to non-Gazetted 1 st class	Jt Secretary, General Administration	June 2010	Will have additional costs, although this may be mitigated by the likely reduction in VDC numbers post decentralisation
Increase staffing of VDCs to at least the following: Secretary, administrator, social mobiliser, financial administrator and overseer/ sub-engineer	NPD, OMs 1 & 2	November 2012	Will have additional costs, that may be partially absorbed by increase in block grants
Support DDCs to enable them to identify more effective means of working through sectoral committees, to improve service delivery.	OMs 1 & 2	June 2010	Costs included in action plan above – of \$90,000 TA

Appendix A - People interviewed

Ministry of Local Development

Ganga Datta Awasthi, Secretary MLD
Som Lal Subedi, Jt Secretary, MLD
Mahesh Dahal, Jt. Secretary, MLD
Bhupendra Bd. Basnet
Babu Ram Gautam, Under Secretary, HRD Section, MLD
Surya Acharya, Under Secretary, Decentralisation Section MLD
Gopi Krishna Khanal, National Programme Manager, LGCDP PCU
Amal Kiran Dhakal, Under Secretary, MLD
Dilip Kumar Chapagai, Under Secretary, MLD
Dhruba Dahal Under Secretary, MLD
Hem Raj Pokahrel , Under Secretary, MLD
Narayan Bd. Thapa, Under Secretary, MLD
Reshmi Raj Panday, Under Secretary, MLD
Kedar Neupane, Under Secretary, MLD
Dhundi Raj Ghimire, Under Secretary, MLD
Dhana B Tarang, Director General, DOLIDAR
Bhim P Upadhaya, DDG, DOLIDAR

Local Development Training Academy

Babu Ram Shrestha, LDTA

LGCDP, PCU

Bishnu Puri, Public Finance Adviser LGCDP PCU
Manju Thapa , Gender/ Social Inclusion Specialist LGCDP PCU
Raghu Shrestha, Monitoring and Evaluation Specialist, LGCDP PCU
Ram Krishna Pokharel, Social Mobilisation Expert, LGCDP PCU

Ministries

Ranesh Sorji, Secretary, Ministry of Finance
Punya P Neupane, Secretary, Ministry of Women, Children and Social Welfare
Tek Bdr. Thapa Gharti, Secretary, Ministry of Agriculture and Cooperative
Rajendra Dhungel, Jt. Secretary, Ministry of General Administration
Arjun Bahadur Bhandari, Jt Secretary, Planning Division, Ministry of Education & Sports
Lav Dev Awasthi, Under Secretary, Ministry of Education & Sports

National Planning Commission

Chaitanya Subba, Member, National Planning Commission

Associations

Krishna Prasad Jaishi, Spokesperson, Association of District Development Committees of Nepal
Hem Raj Lamichhane, Executive Secretary General, Association of District Development Committees of Nepal
Sushil Gyewall, Municipal Association of Nepal
Dormani, Paudel, Municipal Association of Nepal
Bhim Dhungara, National Association of VDCs in Nepal
Saroj Nepal, Executive Director, National Association of VDCs in Nepal

Other National Experts

Kem Raj Nepal, Executive Chairman, Inlogos
Binod Prasad Dhakal, Director, Inlogos
Rabindra Adhikary, Inlogos
U R Soti, Chairman Education Services Commission

Development Partners

Sishir Bhattarai, Public Finance Adviser, DFID Nepal
Nicholas Leader, DFID Nepal
Hiramani Ghirmine, Governance Adviser, DFID Nepal
Susan Clapham, Health Adviser, DFID Nepal
Rudra Sapkota, Senior Adviser, SNV Netherlands Development Organisation
Alexandra Walcher, Programme Officer, United Nations Capital Development Fund
Mike Winter United Nations Capital Development Fund
Surya P Shrestha, Senior Governance and Capacity Building Officer, ADB
Suman Subba, Gender Specialist, ADB
Ed Doe, Head of Aid, CIDA
Prabin Mananadhar, Director, CIDA
Narendra Kumar Gurung, Senior Programme Officer, JICA
Toshinobu Miki, Project Formulation Adviser, JICA
Elisabeth von Capeller, SDA
Aman Jonchhe, SDA
Hikmat Bista, Senior Advisor, Local Governance Component, Danida HUGOU
Bandhu Ranjan, Advisor, Local Governance Component, Danida HUGOU
Rajendra D. Joshi, World Bank

Baireni VDC, Dhading

Krishna Shrestha, Former VDC Chairperson
Dhurba Bdr. Karkee, VDC Secretary (Baireni VDC)
Giri Pd. Bista, VDC Secretary
Gangga Khanal, Social Mobilizer
Ram Sharan Adhikari, UML
Shiva Bhandari, Nepali Congress
Kapil Ghimire, Social Worker
Uttam Adhikari, CPM (Maoist)
Puspa Adhikari, CPM (Maoist)

Nilkanth VDC, Dhading

Bal Krishna Neplai, VDC Secretary
Ex-VDC Chairperson

Chilhiya VDC, Rupandehi

Representative from NC
Representative from UML
Representative from UML
Representatives from Nav Durga Women's Cooperative
VDC Secretary

Rupandehi DDC

Bishnu Bahadur Thapa, LDO

Ram Chandra Khanal, DPHO
Shreekrishna Nepal, Acc. Officer,
Yagya Pd. Panthee, Section Officer
Laxmi Ghimire, DLSO
Durga Pd. Panthi, DADO
Indu Durra Sapkota, Internal Audit Office
Shankar Pd. Pandit, Chief District Engineer
Top Lal Sharma, PO
Upendra Raj Gyawalee, PO

Dhading DDC

Representative CPM(UML)
Representative CPM(Maoist)
Representative NC
Representative NR
Representative Janashakti
Representative CPM(United)
NGO Fed. District Chairperson
Chief District Engineer
Planning Officer, DDC
Accounts Officer, DDC
Programme Coordinator, DDC
Representative from DADO
Representative from DLSO
Representative DFO

Appendix B - Documents consulted

- Local Governance and Community Development Programme, MLD, July 2008
- Key Achievements of 2007, MLD, March 2008
- Ministry of Local Development: Brief Profile, March 2007
- Local Self Governance Act, 1999
- Local Self Governance Regulation, 2000
- Local Body Finance and Administration Regulations (2007)
- Governance (Management and Operation) Act, 2008
- Three Year Interim Plan of Nepal, 2008
- Interim Constitution of Nepal, 2063 (2007)
- White Paper on Local Development and Self-Governance, 2007
- Local Bodies Gender Budget Audit Guidelines, MLD, May 2008
- Monitoring and Evaluation Assessment, Decentralised Financing and Development Programme, 30 July 2008
- Assessment of VDC block grants, Decentralised Financing and Development Programme, June 2008
- Nepal Governance and Anti-Corruption Assessment, World Bank June 2008
- Final Aide Memoire, Fact-Finding Mission Local Governance and Community Development Support Program, ADB, July 2008
- Proposed Program Grant, Federal Democratic Republic of Nepal: Governance Support Program Cluster (Subprogram I), ADB, August 2008
- Draft Aide Memoire, Appraisal Mission: Governance Support Program Cluster (Subprogram 1), ADB, August 2008
- Terms of Reference for Joint Appraisal of Local Governance and Community Development Programme, July 2008
- Interim Report on Preparing Governance Reforms and Decentralisation Cluster Program I, ADB (inlogos, PRAD and TMS), April 2008
- Draft Gender Equality and Social Inclusion Action Plan and Draft TORs for development of GE/SI strategy, CIDA & ADB July 2008
- Technical Note on Input to the Strategy for Topping-Up of Capital Grants to Local Bodies – the “Expanded Block Grants ” in Nepal, Jesper Steffensen, Nordic Consulting Group and Bandhu Ranjan, Danida, HUGOU, July 2008
- Joint Financing Arrangements in Nepal: Education For All and Local Governance and

Community Development Programme, Mission Report, Norwegian Agency for
Development Cooperation, June 2008

TORs for PCU, MLD and UNCDF, August 2008

UNDP: Capacity Assessment Methodology – Users' Guide, May 2007

Issues in Fiscal Decentralisation: Ensuring Resources Reach the Poor at the Point of
Service Delivery, Nick Devas, University of Birmingham, November 2002

Democracy at the Local Level, International IDEA, 2001

Appendix C - Terms of Reference for MLD Divisions and Sections

In order to facilitate the process of obtaining approach for organisation restructuring of MLD, minimal changes have been made to the functional responsibilities set out below. They are largely drawn from the 'Brief Guide to the Ministry of Local Development' (March 2007). Within these lists are many functions that are of lower importance, which could possibly be deleted. A much more detailed review needs to be undertaken to redraft these terms of reference to highlight the key areas of responsibility for each Division and Section. However, the more appropriate time to do this will be after the CA makes decisions about the future role of the Ministry and its functions. Bearing in mind the need to keep changes to a minimum, in order to facilitate their approval across the wider civil service, these functions have been left in the following list.

General Administration Division

Functions relating to:

1. Facilitating analysis of the organisational structure of the ministry and institutions working under it (including position creation and abolition)
2. Personnel administration
3. Management audit of the ministry and institutions working under it
4. Annual budget formulation (current) and its administration
5. Auditing and clearance of misappropriation of the budget
6. Internal security and interior management of the ministry
7. Management, mobilisation and monitoring of grants in kind
8. Procurement, storage and management of goods for ministry
9. Internal implementation guidelines for coordination/contact among divisions/sections and any committee/commission/academy under the ministry
10. Personnel meeting arrangements
11. Establishment of coordination/liaison mechanism among various divisions/committees/commissions and institutes
12. Documentation of policy decisions made under the division
13. Disposal of unusable old documents related to the division
14. Supervision and administration of managerial aspects of fiscal, administrative and physical status of ministry and institutions under it
15. Governance reform/change unit.

Human Resource Management Section

Functions relating to:

1. Recruitment, placement, transfer, promotion and retirement of personnel in the ministry and institutions under it
2. Reward and departmental sanctions for personnel
3. Retirement benefits (pension, gratuity, medical treatment, provident fund etc.) for employees
4. Job description, trimester and annual performance evaluation of employees at the Ministry and those working under it
5. Facilitating analyses of organisational structure of the Ministry and institutions under it
6. Manpower supply/management for the Ministry as well as institutions working under it
7. Record keeping/updating of employees
8. Management audit and issuing necessary directives to the personnel working under the ministry
9. Preliminary judgments
10. Governance reform/change unit
11. Organisational behaviour and disciplines of employees
12. Delegation of authority.
13. Administrative and financial disciplinary procedures
14. Management of physical infrastructure, vehicles, computer, fax, telephone, typewriter, photocopy, electricity, water, sanitation etc as required by the ministry
15. Protection and documentation of physical assets of ministry and government institutions under it
16. Integrated documentation of letters and documents coming to and from the ministry
17. Supply of required stationery (papers, pens, ink etc) for daily work to the ministry
18. Documentation and proper distribution management of materials of grants in kind
19. Fixing of standard and norms for repairing works
20. Store management and supervision
21. Cleaning and security measures for the ministry
22. Procurement of fire safety

Financial Administration Section

Functions relating to:

1. Authorization letters of grant budget to the local bodies, department and projects
2. Monitoring of financial aspect of the grants

3. Monitor auditing of local bodies and provide directives for sensitive misappropriation
4. Clarification of Local Bodies (Financial Administration) Regulation
5. Capacity enhancement of local bodies' staff working in financial administration
6. Study and review of financial working procedures of local bodies
7. Budget release and providing authorization for expenditure to institutions under the ministry
8. Documentation of financial advance and misappropriation, clarify audit objections through settlement of arrears and keeping up- to date records of these activities
9. Prepare consolidated financial statement of income and expenditure and submit for Internal and final auditing
10. Formulation of annual budget (recurrent), budget release and expenditure management
11. Provide directives to institutions under the ministry related to financial administration
12. Budget management in the ministry for logistics and other support
13. Strengthen financial administration section of local bodies by identifying capacity gaps and preparing action plans
14. Functional linkage between the financial administration section of the ministry and local bodies
15. Take action on misappropriation on the basis of analyzed information and field observation
16. Prepare reports with analysis on misappropriation status, administrative and program expenditure and its ratio and internal sources etc.
17. Other tasks as mentioned in the financial administration act and regulation

Information, Publication and Documentation Section

Functions relating to:

1. Information collection, storage and documentation
2. Publish the required publication by coordinating with all the divisions and sections of the ministry
3. Geographic Information System (GIS)
4. Reporting to parliament meeting
5. Establishment, operation and management of the library
6. Assist in information flow related to the ministry (including spokesman)
7. Prepare and publish comparative report reflecting financial regularities and performance of local bodies in a regular basis

8. Networking of computers within the ministry
9. Facilitate on ICT for development to the ministry and local bodies
10. Publication and extension of best practices of local bodies

Local Governance Capacity Division

Functions relating to:

1. Mainstreaming GE/SI concerns and issues into local governance and community development programmes
2. Mainstreaming GE/SI national and international commitments into local government policies, procedures and processes
3. Reviewing the gender sensitivity and social inclusiveness in local bodies
4. Conduct of Gender Budget audit
5. Human Resource development
6. National and international training plans, programs and policies for the career development of the personnel working under the ministry
7. Formulation and implementation of human resource development plans and programmes for the smooth operation of ministry and department responsibilities and those of institutions under it
8. Formulation of policies, plans, guidelines, studies and monitoring and evaluation for the rural, urban, community environmental management and sustainable development;
9. Recommending environmental impact assessments of projects under the ministry
10. Collection of data related to environment and facilitate EMIS (Environment Management Information System) at local and central level

Gender Equality & Social Inclusion Section

Functions relating to:

1. Design and implementation of a gender equality and social inclusion training programme;
2. Annual planning and follow-up of gender equality and social inclusion activities;
3. Supervision and monitoring of the incorporation of the gender and social inclusion approach in a cross-cutting manner in all project activities;
4. Coordination of GE/SI with the relevant institutions,
5. Supporting the M&E Office in the identification of gender-sensitive and social inclusion indicators
6. Conduct of Gender Budget audit

7. Mainstreaming GE/SI concerns and issues into local governance and community development programmes
8. Mainstreaming of GE/SI national and international commitments into local government policies, procedures and processes

Human Resource Development Section

Functions relating to:

1. National and international training plans, programmes and policies for the career development of the personnel working under the ministry
2. Seminars, workshops and short-term training for elected representatives of local bodies
3. Formulation and implementation of human resource development plans and programmes for smooth operation of the ministry, its departments and institutions under it
4. Monitoring and evaluation of completed training
5. Coordination of training for local bodies and community organisations conducted by other ministries and agencies
6. Liaison with the Local Development Training Academy
7. Support to increase knowledge of staff and familiarise them with new technologies by providing opportunities to participate in seminars, workshops, exhibitions, talk programmes and interaction programmes
8. Work as a liaison section of human resource development programme
9. Develop standard criteria for nominating for training and study abroad
10. Organisational development
11. Correspondence for visas for associated foreign citizens and volunteers
12. Formulation of human resource development policy
13. Collection and dissemination of reports on training conducted abroad

Environmental Management Section

Functions relating to:

1. Formulation of policies, plans, guidelines, implementation, studies, monitoring and evaluation for the rural, urban and community environmental management and sustainable development
2. Recommend environmental impact assessments for projects under the ministry.
3. Integration of environmental aspects in planning cycle and environment assessment.

4. Facilitation of solid waste management and sanitation plans, policies and their implementation
5. Promotion of environmental awareness, protection and its usages at rural, urban and community levels
6. Capacity building in terms of environmentally friendly plan formulation and implementation by local bodies and NGOs, community and private sector institutions
7. Collection of data related to environment and facilitation of EMIS (Environment Management Information System) at local and central levels
8. Implementation and monitoring of environment degradation and development of management guidelines and setting of standards at local level
9. Activate municipalities and local bodies in management of green and open spaces
10. Linkages and coordination with local and international institutions for environmental promotion efforts.
11. Environmental degradation, risk and disaster management and mitigation.
12. Focal point of Solid Waste Management and Resource Mobilization Centre (SWMRMC), Public Garden, City Hall Development Committee, Padampur Transfer Program, Pokhara Environment Improvement project, Kathmandu Valley Mapping Program and other environment and sustainable development projects.
13. Collection of acts, rules, bylaws and directives related to environment management

Local Governance Support Division

Functions relating to:

1. Capacity building and institutional strengthening of Local Bodies in relevant areas, working with the HRD Section
2. Policy, planning and implementation of local resource mobilisation for Local Bodies
3. Setting boundaries of local bodies (including re-structuring and identification of centres)
4. Implementation, monitoring and evaluation of Local Self-Governance Act and its Regulations, and amendment and formulation of local self-governance related legislation according to need
5. Promotion of financial resource mobilisation at local levels (local tax and fees mobilisation, sharing of tax, revenue) and grant administration related to local bodies
6. Contact and coordination with committees and programmes as designated.
7. Population management, social security and vital event registration.
8. Record keeping of local officials (elected/nominated), functions related with such vacant positions

9. Coordination with local bodies for the record management of national minorities (Adibasi, Janajati), oppressed and backward communities and women elected and nominated at the local bodies
10. Functions relating to classification, organisation and positions of Local Bodies.
11. Any other matters on local self-governance
12. Disposal of unusable old documents related to Division.
13. Institutional development, fiscal and administrative strengthening of municipalities
14. Resource mobilisation and coordination
15. Support for infrastructure development and service delivery
16. Support for formulating of periodic and annual plan of the municipalities
17. Appropriate weighting system, amendments and their implementation as well as revision for grant allocation
18. Representation on subjects related to municipal development fund
19. Support on policy formulation for relevant area
20. Efficiency evaluation of municipalities
21. Preparation of the summary of the decisions related to the Division and disposal of unusable old documents.

Local Body Planning and Coordination Section

Functions relating to:

1. Institutional strengthening, programme implementation, supervision and monitoring of DDCs and VDCs
2. Structure of Local Bodies and fixing of their boundaries and centres
3. Coordination and contact with different national, international and regional organizations related to local bodies in the course of implementation of different programmes
4. Institutional development, management and mobilization of NGOs, CBOs and Users' Groups,
5. Support to programmes implemented for the uplifting of targeted communities and function as a focal section for these programmes,
6. Provide feedback to the programmes to be implemented by NGOs/INGOs,
7. Coordination with local bodies for development of national minorities (Adibasi, Janajati), oppressed and backward communities and women
8. Coordination with Local Bodies for recording of Local Officials (elected/nominated); functions related with vacant positions; and record management of National Minorities

(Adibasi, Janajati), Oppressed and backward communities and women elected and nominated at the Local Bodies,

9. Policy, planning and implementation of programmes related to community development and social mobilisation
10. Development of guidelines and standards for participatory planning processes
11. Review and approve all participatory methods, tools and training materials to be utilized by the social mobilisation field teams for use in the communities
12. Preparation and implementation of a detailed work plan for social mobilisation
13. Oversee the management of the social mobilisation action plan, and ensure that technical quality and standards are implemented

Local Body Support and Accountability Section

Functions relating to:

1. Collection and analysis of decisions made by DDCs and District Councils and provision of necessary policy instructions to them
2. Promotion of financial resource mobilisation at local levels (local tax and fees mobilisation, sharing of tax, revenue) and grant administration related to local bodies
3. Setting standards for and distribution of grants (including minimum and additional grants) to be provided to DDCs and VDCs and perform functions related with constituency development.
4. Develop processes, standards and guidelines for public hearings, public audit and social audit;
5. Monitor the implementation of accountability mechanisms at local levels
6. Monitor actions taken on feedback reviewed at local levels
7. Evaluation of accountability actions
8. Management of the citizen charter

Municipal Management Section

Functions relating to:

1. Policy formulation, planning and implementation for institutional development of municipalities
2. Municipal grant (including revenue) sharing and monitoring
3. Record, distribution, audit of local development fund and work related to reserve fund
4. Provide feedback on decisions made by the municipal council; studying the minutes; and conflict management
5. Prepare basic points for amendment of acts and regulations

6. Subject related to take loan by municipalities for municipal development; management of land within the municipalities (including barren land); and related to selling of fixed assets
7. Coordination of foreign technical volunteers demanded by municipalities and monitoring this
8. Identification, mobilisation, coordination of internal resources of municipalities; and maintaining fiscal and administrative discipline
9. Formulation, classification and management of municipalities
10. Recording of annual income and expenditure of municipalities and publication of annual reports
11. Administration of tax subsidy on vehicles and other goods purchased by municipalities
12. Membership fee for international organizations
13. Focal point to line ministry and Municipal Association of Nepal (MuAN)

Evaluate the efficiency of municipalities

14. Support on preparation of municipal profile, resources maps and set the vision for municipal development
15. Support for periodic, annual and local planning; land development and its progress collection; and monitoring and evaluation of the municipalities
16. Urban planning
17. Urban development planning of emerging town settlements
18. Provide feedback and suggestions to the related ministries and departments on urban planning issues
19. Policy coordination with Municipal Development Fund
20. Focal section of Rural –Urban partnership programme and urban development through local efforts program (Udle) and other strategies; and town development programs
21. Contact and coordination with donors, national and international organizations related to municipal and urban planning
22. Coordination on guidelines, budget ceiling and review on urban development planning
23. Collection, study and analysis of Audit reports of municipalities
24. Collection and analysis of annual budget and program of municipalities
25. Coordination role on creation, classification and alteration of boundary of municipalities

Population and Vital Registration Management Section

Functions relating to:

1. Vital Registration Management (Birth, Death, Marriage, Migration and Divorce).
2. Policy formulation and action plan preparation for Vital Registration.
3. Data collection, analysis and report publication of Vital Registration.
4. Creation of awareness on importance and compulsion of Vital Registration by mobilising local bodies, officials and NGOs.
5. Planning, implementation, monitoring and evaluation of vital registration program to make it effective
6. Management and operation of social security programme (budgeting, fund requests, budget allocation and release to the districts)
7. Clarifications of acts and regulations in order to make accurate documentation of vital data; provision of statistical and legal reports; and validation of registered statistics
8. Promotion of awareness of the importance of vital and demographic statistics;
9. Management of related physical infrastructure; maintenance of computerised data through a means of awareness creation and orientation.

Policy & Coordination Division

Functions relating to:

1. Formulation and approval of annual work plan and budget of department, projects and related organisations under the ministry
2. Periodic and annual budgets and programmes of the ministry and institutions under it.
3. Provision of budget ceilings to the institutions under the ministry
4. Provide policy guidance in formulation of development projects
5. Decentralisation Implementation and Monitoring Committee, its Working Committee and Fiscal Commission Secretariat
6. Promotion of decentralization and Self-Governance at local, national and international level and linkages, networking, contact and coordination with relevant institutions.
7. Formulation of foreign aid support policy
8. Provision of comments and suggestions on different project proposals on behalf of the ministry.
9. Coordination with line ministries
10. Coordination with donor agencies
11. Establishment of coordination system among divisions, department and sections
12. Studies, research and analysis of policy matters on foreign aid
13. Preparation of project documents of projects/programmes

14. Priority setting for projects
15. Preparation of summary of the decisions related to the Division and their documentation and dissemination to concern divisions/ sections

Central Government and Foreign Aid Coordination Section

Functions relating to:

1. Provision of policy feedbacks/guidance in context of implementation of development projects
2. Communicating the approval of projects/programmes to the concerned agencies
3. Identification of donor agencies for foreign aid and coordination and management of foreign assistance
4. Coordination and implementation of integrated rural development projects
5. Study, research and analysis on policy matters of foreign aid
6. Policy formulation on handover of goods received from foreign support and technical assistance
7. Formulation of foreign assistance policy and setting of priorities for local development, coordinating with Ministry of Finance
8. Priority setting of projects
9. Planning and programming of projects/programmes run with foreign assistance
10. Management of divisional budget for coordination of programmes
11. Preparation of the strategic plan for the ministry
12. Formulation and approval of annual work plan and budget of department, projects and related organisations under the ministry
13. Periodic and annual budgets and programmes of the ministry and institutions under it.
14. Provision of budget ceilings to the institutions under the ministry
15. Preparation of project documents for projects/programmes run under the ministry and on the basis of these, formulation of annual programmes and budgets
16. Coordinate with other parts of the ministry, central ministries and other agencies in order to send timely budget ceiling to the districts

Decentralized Policy and Work-Plan Coordination Section

Functions relating to:

1. High level policies and plans related to institutional strengthening of local bodies and local resource mobilization
2. Secretariat of Decentralisation Implementation and Monitoring Committee and Decentralisation Implementation and Monitoring Working Committee, its Working Committee and Fiscal Commission Secretariat

3. Promotion of decentralization and Self-Governance at local, national and international level and linkages, networking, contact and coordination with relevant institutions
4. Directions on policy matters of self governance to local bodies from Government of Nepal
5. Conduct and management on special programmes
6. Suspension and dissolution of local bodies
7. Linkages with the Fiscal Commission Secretariat
8. Contact, cooperation and coordination between local bodies and line ministries
9. Support on coordination and inter-linkage with and among the local bodies
10. Classification of local bodies
11. Formulation of relevant acts, rules and amendments;
12. Support to making of fiscal resources and means available to DDCs and VDCs
13. Revenue policy, its implementation and monitoring, revenue sharing and conflict management of local bodies

Monitoring and Evaluation Section

Functions relating to:

1. Establishing indicators for monitoring and evaluation
2. Regular monitoring and evaluation of projects/programmes based on set indicators
3. Collection and analysis of progress reports
4. Submission of performance reports to Ministerial Level Problem Solving Committee in order to solve the problems found during implementation
5. Maintain documentation of annual and periodic projects; review of programmes on trimester and annual basis and take necessary action on found problems; and keep record of local level reviews and submit them for problem solving, if needed.
6. Monitor the performance of sections and submit the findings to staff meetings.
7. Make database and information on irregularities, if any, of projects/programmes

Legal Advisory Section

Functions relating to:

1. Amendment of acts/rules and preparation of bill related to the ministry
2. Provision of legal opinion to the Ministry
3. Publication of notices in the Nepal Gazette and similar matters.
4. Proceedings of writ petitions and appeals filed against the Ministry.

5. Proceedings of petitions and appeals filed against decisions made relating to the services and conduct of employees of local bodies.
6. Coordination of legal opinion on treaties, agreements, memoranda of understanding to which the Ministry will be a party.
7. Rules, constitutional orders and bylaws of the corporations and committees under the Ministry.
8. Preparation of summary notes of the opinion provided by the Section and matters concerned with the Section.
9. Disposal of unusable old documents concerning the Section
10. Proceedings on petitions and grievances
11. Focal point for issues relating to the Commission of Investigation of the Abuse of Authority