

# LGCDP II

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## Annual Quality Assurance Assessment (AQAA)



**30 June 2015**

*Final version*

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## List of Acronyms

AMEP	Annual Monitoring and Evaluation Plan	LGCDP	Local Governance and Community Development Programme
AQAA	Annual Quality Assurance Assessment	LGRC	Local Governance Restructuring Commission
ASIP	Annual Strategic Implementation Plan	LGAF	Local Governance Accountability Facility
ATAP	Annual Technical Assistance Plan	LIP	Livelihood Improvement Plan
AWP	Annual Work Plan	LLP	Local Level Planning
CAC	Community Awareness Center	LSGA	Local Self Governance Act
CD	Capacity Development	LSGR	Local Self Governance Regulation
CFLG	Child Friendly Local Governance	LSP	Local Service Provider
CMC	Community Mediation Center	MCPM	Minimum Condition and Performance Measures
CSO	Civil Society Organization	M&E	Monitoring and Evaluation
DAG	Disadvantaged Group	MoFALD	Ministry of Federal Affairs and Local Development
DDC	District Development Committee	MTBF	Medium Term Budget Framework
DIMC	Decentralization Implementation Monitoring Committee	MNCs	Municipalities
D/MSMC	District/Municipality Social Mobilization Committee	NAC	National Advisory Committee
DP	Development Partner	NPPR	Nepal Portfolio Performance Review
DTCO	District Treasury Controller Office	NSP	National Service Provider
DTO	District Technical Office	OAGN	Office of the Auditor General Nepal
EDR	Eastern Development Region	OSR	Own Source Revenue
EFLG	Environment Friendly Local Governance	PAF	Poverty Alleviation Fund
EMP	Environment Management Plan	PCU	Programme Coordination Unit
EO	Executive Officer	PETS	Public Expenditure Tracking Survey
FAMP	Financial Administration and Management Package	PPMO	Public Procurement Monitoring Office
FCA	Foreign Currency Account	ProDoc	Programme Document
FCGO	Financial Comptroller General Office	PPSF	Programme and Policy Support Facility
FMR	Financial Monitoring Report	QA	Quality Assurance
FRA	Fiduciary Risk Assessment	RCU	Regional Coordination Unit
FRRAP	Fiduciary Risk Reduction Action Plan	REFLECT	Regenerated Frierean Literacy through Empowering Community Technique
FY	Fiscal Year	RRRSDP	Rural Reconstruction and Rehabilitation Sector Development Program
GESI	Gender Equality and Social Inclusion	SALGp	Strengthening the Accountability of Local Governance programme
GoN	Government of Nepal	SIP	Strategic Implementation Plan
GGs	Good Governance Section	SM	Social Mobilizer
GRB	Gender Responsive Budgeting	SNRTP	Strengthening the National Rural Transport Program
ICT	Information and Communication Technology	SPMP	Strengthening Public Management Programme
IPFC	Integrated Plan Formulation Committee	TA	Technical Assistance
IPT	Integrated Property Tax	TAF	Technical Assistance Framework
JFA	Joint Financing Arrangement	TASC	Technical Assistance Sub-Committee
JFTA	Joint Financing Technical Assistance	ToR	Terms of Reference
LBs	Local Bodies	U/DGE	Urban/District Governance Expert
LBFC	Local Body Fiscal Commission	VDC	Village Development Committee
LBRMMOG	Local Body Resource Mobilization and Management Operational Guideline	VER	Vital Event Registration
LDF	Local Development Fund	WBRS	Web Based Reporting System
LDTA	Local Development Training Academy	WCF	Ward Citizen Forum

# Table of Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>4</b>
<b>INTRODUCTION .....</b>	<b>6</b>
<b>METHODOLOGY .....</b>	<b>6</b>
<b>PROGRAMME PROGRESS .....</b>	<b>8</b>
OUTPUT 1: CITIZENS AND COMMUNITY ORGANIZATIONS ARE EMPOWERED TO ACTIVELY PARTICIPATE AND ASSERT THEIR RIGHTS IN LOCAL GOVERNANCE .....	8
OUTPUT 2: ACCOUNTABILITY MECHANISMS FOR LOCAL GOVERNANCE ARE IN PLACE .....	13
OUTPUT 3: LOCAL BODIES' ACCESS TO RESOURCES INCREASED .....	15
OUTPUT 4: PUBLIC FINANCIAL MANAGEMENT SYSTEM IMPROVED .....	18
OUTPUT 5: INSTITUTIONAL AND HUMAN RESOURCE CAPACITIES OF LBS AND CENTRAL LEVEL AGENCIES INVOLVED IN LOCAL GOVERNANCE STRENGTHENED.....	23
OUTPUT 6: ACCESS TO AND QUALITY OF LOCAL INFRASTRUCTURE AND OTHER SOCIO-ECONOMIC SERVICES ADMINISTERED BY LBS ARE IMPROVED.....	25
OUTPUT 7: STRENGTHENED INTEGRATED PLANNING, BUDGETING, MONITORING AND EVALUATION AND COORDINATION AMONGST LOCAL GOVERNANCE ACTORS .....	28
OUTPUT 8: REFINED POLICY ON LOCAL GOVERNANCE AND IMPROVED INTER-AGENCY COOPERATION.....	32
OUTPUT 9: POLICIES DEVELOPED FOR DEVOLUTION AND FEDERALISM .....	33
LGCDP II PROGRESS REPORTING .....	34
<b>PROGRAMME MANAGEMENT AND EXECUTION .....</b>	<b>35</b>
JFA COMPLIANCE .....	35
POLICY COMMITMENTS .....	37
INTERNAL QUALITY ASSURANCE AND CONTROL .....	37
ANNUAL PLANNING .....	38
EFFECTIVENESS AND QUALITY OF INPUTS.....	40
<b>CONCLUSION AND NEXT STEPS .....</b>	<b>42</b>
<b>ANNEXES .....</b>	<b>44</b>
ANNEX 1: TOR FOR AQAA TEAM.....	44
ANNEX 2: FIELD VISIT SCHEDULE .....	47
ANNEX 3: CENTRAL LEVEL INTERACTIONS .....	49
ANNEX 4: JFA COMMITMENTS.....	51
ANNEX 5: POLICY COMMITMENTS .....	53
ANNEX 6: ASIP TIMELINE .....	54

## Executive Summary

The purpose of the Annual Quality Assurance Assessment (AQAA) is to give LGCDP II stakeholders an independent assessment of implementation progress against output indicators as reported by the programme and an assessment of the extent programme management and execution is implemented consistent with its design. Thus the AQAA should be seen as a diagnostic tool, which highlights how far the LGCDP II implementation and management are on or off track and identifying areas for improvement.

LGCDP II is being implemented in a challenging environment where civil servants are operating without local elected councils since their mandate expired in 2002. The local governance structure is complex with 75 District Development Committees (DDCs), 191 Municipalities following announcement of 133 new Municipalities in two rounds in 2014, and 3,276 Village Development Committees (VDCs). The nature of the sub-national governance structure causes strain on government finances and are considered administratively weak, especially in VDC level and in new Municipalities. This structure is likely to change following the recent political agreement on establishing an eight-province federal model.

The establishment of the Ward Citizen Forums (WCFs) by LGCDP has introduced an interim arrangement to undertake many of the functions normally undertaken by the elected Ward Council for an inclusive, participatory planning process. Ward Citizen Forums are obtaining an increasing share of VDCs and Municipalities capital budgets at 50% (NPR 3.9 Bn) unconditional capital *expenditure* for 2013/14 and almost 1 million citizens (951,342) participated in Ward level planning this fiscal year. LDTA was selected as National Service Provider (NSP) in January 2015 and 491 out of 542 Local Service Providers (LSPs) had been selected by the end of June 2015. Civil Society Organisations have been hired in all 75 districts (66 by LGAF and the remaining 9 by SALGp) for compliance monitoring in a selection of the local bodies. Major demand side challenges include building capacity in LDTA for an effective NSP unit and strengthening accountability capacity in WCFs with the support of LSPs and CSOs. There is also a need to identify and correct WCFs that are non-functional or ineffective from political/elite influencing.

Local bodies have a high dependency of central grants and own-source revenue (OSR) accounts for 30% overall when devolved sectors are excluded in 2013/14. Own source revenue generation is limited in VDCs and accounted for less than 15% last fiscal year, compared to more than 50% in Municipalities. There has not been any progress on the implementation of more result-oriented indicators for MCPM and the three year cycle makes it difficult to hold officials accountable for poor performance and reward better performance as LDOs and EOs are normally transferred within this period. Timely transfer of capital grants remains a major challenge for VDCs and their expenditure reporting compliance is undermined by not being a disbursement requirement, complex templates and aggravated by the lack of accounting capacity. Most DDCs and old (58) Municipalities are preparing procurement plans, but the operational use of these can be strengthened. PEFA-FRRAP is approaching the original implementation schedule and an assessment of achievements and next steps is needed. There are significant variations in LBs progress in settling audit arrears and these are not even recorded in VDCs and Municipalities.

A capacity development strategy for LGCDP II was completed in October 2014 and a task force established to recommend appropriate activities and targets. Nevertheless, there is still need for assessing service delivery capacity VDCs and new Municipalities to determine appropriate LGCDP II interventions. The Programme Recruitment Facility (PRF) is due for implementation from January 2016 and the modality must be agreed urgently to avoid putting long-term programme support staff at risk for the last 18 months of the programme as well as defining the role of Government officials in RCUs.

The second phase of LGCDP is aligned with service delivery responsibilities of local bodies, including implementation of community infrastructure projects, provision of social security payments, registration of vital events and community mediation, and local bodies have a coordination responsibility for devolved sectors. Limited access to qualified engineering resources (e.g. from DTO and quality labs) undermines quality and building code compliance of community infrastructure projects in VDCs and to a lesser extent Municipalities; this must be improved in light of the devastating impact from the 25<sup>th</sup> April and 12<sup>th</sup> May earthquakes. There are opportunities to expand vital registration and social security interventions with existing resources in RCUs. At least 24 districts and 37 Municipalities had completed the periodic development plans (PDP) by end of May 2015, and 42 districts and 17 Municipalities are in progress of updating these to improve coordination with other local actors, e.g. line agencies. Local bodies are allocating 35% of capital budget to targeted groups, but there is a need to orient social mobilisation institutions and IPFC members on better use of these funds for children, women and DAG.

Many of the policy related activities are beyond the control of LGCDP II and progress has been adversely affected by delays in political decisions, but it is expected the recent announcement on political agreement for an eight-province federal model and completion of the constitution writing will allow activities for these outputs to start in earnest.

To improve JFA compliance stakeholders should discuss the change of approach to a single Public Expenditure Tracking survey (PETs) given two PETs have been referenced in the JFA document. A trimester PEFA-FRRAP progress report on number of milestones met is also required. The audit in the scope of OAGN is carried out timely, but the audit report for the project accounts (LGCDP II) is not produced on time. Target on audit arrears could be aligned with NPPR for less than 5%. The programme result matrix annexed to the JFA document is not updated regularly. A procurement plan has been created, but operational use could be improved by complete all intermediate milestones of the procurement monitoring report and discuss approaching due dates in TASC with relevant stakeholders, including aligned programmes. The consultative nature of the output groups is appreciated by all stakeholders and seen as an useful mechanism to discuss thematic priorities and progress, but require preparation effort by all participants (e.g. MoFALD, DPs including aligned programmes, PCU and DP Cell) to be fully effective.

The Annual Monitoring & Evaluation Plan (AMEP) is appreciated as an effective mechanism for summarising the programme status and has been recommended as the main tool, rather than ASIP, for planning and monitoring programme activities with stakeholders. National level indicators and targets do not reflect local level differences and district AMEPs on the same national indicators already included in RCU reporting will allow differentiation of targets and interventions. Trimester reporting on AMEP indicators should be introduced to harmonise and simplify reporting for the 16 aligned programmes. Quality of inputs from programme support staff is critical for successful implementation of planned activities, but their role in strengthening individual and institutional capacity of MoFALD and LBs needs further effort to meet the objectives outlined in the design of LGCDP II.

## Introduction

The four year second phase of Local Governance and Community Development Programme (LGCDP II) started in July 2013. It is a national programme implemented by the Ministry of Federal Affairs and Local Development (MoFALD) and supported by a range of development partners. The Programme Document (ProDoc) comprehensively describes LGCDP II's rationale and approach along with its vision, goal and purpose. The individual programme components and management arrangements are also fully described in the ProDoc together with an introduction of the programme logical framework, which is further expanded in the Strategic Implementation Plan (SIP). The Joint Financial Arrangement (JFA) details reporting and compliance requirements for both the Government and signatory donors. The Technical Assistance Framework (TAF) and Programme and Policy Support Facility (PPSF) programme document detail TA arrangements.

For the purposes of LGCDP II, quality assurance (QA) is defined as a process whereby regular external (or third party) assessments of the programme take place to determine and verify: (i) whether outputs and deliverables are being delivered as reported through LGCDP's monitoring & reporting system; (ii) whether programme management and implementation is performing well, in line with agreements/commitments and aligned so as to deliver results; and (iii) whether programme inputs (such as technical assistance and fund flows) are of the right standard and quality. As such, QA examines LGCDP processes and the performance of all LGCDP stakeholders (MoFALD, DDC, Municipalities, VDCs, programme TA, development partners, etc.).

## Methodology

The purpose of the Annual Quality Assurance Assessment is to provide LGCDP stakeholders with an assessment of (1) progress as reported by the programme against output indicators; (2) compliance with programme provisions and commitments; and (3) effectiveness and transparency of arrangement and processes as described in LGCDP II programme documents<sup>1</sup>. **Recommendations are therefore limited to improvements that can be made to meet the objectives in the original design of LGCDP II, not to evaluate new systems or methods that may be more effective.** The latter will be covered by the Mid-Term Review due in the next fiscal year 2015/16.

The AQAA methodology is based on the Terms of Reference (ToR) for the assignment (annex 1) and AQAA operational guidelines. The quality assurance framework is based on an international standard used by the World Bank that measuring progress against a simple "traffic light" system:

<b>S</b>	<b>Satisfactory:</b> Being rated as satisfactory means that the aspect or component in question is seen as being either on target, consistent with agreements, or of the required quality.
<b>MS</b>	<b>Moderately Satisfactory:</b> A moderately satisfactory rating indicates that while the aspect/component is generally of reasonable quality, there are a few areas in which improvements can take place.
<b>MU</b>	<b>Moderately Unsatisfactory:</b> This rating for any aspect/component means that there is a good deal of room for improvement and a need for increased effort to be made.
<b>U</b>	<b>Unsatisfactory:</b> An unsatisfactory rating for an aspect or component of the programme is cause for serious concern – and implies the urgent need for remedial action to be taken.
<b>NB</b>	<b>No Basis:</b> No target / data not available to assess progress

<sup>1</sup> LGCDP II Programme Document; Strategic Implementation Plan and annual plans (e.g. ASIP, AMEP, PMR); Joint Financial Arrangement; Technical Assistance Framework; and Programme and Policy Support Facility (PPSF) programme document



The implementation timeline was extended on a no cost basis as field missions had to be postponed twice following the 25<sup>th</sup> April and 12<sup>th</sup> May earthquakes. Targeted semi-structured questionnaires were developed for all consultations following initial desk research and complemented by output specific questions to ensure relevance for each stakeholder interviewed. This baseline assessment was based on the first year of implementation of LGCDP II (2013/14), but also captured relevant updates from progress reporting from the first two trimesters in the second year (2014/15) to assess progress against end-of-programme targets as defined in the Strategic Implementation Plan (SIP).

The field assessment was purposely designed with a relative small sample given it is a compliance check, not a full evaluation, hence it is not intended to be fully representative as outlined in the ToR and the operational guidelines. The field visit covered two topographic regions, including three districts in Terai, two districts in mid-hills, and one mountain district across Eastern and Mid-West development regions. The districts were purposely selected in consultation with DP Cell and MoFALD to reflect variations in operational performance levels. The detailed itinerary can be found in annex 2.

Semi-structured interviews were held with LGCDP II stakeholders at the local level to obtain further qualitative data on standard financial and physical reporting and for qualitative insights on programme critical success factors and key challenges and to triangulate LGCDP II progress reporting.

Local level stakeholders included:

- RCU staff in each of the selected development regions;
- DDC staff, including Local Development Officer (LDO) and key officers, e.g. Planning Officer, Social Development Officer, GESI desk and Accounting Officer(s);
- Municipality staff, including Executive Officers and key officers, e.g. Planning Officer, Social Development Officer, GESI desk and Accounting Officer(s);
- District Treasury Controller Office (DTCO) staff;
- District Technical Office (DTO) staff;
- VDC Secretaries and accounting/programme and technical staff where available;
- District and Urban Governance Experts;
- Representatives from Local Service Providers and Civil Society Organisations;
- Social Mobilisers;
- WCFs and CACs representatives;
- IPFC members, including representatives from political parties; and
- Representatives from User Groups, Supervision and Monitoring Committees of local bodies, and D/MSMCs.

At the central level semi-structured interviews were held with MoFALD officials, donor representatives, implementation agencies (e.g. LDITA) and programme support stakeholders for their perception on progress reporting, compliance issues and management arrangement, and to obtain qualitative insights on programme critical success factors and key challenges. Full list of central level consultations is included in annex 3. A workshop was organised with central level stakeholders on 10<sup>th</sup> June for consultation and feedback on key observations, and key recommendations were presented in the 29<sup>th</sup> June sub-NAC meeting. Written feedback was requested on the draft and final draft versions with a final deadline on 30<sup>th</sup> June. The report was finalised based on the received suggestions and inputs.

## Programme Progress

LGCDP II is implemented in a challenging local governance environment where service delivery in large parts of the country had to be rebuilt<sup>2</sup> following the Maoist insurgency from 1996 to 2006. There are 75 districts across the country. Each district has a District Development Committee headed by the LDO, who reports to the Ministry of Federal Affairs and Local Development. As there are no elected local bodies since 2002 the DDCs are headed by Local Development Offices pending local elections, who are responsible for the coordination all line departments for development activities such as health, education, forestry, and environment.

In 2014, the Government announced the creation of 133 new Municipalities through a two-round process. Many of the newest Municipalities are not yet fully staffed nor received the requisite budgets to fulfil their legal mandates. There are currently 3,276 village development committees (VDCs). There are usually around 10% of the VDC Secretary posts vacant at any given point. Challenges remain on ensuring presence of the VDC Secretary, especially in remote areas due to inadequate working conditions, and many VDCs operate without accounting and engineering assistant positions. This limits the capacity to undertake prime functions that include issuing vital documents (e.g. certificates of births, deaths and marriages), providing social security payments, support community mediation, and oversee implementation of community infrastructure projects.

The second phase of LGCDP commenced immediately after completion of the first phase in July 2013. The first 6 months were arranged as a transitional period with limited programming activities and to allow time to complete programme documents. Recruitment of additional programme support was only completed at the end of the first fiscal year 2013/14.

LGCDP II progress *as reported by the programme* has been assessed in this context on two indicators in line with the AQAA operational guidelines:

1. To what extent has there been progress in fiscal year 2013/14 (as measured against AMEP targets/indicators) for each output; and
2. To what extent has there been progress towards end-of-programme targets/indicators to date (as measured against SIP targets/indicators) for each output.

### **OUTPUT 1: Citizens and community organizations are empowered to actively participate and assert their rights in local governance**

#### **Context**

Nepal has an inherent accountability gap at the local level as local election has not been held since 1997. There remain political challenges to holding elections until after the new constitution has been finalised. The introduction of the Ward Citizen Forums by LGCDP has introduced an interim arrangement to undertake many of the functions normally undertaken by the elected Ward Council for an inclusive, participatory planning process in Nepal. Compliance with participatory planning procedures detailed in the Local Body Resource Mobilisation and Management Operation Guidelines (LBRMMOG) ensure some of the demands from citizens are incorporated in LBs annual plans, especially for VDCs and Municipalities. This includes holding a Ward gathering to obtain demands of projects from the wider community and holding Integrated Plan Formulation Committee (IPFC) meetings, including members

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<sup>2</sup> A Maoists' parallel administration were set up during the conflict period, e.g. People's governments, People's Courts



from WCFs, as well as local political leaders, to recommend projects within the budget provisions to the local body council.

### Citizen Awareness Center (CAC)

These community groups established in the most deprived VDC and Municipality wards have been consistently reported by various social mobilisation evaluations and field visit reports to have been successful in empowering more than 100,000 poor community members through 52 weeks REFLECT sessions. They are also represented in WCFs and IPFC meetings to influence budget decisions of the LBs. Most CACs have received Livelihood Improvement Plans (LIP) support and appear<sup>3</sup> ready for graduation, which will allow expanding the programme to new CACs. The principle of harmonizing income generating support from other programmes in the district (where available) has not been actively pursued and given the scale and cost of this initiative the planned focused evaluation of CAC and LIP should be undertaken as soon as possible. It was noted the present guidelines do not include any provisions for how to deal with problems in repayment of loans, e.g. in an example from Pyuthan district a woman has lost the LIP loan investment due to disease in potato cultivation. Further capacity needs in bookkeeping for the revolving funds and community income generating activities were also observed.

### Ward Citizen Forum (WCF)

Most WCFs are functional and participate in the local participatory planning process. An increasing number of WCFs also participate in monitoring activities, including public audits and public hearings as outlined for the relevant output indicators later in this document. However, their capacity is limited by minimal orientations and training due to delays in selecting CSOs and LSPs. There are also some gaps in establishing WCFs, mainly due to political opposition, in Ramechhap, Banepa, Bhaktapur, Chandagiri, Khairahani and Madi. In Kathmandu Metropolitan City the WCFs are reported to be formed, but there are no Social Mobilisers to support them.

Frequent reports of political/elite influencing in the WCF decisions undermine these results and the field visit observed example of inappropriate procedures where female WCF members in a Pachthar VDCs could not participate in the decision making, as all the meetings were arranged after dark. A survey in the Eastern Development Region was completed for the district visited with support of Biratnagar RCU based on the methods introduced in the Focused Evaluation (2012), which shows most of the WCFs in the EDR districts visited are able to obtain some of the LB resources and participate in accountability mechanism.

District	WCFs effectiveness			
	Category A	Category B	Category C	Category D
Taplejung	30%	60%	10%	0%
Pachthar	35%	55%	10%	0%
Jhapa	30%	60%	10%	0%
Saptari	20%	65%	15%	0%

#### Criteria for categorisation<sup>4</sup>:

- *Category A*: Obtain more than 90% of LB budget allocations AND ensure the LB addresses (i.e. follow up and correct) all grievances raised, including verbal complaints.

<sup>3</sup> It is outside scope of AQAA mandate to evaluate CAC graduation readiness

<sup>4</sup> Methodology to be refined by LGCDP stakeholders (e.g. output group 1); this is not in scope for AQAA to advice.

- *Category B:* Obtain at least 70% of LB budget allocations AND ensure compliance with formal accountability mechanism, e.g. public audit, public hearings and functional Supervision & Monitoring Committee
- *Category C:* Participate in local level planning process and accountability mechanism, BUT are not able to influence outcomes due to political / elite capture or non-compliance of LB accountability tools (e.g. public hearing, public audit)
- *Category D:* Do not meet at least once every three months OR do not take part (e.g. excluded, not held) from local level planning and accountability mechanism

**Key recommendation #1:** Assess all WCFs performances against a standard set of criteria for their effectiveness in holding LBs accountable<sup>5</sup>. This should be a regular activity by LSPs with support from U/DGE and backstopping from RCUs at *no additional cost*. This will allow focused interventions and mapping of areas where WCFs are not functional or fully effective.

The revised social mobilisation guidelines were observed to be followed, including changing the coordinator and 1/3 of the members yearly. This was reported to create capacity gaps as few other members have been provided Local Level Planning (LLP) and oversight training and annual refresher sessions are recommended to assist effective operation. Furthermore, the practice of only training the coordinator should be avoided as it undermines the capacity of the most disadvantaged, which holds leadership roles less frequent.

### Social Mobilizers

The delay in selecting LSPs resulted in 660 (15%) out of 4,417 Social Mobilisation vacancies at the 2<sup>nd</sup> trimester 2014/15, however hiring was observed to have started immediately once LSP were selected and most of the vacancies are expected to be filled by the end of the fiscal year by following the new social mobilization guidelines that prioritise female applicants.

The Social Mobilisers need to constantly coach/support the WCF and CAC as outlined in the programme documents. However, Social Mobilisers were observed on many occasions to also undertake many regular functions for the VDC Secretary, e.g. updating vital registration and even distribution of social security payments. In the absence of VDC secretary the Social Mobilisers are functioning as a government representative in some districts, e.g. in remote Taplejung VDCs. This practice is expected to be re-balanced with the introduction of LSPs and example of such concerns may be requested to be included in LSP reports. Need for annual refresher training for Social Mobilisers was observed, although in the EDR the RCU only reports about 5% turnover of Social Mobilisers annually.

### District/Municipality Social Mobilization Committee (D/MSMC)

These committees have been reconstituted on the basis of the updated Social Mobilisation guidelines after the previous modality was decommissioned at the end of the first phase (July 2013). The committee is chaired by the LDO/EOs and the Social Development Officer is the Member-Secretary and other line agencies are included as members. Their responsibilities include coordination and monitoring all the programmes implemented by different social mobilization agencies of the district. D/MSMCs were observed to be functional and played an active role in the selection of LSPs.

### Local Service Providers (LSPs)

A total of 491 out of 542 LSPs had been selected by the end of June 2015. They have responsibility for backstopping, training and reporting progress for strengthening Social Mobilisation institutions with

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<sup>5</sup> Rating WCFs on empowerment is an output indicator

support from Social Mobilisers. LSPs are typically responsible for 8-10 VDCs and all wards in a Municipality. The full-time LSP Coordinator is responsible for coordination with D/MSMC and other stakeholders and attend LGCDP meetings organised by DDC and Municipality. It was noted by LSPs that are responsible for remote VDCs (e.g. in Taplejung) have insufficient resources (NPR 30,000 yearly) to fully monitor remote VDCs and it is recommended for LGCDP to reassess the one-size-fits-all travel allowance.

### National Service Provider (NSP)

Local Development Training Academy (LDTA) with their regional training centres was selected as the NSP in January 2015. They are expected to strengthen and enhance the capacity of LSPs and Social Mobilisers through training on REFLECT process, downward accountability and livelihood improvement program across the country. They are also responsible for monitoring and quality assurance to ensure consistent methodology and practices are followed across the country. LDTA representatives at both the central and regional level noted their capacity is currently limited due to staffing gaps, both in the NSP unit at the central level and in the regional training centres. They are due to provide training to LSPs and Social Mobilisers in 185 regional events this fiscal year, but this programme is at risk as only 23 events had been completed by early June. The regional training centre in Jhapa district said there are no plans for monitoring and quality assurance this fiscal year.

**Key recommendation #2:** To build the required capacity LDTA need to hire required regional and central level resource persons urgently. The new resources should be given intensive backstopping by PCU and RCUs experts for an initial period. In addition, the monitoring committee meetings should commence as soon as possible; bi-monthly at the central level and monthly at the regional level as committed by LDTA.

### Progress against output indicators and targets

Social Mobilisation institutions in most local bodies have continued to operate in line with the principles described in programme documents despite prolonged delays in selecting Local Service Providers and National Service Provider. Social Mobilisation guidelines have been updated and almost 1 million citizens (951,342) participated in Ward level planning this fiscal year. Most output indicators have been rated **Moderately Satisfactory (MS)**, but there is particular concern on LDTA's current capacity to undertake all functions expected from the National Service Provider. There are gaps in establishing WCFs in 6 Municipalities. The table below outlines assessment against output 1 indicators and includes recommendations for improving the rating for next year's assessment.

Output indicators	Rating with justification	Measures to be taken
VDCs and Municipalities conducted ward level planning workshop to prepare annual plan as per guideline.	<b>Moderately Satisfactory (MS):</b> - 76% of LBs conducted ward level planning workshops to prepare annual plans in 2013/14, slightly ahead of the 75% AMEP target - 90% of VDCs and all Municipalities were reported to have conducted these workshops in 2014/15, on track for the 95% SIP target. - Note of concern is 6 Municipalities do not yet have WCFs established	- Establish and train remaining WCFs this fiscal year to ensure they are operational in the final two years - Complete reconstitution of WCFs in new Municipalities - Focus monitoring and additional support to non-compliant LBs

Output indicators	Rating with justification	Measures to be taken
Ward level planning workshop with documented participation of women, children and DAG.	<b>Moderately Satisfactory (MS):</b> - 65% of LBs documented participation of women, children and DAG in 2013/14, slightly below the 70% target. - In 2014/15 there is only data available from three regions and they report 90% compliance, on track for the 90% SIP target.	- Ensure all RCUs complete monitoring and report status - Focus monitoring and additional support to non-compliant LBs
CAC members engaged in Livelihood Improvement Programme (LIP).	<b>Moderately Satisfactory (MS):</b> - 3,473 LIP grants provided, already exceeding the 3,000 SIP target by 2016/17. - No harmonization with other income generating programmes (e.g. PAF, MEDEP) as targeted in programme documents (SIP) - A total of 3,434 CACs are due to graduate this FY and community volunteers will be selected among their members.	- Revise the end of programme target given earmarked additional funding for CACs has been committed by SDC and 4,000 additional CACs from CDP. - New CACs should be established in existing VDCs/Municipalities to balance workload for SMs in line with principles in programme documents. - Additional focused expansion (e.g. in Terai, 14 disaster struck districts) with SDC funds likely to require additional SMs for support.
WCF are empowered to actively participate and assert their rights in local governance	<b>Moderately Unsatisfactory (MU):</b> - Assessment of WCF effectiveness not yet started. - LSP selection completed for 506 out of 542 LSPs. Too early to assess compliance with ToR, but some misperceptions were noted from LSPs re-hired from the first phase. - NSP contract signed with LDTA, but their interventions are limited to training events, of which only 23 out of 185 had been completed by early June, and monitoring and quality assurance activities not yet planned. - More than 95% of D/MSMC have been reconstituted as per new Social Mobilization Guidelines (2014)	- Prioritise assessment of WCF effectiveness this fiscal year by agreeing criteria and instruct U/DGEs and LSPs to conduct survey as part of regular monitoring. - MoFALD/PCU to assess appropriate actions to ensure LDTA fulfil NSP role. - Complete staffing of NSP unit and provide intense backstopping from PCU and RCUs to build capacity for effective quality assurance and ensure consistent Social Mobilisation methodology nationwide. - LSP to assess SMs performance and develop appropriate interventions to ensure quality. - Utilise D/MSMCs to reconstitute WCFs that are not functioning.
Number of local bodies (DDC, Municipality, VDC) that have incorporated children's needs in their annual plan from "balbhela" (annual children consultation meeting)	<b>Satisfactory (S):</b> - 13 DDCs, 5 MNCs and 540 VDCs incorporated children's needs in their annual plan in 2013/14, ahead of target. - 1,161 VDCs and Municipalities organised "balbhela" as part of the 2014/15 participatory planning process, on track for the 15 DDCs, 7 MNCs and 800 VDCs SIP target.	- As targets are met, the focus in these local bodies could be to verify the funds are well spent, e.g. in child clubs, schools and playgrounds; rather than "roads also for children". - Capacity development requested by both LBs and social mobilisation institutions outside CFLG 15 focus districts.
All projects at VDC level monitored	<b>Satisfactory (S):</b> - The 50% public audit compliance target were exceeded in 2013/14, by 67% in DDCs, 84% in Municipalities and 64% in VDCs - 2014/15 compliance will only be reported by RCUs at the end of the fiscal year against the 90% SIP target, but field observations confirmed most LBs follow the guidelines of holding public audit before final payment.	- WCF membership in monitoring committees for User Groups projects should be encouraged as a practical way observed to strengthen accountability on many community infrastructure projects. - Focus monitoring and additional support to non-compliant LBs

## OUTPUT 2: Accountability mechanisms for local governance are in place

### Context

The Local Body Resource Mobilisation and Management Operation Guidelines (LBRMMOG) approved by the Cabinet in 2012 include a number of procedures to promote accountability and transparency at the local level:

- To publicly display on notice boards and radio full details of larger<sup>6</sup> projects;
- To arrange a public hearing on their income and expenditures on trimester and annual basis;
- To arrange a public audit of projects before a final instalment is paid;
- To conduct social audits at least once a year.

The same guidelines require all local bodies to establish a Supervision & Monitoring Committee to:

- Facilitate implementation of projects and give necessary directions for resolving obstacles, constraints and problems;
- Monitoring of the overall programme related to social security, including social security allowance distribution programme, child protection grant and personal event registration programme.

### Accountability tools

Mainstreaming accountability and oversight function to WCFs is an objective outlined in LGCDP II programme documents. This will be the WCFs' main role after local elections. WCF Coordinators have been provided limited orientations on social accountability tools by RCUs prior to the CSO and LSP selection, including public hearings, public audits and social audits. WCFs capacity in supporting effective compliance on accountability tools is expected to significantly improve with the support of CSOs and LSPs. The capacity development plan is understood to involve CSO being invited to monthly LSP meetings with their Social Mobilisers for orientations and sharing of best practices. All 75 districts are supported by CSO in a selection of VDCs and Municipalities in the district, of which 66 districts by LGAF and the remaining 9 by SALGp.

### Grievance handling

There are large variations in grievance handling procedures between local bodies: In Ilam district a good example was observed with a full-time staffed grievance officer and an operational complaint office open all day next to the DDC help desk. In other DDCs the Planning and Administration Officer had been allocated this task, although it was unclear how proactive role he had in handling any grievances or complaints. Likewise, few examples could be documented during field observations where grievances from public hearings had been appropriately followed up and resolved<sup>7</sup>.

**Key recommendation #3:** Establish mechanism for systematic documentation of grievances and their resolutions (e.g. in WBRS) in local bodies and introduce a system where grievances are forwarded to higher level (e.g. LDO or GGS) when they are not resolved within an acceptable time frame.

### Progress against output indicators and targets

All 75 districts are now covered by a Civil Society Organisation (CSOs) from LGAF (66) or SALGp (9) for compliance monitoring in a selection of the district's VDCs and Municipalities. The Good Governance Section (GGS) is operational in MoFALD and LGAF has been institutionalised in MoFALD with the Secretary serving as Chairperson for the LGAF national committee.

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<sup>6</sup> Over NPR 500,000 for DDCs and over NPR 200,000 for VDCs and Municipalities

<sup>7</sup> The grievances *may* have been resolved, but there were no documentation to prove this is the case.

Half of the output 2 indicators are rated as **Moderately Unsatisfactory (MU)** with a significant risk that the SIP end of programme target will not be met. There are particular concerns on the delays in strengthening grievance handling in local bodies and for WCFs to start practicing social accountability tools in monitoring of local governance actors' activities. The LGAF national committee has so far only met very infrequently and not in compliance with the regular trimester meetings targeted in the programme document. The table below outlines assessment against output 2 indicators and includes recommendations for improving the rating for next year's assessment.

Output indicators	Rating with justification	Measures to be taken
WCFs start practicing social accountability tools in monitoring of local governance actors' activities	<b>Moderately Unsatisfactory (MU):</b> <ul style="list-style-type: none"> <li>- The target in 2013/14 for orientations to all WCFs fell well short (29%) of the 100% target due to delay in selecting CSOs / LSPs.</li> <li>- To date just over 20% of WCFs are practicing accountability tools in monitoring of local governance actors' activities and the 100% SIP target is at risk of being met without focused interventions.</li> </ul>	<ul style="list-style-type: none"> <li>- Mainstreaming accountability tools in WCFs require focused interventions, including capacity building of all WCF members (not only coordinators), support from SMs, backstopping by LSPs and compliance monitoring by CSOs.</li> </ul>
Civil society led compliance monitoring in 75 districts	<b>Moderately Satisfactory (MS):</b> <ul style="list-style-type: none"> <li>- 9 districts are supported by CSOs from SALGp by end of 2013/14</li> <li>- A further 66 districts supported by CSOs from LGAF from 2<sup>nd</sup> trimester 2014/15; a few months delayed</li> <li>- LGAF NC has been held very infrequently</li> </ul>	<ul style="list-style-type: none"> <li>- Findings and recommendations from CSOs to be discussed in output 2 consultations and key lessons learned and policy implications shared in sub-NAC and trimester LGAF NC meetings.</li> <li>- SIP target of "effective" in 75 districts to be defined, e.g. LB compliance to LBRMMOG provision 50.</li> </ul>
National accountability initiatives are closely aligned	<b>Moderately Satisfactory (MS):</b> <ul style="list-style-type: none"> <li>- Closely aligned with SALGp</li> <li>- Principles for coordination with PRAN agreed</li> <li>- Coordination with Sajhedari initiated</li> </ul>	<ul style="list-style-type: none"> <li>- Knowledge sharing to be realised, e.g. by distributing resource materials and compare findings/results from CSO interventions</li> <li>- Create national annual governance report (LGAF and SALGp)</li> </ul>
Local bodies grievance system established	<b>Moderately Unsatisfactory (MU):</b> <ul style="list-style-type: none"> <li>- GGS operational in MoFALD in 2013/14 and with one additional support person in 2014/15</li> <li>- Public hearing compliance in 54% of VDCs, 95% of Municipalities and 100% of DDCs in 2013/14; data not yet available for 2014/15.</li> <li>- Field observations noted concerns that recorded complaints were not followed up by LBs.</li> <li>- 54 DDCs and 52 Municipalities reported to have a functional grievance mechanism in place in 2<sup>nd</sup> trimester 2014/15.</li> </ul>	<ul style="list-style-type: none"> <li>- Establish mechanism for systematic documentation of grievances and their resolutions in local bodies</li> <li>- Introduce mechanism where grievances are forwarded to higher level (e.g. LDO or GGS) when they are not resolved within acceptable timeframe</li> <li>- Include annual (AMEP) targets for public hearings</li> <li>- Publish those cases where actions have been already taken (e.g. through websites, press) as decided in the Dec'14 NAC meeting.</li> </ul>



## OUTPUT 3: Local Bodies' access to resources increased

### Context

The majority of financial resources that flow down to the local level is currently being allocated in a discretionary manner by central governmental officials without the use of an allocation formula. Local bodies have a high dependency of central grants and own-source revenue (OSR) accounts for 30% overall when devolved sectors are excluded as illustrated in the table below. There has been an increased share of OSR in LBs in the last four years, but the results for this fiscal year is likely to be adversely affected by the 25<sup>th</sup> April and 12<sup>th</sup> May earthquakes<sup>8</sup>. The 639 VDCs merged to create 133 new Municipalities in 2014 were those with higher OSR and remaining VDCs are likely to have limited scope for growth. Own-source revenue accounted for more than 50% in Municipalities in 2013/14.

Amount Rs. Million

Local Body	Particulars	2013/14	2012/13	2011/12	2010/11
DDC	Internal	1,850.80	1,369.40	1,780.40	1,483.80
	Assigned Revenue <sup>9</sup>	1,666.72	1,386.60	1,439.50	1,475.80
	Central Block Grant* and LGCDP	8,075.97	8,136.09	5,266.06	6,644.27
Municipality	Internal & Assigned	3,782.50	3,365.60	2,743.00	2,228.10
	Central Grant	3,345.20	4,284.20	5,049.20	4,952.50
VDC	Internal & Assigned	1,302.20	1,171.30	976.40	904.00
	Central Grant	8,210.00	6,692.00	9,258.00	7,830.00
Total	Internal & Assigned	8,602.22 30%	7,292.90 28%	6,939.30 26%	6,091.70 24%
	Central Grant and LGCDP	19,631.17	19,112.28	19,573.26	19,426.77

\* Excluding devolved sectors

Source: MoFALD, Monitoring and Evaluation Section and LBFC, June 2015

### Minimum Conditions and Performance Measures (MCPM)

Most of the existing indicators applied in the MCPM evaluation are process-oriented<sup>10</sup>. Although MCPM evaluates the timeliness and process of planning and budgeting activities, the current system does not evaluate whether the intended plan and projects are implemented and does not analyse or evaluate their impacts. It takes three years to complete the cycle of MCPM because performance of last year is evaluated this year and the process of providing grant is concluded only in the next year. This has created the problem of losing the relevance of evaluation and has made it difficult to hold officials accountable for poor performance and rewarding for better performance as LDOs and EOs are normally transferred within this period.

**Key recommendation #4:** Implement recommendations for result-oriented MCPM indicators and reduce the assessment cycle to two years in line with the principles outlined in programme documents. Introduce targeted capacity development and support in local bodies that have failed MCs and including reference to minimum conditions under control by LDO/EO/VDC Secretary in their performance contracts to ensure there is an immediate reaction from failing these statutory requirements.

### Increase in Own Source Revenue (OSR)

The target of increasing internal revenue by 10% was observed not to be well planned by many LBs. Some LBs were found with minimal increase in internal revenue and some even in a decreasing trend,

<sup>8</sup> Post Disaster Needs Assessment 2015, National Planning Commission

<sup>9</sup> Assigned revenue is allocation of common revenue, also known as revenue sharing

<sup>10</sup> Report on Impact Study and System Review of MCPM 2014

e.g. in Pyuthan, Saptari and Bardiya districts. The 25<sup>th</sup> April and 12<sup>th</sup> May earthquakes are likely to significantly affect OSR collection in the 14 severely affected districts. In this context, the output target of increasing internal revenue by 10% in LBs appears very challenging, especially for VDCs.

Amounts Rs. Million

Local Body	FY 2012/13	FY 2013/14	Annual change	FY 2014/15 2nd Trimester	Remarks
Panchthar DDC	5.77	8.02	39%	8.43	
Taplejung DDC	3.08*	3.24	5%	3.31	*Estimated
Jhapa DDC	61.41	67.79	10%	73.41	
Saptari DDC	14.24	13.27	(7%)	6.88*	*Till May 15
Rajbiraj Municipality	12.19	12.67	4%	11.41*	*Till May 15
Bardiya DDC	12.45	11.65	(7%)	11.13*	*Till May
Pyuthan DDC	23.90	18.42	(23%)	22.42*	*Till May

### Timely Transfer of Grants to LBs

Most of the authorization letters for spending budget of the LBs are sent in August although some are delayed, mostly in the first trimester. Authorization letters are in exceptional circumstances sent to DDCs and Municipalities near end of the fiscal year for projects not included in the approved budget.

The release of the budget from DDC to VDC is a critical additional step not tracked in FMR reporting and VDCs do frequently not receive the budget release on time. This affects many aspects of public financial management, e.g. preparing a realistic procurement plan, choosing appropriate projects, and most importantly accomplishing the project in a timely and qualitative manner. The following table presents the status of the recurrent and capital budget of VDCs in the districts observed (annex 2) released for 2014/15 to date of observation.

Amount Rs. Million

District	Budget	Release	% Released vs. Budget
Taplejung	82.5	72.2	88%
Panchthar	75.0	73.7	98%
Jhapa	128.1	78.9	62%
Saptari	114.7	49.4	43%
<b>Sub-total EDR</b>	<b>400.3</b>	<b>274.2</b>	<b>68%</b>
Bardiya	75.4	75.4	100%
Pyuthan	83.5	55.1	66%
<b>Sub-total MWDR</b>	<b>158.9</b>	<b>130.5</b>	<b>82%</b>
<b>Grand Total</b>	<b>559.2</b>	<b>404.7</b>	<b>72%</b>

It was observed that Bardiya district has released budgets to all VDCs when the team visited on 2<sup>nd</sup> June. In contrast, 4 VDCs in Saptari have not received the release of even the first tranche and 62 VDCs have not received the second tranche as on May 15, 2015. Likewise, 3 VDCs in Panchthar have not received the second tranche release yet. The reasons for transfer delays to VDCs were explained as mainly due to non-compliance of fulfilling the release conditions.

**Key recommendation #5:** Complete study, as planned in 2013/14 and 2014/15 ASIPs, to understand bottlenecks that prevents timely release of funds from DTCO to VDCs. LDO to issue formal reminders in monthly VDC Secretary meeting to complete required reports for timely fulfilling the release conditions. DGEs to provide backstopping support for completing required reports and follow up recommendations for tranche release.

## Progress against output indicators and targets

Local bodies realised 10.9% increase in own-source revenue (OSR) in 2013/14 and the programme transferred NPR 17.9 Bn to local bodies through in 2013/14 and NPR 19.3 Bn are planned to be disbursed by GoN and JFA funds in 2014/15. Accurate progress of output 3 is difficult to ascertain as many indicators would benefit from a review and clarification of means of verification and LGCDP stakeholders may want to include an output indicator for MCPM<sup>11</sup>.

The majority of output indicators have been rated as **Moderately Satisfactory (MS)**, but with a need for clarification of means of verification as noted earlier. The actual expenditure at the end of 2<sup>nd</sup> trimester were slightly less than 50%, but with concerns on low expenditure on the LGCDP budget head (24.4%) and VDC grant (44.6%). It is also noted the FMRs only track disbursement to the local bodies' accounts, actual expenditure occurs later and is only documented in the third trimester FMR. The table below outlines assessment against output 3 indicators and includes recommendations for improving the rating for next year's assessment.

Output indicators	Rating with justification	Measures to be taken
Increase in LBs' own source revenue generation	<b>Moderately Satisfactory (MS):</b> - The annual changes of 2012/13 and 2013/14 exceeded AMEP target of 10%: VDCs 11.2%; MNCs 12.4%; DDC Local taxes 35.2% and revenue sharing 20.2% - The annual target of 10% will be difficult to meet every year, especially for VDCs following mergers to new Municipalities and natural disaster affected districts.	- Focus revenue generation on big ticket opportunities, e.g. undertake study on revenue opportunities and linkages with the national tax system - Revise baseline and targets to ensure these are like-for-like, e.g. 191 MNCs and 3,276 VDCs
Increased revenue assignment base for LBs	<b>No Basis (NB):</b> - No data available to assess progress	- Review indicator and clarify how this will be monitored and measured: May not be needed as output indicator.
% of total GoN budget allocated as block grant to LBs each year.	<b>Moderately Unsatisfactory (MU):</b> - Grants to LBs reduced from baseline of 3.8% in 2011/12 to 2.9% in 2013/14 and 3% in 2014/15, but stable in monetary value. - End of programme target of 5% unlikely to be met and outside control of LGCDP	- Discuss target with policy makers (e.g. in output group for NAC approval) to identify more appropriate indicator and target
Better projection and predictability of Fund of LBs	<b>Moderate Satisfactory (MS):</b> - Overall variation between total budget and expenditure was 17% in 2013/14, well within target. 2014/15 variation can only be calculated at the end of the FY. - Not clear whether both capital and recurrent expenditures should be included in the measure, hence unable to mark as "Satisfactory"	- Determine whether this indicator should be tracked for capital grants only (i.e. not total budget) and stakeholders have suggested this could be linked to MTBF and MTEF
Timely transfer of fund to local bodies	<b>Moderate Satisfactory (MS):</b> - Transfers to LBs met the 50% target in 2013/14 for total disbursements by T2: - DDC Grant: 60% - VDC Grant: 50% - MNCs Grant: 71% - LDF: 54% - Transfers to LBs was 48.2%, close to the 50% target in SIP for total disbursements by T2 in 2014/15:	- Align with indicator and target in NPPR at 40% of capital expenditures by end of 2nd trimester - Introduce tracking of DDC disbursements to VDCs, as there is often an additional delay from this step

<sup>11</sup> Evaluation of the LGCDP logical framework is outside scope of the AQAA mandate.

Output indicators	Rating with justification	Measures to be taken
	<ul style="list-style-type: none"> <li>- DDC Grant: 65.0%</li> <li>- VDC Grant: 44.6%</li> <li>- MNCs Grant: 53.6%</li> <li>- LDF: 64.5%</li> <li>- LGCDP: 24.4%</li> </ul>	

## OUTPUT 4: Public Financial Management System Improved

### Context

There is a shortage of public financial management capacity in local bodies (especially in VDCs), in MoFALD, and to support programme implementation (in PCU and RCUs). This has limited progress on programme activities and effectiveness of fiduciary risk mitigation strategies. Furthermore, many of the SIP targets were aligned the implementation schedule for Strengthening Public Management Programme (SPMP) originally due for completion by September 2015, hence the ratings for this output has been more severely affected by initial delays than other outputs (i.e. that still has two years left to meet their SIP targets).

### PEFA-FRRAP

PEFA-FRRAP is regarded as a highly important initiative by MoFALD and development partners to reduce fiduciary risks, particularly in local bodies. The Fiduciary Risk Reduction Action Plan (FRRAP) developed for LGCDP and approved by MoFALD in 2012 acted as a basis for much of the SPMP's design and activities. SPMP is proposed to be extended by 15 months until December 2016 due to unforeseen implementation delays that prevent compliance with all the tranche release conditions as well as related programme activities. Overall status of PEFA-FRRAP implementation was presented on several occasions during 2013/14, but it was not clear how many of the targets had been met. The Fiduciary Risk Mitigation meeting on 24<sup>th</sup> June 2015 reported 41% of indicators met and a further 38% partially met. It is recommended to assess the progress of all indicators and targets against the original implementation plan and discuss appropriate next steps in the July NAC meeting.

Ilam DDC was the only district observed to have developed a local PEFA-FRRAP and in order to implement the developed action plan a separate budget for Rs. 3.15m is allocated. However, many of the activities included in the additional specific budget did not appear to be specifically designed to reduce fiduciary risks, e.g. organizational improvement of the DDC, O&M survey of the sections in DDC, and orientation programmes for following-up participatory process in project management.

**Key recommendation #6:** Assess number of PEFA-FRRAP milestones met every trimester. Agree new targets for the remaining period of LGCDP II based on the evidence generated by the local PEFA and Public Expenditure Tracking Survey (PETS) assessments and with prioritised funding from SPMP grant<sup>12</sup>.

Linked with the PEFA-FRRAP are two planned Public Expenditure Tracking surveys (PETS), which since have been combined into one, and due for implementation soon by SPMP TA. However, the small sample size (45 infrastructure projects in 3 DDCs) will not be sufficient as a representative sample. It is recommended to increase the scope of the PETS to be consistent with the spirit of the JFA. The approach should be discussed in LGCDP meetings, including Fiduciary Risk Mitigation and NAC meetings given two PETs have been referenced in the JFA document.

<sup>12</sup> It is understood stakeholders have already agreed SPMP grants to be priorities PEFA-FRRAP implementation

## Procurement Plan

Procurement plan is prepared by almost all DDCs and Municipalities, but not by VDCs. The new Municipalities Pyuthan and Basgadhi were observed not to have prepared procurement plans. The procurement plans were observed to cover all of the LB activities (i.e. not only LGCDP), but not found to have much operational use and not in the format as prescribed by the Public Procurement Monitoring Office (PPMO). It was concluded these procurement plan were prepared by the LBs mainly for meeting the minimum condition required for MCPM evaluation, e.g. LB staffs do often not know about the exact contents of the plan.

**Key recommendation #7:** Strengthen operational use of the procurement plans by: Prepare the plans disclosing the timelines of entire procurement process; introduction of E-bidding; establish contract management practice, e.g. following up monthly physical progress reports, administration of performance bonds, imposing liquidated damages etc.; and monitor compliance for large procurement items over a certain threshold, e.g. NPR 1m.

## DDC Financial Administration and Management Package (FAMP)

DDC FAMP is the software developed for accounting of DDC accounts. There are some aspects in the software that would benefit from improvements (e.g. overdue dates of advance amounts, financial reports under schedule 17.1 of the LBRMMOG), but this software was found to be instrumental in generating many financial reports required by the DDC. FAMP is currently fully operational in 59 DDCs and partially in a further 11 districts<sup>13</sup> are reported to use the software, including all DDCs observed during the field missions. Hence targeted activities for upgrading the quality of the software, expanding to all DDCs and enhancing the capacity of the accounting staffs in DDCs could be given higher priority in LGCDP future plans.

## DDC and Municipality Expenditure Reporting

The DDCs and Municipalities submit the financial reports to the MoFALD as required by the LBFAR and LBRMMOG, although some improvements could be made in contents and formats for the reporting purpose. It was observed that the DDCs and Municipalities submit the reports to the MoFALD, but follow up and consolidation at the central level is lacking. Newly declared Municipalities Basgadhi and Pyuthan were found not to have submitted financial reports to the MoFALD.

## VDC Expenditure Reporting

Expenditure reporting from VDCs is a much discussed issue at the central level (e.g. output 4 consultations) with timely reporting at less than 20%. Lack of reporting of expenditure was also observed from many VDCs during field observations. It was noted that detailed expenditure reporting is not one of the trimester disbursement conditions; hence there is no consequence of non-compliance for VDCs. The complexities, and in some cases conflict, in reporting formats between LBRMMOG and LBFAR was noted as an underlying reason for lack of expenditure reporting. This is aggravated by the lack of accounting capacity in VDCs. It was also noted some VDCs do report to the DDCs, but the DDCs do not compile the reports.

**Key recommendation #8:** Introduce a single, simple, format of VDC financial recording and reporting to replace the prevailing cumbersome formats until the VDC Accounting Software is used by all VDCs in order to improve compliance towards VDC expenditure reporting. Compliance with the new format should be included as a disbursement condition once the format has been approved and training completed.

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<sup>13</sup> Focus intervention is needed in 5 districts (Mugu, Kalikot, Jumla, Mustang and Darchula)

### **VDC Accounting Software**

The VDC accounting software is a system developed for improving VDC accounting and reporting requirements. By May 2015, 956 VDC staffs have been trained on the use of the new software and installation of the software had reached around 600 VDCs, but actual use is currently estimated to be only around 100 VDCs.

The team observed the use of the software in Kolbung VDC in Ilam and Mahadevpuri VDC in Banke. The software is operated by the VDC Secretary in Kolbung and by the Sub-accountant in Mahadvepuri VDC. Both the users are encouraged to use the system as it increases their efficiency. It was revealed in Ilam that an older version of the software is used and that an additional 20 VDC Secretaries will be able to use the software upon orientation of the updated software and 4 VDCs in Banke are said to be actually using the software. As part of the field observation in Mahadevpuri VDC it was noted that the updated version of the software is missing an important feature as it does not generate a unified statement for more than a single budget head. In other words, if one wants to see the outstanding advances in a VDC, it must be checked by all budget heads separately. The training for the software in Banke was provided by the (USAID funded) Sajhedari Bikas Project.

The field observations support the plan of the accounting software to be expanded to as many VDCs as soon as possible and the main thrust of improving VDC PFM lies in the realising high number of actual use in VDCs.

### **Accrual Accounting**

Despite progress reported on piloting of accrual accounting in 6 municipalities, the AQAA team could not be assured on completion of this pilot in a single Municipality. The newly developed software is not used by any Municipality. Butwal Municipality is using accrual accounting software in a separate and old version.

### **Internal Audit**

Capacity constraints for DDC internal auditors were observed during field visit in covering all the DDC budget heads, sectorial offices in the district, and all VDCs in the district. The DDC internal audit section also covers many new Municipalise until their internal audit section has been established. The internal auditors often carry out internal audit less frequent on either a trimester or annual basis as a consequence. Requests to update the internal audit manual (as planned by SPMP TA) were also noted, including appropriate orientations to internal auditors. MoFALD recently initiated an internal audit tracking system for the DDCs and Municipalities, which is expected to assist follow up of internal audit status. There is no output indicator for internal audit.

### **External Audit Arrears**

There are significant variations in LBs progress in settling audit arrears. It was observed 10 VDCs in Pyuthan have not yet completed the external audit for 2013/14. The following table depicts that Panchthar district is in very good position in terms of settlements, while other districts have not satisfactorily performed for clearance of audit arrears. The audit arrears for municipalities and VDCs are even not recorded. LGCDP II stakeholders could discuss ways to follow up DDCs with low performance in clearing audit arrears and ensure records of audit arrears in VDCs and Municipalities. Bardiya and Pyuthan DDCs complained about inadequate time allocated by the OAGN for re-checking of the evidences submitted for clearing audit arrears.



Districts	Audit Arrears in Rs. Million			
	As of Beginning of 2012/13	Settlement during 2013/14	Settlements in percent	Balance
Taplejung	92.70	10.38	11%	82.32
Panchthar	20.06	14.90	74%	5.16
Saptari	135.36	5.55	4%	129.81
Bardiya	147.90	34.33	23%	113.57

**Key recommendation #9:** Follow up DDCs with low performance in clearing audit arrears and ensure recording of audit arrears in VDCs and Municipalities.

### Progress against output indicators and targets

Most DDCs and old (58) Municipalities are now developing annual procurement plans and a large initiative is underway to train selected VDC staff on the new accounting software to ensure the target of 1,000 VDCs using the system can be met. It is recognised MoFALD has made a genuine effort to improve results in Public Financial Management in LGCDP II, but without sufficient resources for effective implementation the results have so far been limited. Hence, the majority of output indicators have been rated as **Moderately Unsatisfactory (MU)**. There is particular concern on lack of progress on PEFA-FRRAP, which will be unlikely to meet the completion target outlined in the SIP by September 2015. There is also concern on very limited monitoring and settling of audit arrears in LBs. The table below outlines assessment against output 4 indicators and includes recommendations for improving the rating for next year's assessment.

Output indicators	Rating with justification	Measures to be taken
Fiduciary risk reduced with the implementation of PEFA-FRRAP	<b>Moderately Unsatisfactory (MU):</b> - Overall status of FRRAP implementation presented on several occasions during 2013/14, but it was not clear how many of the targets had been met. The Fiduciary Risk Mitigation meeting on 24th June 2015 reported 41% of indicators met and a further 38% partially met, which provides the basis for the overall rating, but it would be fair to rate progress as <b>MS</b> if 80% are met by end of FY 2014/15 - Lack of PFM capacity in LBs (esp. VDCs) and for programme support limits actual achievements.	- Report progress on conditions that have been met (X out of 95). The 2 <sup>nd</sup> trimester 2014/15 AMEP reported 25% progress, which confused stakeholders - Agree new targets for the remaining period of LGCDP II with fewer targets that will have a direct impact on fiduciary risk mitigation and with prioritised funding from SPMP grant.
Evidence of improvements in the procurement system	<b>Moderately Unsatisfactory (MU):</b> - 55 DDCs and 43 Municipalities prepared procurement plan in 2013/14 ahead of annual target, but quality issues reported. - 72 DDCs and 54 Municipalities have prepared annual procurement plan by T2 in 2014/15. The SIP target procurement plans in all LBs by end of 2014/15, i.e. this will not be met. It is not clear whether VDC were intended to be included, but the large number of new Municipalities would not have been anticipated when SIP was developed (in May'13); this has adversely affected the overall rating. - Field observations noted procurement plans prepared for MCPM compliance, but with limited operational use.	- Review indicator, means of verification and target given SIP target expires this FY. - Introduce capacity development and monitoring to strengthen the operational use of the procurement plans, e.g.: <ul style="list-style-type: none"> <li>o E-bidding for contracts over NPR 6m;</li> <li>o Contract management practice, e.g. monthly physical progress reports;</li> <li>o Prepare the plans disclosing the timelines of entire procurement process;</li> <li>o Monitor compliance for large procurement items over a certain threshold, e.g. NPR 1m</li> </ul>

Output indicators	Rating with justification	Measures to be taken
FMs and procedures improved for timely and reliable financial reporting and a reduction in audit arrears	<b>Moderately Unsatisfactory (MU):</b> - Considerable effort in rolling out <i>VDC accounting software</i> , including training of 600 staff, but low uptake in 2013/14 due to high turnover of VDC Secretaries and merging of VDCs into new Municipalities - Targeting approach amended in 2014/15 targeting VDCs with qualified technical staff for training and 956 staff trained. - Positive feedback from users. - Less than 100 used system in May'15, well short of the 1,000 SIP target. Low actual use results in a low rating even though this is expected to significantly improve soon.	- Low take-up rate already addressed by targeting VDC permanent staff for training instead of VDC Secretaries - Report progress on actual use - Close monitoring and backstopping during initial start-up period.
	<b>Moderately Unsatisfactory (MU):</b> - Considerable effort in piloting <i>accrual accounting</i> in 6 Municipalities with technical assistance from GIZ 2013/14 - Only Butwal Municipality is using (old version) of software in 2014/15 after GIZ no longer provide technical assistance (i.e. SUNAG closure) and SIP target of 20 appears unlikely to be achieved.	- Stakeholders to discuss progress and appropriate future activities.
	<b>Moderately Unsatisfactory (MU):</b> - DDC and MNCs send <i>financial report on time</i> , but follow up and consolidation at the central level is lacking. - Low compliance from VDCs explained by not being a disbursement conditions and the complexities, and in some cases conflict, in reporting formats between LBRMMOG and LBFAR aggravated by the lack of accounting capacity in VDCs.	- Urgently introduce a single, simple, format of VDC financial recording and reporting to replace prevailing cumbersome formats to improve compliance towards VDC expenditure reporting. - Include policy discussion with FCGO on accounting support (esp. in VDCs) in NAC meeting.
	<b>Moderately Satisfactory (MS):</b> - <i>External audit</i> tracking system is being piloted in Sindhupalchowk and Dailekh - The audit arrears for Municipalities and VDCs are not monitored or recorded. - In 2013/14 settlement of arrears audit observations were 40.6 %, in line with target - OAG audits are carried out timely for DDCs, but external audits for the Municipalities and VDCs are delayed and not effective in terms of reducing fiduciary risks due to reported limited capacity of the auditors and their independence is compromised by being recommended by the EOs and VDC secretaries.	- Review indicator and target to ensure this is consistent with national targets, e.g. NPPR target for less than 5% audit arrears - Prioritise monitoring and recording of audit arrears for all LBs. - Increase the activities for enhancing the capacity of external auditors. - Make the appointment of external auditors independent from the executives (approval of bill in parliament or local elections would resolve this issue). - Follow up whether the audit reports include the minimum required opinion from the auditors as stipulated in schedule 26 of LBRMMOG.

## OUTPUT 5: Institutional and human resource capacities of LBs and central level agencies involved in local governance strengthened

### Context

Civil servants are often reluctant to be posted to remote areas due to inadequate working conditions. At the district level, most of DDCs have gaps in officer level positions and frequent staff transfers of Local Development Officers (LDOs) with the standard two year term often cut short due to personal preferences or upon request by political parties. In terms of the sub-national governance structure, it is worth recognizing the impact of the small average size of VDCs, which - on average - have a population of less than 6,000 people. Although there is a widespread belief that the VDC is the appropriate level for the delivery of key public services in Nepal, it should be noted that VDCs are generally considered too small to capture relevant scale economies in the delivery of public services, and are administratively weak<sup>14</sup>. In May and December 2014 the Government announced 133 new Municipalities in two rounds, bringing the total number of Municipalities to 191. Many of the new Municipalities are severely (less than 50% in some cases) understaffed.

A capacity development strategy for LGCDP II was completed in October 2014 and a task force established to recommend appropriate activities and targets. Nevertheless, most capacity development activities on LGCDP II continue to focus on training and orientation events and there are limited assessments of their impact.

### Capacity in VDCs

Capacity-building focused on VDCs would benefit from articulation of expected current and future service levels. Even basic service level cannot be expected unless VDC Secretary operates from village office and is supported by critical staff such as engineering and bookkeeping personnel. VDC Secretaries highlighted high workload and limited support staff as a key reason for seeking other employment opportunities. It was also noted local VDC Secretaries (i.e. hired from the same district) were more likely to stay in the VDC. VDC Secretaries have not been able to substitute<sup>15</sup> for locally elected Village Development Committees since 2002 and the future setup of sub-national governance in the federal structure is still awaiting direction from the new constitution. The table below highlights observed gaps of VDC Secretary deployment with poor cover in Taplejung and, surprisingly, Jhapa district had 12 *surplus* VDC Secretaries following mergers to new Municipalities. An average deployment figure for the whole nation therefore masks local issues.

District	VDC Staffing (VDC Secretaries)			Remarks
	No of VDCs	VDC Secretaries deployed	Regularly operates from VDC	
Taplejung	48	29 (60%)	12 (25%)	17 VDC Secretaries are responsible for 2 or 3 VDCs, in such cases they could not stay in single VDCs
Pachthar	38	28 (74%)	18 (47%)	10 VDC Secretaries are responsible for others VDCs, in such cases they could not stay in single VDCs

<sup>14</sup> J. Boex (2012), Review of the Criteria and Grant Allocation Formulas for Block Grants to DDCs and VDCs in Nepal

<sup>15</sup> The composition of the VDC as specified in the LSGA: A Village Development Committee shall be constituted as an executive of the Village Council in a village development area specified under Section 4. The Village Development Committee shall consist of the Chairman, Vice-chairman, nine Ward Chairmen and two nominated members including a woman.

District	VDC Staffing (VDC Secretaries)			Remarks
	No of VDCs	VDC Secretaries deployed	Regularly operates from VDC	
Jhapa	39	51 (134%)	39 (100%)	12 VDC Secretaries are surplus due to merging VDCs to new Municipalities
Saptari	96	55 (57%)	14 (15%)	Most of the VDC secretaries are responsible for two VDCs
<b>EDR sub-total</b>	<b>221</b>	<b>163 (74%)</b>	<b>83 (38%)</b>	

It should be noted that if a VDC Secretary looks after two or three VDCs, none of them have required support, e.g. Saptari only have 14 dedicated VDC Secretaries, so about 85% of the VDCs experience poor service/absenteeism.

### Capacity in Municipalities

New Municipalities were observed to be severely understaffed, less than 50% in some cases. To strengthen service delivery in these Municipalities, permanent technical resources need to be recruited, e.g. planning, engineers and accounting personnel should be prioritised for recruitment. Furthermore, a prioritized development plan (e.g. town development plan or Municipality Periodic Plan) is urgently needed in all new Municipalities (planned LGCDP activity) including clarification of GoN funded initiatives and where LGCDP may assist. Stakeholders may want to review the LGCDP II logical framework<sup>16</sup> to ensure new Municipalities are better covered given this policy announcement was not anticipated when the SIP was developed in May 2013.

**Key recommendation #10:** Assess service delivery capacity in local bodies, focused on VDCs and new Municipalities, to determine appropriate LGCDP II interventions and progress implementation of the CD strategy. Discuss options for filling urgent positions, including accounting and engineering resources.

### Capacity in DDCs

Most DDCs also have some gaps in officer level personnel, but their needs were observed to be less urgent than in new Municipalities and VDCs. Frequent transfers of LDOs remain a challenge and the Dec'14 NAC decision to introduce an induction programme for all LDOs should be followed up for effective implementation.

### Progress against output indicators and targets

Two out of four output indicators have been rated as **Moderately Unsatisfactory (MU)**. There is no progress on staffing the RCUs with Government officials and delays in agreeing modality for the Programme Recruitment Facility is putting long-term programme support staff at risk for the last 18 months of the programme. The table below outlines assessment against output 5 indicators and includes recommendations for improving the rating for next year's assessment.

Output indicators	Rating with justification	Measures to be taken
Improved management support for local bodies	<b>Moderately Satisfactory (MS):</b> - 3,225 VDCs (88% - after 1 <sup>st</sup> round of new Municipalities) had VDC Secretaries, meeting AMEP target. 57% regularly operate from village office in 2013/14.	- Define means of verification for operating from village office and include reporting of VDC Secretaries attendance in regular monitoring, e.g. WBRS

<sup>16</sup> Logframe evaluation is outside scope for the AQAA assignment

Output indicators	Rating with justification	Measures to be taken
	<ul style="list-style-type: none"> <li>- Approximately<sup>17</sup> 3,000 VDC Secretaries (92% - after 2<sup>nd</sup> round of new Municipalities) have VDC Secretaries, on track for SIP target. 63% estimated to regularly operate from village office in 2<sup>nd</sup> trimester 2014/15</li> <li>- Large variations in cover of VDC Secretaries by district observed, including 12 surplus in Jhapa with no assigned VDCs following mergers to new Municipalities</li> </ul>	<ul style="list-style-type: none"> <li>- Identify number of VDCs with no access to engineering and bookkeeping support, as this also affects service delivery</li> <li>- Local level service delivery would benefit from a focused evaluation.</li> </ul>
	<p><b>Moderately Unsatisfactory (MU):</b></p> <ul style="list-style-type: none"> <li>- 38 LDOs transferred and 37 (49%) stayed more than 6 months in 2013/14</li> <li>- 2<sup>nd</sup> trimester 2014/15 data from RCUs shows 125 LDOs/EOs transferred across the 191 Municipalities and 75 DDCs. This interim turnover of 47% is significantly higher than SIP target.</li> </ul>	<ul style="list-style-type: none"> <li>- Align target with means of verification, e.g. turnover percentage</li> <li>- Follow up decision in Dec'14 NAC for induction programme for all LDOs</li> <li>- Consider investments in knowledge management system to retain institutional memory</li> </ul>
TA support roles institutionalised	<p><b>Unsatisfactory (U):</b></p> <ul style="list-style-type: none"> <li>- No evidence could be obtained on plans for implementation of Government officials in RCUs in line with the policy commitment in ProDoc</li> </ul>	<ul style="list-style-type: none"> <li>- Include options for resolving this target in the Programme Recruitment Facility (PRF) report.</li> </ul>
	<p><b>Moderately Unsatisfactory (MU):</b></p> <ul style="list-style-type: none"> <li>- Roadmap underway and options expected in June 2015. However, this brings a significant implementation risk for the programme as all long-term TA positions will need to be transitioned by Jan 2016.</li> </ul>	<ul style="list-style-type: none"> <li>- Agreement on the PRF roadmap must be given highest priority in the next NAC meeting to avoid undermining the last 18 months of the programme.</li> </ul>

## OUTPUT 6: Access to and quality of local infrastructure and other socio-economic services administered by LBs are improved

### Context

The second phase of LGCDP is aligned with service delivery responsibilities of local bodies, including implementation of community infrastructure projects, provision of social security payments, registration of vital events and community mediation.

Service delivery is directly impacted by LB staffing constraints noted in the previous section. Most DDCs get good technical support from the District Technical Office (DTO) and hence quality assurance of their infrastructure projects is much better than VDCs, which generally do not get any support from DTO and at best (not always) have access to a sub-overseers with limited qualifications. New Municipalities have an urgent need for Engineers and were observed to borrow 1-2 resources from DDC; Municipalities sometimes get support from DTO for large infrastructure projects.

Social security, vital registration and community mediation, are all new interventions introduced for the 2<sup>nd</sup> phase of LGCDP. An additional programme support resource person for social protection and vital registration has been introduced in all RCUs, but current programming activities are relatively limited.

<sup>17</sup> Output 5 reported 3,211 VDCs Secretary position are fulfilled (i.e. 65 vacancies) at the end of March, but as 70 were observed to be vacant in three EDR districts these numbers need to be verified.

### Quality Labs

Quality labs were observed to be established in Jhapa and Sapatari, but not found in Panchthar and Taplejung. The quality labs were found to be functional and assisted in ensuring quality standards, but they are only used for DDC projects and would require additional lab technicians to support VDCs and Municipalities. The quality labs are established and funded under conditions of other projects rather than covering all local infrastructure projects.

**Key recommendation #11:** Strengthen quality assurance and compliance with building code regulations, especially in VDCs, e.g. by strengthening capacity in DTO and give them a mandate for quality assurance of all LB community infrastructure projects. Strengthen monitoring and reporting of community infrastructure projects as endorsed by NAC in Dec'14, e.g. through WBRs.

### Vital Event Registration (VER)

CAC members are well informed about the registration process and also know additional charges levied for late registration. However, most of the interventions are focused on the CACs only, which will make very little impact on national VER statistics at the end of the programme. It is therefore recommended to expand the scope of VER interventions to also include WCF members and to include VER baseline from planned CBS survey to be part of programme targets, i.e. currently limited to under 5 birth registrations.

### Social Security Allowances

Payment of social security allowances was said to be getting better from interactions with CAC and WCF members, both in terms of updating beneficiaries records and payment modalities. Most of the VDCs and Municipalities use cash payment through VDC secretaries for VDC and Ward secretaries for Municipality. It was observed that the VDC secretaries, especially in remote VDCs, informally take the help of Social Mobilisers in distributing the social security payments. Payments through banking system is thought to reduce fiduciary risks, but grievances include old people having to wait for long hours (i.e. cash from VDC Secretary preferred) and that unless the beneficiary pick up the allowance within a limited timeframe it results in losing the money forever.

A Management Information System (MIS) is being piloted for VER and social security payment in 6 districts, although this appears to have been inaccurately reported to 18 districts. Data entry has just begun in 12 districts under Social Safety Net Project (SSNP).

### Community Mediation Centres (CMC)

A total of 485 Community Mediation Centres (CMC) is reported to have established in 31 districts and 24 Municipalities, but number of dispute settlements and their impact for the communities are not available. LGCDP II stakeholders may consider a focused evaluation to better understand CMC impact and enable targeted LGCDP interventions.

### Ilaka Service Centre

The concept of providing service through Ilaka service centre for accounting and technical assistance was not observed to have materialised in any of the districts visited. The accounting function is mostly carried out by the VDC Secretaries. The job of sub-overseer is managed by some of the VDCs on their own and in some cases a few VDCs have organised sharing of these resources on their own, but not through the concept of Ilaka service centre.



## Progress against output indicators and targets

Three out of six output indicators have been rated as **Moderately Unsatisfactory (MU)**, but a further five output indicators have **No Basis (NB)** as data is not available to access progress. There is no evidence of improvements of technical standards applied for community infrastructure projects and branchless banking is highly unlikely to meet the ambitious target end of programme target in 61 districts. Establishing of Ilaka level service centres have not been formalised. The table below outlines assessment against output 6 indicators and includes recommendations for improving the rating for next year's assessment.

Output indicators	Rating with justification	Measures to be taken
Availability of technical standards for sustainable local infrastructure (including proper design, regular O&M and monitoring) and for service delivery activities, and evidence of their on-going use	<b>Moderately Unsatisfactory (MU):</b> - No evidence of improvements of technical standards applied for community infrastructure projects - Some preparatory progress from concept note developed and endorsed by sub-NAC in Nov'14 and guideline with ToR and cost estimation for preparation of MTMP	- Define means of verification for indicator - Policy makers (e.g. discussion in output group for NAC approval) to agree modality of technical quality assurance of infrastructure projects, e.g. include inspections by DTO also for VDCs and Municipality projects.
	<b>No Basis (NB):</b> - No data available to assess whether rural roads make use of environmentally labour based technology in conformity of DTMP - Guidelines on use of heavy machinery observed to frequently not be followed.	- Define means of verification for indicator
	<b>Moderately Satisfactory (MS):</b> - Quality labs have been established and running in 33 districts with support from SNRTP and 20 districts with support from RRRSDP, in line with SIP target of 53 <i>functional</i> quality labs, but only for DDC projects - Support has been provided for establishing new quality labs in 11 districts and for operationalization of 11 existing non-functional quality labs	- Define means of verification of "functional" quality labs, e.g. will all community infrastructure projects be quality assured in the district.
Community level dispute settlement through mediation	<b>Moderately Satisfactory (MS):</b> - Established 153 new CMCs in 2013/14, exceeding AMEP target - No end of programme target in SIP to compare progress	- Set end of programme target and include in trimester monitoring reports
	<b>No Basis (NB):</b> - No data available on number of disputes settled and no end of programme target to compare progress	- Complete baseline, target and means of verification and include in trimester monitoring reports
Increased coverage of vital event registrations under 5 yrs	<b>No Basis (NB):</b> - Progress in 2013/14 limited to very small sample - Study planned in 2014/15 with CBS not yet completed - No end of programme target to compare progress	- Complete baseline, target and means of verification, e.g. following findings from CBS survey - Considered setting higher level output indicator and target(s) for vital events (i.e. not only birth registrations)
Coverage and timeliness of social security and social protection benefits made through a unified MIS registration system	<b>Satisfactory (S):</b> - MIS system used to enter Social Security beneficiary data in 12 districts in 2013/14 - Conflicting reports between 6 and 18 districts using MIS in 2014/15	- Define means of verification for updating social security beneficiaries

Output indicators	Rating with justification	Measures to be taken
and delivery innovations such as branchless banking	- VDCs and Municipalities said to update social security beneficiaries regularly in line with SIP target	
	<b>No Basis (NB):</b> - Limited data to assess coverage of eligible recipients of social security payments - 9.3% of the Dalit belonging to social payment category have not registered in the social payment category, which is highest among all the caste/ethnic groups. (LGCDP II Baseline Survey, draft version)	- Define means of verification for 100% coverage of eligible recipients of social security payments - Baseline survey findings to be confirmed in final report
	<b>No Basis (NB):</b> - 84.2% of registered people received payments. - About 11% people complained about delays in LGCDP II Baseline Survey (draft)	- Define means of verification for payments made within 30 days of due date - Baseline survey findings to be confirmed in final report
	<b>Moderately Unsatisfactory (MU):</b> - Banking payments pilot in 2 districts fully operational in 2013/14 - The end of programme target of 61 branchless banking districts by 2016/17 said to be over-ambitious and highly unlikely to be met: A total of 10 said to be a more realistic target.	- Review and discuss end of programme target: A case could be made for revising down due to programme <u>underfunding</u> from SIP, subject to NAC approval
% of VDCs covered by Ilaka service centre	<b>Moderately Unsatisfactory (MU):</b> - An approach paper for Ilaka level service centres was developed by the Technical Division, which includes closer coordination and resourcing with the DTO - Some VDCs have organised sharing of resources on their own, but not through the concept of Ilaka service centre.	- Define means of verification for monitoring VDCs covered by Ilaka service centre - Agree modality for rollout

## OUTPUT 7: Strengthened integrated planning, budgeting, monitoring and evaluation and coordination amongst local governance actors

### Context

Local bodies have a coordination responsibility for devolved sectors and to emphasise this importance a separate output was introduced for the 2<sup>nd</sup> phase of LGCDP. Coordination with line agencies are adversely impacted in their annual planning process being separated at a different timeline that causes sectoral budget allocations to be formalised prior to the DDC IPFC meeting.

### Periodic Development Plan (PDP)

All DDCs have been instructed by MoFALD to develop current Periodic District Development Plans (PDDP). Many of the old Municipalities already have current periodic plans, but newly established Municipalities were observed not to target developing Periodic Municipal Development Plans in the near future. Currently 24 districts have completed the PDP and 42 districts and 17 Municipalities are in progress of updating these.

### Annual Plans

Local bodies collect demands through the 14-step participatory planning process. This includes obtaining project proposals from Ward gatherings, which are then prioritised by WCFs. The prioritisation of

projects was observed to be settled based on perceived urgency, rather than by the priorities set in section 19 of LBRMMOG.

Almost all LBs observed had allocated the target funds as prescribed by the LBRMMOG. However, the women, children and disadvantaged groups allocated projects did not match well with the intentions in some cases, e.g. the project from women's target budget in Okharkot VDC in Pyuthan is a water-supply project “also used by women” and the users committee of 11 members only included 3 women.

**Key recommendation #12:** Provide orientations to IPFC and social mobilisation institutions with examples of what constitutes good use of targeted funds. Strengthen monitoring of projects funded through targeted funds, e.g. WBRs.

### **Supervision & Monitoring Committee**

Institutionalized monitoring is undertaken by DDC/Municipality/VDC Supervision & Monitoring Committees in line with provision 33 in LBRMMOG that includes two members from WCFs. At the VDC level the monitoring committee submits its report to VDC secretary and all monitoring issues are resolved locally. There is currently no mechanism for consolidated reporting to the central level. Where functional, these committees were observed to have an important role in monitoring community infrastructure projects and while compliance on establishing these committees is improving as outlined in the table below, it is still only around 50% in VDCs and new Municipalities.

### **Child Friendly Local Governance (CFLG)**

CFLG is on target for adoption in all DDCs and Municipalities in their targeted 15 districts. This adoption process is based on fulfilment of 6 steps to qualify as CFLG adopted, including minuted council decision. The first VDC was declared child friendly in 2013/14 and the progress by the second trimester 2014/15 is 2 VDCs and 1 Municipality. Only VDCs and Municipalities will be declared child friendly, not DDCs as it would require all VDCs in the district to be declared too, hence the end of programme target should be revised.

### **Gender Responsive Budgeting (GRB)**

In order to address the issue of very few targeted budget items for the female population, the GoN introduced a system to indicate women specific budgets while preparing annual plans for every government body, including the LBs. The Gender Accountable Budget Committee is stipulated in central level and local level for accomplishing this task. The field observation could not identify any active local committees in any of the districts, nor the budget prepared in that way.

### **Environment Friendly Local Governance (EFLG) and Environment Management Plan (EMP)**

EFLG adoption is based upon whether the LB has formed an EFLG Coordination Committee, a minuted Council decision to implement EFLG, and LB has allocated some budgets and planned programs. The Environment Management Section of MoFALD reviewed local bodies' compliance with Environmental Management Plans (EMP) with support of the District and Urban Government Experts in 1<sup>st</sup> trimester 2014/15 and found 35 DDCs and 18 Municipalities are adopting Environmental Management Plans, Environment Management Plan Guidelines have been prepared to ease the implementation process of EMP.

### **Progress against output indicators and targets**

A key initiative through LGCDP II is to create Periodic District Development Plans (PDDP) for the whole district (including LAs) for better harmonization of sectoral and annual planning and 24 districts have completed these plans to date. Ward Citizen Forums are obtaining an increasing share of VDCs and

Municipalities capital budgets (outcome 1 indicator) at 50% (NPR 3.9 Bn) unconditional capital expenditure for 2013/14. Nine out of eleven output indicators have been rated as **Moderately Satisfactory (MS)**. Most indicators would benefit from definition (means of verification), as lack of common understanding appears to generate inconsistencies in reporting. The table below outlines assessment against output 7 indicators and includes recommendations for improving the rating for next year's assessment.

Output indicators	Rating with justification	Measures to be taken
Evidence of systematic and on-going interaction between LBs and other local governance actors in participatory planning and oversight processes (periodic plan).	<b>Moderately Satisfactory (MS):</b> - 18 districts prepared Periodic District Development Plans in 2013/14. - A further 6 (24 total) districts and 37 Municipalities had completed Periodic Plan formulation as of 2 <sup>nd</sup> trimester 2014/15, with a further 42 DDCs and 17 MNCs in progress. - The SIP targets 75 % DDCs and 95% Municipalities have current periodic plans by 2016/17, but the large number of new Municipalities was not envisioned in May'13	- As compliance improves LGCDP may consider monitoring and supporting actual use of these periodic plans, e.g. as part of annual plan formulation. - Clarify whether Municipality target includes all (133) new Municipalities
	<b>No Basis (NB):</b> - No data available to assess sectoral allocation based on Ilaka level recommendation and no duplication between sectoral and LBs planned activities.	- Review indicator and clarify means of verification.
Percentage of local committees that involve local governance actors in accordance with LBs' Resource Mobilisation and Management Operation Guidelines	<b>No Basis (NB):</b> - No data available to assess how frequently LBs meet with local representatives of other line ministries, INGOs, NGOs and other actors	- Review indicator and clarify means of verification.
	<b>Moderately Satisfactory (MS):</b> - IPFC compliance in 2,504 VDCs, 55 Municipalities and 64 DDCs in 2013/14. Data not yet available for 2014/15. - Supervision & Monitoring Committee functional in 1,687 VDCs, 97 Municipalities and 69 DDCs in 2 <sup>nd</sup> trimester 2014/15, up from 940 VDCs, 46 Municipalities and 58 DDCs in 2013/14. Although clear annual improvements, the compliance in VDCs is low and the SIP target of 90% is at risk.	- Monitoring and backstopping support for non-compliant LBs
# of local bodies (DDC, Municipalities, VDCs) that have adopted CFLG processes, population issues integrated gender-responsive budgeting, gender auditing and EFLG	<b>Moderately Satisfactory (MS):</b> - More than 95% VDCs prepare VDC plans in line Article 19 of LBRMMOG. - Prioritization among numerous projects said to be settled upon urgency basis rather than with the priorities set in section 19 of LBRMMOG during field observations	- Review indicator and clarify means of verification.
	<b>Moderately Satisfactory (MS):</b> - CFLG adopted in 60 DDCs and 44 Municipalities in 2013/14 - 2 <sup>nd</sup> trimester 2014/15 RCU progress report CFLG adopted in 39 DDCs, 55 Municipalities and 703 VDCs. However, this is different from the figures reported from PCU at 64 DDCs and 44 Municipalities. - SIP target for CFLG to be adopted in all	- Include means of verification definition to ensure consistent reporting - Clarify whether Municipality target includes all (133) new Municipalities

Output indicators	Rating with justification	Measures to be taken
	DDCs and Municipalities	
	<b>Moderately Unsatisfactory (MU):</b> - One VDC declared Child Friendly in 2013/14 - Two VDCs and one Municipality declared Child Friendly in 2014/15 - SIP target of 20 DDCs and 15 Municipalities to be declared child friendly appears inappropriate for DDCs, as it would require all VDCs to be declared too	- Review indicator and target to align with CFLG result-framework
	<b>Moderately Satisfactory (MS):</b> - 8 Municipalities and 23 DDCs use Gender Responsive Budgeting (GRB) in 2013/14 - 2 <sup>nd</sup> trimester 2014/15 RCU progress report GRB adopted in 55 DDCs and 56 Municipalities. However, this is different from the figures reported from PCU at GRB piloting in 11 DDCs and field observations did not observe GRB in any of the 7 districts - Uncertainty on actual progress against SIP target of GRB implemented at least in 50 DDCs and 40 Municipalities is the reason for lower rating.	- GRB adoption criteria needs to be defined for consistent reporting. - Consider annual gender report both at the ministry and in LBs to ensure GRB is actually practiced
	<b>Moderately Satisfactory (MS):</b> - EFLG adopted in 37 DDCs, 56 Municipalities and 388 VDCs reported in the 2 <sup>nd</sup> trimester 2014/15 progress from RCUs - SIP target of at least 300 VDCs, 4 Municipalities and 4 DDCs will be <i>declared</i> as EFLG, which is presumed different from <i>adopted</i> as reported in by RCUs.	- Review indicator and clarify means of verification for “declared” EFLG.
	<b>Moderately Satisfactory (MS):</b> - 35 (47%) DDCs and 18 (31%) Municipalities found to be compliant with Environmental Management Plans (EMP) in 1 <sup>st</sup> trimester 2014/15, against SIP target of 80% districts and 75% Municipalities	- Review indicator and clarify means of verification. - Clarify whether Municipality target includes all (133) new Municipalities
Proportion of capital funds that are allocated and spent to target groups by LBs	<b>Moderately Satisfactory (MS):</b> - DDCs/MNCs targeted expenditure in 2013/14 were a little short of targets: - Women: 9.5% / 10.2% - Children: 9.2% / 8.4% - DAG: 13.0% / 10.7% - Targeted fund observed to be allocated in line with the guidelines, but project selections can be improved, e.g. roads “also used by” women/children	- Inconsistencies noted in RCU reporting for 2 <sup>nd</sup> trimester 2014/15; internal quality assurance to be strengthened. - Provide orientations to social mobilisation institutions with examples for what constitutes good use of targeted funds. - Strengthen monitoring of community infrastructure projects, e.g. WBRS
	<b>Moderately Satisfactory (MS):</b> - More than 90% districts said to be reporting on Project Funding Matrix, against the 100% target by 2014/15 - DDCs said to be preparing the Project Funding Matrix during field observations as stipulated by the LBRMMOG Schedule 5, 7 and 8. However, no example could be produced in Saptari DDC.	- Include compliance monitoring in trimester RCU reporting

Output indicators	Rating with justification	Measures to be taken
% of youth (aged 15-24) from the district level youth network who participate in local government planning process	<b>No Basis (NB):</b> - No data available to assess progress - Youths were said to be invited to IPFC meetings in most districts and were observed to actively participate in this consultation in Pachthar	- Define means of verification for indicator
Annual independent citizens' perception survey completed	<b>Moderately Unsatisfactory (MU):</b> - Baseline and citizens' perception survey completed during Nov'14 to Jan'15, but final report not yet issued	- Technical quality of the report needs to be improved before the final version is issued, e.g. baseline data are reported inconsistently and baseline and perception data have been mixed. - Incorporate baseline data for programme reporting (e.g. AMEP, SIP)

## OUTPUT 8: Refined policy on local governance and improved inter-agency cooperation

### Context

Policy activities have been separated in two outputs for policies in pre- and post-constitution environment. Many of the planned activities are beyond the control of LGCDP II and progress has been adversely affected by delays in political decisions for both outputs.

### Progress against output indicators and targets

The reforms of VDCs into new Municipalities have been much more extensive than what was envisioned in design of LGCDP II, but implementation is hampered by lack of clear plans and resource constraints. The recent announcement of political consensus on 8 state federal model is expected to allow delayed activities to resume. Progress has on balance been **Moderately Unsatisfactory (MU)**, with particular concern on delay in holding DIMC meeting and updating the Decentralisation Implementation Plan (DIP). The table below outlines assessment against output 8 indicators and includes recommendations for improving the rating for next year's assessment.

Output indicators	Rating with justification	Measures to be taken
LSGA reviewed and amended to be inclusive and in conformity with the constitution	<b>Moderately Unsatisfactory (MU):</b> - LSGA amendment in the parliament is under consideration. The amendment is blocked due to political parties' different opinion, e.g. the promulgation of new constitution needed prior to holding local elections. - LBFR and LSGR revisions are based on the amended LSGA, which is still withheld in the parliament.	- Revisions to LSGA is beyond the mandate of LGCDP II, but would benefit from a policy discussion in NAC attended by MoFALD Minister and political representatives from other line ministries
Local governments categorized and right sized and restructuring plan developed.	<b>Moderately Satisfactory (MS):</b> - The reforms of VDCs into new Municipalities have been much more extensive than what was envisioned in design of LGCDP II. Implementation is hampered by lack of clear plans, resource constraints and the existing logframe limits scope of interventions through LGCDP II.	- There is an urgent need for more resources and detailed development plans for the 133 new Municipalities. Consider including scope for further LGCDP interventions, e.g. in output 6, but this may require additional funding.
	<b>Moderately Unsatisfactory (MU):</b> - Options for restructuring plan has been delayed awaiting political agreement on federal structure. However, recent consensus on a 8 state model may enable	- Develop options for restructuring plan based on 8 state model.



Output indicators	Rating with justification	Measures to be taken
	this initiative to progress.	
Policies on local governance reviewed and updated.	<b>Moderately Satisfactory (MS):</b> - The NPC decision to delegate responsibility for implementing part II of budget (500-600 projects) has given MoFALD more responsibility, but planning authority needs to be clarified, e.g. by the Office of the Prime Minister	- Develop guidelines for how part II of red book should be managed, e.g. included in ASIP process - Hold policy discussion in NAC with MoFALD Minister and representatives from other line ministries to discuss mandate
	<b>Unsatisfactory (U):</b> - The Prime Minister is said not to prioritise DIMC as long as the constitution remains unresolved and there is no progress on DIP review and update. This is unlikely to be implemented as the Ministry cannot do it in isolation and must link with other sectors.	- Holding DIMC and revisions to DIP are beyond the mandate of LGCDP II, but may benefit from a policy discussion in NAC attended by MoFALD Minister and political representatives from other line ministries

## OUTPUT 9: Policies developed for devolution and federalism

### Context

Progress in for this output requires political consensus on the new constitution. The recent announcement<sup>18</sup> on political compromise may allow activities for this output to start in earnest.

### Progress against output indicators and targets

Progress for this output has been **Unsatisfactory (U)** given the delay in completing the constitution writing, but it is recognised this is outside control of LGCDP II. The table below outlines assessment against output 9 indicators and includes recommendations for improving the rating for next year's assessment.

Output indicators	Rating with justification	Measures to be taken
Devolution policy refined in the context of federal governance	<b>Unsatisfactory (U):</b> - Requires draft constitution and political support, the recent announcement on political consensus may allow this activity to start soon.	- Hold policy discussion in NAC with MoFALD Minister and representatives from other line ministries to discuss options and appropriate LGCDP II support
LBFC restructured to assume responsibility for fiscal federalism	<b>Moderately Unsatisfactory (MU):</b> - LBFC has been upgraded under the leadership of a Joint-Secretary, but restructuring has been limited to developing a ToR for a restructuring study	- LBFC will be replaced by a National Finance Commission with the promulgation of a new constitution and restructuring should therefore focus on current needs and the transitional period
Local Government Restructuring Commission established	<b>Unsatisfactory (U):</b> - Establishment of LGRC can take place once the constitution is established. - Transition management plan for federal system is in the process of development under PREPARE project led by MoGA and MoFALD is contributing to this effort.	- Hold policy discussion in NAC with MoFALD Minister and representatives from other line ministries to discuss options and appropriate LGCDP II support

<sup>18</sup> <http://abcnews.go.com/International/wireStory/political-agreement-pave-nepal-constitution-31626438>

## LGCDP II progress reporting

As stated in the introduction of this chapter LGCDP II progress has been assessed *as reported by the programme*. The AQAA operational guidelines also require an assessment of the extent this reporting system addresses the need of the programme as detailed in the table below.

Areas of assessment	Rating with justification	Measures to be taken
Accuracy of M&E and other progress reports	<b>Moderately Satisfactory (MS):</b> <ul style="list-style-type: none"> <li>- Programme progress reporting is collected from a number of sources, but the RCUs trimester reports provide the majority of status for LGCDP II output indicators.</li> <li>- Progress reporting is mostly consistent and verifiable from field observations, but a few cases like use of VDC accounting software, implementation of accrual accounting software, and VDC Secretaries vacancies have inaccuracies in progress reports.</li> <li>- A couple of cases were also observed related to cross-functional issues (e.g. GRB) where different sources reported status that was not reconcilable.</li> </ul>	<ul style="list-style-type: none"> <li>- Most output indicators would benefit from a clear definition of means of verification. This would reduce the risk of different interpretation, which can result in inaccuracies in reporting.</li> <li>- It is recommended to establish an M&amp;E database on LGCDP II result framework where all results are tracked, which would make it easier to identify inconsistencies in reporting. This would also greatly reduce the effort in compiling status, both for internal needs and for future evaluations.</li> </ul>
Comprehensiveness of M&E and other progress reports	<b>Moderately Unsatisfactory (MU):-</b> <ul style="list-style-type: none"> <li>- Significant effort was spent to obtain status on all output indicators, but still 16% (9 out of 57) have no data that can be used to document progress.</li> <li>- The progress reporting on how the LB capital grants have been spent could be significantly improved by creating a database for all projects and track key indicators such as financial information, user group and monitoring data (e.g. public audit).</li> <li>- The data and means of verification for higher level indicators (e.g. outcome) was not in scope of this assessment, but will also need to be considered before the Mid-Term Review.</li> <li>- Reporting from aligned programmes contributing to LGCDP II results is said to be unsatisfactory by MoFALD, resulting in an overall lower rating.</li> </ul>	<ul style="list-style-type: none"> <li>- Review output indicators with No Basis (NB) and define means of verification for how this information should be sourced.</li> <li>- Strengthening Web-based Reporting system (WBRS) incorporating LGCDP II requirements, as endorsed in Nov'14 sub-NAC: <ul style="list-style-type: none"> <li>o Project approvals by LB Council documented in Project Funding Matrix (PFM) format, e.g. project type and beneficiaries data</li> <li>o Public audit information and User Committee formulation</li> <li>o Monitoring reports including pictures</li> <li>o Expenditure reporting</li> </ul> </li> <li>- Introduce trimester progress reporting on relevant AMEP indicators for all aligned programmes.</li> </ul>
Timeliness and submission of M&E and other progress reports	<b>Moderately Satisfactory (MS):</b> <ul style="list-style-type: none"> <li>- All progress reports are submitted in compliance with provisions in programme documents, but they are often issued late, e.g. with limited time for review.</li> <li>- The biggest concern from donors is late submission of OAG report (addressed in JFA compliance section later).</li> </ul>	<ul style="list-style-type: none"> <li>- Stakeholders to discuss acceptable timeline for submission of key documents, e.g. two weeks advance submission of NAC reports (as specified in JFA).</li> </ul>
Use of M&E and other progress reports	<b>Moderately Satisfactory (MS):</b> <ul style="list-style-type: none"> <li>- The perception by most stakeholders is progress reporting in LGCDP II has significantly improved in the last two years.</li> <li>- Progress reports are used to inform stakeholders of status in output group consultations and then compiled for policy</li> </ul>	<ul style="list-style-type: none"> <li>- The regional consultations with local level stakeholders were appreciated by all in the beginning of this fiscal year. Feedback from these sessions would benefit from being incorporated in the annual review process that concludes with the November NAC meeting.</li> </ul>

Areas of assessment	Rating with justification	Measures to be taken
	discussion in sub-NAC, Fiduciary Risk Mitigation and NAC meetings in line with the principles outlined in LGCDP II programme documents. - Gaps in reporting noted above result in lack of discussion on some interventions, e.g. following up on audit arrears.	

**Key recommendation #13:** Review all programme indicators and define means of verification to ensure progress reporting accurately reflect programme priorities. It is not recommended to change targets, except in any circumstances where clarification of indicator requires this to be amended to a comparative target.

## Programme Management and Execution

### JFA Compliance

JFA commitments for MoFALD and donors that have signed this document for LGCDP II have been included in annex 4.

Areas of assessment	Rating with justification	Measures to be taken
Finance and financial management	<b>Moderately Satisfactory (MS):</b> - FMRs are presented in an improved format with necessary breakdowns and perceived to be issued more timely, although 2nd trimester of 2014/15 was prepared on May 13, two weeks delayed due to the 25 <sup>th</sup> April and 12 <sup>th</sup> May earthquakes. - The accounting is maintained generally in accordance with accounting standards and GoN procedures. - The JFA grants are not released to LBs on a timely basis as specified in the ASIP and the cash forecast, as the 2nd trimester of 2014/15 disbursement rate of 24.4% highlights. - DP disbursements to FCA have not been in line with schedule, but no fund shortage has been experienced to date. - The withdrawals from the FCA were not initially communicated to DP focal person, but all transactions are reported in the FMR. - DPs do not always inform the PCU regarding disbursements and acknowledgement from the PCU is also not seen as regular. - A fiduciary risk assessment (FRA) commissioned by DFID in 2014 has been shared.	- A schedule for financial commitments should be maintained (e.g. by DP Cell) to improve tracking of JFA commitments and to remind stakeholders of key milestones - It is recommended to sign the final version of all financial reports, which has been done in some cases.
Audit	<b>Moderately Unsatisfactory (MU):</b> - The audit in the scope of OAGN is carried out timely, but the audit report for the project accounts (LGCDP II) is not produced on time. Hence, presentation of findings and management response has also been delayed. - There have not been significant improvements in settlement of audit observations in recent years, and stakeholder note that MoFALD remain among the poorest performing ministries. - The audit observations raised in the audit report are not resolved satisfactorily.	- Stakeholders to discuss how compliance can be met, or to adjust the timeline to be realistic. - Consider aligning with NPPR target for less than 5% audit arrears [as recommended for output indicator]

Areas of assessment	Rating with justification	Measures to be taken
Procurement	<b>Moderately Unsatisfactory (MU):</b> <ul style="list-style-type: none"> <li>- GoN laws and regulations are taken up as the basis of procurement.</li> <li>- The annual LGCDP II procurement plan is prepared, but alignment with the UN AWP and ASIP are not updated regularly.</li> <li>- The procurement monitoring report is not used as an operational tool as the majority of the 139 procurement packages have one milestone for July 15 completion.</li> <li>- Many procurement packages are reported to experience long delays</li> </ul>	<ul style="list-style-type: none"> <li>- Introduce procedures (e.g. assign responsible person) to ensure the procurement plan accurately reflects procurement packages and budget allocations in ASIP and AWP: ASIP is the master document.</li> <li>- Complete all intermediate milestones on the procurement monitoring report and discuss approaching due dates in TASC including quarterly meetings with aligned programmes.</li> </ul>
NAC and other programme oversight issues	<b>Moderately Satisfactory (MS):</b> <ul style="list-style-type: none"> <li>- NAC is held bi-annually, but has so far been arranged 1-2 months behind the schedule outlined in JFA. All required documents were included in the last Dec'14 NAC meeting.</li> <li>- Sub-NAC is stipulated to be held every two months in the JFA, but this was revised to quarterly by July'14 NAC decision. Meetings have been held generally in line with the revised schedule.</li> <li>- Fiduciary Risk Mitigation meetings are due every trimester, but have been arranged with a bi-annual frequency.</li> <li>- The practice of DP focal person co-chair in programme meetings has been appreciated.</li> <li>- Half yearly meeting calendars have been introduced by DP Cell in coordination with DP focal persons and the MoFALD management to assist scheduling of required meetings and events.</li> </ul>	<ul style="list-style-type: none"> <li>- Fiduciary Risk Mitigation progress reporting is too high level and does not consistently track corruption cases. It is recommended to create a joint technical sub-group to assist preparation and reporting for these meetings.</li> <li>- There should be a more markedly difference of purpose between sub-NAC and NAC: The purpose of sub-NAC is to review progress and operational status, while NAC should be more focused on policy discussions with senior stakeholders from other ministries than what has been the practice.</li> </ul>
Reporting	<b>Moderately Unsatisfactory (MU):</b> <ul style="list-style-type: none"> <li>- Aide memoire from NAC meetings have been shared. Likewise, formal signed meeting minutes from other programme meetings have also been appreciated as a good practice.</li> <li>- The trimester PEFA-FRRAP progress report has not been produced.</li> <li>- Progress reports do not contain financial data and outputs achieved are not explicitly aligned to expenditure despite the use of output budgets at programme level<sup>19</sup>.</li> <li>- Decisions from programme meetings are not always followed up timely, e.g. revisions to ASIP in Dec'14 were only communicated to relevant MoFALD sections in April'15.</li> <li>- Two planned Pubic Expenditure Tracking surveys (PETs) are stipulated in JFA, but these have since been combined into one for implementation by SPMP TA.</li> </ul>	<ul style="list-style-type: none"> <li>- Establish a tracking mechanism for follow-up decisions from programme meetings.</li> <li>- Start issuing trimester PEFA-FRRAP report, including number of milestones met.</li> <li>- The change of approach for two PETs should be discussed in LGCDP II meetings and approved by NAC, given two PETs have been referenced in the JFA document [as recommended earlier].</li> </ul>

<sup>19</sup> Annual Statement of Progress for Nepal Local Governance and Community Development Programme 2014

## Policy Commitments

Major policy commitments from the programme document have been listed in annex 5.

Areas of assessment	Rating with justification	Measures to be taken
Participation & accountability	<b>Moderately Satisfactory (MS):</b> <ul style="list-style-type: none"> <li>- Compliance on WCF participation in IPFC has improved and WCF recommended projects are obtaining an increasing share of VDCs and Municipalities capital budget allocations from 32% to 50% as reported earlier.</li> <li>- Capacity tracking of WCFs has not yet been implemented.</li> <li>- Mainstreaming of accountability through WCF has been initiated and compliance monitoring by CSOs in 75 districts is operational through LGAF (66) and SALGp (9)</li> </ul>	<ul style="list-style-type: none"> <li>- Capacity of WCFs will continue to be strengthened with support from LSPs, NSP and CSOs.</li> <li>- Tracking of WCF capacity recommended for implementation through LSPs as a regular activity</li> </ul>
LB performance incentives	<b>Moderately Unsatisfactory (MU):</b> <ul style="list-style-type: none"> <li>- Modification of MCPM to include resource mobilisation activities not yet implemented</li> <li>- Expansion of MC/PM system to all regular GoN grants to local bodies not yet implemented</li> <li>- Performance based contracts introduced for LDOs and EOs.</li> </ul>	<ul style="list-style-type: none"> <li>- Revision to MCPM planned for next year, although scope of changes is yet to be confirmed.</li> <li>- Follow up impact of performance based contracts</li> </ul>
Fund release	<b>Moderately Satisfactory (MS):</b> <ul style="list-style-type: none"> <li>- Timely release of budget funds to DDCs and Municipalities is approximately 50% at the end of 2<sup>nd</sup> trimester, but many VDCs are still reported to experience delays and the FMR does not track this second step.</li> </ul>	<ul style="list-style-type: none"> <li>- Backstopping support for VDC Secretaries for submission of required documents</li> <li>- Complete (planned) study to identify key bottlenecks that cause late disbursement to VDCs</li> </ul>
Fiduciary risk and transparency	<b>Moderately Satisfactory (MS):</b> <ul style="list-style-type: none"> <li>- Performance contracts for LDOs and EOs includes provision of zero-tolerance policy towards misuse and abuse of entrusted powers</li> <li>- Public disclosure of all financial information is a statutory requirement. Compliance to be monitored through LGAF/SALGp CSOs.</li> </ul>	<ul style="list-style-type: none"> <li>- Results of CSO compliance monitoring to be published</li> </ul>

It is recommended to update the targets in the programme result matrix annexed to the JFA document as the last set of targets expired in December 2014, e.g. align with programme & policy priorities document.

## Internal Quality Assurance and Control

There are three joint arrangements established in LGCDP II for internal quality assurance and control: The Technical Assistance sub-Committee (TASC), eight output groups (output 8 & 9 combined), and joint field visits. Issues and policy recommendations by these arrangements are reported to the programme management arrangement (e.g. sub-NAC and/or Fiduciary Risk Mitigation meetings).

Areas of assessment	Rating with justification	Measures to be taken
TASC	<b>Moderately Unsatisfactory (MU):</b> <ul style="list-style-type: none"> <li>- The ToR for TASC was updated and approved by the NAC meeting in December 2014. The new arrangement clarifies TASC should include wider review of TA activities with aligned programmes every quarter in addition to bi-monthly reviews of PPSF TA</li> </ul>	<ul style="list-style-type: none"> <li>- Arrange TASC meetings with aligned programmes every quarter.</li> <li>- Complete all intermediate milestones on the procurement monitoring report and discuss approaching due dates [as recommended earlier].</li> </ul>

Areas of assessment	Rating with justification	Measures to be taken
	activities (as the PPSF steering committee) - The procurement monitoring report has been developed, but operational use is limited as noted earlier.	
Output Groups	<b>Moderately Satisfactory (MS):</b> - These consultative meetings are appreciated by all stakeholders and seen as useful to discuss thematic priorities and progress. - The frequency of output group meetings was amended to every quarter by the July'14 NAC meeting - MoFALD has recently empowered the output managers to have full accountability for planning and results, including budget decision within certain limits to institutionalize LGCDP II in MoFALD. Only TA activities by PPSF require NPD approval. - Some of the output groups are said to be less effective by stakeholders.	- Output group effectiveness is not only the responsibility of output manager, but also depends on involvement (e.g. in preparation of meetings) of DP output leads and quality of support from PCU Specialists and DP Cell. Improvements sought therefore need to include all stakeholders, e.g. effective knowledge transfer to new output managers
Joint field visits	<b>Moderately Satisfactory (MS):</b> - Most stakeholders appreciate the joint field visits. - Joint field visits have been arranged in preparation for NAC (bi-annually), but irregular focused field visits have taken place as well in line with the trimester commitment. - Concerns include whether these reflect a "true" picture of local implementation status give prior preparation and limited visits to remote districts.	- It is recommended for output groups to arrange focused joint field visits, some of which may be surprise visits, to compensate for the more formal nature of the bi-annual events.

## Annual Planning

There are three core annual planning documents in LGCDP II: (1) the Annual Strategic Implementation Plan (ASIP); (2) the Annual Monitoring & Evaluation Plan (AMEP) and (3) the Procurement Plan. The Procurement Plan and Procurement Monitoring Report replace the reference to the Annual Technical Assistance Plan (ATAP) referenced in programme documents following the Dec'14 NAC decision, but since these documents already have been covered in earlier sections they are not assessed here.

Annex 6 summarises the sequence of steps to be followed in the annual planning process for LGCDP II as specified in SIP (pg 13). It is noted some of the steps in Annex 6 are inconsistent with the current management arrangement, e.g. sub-NAC is held quarterly and NAC is due in May.

Areas of assessment	Rating with justification	Measures to be taken
Annual Strategic Implementation Plan (ASIP)	<b>Moderately Satisfactory (MS):</b> - The ASIP comprehensively documents all activities and budget for LGCDP II and the latest version approved by NAC in Dec'14 aligns to the red book budget and includes planned activities for 16 aligned programmes. - NAC approved changes to the ASIP in Dec'14, but these extensive revisions were communicated only in April'15 to MoFALD	- ASIP is a key document that aligns all programme activities with the national (red book) budget. The current practice of developing ASIP when the national budget is in the final stages of approval creates risk for fund flow arrangement if the national budget is higher than donors' planned disbursements. - Approved revisions to ASIP (e.g. by sub-NAC) should be communicated to all



Areas of assessment	Rating with justification	Measures to be taken
	<p>sections as noted earlier and it is not clear whether revisions have been shared with RCUs at all.</p> <ul style="list-style-type: none"> <li>- ASIP timeline has not been adhered to in the previous two planning cycles, which makes alignment between national (red book) budget and detailed programme activities more challenging.</li> <li>- It is understood the emergency relief funding to 14 districts in April'15 was arranged as an exceptional item on top of ASIP budget and therefore not required to be reflected in the ASIP.</li> </ul>	<p>stakeholders as soon as possible (within one month).</p> <ul style="list-style-type: none"> <li>- The devastating earthquakes on 25th April and 12th May have created significant additional needs in the 14 worst affected districts. Consider separating interventions for these districts in line with the post-disaster needs assessment (PDNA) and seek additional funding sources.</li> </ul>
Annual Monitoring & Evaluation Plan (AMEP)	<p><b>Moderately Satisfactory (MS):</b></p> <ul style="list-style-type: none"> <li>- AMEP breaks down the four year end-of-programme targets (in SIP) to realistic annual targets for each output and activity and is appreciated by all stakeholders as an easy to understand reference of programme status.</li> <li>- A number of indicators need clarification of means of verification [as referenced earlier for several output indicators].</li> <li>- There are a few gaps in SIP targets that are not covered by AMEP indicators (e.g. no activities are planned for the year) that should be included for clarification of status (e.g. no activities due to funding constraints).</li> <li>- Progress reporting from aligned programmes are said to be very limited and their targets are not always fully aligned with LGCDP II, e.g. SPMP grant funding covers most of output 4 activities, but the tranche conditions only partially align to output 4 targets.</li> </ul>	<ul style="list-style-type: none"> <li>- It is recommended to use the AMEP, rather than ASIP, as the main tool for planning and monitoring programme activities with stakeholders. This must be aligned with ASIP, but given the complexity and detailed nature of ASIP, this can be done by a small joint technical team before approvals.</li> <li>- The national level indicators and targets do not reflect local level differences, e.g. a national target of 70% compliance is not relevant in a district that is already at 80% and would be unrealistic in a district with 30% compliance. It is therefore recommended for RCUs and U/DGEs to create district AMEPs <i>on the same national indicators</i> that will allow differentiation of targets, e.g. to 90% and 50% in the above example.</li> <li>- Introduce trimester reporting on AMEP indicators for all aligned programmes</li> </ul>

**Key recommendation #14:** RCUs and U/DGEs to create district versions of AMEP on the same national indicators for local/regional use. PCU to verify district AMEP targets align to national targets. This would allow much better understanding of progress and monitoring impact from programme interventions.

Aligned programmes make up the biggest proportion of the funding pool for LGCPD II that currently totals USD 227.4 million, of which JFA is USD 98.3m; PPSF (JFTA) is USD 12.1m; and PAA USD 117m. This compares to the total funding *request* in the LGCDP II Programme Document at USD 236m donor contribution, but with a much higher contribution of JFA funds at USD 164.9m and JFTA at USD 45m, and a relatively small programme alignment contribution of USD 26.1m. This significant shift in donor contribution toward aligned programmes, which are less flexible and with limited progress reporting, make it more challenging to meet the target outlined in the Strategic Implementation Plan.

**Key recommendation #15:** Introduce trimester reporting on AMEP indicators for all aligned programmes. Aligned funding commitment discussed in output groups with JFA funds used to cover gaps. Highlight unfunded activities for future evaluation.

## Effectiveness and Quality of Inputs

Programme support was strengthened during the second half of 2013/14 with U/DGE and ICT volunteers at the local level. At the regional level a new (6<sup>th</sup>) Dhulikhel RCU was established and additional support staffs were added in each RCU. At the central level the PCU was also strengthened with additional support staff and the DP Coordinator role<sup>20</sup> was upgraded to a DP Cell in the early part of 2014/15, currently with two full-time staff.

The assessment below is based on perception from stakeholders and an assessment of the extent these interventions are consistently operating in line with the principles defined in the PPSF programme document based on limited interactions with programme support staff and the extent to which they have contributed to achieving programme results. The AQAA is not however intended as a full evaluation as highlighted in the methodology section and this will be completed as part of the Mid-Term Review in the next fiscal year. PPSF has a responsibility (e.g. to MoFALD) as the recruitment agency for these roles in ensuring they operate in line with their mandate.

Areas of assessment	Rating with justification	Measures to be taken
ICT Volunteers	<b>Moderately Satisfactory (MS):</b> <ul style="list-style-type: none"> <li>- These roles are highly appreciated by LBs and have in many cases contributed to changes in operational practice related to digitalization of records and reporting</li> <li>- The ICT volunteers have contributed to successful use of the Financial Administration and Management Package (FAMP) and improved compliance with WBRS reporting.</li> <li>- Support activities were however not well aligned with planned activities in ASIP in 2014/15; partly explained by being introduced after the ASIP was designed.</li> </ul>	<ul style="list-style-type: none"> <li>- ICT volunteers to be included in setting annual targets (AMEP) and budget (ASIP) for next fiscal year.</li> <li>- Strengthened reporting system (e.g. WBRS) for community infrastructure projects (ref. Dec'14 NAC decision)</li> <li>- Monitor and backstopping (technical) support for use of VDC accounting software.</li> <li>- ICT volunteers could play a key role in introducing a wider e-Governance initiative and stakeholders to consider whether such initiative should be part of LGCDP II interventions.</li> </ul>
District/Urban Governance Experts (U/DGE)	<b>Moderately Unsatisfactory (MU):</b> <ul style="list-style-type: none"> <li>- U/DGE effectiveness has to a large extent been limited by the environment they operate and initially there were a lot of opposition to introducing these roles, especially in Municipalities.</li> <li>- While most LBs are now said to appreciate these roles, their effectiveness in strengthening individual and institutional capacity are in most cases unproven, e.g. operational use of procurement plan, creating/updating Periodic District Development Plans, and timely disbursements to VDCs are examples of important activities where U/DGEs could have taken a more proactive role in line with their mandate.</li> <li>- A few U/DGEs were observed to work on the old DF/MF modality and confirmed they were mainly focused on social mobilisation activities, while others said they worked with all sections in the DDC and also</li> </ul>	<ul style="list-style-type: none"> <li>- The chosen nature of the Programme Recruitment Facility will impact the long-term sustainability of these roles.</li> <li>- Target and expectations to the U/DGEs need to be much more clear, e.g. very few could articulate national supply side targets (in AMEP) and the earlier recommendation to develop local AMEP will provide this clarify as well as help them prove their contribution without being disadvantaged by working in a poor performing LB.</li> <li>- Additional targeted capacity development on key initiatives and backstopping support from RCU is also essential to ensure these resources have the required skills to provide capacity development to LBs.</li> </ul>

<sup>20</sup> The DP Coordinator and DP Cell are not assessed given potential conflict of interests as the AQAA team leader was assigned to these roles in 2013/14 and early part of 2014/15.

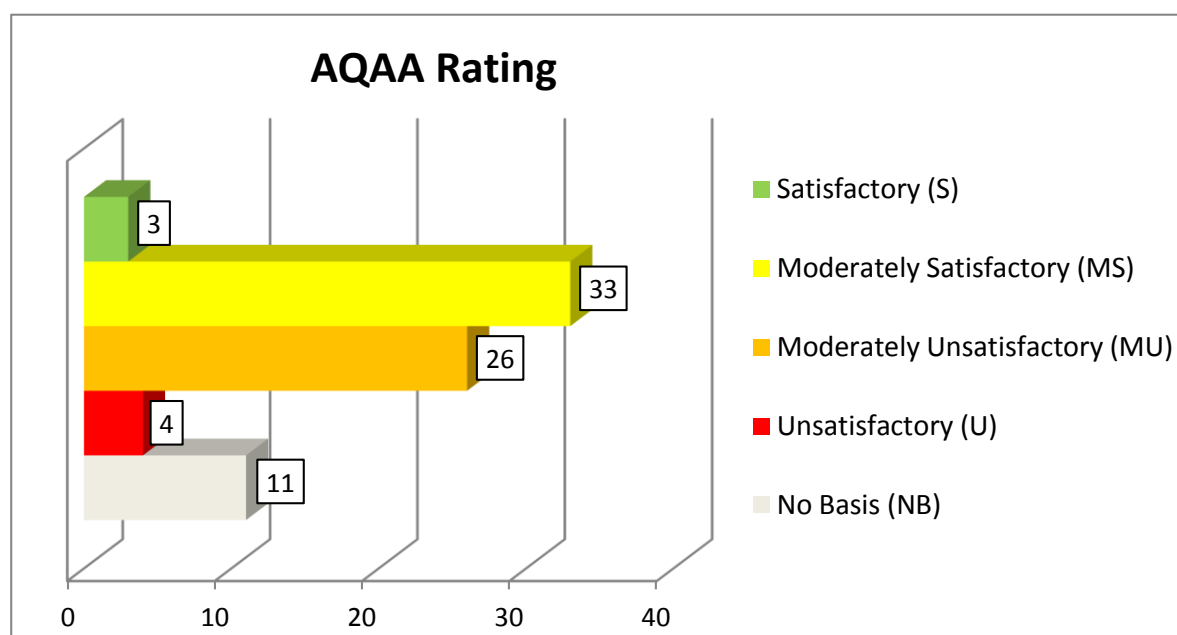
Areas of assessment	Rating with justification	Measures to be taken
	<p>provided much needed support to new Municipalities (confirmed by the EOs).</p> <ul style="list-style-type: none"> <li>- Several examples were observed where U/DGEs have made a positive impact, e.g. early completion of the District Annual Plan and assisting the selection of LSPs.</li> </ul>	
Regional Cluster Unit (RCU)	<p><b>Moderately Satisfactory (MS):</b></p> <ul style="list-style-type: none"> <li>- The RCUs provides a crucial link between the centre and LBs and while they are criticised by some stakeholders for being “post offices” with too many staff, effective monitoring and backstopping of LGCDP II interventions would not be possible without their support in the current setup.</li> <li>- RCUs have a lot of knowledge of the challenges and needs for effective implementation of the programme, but sharing their ideas to the centre and proactive local actions can improve.</li> <li>- The scope of their activities was observed to be unnecessarily limited on some interventions, e.g. vital event registration mainly targeted CACs, when WCFs could have a much bigger impact.</li> </ul>	<ul style="list-style-type: none"> <li>- The mandate of the RCUs would be strengthened by including Government officials as targeted in programme documents. For long-term sustainability, this could be aligned with the consensus of 8 provinces.</li> <li>- It is recommended to empower RCUs discretion on budget allocations within given limits for each ASIP line item to allow focused interventions where they are most needed (e.g. as per district AMEP) and be more responsive to LB needs/demands.</li> <li>- Stronger linkages on thematic themes should be encouraged to assist knowledge sharing, e.g. with the PCU Specialists, relevant output manager and MoFALD section.</li> </ul>
Programme Coordination Unit (PCU)	<p><b>Moderately Unsatisfactory (MU):</b></p> <ul style="list-style-type: none"> <li>- The primary functions of the PCU are to assist MoFALD in the implementation of LGCDP II and, at the same time, to strengthen MoFALD’s capacity to ensure proper management and implementation. Hence, the PCU Specialists must take their fair share of responsibility for results achieved, both successes and failures.</li> <li>- The lack of PFM resources, both in PCU and the RCUs, has directly impacted implementation progress in output 4. This contributes to the overall low rating.</li> </ul>	<ul style="list-style-type: none"> <li>- To be effective each PCU Specialist must develop strong relations with relevant MoFALD section and their output manager. The PCU Specialist should be seen as a key resource to help them achieve their goals and assist in aligning these with LGCDP II funded activities and targets, e.g. by preparing for output group meetings.</li> <li>- The PCU Specialists are encouraged to also establish strong thematic links with RCUs resources for effective communication of key priorities and to better understand local challenges.</li> </ul>
Short-term TA	<p><b>No Basis (NB)</b></p> <ul style="list-style-type: none"> <li>- The quality of short-term TA in LGCDP II is intended to be assured by agreeing scope (e.g. ToR) and reviewing deliverables in output groups and effective procurement through TASC. Limitations in the internal quality assurance and control mechanism [as noted earlier] will impact the overall quality of short-term TA. It is beyond the scope of this assignment to assess the quality of individual contracts.</li> <li>- LGCDP II has multiple modalities for implementing TA and several stakeholders have noted quality of JFA procurement is limited by the (GoN regulated) significantly lower resource fees, daily allowance and logistic costs provisions. The best qualified resource persons are said to often not be interested in these assignments as a consequence.</li> </ul>	<ul style="list-style-type: none"> <li>- Harmonize resource provisions on all forms of TA. If possible the JFA provisions should be raised, e.g. through the PRF modality.</li> <li>- Discuss the JFTA modality for central TA and get necessary approval (e.g. NAC) to allow access to additional support. The programme documents allow for this to be provided through the PPSF mechanism, but it is unclear whether this is acceptable to all.</li> </ul>

Areas of assessment	Rating with justification	Measures to be taken
	- JFTA modality for central level TA from JFA donors (UNICEF, UNFPA and UN Women) has not been clarified in details in the programme documents and this potential additional funding source has not been accessible to LGCDP II so far.	
Service Providers	<b>No Basis (NB)</b> - All the service providers on LGCDP II (NSP, LSP and CSOs) have recently been selected and it is too early to assess their contribution beyond the observations already noted in output 1 and 2.	- The CSOs contracts are due for annual performance review and this should be completed by end of the fiscal year to avoid any disruption of services.

**Key recommendation #16:** Empower RCUs for discretion on budget allocations *within given limits for each ASIP line item* to allow focused interventions where they are most needed (e.g. as per district AMEP) and be more responsive to LB needs/demands.

## Conclusion and Next Steps

Implementation progress has been limited by the transitional period between the first and second phase of LGCDP and the challenging local governance environment in Nepal. Nevertheless 47% of the indicators have been rated moderately satisfactory or better as illustrated in the figure below:



## Recommended actions

An action plan has been proposed for the next six months until the November 2015 NAC meeting to assist implementation of the key recommendations (ref. #) in this report:

1. LDTA to hire required regional and central level resource persons. PCU and RCUs experts to provide intensive backstopping to the new resources for an initial period and LDTA to make NSP monitoring committee meetings functional (ref. #2).
2. Output 1 to agree a mechanism for assessing the WCFs effectiveness (e.g. through LSPs at no additional cost) to enable focused capacity development and support wherever found to be ineffective (ref. #1).

3. Output 2 to propose a mechanism for systematic documentation of grievances and their resolutions (e.g. in WBRS) in local bodies and introduce a system where grievances are forwarded to higher level (e.g. LDO or GGS) when they are not resolved within an acceptable time (ref. #3).
4. Output 3 to propose result-oriented MCPM indicators and implementation of a two-year MCPM cycle. Agree targeted capacity development initiatives and support in local bodies that failed MCs (ref. #4).
5. Output 3 to identify bottlenecks that prevent timely release of funds from DTCO to VDCs, (e.g. by completing the planned study) and agree mitigation actions to minimise delays (ref. #5).
6. NAC meetings to discuss introduction a single, simple, format of VDC financial recording and reporting to replace the prevailing cumbersome formats (ref. #8).
7. Output 4 to agree actions to strengthen operational use and monitoring of procurement plans, e.g. monitor compliance for large procurement items over a certain threshold (ref. #7).
8. Output 4 to assess the number of PEFA-FRRAP milestones met and present status in Fiduciary Risk Mitigation meeting. Establish a taskforce to set PEFA-FRRAP targets for the remaining period of LGCDP II (ref. #6).
9. Output 4 to agree actions to follow up audit arrears in LBs (ref. #9).
10. NAC to discuss options for fulfilling urgent staffing needs in VDCs and new Municipalities (ref. #10).
11. Output 5 to assess service delivery capacity in local bodies, focused on VDCs and new Municipalities, e.g. as part of planned LB survey (ref. #10).
12. MoFALD with support of PCU/RCUs to strengthen monitoring and reporting of community infrastructure projects as endorsed by NAC in Dec'14, e.g. through WBRS (ref. #11).
13. NAC to discuss expanding DTO mandate to include all LBs (ref. #11)
14. Output 6 to agree actions to strengthen quality assurance and compliance with building code regulations, especially in VDCs (ref. #11).
15. Output 7 to create orientation/training materials for IPFC and social mobilisation institutions with examples of what constitutes good use of targeted funds to children, women and DAG (ref. #12).
16. PCU with support of DP Cell to review all programme indicators and define means of verification to ensure progress reporting accurately reflect programme priorities (ref. #13).
17. RCUs and U/DGEs to create district versions of AMEP on the same national indicators for better monitoring and targeting of programme activities (ref. #14).
18. RCUs to be given discretion on next year budget allocations within given limits for each ASIP line item to focus interventions where they are most needed, e.g. as per district AMEP (ref. #16).
19. Aligned programmes to start trimester reporting on AMEP indicators. Unfunded AMEP activities to be highlighted for future evaluation (ref. #15).

### Continuous improvements

This report proposes more than hundred additional “measures to be taken” to improve rating for future AQAA or programme evaluations (e.g. MTR). As noted earlier the AQAA report is a diagnostic tool to identify gaps and recommend improvements, but it is up to each output group to review these and decide which, and how to implement these measures, or to identify better solutions. Likewise, LGCDP II stakeholders with support from the DP Cell should consider ways to strengthen the programme management and execution of LGCDP II and hopefully this report will stimulate this discussion.

## Annexes

### Annex 1: ToR for AQAA team

#### TERMS OF REFERENCE

##### FOR INDIVIDUAL CONTRACT

POST TITLE: 1X International Quality Assurance Consultant (Team Leader)  
2X National QA Consultant  
AGENCY/PROJECT NAME: LGCDP-II  
COUNTRY OF ASSIGNMENT: Nepal

#### 1) GENERAL BACKGROUND

The Local Governance and Community Development Programme II (LGCDP II) is a national programme which is being implemented by the Ministry of Federal Affairs and Local Development (MoFALD) and supported by a range of development partners. LGCDP II's Programme Document (PD) comprehensively describes LGCDP II's rationale and approach along with its vision, goal and purpose. The individual programme components and management arrangements are also fully described in the PD as in the Programme log frame and the results and reporting framework.

The Policy and Programme Support Facility (PPSF), established as a joint UN programme of support to LGCDP and agreed upon by the Government, development partners and UN agencies, consists of three Pillars. Pillar 3 has three principal functions:

- (i) Coordination and liaison between the Government and development partners with respect to LGCDP II
- (ii) Provision of programme and policy support at the national level
- (iii) Quality assurance & verification of LGCDP II on behalf of the Government and development partners

For the purposes of LGCDP, quality assurance (QA) is defined as a process whereby regular external (or third party) assessments of the programme take place to determine and verify: (i) whether outcomes and deliverables are being delivered as reported through LGCDP's monitoring & reporting system; (ii) whether programme management and implementation is performing well, in line with agreements/commitments and aligned so as to deliver results; and (iii) whether programme inputs (such as technical assistance and fund flows) are of the right standard and quality. As such, QA examines LGCDP processes and the performance of all LGCDP stakeholders (MoFALD, DDC, Municipalities, VDCs, programme TA, development partners, etc.).

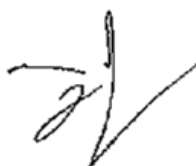
Operational guidelines for the annual quality assurance assessment has been drafted based on technical note<sup>3</sup> describing the broad framework for LGCDP's QA system. The proposed QA system would be based on an external Annual Quality Assurance Assessment (AQAA), which would provide input to Joint Annual Reviews (JARs) of LGCDP-II.

This Terms of Reference defines the scope of work and deliverables for a consultancy to conduct the first AQAA based on the Operational Guidelines developed for carrying out the LGCDP's QA process.

#### 2) OBJECTIVES OF THE ASSIGNMENT

The main objective of the assignment is to conduct a baseline quality assurance assessment to serve as a benchmark for regular annual quality assurance assessments of LGCDP-II and to refine and finalise the existing Quality Assurance Operational Guidelines based on field observations.

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National Programme Director  
LGCDP

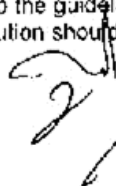


### 3) SCOPE OF WORK

Using the agreed technical note on LGCDP's quality assurance framework (under Annex 1) and the existing AQAA operational guidelines, the consultant will be expected to carry out the following tasks:

- (i) Undertake field-testing of the QA Operational Guidelines in at least two development regions to develop baseline for future assessments and recommend fine-tuning in the light of lessons learned and experience gained including consideration of recent structural changes such as establishment of new municipalities;
- (ii) Review programme management and execution to identify bottlenecks for compliance and assess effectiveness of TA support.
- (iii) Facilitate the following workshops with MoFALD/LGCDP management and LGCDP development partners:
  - Workshop 1: to review and discuss findings of the QA assessment and draft AQAA report and propose changes required to the QA Operational Guidelines in the light of lessons learned from field testing.
  - Workshop 2: to review and discuss the proposed changes to the QA Operational Guidelines of LGCDP;
- (iv) Update QA Operational Guidelines<sup>2</sup> based on the field test:  
Following the completion of the field testing of the QA guidelines, prepare a set of recommendations to revise the quality assurance operational guidelines in consultation with with LGCDP's principal stakeholders (GoN, local bodies, development partners ) *inter alia*:
  - The overall scope of Annual Quality Assurance Assessments (AQAA), including the extent to which the assessments will cover "aligned" programmes;
  - The methodology to be used in carrying out AQAA's;
  - The information that will need to be prepared by the DP Cell for AQAA;
  - The basis upon which AQAA will rate LGCDP progress across a range of dimensions;
  - The structure and format of AQAA reports.
  - Generic Terms of Reference for the consultancy team to carry out the AQAA;
  - Annual calendar for the AQAA and its input into LGCDP management processes.
- (v) Prepare a final report on quality assurance assessment with baseline data against the quality assurance indicators.

<sup>2</sup> It is acknowledged that major changes to the guidelines will make it impossible to assess the evolution of LGCDP quality over time, hence precaution should be taken against the major changes proposed.



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**4) DURATION OF ASSIGNMENT, DUTY STATION AND EXPECTED PLACES OF TRAVEL**

The assignment will take place between 9 March 2015 and 17 May 2015, for a maximum number of 40 days. The assignment will be based in Kathmandu and will include at least 7 days in other locations for field observations. Final report to be submitted from home location by 24<sup>th</sup> April 2015.

The consultant team will be expected to provide a total input of 40 working days for this assignment. The international consultant (team leader) is expected to provide only 25 working days for this assignment and the two national team members will provide all 40 days.

The consultant will be expected to submit:

- Inception report including interview schedule and field testing plan by week 2;
- Draft QA assessment report, including initial baseline findings from field testing based on the template provided in the QA operational guidelines;
- Final QA assessment report along with the final version of the QA Operational Guidelines by 7 May 2015, for submission to the LGCDP sub-NAC for approval.

**5) FINAL PRODUCTS**

- Quality Assurance Assessment report based on the template developed in the QA operational guidelines;
- Final version of Annual Quality Assurance Assessments (AQAA) guidelines for LGCDP II.

**6) PROVISION OF MONITORING AND PROGRESS CONTROLS**

DP Cell under the guidance of MOFALD shall monitor the progress of the consultancy, fulfilling the mandate to conduct and deliver on the final products. As the quality assurance obligation of the consultancy, DP Cell will be responsible for ensuring that the due quality is maintained through regular monitoring progress and review all the reports submitted by the consultant. Bi-weekly reviews will also be arranged with the National Programme Manager and/or National Programme Director at MoFALD.

DP Cell Coordination and Monitoring Specialist will be dedicated to coordinating the study in close collaboration with the MoFALD/ LGCDP NPM and senior management of MoFALD.



**National Programme Director  
LGCDP**

## Annex 2: Field visit schedule

### Programme of Eastern Development Region Field Visit Schedule, May 23-29, 2015

Date	Activities Planned	Time frame
23rd May 2015 Saturday	Fly to Jhapa from KTM (1st flight)	10.10 - 11.00
	Driving to Pachthar	
	Interaction with CAC Members at Nibuwakhola on the way, observe CIG project	11.30 - 18.00
	Night stay at Phidim	
24th May 2015 Sunday	Observe Infrastructure project funded by Municipality, Interaction with user Committee and Monitoring Committee	
	Travel to Phidim Municipality and interaction with WCF/IPFC members (New Municipality from 61 Mun)	7.30 - 10.30
	Interaction with Executive officer and other staffs at Municipality	
	Interaction with LSP/CSO representatives at Pachthar DDC	11.00 - 12.00
	Interaction with Political parties representatives and District	12.00 - 13.00
	Lunch at Phidim	13.00 - 14.00
	Interaction with District Supervision and Monitoring Committee at DDC	14.00 - 15.00
	Interaction with LDO and other DDC officials	
	Interaction with DTO officials at DTO office	15.00 - 17.30
	Interaction with DGE	
25th May 2015 Monday	Night stay at Phidim	18.00
	Move to Taplejung and lunch on the way	
	1. Interaction with WCF/IPC members of Bharpa/Nagi VDC at VDC office	
	2. Discussion with VDC secretary at VDC office	
	3. Observe Infrastructure project funded by DDC/VDC, Interaction with user Committee and Monitoring Committee	7.30 - 14.00
	Arrival at Taplejung	
	Interaction with LSP/CSO representatives	14.00 -15.00
	Interaction with Treasury Controller Office (DTCO) staff	
	Interaction with LDO and DDC officials at DDC office	15.00 -17.00
26th May 2015 Tuesday	Interaction with DTO officials at DTO office	
	Interaction with DGE and Night stay at Taplejung	
	Observe Infrastructure project funded by Taplejung Municipality Interaction with community	
	Interaction with Municipality officials-Taplejung Municipality	7.00 - 12.00
27th May 2015 Wednesday	Interaction with SMs at DDC	
	Return Back to Ilam, lunch on the way, and Night stay at Ilam	12.00 - 18.00
	Move to Jhapa and arrival at Jhapa, observe training programme at RDTC	
	Jhapa on the way interaction with VDC secretary/SM of Kolbung VDC Ilam district	7.30 - 11.30
	Interaction with RDTC staffs Kalbalgudi Jhapa	
	Lunch at Jhapa	11.30-12.30
28th May 2015 Thursday	Interaction with LDO and DDC officials at DDC	12.30-14.00
	Interaction with DTO, and Lab observation	14.00-15.30
	Move to Biratnagar, Interaction with RCU staffs and nightstay	15.30-19.30
	Travel to Saptari	7.00 - 9.30
	Observe infrastructure project funded by Rajbiraj Municipality + interaction with CAC members (Team will be split in two group)	9.30 - 11.00
	Interaction with EO and Municipality officials at Rajbiraj Municipality	11.00 -12.30
	Lunch at Rajbiraj	13.00-14.00
29th May 2015 Friday	Interaction with LDO and DDC/ DTO staffs at DDC and observation of Lab	14.00-15.30
	Interaction with DGE/UGE at DDC	15.30 -16.00
	Night stay at Saptari	16.00-18.30
	Interaction with CAC Members/social mobilizer (VDC to be confirmed)	
	Interaction with WCF/ IPC members at VDC (VDC to be confirmed)	7.30 - 11.30
	Return back to Biratnagar, Lunch on the way	11.30-14.30
	Fly to KTM	15.45

### Programme of Mid-West Development Region Field Visit Schedule, June 2- 5, 2015

Date	Time	Activity
<b>June 2, 2015</b>	8.30-9:30	Fly to Kathmandu to Nepalgunj
	9:30-10:30	Nepalgunj airport to LGCDP RCU, Nepalgunj
	10:45-12:00	Meeting with RCU team
	12:00-13:00	Lunch
	13:00-14:00	Drive from Nepalgunj to Bardiya
	14:00-15:00	Meeting with LDO, planning officer, social development officer, account officer and others key staffs of DDC at DDC Bardiya
	15:00-16:00	Meeting with WCF members in Mohammadpur VDC including political parties at DDC Bardiya
	16:00-17:30	Meeting with DGE/UGE, representative of selected CSO(New Nepal) and LSP(Dalit Sarokar Munch)
<b>June 3, 2015</b>	7:30-8:00	Travel from Gulariya to Dhadawar VDC
	8:30-9:30	Observe infrastructure projects (dondra nala ward no 9, Birthing center – ward no 4) and discuss with representative of users committee, beneficiaries, sub-engineer at Dhadawar VDC
	8:30-9:30	Meeting with WCF and CAC at ward no 6 of Dhadawar VDC
	9:30-10:30	Meeting with VDC secretary, other VDC's staffs and social mobilizer in Dhadawar VDC, Bardiya
	10:30-11:00	Travel to Bansgadhi Municipality (New, 61)
	11:00-12:00	Meeting with EO and other staffs of Bansgadhi Municipality.
	12:00-13:00	Lunch Break(preferably at Dhakeri)
	13:00-18:00	Travel to Pyuthan, Bijuwar
<b>June 4, 2015</b>	7:30-9:00	Travel from Bijuwar to Okharkot VDC
	9:00-10:30	Observe infrastructure projects of ward no- 9, and discuss with representative of users committee, beneficiaries, sub-engineer and same ward WCF members of Okharkot VDC
	10:30-11:30	Meeting with CAC members and WCF members in Narikot VDC of Pyuthan.
	11:30-12:00	Meeting with VDC secretary and account assistant and social mobilizer at Narikot VDC
	12:00-13:00	Lunch Break
	13:00-14:30	Travel to Pyuthan Khalanga
	15:00-16:30	Meeting with LDO, planning officer, social development officer, account officer and others key staffs of DDC at DDC Pyuthan
	16:30-17:00	Meeting and discuss with district treasury controller office at Pyuthan
	17:00-18:00	Meeting with Pyuthan Municipality EO
<b>June 5, 2015</b>	8:00-9:30	Meeting with IPFC members including political parties at DDC Pyuthan
	9:00-10:00	Meeting 1 <sup>st</sup> - with CSO (Mallarani) and LSP (Sakriya youth Club ) , Meeting 2 <sup>nd</sup> – With 4 SM coordinator and 7 social mobilizers
	10:00-15:00	Travel for Nepalgunj (Launch on the way at Baddanda )
	17:00-18:00	Return to KTM

### Annex 3: Central level interactions

Date	Name	Organisation / Role
15 <sup>th</sup> April	Mr. Purusottam Nepal Dr. Purusottam Paudel Mr. Anil Chandrika Dr. Raghu Shrestha	MoFALD/NPM LGCDP LGCDP/RBM Specialist DP Cell/Coordinator DP Cell/Monitoring & programming
16 <sup>th</sup> April	Ms. Laura Leyser Mr. Jean-François Cuénod Ms. Sangita Yadav Mr. Anil Chandrika	DFID/Donor focal person on LGCDP SDC/Donor co-focal person on LGCDP SDC/Programme officer DP Cell/Coordinator
16 <sup>th</sup> April	Mr. Yam Nath Sharma Ms. Pragya Bashyal Ms. Pragyan Joshi Dr. Raghu Shrestha	UNDP/Assistant Country Director UNDP/Programme Officer UNCDF/Programme Officer DP Cell/Monitoring & programming
20 <sup>th</sup> April	Mr. Saroj Nepal Mr. Anil Chandrika	Embassy of Denmark/Output 2 DP lead DP Cell/Coordinator
21 <sup>st</sup> April	Mr. Sid Vikram Ms. Laura Leyser Ms. Pragyan Joshi Mr. Mark o'Donnell Mr. Bruce Pollock Mr. Parakram Sharma Mr. Anil Chandrika	ADB/Output 4 DP lead DFID/ output 4 DP co-lead UNCDF/ output 3 DP co-lead PFMA/ Project Manager SPMP/ Project Manager SPMP/ Assistant Project Manager DP Cell/Coordinator
21 <sup>st</sup> April	Mr. Bishnu Adhikari Ms. Pragyan Joshi	DFID/Output 6 DP lead UNCDF/ output 3 DP co-lead
22 <sup>nd</sup> April	Ms. Anjali Pradan	UNICEF/Output 7 DP lead
22 <sup>nd</sup> April	Ms. Sita Pariyar Mr. Narahari Sharma Mr. Santosh Sharma Mr. Birendra Parajuli Dr. Purushottam Poudel Dr. Raghu Shrestha	MoFALD/Output Manager for Output 1 MoFALD/Output Manager for Output 2 PCU/ Social Mobilisation Specialist PCU/ Accountability Specialist PCU/ RBM Specialist DP Cell/Monitoring & programming
22 <sup>nd</sup> April	Mr. Ishor Raj Paudel Mr. Chhabi Rijal Ms. Nirmala Thapa Mr. Ek Raj Sigdel Mr. Niyam Maharjan Dr. Purushottam Paudel Dr. Raghu Shrestha	MoFALD/Output Manager for Output 6 MoFALD/Output Manager for Output 7 PCU /GESI Specialist PCU /Environment Specialist PCU/ Infrastructure Specialist PCU /RBM Specialist DP Cell/Monitoring & programming
23 <sup>rd</sup> April	Ms. Pragya Bashyal Mr. Paul Degenkolbe	UNDP/ Output 5 DP lead GIZ/ Output 5 DP co-lead
23 <sup>rd</sup> April	Mr. Bishnu Regmi Mr. Subash Siwakoti Mr. Mahesh Pokharel Mr. Hem Raj Lamichhane Dr. Purushottam Paudel	MoFALD/Output Manager for Output 3 MoFALD/Output Manager for Output 4 PCU/ Procurement Specialist PCU/ Fiscal Decentralisation Specialist PCU/ RBM Specialist
23 <sup>rd</sup> April	Mr. Ramesh Neupane Mr. Raj Kumar Dhungana	MoFALD/Output Manager for Output 5 PCU/ Capacity Development Specialist
23 <sup>rd</sup> April	Mr. Ramesh KC Mr. Mahesh Timsina	MoFALD/Output Manager for Output 8 MoFALD/Output Manager for Output 9
24 <sup>th</sup> April	Mr. Yam Nath Sharma Mr. Anil Chandrika	UNDP/Output 8&9 DP lead DP Cell/Coordinator

<b>Date</b>	<b>Name</b>	<b>Organisation / Role</b>
7th May	Mr. Bishnu Sapkota Mr. Jaya K. Shrestha Mr. Binay Kumar Kafly Mr. Krishna Chandra Dhakal Dr. Raghu Shrestha	LDTA /Executive Director LDTA /Director LDTA /Director LDTA /Deputy Director/NSP unit head, DP Cell/Monitoring & programming
11th May	Mr. Saroj Nepal	Danish Embassy/ Representative
12th May	Mr. Bhola Dahal	Norwegian Embassy/ Representative
18th May	Ms. Laura Leyser Mr. Bishnu Adikari Mr. Gobinda Neupane Dr. Raghu Shrestha	DFID / LGCDP Lead DFID/ Representative DFID/ Representative DP Cell/Monitoring & programming
18th May	Mr. Jean-Francois Cuenod Ms. Sangita Yadav	SDC / LGCDP Lead SDC/ Representative
19th May	Mr. Bijay Thapa Mr. Tirtha Man Tamang Mr. Durga Khatiwada Ms. Dovan Lawati Dr. Raghu Shrestha	UNFPA/LGCDP Lead UNFPA/ Representative UN Women/LGCDP Lead UNICEF/ Representative DP Cell/Monitoring & programming
8th June	Mr. Reshmi Pandey Mr. Purusottam Nepal Dr. Raghu Shrestha	MoFALD/National Programme Director MoFALD/National Programme Manager DP Cell/Monitoring & programming



## Annex 4: JFA commitments

Type of commitment	JFA paragraph no.	Commitment	Commitment made by:
Finance and financial management	10c	Preparation of financial statements within 45 days of completion of each trimester/FY, showing all sources of funding, with sufficient breakdown of data to permit identification of individual sources of funds and disbursements on budget heads of LGCDP II.	GoN/MoFALD
	10d	Keep accounts for LGCDP II in accordance with accounting standards and GoN procedures.	GoN/MoFALD
	10g	Channel financial resources to local bodies on a timely basis as specified in the ASIP.	GoN/MoFALD
	11a	Ensure predictability of funding and timely disbursements of funds in accordance with the JFA and bilateral agreements.	JFADPs
	32	<ul style="list-style-type: none"> <li>Pre-finance LGCDP II activities and for reimbursement of DPs share of actual expenditure will make withdrawals from the FCA in December and July following the NAC review and approval.</li> <li>Communicate to the JFADP Focal Point with regard to the withdrawals from FCA into the Consolidated Fund and the need for replenishment of the FCA.</li> </ul>	GoN/MoFALD  GoN/MoFALD
	36	<ul style="list-style-type: none"> <li>Inform LGCDP II PCU after disbursing contributions to the FCA.</li> <li>Acknowledge receipt of foreign currency funds stating the date of receipt, the DP and the applied exchange rate, in writing within one week, to the JFADP Focal Point.</li> </ul>	JFADP Focal Point GoN/MoFALD
	41	<ul style="list-style-type: none"> <li>Conduct a full fiduciary risk assessment (FRA) in 2014 and 2017 and an annual assessment of progress on fiduciary risk in the years between.</li> <li>JFADPs will bear the cost of these assessments over and above their respective grants.</li> </ul>	GoN/MoFALD JFADPs
Audit	47	The Office of the Auditor General of Nepal (OAGN) shall carry out the audit of LGCDP II on a timely basis (as specified by prevailing GoN laws and regulations)	GoN
Procurement	38	<ul style="list-style-type: none"> <li>All procurement will be performed in accordance with GoN laws and regulations.</li> <li>Preparation of annual LGCDP PCU procurement plan.</li> </ul>	GoN/MoFALD

Type of commitment	JFA paragraph no.	Commitment	Commitment made by:
	39	Preparation of annual Procurement Monitoring Report.	GoN/MoFALD
NAC and other programme oversight issues	18	Hold biannual reviews which will culminate in the National Advisory Committee (NAC) Meetings in November and May each year.	GoN/MoFALD
	19	Present the following reports to JFADPs at least 14 days in advance for review prior to the May NAC bi-annual reviews:  a. ASIP including Annual Work Plan and Budget (AWPB) for the next FY b. Annual Procurement Plan for the next FY c. Annual Monitoring and Evaluation Plan (AMEP) d. Cash Forecasting Statement for the next FY e. Bi-annual progress update on PRM f. Audited annual FMR including the audit report of the previous FY	GoN/MoFALD
	21	November NAC meeting:  • An annual review meeting to discuss overall progress of the previous FY based on the following reports: a. Annual consolidated progress report on achievement of ASIP b. Bi-annual progress update on PRM c. Annual unaudited FMR d. Cash Forecasting Statement for the coming period e. Annual Procurement Monitoring Report f. Annual Monitoring and Evaluation Report.  • Confirm funding commitments for the following FY.	GoN/MoFALD  JFADPs
	27	Invite the JFADPs to quarterly Sub-NAC Meetings.	GoN/MoFALD
	28	Invite the JFADPs to Trimester Fiduciary Risk Mitigation Meetings.	GoN/MoFALD
	45	Organize joint monitoring field visits in each trimester.	GoN/MoFALD
	16	Designate, on a rotation basis, one of the JFADPs as a Focal Point and co-focal point	JFADPs

Type of commitment	JFA paragraph no.	Commitment	Commitment made by:
		for communication and information sharing with GoN on matters concerning the implementation of JFA.	
Reporting	22	Other reports to be made available to JFADPs: <ul style="list-style-type: none"> <li>a. Trimester Financial Monitoring Reports (FMRs), within 45 days of the completion of each trimester</li> <li>b. Trimester PEFA-FRAAP progress report (prior to the trimester fiduciary risk meetings)</li> <li>c. Two Public Expenditure Tracking Surveys (PETS) and local level PEFA assessment report.</li> </ul>	GoN/MoFALD
	24 & 25	NAC aide-memoires: <ul style="list-style-type: none"> <li>• Outcome of NAC meetings will be presented in a joint aide-memoire. The draft of the aide-memoire will be prepared by a joint team within seven calendar days of the meetings and circulated to all stakeholders for comments.</li> <li>• Joint Aide Memoire to be finalized based on the comments of the other stakeholders within 14 calendar days after the meeting.</li> </ul>	GoN/MoFALD JFADPs

## Annex 5: Policy Commitments

Thematic area	GoN/MoFALD commitment	Page reference
Participation & accountability	Strengthening IPFC mandate in planning, oversight and monitoring	10
	Strengthening capacity of WCFs	10
	Expanding the scope of and strengthening LGAF	10
LB performance incentives	Modification of MC/PM system to include LB resource mobilisation activities	12
	Expansion of MC/PM system to all regular GoN grants to local bodies	13
Fund release	Ensuring timely release of budget funds to DDCs and VDCs	13
Fiduciary risk and transparency	Application of a zero-tolerance policy towards misuse and abuse of entrusted powers at all levels	15
	Ensuring full public disclosure of all financial information at all levels	15

## Annex 6: ASIP timeline

The following table summarises the sequence of steps to be followed in the annual planning process for LGCDP II as detailed in the Strategic Implementation Plan. Rows coloured in grey refer to generic steps in the Government's overall annual planning and budgeting process; other rows refer to steps that are specific to LGCDP II's strategic planning process.

Step in GoN process	Description	Deadline
1	NPC provides directives, guidelines and budget ceiling to Ministries	2 <sup>nd</sup> week of November
2	Ministries forward directives, guidelines and budget ceiling to concern Department, Local Bodies and Line agencies	3 <sup>rd</sup> week of November
	Sub-NAC set up joint taskforce to prepare Annual Strategic Implementation Plan (ASIP) for next fiscal year	2 <sup>nd</sup> week of January
	Taskforce propose activities and review with all relevant stakeholders for each output group	2 <sup>nd</sup> week of February
4	Ministry level formulation of annual plan	3 <sup>rd</sup> week of February
	Presentation of consolidated ASIP to LGCDP stakeholders	3 <sup>rd</sup> week of February
	Taskforce incorporate feedback and finalize ASIP	4 <sup>th</sup> week of February
	ASIP endorsed by sub-NAC	1 <sup>st</sup> week of March
5	Ministry submit annual plan to NPC	2 <sup>nd</sup> March
7	NPC organize meeting to discuss annual plan submitted by Ministries ( participants are officials of concern Ministry and MoF)	1 <sup>st</sup> week of April
	NAC approved ASIP	2 <sup>nd</sup> week of April
10	MoF prepare national budget (draft)	3 <sup>rd</sup> week of May
12	NPC approve national annual budget ( National Development Council)	4 <sup>th</sup> week of May
13	Cabinet approve national annual budget	4 <sup>th</sup> week of May
15	Parliament approve the national annual budget	15 July
	Amendments required during the year are approved by sub-NAC	Bi-monthly updates