



LOCAL GOVERNANCE AND COMMUNITY DEVELOPMENT PROGRAMME (LGCDP II)

Programme Document

FY 2013/014 - 2016/017

Government of Nepal
Ministry of Federal Affairs and Local Development
Singhadurbar, Kathmandu

23 AUGUST 2013

ABBREVIATIONS

ADB	Asian Development Bank
ASIP	Annual Strategic Implementation Plan
JFTA	Joint Funding for Technical Assistance
CA	Constituent Assembly
CAC	Citizens' Awareness Centre
CCT	Climate Change Technology
CCU	Cluster Coordination Unit
CD	Capacity Development
CEDAW	Convention on Elimination of Discrimination Against Women
CFA	Child Friendly Activities
CFLG	Child Friendly Local Governance
CFLGC	Child Friendly Local Governance Committee
CIAA	Central Investigation of Abuse Authority
CoC	Code of Conduct
CRC	Convention on Rights of Children
CSO	Civil Society Organization
CSP	Community Support Programme (DFID)
DACAW	Decentralized Action for Children and Women Program
DAG	Disadvantaged Group
DDC	District Development Committee
DDF	District Development Fund
DDP	District Development Plan
Dfid	Department for International Development (UK)
DG	Director General
DIMC	Decentralization Implementation and Monitoring Committee
DoLIDAR	Department of Local Infrastructure Development and Agricultural Roads
DoWCD	Department of Women and Child Development
DP	Development Partner
DPMAS	District Poverty Monitoring and Analysis System
DRM	Disaster Risk Management
DSMC	District Social Mobilization Committee
DTCO	District Treasury Comptroller's Office
DTMP	District Transportation Management Plan
DTO	District Technical Office
EBG	Expanded Block Grant
EFA	Environmentally Friendly Activities
EFLD/G	Environmentally Friendly Local Development/Government
EO	Executive Officer (Municipalities)
FCA	Foreign Currency Account
FCGO	Financial Comptroller General Office
FRRAP	Fiduciary Risk Reduction Action Plan
FY	Financial Year
GDP	Gross Domestic Product
GESI	Gender Equality and Social Inclusion

GGA	Good Governance Act (2004)
GON	Government Of Nepal
GIZ	German Society for Technical Cooperation
GRBA	Gender Responsive Budgeting and Auditing
HDI	Human Development Index
HRD	Human Resource Development
ICPD	International Conference on Population and Development
IEC	Information, Education and Communication
INGO	International Non-Governmental Organization
IPC	Integrated Planning Committee
IPFC	Integrated Planning Formulation Committee
IT	Information Technology
JD	Job Description
JFA	Joint Financing Agreement
JICA	Japan International Cooperation Agency
LA	Line Agency
LB	Local Body (Refers To All Levels Of Local Government)
LBA	Local Body Association
LBFAR	Local Body Financial Administration Regulations
LBFC	Local Bodies Fiscal Commission
LDTA	Local Development Training Academy
LED	Local Economic Development
LG	Local Government
LGAF	Local Governance Accountability Facility
LGCDP	Local Governance And Community Development Programme
LIP	Livelihood Improvement Programme
LPP	Local Periodic Plan (M/V/DPP)
LSGA	Local Self Governance Act 2056 (1999)
LSP	Local Service Provider
M&E	Monitoring and Evaluation
MAAS	Municipal Accrual Accounting System
MARS	Municipal Administration and Revenue System
MCPM	Minimum Conditions and Performance Measures
MDF	Municipal Development Fund
MDG	Millennium Development Goals
MDP	Municipal Development Plan
MFI	Microfinance Institution
MLD	Ministry of Local Development
MoF	Ministry of Finance
MoFALD	Ministry of Federal Affairs And Local Development
MOGA	Ministry of General Administration
MOHA	Ministry of Home Affairs
MOWCSW	Ministry of Women, Children and Social Welfare
MSMC	Municipal Social Mobilization Committee
NAC	National Advisory Committee
NACS	NAC sub-committee
NGO	Non-Governmental Organization
NIM	National Implementation Modality
NLSS	Nepal Living Standards Survey

NPC	National Planning Commission
NPD	National Programme Director
NPPR	Nepal Portfolio Performance Review
NVC	National Vigilance Centre
O&M	Operation & Maintenance
OAG	Office of the Auditor General
OPMCM	Office of the Prime Minister and Council of Ministers
PAA	Programme Alignment Approach
PAF	Poverty Alleviation Fund
PBGS	Performance Based Grant System
PCC	Policy Coordination Committee
PCU	Programme Coordination Unit
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PFMA	Public Financial Management and Accountability
PPMO	Public Procurement Monitoring Office
PPP	Participatory Planning Process
PPSF	Policy and Programme Support Facility
PRF	Programme Recruitment Facility
QA	Quality Assurance
RBM	Results Based Management
RCU	Regional Cluster Unit
RTI	Right To Information
SDC	Swiss Development Cooperation
SDO	Social Development Officer
SM	Social Mobilisation
SPMP	Strengthening Public Management Program (ADB)
SWAp	Sector Wide Approach
TA	Technical Assistance
TARF	Technical Assistance Recruitment Facility
TASC	Technical Assistance Sub-Committee
TYP	Three Year Plan
UG/C	User Group / Committee
UN Women	United Nations Development Fund for Women
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USAID	US Agency for International Development
UNSCR	United Nations Security Council Resolution
UNV	United Nations Volunteers
VDC	Village Development Committee
VDF	Village Development Fund
VDP	Village Development Plan
WCF	Ward Citizen Forum

TABLE OF CONTENTS

Programme Summary

Chapter 1: Situational Analysis	1
1.1 Background	1
1.2 Social, Political and Economic Context	1
1.2.1 Social Context	1
1.2.2 Political Context	2
1.2.3 Economic Context	2
1.3 Institutional, Legislative and Policy Context	2
1.3.1 Institutional Context	2
1.3.2 Implementation of Local Self-Governance Act and Good Governance Act	3
1.3.3 LGCDP Alignment with the GoN's National Plans and International Conventions	3
Chapter 2: Evolution of LGCDP	5
2.1 LGCDP First Phase	5
2.1.1 Introduction	5
2.1.2 LGCDP First Phase Programme Outcomes	5
2.1.3 LGCDP I Activities and Related Achievements	5
2.2 Lessons and Opportunities of LGCDP I	8
Chapter 3: Programme Description	11
3.1 Rationale for LGCDP II Programme	11
3.2 New Directions, Strategies and Principles for LGCDP II	12
3.2.1 New Directions	12
3.2.2 Key Principles of LGCDP II	16
3.3 Goal, Purpose, Outcomes, Outputs and Indicative Activities	19
3.3.1 Goal	20
3.3.2 Purpose	20
3.3.3 Outcomes, Outputs and Indicative Activities	20
3.3.4 Cross Cutting Areas	29
Chapter 4: Programme Management	31
4.1 LGCDP's Stakeholders	31
4.1.1 Central Level Stakeholders	31
4.1.2 Local Level Stakeholders	32
4.2 National Level Programme Management	33
4.3 Programme Management at the Local Level	36
4.4 Programme Monitoring, Reporting and Evaluation	36
4.4.1 Programme Monitoring and Reporting	36
4.4.2 Programme Evaluation	37
4.4.3 Programme Reporting	37
4.5 Assumptions, Risks and their Mitigation	38
4.5.1 Assumptions	38
4.5.2 Risks and Mitigation Strategies	38

Chapter 5: Programme Financing **41**

5.1	Programme Budget	41
5.2	Funding Arrangements for Government & Development Partners	43
5.3	Fund Flow	43
5.4	Financial Management	43
5.5	Local Level Planning and Budget Processes	44
5.6	Sector Wide Approach	44

List of Tables

Table 1: LGCDP II Log Frame	26
Table 2: Management Arrangement at the Centre	35
Table 3: Funding Commitments	41
Table 4: LGCDP II Programme Budget	42

List of Annexes

Annex 1: LGCDP II Logical Framework	47
Annex 2: Risk Management	52
Annex 3: Funding Arrangement for Development Partners	54
Annex 4: Fund Flow Mechanism	55
Annex 5: Participatory Planning Process	56
Annex 6: Budget Allocation System and Modality of District Plan	57
Annex 7: Indicative Staffing Requirements for PCU and RCU	58
Annex 8: Programme Management Structure of LGCDP	60
Annex 9: Indicative Sub-Activities of LGCDP II	61
Annex 10: Strategic Approach of LGCDP II	72

PROGRAMME SUMMARY

Programme Period	16 July 2013 - 15 July 2017
Executing Agency	Ministry of Federal Affairs and Local Development
Implementing Agencies	<ul style="list-style-type: none"> ▪ Local Bodies ▪ Local Offices of Sectoral Ministries
Supporting Agencies	<ul style="list-style-type: none"> ▪ Sectoral Ministries ▪ Non-Government Organizations ▪ Civil Society Organizations ▪ Private Sector Organizations
Geographic Coverage	75 Districts, 58 Municipalities and 3,915 Village Development Committees
Development Partners	<ul style="list-style-type: none"> ▪ Multilateral Development Agencies: ADB, World Bank, European Union ▪ Bilateral Development Agencies: DfID, Government of Denmark, GIZ, JICA, Government of Norway, SDC, USAID, ▪ UN Agencies: UNCDF, UNICEF, UNDP, UNFPA, UN Women, UNV,
Financial Contribution	<ul style="list-style-type: none"> ▪ Government of Nepal : US\$ 1126 million ▪ Development Partners : US\$ 236 million ▪ Total : US\$ 1362 million
Financing Modality	<ul style="list-style-type: none"> ▪ Joint Financing Arrangement (JFA) : US\$ 194.9 million ▪ Joint Funding for Technical Assistance (JFTA) : US\$ 13.5 million ▪ Programme Alignment Arrangement (PAA) : US\$ 26.1 million
Programme Components	<ul style="list-style-type: none"> ▪ Policy: Governance Reform ▪ Supply: Service Delivery and Capacity Development ▪ Demand: Citizens Empowerment ▪ Local Development: Socio-Economic and Infrastructure Development
Programme Goal	To contribute towards poverty reduction through better local governance and community development
Programme Purpose	To improve local governance for effective service delivery and citizen empowerment
Programme Outcomes	<ol style="list-style-type: none"> 1. Citizens and communities hold their local governance actors accountable. 2. Local Bodies are more responsive to citizen's demand. 3. All citizens are provided with efficient and effective local services.

4. Strengthened policy and institutional framework for devolution, sub-national governance and local service delivery

Programme Outputs

1. Citizens and community organizations are empowered to actively participate and assert their rights in local governance.
2. Accountability mechanism for local governance are in place.
3. LBs' access to resources increased
4. Public financial management system improved
5. Institutional and human resource capacities of LBs and central agencies involved in local governance strengthened
6. Access to and quality of local infrastructure and other socio-economic services administered by LBs are improved.
7. Strengthened integrated planning, budgeting, monitoring and evaluation and coordination amongst local governance actors
8. Refined policy on local governance and improved inter-agency cooperation
9. Policies developed for devolution and federalism

Sectors of Investment

(1) Local Government Restructuring (2) Federal Governance (3) Fiscal Decentralization (4) Fiduciary Risks Reduction (5) Results Based Management (6) Capacity Development (7) Social Mobilization (8) Child Friendly Local Governance (9) Gender Equality and Social Inclusion (10) Information, Education and Communication (11) Local Governance and Accountability Facility (12) Environmentally Friendly Local Governance (13) Vital Registration (14) Community Mediation (15) Social Security (16) Local Community Infrastructure Development (17) Social Development (18) Local Economic Development (19) Livelihood Improvement Schemes (20) Research and Development (21) Public Financial Management (22) Rural energy, climate resilience and disaster management

Situational Analysis

1.1 Background

The Government of Nepal (GoN) is committed to improving people's standards of living through citizen-centric governance and effective service delivery based on democratic values and rights-based development. It has achieved considerable success in implementing the first phase of the Local Governance and Community Development Programme (LGCDP), a national flagship programme in the area of local governance and community development. Given the success that has been achieved in the implementation of LGCDP I, the importance of this programme in ensuring the accountable delivery of local services through established institutions and systems and the commitments being expressed for its continuation, the GoN and the LGCDP development partners (DPs) have decided to continue the programme into a second phase. In doing so, they will strive to build on Phase I successes while addressing its emerging challenges, demonstrating value for money and practicing effective risk management in a transitional and politically uncertain environment.

1.2 Social, Political and Economic Context

Development programmes are affected by the social, political and economic contexts within which they operate. Examining the context for LGCDP implementation is critical to its success because very large and complex programmes of this sort are often more vulnerable to contextual

forces than are smaller, straightforward and location-specific micro projects. The second phase of LGCDP is being formulated in a relatively different social, political and economic context than prevailed when its first phase was being conceptualized.

1.2.1 Social Context

Nepal is a landlocked country with diverse ecology and culture. Half of its 26.6 million people live in the low-lying southern Terai plains while 43 per cent live in the middle hills and 7 per cent live in the northern mountains. The country has 125 caste and ethnic groups speaking 123 languages. Caste, ethnicity, language and religion remain the major sources of cultural identity. The country is struggling hard to reduce, if not eliminate, the gender-based, caste-based, ethnicity-based and spatial exclusions created by socio-economic and geo-political structures. For instance, women and girls lag behind men and boys because of disparities in education, lack of fair representation in decision making, low access to employment opportunities, limited access to and utilization of essential health care services and a high vulnerability to gender-based violence.

Two statistics from the 2011 census are illustrative of the gender gap that still exists in the country. The country's male literacy rate is 75.1% while the female literacy rate is only 57.4%, 17.7% lower. Although 25.7% of Nepali households are headed by women, only 18% of rural households reported female ownership of fixed assets. The 2011 census also reported that one in every four households has at least one member of the family

absent or living outside the country. Nepal's population is characterized as young with about 35% of its population being under 14 years and youth aged 15 to 24 years constituting approximately 20% of the total population, the largest youth cohort in Nepal's history. Nepal has a unique opportunity to reap the potential benefits of this demographic dividend in the coming decades.

1.2.2 Political Context

Nepal is going through a complex and challenging political transition. The country's democracy is undergoing a historic change following the end of its decade long armed conflict in April 2006. Because the socio-economic and political issues which fuelled that conflict were complex and deep rooted in society, the post conflict transition has been equally difficult and protracted. The failure of a Constituent Assembly (CA) to approve a new constitution before the deadline of 27 May 2012 and its subsequent dissolution have prolonged the transition, resulting in increased political uncertainties. Now there is a call for a new CA election, but the date and modalities for it has not been agreed upon. The timing for elections at the local level is equally uncertain. A national consensus is yet to emerge regarding ways to resolve the present political deadlock. Despite these difficulties, the major political forces in the country are determined to restructure the state and bring about a socioeconomic transformation leading to sustainable equity, justice and prosperity in the country.

1.2.3 Economic Context

Nepal has been able to maintain its macroeconomic stability despite the protracted conflict but has lost the opportunity to maintain the high growth rate that it had achieved following the re-establishment of multi-party democracy in the 1990s. Economic growth was adversely affected by the 1996 -2006 armed conflict. Despite an improved political and economic environment since the peace process began in 2006, the present annual growth rate of around four per cent is insufficient to bring about a significant reduction in the level of poverty, which remains high with 25% of the people living below the poverty line in 2011. At the same time income disparities have been increasing. The Nepal 2010/11 Living Standards

Survey showed that 15.5% of the Nepali population living in urban areas were living below the poverty line while in the urban areas it was 27.4%. At the same time, Nepal is experiencing a serious increase in income disparity as measured by the Gini coefficient. According to the UNDP Human Development Report, in 1995/96 it stood at 0.34; in 2010/11 it was calculated to be 0.33. The 2011 Report also ranked Nepal 157th among 187 countries with a human development index (HDI) of only 0.458. Although this number showed a marked improvement over its 1980 index of 0.210, it is clear that concerted and sustained efforts will have to be made to raise the position of Nepal on the HDI scale to the median level.

1.3 Institutional, Legislative and Policy Context

LGCDP was designed to meet the growing expectations of people to access efficient and effective service delivery from the state apparatus and to engage in a meaningful way in local governance processes as per the letter and spirit of the 2007 Interim Constitution, the 1999 Local Self-Governance Act, the 2006 Good Governance Act, the 2007 Right to Information Act and national periodic plans. It also aims to assist the Ministry of Federal Affairs and Local Development (MoFALD) to introduce best practices in local governance in accordance with other relevant legislation and policies.

1.3.1 Institutional Context

The Ministry is moving from a focus on local governance and development to a broader set of responsibilities that will encompass whatever intermediate structures are to be established under the new constitution for national and sub-national governance. MoFALD will have to consider the implications of, and take a lead role with respect to, relations between government levels in the new constitution, including facilitating the necessary institutional changes and capacitating citizens to be able to engage with whatever structures are put in place. In its new role, MoFALD will provide support to sector line Ministries at central level in relation to the functions of federal and local governance and will act in partnership with national agencies including Ministry of General

Administration (on management audit), Financial Comptroller General's Office (on public financial management), Office of Auditor General (on audit), National Vigilance Centre (on accountability), Public Procurement Monitoring Office (on public procurement), National Planning Commission (on results-based management), Local Development Training Academy (on research, certification and capacity building), Local Body Fiscal Commission (performance based grants system) and Local Bodies' Associations (on capacity building for local politicians). Decentralization, Implementation and Monitoring Committee (DIMC), chaired by Prime Minister and Office of the Prime Minister and Council of Ministers (OPMCC) to provide overall guidance to devolution process and integrated planning process in order to ensure effective service delivery.

Local bodies, with the support of MoFALD and other sector line Ministries, will assume a stronger role in promoting local level coordination of all government service delivery activities in the areas of local infrastructure, education, health, and agriculture and livestock development. While community organizations such as Ward Citizen Forums (WCFs) and Citizen Awareness Centres (CACs) are still evolving, they have a very important role to play at the grassroots level under LGCDP guidelines for planning, oversight, coordination, monitoring and facilitation of all local level public services and developmental initiatives.

1.3.2 Implementation of Local Self-Governance Act and Good Governance Act

In the history of decentralization, Local Self-Governance Act (LSGA) was landmark legislation in the devolution of power and resources in that it established an important foundation for the provision of socially inclusive services to the citizenry through grassroots democracy. The Act not only makes arrangements for ensuring that LBs are ac-

countable to their citizens, but also dictates that citizens be involved in local democratic processes including integrated planning processes and public service delivery. The LSGA specifically highlights six policies and principles of good local governance: devolution, efficient and effective institutional support, own source revenue mobilization, good governance, strong local leadership and private sector involvement.

The Good Governance Act (GGA) formalizes this good governance intent by transforming the system's administrative structures into service providers and facilitators with responsibility for upholding the rule of law, promoting human rights, ensuring government accountability and encouraging financially prudent and corruption-free public administration.

1.3.3 LGCDP Alignment with GoN's National Plans and International Conventions

The design of LGCDP is aligned with national development plans of Nepal which have poverty alleviation, inclusive growth, social transformation, sustainable peace and good governance as their major objectives along with an emphasis on devolution, decentralization and development of local governance.

LGCDP also seeks to make a contribution to the achievement of the goals and objectives of a number of major international conventions and developmental agreements such as those set out in the Convention on Rights of the Child (CRC), Convention on Elimination of Discrimination Against Women (CEDAW), International Conference on Population and Development (ICPD), various environment and climate change conventions, Millennium Development Goals (MDGs), five principles set out in Paris Declaration on Aid Effectiveness, Accra Agenda for Action and Bushan Partnership for Effective Development Co-operation.

Evolution of LGCDP

2.1 LGCDP First Phase

2.1.1 Introduction

Implemented from 16 July 2008, the LGCDP is a national programme of the Government of Nepal on local governance and community development. The programme is being financed jointly by the Government of Nepal and 13 development partners (DPs) under different financing arrangements. The overarching goal of LGCDP is to contribute towards poverty reduction through inclusive, responsible and accountable local governance and participatory community-led development. Providing quick peace dividends through effective delivery of services, building sustainable systems and mechanisms for local governance through capacity development and policy reform initiatives, and empowerment of citizens by adopting a transformative approach to governance were the key pillars of LGCDP I. The programme has been successful in establishing the foundation for citizen empowerment and service delivery. However, there have been mixed results in internalizing these reforms and institutionalizing these newly created structures due to the transitional governance and political anomalies prevailing in the country during the implementation period.

2.1.2 LGCDP First Phase Programme Outcomes

The Focused Evaluation conducted in September 2012 states that the extent to which citizens have become actively engaged and able to hold local government to account has seen modest progress. As well, it found that much of the new social infrastructure that is needed to enable this to hap-

pen has been successfully put into place. Significant effort was made during LGCDP I to prepare the foundations and structures for future local governance reforms. Hence, much can be expected from the second phase of the programme. In particular it should be noted that the extent to which women, children and disadvantaged groups (DAG) have been included in governance processes has been greatly enhanced by the establishment of community institutions like Citizen Awareness Centres (CACs) and Ward Citizens' Forums (WCFs). The Blended Block Grant Guidelines introduced by MoFALD during LGCDP I mandated 35% of the united capital budget of the local bodies (LB) to be directed to these groups, which had not previously been explicit beneficiaries.

The Focused Evaluation also noted that there has been a significant change over the life of LGCDP I in the capacity of local governments to manage resources and deliver services in an inclusive and equitable fashion. At the same time, it was able to document that there has been a significant increase in access to resources by local governments as a result of LGCDP I activities.

2.1.3 LGCDP I Activities and Related Achievements

LGCDP I activities were planned to achieve three overarching outcomes related to citizen empowerment, local government operations and local government policy making and execution. Together they aimed to strengthen the demand and supply sides of local governance by empowering citizens to actively engage with local government bodies and to increase the capacity of the gov-

ernment to deliver basic public services through a devolved system of local government.

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

More specifically, LGCDP I has: (i) involved more than 770,000 citizens in WCFs in 3,817 VDCs and 387 Municipal wards in local level planning processes using 741 local service providers to facilitate that engagement; (ii) implemented a GESI strategy to ensure that the social mobilization process was inclusive of women, children and DAGs; (iii) established a Local Governance Accountability Facility for promoting downward accountability in the local governance system; (iv) increased the level of unconditional capital grant funding to LBs three-fold; (v) developed and implemented a system of performance-based intergovernmental fiscal transfer system known as the minimum conditions and performance measures (MCPM) system; and, (vi) implemented a system of capacity development grants to LBs that allows them to manage their own capacity development agendas. These achievements are discussed in detail below.

Demand Side Activities

On the demand side, the LGCDP has followed a transformative approach to social mobilization which uses local service providers to organize

communities into Ward Citizens' Forums and Citizen Awareness Centres in order to engage citizens in local governance processes and to ensure that the country's most disadvantaged groups are informed about their rights and that their demands are included in LB planning processes. By 2011/12 WCFs were functioning in 97.5% of all wards and in 85% of all municipalities nation-wide. 45% of the membership of these bodies were women¹. 35% of WCF members had participated in VDC or Municipality council meetings. In that single year over 33,000 WCFs proposed 106,280 community infrastructure projects, of which 36,900 were approved. By that same year, 4,082 CACs had been formed, involving nearly 110,000 persons, of whom 73% were women.

Concurrently, the Local Governance Accountability Facility (LGAF) established under the LGCDP had contracted 75 civil society organizations to conduct expenditure reviews, expenditure tracking exercises and public hearings of local bodies for holding them to account. On another front, the LGCDP's gender equality and social inclusion programme has piloted a project to train men and women citizens, a cross-section of local body secretaries, line agency officials, gender equality watch group members, women members of NGO, and members and social service providers in 10 districts in the GESI mainstreaming of planning processes and in GESI responsive budgeting and auditing.

Supply Side Activities

On the supply side of local governance, the LGCDP has organized local body staff orientation and training programmes in the areas accounting and financial management, poverty monitoring and analysis and child friendly local governance and information and education and communication messaging. Using their own capacity development grants, District Development Committees (DDCs) and municipalities have installed computer software related to bookkeeping, vital registration and social security programming and organized various training programmes on policy guidelines, local level planning, accounting and financial management, leadership development and GESI and CFLG strategy implementation.

¹ Source for results enumerated in this section is the LGCDP Annual Progress Report: 2011/12, MoFALD, November 2012

Up to the end of 2011/12, a total of 58,073 community infrastructure projects worth Rs 13.28 billion had been provided to citizens by local bodies from blended unconditional and top-up grants of which 39.6% were road projects, 13.0% were education sector projects, 11.1% were clean drinking water projects and 36.3% were social sector projects (health, economic activities, environment, irrigation, etc.). Over 152,000 households are now benefiting from the irrigation of 19,109 hectares of land.

Programming guidelines that were prepared early in the programme are now being reviewed and updated and MoFALD is in the process of introducing a results-based management system in the local bodies.

The MCPM assessment was introduced in municipalities while MC assessment was introduced in VDCs. The MCPM manual of DDC has been revised. The programme's performance based grants system has now been rolled out in all the local bodies. In 2011/12, 85% of DDCs, 87% of VDCs and 91% of municipalities were in compliance with its minimum conditions and had received a top-up grant.

In terms of public financial management and fiduciary risk management, auditing guidelines that prescribe standard methods for carrying out audits and preparing audit reports have recently been prepared. In 2011/12, the Office of the Auditor General (OAG) conducted performance audits in 5 districts, covering 70 VDCs and 4 municipalities. The OAG report made 36 observations requiring attention. MoFALD has also prepared a Public Expenditure and Financial Accountability and Fiduciary Risk Reduction Action Plan (PEFA-FRRAP) which amalgamates public financial management and related fiduciary risk management programming into a single action plan to improve LB transparency and accountability in their financial transactions.

Finally, in the past year MoFALD has signed a number of Memoranda of Understanding with International NGOs aimed at harmonizing the Ministry's social mobilization programming with theirs.

Capacity Development Achievements

LGCDP I invested heavily in both supply-driven and demand-driven capacity development (CD). At the macro level, programme resources were used to provide competency-based training to over 50,000 programme participants and stakeholders – to VDC secretaries and to local service provider staff and their social mobilizers – in subjects ranging from accounting to the REFLECT approach to social mobilization. LGCDP training programmes covered a wide range of skills including, among others, participatory planning, public audit, public hearing, public financial management, gender and social inclusion, child friendly local governance, social & environmental safeguards and building code compliance. Capacity development plans were prepared by all DDCs and municipalities in compliance with the capacity development guidelines prepared by the Ministry.

Despite these successes, one of the issues that LGCDP II will need to address is the capacity development shortcomings of LGCDP programming identified by the Focused Evaluation, one of which was the uses being made of the CD grants.

Programme Management Achievements

The programme has introduced many changes to the Ministry's operational and management systems and approaches. Procedures and documentation have been developed covering day to day programme implementation activities, e.g. guidelines for planning and decision making by local bodies. Procurement and financial management systems have been strengthened and a Public Expenditure and Financial Accountability and Financial Risk Reduction Action Plan has been prepared to reduce fiduciary risks. Structures for networking with the local representatives of devolved sector ministries have been established. MoFALD has also made considerable progress in integrating many of the LGCDP programme functions into Ministry operations. This internalization process now needs to be pursued at the local level.

A joint monitoring approach was adopted with contributing development partners and oversight structures within the Ministry have been established and/or strengthened, including a Ministry-wide framework for Monitoring and Evaluation.

A number of reviews of specific aspects of the programme were undertaken, including mid-term and focused evaluations. A Quality Assurance Mechanism (QAM) was established to act as a tool for (i) supporting MoFALD and DP efforts to validate LGCDP's progress towards its stated results; (ii) conducting multi-level assessments of on-going programme risks; (iii) identifying and assessing organizational and systemic constraints that hinder the LGCDP's ability to reach its programme objectives; and (iv) making recommendations for more effective LGCDP implementation.

2.2 Lessons and Opportunities of LGCDP I

Over its life cycle, LGCDP I has been subjected to several different types of review processes: a mid-term review, a focused evaluation and quality assurance monitoring in addition to other issue specific monitoring and review processes. The following statements highlight a number of lessons and observations arising from the experience of Phase I as identified through these various assessment processes. They provide a useful inventory of areas of opportunity for LGCDP II.

Downward Accountability

- ✦ The heightened need for appropriate institutional arrangements for downward accountability processes in the absence of a functioning representative/political accountability system at the local level.
- ✦ The need to activate and institutionalize various committees fulfilling oversight functions at the local level, for example the Ward Citizen Forums, District/Municipal Social Mobilization Committees, Integrated Plan Formulation Committees and Environmental Committee as well.
- ✦ The need to strengthen the roles played by the WCFs, CACs, CSOs and other grass roots level committees such as the health and education management committees.
- ✦ The need to establish CSO linkages with WCFs and IPFCs.
- ✦ The need to apply the performance based fiscal transfer systems to the regular GoN grants to VDCs, to the devolved sector grant to line agencies and to the conditional grants to DDCs and municipalities.

- ✦ The need to ensure the autonomy of LGAF and to strengthen its capacity to engage in civic oversight and to ensure the quality of local governance by building the capacities of WCFs and CSOs in social accountability.
- ✦ The need to harmonize the social accountability practices of the national and local governance actors by clarifying their roles vis-à-vis each other and collectively.
- ✦ The need to operationalize the Decentralization Implementation and Monitoring Committees for effective sector coordination and sectoral devolution.

Demand Side Activities

- ✦ The need to expand the coverage of CACs into more disadvantaged settlements and to link them with the services provided by other local governance actors.
- ✦ The need to establish links between existing SM activities and those of other LB governance actors.
- ✦ The need to ensure that the transformative approach to social mobilization is fully internalized by all local governance stakeholders and that social mobilization programming gets strengthened accordingly.
- ✦ The need to replace the national service provider system with a regional one that is better positioned to provide capacity development support to the bottom tiers of the social mobilization system and its front line actors.
- ✦ The need to strengthen the capacity of Regional Coordination Units to effectively monitor and supervise the social mobilization programme.
- ✦ The need to consolidate the number of local service providers in order to improve their quality.
- ✦ The need to enhance the capacity of WCFs in the planning, civic oversight, community mediation and development coordination functions in order to make these institutions the entry point for all social mobilization programming at the ward level.

Supply Side Activities

- ✦ The need to harmonize infrastructure related programming approaches and other DoLIDAR activities with LGCDP methodologies by extending the applicability of processes like per-

formance-based fiscal transfers, social accountability, participatory planning, social mobilization and civic oversight across the local government system.

- ✦ The need to provide capacity development support to MC failing local bodies in order to address their shortcomings with targeted competency-based capacity development interventions.
- ✦ The need to strengthen the Local Development Training Academy (LDTA) and Local Bodies' Associations to be able to help develop the capacities of local bodies and the overall management of CD programming.
- ✦ The need to transform VDC secretariats into the reliable and viable government entities required to exercise their public service mandates by equipping them with the requisite human, technical, physical, and financial resources.
- ✦ The need to ensure adequate and appropriate staffing at all levels of local government and to improve the retention rate of LDOs, VDC secretaries and accounting staff and Executive Officers.
- ✦ The need to build the technical capacity of district technical offices for ensuring the quality of community infrastructure projects.
- ✦ The need to provide technical support to LBs to improve their own source revenue streams.

- ✦ The need for special PFM arrangements to be put into place in high risk districts.
- ✦ The need to put alternative means of service delivery in place in high risk and remote areas until competencies for efficient and effective service delivery have been developed.

Policy Development and Implementation

- ✦ The need to build MoFALD linkages with other sector/line agencies and other actors.
- ✦ The need to ensure a robust policy environment for ensuring the effective delivery of local government services in compliance with the LSGA and the other relevant legislation by strengthening the mandate of Integrated Plan Formulation Committees in order that they be able to respond to the democratic accountability requirements of LBs in a post-APM environment.
- ✦ The need for coordination amongst the national, regional and local oversight agencies and for the pursuit of appropriate preventive and remedial measures for reducing corruption.
- ✦ The need to use the banking system for delivering social security allowances based on a social security information system.
- ✦ The need to restructure the MoFALD and DoLIDAR relationship to ensure effective programme implementation.

Programme Description

3.1 Rationale for LGCDP II Programme

As noted at the outset of this document, LGCDP has been and will continue to be the GoN's flagship programme for supporting the improved functioning of local governance and community development related activities in Nepal with the ultimate goal of contributing to the reduction of poverty throughout the country. At MoFALD, all the programmes and budget heads will be aligned with LGCDP II and coordinated by the Planning and Foreign Aid Coordination Division together with those of the other sectoral agencies and programmes with local government responsibilities. The programme will also act as a framework to bring together all of the programmes, institutions and actors influencing and involved in the local governance process through enhanced networking, collaboration and coordination mechanisms and systems aimed at achieving programme outcomes and outputs. LGCDP II will provide the systems, procedures, structures, tools and capacities for facilitating the *transformation* of LBs into local government entities. It will enable local bodies to coordinate local governance actors for effective and efficient service delivery and community development in line with citizens' priorities. This overall vision has a number of noteworthy elements as it moves forward into the LGCDP II programme.

First, as attested by the mid-term review and Focused Evaluation of the programme and the results outlined above, the Phase I of the Programme has accomplished a great deal in terms of build-

ing and extending the Ministry's service delivery capacities at both national and local levels. It has proven to be an effective mechanism for strengthening both the Ministry's capacity and that of the local governance actors. Phase II is seen as a key instrument for *continuing the momentum established in Phase I* and making further advances in these areas.

Second, international experience makes it clear that building capacities for devolved local government and a transformed relationship between local bodies and local citizens and communities requires a long term strategy and a commitment to providing support covering more than just a four or five year time span. As LGCDP I draws to a close, many of its approaches, structures (e.g. community groups, CACs and WCFs) and practices have only been in place for one or two years and are not fully consolidated or institutionalized. *A sustained, long term investment of resources and effort* is needed. To achieve this goal, LGCDP II represents the means by which this sustained effort can be delivered.

Third, the LGCDP II is a bold experiment in the *application of a programme approach to aid delivery in a very complex sector*, local governance. Many steps were taken during LGCDP I to bring the programme in line with the kind of programme approach to which both donors and the GoN have expressed a commitment, consistent with the five core principles of development aid effectiveness. These include, for example, incorporating project structures (the PCU and CCUs) into the Ministry, integrating donor funds into the blended block

grant system, improving the management of fiduciary risks and other similar changes. Nonetheless, there remain many areas that need further attention, and LGCDP II will continue to provide the structure for creating an environment within which a programme approach can confidently be applied.

Fourth, building a local governance system for enabling the country's social and economic development is critical to the *nation's long term well-being*. The ability of local government to continue to function effectively despite the uncertainties of recent years has been and will continue to be an essential contribution to the peace and stability of Nepal. LGCDP will continue to provide a solid platform for managing Nepal's transition towards federalism. It will also provide a strong foundation for harmonizing, coordinating and steering the development efforts of government, non-government and private sectors at the local level.

3.2 New Directions, Strategies and Principles for LGCDP II

3.2.1 New Directions

The vision for the programme calls for LGCDP II to act as a key support mechanism to the GoN's poverty reduction efforts. Building on the experience of Phase I, LGCDP II will embody a number of changes in focus and approach. These are covered in detail later in this document and are dealt with more thoroughly in the LGCDP II Strategic Implementation Plan. They are described in summary form in the following sections. To the extent possible, the design of LGCDP II assumes certain conditionality that must be met if the programme is to achieve its intended results. These include:

- ✦ Holding of local elections;
- ✦ Use of post-APM representative accountability structures;
- ✦ Strengthening of PFM structures, processes and capacities,
- ✦ Assurance of timely budget formulation and release of funds to local bodies; and
- ✦ Reduction in staff turnover and meeting the need to fill vacant positions.

Accountability in Local Governance

In the long term, the return to representative or political accountability requires the holding of local elections. In the absence of elected local bodies, LGCDP I initially worked through an interim arrangement in the form of an All Party Mechanism (APM) that lasted until 2012. Since the collapse of the APM, LGCDP II has been uniquely positioned among GoN programmes to promote alternative downward accountability mechanisms. A number of initiatives will be taken along this path,, each involving the revision and/or clarification of the roles and responsibilities of local bodies in the area of downward accountability and the strengthening of the capacity of the institutions involved to carry out their mandates.

- ✦ Integrated Plan Formulation Committees (IPFCs), which include representatives of political parties together with WCFs, line agencies and NGOs, will be given a strengthened mandate with regard to planning, oversight and monitoring. They will be responsible for finalizing the annual plans of LBs based on participatory planning processes. Plans will be approved by respective councils.
- ✦ The Local Governance and Accountability Facility (LGAF) formed in LGCDP I was recognized in the Focused Evaluation to be playing a unique and vital role in supporting the mechanisms and capacities for exercising social accountability, including carrying out local expenditure reviews, public hearings, public audits and civic oversight and monitoring activities. The scope of LGAF will be further strengthened by entrusting it with the responsibility for carrying out citizen-centred independent third party monitoring, independent citizens' survey, and building the civic oversight capacity of CSOs including the WCFs. LGAF will be the main instrument for executing the social accountability function in local governance systems. The LGAF will be strengthened to mobilize CSOs to perform public hearings, public audits and civic oversight functions.
- ✦ LGCDP will mainstream these two initiatives in the form of institutionalized accountability arrangement and consolidated social accountability. LGAF will be remodelled as the facility to support civic oversight at local level. LGAF

will also establish a national dialogue forum for all accountability actors and other related programmes.

- ✦ LGCDP will support the MoFALD to establish the fair grievance system at local bodies that allows the local concerns to be resolved internally.
- ✦ Village and Municipality Supervision and Monitoring Committees will be strengthened along the lines set out in Local Bodies' Resource Mobilization Guidelines to ensure institutionalized capacity and coordination of monitoring and civic oversight. LSPs will be engaged to strengthen the social accountability to this end.
- ✦ The capacity of WCFs will be further developed to allow them to engage in downward accountability activities that include planning (as members of IPFCs), civic facilitation, community monitoring, development coordination, community mediation and civic oversight. WCFs will be positioned to be the primary entry point for all types of community-led development initiatives, including devolved sector programmes and those of I/NGOs and other local actors at ward level.

Social Mobilization

On the demand side, WCFs will be strengthened to fulfil their coordination and accountability functions related to planning, prioritization, monitoring and oversight and to facilitate the building of linkages with service providers at local level. Downward linkages will be established with CACs and other SM groups while upward linkages will be created with local bodies and other service providers through IPFCs. As a result more than one million people (40,000 WCFs with an estimated average of 25 members each) will be empowered to exercise choice and control over development outcomes of local governance activities.

WCFs will also be the main vehicle of social harmony, social reform, and civic coordination at the grassroots level. WCFs will engage in addressing social problems such as the dowry system, untouchability, illiteracy, chaupadi, witchery, child marriage, early marriage, domestic violence and caste-based discrimination. The structure and functions of WCFs will be modified to make them more functional and relevant to this new mandates.

The existing LGCDP social mobilization programme will be harmonized and coordinated with other social mobilization programming through the D/MSMC mechanism. DSMCs will be empowered to monitor, coordinate and direct all aspects of the social mobilization process in their respective districts.

In addition, consistent with the overall focus of the programme on poverty alleviation, the creation of CACs will be accelerated the adoption of fully transparent processes aimed at ensuring their complete independence. The number of CACs to be developed will be determined on the basis of a detailed poverty mapping exercise. CACs will become the primary vehicle through which Livelihood Improvement Schemes will be implemented. Based on participatory planning processes, the bulk of the 35 % of the programme's non-tied capital resources targeted at disadvantaged groups will be made available to graduated CACs to implement income generating activities for improving the livelihoods of women, children and other disadvantaged groups.

In order to ensure continuous learning and adjustment in demand side programming, it is expected that social mobilization programming will continue to evolve in response to changing circumstances. Some of the anticipated challenges and possible responses include: the increasing require for greater SM competencies requiring continuous retraining efforts; the evolving roles of local bodies and the need for improved SM harmonization; and the re-emergence of elected local government and the necessity to harmonize the political system with the SM system.

LDTA or other qualified institutions will be used to standardize social mobilization methodology and maintain quality. Regional Service Provider (RSP) may be contracted for each region by their RCU to build the capacity of WCFs, CACs, social mobilizers, D/MSMC, and LSPs. Social Development Officers in the DDCs and municipalities will act as focal persons for taking the lead in harmonizing and coordinating all of the social mobilization programmes and activities in districts and municipalities. These SDOs or designated officer will work under the direction of their supervising LDOs and EOs.

At the VDC level, the LGCDP social mobilizer will act as the lead social mobilizer with responsibility for coordinating all of the social mobilizers and social mobilization programmes operating in their VDCs. This lead social mobilizer will work under the technical backstopping and supervision of LSPs and overall guidance and coordination of VDC secretaries. He or she will liaise with the WCFs and CACs to link these institutions with VDC service delivery programming.

The programme will continue to involve NGOs/CSOs as the local service providers (LSPs) for the social mobilization programme. These LSPs will be accountable to the LBs under which they serve through the D/MSMC mechanism. Their roles and responsibilities will be given greater definition in order to ensure that SM programme continues to improve in quality and to receive more oversight by the SDOs and D/MSMC.

Focus on Service Delivery and Resource Mobilization

LGCDP Phase II will place a greater emphasis on the supply side of local governance programming follow the concerted effort of the Phase I programme to launch the demand side programme. The Phase II emphasis on service delivery and improved citizens' access to basic services will begin with the core functions of MoFALD: social security payments, vital registrations, community mediation and local infrastructure projects identified and prioritized through the integrated planning process. More than 140,000 disaster resilient local infrastructure projects such as community roads, culverts, trails, school buildings and health posts are expected to be added to the country's social inventory by the end of the programme. As well, LGCDP II will include targeted CD programmes, technical assistance and management support aimed improving the performance LBs that are consistently failing on the MCPM assessment system. LGCDP II will also address the issues around staffing, including making available technical advice and support to LB officials through Ilaka level service centres. And finally MoFALD aims to energize the community mediation roles of VDCs and municipalities by involving Ward Citizen Forums and other agencies in community mediation processes.

A facility will be created in MoFALD to deliver public services through NGOs/CSOs in selected areas of high fiduciary risk and remote VDCs. All development partners and agencies funding community development programming through NGOs/CSOs will be expected channel their funds through this facility. A detail operational modality will be developed to activate this facility.

Phase II will also see the integrated planning processes extended to cover the local level programmes of other Ministries as well as the development initiatives of INGOs/NGOs and other development actors working at the local level. The more prominent role of the IPFCs described above will constitute a central feature of the reorientation of local government operations; other elements of it will include a strengthened, integrated participatory planning process that encompasses the development and service delivery programmes of all actors at the local level. Its reference point will be local Development Plans and the standards and requirements for infrastructure projects and will incorporate appropriate environmental safeguards. This expansion in the coverage of the integrated planning processes will require an increased commitment to cooperation between MoFALD and the other facilitation and oversight agencies at the central level, more cooperation between LBs and line agencies and other actors working at the local level and a greater harmonization all of the social mobilization programmes of the sectoral line agencies and other actors working at local level.

In order to streamline and harmonize the different mechanisms in local governance, the MoFALD is committed to integrating and codifying all of existing policies, guidelines, directives, manuals and frameworks affecting local governance. LB Committees with similar mandates will be integrated and restructured and their roles and responsibilities clarified.

Resource mobilization will also be a strong focus in this phase of the programme, including improving and broadening the coverage of the performance-based fiscal transfer system. The parameters of the MCPM system will be reviewed in order to identify its LGCDP I limitations. Follow-

ing this review, the MCPM criteria will be modified to include consideration of LB performance related to own source revenue mobilization, environmental stewardship, fiduciary risk and corruption reduction and mitigation and timely M&E reporting. Further, the scope of the MCPM system will be expanded to cover all GoN regular grants to LBs. MCPMs will be applied to financial flows in devolved sectors on a pilot basis in selected areas. Sector specific performance criteria will be devised based on national and international know-how. A further change will be in the use of MCPM scores to identify low performing bodies and link them to capacity building programmes aimed at addressing identified shortcomings.

While revenue oriented activities in Phase I were limited to grants, they will now be expanded to encourage the mobilization of local resources, including own source revenues, in support of long term fiscal sustainability. Attention will also be turned to improving the capacity of local body institutions and staff to be able to respond more effectively to the increasing demands and expectations of local citizens.

New Emphasis on Local Economic Development and Livelihood Improvement Schemes

LGCDP II will see the introduction of local economic development and livelihood improvement schemes within the MoFALD programming mandate. The Local Economic Development Programme will be rolled out on a public/private partnership basis in selected municipalities and urban-centric VDCs. The programme will provide technical inputs to entrepreneurs by linking them with financial institutions. LGCDP will provide conditional grants to targeted LBs to roll out the LEDP in cooperation with private sector associations at the local level.

The main target for livelihood improvement schemes will be the poor and disadvantaged. Graduated CACs will be the local partners for this part of LGCDP II. It will link up with local resources, I/NGOs and local microfinance institutions (MFIs) in order to engage their members in income generating and livelihood improvement activities. Top-up grants will fund livelihood im-

provement schemes that are proposed by CACs. At least 100,000 households (4,000 CACs each with an estimated average of 25 household members) will benefit from the livelihood improvement activities of LGCDP II.

Increased Emphasis on PFM and Management of Fiduciary Risk

The need for a strong PFM system and the importance of addressing systemic fiduciary risks are recognized to be critical elements of LGCDP II. Many of these were clearly identified in the PEFA review that was carried out in LGCDP I and for which the Financial Risk Reduction Action Plan (FRRAP) was developed. The ADB funded Strengthening Public Management Programme (SPMP) will be an integral part of LGCDP II and will address many of the issues identified in relation to PFM and the management of fiduciary risks. The FRRAP will be updated and be fully implemented in this second LGCDP through SPMP support.

Additional measures will also be taken to strengthen PFM in the local governance system. The programme will aim to introduce improvements in the procurement system (again with support of SPMP), covering all of the levels of government at which procurement takes place. Procedures and systems for timely and reliable financial reporting will be strengthened with the objective of achieving a significant reduction in audit arrears. Capacity building programs will be introduced covering internal processes and especially PFM systems, which will benefit from a stronger focus on fiduciary risk reduction with the aim of reducing corruption vulnerabilities and increasing safeguards against fraud and corruption in government operations.

As part of the PFM activities, the Ministry will investigate how to achieve better synchronization of programme budgeting and funds release with the project planning and implementation cycle. This will include ensuring the timely release of budgeted funds from the central level down to the DDCs and from the DDCs down to the VDCs, as well as ensuring that they are properly allocated to, and spent for, women, children and DAGs as per the block grant guidelines. They will also include the timely provision of budget ceil-

ings and guidelines to the ward level in order to facilitate planning and prioritization processes within local budgeting processes.

Preparing for a New System of Local Governance

In its current role as the Ministry of Federal Affairs and Local Development, the Ministry will have to undertake certain preparatory initiatives in anticipation of the expected resolution of the national conversation on a new constitution. The specifics of the new system of local government will not be known until the final decisions on federal structures have been made at the political level. However, it is important that the Ministry try to anticipate and begin to prepare for some of implications of a new federal system. For example, both the Ministry (from a policy and systems perspective) and local bodies (from a capacity perspective) will have to be prepared to hand over responsibilities or respond to the needs of elected local bodies once elections have been held and the final form of delineated roles and responsibilities for devolved local governance has been determined. LGCDP II will support the Ministry's analytical and policy activities in relation to both its current and expected future obligations.

LGCDP II will also help strengthen MoFALD's system-wide capacity in programme monitoring, evaluation and quality assurance. This will include both strengthening the Ministry level capacity in RBM and M&E and building LB capacities in M&E. The Introduction of Environment Friendly Local Governance (EFLG).

LGCDP II will roll out an environment friendly local governance framework by incorporating the principles of sustainable development as well the recent burning issues of climate change under the broader umbrella of EFLG. Assessment criteria will be developed to declare the households, wards, VDCs and municipalities as environment-friendly entities. The entire programme related to environment and local adaptation to climate change under the MoFALD will be brought under the broader framework of EFLG. A Poverty and Environment Initiative (PEI) will be mobilized to finance EFLG. MoFALD will coordinate with Ministry of Environment and other stakeholders to carry out specific programmes on environment,

green energy, climate change, disaster resilience, and sanitation at the local level. LBs will be the implementing agencies for all community focused environment, climate change and disaster management programming. The electricity royalty to LBs will be mobilized to fund most of EFLG activities at local level.

3.2.2 Key Principles of LGCDP II

LGCDP II will embody the following key principles and strategies for guiding its actions and behaviour in the course of programme implementation.

Equity

LGCDP II will follow the guiding principles of fairness and justice by focusing on building the capacity of all of the country's citizens, especially women, children, differently-able persons and DAGs, to take advantage of all available opportunities. LGCDP II will also reinforce the equitable allocation of resources to LBs and is committed to strengthening the capacities of local bodies to deliver their services as inclusively, transparently, efficiently and effectively as possible.

Subsidiarity

The LGCDP represents a key support mechanism for the GoN to realize its commitment to decentralization through devolution by following the dictum that decision making powers and resource utilization should always reside with the lowest level of government capable of exercising and managing them. In this regard, local bodies are expected (in addition to their service delivery obligations) to raise local revenue, prepare budgets, make expenditures and carry out other regulatory functions in accordance with the priorities of their citizens, especially of women, children and DAGs, by involving them in local bodies', line agencies', Civil society's and private sector organizations' service delivery systems.

Harmonization and Alignment

Under LGCDP II, all local governance related policies and institutional mechanisms will be reviewed, aligned and harmonized with the changed context and new constitutional arrangement that is expected to emerge during its life. LBs will prepare/modify their periodic plans by accommodating sectoral goals, objectives and targets. Local level programmes will be harmonized and aligned

with local strategic plans (DDP, VDP, and MDP). DPs and I/NGOs working at local level will be encouraged to harmonize their programmes with local body programmes by becoming part of local government planning processes and working through WCFs. Sectoral parallel planning will be discouraged to avoid duplication and reduce transaction costs.

Participation and Collaboration

LGCDP II will work to create a local level enabling environment that provides opportunities for the meaningful participation of all citizens, especially, women, children, DAGs and disabled persons, as well as persons living in remote areas, in local decision making processes. In this regard, special efforts will be made to ensure that LGCDP demand side institutions like CACs, WCFs and IPFCs are inclusive in their membership and know how to hear and respond to the voices, preferences and priorities of marginalized persons and groups. Collaborative service delivery will be initiated by establishing strong partnerships of LG service providers to respond to citizen's priorities reflected through local planning processes. There will be harmonization among the social mobilization agencies regarding the social mobilization practices.

Mutual Accountability

All of the agencies engaged in local governance will be held accountable for carrying out their assigned responsibilities as set out in responsibility matrices and job descriptions. The application of the principle of mutual accountability will apply equally to the central government and to local bodies to ensure responsibilities are fully met on both sides, for example, in relation to the timeliness of financial flows for grants, VDC secretary staffing appointments, predictability of grant transfers and so on. A local governance Code of Conduct will be developed and enforced for both politicians and officials. GoN and DPs will equally respect the principle of mutual accountability as reflected either in JFA and/or other partnership agreements.

Sustainability and Value for Money

It is important that the limited funds available for development be put to the best use possible. In this regard, LGCDP II will strive to ensure expen-

diture efficiencies. While doing so might not always mean selecting the cheapest programme design or contracting option because total life costs, product quality and durability also need to be factored into any procurement or contracting decision, every effort will be made to achieve value for money in any contracting action. As well, every effort will be made to strengthen the financial, environmental and institutional capabilities of local bodies and to improve their operation and maintenance systems.

Downward Accountability and Transparency

LGCDP will continue to contribute to improving transparency at all levels of government. MoFALD, local bodies and other implementing agencies will follow a zero-tolerance policy on the misuse or abuse of entrusted powers by office holders. Both preventive and curative measures will be taken to address fiduciary risks. State institutions' accountability will be strengthened and maintained through more citizen engagement. All programmes and budget figures, public audits, public hearings and monitoring processes and their results will be publicly disclosed and made accessible to the general public. The provisions of the 'Right to information Act / Rules' will be fully honoured. Awareness programmes will be implemented through the Information, Education and Communication (IEC) component of the programme to make citizens more aware of local level activities.

A Sector Wide Programme Approach (SWAP)

LGCDP II will continue its movement toward the programme approach that was launched in the design and delivery of LGCDP I by making LGCDP II the GoN's framework for local governance and community development. Over time it will move towards the form of all-encompassing local governance SWAp. This will involve not only a further integration of the LGCDP into the MoFALD but deepening of the Ministry's coordinating linkages with the other devolved ministries, both at the national and local levels, and increasing the level of harmonization between MoFALD programming, other sector SWAps and other donor and non-governmental projects and programmes. It will also require systemic changes in MoFALD aimed at improving PFM, reducing fiduciary risk

and undertaking the capacity strengthening activities. All the on-going projects supported by development partners within the MoFALD will be aligned with LGCDP and no separate stand-alone programmes other than LGCDP will be formulated in the future in the areas of local governance and community development.

Operational Strategy of LGCDP

LGCDP-II will adopt following strategies:

1. As an umbrella framework, LGCDP II will further reinforce transformational approach to social mobilization by harmonizing the process with other agencies engaged in social mobilization. Ward Citizens Forums will be made an entry point for all sorts of community-led development initiatives. WCFs will be empowered to engage in downward accountability.
2. Development partners will align all their programmes related to local governance and community development with LGCDP using common framework on social mobilization, monitoring and social accountability measures.
3. Social mobilization will be the vehicle to bring social harmonization among the different strata of society with particular focus on supporting the people to fight against the anti-social behaviours such as dowry system, chaupadi, child marriage, domestic violence against women, gender and caste discrimination, etc. and the instrument of political, economic and social empowerment of citizens.
4. Environment Friendly Local Governance framework will be rolled out across the country in order for ensuring environment sustainability and awareness building.
5. Rural energy initiatives will be piloted through local bodies.
6. LGCDP will support to implement climate and disaster management through harmonized approach to implement GoN's local adaptation plan of action and district disaster management planning framework.
7. The programme will continue to involve the NGOs/CSOs as the local service providers (LSPs) in social mobilization however; the roles and responsibilities will be rationalized in order to implement social mobilization effectively and efficiently.
8. The CACs will be linked with local resources, I/NGOs, poverty alleviation fund, local micro financial institutions in the markets to engage their members in income generating and livelihood improvement activities.
9. A facility will be created in MoFALD to deliver the public services through NGOs/CSOs in selected districts. All the development partners and agencies funding the community development through NGOs/CSOs will channel their fund through this facility.
10. All the on-going projects supported by development partners within the MoFALD will be aligned with LGCDP and no any separate stand-alone programme other than LGCDP will be formulated in the future in the areas of local governance and community development.
11. GoN will blend all the regular conditional and unconditional grants to LBs by linking with performance based assessment system. Sector specific performance criteria will be devised based on national and international know-how.
12. Devolved sector top up grants based on performance assessment will be provided to line agencies through DDFs.
13. Local Economic Development Scheme will be rolled out on public private partnership basis in potential municipalities and VDCs the programme will provide technical inputs to the entrepreneurs by linking them with financial institutions.
14. The Local Governance and Accountability Facility (LGAF) will be strengthened to mobilize CSOs in the areas of social accountability such as public hearing, public audit and civic oversight. In the absence of elected representatives, M/VSMCs, Integrated Plan Formulation Committee (IPFC), in which the members of locally active political parties are represented will be made responsible to finalize the annual plan of LBs based on participatory planning process.
15. The programme will take a harmonizing approach and use a common framework when, funding public and community services, infrastructures and other public assets in order to lay a SWAp approach for supporting decentralized local governance.

16. The programme will introduce results based management in local bodies to strengthen monitoring and evaluation system.
17. The programme will take multiple approaches to reduce fiduciary risks at local level.
18. The programme will be fully aligned with current legislation, policies and plans and in particular it will be fully compliant with Local Self Governance Act 1999.
19. In order to streamline and harmonize the different mechanism in local governance, the programme will support to integrate and codify all the existing policies, guidelines, directives, manuals and frameworks. Committees with similar mandates at LBs will be integrated and restructured with clarity on roles and responsibilities.
20. Given limited resources available for the programme and growing competency of local staffs to handle local governance programme in the country, LGCDP will not hire any international staffs or consultants on long-term basis. However, LGCDP will engage the technical expertise of international consultants on short-term basis as per the decision of TASC.
21. The programme will support to activate community mediation roles of VDCs and municipalities as assigned by LSGA with active involvement of Ward Citizen Forums
22. Harmonized approach will be followed to streamline poverty identification process in coordination with other stakeholders.
23. The existing performance based funding system will be refined in order to tie the inter-governmental fiscal transfer with results by introducing necessary incentive mechanisms for better performance .
24. Coordination will be established among the sector agencies both at centre and local level. Sector agencies will be responsible to execute sector activities in coordination with Lbs
25. The programme will support to effective sector service delivery by strengthening sector devolution and fostering coordination among the line agencies at local level.
26. Decentralization Implementation and Monitoring Committee will be reactivated.
27. MoFALD will enter into the memoranda of understanding with different programme re-

lated to local governance and community to avoid overlapping and duplication on the use of development resources. PAA partners will use common formwork planning, social mobilization and results-framework .DDC will be involved in monitoring, evaluation and coordination and implementation responsibility will be assigned to line agencies, VDCs and municipalities.

28. The programme will support to rationalize the number committees formed at LBs related to local governance and community development.

3.3 Goal, Purpose, Outcomes, Outputs and Indicative Activities

LGCDP is intended to be a programmatic framework and common platform for local governance and community development in Nepal.

As a framework, LGCDP II will encompass all of the programmes, actors, institutions in the local governance process through enhanced networking, collaboration and coordination mechanisms and systems in order to achieve its outcomes and outputs. Within the framework concept, LGCDP-II will provide the systems, procedures, structures, tools and capacities to facilitate the *transformation* of LBs into LGs capable of implementing decentralized local governance system. It will also bring together the local level programmes of all line ministries and agencies under one umbrella by managing integrated planning and monitoring processes with common standards and frameworks for the collection of data and reporting results.

As a programme LGCDP II will ensure that its intended results are achieved and that its programme activities are delivered in strong partnership with all of the demand and supply side actors directly or indirectly involved in local governance and community development processes. In order to implement this mandate, it will develop and operate the structures and systems needed to implement the framework concept set out above.

3.3.1 Goal

The overall goal of the programme is to contribute towards poverty reduction through better local governance and community development.

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

3.3.2 Purpose

The purpose of the programme is to improve local governance for effective service delivery and citizen empowerment.

LGCDP II provides an overall framework for strengthening decentralization, devolution and improved local governance system for the effective delivery of basic services and the empowerment of citizens, especially women, children and Disadvantaged Groups (DAGs) and their institutions. It has been designed as a framework programme with four outcome and nine output areas.

3.3.3 Outcomes, Outputs and Indicative Activities

The four outcomes encompass citizen's empowerment (demand side improvements), capacity development (supply side improvements), enhanced service delivery, integrated planning processes, and citizen-centric policy development. All together there are nine outputs under these four broad outcomes. The indicative activities are included in this section and the key activities of the programme are defined and elaborated by Strategic Implementation Plan as reflected through ASIP on annual basis.

Outcome 1 Citizens and communities hold their local governance actors accountable

During the first phase of LGCDP, a strong institutional base and capacity was created through social mobilization and capacity development initiatives. In this second phase, the focus of the

programme will be on producing results by empowering citizens, especially women, children and DAGs and their institutions, and by engaging citizens, including youth as change agents, in local level planning, monitoring and oversight processes in order to make local governance actors accountable and to make the social mobilization programme more effective. In this phase livelihood improvement programme will be introduced in the graduated CACs by establishing coordination with national level programme such as Poverty Alleviation Fund.

Under this outcome two demand side outputs will be achieved.

Output 1 Citizens and community organizations are empowered to actively participate and assert their rights in local governance

This output will focus on the empowerment of citizens, especially women, children and disadvantaged groups, and their institutions (CACs, WCFs, IPFCs, DSMC/MSMCs, and CFLGCs) so that they can meaningfully participate in local planning, budgeting, monitoring and decision making processes and have access to the services available at local level.

The indicative activities to be undertaken to achieve the results of this output will be:

1. Strengthening the social mobilization programme for the social, economic and political empowerment of citizens;
2. Expanding and capacitating WCFs in local planning, monitoring, community mediation, coordination and civic oversight processes;
3. Expanding the reach of CAC programming into other disadvantaged areas;
4. Strengthening and building the capacity of D/MSMC, LSPs, LAs, social mobilizers, community facilitators and other district level coordination committees in social networking in order to effectively implement and harmonize social mobilization programming;
5. Updating and digitizing the social, poverty and resource information systems and maps and feeding that information into national data-based systems;
6. Introducing livelihood improvement schemes and providing skill enhancing training and

- capital inputs to CACs by involving development actors (LAs, I/NGOs, cooperatives, private sector actors, financial institutions etc.) and responding to the demands of CACs for community development;
7. Promoting social harmony and local peace by capacitating the social mobilization institutions to mitigate social problems; and
 8. Mainstreaming the LGCDP's crosscutting themes - GESI, CFLG, EFLG, RBM and IEC in the transformational approach to social mobilization.

Output 2 Accountability mechanisms for local governance are in place

Socially mobilized groups and institutions will also be engaged in oversight activities in order to hold local governance actors responsive and accountable to citizens and their institutions.

This output includes the following indicative activities:

1. Strengthening the competencies of MoFALD, DoLIDAR, RCU and national agencies in programme oversight and compliance monitoring activities;
2. Strengthening the competencies of the Local Governance and Accountability Facility (LGAF) to carry out citizen-centred independent third party governance monitoring and to build the civic oversight capacity of CSOs to make LBs and other local governance actors responsive and accountable to the priorities of their citizens;
3. Supporting LBs and other local governance actors to adopt good governance practices (citizen charters, public audits, social audits, public hearings, information disclosure, etc.) in order to promote responsive, responsible, transparent and accountable governance at the local level;
4. Capacitating and activating LB IPFCs to strengthen participatory planning and oversee programme implementation, audit and compliance processes;
5. Strengthening LB capacities in ICT and IEC programming;
6. Updating and codifying the guidelines/manuals/policies on local governance and community development; and

7. Strengthening the capacities of the National Vigilance Centre and the MoGA for building local capacities in technical and management auditing.

Outcome 2 Local bodies are more responsive to citizen's demand

Through this outcome LGCDP will seek to expand the availability of local body fiscal resources, thus enabling them to provide their citizens with better public goods and services. This will be done through formula-based and equitable fiscal transfers allocated to local bodies on the basis of their performance (as measured through MCs/PMs), as well as through increases in own-source revenues. Performance assessments will provide a basis upon which to identify key capacity "gaps" at the local level and thus help target LGCDP's support for capacity development – in terms of identifying both under-performing local bodies and in the thematic areas within which local bodies face challenges. This outcome also places an emphasis on supply-driven capacity-building aimed at strengthening local PFM and reducing fiduciary risks.

Three outputs will be delivered in pursuit of achieving this outcome.

Output 3 LBS' access to resources increased

This output seeks to ensure that LBs are able to secure adequate finances for providing mandated services and meeting the priority service needs of their citizens. This output will focus on maximizing the grants and transfers from the central government to the local bodies. Optimization of own-source revenue is also a focus of this output. The major activities under this output are:

1. Supporting the tax administration system of local bodies in order to increase their own source revenue by amending the LSGA to increase their tax rate/base, harmonizing the local tax system with the national tax system, mapping LB' tax potentials, linking the local tax database with the central one, introducing the integrated municipal administration revenue system and applying ICTs to the local revenue collection system;

2. Refining and implementing a results-oriented performance and formula-based funding system for block grant transfers to DDCs and Municipalities in order to improve efficiency and equity;
3. Developing and introducing performance based and results-oriented MCPM indicators for conditional and devolved sector grants;
4. Providing performance based conditional and unconditional grants to LBs and devolved grants to LAs in selected sectors;
5. Refining MCPM indicators, developing and introducing the Performance Measures (PMs) system for VDCs and rolling out the results-oriented MCPMs and a formula based funding system for VDC block grants; and
6. Enhancing LB capacities to manage increased resources by strengthening the utility-based and transparent PFM system.
7. Reviewing the revenue sharing mechanism (vertical and horizontal) to LBs
8. Establishing a reward mechanism for VDC and municipalities in their own source revenue collection.

Output 4 Public financial management system improved

This output encompasses all of the LGCDP's Phase II efforts to strengthen the capacities of the MoFALD, local bodies and other local governance actors in financial management, in order to both improve its efficiency and effectiveness and to reduce fiduciary risk. These activities will be substantially aligned with the Strengthening Public Management Programme (SPMP) supported by ADB, which focuses on:

- ✦ Enhancing budgeting and expenditure management and fiscal sustainability at the sub-national level;
- ✦ Reducing fiduciary risks at the sub-national level;
- ✦ Enhancing the transparency, economy and efficiency of public procurement at the national and sub-national levels; and,
- ✦ Strengthening the capacity of oversight and accountability institutions.

The indicative activities to be undertaken to achieve this objective include those funded through the aligned ADB-funded SPMP initiative and cover:

1. Rolling out and strengthening a municipal accrual based accounting system (MAAS) in all Municipalities; and,
2. Introducing an integrated financial information system at central and local levels by establishing and strengthening software-based accounting and networking systems in all municipalities and DDCs and in selected VDCs and operationalizing a simplified expenditure tracking system in VDCs;
3. Strengthening the audit system and improving LB compliance with audit regulations and procedures and developing audit tracking systems at MoFALD and DDCs;
4. Providing support to the OAG for performance and risks-based audits of LBs, ICAN for capacity development of private auditors and FCGO for improving the overall PFM system related to LBs;
5. Strengthening procurement planning and bidding systems in all LBs, and supporting the PPMO in strengthening the capacity of local bodies and line agencies in procuring goods and services; and
6. Updating and implementing the PEFA/FRRAP.
7. Institutionalizing the concept of GESI budgeting and audit to ensure that the local planning and budget allocation is poverty and gender-responsive;

Output 5 Institutional and human resource capacities of LBs and central level agencies involved in local governance strengthened.

This output has to do with strengthening the institutional capacities and human resource capabilities of MoFALD, DoLIDAR, LBFC, local bodies, line agencies and other local governance actors. This includes actions aimed at implementing organizational, procedural and process reforms. For local bodies, capacity building activities will be partly guided by the outcomes of MCPM assessments.

The indicative activities to be undertaken under this output include:

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

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

Outcome 3

All citizens are provided with efficient and effective local service.

The third outcome covers improvement in delivery of MoFALD's core services and seeks to improve and integrate the delivery of services in devolved sectors and other development actors working at local level in response to community defined priorities and needs.

Two outputs are proposed for achieving this outcome:

Output 6

Access to and quality of local infrastructure and other socio-economic services administered by LBS are improved.

This output addresses the various activities that will be undertaken to ensure effective and efficient delivery of MoFALD's core services related

to local infrastructure development, vital registration, social security payment and community mediation. Care will be taken to ensure that all of the LGCDP's cross cutting themes are mainstreamed in the delivery of these core services. Their delivery will be either through regular government/LB service delivery channels or, where these are not fully functional, through alternative service delivery channels, including I/ NGOs, CBOs or the private sector. The major focus of this output will be on improving the effective delivery of social security allowances and improving the quality of local infrastructure by strengthening the capacity of the technical human resources involved in the design and supervision of infrastructure projects.

LGCDP will work to build the technical capacity of District Offices and municipal technical units. To do this, direct technical assistance will be provided to VDC and sub-district technical cells will be established by contracting technical service providers to serve VDCs and DDCs. This programme aims to place at least one sub-engineer in each VDC. To accomplish this, LGCDP intends to provide scholarship to VDC selected School Leaving Certificate passed student to get training from Centres of Technical Education and Vocation Training. At a later stage, this large pool of technical expertise will be used to create a system of technical service providers.

The indicative activities to be undertaken under this output are:

1. Reviewing, updating and modifying the norms, designs, standards and guidelines for improving the quality of local infrastructure projects, aligning those standards with those of devolved sectors and establishing quality control labs;
2. Building LB technical capacities, developing a technical human resources pool for VDCs and establishing and operationalizing sub-district technical cells ;
3. Establishing a technical division in MoFALD for providing effective technical oversight, carrying out technical audits, rationalizing the DoLIDAR structure and strengthening DoLIDAR's capacity;
4. Mapping the agencies involved in the delivery of community mediation services and roll-

- ing out mediation programming in non-served VDCs and municipalities using participatory approaches;
5. Strengthening the management of the social security system and coordinating it with the planned National Social Protection Framework by (i) improving and modernizing the registration system; (ii) having citizens' groups and WFCs promote access to and participate in the oversight of and public hearings regarding their implementation; and (iii) expanding use of web-based technologies such as biometric cards, hologram certificates and mobile banking technology;
 6. Developing/updating District/Municipal Periodic Plans and developing the periodic plans of 500 VDCs;
 7. Achieving 100% coverage of civil/vital registration (birth, marriage, divorce, migration and death) through improvements in and modernization of the registration information system and through a greater collaboration amongst the involved agencies, and by piloting of a national ID system;
 8. Supporting the municipalities and urban-centric VDCs in implementing local economic development programmes on a public-private partnership basis in coordination with private sector institutions at local levels;
 9. Establishing the semi-autonomous NGOs facility at MoFALD and delivering services through NGOs and CSOs in selected remote and high risk VDCs;
 10. Supporting to enforce the building code in municipality and urban-centric VDCs;
 11. Supporting the implementation of Environment Friendly Local Governance Frameworks, rural energy, climate resilience, disaster reduction in vulnerable districts identified by Nepal's National Adaptation Programme of Action and providing support to the green energy initiatives of LBs
 12. Providing support to regulatory reform in local governance and community development for improving the effective local service delivery; and
 13. Improving the efficiency and effectiveness of local service delivery and socio-economic and infrastructure development.

Output 7 ---

Strengthened integrated planning, budgeting, monitoring and evaluation and coordination amongst local governance actors

One of the significant changes to be introduced in LGCDP II is the strengthening of integrated administrative and management processes to cover the activities of all service providers involved in local development. District Periodic Plan will be the basis for coordinating all sectoral plans and development. Output 7 addresses the range of initiatives to be undertaken in this regard, including the following indicative activities:

1. Mapping all service providers involved in local development in order to enhance the quality and coverage of the services they are providing through enhanced service provider cooperation and harmonization and through strengthening the capacities of local committees (e.g., health facility management committee, school management committee) to plan and oversee high quality devolved sector services;
2. Reviewing and updating local level planning guidelines and strengthening information based periodic plan (DPMAS/DTMP, resource map, profiles, digital district level data bases, sector related information) development and prioritizing plan activities through the preparation of Local Medium Term Expenditure Frameworks (LMTEFs) with the active involvement of sectoral line agencies and by referencing cross-cutting themes;;
3. Developing and operationalizing the performance based M&E Framework in MoFALD, DoLIDAR and LBs, aligning LA reporting with that of LGCDP II and introducing web-based reporting systems in DDCs, Municipalities and selected VDCs;
4. Mainstreaming GESI, CFLG and EFLG, IEC, climate resilience, waste management, disaster management and programme monitoring plans in local periodic and annual plans;
5. Developing systems and mechanisms for promoting and supporting inter-LB joint programming;
6. Supporting DDCs and Municipalities to update and implement DTMP and MTMP in a coordinated manner among LBs; and

7. Supporting LBs to bring all the development agencies under the umbrella of the local planning process and developing DDC, VDC and municipal results-frameworks that incorporate the programming of all of the development actors.
8. Support to develop and implement periodic plans of local bodies integrating all sectoral plans.

Outcome 4 **Strengthened policy and institutional framework for devolution, sub-national governance and local service delivery.**

Through this outcome, LGCDP II will improve and update the policy and institutional framework for devolution, sub-national governance and local service delivery – both to better reflect current contexts and to prepare and redefine sub-national arrangements in the context of federal structuring of the state. This policy-related outcome will be primarily focused on the political, administrative and fiscal dimensions of decentralization and devolution, as well as on overall arrangements for the improved delivery of sector services. The outcome will also pave the way for implementing forthcoming constitutional provisions insofar as they will have a bearing on sub-national arrangements. The outputs to be undertaken to achieve this outcome are:

Output 8 **Refined policy on local governance and improved inter-agency cooperation.**

The activities that fall under this output will aim to bring a range of current policies and institutional arrangements into line with the current national context for local governance but with a forward-looking perspective. Activities will focus on policy agendas for which there is a realistic chance of moving forward given current political economy considerations. Consideration may be given to the possibility of a community empowerment act that would recognize, empower and facilitate community-based organizations and develop proper linkages with local governments. Activities will be based on policy dialogue, technical support, analytical work, and policy-relevant learning and pilots.

The indicative activities to be undertaken under this output are:

1. Reviewing and amending the LSGA/R and LBFAR and enacting new acts as appropriate to reflect past learning and changed contexts in order to strengthen the local governance system through devolution;
2. Categorizing LBs on the basis of established criteria and revising their roles and responsibilities;
3. Supporting MoGA in reviewing provincial/local governance legal/policy frameworks and administrative structures including administrative restructuring of local governments;
4. Assessing the need for restructuring of LBFC, MoFALD, and Local Development Training Academy and implementing high priority changes;
5. Designing and drafting metropolitan city legislation and developing the criteria to transform urban-centric VDCs into municipalities;
6. Urban-centric VDCs will be developed as the model city with appropriate institutional and infrastructure base
7. Exploring the potential of merging the VDCs and municipalities and devising necessary incentive schemes for such self-initiated mergers; and
8. Restructuring the Local Development Training Academy to make it a centre of excellence in the areas of certification, research, quality assurance and training related to local governance and community development.

Output 9 **Policies developed for devolution and federalism**

This output can be divided into two sets of activities. The first set of activities is aimed at preparing the ground for local governance arrangements in the context of state restructuring. These will be concerned largely with ensuring that MoFALD and other stakeholders are adequately prepared to engage in policy dialogue about a range of likely sub-national issues and ready to develop new policies. Second, as and when the new constitution is enacted, activities under this output will focus on the development and implementation of policies, etc. appropriate to the new context.

The first group of activities to be undertaken under this output includes:

1. Collecting and analysing information on sub-national (provincial and local) political, administrative and fiscal arrangements.
2. Promoting and facilitating consultations and policy dialogue on sub-national governance (federal arrangements).

While they may be started before new arrangements are fully identified, the second set of activities will only be finalized as and when a new constitution is promulgated and will include (but not be limited to) the following:

1. Developing and implementing transition plans for concerned national institutions and agencies (including Ministries such as MoFALD);
2. Aligning existing policies/laws and enacting new generic laws in accordance with the spirit

of the new constitution and with clarity on the delineation of the roles/ responsibilities of each level of governance (federal, provincial and local) and proposing appropriate horizontal and vertical linkages and dispute settlement mechanisms;

3. Establishing high-level institutions required for institutionalizing federal relationships including those for steering inter-governmental fiscal relations, taxation rights, resource transfers and economic integration;
4. Establishing a Local Government Restructuring Commission and restructuring local governments as per the mandate provided by the new constitution; and
5. Developing the modality of governance, infrastructure and devolved sector SWAp in the context of federal governance .

LGCDP-II Programme Structure

The table below outline the structure of the programme including goal, purpose, outcomes and outputs and their indicators of the programme. The full logical framework is included in Annex 1: LGCDP II Logical Framework. This programme structure is further defined and elaborated by the Strategic Implementation Plan and reflected through Annual Monitoring and Evaluation Plan (AMEP) on annual basis.

Table 1 LGCDP II Programme Framework

Expected results	Indicators
Goal	
To contribute towards poverty reduction through better local governance and community development.	<ol style="list-style-type: none"> a) A reduction in the national poverty level as defined by NPC b) An increase in the country's Human Development Index (HDI) score
Purpose	
To improve local governance for effective service delivery, local development and citizen empowerment.	<ol style="list-style-type: none"> a) Extent of change in citizens' perceptions of the quality of and access to services and infrastructure b) Extent of change in citizens' perceptions of their involvement in local governance processes.
Outcome 1	
Citizens and communities hold their local governance actors accountable.	<ol style="list-style-type: none"> a) Extent of WCFs and CSOs' oversight of services provided by local governance actors and extent to which local governance actors act upon observations raised by WCFs and CSOs.
Output 1	
Citizens and community organizations are empowered to actively participate and assert their rights in local governance.	<ol style="list-style-type: none"> a) % of VDCs and Municipalities that have conducted ward level planning workshop to prepare annual plan

Expected results	Indicators
	<ul style="list-style-type: none"> b) % of ward level planning workshop with documented participation of women, children and DAG c) % of CAC members engaged in Livelihood Improvement Programme (LIP) d) Number of local bodies (DDC, Municipality, VDC) that have incorporated children's needs (disaggregated data by gender) in their annual plan from "balbhela" (annual children consultation meeting)
<p>Output 2 Accountability mechanisms for local governance are in place.</p>	<ul style="list-style-type: none"> a) % of annual public hearing conducted in accordance with the LBs' Resource Mobilization Guidelines (49.7) (disaggregated by LBs). b) % of annual public audit conducted in accordance with the LBs' Resource Mobilization Guidelines (50.5) in particular the participation of women, children, and disadvantaged groups (disaggregated by LBs). c) % of annual social audit conducted in accordance with the LBs' Resource Mobilization Guidelines (50.6) (disaggregated by LBs). d) % of LBs that share their annual audit report in their respective councils (disaggregated by LBs).
<p>Outcome 2 Local Bodies are more responsive to citizens demand.</p>	<ul style="list-style-type: none"> a) LB performance in meeting MCPMs b) MoFALD annual performance index (TBD) developed. c) Improved performance of local governance actors in financial management, HR development, M&E and reporting
<p>Output 3 LB's access to resources increased</p>	<ul style="list-style-type: none"> a) Increase in LBs' own source revenue generation b) Increased revenue assignment base for LBs c) % of total GoN budget allocated as block grant to LBs each year.
<p>Output 4 Public financial management systems improved.</p>	<ul style="list-style-type: none"> a) Fiduciary risks reduced by full implementation of FRRAP b) Evidence of improvements in the procurement system c) FMS and procedures improved for timely and reliable financial reporting and a reduction in audit arrears.

Expected results	Indicators
<p>Output 5 Institutional and human resource capacities of LBs and central level agencies involved in local governance strengthened</p>	<ul style="list-style-type: none"> a) Capacity development plan of MoFALD, DoLIDAR, LDTA and LB Associations(LBA) are in place and implemented focusing on policy making, planning and monitoring and facilitating LBs. b) % of capacity development plans of LBs based on MCPM results, audit report and needs assessment are in place and implemented. c) % of LBs staff who participated in at least one relevant training (disaggregated by LB's category)
<p>Outcome3 All citizens are provided with efficient and effective local service.</p>	<ul style="list-style-type: none"> a) % of service receiver reporting service received on time and in prescribes standards.
<p>Output 6 Access to and quality of local infrastructure and other socio-economic services administered by LBs are improved.</p>	<ul style="list-style-type: none"> a) 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) Community level dispute settlement through mediation c) Increased coverage of vital event registrations d) Coverage and timeliness of social security and social protection benefits made through a unified MIS registration system and delivery innovations such as electronic payment and mobile banking e) % of VDCs covered by ilaka service centre
<p>Output 7 Strengthened integrated planning, budgeting, monitoring and evaluation and coordination amongst local governance actors</p>	<ul style="list-style-type: none"> a) Evidence of systematic and on-going interaction between LBs and other local governance actors in participatory planning and oversight processes. b) Percentage of local committees that involve local governance actors in accordance with LBs' Resource Mobilization Guidelines (IPFC, Monitoring and Supervision Committee, and Project Monitoring and Facilitation Committee). c) Evidence that WCF and CAC priorities are considered by respective local governance actors.

Expected results	Indicators
	<ul style="list-style-type: none"> d) # of local bodies (DDC, municipalities, VDCs) that have adopted CFLG processes, gender-responsive budgeting, gender auditing and EFLG e) Proportion of capital funds that are allocated and spent to target groups by LBs.
Outcome 4 Strengthened policy and institutional framework for devolution, sub-national governance and local service delivery.	<ul style="list-style-type: none"> a) Devolution policies refined and institutional framework developed for administrative and fiscal federalism
Output 8 Refined policy on local governance and improved inter-agency cooperation	<ul style="list-style-type: none"> a) LSGA reviewed and amended to be in conformity with the constitution and sectoral laws. b) Local governments categorized and restructuring plan developed c) LBFC, MoFALD, LGAF and LDTA restructured to assume responsibility in the devolved context. d) Guidelines/manuals/policies updated
Output 9 Policies developed for devolution and federalism	<ul style="list-style-type: none"> a) Devolution policy refined in the context of federal governance b) LBFC restructured to assume responsibility for fiscal federalism c) Local Government Restructuring Commission established and LGs restructured

(Please refer to Annex 1 for detail presentation of the LGCDP logframe.)

3.3.4 Cross Cutting Areas

Underlying all LGCDP II activities are thematic or cross-cutting areas. These are themes that must be considered in relation to each activity and to the programme as a whole. Capacity development (CD) is a major cross-cutting area and nearly every LGCDP activity requires a CD input. While LGCDP II is more than a CD programme, many of its activities have a significant element of CD. Most social mobilization programme is a CD activity. More accountable local bodies are of little use if they lack the capacity to deliver what they are mandated to do or to respond to local demands. At the central level there is a range of human resource and organizational development activities to be carried out, such as the reorganization of the LDTA and meeting the massive HRD needs which will be associated with the establishment of a federal system.

In LGCDP II the main cross-cutting areas are:

- ✦ Capacity Development (CD);
- ✦ Gender Equity and Social Inclusion (GESI);
- ✦ Child Friendly Local Governance (CFLG);
- ✦ Environment Friendly Local Governance (environmental safeguards, climate change adaptation mitigation and disaster risk management (ES-CCM-DRM)); and
- ✦ Results-Based Management.

These cross-cutting themes represent significant elements of all LGCDP II outputs and activities and will be fully integrated into all aspects of the programme's implementation. The cross-cutting tasks for each activity will be included in Annual Implementation Plans and a separate annual plan will be developed for each cross cutting theme. Thus there will be a CFLG annual plan and a CD annual plan, etc. These plans will facilitate implementation of the LGCDP II programme by better aligning and integrating activities across MoFALD's structure.

Programme Management

4.1 LGCDP'S Stakeholders

4.1.1 Central Level Stakeholders

The Local Self-Governance Act assigns responsibility for the multi-sectoral coordination of devolution and decentralization processes to the MoFALD. In LGCDP II, MoFALD will be the lead executing and coordinating agency of these processes at central level and the LBs will be their implementing and facilitating agencies at the local level.

Sector Ministries

The MoFALD will cooperate with the other line ministries in promoting local good governance. For this to be effective the sector ministries will need to move well beyond the boundaries of NAC meetings towards a greater involvement in all aspects of local governance. In particular they will need to get more involved in the project and programme budgeting, priority setting, financing and monitoring and evaluation cycle. In this regard, LGCDP Phase II intends to become more directly engaged with the Ministries of Agricultural Development, Education, Health and Population, Peace and Reconstruction, Urban Development, Women and Social Welfare, Cooperatives and Poverty Alleviation, Forest and Soil Conservation, Technology, Science and Environment, Land Reform within a framework of enhanced programme coordination.

Facilitating and Oversight Agencies

In order to implement its local governance mandate, the MoFALD will cooperate with a large number of national level facilitation and oversight

agencies. It will work in partnership with the Office of the Auditor General (OAG) concerning the annual cycle of internal and external local body audits and with the National Vigilance Centre (NVC) concerning the execution of technical audits. As well LGCDP II will liaise with the Public Procurement Monitoring Office to improve all aspects of local level procurement. Among other agencies, it will coordinate with:

- ✦ Ministry of Finance (MOF) on local government financing;
- ✦ National Planning Commission (NPC) for promoting and facilitating integrated participatory planning and monitoring processes through the timely release of budget ceilings to LBs in order to ensure the predictability of resource allocations;
- ✦ Local Body Fiscal Commission for strengthening the MCPM process, improving audit standards, studying revenue potentials and revising the fiscal decentralization road map and its use;
- ✦ Office of the Prime Minister (OPMCM) on general devolution matters across the government and on reactivating the DIMC and the DIMWC;
- ✦ Ministry of General Administration regarding management audits and effective human resource management at local levels and within MoFALD itself;
- ✦ Ministry of Women and Social Welfare about gender equality and NGO affairs; and,
- ✦ Ministry of Urban Development concerning municipal affairs.

Development Partners

To facilitate further progress towards a SWAp approach to LGCDP financing, the MoFALD will

enter into a joint financing arrangement with a number of development partners as the best method for promoting donor coordination. However, in order to allow flexibility in the DP financing of LGCDP Phase II, a number of financing mechanisms will be used. They will include a Joint Financing Arrangement (JFA), a Joint Financing for Technical Assistance Arrangement (JFFTA) and a Programme Alignment Approach (PAA). Donor coordination will be orchestrated through a National Advisory Committee which will meet twice a year, a National Advisory Sub Committee which will meet on a more regular basis on operational matters and a number of MoFALD-DP output groups.

4.1.2 Local Level Stakeholders

Local Bodies

The existing two tier system of local body institutions will remain the primary focus of LGCDP II's capacity development activities and, as such, its key stakeholders. LGCDP II will continue to build upon the success of LGCDP's first phase in making LBs more downwardly accountable through the creation of WCFs and CACs which are becoming increasingly able to respond to local demands for improved service delivery. LGCDP II will support LBs in coordinating more closely with other local level governance actors such as WCFs, CACs, IPFCs and I/NGOs. DDCs will be generally involved in the planning, coordination and development oversight functions, whereas programme implementation responsibilities will lie primarily with the line agencies, the VDCs and the municipalities and with the other local service providers.

Local Line Agencies

Up until now LGCDP has forged a limited number of linkages with the agencies of other Ministries which provide services at the local level. This will change during LGCDP Phase II through a renewed effort to strengthen the integrated convergent planning processes at the DDC, municipal and VDC levels linked to the periodic planning processes of these bodies. Cooperation with local line agencies will be enhanced by supporting local economic development/livelihood improve-

ment programming and by encouraging more interaction between WCFs and LAs so that citizens become better positioned to access the full range of local government services. Local line agencies will be involved in the implementation of the sector-specific activities of district, municipal and village councils.

Civil Society Organizations, Non-Governmental Organizations and the Private Sector

MoFALD has already taken a number of concrete steps to harmonize its social mobilization activities with the community development and extension activities of local and International NGOs, many of whom are operating with bilateral and multilateral donor support. As well, LGCDP recently launched a local initiative programme (CAC DAG-4 LIP pilot) that uses the LGCDP's WFC and CAC ward and citizen-based institutions to promote economic development for poor households by linking them to local line agency services, local markets, financial institutions and cooperatives. The results of this pilot programme will eventually be replicated more widely. A working group has been established and a study is under way to find ways of deepening the harmonization of MoFALD-INGO-NGO social mobilization programming based on a number of MOUs that have been jointly signed by them. A semi-autonomous NGO Facility will be established in MoFALD to deliver a range of support services through NGO and CBO channels in a number of targeted vulnerable communities.

Citizens

LGCDP is about citizens. It is specifically concerned with their empowerment and for ensuring that they are provided with basic services. LGCDP II will continue to support and facilitate the WCFs, CACs and other CBOs in order to enhance the access of all citizens to local services. In this regard, WCFs will be considered to be the key community partners for all DDC and VDC activities. More CACs will be created to provide greater opportunities for a larger number of marginalized people to become engaged in local governance.

4.2 National Level Programme Management

Policy Coordination Committee

MoFALD is the GoN's lead ministry for implementing the LGCDP and its national coordinating agency with overall responsibility for programme execution. To carry out these core functions, it has a Policy Coordination Committee chaired by the Ministry's Secretary and a membership comprised of all the Joint Secretaries of the Ministry as well as the Director-General and Assistant DGs of DoLIDAR. This Committee meets at least once every trimester and is responsible for endorsing the programme guidelines and handbooks prepared by MoFALD, approving the Ministry's HRD plan, facilitating programme coordination, managing the programme's thematic areas, providing policy directions to local governance processes and reviewing the progress being made on the annual work plans developed by the LBs and MoFALD itself.

National Advisory Committee

Given the size and scope of the LGCDP and its requirement to coordinate with line ministries and its development partners, a special National Advisory Committee (NAC) has been established to coordinate its programming with them. It meets twice a year, is chaired by the Secretary of MoFALD and is made up of senior officials from MoFALD, Ministry of Finance, National Planning Commission (NPC), related sectoral ministries, FCGO and the heads of the contributing development partners. Its key responsibilities are to act as a programme review and policy making forum, to approve the LGCDP Annual Strategic Implementation Plans and to review the overall progress being made towards the achievement of expected programme results.

National Advisory Sub-Committee

As in the Phase I programme, a National Advisory Sub-Committee (Sub-NAC) will be formed in which representatives of LGCDP's partners will meet on a regular basis (at least every two months and before the PCC and NAC meetings). The Sub-NAC will be chaired by the division head of the Local Self-Governance Division of MoFALD. It will be responsible for the implementation of the policy decisions made by the NAC, for operational

level decision-making, for acting as the consultative coordinating body of the LGCDP and for deciding on LGCDP human resource and technical assistance issues. Senior representatives of the contributing development partners will participate in Sub-NAC meetings. Sub-NAC will lead management of TA activities related to programme and may form other thematic committees as and when required.

Programme Coordination Unit

In order to coordinate LGCDP II day-to-day operations and to ensure the internal coordination of policy matters by the PCC, the existing Programme Coordination Unit (PCU) will continue to function under the supervision of the Local Self Governance Division to coordinate LGCDP activities across the Ministry. The Joint Secretary of the Local Self Governance Division will serve as the National Programme Director of the programme. A full time Under Secretary will continue to serve in the PCU along with other programme staff in order to coordinate the day to day management of the programme under the guidance of the NPD. Since the programme will be fully integrated into the MoFALD, the PCU's role will be to provide technical backstopping for, and coordination of, the programme.

Outcome Coordinators and Output Groups

In LGCDP II, the chiefs of each MoFALD Division will be responsible for the implementation of the LGCDP outcome relevant to the mandates of their divisional responsibilities. This arrangement will ensure that the LGCDP is firmly embedded in MoFALD's regular operating structure. As well, the thematic groups used in LGCDP I for donor dialogue will be replaced in LGCDP II by output groups responsible for undertaking detailed progress and technical reviews and for operational planning. These output groups will include thematic staff members from MoFALD, line ministry representatives and DP sector specialists. It will be led by a designated MoFALD section chief. The output groups will meet at least once every two months.

Good Governance Section

The Good Governance Section of MoFALD will have the responsibility for coordinating and reporting on the activities and issues relating to good

governance, including the handling of grievances and anticorruption measures. A Financial Monitoring and Compliance Unit will be established in PEFA Secretariat at FCCGO to monitor the financial compliance of programme fund. Financial Management Support Unit will be institutionalized in Financial Administration Section/MoFALD to support the LBs on financial management and in implementing PEFA-FRRAP activities. And progress reports on investigations and PEFA-FRRAP implementation will be shared in Trimester Fiduciary Risk Mitigation meetings.

Citizen-Centred Monitoring Arrangement

The Local Governance and Accountability Facility (LGAF) formed in LGCDP I was recognized in the Focused Evaluation as having played a unique and vital role in supporting the mechanisms and building capacities for performing the social accountability functions, including public audits, social audits, civic oversight and corruption surveying. LGAF will be further strengthening as the vehicle for ensuring the quality of programme implementation and results achievement as well for acting as an independent third party quality assurance mechanism. Unlike in the LGCDP-I, there will not be a QAM-like mechanism; rather LGAF will be assigned the added responsibility of third party monitoring. The PCU will take the lead in assuring the quality of programme implementation using external expertise from outside GoN.

Technical Assistance Arrangements

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

The GoN and a range of DPs have agreed to implement LGCDP II by pooling their resources into the single framework with three distinct, albeit complementary, financing modalities namely, (i) Joint Financing Arrangement (JFA), (ii) Joint Funding for Technical Assistance Arrangement (JFTAA), and (iii) Programme Alignment Arrangement (PAA). The Technical Assistance Framework (TAF)

will serve as guidance to mobilize and manage the technical assistance of the LGCDP II to ensure effective implementation of Programme based on GoN ownership and a results oriented and harmonized approach.

The total TA has been divided into three main Pillars. A short description of the Pillars along with their budgetary requirement is presented below:

Pillar I TA for programme implementation support

TA under this Pillar will be used to for two purposes: (1) assist MoFALD in the implementation of LGCDP II activities, at both the national and sub-national levels, and (2) build capacity of the Ministry and local bodies to manage such Program on their own in future. Program Coordination Unit (PCU) and five Regional Coordination Units (RCUs) will need some additional staff resources and one additional RCU will be established. 75 District Governance Advisors and 58 Municipal Governance Advisors will be hired to provide support for LBs and strengthen the linkages with the RCUs. Pillar I will also support short term national consultants to work on specific activities related to programme implementation and administrative and management costs related to the monitoring of programme activities.

Pillar II Policy, research and capacity Development (CD) support

This pillar will be used to support CD initiatives (at both national and local levels) for new areas of work, policy development, and technical reviews and studies, in addition to specialist areas of technical support that cannot be procured in country. This pillar will provide high level policy advisory services on issues such as LB restructuring and decentralization, including fiscal decentralisation. Pillar II will also be used to address emerging policy development needs jointly identified by GoN and the DPs.

Pillar III Policy and programme support Facility (PPSF)

Pillar III will cover the management of DP coordination of support to LGCDP II and activities to ensure efficient and effective liaison between the DPs and GoN. Pillar III will include TA to provide

strategic policy guidance to the DPs and GoN as well as analytical support, quality assurance and programme monitoring, reviews and evaluations of LGCDP II, including a Mid Term Review (MTR), thematic evaluations and an independent evaluation towards the end of the programme period. This three pillar framework for TA support arrangements will provide the programme with an efficient and effective mechanism for high level national and short-term international technical support, policy advice, quality assurance and oversight and the pilot testing of policy development initiatives. The functioning of these arrangements, including the transition to full GoN responsibility for TA management, will be reviewed on a regu-

lar basis and will be refined and aligned with the GoN systems as required.

DPs working through the Programme Alignment Arrangement (PAA) who wish to support LGCD TA activities will work through the TASC in the same way as JFA/JFTA partners. This will ensure that all LGCDP TA is aligned and coordinated to meet LGCDP capacity development objectives. Their funds will be managed in accordance with their respective PAA agreements.

The following table summarises the management arrangements that will be used to manage LGCDP II at the centre.

Table 2 Management Arrangements at the Centre

Program Structure	Function	Meeting Frequency	Members and Chair
Policy coordination Committee (PCC)	Apex <i>executive</i> body of the programme	Every trimester (at least)	All senior MoFALD officials (including DoLIDAR officials); chaired by the MoFALD Secretary
National Advisory Committee (NAC)	High-level inter-agency <i>steering</i> committee	Bi-annual (i.e. every six months)	Senior officials of MoFALD, MoF, line ministries, independent agencies, and all LGCDP donor representatives (under any of the four funding arrangements); chaired by the MoFALD Secretary
National Advisory Sub-Committee (sub-NAC)	<i>Consultation</i> and coordination; operational decision-making forum	Every two months (at least)	Senior representatives from MoFALD, MoF, line ministries, donor representatives; chaired by the LGCDP National Program Director
Output Groups	<i>Thematic planning, monitoring and issue resolution. Trimester I reporting to sub-NAC</i>	Every two months (at least)	Representatives from MoFALD, NPC, line ministries and development partners; chaired by the output manager
Trimester Fiduciary Risk Mitigation Meeting	<i>Fiduciary risk investigations and implementation of the PEFA-FRRAP</i>	Every trimester (at least)	Senior representatives from MoFALD, MoF, line ministries, donor representatives; chaired by the MoFALD Secretary
Technical Assistance Sub-Committee (TASC)	<i>TA supervision</i> basis	On monthly	Senior representatives from MoFALD, MoF, donor representatives; chaired by the National Programme Manager

4.3 Programme Management at the Local Level

The programme will be managed at the local level as follows:

- ✦ Local Bodies will be the programme's implementing and coordinating Agencies and the Local Development Officers, Executive Officers and VDC secretaries will support the coordination of the LGCDP activities at local level.
- ✦ LGCDP activities will be integrated into annual LB plans that will be approved by LB councils.
- ✦ Local Governance Advisor and Urban Governance Advisor and other experts will be hired by the Programme Recruitment Facility and be deputed to DDCs, municipalities and selected VDCs to support DDC, municipality and VDC to implementation programme with a focus on monitoring, reporting and facilitation.
- ✦ In order to provide operational guidance on CD, monitoring and evaluation, PFM, SM and other specialized areas to LBs and report to the respective Programme Coordinators as well to monitor LGCDP implementation, a sixth Cluster Coordination Unit will be created to support the LBs situated in Bagmati and the hill districts of Janakpur zone. They will be renamed Regional Coordination Units (RCUs) and will be over time be fully staffed by civil servants deputed from government.
- ✦ The Programme Recruitment Facility will work with relevant departments in Nepal's universities to mobilize post graduate students to serve as volunteers for providing IT support to selected LBs². The PRF will develop the required operational manuals for this scheme. In every VDC and municipal ward, the LGCDP social mobilizer will act as the lead social mobilizer in their respective areas.

4.4 Programme Monitoring, Reporting and Evaluation

The following mechanisms will be adopted to ensure the achievement of programme results through decision making processes based on information derived from an effective M&E system. Monitoring and evaluation activities will follow the

newly revised national M&E Guidelines prepared by NPC.

4.4.1 Programme Monitoring and Reporting

Monitoring

Programme monitoring will take place at several levels and be guided by continuous reference to the performance indicators in the programme's log frame and in its monitoring and evaluation framework. The following monitoring arrangements will be used to support the management of LGCDP II.

- ✦ At the community level, community organizations and WCFs will be encouraged to build their capacity to oversee local governance and service delivery activities. Independent five member monitoring and facilitating committees will be formed for each project with representation drawn from the concerned WFC. At least two members of this committee will be women selected from the beneficiary community. These committees will be responsible for project monitoring and supervision. No final payments will be made in either user group or contractor implemented projects without a recommendation from this committee. Supervision and monitoring committees consisting of representatives from local political parties, women members of WCFs and CACs, line agencies formed under the provision of Local Bodies' Resource Mobilization Guidelines will be capacitated and operationalized.
- ✦ At the community level, community organizations (primarily WCFs, CACs and User Committees), will be capacitated to directly monitor local governance activities and in particular the delivery of services. At the VDC and Municipal levels, the capacity of their Integrated Planning Committees (IPCs) will be strengthened to monitor projects and the provision of services within their respective areas as well as to support the direct monitoring activities of community organizations. VDC and Municipal SMCs will be responsible for monitoring the full range of social mobilization activities in their particular areas. LSPs will be accountable to LBs through these committee structures.

¹ The specific criteria for choice of LBs will be developed in the early stages of LGCDP II.

- ✦ Independent citizen survey will be carried out on annual basis in some selected VDCs and municipalities for feedback of citizens into local service delivery process .
- ✦ DDC Planning and Administrative Officers will be the focal persons for monitoring activities at the DDC level. They will be supported by Local Governance Advisors. In addition to supporting the lower level structures, DDCs will carry out at least one annual social audit and organize meaningful public hearings twice a year following guidelines approved by MoFALD. DDC monitoring will include the monitoring of NGO activities in the district. The District Technical Office will monitor compliance with the procurement and environment safeguards management plans for the infrastructure projects of local bodies and prepare progress reports on devolved sector programmes. At the regional level, the Regional Coordination Units will support and monitor citizen-centred monitoring activities and selected infrastructure projects. They will make use of participatory methodologies for preparing annual development and procurement plans on a selective basis.
- ✦ A full-functional Monitoring and Evaluation Division will be established in MoFALD with required number of sections to introduce and institutionalize the results-based monitoring systems at MoFALD and LBs.
- ✦ The MoFALD's M&E Framework will provide the foundation for programme monitoring at the national level and a system of LB web-based reporting will be developed during the initial stages of LGCDP II. As per the FRRAP guidelines, MoFALD will undertake spot checks of local body compliance with financial management guidelines and cooperate with the MoGA to conduct management audits of at least one district in each development region each year. The LBFC will monitor and inspect the quality of MCPM assessments while the responsible MoFALD sections will undertake monitoring field visits to check the timeliness of social security payments and in cooperation with DoLIDAR, the quality of user and contractor implemented infrastructure projects. As well, on a sample basis, they assess the levels fiduciary risk in the financial management of a number of local bodies. The practice of joint moni-

toring at the district and central level will be continued and strengthened. Joint Secretaries, Under Secretaries, and Section Offices of MoFALD will be mobilized for monitoring MoFALD programming across the entire nation.

- ✦ The Ministry's M&E framework will be reviewed on a regular basis to determine its utility as a tool for informing Ministry decision making processes.

4.4.2 Programme Evaluation

The following tools will be used for evaluating the programme.

- ✦ A baseline survey will be undertaken at the start of LGCDP Phase II. It will take into account the work done by donors (particularly ADB and UNDP) in relation to the collection of baseline data on related projects. After completion of the programme, an end-of-programme evaluation will be undertaken against the baseline indicators in order to evaluate the achievement of programme results.
- ✦ An independent Mid-Term Evaluation of LGCDP II programming will be undertaken during the first quarter of the third year of the programme. In addition, a Public Expenditure Tracking Survey will be carried out by independent contractors twice over the life of the programme..
- ✦ One or more focused evaluations will be undertaken toward the end of the programme in order to review the effectiveness of social mobilization programming, sector devolution, social security programming, environment friendly local governance and the efficacy of local economic development programming within a governance SWAp.

4.4.3 Programme Reporting

The progress being made against Annual Strategic Implementation Plans (ASIP) targets will be reported on at least every trimester (i.e., every four months) and the resulting reports will be posted on MoFALD's web site. These trimester reports will be based on a roll up of the progress reports prepared by VDCs, DDCs and municipalities that cover the activities of User Groups, WCFs, CACs and V/M/DSMCs. DDCs and municipalities will publish annual reports and post them on their web sites. The MoFALD's M&E Section will prepare an annual results-based report that will

include a detailed assessment of at least one of LGCDP main component. The parameters and principles for all this porting will be developed during the initial stages of LGCDP II. The activities to be implemented to achieve LGCDP's results will be detailed in a Strategic Action Plan.

A comprehensive annual report will be prepared for the NPC and the DPs. It will include a detailed financial report and a line-by-line report on expenditure against line budget items. In addition, as part of its commitments under the FRRAP, MoFALD cooperate with the OAG and the MOF to prepare an annual audit report for submission to the donors.

Detailed reporting requirements outlining tables of content, preparation responsibilities, reporting frequencies and roll-up modalities will be prepared and their application overseen by the MoFALD M&E section. Programme reporting will be linked to and built on the information gathered through the MoFALD's improved M&E system.

The LGCDP will be jointly reviewed by DPs and MoFALD on a regular basis. At the regional level, RCUs will be responsible for reviewing programme performance against LFA performance indicators.

4.5 Assumptions, Risks and their Mitigation

4.5.1 Assumptions

There are several policy assumptions that have been made in order to ensure the smooth implementation of LGCDP II. They include:

- ✦ The **voice and demand side governance** agenda will need to be fully supported at the national political level. LGCDP provides a good framework for the upward channelling of community demands on a national scale.
- ✦ **Local elections** are a pre-requisite for the permanent institutionalization of representative/political accountability and for the long term improvement in service delivery standards.
- ✦ **PMF plans** for improving the performance of central and local government and devolved sectors must be linked with each other in order to

improve service delivery at the local level. The systematic implementation of the PEFA-FRRAP can make a significant contribution towards preventing corruption resulting from assumptions of impunity

- ✦ The **community-based model of service delivery** can be made relevant even in remote and politically disturbed districts.
- ✦ LGCDP type programming can create opportunities for preparing for **administrative and fiscal federalism**. For example, the system of formula-based fiscal transfers initiated in LGCDP I through the institutional transformation of the Local Bodies Fiscal Commission (LBFC) is proving to be a useful tool for preparing for fiscal federalism.
- ✦ LGCDP II represents a platform for demonstrating a continued commitment by both the donors and the GoN to building a sustained momentum for **advancing the "idea" of a SWAP approach to improved local governance**.

4.5.2 Risks and Mitigation Strategies

The ability to anticipate risks and manage them in a systematic way will be a major determinant of the success or failure of LGCDP II. In broad terms risks can be classified into seven categories, each of which contains sub risk factors:

1. Operational risks covering human resource, operational management and critical information risks affecting the bureaucratic integrity at local levels;
2. Planning and budgeting risks caused by the untimely approval of the budget at central level, the untimely determination of ceilings down at local levels, the lack of convergence between all of the actors in the integrated planning and budgeting processes, ineffective internal, external and joint monitoring arrangements and the lack of operation and maintenance follow-up;
3. Institutional risks in the form of CACs and WCFs formation without due process, without provision for oversight functions and lags in DIMC and LBFC operationalization;
4. Coordination risks between central and local level agencies and between administrative and sectoral devolution;
5. Financial risks associated with poor budgeting;

6. Developmental risks related to policy inconsistencies, political dysfunctionalities and context challenges; and
7. Reputational risks associated with a lack of stakeholder confidence.

A systematic approach to risk management will be an integral part of MoFALD's LGCDP Phase II management regime. A regular review of risks will be an essential part of the systematic monitoring processes of LGCDP II and risks and miti-

gation strategies will be continuously adjusted on the basis of these reviews. A section on risks and their mitigation will be included in trimester reporting. In addition, risk management and mitigation strategies will be reviewed on a trimester basis by the project's output groups and biannually as part of NAC meeting agendas.

A risk mitigation strategy is presented in Annex 2 of this document.

Programme Financing

5.1 Programme Budget

The total budget for LGCDP II is US\$ 1,362 million. It includes a proposed DP JFA contribution of US\$ 236 million that includes a SPMP contribution of US\$ 25 million, a UNJP contribution of US\$ 45 million and GIZ contribution of US\$1.1

million. The balance of the programme budget not covered by the DPs under the JFA, JFTA and PAA will be assumed by the GoN.

The Table below provides an overview of funding that is expected to be available for LGCDP II from the various development partners.

Table 3 Funding Commitments

Funding Source	Total in budgeted currency			Approximate total in USD		
	JFA	JFTA	PAA	JFA	JFTA	PAA
DFID	GBP 30 million		CSP (GBP 20 million)	USD 46 million		CSP (USD 31 million)
Norway	NOK 60 million		CFLG (NOK 40 million) LDTA (NOK 4.5 million)	USD 10 million		CFLG (USD 7 million) LDTA (USD 0.8 million)
SDC	USD 10 million		SBLL (USD 3.8 million) SALG	USD 10 million		SBLL (USD 3.8 million) SALG
Denmark	DKK 35 million		Growth and Employment (DKK 190 million)	USD 6 million		Growth and Employment (USD 33 million)
UNDP	USD 0.2 million	USD 1.8 million		USD 0.2 million	USD 1.8 million	
UNCDF	USD 1.6 million			USD 1.6 million		
UNICEF	USD 1.12 million		CFLG (USD 3.35 million)	USD 1.12 million		CFLG (USD 3.35 million)
UNFPA	USD 0.4 million		Direct to 18 DDFs (USD 5.76 million)	USD 0.4 million		Direct to 18 DDFs (USD 5.76 million)
UN Women	USD 0.1 million	USD 0.3 million		USD 0.1 million	USD 0.3 million	
ADB			SPMP (USD 33.5 million)			SPMP (USD 33.5 million)
USAID			Sajhedari (USD 25 million)			Sajhedari (USD 25 million)
GIZ			Direct LGCDP II TA (USD 1 million)			Direct LGCDP II TA (USD 1 million)
JICA			GeMSIP COMCAP SMES II			GeMSIP COMCAP SMES II
TOTAL				USD 77.5 million		USD 144 million

Table 4 LGCDP - II Programme Budget (Amounts in millions of NPRs)

LGCDP II: INDICATIVE BUDGET (NRS, 000s)							
Outcomes	Outputs	ANNUAL BUDGET (NRS, 000s)				TOTAL	
		Year 1	Year 2	Year 3	Year 4	NRS	US\$
OUTCOME 1: Citizens and communities actively engage with local governance actors and hold them to account	OUTPUT 1: Citizens and community organizations are empowered to actively participate and assert their rights in local governance	1,685,240	1,823,340	1,956,140	2,043,440	7,508,160	88,331,294
	OUTPUT 2: Accountability mechanisms for local governance are in place	111,750	103,950	103,950	103,950	423,600	4,983,529
	OUTCOME TOTAL	1,796,990	1,927,290	2,060,090	2,147,390	7,931,760	93,314,824
OUTCOME 2: Local Bodies are more responsive to citizens' demand	OUTPUT 3: LBs' access to resources increased	21,556,550	23,520,840	25,494,494	28,185,013	98,756,897	1,161,845,847
	OUTPUT 4: Public financial management system improved	93,650	139,500	200,000	255,000	688,150	8,095,882
	OUTPUT 5: Institutional and human resource capacities of LBs and central level agencies involved in local governance strengthened.	748,200	886,000	855,100	462,800	2,952,100	34,730,588
	OUTCOME TOTAL	22,398,400	24,546,340	26,549,594	28,902,813	102,397,147	1,204,672,318
OUTCOME 3: All citizens are provided with efficient and effective local services	OUTPUT 6: Access to and quality of local infrastructure and other socio-economic services administered by LBs are improved	272,600	397,600	302,600	294,600	1,267,400	14,910,588
	OUTPUT 7: Strengthened integrated planning, budgeting, monitoring and evaluation and coordination amongst local governance actors	647,100	1,213,500	1,115,000	1,115,000	4,090,600	48,124,706
	OUTCOME TOTAL	919,700	1,611,100	1,417,600	1,409,600	5,358,000	63,035,294
OUTCOME 4: Strengthened policy and institutional framework for devolution, sub-national governance and local service delivery	OUTPUT 8 : Refined policy on local governance and improved inter-agency cooperation	31,500	11,000	11,000	11,000	64,500	758,824
	OUTPUT 9 : Policies developed for devolution and federalism	-	8,000	30,000	-	38,000	447,059
	OUTCOME TOTAL	31,500	19,000	41,000	11,000	102,500	1,205,882
	PROGRAMME TOTAL	25,146,590	28,103,730	30,068,284	32,470,803	115,789,407	1,362,228,318

5.2 Funding Arrangements for Donors and Government

There will be both direct and aligned financial support to LGCDP II. The direct support will be provided by development partners in two ways: (1) as programme grants to LGCDP through the Joint Financing Arrangement as part of the total transfer pool of the central budget; or (2) as part of the Joint Funding for Technical Assistance (JFTA). Aligned support will also be provided in two ways, either by (1) aligning existing and new governance programmes and local infrastructure programmes with the LGCDP II by agreeing to use WCFs and D/MSMCS for prioritizing spending, or by (2) providing targeted TA to MoFALD as part of an already existing and/or new TA programme which has a larger focus than LGCDP and/or MoFALD alone. In this case PFM support to MoFALD will be part of a more general TA programme focused on PFM.

The Government of Nepal will blend all types of regular conditional, unconditional and sectoral grants with LGCDP as the financial contribution of the GoN to the programme. These blended resources will include the regular GoN block grant to LBs, the regular sector conditional grants provided to all DDCs through the DDF, conditional grants provided to all municipalities and devolved sector grants channelled through the DDF to line agencies for primary education, primary health, livestock development, and agriculture extension. At the centre MoFALD will blend all types of regular programme funds available for central level activities with LGCDP. MoFALD will align all stand-alone programmes and their funds implemented with the support of development partners with the LGCDP using common frameworks for reporting, auditing, monitoring and social accountability applicable to LGCDP. At the local level, DDCs will blend their own sectoral funds with devolved sector grants and channel them to line agencies for implementation. DDCs will not be involved in implementation in those areas where the sector line agencies have the requisite competencies.

Annex 3 presents the funding arrangements for development partners.

5.3 Fund Flow

The government will blend LGCDP II funds with conditional and unconditional grants and channel them to DDCs, municipalities and VDCs through the DDF, MDF and VDF respectively. The fund flow mechanism for LGCDP-II is set out in Annex 4.

The following fund flow mechanisms will be established and operationalized:

- ✦ JFA partners will channel their funds to the GoN's Foreign Currency Account and the funds will be accounted for in the red book of the MOF. JFA funding will use FCGO's regular fund flow mechanisms.
- ✦ JFA partners contributing to the JFTA will channel their funds to the LGCDP TA account through an FCA to finance technical assistance for Pillars I and II. Funds received for TA will be accounted for in the TA Book of MoF.
- ✦ Non-JFA JFTA Partners will channel their funds directly to the LGCDP TA account for executing TA activities and to DDF/VDF/MDF for executing programme related activities at the local level.
- ✦ The programme details listed in the programme book part 2 of the NPC will be jointly planned and will follow an integrated planning process using existing funding and authorization channels.
- ✦ At local levels, the devolved sector funds of the GoN and sector conditional grants of LGCDP to line agencies will be directly transferred to line agencies through the DDF following customary processes, but the plan and programmes will have to be approved by local councils through their participatory planning processes.
- ✦ Programme Alignment Partners may channel their funds through the LGCDP TA account and DDF/VDF/MDF with their programming reflected in LGCDP II ASIP and LB annual plans.

5.4 Financial Management

The following mechanisms will be adopted for the financial management of LGCDP.

- ✦ Local bodies and devolved line agencies and GoN agencies at local levels receiving funds

from the LGCDP will follow LSGA, LSGR and LBFAR planning, budgeting, accounting, auditing and reporting procedures .

- ✦ Central level GoN agencies including MoFALD and the Line Ministries receiving funds included in the Red Book will follow the GoN's procurement act and rules for their financial management of the programme.
- ✦ There will be separate operational procedures for the management of the funds received for the financing of Pillar I TA activities under the JFTA. The operational procedures for this arrangement will be set out in an agreement between the GoN and the DPs as recommended by the NAC and discussed in TASC.
- ✦ UNJP NEX/NIM system will be applied to the implementation of Pillar II and III TA activities.

5.5 Local Level Planning and Budget Processes

A Participatory Planning Process following Local Self-Governance Act regulations will be the basis for programming at the local level. The timing and sequencing of programme implementation will be aligned with the LA planning cycle. LB councils will approve their annual plans for their programme at the local level. Annex 5 sets out the steps to be followed in order to adhere to the prescribed participatory planning process. Annex 6 describes the budget allocation system and modality of the district development planning system that incorporates the resource allocations of all of the sector programmes.

5.6 Sector Wide Approach

The LGCDP-II programme document establishes GoN framework for local governance and community development programme. Over the life of the programme, LGCDP will move towards the establishment of an all-encompassing ministry-wide SWAp by establishing three sub-sector SWAps in the areas of governance, sector devo-

lution and local infrastructure development. In this way, LGCDP will take the lead in developing the necessary framework and build the required capacities for moving the Ministry's programming in the direction of a comprehensive SWAp. The process of establishment of full SWAp will be finalised by the end of the programme period .

- ✦ The trail bridge sub-sector within the local transport infrastructure is already being implemented by DoLIDAR in sector wide approach. Other sub-sectors within local transport infrastructure will also be implemented by DoLIDAR in line with LGCDP framework. .
- ✦ The devolved sector SWAp will be established in coordination with line ministries. The activities financed under this mechanism will be executed by the line agencies as per the LSGA and LSGR.
- ✦ MoFALD will be the lead agency for the execution of the governance SWAp which will involve bringing all governance related programmes of the Ministry under a single framework.
- ✦ All of the activities undertaken in the name of the three SWAps will be included in the ASIP of the LGCDP Framework.
- ✦ Ministry's Monitoring and Evaluation Section will develop a single M&E framework for managing this SWAp.
- ✦ SWAp will help LBs to integrate and harmonize all of their future year development programming into a single comprehensive annual plan. As well, using these three SWAps as programming guides will facilitate the holding of local bodies to account and help the MoFALD to carry out its various accountable functions.
- ✦ The national and international non-government organizations involved in local governance and community development will execute their programme in consistency with the LGCDP II framework. It will be mandatory for I/NGOs to include their programme in LBs' annual planning process. At the centre, NGO facility at MOFALD will coordinate such process whereas NGO desk at DDC will be made responsible to facilitate at local level.

ANNEXES

Indicators	Baseline	Targets
Outcome 1		
Citizens and communities actively engage with local governance actors and hold them to account		
Extent of WCFs and CSOs' oversight of services provided by local governance actors and extent to which local governance actors act upon observations raised by WCFs and CSOs	To be determined	X % of citizens participate in local governance processes such as planning, public audit, public hearings by end of project
	538 VDCs covered by CSO monitoring in first phase	80% of WCFs participate in oversight of LB performance by end of project and 50% of observations are acted upon by local governance actors by 2016/17
	34,800 WCF established and participate in local planning process	WCFs established in all Wards (with settlements) with about 1 million members mobilized for local planning and monitoring.
	35% LBs approved infrastructure projects based on demands from WCFs in 2011/12	<ul style="list-style-type: none"> 80% of the total number of projects and 2/3 of total budget included in annual plan of VDCs are based on WCFs demand 70% of the total number of projects and 1/2 of total budget included in annual plan of municipalities are based on WCFs demand
Output 1		
Citizens and community organizations are empowered to actively participate and assert their rights in local governance		
VDCs and Municipalities conducted ward level planning workshop to prepare annual plan as per guideline.	Mapping of VDCs and Municipalities conducted ward level planning in FY 2012/13	95 % VDCs and Municipalities conducted ward level planning workshop annually by the end of 2016/17
Ward level planning workshop with documented participation of women, children and DAG.	Documentation of attendance (disaggregated data)	90 % Ward level planning workshop documented participation of women, children and DAG
CAC members engaged in Livelihood Improvement Programme (LIP).	Less than 100 CACs have implemented Livelihood Improvements Plans in 2012/13	3,000 graduate CACs have received LIP support by 2016/17, supporting an estimated 25,000 to get out of poverty
WCF are empowered to actively participate and assert their rights in local governance	5% WCFs are under Category A and 30% under Category B on performance basis.	75% of WCFs under Category either A or B.

Indicators	Baseline	Targets
Number of local bodies (DDC, Municipality, VDC) that have incorporated children's needs in their annual plan from "balbhela" (annual children consultation meeting)	20 VDCs in 5 districts of MFDR, 32 VDCs in 4 districts of EDR, 10 VDCs in 3 districts of CDR have incorporated children needs in their annual plan 2012/13	At least 15 priority DDCs, 7 municipalities and 800 VDCs incorporated children's needs in their annual plan by 2016/17
All projects at VDC level monitored	LGAF supported 538 VDCs with monitoring and oversight activities in 2012/13	90% of LBs conduct Social Audit, Public Audit and Public Hearing as per guideline in 2016/17
Output 2		
Accountability mechanisms for local governance are in place		
WCFs start practicing social accountability tools in monitoring of local governance actors' activities	N/A	Social accountability tools integrated in Social Mobilisation process and all WCFs practice according to revised Social Mobilisation Guidelines
Civil society led compliance monitoring in 75 districts	Two rounds of CSO grants for 5 to 9 months of activities in 54 and 75 districts	Civil society led compliance monitoring in all 75 districts initiated by 2013/14 and fully functional in all districts by end of programme
National accountability initiatives are closely aligned	Individual reports, e.g. LGAF, PRAN	Annual national accountability report
Outcome 2		
Local Bodies are more responsive to citizens' demand		
LB performance in meeting MCPMs	LBs MCPM performance in 2012/13	<ul style="list-style-type: none"> • 30% reduction of failed MC in LBs by 2016/17 • 10 pct points average MCPM improvement by 2016/17
MoFALD annual performance index (TBD) developed	To be determined	To be determined
Improved performance of local governance actors in financial management, HR development, M&E and reporting	To be determined	To be determined
Output 3		
Local Bodies' access to resources increased.		
Increase in LBs' own source revenue generation	To be determined by baseline survey	10 percent increment of own source revenue annually.
Increased revenue assignment base for LBs	To be determined by baseline survey	10 percent increase annually in revenue coverage ratio of LBs.
% of total GoN budget allocated as block grant to LBs each year.	Total unconditional grants in 2011/12 was 3.8% (DDC: 0.9%; VDC: 2.8%; Municipalities: 0.1%) of total government expenditures	Annual allocation of block grant to LBs from GoN is at least 5 % of total government budget by 2016/17.
Better projection and predictability of Fund of LBs	2012/13 baseline	Less than 20% deviation between actual and budgeted amount by 2016/17

Indicators	Baseline	Targets
Timely transfer of fund to local bodies	2012/13 baseline	50% of annual budget disbursed by the end of second trimester by 2016/17
Output 4		
Public Financial Management System Improved		
Fiduciary risk reduced by full implementation of PEFA/FRRAP	PEFA /FRAAP Prepared	PEFA/FRRAP targets achieved by 2015/16
Evidence of improvements in the procurement system	NA	LBs prepare annual procurement plan by 2014/15
FMs and procedures improved for timely and reliable financial reporting and a reduction in audit arrears	Accounting Accounting software in 200 VDCs and accrual accounting system introduced in 6 municipalities Others NA	Accounting Introduction of accounting software in 1000 VDCs by Q4 2014 and accrual accounting system in 20 municipalities by 2016/17 Financial Statements 100% of required LB financial reports produced within deadline by 2014/15 including trimester and annual reports. Audit Reduction of audit arrears by at least 40% annually (in monetary terms)
Output 5		
Institutional and human resource capacities of LBs and central level agencies involved in local governance strengthened.		
Improved management support for local bodies	2012/13 staffing levels	<ul style="list-style-type: none"> • More than 90% VDC Secretaries in office for at least 6 months in 2016/17 • 75% of Municipalities and DDCs adhere to two year tenure of EO/LDO in 2016/17
TA support roles institutionalised	2012/13 long-term TA support roles in PCU and RCU	<ul style="list-style-type: none"> • RCU Coordinators roles transitioned • Programme Recruitment Facility operational • Other roles to be determined
Outcome 3		
All citizens are provided with efficient and effective local services.		
Evidence in improvement in quality of local infrastructure projects	N/A	Out of the total number projects checked by quality lab, 95 % are of good quality by the end of 2016/17
Percentage of service receivers reporting services received on time and to prescribed standards	To be determined in baseline survey	50 percent of citizens receive LB's services in stipulated time at prescribed standards by 2016/17
Local bodies implement community infrastructures	31,650 community infrastructure constructed in 2011/12 benefitting 1,234,340 households	<ul style="list-style-type: none"> • # infrastructure projects annually benefitting # households • 25% of community infrastructure implementations are disaster resilient
Output 6		
Access to and quality of local infrastructure and other socio-economic services administered by LBs are improved		
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	Technical standards are available <ul style="list-style-type: none"> • Labour base rural road construction manual is issued • Quality lab established in 35 districts but not functional 	<ul style="list-style-type: none"> • Revise and updated technical standards are documented and applied for all local infrastructure and for service delivery activities by 2014/15; • LBs receive funds for infrastructure projects on a predictable and timely basis by 2016/17 and rural roads make use of environmentally labor based technology in conformity of DTMP;

Indicators	Baseline	Targets
		<ul style="list-style-type: none"> Quality Lab established and functional in DoLIDAR 2016/17
Community level dispute settlement through mediation	About 300 community mediation center established of 200 VDCs of 20 Districts	<ul style="list-style-type: none"> XX % increase in the number of VDCs / municipalities covered by community mediation services compared to the baseline data. (Percentage to be determined after baseline data are obtained) XX % increase in the number of disputes settled through mediation compared to the baseline data. (Percentage to be determined after baseline data are obtained)
Increased coverage of vital event registrations under 5 yrs	To be determined	Birth registration of 80% of children under five by end of 2016/17
Coverage and timeliness of social security and social protection benefits made through a unified MIS registration system and delivery innovations such as branch less banking	<ul style="list-style-type: none"> Banking channel in district headquarter and XX major municipalities Branchless banking in 2 districts piloted 	<ul style="list-style-type: none"> All VDCs and municipalities update social security beneficiaries annually; 100% coverage of eligible recipients of social security payments; All payments made within 30 days of due date by 2016/17; Branchless banking will reach to 61 districts by 2016/17
% of VDCs covered by ilaka service centre	To be determined	33% VDCs received services from ilka service centre
Local Bodies grievance system established	No systematic mechanism to report to local grievances to district and central officials	75% of DDCs have grievance place with trimester reports
Output 7		
Strengthened integrated planning, budgeting, monitoring and evaluation and coordination amongst local governance actors.		
Evidence of systematic and on-going interaction between LBs and other local governance actors in participatory planning and oversight processes (periodic plan).	Baseline: DDC= 6, Municipality = 50	<ul style="list-style-type: none"> 75 % DDCs and 95% municipalities have current periodic plans by 2016/17 Sectoral allocation based on illaka level recommendation and no duplication between sectoral and LBs planned activities.
Percentage of local committees that involve local governance actors in accordance with LBs' Resource Mobilisation and Management Operation Guidelines (IPFC, Monitoring and Supervision Committee, and Project Monitoring and Facilitation Committee)	21 municipalities applied the IPFC guidelines	<ul style="list-style-type: none"> LBs meet with local representatives of other line ministries, INGOs, NGOs and other actors (child club network, women network and DAG)working in their areas at least twice annually 90% of VDCs and Municipalities follow the membership provision in the local committees (such as Integrated Plan Formulation Committee, Monitoring & Supervision Committee) in accordance with LBs' Resource Mobilisation Guideline* (LBRMG) formed by 2014/15
Proportion of capital funds that are allocated and spent to target groups by LBs	To be determined	At least 35 % of block capital fund of LBs are allocated and spent on targeted group annually as per the demand of groups such as Balbhela for 10% resources allocated for children

Indicators	Baseline	Targets
% of youth (aged 15-24) from the district level youth network who participate in local government planning process	1.4% in DDC council meeting and 1.7% in district IPFC meeting in 18 UNFPA supported districts (2012/13)	At least 15% of the total participants are from youth networks in the DDC council meeting and district IPFC meeting by 2016/17
# of local bodies (DDC, municipalities, VDCs) that have adopted CFLG processes, population issues integrated gender-responsive budgeting, gender auditing and EFLG	<ul style="list-style-type: none"> • CFLG baseline 18 DDCs • GRB baseline, DDC=0, Municipality =0 • About 10 % infrastructure projects consist of EMP • No declared EFLG by 2013/14 	<ul style="list-style-type: none"> • At least 65 % VDC plan are in line with article 19 of RMG by the end of project period. • CFLG adopted in all DDCs and municipalities by the end of 2016/17 • 20 DDCs and 15 Municipalities will be declared child friendly • Gender Responsive Budget implemented at least in 50 DDCs and 40 Municipalities by the end of 2016/17 • At least 300 VDCs, 4 Municipalities and 4 DDCs will be declared as EFLG by 2016/17 • At least 30 % projects of local bodies will have Environment Management Plan (EMP) by the end of 2016/17
Annual independent citizens' perception survey completed	None	80% of indicators in citizens' perception survey shows improvement from baseline (2013/14) in 2016/17
Outcome 4		
Strengthened policy and institutional framework for devolution, sub-national governance and local service delivery.		
LSGA reviewed and amended to be inclusive and in conformity with the constitution and sectoral laws.	LSGA (1999)	LSGA amended
Local governments categorized and restructuring plan developed.	N/A	Local governments categorized by 2014/15 and LB restructuring plan developed and implemented by 2016/17
Guidelines/manuals/policies updated.	Existing manuals and guidelines	<ul style="list-style-type: none"> • DIP reviewed and approved by 2014/15 • Updating of guidelines /manual/policies completed by 2015/16
Output 8		
Refined policy on local governance and improved inter-agency cooperation.		
LSGA reviewed and amended to be inclusive and in conformity with the constitution and sectoral laws.	LSGA (1999)	LSGA amended
Local governments categorized and restructuring plan developed.	N/A	Local governments categorized by 2014/15 and LB restructuring plan developed and implemented by 2016/17
Output 9		
Policies developed for devolution and federalism		
Devolution policy refined in the context of federal governance	N/A	Policy framework for legal, institutional and fiscal devolution prepared by 2016/17
LBFC restructured to assume responsibility for fiscal federalism	Current LBFC structure	LBFC restructured by end of 2014/15
Local Government Restructuring Commission established	No LGRC in place	LGRC established

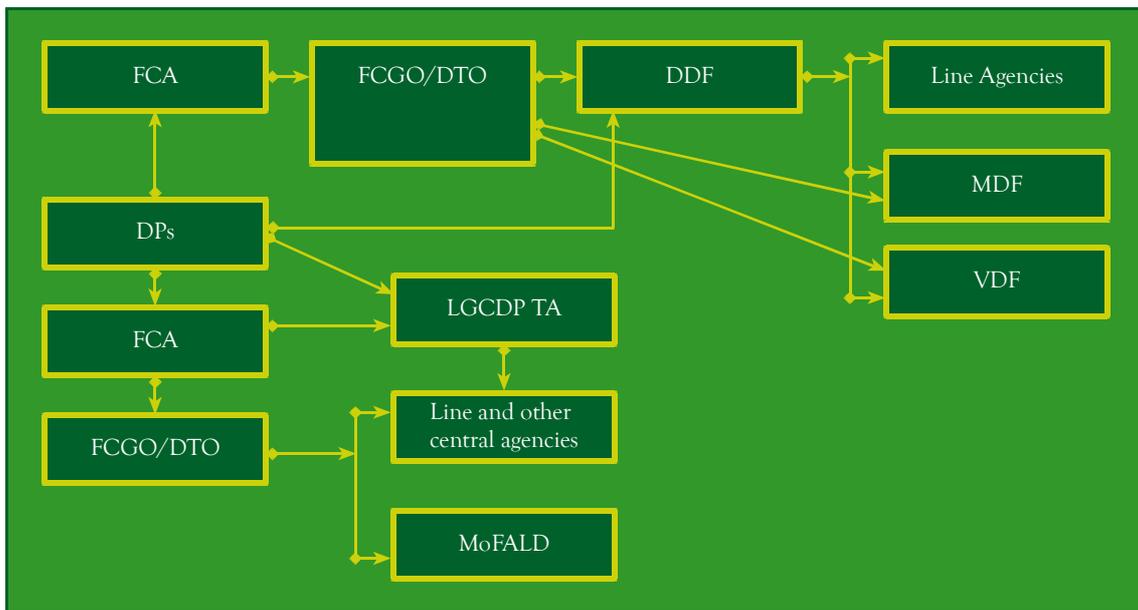
Component	Risks	Anticipated Risk Levels	Management Strategy
1) Social Mobilization	Social Mobilization may create higher demand than the supply capacity	M	Livelihood Improvement Plan will be introduced for CAC
2) Fiscal Decentralization	Resistance from LAs on performance-based conditional grants Resistance from LBs on performance-based conditional grants	HM	PBCGs will be introduced on a gradual manner
3) EFLG	Competition among the stakeholders	M	Effective coordination will be devised among stakeholders
4) Local Government Restructuring	Existing LBs may resist change	H	Political consensus at the centre will be sought
5) Local Governance and Accountability Facility	Conflict of interest may arise with development -NGOs	M	Advocacy-based NGOs will be motivated to get grant from LGAF
6) Conditional Cash Transfer	Households have less incentives in CCT	H	CCT will be extended in the most poor areas
7) Participatory Planning Process	LBs may not fully comply with the participatory planning process in the absence of elected representatives	L	IPFC, WCF and CAC will be empowered to make able to exert pressures on LBs to have compliance on PPP.
8) Fiduciary Risks at VDCs	Increasing risks of fiduciary risks at VDCs due to fragile politics	H	VDCs will be classified into high, medium, and local risks zone and special M&E measures will be devised in high risks VDCs
9) Procurement Management	Non-compliance of annual procurement plan	H	Annual procurement plan will be made mandatory and there will regular follow-up the annual procurement plan from RCU
10) Resource Utilization	Corruption or abuse of power by local officials	M	FRRAP will be implemented with zero-tolerance policy
11) User Committee	Political interfere and corruption in User Committee	H	User Committee will be formed in the presence of WCFs and CAC

Component	Risks	Anticipated Risk Levels	Management Strategy
12) Social Security	Corruption in social security allowance by stakeholders	M	WCFs and CACs will be mobilized in the distribution of social security allowance
13) General-Financial Risk	GoN is unable to satisfy funding conditions of donors	M	Specific programming re: fiduciary risk, management oversight, capacity building in MoFALD
14) General-Implementation Risk	MoFALD lacks the capacity to fully implement the programme as specified	M	MoFALD's CD Plan addresses specific areas of identified need; steps taken to retain expertise

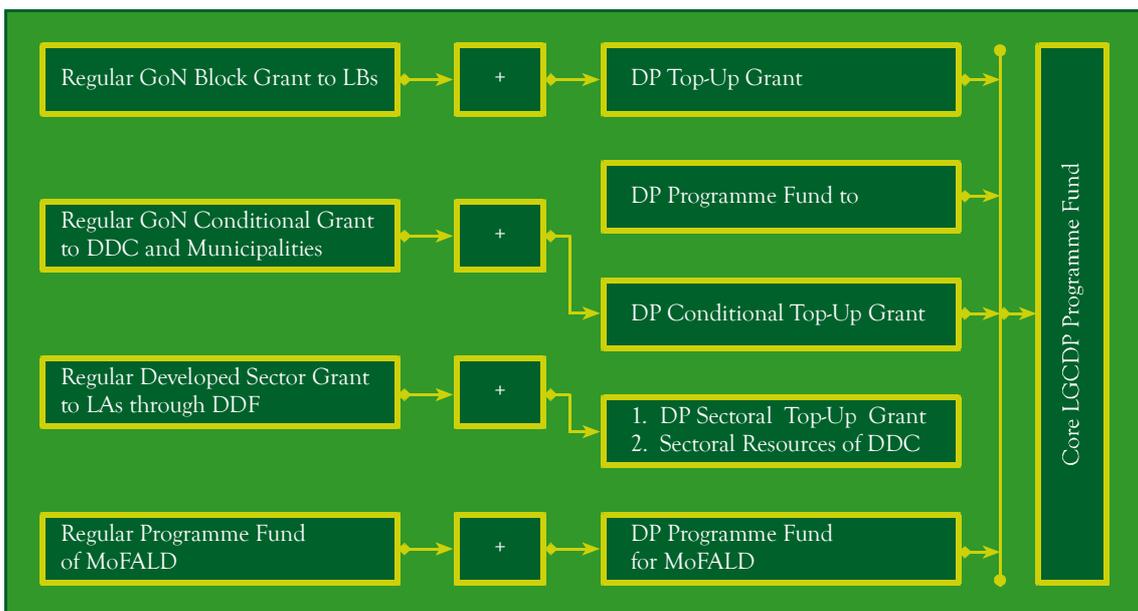
	Financial resources	Resources for TA
<i>Direct support to LGCDP</i>	<p>1. Joint Financing Arrangement (JFA) for capital and/or recurrent grants to LBs (i.e. direct budget support for LBs)</p> <p>Basket Funding Arrangement in the form of JFA, with one budget fund flows will be major source of modality in LGCDP II. JFA will follow GoN financial procedures. This contribution goes to the MOF and is transferred through the Treasury (FCGO) to the LBs and MoFALD through the District Treasury Offices (DTCOs). MOF will need to provide a Medium-Term Fiscal Framework for LBs to donors. In addition, detail modality will be decided by Sub-NAC on how the various conditional and unconditional grants can/will be gradually merged and consolidated. MoFALD and donors will also need to decide on the approach in regard to capacity-building grants (CD) for LBs.</p>	<p>2. Joint Funding for Technical Assistance to MoFALD and LBs (JFTA)</p> <p>This contribution also goes through the MOF but-in contrast to JFA funds-it provides MoFALD itself (not the LBs) with additional budgetary resources. MoFALD will establish (i) a Programme Recruitment Facility (PRF) which will be managed by the Ministry, and (ii) a Policy and Programme Support Facility (PPSF) which is financed by a Multi Partner Trust Fund (MPTF) and administered through a GON, UNDP and UNCDF joint programme applying NEX/NIM procedures. Within the broad areas for which LGCDP II will require technical assistance (TA), the program will distinguish between (a) TA required for implementation support, (b) TA required for program support, and (c) TA required for policy piloting and innovation. All TA on the program will be directed by the TA sub-Committee chaired by the NPM.</p>
<i>Aligned support to LGCDP</i>	<p>3. Program Alignment Arrangement (PAA) Programme Alignment Arrangement will accommodate the programmes of development agencies which are executed outside the LGCDP II the JFA. TA activities will be implemented working through the TASC in the same way as JFA/JFTA partners for purposes of aligning overall planning, coordination and oversight of TA activities. Funds will be managed in accordance with the respective PAA agreements between GoN and DPs.</p>	

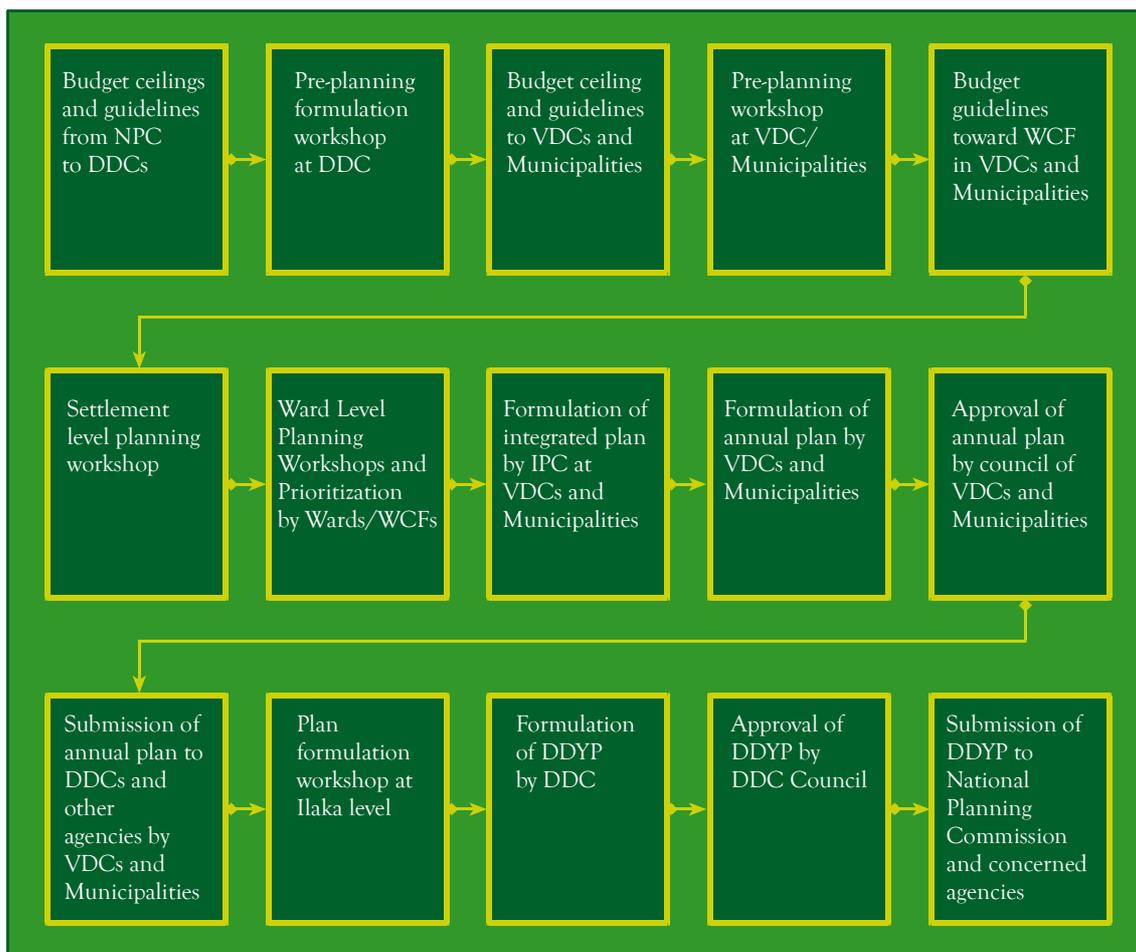
Annex 4 Fund Flow Mechanism

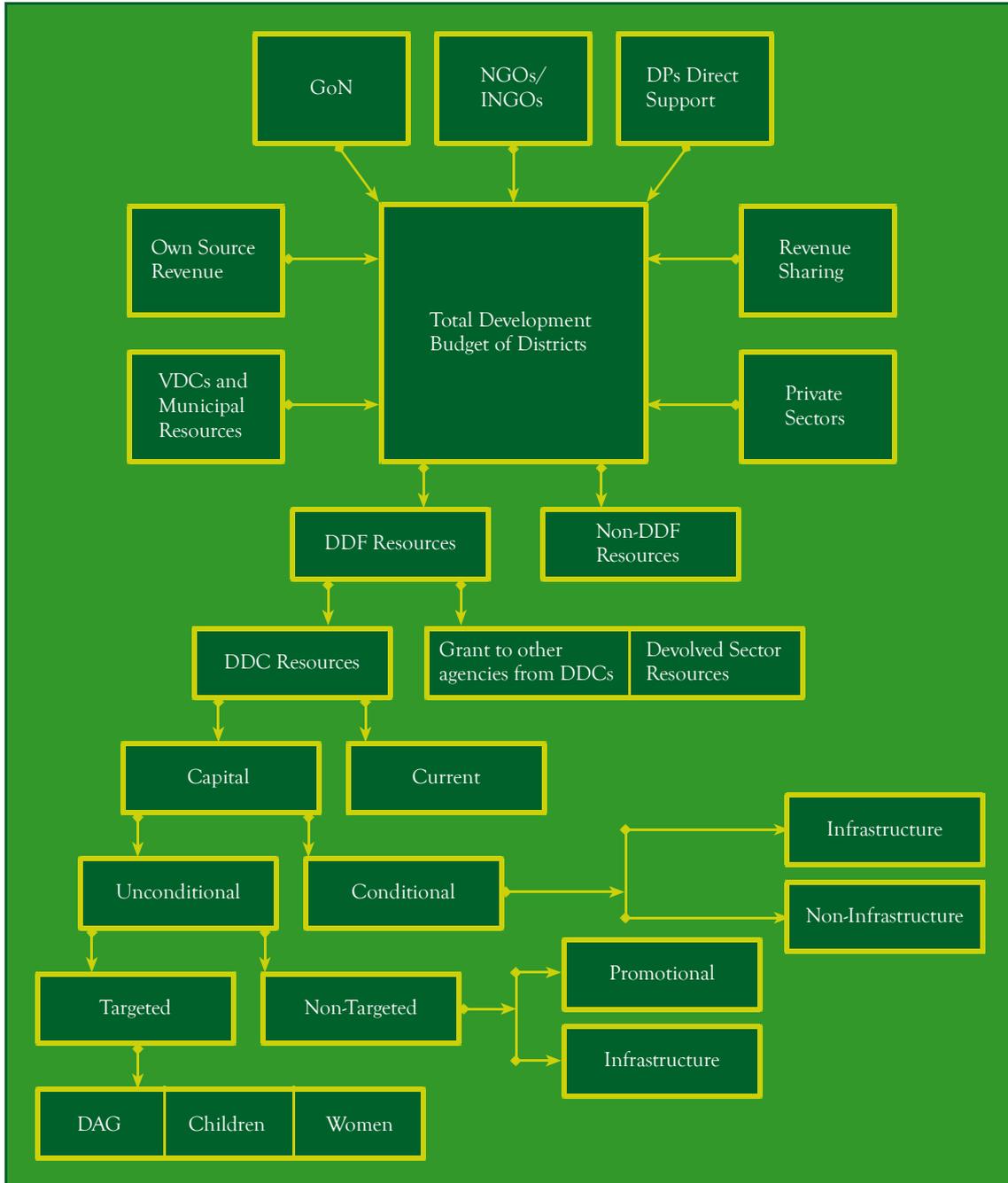
Fund Flow Mechanism for Development Partner



GoN's Contribution to LGCDP and Fund Blending







Programme Coordination Unit

S.No	Position	Required Number	Funding
1.	Programme Manager	1	GoN
2.	Administrative Officers	2	GoN
3.	Results Based Monitoring Expert	1	TA
4.	Social Mobilization Expert	1	TA
5.	Procurement Expert	1	TA
6.	Building Code Expert	1	TA
7.	EFLG Expert	1	TA
8.	GIS Expert	1	TA
9.	Gender Responsive Budget Expert	1	TA
10.	Communication Expert	1	TA
11.	GESI/CFLG Expert	1	TA
12.	Fiscal Decentralization Expert	1	TA
13.	Charter Accountant	1	TA
14.	IT Engineer	1	TA
15.	Office Secretary	2	TA
16.	Admin and Finance Assistant	1	TA
17.	Drivers	3	TA

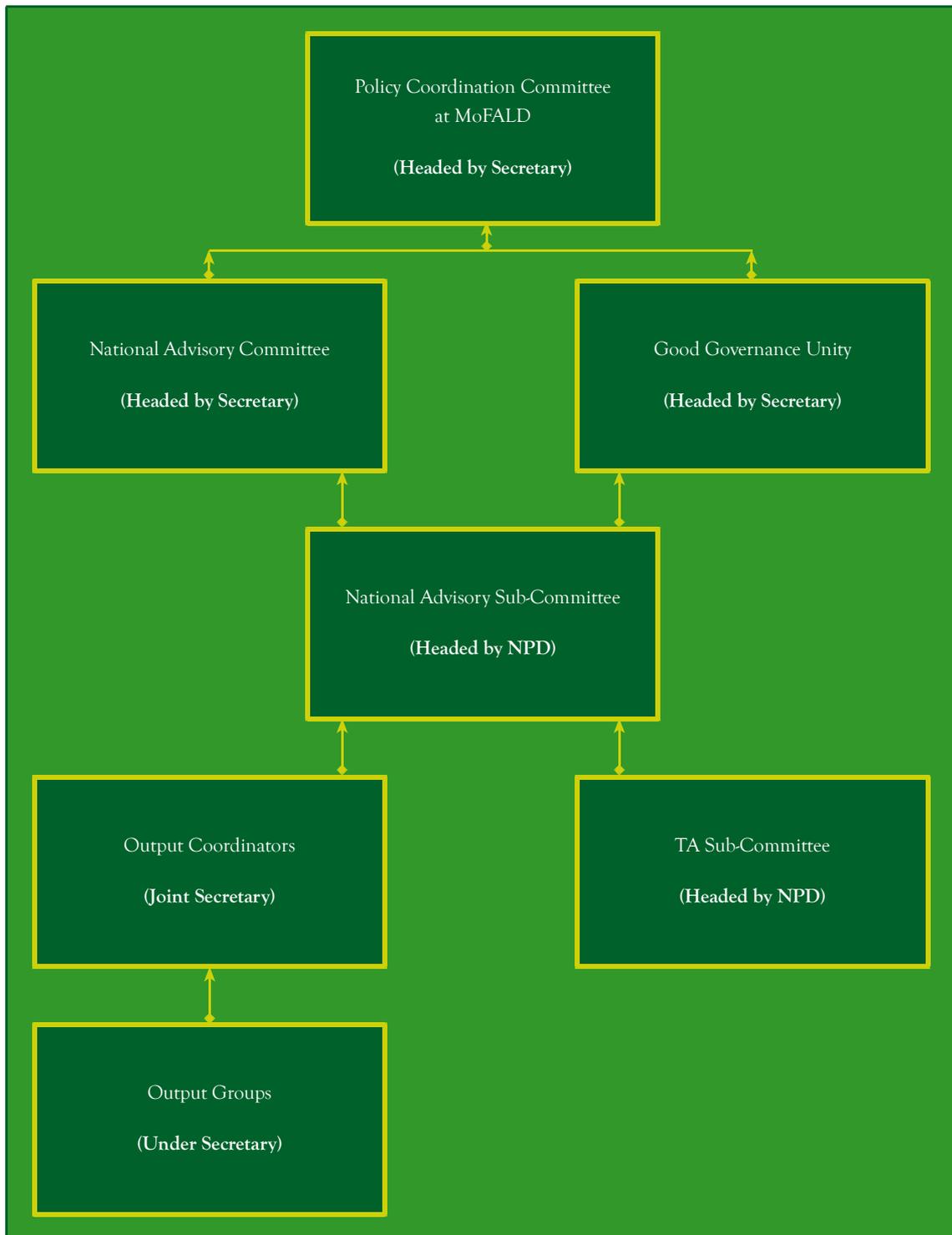
Regional Coordination Unit

S.No	Position	Required Number	Funding
1.	Regional Coordinator	6	TA
2.	Account Officer	6	GoN
3.	Regional Governance Advisor	6	TA
4.	Monitoring and Reporting Officer	6	TA
5.	Social Mobilization Expert	6	TA
6.	Capacity Development Expert	6	TA
7.	Charter Accountant	6	TA
8.	Office Secretary	6	TA
9.	Driver	12	TA

Local Bodies

S.No	Position	Required Number	Funding	Working Station
1.	Local Governance Advisor	75	TA	DDC
2.	IT Engineers(Volunteer)	75	TA	DDC
3.	Urban Governance Advisor	58	TA	Municipalities
4.	IT Engineers(Volunteer)	58	TA	Municipalities

Annex **8** Programme Management Structure of LGCDP



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

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
1.1. Strengthen the social mobilisation institutions (H)	1.1.1. Refine and update Social Mobilisation guidelines for DDCs, VDCs and Municipalities to include social harmony, GESI, CFLG, EFLG and other aspects
	1.1.2. Update and disseminate Social Mobilisation training materials and capacitate Social Mobilisers, WCF and CAC members
	1.1.3. Reconstitute, clarify role and responsibility of M/DSMC to ensure representation of SM agencies
	1.1.4. Design and disseminate children participation and Bal Bhela facilitation guidelines and support for Bal Bhela events in all Local Bodies
	1.1.5. Update ToR for LSPs and undertake regular performance reviews
1.2. Ensure consistent methodology and quality assurance of Social Mobilisation implementation (M)	1.2.1. Establish Social Mobilisation Service Provider (LDTA as lead agency) for capacity building of social mobilisation actors at national level
	1.2.2. Develop standardize training packages for social mobilisation for DDCs, VDCs and Municipalities to include social harmony, GESI, CFLG, EFLG and other aspects
	1.2.3. Introduce WCF as entry point for development activities at ward level
	1.2.4. Integrate municipal Tole Lane Organizations into LGCDP
	1.2.5. Review concept of DAG and update DAG identification process
1.3. Clarifying WCF mandate (M)	1.3.1. Clarify WCFs roles after local election
	1.3.2. Introduce re-constituting process including membership criteria for WCFs
	1.3.3. Expand WCFs into all Wards
1.4. Mainstreaming accountability and monitoring at the local level (H)	1.4.1. Re-select LSPs based on updated ToR that includes supporting WCFs in their new monitoring and oversight responsibilities.
	1.4.2. Capacitate WCFs in planning process, MC criteria and local accountability
	1.4.3. Mobilize WCF in planning and civic oversight activities at local level (Public Audit, Public Hearing)
	1.4.4. Capacitate IPFC at VDC level to steer the SM activities.
	1.4.5. Mobilize Supervision and Monitoring Committee of LBs in monitoring of project implementation

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
1.5. Establish CAC graduation and expansion modality (M)	1.5.1. Develop CAC graduation criteria and expansion modality
	1.5.2. Mapping of CACs based on graduation criteria
	1.5.3. Expand Citizen Awareness Centers according to DAG priority
1.6. Implement LIP activities for graduated CACs (M)	1.6.1. Mapping of existing LIP programme at VDCs/Municipalities (beyond LGCDP)
	1.6.2. Introduce livelihood improvement programme into graduated CACs
	1.6.3. Transform graduated CACs into self help community awareness groups
	1.6.4. Support the construction of community buildings for graduated CACs using multiple sources of financing as per demand
1.7. Harmonisation of Social mobilisation programmes (M)	1.7.1. Organize district level Learning and Sharing Meetings of social mobilisation actors once a year
	1.7.2. Organise VDC secretary meetings once in every trimester and exchange learning and sharing of best practices
	1.7.3. Sign MoU between SM actors at local level and the national level for formal cooperation
	1.7.4. Link MOFALD/LGCDP social mobilisation with other LAs and DPs/I/NGOs social mobilisation activities (e.g. NRREP).
1.8. Improve effectiveness of targeted (35%) grants to women, Children and DAGs (M)	1.8.1. Orient IPFCs, VSMC of VDCs and municipalities in planning, LB Resource Mobilisation and Management Operation Guideline
	1.8.2. Train Social Mobilisers, VDC Secretaries and WCF coordinators on best practices for targeted grants
	1.8.3. Regular monitoring of implementation of projects by LBs authorities (Village/Municipality Supervision and Monitoring Committee)
1.9. Expand Child Friendly Local Governance (M)	1.9.1. Capacitate social mobilisation actors (e.g. mobilizers, WCFs and CACs) on CFLG
	1.9.2. Support local bodies to institutionalise Bal Bhela as regular steps in the bottom up planning processes
	1.9.3. Support and capacitate local bodies (e.g. to design module project bank) for effectively using 10-15% resources allocated for children

OUTPUT 2: Accountability mechanisms for local governance are in place

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
2.1. Establish new LGAF modality (H)	2.1.1. Restructure National Committee of LGAF according to revised ToR for NC and new mandate
	2.1.2. Establish secretariat of LGAF within MoFALD with the operational manual including fund flow and procurement arrangements
	2.1.3. Set up reporting and knowledge management mechanism
2.2. Civil society led compliance monitoring in 75 districts (H)	2.2.1. Prepare ToR for CSOs for compliance monitoring
	2.2.2. Procure services of CSOs for compliance monitoring based on quality and cost according to Public Procurement rules and regulations.

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
	2.2.3. Monitor CSOs' activities
	2.2.4. Organize feedback sessions with LBs
	2.2.5. Publish the national and district level compliance monitoring reports
2.3. Consolidate Social Mobilisation process of LGCDP II by integrating accountability tools (H)	2.3.1. Sensitise District Social Mobilisation Committees on accountability tools in the revised social mobilisation guidelines
	2.3.2. Train LSPs for social mobilisation on accountability tools
	2.3.3. Mobilize DSMCs and CSOs selected by LGAF for reinforcing capacity and monitoring of social mobilisation LSPs' on using social accountability tools
2.4. Align national accountability programmes with LGAF (L)	2.4.1. Agree coordination modality with stakeholders
	2.4.2. Agree priority programmes and implementation methodology with stakeholders
	2.4.3. Monitor and document accountability interventions in an annual national accountability report

OUTPUT 3: LBs' access to resources increased

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
3.1. Expanding the tax base for LBs (L)	3.1.1. Conduct study to reviewing LB revenue sharing mechanism and procedures (GON to DDC and Municipalities)
3.2. Supporting LB revenue administration and collection (M)	3.2.1. Develop local revenue administration guidelines for DDC, VDC and Municipality covering assessment, billing, collection, appeal, tax payer education and forecasting.
	3.2.2. Design organisational setup of tax administration of DDC and Municipality and support LBs to strengthen revenue projection and tax potentiality mapping
	3.2.3. Conducting a representative study of revenue potentiality of DDCs, Municipalities and VDCs to make a strategy on the basis of geographical area
	3.2.4. Organize training for revenue staff of LBs on revenue forecasting, assessment, billing, collection, and appeal and tax payer education and build the capacity of 500 strategic road side urban centric VDCs on own source revenue mobilisation
	3.2.5. Support to harmonize the central and local tax system.
	3.2.6. Support to expand IPT and capacitate the DDC and municipalities in IPT including GIS base, and link it with national system at MOFALD
	3.2.7. Support to build the capacity of Municipality on IPT
3.3. Improve predictability (forecasting of grants to LBs in time for budget preparation (M)	3.3.1. Analyse difficulties faced in the area of budget projection and predictability of funds including problem of compliance with financial administration law and rule
	3.3.2. Prepare mitigation strategy based on above findings including capacity development of all the actors involved in forecasting process
3.4. Ensure timely transfer of funds to LBs (M)	3.4.1. Analysis of the bottleneck in timely transfer of funds to LBs
	3.4.2. Recommend the necessary changes in fund flow process/ procedure

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
3.5. Implement existing recommendation of changes in grant allocation formula (M)	3.5.1. Support to update and prepare grant allocation formula and related indicators such as cost, accessibility, infrastructures, financial discipline etc.
	3.5.2. Support to prepare a new allocation formulae for regular conditional grants and devolved grants
	3.5.3. Prepare LBs equalisation formulae based on geographical location and revenue optimization
	3.5.4. Support implementation of the strategy
3.6. Review and update MCPM System (H)	3.6.1. Update MCPM System and Institutional Framework
	3.6.2. Harmonize MCPM assessment and indicators for municipalities and DDCs
	3.6.3. Design and introduce PM in VDCs on a pilot basis
	3.6.4. Support MCPM assessments of VDCs and VDC MCPM evaluators at district level
3.7. Apply performance based principles to earmarked funding at the local level (M)	3.7.1. Develop and introduce MCPM indicators for developed sector grants in the area of primary education, primary health, agriculture & veterinary
	3.7.2. Provide performance-based sector grants under primary education, primary health and agriculture & veterinary
	3.7.3. Develop MCPM criteria for regular conditional grants to DDCs and municipalities and provide support to roll out
3.8. Provide local bodies with performance based annual block and other grants (H)	3.8.1. Conduct MCPM assessments
	3.8.2. Provide performance based and other annual grants to DDCs
	3.8.3. Provide performance based and other annual grants to Municipalities
	3.8.4. Provide performance based and other annual grants to VDCs
3.9. Pilot MARS in Kathmandu Metropolitan City (M)	3.9.1. Design MARS
	3.9.2. Pilot MARS in Kathmandu Metropolitan City
	3.9.3. Replicate MARS in selected Municipalities
3.10. Establish reward and sanction mechanism in LBs finance (L)	3.10.1. Design Reward and Punishment system in LB's revenue mobilisation
	3.10.2. Pilot Reward and Punishment system in LB's revenue mobilisation
	3.10.3. Replicate Reward and Punishment system in LB's revenue mobilisation

Output 4: Public financial management system improved

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
4.1. Improvement in Budget and Fiscal Management (M)	4.1.1. Develop time bound action plan for timely and streamlined disbursement of block grants from central to local governments
	4.1.2. Integrate guidelines for allocation and disbursement of small community level grants in LB Resource Mobilisation and Management Operation guidelines
	4.1.3. MoFALD to implement Medium Term Budget Framework (MTBF)
	4.1.4. Support to introduce gender responsive budgeting in LBs

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
4.2. Strengthening the internal and external audit system (H)	4.2.1. Develop audit tracking system in DDCs and MoFALD for ensuring appropriate responses to final audit
	4.2.2. Train internal and private external auditors of local bodies
	4.2.3. Strengthening internal audit section of DDCs/Municipalities
	4.2.4. Update internal audit guidelines of local bodies
4.3. Reducing Fiduciary Risk (H)	4.3.1. Update PEFA/FRRAP
	4.3.2. Orientation to key LB officials on PEFA/FRRAP
	4.3.3. Establishment of central level financial management support unit and Financial Monitoring and Compliance unit
	4.3.4. Categorize LBs on the basis of fiduciary risk
	4.3.5. Support to prepare and implement model FRRAP for local bodies
	4.3.6. Support to carry out PEFA assessments of LBs& local PETS
4.4. Roll out improved accounting system at local bodies (M)	4.4.1. Revision of LBFAR and chart of accounts
	4.4.2. Implement Revenue enhancement plans in at least 7 municipalities
	4.4.3. Support to introduce accounting software in selected VDCs
	4.4.4. Support to introduce accrual accounting system in selected municipalities
	4.4.5. Support to revise Financial Accounting Management Package (FAMP) of DDCs and link with MOFALD
	4.4.6. Support to establish networking of accrual accounting software within MoFALD
	4.4.7. Provide book keeping support to VDCs in Clusters.
	4.4.8. Provide support to FCGO/DTCO to improve release, report and internal audit system in LBs.
4.5. Provide support to OAG, ICAN and LBs to improve external audit value (M)	4.5.1. Provide support to OAG to conduct performance and risks-based audits of LBs
	4.5.2. Provide support to ICAN for capacity development of private auditors
4.6. Strengthening procurement planning and bidding systems in all LBs(L)	4.6.1. Support in strengthening the capacity of local bodies and line agencies in procuring goods and services.
	4.6.2. Support to PPMO in strengthening the capacity LBs and LAs in public procurement management system.
	4.6.3. Introduce e-bidding system in DDCs, and municipalities.
4.7. Strengthen Financial Management Reporting capacity in MoFALD (H)	4.7.1. Undertake study to determine institutional development needs
	4.7.2. Prioritise recommendations and implement high impact initiatives

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

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
5.1. Strengthen LB capacity for service delivery (H)	5.1.1. Improve LBs compliance with guidelines and regulations
	5.1.2. Develop and implement non-training capacity development initiatives
	5.1.3. Reduce VDC secretary vacancies and absenteeism
	5.1.4. Enforce performance management contracts with LDOs and EOs to produce greater stability in results

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
	5.1.5. Maintain and fulfil the personnel information system in LBs
	5.1.6. Assess staff requirements of LBs
5.2. Provide programme support (H)	5.2.1. Provide national programme support from PCU
	5.2.2. Provide regional programme support from RCUs
	5.2.3. Provide ICT support for DDC and Municipality
	5.2.4. Agree performance targets and transitional plans for all long-term TA roles
5.3. Implement LBs capacity development initiatives (H)	5.3.1. Prepare and approve an overarching capacity development strategy
	5.3.2. Ensure common training standards and delivery modality
	5.3.3. Design training modules for local body staff targeted MCPM assessment criteria
	5.3.4. Deliver tailored training to LBs based to on needs
	5.3.5. Review and revise CD plans of LBs
	5.3.6. Assess impact of training to identify improvement to modality
5.4. Establish and operate the Programme Recruitment Facility (PRF) in MoFALD (M)	5.4.1. Undertake study to determine appropriate procurement system for programme related HR
	5.4.2. Establish Programme Recruitment Facility
	5.4.3. Support all National TA needs for MoFALD
5.5. Strengthen capacity of national institutions to support local governance institutions (M)	5.5.1. Pilot LDTA capacity improvements in three districts (aligned to GIZ led initiative)
	5.5.2. Reorganise LDTA as national service provider and local governance knowledge centre
	5.5.3. Review result of LDTA pilot and determine rollout priorities
	5.5.4. Roll-out CD activities through LDTA Regional Training Centres
	5.5.5. Support LDTA to design training modules, certification system, and regulating CD service providers at local level
	5.5.6. Strengthen LB Associations to advocate on devolution
5.6. Expand capacity in LBFC towards the capacity expected from a National Fiscal Commission (L)	5.6.1. Undertake study to determine institutional development needs
	5.6.2. Prioritise recommendations and implement high impact initiatives
5.7. Capacity building for mainstreaming crosscutting themes (L)	5.7.1. Assess priority crosscutting initiatives
	5.7.2. Integrate GESI priorities including GRBA in standard operating procedures and guidelines
	5.7.3. Integrate CFLG in standard operating procedures and guidelines
	5.7.4. Integrate EFLG in standard operating procedures and guidelines
	5.7.5. Integrate population and development issues in standard operating procedures and guidelines
5.8. Update and digitise local bodies information systems (L)	5.8.1. Update and digitise local social and poverty resource maps
	5.8.2. Feed digitized information into a national data-based system

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

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
6.1. Improve QA of local infrastructure (H)	6.1.1. Establish new quality labs in DDCs
	6.1.2. Operationalise non-functional quality labs
	6.1.3. Capacity development for quality lab staff
	6.1.4. Update District Transport Master Plans
	6.1.5. Organise training for sub-engineers (2 per DDC) of all DDCs
	6.1.6. Extent quality lab facility in other districts
6.2. Provide technical backstopping to VDCs (H)	6.2.1. Develop strategy for providing technical support services to VDCs
	6.2.2. Implement strategy
	6.2.3. Provide refresher training to VDC technicians
6.3. Establish and operate MoFALD technical division (L)	6.3.1. Operationalize technical division in MoFALD
	6.3.2. Ensure technical oversight of DOLIDAR and local bodies
6.4. Develop local-level community mediation services (M)	6.4.1. Support in mapping the agencies involved in community mediation
	6.4.2. Study the situation on dispute management through alternative dispute resolution (ADR) including community mediation in each district
	6.4.3. Organize cascade training on community mediation for community mediators
	6.4.4. Establish Community Mediation Centres (CMCs) in VDCs and municipalities.
	6.4.5. Support in monitoring and evaluation of the functioning of CMCS
	6.4.6. Regular sharing among the actors of community mediation under the convenor ship of MoFALD
6.5. Strengthen and improve local management of vital event registration and social security system (M)	6.5.2 Support to strengthen vital event registration and social security wing of LBs
	6.5.3 Develop centralized mechanism to monitor cash transfer
	6.5.4 Introduce and roll out integrated vital event registration and social protection MIS database system in each district
	6.5.5 Test out use of banking system for payment of social security benefits
	6.5.6 Introduce branchless banking for social cash transfers
	6.5.7 Organize training for LB staff on integrated vital and social protection MIS
	6.6 Undertake vital registration awareness campaign (M)
	6.6.3 Organize training on vital event registration for LBs staff
6.7 Implement local economic development activities in municipalities and peri-urban VDCs (L)	6.7.1. Identify/design local economic development programme on PPP basis and in cooperation with other approaches
	6.7.2 Support municipalities to implement local economic development programmes under PPP on pilot basis
	6.7.3 Support peri-urban VDCs to implement local economic development programmes under PPP on pilot basis

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
6.8 Develop alternative NGO/CSO-based service delivery options for high risk and remote districts/VDCs (H)	6.8.1. Design NGO facility at MoFALD to deliver services through NGOs and CSOs in high risk and remote areas
	6.8.2 Establish NGO facility in MoFALD
	6.8.3 Implement delivering services through NGOs and CSOs in high risk and remote districts/VDCs
6.9 Improve grievance mechanism (H)	6.9.1. Support effective implementation of Village and Municipality Supervision and Monitoring Committees in line with Local Body Resource Mobilisation and Management Operation Guidelines 2069
	6.9.2. Establish local linkage to District Supervision and Monitoring Committee for complaints that cannot be resolved locally
	6.9.3. Establish district linkage to Good Governance Section in MoFALD for complaints that cannot be resolved in the districts

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

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
7.1. Review and update periodic plan of LBs (H)	7.1.1. Prepare periodic plan of DDCs
	7.1.2. Prepare periodic plan of VDCs ensuring GESI, CFLG indicators and issues are mainstreamed
	7.1.3. Review and update periodic plans of municipalities ensuring CFLG, GESI indicators and issues are mainstreamed
7.2. Improve coordination between local bodies and local service providers (H)	7.2.1. Mapping of service providers involved in local development
	7.2.2. Develop and implement coordination mechanism among local service providers under the leadership of LBs
	7.2.3. Support coordination and linkage between DDCs and line agencies to strengthen, harmonise and align their annual planning processes
	7.2.4. Support coordination and linkage between VDCs/municipalities and line agencies to strengthen, harmonise and align their annual planning processes
	7.2.5. Support for integrated preparation of transport and other sectoral plans (ensuring CFLG sectoral indicators reflected in national strategy are mainstreamed)
7.3. Mainstream GESI, CFLG and EFLG, disaster management and programme monitoring plans in local periodic and annual plans (M)	7.3.1. Pilot local climate adaptive living facility
	7.3.2. Roll out community based green energy initiatives
	7.3.3. Develop EFLG assessment indicators and support roll out in LBs.
	7.3.4. Prepare GIS based disaster vulnerability maps and develop plans to address vulnerability.
	7.3.5. Integrate Rural Renewable Energy options into local body planning processes
	7.3.6. Integrate population dynamics and its interlinkages with the needs of young people , sexual and reproductive health services (including family planning), gender equality and poverty reduction in local level plans and planning/budgeting processes
	7.3.7. Localization GESI policy/strategy up to WCF/CAC
	7.3.8. Support for national CFLG roll out including technical support to local bodies for CFLG adoption and declaration

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
7.4. Provide support to local annual planning processes (H)	7.4.1. Review and update local level annual planning guidelines ensuring cross-cutting issues are mainstreamed
	7.4.2. Support to strengthen DPMAS in DDCs
	7.4.3. Support to establish database, resource maps, and GIS based information in DDCs and municipalities.
	7.4.4. Support preparation and implementation of local medium term budgeting framework. (MTBF)
	7.4.5. Support LBs to prepare project banks, based on demand of citizens and communities and identified/prioritized through participatory planning process.
	7.4.6. Support capacity building of line agencies to use empirical data for evidence-based local planning
	7.4.7. Support the involvement of youth networks in local governance processes
	7.4.8. Support local government to implement gender responsive budget at district level in DDCs and Municipalities and line agencies
7.5. Planning Coordination among central level ministries and NPC (L)	7.5.1. Hold pre-planning meeting
	7.5.2. Hold inter-agency thematic working group meeting
7.6. Strengthen monitoring and reporting systems at national and local levels (M)	7.6.1. Review and refine M&E Framework of MoFALD. Prepare M&E framework of DDCs
	7.6.2. Support preparation and implementation of M&E Framework of DoLIDAR and LBs
	7.6.3. Support to introduce web-based reporting system in all DDCs and municipalities
	7.6.4. Review, refine and introduce results-based monitoring systems in LBs.
	7.6.5. Undertake programme reviews
7.7. Introduce a citizens' perception survey (M)	7.7.1. Conduct annual citizens' perception survey
	7.7.2. Assess performance in local governance service delivery
	7.7.3. Recommend activities to improve service delivery

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

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
8.1. Update overall institutional framework for decentralisation and local governance(L)	8.1.1. Review LSGA provisions with respect to LB functions and classification (including metropolitan issues)
	8.1.2. Review, update and disseminate any required amendments to LSGA
	8.1.3. Review, update and disseminate any required amendments to LSGR
	8.1.4. Review, update and disseminate any required amendments to LBFAR
8.2. Review/update DIP and Fiscal Decentralisation Roadmap (FDR) and redynamise Decentralisation Implementation Monitoring Committee (DIMC)(M)	8.2.1. Review, update and disseminate any required amendments to Decentralisation Implementation Plan (DIP)
	8.2.2. Initiate regular DIMC meetings
	8.2.3. Initiate regular Secretary level inter-ministerial meetings

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
8.3. Categorize LBs on basis of new/updated criteria and analyse functional and administrative implications (M)	8.3.1. Undertake study to determine need for establishing LB categories
	8.3.2. Establish new criteria for categorizing LBs and undertake categorization
	8.3.3. Assess staffing, budget and functional assignments of different LB categories
	8.3.4. Agree and implement changes (e.g. sub-classification) for VDCs
	8.3.5. Agree and implement updated categorization of Municipalities
	8.3.6. Agree and transform urban-centric VDCs into municipalities
8.4. Rationalising local body jurisdictions (L)	8.4.1. Establish criteria for merging local bodies (VDCs and municipalities)
	8.4.2. Establish criteria for sub-dividing local bodies
	8.4.3. Provide incentives for VDCs and municipalities to merge
8.5. Update, codify and consolidate policy on local governance and community development and the corresponding guidelines/manuals (M)	8.5.1. Review existing guidelines and manuals for consistency, relevance, accuracy and user-friendliness
	8.5.2. Update, revise, codify and publish guidelines and manuals
	8.5.3. Develop a foreign aid and technical assistance framework on local governance and community development in line with national foreign aid policy.
	8.5.4. Develop technical audit guidelines and integrate in Resource Mobilisation and Management Operation Guidelines

OUTPUT 9: Policies developed for devolution and federalism

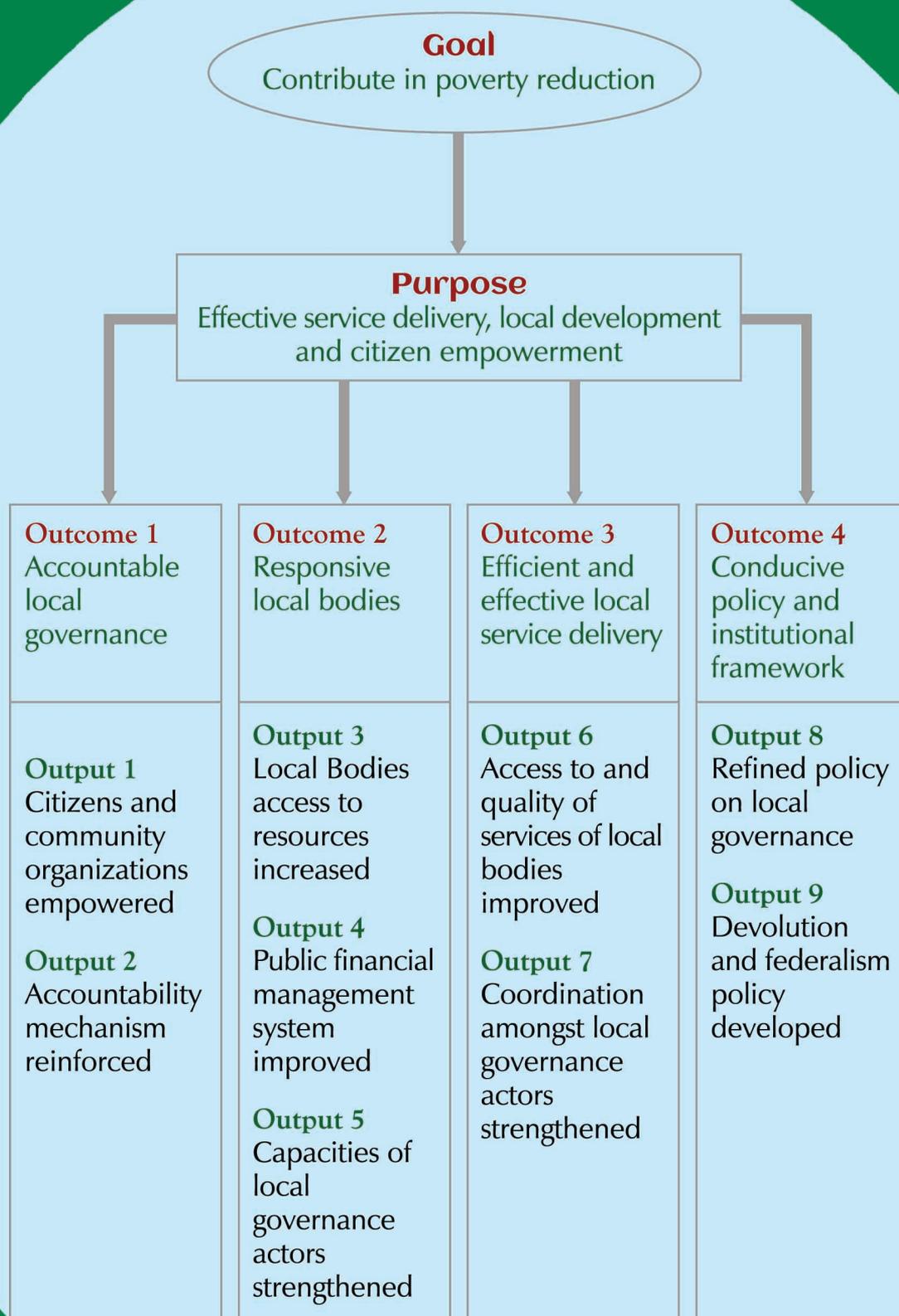
ACTIVITIES and PRIORITY	SUB-ACTIVITIES
9.1. Establish and operate a Federal Affairs Unit (FAU) within MoFALD(M)	9.1.1. Draft and agree on Terms of Reference for FAU
	9.1.2. Decision taken to establish FAU
	9.1.3. Budget allocated for FAU operations
9.2. Establish a high-level Local Government Restructuring Commission (LGRC) (L)	9.2.1. Draft and agree on Terms of Reference for LGRC
	9.2.2. Decision taken to establish LGRC
9.3. Prepare policy paper on sub-national governance options in a federal context(M)	9.3.1. Identify existing research papers completed and key stakeholders in preparation for political, administrative and fiscal decentralization in federal systems of government in Nepal
	9.3.2. Undertake study of international experience of political, administrative and fiscal decentralization in federal systems of government in areas that need further research
	9.3.3. Draft policy paper on devolution, decentralization and local government in a federal system
9.4. Promote and facilitate consultations and policy dialogue on sub-national governance (L)	9.4.1. Circulate policy paper (see 9.3. above)
	9.4.2. Organise workshops to discuss policy options
9.5. Developing and implementing transition plans for national institutions and agencies linked to local governance (including MoFALD)(L).	9.5.1. Review existing national transition plans/proposals with key stakeholders
	9.5.2. Review and provide exposure to international experience in the management of transitions from unitary to federal arrangements
	9.5.3. Draft transition management plan for MoFALD and discuss with stakeholders
	9.5.4. Draft transition management plans for other national institutions and discuss with stakeholders

ACTIVITIES and PRIORITY	SUB-ACTIVITIES
9.6. Start to align existing policies/laws and identify new laws (in a federal context)(L)	9.6.1. Undertake study to determine policies and laws for local governance that need to be changes following the new constitution
	9.6.2. Review and provide exposure to international experience in adapting policies and laws on local governance and local service delivery to federal system of government
	9.6.3. Draft options paper on alignment to a federal system of government and discuss with stakeholders
9.7. Identify options for high-level institutional arrangements for oversight of inter-governmental fiscal relations (L)	9.7.1. Review existing plans/proposals with stakeholders and agree scope for LGCDP/MoFALD in developing these plans
	9.7.2. Review and provide exposure to international experience in establishing federal bodies to oversee and advise on inter-governmental fiscal relations
	9.7.3. Draft policy paper on options for Nepal and discuss with stakeholders
	9.7.4. Provide support to establish national level fiscal institution
9.8. Review administrative structures and arrangements for sub-national bodies(L)	9.8.1. Conduct assessment of LG administrative structuring (DDCs, VDCs, municipalities)
	9.8.2. Agree functional roles and responsibilities with other stakeholders
	9.8.3. Determine administrative capacity and staffing requirements
	9.8.4. Draft proposal for GoN approval
9.9. Designing and drafting metropolitan city legislation (L)	9.9.1. Undertake study to recommend improvements to metropolitan city legislation
	9.9.2. Draft and agree on legislative changes with stakeholders
	9.9.3. Implement metropolitan policy and new legislation/regulations
9.10. Developing the modality of local governance and infrastructure/ -service delivery SWAps in the context of federal governance (L)	9.10.1. Review experience with governance and infrastructure& service delivery SWAps in federal countries
	9.10.2. Develop modality on options for SWAps in a federal system of government and discuss with stakeholders

Annex **10** Strategic Approach of LGCDP II

LGCDP II will adopt a four-pronged strategic approach consisting of the following elements::

- *Targeting* of women, children, disadvantaged groups and the poor and the targeting of specific geographic areas that are in greatest need;
- *Mainstreaming* of cross-cutting themes, actors, innovations and best practices in local development and local governance;
- *Collaboration* among government, non-government and private actors at the local level; and
- *Stabilization and consolidation* of local institutions, structures, processes and organizations.



Government of Nepal

Ministry of Federal Affairs and Local Development

Singhadurbar, Kathmandu

Tel: 977-01-4200333, 4200334, 4200282 | Fax: 977-01-4200326 | Website: www.lgcdp.gov.np