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We believe that this Policy Document can assist HMGN, donors, LG associations, DDCs, VDCs, and Municipalities in designing policies and programmes that may help them in the implementation of the important and complex process of decentralization reform in Nepal.

The Steering Committee
Joint HMGN-Donor Review on Decentralization in Nepal
March 15, 2001

Abbreviations

ADDCN	:	Association of District Development Committees of Nepal
COs	:	Community organisations
CG	:	Central Government
DAG	:	Disadvantaged groups
DANIDA	:	Danish International Development Assistance
DASU	:	
Decentralisation Advisory Support Unit		
DDA	:	District development advisor
DDC	:	District development committee
DFID	:	Department for International Development
DIMC	:	
Decentralisation Implementation and Monitoring Committee		
HLDCC	:	High-Level Decentralisation Co-ordination Committee
HMGN	:	His Majesty's Government of Nepal
GTZ	:	German technical Co-operation
LA	:	Line agency (of a line ministry)
LDF	:	Local Development Fund
LDTA	:	
Local Development Training Academy		
LG	:	Local government
Lags	:	Local government bodies
LGFC	:	
Local Government Finance Commission		
LGP	:	Local Governance Program
LSGA	:	
Local Self-Governance Act.		

LTF	:	Local Trust Fund
MLD	:	Ministry of Local Development
Move	:	Ministry of Finance
MUAN	:	Municipality Association of Nepal
NALAD	:	National Association of Local Authorities in Denmark
NAVIN	:	National Association of VDCs in Nepal
NGO	:	Non-governmental organisations
NLS	:	Nepal Law Society
NORAD	:	Norwegian Agency for Development Co-operation
NPC	:	National Planning Commission
PDDP	:	

Participatory District Development Program

RIA	:	Regulatory impact analysis
SDC	:	Swiss Agency for Development and Co-operation
SNV	:	Netherlands development organisation
UDLE	:	Urban Development Through Local Efforts
UNCDF	:	United Nations Capital Development Fund
UNDP	:	United Nations Development Program
VDC	:	Village development committee
VDP	:	Village development programme

EXECUTIVE SUMMARY

The current structure of local governance in Nepal was put in place after the restoration of democracy in 1990. The Local Self-governance Act 1999 and associated Rules of 2000 gave decentralization fresh momentum. They have provided a sound legislative platform for other initiatives to strengthen decentralized governance in Nepal.

Both HMGN and donors have been aware that while there had been successes; important lessons were also learnt from this experience. This common view led to the two sides commissioning a joint review of decentralization efforts in Nepal.

The review was carried out between April and September 2000. Its main objectives were to answer the following questions: (I) how well do government and donor efforts support the aim of having effective and efficient decentralization? (ii) How well do government and donor efforts contribute to using decentralization as a way of reducing poverty? (iii) how well do government and donor efforts, related to decentralization, enable community mobilisation, empowerment, and the strengthening of the role of civil society in local governance? (iv) what other lessons are there from the process of decentralization? A steering committee represented by HMGN, the donors and LG

associations was formed under the chairmanship of Dr. Jagdish C. Pokharel, member of the National Planning Commission to direct the review work. The committee in turn appointed a task force made up of selected donor supported programme staff and national as well as external consultants to carry out the review.

The task force carried out an extensive review of government's policy and legal framework as well as decentralization processes. Besides, it made field visits to sample districts and municipalities for UNDP, UNCDF, DANIDA, SNV, GTZ, SDC and CARE-Nepal funded projects to review their approaches, achievements and problems. The review came to useful conclusions about the achievements and difficulties of these individual donor efforts. It also highlighted similarities and differences, some promising results and a range of generic problems that hampered HMGN, donor and other efforts to implement decentralization effectively. Based on these assessments, a set of recommendations has been made.

The task force produced a draft main report of the review for discussion at a multi-stakeholder workshop on 7 September 2000 in Kathmandu. The task force received useful inputs and comments from the workshop, and incorporated them into the main report. The limitations and constraints of the review have also been stated in the main report.

This Policy Document summarises the key findings and recommendations of the main report. Of all the recommendations, it has identified particularly three key areas that should deserve immediate action.

Key area 1: Government strategy to implement the LSGA.

HMGN need to have a time-bound national implementation plan for decentralization reform so that all key stakeholders can synchronize their respective programmes to avoid duplication and overlapping. This plan is needed for stakeholders to act together towards achieving the common goal of decentralization reform. The plan would embrace many of the other review recommendations. It would assign clear responsibilities to manage, monitor and co-ordinate the decentralization process. Such a plan should describe how to:

- Amend provisions in various sectoral acts which contradict with LSGA;
- Clearly demarcate the tasks of HMGN and LGs to avoid duplication, overlapping and interferences in LGs' devolved affairs;
- Review the current LG structure;
- Develop a decentralized local government fiscal system;

- Establish synergetic relationship between NPC, DIMC, MLD and other HMGN bodies;
- Design a sound decentralization supervision and monitoring system;
- Build cooperation and partnerships with line ministries for effective implementation of LSGA at all levels;

- ♦ Work out a mechanism for regular dialogue between His Majesty's Government and LGs;
- ♦ Implement a local civil service provision made in the Act;
- ♦ Build up the capacity of LG leaderships in decentralized local governance, its fiscal and administrative management;
- ♦ Include LG associations as a partner and stakeholder in decisions relating to decentralization.

Key area 2: Suitable local government finance system

Fiscal decentralization is a prerequisite for effective decentralization and poverty reduction. It is recommended that fiscal decentralization process progresses by initially taking following steps:

- Clearly define LG tasks and assess their costs;
- Review the existing situation within LG sources of revenue and finances;
- Increase the share of LG in national budget;
- Design a national LG budget classification and accounting system;
- Establish an LG financial database at local and national levels;
- Make criteria for grant, budget and assistance provision more transparent;
- Develop a system to improve the level of resources available to poor districts; and
- Strengthen LGs' financial management, audit and revenue generation capacities.

Key area 3: Government direction for donor involvement

Effective decentralization needs fully co-ordinated donor support. Co-ordination will be much easier when there is an implementation plan (Key area 1). In addition, to improve donor
co-ordination the government should establish a forum where HMGN, donors and stakeholders can discuss key issues concerning donor programmes. A single national institution should be established to take lead in identifying specific areas for peer review to assess each other's contribution. Also, the donors and other stakeholders should strive to activate andstrengthen DIMC so that it can become more active.

The review recommends that a (indicator-based) decentralization-monitoring model be developed for all stakeholders to clearly monitor the status, needs and achievements of the decentralization process. Regular reviews would help to improve communication between HMGN, donors and other stakeholders to design their future plans.

1.

INTRODUCTION

1.1 Historical Background _____

The decentralization of government from central to local levels is crucial for democratisation, the promotion of equity and people's participation in development. Systematic efforts for decentralized governance in Nepal began in 1960s with the establishment of separate district, municipality and village level Panchayats. These Panchayats were elected LGs[1] and had the authority to formulate policy, undertake programmes and levy taxes.

During this time (1960-90) a number of issues relating to policy and processes of decentralization emerged and remained unresolved. The most prominent issues were the roles and tasks of local government bodies (LGs), the relationship between the government line agencies (LAs) and LGs, the roles and tasks of legislators versus local leaders, service delivery overlaps and duplication, the degree of autonomy of LGs, accountability, transparency and the scope of LG fiscal authority.

Nepal's current constitution came into force in 1990 immediately after the restoration of multiparty democracy in Nepal. Article 25 (4) identifies decentralization as a state policy saying that: "the state shall maintain conditions suitable to the enjoyment of the fruits of democracy through wider participation of the people in the governance of the country and by way of decentralization " However, it did not specify the structures and the role of LGs. In the eighth and ninth development plans (1992-97

and 1997-2002) the government established decentralized governance as a policy priority. The ninth plan proposed the wider devolution of powers to LG alongside adequate supporting mechanisms and increased roles for the private sector and civil society.

In 1992, the government promulgated separate LG acts for villages, municipalities and district bodies naming them: "Village Development Committees" (VDCs), "Municipalities" and "District Development Committees" (DDCs) in place of the Panchayats. These acts defined the organisational structure; election process, tasks and functions of the LGs. Local elections were first held in 1993.

There have been strong forces opposed to decentralized government in Nepal. Some critics see decentralization as a divisive factor in Nepalese "unitary" system of governance. Others are pushing for self-determination for minority groups whilst some MPs want executive and development authority to be devolved to them at constituency level. However, most development practitioners, LGs, and civil society institutions agree that the devolution of authority from the centre to LGs follows subsidiary practices.

During the early 1990s the groups in favour of devolution, including the newly formed LG associations, lobbied the government and political parties to take initiatives to improve the policy environment for decentralization. In

response in 1995 the government appointed a High Level Decentralization Co-ordination Committee (HLDCC) to make policy recommendations on decentralized governance.

Based on its recommendations the Local Self-governance Act (LSGA) was prepared and came into effect in 1999.

1.2 Legislative and Regulatory Framework _____

The promulgation of the Local Self-governance Act (LSGA, 1999) and rules (2000) built on and improved the existing legislative framework for decentralization. LSGA included most proposals made in the ninth plans to devolve wider authority for planning, service delivery, and revenue generation to LGs. The LSGA and its rules provide detailed framework for the implementation of LSGA. Important positive features of the LSGA are listed in Table 1.

Table 1.   Main features of the Local Self-governance Act 1999

- It is a unified act that defines the principles and policies of decentralization;
- It devolved wide sectoral authority to LGs;
- It established a Decentralization Implementation and Monitoring Committee (DIMC) to monitor whether the objectives, policies and provisions are followed, and ensure they are followed;
- It also established a working committee to execute the directives of DIMC;
- It enabled the creation of a Local Government Finance Commission (LGFC);
- It made provision for revenue sharing between local and central government (CG), and among LGs;
- It made provision for 20% representation of women in LGs and for the representation of deprived and disadvantaged groups;
- It provided for more accountable and transparent LGs through village, municipal and district councils, committee systems, and audit committees;
- It expanded the taxation and service fee collection authority of LGs and recognised some rights of LGs over natural resources;
- It made participatory bottom-up planning, periodic planning, resource mapping and establishment of an information centre compulsory for LGs;
- It made LG funding a compulsory function of HMGN;
- It made LG capacity building a sectoral ministry responsibility;
- It authorised DDCs to open sectoral units to take over the work of government line agencies;
- It authorised DDCs to hire their own professional staff; and
- It has recognised LG associations and made provisions for representation at DIMC.

LSGA defines the tasks of HMGN. HMGN is responsible to:
- Implement policy, co-ordinate and monitor decentralization through DIMC;
- Monitor and supervise LGs;
- Build the capacity of LGs;
- Provide financial resources and grants to LGs and depute secretary to LGs and other staff upon LGs' request;
- Co-ordinate contact between ministries;

- Demarcate administrative boundaries and classify LGs; and
- Hold elections and suspend or extend the tenure of LGs;

Whilst LGs are to:
- Deliver sectoral services such as education, health, and agriculture by establishing their own sectoral units;

- Prepare long and short-term local policies, plans and programmes;
- Co-ordinate and build partnerships with civil society in programme planning and service delivery; and
- Raise revenue from local taxation, fees and other sources.

DDCs have been given extensive authority; for example they can now report irregularities and inefficiencies of local level HMGN programmes and suggest recommended actions.

However, although many tasks have been devolved to LGs the legislation has failed to provide an enabling framework for them to carry out these tasks. The main problem is the overlap between LG's new role and the fact that the devolved tasks are still mostly being carried out by HMGN line agencies.

1.3 Institutional Framework _____

Local Government

Nepal has a two-tier system of local governance, with village and municipal bodies as the lower tier and district bodies as the higher. The village bodies are called village development committees (VDCs) with municipalities serving the same function in town areas. The district bodies are the district development committees (DDCs). These are the units of local government.

All VDCs are divided into nine wards. Municipalities are divided into a minimum of nine wards but the maximum number is not specified. Wards are the smallest units of local governance. Each district is divided into from nine to seventeen Ilakas, which cover clusters of VDCs and municipality.

Each ward has a committee (WC) made up of the five elected members, one of which must be a woman. VDC committees and municipal committees run LGs' affairs. Village councils (VCs) and Municipal councils (MCs) meet biannually to approve or question VDC and municipality policies, programmes and budgets. VDC chairpersons, vice-chairpersons, ward members and six nominated members representing women and DAGs form the village councils. Municipal councils (MC) have a similar structure but the number of nominated members can be a maximum of twenty. There are 3913 VDCs, 58 Municipalities and 75 DDCs in Nepal.

Each district has a district council (DC), which serves the same role as VCs and MCs, and an executive committee (DDC). The DCs meet annually and are made up of mayors and deputy mayors of municipalities, VDC chairpersons and vice-chairpersons, DDC chairpersons, vice-chairpersons and members, the district's MPs and six nominated members. Provision is also made for village, municipal and district executive bodies to nominate additional members of the weaker sections of society and of them one must be a woman. There is provision for sectoral committees and an audit committee in each LG.

VDC chairpersons, VDC vice-chairpersons, mayors, deputy mayors, ward chairpersons and members are elected by adult franchise. All these elected officials elect their respective Ilaka members as well as president and vice-president of DDC.

The Ministry of Local Development (MLD) appoints LG secretaries. At DDCs it deputes additional professional staff such as accountants, engineers and planners. LGs generally appoint lower level staff, although, some DDCs have started to appoint professional staff themselves.

Fiscal Framework

The LSGA and rules has given LGs some taxation and revenue authorities for example, to raise land and vehicle taxes; to charge fees for services, and to charge land revenue. DDCs are authorized to share revenue with government from for example, land registration, tourism, electricity and forest products and to market natural resources. However, the revenue collection areas remain weak because of overlapping authorities of LAs and LGs. The LGs have been given responsibility for delivering local services such as education and natural resource management but the finances for

delivering these services are routed through the LAs. The LGs do receive grants from central government but these are grossly inadequate for the LGs to properly carry out the functions expected of them. Nepal's LGs receive less than four percent of the national budget and this proportion is decreasing.

Planning Structure

The LGSA legislation stipulates that LGs plan though a participatory bottom up planning process that involves need identification, prioritisation, and resource estimation and feasibility studies. Fourteen steps are prescribed for district level planning. Programmes implemented by VDCs and municipalities using their own fund require Council approval. Those requiring district or HMGN supports have to be submitted for discussion and prioritisation at sub-district or Ilaka levels. Selected programmes are then incorporated into DDC plans after being approved by the district council. All programmes that require government support are then forwarded to NPC for approval after which the concerned sectoral ministries allocate budgets. The main weakness here has been the absence of mechanisms for negotiation and coordination between LGs and HMGN and between LGs themselves on planning and budgeting.

Poverty Reduction

The main priority of the ninth plan is poverty reduction. However, no clear linkage has been made between poverty reduction and decentralization. The LSGA suggests that LGs should allocate resources, prioritise those plans and programmes that contribute to employment generation, increase people's income and reduce poverty.

LGs have little understanding of the issues involved in poverty alleviation and the weak communication; coordination and interface between HMGN and LGs have hindered any efforts they have made. LGs are not provided with sufficient funding to take up poverty reduction programmes themselves and the HMGN local anti-poverty programmes are run outside the LG framework. It is only donor funded poverty reduction programmes that are run through LG.

Civil Society

Donor support to LGs has been forthcoming for social mobilisation, community organisation, resource support and community based saving and credit programmes. LGs involved in these programmes are now showing an increased awareness of poverty and human development issues. However, they often lack social mobilisation skills and financial resources. Civil society has an important role to play in overcoming these difficulties.

The ninth plan and LSGA recognised civil society as an important change advocate and service provider. Nepal's civil society includes user groups, community organisations (this is a UNDP term meaning largely the same as CBOs), NGOs and professional organisations. The LG associations are another type of civil society organisation. They were formed in the early 1990s and include the Association of District Development Committees of Nepal (ADDCN) Municipality Association of Nepal (MUAN), and National Association of VDCs in Nepal (NAVIN). They have played an important part in improving the legislative framework. The potential and constraints of LG-civil society partnerships are becoming better understood.

1.4 Decentralisation Achievements and Problems _____

The government's policies have supported the institutionalisation of decentralization. However, effective decentralization strategy or implementation plan is yet to be built. Due to absence of constitutional provision, Nepal's LG system has been vulnerable to executive arbitrariness and shifts in the parliamentary equation. Many factors including overlapping roles, the lack of clear conflict resolution and

negotiating forums, planning weaknesses, limited progress in reducing poverty, and the very limited involvement of civil society have all hampered progress. The limited awareness of local people and the representatives themselves about the tasks and functions of LGs has also hindered decentralization. Most local people are used to receiving services from central government and remain to be convinced of the

new role of LG. The following assessment of performance based on indicators taken from the ninth plan and LSGA provisions shows that only mixed results have been achieved.

Table 2, Decentralisation Achievements and Problems

Policy Areas	Achievements	Problems
Decentralization policy and strategy	♦ Supportive policy framework in place ♦ LG participation in policy dialogue recognised.	♦ No strategic framework and time-bound action plan ♦ Highly sectoral approach prevails in the decentralization framework ♦ Many inconsistencies between policies and practices ♦ LGs regular participation in policy dialogue yet to happen.
Legal and regulatory framework	♦ LSGA and its rules offer legal and regulatory framework ♦ Parts of LSGA rules amended at the request of LG associations.	♦ Several sectoral acts conflict with LSGA. ADDCN has completed an exercise on this issue, and submitted the needed recommendations for amendments to HMGN ♦ Some LSGA rules conflict with LSGA itself ♦ Overlap and duplication of tasks between LGs and LAs ♦ Circumvention of LG authority common through all ministries including MLD/NPC ♦ Lack of inter-ministry co-ordination.
Financial resource base of LGs	♦ Additional taxation and service collection authority devolved to LGs by LSGA ♦ Revenue sharing concept introduced ♦ LGFC appointed to review and suggest new policy framework on fiscal decentralization. ♦ Lack of commitment on the part of LGs in collecting taxes ♦ Lack of data base in LGs to raise taxes	♦ Clear LG fiscal framework lacking. ♦ Policy recommendations produced by LGFC for improvement of fiscal framework yet to be operational. ♦ No balance between LG tasks and the LG fiscal base. ♦ Common framework for LG budgeting yet to be developed ♦ Central allocation of resources outside local priorities is common ♦ Policy recommended to expand LGs resource base is not operationalized ♦ LGs only given revenue authority for less profitable areas ♦ LSGA provisions for more profitable revenue sharing such as in forests, mines, tourism, electricity yet to be made operational ♦ Weak LG fiscal management systems ♦ Support system for capacity building of LGs in resource mobilisation is lacking ♦ Revenue sharing among LGs is not operational.
System of grants, programme assistance and subsidy	♦ Annual grant to VDCs increased to NR 500,000 ♦ Grant assistance to LGs made a responsibility of govt ♦ Expanded programme grant to DDCs.	♦ LGs' share of the national budget has been decreasing. ♦ Grant assistance is not objectively based ♦ Unpredictable magnitude of conditional grants ♦ Programme assistance is ad hoc.
Equity and equalisation among LGs	♦ Criteria for classification of LGs prepared ♦ LGFC formed to make policy recommendations ♦ Criteria defined for additional financial support to LGs.	♦ No change as all aspects are yet to be made operational.
Capacity building of LGs and autonomy of staff and personnel	♦ LG capacity building legally defined as a govt task applicable to all sectoral ministries ♦ Need for separate act for LG service cadre recognised in LSGA ♦ Provisions made to allow civil servants to join LG service ♦ Provision made for deputation of civil servants to assist LG programmes ♦ DDCs allowed to open sectoral units ♦ DDCs allowed to hire professional staff ♦ Capacity building programmes run with donor support.	♦ No overall policy framework, strategy with goals, and time frame for capacity building and personnel policy of LGs ♦ LG secretaries have dual accountability as they are appointed by HMGN.
Planning process	♦ Participatory bottom up planning process	♦ Insufficient commitment and framework to

	legally prescribed for LGs ♦ All LGs required to make periodic plans ♦ Co-ordination of all stakeholders in local planning suggested.	institutionalise participatory planning ♦ Lack of general awareness about the role and responsibilities of LG ♦ Overlap and duplications, for example, between MPs and local leaders and between LG and LAs ♦ Weak co-ordination at all levels ♦ Participatory processes often not followed ♦ Inadequate information leads to poorly developed plans ♦ Weak supervision of plan implementation.
Monitoring and evaluation	♦ Provision for DIMC with working committee made ♦ Monitoring and evaluation are made part of MLD and NPC activities ♦ DDC to monitor activities of VDCs and municipalities.	♦ DIMC has met once in two in 2 years ♦ Weak monitoring and evaluation system at MLD and NPC ♦ Weak monitoring by DDCs.
Mechanisms for solving disputes between CG and LGs	♦ LG associations represented in DIMC and LGFC ♦ Increasing consultation with LG associations on policy issues ♦ Parts of LSGA regulations amended in response to LG requests ♦ DDCs allowed discussing sectoral programme and budget with concerned ministries.	♦ Inadequate system for co-ordination and negotiation between HMG and LG on budget and programme ♦ Consultation with LG associations is yet to be made effective ♦ DDC discussions with ministries for programmes and budget is yet to begin ♦ LAs follow CG rather than LG priorities.
Access of weaker groups including women/DAG	♦ Representation of women and DAGs in LG ensured through allocation of seats to women and provisions for nomination of additional women and DAG in LGs ♦ Provisions for prioritisation of programmes beneficial to women and DAG.	♦ Most LGs are elite led ♦ Effective operational strategy for women and DAG participation not developed ♦ Weak participation of women in LGs ♦ Legal provisions not adequately followed in resource allocation and prioritisation of programmes for women and DAGs by LGs.
Accountability and transparency	♦ Provisions for LG councils in place ♦ Provisions for internal audit and final audit made compulsory ♦ LG officials required to declare property and assets ♦ Detailed processes on planning, fiscal management and display of information legally prescribed.	♦ Effective mechanisms yet to be developed to measure accountability and transparency of LGs ♦ Weak monitoring of financial irregularities ♦ Weak CG and LG information based decision making ♦ Updating of information is not regular.
Role of civil society	♦ Policy and legal framework in place ♦ Growth of civil society.	♦ Potentials under-utilised, such as LG associations' potential for conflict resolution and negotiation under utilized ♦ Poor accountability and transparency ♦ Partisan affiliations ♦ Over-reliance on donor support.
Poverty reduction	♦ Poverty reduction made focus of all development activities ♦ Donors have given priority.	♦ Lack of sensitivity of local elite to reducing poverty ♦ LGs have low understanding of poverty reduction issues ♦ HMGN poverty reduction programmes are run outside the LG framework ♦ No HMGN support to LGs to run poverty reduction programmes ♦ Institutional mechanism not effective to share experience of other poverty reduction programmes.
External resource mobilisation	♦ Donor support for decentralization is expanding.	♦ Clear strategy lacking to guide and effectively use donors' resources.

1.5 Review of Decentralisation in Nepal _____

Decentralization is complex and it has wide-ranging implications in Nepal. Therefore its implementation is a challenging task. Both HMGN and donors agree that decentralization is the most appropriate mechanism to address local development and service provision. Hence, since 1990 donors have been providing considerable support to decentralization reform process, particularly for policy development and LG capacity building.

The donors in discussion with HMGN

recognised these problems and agreed on the need for a review to share experiences, lessons and perspectives. Therefore, HMGN, the donors, and the LG associations carried out a joint review between April and September 2000.

These three groups were represented on a steering committee, which in turn appointed a task force made up of donor programme staff and national as well as external consultants to carry out the review. The review's main objectives were to answer the following questions:

- How well do government and donor efforts support the aim of having effective and efficient decentralization?
- How well do government and donor efforts contribute to using decentralization as a way of reducing poverty?

- How well do government and donor efforts, related to decentralization, enable community mobilisation, empowerment, and the strengthening of the role of civil society in local governance?
- What other lessons are there from the process of decentralization: for example, how can donor efforts be improved and better harmonised in future?

Sixteen parameters were developed to review decentralization efforts. These are included in Chapter three of the Main Report. The extent to which these parameters have been addressed was tested by study visits to the following donor programmes in the selected sample areas. In the field wide-ranging consultations were held with LGs, government, donor supported programme officials and civil society.

Table 3 Review survey programmes and areas

Programme	Donor agency	Districts and municipalities
Participatory District Development Programme/ Local Governance Programme	UNDP	Kabhrepalanchok, Tanahun and Sunsari
Local Development Fund	UNCDF	Desk review only
Danish Support to Decentralization in Nepal	DANIDA	Doti/ADDCN
District Partner Programme	SNV/NEDA	Ilam
SDC support to local self-governance and decentralization in Nepal	SDC	Kabhrepalanchok/NLS
Urban Development through Local Efforts	GTZ	Nepalgunj and Dharan municipalities
Strengthening Local Institutions Using the Appreciative Planning and Action approach.	CARE Nepal	Bajura

A draft report[1] of the findings was distributed to a range of national stakeholders in September 2000. Shortly after a national consultative workshop was held to discuss and offer input on the draft report. A final report of the review was then produced taking account of discussions at the workshop. This Policy Document summarises the key points, conclusions and recommendations contained in the final report.

2.
REVIEW OF DONOR SUPPORTED PROGRAMMES

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[1] A Review on Decentralization in Nepal – Draft Report, September 2000

This chapter provides an introduction to each of the donor programmes included in the review, and an overview matrix that summarises the main findings.

2.1 Seven Donor Supported Decentralization Programmes __

UNDP/PDDP - LGP

The Participatory District Development Programme (PDDP) and the Local Governance Programme (LGP) are twin projects supported by UNDP for the period 1995-2001. The PDDP is the result of the evolution of cooperation between HMGN and UNDP since 1982 to promote decentralization. PDDP/LGP aims to empower people to participate in decision-making that affects their lives and to enhance their capacity to mobilise and channel resources for poverty alleviation.

To achieve this objective the PDDP/LGP has initiated support at three levels. Locally it supports the management of Village Development Programmes (VDPs) through community organisations (COs), through facilitating social mobilisation and self-reliance for multi-sectoral grassroots development. At the district and village levels, it supports DDCs and selected VDCs in 60 districts in participatory planning and management to promote local level sustainable human development. At the central level it supports the capacity building of MLD and NPC to enable them to better implement decentralized and participatory development.

An executive committee, and a programme management committee (PMC) manage the programme overall. District management committees have been formed in each district.

DDCs and VDCs execute the programme. The participating COs are expected to contribute financial resources up to 50 percent of the resources for community seed grant. HMGN has provisioned to provide NR 2.7 million to each district for a poverty alleviation fund, which is integrated with LTFs (local trust funds). Overall UNDP has allocated NR 16.7 million for PDDP and LGP. Other donors such as NORAD, SNV, UNICEF and DPCP are also cooperating with PDDP/LGP through their own programmes under the PDDP/LGP approach.

COs have been formed at the grassroots level to work for poverty alleviation through social mobilisation and resource contribution. By the end of March 2000, 125,863 members, 50% of whom were women, had organised themselves in to 4,635 COs. NR 5.3 million has been mobilised in savings and NR 84 million invested in credit.

The financial management system of DDCs has been improved through the project supporting the introduction of a DDC level database system and personnel training. NPC has been supported to install a geographical information system (GIS) to prepare PDDP-supported districts' resource maps. The programme has also assisted DDCs to create four sections to carry out sectoral management functions. It also assists in establishing information system in programme-supported districts. All concerned central national institutions, except for ADDCN and NAVIN, are represented in PDDP/LGP management.

The major strength of the PDDP/LGP programme is the institutionalisation of bottom-up participatory planning and monitoring process, in-built element of sustainability through CO cooperatives, LTF, seed money provisions and risk sharing by local people. The major concern is the low threshold of sustainability of COs due to low input and support services and weak linkage to market demand.

DANIDA/ DASU

Danish support to decentralization at national level began with DALAN's (Danish Support to Local Authorities in Nepal) programmes, which ran from 1993-98. DALAN supported the High Level Decentralization Coordination Committee (HLDCC) to prepare Nepal's decentralization policy, which became the basis for LSGA. After reviewing these programmes the Danish government decided to initiate a long term, 15 to 20 years, programme of support to human rights, good governance and decentralization in Nepal. The Decentralization Advisory Support Unit (DASU) was established to oversee programme support and to liase with the government.

Under DASU, support to decentralization focuses on: 1) policy development, 2) capacity building and service provision, and 3) strengthening LG institutions. Programmes are running to enable the holding of free and fair elections; creating awareness of legal rights and making legal information more accessible; supporting NGOs to raise public awareness; support to trade unions; and legislation formulation and implementation. It also supports LGs to become more capable of planning, implementing and monitoring activities and mobilising resources.

At the national policy matters, DASU has supported MLD through the Working Committee, the Secretariat of DIMC, and also LGFC and ADDCN to carry out decentralization studies, legal reform and advocacy. DASU has also supported the twinning arrangement between ADDCN and National Association of Local Authorities in Denmark (NALAD) and continued support to the Local Development Training Academy (LDTA). Recently a twinning arrangement with the Danish Local Government Training Centre (LGTC) was established.

DASU supports Doti and Surkhet districts to enhance the capacity of the DDCs and all VDCs in planning and development. DASU has provided a district technical advisor in each district.

One of the strengths of DASU has been its flexibility to identify and take-up new areas at the policy level as for example when it provided support to the newly formed LGFC. Unlike other donor programmes it covers all the VDCs of the two districts it is working in. However, the project has not targeted the grassroots and has focused mainly on the elected representatives and staff. National political instability and weak management, professional inefficiency and failure to mobilise resources at the institutional level pose the main risks to its programme sustainability.

SNV/MHDP

SNV has supported the Mechi Hill Development Programme (MHDP) since 1987. In the first two phases of MHDP, SNV supported infrastructure building, particularly drinking water supply and irrigation schemes, and sustainable community development. The final phase (1998-2000) focussed on strengthening district level institutional capabilities in planning and implementation of local initiatives.

The programme objectives of the third phase of MHDP are, to strengthen district-based NGOs to assist village groups to analyse problems and potentials to take initiatives to address them; and to enhance the capacity of DDCs and VDCs to plan, monitor, coordinate and support development in which local initiatives are integrated. Marginalized people, district based NGOs and COs, and DDCs and VDCs are the target groups for MHDP, covering 47 VDCs in Ilam, Panchthar and Taplejung districts.

Activities of MHDP are guided by six core programme strategies: 1) the transfer of skills such as PRA, organisational mapping and action-research; 2) a multi-sectoral approach involving LGs, NGOs and local contractors; 3) using demand driven and participatory methods; 4) forging links between district institutions as well as with the 'outside world' for resource sharing; 5) focusing on women and DAGs; 6) and integrating environmental sustainability in all programme activities.

To develop DDC's as coordinating bodies, a supportive district coordination committee (DCC) made up of representatives from national political parties, FNCCI, NGOs, NAVIN, VDC clusters, the MHDP development officer, LDOs and DDC vice-chairpersons has been formed under the chairmanship of the DDC chairperson in the third phase. The project has provided a programme officer and an organisational and development officer on a phase-out basis to strengthen the DDC secretariat. Biannual HMGN/SNV central level steering committee meetings are held at central level to review the programme.

The programme funding is organised such that the DDCs contribute 33%, the VDCs 25% and NGOs 10% as well as labour and materials. The total estimated cost of the third phase is NR. 5.7 million, of which SNV is contributing NR 5.1 million.

A number of activities are on- going. A total of 19,801 women and 9,090 men are participating in social mobilisation activities focused on poverty alleviation. Agriculture, livestock and skill transfer are major activities. Eighteen local NGOs

have been contracted to facilitate social mobilisation programmes with 55 projects assigned to them so far. The project has provided 15% of the budget for human resource development and 10-15% for institutional development support. Based on an assessment of 3 districts, 16 VDCs and 18 NGOs, an organisational development strategy was developed and capacity building activities launched. These have included training on gender, leadership development, financial and inventory management, holding planning workshops, and legal rights. As well as providing training on improved book- keeping to 47 VDC secretaries, the project has provided DDCs with computers and training in how to use them.

The key strength of the project is its positive move toward sustainability, by increasing the ownership levels of all stakeholders after the phase-out period.

GTZ/UDLE

GTZ, encouraged by the positive experiences of the 1974-86 Bhaktapur Development Project, initiated the Urban Development through Local Effort (*udle*) programme in 1987. *udle* assists 36 municipalities, including Dharan and Nepalgunj, which were visited during the course of this review.

Recognising that technical and financial assistance is of limited value unless the target groups are enabled to take initiatives themselves, *udle* has worked to increase the capability of municipalities to plan and manage urban development. The *udle* programme has provided the following advisory services to municipalities: Financial Management and Administration (FiMA), Municipal Organisation and Development Administration (MODA), Urban Hygiene and Environmental Education (UHEEP), and Integrated Action Planning (IAP). It has also supported training activities for municipalities.

The Town Development Fund (TDF) is an autonomous municipal financing institution established by the TDF Act to manage financial support provided to municipalities. The TDF was originally founded as a board with a World Bank loan and GTZ grant assistance. It is currently managing the DM10 million FRG

grant fund through the German Development Bank (KfW). *udle* provides technical assistance to the TDF as well as to the municipalities who receive loans. TDF provides financial support to municipalities to install street lighting, waste treatment plants, public libraries, and roads, and income generating infrastructure projects such as commercial complex, Bus Park, and drinking water systems. In social infrastructure building, TDF provides grant up to 60% to high-income municipalities and up to 90% to low-income ones. Loans are provided for up to 90% of project costs with an interest rate of 6% and a repayment period of 12 years.

udle supports municipalities to improve their use of existing resources through stakeholders' participation, action oriented results, client value and informality and flexibility. Twenty-four municipalities are supported under this programme. FiMA has installed computer systems to maintain and update records in nine municipalities. IAP has worked to improve physical and environment planning, and investment planning in 14 municipalities. UHEEP is first and foremost an awareness programme for responsible waste handling, which is primarily geared to children. It has introduced this subject into schools' curricula and also provides training for women. Training occupies an integral part of all programmes, particularly in FiMA and MODA. Municipality staffs are provided with tailor-made short courses, long term technical training and on-the job training in urban planning, financial management and community development.

udle's programme and activities have addressed the central level institutions. Through the Ministry of Local Development (MLD), and the Ministry of Physical Planning and Works (MPPW), UDLE contributed to drafting the Municipality Act 1992, the LSGA 1999 and Regulations and to task forces on solid waste management, the abolition of octroi (a tax on incoming goods), and administrative reform in the Kathmandu valley.

UDLE in its fourteen years has made major achievements in building the capacity of Nepal's municipalities. One significant achievement has been the creation of a database to facilitate decision-making processes on issues such as taxation. Another major success has been that of TDF; it is being considered whether it is feasible to upgrade it to an urban development bank

authorised to act in the capital market. One of the major concerns of UDLE is the uncertainty that the municipalities can meet the matching fund requirements, particularly following the abolition of octroi.

SDC/NLS and Kabhre

The Swiss Agency for Development and Cooperation (SDC) has supported decentralization through two programmes. SDC has supported the "Local Self-Governance and Decentralization Programme" in partnership with the Nepal Law Society (NLS) since 1992. SDC support to "Strengthening DDC Kabhre in Local Governance through Training and Support of Village Technicians" began in 1998. Kabhre DDC is implementing it. The NLS programme has been extended for another two years while the Kabhre programme is under review at SDC. Both programmes were conceptualised and proposed by the partner institutions themselves. The ownership of the programme rests on respective implementing institutions and their partnership arrangements with SDC and cooperating central government line agencies. The budget of the programme does not exceed NR20 million.

The NLS decentralization project (1999-2000) is providing facilitative professional support to decentralized governance and the rule of law through advocacy, awareness building and legal assistance; local government capacity building at DDC and VDC level; and information dissemination and documentation on local government through publication of the Local Body Bulletin. The target groups are government policy-making bodies, intellectuals and local government leaders, DDC and VDC officials. The programme is monitored through a project steering committee that consists of 3 representatives each from both NLS and SDC. It meets twice a year. Apart from SDC support, review and joint programme planning, NLS is independently operating and carrying out internal monitoring of the programme.

The Kabhre programme aims to strengthen networking between the LGs, line agencies and other institutions in community based service delivery, and to develop local human resources to increase access to local services. It has trained local people as village technicians and has established service centres within the VDCs. Its two main target groups have been the district level LAs, DDC officials and VDCs with the second target group being the communities. Kabhre DDC is responsible for operating the programme and makes progress reports to SDC. Concerned SDC officials are invited to participate in all programme related meetings. SDC provides financial support for the training of village technicians whilst the VDCs cover transportation and daily allowance costs during training periods. In seven VDCs, SDC's support is matched by VDCs as seed money for service centres and the purchase of equipment.

The NLS and Kabhre programmes are both clear on their targets and objectives, and there has been flexibility in execution. One issue of concern is sustainability. The continuing success of the NLS programme is based on continuing donor support to decentralization, the ability to develop partnerships with local government and its own institutional strategy. Similarly, the Kabhre programme may not take off so well in VDCs as in a DDC due to the scarcity of resources for additional service centres, low motivation of technicians, and political and partisan issues, which often hamper the long-term commitment of VDCs.

CARE - Nepal/RABNP - Bajura

CARE-NEPAL and the Ministry of Local Development's Remote Area Development Committee (RADC) have implemented the Remote Area Basic Need Project (RABNP) from 1990 in Bajura District. The first phase ran from 1990-1997 and the second phase from 1997 onwards. The project has its district office in Martadi, the district headquarter of Bajura, with one Ilaka office in Kolti and field offices in each programme VDC. There are 51 CARE staff working in Bajura. Field level activities are monitored by the field level staff and by the district office. The project has developed a monitoring and evaluation strategy. Its phasing out strategy is to strengthen the capability of local NGOs, community development committees (CDC) and user committees (UCs) so as they can run activities themselves. The target group of the project is 7,000 households belonging to 17 VDCs.

The project has phased out its involvement in the first 6 VDCs and is currently working in 11 VDCs. RABNP is an integrated rural development project with a broad range of activities implemented in line with local needs.

Project interventions include: community organisation, agriculture extension, livestock development, community and private forestry, rural infrastructure (bridge building, irrigation and drinking water supply), non-formal education and income generation. The project has laid great emphasis on people's participation through users committees and other groups like CDCs. It has also started collaborating with the DDC, VDCs and LGP to develop the planning process and in other development activities.

The overall project implementation strategy is to promote and strengthen community groups, enable households, develop and strengthen local extension agents to ensure sustained productivity and manage and utilise the resource base. In the second phase, CARE identified its development objective as to ensure that by June 2002, the target group will have improved household livelihood security. To achieve this it has established 3 intermediate objectives: 1) to improve farming practices and income, increase literacy and numeric skills of women and improve access to drinking water facilities and forest products, 2) to improve the institutional and resource mobilisation capacity to enable 400 community groups to better plan, manage and implement development activities by the end of the project, and 3) to improve the planning, management and implementation of development activities of 17 VDCs.

One of the strengths of the project has been the use of participatory planning with local partners to identify activities. The accountability of the LGs to the poor has improved as the VDCs and the project gives preference to pro-poor initiatives. It has also helped to increase transparency in the VDCs' decision making. The investment in capacity building and income generating activities has started to show positive results. The project strategy to strengthen the capability of NGOs and CDCs for programme sustainability has been effective. However, a concern is that they might not be fully equipped to take over the activities.

UNCDF/Local Development Fund

Local Development Fund (LDF) is a project signed by HMGN on April 25, 2000 with United Nations Capital Development Fund (UNCDF). UNCDF will provide up to US$ 5 million to the LDF over the five years from 1999-

2004. The eight districts selected for LDF implementation, with four from PDDP and four from LGP are Dolakha, Terathum, Achham, Kaski, Kabhre, Rupandehi, Dhanusha and Udayapur. The districts have been selected based on their development indicators such as the gender development index. Gender empowerment measures are one important poverty alleviation strategy.

LDF builds on the human, social and economic capital generated under PDDP/LGP and their organisational set-up. PDDP/LGP aims to enable community organisations and LGs in sustainable human development, good governance and decentralization. The LDF Project Manager is represented in the central level Project Management Committee. LDF will continue till 2004.

LDF aims to alleviate poverty through rural infrastructure income earning and human resource development opportunities. It aims to involve community identification of small-scale rural infrastructure and other public investment needs. To achieve this LDF will work to institutionalise a transparent project selection process within the participatory planning framework. This will include preparing a handbook to outline the criteria for successful community development projects and on the size and nature of LDF to be implemented in the districts. LDF also aims to institutionalise the financial management and reporting capacities at the district and sub-district levels and deliver, operate and maintain LDF financed investments. A key monitoring and evaluation indicator will be the level of improvement in the situation of the poor and disadvantaged groups.

LDF has identified the primary target groups as poor and disadvantaged groups, LGs, and other local institutions like COs, NGOs and private sector organisations. The programme intends to involve "Service Providers" giving enlarged space for civil society organisations in participatory process of development and improved local democratic governance. The secondary target groups are policy makers and planners at the central level e.g. NPC and MLD.

The LDF is expected to have a direct impact on local socio-economic development and poverty alleviation by improving the sustainable provision of basic public and community infrastructure and services; by improving local

democratic governance by strengthening the capacities and legitimacy of the LGs; and by evolving procedures, practices and policies of wider relevance for the decentralization process in Nepal. The most important aspect of LDF is to promote the process of decentralized fiscal transfer to the LGs by building their capacity in financial management, monitoring and evaluation.

One of the strengths of LDF is the accessibility of the experiences and built-in strengths of PDDP/LGP. The growing capacity of LGs and COs to deal with development needs provides the right opportunity for LDF to achieve its objectives. However, implementing such a programme requires political commitments from all the main stakeholders and a high quality management by the LGs and PDDP/LGP.

2.2 Comparison of the Seven Programmes _____

The following table compares the key features of the seven programmes.

Table 4, Comparative Overview of Donor Decentralisation Support Programmes

	UNDP/PDDP-LGP	Danida/DASU	SNV/MHDP	GTZ/UDLE	SDC/NLS-KABHRE	CARE/Bajura	UNCDF/LDF
1. Methodology	♦ Participatory planning ♦ Social mobilisation. ♦ Creation of COs. ♦ Capacity building.	♦ Institution building through financial support and capacity building ♦ Target and promote links between central, district, municipal, village, and ward level LG ♦ International exposure ♦ Support to LDTA incl. development of training materials and manuals ♦ Support to ADDCN.	♦ Participatory planning ♦ COs ♦ Promote links between key district actors ♦ Demand driven training provision ♦ Competitive funding applications	♦ Financial, advisory and training support to urban development ♦ Support to MUAN.	♦ Institutional pluralism ♦ Support to NLS's "Local Body Bulletin" ♦ VDC and DDC capacity building programmes ♦ Support to private service delivery ♦ Co-financing.	♦ Project formulated and implemented through COs ♦ Capacity building.	♦ Development of rural infrastructure ♦ Co-financing ♦ Participatory planning.

2. Organisation	♦ ·National level Programme Management Committee ♦ District management committees composed of stakeholders ♦ District advisors ♦ COs.	♦ DASU ♦ District advisors ♦ District project management rests with DDCs.	♦ District Co-ordination Committees made up of local stakeholders ♦ District advisors ♦ Social mobilization implemented through local NGOs.	♦ Projects managed by municipalities ♦ Mobile advisory teams ♦ Financial support managed by TDF ♦ Training through Urban Development Training Centre.	♦ NLS/SDC steering committee ♦ Kabhre DDC manages DDC programme.	♦ District, Ilaka and field offices ♦ Project advisors. ♦ Community development committees.	♦ Local project management with DDCs and VDCs ♦ Uses PDDP/LGP organisational set up.
3. Counterparts at central and local level	Central: NPC, MLD, MOF. Local: DDCs, some VDCs within these, COs and LTFB.	MLD, DIMC and its working committee, ADDCN, LDTA, LGFC. Doti and Surkhet DDCs and all municipalities, VDCs and wards in the 2 districts.	MLD DDCs and some associated VDCs, NGOs.	MLD MUAN Municipalities.	NLS Kabhre DDC.	MLD's Remote Area Development Committee. DDCs and some VDCs.	PDDP/LGP programme. DDCs and some VDCs within these. COs.
4. Poverty alleviation and empowerment of the poor	♦ Saving/credit and LTF schemes ♦ Social mobilisation ♦ Health and sanitation awareness raising ♦ COs give credit priority to the poorest	♦ Not immediate objective of programme, but long term effects may reduce poverty ♦ Sensitisation of local leaders on accountability to the poor ♦ Scholarships to girls from vulnerable groups.	♦ Saving /credit schemes ♦ Social mobilisation ♦ Health and sanitation awareness raising ♦ Priority to pro-poor sub-projects ♦ Raise awareness and skills of the poor.	♦ Not immediate objective of programme.	♦ Not immediate objective of programmes, but long term effects may reduce poverty.	♦ Support to income generation, awareness building ♦ Preference to activities targeting the poor. ♦ Scholarship to Dalit girls.	♦ Development of rural infrastructure ♦ Supports an increased productivity base
5. Capacity building	♦ Management support/ training in participatory planning, financial management, social mobilisation and information management ♦ DDC programme officers appointed ♦ Study tours abroad.	♦ Strengthening capacity of DIMC and its working committee, LGFC, ADDCN, LDTA, DDCs municipalities and VDCs ♦ Improve the skills of DDCs, municipalitie, VDCs and wards in participatory planning, leadership and management ♦ Study tours abroad	♦ Training in leadership, project and, financial management, gender, planning, and legal rights ♦ Exposure visits ♦ Improve participatory planning, social mobilisatio, and project management.	♦ Building capacity of municipalities in planning, financial management, and community development.	♦ Training LGs in roles and functions, participatory planning and financial management ♦ Training entrepreneurs to run service outlets (agro-vet and pharmacy) to supplement LG service delivery.	♦ Training in participatory planning, monitoring and technical skills ♦ Study tours.	♦ Improving financial management capacity through pilot projects. ♦ Improving monitoring and evaluation skills

6. Involvement of NGOs and the private sector	♦ Little involvement of local NGOs ♦ Attempts to promote public/private partnerships.	♦ Only ADDCN directly involved.	♦ Implemented through local NGOs ♦ NGOs & business associations involved in district co-ordination committees.	♦ Involvement of NGOs and private sector in projects such as road construction.	♦ NLS involved. ♦ Support to create private service delivery.	♦ Involvement of PEACEWIN and other local NGOs.	♦ Involvement of NGOs, COs and private service providers.
7. Transparency	♦ Workshops and seminars on transparency ♦ Printed and oral information about major decisions and programmes.	♦ All counterparts at central and local level supported to promote transparency ♦ Training DDC, municipal, VDC and ward leaders in transparent decision making and dissemination.	♦ Promoting LG dissemination of budgetary provisions, and project selection.	♦ Encouraging municipalities to circulate council meeting agendas, decisions, budgets and progress report.	♦ Not direct objective.	♦ Encouraging all involved to make available information on decisions, plans and budgets.	♦ Participatory project selection, management and monitoring ♦ Awareness campaign on projects.
8. Fiscal arrangements	♦ Support to DDCs and VDCs to improve budget procedures and increase income generation.	♦ Capacity building of LGFC ♦ Support for a platform for financial co-operation between CG and LG (ADDCN) ♦ Training LGs in budget & account procedures. ♦ Finances for Danida support directly managed by counterparts	♦ Training VDCs in book keeping and financial management. ♦ Computers and accounting programs provided to DDCs.	♦ Support to fiscal arrangements and budget and planning process through training, advisory and equipment (computers).	♦ Training in financial management. ♦ Increasing resource mobilisation in Kabhre.	♦ Income generation activities.	♦ Capacity building in financial management ♦ Resource mobilisation.
9. Gender equity	♦ Gender orientation of programme staff. ♦ Preference to women in social mobilisation ♦ Women COs.	♦ Training of all women LG leaders in Doti and Surkhet districts ♦ Sensitisation of local leaders on gender issues ♦ Scholarships to female students.	♦ Sensitisation on gender issues. ♦ NGO selection of based on gender sensitivity ♦ Specific women activities and COs ♦ Preference to women in project recruitment.	♦ "Gender ombudsman" appointed ♦ Gender sensitivity in mobile advisory teams.	♦ Priority to women candidates for training.	♦ Mothers groups ♦ Specific training of women. ♦ Preference to women in activities ♦ Reserved women seats in Community Development Committees.	♦ Selection of districts partly based on low female income and literacy rates.
10. Ethnic and caste equity	♦ Not direct objective, but preference to activities for poor supports ethnic equity.	♦ Not direct objective of programme ♦ Scholarships given to girls from disadvantage	♦ Preference to dis-advantaged groups in selection of projects.	♦ Not direct objective.	♦ Not direct objective.	♦ Initiation of saving/credit scheme for Dalits ♦ Scholarships to Dalit girls ♦ Saving and	♦ Not direct objective.

						credit scheme for Dalits.	
11. Improve situation of rural population	♦ The target groups are mainly rural.	♦ Local level target groups are mainly rural	♦ The target groups are mainly rural.	♦ Not objective of programme.	♦ The target groups are mainly rural.	♦ The target groups are mainly rural population.	♦ Developing rural infrastructure, services, income generation, employment and governance.
12. Improve individual and intra-household relations	♦ Social mobilisation and forming COs.	♦ Women's empowerment may have a positive impact.	♦ Social mobilisation and forming COs.	♦ Urban development should have positive impact.	♦ Not objective of programme.	♦ Forming COs and saving/credit schemes should have positive impact.	♦ Not objective of programme.
13. Sustainability of programme	♦ Social mobilisation, capacity building and COs	♦ Institution and capacity building ♦ ADDCN charges for its services ♦ Legal amendments achieved by ADDCN.	♦ Social mobilisation capacity building LG and NGO institution building.	♦ Capacity of municipalities improved.	♦ Capacity of DDCs and VDCs improved ♦ Self-sustaining private service shops.	♦ Capacity building of DDCs, VDCs, NGOs and COs.	♦ Capacity building of DDCs, VDCs and COs.
14. Cost-effectiveness	♦ Specific analysis not available, but use of existing LG institutions and local level physical, human and financial resources supports cost-effectiveness.	♦ Specific analysis not available, but holding trainings locally using local trainers supports cost-effectiveness ♦ Expatriate district advisors are expensive but necessary.	♦ Specific analysis not available.	♦ Specific analysis not available.	♦ Specific analysis not available.	♦ Specific analysis not available.	♦ Specific analysis not available.
15. Effects of programme at central level	♦ Influence on drafting ninth plan and LSGA ♦ Local data bases and social mobilisation through COs ♦ Inspiration to other donors (SNV, NORAD).	♦ Creation and strengthening of ADDCN, LDTA, LGFC, & DIMC ♦ Input to formulation of decentralization policy by institutional support ♦ Support to development and processing of LSGA and the regulations.	♦ Input to policy development based on programme experience.	♦ Contribution to Municipality Act, LSGA and regulations ♦ Support to task forces ♦ Support to MLD to prepare and disseminate financial analysis of municipalities ♦ Strengthening MUAN.	♦ Facilitation of decentralization debate through workshops.	♦ Dissemination to donors and other programmes, by publishing annual review and evaluation of programmes.	♦ Input to decentralization policies on fiscal arrangements, local income generation and LG financial management based on programme experience.

3.

FINDINGS AND RECOMMENDATIONS

These recommendations suggest how the government can improve the way it promotes decentralization and how this can be achieved through better co-ordination with, and support from, the donors. Three key areas for immediate government action are recommended.

3.1 Government Policies and Strategic Framework _____

Since 1990 all stakeholders and in particular LGs have demanded a speeding up of decentralization. The government committed itself to legislating for decentralization in its ninth five-year plan and fulfilled this commitment with the promulgation of the LSGA and Regulations and the appointment of the LGFC. With the legislative framework in place the challenges of implementation lie ahead. The key factors to facilitate effective implementation are political commitment, administrative and bureaucratic support and the mobilisation of adequate resources.

A clear strategy with action plan to implement the LSGA is lacking. There is no national time bound implementation plan and clear responsibilities have not been assigned within HMGN for facilitating, managing, monitoring and co-ordinating decentralization. Since there is no political commitment to decentralization reform, government agencies resist the reform process seeing it as a threat to their power base. There has been no common understanding of the framework and because of these problems, decentralization risks achieving only limited gains.

Recommendations

HMGN should design a time-bound decentralization implementation plan with clearly assigned responsibilities to manage, monitor and co-ordinate the decentralization process within the framework of LSGA. HMGN should assign responsibilities to the most competent central

government institution. This plan should be developed in consultation across government, LGs, donors, private sector and civil society. It should direct the institutionalisation process by detailing the parameters of HMGN-LG co-ordination, resource mobilisation, programme design, and monitoring. The need at HMGN level is for improving its ability to support, coordinate, manage, promote and monitor decentralization reform. HMGN should take part in a dialogue on plan implementation and should make financial contribution. Such a plan should describe how to:

- Amend the provisions in various sectoral acts which contradict with LSGA;
- Clearly demarcate the tasks of HMGN and LGs to avoid duplication, overlapping and interferences in LG's devolved affairs;
- Review the current LG structure;
- Develop a decentralized LG fiscal system;
- Establish synergetic relationship between NPC, DIMC, MLD and other HMGN bodies;
- Design a sound decentralization supervision and monitoring system;
- Build cooperation and partnerships with line ministries for effective implementation of LSGA at all levels;
- Work out a mechanism for regular dialogue between HMGN and LGs;
- Initiate preparation of legislation for a local civil service cadre in compliance with LSGA;

- Build up the capacity of LG leaderships in decentralized local governance, its fiscal and administrative management; and

- Include LG associations as a partner and stakeholder in decisions relating to decentralization.

3.2 Legislative and Regulatory Framework _____

Although, the LSGA framework is a sufficient platform for decentralization reform, decentralization has been vulnerable to executive arbitrariness and shifts in partisan groupings in parliament. One of the major constraints to the implementation of the LSGA has been the conflicting provision in other sectoral acts. ADDCN has prepared a draft bill on this issue, and submitted it to HMGN with needed recommendations.

Recommendations

Decentralization provisions should be included in the constitution - a recommendation, which has already been made, by HLDCC – and the government and political parties should begin considering such a constitutional amendment. The need to amend the conflicting sectoral acts is even more pressing. Steps have already been taken to amend these laws and the government must ensure that, as promised, it presents an amendment bill in the nineteenth session of parliament.

3.3 Structure of Local Government _____

Although the 1996 HLDCC report concluded that there are too many LG units, the two-tier LG structure seems satisfactory and fits well into the Nepalese administrative and service delivery system. The major problem lies not so much in the number and structure but more in the limited autonomy, capacity and finances of LGs and somewhat unclear role and status of municipalities.

Recommendations

A reduction in the number of LG units and changes in the structure should be done together with providing full autonomy to LGs to fulfil devolved functions and financial base clearly defined. Reform should be based on a detailed review of the best structure to perform LG functions.

3.4 Local Government Finances _____

Decentralization is not possible without adequate financial resources being devolved to LGs, as fiscal decentralization is a pre-requisite for establishing direct links between local service delivery and poverty alleviation. However, policies and working strategies to establish this link are lacking. Hence, LGs cannot perform devolved tasks. For example, LGs receive less than 4% of the national budget and less than 10% of the development budget. Also, many LGs lack adequate financial management skills.

The LSGA makes provision for the government to share locally generated revenue with DDCs. However the effectiveness of this has been hampered by a lack of clear implementation procedures for revenue sharing in forestry, tourism, natural resources and electricity generation. HMGN handed over the collection of land revenue to LGs but decreases in the fees for land registration - a major source of DDC revenue – has caused losses to DDCs and shows how the central government often fails to co-ordinate its actions with DDCs.

The establishment of the LGFC and the recent amendments to the LSGA regulations have been positive developments. However, many problems persist; such as the government's system for allocating grants to LGs lacks transparency and fails to follow clear criteria. Whilst LGs remain dependant on government grants, they have failed to make sufficient use of their taxation powers. Also, donors have provided inadequate support for fiscal decentralization. Some donors have now initiated support for HMGN to develop a strategy for fiscal decentralization.

Recommendations

Fiscal decentralization is a complex process that requires a supporting policy framework, sound management, strong political will, institutionalised negotiation with stakeholders and in-built monitoring mechanisms. Fiscal decentralization would progress by initially taking steps to:

- Clearly define LG tasks and assess their costs;
- Review the existing situation within LG finances;
- Increase the LG share in the national budget to enhance their effective service delivery and ensure balance between the LG tasks and their financial base;
- Assign LGs buoyant own income sources;
- Adopt a new policy and implementation plan for fiscal decentralization;
- Design a reformed national LG budget classification and accounting system;
- Establish an LG financial database at local and national levels for information and monitoring purposes and facilitate better LG financial management. This should involve individual VDC databases, which are then consolidated at district level with these in turn being consolidated at national level. ADDCN is already working with DDCs on the district level databases and should be supported to disseminate this information;
- Make the criteria for grant, budget and assistance provision more objective and transparent;
- Develop a system to improve the level of resources available to poor districts;
- Provide support to strengthen the financial management, audit and revenue generation capacity of LGs;
- Introduce innovative pilot programmes;
- Introduce a system of regulatory impact analysis (RIA) at national level, so that LGs are compensated financially for new or changed legislation, regulation, by parliament or HMGN decisions by HMGN; and
- Establish a partnership between the government and LG associations to involve LG associations in fiscal negotiation with government.

Later steps would include:

- Introducing innovative pilot programmes on a broader scale;
- Introducing incentives to encourage improved LG financial performance and resource mobilisation;
- Designing separate LG grant and support policies based on each districts financial status and potential; and
- Providing continuous training in financial management and accountability of LGs

3.5 Devolution of Authority to Appoint Personnel _____

The government supplying DDC and VDC secretaries undermines the autonomy of LGs. There have been frequent conflicts between government - deputed secretaries and LGs. Some secretaries have compromised the autonomy of LGs as programmes addressing non-LG priorities have been run through them by ministry level decisions. The high turnover of deputed staff, with about 25% of VDC secretary posts lying vacant, has adversely affected the functioning of LGs and particularly the VDCs where the secretary is the only person authorised to handle VDC accounts and administration. One of the most positive developments has been that most DDCs have started recruiting their own programme officers.

Recommendations

LGs should be enabled to recruit and train their own management staff. They should also have the power to dismiss staff (for good reason). It is recommended that the government phase out its policy of appointing LG secretaries. However, considering the limited management capacity and resource base of many LGs, LGs should retain the option of taking the services of government staff. Where LGs wish to appoint their own staff, changes should be made gradually to ensure that LGs are capable of managing this. They should receive the funds previously spent on deputed central government staff to finance their own staff. Incentives need to be offered to attract competent professionals to take jobs in remote LGs. The restructuring and reform of LG management is likely to cause significant dislocation of personnel, and so financial resources will be needed to ensure that competence does not suffer. The donors should support the reform process with ideas and resources. Also, in line with LSGA provisions a process needs to be initiated to prepare the separate legislation for the creation of a local LG service cadre (as provisioned in LSGA).

3.6 Co-ordination, Planning and Negotiation _____

Co-ordination has been generally weak. It has been particularly lacking between the LGs and LAs due to the continuing control of HMGN over most sectoral matters, the overlapping functions of LGs and LAs, and the local development financing system where most sectoral budgets go to HMGN line agencies. There has also been weak co-ordination between the DDCs and the VDCs and municipalities and between the municipalities and VDCs. The donors' programmes have had better district level co-ordination, which has happened either through stakeholder-based committees, smaller steering committees or through the LGs.

The LSGA provides an inadequate co-ordinating framework for the planning and delivery of services. The present LG planning system and the tendency of central government to change locally agreed priorities also undermines central-local government relations. There are some hopeful signs such as the LSGA authorising DDCs to negotiate directly with the concerned sectoral ministries on sectoral programmes.

There has been a failure to institutionalise joint agenda setting to balance national and local priorities, and for resource sharing and mobilisation. The LG associations' negotiations with government have not been regular, professional or institutionalised. Also, it has not been clear which agency should negotiate on behalf of the government. MLD is not acting as a co-ordinating authority whilst the NPC is only a recommendatory body. A proper forum for HMGN-LG associations negotiations should be created.

Improved co-ordination, planning and negotiation need to take place horizontally between LGs and LAs at the local levels and between the LGs themselves. The relationship between LGs and central government needs better defining to avoid central government over-riding or ignoring LG concerns.

Recommendations

The following recommendations should be considered:

- Establish a direct link between local planning and budgets to eliminate the overlapping functions of LGs and LAs;

- Institutionalise consultations with LG by CG on all matters affecting LGs;
- Provide sectoral funds to LGs and enhance their planning competence to allow them to directly implement local plans;
- Encourage LG associations to assume a supportive role to promote LG-CG co-operation, negotiation and co-ordination;
- Assign clear responsibilities and authority to a single CG institution(s) to be responsible for national co-ordination. The DIMC could carry out this role, but to be effective its secretariat/working committee needs more capable personnel and more financial support;
- Hold regular joint CG-LG programme reviews and LG Association - NPC/MLD/MOF discussions on policy matters;
- Introduce a system for negotiation between the sectoral ministries and LG associations on sectoral programmes and budgets; and
- Encourage donors to support these initiatives

3.7 Information Systems _____

As required by the legal framework most DDCs have begun to establish information systems, prepare resource maps and formulate periodic plans. A geographical information system (GIS) has also been established in some DDCs and at NPC/MLD-level. The sectoral LAs generate district level information. The NPC has provided a standard format for information collection. However, there are problems including: lack of periodic updating of information; insufficient human resources to manage information collection, processing and use. All the information generated should be easily retrievable and should be disseminated. There is no central depository for information generated at the local level.

Recommendations

HMGN should take the lead to promote a unified LG information management system. To achieve this support, mechanisms and human resources need to be developed at DDC level -- as proposed by the LSGA -- so that DDCs are able to provide similar support to the lower tiers of LG. Regular data sharing and dissemination should take place between CG and LGs. The LG associations should be involved in developing, maintaining and disseminating information. Donor support is needed to design and initially maintain a unified, national LG information management system (some donors have initiated support to this).

3.8 Transparency and Accountability _____

Although the legal framework exists, transparency and accountability are not maintained at all levels of governance. HMGN supervision, monitoring and evaluation systems are weak; local partisan and political considerations can sometimes dominate; whilst weak civil society institutions, and a weak press fail to hold LG accountable. As key LG staffs are deputed by HMGN, it must bear some responsibility for poor LG accountability.

Recommendations

To enhance transparency and accountability in LG:

- HMG could reward LGs who follow the most transparent and accountable financial and decision-making procedures;
- The financial audit reports of LGs should be made public;

- Raise the awareness of LG councillors and staff about the benefits of improved transparency and accountability;
- HMG should strengthen consultation and supervision mechanisms at the central level;
- Authority and financial resources should as far as possible be devolved to LGs so that LGs can be held fully accountable for their performance;
- Initiate effective coordination between the government and donors
- There should be a regular process of dialogue between the government, political parties, LG associations and civil society institutions; and
- There needs to be strengthened participatory planning capabilities.

3.9 Supervision, Monitoring and Evaluation _____

There has been inadequate supervision, monitoring, reporting and evaluation of the decentralization reform process at both central and local levels. A major reason for the central level agencies resisting decentralization is that they are not aware of the progress being made. DIMC, which was formed as an apex body to supervise, co-ordinate and monitor the decentralization process has, as a starting point, established its working committee. However, two years after its establishment it has achieved little. The MLD has had some involvement but has tended to perform sectoral functions rather than to champion decentralization reform. The role of the NPC and LG associations has been unclear. The LG associations with their extensive LG networks are the natural partners for central government to work with to promote good governance and decentralization.

Recommendations

To make effective monitoring of decentralization

reform in Nepal, DIMC needs to establish an indicator-based supervision, monitoring and evaluation mechanism. Practices within these three areas should meet commonly practised norms. The specific recommendations are:

- Activate DIMC to develop policy and decentralization implementation processes;
- Strengthen the DDCs' monitoring and supervision units to support VDC capacity building;
- Develop transparent and objective criteria for the supervision, monitoring and evaluation of all, LGs;
- Define how sanctions can be imposed on LGs that fail to act or abuse their authority; and
- Assist LG associations to monitor and evaluate the performance of LGs. The associations should be helped to develop their competence to work alongside HMGN in this way.

3.10 Capacity Building of LGs _____

The government, INGOs, LG associations, donors, NGOs and professional organisations have been involved in providing orientation and training on LSGA, the participatory planning process, the empowerment of women representatives, institutional management, LG information systems, social mobilisation, account keeping and gender sensitivity.

The capacity building of LG associations is an important on-going activity. However, these capacity building programmes have been uncoordinated and unfocussed and there has been no time bound framework. This has made it difficult to monitor their impact and sustain improvements. Capacity building of central level

agencies to facilitate the decentralization process has also been lacking. Some central level institutions have been unable to deliver the necessary services and some have offered resistance to reform.

Recommendations

To improve LG capacity building programmes HMGN should launch a long-term capacity building strategy after reviewing how it can best work with the donors and other stakeholders such as LG associations to develop human resources within the LGs. LG capacity building needs to become a major component of the government's decentralization implementation plan. This should include building the capacity of central level agencies to facilitate decentralization reform.

3.11 Participation of Civil Society and the Private Sector in Planning and Service Delivery _____

Although the ninth plan and LSGA provide for the participation of civil society and the private sector in LG planning and service delivery, their participation in LG planning and service delivery is still weak and uncoordinated. LGs and NGOs have failed to cooperate effectively. The involvement of the private sector has been particularly lacking. Many civil society institutions, such as user groups, are dominated by local elites and grassroots civil society institutions are yet to become effective in bargaining with and influencing LGs. In districts and villages where social mobilisation programmes have been promoted, the capacities of local civil societies - particularly membership based community organisations (CO) – have significantly increased. These COs now have increased access to LG resources, programmes and decision-making. The level of involvement of NGOs and the promotion of COs has varied in donor programmes. These experiences have not been fully documented nor has social mobilisation been endorsed as an entry strategy for programmes.

Recommendations

Experiences in involving civil society and private sector should first be reviewed and recorded for knowledge building and replication. The involvement of local level civil society should be increased particularly in facilitating community participation in development activities and the delivery of services. Partnerships and co-ordination between NGOs and LGs should be supported. The role of user committees (UC) and COs in LG activities should be further promoted and an assessment made of how to help develop the effectiveness of UC's practices. The involvement of the private sector should be encouraged whenever possible.

Donor support to NGOs should not undercut the LGs role in planning and delivering services. Overlaps, duplication and competition between LGs and NGOs should be discouraged. At a minimum, LGs must be kept informed about NGO programmes.

3.12 Equity, Inclusion and Empowerment _____

The largely sound policy and legal framework for equity, inclusion and empowerment has not been effectively put into practice in Nepal. In particular women and disadvantaged groups (DAG) have not been sufficiently involved in LG decision-making or in the UCs and COs. Practices, which discourage the participation of women, and DAGs are common in LGs. However, programmes such as PDDP/LGP that focus on COs and social mobilisation have shown some promising results. DANIDA supported programmes have also had a significant impact by developing the leadership skills of all women LG representatives in 8 districts. However, support for the empowerment of elected and nominated women and DAG members has been insufficient.

Recommendations

To ensure that LGs adhere to LSGA provisions, these issues should be addressed through proper monitoring and evaluation. Sensitisation programmes and reward and punishments can be used to encourage LGs to work towards this.

3.13 Gender Equity _____

The ninth plan directs the inclusion of gender equity considerations in all development initiatives. LSGA provides for the representation of women in LGs and User Committees. However, the response of LGs to gender equity has been unsatisfactory. The government has failed to monitor whether or not

LGs have complied with this law. Government programmes, including those of MLD on gender equity, have not been co-ordinated with LGs. The donor's programmes have focused more on gender equity and have been better linked with LGs. However, they have had only limited coverage and their positive achievements have not been sufficiently shared and disseminated to allow replication.

Recommendations

Gender equity components should be made an integral part of all LGs' development activities. To achieve this, regular follow-up and monitoring is required and supportive services, such as social mobilisation, awareness building and gender sensitisation, need to be promoted at all levels. Government supported programmes should be fully co-ordinated with LGs and donor support should have a wider geographic coverage.

3.14 Poverty Reduction _____

The unclear assignment of tasks and their limited financial resources has meant that LGs have had only limited success in poverty reduction. Poverty reduction and decentralization have not been fully linked in policy formulation. LSGA provisions ask LGs to consider poverty reduction in planning and allocating resources, but LGs are not obliged to do so. The poverty concerns of central government have not been sufficiently communicated to LGs as government poverty reduction programmes are usually implemented directly through the LAs. Also, not enough attention has been drawn to the positive results of the donor supported poverty alleviation initiatives. Experiences from PDDP and SNV, for example, show that with resource incentives and effective facilitation and social mobilisation efforts, the LGs and COs are capable of addressing poverty reduction issues at the grassroots.

Recommendations

The most important point to consider is to design a national policy and strategy on addressing poverty reduction through decentralization after analysing positive experiences and constraints. It should clearly define the roles of LGs, donors, civil society and the private sector. LGs can become major players in the fight against poverty. To support LGs to reduce poverty the government should provide them with additional resources, promote social mobilisation, and encourage local CO and private sector involvement. Fiscal decentralization is a pre-requisite for establishing direct links between decentralization and poverty alleviation.

The lessons learned from social mobilisation activities run by LGs and COs to generate local resources for poverty reduction should be applied nationally. COs need to be legally recognised to further develop and programmes such as LTF need continued support. Resources mobilised for poverty reduction should be consolidated and channelled through LGs. A National Poverty Reduction Fund could be established using the money now used for the MPs' funds, donor and LG funding.

3.15 Service Provision to Rural Populations _____

The ninth plan prioritised the improvement of rural services. Most LA's and donor programmes run in rural areas. The LG, HMGN and MLD programmes to improve services to the rural populations mostly focus on the construction of physical infrastructure while donors have focused more on enabling processes, awareness building, participation and empowerment. However, there is insufficient co-ordination between these programmes.

It is likely that the government and LGs' focus on building physical infrastructure will continue whilst inadequate attention is given to social and human development factors. Donor supported programmes have shown that social, economic and physical infrastructure development activities are best jointly undertaken with LGs contributing resources and claiming ownership through built-in social mobilisation components.

Recommendations

To improve service provision to the rural population:

- Donors should support government and LGs to build "software" components into their programmes to improve rural services;
- The Government should support LGs to design rural service delivery improvement programmes;
- The Government, and especially MLD, should co-ordinate its programmes with LGs;
- The experiences of government, LGs, NGOs, civil society, private sector and donors should be recorded, disseminated and replicated.

3.16 Donor Involvement in Decentralisation _____

Donor support to decentralization has been directed at policy initiatives, legal reform, equity promotion, fiscal decentralization, LG capacity building, participatory planning and poverty reduction. The donors' programmes have generally matched HMGN's overall decentralization policy objectives. However, as the government's policies and strategies are so broadly formulated it is difficult to imagine a donor programme being in conflict with this framework. Good co-ordination, complementary programmes, the dissemination of results and sustainable programme design are crucial for the success of donor support.

<u>Co-ordination</u> Even though the LSGA says that all programmes should be co-ordinated, one of the main problems in decentralization has been the lack of co-ordination between the different agencies involved. Co-ordination between donor programmes has been generally good as they have kept each other informed of activities through a central level donors' forum, visited each other's programmes and shared their experiences. However, government co-ordination of donor programmes has been lacking.

The government has yet to provide consistent guidelines for donor involvement in decentralization to direct and specify support focus areas. This has led to a thin, random spread of donor support. The failure to mandate any single national institution has also prevented effective co-ordination and led to the various central agencies competing for donor support.

The lack of co-ordination has resulted in HMGN blaming the donors for setting conditions and wanting to fund programmes directly, whilst the donors have been blaming HMGN for too much bureaucracy and weak performance. Those government agencies where donors have invested most (roads, irrigation and forestry) have been the ones who have been least supportive to decentralization reform and most reluctant to direct programmes through LGs.

<u>Synergy Effects, Duplications and Contradictions between Donor Programmes</u> Duplication and contradictions were not observed in the donor programmes reviewed. Synergy effects have been created as donor programmes have contributed to different aspects of decentralization. The different types of LG capacity building programmes enhance LGs' planning competence and ability to deliver services. However, with the absence of a national framework to streamline donor support, donors are separately experimenting with their approaches.

<u>Dissemination of Results of Donor Programmes</u> --

Donors have kept each other informed about their activities and priorities by sharing their reports and holding review meetings and workshops. Study tours have been arranged for LG members to share their experiences. There also need to be some mechanism for government officials to share their experiences. However, information on donor programmes is rarely disseminated to LGs not involved in the concerned programmes and there is no institutional arrangement to share findings and results more broadly. As a result the government has tended to brand donors' learning as self-gratifying whilst the donors feel their contributions are often ignored. Many good lessons and experiences have gone unnoticed.

<u>Sustainability of Donor Supported Programmes</u> Programme sustainability depends upon many factors, including joint programme design to encourage ownership, agreement on mutual roles and responsibilities, and well-designed phasing out stages. Sustainability is greatly enhanced when recipients co-fund programmes and receive full programme information. Education is important for sustainability as it raises awareness and enables people to develop their communities themselves. Participation of beneficiaries is equally important and social mobilisation greatly this. All the donor programmes reviewed have a fair degree of sustainability, but some lack a clear phasing-out strategy to allow the main stakeholders time to take them over.

Recommendations

A single national institution should be identified to take the lead in allowing Nepal to benefit in a more coherent way from donor assistance to the decentralization process. The following recommendations should be included in the government decentralization implementation plan that identifies priority areas for donor involvement (see 3.1).

- A key recommendation is that the government establishes a joint donor/HMGN/LG Association decentralization forum, which involves all key stakeholders, to discuss the key issues of donor programming such as programme complementarity and sustainability. This forum could also be used for donors to share information about their programmes and results.

- Donors supporting decentralization should ensure that their sectoral programmes conform

to the aims and processes of decentralized governance and should guide their Nepali counterparts to respect and abide by LSGA provisions. They should support institutions such as the LG associations to produce regular publications to disseminate decentralization experiences and a joint HMG/donor/LG associations' newsletter should be published.

To enhance the sustainability of donor supported programmes a clear policy of programme phasing-out needs to be designed and agreed with counterparts. Also, co-financing needs to be built-in from the beginning and programmes need to be regularly reviewed with the participation of the beneficiaries and re-designed if necessary.

3.17 Three Key Areas for Immediate Action _____

This review has revealed many areas where action is required to facilitate decentralization reform. The following three areas are of paramount importance and demand immediate action:

Key area 1: Design an implementation plan for decentralization reform (see 3.1)

All key stakeholders need to have this plan to be able to work together towards the common goal of decentralization and poverty reduction.
Key area 2: Develop a suitable LG financial system (see 3.4)

Effective decentralization demands effective fiscal decentralization as a prerequisite.

Key area 3: Co-ordinate donor involvement (see 3.16 and 3.18)

Effective decentralization needs fully co-ordinated donor support within the framework of the implementation plan and regular use of an indicator based monitoring system would be a valuable tool in this.

3.18 Proposed Indicator Model to Measure Decentralisation Progress _____

The review recommends developing a decentralization indicator model to provide HMGN, donors and key stakeholders with a practical tool to identify needs and monitor the progress of the decentralization process. Such a model has already been developed and successfully applied elsewhere. In 1998-2000 the World Bank commissioned the National Association of Local Authorities of Denmark (NALAD) to carry out a comprehensive study of fiscal decentralization in six African countries. The model has the following seven basic indicators: 1) central government policy; 2) regulatory framework; 3) financial sustainability; 4) institutional framework; 5) performance and sustainability of infrastructure and service provision; 6) operational capacity in relation to tasks; and 7) accountability to local people. There are also many sub-indicators. These indicators are scored over time against scoring criteria, allowing progress to be followed over time.

The Nepal model should be developed in consultation with all key stakeholders. The 16 parameters, which were developed for this review could be a starting point for measuring the decentralization progress. It would allow policy makers, the DIMC, donors and other stakeholders to clearly identify the status and needs of the decentralization process within each indicator. Regular reviews of decentralization in Nepal would help to improve communication between HMGN and the donors.

If carried out regularly, say every second year, it would help to build a clear picture of the progress of the decentralization process, to show which policy objectives had been achieved and, as the model is already in use in Europe and Africa, it will be possible to compare Nepal's decentralization progress with that of other countries.

Association of District Development Committees of Nepal
(ADDCN)
Kumaristhan, Kupandol, Lalitpur
Phone No. :   524718, 528891, 524901
Fax No.   :   977-1-524718
E-mail   :   addc@wlink.com.np
                      addcn@wlink.com.np