

## **Annex 4: Minutes from the Meetings in the Reference Group**

### **1. Minutes from the Meeting between GoN and the DPs on the ToR for the Assessment of the LGCDP on April 18, 2008**

#### ***Opening Remarks***

The chairman of the meeting, Mr. Awasthi, Officiating Secretary of MLD, provided an overview of the background to the elaboration of the present draft LGCD Programme Document and expressed great gratitude to the many stakeholders involved in this process, particularly for the substantial work accomplished by the formulation Task Force.

He requested that written comments to the ToR for the assessment should be submitted within a few days to allow the assessment team to focus on core issues of importance. The present PD provides a good description of the objectives, outputs and activities, but can be further improved in terms of technical details and clarification. He also informed the meeting that the Minister of MLD is a great supporter of the objectives, outlined in the draft PD and the programme will enjoy strong political support. He welcomed all possible comments to the present draft and requested an open dialogue on the core issues and key challenges. He also requested that this assessment should be seen as a joint review to avoid multiple DP assessments at various points of time.

#### ***Comments***

##### Danida

Danida appreciated the present draft PD. Danida felt that there has been a gradual but significant improvement of the draft framework over the last couple of months. A number of areas could be further clarified in the coming weeks, among these:

- The strategy on Social Mobilisation:
  - What are the intended objectives?
  - Scope of work and phasing in?
  - Graduation strategy and funding mechanisms
- VDC grants – what is the investment menu – there is a need to clarify eligible expenditures from the grants?
- Funding flows – how is this going to be implemented, and is there room for simplification, harmonisation and alignment?
- Procurement of CB – support: Which mechanism should be applied? Will there be a need for an interim arrangement until the capacity for procurement is fully established?
- Budget – there is a need for further details in the budget;
- Production of services:
- How can the private sector play a role in service production? are there innovative opportunities for public-private cooperation?
- The role of the LBs' Associations and the need for support?
- The description of the “semi-autonomous” facility could be further specified.

Mr. Awasthi welcomed the comments and agreed that the PD would benefit from further clarification in those areas. He also supported a strong public – private cooperation in the areas of production of certain services where the private sector has comparative advantages. The LB associations could be capacitated through the program. He also informed the meeting that the PAF will be linked with the LB planning process in the future and that funds will be allocated through the LBs. This initiative would be of great benefit for the initiatives supported through LGCDP.

#### World Bank

The WB looked positively on the joint LGCDP initiative and was looking forward to further dialogue on the final PD, when the present draft has been internalised. However, the WB raised concerns that the LBs were without elected councils.

Mr. Awasthi informed the meeting that MLD was exploring various options for representation and stronger accountability at the local level. He expected that the parties will be active at the local level when the new Government was constituted. A number of options to strengthen the local accountability framework should be further explored.

#### UN agencies (UNDP, UNICEF, UNV, UNFPA, UNCDF)

On behalf of the UN agencies' collective, the UNICEF representative expressed the need to clarify the following issues:

- Output 1 was in need of further clarification, e.g. pertaining the coverage, scope of activities, strategy for phasing in, etc.;
- The LMs' role should be further defined in the present PD;
- It is important that children' rights are brought prominently into the agenda in the PD;
- The HR requirements to ensure effective implementation of programme need to be further specified;
- UN volunteers could be brought in as resource persons within several of the CB activities;
- Roll out and up-take of block grants;
- The fund flow mechanism needs to be clarified;
- Ways and means to maximise downwards accountability could be further explored;
- Rights based approach;
- UN joint programme.

Mr. Awasthi responded that all VDCs should be covered, but that there would be a need to provide additional support to some of the less capacitated areas. He agreed that there was a need to further define the strategy in this area. He also stressed the importance of using young professional Nepali graduates, e.g. engineers, as resources for the programme, and urged stakeholders to review this possibility.

#### DFID

DFIF was of the opinion that the PD has improved over time. However, DFID was concerned about the present description of the strategy and method for SM, which needs more

clarification. There was also a need for a more focused element of learning and innovation based on reviews of the impact of various activities.

#### Norway

The fact that a larger group of partners is now together in a joint initiative and discussion on elaboration of the joint PD is perceived as a great achievement. The future PD needs to have a high level of in-built flexibility to adjust for future changes in the external environment/context. Norway would like to see a further elaboration of some of the typical elements in a PD such as a risk assessment and corresponding mitigating measures, sustainability and environmental concerns.

Mr. Awasthi responded that the PD states that further details will be provided in the operational manuals of the three main components.

#### ADB

ADB informed the meeting that it needed more time to review the new PD, and that comments would be provided throughout the assessment. ADB also informed the meeting that the Ministry of Finance seems to have some concerns about LGCDP.

#### GTZ

GTZ stressed the need to focus on the needs of all municipalities – including the larger ones. Second, the LMs need to be capacitated to be able to provide sufficient support to the VDCs, particularly within the area of the devolution of new functions.

Mr. Awasthi clarified that the LGCDP would not deal with issues related to the restructuring of ministries, but that the CB needs of the LMs could be reviewed. He also informed the meeting that close contact will be ensured with the MoF.

#### CIDA

CIDA expressed support to the process and to the present draft PD and agreed that there are a number of areas with room for further details and clarification.

Mr. Awasthi thanked stakeholders for the useful comments, and formally handed over the draft PD to the assessment team for further review. He appreciated the possibility, over the coming weeks, to get support to discuss some of the questions raised in the ToR and on the comments provided during this important meeting.

It was agreed that the next meeting of the reference group would be on Friday, April 25, 10.30 a.m. At this meeting, the assessment team will provide information on issues identified, working progress and plans for the remaining period of the assessment (a kind of informal inception session).

Kathmandu, April 18, 2008.

## **2. Minutes from Reference Group Meeting 25<sup>th</sup> April, 2008**

### ***Venue and proceedings***

The meeting was convened at the LDTA conference hall. The meeting was chaired by Joint Secretary of MLD and co-chaired by Mr Lars Christensen, Danida HUGOU. Representatives from MLD, MOF, UNDP, UNCDF, UNICEF, UNFPA, CIDA, Danida, NORAD, GTZ, ADB, ADDCN/NAVIN/MUAN, JICA were present.

The Team Leader for the Assessment of LGCDP, Mr Jesper Steffensen, presented the Inception Report to the participants. Core issues were presented according to the outlined outputs in the draft LGCDP Programme document. The presentation especially focused on the fact that: i) the Programme Document needs revision/additions, ii) that flow of funds is not clearly outlined, iii) that the SM strategy is not sufficient clear, iv) that issues of social inclusion and community involvement in service delivery needs to be clarified, (v) that capacity building is both demand and supply driven but clarification is needed to who will deliver and be responsible for various aspects of capacity building, (vi) that programme management arrangements are not spelt out in the Programme Document.

### ***Comments from the Reference Group Members***

Danida: The programme Document should be more focused on what can be achieved now. The Inception period would be useful to clarify core issues and to seek more detailed information regarding certain aspects. There is a need for clearer objectives for political buy-in to the Programme. Another issue of importance is the civil service situation at local government levels – issues of devolution of staffing, recruitment, transfers etc. DASU has contributed a lot in the field of Fiscal Decentralization. Its support was not confined to ADDCN. It would be justifiable to mention its past contributions in the document. Strengthening local civil service is also important for downward accountability. Service delivery components should be linked with the good governance. Community should have a strong role in the implementation. Local governance beyond local government should be given sufficient consideration. MLD should now focus in the capacity building of VDCs and VDC secretaries. Capacity building of VDCs, DDCs, Community and MLD should go hand in hand.

UNDP: This is a challenging Programme, but the question is whether it is a programme or a framework? There is a need for clarity on this point from MLD. UN has worked with all aspects of the programme – SM, service delivery, accountability, credit schemes. There is a need to focus on alternative funding at community level because VDC block grants not often coming out in time. It is a key task of the Assessment Team to look into core areas like SM/Participation, funding flows and programme management and the need for support staff at the local level. Government should lead, own and drive the LGCDP. Government should be in the driver's seat. Linking line agencies and their activities is needed both at the centre and the district levels. MLD should coordinate Line Ministries to bring their field units under the umbrella of Local Bodies in their respective jurisdictions. LGCDP should not be hampered by the existing political vacuum in the Local Bodies.

UNFPA: Issues of linking line ministries to this process or programme area is important. That means there should be some kind of sector coordination from the MLD side in collaboration with MOF. Fund flow needs to be clear because at the moment there a many different funding systems and fiscal year is often different from government and donors. One-size-fits-all

approach should be avoided given the diverse socio-economic and physical characteristics of the nation. NGOs should be coordinated at the local level by the LBs. We have to bring NGOs under the policy influence of LBs. Donor-funded NGOs activities should be incorporated in the formal planning process of LBs. Social mobilization components should be explicitly spelt-out. There should be formula –based grant system considering economic and social indicators along with cost-index and size of populations.

CIDA: In the past central government was a hindrance for decentralisation and there is a need to be clear about what decentralisation is at the moment. It is a post-conflict situation with no elected LGs. Line ministries, donors and NGOs all have on-going programmes/projects. The question is what should be included in the document: livelihood or community participation or both? There should be separate budget for management costs, capacity development and service delivery.

LGCDP should address the issue of social inclusion. DDF should be re-vitalized and fully institutionalized in the whole local government financial system. Local civil service commission should be immediately formed to recruit professional local civil servants. Community is not the alternative to weak LBs. Both the community and LBs should be empowered and should work together.

UNICEF: Good that the rights and needs of children have been included and that there is some consensus on social inclusion aspects, which are now covered. Downward and up-wards accountability needs to be better described. Line ministries must be involved.

GTZ: Is it a programme or framework? The links to the Local Body Administration Regulations should be clarified as well as if there will be a Local Body Service Commission. There is a need for a balance between community development and local government support. Service delivery is the focus of the LGs but could be implemented by the communities. Rather than creating new things let us honestly implement the provisions of LSGA. We can cure many local ailments by this Act. There should be linkages between outputs and activities. Role of LB associations is missing in the activities despite its existence in the outputs. Interim constitutions have made some remarkable provisions in the decentralization. If necessary we should not be hesitant to bring in an interim LSGA. LBs are permanent institutions.

A gradual SWAP approach can be pursued. There should be exit strategy in the LGCP from the very beginning. Unlike in the past, rural urban issues are not separate. They should be linked. Rural - urban partnership is necessary. Downward accountability is necessary. There should be the provision to bring remaining donors in the future into the LGCDP framework. MLD capacity is necessary. We should not miss the discussions on the future federal governance to address the issue of local governance.

ADB: Operational issues have to be detailed. ADB fact-finding mission starts 5<sup>th</sup> of May. The proposed Inception phase needs to be detailed in the Programme Document – what/ how, whom/when?

ADDCN: The capacity building issues are the missing parts of the Programme Document. There is a need for integrating the LG associations in the Programme Document.

NORAD: Is it a framework or a programme? The introduction of the federal level needs to be considered. How will the changes in Nepal affect the programme? Are the outputs balanced? The linkages need to be better defined.

MUAN: When will there be elections at LG level and how does this affect the decentralisation process? The central point is overall programme management at central, LG and community level. Sustainability is an issue. There is a need to spell out capacity building needs at LG level. The role of the associations needs to be clearer in the Programme Document.

NAVIN: Need formal institution at LG in the programme management. VDCs need to be included in the capacity building aspects.

MOF: There has to be a proper balance between demand and supply aspects of the Programme. The Government of Nepal will include NRS 20 Billion in the Programme. The plan at DDC and VDC levels is crucial for implementing the Programme.

### Summary issues

The chairmanship summarized the following issues:

- Is this present April 17, 2008 Document a programme or a framework? It is important that this is clarified by MLD as soon as possible.
- Devolving line ministry functions to districts – how to involve line ministries in the decentralisation process?
- SM strategy and community participation needs to be clarified.
- In order to minimize the fiduciary risks at the local levels, the Good Governance Unit formed under the chairmanship of Secretary in the MLD should be strengthened by LGCDP.
- It was agreed that especially 3 areas merit more work and interaction between the Assessment Team and the Reference Group. Therefore, at the next Reference Group Meeting on Friday the 2<sup>nd</sup> of May three thematic groups will be formed to look into issues and recommendations regarding:
  - 1) Flow of funds and funding arrangements,
  - 2) Community participation and social mobilisation and
  - 3) Programme management.

## **3. Minutes from Reference Group Meeting May 2, 2008**

### Introductory Comments and Presentation

The meeting was convened at the LDTA conference hall. The meeting was chaired by the Acting Secretary of MLD, Mr. Som Lal Subedi and co-chaired by Mr Lars Christensen, Danida, HUGOU. Representatives from MLD, MOF, NPC, UNDP, UNCDF, UNICEF, UNV, UNFPA, CIDA, Danida, SDC, DFID, the World Bank, GTZ, ADB,

ADDCN/NAVIN/MUAN and JICA were present. The chairman outlined the objectives of the working group and thanked the team for the work so far. He also noted the strong representation from various stakeholders.

The Team Leader for the LGCDP Assessment Mission, Mr Jesper Steffensen, presented the programme, core findings and introduced the specific questions for the working group sessions. The presentation slides are annexed to these minutes. Core issues were presented according to the outlined outputs in the draft LGCDP Programme document. As agreed during the last reference group meeting, the presentation and discussions should focus on three thematic areas:

- 1) Social Mobilisation and community participation
- 2) Funding flows and support modalities
- 3) Programme management issues.

The working groups were established with facilitators and rapporteurs. Each group was asked to examine a set of specific issues and questions.

#### Summary of the proceedings from the working groups:

##### *Summary from Group 1 – Social Mobilisation and Community Participation*

Discussions in this working group largely focused on the purpose of social mobilization, which was discussed in terms of its purpose within the overall context of LGCDP.

In general, it was agreed that social mobilization has four core functions:

- (i) promoting citizenship, in the sense of active political participation in public affairs;
- (ii) facilitating citizen and community involvement in planning and the allocation of resources;
- (iii) mobilising communities for enhancing oversight, transparency, monitoring and accountability;
- (iv) strengthening the capacity of communities and community organisations to undertake execution of service delivery.

Within the framework of LGCDP, the working group appeared to be divided into two broad “schools of thought” with regard to the purpose of social mobilization:

- (i) one set of working group members subscribed to the view that social mobilization should be seen as contributing to improving the quality of local governance and local governance processes – by (a) facilitating community participation in local government planning and budgeting; (b) making downward accountability more

robust and effective through active community; and (c) increasing community involvement in service delivery activities;

- (ii) another set of working group members tended to see social mobilization as a broader framework for addressing community needs. From this perspective, social mobilization was seen as going beyond the formal local governance framework, and encompassing a range of activities (e.g. savings and credit, livelihoods, income-generating activities, etc.) linked to economic empowerment. Many of these types of activity can only be undertaken outside of the local governance framework as they usually are not part of the mandate of local government.

All working group members did agree that social mobilization – whatever its purpose – needs to factor in the need for social inclusion and to promote the well-being of disadvantaged and marginalized groups.

Given the divergence of viewpoints on the purpose of social mobilization (SM), several members of the working group proposed that the LGCDP assessment team establish a small SM sub-group, the function of which would be to discuss the purpose of SM and then move on to discuss specific programme modalities (e.g. roll-out, management, etc.). This proposal was endorsed by the entire working group.

#### *Summary from Group 2 – Fiscal Flows and Support modalities*

The topping up of the (development) block grant should be routed through the Treasury system, but a number of bottlenecks should be addressed in the short term, including:

- Delays in transfers
- Need to improve on the physical output reporting system and harmonisation of the multiple formats currently in use
- Accountability – clearer definition of who is accountable for the use of funds
- Review of the system of fund flow against 4 monthly reports – several districts have complaints about the system whereby the funds are only released based on 4-monthly work-plans, and full utilisation of previous funds. A system with equal instalments should be considered to make the transfers more transparent and regular
- The investment menu should be clarified
- Internal audit system should be strengthened

For other grants, e.g. program support to specific activities and sectors, the direct funding flows to the DDF will be expected to continue. All these should still be reflected in the Reed Book.

The working group supported a gradual move towards a SWAp but also recognised the need for various development partners (in agreement with the Government) to use flexible funding modalities as long as this was well coordinated and within the national PD/framework. A Basket fund for the grants could easily be established with a JFA/MoU between the

contributing partners and the Government. A similar arrangement for CB should be considered and/or could be part of the JFA for block grants (i.e. one common pool of resources for the partners, who can apply these modalities). An open JFA could also be considered. In any case, some of the DPs will not be able to join such arrangements from Day One and a number of prerequisites will have to be fulfilled prior to a full SWAp with a joint funding system (fully harmonised, aligned and mainstreamed) against the GoN' workplan and budget for the LGCDP. The working group expressed a strong need to move towards GoN ownership and handling of all funds, but also recognized that there were capacity building gaps in areas such as drawing up of work-plans, budgets, procurement plans, ToR as well as M&E and reporting systems.

Commitment from the development partners is very important. The DPs needs to inform the Government about the scope (funding, earmarking, etc.) of their support to LGCDP, the timing of this/sequencing and the modalities as soon as possible and prior to the beginning of the next FY. A more detailed budget and time-plan needs to be elaborated. As system for pledging of funds needs to be established.

### *Summary proceedings from Group 3 – Project Management Issues*

The group discussed the programme management arrangements, including issues that were already discussed and some of them agreed during the Godavari retreat. Issues that were covered were:

- 1) Institutions: The Godavari agreement covers the main areas of programme management, such as MLD setting up a PCU and having a Consultative/Advisory Committee (CC) to oversee the programme implementation including all stakeholders. It was only briefly discussed if there should be dedicated outputs managers in MLD for each of the Programme outputs. This needs to be a process focus for capacity building strengthening, plus guidelines for M&E systems. Also the MLD and the Ministry of General Administration should look into introducing a Performance Based management system.
- 2) PCU Management: PCU will be made up of mainly National TA. It will also include short term international TA. Furthermore, administrative and support staff needs to be recruited. Management of the DDC level: this is the implementing agency, LDO responsible, but he should be made responsible for results not only processes. MOU will be signed between MLD and DDCs and they will run the programme through existing DDC oversight structures (includes HRs). The role of the DDC is: supportive, coordinative, approval of AWP&B, policy guidance, M&E, reporting and capacity development. Management guidelines need to be developed for DDC/municipalities. Management at VDC level: VDC overall responsible, there will be a Programme Implementation Committee, VDC Secretary will coordinate. Social mobilization: use existing manpower and contract out to NGOs.
- 3) Work plan and budget: PCU will develop yearly work plans and budgets for the Programme to be discussed in the CC. At local body level there is a participatory planning process. Reporting systems need to be enhanced in particular reporting on results. The M&E system is weak in terms of physical output reporting.

- 4) Procurement Plan: PCU will assist in drawing up at central level a Procurement Plan. 2007 Act is there and is clear. At DDC/municipal level as per LBFAR. For VDC level they will need assistance from DDCs.
- 5) Capacity Building support is major component: assessment is required regarding needs for HRM, equipment, systems, formats, process and standards. This will demand that capacity building plans are drawn up at all levels. The system should use existing institutions but the actual implementation should be guided by competitive process of contracting out.
- 6) Implementation modalities: AWP&B will be linked to GoN systems and based on LSGA/LBFAR. The existing modalities for implementation at local level should be used. However, there is a need for consolidation and assessment of lessons learned.
- 7) M&E and review process: at VDC level it should be quarterly reviews. At that level there should be public hearings, use of media and public audits. At national level it is proposed to have a Joint Annual Review of the Programme (JAR). This review would be the mechanism for proposing changes to the Programme document, in the implementation modalities etc. The JAR will be preceded by donor/Government assessments of implementation, systems, field visits, management issues etc.
- 8) Budgets: budget will be linked to outputs in future. A format will be developed.

### Concluding Comments

It was agreed to establish a special sub-assessment group to review the modalities for social mobilisation and community participation. The results of this group work should fit into the overall joint assessment of the PD. The team would invite interested parties (team members and reference group members) for these meetings. The sub-assessment team, which would comprise representatives from the assessment team as well as reference group members, should meet a couple of times prior to the finalisation of the assessment work, i.e. before May 8.

Next meeting in the reference group will be as per schedule on May 8, 2008. It was concluded that the discussions had added valuable guidance to the assessment team and have identified a few critical areas where more consultations will be required.

## **Minutes from Reference Group Meeting May 8, 2008 - Debriefing**

### Introductory Comments and Presentation

The meeting was convened at the Himalayan Hotel. The meeting was chaired by the Officiating Secretary of MLD, Mr. Ganga D. Awasthi and co-chaired by Mr. Lars Christensen, Danida/HUGOU. Representatives from MLD, MOF, NPC, UNDP, UNCDF, UNICEF,

UNV, UNFPA, CIDA, Danida, the World Bank, GTZ, ADB, ADDCN/NAVIN/MUAN and JICA were present. The chairman outlined the objectives of the meeting and thanked the team for its comprehensive work.

The Team Leader for the LGCDP Assessment Mission, Mr. Jesper Steffensen, after briefly explaining background, working methods and timing, presented an overview of the findings, conclusions and recommendations of the assessment team.

#### Comments:

The Development Partners (DPs) present in general endorsed the findings and recommendations of the Assessment Team (AT), with the exception of the WB.

ADB (Gambhir Bhatta and Surya Shrestha): voiced concern about the very short approach period. ADB made public its commitment to pledge 44 million USD for the programme and declared that it would be happy to increase this commitment if things go well; would be interested to see a more detailed budget, also to identify a funding gap which would help ADB to allocate more funds from their side. There are also ADB funds - 750,000 USD - available for gender related aspects. ADB stated that there is a need to start thinking about a long term vision on local governance support and mention this in the LGCDP document; ADB plans to continue its support until 2016. Establishing a JFA is important for ADB to come in (procedures without a JFA are more complicated and time-consuming) and would also allow others to join in at any time; a number of JFAs have already been established in other sectors which can be used as examples. The links to the Local Peace Committees should be mentioned, their role is important, particularly without elected local representatives in place. A sound risk analysis (fiduciary, institutional, political etc.) is crucial. As the PEFA (Public Expenditure and Financial Accountability) report rated Nepal “high risk” there is a need for strong mitigating strategies to be put in place. ADB also informed the meeting that it would like to see a further look at management arrangements at local level where capacity is weak, and promised to send more detailed comments to the AT (comments have been received on May 9).

UNDP (Ghulam Isaczai and Sharad Neupane): UNDP confirmed that it is ready to allocate 1 million USD for 2008 (5 million in total). Central ownership is necessary. There is a need to review to what extent there is a need for some sort of body at the central level to “drive” the programme, in particular to bring other line ministries on board; the question is whether MLD has the necessary convening power. On the issue of fund flow, it was suggested to explore the possibilities of sending funds directly to VDCs without going through DDCs. It would also be helpful to see what the role of each level has – this should be the determining factor for allocation of funds. On the role of the Local Peace Committees, the concept hasn’t really picked up and there is lack of clarity on what is going to happen; there should be an emphasis on the interim councils which are important.

The management structure for LGCDP is not well elaborated at the local level. There should be additional human resources at the local level, especially at district level; the LDO carries a lot of responsibility. UNDP also stated that there is a need to think carefully on the semi-autonomous facility - once it’s not funded by donors anymore it will be difficult to sustain. UNDP finally mentioned that empowerment of disadvantaged groups may be difficult without providing them with direct and immediate benefits. There is therefore a need to look at how LGCDP can be linked up with other programmes (e.g. livelihoods).

CIDA: There is a need to get clarity on social mobilisation in the present PD; the purpose should be linking people with the local governments; and the need to work in a coordinated manner. On state restructuring, decentralisation and devolution should be linked to the discussion on federalism. The Local Peace Committees should be mentioned.

MUAN: municipalities are linked only to certain areas in the programme document. This needs to be changed. We have to define the role of local bodies in the new context. Need for coordination mechanism at the centre.

Danida (Johan Sørensen): assured commitment to LGCDP through the JFA. Danida would like to participate in the development of the JFA. Danida also supports the recommendations presented by the AT and hope they will be integrated into LGCDP. As there are still a lot of details to be worked out, Danida suggests that MLD gets all DPs together and provides a map of support and divide the tasks and responsibilities. Danida is ready to support the approach and inception period financially and with human resources.

Norway (Einar Rystad): many of Norway's concerns were raised already. Clear recommendations were given. It is important to anchor the document in the new government asap. There is a need to start the process on developing the JFA as soon as possible.

World Bank (Rajendra Joshi): WB has made a lot of comments during the process of designing LGCDP, but it was the opinion of the representative from the WB that these comments have not been sufficiently addressed; the project document seems to be moving away from the WB's position; WB wanted to prepare a new community development programme. WB not yet part of a consensus.

Danida (Johan Sørensen): responding to the WB queries, stated that it is obviously important to have WB on board but that there is a confusion about what the WB's position actually is. Danida requested WB to clarify in writing so DPs can understand what the WB is looking for and what its position is.

JICA: difficult for Japan to join a basket fund and other forms of funding should also be considered.

Assessment Team Leader's comments: Defining the investment menu for the expanded block grants is crucial. There is a need to clarify what local governments should be allowed to fund. Sending funds directly to VDCs: should be done as soon as feasible, but constraints and problems have to be identified first and mitigated. There is a need to look also at practicalities and capacity issues. There are already many existing studies relating to various issues on revenue and expenditure assignments under the LBFC, which should be revisited again. It is important to strengthen capacity at the local level and this should be part of the block grants.

MLD Secretary's comments: MLD again thanked the team for its solid work. MLD requested a flexible document with certain core principles. He also stated that MLD has accommodated community development in the document, but the communities' needs and demands are to be responded to by the local governments; funding cannot go directly to the communities. He

requested the WB to give their comments in writing as to what their problem is with the proposed document. The WB has been involved in the process all the way and has been part of all discussions. The WB cannot say its comments have not been accommodated and there is a strong need to clarify the WB's position.

The Secretary warmly thanked ADB for increasing its commitment to this important national programme. With regard to the long term vision, there are certain limitations to how this can be expressed, because of political restructuring and uncertainties; this can be developed in the next phase of the programme. The Secretary continued by responding to some of the issues raised during the meeting:

- A JFA is useful, but will not be the only mechanism through which the programme can be supported. But it is important that there is no duplication; all programmes have to be coordinated.
- Risk analysis: MLD is ready to change its management structure to address risks.
- The relation of Local Peace Committees to local governments has to be explained; they have to complement each other, not compete.
- Social mobilisation: There is a need to recognise all the organisations that are working on social mobilisation, so that the programme can cover the whole country; the process needs to be defined though. There is a rich knowledge and experience in Nepal on SM; mobilisers need to engage with local governments; access to block grants has to be open for all. One of the core questions is how to avoid elite capture and how to address the needs of the ultra poor.
- There are different models on fund flow now. In the long run there should be a SWAp, which will be worked out over the next 3-4 years.
- Devolution has to be moved forward; submitted proposal to the Cabinet. LGCDP gives all stakeholders the justification to build up local governments and progress on devolution. There is a need to revise LSGA for constitutional requirements.
- Municipalities: need to reform the funding system, including the local development fee; the LDF should be subject to the outcomes of MC/PM assessments.
- LGCDP will be a flexible document and can be reviewed and discussed on a regular basis.
- At this stage not everything can be worked out in the LGCDP document; the operational details have to be worked out over the coming months.