

DRAFT

**MISSION REPORT
CIDA FACT FINDING MISSION**

June 28, 2008

BY

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1. INTRODUCTION AND ACKNOWLEDGEMENTS:

This report presents the findings and recommendations of the Local Governance and Community Development Program (LGCDP) CIDA Fact Finding Mission to Nepal conducted over the period June 16-30, 2008.

As per the Terms of Reference (Annex 1), a 12 day fact finding mission was conducted by Ronald Baird, Senior Consultant, KSJ Baird and Associates supported by the CIDA Head of Aid for Nepal, Ed Doe, Dr. Prabin Manandhar, Director of the Canadian Cooperation Office and its associated professionals and staff. The mission's objective was to explore a number of areas concern identified from the draft LGCDP program document and to determine the status of documentation required for the development of CIDA's approval documentation. CIDA has indicated that it is considering an investment of up to \$10 million in a PBA being promoted by the Minister of Local Development, Government of Nepal.

The mission wishes to acknowledge the extensive support and engagement of the CIDA Head of Aid and of the Canadian Coordination Office. The mission would not have accomplished its objectives without the level of professional support and guidance provided by the CCO and the extensive participation of Dr. Manandhar. The CCO was able to put together a comprehensive visit and meeting program despite being given a very short timeframe to prepare.

This report is organized in four main sections, the Mission Program the Mission Observations, the Mission Recommendations, and Mission Summary. There are six Annexes to supplement the main report, one of which is the Bibliography of documents obtained for further analysis and incorporation in the CIDA Project Approval Document.

The views or opinions expressed herein are solely those of the Consultant and should not be construed to represent CIDA or CIDA's position on the Program.

2. MISSION PROGRAM

The mission met with the key donor partner representatives (World Bank, Asian Development Bank, Danida HUGOU, UNDP, OHCHR, UNCDF, Royal Norwegian Embassy, GTZ, SDC, and DFID) all of whom have indicated an interest in joining the LGCDP. On the Government of Nepal side, the Mission met with key ministries of the Government of Nepal (Ministry of Local Development, National Planning Commission, and Ministry of Finance) and oversight bodies such as the Office of the Auditor General, Commission for Investigation of Abuse of Authority (CIAA). The mission also took the opportunity to visit both a DDC in Chautara, Sindhupalchowk and an associated VDC to review planning, approval, management, reporting and auditing processes at the local body level. The Consultant was able to take advantage of the timing during the second half of his visit to participate in a very informative joint donor group meeting at which agreement was reached on establishing a donor focal point for donor coordination and interfacing with MLD and the Government of Nepal.

The meetings provided an opportunity to both explore some of the issues arising from CIDA's review of the Joint Assessment Team Report of May 15, 2008 and the LGCDP Program document prepared by the Ministry for Local Development (MLD).

3. OBSERVATIONS:

Based on the review of the earlier draft of the LGCDP document and exchanges with the field, the mission identified a number of areas it wished to explore in more detail during its visit to Nepal. The Consultant acknowledges that these observations are based on a limited observation period. However, the Consultant did have the opportunity to consult with a wide number of sources. The areas identified were as follows:

1. Degree of MLD Leadership and Ownership of Program;
2. Political Buy-in to LGCD Program;
3. Donor partner relationships and coordination;
4. Donor Focal Point
5. Program Document approach to Social Mobilization and Inclusion;
6. Integration of Gender Equality;
7. Capacity of MLD to effectively manage and report on the LGCD Program on basis of clear results and indicators;
8. Capacity of Local Bodies at DDC and VDC levels to produce results based plans and progress reports against selected indicators;
9. Funding Modality Options for CIDA's participation in the PBA;
10. The Code of Conduct and Joint Financing Agreement;
11. Donor Appraisal Missions for LGCDP;

1. Degree of MLD Leadership and Ownership of Program

- 1.1 Discussions with a number of donors and with MLD reflected that MLD has considerable ownership in the program albeit with some excessive expectations with respect to donor's ability to respond. In July 2007, MLD developed a Concept Paper on Self-Governance and Local Development which effectively defines the strategic direction for local governance in Nepal. It has taken the initiative to request those donors, who have been involved in local governance, to join in a program-based approach for this sector. Most major donors, with the exception of JICA, Netherlands, AusAid, EU and USAID, have agreed to join this approach. CIDA is still reviewing its funding options which may include placing funds indirectly in the "pooled

funds”. MLD has set an ambitious timeframe for development of the program and is expecting to have the Program incorporated in the 2008-2009 budget of the Government. With the signed Letter of Intent, MLD will be in a stronger position to go forward with its budget application.

- 1.2 Although MLD has engaged with donors, it has not taken the degree of leadership required for a program of this complexity and size. For a large part, it has relied on donor-supported resources for TA and internal assignments of staff without a clear MLD management structure to handle the program development and donor relations. It may well be that MLD is awaiting budget confirmation before setting up its Program Coordination Unit or assigning appropriate level staff to manage the Program. What appears to be missing is the forward planning to set up and operationalize the unit.
- 1.3 However, there appears to be a very positive policy environment starting with the Interim Constitution and MLD’s, July 2007 Concept on Self-Governance and Local Development.

2. Political Buy-in to LGCD Program

- 2.1 As there were no direct discussions with any politicians, the following is a synthesis of discussions with various interested parties. The question on the level of political buy-in has surfaced and number of times during the mission as it will be crucial for securing budgetary support and for roll-out at the local level. The question has also been raised by DFID which has undertaken to work on this aspect. As an initial first step, DFID will prepare a 3-4 page summary of the Program Document for discussion purposes. To a larger extent, the failure of the leading parties to form a government has created a great deal of uncertainty as to who one should approach at this stage. There is an indication that the Minister may be changed and the Ministry headed by another coalition partner. If that should occur, there is a chance that the Minister may wish to put his/her stamp on the Program.

3. Donor Partner Relationships and Coordination

- 3.1 Prior to the arrival of the mission, CIDA had expressed concerns about the apparent difficulty in receiving timely information on the progress and the lack of a framework for systematic and regular discussion on the progress of the LGCD Program. The Consultant, during his first week of the mission, confirmed that there were difficulties in this area notwithstanding the fact that a PBA approach had been introduced to build greater harmonization and coordination among donor programs working in local governance and community development. A number of donors have suggested that MLD should take the lead in this area but MLD appears reluctant to commit its resources at this time to this purpose. Apparently, the term “lead donor” has had negative connotations for both MLD and some donors. The failure to establish a co-coordinating structure has left both donors and MLD without accurate and timely information and proper coordination for the key studies which are currently being undertaken. The result has been an increase in transaction costs for both donors and MLD.

4. Donor Focal Point

- 4.1 In the course of the mission, the Consultant repeatedly raised the issue of coordination with donors and proposed the use of an alternative term, the “donor focal point”. During the June 26, 2008 Joint Donor Meeting hosted by Norway, the Donors agreed that the donor group would proceed with the establishment of a coordination structure with a rotating chair. Danida was selected as chair for the months of July and August. In order to function effectively, there will be a need of a Secretariat to support the Chair. Danida will seek meetings with MLD to address a number of points raised in the meeting. It was also agreed that more frequent and regularly scheduled meetings will now take place. The Donors also agreed to the necessity of pressing MLD to set up its Program Coordinating

Unit. These are both late but welcome steps for improving donor coordination. There is a need to track progress in preparation of the various studies, establish a single interface with MLD to relay donor concerns and to prepare for the planned joint appraisal mission in September. Currently, individual donors have been approaching MLD with different perspectives on different issues, such as social mobilization, leading to conflicting information.

5. Program Document approach to Social Mobilization and Inclusion

- 5.1 There have been significant differences in the approach being proposed for social mobilization and inclusion strategies among the donors. This has been mirrored by differences in views expressed within MLD. In terms of the program sustainability and inclusion of the poor, women and disadvantaged groups, the strategy for social inclusion is vital to having benefits reach these groups, accountability of government and empowerment of the communities. There are a number of community development and social inclusion models which have been used in Nepal by different donors. Unfortunately, there has been no independent review of these models to identify the good practices among the models. In the interim, there are concerns that some donors may be lobbying separately for their particular approach

- 5.2 It should be up to MLD to determine which model or elements of a community development and social inclusion model it would utilize for this Program. Currently, the UNDP/Norway supported Decentralized Local Governance Support Project (DLGSP) with MLD is scheduled for completion on July 15, 2008. The contract social mobilizers are lobbying for MLD to take them on in the LGCDP. The project uses social mobilizers as intermediaries between the community and the local government body. The approach has risks associated with elite capture and may not empower the local communities to the extent required for ensuring sustainability. Some staff of MLD would like to see

these contract workers utilized for LGCDP. However, such a move would introduce an approach is being questioned by a number of donors with experience in this areas. A majority of donors see the need for a semi-autonomous status for the social mobilizers to ensure that they are able to effectively challenge government when conditions warrant. MLD, not the donors, needs to engage consultants for an independent review to assess the various models and identify best practices from each of the models for application in the implementation of the Program. This cannot be an internal review since there may be internal bias and political pressure to go with the UNDP model.

6. Integration of Gender Equality

- 6.1 A considerable amount of work has gone into the review of the LGCD Program proposal with regards to Gender Equality and Social Inclusion. The Joint Assessment Team, on which the CCO gender specialist has played a proactive role, has made a number of recommendations, most of which have been incorporated in the Program document. ADB/CIDA and GTZ have been key players in developing the GE/SI strategy for the Program.
- 6.2 There are other opportunities for ensuring that gender equality is captured within the Program and the various program analyses. A specific example is the institutional and capacity analysis of MLD being undertaken by DFID. Originally, the Terms of Reference (ToRs) were gender neutral. Donors were given an opportunity to comment on the ToRs and CIDA responded with some key recommendations. There will be other occasions in which CIDA may comment on the ToRs for different studies and appraisal missions.
- 6.3 During field visit discussions with the DDC and VDC, the Consultant noted that was only one woman in each of the organizations reflecting the patriarchal social structure in the rural areas.

7. Capacity of MLD to Effectively Manage and Report on the LGCD Program on basis of clear Results and Indicators

- 7.1 There is a sense that MLD has not fully appreciated the resource, coordination efforts and time requirements for developing and operationalization of a PBA. It has pushed ahead with the development of the Program document and submission of its program without undertaken a number of sets of key analysis. There are a number of reasons for this approach. The GoN is concerned about stability and conditions in the rural areas of Nepal. The insurgency (or people's war) has been over for several years, the Constituent Assembly has been elected and people are looking for the peace dividend. A number of donor programs in local governance and community development are coming to an end. A significant gap between development initiatives has the potential to create a lull in local development. If MLD does not obtain its budget for the new fiscal year commencing July, then it may not be able to seek further funds until eight months later. Consequently, it is understandable why GoN is seeking to push ahead with the Program. In view of the donor approval processes, many pooled funds will not be available until the last quarter of 2008 or first quarter of 2009. GoN has indicated that it will provide front end funding for the program if required. However, systemic constraints in the GoN and MoF budget release systems will result in DDCs and VDCs not receiving funds for a least a four month period after budget approval.
- 7.2 As this point in time, the institutional capacity study of MLD has not yet commenced although it appears the ToRs have been completed. Consequently, it is difficult to assess the relative capacity given the size of the Program. MLD indicates that it will establish a Program Coordinating Unit consisting of staff and TA resources. If MLD should need to engage internal staff, the procedures and recruitment time could run up to one year. As an interim measure, UNDP, with the agreement of Norway and the donor group, will second some of its DLGSP project staff to MLD (which is expected to be extended by a further six months). However, as mentioned earlier, it is not clear that MLD has completed the planning for the PCU roles and responsibilities, staffing strategy, equipment requirements and its physical location.

- 7.3 MLD is rolling out a new system for assessing DDC and VDC's referred to as the Minimum Conditions and Performance Measures (MC/PM). This will provide an assessment in the level of improvement in service delivery and provide a basis for increasing the lump sum allocation (government block grants) made to the VDC levels.
- 7.4 MLD recognizes the difficulty and systemic constraints it will face in the new Nepali fiscal year. The joint donor group members were informed by UNDP that MLD has asked for a six month extension to the UN/Norway supported DLGSP project (presently scheduled to complete July 15) to ensure there is continued momentum in local government development.

8. Capacity of Local Bodies at DDC and VDC levels to Produce Results-Based Plans and Progress Reports against Selected Indicators

- 8.1 There has been no assessment to-date on the capacity of the local bodies to produce results-based plans. The MC/PM system is used primarily as an assessment of DDC programs. As close to 97% of the total budget of the LGCD Program will be directed to the local bodies, it is crucial that they be able to properly report on results against the selected indicators. Currently, the reports are activity based supplemented with financial information. A local body level all reports are in the Nepali language.
- 8.2 A field visit to hill area DDC and VDC provided a better understanding of the planning and reporting processes. Reports are not always available in a timely fashion since there is an upward feed by the VDCs and consolidation by the DDC. Samples of the reports currently used by local bodies to report to MLD have been obtained and are being translated.
- 8.3 The field visit identified some potential problems with the DLGSP advisor/social mobilizer role and responsiveness of the planning process to community needs. Nearly all block grant funds in this VDC were assigned to new roads, completion of previous year's

uncompleted roads and land purchase. There appears to be a preference for roads combined with the weighting of the selection criteria at this VDC which leaves the poor and disadvantaged groups with minimal benefits or opportunity to participate in the planning. As it stands now, an estimated 80% of the funds spent at the local level, are through the sectoral agencies. In comparison, the VDC spends about 20% most of which was directed to roads and land purchase.

9. Funding Modality Options for CIDA's participation in the PBA

- 9.1 There are five potential funding modalities. These are: (a) CIDA grant to the pooled fund through the JFA which to be established as a separate account with the National Treasury; (b) CIDA grant channeled through a multi-lateral donor such as the UNDP which would be managed and reported on by UNDP as a parallel funding mechanism for the LGCDP; (c) a CIDA grant channeled through an IFI which would be reported on through the LGCDP as part of the pooled funding mechanism; (d) a CIDA grant channeled through a bilateral donor such as DFID (e) a CIDA contribution directly with MLD as a parallel financing mechanism which would be managed by a CEA/LEA and reported on separately.
- 9.2 The review of the fiduciary risk assessments, corruption potential, assessment of external oversight bodies such as the Office of the Auditor General (OAG) and Commission for the Investigation on the Abuse of Authority (CIAA), suggest that participation in the JFA and associated pooled funding mechanism carries a high risk. Interestingly, when questioned about the medium to high risk assessment in the PEFA Report, DFID felt the risks were acceptable. Their viewpoint was that a very limited amount of funds would be handled directly by MLD and therefore the impact of any corruption would be quite limited. The majority of funds (96%) would go to the local bodies mostly in the form of the government's block grants to the 58 municipalities, 75 DDCs and 3,913VDCs. At that level, the potential negative impact from misuse of funds or corruption would be widely dispersed and therefore limited. If CIDA finds this rationale acceptable, it may

wish to reconsider participation in the pooled funding and the JFA in some form. However, a direct contribution to the pooled fund would trigger the need to apply the Canadian Environmental Assessment Act (CEAA) since the current GoN environment assessment systems and procedures do not meet the CEAA standards.

- 9.3 A funding arrangement with the UNDP, while addressing concerns about ensuring application of acceptable environmental standards, ability to provide funding in a more timely fashion and tracking CIDA's funds, has a number of issues. First, it would be a parallel fund and not a direct part of the LGCDP. As such, it would require separate reports which are inconsistent with the PBA intent of optimizing use of the government systems and reports. The government systems would not report on the UNDP funds resulting in gaps where two sources of funding are provided to a single community. There were some positive aspects regarding the combining of TA funds with UNDP's TA funds as these would be more readily accessible. As experienced by CIDA in Bangladesh, TA requirements managed through the SWAp "pooled fund" system experienced delays of up to 14 months. The UNDP option needs to be reconsidered in light of the information collected.
- 9.4 The Asian Development Bank (ADB) is currently conducting an 8 day fact-finding mission with the intent to field its LGCDP Appraisal Mission in August. There are a number of considerations which would make an arrangement with ADB a preferred modality for CIDA funding for LGCDP. First, the CIDA funds, channeled through a joint financing agreement with the ADB, would eventually become part of the pooled funds. The ADB's environmental assessment process is recognized by CIDA as being compliant with the CEAA. CIDA would effectively be utilizing the government accounting and reporting systems in accordance with PBA guidelines and would be included in the JFA. Also, with the completed ADB appraisal, CIDA may be able to accelerate its processing of the documentation. Although the Consultant had requested a follow-up meeting with ADB to explore the potential for a joint financing arrangement, the ADB representative was not available. The CIDA Head of Aid will need

to pursue with ADB to determine interest and timing. Discussions with ADB would need to be held on a priority basis as this would need to be factored into their Appraisal Mission.

- 9.5 There is another scenario within which CIDA could channel its funding which would involve another bilateral donor such as DFID. DFID's environmental requirements are similar to CIDA's and are believed compliant with the CEAA. Also, the CIDA funds would become part of the "pooled funding arrangement" and be included in the JFA. However, one drawback would be the reduction in Canadian profile although CIDA would remain active in the policy dialogue, the joint donor group and in the annual planning and reviews. This was not explored with DFID.
- 9.6 The last and least desirable option is the establishment of a bilateral contribution arrangement with the GoN/MLD covering some elements of the LGCDP. A CIDA Contribution Agreement would be a parallel funding mechanism and would add considerably to the transaction costs in terms of separate discussions, reports, reviews and CEAA applications.

10. The Code of Conduct and Joint Financing Agreement

- 10.1 Although there was an earlier document on the broader subject of donor harmonization, a Code of Conduct (CoC) has not yet been developed. While the LGCD Program has not been formally approved for GoN budgetary support, it is essential that a draft of the CoC be prepared and agreed to by donors and MLD as soon as possible. Currently, donors are meeting in different donor groups and separately with government, resulting in a lack of coherence in approaches, creating confusion and leading to a degree of frustration within MLD. The Consultant has offered to secure a number of examples from the Africa Branch.
- 10.2 Discussions on the Joint Financing Agreement have just commenced. A draft document by a Norwegian contracted consultant has been prepared based on the education sector JFA. The draft has been made available to all donors who have indicated

their interest in the LGCDP. CIDA has argued for an active role in the discussions related to the JFA. Several of the funding modality options would involve the pooled funding approach and thus CIDA participation. Consequently, CIDA must pursue and participate in any discussions on the JFA. The JFA will not likely be executed until such time as donors secure their approvals.

11. Donor Appraisal Missions for LGCDP

- 11.1 ADB has indicated that it will conduct its appraisal of the LGCDP in August 2008. During the June 26, 2008, Joint Donor Meeting, it was agreed that all donors would share documentation. ADB was requested to provide its Appraisal Mission ToRs to better inform donors of the extent of coverage of the mission. These may also be useful as a template for the donor appraisal mission ToRs.
- 11.2 Five donors (DFID, Norway, Danida, SDC and CIDA) have agreed to undertake a joint appraisal mission to minimize transaction costs and coordinate efforts. The mission is currently being scheduled for September 15-26, 2008. Danida has been asked to take the lead in the formulation of the mission ToRs. Donors have been asked to propose a Team Leader for the appraisal. However, no schedule has been prepared for the development of the ToRs. This should be done quickly as donors will need time provide feedback, to identify respective roles and to secure resources for the mission.

4 RECOMMENDATIONS

4.1 Degree of MLD Leadership and Ownership of Program

- 4.1.1 MLD should be urged to share with the Donor Focal Point (DFP) its strategies and detailed plans for the establishment of a LGCD Program Coordinating Unit in line with transparency and mutual interest principles.
- 4.1.2 DFP should arrange for regular joint donor meetings with MLD to review the progress on its elements of the program, including the establishment of PCU.
- 4.1.3 MLD should take the lead in developing the ToRs and contracting an independent review of the various social mobilization models with the intent to determine the best practices for inclusion in LGCDP.
- 4.1.4 MLD broadens and share its communications strategy for the Program with the DFP.

4.2 Political Buy-in to LGCD Program

- 4.2.1 DFP should dialogue with MLD to ensure LGCDP is widely promoted within government especially in light of the potential change in MLD Minister;
- 4.2.2 DFID clarify its process for initiating the political dialogue with selected political parties regarding LGCDP awareness raising and support;
- 4.2.3 DFID ensure DFP is kept abreast of process and progress in these talks;
- 4.2.4 The DFP should keep the donor group up-dated through scheduled and frequent meetings.

4.3 Donor partner relationships and coordination

- 4.3.1 Donors maintain a systematic and frequent schedule of joint donor meetings make it necessary;
- 4.3.2 Donors be kept informed of scheduled missions and related purposes in order to provide opportunities for access;
- 4.3.3 Donors limit uncoordinated meetings with MLD in the interest of reducing transaction costs except where specific study requirements;
- 4.3.4 Donors resolve differences in viewpoints, especially those related to LGCDP prior to discussions with MLD;
- 4.3.5 Donors avoid individual lobbying with MLD for preferred systems or approaches.
- 4.3.6 Donor mapping for the sector be completed and presented to donors through the DFP.

4.4 Donor Focal Point (DFP)

- 4.4.1 DFP be maintained throughout the LGCDP implementation period in lieu of “Lead Donor” structure;
- 4.4.2 Donors ensure DFP is kept informed of all related project activities, missions, ToRs and special studies;
- 4.4.3 DFP ensure that information and studies related to LGCDP is made available for all donors;
- 4.4.4 Donors consider establishing a website for posting and easy access of key project documents
- 4.4.5 DFP, with assigned lead in developing September appraisal mission ToRs, develops schedule and ensures timely distribution of draft document for participating donor feed back and discussion on provision of professional resources or role in mission.
- 4.4.6 DFP, in conjunction with donors confirm dates for deliverables as well as track and report at regular meetings on the status of the various studies and tasks which are being undertaken by donors and MLD (See Annex 5).

4.5 Program Document approach to Social Mobilization and Inclusion

- 4.5.1 As social mobilization and inclusion approach is crucial to the accrual of benefits to the poor/women/disadvantaged groups and their empowerment, MLD needs to ensure that it is applying the appropriate model in the roll-out of the program.
- 4.5.2 MLD should take the lead in this matter with appropriate TA support and assessments to determine good practices and associated models;
- 4.5.3 Donors should cease separate lobbying with MLD for their respective models and provide support to MLD for an independent assessment of models;
- 4.5.4 CIDA, when Concept Paper approved, use some of the planning funds for a review of the sustainability of the Community Environmental Awareness and Management Project (CEAMP) model at its DDC and VDC levels;
- 4.5.5 MLD be required to incorporate an annual review of the effectiveness of the social mobilization model selected for the SM through a MLD managed external contract to provide an independent assessment of the approach.
- 4.5.6 CIDA share it's "lessons learned" summary for its projects in community development.

4.6 Integration of Gender Equality

- 4.6.1 All studies and ToRs be systematically reviewed to ensure that gender elements are incorporated in the materials and gender materials.
- 4.6.2 The LGCDP results statements and indicators be reviewed and gender related results statements and indicators be incorporated;
- 4.6.3 Donors continue to encourage MLD to establish a Gender Equality and Social Inclusion unit. This can be reaffirmed through the DFP.
- 4.6.4 The potential role of the Ministry for Women, Children and Social Welfare in policy dialogue and at the DDC and VDC level be explored with MLD.

4.7. MLD Capacity to effectively manage and report on the LGCD Program on basis of clear results and indicators

- 4.7.1 MLD, with assistance of DFID's study, should thoroughly assess the capacity of its Monitoring and Evaluation Section to undertake the required results monitoring and reporting.
- 4.7.2 Selected donors, through the DFP, review the Program results statements and indicators with the view of refining results and confirming appropriate indicators;
- 4.7.3 The RBM Logic Framework and Performance Indicators should be clear and mutually agreed. CIDA should consider providing the services of a RBM specialist to work with MLD, participating donors and the September Donor Appraisal Mission.

4.8 Capacity of Local Bodies at DDC and VDC levels to report on results based on performance measured against selected indicators

- 4.8.1 Appropriate results-based monitoring and reporting training be extended to VDC level and covered by the LGCDP budget;
- 4.8.2 Study be undertaken by MLD, with donor support, to assess the capacity of DDC and VDC local bodies to report against Program results;
- 4.8.3 Joint Donor Appraisal Mission ensure that local body capacity is reviewed as part of mission tasks;
- 4.8.4 MLD incorporate appropriate training for results-based monitoring and reporting for selected DDC personnel as part of program budget.

4.9 Funding Modality Options for CIDA's participation in the PBA

- 4.9.1 CIDA Head of Aid obtain and forward copy of UNDP Program proposal which includes selected UN sister agencies;
- 4.9.2 CIDA Head of Aid schedule a priority meeting with ADB senior representatives to determine interest in CIDA joint

- financing through the ADB mechanism and determine if dialogue with ADB HQ required;
- 4.9.3 After Field discussions with ADB representatives and provision of feedback to CIDA HQ, CIDA HQ review options, associated risk analysis and advise the CIDA Head of Aid on the preferred funding modality.

4.10 The Code of Conduct and Joint Financing Agreement

- 4.10.1 The DFP take the lead in establishing a schedule for preparation of the Code of Conduct and for the JFA and ensuring dissemination of information;
- 4.10.2 CIDA HQ provide samples of CoC's through the DFP to the donor working group as and when established;
- 4.10.3 Head of Aid take proactive role in CoC Working Group and formulation of CoC to ensure documents shared with CIDA HQ and provide opportunity for feedback;
- 4.10.4 Head of Aid ensure that CIDA is represented on JFA working group and provide opportunity for CIDA feedback;
- 4.10.5 CIDA HQ provides copies of samples of JFA's to working group.

4.11 Donor Appraisal Missions for LGCDP

- 4.11.1 CIDA Head of Aid secure, through the DFP, a copy of the ADB Appraisal Mission Terms of Reference and schedule;
- 4.11.2 CIDA Head of Aid meets with Fact Finding Mission to share CIDA concerns and determine, what if any, issues ADB may have with the program as currently defined;

5. SUMMARY

It is the assessment of the Consultant that the GoN/MLD has moved quickly to ensure the inclusion of the program in next year's annual budget and has not left sufficient time for dialogue and resolution of a number of key management and conceptual issues. Donors still do not have a final Program document on which to base their appraisals. GoN wishes to maintain development momentum at the local levels, ensure budget resources and provide a peace dividend to the rural communities. A number of critical studies looking at the capacity of MLD, socio-economic and environmental studies and which could identify further constraints and risks are yet to be started. While the rationale for accelerating the submission to MoF is appreciated, this may result in additional work for both donors and MLD during implementation and require adjustments to the Program approach and costing. MLD has not taken steps to set up its Program Coordination Unit (PCU) which has resulted in degree of uncertainty and multiple contact points. There also appears to be a lobbying effort by a donor and a MLD preference to have contracted personnel from the DLGSP transferred en masse to LGCDP. Apparently, there is some support within MLD to accommodate this group which, in the Consultant's view, could skew the social mobilization approach of the program as the former DLGSP contractees would likely follow the paradigm of the former project.

Both donors and MLD are much in the early stages of developing a PBA approach to the sector. This is reflected checkered coordination, inability to harmonize on some key elements of the program, poor donor sharing of information and reluctance of MLD to keep donors informed on the government related issues.

The Mission, although it was able to achieve most of the stated objectives, was constrained by a number of factors.

The primary constraint was the lack of the final MLD Local Governance and Community Development Program Document. While extensive discussions have been held between the Joint Assessment Team (JAT) and MLD representatives, it is still not clear that the social mobilization model being proposed, including semi-autonomous mobilizers, has been accepted by MLD. There has been some indications that some MLD staff may prefer another model than that being recommended by the JAT. MLD has not

taken the initiative to undertake an assessment of the various community development/social mobilization models used by different with the possibility the model used by LGCDP may be influenced by behind-the-scene lobbying for a particular model. At time of departure, the final LGCDP Program Document was not available to the Consultant.

A secondary constraint was the ongoing negotiations between political parties to agree and execute the procedures to establish a new government. Although the Constituent Assembly has been meeting for the past month, it has taken some time for the lead parties to work out a mutually satisfactory arrangement for selection of the President and Prime Minister. This has been further frustrated by the Madeshi party preventing the meeting of the CA with demands for a separate Madeshi state. At this stage, there are rumors that the Minister for MLD may be changed with the formation of the government. This may have implications for LGCDP since the new Minister may wish to put his/her stamp on the Program. In summary, the political situation remains fluid. This is further complicated by the political uncertainty on the form and role of state structures replacing the existing DDC structures and the amount of devolution which will occur.

A third constraint was the lack of a donor focal point to which the Consultant could have referred to for a better understanding of the issues and status of various elements. This contributed to a degree of inefficiency as meetings were required with each donor to obtain information. The one joint donor meeting which was attended by the Consultant was very productive leading to a number of clarifications and decisions which should improve future relations and processes for refining the LGCD Program. In particular, the agreement by a group of donors to cooperate in a joint Program appraisal in the latter part of September is very positive step.

Fourthly, given the number of uncompleted studies and tasks in the realm of the various donors, only some elements of the analyses may proceed. However, CIDA will need to wait for the remaining reports and studies (see Annex 5) before it is able to complete its analysis and prepare its Project Approval Documentation. A spread sheet has been prepared identifying which CIDA analyses may go forward with suggested assignments. (See Annex 6)

In summary, the Consultant has developed a broader understanding of (a) a the LGCD program environment at the national and local levels; (b) the

donor dynamics and level of co-ordination/harmonization; (c) the availability of documentation for CIDA analysis; (d) the relationship between donors; (e) the GoN budgetary process; and (f) the proposed Code of Conduct and JFA development process. The Consultant was not able to resolve the proposed CIDA transfer mechanism as time constraints and other ADB priorities precluded exploration of the option with ADB or with DFID.