



# Technical Assistance Consultant's Report

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Project Number: 40054 (Technical Assistance No. 4919)  
June 2007

## Nepal: Preparation of the Rural Reconstruction and Rehabilitation Sector Development Program

Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR)  
Ministry of Local Development

This consultant's report does not necessarily reflect the views of ADB or the Government concerned, and ADB and the Government cannot be held liable for its contents.

**Asian Development Bank**

**TA 4919 (NEP): Preparation of the Rural  
Reconstruction and Rehabilitation Sector  
Development Program  
(Assisted by the Asian Development Bank)**



**Final Report  
30 June 2007**

**Department of Local Infrastructure Development  
and Agricultural Roads (DOLIDAR)  
Ministry of Local Development**



**TA 4919 (NEP): Preparing the Rural Reconstruction and  
Rehabilitation Sector Development Program  
Office of the TA Consultants**

**Jawalakhel, Kathmandu, Nepal  
Phone No.: 5000105, 5000124**

Ref. No.:

Date: 28 June 2007

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Mr. K.H. Ryu  
Head, Portfolio Management Unit  
Nepal Resident Mission, ADB  
Kathmandu, Nepal

Dear Mr. Ryu,

**Subject: Final Report**

In line with my contract (Contract No. S11756) under the captioned TA, I am hereby submitting the Final Report for the Preparation of the Rural Reconstruction and Rehabilitation Sector Development Program.

The Report consists of the Main Report, 13 Core Appendixes and 19 Supplementary Appendixes. In addition, detailed feasibility studies for each of the five core subprojects under the Program are also provided herewith.

I would request that the captioned report may please be considered as the team's final monthly report for June 2007.

It has been a pleasure working with you and the NRM team on this TA. On behalf of the TA team, I would like to express my thanks to you for your guidance.

Sincerely yours,

REMIGIO D. TORRES  
Team Leader of Consultants

cc:  
Mr. Dhana Bahadur Tamang  
Officiating Director-General, DOLIDAR

Mr. Thakur Raj Pant  
TA Coordinator, DOLIDAR

bcc:

- (1) Mr. Vidhya Dhar Mallik  
Secretary MOF
- (2) Mr. Ram Kumar Shrestha  
Secretary MLD
- (3) Mr. Krishna Gyawali  
Joint Secretary, MOF
- (4) Mr. Ganga Dutta Awasthi  
Joint Secretary MLD
- (5) Mr. D. B. Tamang  
Deputy Director General,  
DOLIDAR
- (6) Mr. B. B. Basnet  
Deputy Director General,  
DOLIDAR

Attachments: a/s



# Report and Recommendation of the President to the Board of Directors

**Project Number:  
September 2007**

**Proposed Rural Infrastructure Program Loan and Asian  
Development Fund Loan and Grant**

**Nepal: Rural Reconstruction and Rehabilitation Sector  
Development Program**

**Asian Development Bank**



## CURRENCY EQUIVALENTS

(as of 30 June 2007)

Currency Unit	-	Nepalese rupee/s (NRe/NRs)
Nre. 1.00	=	\$ 0.01538
\$1.00	=	NRs 65.00

## ABBREVIATIONS

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
BG	-	building group
CF	-	conversion factor
DDC	-	district development committee
DDF	-	district development fund
DFID	-	Department for International Development of the United Kingdom
DMF	-	Design and Monitoring Framework
DOLIDAR	-	Department of Local Infrastructure Development and Agricultural Roads
DOR	-	Department of Roads
DTMP	-	district transport master plan
DTO	-	district technical officer
DWSS	-	Development of Water Supply and Sanitation
EIRR	-	economic internal rate of return
FCGO	-	Financial Controller-General's Office
GDP	-	gross domestic product
GTZ	-	Gesellschaft für Technische Zusammenarbeit
HDI	-	human development index
IEE	-	initial environmental examination
LEP	-	labor- based, environmentally friendly, and participatory
LSGA	-	Local Self-Governance Act
MLD	-	Ministry of Local Development
MOF	-	Ministry of Finance
MPPW	-	Ministry of Physical Planning and Works
NGO	-	nongovernment organization
NPV	-	net present value
OPEC	-	Organization of Petroleum Exporting Countries
PCU	-	project condition unit
RBM	-	results-based management
RWSS	-	Rural Water Supply and Sanitation
SDC	-	Swiss Development Corporation
SIEE	-	summary initial environmental examination
SOE	-	statement of expenditure
SRN	-	strategic road network
TA	-	technical assistance
TOR	-	terms of reference
VDC	-	village development committee
VOC	-	vehicle operating cost

## NOTES

- (i) The fiscal year (FY) of the Government ends on 15 July. FY before a calendar year denotes the year in which the fiscal year ends, e.g.; FY 2007 ends on 15 July 2007.
- (ii) In this report, "\$" refers to US dollars.

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Vice President	J. Lin, Operations Group 1
Director General	K. Senga, South Asia Department (SARD)
Director	P. Heytens, Country Director, Nepal Resident Mission SARD
Team Leader	K.H. Ryu, Head, Portfolio Management Unit, NRM
Team Members:	_____
	_____
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## **LOAN AND PROGRAM SUMMARY**

<b>Borrower</b>	Government of Nepal
<b>The Proposal</b>	The proposal comprises (i) a loan of \$20 million to support policy reforms under the Rural Reconstruction and Rehabilitation Sector Development Program (RRRSDP), (ii) a loan of \$38 million for investment projects under RRRSDP, and (iii) a grant of \$40 million for investment projects under RRRSDP.
<b>Classification</b>	Poverty classification: Core poverty intervention Sector: Rural infrastructure development Sub sector: Rural roads; rural water supply Themes: Sustainable economic growth, Inclusive social development Subthemes: Developing rural areas, Human development.
<b>Environment Assessment</b>	Category B. An initial environmental examination (IEE) was undertaken and the environmental assessment and review procedure is in Appendix 13; the summary IEE for core subprojects is in Supplementary Appendix L.
<b>Program Rationale</b>	<p>In line with the Government's Local Infrastructure Development Policy (LIDP) of 2004, the Program will meet the development needs of rural communities by promoting policies that will restore incomes and connect rural poor who have been excluded from economic opportunities through investments in rural infrastructures and implementation of policy reforms. The Program will restore the operability of rural transport infrastructure, consisting of rural roads, bridges and related structures. The Program will also invest in supplementary infrastructure such as water supply, small farmer-managed irrigation, rural electrification and others, in response to demands from local communities. The Program will strengthen the institutional capacities of local bodies, empower vulnerable groups, improve accountability and transparency. Use of labor-based, environmentally friendly, and participatory approach will enhance the employment of unskilled labor and ensure that the investments would be sustainable. The investment package will be implemented in 45 of the country's 75 districts with the subprojects having been selected on the basis of the high incidence of poverty in the respective areas of influence. The Program will also improve upon the policy climate in the rural infrastructure sector and strengthen the capability of agencies involved in its implementation.</p> <p>The Program supports the poverty alleviation goals and development policies of the Asian Development Bank (ADB) and the Government as enunciated in its poverty reduction strategy. Following the restoration of relative peace in the countryside, the Government is launching a concerted effort to</p>

rehabilitate rural infrastructures that were either damaged or rendered inoperable during the eleven-year period of the conflict. The investment package under the sector loan is guided by the Government's Interim Plan covering the period from FY 2008 to FY 2010, a transitory plan prior to the formulation of a full five-year Eleventh Plan, with a strong anti-poverty focus and strong provisions for inclusion of socially vulnerable groups. Packaging the subprojects under the sector loan will use the participatory approach and empower local communities in planning, design, and implementation of the subprojects. Improving the rural roads and associated structures will provide local population with efficient transport to markets and access to social and welfare services. These improvements will lay the foundation for better economic opportunities and assist in reducing poverty. Strengthening the local government bodies will enable them to plan, manage and maintain the rural infrastructure more effectively. Local participation will create a sense of ownership and focus attention to effective maintenance.

## **The Program Loan**

### **Impact and Outcome**

The Program loan for RRRSDP supports reforms in five key areas for effective implementation of rural infrastructure:

- (i) Local governance that will result in strengthened implementation capacity of local government;
- (ii) Financial management that will improve financial control, audit and efficiency at local government-level and facilitate implementation of rural infrastructure;
- (iii) Safeguards that will lead to formulation of unified guidelines to ensure that interests of stockholders are protected in implementation of rural infrastructure;
- (iv) Procurement policies that ensure consonance with co-financiers and suitable thresholds for local governments in primary rural infrastructure project and
- (v) Enhancing quality of rural infrastructure projects through periodic conduct of public audits.

### **Financing Plan**

A loan equivalent to \$20 million in Special Drawing Rights from ADB's Special Funds resources will be provided. The loan will have an amortization period of 24 years, including a grace period of 8 years; an interest rate of 1% per year during the grace period and 1.5% thereafter; and such other terms and conditions as set forth in the Program Loan Agreement.

### **Program Period and Tranching**

The Program period will be from December 2007 to November 2010. The loan will be released in a single tranche of \$20 million upon effectiveness of the loan, when all the conditions of the loan would have been met.

### **Procurement and Disbursement**

The proceeds of the loan will be used to finance the full foreign exchange costs of items produced and procured in ADB member countries, excluding ineligible items and imports financed by other bilateral and multilateral sources. In accordance with the

provisions of ADB's Simplification of Disbursement Procedures and Related Requirements for Program Loan, the proceeds of the Loan will be disbursed to the Government as the Borrower. The Borrower will certify that the value of the eligible imports exceeds the amount of ADB's projected disbursements under the loan for the given period. ADB will have the right to audit the use of the loan proceeds and to verify the accuracy of the Borrower's certification.

**Executing Agency and Implementation Arrangements**

The Ministry of Finance (MOF) will be the Executing Agency. Implementation of the Program will follow management arrangements under the Program loan agreement which describes the goals of the rural infrastructure sector development; the responsibilities of the Government the funding mechanism, and the fiduciary requirements, including administrative requirements.

**The Project Loan and Grant**

**Impact and Outcome**

The impact of the project will be a reduction in the level of poverty in Nepal by about 3% at the end of the Project and a sustained economic growth thereafter. The outcome will be improved access by the rural communities to all-weather roads and a reduction in the proportion of the total population who needs to walk 2 hours to reach all-weather roads in the Terai and 4 hours in the Hills from 36% at present to about 25% at the end of the Project. As a result of the improved connectivity, rural households will have greater access to employment opportunities, social services and market centers. The resulting connectivity will provide rural families a pathway to escape poverty.

**Financing Plan**

The total project cost is estimated at \$180 million. Component investments include rural transport infrastructure, rural water supply, supplementary local infrastructure (to be included in accordance with demands at the local level), community empowerment, capacity building, and project management services.

[Note: The financing plan for the project will be firmed up during project appraisal]

**Loan Amount and Terms**

The proposed grant from ADB's Special Funds resources is equivalent in various currencies to Special Drawing Rights \_\_\_\_\_ million (\$\_\_\_\_\_ million). The proposed loan from ADB's Special Funds resources is equivalent in various currencies to Special Drawing Rights \_\_\_\_\_ million (\$\_\_\_\_\_ million). The loan portion will have an amortization period of 32 years, including a grace period of eight years; and interest rate of 1% during the grace period and 1.5% thereafter; and such other terms and conditions set forth in the Loan Agreement.

<b>Period of Utilization</b>	Until 30 June 2011
<b>Estimated Project Completion Date</b>	30 November 2010
<b>Executing Agency</b>	Ministry of Local Development (MLD).
<b>Implementation Arrangements</b>	<p>On behalf of MLD, the Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR) will establish a Project Coordination Unit (PCU) in Kathmandu, to be headed by a project director to coordinate project activities. The PCU will be responsible for guiding and monitoring district development committees (DDCs) as they implement the project. At the district level, project implementation will be the responsibility of the project implementation unit (PIU), headed by the District Technical Officer (DTO) within each DDC. A team of district implementation support consultants (DISC) will assist DTO in the supervision of construction and in social mobilization and support the rural infrastructure building groups. The existing joint local infrastructure steering committee, chaired by Secretary MLD, will provide policy guidance to PCU.</p>
<b>Consultancy Services, Procurement and Disbursement</b>	<p>Selection and engagement of consultants to be financed under the Project will be in accordance with Government's procedures on hiring consultants. The Project will finance 36 person-months of international consultants and 698 person-months to assist PCU; and 24 person-months of international consultants and 60 person-months of domestic consultants to assist in capacity building. The consultants will be selected, engaged and supervised by MLD. Civil works contracts under the Project will be generally small and dispersed over wide areas under the Project and will be awarded in accordance with the Government procedures acceptable to ADB. All disbursements will be made in accordance with ADB's <i>Loan Disbursement Handbook</i>. In order to insure timely release of the loan, an imprest account will be established at the Nepal Rastra Bank.</p>
<b>Benefits and Beneficiaries</b>	<p>The Project will benefit poor households and socially vulnerable groups in 45 of the country's 75 districts. Locally initiated and externally aided projects that have been left unfinished or abandoned during the decade-long conflict will be restored to operability. Isolated communities that have either difficult or no access to public and social services will be accorded connectivity and provided a pathway out of poverty. The Project will have positive impact on women, indigenous peoples and other socially</p>

vulnerable groups. The Government has formulated a vulnerable communities development framework, that supports implementation and monitoring of the vulnerable communities development plan under the Project. Employment opportunities will be granted to women and ethnic minorities in road construction and other Project-related activities. Specific training programs will be offered to women and ethnic minorities to enhance their general well-being and their capacity for income generation.

**Risks and  
Mitigating  
Measures**

The reconstruction and rehabilitation of rural infrastructure is accorded the highest priority in the Government's development program under the Interim Plan covering the period from FY 2008 to FY 2010. As such the implementation risks of this Project is low. As peace begins to take hold in the countryside, the Project will be able to reach poor and marginalized communities in the entire country. A potential risk is the continued weakness of local bodies that are expected to implement the individual subprojects. However the level of this risk is low as the capacity-building component of the Project focuses on strengthening the capacity of local bodies as well as other agencies involved with the Project. Furthermore, the eight-party coalition has announced the reconstitution of local bodies starting FY 2008, thus addressing the lack of mandate of local government bodies. A potential political risk is the delay in the assumption to power of a duly elected national leadership in the country. However, with the formation of the Interim Parliament, this risk is also considered low.



## **I. THE PROPOSAL**

1. I submit for your approval the following report and recommendation on the Rural Reconstruction and Rehabilitation Sector Development Program (RRRSDP) of Nepal, comprising (i) a proposed program loan to support rural infrastructure sector reforms under RRRSDP and (ii) a proposed loan and grant for investment projects under RRRSDP. The design and monitoring framework (DMF) is in Appendix 1.

## **II. THE MACROECONOMIC CONTEXT**

2. Nepal, with an annual gross domestic product (GDP) per capita of about \$300 (2005 data), is the poorest country in South Asia. With the economic liberalization in the 1990's, the country achieved an annual growth rate of 4.7%; this growth rate however deteriorated, reaching negative levels in the early 2000 largely due to the armed conflict that engulfed the entire country and severely affected the tourism industry<sup>1</sup>. Export growth has also declined sharply in 2000-2006 resulting in a slow GDP growth rate of about 2% a year during the period.

3. With the relatively higher growth in the mid-1990s, the incidence of poverty nationwide declined from 42% to 31% between 1996 and 2004 or a reduction of about 1% a year. This annual rate of decline continued through 2006 when poverty incidence was estimated to have fallen below 30%. However, despite the overall decline in poverty, the level of improvement has been uneven, exacerbating gender, ethnic and geographic inequalities.

4. The first three years of the Tenth Five-Year Plan, 2002-2007 (the Tenth Plan), which is also the national poverty reduction strategy paper, showed the markedly low level of public expenditure, amounting to about 19% of GDP. The historically low expenditure level also led to low level of maintenance and rapid deterioration of public investments in rural infrastructure. With the signing of the historic peace agreement in November 2006, the Government has drawn up an Interim Development Plan for FY 2007-2010 to rectify an apparent neglect; under the Interim Development Plan, the needed investments in rural infrastructure development during the three-year period is estimated at about \$830 million, representing substantial targeted investments in the short-term.

5. The ADB country operations business plans for Nepal for 2007-2009 foresees that substantial peace dividends could be gained by the economy in the coming years. With sound macroeconomic management, an expansion in development expenditures, strong focus on devolution, and continuing of policy reforms, GDP growth rates are predicted to reach 4% in 2007 and 6% annually over the ensuing years.

## **III. THE SECTOR: PERFORMANCE, PROBLEMS, AND OPPORTUNITIES**

### **A. Sector Description and Performance**

6. As enunciated in the Local Infrastructure Development Policy (LIDP), 2004, the rural infrastructure sector of the country consists of seven subsectors, namely (i) rural transport (rural roads, bridges and trails), (ii) rural water supply and sanitation, (iii) irrigation and river control, (iv) micro hydropower, (v) housing and urban development, (vi) solid waste management, and (vii) social infrastructure. Of these, the Interim Development Plan places highest priority to rural transport development estimating around 60% of investments in the

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<sup>1</sup> A mass uprising throughout the country - led by the seven - party alliance (SPA) and backed by the Communist Party of Nepal, Maoists (CPN/M) compelled King Gyanendra to relinquish the state powers, and restored the Lower House of Parliament on 24 April 2006. On 18 May 2006, the Parliament declared itself to be Nepal's sovereign authority. Furthermore, on 21 November 2006, the SPA and CPN/M signed a historic peace agreement, putting an end to the decade-old insurgency.

sector during the three-year period to go to this subsector. Rural water supply and sanitation investments are seen to absorb around 15% while the other subsectors are allotted even lower investment levels.

7. Development of rural infrastructures have been identified as one of the four pillars in the Tenth Plan<sup>2</sup>. The primary goal of rural infrastructure development is to alleviate poverty by promoting access of local people particularly by women, disabled, and disadvantaged communities to economic opportunities and social service delivery. The major policy thrust to achieve this goal is through the devolution of planning and implementation to local bodies with the involvement of local people and beneficiaries. Emphasis upon social mobilization, employment generation during construction, and promotion of income generating activities due to improvement in the road access are the other strategies under the Tenth Plan.

8. The widespread and long-drawn conflict has stalled the progress in rural infrastructure development in the whole country largely due to the absence of elected local government bodies after the expiry of the term of elected representatives in mid-2002. The CPN/M's desire to exercise a strong role in decision-making at the local level comes in direct conflict with the Government's overall strategy and hampers the undertaking of many development initiatives in rural infrastructure development. Now with the CPN/M holding the MLD portfolio in the new cabinet, and the understanding reached to organize the leadership of local bodies around the representatives of the major political parties and other groups, local development initiatives could now be carried out without much political difficulty.

9. The findings of the Second Nepal Living Standard Survey (NLSS II) in 2004 showed that the concentration of poverty is characterized by inadequate access, illiteracy, and stagnant agriculture. In this context, the assessments made under the Millennium Development Goals (MDG) has indicated the need for 30,000 km. of rural roads by 2015. The country has about 22,000 km. of rural roads at present. However not all of the roads are of the same standard with only about half being motorable and of this only about 60% is all-weather. The scope for development of the rural transport sector is therefore huge and will continue to be so in the medium-term.

10. Nepal is likely to meet MDG targets in terms of access to safe drinking water and improved sanitation. By 2005, the coverage of Rural Water Supply and Sanitation (RWSS) has reached to 75% and 46% the population respectively. The institutional context of RWSS sector in Nepal is changing as a result of decentralization. The Department of Water Supply and Sanitation (DWSS) under the Ministry of Physical Planning and Works (MPPW) has started restructuring and technical staff of DWSS have been transferred to MLD and DOLIDAR. The reorganization forms part of the Government's decentralization plan, which is yet to be fully implemented, particularly as the district level. DWSS is handing over appropriate water supply schemes to local bodies and/ or communities after undertaking needed repairs and rehabilitation. The recent policy changes in this sector include the formation of Rural Water Supply and Sanitation Development Fund promoting community-based rural water supply and schemes.

11. The difficulties in road construction have led to the development of a number of remote airstrips serving remote areas. Remote airports have been instrumental in promoting tourism in those remote areas. However, the support infrastructures at these facilities are weak and in some of the cases have been damaged during the conflict. The airports are ill-equipped for the harsh climate in which they have to operate. A detailed sector analysis is in Appendix 2.

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<sup>2</sup> The other three "pillars" are sustained economic growth, targeted development, and good governance.

## B. Issues and Opportunities

12. The linkage between poverty and agricultural stagnation has been amply demonstrated in Nepal. Furthermore factors that exacerbate poverty such as extreme isolation or lack of connectivity also compound the problems of slow agricultural growth. Thus the Government's strategy for rural transport rehabilitation following the onset of relative peace in the countryside augurs well for agricultural expansion and poverty alleviation. Wherever agricultural activities are linked to markets, marked improvement has taken place, in terms of higher level of use of improved agricultural inputs, higher level of agricultural surplus sold in the market, and higher income level. Hence, improving access through rural roads will give an opportunity to enhance agricultural development. Given the dominance of the agriculture sector in Nepal's economy, improvements in agriculture quickly translate to poverty reduction.

13. The isolation of rural communities and the resulting inability to access public services has been a serious concern in Nepal. The proportion of total population having to travel at least two hours to the nearest roadhead in the plains ("*Tera*") areas and at least four hours in the Hills is still substantial at 36%. Investments in rural transport will provide opportunities for the rural population for greater connectivity to economic opportunities and eventually give them a chance to escape poverty.

14. The existing leadership vacuum at the local government units is manifesting itself in terms of slowdowns in the implementation of publicly funded investment projects. The Local Development Officer (LDO) who has been appointed by the MLD at each district on a secondment basis is seen as ineffective in marshalling cooperation of the various representatives of line agencies at the district. With the recent pronouncement from the central Government to reconstitute local government bodies starting FY 2008 would go a long way in alleviating current difficulties.

15. Access to reliable supply of drinking water is a major concern for the rural population. Many of the completed water supply facilities are in a state of disrepair and needs rehabilitation. There is also an increasing demand in hill areas for expansion of cultivated land under irrigation.

16. Institutional responsibility for rural infrastructure lies with the Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR), under the Ministry of Local Development (MLD). DOLIDAR has accumulated successful experience in planning and implementing rural road projects in coordination with the district development councils (DDCs). For implementing the LIDP involving other rural infrastructures, such as water supply and sanitation, DOLIDAR has demonstrated its capability to carry out its mandate of guiding DDCs in the development of rural infrastructure in the country.

17. Several development partners are supporting the rural infrastructure development programs of DOLIDAR, particularly the rural roads with varying implementation arrangements. As such practices could lead to different treatments of districts with different and limited administrative capacity, efforts would need to be initiated to achieve uniformity in approach and institutional arrangements.

18. RRRSDP will be implemented at a time when a preceding ADB assisted project, the Decentralized Rural Infrastructure and Livelihood Project (DRILP)<sup>3</sup> is also under implementation. As a recent review of DRILP shows some slowdown partly due to the conflict and partly due to the inadequate period allowed for social mobilization, RRRSDP will seek to rectify the latter problem. Sufficient lead time will be allowed for preparatory work both for engineering design as well as for social mobilization, resettlement and environmental assessments.

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<sup>3</sup> RRP: NEP 30232 approved in September 2004.

## 1. Government Policies and Programs

19. The LIDP which operationalizes the Local Self-Governance Act (LSGA) of 1999 has guided the development of rural infrastructure of in Nepal. In order to improve access to public services in the rural areas, LIDP stipulates the devolution of the tasks of planning, designing, constructing, and maintaining local infrastructure to local bodies such as the DDCs and the village development committees (VDCs). The devolution is seen as an effective way to foster a strong sense of ownership and strong commitment of local bodies and direct users of the facilities, which is expected to result in cost-effective operation and maintenance of such facilities.

20. The large number of districts (75 nationwide), municipalities (58) and VDCs (3,913), and the numerous technical staff who need to be fielded in the course of devolving development authority from the central to the local level, have posed a great challenge to various line ministries of the Government. Although a number of external donors are assisting in the institutional strengthening of local bodies, reforms in decentralization are urgently required for undertaking better service delivery by focusing on devolved governance, inclusiveness, accountability and transparency, effectiveness and equity.

21. The Government's current investment program for developing rural infrastructure is embodied in the Interim Development Plan covering FY2008 to FY 2010 prepared by the National Planning Commission in June 2007. A major part of the Interim Plan is the Rural Infrastructure Reconstruction and Rehabilitation Investment Plan which quantifies the needed investment to restore the operability of rural infrastructure over the three-year period of the Interim Plan development at about \$830 million. With available investment funds estimated at \$260 million, the resource gap would be \$570 million. The magnitude of the resource gap points to the substantial scope for assistance needed by the rural infrastructure sector.

## 2. External Assistance to the Sector

22. Development of the rural infrastructure has received assistance from several donors. In 1996, ADB provided the first loan to the sector, in the amount of \$12.2 million for the (first) Rural Infrastructure Development Project (RIDP)<sup>4</sup>; the project was completed in 2005. The loan, for the second RIDP, renamed the Decentralized Rural Infrastructure and Livelihood Project (DRILP), in the amount of \$40.0 million was granted in 2004 and is under implementation. Other donors to the sector include the World Bank, bilateral donors including the Swiss Development Corporation (SDC), Department for International Development (DFID) of the United Kingdom, and the Cooperation Agency of the German Government. A list of externally aided projects in the sector is in Appendix 3.

## 3. Lessons Learned

23. The following lessons learned from implementing the recently completed, ADB-assisted RIDP,<sup>5</sup> and other donor-supported projects in Nepal, have been incorporated in the design of the Project. Stakeholder workshops, carried out during project preparation for each of the five core subprojects (one in each of the country's development regions), elicited additional lessons of implementation experience at the field level.

- (i) **Rural roads as the first priority rural infrastructure.** Local governments have been formally canvassed by survey as to the priorities for rural infrastructure development. Rural roads dominate, followed by rural water supply.<sup>6</sup> Activities relating to poverty

<sup>4</sup> Loan No. 1450, approved in June 1996.

<sup>5</sup> Project Completion Report, Nepal: Rural Infrastructure Development Project (Loan No. 1450, approved on 27 June 1996), Nov. 2006.

<sup>6</sup> This was repeatedly confirmed in five regional workshops, to which local development stakeholders were invited.

reduction, income generation and local development activities can be packaged with rural road as the entry point.<sup>7</sup> Rural roads also provide opportunity for greater commercialization of agricultural activities. The Program takes account of this demand and potential by giving largest investment weight to rural roads.

- (ii) **Roads, alone, are not enough.** Rural infrastructure projects, including those of ADB, have demonstrated that complementary small-scale community investments and skills training lever the impact of road investment and provide livelihood prospects for communities long after employment in road construction has terminated.<sup>8,9</sup> The Program provides for (i) community demand-driven, small-scale investments and (ii) livelihood and social training targeted for the poor and vulnerable.
- (iii) **Labor-intensive, participatory and environment-friendly approach requires lead-time preparation and boosted levels of supervision.**<sup>10,11</sup> Labor-intensive, participatory and environment-friendly (LEP) approach is a common feature of all rural infrastructure programs. However, it requires adequate preparation and supervision to be effective. Noting this, the Program provides substantial up-front support for community and labor group mobilization and training. The Program also provides for the required technical supervision (through staffing and logistics) that LEP involves. Lastly, the Program takes account of the fact that laborers must be paid frequently and regularly, and ensures that this aspect is also supervised.
- (iv) **Need for strong subproject selection criteria and a common implementation framework.** Well-understood selection criteria<sup>12</sup> and a common framework and approach bolster effective implementation. Multiple projects (implemented in various approaches) put pressure on the administrative capacity of Government. The Program has established well-defined subproject selection criteria incorporating the Government's District Transport Master Plans (DTMPs) and local development plans. Working in consonance with other development partners in the sector, the Program adopts standard, best practice approaches (including LEP and supplementary training and investment for communities) for the implementation procedure. The Program, in utilizing this common framework, provides a vehicle for other donors to join in the rural infrastructure development initiative.
- (v) **Flexibility is required in the post-conflict political setting.**<sup>13,14</sup> Project implementation during the conflict has taught that implementation arrangements must be flexible to accommodate unforeseen circumstances. Taking the sector approach, the Program has been designed to be flexible. The Program addresses perceived problems of distrust and alienation – two contributors to the uprising and conflict – by pursuing an inclusive and open approach to the civil works and employment. The Program also

<sup>7</sup> RRP: NEP 30232, Report and Recommendation of the President to the Board of Directors, Decentralized Rural Infrastructure and Livelihood Project, September 2004, Asian Development Bank, para. 8. Roads employing building groups (BGs) provide an entry point for broad social development interventions to promote other livelihood improvements.

<sup>8</sup> Completion Report, "Nepal: Rural Infrastructure Development Project," November 2006, Asian Development Bank, para. 71.

<sup>9</sup> RRP: NEP 30232, Report and Recommendation of the President to the Board of Directors, Decentralized Rural Infrastructure and Livelihood Project, September 2004, Asian Development Bank, para. 8.

<sup>10</sup> Completion Report, "Nepal: Rural Infrastructure Development Project," November 2006, Asian Development Bank, para. 63. For the LEP approach, lead time is needed for BG capacity building, along with a high level of supervision to ensure quality and support.

<sup>11</sup> Report No. 36124-NP, Project Appraisal Document, Rural Access Improvement and Decentralization Project, May 2005, World Bank, para. 18. Lead time and resources are needed to ensure effective community participation in road construction.

<sup>12</sup> Report No. 36124-NP, Project Appraisal Document, Rural Access Improvement and Decentralization Project, May 2005, World Bank, para. 19.

<sup>13</sup> Completion Report, "Nepal: Rural Infrastructure Development Project," November 2006, Asian Development Bank, para. 66. Flexibility is needed in conflict situation to respond to the local conditions.

<sup>14</sup> RRP: Project No. 37266, Report and Recommendation of the President to the Board of Directors, Road Connectivity Sector I Project, July 2006, Asian Development Bank, para. 27. There needs to be "flexibility in selecting subprojects in accordance with local conflict levels."

works through decentralization, which facilitates local solutions and diversifies the investments (if works are delayed in one area, they can readily continue to proceed in others).

- (vi) **Need for unified framework for planning for safeguard issues.** There is a need for a common approach and consistent application of safeguards. In pursuing rural infrastructure projects, the donors are currently taking a number of different approaches. The Program provides support for the approval of the National Resettlement Policy Framework (and guidelines thereto) and also consolidation of guidelines for community mobilization and inclusive development. This will provide a common framework for the donor-community to work within and reduce multiplicity of approaches and regulations.
- (vii) **Public audit and engagement of NGOs can build trust and understanding.**<sup>15</sup> Implementation is more effective if communities are engaged, aware, and well-informed.<sup>16</sup> The Program incorporates roles for NGOs in capacity building and adopts the community (public) audit as a sign-off and endorsement procedure for all subprojects completed under the Program.
- (viii) **Local operations and maintenance capacity is underdeveloped and needs promotion from planning through the post-construction phase.**<sup>17</sup> For the sustainability of the subprojects, an effective mechanism including resource generation for operation and maintenance (O&M) has to be evolved as part of the project implementation. The Program takes account of this in (i) rural roads by providing matching funds to Districts to develop their road maintenance funds and (ii) in all investments, by creating O&M awareness and capacity from the start of subproject planning through implementation.

24. Taking account of the lessons learned and, for the purpose of harmonizing the implementation procedures under the proposed project with those of DRILP, specific provisions under DRILP implementation would have to be modified. These provisions would include: (i) allowing the use of Government procedures in the procurement of goods and services as well as in the recruitment of consultants; (ii) raising the threshold for local competitive bidding from \$0.5 million at present to \$1.0 million; and (iii) DOLIDAR giving more authority to DDCs in implementing subprojects, including the authority to engage local consultants. The project Management Unit currently overseeing the day-to-day activities at DRILP would also be considered for possible reconstitution into the Project Coordination Unit (PCU) of the proposed Project.

### 3. Rationale for the Program

25. The Program supports the poverty alleviation goals of the Asian Development Bank (ADB) and the Government as enunciated in its poverty reduction strategy. Following the restoration of relative peace in the countryside, the Government is launching a concerted effort to rehabilitate rural infrastructure that were damaged or rendered inoperable during the 11-year period of the conflict. The pursuit of sector reforms secured in the course of the policy dialogue with the Government, in conjunction with the massive investments in rural infrastructure reconstruction and rehabilitation would be mutually reinforcing. Implementing the sector reforms addresses ways to enhance the efficiency goals in implementing the investment activities particularly those policies relating to local governance, financial management, resettlement, social mobilization, and procurement. Improving the local

<sup>15</sup> Completion Report, "Nepal: Rural Infrastructure Development Project," November 2006, Asian Development Bank, paras. 70 and 72.

<sup>16</sup> RRP: Project No. 37266, Report and Recommendation of the President to the Board of Directors, Road Connectivity Sector I Project, July 2006, Asian Development Bank, para. 27. Active consultations and public participation are needed for successful implementation.

<sup>17</sup> Completion Report, "Nepal: Rural Infrastructure Development Project," November 2006, Asian Development Bank, para. 69.

infrastructure such as rural transport will provide the rural population with better access to markets and social services. These improvements will lay the foundation for better economic opportunities and assist in reducing poverty.

#### **IV. THE PROPOSED SECTOR DEVELOPMENT PROGRAM**

##### **A. Impact and Outcome**

26. The impact of the Program is to contribute to the reduction of poverty in Nepal by about 3% of the program period from the present level of 28% and sustain its economic growth. This objective will be achieved by (i) providing connectivity to rural communities and vulnerable groups that have been denied access to economic opportunities and public services, and (ii) implementing a package of policy reforms that will expedite the flow of needed financial resources to rural communities and empower local communities and vulnerable groups, integrating them into the mainstream of local development activities. The Program will support the implementation of the Government's investment plan in the three-year period, FY2008 to FY 2010, covered by the Interim Plan that aims to restore to operability various rural infrastructure that have fallen into disrepair during the period of the decade-long conflict, left unfinished, or have been damaged directly during this period. The support from the ADB for the Program will be provided in a joint and harmonized manner with the other development partners. A development policy letter and a program policy matrix are in Appendix 4.

##### **B. Important Features**

27. Several important features distinguish this Sector Program from previous projects and facilitate responsive implementation. The Program reinforces the revival of governmental devolution (which went into abeyance with the conflict and emergency measures). The Program subprojects have been generated by Districts from local participatory process, and validated during Program preparation.

28. Conditions contributing to the decade-long conflict included perceptions of exclusion, centralized decision-making, and lack of accountability. Given the peace process underway, the Program strives to be responsive to these concerns. Subprojects are generated by the local governments. For employment in the public works, local building groups will be systematically constituted of poor and marginalized groups (including women, disadvantaged castes and ethnic minorities). Under the Program, there are also provisions for demand-driven, small-scale community infrastructure<sup>18</sup> to lever and complement the primary Program investments. There will also be empowerment training for the poor and vulnerable to promote sustained livelihood and improved quality of life long after the completion of public works. This includes demand-driven training in livelihood skills and social development. And, for enhanced local accountability, there will be community audits to validate that Program works have been concluded to the satisfaction of the beneficiaries.

29. To expedite successful implementation, Program funds will be channeled to local governments' District Development Fund, bypassing unnecessary hierarchical approvals and bureaucratic delays of the past. Also, to facilitate effective civil works packaging, local government officials' outdated thresholds for contract approval and awards will be raised. Along with these measures to improve funds flow, there will concurrently be improved fiduciary controls and outside technical audit (also facilitated through the Program policy measures).

30. Limited capacity in procurement and financial management is a frequent cause of delay in implementation of newly decentralized projects. Recognizing this, the Program

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<sup>18</sup> Examples include small-scale feeder roads, trails, bridges, irrigation, and water supply.

provides for local government training in procurement and financial management to meet both the Government and Program requirements. The Program will also produce procurement and financial management manuals in the local language to guide local government officers. To address problems with staffing capacity, Program policy measures have been taken to fill key vacancies and provide incentives for those posted to remote settings.

31. Implementation of resettlement policy for district rural roads is relatively new, and limited capacity has been a constraint for other projects. The National Policy Framework for Resettlement will be approved under the Program providing guidance and direction for the nation. Under the Sector Program, there will be two operational measures undertaken to advance resettlement implementation: (i) training to build capacity in public and private service providers, and (ii) bundling of engineering detailed design and resettlement work to facilitate the highly interactive/iterative process.<sup>19</sup>

## **C. The Program Loan**

### **1. Impact and Outcome**

32. The Program loan will support the Government's continuing drive toward poverty reduction and sustained economic growth. This will be achieved through the implementation of a set of policy initiatives focused on enhancing efficient and effective implementation of projects in the rural infrastructure sector. The outcome of the Program will be improved connectivity of rural communities to social services and economic opportunities and affording them the chance to escape poverty.

### **2. Outputs**

33. The major outputs of the Program are in the five key areas for effective implementation of rural infrastructure:

- (a) Measures for local government personnel management, leading to:
  - (i) the filling of critical staff positions in District Development Councils for improved implementation capacity; and
  - (ii) a package of incentives to address vacancies and diminish transfers (especially for remote placements) -- making for better management and continuity.
- (b) Measures to improve financial management, resulting in:
  - (i) integration of electronic systems for finance and administration for better accountability and effectiveness; and
  - (ii) rationalized procurement procedures at the local level and stronger audit function to strengthen efficiency and accountability in local public works (through amendment of the Local Bodies Financial and Administrative Rules)
- (c) Adoption of regulation and guidelines for social safeguards, resulting in:
  - (i) a uniform national framework for resettlement policy that protects the rights of adversely affect population; and
  - (ii) establishment of uniform guidelines to ensure participation and inclusion of all segments of society in local development projects.
- (d) Adoption of act and regulation for national procurement, providing for:
  - (i) effective procurement procedures for all levels of government; and

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<sup>19</sup> Prosecution of detailed and design by separate firms has been found to result in coordination problems, misunderstandings, and significant delay.

- (ii) consonance between donor and national procurement policies, effecting greater efficiency in development-partner projects.
- (e) Formulation of plans and evaluation of results in local infrastructure, leading to:
  - (i) clear directions and priorities from Government-led initiatives that facilitate donor involvement; and
  - (ii) better quality of works through systematic evaluation of public projects – achieved by enabling the Technical Audit Division of the National Vigilance Center.

### **3. Financing Plan**

34. The Government has requested a program loan of \$20 million from ADB's Special Funds resources to support the Government policy reforms. The Borrower will be the Government of Nepal. The loan will have an amortization period of 24 years, including a grace period of 8 years; an interest rate of 1% per year during the grace period and 1.5% thereafter; and other terms and conditions set forth in the draft Loan Agreement. The program loan amount was determined by such factors as : (i) the relative importance of developing the rural infrastructure of the country, and (ii) the financing gap that impedes the restoration of connectivity to rural communities of Nepal.

### **4. Implementation Arrangements**

#### **(a) Program Management**

35. The Ministry of Finance will be the executing agency of the Program. MOF will ensure that the policy reforms as agreed between the ADB and the GON and along the lines of the Development Policy Letter are faithfully carried out on a timely basis. In particular, MOF will ensure that provisions for reporting, monitoring and auditing and other administrative requirements will be strictly followed.

#### **(b) Implementation Period**

36. The Program will support part of the Government's budgetary requirements for the period covered by the Interim Development Plan (FY2008 – FY2010). The Program period will be from 1 January 2008 to 31 December 2009. The loan closing date will be June 2010.

#### **(c) Procurement and Disbursement**

37. In accordance with the provisions of ADB's *Simplification of Disbursement Procedures and Related Requirements for Program Loans*<sup>20</sup>, the proceeds of the program loan will be disbursed to Nepal as the Borrower. The loan proceeds will be used to finance the full foreign exchange costs (excluding local duties and taxes) of items produced and procured in ADB member countries, excluding ineligible items (Appendix 5) and imports financed by other bilateral and multilateral sources. No supporting import documentation will be required if, during each year that loan proceeds are expected to be disbursed, the value of total imports minus imports from non-member countries, ineligible imports, and imports financed under other official development assistance is equal to or greater than the amount of the loan expected to be disbursed during that year. The Government will certify its compliance with this formula with each withdrawal request. Otherwise, import documentation under existing procedures will be required. ADB reserves the right to audit the use of loan proceeds and verify the accuracy of Government's certification. The foreign exchange account jointly held by the Ministry of Finance (MOF) and the MLD will function as the

<sup>20</sup> ADB. 1995. Project Administration Instructions. Manila

Counterpart Fund into which all withdrawals from the loan account will be deposited. The Counterpart Fund will be established, managed, and liquidated in accordance with terms and conditions satisfactory to the ADB. The Counterpart Fund will be used by the Government to supplement the financial resources associated with the implementation of existing policy interventions in the rural infrastructure sector. The Government will transfer the funds from the Counterpart Fund Account in accordance with the agreed liquidation procedures.

#### **(d) Monitoring and Tranching**

38. The loan will be released as a single tranche of \$20 million upon loan effectiveness when all conditions of the loan shall have been met. Proceeds of the loan will be released to the joint MOF-MLD foreign exchange account (FEA). Funds will be channeled from the FEA to the Government consolidated fund based on submission and approval of actual expenditures associated with the implementation existing policy interventions in the rural sector by MLD. (Procedures to be developed)

### **D. The Project Loan and Grant**

#### **1. Impact and Outcome**

39. The impact of the project is the reduction of poverty nationwide by about 3% by the end of the three-year implementation period. The outcome will be the reduction in the proportion of the population that have to spend two hours of walking in the terai (and 4 hours in the hill) to reach the roadhead from 36% of present to 25% by end of project. The improved connectivity of rural communities with areas that will provide them economic opportunities, increased institutional capacity and access to social services. The subprojects funded under the sector loan will improve the livelihoods of people in the area, particularly the poor and vulnerable groups, including indigenous peoples who, together, constitute about 70% of the population of the subproject areas.

#### **2. Outputs**

40. The major outputs of the project are (i) rural transport infrastructure, (ii) rural water supply, (iii) supplementary infrastructure, (iv) community empowerment, and (v) project management services.

#### **(a) Rural Transport Infrastructure**

41. The rural transport component will include reconstruction of rural roads that have either been abandoned and left unfinished during the ten-year period of the conflict or have fallen into disrepair due to lack of maintenance. In 45 districts, 1438 kilometers (km) of rural roads will be reconstructed of which 578 km will have gravel surfacing and 860 km earthen. In addition, a total of about 90 bridges, each with an average span of 25 meters, will be constructed across road alignments that need to be linked for maximizing the rural transport services. The rural roads were selected based on agreed prioritization criteria and reflect the participation of various stakeholders, particularly the poor and marginalized groups. Four core subprojects analyzed in detail during project preparation provided the basis for the designs and unit costs. Subprojects will be built to DOLIDAR standards using labor-based, environmentally friendly, and participatory (LEP) approach. Use of LEP will result in maximizing the direct benefits of the project to the rural poor and the internally displaced people as well as the overall employment impact of the project. In a few cases, where the works are more complex, such as bridge construction, local contractors will be engaged.

### **(b) Rural Water Supply and Sanitation**

42. A total of rural 972 water supply schemes will be rehabilitated in 45 districts of the country. All schemes will be selected based on agreed selection criteria with the participation of the stakeholders particularly the poor and the vulnerable groups in the rural communities. A typical scheme will consist of an intake structure to be constructed at an existing natural water source (such as a spring or a stream), a transmission pipeline, and a distribution network with each supply point serving a group of 5 to 10 rural households. In suitably situated areas, supply options using groundwater sources with hand pumps or piped systems with overhead tank will also be considered. One scheme will typically serve about 65 families or about 325 persons. LEP techniques will be used in constructing the intake and installing the transmission and distribution lines, employing local laborers drawn from among the poor communities where the scheme is sited. Health education and sanitation activities will be conducted together with water supply rehabilitation and construction of new schemes. The Project will adopt the Government's contribution policy or elaborated in the Rural Water Supply and Sanitation National Strategy of 2004<sup>21</sup>.

### **(c) Supplementary Infrastructure**

43. In order to meet the local demands for rural infrastructure other than rural roads and water supply, the Project will invest in the construction or reconstruction of supplementary facilities possibly including public buildings such as schools, health clinics, rural markets, offices of local government units, microhydro systems, farmer-managed irrigation systems, river training, remote airports, rural communications systems and others. Specific facilities will be selected based on the participation of the various levels of local communities, including the wards, village, and the district council. The selected supplementary infrastructure will be constructed using the LEP techniques to maximize the benefits of the project to the poor and disadvantaged groups in the rural communities.

### **(d) Community Empowerment**

44. Rural communities and segments of the population that are poor and disadvantaged in districts under the project will be strengthened and integrated into the mainstream of development activities. Based on the analyses of the core subprojects, the poor and disadvantaged groups account for about 70% of the rural population. As these groups have traditionally been excluded from participating in major development efforts, and in line with Government policies toward inclusion, the project will provide for strengthening the capacities of communities, institutionalizing the practice of beneficiary participation, and promoting social cohesion. These goals will be achieved by support activities that (i) raise awareness of the project and the opportunities it offers among all social groups, (ii) assist communities in preparing subproject proposals, (iii) facilitate beneficiary participation in implementing subprojects through pro-poor delivery mechanisms, and (iv) identify, prioritize, implement and maintain supplementary infrastructure.

### **(e) Capacity Building**

45. In order to augment existing technical capabilities at DOLIDAR and at the DDCs, the project will provide for: (i) 24 person-months of international consultancy services and 60 person-months of domestic consultancy services; (ii) electronic linkages between the central and district level project management bodies; (iii) local and overseas training for technical staff; and (iv) improvement in the present complement of laboratory/field testing equipment at DOLIDAR. With the strengthened electronic links, DOLIDAR will be able to compile and

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<sup>21</sup> The community contribution will amount to 20% of total cost of the scheme of which 1% should be in cash. For disadvantaged communities, the contribution will be not more than 10% of the cost of the scheme; cash contribution is not compulsory for poorest households.

analyze real-time data on progress of project implementation and fund flow for effective and transparent monitoring.

#### (f) Project Management Services

46. A Project coordination unit will be established in Kathmandu, to be staffed by MLD/DOLIDAR, and will be assisted by consultants. At the district level, the DDCs will be the implementing agency responsible for the day-to-day operations of the Project. DDCs will assign a District Technical Officer (DTO) to lead the project implementation team which will include the DTO, support staff, and domestic consultants. The DDC will ensure the appointment of a full-time engineer, sufficient overseers, and an account officer to assist the DTO.

### 3. Cost Estimates

47. The estimated cost of the Project is \$180 million, inclusive of physical and price contingencies, taxes and duties, and interest and service charges during construction (Table 1). The financing plan is in Table 2. The detailed project cost estimates is in Appendix 6.

48. The Government has requested a loan of \$\_\_\_\_\_ million equivalent from ADB's Special Funds resources to finance \_\_\_\_\_% of the project cost. The provision of assistance from the Asian Development Funds is justified by the pro-poor orientation of the project and the country's tight fiscal position. The Borrower will be the Government of Nepal. The ADB loan will have a maturity of 32 years, including a grace period of 8 years. The loan will carry an interest charge of 1% during the grace period and an interest charge of 1.5% per annum during the amortization period.

**Table 1: Cost Estimates (\$ million)<sup>a</sup>**

Item	Amount	%
<b>A. Base Cost</b>		
1. Rural Roads	97.38	59
2. Rural Water Supply	21.66	13
3. Supplementary Infrastructure	19.59	12
4. Community Empowerment	10.97	6
5. Institutional capacity building	3.41	2
6. Project Management Services	13.21	8
<b>Subtotal (A)</b>	<b>166.24</b>	<b>100</b>
<b>B. Contingencies</b>		
1. Physical Contingencies	0.52	-
2. Price Contingencies	12.52	8
<b>C. Interest During Implementation</b>	0.72	-
<b>Total</b>	<b>180.00</b>	<b>108</b>

<sup>a</sup> Figure may add up due to rounding.

Source: Asian Development Bank estimates.

**(Note: The financing plan for the Project will be prepared during appraisal)**

### 4. Implementation Arrangements

#### 1. Project Management

49. A joint local infrastructure steering committee will be established in Kathmandu to provide policy guidance to all ongoing projects in the local infrastructure sector of the country under the chairmanship of the Secretary MLD. The executing agency of the project will be MLD. MLD will delegate the responsibilities for execution of the project to DOLIDAR, the national agency under MLD mandated to guide the development of the rural infrastructure

sector. A Project Coordination Unit (PCU) will be established of MLD/DOLIDAR to be headed by a Project Director with the rank equivalent to a Joint Secretary, who will be responsible for the day-to-day planning and implementation of the project. The Project Director will report to the Secretary MLD through DG DOLIDAR and provide quantity monitoring reports to the JLTSSC.

50. DDCs will be responsible for Program implementation at the districts. The DDC will delegate the project management tasks to the chief of the District Technical Office (DTO) who will lead the project implementation team that will include support staff, district implementation support consultants, social mobilizers and NGOs. The DTO will prepare annual work programs based on the prioritized subprojects, and ensure that land acquisition and environmental procedures are completed in time before starting construction. Road subprojects will be planned and overseen by the district road coordination committee, which is effectively a DDC subcommittee. The DTO will arrange the procurement of needed services and community-level training, and will supervise and monitor work implementation. Village works and road construction committees will form the BGs in each VDC area and monitor implementation. The DTO will also coordinate (i) application for, and selection of possible supplementary infrastructure in the VDC areas of the subproject; and (ii) implementation through local NGOs of livelihood-enhancement activities using intensive social mobilization. A domestic engineering consultant to supervise civil works and a team of social mobilizers and NGOs will be engaged by the DDC to assist BGs, and support the DTO. Fully functioning implementation teams in districts with ongoing externally-aided projects in the rural infrastructure sector will also service the needs of the program without necessitating the establishment of new implementing units in those districts.

## **2. Subproject Implementation**

51. Implementation of subprojects will start immediately after completion of preparatory activities including surveys, detailed design, social mobilization, and community empowerment to prepare communities in participating fully in Project activities. While each of the 45 DDCs under Project will qualify for assistance for an initial subproject, funds for a second-round subprojects will be allocated based on DDC's performance during the initial phase. To qualify for funding for a second phase subproject, DDCs must have successfully implemented the first-phase subproject(s), demonstrated a commitment to reduce poverty, and established and successfully operated a district road maintenance fund. The criteria for prioritization of subprojects are in Appendix 7.

## **3. Implementation Period**

52. The project will be implemented over three years. Implementation is expected to begin in 2007. Initial activities will include organizing the district implementation team, recruiting consultants, selecting local NGOs, social mobilization, conducting benchmark socioeconomic surveys, carrying out environmental and resettlement studies, and procuring needed equipment. Civil works will commence after the implementation consultants have been appointed; land and rights to land, free of encumbrances, are available for construction; and resettlement activities and compensation payments have been completed. A project implementation schedule is in Appendix 8.

## **4. Procurement**

53. Goods, related services, and civil works financed by ADB will be procured following Government procedures. All civil works will be small and widely dispersed, and most will be undertaken by unskilled community labor, following ADB's guidelines on community participation in procurement. In a few cases involving more complex works such as bridge

construction, civil works contracts will be required, which will be procured by DTO on the basis of national competitive bidding among contractors in accordance with the Government's procurement procedures acceptable to ADB. Supply contracts for equipment or materials are not expected to cost \$1.0 million or more, but should a contract be required it will be awarded on the basis of national competitive bidding. Shopping will be used for small or off-the-shelf items or civil works valued at less than \$100,000. The PCU and DTOs will procure the equipment and vehicles. Indicative procurement packages are in Appendix 9.

## **5. Consulting Services**

54. PCU will select the central implementation support consultants. Consultants for study and designs will be selected directly based on their past performance. Consultants for engineering supervision at the central level will be recruited by PCU on quality cost-based system. Consulting services required at the districts will be engaged by DTOs accordance with Government procedures and other arrangements satisfactory to ADB for engaging domestic consultants. An international firm in association with domestic firms will provide services to the PCU totalling 734 consultant person-months, consisting of 36 person-months of international and 698 person-months of domestic consultants. In addition, 24 person-months of international consultancy services and 60 person-months of domestic consultancy services will be engaged to assist in capacity-building. ADB has approved advance action to begin recruiting implementation consultants from the appraisal mission date to the ADB loan effectiveness date to facilitate the start-up of project implementation. The Government has been advised that approval of advance action does not commit ADB to finance the project. The summary terms of reference of the consultants for PCU are in Appendix 10; those for capacity-building are in Appendix 11.

## **6. Land Acquisition and Resettlement**

55. Majority of the road subprojects will involve rehabilitation of existing alignments for which right of way has been acquired and therefore land acquisition under the project will be minimal. In order to avoid implementation delays due to land acquisition along new road alignments, project infrastructure location will be carefully determined. Compensation determination committees will also be convened in each district, and village works and roads construction committees will ensure that all project-affected people are fairly compensated. The DTO, in cooperation with the committees, will complete the preparatory work for land acquisition before submitting subproject appraisal reports to the PCU. Land acquisition will be completed within 365 days from the signing of the subproject agreement; otherwise, the subproject will be excluded from the project. Should a subproject require any involuntary resettlement, the subproject appraisal report will include a short or full resettlement plan, in accordance with ADB's guidelines, resettlement policy, and project resettlement framework. All compensation and resettlement activities will be completed before possession of land and other assets. The DTO will disclose publicly the resettlement plans in each subproject area after subproject appraisal.

## **7. Maintenance**

56. DDCs are responsible for maintenance, including financing of district roads, main trails and bridges; while VDCs are responsible for maintenance of supplementary infrastructure with technical and financial support from DDC. Current resources, skills and maintenance management systems are weak. In line with current policies of the Government, during the first year following completion of project facilities, financing for district roads maintenance will be provided under the project on a matching basis, subject to DDC's establishing a district roads maintenance fund. Financing maintenance for

subsequent years will be DDCs continuing responsibility. Project assistance contributes to the financing of maintenance works during the project period, when management capacity, and planning and implementation procedures are being developed and tested with support from consultants. The project design includes provisions for the formation and operation of user committees representing transport operators and other regular road users. These committees are valuable in representing beneficiary interests, restricting heavy-vehicle use, monitoring road conditions and maintenance performance, and mobilizing resources for essential maintenance. The Government's Road Board and its associated fund will add to the maintenance funds as the Board is required to allocate 30% of its annual collections to local bodies for rural road maintenance.

57. Operation and maintenance of rural water supply and sanitation facilities will be the responsibility of water users groups served by each scheme. In a typical scheme, part of the revenues generated from the users is set aside to pay for a full-time plumber and meet the cost of replacement parts. Supplementary infrastructure will be maintained by the beneficiary groups.

## **8. Disbursement Arrangements**

58. Project funding (other than DDC and beneficiary counterpart funds) comprising counterpart funds provided by the Government, grant joint cofinancing funds from bilateral and other donors, and ADB funds will be channeled to pay all costs of the project (other than those funded by local counterpart funds) (i) to the district development fund (DDF) and then to the individual DDC's project operating account, and (ii) to the PCU project operating account. From each DDC's project operating account, the funds will be used to pay for infrastructure investments and their initial maintenance, land acquisition and resettlement costs, local consultants, district office equipment and vehicles, training under community empowerment, and their operating costs. Government provides the funds (including its share and donors' share) to PCU/PIUs, as advances. Based on the actual expenditures it transfers funds from imprest accounts (donors subsidiary accounts) to consolidated account (Government account). The PCU will prepare disbursement projections, request budgetary allocations for central counterpart funds, collect supporting documents, and prepare withdrawal applications and send them to ADB in accordance with ADB's *Loan Disbursement Handbook*. Project funding from ADB and joint cofinanciers will be disbursed periodically from the loan/grant account into respective imprest accounts. Payments for eligible items will be made through the imprest accounts. The Statement of Expenditure (SOE) procedure will be adopted to facilitate replenishment and liquidation procedure. The imprest account and SOE procedure will be established, maintained, and audited in accordance with ADB's *Loan Disbursement Handbook*. The ceiling of the imprest account will not exceed the estimated externally funded expenditures for the next two trimesters or \$1.0 million, whichever is lower. The SOE procedure is applicable for reimbursing eligible expenditures for any individual payment not exceeding \$50,000 equivalent and liquidating advances provided for the imprest account.

## **9. Accounts, Audits and Reports**

59. The Government, acting through MLD, will maintain records and accounts adequate to identify goods and services financed under the project and ensure that accounts and financial statements are audited annually by auditors acceptable to ADB. In addition to the annual financial audit, performance audit(s), including technical and social audits, will be conducted by auditors acceptable to ADB to review the effectiveness of the outputs and activities, including procurements made under the project. The auditor's report and copies of the certified accounts and related financial statements, including the auditor's opinion on the use of the loan will be submitted to ADB in English not later than nine months after the close of the Government's fiscal year. MLD will prepare reports on the status and progress of

project implementation and submit them to ADB within 45 days of the close of the Government's fiscal year. The reports will be in a format acceptable to ADB and will indicate (i) progress made against performance indicators, (ii) problems encountered and actions taken to address them, and (iii) proposed program of activities for the following year. Within 3 months of the project's physical completion, MLD will prepare and submit to ADB a project completion report describing project implementation, accomplishments, benefits, impacts and costs.

## **10. Project Performance Monitoring and Evaluation**

60. In line with ADB's project performance management systems (PPMS) framework, a participatory benefit monitoring and evaluation (M&E) program will be carried out under the project. The M&E program will be specifically designed to support the data requirements of a fully integrated Results-Based Management (RBM) system in which the M&E system will be used to increase project success on an ongoing and continuous basis. Specifically, objective indicators and targets for all desired project outputs, outcomes and impacts will be defined for annual and/or episodic points in the project cycle; these will permit regular and timely assessments of the project's efficiency and effectiveness. In this context, "efficiency" means the production of planned levels of outputs with the allocated levels of inputs (resources) within the project's schedule and budgets for funds, manpower and other resources; "effectiveness" means the achievement of project outcomes and impacts as a consequence of fully implementing all planned interventions. PPMS activities will be conducted periodically to assess whether project inputs have delivered the expected benefits to the intended beneficiaries. PPMS also seeks to detect deviations between the plan and the execution of the project. The use of an RBM approach by the project will ensure that deviations between the plan and achieved results (outputs, outcomes and impacts) will be recognized by project management in a timely manner, thereby allowing effective, corrective management actions and decisions to be taken. The PCU will conduct benchmark physical and socioeconomic survey at selected project district and submit for ADB's review and concurrence a detailed implementation plan for monitoring performance and preparing benchmark information within 6 months of loan effectiveness. These baseline surveys will be conducted in accordance with the project M&E framework and plan and will provide the basis for preparing the benchmark information and target values. Thereafter, PCU will submit annual benefit monitoring reports to ADB throughout the implementation period of the project. These monitoring reports will be an integral part of the overall RBM system to be employed under the project, and shared with the ongoing Poverty Monitoring and Assessment System (PMAS) of the NPC.

## **11. Project Reviews**

61. The various physical works and strengthening measures under the project will be implemented over the whole country involving all 45 districts. It is important therefore that its implementation be closely monitored. Accordingly, the regular reviews to be conducted by ADB, together with the joint cofinancing partners, at least twice a year be supplemented by a mid-term review. The reviews will cover physical implementation, financial performance, implementation of the various action plans, and identification of problems that may need to be addressed early on. The Government, through MLD and the ADB, together with the cofinanciers, will conduct a comprehensive mid-term review (MTR) in the 18th month of project implementation. The MTR will review project performance against the outputs, outcomes, and activities set out in the design and monitoring frameworks. Results of the MTR will guide in modifying the scope and design of the project and reallocation of funds among the loan categories, as may be needed. A project completion review will be conducted not later than 6 months after the close of the project.

## 5. Anticorruption Policy

62. ADB's *Anticorruption Policy* was explained to and discussed with the Government. Consistent with its commitment to good governance, accountability and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the implementation of the Project. To support these efforts, relevant provisions of ADB's anticorruption policy have been included in the loan regulations for the project loan. Based on a risk assessment carried out during Project preparation, the overall program risk was rated medium in terms of financial management and program implementation and the following risk mitigation measures were taken by the MLD:

- (i) To maintain financial management capacity, the Government did not transfer core staff members of the MOF and MLD during the past two years. The staff members had experience working for ongoing projects in the rural infrastructure sector which had similar financial management system, and were well trained.
- (ii) The funds flow was well defined, and a close monitoring system was introduced to monitor usage and prevent any misuse of funds.
- (iii) The Government's reporting mechanisms and formats were assessed and considered as satisfactory. Internal audits were assessed as inadequate in respect of timeliness and quality particularly at the district level. The Project will strengthen internal audit at the district level.
- (iv) While external audit arrangement by the Office of the Auditor General (OAG) were assessed as satisfactory, internal audits were assessed as inadequate in respect of timeliness and quality particularly at the district level. The project will strengthen internal audit of the district level.

## V. PROJECT BENEFITS, IMPACTS AND RISKS

### A. Benefits and Impacts

#### 1. Program Loan

##### (a) Policy

63. The key benefits expected from the RRRSDP policy measures are:
- (i) Sustained progress in meeting the Government's medium-term development plans;
  - (ii) Improvement in the political and investment climates, by providing sound policy, legal and institutional frameworks for rural infrastructure;
  - (iii) Preparation and implementation of quality rural infrastructure projects in a transparent and efficient manner, resulting in (a) improved availability and quality of rural infrastructure services; (b) a boost to Nepal's rural sector competitiveness; and (c) lower poverty incidence;
  - (iv) sustained engagement of ADB in the policy dialogue with Government on the direction and content of, and strategies for, its economic, structural, and institutional reform in supporting the broader area of investment climate; the RRRSDP will provide for policy continuity and consistency in areas where ADB has been actively involved; and
  - (v) Measures to support donor harmonization in formulating a rural infrastructure policy framework of common concern.

### **(b) Institutional**

64. The RRRSDP will strengthen the key institutions dealing with rural infrastructure development in Nepal. At the national level, efficiency gains will be realized in the key administrative support institution, the MLD, as well as, through improved reporting, with the funding arm of government, the Ministry of Finance. Also, at the national level, there will be control-strengthening in procurement and quality control with the (i) passage of the Public Procurement Regulation, (ii) formulation of the Public Procurement Management Office and (iii) the enabling of the Technical Audit Division of the National Vigilance Center. Capacity to prepare and execute bankable projects through NPC and MLD is being enhanced through the leadership shown in planning rural infrastructure development. At the local level, district government capacities will likewise be strengthened through the policy measures. Staff deficiencies will be addressed through filling needed positions and providing incentives to keep personnel in place. The integrity of audit will be strengthened, the levels of project approval and contract award will be rationalized, and procurement procedures clarified. With clear guidelines on participation, community mobilization and resettlement policy established from national government, local governments will more effectively implement local development projects.

### **(c) Social**

65. The RRRSDP will facilitate investments in rural infrastructure and address the urban-rural gap in services and opportunities. Guidelines for participation and inclusion will enhance local development impacts, ownership and commitment to maintenance. The resettlement policy will provide a framework whereby the goal is to see that no person is worse off as a result of a development intervention, and, that marginalized communities are not unfairly left out or exploited. An enhanced rural infrastructure will improve access to social services and livelihood improvements. The provisions of the National Resettlement Policy bring the country into close consonance with ADB's resettlement policy. This will bring protection for rural communities whose interests may heretofore have been viewed as rather incidental to rural road construction. The guidelines on community development and participation will enhance local communities involvement, ownership and maintenance roles in rural assets.

### **(d) Economic**

66. The qualitative nature of the policy reform program does not lend itself to quantitative financial and economic analysis. However, major economic benefits will accrue to the rural population through an enhanced framework for pursuit of rural infrastructure. Better access, for example, means lowered input costs and higher product prices for farmers, time saving for travelers, and reduced vehicle operating costs for vehicles – all facilitating greater economic activity and income. Improve rural water supply will mean a healthier population, a reduction in lost work days to sickness, reduced expenditure for water-related illness, and reduced time and drudgery for fetching water. These are just some of the examples of benefits from the improved provision of rural infrastructure, which the policy measures will support.

## **2. Project Loan and Grant**

### **(a) Economic Impacts**

67. The Project will address critical infrastructure shortfalls in rural areas and improve rural communities' access to economic opportunities and social services. This will be achieved by providing labor-intensive works in infrastructure such as rural roads and drinking water supply and sanitation schemes, among others. These principal Project investments

will be also be complemented by community mobilization, training, and investments in demand-driven, community infrastructure and enterprise.

68. The benefits of rural roads are increased access, time savings, and lower person-trip and cargo-transport costs. In overcoming isolation, the rural roads will stimulate the agricultural economy. The farm population will gain access to lower-cost farm inputs, to buyers and markets, and to agriculture service providers (both public and private). The response will be (i) improved farm management practices and yields, (ii) increased cultivation of market-oriented, high-value crops, and (iii) growth in household farm income. For the drinking water supply and sanitation schemes, the benefits for rural households will be better access and less drudgery (time savings for fetching water), better quality water and sanitation (reduction in household health costs and lost work days), and increased supplies. As a result of the project, employment and income will be created through the labor-intensive infrastructure works during construction, and afterwards, through increased agriculture activity, development of roadside-related businesses, and operations and maintenance of the new infrastructure. Specific performance indicators, as listed in the DMF for specific project components will be monitored periodically.

69. Economic assessment is undertaken through feasibility studies on a sample of five representative core subprojects. The summary financial and economic analysis is in Appendix 12. Quantifiable benefits are brought together with costs for the investment analyses. The economic rates of return (EIRRs) for four rural roads range from 12% to 29%, and the EIRR for the sample drinking water supply and sanitation scheme is 24%. Under a number of sensitivity tests, including for cost overruns and benefit shortfalls, the investments generally remain viable. Non-quantified benefits are also substantial. Upgraded roads facilitate contact with health and education service providers, improved social connectivity, and better access to outside employment opportunities. In the Project water supply approach, the specific indicator to be monitor are the number of schemes completed, number of latrines constructed, number of household participating in awareness training, and water user group trend in hygiene and sanitation.

### **(b) Poverty Reduction Impacts**

70. The additional investment from the project accompanying the government expenditure expecting to grow at the rate of 14 to 15% per annum will reduce the poverty incidence of the country from 28% to about 25% by 2010<sup>22</sup>. GDP is expected to grow at 4.8%, 5.5%, and 5.6% per annum in FY 2008 to FY 2010. The number of people below poverty line is likely to decline from 7.4 million to about 7.0 million in 2010.

71. The proposed rural road will benefit 5.8 million people in the zone of influence. The number of people with improved access will increase by 830,000. The project will add 3% to the people having access to motorable roads in the distance of 4 hours in the hills and 2 hrs. in the terai. With the new and rehabilitated rural roads, the travel time to reach the nearest motorable road will decline from 4.03 hours to 3.53 hours in 2010.

72. The direct employment from the rural road and rural water supply reconstruction and rehabilitation will generate more than 30.5 million person days of works for both skilled and unskilled labor. It means more than 80,000 poor households will get full time employment as unskilled laborers for 2 years of construction. The direct employment generated at the time of construction will bring down the poverty incidence by 3% by 2010. Direct employment at the time of operation and maintenance will be about 3750 persons for the rural roads on a regular basis. For rural water supply, some 6,800 individuals will get part time jobs. Assuming a km of road generates about 10 other employment opportunities in ancillary

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<sup>22</sup> Estimated based on the Nepal Macroeconomic Model (NMEM) prepared by MOF under the ADB assisted TA 4017-NEP, 2005.

activities, about 12,000 people will be additionally employed. The supplementary investment on minor infrastructures and livelihood programs will ensure greater opportunities to the disadvantaged communities like females, *Dalits* and marginalized *janjatis*. Appendix 13 gives the summary poverty reduction and social strategy.

### (c) Social Impacts

73. The Project will promote social inclusion by mandating proportional representation of historically marginalized groups, mainly women, Dalit castes, and ethnically disadvantaged population in all level of project planning and implementation. In Nepal, the term ethnic nationalities equates with indigenous people and because of the diversity among different caste and ethnic groups in Nepal, the project will specifically target the disadvantaged ethnic groups or indigenous people in project employment and opportunities. The project will mobilize local NGOs and CBOs working on behalf of the poor and marginalized people to ensure staff recruitment at the implementation level will have gender, caste and ethnic balance. At least 70% social mobilization staff will be women. Based on disaggregated information from household survey and focus group discussions, the social mobilizers will ensure the district and village level user groups and committees will have proportional representation of caste and ethnicity by their population hold in the village settlements along the project influence zone. Women will represent at least 40% in infrastructure committees and village user groups, building groups and maintenance groups. Increased employment opportunities for the poor and disadvantaged will decrease labor migration and lessen burden on women. Social Analysis and Action Plan has been prepared for the project (Supplementary Appendix N), which provides detail information on social interventions for the project.

74. The Project will build local ownership and maintenance of infrastructure work by employing local-membership-based district and village level committees and user groups in planning, implementation and monitoring of construction work. Community based monitoring system and public audit will be introduced to decrease corruption and increase social accountability and transparency. The project will also strengthen local base resources and promote long term sustainability of social interventions by mobilizing sector-wise district line agencies and non-governmental organizations in providing services and resources, specifically in Livelihood Enhancement Skills Training (LEST) programs. Community-driven development (CDD) techniques will be promoted to facilitate identification of livelihood programs and local infrastructure projects based on local demand and potential market. The project will enhance the communities' access to public services and livelihood opportunities, including self-employment. Improved road will increase access to transportation facilities and allow market opportunities on the road sides. It will allow bus services in villages for children to go to school and families to avail of health services, to reach market easily, and allow the villagers to gain access newspapers and journals.

### (d) Resettlement

75. An adverse socioeconomic impact of the infrastructure improvement under the project may result from land acquisition and relocation of structures from the proposed right of way. Acquisition of narrow strips of land required for widening of existing roads will have minimum impacts at the individual levels. A resettlement framework (RF) has been prepared adopting the involuntary resettlement for rural roads in accordance with ADB's policy on resettlement. In line with the resettlement impact assessment of the core subprojects, one full resettlement plan (RP) and a short resettlement plan has been prepared. To the extent that detailed design of subprojects confirm the need for the resettlement plans, the RF and the RPs will be followed in preparing and implementing the resettlement plans for subprojects as may be required. The RFs and the RPs are Supplementary Appendix M.

**(e) Gender and Development**

76. Gender issues will be mainstreamed throughout Project planning and implementation. Household socioeconomic surveys will be disaggregated by gender, caste and ethnicity and focus group discussions will be held separately with women's groups in the affected communities to assess the existing gender gaps, women's means and access to livelihood resources, and the likely impact and opportunities of the project on women. Accordingly, equity measures will be developed to maximize project opportunities and benefits to women.

77. The Project will provide opportunities for poor women by (i) including them in Project employment and construction work, (ii) facilitating a gender responsive environment at the institutional level through awareness and training programs, and (iii) facilitating group-based women's empowerment through training in life-skills development and income generation. Under the social mobilization program, particular effort will be made to promote and advocate women's involvement in Project planning and implementation. The Project will address access needs in view of women's priorities. Supplementary investments will have a particularly impact on women, for whom access to local facilities is very important, notably drinking water supplies, health posts, primary schools and market buildings.

78. The Project will address the existing gender gaps by mandating that (i) forty percent of the Building Group (BG) members be women and in district and village level infrastructure coordination committees (DICC, SPCC) and Village User Groups (VUG) as well as in leadership positions within the BGs, (iii) 70% women will be targeted in livelihood interventions and its related training programs. The Project will ensure that the social planning and implementation team will have gender and development experience and that at least 33% of the project staff be women.

79. Gender sensitivity training will be provided at both the Project management and institutional level. All Project related training will have a gender module. Women and disadvantaged population will be given extra training to build their leadership skills and confidence level to penetrate elite capture and increase their bargaining power. In contract work, appropriate clause will be established to ensure wage equality and appropriate facilities (day care centers) to enable women to participate actively in construction work and to avoid them being allocated the hardest or dirtiest construction tasks. Equipment for construction work will be prioritized for women so they could be employed right from the start. On-site gender sensitive training will include awareness programs on sexually transmitted diseases and protective measures will be applied to ensure safety and security of women workers.

80. Women-only Self Help Groups (SHGs) will be formed to target livelihood enhancement skills training specific to women's needs and priorities. A group-based approach to empowerment activities will be promoted through trainings in life-skills development and income generation. To avoid confining women to stereotyped occupation, the project will encourage them to participate in life-skills and income generation programs that have been traditionally dominated by men. To ensure women's regular income after the project completion, they will be trained for maintenance work (length workers). At least 40% of maintenance employment will be reserved for women.

81. The Gender Action Plan is a part of the Social Action Plan (See Supplementary Appendix N) that mainstreams gender issues in all levels of project planning and implementation and suggested specific equity measures for promoting livelihood empowerment for women, specifically poor and women from disadvantaged caste and ethnic background.

## (f) Environmental Impacts

82. Initial environmental examinations (IEEs) carried out for the core subprojects shows that the project is not likely to cause any significant environmental impacts since several safeguards have been incorporated into the project design. Subprojects that exceed thresholds warranting environmental impact assessments or are in designated environmentally sensitive areas are excluded from consideration at the subproject selection stage. The project will provide technical and financial support to ensure that IEEs are conducted and mitigation measures implemented to the standards of the Government and ADB environmental policies. Subprojects will be designed and implemented adopting the LEP approach, which aims to minimize negative environmental impacts. Project activities will be independently monitored to ensure compliance with the environmental assessment and review procedures. In addition, post-project environmental monitoring will be carried out and funded under the project as part of an effective environmental safeguard mechanism.

### B. Risks and Mitigating Measures

#### 1. Program Loan

83. For improved governance, the assumption is that the Ministry of Finance will have and make available funds for the filling of positions and providing incentives for remote placements. The risk of that the political situation impinges on the finances and funding is unexpectedly constrained. However, the political situation is viewed as relatively more stable than in the past decade, and the Program Loan get be utilized for effecting the desired local governance personnel upgrading.

84. For strengthened financial management, cooperation among the concerned national agencies is assumed in coordinating their respective electronic funding, personnel and other systems. For the required amendments drop to a lower priority and delayed time sequence. However, the amendments contribute to accountability – an issue for which there is broad support and no opposition among political parties. At the local level, the assignment of additional audit staff is assumed to effect the improved audit result.

85. For safeguard, the risk again is political. If conditions were to deteriorate, the priority of adopting resettlement policy may diminish. The passage of resettlement has to overcome budget implications and vested bureaucratic interests. The passage of this policy will require strong leadership to demonstrate that the costs of no policy will be delay of public works, possible obstruction, dissatisfaction among the electorate, and non-participation from the donor community.

86. The adoption of regulation to strengthen the TAD of the NVC is under the risk of bureaucratic non-support (bureaucracy apprehensive of an outsider to audit traditionally self-implemented public works) and the institutional placement of the unit itself under the Prime Minister's Office. Such a placement may be viewed by some as not politically neutral or independent. However, careful writing of the regulation should establish a mandate that escapes politicization.

#### 2. Project Loan and Grant

87. The risks faced by the project are manageable and would be largely mitigated in the course of project implementation. One source of risk that continue to be associated with achieving long-term benefits from reconstructed rural infrastructure is that they may not be maintained in operable condition. During project implementation, the risk is that DDCs may not be able to raise sufficient resources the completed project facilities. the project design provides financial support and sets targets for the districts at different stages of

implementation. Project measures will also seek to create a maintenance culture in the project districts, and to establish local capacity for planned maintenance. Training programs packaged for users' groups on maintenance would bolster this capacity. The capacity development TA will strengthen DOLIDAR's ability to provide DDCs with maintenance management guidance and direction to monitor maintenance performance nationwide.

88. While local bodies have some organizational and technical weaknesses, the Government commitment to strengthen them under the current drive toward decentralization will mitigate this risk. Furthermore, the provisions under the project to augment the capabilities of the officers and members of DDCs and VDCs will reduce this risk. Training programs under the project will raise the level of awareness among stakeholders about key issues of governance.

89. The absence of elected officials at the DDC and VDC levels weakens the participatory decentralization approach and may reduce the capacity of local officials to marshal cooperation among the rural population. Dedicated civil servants, supported informally by political parties could respond to community needs within the constraints imposed by the current political situation, and result in delays in project implementation. However, the recent pronouncement made by the right party coalition to reconstitute the local bodies starting FY 2008 will help mitigate this concern.

## **VI. ASSURANCES**

### **A. Specific Assurances**

90. In addition to the standard assurances, the Government has given the following assurances, which are incorporated into the legal documents.

- (i) The approved annual budgetary allocations for the project will be sufficient to cover required counterpart funding.
- (ii) The detailed engineering design for the first-year subprojects should have been completed.
- (iii) Before commencing project activities in any community, DOLIDAR and DDC will enter into an agreement specifying: (a) the terms and conditions of release of project funding from DDC to BG's, (b) establishment and staffing of the subproject implementation team, (c) auditing and reporting mechanism to PCU, (d) coordination mechanisms with similar activities under other projects in the district; and (e) for subprojects such as RWSS, 20% contribution in kind and of which 1% will be in cash up front; for poor communities the contribution will be reduced from 20% to 10%.
- (iv) For works to be undertaken in any community, the DDC and VDC, and VDC and BGs will enter into contracts before works start, regulating (a) provision of VDC contribution; (b) minimum specifications and standards of construction works performed by the BGs; (c) minimum specification and standards for maintenance of works performed by the BGs; (d) environmental standards applicable to the design, construction, and operation and maintenance of works; and (e) employment terms and conditions for BG members, including wage rates and frequency of pay.
- (v) Selection and approval of subprojects will be in accordance with agreed criteria. Subprojects will be technically suited for construction using the LEP approach, which will be used for construction of all rural infrastructure facilities.
- (vi) Unskilled jobs in subproject BGs will be generally reserved for beneficiaries living within the influence area of the infrastructure to be constructed. BGs will be paid in full fortnightly.
- (vii) DOLIDAR and participating districts will take all measures to increase rural infrastructure maintenance funding to sustainable level, including by establishing district infrastructure maintenance funds. The project will not finance new infrastructure unless adequate allocations to maintain existing infrastructure have been made. By 14

- March of every year, DOLIDAR will submit to ADB for review the proposed maintenance budget.
- (viii) DOLIDAR will ensure that gender issues are considered in project implementation, with respect to project beneficiaries and participating NGOs, in accordance with the project's gender action plan.
  - (ix) The Government will ensure that civil works contractors comply with all applicable labor laws. Bidding documents will include a clause prohibiting child labor for construction and maintenance, and a clause specifying equal pay for men and women for work of equal value. Compliance with these provisions will be strictly monitored during project implementation.
  - (x) If involuntary resettlement and land or asset acquisition are required for subprojects or supplementary infrastructure, a resettlement plan will be prepared. The DDC will disclose publicly the resettlement plan in places and using language accessible to all affected people. The resettlement plan will be prepared in accordance with approved resettlement framework and ADB's *Handbook on Resettlement: A Guide to Good Practice*, and will include a complete census and inventory of losses. DOLIDAR will not approve any construction unless a resettlement plan, has been submitted to and approved by the PCU/ DOLIDAR. Land acquisition, including compensation payments will be completed before possession of land and other assets, in accordance with the agreed resettlement plan.
  - (xi) The Government will ensure that subprojects will be identified, selected, implemented, and reported in accordance with the environmental procedures and requirements specified in the environmental assessment and review procedure, subproject IEEs, ADB's *Environmental Assessment Guidelines* (2003), and national and local environmental laws and regulations as enunciated in the Environmental Protection Act (EPA) of 1996 and the Environmental Protection Regulations (EPR), 1997 as amended in 1996. The governance will ensure that all subproject will follow ADB's *Environmental Assessment Guidelines* (2003). All the subprojects requiring IEE will be approved by MLD within 45 days of submission of the reports. After submission, if additional information on the IEE report is required by the MLD, MLD will notify the consultants/ PCU. The process of IEE approval should be completed within an additional 30 days. The consultants should be given 15 days to improve the IEE report. The whole process of IEE approval, when requiring changes in the submitted report by MLD, should not exceed 75 days after the date of initial submission.
  - (xii) Within 6 months of loan effectiveness, the PCU will conduct the initial baseline physical and socioeconomic surveys. The data will cover income and expenditure, livelihoods, demographic trends, gender issues, issues of ethnic and minority groups, nutritional status, child labor and environmental issues. Within 6 months of loan effectiveness, the PCU will have established a gender-segregated project performance monitoring system.

## **B. Conditions for Loan Effectiveness**

- (i) A first-year work plan for the project will have been prepared and submitted for ADB approval.
- (ii) The PCU will be operational with all staff in place.
- (iii) The Government will have opened an imprest account with Nepal Rastra Bank.

## VII. RECOMMENDATION

91. I am satisfied that the proposed loan and grant would comply with the Articles of Agreement of Asian Development Bank (ADB) and recommend that the Board approve:

- (i) the program loan in various currencies equivalent to Special Drawing Rights \_\_\_\_\_ to Nepal for the Rural Reconstruction and Rehabilitation Sector Project from ADB's Special Funds resources, with an interest charge at the rate of 1% per annum during the grace period and 1.5% per annum thereafter; a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board;
- (ii) the loan in various currencies equivalent to Special Drawing Rights \_\_\_\_\_ to Nepal to finance investment projects under RRRSDP from ADB's Special Funds resources, with an interest charge at the rate of 1% per annum during the grace period and 1.5% per annum thereafter; a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board; and
- (iii) the grant not exceeding the equivalent of \$ \_\_\_\_\_ to Nepal for investment projects under RRRSDP from ADB's Special Funds resources, in accordance with terms and conditions as are substantially in accordance with those set forth in the draft Grant and Project agreements presented to the Board.

Haruhiko Kuroda  
President

15 September 2007

## PROJECT DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets / Indicators	Data Sources / Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b></p> <p>Rural poverty in the districts of Nepal affected by the conflict reduced</p>	<p>Poverty level of 28% (Nepal Macroeconomic Model, MOF 2005) country wide reduced to 25% by December, 2010</p>	<p>Annual Project Benefit Monitoring and Evaluation (PBME) prepared by PCU based on:</p> <p>Tracking government expenditure</p> <p>Rapid surveys in the sample project areas NPC poverty monitoring reports</p>	<p>A: Government development expenditure grows at 14% to 15% during the project</p> <p>R: Political instability</p>
<p><b>Outcome</b></p> <p>Access to public social services for poor and disadvantaged people in the project areas increased</p>	<p>Target: December 2010</p> <p>Reduction in proportion of population that have to walk 4 hrs in hill and 2 hrs in terai to reach the road head from 36% to 25%</p> <p>Average travel time in road transport in project areas reduced by 50% through rehabilitated and upgraded roads</p> <p>Improved access to assured supply of drinking water to 31590 households through rehabilitation.</p> <p>Increased access to drinking water supply to additional 31590 household through new construction</p> <p>75% of the decisions made for planning, designing, implementing and maintaining of local infrastructure are made in the meetings participated by members of DDC and VDC</p> <p>Total proportion of women in the all building groups, user groups and coordination committees have at least 40% representation</p>	<p>Half yearly PBME prepared by PCU based on:</p> <p>Estimation based on GIS Analysis for newly constructed project roads</p> <p>Rapid opinion surveys and field observations in rehabilitated and upgraded roads before (Walkover study) and after the project</p> <p>Rapid social surveys before (Walkover study) and after the projects in the sub project areas</p> <p>Minutes of the meetings relating to the RRRSDP and its sub projects of DDC and VDC</p> <p>Lists of members of user groups, building groups and committees</p>	<p>R: Project areas remain unsafe and insecure for development projects implementation</p> <p>A: DDCs give priority to poverty reduction and good governance</p>

	Total representation of disadvantaged, castes ethnic groups included in all building groups, user groups and coordination committees is in proportionate to their population in the project areas.	Review mission report prepared half yearly by joint team of NRM and EA on the basis of field visits, review of PBME and other documents.  Project Completion Report at the end of the project	
<b>Outputs</b>			
1. Policy and Institutional reformed			
a. Governance improved	<p>Line agencies in the districts are transferred under DDC in accordance with Decentralized Implementation Plan (DIP) by September 2007</p> <p>150 existing vacant positions of District Technical Offices filled up by September 2007.</p> <p>The government employees deputed to the DDC and its specialized fields of RRRSDP, and LDO, CDO and other heads retained (not transferred) for at least for 18 months in mountain districts and three years in other districts in compliance with Civil Service Act 1992 by September 2007.</p> <p>Awareness building programs on local governance in 45 districts conducted by March 2008</p> <p>A training on trainers, 45 training for office bearers, project staffs and civil society and 5 regional workshops on governance conducted by March 2008</p> <p>All users groups and committees disseminated information on their plans and performance regularly to all the stakeholders throughout the project period</p>	<p>Project Performance Report (PPR) prepared by a project monitoring specialist in PCU based on: quarterly progress reports.</p> <p>The progress reports are prepared based on compilation of approved documents, DOLIDAR report on filling up of the vacant positions, training reports, lists of information disseminated.</p> <p>Review mission report prepared half yearly by joint team of NRM and EA on the basis of field visits, review of PPR and other documents.</p> <p>Project Completion Report at the end of the project</p>	<p>A: Government issued these directives or instructions</p> <p>A: MLD initiated alternative approach for recruiting vacant positions</p> <p>A: The health of government staff and humanitarian situation in the district for the staff do not deteriorate</p> <p>A: 30 DDCs strengthened their webpage and updated regularly and 45 DDCs established their own web-pages and updated them regularly by September 2007</p> <p>A; DOLIDAR mobilized Association of DDC (ADDC), NGOs and private training providers.</p>

<p>b. Financial management in local government improved</p>	<p>Local Body Financial Administration Regulation (LBFAR) amended with specified separate treasury and operating level functions for DDC staff by September 2007.</p> <p>The amended LBFAR has provisions of designated staff positions in DDC for internal audit that reports directly to the accounts committee under the district council by September 2007</p> <p>The amended LBFAR has provisions of financial authority of DDC secretary for approval of cost estimates and contracts consistent with forthcoming procurement regulations by September 2007.</p> <p>Decentralized Financial Management and accounting Manual prepared by March 2008</p> <p>A two day training on financial management and accounting to 45 DDCs and related agencies' staff provided by March 2008</p> <p>RRRSDP - procurement Guidelines Manual prepared by March 2008</p> <p>A two day training on RRRSDP - procurement Guidelines to 45 DDCs and related agencies staff provided by March 2008</p> <p>Enhanced Database Tracking system at MOLD established by March 2008.</p>	<p>Project Performance Report (PPR) prepared by a project monitoring specialist in PCU based on: quarterly progress reports.</p> <p>The progress reports are prepared based on compilation of approved documents, training reports, physical verification of data base system.</p> <p>Review mission report prepared half yearly by joint team of NRM and EA on the basis of field visits, review of PPR and other documents.</p> <p>Project completion Report at the end of the project</p>	<p>A: MOLD upon consultation with MOF/FCGO and MOLJ initiated the LBFAR amendment</p> <p>A: DDC staffs specified by MOLD for treasury functions and operating level accounting</p> <p>A: MOLD requested FCGO to assign additional internal audit staff from DTCO for the period until the capacity is strengthened within DDC</p>
<p>c. Safeguards formulated and Social development pursued</p>	<p>National Resettlement Policy Framework approved and adopted by September 2007</p> <p>Resettlement guidelines based on international best practice suitable to country specific situation at MOLD-DOLIDAR for local government managers prepared and adopted by</p>	<p>Project Performance Report (PPR) prepared by a project monitoring specialist in PCU based on: quarterly progress reports.</p> <p>Progress reports are prepared based on compilation of approved documents, training reports,</p>	<p>A: Funds in DDC for social activities (community development, social sensitization and field staff) are allocated every year by government of Nepal.</p>

	<p>December 2007</p> <p>Social Mobilization guidelines, Gender Sensitivity Guidelines Checklist and Community Development Guideline for inclusive and participatory process at central level (MOLD-DOLIDAR) for local government managers prepared and adopted by September 2007</p> <p>Poverty and vulnerability criteria for exclusion from voluntary contribution (DOLIDAR) prepared and adopted by September 2007</p> <p>Placement of a Social Advisor in DDC and DOLOIDAR desk are affected by September 2007.</p>	<p>physical verification.</p> <p>Review mission report prepared half yearly by joint team of NRM and EA on the basis of field visits, review of PPR and other documents.</p> <p>Project Completion Report at the end of the project</p>	
d. Sector Implementation for quality control and multiplicity of projects and approach established and functional	<p>Government endorsed policy of earmarking project funds to finance technical audit under NVC by September 2007.</p> <p>100% of the external audit are supplemented by performance auditing regularly throughout the project period</p> <p>Technical audit division of national vigilance centre (NVC) undertake review of representative sample project work regularly throughout the project period</p> <p>A sustainable system of technical audit established in NVC by March 2008</p>	<p>Project Performance Report (PPR) prepared by a project monitoring specialist in PCU based on: quarterly progress reports.</p> <p>Progress reports are prepared based on compilation of approved documents, performance audit reports and physical verification.</p> <p>Review mission report prepared half yearly by joint team of NRM and EA on the basis of field visits, review of PPR and other documents.</p> <p>Project Completion Report at the end of the project</p>	
2. Rural roads constructed and upgraded	<p>All potential subprojects identified and prioritized, detailed design prepared with full community participation within districts by December 2008</p>	<p>Project Performance Report (PPR) prepared by a project monitoring specialist in PCU based on: quarterly progress reports.</p> <p>Progress reports are prepared based on</p>	<p>R: Project areas remain unsafe and insecure for development projects implementation.</p> <p>A; Delegation of authority to DTO by DDC by</p>

	<p><u>Terai</u></p> <p>Rehabilitation of 109 km of existing roads in 9 terai districts completed by December 2010 (18 Km in 2007, 36 km in 2008, 36 km in 2009 and 18 in 2010)</p> <p>Upgrading of 328 km of existing road to gravel standards in completed by December 2010 (55 km in 2007, 109 km in 2008, 109 km in 2009 and 55 km in 2010)</p> <p>Construction of 875 meters bridges completed to acceptable standard by December 2010 (262 m in 2008, 350 m in 2009 and 262 m in 2010).</p>	<p>compilation of reports on approved documents of subprojects, reports on physical output physical verification, and attendance and wage sheets of BGs.</p> <p>Review mission report prepared half yearly by joint team of NRM and EA on the basis of field visits, review of PPR and other documents.</p> <p>Project Completion Report at the end of the project</p>	<p>September 2007.</p> <p>A; Subprojects are selected by DDC by July 2007</p> <p>A: Surveys, Design, consultant placement are completed by DOLIDAR by September 2007</p>
	<p><u>Hills and mountains</u></p> <p>Construction of earthen standard road of 501 km completed by December 2010 (84 km in 2007, 167 km in 2008, 167 km in 2009 and 84 km in 2010).</p> <p>Rehabilitation 250 km of existing road completed by December 2010 (42 km in 2007, 83 km in 2008, 83 km in 2009 and 42 km in 2010).</p> <p>Up gradation of 250 km of existing road to gravel standard completed by December 2010 (42 km in 2007, 83 km in 2008, 83 km in 2009 and 42 in 2010)</p> <p>Construction of 1335 meters of bridges completed by December 2010 (400 m in 2008, 534 m in 2009 and 400 m in 2010).</p> <p>At least 60% of subproject construction costs paid in wages to unskilled workers, of whom 40% are women</p>		
3. Rural water supply and sanitation improved	<p>Target: By December 2010</p> <p>486 water supply schemes constructed and functional (81 in 07, 162 in 08, 162 in 09 and 81 in 10)</p>	<p>Project Performance Report (PPR) prepared by a project monitoring specialist in PCU based on: quarterly progress reports.</p>	

	<p>486 existing schemes rehabilitated and functional (81 in 07, 162 in 08, 162 in 09 and 81 in 10)</p> <p>45 liter per capita per day (lpcd) of water supply made by all the water supply schemes.</p> <p>12600 latrines constructed for ultra poor households.</p> <p>Two school latrines (one for boys and another for girls) per participating VDC constructed in 130 schools.</p> <p>100% participating households reached with health and hygiene awareness trainings and 50% of the participants are women.</p> <p>970 female community health workers trained.</p> <p>One man and one woman primary school teachers of the sub project areas trained in health and hygiene.</p> <p>1430 WSUG members (50% women) trained in health and hygiene.</p> <p>970 WSUG comprising of 50% women and proportionate representation of community ethnic and caste people formed and registered.</p> <p>All 1430 WSUG members received training on gender and cultural sensitivity</p> <p>At least one person each from 970 schemes trained in system operation, regular operation and maintenance, and record keeping (50% women).</p> <p>20% of the poorest households (number) receive latrine project supports from WSUG.</p>	<p>Progress reports are prepared based on compilation of approved documents on physical output progress, training reports and attendance sheets of users groups.</p> <p>Review mission report prepared half yearly by joint team of NRM and EA on the basis of field visits, review of PPR and other documents.</p> <p>Project Completion Report at the end of the project</p>	
<p>4. Supplementary rural infrastructure developed and improved (village trails, trail bridge, small irrigations, micro hydro power scheme, market</p>	<p>Target By December 2010</p> <p>All VDCs influenced by the main sub projects had at least one supplementary investment / infrastructure</p>	<p>Project Performance Report (PPR) prepared by a project monitoring specialist in PCU based on: quarterly</p>	<p>A: CBO and NGO cooperated with this projects</p>

<p>building, community building, primary school, and health posts).</p>	<p>schemes (Total number of project 1215: 486 in 08, 486 in 09 and 243 in 10)</p> <p>The beneficiaries contributed 15% of the total costs in the supplementary investment schemes</p> <p>At least one member of DDC and VDC associated with the supplementary investment schemes received training in the participatory planning and selection process (50% women)</p> <p>All the supplementary investments schemes are decided through participatory process involving at least 40% women and proportionate representation of major disadvantaged groups in the VDC.</p>	<p>progress reports.</p> <p>Progress reports are prepared based on compilation of approved documents, financial reports of the sub projects, training reports, attendance sheet of users' group members.</p> <p>Review mission report prepared half yearly by joint team of NRM and EA on the basis of field visits, review of PPR and other documents.</p> <p>Project Completion Report at the end of the project</p>	
<p>5. Community empowerment and livelihood enhancement and skills training (LEST) programs conducted</p>	<p>Target: By December 2010</p> <p>45 District infrastructure coordination committee (DICC) with at least 40% women and proportionate representation of major disadvantaged groups formed</p> <p>At least 75% of the Village User Groups (VUG) with at least 40% women and proportionate representation of major disadvantaged groups formed</p> <p>At least 75% of the Building Groups (BG) with at least 40% women and proportionate representation of major disadvantaged groups formed</p> <p>One man and one woman members of building group are provided with training on construction skills development and labor law.</p> <p>Members of building groups (BG) continuously receive their full and equal wages for equal works</p>	<p>Project Performance Report (PPR) prepared by a project monitoring specialist in PCU based on: quarterly progress reports.</p> <p>Progress reports are prepared based on compilation of approved documents on attendance sheets of committee and users' group members, training reports, wage sheets lists of information disseminated.</p> <p>Review mission report prepared half yearly by joint team of NRM and EA on the basis of field visits, review of PPR and other documents.</p> <p>Project Completion Report at the end of the project</p>	<p>A: NGO, CBO, representative of the communities cooperated with this project</p>

	<p>within 30 days of completion of their construction works.</p> <p>All group leaders trained in record- and bookkeeping and leadership skills.</p> <p>All BG members are insured</p> <p>At least 75% of the self help groups (SHG) at least 70% women and proportionate representation of major disadvantaged groups formed</p> <p>At least 4% of the total subproject budget spent on Livelihood Enhancement and Skills Training (LEST) Program</p> <p>At least 70% of the LEST budget spent on income generation training program</p> <p>Employees of government of line agencies and or non government organizations mobilized for the training</p> <p>Training on empowerment provided to members of self help groups as indicated by need / demand assessments</p>		
6. Institutional capacity of DOLIDAR developed	<p>Target: By December 2010</p> <p>Awareness raising workshops and programs conducted for LID officials of DDC/DTO of 45 districts and Dolidar and MLD</p> <p>Operating rules and procedures, and institutional mechanism and system operation guidelines and manuals on MIS prepared</p> <p>Automated training materials on using MIS and ICT for self learning developed</p> <p>E-readiness assessment of LID agencies and related organizational units carried out</p> <p>Management information systems established and functional in 45 DDC/DTO</p>	<p>Project Performance Report (PPR) prepared by a project monitoring specialist in PCU based on: quarterly progress reports.</p> <p>Progress reports are prepared based on compilation of approved documents on attendance sheets of committee and users' group members, training reports, wage sheets lists of information disseminated.</p> <p>Review mission report prepared half yearly by joint team of NRM and EA on the basis of field visits, review of PPR and other documents.</p> <p>Project Completion</p>	A: An additional two full-time engineers and a few support staff in Technical Support Unit (TSU) in DOLIDAR is added

	<p>and DoLIDAR</p> <p>Training for ICT capability enhancement provided to 45 DDC/DTOs and DoLIDAR</p> <p>A follow-up development plan prepared for sustainable capacity development</p> <p>Training on management of outsourcing of services provided to the staffs of 45 DDC/DTO</p>	Report at the end of the project	
7. Project management improved	<p>Joint Steering Committee for Rural Infrastructure in MOLD formed and made functional by September 2007</p> <p>Project Implementation Coordination Committee (PICC) formed and made functional in DOLIDAR by September 2007</p> <p>RRRSDP Program Coordination Unit (PCU) established and made functional in DOLIDAR by September 2007</p> <p>Team of Central Implementation Support Consultants (CISC) with 33% women established in DOLIDAR by December 2007</p> <p>CISC prepared project procedures and guidelines for project implementation, capacity development and supervision and monitoring for PCU by December 2007</p> <p>Districts Implementation Support Consultants (DISC) with 33% percent women in 45 districts established and made functional by DDC / DTO by December 2007</p> <p>Procurements carried out in a timely manner by July 2008.</p> <p>The public audits of all completed works under subprojects carried out jointly by all the stakeholders by December 2010</p>	<p>Project Performance Report (PPR) prepared by a project monitoring specialist in PCU based on: quarterly progress reports.</p> <p>Progress reports are prepared based on compilation of approved documents, DOLIDAR report on filling up of the vacant positions, training reports, public audit reports.</p> <p>Review mission report prepared half yearly by joint team of NRM and EA on the basis of field visits, review of PPR and other documents.</p> <p>Project Completion Report at the end of the project</p>	<p>A: DTOs / engineers are appointed early in project life by DDC</p> <p>R: Delays in obtaining procurement approvals</p> <p>R: Delegation of authority to DTO is t hindered by extended government procedures</p>

<b>Activities and Milestone</b>	<b>Inputs: (Base costs)</b>
A. Program Loan: Policy and Institutional reform	A: \$ 20 million from ADB
B: Investment projects	B: \$ 166 million
a. Form Joint Steering Committee for Rural infrastructure	1. \$ 97 million
b. Form Project Implementation Coordination Committee (PICC)	2. \$ 22 million
c. Establish Program Management Unit (PCU)	3. \$ 20 million
d. Form a team of Central Implementation Support Consultants (CISC)	4. \$ 11million
e. Sign project agreement between DDC and DOLIDAR	5. \$ 3 million
f. Form a team District Implementation Support Consultants (DISC) in each DDC	6. \$ 13 million
g. Establish District Infrastructure Coordination committee (DICC)	
h. Develop District transport master plan, standard documents and guidelines	
i. Implement awareness raising and information dissemination programs	
j. Conduct social mobilization programs	
k. Conduct walkover surveys	
l. Select short listed subprojects as per annual district plans	
m. Conduct detailed feasibility study of selected subprojects	
n. Select the sub projects for project implementation	
o. Form Village Infrastructure User Groups (VIUG)	
1. Rural road constructed and upgraded	
a. Conduct social assessment/ household survey (every 500 m)	
b. Form Building Groups	
c. Procurement	
d. Implementation	
2. Rural water supply and sanitation improved	
a. Form Water Supply Users Groups (WSUG)	
b. Procurement	
c. Implementation	
3. Supplementary rural infrastructure developed and improved	
a. Conduct training on planning and selection of subproject project to DDC and VDC	
b. Conduct meetings with BG, WSUG, VIUG to prepare proposal by VDC	
c. Review and select the proposals	
d. Implementation	
4. Community empowerment and livelihood enhancement and skills training (LEST) programs conducted	
a. Conduct meetings with BGs and WSUG members	
b. Conduct awareness programs for BGs and WSUG to convert them into Self Help Groups (SHG)	
c. Conduct social survey and situation analysis	
d. Select life skills training as per needs indicated by analysis and demands of SHG	
e. Mobilize local government and non government organizations for the training	
5. Institutional capacity developed	
a. Prepare a detailed implementation plan for full	

<p>ICT capability in 45 districts</p> <ul style="list-style-type: none"> <li>b. Prepare a detailed implementation plan for the design and operationalization of MIS in 45 districts</li> <li>c. Conduct programs to raise awareness and ownership among the LID officials</li> <li>d. Establish operating rules, procedures and institutional mechanism;</li> <li>e. Prepare system operation guidelines and manuals on MIS as reference materials,</li> <li>f. Assess e-readiness of LID agencies and related organizational units</li> <li>g. Implementation</li> </ul> <p>6. Project management improved</p> <ul style="list-style-type: none"> <li>a. Prepare project management guidelines and formats</li> <li>b. Prepare overall annual program</li> <li>c. Develop performance indicators</li> <li>d. Identify and develop data sources for project monitoring</li> <li>e. Prepare annual performance targets</li> <li>f. Develop supervision and monitoring modalities and system</li> <li>g. Develop data processing mechanism and system</li> <li>h. Conduct project implementation and monitoring</li> </ul>	
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## SECTOR ANALYSIS

### A. Sector Description and Performance

1. The Government's Local Infrastructure Development Policy (LIDP) 2004 defines rural infrastructures to include those infrastructures which can be undertaken, implemented, operated and maintained at the local level by the local bodies. It covers rural transportation (rural roads, urban roads, remote airports and helipad, suspension bridges, motorable bridges, culverts, trails, ropeways, cable cars and rafting), micro irrigation and river control, micro hydropower and alternate energy, rural water supply and sanitation, and housing/buildings/urban development. In order of priority set by the DDCs, rural roads come first followed by rural water supply and sanitation, micro irrigation, and micro hydropower and alternative energy. Development of rural infrastructure has been identified as one of the four pillars of the Poverty Reduction Strategy Paper (PRSP) of the country i.e. Tenth Plan<sup>23</sup>. FY07 is the last year of the Tenth Plan. In the ensuing period of political restructuring of the country, a three year interim development plan is being formulated.

2. The 3-year Interim Development Plan for FY2008 to FY2010 is focusing on reconstruction and rehabilitation in more organized and systematic way. The damage of various structures alone is estimated at more than NRs.3 billion and will be much more if the stalled development processes (in terms of incomplete project works) are taken into account. Though less damaged rural Infrastructure and its rehabilitation is given high priority due to its potential impact upon i) the rehabilitation and improvement in livelihood of many rural poor and disadvantaged people, and ii) initiating development activities stalled due to conflict. Moreover, as the most vulnerable groups to such conflict situation are the disadvantaged communities, social inclusion aspect is focused upon to ensure benefits to reach them. As poverty is widespread in rural areas, reconstruction and rehabilitation of rural infrastructures will be an exercise of public works program pumping money into the rural economy for its rejuvenation by making up for the lost opportunities.

3. Towards achieving this end, the Government of Nepal has prepared Rural Infrastructure Reconstruction and Rehabilitation Plan covering the three years of the Interim Development Plan. It is going to be a component of Strategic Action Plan for Local Infrastructure Development covering the period of 2008-2015, which includes the 3 years under the Interim Development Plan and the next five-year periodic plan. Both of these documents have included new construction, with roughly 30% resources allocated for this purpose. Learning the lessons from various rural infrastructure programs, broad strategic elements include community based undertakings, DDCs executing the programs, linking production with market centers, capacity building measures at the local level, and supplementary investments to promote income generating activities.

4. Rural roads help in promoting market orientation to agricultural production. Assessments carried out under the Millennium Development Goal (MDG) has indicated the need for 30,000 kms. of rural roads by 2015. The country has about 22,000 kms. of rural roads at the moment. However, they are not of the same standards, and only about 10,000 kms. are motorable and of this only about 60% is of all weather.

5. Rural water supply and sanitation comes next to rural roads in the priority setting of the local development bodies, the district development council (DDCs). About 18% of

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<sup>23</sup> The other three "pillars" are broad-based economic growth, targeted programs, and good governance.

total population does not have access to reasonably safe drinking water. Sanitation coverage is 47% of the population. Access to potable water which can be used directly from the tap for drinking is still a plausible target. At the moment, target is set in terms of access to reasonably safe water. National Water Plan (2002-2017) has set the target of attaining 90% coverage in water supply and sanitation by 2012.

6. Nepal has a large number of small airports in remote areas that have come as effective substitute to the road access which is prohibitively expensive in many of the difficult and sparsely populated terrains. During the conflict period, towers of some of these remote airports were destroyed. Settlements characterized by sparse and scattered population distribution have attracted micro-hydro power plants. The steep mountain and hill terrains favor the establishment of such plants in remote areas. The usage of solar energy also for the lighting purpose is picking up as these units can be set at the household level also.

7. Rural infrastructures saw a setback in their development due to the conflict for various reasons. First, rural areas were inaccessible for the government programs as they were under the Maoist control; second, such disruption has left many projects only partially completed, some not started at all, and some dilapidated due to the absence of repair and maintenance.

8. The decade-long conflict has stalled the progress in rural infrastructure development in many rural areas more so also due to the absence of local government bodies after the expiry of the term of elected representatives in 2002. The Maoists wanting to have strong participation in decision making at the local level during the conflict period came in a direct conflict with the government machinery which hampered the undertaking of many development initiatives in the rural areas particularly those to be undertaken by Ministry of Local Development. Now, the peace boosted the development of rural infrastructures. It however calls for the existence of local government bodies. While awaiting the new elected government, the seven political parties in cooperation with the Maoists have decided to form the local governments through their mutual understanding, are acting or nominated rather than elected representatives of the people. It is the most realistic scenario of having local government bodies until the new constitution is formulated.

## **B. National Subsector Policy and Strategy Framework**

9. LIDP<sup>24</sup> states the primary goal of rural infrastructure development to be poverty reduction by promoting access of local people particularly women, disabled, and disadvantaged communities to different economic opportunities and social service delivery. Major policy thrust to achieve this goal is through the devolution of planning and implementation to local bodies with the involvement of local people and beneficiaries. Emphasis upon social mobilization, employment generation during construction, and promotion of income generating activities due to improvement in the rural infrastructure are the other goals under the Tenth Plan.

10. As there are various other government agencies responsible for these infrastructures, clear demarcation of local and non-local dimensions of these infrastructures development can be obtained from the sub-sector specific policy documents. For example, Rural Water Supply and Sanitation Sectoral Strategic Action

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<sup>24</sup> The LIDP was prepared by fully taking into account policies of related sectors such as National Transport Policy, National Water Policy, Irrigation Policy, Rural Energy Policy, and National Housing Policy.

Plan (2004) defines any water supply schemes serving to less than 1,000 people will have to be undertaken by the local bodies and projects of larger size will be taken up by the Department of Water Supply and Sanitation. It is going to be guided by the institutional capacity of the DOLIDAR which has at the moment strong comparative advantage over the rural roads, and motorable and trail bridges. Similar such demarcation for irrigation (in terms of length of canal), hydropower (in terms of generation capacity), and roads (in terms of rights of the way) are also defined in their respective sub-sectoral policy documents. But, in the areas where DDCs and their line offices do not have technical capacity to handle the projects, they need still to be handled by district offices of respective line ministries, and for this memorandum of understanding has to be reached on a case to case basis.

11. The Local Self Governance Act (LSGA), 1999 and other sub-sectoral policy documents call for the preparation of periodic District Development Plan and other sub-sectoral development plans at the district level. They provide the list of projects in different sectors identified after the extensive consultations with all the stakeholders, and approved by DDCs. Though many of them need to be updated, in the absence of elected local bodies and the transitional arrangement to form them consisting of the representatives from the major political parties in the district and other civil societies, these district plan documents could be the starting point for selecting projects in different sectors which are identified following a certain process and approved by DDCs. So subprojects to be eligible for RRRSDP are required to be from one of these district plan documents. But, since many of them have not used poverty and social exclusion as the prioritization criteria, they need re-ranking and re-prioritization taking poverty and social exclusion also into consideration. Districts are requested to reprioritize them on the basis of the prioritization criteria covering poverty and social inclusion aspects.

### **1. District Transport Master Plan**

12. DTMPs list the road alignments proposed by Village Development Council (VDCs). They make demand for additional road linkages with justification on the basis of population served and services they will provide, and also providing their own contribution.

13. In all, 74 DTMPs have been prepared. However, the DTMPs are not uniform in quality and coverage and many of them need to be updated. Nonetheless, as the screening and prioritizing process does not have explicit and objective criteria to cover poor and social inclusion aspects, these DTMPs need to be revisited. For this, the Approach/Manual providing a guideline for screening and prioritizing the rural roads for new construction, upgrading, and rehabilitation need to be revised.

14. The Budget for the FY2006/07 has proposed for a DTMP-Road Construction Fund and an operational manual is being developed. Through this Fund currently to be instituted from the government contribution only, one priority rural road will be constructed in each of the districts. At the moment, this Fund is operated through annual budgetary allocation to the districts. The fund is directly allocated and disbursed by the Ministry of Finance.

### **2. On-going Rural Road Development Programs**

15. The Department of Local Infrastructure Development and Agricultural Road (DOLIDAR) is currently undertaking several rural infrastructure development programs, mainly focusing upon improving rural access for poverty reduction. These are:

- (a) Decentralized rural infrastructure and livelihood project (DRILP: 2005 - 2011) – assisted by ADB and SDC in 18 districts
- (b) Rural access program (RAP: 2001 - 2008) – assisted by UK in 4 districts
- (c) Rural access improvement and decentralization project (RAIDP: 2005 2010) – assisted by World Bank in 20 districts
- (d) District Roads Support Program (DRSP, Phase III: 2006 - 2010) – assisted by SDC in 4 districts.

16. Aside from these, the JICA is supporting bridge construction at several sites while SDC assists in the construction of suspension bridges in improving access in rural areas. Some other rural infrastructure development programs of DOLIDAR are rural agriculture road and local development work program, repair and maintenance of large and local suspension bridges (with support from SDC), rural drinking water and sanitation program (with support from Finland), local development fund for small scale infrastructure development (with UNCDF support), remote and special area development program, and DTMP road development fund of Rs.200 million in each of the districts.

17. Broadly, these rural road development programs follow labor intensive, environment friendly and participatory (LEP) approach. Some of the major concerns of these various programs particularly those for improving rural access and being implemented by DOLIDAR are the diversity in i) their approaches for identifying and selecting the projects, ii) their implementation modalities, and iii) separate reporting requirements. DOLIDAR has indicated its strong intention to bring similar programs under one operational frame. As these programs have different time periods at different phases of project completion, there has to be a broad agreement among all concerned in one single operational frame even for the on-going programs and in this context, a joint agreement on the restructuring of on-going programs has to be initiated.

### **3. Rural Water Supply and Sanitation**

18. The Rural Water Supply and Sanitation Sectoral Policies and Sectoral Action Plan (2004) provides major policy guidelines on water supply with a focus upon community- owned and managed systems. It also indicates which projects to be undertaken by the DDCs and by DWSS.

19. Rural Water Supply and Sanitation Project Phase II under World Bank assistance and Community Based Water Supply and Sanitation Sector Project with the assistance from ADB are two major projects. Both will provide water supply to 2400 communities in different parts of the country. These projects are ending in 2009 and 2010 prospectively. Both projects work through water users' groups (WUGs). FINNIDA is supporting another project on Water Resources Management Program.

#### **C. Lessons Learned**

20. Based on experience gained in implementing earlier projects, the following lessons were put to bear in designing the investment package for this Program.

**Table 1.1: Key Lessons from Various Infrastructure Development Programs**

Issues	Lesson	Remarks
Compliance with the policy objective of poverty reduction and social inclusion	Need for explicit criteria on poverty reduction and social inclusion in identifying and prioritizing the projects	Poverty mapping and mapping of ethnic distribution for the district can be introduced, and for this base maps can be prepared at DOLIDAR.
Inadequate construction supervision leading to poor work quality	Unskilled workers, finalizing engineering design during construction period itself,	Need for full time technical supervision and training on basic skills to the laborers at the very beginning
Inadequate provision for repair and maintenance	Failure to preserve the physical assets and hence bringing down the use value	System for repair and maintenance, formation of maintenance fund with some seed money at the beginning. System for revenue generation for repair and maintenance
Technical and policy guidance for ensuring quality in works	Standardization of the process, design standards, environmental and social safeguards required even in decentralized implementation framework	Such standardization facilitates administration and program/project implementation
Need for strong ownership by the communities for smooth operation and maintenance	Community participation from the project planning and implementation	Capture by local elite still needs to be avoided, and voice of disadvantaged communities need to be heard.

#### **D. Institutional Framework for the Rural Infrastructure Development\*\*\***

21. DOLIDAR is responsible for planning and implementation of rural infrastructures. Due to predominant priority given to the rural roads, it has strengthened its comparative advantages in rural roads followed by rural water supply. The establishment of DOLIDAR<sup>25</sup> allowed for a more flexible approach towards setting the standards of the different structure under consideration. Though it is expected to cover different other infrastructures as well, DOLIDAR and the District Technical Offices (DTOs)<sup>26</sup> mostly centered their attention to rural road construction, and rural water supply.

22. DOLIDAR's comparative advantage in the micro hydropower and micro irrigation, alternative energy schemes have yet to be developed. As the sub-sectoral policies are gradually identifying and giving away projects of certain size to the local bodies for their planning, implementation, and operation and maintenance, it is necessary that DOLIDAR also strengthens its capability to handle them through DTOs.

23. Various rural road development programs assisted by different development partners are operating under different implementation arrangements with project management unit for each of them. There are some efforts to bring them together to administer them, and one such effort is the joint steering committee at the Ministry of Local Development. Likewise, Rural Community Infrastructure Works (RCIW) Program partners have attempted to develop joint monitoring system by consolidating for a common logical framework having common objectives and realistic targets.

<sup>25</sup> The Rural Infrastructure Development National Strategy 2054 (1998) led to its establishment in September 1998.

<sup>26</sup> It is formerly known as District Infrastructure Development Office

## E. Financial Management

24. Before the start of every fiscal year, the Project Implementation Units at the district level prepare work program and budget. These will be consolidated at DDC, and then submitted to MOLD, NPC, and MOF before approval by Parliament. By mid-July, MLD, upon the receipt of the budget authority from the MOF, will give the DDC (through the LDO) an authority to spend. The District Treasury Control Officer (DTCO), releases the funds required by the subproject for the first trimester (mid-July to mid-November) to the District Development Fund (DDF). DDF is operated jointly by the LDO and the Chief of the Account Section of the DDC. Once the funds are released to the DDF, the DTO, who is concurrently head of the PIU at the district level, will be authorized by the LDO to administer project expenditures, maintain accounting records, prepare monthly financial reports and arrange audit of the project account. Monthly reports on the project expenditures will be submitted by the DTO to DOLIDAR. The second and third trimester releases are contingent upon performance and submission of physical progress reports. The project operating account at program condition unit (PCU) is used for incremental operating costs, office equipment training and consultancy services.

25. Financial statements from DDCs are often delayed; and these are collected at PCU/DOLIDAR periodically, trimester-wise or as required. DDCs are weak in terms of project financial management capacity, like matching of existing chart of accounts and donors' expenditure categories required for reporting purposes and filling in Statement of Expenditures for submission of claims for withdrawal loan proceeds. Training of DDCs staff is required prior to launching of RRRSDP. A comprehensive project specific Financial Management and Accounting Manual is required in order to guide DDCs staff through the related procedures and keep systems ever functioning; no matter even there is frequent transfer of key staff. The final audit of income and expenditures of the DDC is done by the Auditor General.

### External Assistance to the Rural Infrastructure Sector

Project Title	Duration	Estimated Amount (\$ million)	Funding Source
Integrated Rural Development Project	1979-1988	30.0	ADB, IFAD, EEC
Hill Agriculture Development Project	1985-1993	17.8	ADB
Seti Zone Rural Development Project	1986-1995	20.0	ADB
Upper Sagarmatha Agricultural Development Project	1992-2002	13.4	ADB
Rural Infrastructure Development Project	1996-2005	12.2	ADB
Decentralized Rural Infrastructure and Livelihood Project	2005-2012	46.9	ADB, SDC
Rural Infrastructure Project	2000-2003	5.0	WB
Rural Access Improvement and Decentralization Project	2005-2010	34.1	WB, SDC
Karnali Bheri Integrated Rural Development Project	1985-1993	15.0	CIDA
Rural Development (Gorkha) Program	1992-1996	1.3	Danida
Rural Access Program	2001-2008	50.3	DFID
Landslide Risk Assessment in the Rural Access Sector	2001-2003	0.6	DFID
Integrated Rural Development Program Gulmi- Arghakhanchi	1997-2002	12.5	EU
Rural Water Supply and Sanitation Support Programme	1999-2003	5.0	FINLAND
Rural Village Water Resource Management Project	2006-2010	15.0	FINLAND
Palpa District Development Programme	1978-1995	5.0	GTZ, SDC
Dhading District Development Programme	1988-1996	4.9	GTZ
Gorkha District Development Programme	1989-1994	2.4	GTZ
Rural Programme Nepal	2004-2007	7.8	GTZ
Strengthen Maintenance Division Programme	2002-2006	2.4	SDC
District Roads Support Programme-Phase II	2002-2006	4.8	SDC
District Roads Support Programme-Phase III	2006-2010	6.9	SDC
Suspension Bridge Construction and Maintenance Project	1997-2001	3.0	SDC
Trail Bridge Subsector Programme	2001-2006	8.2	SDC
Trail Bridge Subsector Programme- Phase II	2007-2010	9.3	SDC, DFID
Karnali Hills Development Programme	1992-1997	0.5	SNV
Mechi Hills Development Programme	1987-1997	5.0	SNV
Karnali Local Development Programme	1993-1997	4.0	SNV
Rapti Zone Integrated Rural Development Project	1987-1995	11.8	USAID
Community-Based rural Development Project (Siraha) Programme	1990-1994	0.5	USAID
Rehabilitation of Flood Damaged Rural Infrastructure	1995-1996	4.3	WFP, IFAD
Rural Community Infrastructure Works Programme	1996-2000	20.0	WFP
Rural Community Infrastructure Works Programme	2002-2006	25.9	WFP, GTZ, DFID, Danida
Decentralized Financial and Development Program	2001-2005	10.0	UNCDF
<b>Total</b>		<b>415.8</b>	

ADB = Asian Development Bank; CIDA = Canadian International Development Agency; Danida = Danish International Development Agency; DFID = United Kingdom's Departments for International Development; EEC = European Economic Community; EU = European Union; GTZ = Deutsche Gesellschaft für Technische Zusammenarbeit; IFAD = International Fund for Agricultural Development; SDC = Swiss Agency for Development and Cooperation; SNV = Netherlands Development Organization; UNCDF = United Nations Capital Development Fund; USAID = United States Agency for International Development; WB = World Bank; WFP = World Food Programme.



**DRAFT DEVELOPMENT POLICY LETTER AND POLICY MATRIX**2007  
Kathmandu, Nepal

Mr. Haruhiko Kuroda  
President  
Asian Development Bank  
Manila, Philippines

Dear Mr. Kuroda,

1.1. **Introduction.** The Government of Nepal (the Government) is committed to equitable social and regional development. The rural sector, particularly during the past decade of conflict, has lagged behind urban areas. However, the conclusion of an agreement among the eight Political Parties to work toward peace and democracy presents an opportunity to address urban-rural structural imbalances. Good governance and devolution are key to delivering enhanced prospects for the country. To this end, the Government is pursuing policy-strengthening measures to improve delivery of services and basic infrastructure in the rural sector. Included in this package of policy measures to support rural infrastructure development are improvements to (i) District Development Committees' (DDCs') governance, (ii) financial management and accountability, from national to local government levels, (iii) rural sector social safeguards, (iv) procurement procedure, and (v) sector implementation and quality control.

1.2. **Local Governance.** Local governments in rural areas, especially those in remote settings, have been hampered from undertaking development activities by insufficient staff and frequent transfer of civil servants. The Government, therefore, has taken the following actions to address these challenges: (i) formulated a proposal for recruiting additional staff (MLD), (ii) approved the plan, (iii) made budgetary provision and (iv) approved block grants to enable hiring in line with the Local Self-Governance Act. Further, a proposal has been formulated, and forwarded to Cabinet for approval, to grant incentives for DDC staff placed in remote areas.

1.3. **Financial Management.** To facilitate development at the local level, several measures are needed to strengthen financial management. First, Government has taken measures to enhance electronic reporting systems and the sharing of information. This includes linking the systems of FMIS, PMIS, and DECAs.

1.4. Secondly, at the local level, there is a need to separate the position of internal audit from the implementing Chairman or Secretary of the DDC. Therefore, an amendment to Chapter 4 of LBFAR has been drafted so that the Internal Audit Section submits its report to an independent oversight body, the DDC Accounts Committee (as well as to the Secretary), and subsequently implements the directions, if any, given by the Accounts Committee after submission of the report.

1.5. Thirdly, to facilitate development in DDCs, the financial authority of the concerned officials and bodies should be increased for approval of cost estimates and contracts consistent with the needs of implementation at the local level. This requires an amendment to Chapter 4 of LBFAR and this has also been drafted. The amendments have been submitted to Cabinet for approval.

1.6. **Resettlement and Social Safeguards.** The Government recognizes, in the pursuit of the common good, that the impact of development is not always uniformly positive for all parties thereto. It is the Government policy to try to ensure that no individuals are left worse off as the result of a development project. To address the concerns of adversely impacted individuals, the Government has submitted the National Resettlement Policy Framework to Cabinet for approval. In support of this policy, the Government (through MLD) has also prepared Resettlement Guidelines to aid local governments in understanding and implementing the Framework. Similarly, to engender social sensitivity in local government implementation of rural infrastructure, the Government has also prepared the following guidelines in: (i) Social Mobilization/Participatory Development, and (ii) Gender Sensitivity.

1.7. **Procurement.** The Government realized that a procurement policy was needed to provide for rationalized and efficient procedures – and ones that promoted consonance among all development partners. The Government therefore adopted the Public Procurement Act (December 2006) and has prepared and approved the Public Procurement Regulations (July 2007). To ensure effective implementation of these enabling measures, the Government has also established and provided regular funding for the Public Procurement Management Office.

1.8. **Quality Control.** Rural infrastructure, by its nature, is frequently small and scattered. With devolution of responsibilities, capacities of local government employees, consultants and contractors in implementation will need gradual strengthening. To ensure that standards are upheld and parties are accountable, the Government will give a greater role to the Technical Audit Division (TAD) of the National Vigilance Committee (NVC, under the Prime Minister's Office). To strengthen the mandate of TAD and NVC, the Government has prepared an enabling regulation to formally legitimize the active participation of TAD in the inspection of civil works undertaken with public funds. Further, to ensure independence and financial viability, the Government has established a regular funding mechanism for TAD from the national budget.

1.9. **Conclusion.** Collectively, these measures will go far towards facilitating provision of needed rural infrastructure, and building trust and esteem in those that are responsible for implementation. The measures establish strengthened checks and balances, (i) between central and local authorities, (ii) between implementing parties at the local level, and (iii) provisions to ensure (a) the input and participation of local beneficiaries, and (b) that rural population, whether marginal or otherwise, is not adversely impacted by rural infrastructure implementation. The pursuit and full realization of these measures in the current environment is challenging, and it is with the support of the ADB Program Loan that the measures and their purpose can be accomplished.

Secretary, MoF

Secretary, NPC

Secretary, MLD

## Rural Reconstruction and Rehabilitation Sector Development Program (RRRSDP) Policy Matrix and Status of Implementation

<b>Program Impact:</b> Rural poverty in Nepal is reduced by improving access to economic and social opportunities				
<b>Program Outcome:</b> Policy measures are undertaken that enhance the pursuit of effective, participatory and enabling rural infrastructure				
#	Policy Objectives	Actions Prior to Release of Loan	Status and Step-wise Actions to be Taken As of 31 August 2007	
			Target Date	Key Responsible Party
<b>A. Local Governance</b>				
1.	Strengthened implementation capacity of local governments			
1.1	Chronic staffing shortages are addressed in local governments	GoN fills critical positions for implementing rural development works	1. MLD prepares proposal for approval by MOF and MOGA to fill existing vacancies. 15 June 2. MOGA allows MLD to recruit contractual staff to fill in vacancies by Cabinet's approval. 30 June 3. MOF release block grants to enable hiring of additional staff (new positions) in line with LSGA. 15 August	Sec MLD Sec MLD Sec MLD
1.2	Incentives are provided to motivate local government staff to locate in remote settings and fulfill the tenure of their appointments	GoN prepares a package of incentives sufficient to address vacancies and frequent transfers	4. MLD prepares proposal for approval by Cabinet through MOF and MOGA to grant incentives to DDC and VDC staff assigned to remote areas. 15 June	Sec MLD
<b>B. Financial Management</b>				
1.	Improved financial controls, audit and efficiency at local government-level facilitate implementation of rural infrastructure	GoN takes measures to integrate financial systems, and amends relevant sections of Local Bodies Financial and Administrative Rules (LBFAR)	1. FCGO undertakes gap analysis of public sector accounting & auditing against international standards. 28 Feb 2. FCGO prepares a proposal to link FMIS to PMIS. 31 Mar 3. FMIS links with DECS. 31 May 4. MLD prepares proposal for concurrence by MOF for the adoption of funds flow mechanism for implementing full devolution. 15 July 5. MLD drafts comprehensive amendments to LBFAR in consultation with the Ministry of Law and Justice, MOF and FCGO. 25 July 6. MLD approves draft amendment for submission to the Cabinet for approval. 31 August	FCGO FCGO FCGO Sec MLD Sec MLD Sec MLD



