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PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF \$1.5 million

TO THE

MULTI-DONOR TRUST FUND (MDTF)

FOR

CIVIL SOCIETY ENGAGEMENT FOR STRENGTHENING
THE USE OF SOCIAL ACCOUNTABILITY TOOLS
TO IMPROVE PUBLIC FINANCIAL MANAGEMENT
IN NEPAL

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DATA SHEET

Nepal

Civil Society Engagement for Strengthening the Use of Social Accountability Tools
to Improve Public Financial Management in Nepal

Basic Information

Date:	December 10, 2014	Sectors:	Social Development
Country Director:	Johannes Zutt	Themes:	Social Accountability, Public Financial Management
Sector Manager/Director:	Maria Correia	EA Category C	
Project ID:	P131860		
Instrument:			
Team Leader:	Luiza Nora		

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For Loans/Credits/Others (US\$M):

Total Project Cost : US\$1.5 Total Bank Financing : US\$1.5

Total Cofinancing : Financing Gap :

Financing Source	Amount
BORROWER/RECIPIENT	
IBRD	
IDA: New	
IDA: Recommitted	
Others	
Financing Gap	
Total	

Recipient:

Implementing Agency: Center for International Studies and Cooperation

Contact:

Telephone No.:

Title:

Email:

Implementing Agency:

Contact:

Telephone No.:

Title:

Email:

ACORAB:	Association of Community Radio Broadcasters (Nepal)
CACs:	Community Awareness Centers
CECI:	Centre for International Studies and Cooperation`
CPS:	Country Partnership Strategy
CSO:	Civil Society Organization
DAGs:	Disadvantaged Groups
DoE:	Department of Education
GoN:	Government of Nepal
IBRD:	International Bank of Reconstruction and Development
IDA:	International Development Association
IGD:	Institute for Governance and Development
IEC:	Information Education Communication
IPFC:	Institute of Professional Financial Consultant
LBs:	Local Bodies
LGAF :	Local Governance Accountability Facility
LGCDP:	Local Governance and Community Development Programme
MDTF:	Multi-Donor Trust Fund
MoE:	Ministry of Education
MoF:	Ministry of Finance
MoFALD:	Ministry of Federal Affairs and Local Development
NPC:	National Planning Commission
OAG:	Office of the Auditor-General
PCN:	Project Concept Note
PETS:	Public Expenditure Tracking System
PFM:	Public Financial Management
PRAD:	Policy Research and Development Nepal
RF:	Results Framework
SACp:	Social Accountability Practitioner
SM:	Social Mobilizer
UC:	User Committees
VDC:	Village Development Committee
WCF:	Ward Citizen Forums

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I. Strategic Context

A. Country Context

1. Nepal is a *post-conflict country with a very young experience of a democratic rule*. The country's current development and democratization process is characterized by low access of people to political participation and ability to influence public affairs due to stagnant socio-economic conditions, social stigma, geographic isolation and a legacy of a centuries-old caste system. The violent campaign of the Nepal's Maoist Communist party between 1996 through 2006 to replace the royal parliamentary system with a people's republic lasted for ten years civil war resulting in the death of over 14,000 people, the displacement of more than 100,000 people, and the devastation of public infrastructure. The civil conflict occurred in the situation of widespread poverty, limited economic opportunities, long traditions of landlessness and deprivation of lower castes, marginalized ethnic groups and the government targeting of Maoist activists.
2. Nepal's *lengthy post-conflict transition* remains unresolved nearly a decade after the signing of the Comprehensive Peace Accord in 2006 and the establishment of the Constituent Assembly in 2008, which brought to an end to the monarchy and declared Nepal a federal democratic republic. However, the 2008-12 Constituent Assembly was unable to finalize a new federal structure and to adopt a new constitution. It was dissolved in May 2012 and the country was left in a legal vacuum. The new Assembly elected in late 2013 has not yet managed to establish a new constitutional order, which has major implications on the *functioning of the governance system at all levels*, including the local one.
3. *Local governance system* remains very weak in Nepal. Local elections have not been conducted in Nepal since the previous elected local bodies (LB) were dissolved in 2002, thereby depriving the local communities of elected local representatives. For the past twelve years, LBs have essentially been placed under the control of centrally appointed government personnel and managed by the Ministry of Federal Affairs and Local Development (MoFALD) through the Local Development Officer (LDO) and Village Development Committees (VDC) Secretaries. The absence of elected local bodies and functional local governance system has an adverse impact on overall country development and poverty reduction¹, access and quality to basic services, and the realisation of people's civil, political, cultural, economic and social rights, as much as the further development of civil society's role in these processes.²
4. The GoN conducted a *Public Expenditure and Financial Accountability (PEFA) Assessment* in 2007. The assessment noted that Nepal's PFM and procurement systems were well designed, but not well implemented, leading to high fiscal and fiduciary risks. Afterwards, a Public Financial Management Performance Measurement Framework was prepared by the Public Expenditure Working Group.

¹ A quarter of the population subsists below the poverty line

² Nepalese civil society was instrumental in the 2006 People's Movement, but is no longer unified due to political pressures, as well as the lack of inclusion, causing the rise of ethnic and regional-based identity politics.

5. Since that first PEFA Assessment, *the GoN has established a clearer understanding of priorities for PFM reform* and a framework for implementation. In 2010 the GoN adopted a PFM reform strategy that prioritized six major interventions. To support this systemic reform agenda, the GoN set up the PEFA Secretariat to coordinate PFM reforms that reports to the PFM Steering Committee chaired by the Ministry of Finance Secretary. However, to-date the PFM reforms have been primarily on a technical level without the committed political leadership required to implement the range of required reforms. In its tenure, as well, the PEFA Secretariat has had a high turnover of senior staff with limited capacity for planning or technical work.
6. Also, outside the GoN and selected financial reform policy-makers, to-date, there is limited understanding or knowledge of on-going PFM reform issues -- and its potential to significantly improve governance efficiency, accountability and transparency – within Nepali civil society, among national Kathmandu NGOs or amid the increasingly socially inclusive civil society actors around the country.

B. Sectoral and Institutional Context

7. *National PFM Reform.* PFM reform is a key element of the current GoN strategy to strengthen public service delivery and ensure inclusive, broad-based development. The PFM agenda has been a priority for the GoN's International Development Partners, as well. As part of this effort, in December 2010 the Multi-Donor Trust Fund (MDTF) was established by the World Bank and six major donors: the European Union (EU), the UK Department for International Development (DFID), the Government of the Swiss Confederation, the Governments of Norway and Denmark, and the Australian Government Department of Foreign Affairs and Trade (DFAT). The MDTF has been assisting the GoN modernize payments through a Treasury Single Account (TSA), upgrade the audit systems and processes of the Office of the Auditor-General (OAG), as well as expand civil society demand-side collaboration with the government's supply side services on PFM accountability, transparency and inclusion.
8. *An Operational Risk Assessment (ORA)* for the PFM sector was completed in 2013 and highlighted challenges in public spending while focusing on the need to improve PFM accountability. Findings suggested the need to improve in four key areas: i) oversight and scrutiny; ii) budget processes; iii) implementation of capital projects; and, iv) inter-institutional coordination of central finance institutions. It also noted the present strengths of Nepal's PFM system, including the formally defined planning process, sound fiscal management, efforts at innovation including the initiation of a Treasury Single Account (TSA), as well as the gradual adoption of improved accounting and auditing standards.
9. *Policy and Legislative/Regulatory Frameworks.* Similarly, over the past fifteen years, the GoN has passed and promulgated a series of new acts, regulations, policies and guidelines to strengthen local governance and expand citizens' participation on accountability issues. These include: the Local Self Governance Act (1999), and Local

Self Governance Regulation (2000), the Decentralization Implementation Plan (2002), the Right to Information Act (2007), the Right to Information Regulation (2009), the Good Governance Act (2008), the Good Governance Action Plan (2012), the Local Bodies Resource Mobilization and Management Guidelines (2012), the MoFALD Public Expenditure & Financial Accountability and the Fiduciary Risk Reduction Action Plan (2012) and the Social Mobilization Guidelines (2014).

10. Although these legislative acts and documents have provided the critical institutional basis for strengthening transparency, accountability and inclusion of local governance processes, downwards accountability of the local bodies (LBs) has been seriously eroded by the fact that there have not been elections in the local constituencies since 2002, and that the fulfillment of these ambitious new acts and policies remains in the initial stages of actual local governance implementation. In addition, the nearly 4,000 VDCs across Nepal have quite limited administrative and management capacities: they are seriously under-resourced, under-staffed, the VDC secretaries are often transferred or required to cover more than one VDC, and have limited authority to effectively manage the increasing requirements of the mandated local service delivery to their villages and communities.
11. *Vertical PFM Accountability.* Improving PFM and local service delivery are the priority underlying reasons for the range of new and innovative LB reform measures. One of the main goals of the PEFA Secretariat in Nepal, which is responsible for coordination of the PFM reforms across the sectors and line ministries, is to better link the PFM process with improved local service delivery at the VDC and ward levels of governance. However, to advance the PFM reform agenda, the central level government (both line ministries and the PEFA Secretariat) needs to better understand what is currently working – or not working -- in the financial value chain transforming funding inputs through local structures into effective local development and service outcomes. The pursuit of this national reform agenda is further hindered by lack of clarity regarding the LBs service delivery-related obligations and the extensive overlapping responsibilities between LBs and line ministries.
12. *OAG National, District & Performance Audits.* The expanding VDC budgets are still audited locally and rarely reviewed by an external authority, as the Office of the Auditor-General (OAG) does not yet have legal authority to work below the district level. Until recently, the OAG has been concentrating on financial audits at the district level. However, with the support of development partners, including the World Bank and the Government of Norway, since 2013 the OAG has introduced the practice of conducting performance audits in the field to investigate the value for money of local level government programs. It is intended that this innovative approach will encourage a new constructive OAG partnership with communities, civil society and Civil Society Organizations (CSOs) working at the VDC level -- especially those involved in monitoring local budgeting, expenditure and service delivery outcomes, specifically including social security entitlements (SSEs) and education entitlements. The dissemination of national OAG audit reports currently takes place through OAG presentations to the national media. By expanding civil society engagement with the

OAG at the central level, increased demand-side pressure will be exerted for greater compliance on audit issues by GoN authorities. As part of the expanded communication strategy in this new phase of MDTF demand-side programming, there will be more emphasis on the public dissemination of the OAG audit reports results, including district and performance audit reports at the local level, as well as encouraging public pressure for follow-up action through increased cooperation between the OAG with civil society and diversified media platforms.

C. Higher Level Objectives to which the Project Contributes

13. *Demand side of PFM Accountability.* Although the new generation of GoN policies, acts, regulations and guidelines provides space to strengthen the application of a range of social accountability (SAc) tools and practices related to PFM reforms, the consistent monitoring and compliance of LB bodies with these regulations has been problematic due to the limited local government capacity, irregular assessments, lack of PFM knowledge among civil society and CSOs, as well as the demanding geography and language and cultural diversity of this resource-constrained country.
14. *Supply side of PFM Accountability.* Government policies and directives, however, clearly recognize that future improvements in the PFM supply-side system of service delivery locally require complementary efforts to promote the “demand” side of transparency and social accountability. In this regard, enhanced collaboration with civil society and local communities is essential to achieve these measureable improvements. Moreover, existing GoN regulations oblige LB bodies to further operationalize their regular interface with communities and citizens (with emphasis on women and traditionally marginalized communities) through structures such as Ward Citizen Forums (WCF) to define local priorities, User Committees (UC) to supervise service delivery, Social Mobilizers (SMs) to support the VDC social mobilization process, and Community Awareness Centers (CACs) to expand awareness on services with a special focus on traditionally marginalized groups and local grievance redress mechanisms.
15. *Social accountability mechanisms,* such as public hearings on the local budget expenditure and public audit for VDC and ward-level infrastructure projects, have been introduced by the MoFALD as requirements within the local governance system, along with obligatory budget allocations for disadvantaged groups (DAGs) like women, children and traditionally marginalized castes. However LBs have limited experience and know-how to ensure that these new structures are functional, participatory and inclusive. Additionally, their abilities to draw on external support are very limited. In this regard, the critical linkages between improvements in PFM strategies and operations with local service delivery outcomes require further research and analysis. The new Treasury Single Account system (TSA), for example, has only recently been established nationally, consequently analysis of real time expenditures are not yet available at the district or VDC-level.
16. *Impediments to Advancing SAc Locally.* The recent 2014 study on local service delivery in Nepal with the specific emphasis on the local budgeting process, undertaken by the

WB South Asia Governance and Public Sector Unit, has revealed a number of important structural impediments to advancing PFM reform and SAc in the country, including:³

- LBs are not primarily responsible for most service outcomes – rather, they play a supplementary role in the delivery chain to the line ministries;
- LB budget and financial reports are structured by revenue sources and not by services, which makes it difficult to trace the total amount of funds allocated and spent on specific sectors and services;
- Planning for the use of local capital investment resources (where priorities are formulated at the ward level) is empowering to local communities, but the process of budget allocation (where each ward gets something) does not facilitate cohesive strategic planning for local development and improved service delivery;
- Local level planning procedures and M&E systems are not integrated with those of central agencies.

17. *LGCDP Implementation and Challenges.* MoFALD, with the support of international donors, has been implementing the Local Governance Community Development Project (LGCDP) since 2008. During the first phase of this national project (2008-13), there have been positive successes in increasing peoples’ participation at ward and VDC level budgetary planning, incorporating recommendations of Ward Citizen Forums into VDC plans, as well as the functioning of SMs at the VDC level. These field level achievements provide evidence of the initial success in GoN legislative and policy action through LGCDP combined with increased donor support on accountability aspects of the project, together with better local levels of civil society and CSO engagement to improve local governance accountability, inclusion and transparency in Nepal.

18. However, given the scale required in Nepal, where there are nearly 4,000 VDCs and 35,000 wards dispersed over one of the most challenging physical environments in the world, the actual implementation of LGCDP Phase 2 (2013-17) will require a considerable breakthrough in increasing accountability of local planning and budgeting processes through the coordinated efforts of all development partners. For all of the positive achievements of the first phase of LGCDP, there are considerable concerns regarding the transparency and accountability of local expenditures and procurement monitoring, not to mention the inclusion of women and the most historically marginalized caste and ethnic communities, as noted in recent evaluation reports.

19. Citing some of the social and structural constraints mentioned above, the recent MoFALD 2014 Local Governance Accountability Facility (LGAF) ToR (2014) for acquiring CSO consulting services states, “Disadvantaged Groups (DAGs) do not have fair and equitable access to and use of LB’s resources and public services” (p. 35). It notes a ‘rampant’ diversion of the target group development budget into local infrastructure, where financial mismanagement is all too common. This LGAF ToR for strengthened compliance monitoring frankly states, “Although inclusive and participatory planning process is in practice for 15 years, it is hardly followed in most

³ World Bank Report No. 87922-NP, Local Service Delivery in Nepal, April 2014

VDCs” (page 35).

20. *Demand-side Support for Supply-side PFM.* There is clear GoN recognition that for supply-side PFM measures to ensure sustainable improvement, complementary demand-side PFM efforts in the form of SAc initiatives will be required at the local and national levels. These SAc initiatives include such proven mechanisms as participatory budgeting, pro-poor/gender budgeting, procurement monitoring and PETS (public expenditure tracking surveys). These community-led processes use participatory and evidence-based approaches to improve LB budgeting and service delivery, including, e.g., that SSEs are received at the right time, with the right amount for the right person, as well as what forms of complaints or grievance mechanisms work best at the local level. Global evidence and studies suggest that enhanced and well-funded demand side efforts significantly complement efforts on the supply-side to expand citizens’ engagement with their government to enhance the effectiveness of PFM reforms.
21. *A need for alignment among development partners.* To build upon the solid achievements of LGCDP Phase 1, LGCDP Phase 2 implementation seeks to align the efforts of all aid agencies implementing local governance and social accountability projects, as well as revitalize and ensure the long-term viability of the new compliance mechanisms established in the LGAF. As noted in the LGAF ToR (quoted above), through increased collaboration with other national and international development agencies working on accountability, inclusion and transparency, there is a need for more intensive community-level training for the VDC Secretaries, SMs, CACs and WCFs on SAc tools, more regular and standardized field monitoring, as well as improved and effective local grievance mechanisms.
22. *ADB Strengthening Public Management Program.* ADB has also been implementing a PFM initiative with the GoN at the local level of governance. The PRAN team has been in contact with this initiative. The program includes the following activities:
 - 1.2 Review minimum condition and performance measure system for DDCs and municipalities and formulate a similar system for VDCs (Q4 2013)
 - 2.1 Conduct PETS and PEFA assessment at the local government level.
 - 2.2 Apply risk-based internal auditing of VDCs.
 - 2.3 Implement key components of the PFM and fiduciary risk mitigation action plan.
 - 2.4 Conduct capacity building internal audits.
23. Therefore, the experience of the previous 2012-14 MDTF-funded “Strengthening Civil Society Organizations’ Use of Social Accountability to Improve PFM in Nepal”⁴ community-based SAc strategies, tools and trainings can be aligned with LGCDP and LGAF. PRAN Phase 2 will share lessons learned on accountability tools and practices, as well as implement additional SAc tools (PETS and Community Scorecards) selected sites where the intensive introduction of these tools and trainings can provide further practical research on a variety of SAc methods to significantly strengthen the existing

⁴ The MDTF-funded PRAN Phase 1

GoN local governance structures. These additional external supports to LGCDP Phase 2 will help ensure greater integrity in the implementation of the new LB policy, acts, regulations and guidelines in order to achieve more effective and active citizens' engagement to improve PFM and local service delivery.

II. Project Development Objectives

A. PDO

24. The MDTF-funded PRAN Phase 2 *Project Development Objective* will remain:

“To strengthen the transparency, accountability, efficiency and inclusiveness of PFM in 15 districts of Nepal by fostering the use of different social accountability tools with the support of Nepali CSOs.”

In this MDTF demand side component, this objective will be achieved through a system of three outcomes:

- I. Communities empowered, especially marginalized people, to hold local governments accountable for participatory, pro-poor/gender inclusive budgeting and accurate budget execution;
- II. Improved citizen's access to individual Social Security Entitlements, specifically old age and single women's entitlements, and basic education service delivery, including scholarship entitlements for girls and Dalits⁵; and,
- III. Improved national enabling environment for transparent, inclusive and accountable PFM.

25. The MDTF-funded PRAN Phase 2 is fully aligned with the WB Nepal Country Partnership Strategy (CPS 2014–2018). The Nepal CPS has identified PFM as a WB country priority in all its activities and in line with the country-level results framework. It recognizes that PFM improvement requires equal attention to both the “supply” side (the government ability to manage public finances properly) and “demand” side (citizens' capacity to hold their government accountable). In this regard, the Nepal WB CPS states that it will support government efforts to strengthen the demand side of the public expenditure process through SAc measures.

26. *Program Strategy for Phase 2.* The MDTF-funded PRAN Phase 2 activities will be aligned with the MoFALD LGCDP and LGAF, as well as the activities of the GoN's PEFA Secretariat and the OAG, in order to contribute more effectively to the national local governance and PFM reform. All of its field work with civil society and CSOs will be with the primary purpose of improving the national enabling environment for PFM reform. In this regard, MDTF-funded PRAN Phase 2 will shift from its earlier strategy of primarily empowering CSOs to work with communities to now ensuring that

⁵ PRAN Phase 2 has prioritized education entitlements and public school management given the limited 18 month time period available and its past successful experience in the education sector under the earlier State Peace-Building Fund. This work will be coordinated with the WB Education sector and the Ministry of Education.

CSOs and civil society support sustainable community-local government relations in order to exercise accountability more effectively. This will require working much more closely with existing GoN structures and mechanisms, particularly MoFALD, LGCDP, OAG and the PEFA Secretariat, through which SAC tools and experience will be operationalized. This will be accomplished through:

- Anchoring all capacity building activities for existing local governance structures and processes established at the local level and supported through LGCDP;
- Establishing closer coordination with LGCDP through which PRAN Phase 2 funding will contribute, including participation in the LGCDP Output 2 (accountability) consultations and, possibly, the LGAF National Committee;
- Maintaining regular linkages and exchanges on specific program findings, analysis and recommendations related to strengthening links between PFM and local service delivery provisions with the key national government agencies, especially the PEFA Secretariat, MoFALD, OAG and MoE/DoE;
- Using district CSOs (those that demonstrated competence through PRAN Phase 1) to support the training and capacity development of LGCDP institutions, particularly SMs, WCFs, CACs and the Institute of Professional Financial Consultant (IPFC); and,
- Supporting additional specialized training and the development of Information, Education and Communication (IEC) materials for LBs, particularly SMs, through expanded collaboration with the regional Local Development Training Centers (LDTC), as well as the national Nepal Administrative Staff College (NASC), as appropriate and requested.

B. Project Beneficiaries

27. *Geographic Coverage.* The proposed MDTF Phase 2 expansion will be implemented in a total of 15 districts as committed in the original MDTF Results Framework. PRAN has previously worked in 10 districts in the Western, Mid-Western and Far Western Development Regions (Achham, Bajura, Dang, Gorkha, Jajarkot, Kailali, Kalikot, Kapilvastu, Palpa and Rolpa). PRAN Phase 2 will ensure that the 15 districts are distributed among all five Development Regions (see Annex 3), including at least two in the Maithali-speaking areas of the Eastern Tarai, where weak local governance and significant corruption issues have been identified. The program will not target those districts where other bilateral or multilateral development partners (such as SDC or the EU) have already initiated or funded district-wide PFM and local governance support activities, or plan to cover the entire district in the coming years. As the SDC SALDG project has begun to work on PFM issues in association with LGCDP in three FW/MW districts where PRAN Phase 1 had been working, it will select three alternative districts where it has experience implementing PFM initiatives under the State Peace-Building Fund (SPBF). Therefore, PRAN phase 2 will extend its coverage in seven districts funded previously by MDTF Phase 1 and select eight new MDTF Phase 2 districts where it had worked with SPBF funding or trained Social Accountability Practitioners (SACPs). In selecting its VDCs in each of the 15 districts, PRAN will avoid overlapping with the five VDCs selected by the new LGAF CSO partners working on compliance

issues. The program will ensure that its sub-grantee CSOs (two per district) hold regular quarterly review meetings with the LGAF partner CSOs to share program activities, trainings and research initiatives.

28. *Population Coverage.* The total population of 300 VDCs located in the selected 15 districts will be the primary direct beneficiaries of the proposed project. (Given approximately 5,000 residents per VDC, this will include at least 500,000 people.) Beneficiaries are expected to have better access to information on, and greater voice in, budget preparation and execution, as well as specific entitlements, at the local level through the SAc initiatives that will be financed in these areas. They are also expected to benefit over time through improved service delivery and reduced leakage or misuse of public resources allocated for specific disadvantaged beneficiary groups. In particular, this will include a higher percentage women and marginalized communities who have been especially targeted for increased inclusion in all GoN community, ward and VDC level structures. These vulnerable groups should also benefit through improvements in targeted budget analysis, awareness and expenditure that is intended to ensure more effective allocation and use of public funds to programs that support women, children and marginalized groups, as well as increased participation on local contracting committees.
29. In addition, indirect beneficiaries will include the total population of those 15 districts as selected PFM activities will be undertaken with the GoN district officials, particularly training opportunities, analytical work and assessments of lessons learned from the actual community-level implementation. At the same time, the general population of Nepal is expected to benefit from the national level PFM SAc initiatives financed under the third component of the project, particularly work with the OAG and PEFA Secretariat, as well as IEC materials and training curricula prepared on PETS and Procurement Monitoring, as well lessons learned from analytical work done in association with the MoFALD through LGCDP. Both local and national civil society will also benefit from the project as they will receive capacity building, knowledge enhancement and grant-financing. This will include the 30 district-based CSOs which be awarded grants from CECI to undertake SAc initiatives under the three PFM themes.

C. PDO Level Results Indicators

30. The MDTF Phase 2 program will cover three outcome areas through distinct Bank and Recipient executed components⁶:

Outcome Area 1: Local Budget. Empowering communities to hold local governments accountable for participatory, pro-poor/gender inclusive budgeting and accurate budget execution;

Outcome Area 2: Entitlements. Improving citizen's access to individual SSEs (specifically, old age and single women's entitlements) and basic education service delivery (including scholarship entitlements for girls and Dalits)

⁶ The full Results Framework is included as Annex 3.

Outcome Area 3: National PFM Environment. Improved national enabling environment for transparent, inclusive and accountable PFM

The Outcome Area 1 Indicators include:

- Increased citizen awareness, especially among marginalized, women and Disadvantaged Groups (DAGs), about local budget and existing venues to influence it (*base and end-line survey*)
- Increased citizens' participation in ward planning meetings, public hearings and public audits, including women, DAGs and children (*meeting attendance lists, gender disaggregated data, Focus Group Discussions (FGDs) with DAG participants*)
- Increased citizens' perception, including among marginalized, women and DAGs, of local budget transparency and accountability (*base and end-line survey data*)
- Increased number of VDCs that meet the targeted budget allocation requirements – 10% for women, 10% for children and 15% for DAGs (*VDC budget allocation analysis + LGCDP compliance monitoring database*)
- Reduction of VDC audit arrears - in absolute and monetary terms (*annual VDC audit reports content analysis*)
- Level of local media engagement in covering the issues of PFM (*annual grantees' media clips/archives*)

The Outcome Area 2 Indicators include:

- Increased percentage of correct SSEs receivers reporting allowances received on time and in correct amount (*base and end-line surveys*)
- Increased SSEs receivers' awareness of existing grievance mechanisms, including a share of those who perceive them as effective (*base and end-line surveys*)
- Decrease by 10% of VDC cases where eligible beneficiaries are not receiving SSEs (*base and endline surveys*)
- Improved access and quality of the basic education services at primary school level (CSC reports) and specifically to scholarship entitlements for girls and Dalits (*CSC report/base and endline surveys*)
- Level of local media engagement in advocacy for better PFM (*annual PRAN grantees media clips/archives*)

The Outcome Area 3 Indicators include:

Policy and regulatory adjustments at the national level informed by PRAN phase 2 experiences and analysis in at least three of the following areas:

- Social mobilization approaches (*MoFALD guidelines*)
- Grant allocation approach to better stimulate local development and service improvement (*MoFALD regulations*)
- Collaboration between CSOs and the OAG in the public budget performance audit process including working procedures for CSOs involvement in audit process (*OAG policies and regulations*)
- Roles and functionality of SMCs, Village and District Education Committees (*MoE*)

guidelines)

- Management of SSE (*MoFALD regulations*)
- Management of scholarship for girls and Dalit children at the primary school level (*MoE regulations*)
- Level of national media engagement in advocacy for better PFM (annual PRAN media clips/archives)

III. Project Description

31. The proposed MDTF-funded PRAN Phase 2 project is aimed at expanding the initial MDTF initiative that targeted and enhanced demand-side PFM activities in Nepal. It will contain two parts – one recipient-executed by CECI (for competitive grant-making to finance SAc PFM initiatives) and a second Bank-executed part (for supporting capacity-building, research, knowledge management and oversight functions). The proposed Phase 2 project thus follows the previous execution institutional arrangements of PRAN Phase 1 that have been judged by an earlier PRAN mid-term evaluation as fit for the purpose.
32. Retaining PRAN's effective organizational architecture, including the modest Program Coordination Unit (PCU) housed in the World Bank, will build on its accumulated institutional knowledge and personal experience, as well as ensure the rapid implementation of this next phase of the MDTF Phase 2 demand-side program without additional start-up costs or unnecessary delays. It will also allow the continuity of current management and staff among the partner agencies and field-based CSOs.

A. Project Components

Recipient-Executed Component

33. **Competitive Grants for Outcome Areas 1 & 2:** The financing of the SAc initiatives in Components 1 and 2 will be done through a competitive grant-making mechanism among CSOs that had been selected previously for earlier PRAN funding (through MDTF and SPBF). The CSO SAcPs selected to work on MDTF Phase 2 will have previous experience working on PFM issues at the local ward and VDC level and received funding earlier from CECI through either SPBF or MDTF. Each of these CSOs and/or SAcPs will have received training by CECI in program management, financial accountability and been successfully audited for their previous grant. This responsibility will continue be covered in the Recipient-Executed part of the MDTF Phase 2 grant managed.
34. The primary objective of the CSO grants in the selected 15 districts will be to support further capacity building of local communities through the existing governance structures and LBs on the issues of budget planning and management, and management of entitlements. Each CSO will be responsible for working with LGCDP to train the LB staff, including VDC Secretaries, SMs, CACs and WCFs, on the explicit compliance

with MoFALD policies and requirements. CSOs will work through the SMs to ensure that marginalized communities and women actively participate in all stages of budget formulation, planning, contracting, execution and expenditure, including attention to GRB (gender responsive budgeting). The selected VDCs are intended to set a standard for the district in achieving increased, active participation by these historically disadvantaged communities in the GoN mandated budget process. Where appropriate traditional governance structures will be included in the training and awareness creation on budgetary, entitlement and grievance mechanisms.

35. As much as possible, those district-based CSOs that had worked on SSEs previously will further concentrate their efforts on SSEs under Component 2. Similarly, where appropriate, those CSOs who had worked specifically on local-level education entitlements under the SPBF will expand their work on these sectoral entitlements under MDTF-funded PRAN Phase 2. There will be renewed emphasis on 'right time, right amount, right person' in each VDC to ensure the transparency and effectiveness of these GoN individual entitlement programs. Through the efforts of the VDC Secretary and SM, each CSO will seek to decrease by 10% the number of VDC cases where ineligible beneficiaries are obtaining SSEs. Similarly, those CSOs working on education service delivery will assist the VDC and School Management Committees improve the access and quality of the basic education services at primary school, including scholarship entitlements for girls and Dalits. Specific pre-service and in-service trainings will be organized by the PRAN partners on these specific subjects for the CSOs implementing that component.
36. CECI, the agency responsible for the recipient-executed portion of this project, will provide sub-grants to 30 CSOs (2 CSOs in each of the 15 districts). Each grantee/CSO will be supported by pre-service training, on-the-job mentoring, PFM training, financial management, program support and semi-annual review meetings through this component of the project. There will be regular site visits and monthly reports submitted by each CSO with deliverables measured against achievements as established in their 18 month contract.
37. As noted, each CSO will cover 10 VDCs in their district (in the MDTF-funded PRAN Phase 1 each covered only 2 VDCs per district). Therefore, there will be a total of 300 VDCs covered under this PRAN Phase 2 in these 15 districts -- compared to only 80 VDCs included in the Phase 1. The selection of the VDCs at the district level will be coordinated with LGCDP, LGAF and other any other donors working on PFM in those districts.
38. **Media program in support of Outcome Areas 1, 2 & 3 will:** Engage local and national media to demystify and facilitate public engagement in the PFM processes and dissemination of results generated by grantees. Under this component a national campaign for better PFM practices will be designed and the provision of technical assistance to local media (with a focus on community radio) through training and production/dissemination of necessary materials that will enable the media to manage

the campaign locally and link it to the activities of the grantees in the area of budgeting and budget execution as well as activities targeting SSEs and education services.

39. Design innovative IEC materials will be designed to provide teaching aids to the SMs and WCF in training local, often neo-literate community members on issues related to SAc (public hearings, public audits, PETS), budget transparency and procurement monitoring. These informative field-tested IEC materials will strengthen oversight of budget management, as well as enhance local skills on critical SAc tools. Two new IEC field-level flipcharts on budget literacy and pro-poor/gender budgeting were prepared in 2014 and have already been officially approved by the MoFALD for national distribution. New training curricula will be designed in association with these field-based IEC materials.
40. Be responsible for providing media coverage to PRAN Phase 2 analytical and national level advocacy work, as appropriate and designed with GoN counterparts.

New in the RE Component (compared with MDTF-funded PRAN Phase 1):

- CSOs playing facilitative roles in strengthening social accountability within the local governance process and strengthening capacities of LBs, rather than practicing SAc tools on their own;
- Media component to support national level work and dissemination of results and findings of grants at the local level
- Mentoring integrated into the CSO grants design stage instead of being part of BE activities conducted by a different organization
- No new national level grants since they proved to be too often stand-alone efforts without strong enough linkages with specific line ministries and relatively few proposals submitted met the minimum requirements expected
- Clearer and more regular alignment of the MDTF-funded PRAN Phase 2 CSO field activities (budget execution and entitlements) with LGCDP implementation at local, district and national level.

Bank-Executed Component

41. The proposed second phase of the project is aimed at extending a targeted and enhanced demand-side PFM process to strengthen GoN institutions at the national and local levels. This involves not just the financing of local level CSO SAc initiatives (which is the subject of the Recipient-Executed grant-making mechanism under CECI component described above) but also a support to improving the enabling environment for PFM at the national level through Bank-executed activities in areas of:
 - Multi-stakeholder capacity-building (to a broader range of partners)
 - Dissemination of policy analysis and results
 - Research, monitoring and evaluation

42. The MDTF's Strengthening of CSOs sub-project, PRAN's Phase 1 earlier experience, demonstrates and its CSO partners confirm that for civil society grant-making initiatives to be effective they should be accompanied not only by additional capacity building of LBs, but also by SAc-related knowledge management and national level advocacy. Not only there is a need for further training and mentoring to turn knowledge into action, but also, in collaboration with the MoFALD, the PEFA Secretariat and the OAG, linking the demand side actors with established government supply structures to enhance the cumulative impacts of interventions. Finally, technical assistance will continue to be needed to ensure that CSOs in Nepal working more closely in alignment with GoN LBs and national institutions benefit from the global experience in SAc; citizens' engagement and PFM reform, with appropriate modifications for the local context.

43. New in the BE component (compared to the MDTF-funded PRAN Phase 1):

- Much closer linkages and alignment with GoN structures: special emphasis given to linkages with MoFALD, the PEFA Secretariat, the Office of the Auditor General, and their involvement in training initiatives;
- New relationships with the National Planning Commission (NPC) on the SAc implementation strategies, as well as the Ministry of Education to share results of the community scorecard and education entitlement studies.
- Networking integrated into multi-stakeholder capacity building for a broader range of partners;
- No further funding or support for individual, stand-alone components, like the national grantees in the previous phase of the project.
- More policy-related papers assessing implementation aspects of SAc through LBs
- Support to the OAG on design & implementation of the participatory performance audit process & CSO selection criteria/database
- Assistance for the OAG to prepare its integrated communication strategy, as well as publishing the performance & district audits separately
- More emphasis on results dissemination and advocacy through media
- More integrated implementation approach through fewer Nepali partner agencies
- Extending deeper into 15 districts with firmer linkages with MoFALD structures
- Linkages established with the MoE/DoE, in coordination with the WB Education sector, to bring local CSC and SMC findings and results to national policies
- Careful selection of new districts to cover all development regions, including the highly affected Maithali-speaking districts
- Closer linkages between the CSO local governance implementation with the new PEFA TSA analysis and the OAG performance audit process.

B. Project Financing

44. *Timing and funding.* PRAN Phase 2 is requesting additional MDTF financing for \$1.5 million over the next eighteen months (January 2015 through June 2016) for the Phase 2 of its implementation. This eighteen-month timeframe, although limited, is still longer than the time originally available to the Phase 1 CSO sub-grantees working on these

issues (which was delayed at the start due to the lengthy time for contracting and approvals, as well as the time required to select the CSO partners through an open competitive process). This 1.5 year timeframe will allow the PRAN Phase 2 sub-grantees to engage in the local budget planning and SAc implementation across one and a half fiscal years (FY15 and FY16), as well as provide a slightly more potential timeframe for civil society effective influence on national institutions and policies.

45. PRAN Phase 2 implementation is envisaged to begin in mid-February 2015. Since this is a Phase 2 of an existing program, the implementation foundation has been well-prepared through support from Phase 1. The project team has been able to initiate the preparation of the Phase 2 Detailed Implementation Plan (DIP) in early December 2014 with existing partners and pre-selected CSOs. It has already begun the identification of experienced CSO SAcPs who participated on earlier PRAN SAc activities. Similarly, the preparatory work has begun for next iteration of the VDC-based PETS and training plans for future Phase 2 grantee SAcPs. In addition, the PRAN staff has begun to participate in the LGCDP Output 2 working group to more expeditiously align activities with MoFALD.
46. However, these demand-side SAc PFM activities require much more long-term commitment and continuity to be successful, both at the local community level, as well as with national bodies. Therefore, as discussed with the MDTF Program Coordination Committee (PCC) at their September 2014 semi-annual meeting and during the October 31st, 2014 donor partner Technical Review meeting, this demand side project will be requesting an extension of one year (i.e., July 2016 until June 2017 through the current MDTF timeline) with an additional \$1.5 million after the start-up of this Phase 2. The detailed plan for that additional year to further scale-up the demand-side program and deepen its engagement with the associated national institutions, including new strategies with the OAG and PEFA Secretariat, as well as an assessment of its initial alignment with LGCDP, will be prepared and submitted to the MDTF PCC for approval at the end of the second quarter of CY15.
47. *Reason for additional financing request.* Since its creation in 2010, PRAN has been recognized for successfully expanding national awareness on social accountability tools, as well as training Nepali CSOs and SAcPs in their use throughout Nepal. Additionally, since 2012 it has been working closely with the OAG to expand citizen's engagement on the national audit process, including community-based performance audits. There are similar plans to increase the demand-side citizens' participation with the PEFA Secretariat, as well.
48. Also, with the extension of the LGCDP II (2013-17), MoFALD has requested PRAN's support in utilizing its experience to further strengthen relations between the demand side and supply side of good governance, particularly LBs, in the effective use of a variety of SAc tools. The MDTF-funded PRAN Phase 2, therefore, has agreed to align the work of its experienced CSOs and extend this to 15 districts (300 VDCs) in close cooperation with the LGCDP. As noted, it will also create new SAc training modules and field-based IEC materials for use nationally by LGCDP.

49. In addition, the Phase 2 has committed to preparing a series of policy papers on specific issues related to LB program implementation and analysis (e.g. on planning processes, SSEs, education scholarships, grievance mechanisms, PEFA TSA real time accounts, et al). Through regular MoFALD LGCDP Output 2: Accountability & Civil Oversight Mechanisms meetings, PRAN Phase 2 will share its knowledge material, including lessons learned from its practical capacity-building experience, PETS research on entitlement issues and citizens' engagement on improving local education service delivery. As much as possible, the project will harmonize its SAc initiatives in association with the LGCDP Output 2 working group to ensure greater effectiveness and efficiencies over time.
50. The additional financing will respond to the OAG request to the project to continue building upon the initial Phase 1 demand-side, citizens' engagement work begun during 2013-14. PRAN Phase 2, therefore, will assist the OAG to expand its capacity to engage more effectively with the demand-side of civil society, including the public discussion of the location and thematic subjects for performance audits, as well as the selection of CSO to assist the OAG during performance audits. The project support will also assist the OAG prepare guidelines on how to select local CSOs, as well as prepare methodologies for working with CSOs on these field-based performance audits. The *in situ* assistance will strengthen OAG staff skills in implementing more effective performance-based audits in selected districts of Nepal in the coming years. The initial field-based performance audits will be conducted in association with local CSOs trained by the project. Also, the OAG has requested the MDTF's demand side program's assistance in coordinating with civil society in organizing events to share the results of the financial and performance audits at the district level (as this has not been done previously).
51. As the OAG does not yet have legal authority to audit below the district level (there is a bill pending in the Parliament regarding this authority), these performance audits with civil society support will strengthen the OAG ability to assess in greater detail the GoN service delivery achievements. The OAG has specifically requested assistance from PRAN Phase 2 CSOs in gathering data on local entitlements, particularly SSEs and the education sector CSCs for these performance audits. The findings from these performance audits can then be incorporated in the OAG district and national audit reporting.
52. Similarly, the Phase 2 will seek to provide technical assistance to the OAG through innovative knowledge platforms on civil society engagement with similar Supreme Audit Institutions. The additional funding will support scaling up the OAG work through a more comprehensive media strategy including various print and social media platforms to ensure broader dissemination, discussion and visibility of their annual audit reports, as well as the district financial and performance audits.

C. Project Cost and Financing

Table 1: Project Cost and Financing (Recipient Executed)

Outcome Areas	General Activities Description	Activity cost	Recipient Executed
<p>Outcome Area 1:</p> <p>Local Budget: Communities empowered (especially marginalized people) to hold local governments accountable for participatory, pro-poor/gender inclusive budgeting and accurate budget execution;</p> <ul style="list-style-type: none"> - 15 Grants of approx. \$20k - Mentoring on the job \$2,000 per grant 	<p>Through CSO grants (CECI):</p> <ul style="list-style-type: none"> • Train VDC SMs on the social mobilization tools and techniques and the use of MoFALD/LGCDP community-based IEC materials on budget literacy, gender and pro-poor budgeting • Organize annual ward level planning meetings, public hearings and public audits with the participation of women, DAGs and children • Establish Citizen’s Awareness Centers (CACs) wherever they do not yet exist as per LGCDP guidelines • Training to all CACs in the targeted areas on GESI issues, RTI and mainstreaming inclusion techniques, participatory planning and budgeting, as well as the use of MoFALD/LGCDP community-based IEC materials on budget literacy, gender and pro-poor budgeting • Provide technical support to the Ward Citizen’s Forum (WCFs) for them to function as per MoFALD guidelines, including training them (together with VDCs) on the MoFALD-Local Budget resource mobilization and management operation guidelines 2069 (including procurement issues) • Train the VDC level Monitoring and Facilitation Committees on public audit and participatory procurement monitoring 	<p>\$300,000</p> <p>\$30,000</p>	<p>\$330,000</p>
<p>Outcome Area 2:</p> <p>Entitlements: Improving citizen’s access to individual Social Security Entitlements – SSE (specifically, old age and single women’s entitlements) and agriculture</p> <ul style="list-style-type: none"> - 15 Grants of approx. \$20k - Mentoring on the job \$2,000 per grant 	<p>Through CSOs grants</p> <ul style="list-style-type: none"> • Provide technical assistance to all targeted VDCs on managing the database and keeping records on SSEs • Train CACs, SMs and WCFs on management of SSEs at local level, particularly on targeting distribution and grievance resolution • Train SMCs on the CSC tool and supporting them in applying it for assessing access and quality of school education services, including access and scholarships for female students and children from disadvantaged families • Organize annual trainings on SSEs compliance with CACs, SMs and WCFs in all targeted VDCs • Provide orientation to SSE Verification Committees on LGCDP ToRs in all targeted VDCs • Reviewing the existing grievance mechanisms at the local level (in relation to SSEs and school scholarship entitlements) • Establish grievance mechanisms in at least 80% of targeted VDCs following the review, and providing them technical assistance to make them functional • Implement PETS on entitlements by CSOs and presenting findings at public hearing organized in the targeted VDCs 	<p>\$300,000</p> <p>\$30,000</p>	<p>\$330,000</p>
<p>Outcome Area 3. : Improved national enabling</p>	<p>Through media support program:</p>	<p>\$80,000</p>	<p>\$170,000</p>

<p>environment for transparent, inclusive and accountable PFM.</p>	<ul style="list-style-type: none"> • Design the national level campaign for improved PFM and implementing it in partnership with local media • Provide local media (focus on community radio) with training and necessary materials to run a local campaign to improve PFM and specifically linking it to the activities of those CSO grantees targeting SSEs and education services • Provide local media (focus on community radio) with training and necessary materials for promoting transparent and accountable management of public resources at the VDC and DDC levels (in the framework of the national campaign for better PFM linked to the activities of the grantees in the area of budgeting and budget execution). <p>Through National Training Systems:</p> <ul style="list-style-type: none"> • Capacity development of CSOs for Outcome area 1 and 2 will include orientations and training of partner CSOs on the issues related to local budgeting and resource management processes as per MoFALD/ LGCDP guidelines, issues of OAG performance audit and ToT techniques useful for further training of LBs. • In collaboration with the Nepal Administrative Staff College and/or the Local Development Training Academies, adjust training curricula and preparing new community-level IEC materials related to budget transparency, social mobilization and selected SAc tools to improve the training of LBs staff and SMs • Support LGCDP/ LGAF in adjusting their training programs and materials on social mobilization tools 	\$90,000	
<p>Knowledge management</p>	<ul style="list-style-type: none"> • Conducting a study on social mobilization process and the effectiveness of social mobilization structures in PRAN targeted areas • Learning notes and case studies based on grants 	\$40,000	\$40,000
<p>Administrative and management costs</p>		\$80,000	\$80,000
<p>Total costs</p>		\$950,000	\$950,000

Table 1: Project Cost and Financing (Bank Executed)

Outcome Areas	BE General Activities Description		Bank Executed
<p>Outcome Area 3. National level:</p> <p>Improved national enabling environment for transparent, inclusive and accountable PFM.</p>	<p>A. Research and Analysis to informing policy and regulatory processes in the area of:</p> <ul style="list-style-type: none"> • Analysis of the roles and functionality of SMCs, Village and District Education Committees and report to MoE/DoE and the OAG on the management of scholarships to girls and Dalit children at the primary schools • Compile and analyze the recommendations on the system of SSEs provision (efficiency and effectiveness, including functionality of relevant local structures and grievance mechanisms) and feeding the analysis to MoFALD • Compilation and feeding the information received from PETS, budget analysis and OAG performance audit to MoFALD and PEFA Secretariat for better management of entitlements • Analytical note on divergences between empowering bottom-up planning (individual community demands) and a cohesive local governance vision to strategically invest public resources in advancing development and service provision at the local level submitted to national level stakeholders (MoFALD, NPC and MoF) 	\$195,000	\$195,000
	<p>Activities supporting dissemination of the research and findings:</p> <ul style="list-style-type: none"> • Multi-stakeholder roundtables • Policy Dialogue • Communication and outreach activities 	\$35,000	\$35,000
	<p>B. Support to the activities of the OAG-CSO consultative group and the implementation of performance audits with community participation at the local level</p> <ul style="list-style-type: none"> • Strengthening CSOs/grantees capabilities to assist with field-based OAG performance audits; • Expanded dissemination of the annual OAG audit reports to a broader, more inclusive and more influential leadership audience (capacity building component); • Support OAG to design criteria to select CSOs for feedback in the planning stage, create a database to map CSOs and organize trainings to maximize the benefit of such a platform; • Support the development of an integrated OAG communications strategy; • Provision of technical assistance to CSOs/grantees in coordination with relevant LGCDP experts (training and advisory support) on PFM topics (including participatory budgeting and MoFALD resource mobilization guidelines and procurement monitoring) with special attention to linkages with the LGCDP/LGAF with the support individual PFM experts (capacity building component); • Orientation of CSOs/grantees on SSEs and education entitlements issues, as well as grievance mechanisms (capacity building component) in coordination with 	\$50,000	\$50,000
		\$30,000	\$30,000

	<p>relevant MoFALD experts ;</p> <ul style="list-style-type: none"> • Sharing the information and analysis received from the PETS, budget analysis and OAG performance audit to MoFALD and PEFA for better management of entitlements (knowledge management component). • In Collaboration with PEFA Secretariat and the PFM MDTF Component; • Test the use the on-line and real time TSA financial and fiscal information to analyze the budget spending information as a vehicle for obtaining more disaggregated information at the district level or VDC level; • Analytical study with the GoN PEFA Secretariat using real time TSA data for selected districts to analyze PFM trends at the district and, if possible, selected VDCs expenditure patterns and promote transparency • Collect real time financial reporting centrally and share it district-based CSOs for analysis and dissemination • Identify 2-3 districts where the District Treasury Office has the skills to conduct the analysis or conduct the analysis centrally and share the analysis with selected districts to promote greater PFM program transparency and accountability 		
Monitoring and Evaluation	<p>Conducting all M&E related activities and studies to capture information on project progress, especially at the level of outcomes and in line with the PRAN RF (attached in Annex 1)</p> <p>Guidance and capacity building support to grantees</p>	\$150,000	\$150,000
Project Coordination Costs	<p>Project Coordination Unit will be responsible for ensuring overall program delivery, contracting and coordination of executing partners, quality assurance, provision of specific technical expertise, communication with the MDTF PCC, and coordinating strategic links with the other MDTF supply side components. PCU will also oversee M&E, credible research and production of analysis related to the program field experience</p>	\$90,000	\$90,000
Total Costs		\$550,000	\$550,000

D. Lessons Learned and Reflected in the Project Design

52. *Lesson Learned.* The existing PFM and governance situation poses multiple challenges, but also opportunities for the MDTF-funded Program on Accountability in Nepal (PRAN) Phase 2 to contribute more efficiently to PFM reform and the delivery of more effective government services, particularly by supporting civil society engagement to strengthen the capacity of LBs and GoN structures improve local governance accountability, transparency and inclusion.

Under the first phase of PRAN, small grants (\$15,000) were provided to 40 CSOs in ten districts of the Far West, Mid-West and Western regions covering 80 VDCs (two per CSO). Each CSO worked through a community-led process on four PFM areas of implementation: open budgets, gender and pro-poor budgets, PETS and procurement monitoring. The grants were for 8 to 11 months during FY14.

53. Although the CSOs were able to work intensively at the community level as they were only working in two VDCs, nonetheless, this extremely tight timeframe proved much too limited, therefore, the CSOs could not work closely with the GoN local bodies through the full budget cycle. A longer multi-year grant period is required to work with LB and communities on issues related to pro-poor and gender budgeting, PETS and procurement monitoring both before, as well as during the budget cycle. As most citizens are unfamiliar with these GoN guidelines and regulations, intensive training is required a priori the actual planning cycle. Similarly, many local SMs, CACs and WCF still need more in-depth training on these issues and procedures to be effective. In the Phase 1 first tranche, 30 CSOs selected 23 local male (76.7%) and 7 women (23.3%) SAcPs. A second 'inclusive' round of grants were provided to 10 CSOs to ensure more women SAcPs resulting in 9 additional women SAcPs raising the total to 17 of 40 women SAcPs (42.5% women) during the Phase 1 of PRAN MDTF implementation. Many of these well-trained women SAcPs, who have experience working on PFM issues, have been invited to participate in the PRAN Phase 2, as well. The project will continue to place an essential priority on social and gender inclusion in the selection of both CSOs and SAcPs in all aspects of its MDTF programming.

54. PRAN's earlier work led to increased citizen awareness about the local planning and budgeting process, closer examination of the distribution of SSEs, greater participation by women and marginalized groups in local governance structures, the introduction of a locally-managed PETS on SSEs, the use of the Community Scorecard to improve the community management of government schools and even the refunding of misused or misallocated funds back to the VDC and ward budgets. However, the lack of formal institutional coordination with the MoFALD to ensure alignment with LBs and local governance structures limited the long-term impact and sustainability of the program.

55. At the national level, the MDTF-funded PRAN Phase 1 supported the OAG by fostering support for collaboration of the OAG with CSOs and media. The intervention has led to the establishment of a widely respected and on-going OAG-CSO consultative process providing support in the dissemination and follow-up of the OAG annual audit report, as well as the implementation of performance audits with community participation at the

local level and an innovative regional learning exchange process (led by the OAG in Nepal) among the senior staff of the Supreme Audit Institutions in South Asia with the support the “Advancing Public Participation in the Budget and Audit Process” program.

56. In addition, during the PRAN Phase 1, these 40 SAcPs were trained on data collection through local PETS around three categories of government-provided SSEs. They conducted PETS in all 80 VDCs of 10 districts and collected 11,158 data sets. The survey was the first of its kind in Nepal regarding SSEs in terms of the extensive size of the database and who conducted it. The survey results have been analyzed and compiled for discussion with the MoFALD officials as it includes a series of policy and programmatic recommendations to improve the SSE implementation. A further examination of the local service delivery of SSEs will be done through a second community-based PETS survey in some of the new districts in Phase 2.
57. In all its work PRAN has encouraged collaboration with the GoN and with specific government bodies, including inviting government officials to PRAN training courses to receive knowledge products, and training government trainers at the Nepal Administrative Staff College to assist them train new entry civil servants, and senior civil servants on refresher courses in SAc.
58. In addition, the MDTF-funded PRAN Phase 1 developed innovative IEC materials on local budgeting and pro-poor and gender. These flipcharts are useful for government counterparts, CSOs and community leaders for understanding the GoN budget process. They cover: the concept of public budget; national and local budget; principles of budgeting efficiency, effectiveness, equity, and fairness; participation in budgeting process and active citizenship; budget process accountability, including horizontal, vertical downward, vertical upward accountability; concepts of pro-poor and gender budgeting; existing government policies, directives on pro-poor, and gender budgeting; and, indicators to analyze local bodies’ budget from the lens of the poor and women. PRAN Phase 1 received a letter on June 10, 2014 confirming the decision by the MoFALD to publish the materials for all municipalities, District Development Committees, Ward Citizen Forum, and Citizen Awareness Centers in Nepal.
59. Additional activities sponsored by PRAN during 2012-14 included:
- Five PFM CSO SAc trainings in the Far, Mid & Western regions with 158 participants.
 - With the World Bank Institute, PRAN established e-learning on SAc tools and conducted a regional PFM workshop and a regional SAc workshop.
 - 64 PRAN participants attended the ‘Orientation on Advancing Public Participation in the Budget Process’ organized by WBI and the PRAN team in May 2013.
 - A high-level roundtable on ‘Public Participation in the Audit Process in Nepal’ was organized with the Office of Auditor General and WB Institute in May 2013.
 - Six episodes of a MAHA national tele-drama, including PSAs (both audio and video), were produced on misuse of SSEs for the marginalized and poor.
 - A series of ten videos on SAc tools were produced focusing on local budget and RTI issues, as well as inclusion and shared widely in Nepal.

- A workshop "Following the Fund: Implementing PETS Surveys in Social Security Allowances Program" organized with the PEFA Secretariat and WBI in September 2013.
- An orientation on 'Pro Poor Budget Analysis, Information and Advocacy in Nepal' was held with WB Institute and PRAD for 33 CSOs and journalists in October 2013.
- An OAG advocacy video on their civil society engagement was prepared in 2014.
- A national Social Accountability Forum inaugurated by the MoF Secretary, the NPC Vice-Chair and the WB Country Director was held in September 2014 with over 108 participants discussing citizens' engagement on issues of PFM and social accountability.

IV. Implementation

A. Institutional and Implementation Arrangements

The Recipient-executed will be supported by:

60. The Center for International Studies and Cooperation (CECI) is the implementing agency for the recipient-executed portion of the grant. CECI is a Canadian NGO with a long history of working with CSOs on issues of poverty reduction, gender, discrimination, democracy and good governance. In Nepal, they have been operational since 1987 and have implemented more than 30 projects in over 40 districts covering all five development regions. CECI was selected in 2010 to manage the grant-making component of the project through a competitive selection process. It had already two Grant Agreements with the World Bank and has established a team of competent managers and technical support staff to help implement the Bank project.

Under PRAN Phase 2 of MDTF, CECI will play a larger role than in the previous MDTF-funded PRAN initiative. In order to streamline the overall management structure in order to reduce overall management costs, CECI will take on more of the field supervision, mentoring and training responsibilities for the local CSOs (that had been contracted through Pro Public in the first phase of PRAN's MDTF funding).

61. The CECI responsibilities will include:

- Provision of technical assistance to CSOs/grantees in coordination with relevant LGCDP experts (training and mentoring) on social mobilization, GESI, RTI, the use of PRAN's newly designed MoFALD/LGCDP community-based IEC materials on budget literacy and gender and pro-poor/ budgeting with the support of IDG (capacity building component);
- Provision of technical assistance to CSOs/grantees (training and mentoring), particularly on SAc tools such as CSC, Social Audit and PETS (capacity building component);
- CECI's grant management administration tasks will include: elaboration of detailed TORs for grantees in coordination with relevant LGCDP specialists; contracting and overall management; quality control of financial and activities/deliverables management of sub-projects, as well as sub-projects internal M&E and production of case studies; cumulative reporting on implementation of grants.

- A detailed analysis of the implementation of social mobilization process and effectiveness of social mobilization structures for MoFALD (knowledge management component);
- Support in drafting new training curricula on SAc tool, as well as the recently MoFALD-approved new budget literacy IEC materials that were jointly designed by PRAN with IGD (knowledge management component).
- Management of the media capacity building and knowledge components.

The World Bank-executed activities will be supported by:

62. Policy Research and Development Nepal (PRAD) is a highly respected. Non-profit research and knowledge sharing organization devoted to studies on contemporary issues that constrain the socio-economic development of Nepal. PRAD executive members have in-depth experience in the policy making and practices at the highest levels of the government and non-government sector. Their responsibilities will include:

- Support activities of the OAG-CSO consultative group and the implementation of performance audits with community participation at the local level
- Strengthening CSOs/grantees capabilities to assist with field-based OAG performance audits;
- Expanded dissemination of the annual OAG audit reports to a broader, more inclusive and more influential leadership audience (capacity building component);
- Provision of technical assistance to CSOs grantees in coordination with relevant LGCDP experts (training and advisory support) on PFM topics (including participatory budgeting and MoFALD resource mobilization guidelines and procurement monitoring) with special attention to linkages with the LGCDP/LGAF (capacity building component);
- Orientation of CSOs/grantees on SSEs and education entitlements issues, as well as grievance mechanisms (capacity-building component) in coordination with relevant MoFALD experts;
- Sharing the information and analysis received from the PETS, budget analysis and OAG performance audit to MoFALD and PEFA for better management of entitlements (knowledge management component).

63. New ERA is one of the most experienced and respected private research agencies working in the development field in Nepal. New ERA is led by a former member of the National Planning Commission who has worked with numerous projects with the World Bank in Nepal. New ERA recently completed a major PETS study of the education sector for the World Bank in 2014. Under the knowledge management component, the New ERA research and M&E responsibilities will include:

- Overall monitoring and evaluation and research of PRAN CSO implementation;
- Analysis of experience with mainstreaming inclusion through targeted grants (for women, children and DAGs) in local budgeting and expenditure process for MoFALD and MoF;

- Analysis of the system of SSEs provision through a district-based PETS exercise for MoFALD;
- Analysis of the management of girls and Dalit children scholarships for MoE with the involvement of an education consultant.

64. WB Project Coordination Unit responsibilities will include:

- Set overall strategic direction and management support for the demand-side of the MDTF activities as well ensure collaboration with other MDTF components
- Manage the inter-linked activities under the various outcome areas
- Liaise regularly with the MoFALD/LGCDP, OAG, PEFA Secretariat, MoE, GoN offices and local government;
- Quality assurance of the M&E and research
- Ensure focus on gender and marginalized communities throughout the project;
- Identify and involve relevant experts in support of partners and PRAN activities;
- Ensure national media coverage of the PRAN analytical and advocacy work aimed at improving PFM through sub-contracting (media component);
- Analytical note on reconciling bottom-up planning and strategic planning for MoFALD, NPC and MoF with the involvement of a WB experts (knowledge management component);
- Communicate regularly on MDTF to donors, the WB and civil society; (vii) reporting on the Phase 2 implementation;

B. Results Monitoring and Evaluation

65. The overall Results Monitoring and Evaluation (M&E) will be managed by New ERA, a nationally-recognized research institution in Nepal under the Bank-executed component, in close collaboration with the PRAN PCU. The rollout of Phase 2 local components will be implemented in fifteen districts of the country, including all five development regions. A baseline early in 2015 and end-term survey in the spring of 2016 covering the target districts will be funded out of the Bank-executed portion of the grant. The actual Results Framework is detailed in Annex 1. Beyond the New ERA evaluation plan, regular monitoring and oversight will be undertaken through three additional mechanisms:

66. *Monitoring by CECI*: CECI will undertake routine monitoring and spot checks of sub-grantees via field visits and collection of progress reports. Their technical staff and in-house mentors will appraise the PCU about the progress and challenges being faced in implementation of the social accountability initiatives and linkages with the LGCDP structures.

67. *Monitoring by PCU and Bank*: The PCU will have its own monitoring of progress of its grantees and field implementation alignment with LGCDP through regular review meetings with the MoFALD, These will be documented in quarterly progress reports submitted to the MDTF.

68. *Monitoring by Sub-Grantees:* The CSOs that are awarded the grants for social accountability initiatives will themselves be required under the terms of their sub-grant agreements to develop M&E procedures that will ensure regular documentation of their progress on a regular basis through CECI.

C. Sustainability and Exit Strategy

69. Sustainability has been a longstanding concern with social accountability initiatives in Nepal and therefore this new phase of PRAN Phase 2 under MDTF funding is being closely aligned with GoN structures, particularly the PEFA Secretariat, the MoFALD LGCDP and the OAG. This expanded collaboration with LGCDP, including the demand side project management officially invited to sit on the Output 2 regular meetings, will significantly strengthen the sustainability of the PRAN Phase 2 inputs. The revised design of the program now incorporates a range of capacity building support (e.g. networking, mentoring, knowledge services, etc.) to both local bodies in the 15 selected districts, but expanding civil society, demand-side linkages at the national level through PEFA, MoFALD and the OAG to help sustain future efforts.
70. Furthermore, a key mechanism for sustainability, in addition to establishing a much closer relationship with the supply side of government, involves the institutionalization of SAc initiatives within civil society organizations in Nepal. The Phase 1 has concentrated on the demand-side and, therefore, the extension of these investments in the CSOs that have been working on social accountability in specific districts will further deepen their professionalism. Going forward, the PCU expects to ramp up outreach and communications with journalists and other forms of innovative social media to spread knowledge on the practice of social accountability locally around the nation in order to raise the demand for good governance.
71. The specific focus of the Component 1 initiatives on working with the LB state actors in alignment with the LGCDP, such as VDC Secretaries, WCFs, CACs and SMs is an important avenue to promote long-term local sustainability. Likewise, the collaboration with national, district and VDC government officials in Components 2 and 3 — and their active participation in the training, networking and knowledge services of this project — will promote sustainability of certain critical processes of expanding civil society participation and transparency, both at the local level in the targeted districts of the program, as well as through national institutions of governance. In addition, the PCU plans to work with the Local Development Training Centers (LDTCs) to expand the range of training modules — particularly for the LB staff involved in the strengthening service delivery PFM systems on social accountability, transparency and inclusion. The PCU will also study key GoN reform commitments and programs to identify entry points for social accountability provided by central and local government, and coordinate with civil society to expand access to these.
72. In addition, a key challenge for the sustainability of SAc work, particularly in Nepal, is continued sources of financing for civil society engagement. Very few CSOs in Nepal

have their own independent sources of income, therefore, they are highly dependent on external donor funding. The ability of CSOs to sustain their work using SAc tools to strengthen PFM locally will continue to be dependent on donors' funding. It is likely, however, that PFM will continue to be an important component of donor assistance, particularly as successes are recorded through LGCDP, other SAc and the CSOs that have benefitted from the experience, trainings and knowledge management of this MDTF-funded PRAN project.

73. Linkages and coordination with other on-going donor programs will be further extended, particularly through the coordination of LGCDP. Already through the first phase of PRAN, the PCU has established close coordination with several NGO, INGO and donor programs that specifically support social accountability. Because of these shared good governance objectives, an exchange of information and experience has taken place with a broader group of GoN officials, donors and international NGOs, e.g. through the recent Social Accountability Forum and Fair that was held in Kathmandu in September 2014. This national Forum sponsored by PRAN, has helped to further expand awareness and understanding of embed social accountability approaches in the programs of many national and international development partners.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary

Safeguards Risks: Low

74. The project is a follow-up of the PRAN first phase that successfully implemented similar social accountability activities throughout Nepal. The project will not support any physical investments or civil works and will not require any land acquisition. Hence, no environmental or resettlement impacts are expected as a result of project implementation. The Project is thus assigned an environmental category C; requiring no further assessment.
75. The project will be implemented in 15 districts of Nepal, and because indigenous people are spread across the country, it is envisaged that the project activities will involve indigenous groups. However, the nature of this TF Project is capacity building and these will be no adverse social implications and risk to local communities, the impacts on IPs are expected to be positive. In particular, two of the expected outcomes of the project are directly aimed at benefiting the IPs. Outcome 1 involves empowering communities, especially marginalized groups (poor, women, discriminated castes and IPs) to hold local governments accountable for participatory and inclusive budgeting and accurate execution of the same. Similarly, Outcome 2 seeks to improve citizens' access, including IPs, to social security entitlements. Moreover, project activities have been designed to carry out free, prior and informed consultation in a culturally appropriate manner with local communities. Therefore, due to the capacity building nature of the project, the team concludes the project is not triggered the Bank's OP4.10 on Indigenous

People, but the team will ensure the integration of social objectives into the TF process.

76. Overall Implementation Risk: Significant

Explanation: The key external risks for this next phase of the program include: (i) Political instability due to the non-promulgation of the new Constitution due in early 2015; (ii) Political unrest in specific areas of the country due to a lack of consensus on state restructuring; (iii) Delays in funding that cause partner agencies to choose not continue as part of the PRAN team; (iv) A lengthy gap in financing for local CSOs whereby their experienced staff divert to other projects/activities; (v) Changes in the WB or LGCDP management that prove to be less supportive to the PRAN Phase 2 role and approach; (vi) Funding limitations or Development Partners not extending their contributions to MDTF beyond this phase.

Additional MDTF funding after this initial 18 month period will be crucial if PRAN Phase 2 proves successful in its alignment and collaboration with LGCDP. The overall MDTF runs until June 2017 while the demand-side initiative has only been funded through June 2016. Further funding after June 2016 will permit PRAN Phase 2 to further scale-up its activities with the MoFALD through LGCDP and LGAF, as well as with the OAG and PEFA Secretariat on promising demand-side accountability measures.

A pre-program rapid assessment of internal risks has not revealed any serious risks that may have a jeopardizing effect on the program. Internal implementation risks will be further analyzed for each component and mitigation measures for them defined after the program approval by donors (as a part of program detailed planning exercise).

World Bank Safeguard policies that might apply.

<i>Safeguard Policies</i>	<i>Triggered?</i>	<i>Explanation (Optional)</i>
Environmental Assessment OP/BP 4.01	N	No risks or impacts were identified during project screening that would warrant the need of environmental safeguards instruments.
Natural Habitats OP/BP 4.04	N	NA
Forests OP/BP 4.36	N	NA
Pest Management OP 4.09	N	NA
Physical Cultural Resources OP/BP 4.11	N	NA
Indigenous Peoples OP/BP 4.10	N	The proposed TF will only support capacity building activities. These activities do not have any potential adverse social implications or risk to local communities. Therefore, The policy is not triggered.
Involuntary Resettlement OP/BP 4.12	N	The proposed TF will only support capacity building activities. No land taking is necessary. Therefore, The policy is not triggered.
Safety of Dams OP/BP 4.37	N	NA
Projects on International Waterways OP/BP 7.50	N	NA
Projects in Disputed Areas OP/BP 7.60	N	NA

B. Explanation and Mitigation Measures

Please see the following risks and mitigation measures:

Risk	Mitigation Measures
Scale and timeframe for program may be too limited for measurable impact.	The focus of program has been limited to specific PFM SAc tools while the local components have been expanded to 15 districts to maximize impact. Beyond this, the supporting capacity building work (in particular the networking) will be used to enhance effectiveness of the initiatives.
Technical capacity of CSOs to undertake SAc work on PFM (e.g. budget analysis and PETS) may be limited.	A program of capacity building support has been included as part of the Bank-executed part of the MDTF grant. This will include training, coaching and mentoring by local consultants who have expertise in PFM.
Some PFM issues may reveal local corruption which no one is prepared to deal with.	Both national and local activities will work with state actors to ensure increased ownership based on the principle of constructive engagement. The project will seek careful accumulation of evidence from practitioners, as well as alliances with champions inside government to respond to issues of local financial malpractices.
Lack of gender-sensitivity and gender-based budgeting skills among the WCF and CACs.	Specific training will be included on gender issues and GRB (gender-responsive budgeting) to the CSO SAcPs and the LBs. Selected appropriate indicators will be disaggregated by gender.
Lack of supply side information on GoN budget procedures available to CSOs to undertake tools such as social audits, public hearings and public audits.	Partnerships with other SAc programs, as well as government agencies in charge of this information, in particular the MoFALD and PEFA, will be made fortified through the PCU. Specific training curricula and IEC materials will be developed.
Project sustainability may limited by the short timeframe, limited resources relative to the program objectives and the time required to align closely with government agencies and institutions.	The PCU will aim to link social accountability initiatives financed through the MDTF supply side interventions of the government and other donor partners to ensure that they are institutionalized. At both national and local level a focus on constructive engagement and partnership with state actors (especially local government officials) will be made. A longer timeframe with additional resources to match the timeframe of the overall MDTF will be requested from the donors to strengthen the potential for sustainability.
Difficulty in identifying local	Advisory relationship with Nepal-based CSO

expertise in the SAc/PFM field.	networks that have expertise in social accountability around PFM has been established through the PCU. These will continue to be developed to provide TA to PRAN's second phase. Also, the World Bank has considerable global experience in the area of demand-side of PFM and citizens' engagement which has already been brought into the project through the Bank executed part.
Slow implementation of activities due to the nature of World Bank's procedures which are not always well suited to CSOs.	As much as possible, the start-up of this second phase of the project will be quicker than the earlier efforts due to the continuation of CECI as the grant-making agency, the pre-selection of the CSOs by their GMC, the on-going coordination with LGCDP and previous experience of these procedures.

VI. Appraisal Summary

A. Financial Management

77. CECI has gained experience of the World Bank's Financial Management and Disbursement requirements with the two projects (State and Peace Building Fund and PFM MDTF) financed by the World Bank/ MDTF. The financial management performance of both the projects was satisfactory. The proposed project will benefit from CECI's experience with the Bank.
78. CECI has a well-established financial management system with standard operating policies and manuals as prescribed by CECI Head Office in Canada. The standard guidelines are available in the form of: Personnel Manual, Administrative Manual, and Financial Manual. For implementation of the PRAN projects, supplemental project specific guidelines (Operational Manual) have also been prepared which can be adopted for this project with incorporation of changes as required. The accounting system is computerized with well-defined Chart of Accounts. The project financial statements of CECI implemented projects were usually received on time. External audit reports with unqualified opinion for both the projects were also received on time. There were no issues raised by the auditors in the audit reports for FY 2013/14. Overall internal controls and monitoring mechanism for CSOs are well established with quarterly reviews conducted for both technical and financial reports submitted by the CSOs. CECI has a dedicated team of project staff including the Finance Officer designated for the PRAN projects. A designated Finance Officer will also be required for this project.
79. Disbursements and other financial management arrangements for the previous CECI implemented projects will be continued. Disbursements from the Bank to the Designated Account will be report-based, i.e. based on two quarters' equivalent of cash forecast. The Project will submit the Implementation Progress Report which will include Interim

Unaudited Financial Report on a quarterly basis within 45 days of the preceding quarter-end of CECI's financial year. Audited Project Accounts will be required to be submitted within six months after the end of the fiscal year. The same reporting format for the Interim Unaudited Financial Report will continue for this Project.

80. Based on the well-established financial management system and FM performance of CECI, the FM risk is assessed as "Moderate". The details of FM Assessment are provided in Annex 4.

B. Procurement

81. The proposed project is expected to have limited procurement and activities to be implemented are largely for training and workshops and consulting services with procurement of minor goods and non-consulting services. No civil or infrastructure works will be undertaken under the project. All PRAN procurement undertaken to date has been carried out in accordance with the World Bank's Procurement Guidelines (January 2011) and Consultant Guidelines (January 2011). The same specific procedures will be applied for the procurement carried out under the additional funding for this MDTF financed PRAN project in accordance with the Bank's updated Procurement and Consultant Guidelines, Jan 2011 (Revised Jul 2014).
82. Further, as regards the sub-grantees, CECI shall ensure that for any procurement undertaken by Grant recipients, the procedures applied are in conformity with those stipulated in the Procurement and Consultant Guidelines referred to above.
83. Based on the observation of the last project performance and considering the current procurement management capacity of CECI, overall procurement risk rating has been taken as "SUBSTANTIAL".

**Annex 1: Results Framework and Monitoring
FY15/16 (January 2015 through June 2016)**

Program Overall Development Objective: Strengthen transparency, accountability, efficiency and inclusiveness of PFM in 15 districts of Nepal by fostering the use of different social accountability tools with the support of Nepali CSOs

<i>Program Outcomes</i>	<i>Outcome Indicators (means of verification) – program level M&E</i>	<i>Outputs (for targeted areas)</i>	<i>Output Indicators with targets (means of verification)– projects/ sub-grantees level M&E</i>
<p><u>Outcome 1:</u> Communities in the program areas (especially marginalized people) are empowered to hold local governments accountable for participatory, pro-poor/gender inclusive budgeting and accurate budget execution</p>	<p>Increased citizen awareness (especially among marginalized, women and DAGs) about local budget and existing venues to influence it (base and end-line survey)</p> <p>Increased citizen participation in ward planning meetings, public hearings and public audits⁷, including women, DAGs and children (meeting attendance lists, gender disaggregated data, FGDs with DAG participants)</p> <p>Increased citizens perception (including among marginalized, women and DAGs) of local budget transparency and accountability (base and end-line survey data)</p> <p>Increased number of VDCs that meet the targeted budget allocation requirements – 10% for women, 10% for children and 15% for DAGs (VDC budget allocation analysis + LGCDP compliance monitoring database)</p> <p>Increased citizens’ awareness of existing grievance mechanisms, including a share of those who perceive them as effective (base and end-line surveys)</p>	<p>SMs at VDC level are well equipped with social mobilization tools</p> <p>CACs are established and made functional</p> <p>WCFs are empowered and functional as per MoFALD guidelines</p> <p>VDCs and WCFs are capable to implement the MoFALD-LB resource mobilization and management operation guidelines 2069 (including procurement issues)</p> <p>VDC level Monitoring and Facilitation Committees trained on public audit and participatory procurement monitoring</p> <p>SMs and WCF in selected VDCs trained to use new MoFALD/LGCDP community-based IEC materials on budget literacy, gender and pro-poor/ budgeting</p> <p>VDC audit reports are released to public</p> <p>VDCs and IPFCs are sensitized towards pro-poor and gender sensitive planning and budgeting</p>	<p>100% of SMs in targeted VDCs completed a training program (training reports and attendance lists)</p> <p>100% of targeted VDCs with established CACs</p> <p>100% of CACs and WCFs (including 50% of trainees from marginalized groups) in targeted VDCs are trained on GESI issues, RTI and mainstreaming inclusion techniques, participatory planning and budgeting (training reports and attendance lists)</p> <p>100% of VDCs have annual planning meetings conducted with the support of WCFs and documented as per MoFALD guidelines (LGSDP compliance monitoring data)</p> <p>100% of VDCs and WCFs are oriented on the MoFALD-LB resource mobilization and management operation guidelines 2069/At least 80% of VDCs allocate budget according to the MoFALD-LB guidelines</p> <p>100% of VDCs that conduct Public Audit and Public Hearings as per MoFALD guidelines (VDC audit and hearings records/ LGSDP compliance monitoring data)</p> <p>100% of VDC audit reports are released to the public.</p> <p>At least 80% of targeted VDCs with functioning grievance</p>

	<p>Level of local media engagement in covering PFM issues (annual PRAN grantees' media clips/archives and perception surveys)</p>	<p>Existing grievance mechanisms are reviewed and strengthened/established at the VDC</p> <p>Local media is capacitated to engage in promoting transparent and accountable management of public resource</p>	<p>mechanisms</p> <p>At least 50% of collected grievances in targeted VDCs are addressed</p> <p>100% of VDCs with annual procurement plans (block grants related projects) monitored with community engagement (budget analysis and review of procurement committee documentation)</p> <p>50% of GoN block grants that are the subject to public audit (VDC budgets and public audit reports)</p> <p>100% of targeted VDCs that experienced at least once pro-poor and gender budget analysis conducted by SM supported by local CSOs</p> <p>100% of community radio stations in the targeted areas are trained by and engaged into the national media campaign on transparent and accountable PFM (training reports)</p> <p>Number of publications and broadcasted episodes/ programs related to PFM (annual PRAN grantees' media clips/archives)</p>
<i>Program Outcomes</i>	<i>Outcome Indicators (means of verification) – program level M&E</i>	<i>Outputs (for targeted areas)</i>	<i>Output Indicators – projects/ sub-grantees level M&E</i>
<p><u>Outcome 2:</u> Citizens access to individual Social Security Entitlements –SSE (specifically, old age and single women's entitlements) and education services (specifically</p>	<p>Increased percentage of correct SSEs receivers reporting allowances received on time and in correct amount (base and end-line surveys)</p> <p>Decrease in # of beneficiaries who are eligible to get SSEs but are not getting it (base/endline surveys and social audit reports)</p>	<p>Improved VDC SSEs databases and records</p> <p>CACs, SMs and WCFs are better equipped to ensure SSEs targeting</p> <p>SSEs VDC Recommendation Committees ToRs reviewed and capacities strengthened</p> <p>CSOs in targeted districts and OAG officials</p>	<p>100% of targeted VDCs SSE database record-keeping is adjusted based on reviews conducted with the support of local CSOs</p> <p>100% of targeted VDCs with CACs, SMs and WCFs receiving annual training on SSEs compliance issues</p> <p>100% of SSE Recommendation Committees are oriented on LGCDP ToRs in targeted VDCs</p>

scholarship entitlements)	Improved access and quality of the basic education services at primary school level (CSC reports) and specifically to scholarship entitlements for girls and Dalits (CSC report/base and endline surveys)	are trained on performance audit and partnering in the audit process PETS and social audits in the area of SSEs are conducted by CSOs at VDC levels	In at least 30% of targeted VDCs PETs are implemented by CSOs on entitlements with findings presented in a public hearing In 100% of targeted VDCs social audits are implemented with findings presented in public hearings
	Level of local media engagement in advocacy for better PFM (annual PRAN grantees media clips/archives)	SMCs are capacitated to use the CSC tool for assessing access and quality of school education services, including access and scholarship entitlement for girls and children from disadvantaged families Local media is capacitated to engage in improving citizen access to entitlements	100% of GoN schools in targeted areas trained on CSC and use this tool with support from the SMs and CSOs 100% of CSOs in targeted districts are trained on performance audit and partnering with OAG in the audit process 100% of community radio stations in the targeted areas are trained and engaged into the national media campaign on improved PFM – focus on access to entitlements(training reports) Number of publications and broadcasted episodes/ programs related to citizen access to entitlements (annual project grantees media clips/archives)
<i>Program Outcomes</i>	<i>Outcome Indicators (means of verification) – program level M&E</i>	<i>Outputs</i>	<i>Output Indicators</i>
<u>Outcome 3</u> : National enabling environment for transparent, inclusive	Policy and regulatory adjustments at the national level informed by PRAN experiences and analysis at least in 3 of the following areas:	Analysis of the implementation of social mobilization process and effectiveness of social mobilization structures is available to MoFALD	Report with analysis and recommendations of the implementation of social mobilization process and the effectiveness of social mobilization structures in the targeted areas

<p>and accountable PFM is improved</p>	<ul style="list-style-type: none"> - Social mobilization approaches (MoFALD guidelines) - Grant allocation approach to better stimulate local development and service improvement (MoFALD regulations) - Collaboration between OAG and CSOs in the audit process, including working procedures for public participation in the planning process as well as implementation (CSOs involvement in performance audit) and dissemination process (communication strategy). - Roles and functionality of SMCs, Village and District Education Committees (MoE guidelines) - Management of SSE (MoFALD regulations) - Management of scholarship for girls and Dalit children at the primary school level (MoE regulations) <p>Level of national media engagement in advocacy for better PFM (annual PRAN</p>	<p>National level stakeholders (MoFALD, NPC and MoF) are informed of the divergences between empowering bottom-up planning (individual community demands) and a cohesive local governance vision to strategically invest public resources in advancing development and service provision at the local level</p> <p>Utilization of the CSOs PETs and budget analysis findings for better management of entitlements</p> <p>Analysis of the existing system of SSE provision (efficiency and effectiveness, including functionality of relevant local structures and grievance mechanisms) is available to MoFALD</p> <p>Analysis of roles and functionality of SMCs (including representation) and VDC & District Education Committees is available to MoE</p> <p>Feeding the information received from PETs, budget analysis and OAG performance audit to MoFALD and PEFA for better management of entitlements</p> <p>Assist the OAG to publish its Performance Audit report separately.</p> <p>Assist the OAG to disseminate the audit reports at the district level.</p> <p>Analysis of management of girls and Dalit children scholarships at the primary school level available to MoE and OAG</p> <p>Assist PEFA test on-line and real time TSA financial and fiscal information to analyze budget spending information to obtain more disaggregated information at the district level or VDC level.</p>	<p>Local Development training Academy (LDTA) has new training programs and materials on social mobilization tools to use for training master trainers/resource persons</p> <p>Availability of the analysis on the bottom-up budgeting experience and the potential tension between empowering bottom-up planning (individual community demands) and a need for cohesive vision on how to strategically invest public resources in advancing development and service provision at the local level</p> <p>Percentage of PETs conducted with the support of the project in the districts selected for performance audit that shared their findings with the OAG office</p> <p>Report with the analysis and recommendations on the system of SSEs provision (efficiency and effectiveness, including functionality of relevant local structures and grievance mechanisms)</p> <p>Report with the analysis of roles and functionality of SMCs, Village and District Education Committees, as well as a report on the management of girls and Dalit children scholarships at the primary school level are available to MoE and OAG</p> <p>Adjusted training programs, modules and materials are available to LDTA</p> <p>100% of selected district audit reports are released and disseminated locally.</p> <p>Number of publications and broadcast episodes/programs related to the project analytical work and advocacy agenda (annual project media clips/archive)</p>
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	media clips/archives)	Technical assistance provided to the LDTA in adjusting training curricula and IEC materials related to social mobilization and SAc tools to improve the training of LBs staff and SMs Systematic media coverage of the PRAN analytical and advocacy work aimed at improving PFM	
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Annex 2: ORAF and GAAP

Operational Risk Assessment Framework (ORAF)
Project Development Objectives
<p>The Development Objective is “to strengthen the transparency, accountability, efficiency and inclusiveness of PFM in 15 districts of Nepal by fostering the use of different social accountability tools with the support of Nepali CSOs.”</p>
Key Results
<ul style="list-style-type: none"> • Communities empowered, especially marginalized people, to hold local governments accountable for participatory, pro-poor/gender inclusive budgeting and accurate budget execution;
<ul style="list-style-type: none"> • Improved citizen’s access to individual Social Security Entitlements – SSE, specifically, old age and single women’s entitlement, and basic education service delivery, including scholarship entitlements for girls and Dalits; and,
<ul style="list-style-type: none"> • Improved national enabling environment for transparent, inclusive and accountable PFM.

ORAF Risk Levels	Risk Rating	Risk Description	Proposed Mitigation Measures
Project Stakeholder Risks			
Stakeholder Risks	medium	Slow implementation of project because World Bank procedures take time for partners and CSOs to learn how to manage.	Selection and approval of partners and CSOs who have experience from the first phase of PRAN’s MDTF funding. Also, ensure approval from Procurement for timely payment for expenses submitted
Implementing Agency Risks (including financial management and public relations)			
CECI	low	Difficulty for existing CECI staff to take on extra work needed for this project	Continue CECI staff with previous experience and/or hire additional full time help
CECI	medium	Possible procurement problems with awarding new funds to partners without further competitive processes	Advice sought from Bank procurement staff on sole sourcing for current project MDTF partners.
Project Risks			
Design Risk	medium	A lack of professional expertise in Nepal on PFM demand side approaches with GoN.	Seek advisory relationship with national & international specialists on PFM. The Bank

			to provide TA on this subject based on global knowledge and experience.
	medium	The eventual sustainability of the social accountability initiatives may be limited if funds are not extended past 18 months.	Detailed efforts are being made to align the demand side work with existing programs of the GoN, like LGCDP, and with other donors' PFM efforts.
Social and Environmental Risk	low	There are few CSOs which will involve environmental issues.	n/a
Delivery Quality Risk	medium	PFM activities at the local level may reveal specific cases of corruption which could be challenging to deal with, locally, and which could lead to acrimony or even conflict.	The project will advise any partners or CSOs that identify areas of serious corruption locally. Such issues will be brought to the attention of the MoFALD and LGCDP officials. On such issues the project will seek alliances with concerned parties inside government, particularly in the MoFALD and the National Vigilance Commission. Keep the MDTF donors informed about corruptions issues which have the potential for conflict.
		Reluctance of government to share information on activities, budgets and/or expenses, especially in working with MoFALD on sensitive SSE distribution or other supply side data from the PEFA Secretariat.	The Right to Information (RTI) law has passed but not well implemented. The Phase 2 intends to help partners & CSOs develop good working relations with government officials, particularly those involved in the OAG and PEFA PFM supply side projects, as well as try to implement RTI laws.
		Lack of interest and demand among citizens to be informed about PFM issues	The demand side of PFM work supported by the MDTF will offer opportunities for CSOs to learn more about PFM in order to promote and advocate among local citizens, as well as ally their efforts to the work of GoN agencies supported by MDTF. The project's monthly newsletter will seek to generate interest among stakeholders.
		Lack of technical capacity amongst CSOs in PFM issues	The project has already conducted numerous training

			courses and prepared local learning materials to strengthen such national capacity through the earlier SPBF and MDTF Phase 1. In Phase 2, PRAN will identify gaps in technical knowledge of CSOs on PFM issues and offer training to upgrade their skills in order to share such knowledge with local VDC Secretaries, SMs and ward committees.
Overall Risk Rating			
Risk Rating - Preparation			Risk Rating - implementation
Medium			Medium

Governance and Accountability Action Plan (GAAP)

Introduction

84. The PRAN Phase 2 project preparation team has developed this GAAP to address critical operational concerns related to project management in the Project. The GAAP seeks to ensure good governance and cost-effectiveness in the management of project activities. This is based on Nepal's existing governance and legal framework, including legislations on anti-corruption, right to information, and good governance. In addition, elements of the World Bank's access to information policy have been appropriately incorporated into it. The GAAP will be a living document and will be strengthened, as necessary, based on lessons learned during the implementation of project activities.

Key Governance Challenges

Coordination and collaboration between stakeholders

85. The PRAN Phase 2 Project brings together a number of agencies, including CECI (a Canadian INGO which managed the first phase Recipient Executed component), a variety of Nepali NGOs & CSOs working at local and national levels as well as government officials and institutions involved in PFM at the national and local levels. PRAN, a project of the World Bank in Nepal, implemented with approval from the GoN, is the organization responsible for the implementation of the project, and has been working closely with CECI and two nationally-respected Nepali NGOs (PRAD Nepal, and New Era) on the implementation of the earlier MDTF-funded project.

There are four aspects of coordination in the project:

- Coordination between PRAN and CECI
- Coordination between CECI and the other implementing partners of PRAN
- Coordination between CECI and potential sub-grantees, and then with sub-grantees once the grants have been made
- Coordination between the Project and government officials and institutions. The project has been designed to ensure significant constructive engagement and field-based program alignment with LGCDP/MoFALD, PEFA, OAG, NPC and the MoE/DoE.

Capacity Development of the Grantees

86. While there have been some valuable efforts by CSOs to work on PFM reform at the district and village level in Nepal, mostly involving tracking budget expenditures at that level, there has been less direct experience by national NGOs working effectively on PFM at the national policy level. Moreover, there is limited training or literature available in Nepali on PFM and not enough sharing among the few agencies seriously involved in the demand-side of PFM reform. There is a need, therefore, to develop the

capacity of CSOs to work more closely with both local government and the national government on PFM accountability, transparency & inclusion.

87. Under PRAN Phase 2, CSOs and their SAcPs who had been trained on SAc and PFM tools will be recruited to use their experience to work more directly with local governance structures, in particular the VDC Secretaries, the recently established SMs, the VDC-level CACs and the WCFs, during this MDTF PRAN Phase 2. Their knowledge and experience through the project under the recently closed SPBF and the MDTF Phase 1 will prove invaluable in now concentrating their efforts to strengthen GoN-local community relations on PFM issues. By ensuring that GoN policies and procedures on transparent budgeting and execution are successfully implemented, these lessons learned can be shared at the district and national levels. Further training for local government staff will largely be carried out by CECI and PRAD on the training side, and on the knowledge management and dissemination side through the MoFALD LDTCs or NASC, where appropriate.

Political Support

88. Implicit in any demand side work on SAc is that those who are practicing the work are demanding that government accepts and lives up to the promises that it has made in its own policies, laws, ordinances and regulations. In many cases this will result in challenges to the government over lack of implementation of such promises, and a further demand for reform or restitution. Where such demands are objectively verifiable, it is expected that the GoN will recognize the problem and seek to remedy it. There are the various regulatory bodies, like the CIAA and NVC to ensure that this happens. The problem as noted in many political economy reports over the past few years, however, is that often that those who have contravened or bypassed the GoN laws and regulations are people with local or national power ('source-force', as it is described in Nepali) and use these informal relational or political patronage systems to avoid implementing these reforms, as well as to avoid prosecution. Particularly without local elections since 2002, a culture of impunity has become very common in the civil service at the VDC level within Nepal.
89. However, NGOs and CSOs, frequently operating as the voice of excluded or marginalized peoples, are often vulnerable to political opposition or repression when they point out and/or publicly expose the all-too-common lack of accountability, transparency or even inclusion. Too often the individuals in positions of power and influence do not include women or representatives of the historically marginalized communities, both at the local and national levels. It will be important for these CSOs/NGOS, therefore, to make sure that their challenges are objectively verifiable and not susceptible to accusations of political party bias. These must be recognized by the government as popular legitimate requests for change and reform in keeping with the law.

Objectives of GAAP

90. The GAAP's main objective is to contribute towards strengthening governance and accountability systems in the Project. It will achieve this objective by:

- ensuring resources allocated by MDTF and the Bank are spent for the intended purposes and directed to the beneficiaries of the project;
- strengthening coordination between CSO, as well as, between CSOs and the GoN; and
- improving feedback and grievance referral mechanisms between the intended local community beneficiaries and the GoN providers of local services.

Scope

91. Several areas for governance improvement have been identified: including, the political environment, organizational strategies, monitoring, and accountability arrangements. The GAAP proposes actions for each of these issues, timeline for each action, and responsible agency for implementation. There are also some 'early warning indicators' which, if monitored properly, enable timely actions for course correction.

Monitoring Arrangements

92. The GAAP will be monitored regularly against agreed actions which will be reflected in the Project's progress reports and aide-memoires. The GAAP matrix will be used widely for monitoring purposes. If any action is triggered, the project will initiate enhanced supervision through specific third-party audits, reviews by sector experts, training workshops, and possibly targeted missions with the Bank. If the investigation confirms poor performance, appropriate sanctions will be applied by the relevant agency depending on the nature of the case. In addition, any 'early warning' indicators of governance and accountability risks will be monitored regularly so that corrective measures could take place in time. While the MDTF-funded PRAN Phase 2 will have the overall responsibility to ensure monitoring the implementation of this GAAP, PRAN will be responsible for implementing program-specific actions included in the GAAP matrix and will also act as a nodal point to co-ordinate with other agencies for effective implementation of the GAAP.

Governance and Accountability Action Plan (GAAP)

Areas of work	Issues likely to affect project performance	Actions to address the issues	Responsible agency	Timeline	Early warning signs
1. Political and Administrative Environment					
High-level political support to PFM	Frequent changes in government personnel with shifting policy emphasis on PFM reform, including TSA and financial reporting	Ministers and other political leaders across the political spectrum will be briefed regularly on the importance of PFM including TSA and implications of any policy changes, and implementation of Nepal Public Sector Accounting Standards (NPSAS). Such high level stakeholders will also be briefed about the interest of CSOs in PFM reform. Flexibility will be allowed in project implementation arrangements to accommodate suggestions for changes that do not affect project objectives.	PEFA SC	August and March every year, and immediately after a change in Government	Political decision-makers not fully aware of PFM and TSA reform efforts, and not aware that this is a topic of interest to civil society and CSOs on the demand-side
Commitment of administrative leadership to PFM reform	Poor internalization of PFM reform activities in most of the GoN line ministries, especially the willingness to share information by sections of MoFALD with aligned partners of the LGCDP on sensitive subjects and the reforming of the grievance mechanisms to address such issues raised by local citizens in the districts where the project is implemented.	GoN Secretaries and other senior staff will be briefed on the findings of PEFA Assessment (2014) and the Government's response to them. At the time when PEFA holds interactions with senior staff at line ministries to brief them on Project activities and seek their feedback, the involvement of CSOs in PFM reform will be mentioned & encouraged. The project will seek to share and review data from its SSE PETS surveys with the MoFALD and encourage new strategies to improve the functioning of local grievance mechanisms at the VDC and district levels.	PEFA Sect. PEFA Sect	Life of MDTF.	General perception that PEFA Sect. is part of FCGO, and that PFM reform is a legitimate field of activity for civil society & CSOs. Difficulty in obtaining required data on SSE complaints or the # of grievances that are reported and acted upon coming from the LBs.
	Lack of a shared understanding on the role of PEFA Secretariat in relationship to the role of CSOs and the demand side of citizen engagement in PFM reform, especially with regard to sharing of supply-side data.	The composition of PEFA Secretariat is being reviewed to bring all major spending ministries on board (e.g., Education, Health, MLD, MPPW). PEFA Secretariat MoU with PRAN will be reviewed to ensure that it contains reference to the legitimate demand-side activities and information sharing as part of the PFM reform process.	PEFA SC		
2. Organizational Arrangements and Capacity Development					
Coordination in project implementation	Ability of CECI to make sure all potentially interested and best performing CSOs are aware of the opportunities presented by the project.	Use of the network of CSOs previously selected by the CECI Grant Management Committee with field experience in PFM-related issues	CEC	throughout	The focus will be in 15 MDTF PRAN Phase 2 districts

Areas of work	Issues likely to affect project performance	Actions to address the issues	Responsible agency	Timeline	Early warning signs
	Ability of CECI to continue to manage the process of collection of expressions of interest, concept papers, proposals and grant decisions	Continuation of the process already established and working well	CECI	throughout	Since there is a gap in the start-up of PRAN Phase 2 after Phase 1, will all the CSOs and SAcPs be still available.
	Ability of CECI to identify national and policy level NGOs which can interact with PEFA	Concerted interaction with networks of national level policy on PFM	CECI and PRAN	throughout	Difficulty in finding national level CSOs experienced & committed to PFM reform
	Ability of PEFA to share information with CSOs and include them in its work.	PEFA inviting CECI and PRAN to discussion meetings at the PEFA Secretariat, and allowing space for CSOs to be involved in PEFA analytical work	CECI and PRAN	throughout	Lack of previous field-based activities between PEFA Secretariat and PRAN/CECI
Capacity building	CSOs have insufficient skills to expand to cover ten VDCs in Phase 2	CECI and PRAD will continue to provide in situ and capacity building interventions to those CSOs and SAcPs that require support in planning and training.	CECI, PRAD	throughout	This will be a major increase in responsibility for the SAcPs.
	CSOs have insufficient skills to train local government staff on PFM	CECI and PRAD will continue to provide mentoring to sub-grantees on knowledge instruments	CECI, PRAD	throughout	CECI's monitoring reveals weak project implementation among some CSOs
	National partners have insufficient knowledge of PFM to engage with their government counterparts	PRAN and PRAD will arrange workshops and in-service training courses on PFM for all levels of staff and implementing partners, as required	PRAN, PRAD	In first six months	PRAN's monitoring of national level interaction with GoN bodies reveals need for more PFM training and exposure
	PRAN partners do not easily find mature and experienced PFM trainers who can adapt their training to civil society & CSOs	PRAN will identify expertise locally at the start of the project and, if necessary, seeks support from India if required	PRAN	In the first six months	PRAN's monitoring of PRAD's ability to set up training courses.
	Government departments are reluctant to involve civil society & CSOs in PFM reform	PRAN will continue to build relationships with the MoFALD, the PEFA secretariat and other relevant GoN agencies	PRAN	As needed	PRAN's monitoring of PEFA Secretariat's behavior vis-a-vis CSOs
3. Monitoring and Evaluation					
Inputs	Delays in finalizing a new grant agreement with CECI or delays in processing the procurement of CECI for additional funds	Begin negotiations with CECI as soon as possible on the new contract and obtain as much clarity as possible after the approval of the Project Proposal about what CECI will be responsible for in Phase 2.	PRAN, WB NCO FM, CECI	Jan 2015	CECI does not agree to elements of the project proposal because they were changed later on.
Processes	Over complicated and legalistic procedures	Operational manuals clarified and enforced for project activities	PRAN, WB NCO, CECI	Jan 2015	Delays in achieving agreed milestones

Areas of work	Issues likely to affect project performance	Actions to address the issues	Responsible agency	Timeline	Early warning signs
Outputs	Slipping deadlines for specific outputs	Early warning indicators will be put in place for important milestones	PRAN, CECI	Jan 2015	Public complaints about poor performance
	Weak quality assurance mechanisms	Project beneficiaries will be involved in monitoring project activities	PEFA Sect.	throughout	Unfavorable reports on project activities, including in the media
4. Transparency and Accountability					
Public access to information	Lack of transparency and access to information hinders broad-based citizen participation in PFM practice and policy discussions.	Project information will be available on the project website. Access to red book district level budgets will be easily available. Access to village budgets will be easily available. National and district information, particularly on audits will be publicly available and easy to access. Media, including newspapers and electronic media, will publicize information.	PEFA Sect./OAG FCGO	throughout	Grievances from stakeholders about poor transparency or inclusion in project activities
	Lack of effective and respected local grievance mechanisms	Revise local grievance mechanism with the MoFALD through the LGCDP	CECI	2015	
Achieving Results	Project results and milestones are not clearly defined.	Project outputs and outcomes will be defined clearly with measurable indicators to assess performance before the start of the project.	PRAN PCU, CECI	May 2016	Poor public engagement or interest in project activities.
	Inadequate dissemination of results	Project results will be publicized widely with lessons learned through the LGCDP Output 2 and within the MoFALD, as well as through OAG annual audit reports, as well as through specific reports on district and performance audits.		Annual Program learning and Sharing	Lack of support or active engagement by the OAG or PEFA Secretariat with the demand side of PFM.

Annex 3: CSO District Selection

CSOs Selected for MDTF DEMAND SIDE (PRAN) 2nd Phase

January 2015 - June 2016

CSOs Selected from Previous MDTF/PFM Districts

Development Region	District	Name of CSO	Head of CSO	Name of SAc practitioner	VDCs & Municipality in the district	Total population of the district
Far-Western	1. Bajura	1. Dalit Empowerment Center (DEC)	Mr. Purna Bdr. Sarki	Ms. Uma Rokaya	27 VDCs	134,912
		2. Human Society for Poor Upheaval Sacrifice (PUSH)	Mr. Jasiram Sahani	<i>To be identified</i>		
	2. Kailali	1. Rastriya Dalit Network (RDN) Nepal	Mr. Ganesh BK	Ms. Bimala SK	42 VDCs/3 Municipality	775,709
		2. Kamaiya Pratha Unmulan Samaj (KPUS)	Ms. Basanti Chaudhari	Ms. Nisha Chaudhari		
Mid-Western	3. Dang	1. Social Institution for Skill Employment and Awareness (SISEA) Nepal	Ms. Sajida Siddikki	Ms. Sajida Sidikki	39 VDCs/2 Municipality	552,583
		2. Society for Environment Education Development (SEED)	Mr. Bhagiram Chaudhari	Mr. Bhagiram Chaudhari		
	4. Rolpa	1. People's Oriented Service Centre (POSC)	Mr. Hira Bdr. Gharti Magar	Mr. Hira Bdr. Gharti Magar	51 VDCs	224,506
		2. Human Rights Awareness Centre (HURAC)	Mr. Ghanashyam Acharya	Ms. Lila Kumari Gharti magar		
Western	5. Gorkha	1. UN Nepal	Mr. LaxmaM Babu Acharya	Ms. Durga Gurung	66 VDCs/1 Municipality	271,061
		2. Awareness Group of Oppressed Women (AGOW) Nepal	Ms. Bishnu Maya Ramtel	Ms. Bishnu Maya Ramtel		
	6. Kapilvastu	1. Shisawa Community Development Centre (SCDC) Nepal	Mr. Abdul Kalam	Mr. Rafatulla Khan	67 VDCs/3 Municipality	571,936
		2. Kalika Self-reliance Social Centre (KSSC)	Mr. Krishna Kumar Khadka	Mr. Krishna NarayanTiwari		
	7. Palpa	1. Liberation of Oppressed Development Centre (LODC)	Mr. Siru Prasad Gotame	Mr. Thakur Lohagun	60 VDCs/2 Municipality	261,180
2. Social Resource Development Centre (SRDC) Nepal		Mr. Choplal Giri	Ms. Manju Ghimire			

Note: All selected CSOs from the previous MDTF/PFM districts are experienced in using the following SAc tools: (1) budget demystification and awareness (2) gender and pro-poor budget analysis (3) Public Expenditure Tracking Survey (PETS) and (4) public procurement monitoring

CSOs Selected from Eight SPBF Districts

Development Region	District	Name of potential CSOs	Head of CSO	Name of SAC practitioner	VDC and Municipality in the district	Population
Eastern	1. Dhankuta	Human Rights Social Awareness and Development Center (HUSADEC)	Mr. Bidur Subedi	Mr. Nirmal Chongbang	35 VDCs/1 Municipality	163,412
		Woman Empowerment Support Team (WEST)	Ms. Sabita Sharma Adhikari	Ms. Sabita Sharma Adhikari		
	2. Saptari	Mahuli Community Development Center (MCDC)	Mr. Shyam Kanta Chaudhari	Mr. Shyam Kanta Chaudhari	99 VDCs/3 Municipality	639,284
		Janachetana Dalit Sangam	Mr. Baldev Ram	<i>To be identified</i>		
	3. Siraha	Mahila Uddhar Sewa Kendra (MUSK)	Ms. Rita Dahal	Ms. Khim Shrestha (Laxmi)	99 VDCs/3 Municipality	637,328
Dalit Samaj Sewa Sangh (DSSO)		Mr. Nainilal Ram	Mr. Radheshyam Ram			
Central	4. Dhanusha	Janake Woman Awareness Society (JWAS)	Mr. Rajan Nepal	Mr. Nub Raj Bhandari	93 VDCs/3 Municipality	754,777
		Rural Development Foundation (RDF)	Mr. Vishnu Kunwar	<i>To be identified</i>		
	5. Bara	Rural Region and Agro-forestry Development Center (RRAFDC)	Mr. Hari Narayan Sah	<i>To be identified</i>	90 VDCs/3 Municipality	687,708
		Jana Jagaran Youth Club (JJYC)	Mr. Bhaiya Ram Yadav	Mr. Ujwal Subedi		
Mid-Western	6. Banke	Bageswori Asal Sashan Club (BAS)	Mr. Namaskar Shah	Mr. Namaskar Shah	44 VDCs/2 Municipality	491,313
		Human Rights Protection and Legal Service Center (HRPLSC)	Mr. Top Bahadur Khadka	Mr. Bishnu Prasad Pokhrel		
	7. Bardiya	Geruwa Rural Awareness Association (GRAA)	Mr. Laxman Prasad Chaudhari	Mr. Babu Ram Kandel	25 VDCs/2 Municipality	426,576
		Manpur Yuba Samaj (MAYUS)	Mr. Dan Bahadur BK	Mr. Laxman Dhungana		
Far-Western	8. Bajhang	Sahara Nepal	Mr. Gyan Bahadur Bohora	Mr. Gyan Bahadur Bohora	42 VDCs/1 Municipality	195,159
		Saipal Bikas Samaj	Mr. Kabindra Khadka	Ms. Satya Swar from Achham-experienced in MDTF/PFM		

Note:

A. The following CSOs from newly selected districts are experienced in following SAc tools.

- (1) Community Score Card (CSC): Janaki Woman Awareness Society (JWAS), Dhanusha
Sahara Nepal, Bajhang
Geruwa Rural Awareness Association (GRAA), Bardiya
Human Rights Protection and Legal Service Centre (HRPLSC), Banke/Rukum
- (2) Grievance Redress Mechanism: Bageshwori Asal Sasan (BAS), Banke
- (3) Citizen Report Card (CRC): Human Rights Social Awareness and Development Centre (HUSADEC) and Woman Empowerment Support Team (WEST), Dhankuta
- (4) Public Audit and Public Hearing: Rural Region and Agro-Forestry Development Centre (RRAFDC), Bara
- (5) Right to Information: Jana Jagaran Youth Club (JJYC), Bara
- (6) Participatory Budget Analysis: Mahuli Community Development Centre (MCDC), Saptari

B. Other newly proposed CSOs require more pre-service field training in selected SAc tools.

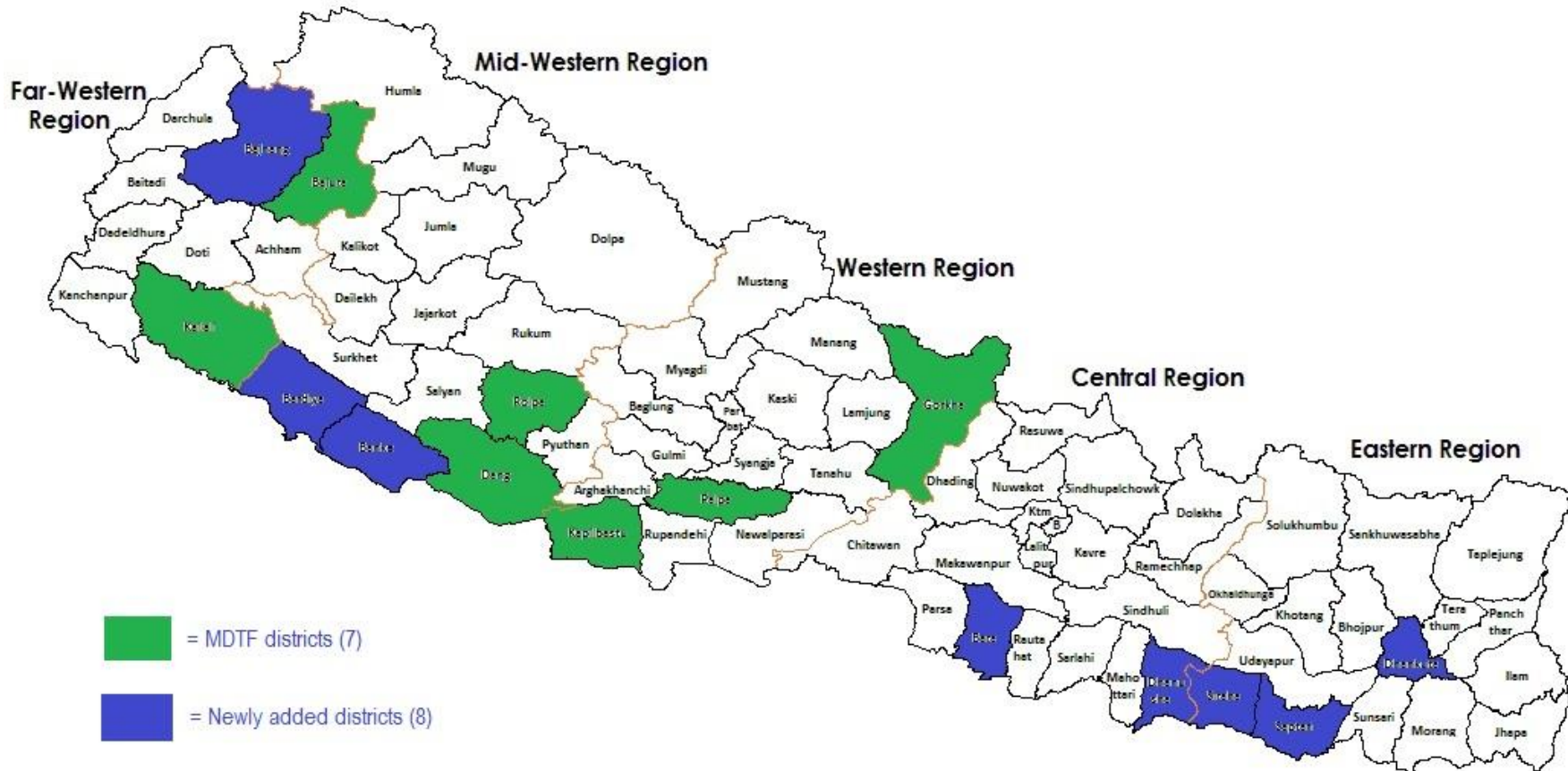
CSO Regional Distribution and Inclusiveness of CSO Heads and SAc Practitioners

SN	Region	# of CSOs	Head of CSO								
			Dalit		Janajati		Brahmin/Chhetri		Muslim		Total
			M	F	M	F	M	F	M	F	
1	Eastern	6	7	1	4	2	11	3	1	1	30
2	Central	4	Social Accountability Practitioners								
3	Western	6	Dalit		Janajati		Brahmin/Chhetri		Muslim		Total
4	Mid-Western	8	M	F	M	F	M	F	M	F	
5	Far-Western	6	2	2	4	3	9	4	1	1	26
Total		30	Note: 4 SAcPs to be identified in Bajura, Saptari, Dhanusha and Bara								

Note: 10 of 26 SAcPs (38.5%) currently selected are women. There are 4 SAcPs yet to be identified.

2 of the 26 (7.7%) SAcPs are Muslim; 4 of 26 (15.4%) are Dalits; 7 of the 26 (26.9%) are Indigenous; 13 of 26 (50%) are Brahmin/Chhetri.

Nepal



Annex 4: Financial Management and Disbursement

Adequacy of Financial Management Arrangements

CECI has gained experience of the World Bank's Financial Management and Disbursement requirements with the two projects (State and Peace Building Fund and PFM MDTF) financed by the World Bank/ MDTF. The financial management performance of both the projects was satisfactory. The proposed project will benefit from CECI's experience with the Bank.

CECI has a well-established financial management system with standard operating policies and manuals as prescribed by CECI Head Office in Canada. The standard guidelines are available in the form of: Personnel Manual, Administrative Manual, and Financial Manual. For implementation of the PRAN projects, supplemental project specific guidelines (Operational Manual) have also been prepared which can be adopted for the project with incorporation of required changes. Considering the well-established overall financial management system including computerized accounting system, internal control system and dedicated team of experienced finance staff, which resulted in satisfactory FM performance of the projects implemented by CECI, the FM risk is assessed as "Moderate" for the proposed project. The details of various FM aspects are provided below.

Planning and Budgeting

The proposed project will follow the procedure of CECI as provided in its Financial Manual. The Manual has a well-defined procedure for planning, budgeting and budget control. The project management team (Project Team Leader and Project Officer) in coordination with the Finance Unit is responsible for preparing annual budget and work plan that reflect the activities as per the arrangements in the Project Paper and the legal agreement, which will be reviewed by the Financial Controller and approved by the Country Representative. Based on the experience of the CECI implemented projects, the planning and budgeting procedure is considered effective.

Funds Management

The Financial Manual describe arrangements for fund release, fund transfers and cash management system. Roles and responsibilities for fund management are clearly described and adequate control system arrangements are in place. The funds flow arrangement with the Bank, CSOs and other stakeholders was working well in the PRAN projects.

Staff for Financial Management

Similar to previous projects implemented by CECI, a Finance Officer will be designated for this project who will be accountable for overall financial management of the Project, working in collaboration with the finance staff of CECI to facilitate processing of transactions. CECI is adequately staffed with personnel that have the requisite qualification and experiences needed for project implementation.

Accounting, Financial Reporting and Internal Controls

CECI follows cash basis accounting system and the project accounts will be prepared based on the same. The computerized accounting system adopted world-wide by CECI organizations has been slightly customized for Nepal with provision for adding codes for additional activities. CECI will ensure that separate books of accounts are maintained for the project and financial reports to monitor progress are submitted on quarterly basis. The financial reports will be submitted within 45 days from the end of the preceding quarter-end of CECI's financial year. The well-defined chart of accounts allows meaningful summarization of financial transactions for financial reporting purposes. As required by the Financial Manual, CECI will maintain required ledgers including the Designated Account Ledger. The books of accounts are timely updated by CECI and financial reports have also been usually submitted on time. Internal control process as described in the Manual will be applied to monitor the progress of the project in accordance with sound accounting practices. In addition to the standard Head Office prescribed Manuals, some aspects of Admin Policy/Manual have been customized in the context of Nepal, e.g. procurement, vehicle management, usage of office equipments. The various required registers for Fixed Assets, Stock etc. have been maintained. Periodic physical verification of assets are also carried out. The books of accounts are reconciled on monthly basis. As stated in the Financial Manual, the Financial Controller carries out internal audit of Country Office and Projects on a monthly basis. The Financial Controller issues review reports to the attention of the Country Representative, Project Team Leader and Head Office (Coordinator for Asia). The quarterly progress reports are also shared with Head Office (Coordinator for Asia).

The arrangements with CSOs have been adequately defined in the Operational Manual developed for implementation of PRAN projects. As the same evaluation and monitoring mechanism will be followed in the project, the same Operational Manual can be adopted for this project. Monitoring mechanism is well established with quarterly reviews conducted for both technical and financial reports submitted by the CSOs. Based on lessons learnt from PRAN implementation, CECI was advised to incorporate changes as required in the Operational Manual. The overall financial management including accounting, financial reporting and internal control systems of CECI are considered satisfactory as demonstrated by the implementation of PRAN projects.

Disbursement Arrangement

As the report-based disbursement method adopted in previous projects implemented by CECI was working well, the same will be continued. As part of progress reports, CECI will submit the Implementation Progress Report (IPR) on a quarterly basis of which "Interim Unaudited Financial Report" will form the basis of disbursement based on cash forecasts for two quarters. The interim financial report of the project IPR will report total investments to be separated by specific category and/or component so that total investments as envisaged can be tracked and monitored. The same format used in previous projects will be continued. The financial report will include (a) transfers of funds to and from the Designated Account, (b) expenditure statements against each budget head by detail classification according to the chart of accounts and as required for the project (c) a cash forecast statement for the following two quarters accounting for the current balance in the Designated Account,

External Audit

The financial year of CECI is April 1 to March 31. The financial statements of CECI Nepal are consolidated at the Head Office level for audit of the consolidated financial statements. The latest audit report received for the consolidated CECI financial statements was with unqualified opinion for the financial year ending March 31, 2013.

CECI Nepal appoints external auditor through a competitive process from amongst the auditing firms having affiliations with internationally reputed accounting and auditing firms to carry out the audit of Nepal Office and projects. The audit reports received are with unqualified opinion with no major issues raised by the auditors. The audit reports are also received on time, usually within five months from the end of the financial year. The same audit firm has been conducting the external audit of CECI Nepal for the last three years. Considering the risk of independence being affected with years of association, it was recommended to change the auditor to ensure independence.

The following audit requirements of the previous projects will be continued:

Implementing Agency	Audit	Auditors	Completion Date
CECI-Nepal	Project Financial Statements (including Designated Account)	Independent Audit Firm appointed by CECI-Nepal	6 months after the end of fiscal year (September 30th)

Financial Management Action Plan

The Action plan to strengthen the financial management capacity of the implementing agency agreed with CECI-Nepal is as below:

Financial Management Action Plan

Action	Responsibility	Completion Date
1. Revise Operational Manual for the project as required	CECI	Within one month of signing of the Agreement
2. Prepare work program and budget with a separate identifiable budget code for the project	CECI	Within one month of signing of the Agreement

Disclosure of Information and Corporate Governance

Disclosure requirements will be complied with to make information transparent and all information readily available for public disclosure. CECI will post in its website all available guidelines, procedures, and other key information related to PRAN Project. CECI will also disclose the following through its website: Quarterly Implementation Progress Reports (approved versions); and Annual Audited Financial Statements.

Supervision Plan

Project implementation progress will be closely monitored by the Bank and support provided on financial management as required. Key FM fiduciary work includes: (i) reviews of implementation progress reports and audit reports and preparing summaries of such reports; and (ii) participating in supervision missions and keeping the team informed of FM issues or improvements.

Disbursement

Allocation of grant proceeds

Disbursement under proposed grant will be made as specified in the below Table, which indicates the percentage of financing for different categories of expenditures of the project.

Table C: Allocation of Grant Proceeds

Expenditure Category	Amount in USD	Financing Percentage
1. Sub-Grants	600,000	100%
2. Goods, consultants' services, training and CECI management costs	350,000	100%
Total Project Costs	950,000	100%

Designated Account

To facilitate disbursements, a Designated Account in US Dollars will be established at NABIL Bank, on terms and conditions satisfactory to the World Bank. The authorized allocations for Designated Account will be equivalent of two quarter cash requirements as per approved annual work program and budget. Actual expenditures will be accounted in each quarter report which will be adjusted against next quarter's cash requirement in order to determine the need for further advance or recovery, if there are enough cash balances in the Designated Accounts. The project cost payments can be made directly from the Designated Account.

The designated account will be operated under joint signatures of the Project Team Leader and the designated Finance Officer.

CECI will ensure that the bank/cash books are reconciled with bank statements every month. They will separately submit replenishment applications for the Designated Accounts on a quarterly basis, and replenishment applications will be accompanied by reconciled statements from the bank. Supporting documentation will be maintained by CECI for at least one fiscal year after the year in which the last disbursement from the grant took place, and will be available for review by World Bank staff and independent auditors.

Annex 5: Procurement Plan

(Hem will provide)