



Report and Recommendation of the President to the Board of Directors

Project Number: 40554
November 2007

Proposed Asian Development Fund Grants Nepal: Rural Reconstruction and Rehabilitation Sector Development Program

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 November 2007)

Currency Unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.0159
\$1.00	=	NRs62.89

- (i) The Nepalese rupee is pegged to the Indian rupee (Re) at NRs1.60 to Re1.00 and is fully convertible on all current account transactions.
- (ii) For calculations in this report, the exchange rate of \$1.00 = NRs64.0 is used, the rate prevailing during the Appraisal Mission.

ABBREVIATIONS

ADB	–	Asian Development Bank
CPN/M	–	Communist Party of Nepal–Maoist
DDC	–	district development committee
DFID	–	Department for International Development
DIST	–	district implementation support team
DOLIDAR	–	Department of Local Infrastructure Development and Agricultural Roads
DPO	–	district project office
DRILP	–	Decentralized Rural Infrastructure and Livelihood Project
DTO	–	district technical office
FY	–	fiscal year
GDP	–	gross domestic product
km	–	kilometer
LBFAR	–	Local Body Financial Administration Regulations
LEP	–	labor-based, environment-friendly, and participatory
LSGA	–	Local Self-Governance Act
MLD	–	Ministry of Local Development
MOF	–	Ministry of Finance
NPC	–	National Planning Commission
NRN	–	nonresident Nepali
O&M	–	operation and maintenance
OFID	–	OPEC Fund for International Development
PBA	–	program-based approach
PCU	–	project coordination unit
PICC	–	project implementation coordination committee
PPMO	–	Public Procurement Monitoring Office
PPMS	–	project performance management system
PSC	–	Public Service Commission
RBG	–	road-building group
RRRSDP	–	Rural Reconstruction and Rehabilitation Sector Development Program
SDC	–	Swiss Agency for Development and Cooperation
SHG	–	self-help group
SOE	–	statement of expenditure
TYIP	–	Three-Year Interim Plan
VDC	–	village development committee
VICCC	–	village infrastructure construction coordination committee
VIUG	–	village infrastructure user group
VOC	–	vehicle operating cost

WSS – water supply and sanitation

NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 15 July. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2007 ends on 15 July 2007.
- (ii) In this report, "\$" refers to US dollars.

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GRANT AND PROGRAM SUMMARY

Recipient	Nepal
Classification	<p>Targeting classification: General intervention</p> <p>Sector: Multisector (agriculture and natural resources; transport and communications; water supply, sanitation, and waste management)</p> <p>Subsectors: Agriculture sector development, roads and highways, water supply and sanitation</p> <p>Themes: Sustainable economic growth, inclusive social development, governance</p> <p>Subthemes: Developing rural areas, human development, public governance</p>
Environment Assessment	<p>Category B. An environmental assessment and review procedures, initial environmental examinations for core subprojects, and a summary initial environmental examinations were prepared and are included in the supplementary appendixes.</p>
Rationale	<p>Nepal has made significant progress in combating poverty and improving the standard of living even in a conflict environment. This is evidenced by increases in per capita income and consumption for all quintiles of the population. However, progress has been uneven with districts far removed from the center having fewer economic opportunities and poorer service delivery. As a result, the most isolated people, disadvantaged women, ethnic groups, and castes have benefited less from development interventions. Similarly, political and administrative reforms have been inadequate to improve service delivery, transparency, accountability, and inclusiveness. Nepal, with a Gini coefficient of 47.3 in 2003, has the highest rate of inequality in Asia.</p> <p>In the aftermath of armed conflict, Nepal has shown commitment and pragmatism in its efforts to tackle both the political and development agenda, as evidenced by actions taken to bring about electoral and administrative reform aimed at increasing the effectiveness of poverty reduction policies, service delivery, and inclusive growth. Nonetheless, continuing attention to policies that influence economic opportunities and public service delivery to improve inclusion and governance is required. The Government's Three-Year Interim Plan forms the basis for the economic and social transformation of Nepal.</p> <p>The country has one of the lowest road densities for a landlocked country, with some villages as far as 13 days walk from the nearest road. The lack of connectivity is a serious constraint for economic development and social inclusion. The assessment made under the Millennium Development Goals indicates the need for additional 30,000 kilometers (km) of rural roads by 2015. The country currently has about 22,000 km of rural roads. Road standards vary significantly. Less than half are motorable and of this only about 60% are categorized as all-weather. The need for development of rural transport, particularly of rural roads, is thus huge and will require a major investment in the medium term.</p>

The country operations business plan of the Asian Development Bank (ADB) for Nepal for 2008–2010 foresees that substantial peace and development dividends could be gained by the economy in the coming years. The proposed Rural Reconstruction and Rehabilitation Sector Development Program (RRRSDP) builds on ADB's key role in supporting the processes for institutionalizing good governance and inclusive development for poverty reduction, to which the Government has demonstrated commitment. By extending support, ADB will provide much-needed resources for the state building process and poverty reduction by simultaneously (i) improving the policy environment for inclusive growth, and (ii) reconstructing and rehabilitating rural infrastructure.

Impact

Comprising a program grant and a project grant, RRRSDP will reduce rural poverty in hill, mountain and *terai* (lowlands) districts in Nepal where isolation and hardship are common. RRRSDP will focus on immediate post conflict development priorities for accelerating poverty reduction and inclusive development, thereby enhancing the effectiveness and efficiency of the delivery of public services, and improving access of rural residents to economic opportunities and social services.

The Program Grant Outcome

The outcome of the Program will be greater economic and social inclusion, good governance, and accelerated service delivery in rural infrastructure through improved policies, regulations, and institutions.

The policy matrix is structured around three key outputs to achieve (i) enhanced poverty reduction and inclusive development, (ii) improved and inclusive governance and decentralization, and (iii) strengthened support for rural infrastructure development. The outputs are designed to directly address the core of ADB's country strategy and program by reducing exclusion and poverty, which are the underlying root causes of the conflict. The salient features of the policy matrix include (i) increasing the representation of women and excluded groups in political institutions, and integrating gender issues in policy instruments; (ii) improving broad representation of ethnic groups, castes, and regions in civil service; (iii) improving inclusiveness and access to benefits and opportunities; (iv) strengthening participatory and transparent budgeting; (v) improving governance and decentralization; (vi) enhancing the implementation capacity of district technical offices; (vii) strengthening capacity for output, outcome, and impact monitoring; (viii) improving procurement and financial management; (ix) supporting policies for private sector participation in infrastructure development; (x) improving investment opportunities; and (xi) developing rural infrastructure for disadvantaged communities.

Financing Plan

A single tranche program grant of \$50 million will be provided from ADB's Special Funds resources upon grant effectiveness, subject to completion of all of the policy actions included in the policy matrix. In determining the amount of the program grant, the following factors were considered: (i) scope and relevance of the policy reforms for improving governance, public service delivery, and inclusion; (ii) timeliness of assistance to support the country's return to economic, political, and social progress and stability;

(iii) immediate cost of the reforms and associated financing gap; and
(iv) government commitment to strengthen the decentralization process for accelerated poverty reduction.

Program Period 1 January 2008 – 31 December 2011

Procurement The program grant will be used to finance the foreign exchange cost of items produced and procured in ADB member countries, excluding items included on a list of ineligible items, and imports financed by other bilateral and multilateral sources. The recipient will certify that the volume of eligible imports exceeds the amount of ADB's projected disbursements under the program component in a given period. ADB will have the right to audit the use of the grant proceeds and to verify the accuracy of the recipient's certification.

Executing Agency Ministry of Finance

The Project Grant Outcome

The outcome of the Project will be improved connectivity, enhanced economic and employment opportunities, and increased access to market and social services of rural communities. The outputs include (i) improved rural roads; (ii) developed and improved community-based supplementary rural infrastructure; (iii) enhanced equity, employment, and income opportunities for the poor and disadvantaged; (iv) strengthened institutional capacity of the Ministry of Local Development, Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR), district development committees, and communities; and (v) improved project management.

Investment Plan The project investment cost is estimated at \$78.4 million, including taxes and duties of \$4.0 million.

Financing Plan A grant not exceeding \$50 million will be provided from ADB's Special Funds resources to finance 63.8% of the total project cost. Cofinancing will be provided in accordance with the following table.

(\$ million)

Source	Total	%
Asian Development Bank	50.0	63.8
OPEC Fund for International Development	10.0	12.8
Government of Nepal	15.7	20.0
Beneficiaries	2.7	3.4
Total	78.4	100.0

OPEC = Organization of Petroleum Exporting Countries.
Source: Asian Development Bank estimates.

Period of Utilization Until 30 June 2012

Estimated Project Completion Date 31 December 2011

Procurement and Disbursement Goods, related services, and civil works will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time).

Disbursements will be in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). Consultants will be recruited in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time).

Executing Agency Ministry of Local Development

Implementation Arrangements DOLIDAR will be the central Implementing Agency. A project coordination unit will be established in DOLIDAR. A project coordinator at class one will head the unit and report to the secretary of the Ministry of Local Development through the director general, DOLIDAR. Assisted by central implementation support consultants, the project coordination unit will provide coordination and guidance for all facets of project implementation, including engineering, safeguards (environment, social, and resettlement), financial management, and procurement.

District development committees will be the implementing agencies in the districts with the district technical office as the technical wing. Each project district will have a district project office established within and led by the head of the district technical office, and assisted by a district implementation support team. The district project office will (i) prepare annual work programs, (ii) finalize detailed subproject designs, (iii) ensure all safeguard measures are complied with, (iv) supervise all construction activities, (v) organize training in the communities, and (vi) arrange procurement.

Impact, Benefits, and Beneficiaries

Poverty issues will be directly addressed through the positive impact of the policy actions on service delivery to the poor and excluded groups. The policy reform process will contribute to overcoming exclusionary barriers, promote inclusion, and bring about pro-poor growth. RRRSDP will help reform the political institutions and bureaucracy for improved service delivery and public accountability with positive impacts on poverty reduction. Affirmative actions will increase the options of excluded ethnic groups/castes and women to participate in state administration, and actively increase their control and command over resources. Similarly, for the project grant, utilization of affirmative action will lead to more inclusive development outcomes.

Growth prospects will be improved because of the introduction of measures to enhance efficiency and transparency. These measures have the potential to stimulate private sector productivity and investment. The project grant will generate employment and income through the labor-intensive infrastructure work and development of livelihood enhancement skills. Linking the rural population with markets and technology, RRRSDP will benefit an estimated 2.6 million people. In terms of direct employment, it will generate more than 15.8 million person-days of labor, or 4 years of full-time work for 13,200 rural poor.

RRRSDP will improve and strengthen organizational capabilities for developing and managing rural infrastructure, in particular for coordinating policies and programs, cooperating with local bodies in service delivery, and improving implementation capacity. It will build institutional capacity to

streamline existing government mechanisms for oversight, and the management of central and local financial information.

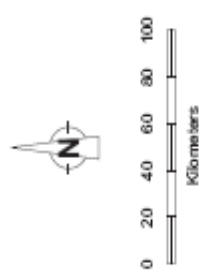
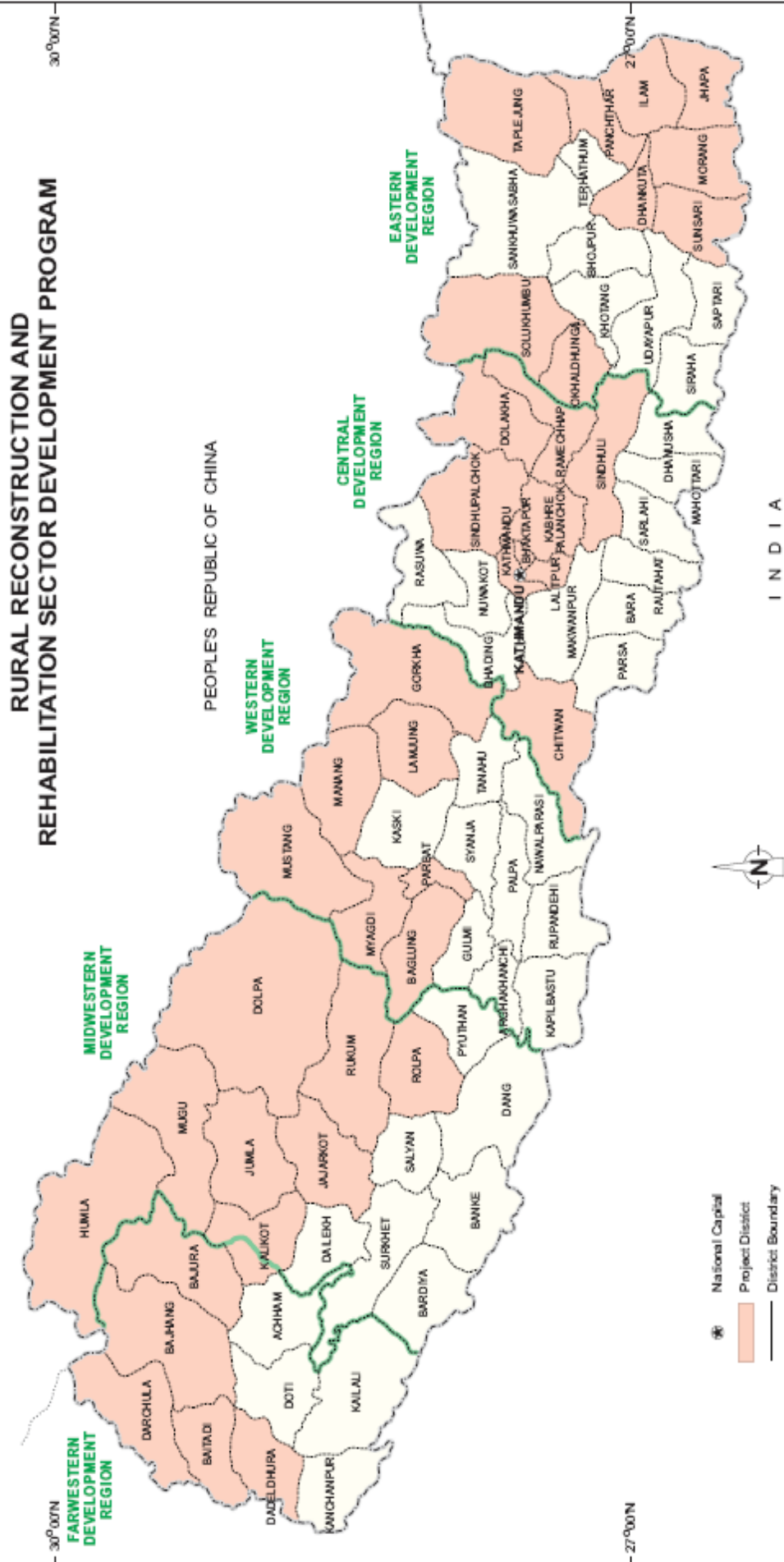
Risks and Assumptions

Risks include (i) political instability, including frequent changes in the Government; and (ii) weak commitment to implementing new legislation and regulations. Although the political transition could become stalled, the first risk will be minimized by engaging and supporting the Government in its reconstruction, rehabilitation, and social and economic inclusion endeavors. The second risk is mitigated as policy actions taken by the Government show commitment to (i) making institutions more representative and inclusive, (ii) improving service delivery, and (iii) strengthening institutions for accountability and transparency. These actions demonstrate the political commitment and ownership shared by all parties and groups at large, and that resources will be available to continue the reform process and expedite implementation of the investment Project. One positive development is the emergence of strong pressure groups for reform in civil society. In addition, the program design takes into account national and local implementation capabilities.

Risks for project implementation include weak capacity in the districts to manage multilateral-funded projects, and localized tensions that could slow implementation of the investment Project. These risks are mitigated as the project design provides (i) capacity building programs designed to meet the needs of the participating districts and DOLIDAR; (ii) project-procedure training in the local language and covering procurement, financial management, environment, and resettlement; (iii) use of open and participatory consultative discussions; (iv) institutionalization of public audits; (v) flexibility in design; and (vi) building on ongoing activities, especially the Decentralized Rural Infrastructure and Livelihood Project. Experience during the conflict period shows that development can be delivered with an appropriate design and participatory modality.

NEPAL

RURAL RECONSTRUCTION AND REHABILITATION SECTOR DEVELOPMENT PROGRAM



- National Capital
 - Project District
 - District Boundary
 - Regional Boundary
 - International Boundary
- Boundaries are not necessarily authoritative.

88°00'E

30°00'N

82°00'E

30°00'N

27°00'N

88°00'E

82°00'E

I N D I A

PEOPLES REPUBLIC OF CHINA

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed program grant, (ii) a proposed project grant, both to Nepal for Rural Reconstruction and Rehabilitation Sector Development Program (RRRSDP), and (iii) proposed administration by the Asian Development Bank (ADB) of a loan to be provided by the OPEC¹ Fund for International Development (OFID)² for RRRSDP. The design and monitoring framework is in Appendix 1.

II. THE SECTOR: PERFORMANCE, PROBLEMS, AND OPPORTUNITIES

A. Sector Description and Performance

2. **Political Developments.** Nepal underwent dramatic political changes in April 2006, 15 months after direct rule by King Gyanendra. In the wake of mounting confrontation with the King and his Government on the issue of restoring democracy, the alliance of seven political parties supported by the Communist Party of Nepal-Maoist (CPN/M) launched nationwide protests demanding the reinstatement of the dissolved Parliament, and elections to a constituent assembly. Following the prolonged popular agitation, in April 2006 the King relinquished the state powers he had assumed on 1 February 2005, and reinstated the dissolved Lower House of Parliament. A new interim coalition Government was formed on 2 May 2006, headed by the president of the Nepali Congress Party.

3. Following 6 months of peace dialogue the Seven Party Alliance and CPN/M signed a peace accord in November 2006. This marked a major political breakthrough, and a prosperous, peaceful, and inclusive Nepal is genuinely believed to be within reach after the 11-year armed conflict. The landmark Interim Constitution passed by the Interim Parliament on 15 January 2007, and amended in March and June 2007 with a view to meeting the demands of the wider public and ending discrimination underscores the Government's heightened focus on inclusion as a strategy for enhancing reconciliation, strengthening national unity, and resolving the conflict. The Interim Constitution gives legal recognition to cultural diversity; provides for restructuring the state to make it more inclusive; and grants special provisions for underprivileged and vulnerable ethnic groups, castes, and women to enable them to influence economic policies, institutions, and political processes. The challenge will be to develop the guidelines, human resources, and institutional capacity to effectively implement the legislation in the districts.

4. The withdrawal of the CPN/M from the Interim Government on 18 September 2007 and the postponement of Constituent Assembly elections originally scheduled for 22 November 2007 highlight the complex political and development challenges of the country. While some political differences between the Seven Party Alliance and CPN/M that led to the postponement of the elections remain unresolved (proclaiming the country a republic state before the Constituent Assembly elections, full proportional representation in lieu of the mixed electoral system), the CPN/M is still part of the eight-party alliance and remains firmly engaged in the political process. With the continuation of the ceasefire and agreement on the management of arms, the Government remains committed to take forward its rehabilitation and reconstruction efforts throughout the country. Moreover, the Government is aware that despite the fluid political situation, it must demonstrate that public services are improving if the political process is to run its course. One of the immediate critical issues for the Government is the availability of financial resources for timely and effective implementation of its policy reforms and inclusion agenda.

¹ OPEC is the Organization of Petroleum Exporting Countries.

² A project preparatory technical assistance was provided. ADB. 2007. *Technical Assistance to Nepal for Preparing the Rural Reconstruction and Rehabilitation Project*. Manila.

5. **Macroeconomic Context.** Nepal, with an annual gross domestic product (GDP) per capita of about \$300 (2005 data), is the poorest country in South Asia. With economic liberalization in the 1990s, the country achieved an annual growth rate of 4.7%; this growth rate later deteriorated, becoming negative in the early 2000s, largely due to the armed conflict that engulfed the entire country and severely affected tourism and other industries. Export growth also declined sharply during 2000–2006 resulting in an annual GDP growth rate of about 2%.

6. The country has achieved broad macroeconomic stability despite political uncertainty for the past half decade. Average annual GDP growth during 2003–2007 was 2.7% and inflation averaged 5.5%. The current account balance was 2.2% of GDP, while the budget deficit averaged 1.4% of GDP. Nepal is classified as a “less indebted country;” but its debt position remains vulnerable due to its poor export performance, low revenue to GDP ratio, and high aid dependency. Nepal’s outstanding external debt stock, which was 36.2% of GDP in fiscal year (FY) 2006, declined to 29% in FY2007, although total debt stock is estimated at 42.4% of GDP in FY2007. The external debt service ratio (% of exports of goods and services) rose to 10.7% in FY2007 compared with 9.3% in FY2006. The highly indebted poor country debt sustainability formula shows that Nepal’s net present value of external debt to exports declined from 197.8% in FY2004 to 171.3% in FY 2006. Based on its past record of timely debt servicing, Nepal has shown it is capable of managing its external debt.

7. The stable economic growth in the 1990s brought significant improvements in access to basic social services, which reduced child mortality, increased primary school enrollment, and led to more gender parity in education. With the relatively higher growth in the mid-1990s, including growth in remittances, the incidence of poverty nationwide declined from 42% to 31% between 1996 and 2004, a reduction of about 1% a year. This annual rate of decline continued through 2006 when the incidence of poverty was estimated to have fallen below 30%. While per capita income and consumption grew for all quintiles of the population, the livelihood improvement has been uneven, exacerbating gender, ethnic, and geographic inequalities. According to ADB's *Key Indicators 2007: Inequality in Asia* (2007), Nepal has the highest rate of inequality in Asia with a Gini coefficient of 47.3 in 2003.

8. ADB’s country operations business plan for Nepal for 2008–2010 ³ foresees that substantial peace and development dividends could be gained by the economy in the coming years. The economic performance of FY2007 indicates that expectations of a quick economic turnaround following the peace accord have not yet materialized.⁴ However, with the continuing peace process, sound macroeconomic management, expansion of development expenditures, strong focus on devolution, and continuance of policy reforms, GDP growth rates could reach about 3% in FY2008, ⁵ and continue increasing over ensuing years.

9. The Government’s Three-Year Interim Plan (TYIP) for FY2008–FY2010 places special emphasis on social integration and inclusive development, and forms the basis for economic and social transformation of the country. Its primary objectives are to reduce poverty, create employment, restructure and rehabilitate infrastructure damaged during the conflict, and establish peace. It envisages quick delivery of tangible benefits to the rural poor through increases in targeted programs for vulnerable groups and women. The TYIP projects attaining an annual average economic growth rate of 5.5% per annum and decreasing the percentage of people living below the poverty line to 24% by 2010. The total estimated development expenditure for the TYIP

³ ADB. 2007. *Nepal: Country Operations Business Plan 2008–2010*. Manila.

⁴ The Government expects 2.5% GDP growth for FY2007 compared with forecasted 5% at the beginning of the FY.

⁵ ADB estimates a GDP growth of 2.8% for FY2008 (ADB. 2006. *Asian Development Outlook*. Manila.), while the Government indicated in its FY2008 budget speech an expected 5% growth.

is \$4.3 billion (8.1% of FY2007 GDP and 32.1% of total investment incurred in FY2007), representing substantial targeted investments in the short term.

10. **Sector Development Context.** Since November 2006, the Government has passed a series of legislative enactments and regulatory frameworks for ending discrimination, and promoting inclusiveness and governance for accelerated service delivery and poverty reduction. These include the Interim Constitution; Non-Resident Nepali Act; and amendments to the Civil Service Act, Citizenship Act, and Procurement Act. In addition, the Government has undertaken broad policy reforms to improve the effectiveness of public expenditures, strengthen institutions, improve financial regulations, enhance implementation capacity, and improve the investment climate for rural infrastructure development. By initiating improvements in policy regimes even in a difficult political environment, the Government has clearly demonstrated its commitment to the reform process. A major challenge for the Government is to sustain the momentum and protect gains made, while monitoring its implementation vis-à-vis inclusion and balanced regional development. This will require continued attention and sustained assistance in support of the reform process.

11. The Local Infrastructure Development Policy 2004, defines the rural infrastructure sector as a composite of seven subsectors: (i) rural transport, including rural roads, bridges, and trails; (ii) rural water supply and sanitation (WSS); (iii) irrigation and river control; (iv) microhydropower; (v) housing and urban development; (vi) solid waste management; and (vii) social infrastructure. Based on the policy, an interim strategic action plan for local infrastructure development has been approved. Of the various rural infrastructure subsectors, the TYIP places the highest priority on rural transport development allocating around 60% of investments, followed by rural WSS with 15% of investments.

12. The Local Infrastructure Development Policy, which operationalizes the Local Self-Governance Act 1999, provides guidance for the development of rural infrastructure. The policy stipulates devolving planning, design, construction, monitoring, and maintenance of local infrastructure to local bodies such as district development committees (DDCs), municipalities, and village development committees (VDCs) with the involvement of beneficiaries and local communities for improvements in service delivery, cost-effective operation and maintenance (O&M), and sustainability of facilities. However, considerable investment in local capacity building is required, particularly in Nepal's remote and lagging districts.

13. The Nepal Living Standard Survey (2004) highlights the strong correlation between poverty and access to economic and social services. To achieve the Millennium Development Goals an estimated additional 30,000 kilometers (km) of rural roads are needed by 2015 to provide the connectivity required. At present, the country has an estimated 22,000 km of rural roads. However, standards vary significantly. Less than half are motorable and of this only about 60% are categorized as all-weather (Appendix 2). The scope for developing rural transport, particularly rural roads, is immense and requires a major investment in the medium term.

14. The Agricultural Perspective Plan 1996 identified lack of access as one of the principal reasons for low agricultural growth and high incidence of rural poverty. Lack of connectivity not only constrains agricultural growth but also limits the effectiveness of government efforts to reduce poverty by increasing access to gainful employment opportunities, health care, education, and other social services. Thus the Government's strategy for accelerated rural transport development following the onset of relative peace in the countryside augurs well for agricultural development and economic and social services to quickly lead to overall poverty reduction.

15. During the Tenth Five-Year Plan (FY2002–FY2007), public expenditure consistently fell below 19% of GDP. This slump in public expenditure led to low maintenance and rapid deterioration of investments in rural infrastructure, as evidenced by nonfunctioning systems. For instance, water supply coverage is reported to be 77% for the total population, and of this 65% for rural areas. Many completed schemes are either in a state of disrepair, or function much below their design capacity, indicating that a smaller proportion of the population may have access to potable water than is indicated by the official estimate. Access to reliable drinking water continues to be a major concern in towns, rural areas, and the hills and mountains.

16. Despite increasing demand, only about 70% of cultivated land is irrigated, of which 40% has year-round irrigation. In the absence of a functioning O&M system, almost all agency-managed irrigation systems deliver irrigation much below their design capacity. Hence, the actual irrigated area, seasonal and year-round, may be much lower than official estimates. However, farmer-managed irrigation systems and private shallow tubewells function reasonably well due to beneficiary participation in construction and O&M, evidencing the important role of beneficiaries for long-term scheme sustainability and reliable service delivery.

17. **ADB Country Strategy.** The 2005–2009 country strategy and program for Nepal⁶ emphasizes the need to address the root causes of the conflict by supporting broad-based growth, inclusive development, and good governance. It highlights the need for strong policy reforms and continued assistance, even in a conflict environment, to enable the country to keep a sustained focus on the development agenda. It emphasizes the need for a substantial increase in investment in rural infrastructure, and the need to adopt a decentralized Labor-based, Environment-friendly, and Participatory (LEP) approach for rural infrastructure development with provision for careful supervision and monitoring. RRRSDP objectives and approaches are consistent with the thrust and emphasis of the country strategy and program. Continued and timely ADB assistance with a reasonable degree of flexibility is critical in helping Nepal take advantage of this unique opportunity. By extending support, ADB will provide much-needed resources for continuing the state building process, while simultaneously improving the policy environment to accelerate inclusive growth.

B. Issues and Opportunities

18. **Poverty and Exclusion.** Nepal's performance during the last decade shows significant progress in combating poverty and improving the standard of living even in a conflict environment. However, economic and social outcomes in rural areas and particularly in remote areas need substantial improvement. Pro-poor and inclusive development has been constrained by a legacy of ethnic-, gender-, and caste-based exclusion, and extreme centralization in Kathmandu, which has hampered transparency and accountability. As a result, districts more distant from the center have fewer economic opportunities, poorer service delivery, and higher joblessness. A catalyst is needed to improve this environment and generate employment.

19. Persistent poverty in rural areas is linked to the unequal distribution of state resources, lack of connectivity, and commensurate high transport costs, which discourage the movement of goods and services, including ideas and technologies within and outside the region. These factors have contributed to regional disparities in economic and human development outcomes as well. The lack of physical connectivity also correlates to the lack of social connectivity and social capital. In the absence of policy reforms addressing the structural barriers that limit access to productive assets and markets, disadvantaged women, ethnic groups, and castes have not been able to

⁶ ADB. 2004. *Country Strategy and Program for Nepal 2005–2009*. Manila.

capitalize on the benefits of development interventions as evidenced by their lower human development indicators compared with other social groups.

20. **Governance and Service Delivery.** The country's experience with parliamentary democracy since 1990 significantly increased political awareness. However, subsequent political and administrative reforms were inadequate to ensure the redistribution of economic and political power for improving service delivery, transparency, accountability, and inclusiveness. Compounding the cycle of weak service delivery and lack of representation, the conflict also dismantled local governments and stalled decentralization, which was initiated in 1999 through enactment of the Local Self-Governance Act. The act provides the VDCs, DDCs, and municipalities with a legal framework for financial and development responsibilities in their own localities. However, while local bodies were made responsible for service delivery, sector policies continued to assign these responsibilities to the central Government. In addition, all 75 districts in the country regardless of population size, socioeconomic status, and fiscal and human capacity were given the same responsibilities in terms of the provision of services. Differences in endowments, the lack of clarity in the assignment of functions between sector line ministries and local bodies, and slow fiscal transfers from the center to local bodies have constrained service delivery and good governance.

21. **Institutional Capacity.** Institutional responsibility for rural infrastructure lies with the Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR), under the Ministry of Local Development (MLD). DOLIDAR has the mandate to be involved in all seven subsectors of rural infrastructure, and has accumulated successful experience in planning and implementing rural roads in coordination with the DDCs. MLD and DOLIDAR's involvement in WSS started in 1997 and expanded after approval of the Local Infrastructure Development Policy, which mandated the DDCs to implement water supply projects serving up to 1,000 people. However, DOLIDAR's capacity needs to be strengthened for it to be involved in the remaining subsectors and to be able to deliver desired results. To this end, the Institutional Strengthening Action Plan was formulated to rationally map out capacity development. The World Bank and ADB have been contributing to plan implementation to improve capacities at MLD, DOLIDAR, and the DDCs.

22. Several donor agencies support DOLIDAR's rural infrastructure development programs, particularly rural roads. Though donors have coordinated well in the sector, projects have taken separate approaches for implementation, putting pressure on the Government and the DDCs' limited technical and administrative capacity, and creating confusion among government staff. Although quality is maintained in donor-supported rural roads, these standards are not rigorously applied to Government- and DDC-financed projects and programs. Approaches and institutional arrangements thus need to be harmonized for implementing rural roads regardless of financing source with standards and best practice approaches adopted (including LEP, supplementary training and investment for communities, and community audit).

23. **Interim Development Requirements.** The TYIP estimates substantial investment requirements to restore and rehabilitate rural infrastructure, and implement appropriate policy reforms to achieve the intended goal of social and economic transformation of Nepal. Support to effectively implement legislation and policies to ensure inclusion and poverty reduction is imperative to keep a sustained focus on development. Similarly, the DDCs need institutional strengthening to effectively implement activities identified for all the subsectors. Despite DDC capacity constraints, investment in the rural road subsector is justified due to the Government's priority; DDC experience and confidence in planning, implementation, and management; and rural roads' direct contribution to enhanced connectivity, productivity, and employment opportunities. Investment in WSS and other subsectors is also justified if the schemes are small-scale, are under the jurisdiction of the DDCs, and serve poor households and disadvantaged communities.

24. **External Assistance.** Numerous rural infrastructure development and livelihood improvement projects in Nepal have focused on community-based infrastructure. Projects on rural roads, WSS, and irrigation have been supported by, among others, ADB, Department for International Development (DFID) of the United Kingdom, Swiss Agency for Development and Cooperation (SDC), and the World Bank. Major ongoing rural infrastructure projects in line with the Government's decentralization framework include the ADB-supported Community-Based Water Supply and Sanitation Sector Project, ADB- and SDC-supported Decentralized Rural Infrastructure and Livelihood Project (DRILP), SDC-supported District Road Support Program, DFID-supported Rural Access Program, and World Bank and SDC-supported Rural Access Improvement and Decentralization Project. Details on externally aided projects in the sector are provided in Appendix 3.

25. **Lessons.** The design of RRRSDP considers lessons from completed and ongoing rural infrastructure projects, as well as reform programs in Nepal and other countries. Lessons include the following:

- (i) The fluid political environment may affect the Government's ability to implement reforms effectively and at the required pace. The policy conditions, including major institutional reforms, must be based on Government capacity and willingness to implement, in consensus with concerned stakeholders and agencies. An incremental process-oriented approach that allows momentum for reforms to build and support the process itself will have a higher potential to deliver results.
- (ii) Rural roads are accorded the highest priority for rural infrastructure development, income generation, and poverty reduction. The full impacts of road investments will be realized when complemented by community-based, demand-driven, small-scale investments.
- (iii) Increasing community ownership and commitment for O&M requires analysis of user demands and needs, while securing user participation in all stages of the project cycle.
- (iv) The LEP approach calls for a flexible design and requires adequate up-front support for community and labor group mobilization and training, including timely technical backstopping and supervision, to ensure quality standards and compliance with safeguard measures.
- (v) While the DDCs are responsible for planning and implementing rural infrastructure, the central Government has an important role in policy formulation for regulating design standards, implementation procedures, environmental and social safeguards, eligibility and prioritization criteria, and financial management procedures including the provision of technical oversight.
- (vi) Resources for preparation and implementation of required social safeguard measures including resettlement plans should be made available on time to avoid project start-up delays. A government resettlement policy is needed so that each project does not need to generate an additional framework.
- (vii) O&M needs to be addressed from the beginning of subproject development to respond to such issues as skills shortage, weak capacity, and resource availability, and withstand political bias for new construction over maintenance.

26. **Rural Reconstruction and Rehabilitation.** Following the restoration of relative peace in the countryside, the Government plans to launch a concerted effort to rehabilitate rural infrastructure that was either damaged or rendered nonoperational during the conflict. The policy reforms under the program grant will (i) create a conducive environment for successful implementation of the investment project focusing on rural infrastructure reconstruction and

rehabilitation, and (ii) create an environment for ensuring more equal distribution of the direct and indirect benefits flowing from such investments. The policy reforms will address ways to enhance efficiency in implementing the investment activities, particularly relating to inclusion, poverty reduction, governance, financial management, procurement, poverty prioritization, and service delivery. The Project will improve local infrastructure such as rural roads to provide the rural population with better access to markets and public services. These improvements will lay the foundation for better economic opportunities and assist in reducing poverty.

27. RRRSDP will also support initiating a harmonized program-based approach (PBA) to rural infrastructure development. Aiming to follow similar fund-flow mechanisms and financial reporting, and to adopt identical implementation procedures, a common framework will serve as a vehicle for donors to pool resources and fund rural infrastructure investment more efficiently.

28. RRRSDP will be implemented while the DRILP is still under implementation. DRILP implementation started slowly partly due to the conflict and to the late establishment of the district implementation support team (DIST) and appointment of the district engineers. RRRSDP will seek to rectify the latter problem. Sufficient lead time needs to be allowed for preparatory work for engineering design, social mobilization, and resettlement and environmental assessments, along with efforts to undertake these activities simultaneously as much as possible.

29. The project grant for RRRSDP will focus on Nepal's 20 districts⁷ not yet covered by major donor-funded rural road infrastructure projects. The Project will additionally provide complementary support to the existing 18 DRILP districts⁸ for rural WSS – a cited priority of the Government. The remaining 37 districts of the country are either already covered or soon to be covered by similar projects including the (i) Rural Access Improvement and Decentralization Project, which covers 20 districts; the World Bank has committed to expand it to an additional 10 districts; and (ii) Rural Access Program, which covers 7 districts, for which DFID is planning to continue with a follow-on project (Rural Access Program II). With such a coordinated effort, all 75 of the country's districts will be covered by donor-funded initiatives in this sector.

III. THE PROPOSED SECTOR DEVELOPMENT PROGRAM

A. Impact

30. RRRSDP will reduce rural poverty in hill, mountain, and *terai* (lowlands) districts where isolation and hardship are common. It will focus on immediate postconflict development priorities for accelerated poverty reduction and inclusive development, thereby enhancing the effectiveness and efficiency of the delivery of public services, and improving the access of rural residents to economic opportunities and social services.

⁷ The 20 new districts are (i) Dhankuta, Ilam, Jhapa, Morang, Panchthar, and Sunsari from the Eastern Development Region; (ii) Bhaktapur, Chitwan, Dolakha, Kabhrepalanchok, Kathmandu, Lalitpur, Sindhuli, and Sindhupalchowk from the Central Development Region; (iii) Manang, Mustang, and Parbat from the Western Development Region; (iv) Rolpa and Rukum from the Midwestern Development Region; and (v) Dadelhura from the Farwestern Development Region.

⁸ The 18 DRILP districts are (i) Okhaldhunga, Solukhumbu, and Taplejung from the Eastern Development Region; (ii) Ramechhap from the Central Development Region; (iii) Baglung, Gorkha, Lamjung, and Myagdi from the Western Development Region; (iv) Dolpa, Humla, Kalikot, Mugu, Jajarkot, and Jumla from the Midwestern Development Region; and (v) Baitadi, Bajhang, Bajura, and Darchula from the Farwestern Development Region.

B. The Program Grant

1. Outcome

31. The proclamations by the Interim Parliament place inclusion at the center of key legislative enactments and address the root causes of the conflict, thus providing the starting point for the program grant. The outcome of the program grant will be support for the Government in timely and effective implementation of reforms for greater economic and social inclusion, good governance, and improved service delivery in rural infrastructure.

2. Components and Outputs

32. Building upon the country's legislative and administrative reforms aimed at increasing the effectiveness of poverty reduction policies, service delivery, and inclusive growth, the Program will assist the Government in achieving three key outputs: (i) enhanced poverty reduction and inclusive development, (ii) improved and inclusive governance and decentralization, and (iii) strengthened support for rural infrastructure development. The outputs are designed to address the core goals of reducing exclusion and poverty, which are the underlying causes of the conflict, and remain central to achieving a lasting peace. The policy matrix in Appendix 4 presents the essential actions grouped under these three headings.

a. Enhanced Poverty Reduction and Inclusive Development

33. The Government has taken impressive policy initiatives to make institutions more representative and inclusive, and to strengthen their accountability and transparency. This component supports efforts to (i) increase representation of women and excluded groups in political institutions; (ii) improve broad representation of women, ethnic groups, castes, and regions in the civil service; (iii) improve inclusiveness and access to benefits and opportunities; (iv) strengthen participatory and transparent budgeting; and (v) mainstream gender in public administration.

34. **Representation of Women and Excluded Groups in Political Institutions.** The restoration of democracy in 1990 saw little change in the participation of women, ethnic groups, and disadvantaged castes in elected government. One major reason for their underrepresentation is their limited participation in political parties, as evidenced by a low 5%–6% for women, 15% for ethnic groups and madhesi, and virtually zero for dalits.⁹ As a result these groups have had little influence in selecting candidates for elections who, once in power, appoint cabinet ministers, and influence the appointment of civil servants and consequently policy decisions. Lessons from the 1997 local elections demonstrate that when electoral policies mandate quotas, the political representation of the mandated groups increases substantially, as was the case for women. The Interim Constitution (2007) envisages bringing about broad electoral reform, and provides for inclusiveness in the selection of candidates for the Constituent Assembly by political parties for the “first past the post” and proportional electoral systems. The Constituent Assembly Member Electoral Act allocates seats to women, dalits, ethnic groups, madheshis, and the differently-abled, among others for the 240 electoral seats under the proportional electoral system. Further, the Government has demonstrated its commitment to inclusion by ratifying the International Labor Organization Convention on Indigenous and Tribal Peoples (No. 169). These actions will substantially increase the representation of women and excluded groups in political institutions, and improve accountability and inclusion for economic recovery and growth.

⁹ *Madhesi* are traditional residents of the terai, and *dalits* are socially excluded castes.

35. **Gender and Socially Inclusive Civil Service.** As in political institutions, the participation of women, ethnic groups, and disadvantaged castes in state bureaucracy is negligible. No improvement was made in the recruitment of gazetted officers from the dalits, ethnic groups, and terai castes during the decade post 1990. The share of ethnic groups in the judiciary is a low 2.4% and the civil service is only 2.3%. Women comprise 9% of the civil service, with only 2% among the decision makers. The 2007 gazetted amendment of the Civil Service Act provides for new inclusive provisions by reserving 45% of vacant posts for women, ethnic groups, madheshis, dalits, differently-abled, and underdeveloped regions. This has ensured broad representation of ethnic groups, castes, and men and women in the policy-making bodies and state institutions, and will increase the effectiveness of the civil service, and improve public accountability.

36. **Inclusiveness and Access to Benefits and Opportunities.** The Government is committed to remedying exclusion and has taken policy actions and measures to improve the conditions of excluded groups. The TYIP Approach Paper highlights inclusion as one of its pillars and places special emphasis on social integration, inclusive development, employment generation, and economic and social transformation; while directing attention to disadvantaged women, excluded and vulnerable groups, including regions that have been historically isolated from mainstream development. The TYIP envisages increases in targeted programs to protect vulnerable groups and women as part of its social protection plan. The budget (FY2008) allocates NRs51 billion for community programs based on people's participation, and social security that will directly contribute to poverty reduction, and has doubled block grants to the VDCs (NRs1 million for each VDC). The National Planning Commission (NPC) will submit the TYIP to Cabinet for approval by 30 November 2007. Similarly, the Ministry of Physical Planning and Works has approved the Interim Guidelines for Enhancing Poverty Reduction Impacts of Road Projects. The guidelines have developed procedures in line with the Public Works directive as well as familiarize Department of Road officials with the basic concepts of poverty and linkages between road investments and poverty reduction.

37. In addition, MLD has prepared an action plan for strengthening the registration of vital events such as birth, death, marriage, divorce, and migration. This will promote more inclusive planning, while facilitating the acquisition of citizenship. A recent ADB study found that the highest rates of nonregistration of births were among women, ethnic minorities, and disadvantaged groups. Similarly, the amended Citizenship Act includes provision for the acquisition of citizenship through the mother's citizenship. This will significantly reduce exclusion, as the possession of legal identity influences an individual's access to services, benefits, and opportunities.

38. **Prioritized and Transparent Budgeting.** All activities in the development budget are prioritized and ranked in terms of their contribution to poverty reduction (with P1 as the highest and P3 the lowest). Prioritization criteria include (i) contribution to poverty reduction, (ii) contribution to sector goals, (iii) contribution to regional development, (iv) rationale for government involvement, (v) participation, (vi) project status, and (vii) fund commitment. While the criteria made a good start for targeted investments, implementation experience indicates the need for more robust prioritization criteria to secure effective allocation of resources for reducing poverty and promoting inclusion. NPC has established a task force with terms of reference to refine the prioritization criteria, which will be reflected in the medium-term expenditure framework of FY2009 and in new regional and social programs with secured budget allocations. This will support a more transparent and participatory budgeting process along with improved prioritization criteria and district allocations based on poverty and social exclusion.

39. **Mainstreaming Gender.** Gender-based exclusion restricts women's access to education, employment opportunities, and decision-making processes. To mainstream gender, the Ministry of Agriculture and Cooperatives, Ministry of General Administration, and Ministry of Education and

Sports have prepared gender strategies focused on alleviating constraints and creating new opportunities for women. These strategies will facilitate monitoring of gender equity and access, and inform policy decisions in the respective sectors.

b. Improved and Inclusive Governance and Decentralization

40. This component will provide support for (i) support decentralization for inclusiveness; (ii) enhance capacity for output, outcome, and impact monitoring; and (iii) improve procurement and financial management. These policy reforms are envisaged to significantly improve fiscal discipline, especially in times of political instability, and prepare the foundations for good and inclusive governance.

41. **Decentralization for Inclusiveness.** The Interim Constitution envisions (i) restructuring the state in response to popular demands, (ii) reforming political institutions to make them more inclusive, and (iii) providing greater autonomy to local bodies for decision making regarding public resources. It also provides for establishing the state restructuring commission to (i) bring about an end to discrimination based on class, caste, language, culture, religion, and region by discarding the centralized and unitary form of government, and (ii) make the state more inclusive and democratic through progressive restructuring. An acceptable restructuring of the state will contribute to securing a lasting peace and end interethnic, caste, and regional tensions.

42. **Strengthened Capacity for Output, Outcome, and Impact Monitoring.** Improving governance and transparency for poverty reduction and inclusive development requires understanding the extent to which public resources are effectively translated into public services. Mapping fiscal flows and incorporating concepts related to management for development results in the public sector training curricula of Nepal Administrative Staff College will strengthen capacity for output, outcome, and impact monitoring. The Ministry of Finance (MOF) has agreed to expand its public expenditure tracking by instructing the Financial Comptroller General Office to conduct surveys in two sectors per year. Monitoring actual allocations versus budgeted ones will provide insights into constraints and achievement of the intended objectives.

43. **Improved Procurement and Financial Management.** The Government revised the procurement laws to increase efficiency and transparency resulting in its new Procurement Act approved in December 2006 and gazetted in January 2007. The act provides for a more transparent and competitive procurement and bidding process for goods, civil works, and services; and is in line with acceptable international procedures such as the United Nations Commission for International Trade Law. The Procurement Regulations were revised vis-à-vis the new Procurement Act and approved in August 2007. Similarly, the Government has approved the revised Local Bodies Financial and Administrative Regulations (LBFAR) to align them with the new Procurement Act and its regulations. The revised LBFAR will (i) increase the financial authority of local bodies enabling them to provide services swiftly, (ii) improve transparency by providing community procurement and public audit, and (iii) enhance accountability by requiring adherence to a procurement code of conduct. The program grant will support implementation of the new Procurement Act, Procurement Regulations, and LBFAR.

44. The Government's decision to establish the Public Procurement Monitoring Office in the Office of the Prime Minister and Council of Ministers, headed by a secretary, contributes to institutionalizing accountability and transparency within the state bureaucracy. Furthermore, all DDC accounts are now computerized, which will assist in addressing the problem of weak accounting and reporting procedures in the districts. As data will be transferred electronically from the districts to the center, fund releases will be faster, which will expedite implementation and disbursement. To strengthen the procurement capacity of implementing agencies, procurement staff in the DDCs and DOLIDAR will need to be trained. MLD has prepared a training plan for its

staff in DDCs and DOLIDAR. Procurement reform and capacity improvement are expected to improve contract management and procurement procedures.

45. To improve budget allocation, MLD has approved a manual, Minimum Conditions and Performance Measures, for performance-based budget allocation, collected baseline data for all 75 districts, and conducted orientation programs in all 75 districts on use of the manual.

c. **Strengthened Support for Rural Infrastructure Development**

46. This component will provide support for (i) policies for private sector participation in infrastructure development, (ii) improving investment opportunities including infrastructure development, and (iii) rural infrastructure development for disadvantaged communities.

47. **Policies for Private Sector Participation in Infrastructure Development.** The Government is promoting private sector participation for broad-based labor-intensive growth. Closely related to improving connectivity and rural infrastructure is the need to improve the policy environment to attract private sector participation in infrastructure development. To improve the investment climate, Nepal Rastra Bank has approved a monetary policy that includes a commitment to issue separate regulations relating to capital, investment, loan loss provisioning, and other regulatory norms for establishing an infrastructure development bank. NPC will establish a task force with terms of reference to prepare policies for public-private-partnerships. Given the scarcity of resources, public-private partnership will increase the effectiveness of public expenditures.

48. **Investment Opportunities.** In response to the demands of nonresident Nepalis (NRNs) for a more enabling and NRN-friendly policy environment for investment in the country's development process, the Government promulgated the NRN Act in August 2007. The act has simplified the regulatory environment and administrative procedures for NRNs investing in the country. The Government presented the draft NRN regulations for implementing the NRN Act to the NRN Conference on 15–17 October 2007.

49. **Rural Infrastructure Development for Disadvantaged Communities.** The Rural Infrastructure Reconstruction and Rehabilitation Investment Plan accords high priority and commits the Government to rural transport development. Lack of connectivity is a serious constraint. Nepal has one of lowest road densities for a landlocked country; some villages are as far as 13 days walk from the nearest road. The interim Strategic Action Plan for Local Infrastructure Development envisages increasing the access of 95% of rural residents including disabled, marginalized groups, and dalits to social services, economic opportunities, and resources. DOLIDAR is incorporating poverty and social inclusion concerns into its Approach for the Development of Rural and Agriculture Roads with the objective of ensuring that all plans and programs prepared by the DDCs and DTOs use poverty and inclusion as prioritizing criteria.

50. The lack of a common set of guidelines for all infrastructure projects on social mobilization, inclusive participation, gender sensitization, prioritization, planning, safeguards for vulnerable groups, and environment have been major factors that delay implementation schedules. MLD has identified a common set of guidelines to speed implementation and deliver tangible results. The guidelines will ensure inclusiveness and adequate safeguards of vulnerable communities. MLD has issued an instruction to all DDCs to ensure the use of these common guidelines.

51. Similarly, in the absence of a consistent approach to treating safeguard policy issues, NPC has taken the lead in formulating a comprehensive national policy on resettlement, to help identify, plan, implement, and monitor involuntary resettlement to minimize displacement, safeguard people

affected by development projects, and enhance development impact. NPC has prepared and submitted the draft National Resettlement Policy to Cabinet for approval.

3. Important Features

52. The extensive reforms taken by the Interim Parliament to directly address the root causes of the conflict merit ADB support for implementation. These reforms aim to end discrimination, promote inclusion, and justify support for the continuation of peace and development efforts. The Government has placed inclusion at the center of key legislative enactments and regulatory frameworks for achieving inclusive development outcomes and accelerated poverty reduction. The single tranche will deliver a peace dividend to Nepal during this critical juncture in the country's history. The Program builds on Government reforms and furthers ADB's role as a partner in supporting the process for institutionalizing good governance and inclusive development. The Program is designed taking into account national and local commitment and implementation capabilities.

53. The program grant will be released in a single tranche upon effectiveness, subject to fulfillment of all of the policy actions. The single tranche is justified by (i) compliance with 29 actions, which constitute fundamental reforms in governance, inclusion, devolution, procurement, and infrastructure development for poverty reduction and inclusive development; and (ii) improvements in the political environment, and immediate postconflict development requirements.

4. Financing Plan

54. The Government has requested a grant of \$50,000,000 from ADB's Special Funds resources upon completion of all of the policy actions included in the policy matrix. In determining the amount of the program grant, the following factors were considered: (i) scope and relevance of the policy reforms for improving governance, public service delivery, and inclusion; (ii) timeliness of assistance in support of the process for the country's return to economic, political, and social progress and stability; (iii) immediate cost of the reforms and associated financing gap (Appendix 5); and (iv) Government commitment to strengthen the decentralization process for accelerated poverty reduction.

5. Implementation Arrangements

55. **Program Management.** MOF is the Executing Agency, and will coordinate policy, legal, and regulatory actions. MOF will ensure that the policy reforms as agreed to by ADB and the Government and as described in the development policy letter (Appendix 4) are duly carried out in a timely manner. In particular, MOF will ensure that provisions for reporting, monitoring, auditing, and other administrative requirements will be strictly followed. The program grant will support part of the Government's budgetary requirements to undertake postconflict development priorities as specified in its TYIP.

56. **Implementation Period.** The Program will be implemented from 1 January 2008 to 31 December 2011.

57. **Procurement and Disbursement.** The program grant will be released in a single tranche upon compliance with all the policy actions listed in the Policy Matrix. The grant will be disbursed using the simplified procedures approved by ADB's Board on 16 April 1998.¹⁰ The proceeds will be used to finance the foreign exchange cost of items produced and procured in ADB member

¹⁰ ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

countries, excluding items included in a list of ineligible items (Appendix 6), and imports financed by other bilateral and multilateral sources. MOF will certify that the volume of eligible imports exceeds the amount of ADB's projected disbursements under the program component in a given period. ADB will have the right to audit the use of the grant proceeds, and to verify the accuracy of the MOF's certification.

58. **Anticorruption.** ADB's *Anticorruption Policy* (1998, as amended to date) was explained to, and discussed with the Government. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Program. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the grant regulations. Moreover, all relevant ADB guidelines, including the *Procurement Guidelines* (2007, as amended from time to time), *Guidelines on the Use of Consultants* (2007, as amended from time to time), and *Loan Disbursement Handbook* (2007, as amended from time to time), were brought to the attention of the Government.

59. **Counterpart Funds.** The counterpart funds generated from the proceeds of the program grant will (i) supplement the Government's budget in support of the reform package, and (ii) be part of the Government's contribution to ADB-assisted RRRSDP activities within the scope of the TYIP. These include mostly capital investments and additional investments for immediate postconflict rural reconstruction and rehabilitation development works.

60. **Program Performance Monitoring System.** MOF will monitor and report to ADB the implementation of policy actions and their impact on inclusive development, good governance, and improved service delivery, in line with the program impact and outcome indicators agreed upon with the Government.

61. **Program Review.** Program reviews will be carried out in conjunction with the project reviews.

C. The Project Grant

1. Outcome

62. The Project will improve connectivity, enhance economic and employment opportunities, and increase access to market and social services by rural communities.

2. Components and Outputs

63. The project outputs include (i) improved rural roads; (ii) developed and improved community-based supplementary rural infrastructure; (iii) enhanced equity, employment, and income opportunities for the poor and disadvantaged;¹¹ (iv) strengthened institutional capacity of MLD, DOLIDAR, DDCs, and communities; and (v) improved project management.

a. Rural Roads

64. Rural roads are the predominant demand according to district surveys conducted by MLD. The roads to be included must be from the district transport master plans.¹²

¹¹ For the purpose of the Project, disadvantaged groups are, as commonly understood, socially excluded castes (dalits), ethnic groups, madhesi middle caste group, minority Muslims, poor households headed by women, and the isolated population from remote areas.

¹² The DDC in each district develops a district transport master plan using an analytical, participatory, and consultative process to identify road priorities for the district.

65. In 20 non-DRILP districts, RRRSDP will improve or upgrade about 560 km of rural roads. The civil works will be for continuous roads only (not partial sections) that connect the rural population to market centers, towns, and the higher road network. Qualifying civil works include (i) reconstruction of rural roads damaged due to conflict; (ii) rehabilitation and preservation of rural roads that fell into disrepair during conflict; and (iii) rural roads that were planned but could not be completed due to conflict. The road construction will include an estimated 1,100 meters of bridges (a total of about 42 bridges). The roads will be built to DOLIDAR standards, adopting a LEP approach. Road-building groups (RBGs) will undertake most subproject works. Only in cases where the road works are more technical and complex (i.e., bridge construction or paving) will contractors be engaged.

66. **Maintenance.** Each participating district should have an O&M strategy, and the Project will support the DDCs to implement the O&M plan as per the district's O&M strategy. Each DDC will establish a maintenance fund for maintaining district roads, main trails, and bridges. To support the development of local resources for maintenance, financing for district roads maintenance will be provided under the Project on a matching and declining basis.¹³ Financing maintenance after project completion will be the DDCs' continuing responsibility. Project assistance will also contribute to training for the organization, management, and physical aspects of maintenance. The DDCs will form and operate user committees representing transport operators to manage road use, monitor road conditions and maintenance performance, and mobilize additional resources for maintenance. In addition, the Road Board Nepal is required to allocate 30% of its annual maintenance allotment to local bodies for local road maintenance, and the DDCs can apply for and access the Road Board funds.

b. Supplementary Infrastructure

67. This component will complement the rural road improvements by constructing and rehabilitating community, demand-driven supplementary infrastructure such as social and market facilities, school infrastructure, micro-irrigation, link trails, trail bridges,¹⁴ and rural WSS.¹⁵ The investments will typically generate additional linkages and benefits in proximity to the rural road subprojects. Supplementary infrastructure will be implemented using the LEP approach.

68. **Maintenance.** O&M of supplementary infrastructure varies with the capture of benefits. In a typical WSS subproject, O&M costs will be borne fully by the users committee with an O&M fund established with up-front community contributions and a water tariff to meet regular O&M costs of the scheme. For more public or technically complex supplementary infrastructure (for example, school infrastructure or trail bridges), the VDCs will be responsible for maintenance, with technical and financial support from the DDC if required.

c. Community Empowerment

69. In line with government policies toward inclusion, the Project will strengthen the capacities of communities, beneficiary participation, and social cohesion to integrate the poor and disadvantaged into the mainstream of development activities. This goal will be achieved through

¹³ The Project's share of road maintenance cost will be 100% in the first year, 75% in the second, 50% in the third, and 25% in the fourth. The DDCs will provide the remaining required funds on an increasing basis accordingly.

¹⁴ SDC, through an existing presence and capacity in the trail bridge subsector, will provide technical assistance and metal cables to support this initiative under RRRSDP.

¹⁵ Unlike the other supplementary infrastructure, WSS schemes are not tied to the proximity of the rural roads. A typical scheme will consist of an intake structure at an existing natural water source (such as a spring or a stream), a transmission pipeline, and a distribution network, with each supply point serving a group of 5 to 10 rural households.

activities that (i) raise awareness of the Project and opportunities (employment, training, and access to subprojects) among all social groups; (ii) organize and train the RBGs for construction, using and building on existing socially mobilized groups; (iii) assist communities in identifying supplementary infrastructure and preparing proposals; (iv) facilitate beneficiary participation, particularly of the poorest of the poor, in implementing and maintaining subprojects through pro-poor delivery mechanisms including public hearings and social auditing; and (v) ensure capacity in maintenance of supplementary infrastructure. The Project will target minorities and the disadvantaged for proportional representation in the RBGs, and promote female membership of at least 50% and women as RBG leaders.

70. In addition to rural infrastructure activities, the Project will support demand-driven skills training by the social development officer and social mobilizers/facilitators in the DIST who will identify the group-specific training needs first. The training will cover areas such as agriculture and livestock, forestry and soil conservation, microenterprise and skills development, and social (health and literacy) awareness and legal rights. The Project will seek to link communities to qualified government and nongovernment training entities, closely coordinate with ongoing social and community development initiatives, and facilitate the communities in linking with credit, extension, and related service providers.¹⁶ These skills and services will enhance the ability of the rural population to promote their well-being after the termination of employment associated with the rural infrastructure construction.

d. Institutional Capacity Development

71. To support the urgent need for infrastructure investment in rural communities, the Government asked ADB to design a fast-disbursing project. However, assessment of central and DDC capacity, as well as experience with other rural infrastructure projects, has shown that institutional capacity needs strengthening. Therefore, to enhance existing technical and administrative capabilities at MLD, DOLIDAR, and in the districts, this component specifically targets building institutional capacities. A close linkage would be made with ongoing projects such as the Decentralized Local Governance Support Program financed by the United Nations Development Programme and Norwegian Agency for Development Cooperation.

72. **Strengthening Implementation and O&M.** The Project will support the implementation of the Institutional Strengthening Action Plan, which is a long-term road map (supported by the donors working in rural infrastructure) for building capacity in MLD, DOLIDAR, and the DDCs. DRILP and other relevant manuals and procedures will be updated where necessary and disseminated to the 20 new districts. As quality control and O&M are keys to maximizing the life of rural infrastructure investments, laboratory testing equipment will be provided to districts, and district staff will be trained on the use and application of laboratory testing for rural roads. Local workshops will be provided for the districts on strengthening O&M procedures and programs.

73. **Enhancing Fiduciary Management and Social Safeguard Compliance.** Requirements for procurement, resettlement, and environment have a major impact on the timing of project implementation. Lessons from other rural infrastructure projects indicate that up-front capacity building in these specific areas significantly improves project implementation efficiency and effectiveness. This training is particularly needed in the 20 non-DRILP districts. Therefore, this component will (i) update DRILP procedure manuals for procurement, resettlement, and environment in both English and Nepali; (ii) develop and deliver a related training program through

¹⁶ An example is linking with the ADB-assisted Skills for Employment Project in districts with a common project presence. ADB. 2004. *Report and Recommendation of the President to the Board of Directors on Proposed Loan to the Kingdom of Nepal for the Skills for Employment Project*. Manila.

central and regional workshops; and (iii) provide individual support in these areas to districts as necessary.

74. The draft Review of Financial Management and Accountability at the Local Level¹⁷ shows that public financial management in the sector is unreliable and requires substantial improvement. The most critical gap is a lack of consistent accounting policies and procedures across districts. While LBFAR establishes regulations, a manual detailing actual accounting procedures including effective internal controls does not exist. To address this, this component will provide financial management support to develop an accounting manual, in both English and Nepali, and to develop and deliver a related training program in conjunction with procurement matters.

75. **Donor Harmonization.** Given the high number of donors and projects in the sector and the limited resources of the Government, the development of an integrated framework to harmonize donor aid and related funding procedures and to move the sector to PBA is justified. Under the leadership of MLD, significant discussions have taken place on PBA with key donors including ADB, DFID, SDC, and World Bank. However, the development and implementation of PBA requires several steps that can take a substantial amount of time (Appendix 7). To take advantage of the current donor momentum behind this initiative, this component will provide consulting services to the Government to develop the framework and interim measures to coordinate donor projects.

e. Project Management Services

76. A project coordination unit (PCU) has been established in DOLIDAR, but still needs to be fully staffed.¹⁸ A district project office (DPO)¹⁹ will be established in each of the 20 core project districts. The Project will work with the existing DPOs in the 18 DRILP districts and supplement each DRILP DPO with one water supply engineer, a subengineer, and an assistant subengineer to implement rural WSS initiatives. The PCU, assisted by central implementation support consultants (Appendix 8), will provide coordination and guidance for all facets of project implementation, including engineering, safeguards (environment, social, and resettlement), financial management, and procurement. The DPOs, assisted by the DISTs (Appendix 9),²⁰ will (i) prepare annual work programs; (ii) finalize detailed subproject designs; (iii) ensure compliance with all safeguard measures; (iv) supervise all construction activities and ensure quality; (v) organize community training; and (vi) arrange procurement. The PCU and DPOs will be supplied with computers, equipment, and vehicles to support project supervision, management, technology, and quality control.

3. Important Features

77. In an effort to address the complexities of poverty and conflict, the Project takes a multidimensional approach, including infrastructure, community development, training, and capacity building. The main complement of project works on rural roads is to be accomplished by employing local RBGs, which are to be constituted by targeting the poor and disadvantaged for inclusion. The supplementary investments are identified and undertaken in a demand-driven process approach. Again, the poor and disadvantaged are targeted for this activity. These groups

¹⁷ World Bank. September 2006.

¹⁸ The PCU will have one project coordinator, two senior divisional engineers, five engineers, one sociologist, one environmental engineer, one senior resettlement officer, one senior accountant, two accountants, one computer operator, one assistant, two administrative assistants, four drivers, and three messengers.

¹⁹ Headed by the DTO chief, the DPO will have one rural infrastructure engineer, one subengineer, two assistant subengineers, one accountant, one administrative staff, one computer operator, one driver, and two messengers.

²⁰ DIST includes engineering, safeguard, and social mobilization staff, of which a minimum of 33% should be women.

will be provided training to extend their skills and knowledge base to assist employment and income generation after road construction is completed.

78. The Project adopts the LEP approach, which has strengths in providing income- and employment-generation for the poor, minimizing environmental impact of machine-intensive road construction, and generating skills and ownership for O&M (by employing the local population). However, to be effective, the approach does not lend itself to shortcuts. Significant RBG training, preparation, and supervision are required. To reconcile the time required for organizing, training, and implementing under the LEP with the Government's articulated desire for rapid employment- and income-generating works, the project design seeks to speed preparatory activities by utilizing advance action for consultant recruitment. This will help put expertise in place early after project effectiveness to assist and guide local bodies in critical start-up areas such as (i) DIST procurement; (ii) financial management (in relation to managing a multilateral-funded project); and (iii) guidance in the requirements and standards for environment, resettlement, and social safeguards. Additionally, in an effort to expedite implementation, the Project will adopt and extend already compiled and applied procedural guidelines and manuals developed under the DRILP.

4. Project Investment Plan

79. The project investment cost is estimated at \$78.4 million, including taxes and duties of \$4.0 million. Summary estimates by component are in Table 1. Detailed cost estimates by expenditure category and by financier are in Appendix 10.

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Rural Transport	45.0
2. Supplementary Infrastructure	18.0
3. Community Empowerment	3.2
4. Institutional Capacity Development	0.3
5. Project Management Services	7.8
Subtotal (A)	74.3
B. Contingencies^c	3.8
C. Interest and service charge during Implementation	0.3
Total	78.4

^a Includes taxes and duties of \$4.0 million.

^b In October 2007 prices.

^c Physical contingencies computed at 5% for civil works, equipment, and vehicles. Price contingencies computed at a foreign price escalator of 0.8% per year, and a domestic price escalator of 5.4% in the first year, 5.1% in the second year, and 5.0% in the following years.

Source: Asian Development Bank estimates.

5. Financing Plan

80. The Government has requested a grant of \$50,000,000 from ADB's Special Funds resources to finance 63.8% of the project cost. The provision of grant assistance is justified by the pro-poor orientation of the Project and the country's tight fiscal position. The Government is to provide \$15,700,000 equivalent to finance part of the civil works (17% of rural roads and 32% of supplementary infrastructure), 20% of land acquisition and resettlement compensation, 50% of rural road O&M, and 100% of project staff salary and taxes and duties. Beneficiaries will provide

about \$2,700,000 equivalent for the construction (in kind) and O&M of supplementary infrastructure. Table 2 summarizes the financing plan.²¹

81. The OPEC Fund for International Development (OFID) will provide a loan of \$10,000,000 equivalent to jointly finance the rural road civil works. Administered by ADB, the OFID loan will have a 20-year term including a 5-year grace period, with a 1% interest charge per year, and 1% service charge per year.

Table 2: Financing Plan
(\$ million)

Source	Total	%
Asian Development Bank	50.0	63.8
OPEC Fund for International Development	10.0	12.8
Government of Nepal	15.7	20.0
Beneficiaries	2.7	3.4
Total	78.4	100.0

OPEC = Organization of Petroleum Exporting Countries.

Source: Asian Development Bank estimates.

6. Implementation Arrangements

a. Project Management

82. MLD will be the Executing Agency for the Project; DOLIDAR will be the central Implementing Agency. A project coordinator at class one will head the PCU and report to the MLD secretary through the DOLIDAR director general. In the districts, the DDCs will be implementing agencies responsible for local development and coordination, with the respective DTOs responsible for technical and project management activities.

83. A project monitoring committee²² in MLD chaired by the MLD joint secretary will (i) monitor overall project implementation, (ii) resolve policy issues, (iii) guide the PCU, and (iv) facilitate interministerial coordination.²³ It will meet at least once every 6 months. DOLIDAR will establish a project implementation coordination committee²⁴ to (i) supervise day-to-day project implementation, (ii) review project progress, and (iii) coordinate between DOLIDAR and the DDCs. It will meet at least every 4 months. The DDCs will coordinate all district project activities. A district project coordination committee chaired by the DDC chairperson will be established to (i) coordinate with all relevant line agencies, nongovernment organizations, and civil society; (ii) issue district policy guidelines; (iii) resolve district implementation issues; and (iv) hear complaints about the Project.

²¹ DFID has expressed interest to provide a grant of \$20 million equivalent to jointly finance rural road civil works, subject to its final approval. SDC also expressed interest to provide the district technical services in four districts of Dolakha, Kabhrepalanchok, Sindhuli, and Sindhupalchowk. The project scope will be extended and the project investment and financing plans will be adjusted when the proposed DFID and SDC cofinancing materializes.

²² The project monitoring committee will also include the director general of DOLIDAR, project coordinator, heads of MLD Financial Administration Section, Planning and Foreign Aid Coordination Section, and Monitoring Section, and representatives from MOF and NPC.

²³ The existing joint steering committee for rural infrastructure chaired by the MLD secretary will provide overall policy direction for the sector.

²⁴ The project implementation coordination committee will be chaired by the director general of DOLIDAR, and include three representatives of MLD (Financial Administration Section, Monitoring Section, and Planning and Foreign Aid Coordination Section), and five representatives from project districts on a rotating basis. ADB and other cofinanciers may participate as observers. The PCU will be the secretariat for the PICC; the project coordinator will be the member secretary.

84. Village infrastructure construction coordination committees (VICCCs) will be constituted in each VDC area.²⁵ In liaison with the DPOs, the VICCCs will facilitate formation of the RBGs for rural roads, and village infrastructure user groups (VIUGs) for supplementary infrastructure. The VICCCs will (i) coordinate supplementary infrastructure planning, (ii) ensure proper payment to the RBGs, (iii) supervise beneficiary contributions to supplementary infrastructure, (iv) monitor implementation of works, and (v) ensure public audits.

b. Subproject Selection

85. Subprojects for rural roads have largely been short-listed through district participatory processes prior to the start of the Project (Appendix 11 provides the selection criteria). Supplementary infrastructure will be selected through a process approach involving communities and villages.

86. For final selection of road subprojects, an assessment will be undertaken for short-listed subprojects to cover social, technical, economic, environment, and resettlement aspects; and to score and qualify proposed subprojects. Feasibility studies and detailed design will be undertaken by the DIST for the highest-ranked subprojects. Preparations will cover the detailed technical design; drawings; quantity and cost estimates; and environment, resettlement, and social requirements and plans. Public consultations will be undertaken to provide information and incorporate stakeholder views. During the process, disputes in finalizing the subproject will be resolved in discussion with the local community and VICCC. Civil works for rural roads will commence after completion of feasibility studies and detailed designs, receipt of environment and social safeguard clearances, and completion of resettlement activities and compensation payments.

87. Supplementary infrastructure preparations will proceed along with the commencement of the rural roads. The DPO, with VICCC support, will inform and guide communities and villages in (i) identification, (ii) consultation and prioritization, and (iii) proposal preparation. Village proposals will be forwarded to the DPOs for evaluation and assessment, and then on to the DDC for approval.

c. Implementation Period

88. The Project will be implemented over 4 years starting from January 2008 to December 2011. A project implementation schedule is in Appendix 12.

d. Procurement

89. All goods, related services, and civil works financed by ADB and cofinanciers will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). All small and widely dispersed civil works of up to \$30,000 will be undertaken by the community, following the community participation guide. Shopping will be used for works exceeding \$30,000 but no more than \$100,000. In cases involving more complex works such as bridge construction, high retaining walls, and hard rock cutting valued at more than \$100,000 but no more than \$1,000,000, civil work contracts will be required and procured by the DPOs on the basis of national competitive bidding in accordance with the Government's procurement procedures acceptable to ADB.²⁶ Supply

²⁵ A VICCC will include the representatives of political parties, nongovernment organizations active in the VDC area, women, dalits, and disadvantaged groups; VICCC members will be selected from a beneficiary meeting. Participation of at least 33% women and due representation of various ethnic groups and castes will be ensured.

²⁶ Nepal's Financial Administration Rules, 1999, were reviewed and agreements reached between ADB and the Government on the modifications that need to be made to bring them in line with ADB requirements.

contracts for equipment or materials exceeding \$1.0 million will be procured following international competitive bidding, and those not exceeding \$1.0 million but more than \$100,000 will be awarded on the basis of national competitive bidding. Shopping will be used for procuring readily available off-the-shelf goods valued at up to \$100,000. A procurement plan is in Appendix 13.

e. Consulting Services

90. The selection and engagement of all consulting services will be in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time) and other arrangements satisfactory to ADB for engaging national consultants. At the outset of the Project, the PCU will recruit five individual consultants to advance central and district project preparatory activities including (i) 114 person-months of national consulting services in procurement, financial management, resettlement, and environmental management; and (ii) 9 person-months international consulting services on development of a joint donor coordination framework. The other central implementation support consultants, comprising 42 person-months international and 350 person-months national will be recruited by the PCU through a firm using quality- and cost-based selection with quality-cost ratio of 80:20. The Government will undertake advance action for recruiting consultants to facilitate the Project's start-up. The Government has been advised that approval of advance action does not commit ADB to finance the Project.

f. Anticorruption Policy

91. ADB's *Anticorruption Policy* was explained to and discussed with the Government. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the grant regulations and the bidding documents for the Project. In particular, all contracts financed in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of MLD; DOLIDAR; DDCs; and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

92. Specific measures are incorporated to enhance governance and prevent corruption. The Project will use participatory, open, and consultative processes in decision making and resource allocation. Procurement and community financial management manuals and step-by-step procedures will be compiled in the local language and delivered to DOLIDAR, DDCs, and VDCs with training. For each subproject, public hearings will be held and public auditing conducted to increase social accountability and transparency, and deter fund misuse. Established procedures, strengthened fiduciary arrangements, and close supervision of resources provided will help lower the risk of fund loss and ensure better accountability.

g. Disbursement Arrangements

93. To ensure effective project implementation and timely disbursement, immediately after grant effectiveness the Government will establish two separate imprest accounts for the (i) ADB grant; and (ii) OFID loan, each at Nepal Rastra Bank. Project funding (other than beneficiary contributions) comprising government counterpart funds and ADB and OFID funds will be channeled to the following accounts: (i) the central PCU project operating account, or (ii) the DPO project operating accounts established in each district.

94. The PCU will work with project districts to prepare budgetary allocations, and the Government will advance funds to the PCU project operating account and DPO project operating

accounts accordingly. The PCU will also work with the project districts to prepare disbursement projections, collect supporting documents, and prepare withdrawal applications; and send them to ADB in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). Based on the withdrawal applications, ADB and cofinanciers will fund the project imprest accounts on a reimbursement basis.

95. The statement of expenditure (SOE) procedure will be adopted to facilitate reimbursement and liquidation. The imprest accounts and the SOE procedure will be established, maintained, and audited in accordance with ADB's *Loan Disbursement Handbook*. The ceiling of each imprest account will not exceed the estimated corresponding donor-financed expenditures for the next 6 months, or 10% of the fund amount of the corresponding donor, whichever is lower. The SOE procedure is applicable for reimbursing eligible expenditures or any individual payment not exceeding \$100,000 and liquidating advances provided in the imprest accounts.

h. Accounting, Auditing, and Reporting

96. DOLIDAR will submit trimester and annual project progress reports to ADB. The PCU will prepare the reports, particularly addressing progress in meeting project targets. The reports will include information on the Project's physical progress and component status. Within 3 months of the Project's substantial physical completion, DOLIDAR will submit to ADB a project completion report covering project implementation, cost, project performance management activities, and other information requested by ADB. DOLIDAR will maintain separate project accounts and records to facilitate identification of project-related income and expenditures. The PCU will be assigned sufficient and qualified accounting staff, including a senior accountant. An independent auditor acceptable to ADB will annually audit all project-related accounts, SOEs, and revenues. The annual audit report will include a separate audit opinion on the use of the imprest accounts and SOE procedure. Audited financial statements and project accounts, together with the report of the auditor, will be submitted within 9 months of the close of the financial year.

i. Project Performance Monitoring System

97. In line with ADB's project performance management system (PPMS) framework, a participatory benefit monitoring and evaluation program will be carried out, and be specifically designed to support the data requirements (segregated by gender and ethnicity) of a results-based management system. Specifically, objective indicators and targets for all desired project outputs, outcomes, and impacts will be defined for annual and/or episodic points in the project cycle. These indicators will permit regular and timely assessments of the Project's efficiency and effectiveness. In this context, "efficiency" means the production of planned outputs with the allocated inputs (resources). "Effectiveness" means the achievement of project outcomes and impacts as a consequence of fully implementing all planned interventions. PPMS activities will be conducted periodically to assess whether project inputs have delivered the expected benefits to the intended beneficiaries. The PPMS will also detect deviations between the plan and execution of the Project. The use of a results-based management approach will ensure that deviations between the plan and achieved results (outputs, outcomes, and impacts) will be recognized by project management in a timely manner, thereby allowing corrective management actions and decisions to be taken. The PCU will conduct a benchmark physical and socioeconomic survey at selected project districts, and submit for ADB's review and concurrence a detailed implementation plan for monitoring performance and preparing benchmark information within 9 months of grant effectiveness. These baseline surveys will be conducted in accordance with the design and monitoring framework and provide the basis for preparing the benchmark information and target values. Baseline data will include income and expenditure data, livelihoods data, demographic trends, gender issues, and data on ethnic and minority groups. After the initial survey, the PCU will

submit annual benefit monitoring reports to ADB and cofinanciers throughout project implementation.

98. In support of the midterm and project completion review missions, independent impact evaluation surveys and studies will be accomplished and the reports will be transmitted to ADB and cofinanciers at a minimum of 4 weeks before the respective missions. The surveys should complement the benchmark data and measure the degree to which the Project has attained outputs, outcomes, and impacts; closely reflecting the indicators of the design and monitoring framework.

j. **Project Review**

99. ADB, cofinanciers, and the Government will review the Project at least twice a year; this includes the performance of DOLIDAR, PCU, DPOs, consultants, and contractors; physical progress of project implementation; inclusion of the poor, marginalized groups, and women in project implementation; compliance with grant assurances; and continued feasibility of project implementation in each project district, taking into account the political context and security situation. ADB, cofinanciers, and the Government will undertake a comprehensive midterm review of the Project at the beginning of the third year to identify problems and constraints encountered and suggest measures to address them. Specific items to be reviewed include (i) PCU effectiveness; (ii) compliance with safeguard measures; (iii) implementation of the gender action plan; (iv) extent to which district road maintenance funds have been established and their effectiveness; (v) effectiveness of capacity building; (vi) extent to which inclusiveness objectives of the Project are being met; (vii) extent to which project agreements and RBG contracts have been implemented and complied with; (viii) lessons learned, good practices and innovations, and their replicability; and (ix) any other issue agreed upon by the PCU and ADB. Technical, budgetary, and design modifications could be considered based on the results of the review, including supporting the 18 DRILP districts for rural roads based on the utilization of DRILP and RRRSDP funds.

IV. **PROGRAM BENEFITS, IMPACTS, AND RISKS**

A. **Benefits and Impacts**

100. **Economic.** The direct benefits of rural roads are increased access, time savings, and lower person-trip and cargo-transport costs. In overcoming isolation, the rural roads will gradually stimulate the agricultural economy by (i) improving farm management practices and yields; (ii) stimulating cultivation of market-oriented, high-value crops; and (iii) increasing household farm income and employment. The WSS subprojects will provide rural households with better access and less drudgery (time savings for fetching water), and better quality water and sanitation (reduction in household health costs and lost work days). Supplementary infrastructure will increase access to services and improve income and life quality. Training will enhance rural livelihood skills and community empowerment. The Project will generate employment and income through the labor-intensive infrastructure works during implementation; and afterward, through increased agricultural activity, development of roadside-related businesses, and O&M of the new infrastructure. The project justification and economic analysis are in Appendix 14.

101. **Poverty Reduction.** Poverty issues will be directly addressed by the policy actions through the positive impact that they will have on service delivery to the poor and socially excluded groups, and their increased participation. The use of more robust and transparent poverty prioritization criteria will minimize the use of fiscal transfers for political patronage. Growth prospects will be improved because of the introduction of measures to enhance efficiency and transparency. These measures have the potential to stimulate private sector productivity and investment. Broad-based

growth will be promoted; the increase is expected to reduce the incidence of poverty and exclusion through employment promotion.

102. A summary poverty reduction and social strategy is in Appendix 15. The incidence of poverty is high in rural areas where as much as 95% of Nepal's poor reside. Poverty rates in the country's five regions range from as high as 47% (Midwestern region) to 29% (Western region), with an overall average of 34.6%.²⁷ These high rates are strongly related to poor crop yields, stagnant growth in agricultural income, and isolation. Linking the rural population with markets and technology, the investment Project will directly benefit an estimated 2.6 million people. In terms of direct employment, reconstruction and rehabilitation will generate more than 15.8 million person-days of labor, or 4 years of full-time work for 13,200 rural poor. Employment opportunities for the poor will be enhanced over the long term with improved agriculture, nonfarm labor opportunities, and rural enterprise development. The targeted supplementary investments and livelihood training programs will ensure greater income opportunities for disadvantaged segments of the rural population, including women, dalits, and marginalized communities.

103. **Social.** By making inclusion a key part of the overall policy reform process, RRRSDP effectively links economic and social inclusion awareness in policy and programs to equitable, efficient, and sustainable outcomes. The policy reforms will impact the targeting of fiscal resources. They will contribute to political and economic inclusion, and to reform of political institutions and bureaucracy for improved service delivery and public accountability. This will have positive impacts on poverty reduction and good governance. Affirmative action will increase the options of excluded ethnic groups, castes, and women to participate in state administration, and actively increase their control and command over resources.

104. The investment Project will promote economic and social inclusion by proportional representation of historically marginalized/disadvantaged populations in all aspects of project planning, implementation, monitoring, and maintenance, particularly in employment and income generation activities. The VICCCs, RBGs, and village infrastructure user groups will have proportional representation of local caste and ethnic groups in the project influence zone to (i) ensure participation of the poor and vulnerable groups in decision making, (ii) raise their social capital and access to other development opportunities, and (iii) increase the use of health and education facilities in local areas by such groups. Communities' access to public services and livelihood opportunities, including self-employment, will be greatly enhanced.

105. **Institutional.** RRRSDP will contribute to greater accountability and efficiency through a strengthened and harmonized policy and regulatory framework. A more transparent system of fiscal transfers will lead to fewer regional disparities and improve government budgeting and financial management practices. Decentralized decision making will bring local bodies closer to the people, overcome information asymmetries, improve the quality and quantity of rural infrastructure services by allowing for a better matching of local needs and preferences, and enhance transparency.

106. The financial management system to be adopted for RRRSDP will be based on the revised LBFAR, which addresses the expenditure authorization of local bodies. This includes increasing the approving authority threshold of local development officers, and providing the DTOs with the authority to approve contracts; this is expected to significantly speed implementation and improve service delivery. RRRSDP will improve and strengthen organizational capabilities for developing and managing rural infrastructure; and contribute to building sustainable intergovernment relations,

²⁷ Central Bureau of Statistics. National Planning Commission Secretariat. 2004. *Nepal Living Standards Survey, 2003/04*. Kathmandu.

in particular for coordination of policies and programs, and cooperation with local bodies in service delivery. It will build institutional capacity to streamline the existing government mechanism for oversight, and the management of central and local financial information. Improved flows of financial information from local bodies will assist in improving institutional capacity for determining resource transfers and accountability, leading to increased effectiveness of public institutions vis-à-vis improvements in inclusive service delivery.

107. **Involuntary Resettlement.** The Project focuses on rural infrastructure that provides direct benefits to communities, including improved access to markets and services such as schools and health posts. Improved roads are expected to lead to higher land values and productivity. While such benefits are cited as reasons for Nepal's tradition of land donation, the Project will actively seek to minimize land donation by incorporating adequate safeguards in the resettlement plan. As a first principle, people affected by the Project will be informed of their right to compensation. No one will be forced to donate their land and those affected will have the right to refuse land donation. In cases where the people affected are directly linked to project benefits and thus are really willing to donate part of their land after they are fully informed about their entitlement, the Project will assess their socioeconomic status and only those who do not fall below the poverty line after land donation will be eligible for such donation. Any donation will be confirmed through a written record, including a "no coercion" clause verified by a third party. District grievance redress committees will be set up to redress grievances of people affected by the Project.

108. Based on a typical cross-section, a 10 meter-wide right-of-way is envisaged for most project roads. Involuntary resettlement will be avoided or minimized through careful planning and design of the project roads. People affected will be offered compensation at replacement cost and/or assistance so that they will be at least as well-off as without the Project. Affected people will be fully informed and consulted during project design and implementation. Lack of land title will not be a bar to compensation, and particular attention will be paid to vulnerable groups. Land compensation will be completed before commencement of civil works, while rehabilitation activities will continue during project construction. Supplementary activities are not expected to involve involuntary resettlement, as their selection criteria exclude subprojects that require additional private land.

109. ADB will finance 80% of land acquisition, involuntary resettlement, and compensation costs. The DPOs will maintain and update a land acquisition, resettlement, and rehabilitation record throughout project implementation. The record will include details on the payment of compensation for land, structures, and assistance; and other related payments for each affected person (both titleholder and nontitled) including the date of payment and check number.

110. A resettlement framework provides policy and procedures to screen, assess, and plan involuntary resettlement aspects of subprojects in full compliance with ADB's *Involuntary Resettlement Policy* (1995). The framework was publicly disclosed and posted on the ADB website. All subprojects will be screened early in the project cycle. If a subproject involves any involuntary resettlement impacts, an appropriate resettlement plan will be prepared based on the detailed design, disclosed to those affected, and submitted for ADB approval in accordance with the resettlement framework.

111. Based on the feasibility study, social impact assessments were conducted for three core road subprojects for which resettlement plans were prepared. The plans will serve as sample documents for the future development of subprojects. They were publicly disclosed to those affected and local stakeholders, and posted on the ADB website. Upon completion of detailed designs, the plans will be updated and approved by ADB prior to award of civil works contracts.

112. DOLIDAR will assign a resettlement officer in the PCU, and recruit one resettlement specialist and three resettlement assistants under the central implementation support consultants to help with overall coordination, planning, and monitoring of involuntary resettlement aspects. The PCU will provide necessary training and support to the DPOs on social assessment, resettlement planning, implementation, and monitoring. The PCU will supervise and monitor DPOs' functions in order to maintain the quality and consistency of their work/outputs. MLD and DOLIDAR will ensure timely availability of budget for land compensation and resettlement activities. DOLIDAR will submit semiannual progress reports to ADB regarding implementation of the resettlement plans.

113. For subprojects in the districts, the DPOs will screen, categorize, assess, plan, and monitor for any involuntary resettlement impacts in accordance with ADB's *Involuntary Resettlement Policy* and the Project's resettlement framework. A social development specialist, a resettlement specialist, and social mobilizers/facilitators will be engaged in each district under the DIST to help the DPOs with social and land surveys, social assessment, resettlement planning, and monitoring.

114. An external monitoring agency will be engaged to conduct annual monitoring of involuntary resettlement implementation. The PCU will hire the monitoring agency with ADB concurrence within 12 months after grant effectiveness. The appointed agency will provide annual reports to ADB, MLD, and DOLIDAR.

115. **Environment.** Initial environmental examinations carried out for the core subprojects demonstrate that the investment Project is not likely to cause any significant environmental impacts since several safeguards are incorporated in the project design. At the selection stage, subprojects to be excluded are those that (i) exceed thresholds warranting environmental impact assessments, or (ii) are in designated environmentally sensitive areas. RRRSDP will provide technical and financial support to ensure that initial environmental examinations are conducted and mitigation measures are implemented to meet the Government standards and ADB's environment policies. Most subprojects will be designed and implemented using the LEP approach, which minimizes construction impact on the environment. Project activities will be independently monitored to ensure compliance with the environmental assessment and review procedures. In addition, postproject environmental monitoring will be carried out and funded under the Project as part of an effective environmental safeguard mechanism.

B. Risks

116. Risks for the Program grant include (i) political instability, including frequent changes in the Government; and (ii) weak commitment to implementing new legislation and regulation. Although the political transition could get stalled, engaging and supporting the Government in its reconstruction, rehabilitation, and social inclusion endeavors will contribute to minimizing the first risk. Policy actions taken since November 2006 demonstrate Government commitment to (i) making institutions more representative and inclusive, (ii) strengthening the devolution process to improve service delivery, and (iii) strengthening institutions for accountability and transparency.

117. Risks for the project grant include (i) inability of the DDCs to raise sufficient funds for O&M, (ii) weak capacity in the districts to manage multilateral funded projects, and (iii) distrust and lack of social cohesion among local residents, which may slow implementation. The project design provides for matching funds to support establishment of district maintenance funds with targets at different stages of implementation. Weak capacity in the districts will be mitigated through training programs on maintenance designed for local bodies and user groups. The Project also provides for strengthening DOLIDAR's ability to guide and monitor maintenance performance. Many districts are unfamiliar with the policies and procedures of multilateral donor-financed projects and this may slow implementation. To counter this, the Project provides for capacity-building training in project

procedures using manuals in local language and covering procurement, financial management, environment, and resettlement. The PCU and central implementation support consultants will provide backstopping to districts in all phases of implementation. To mitigate the risk that local residents may not cooperate, the Project provides a strong community mobilization component and conflict mitigating measures by employing (i) a consultative and demand-driven approach, (ii) open and participatory monitoring mechanism (by using district and village committees and user groups), and (iii) institutionalizing public audits.

V. ASSURANCES AND CONDITIONS

A. Specific Assurances

118. In addition to the standard assurances, the Government has given the following assurances, which will be incorporated in the legal documents.

1. The Program Grant

119. Policies adopted and actions taken prior to the date of the Grant Agreement, as described in the Development Policy Letter, will continue in effect for the duration of the program period and subsequently.

2. The Project Grant

120. Assurances for the project grant include the following:

- (i) If at any time during Project implementation, Nepal will undergo state restructuring resulting in changes to its public administration, Nepal will immediately inform the ADB thereof and the project management and implementation arrangements will be reviewed accordingly.
- (ii) The approved annual budget allocations for the Project will be sufficient to cover all required counterpart funding, including for resettlement-related payments and for land surveys and cadastral mapping.
- (iii) MLD will strictly implement those provisions of the Civil Service Act, 2007, that deal with the transfer of civil servants.
- (iv) Within 18 months of grant effectiveness, MLD will approve a national strategy for local transport. The strategy will be developed after close consultation with stakeholders at all levels and will include a plan on harmonization of technical, managerial, and administrative issues.
- (v) DOLIDAR will ensure that there will be no geographical overlap between ADB-funded subprojects and projects funded by other development partners.
- (vi) Selection and approval of all subprojects, whether roads or supplementary infrastructure, will be done in accordance with agreed criteria and in close consultation with the communities.
- (vii) DOLIDAR and the DDCs in project districts will take all measures to increase rural road maintenance funding to a sustainable level, including through the establishment of district road maintenance funds. Before 30 April of each year during project implementation, DOLIDAR will agree with ADB on the annual maintenance program for rural roads in the project area for the following year. By 31 March of every year, DOLIDAR will submit to ADB the proposed maintenance budget for its review.
- (viii) DOLIDAR will ensure compliance with ADB's *Environment Policy* (2003), and relevant national and local environmental laws and regulations. All mitigation and

- monitoring mechanisms set out in the initial environmental examinations as well as the entire environmental assessment and review procedures will be complied with throughout project implementation.
- (ix) The Government will ensure that civil works contractors comply with all applicable labor laws. Bidding documents will include a clause prohibiting child labor for construction and maintenance activities, and a clause specifying equal pay for men and women for work of equal value.
 - (x) Land donation will be done in strict compliance with the procedures set forth in the resettlement framework.
 - (xi) No land acquisition will be required for subprojects other than rural roads. Any involuntary resettlement and land or asset acquisition will be done in compliance with the resettlement framework agreed to by MLD and ADB, and the resettlement plan for the subproject. The DDCs will publicly disclose the resettlement plan in places and using language accessible to all affected people. DOLIDAR will not approve any construction unless a resettlement plan, in form and substance acceptable to ADB, has been submitted to and approved by the PCU, DOLIDAR, and ADB. Land acquisition activities including compensation payments will be completed before possession of land and other assets and before awards of civil works. DOLIDAR will initiate the compensation process simultaneously with the start of the bidding process.
 - (xii) DOLIDAR will ensure that gender issues are duly considered in project implementation in accordance with the Project's gender action plan (Appendix 16).
 - (xiii) Unskilled employment in the subproject RBGs will be reserved for beneficiaries living within the influence of the infrastructure to be constructed; workers will be paid in full on a fortnightly basis.
 - (xiv) Before commencing project activities in a district, DOLIDAR and the relevant DDC will enter into a memorandum of understanding, regulating (a) terms and conditions of release of funding from the DDC to the RBGs; (b) auditing and reporting mechanism to the PCU; and (c) coordination mechanisms with similar activities under other projects in the district.
 - (xv) Prior to the commencement of any road construction works in a village or community, the relevant DDC, VDC, and RBGs will enter into a memorandum of understanding, in form and substance acceptable to ADB, regulating (a) minimum specifications and standards of construction works to be performed by the RBGs; (b) minimum specifications and standards for the O&M of the works to be performed by the RBGs; (c) environmental standards applicable to the design, construction, and O&M of the works; and (d) employment terms and conditions for RBG members, including wage rate and frequency of pay.
 - (xvi) Prior to the commencement of any supplementary infrastructure works in a village or community, the relevant DDC, VDC, and VIUGs will enter into a memorandum of understanding, in form and substance acceptable to ADB, regulating (a) the in-kind beneficiaries' contribution; (b) minimum specifications and standards of construction works to be performed by the VIUGs; (c) minimum specifications and standards for the O&M of the works to be performed by the VIUGs; and (d) environmental standards applicable to the design, construction, and O&M of the works.
 - (xvii) Recruitment, training, and deployment to villages of social mobilizers will be initiated from the start of the Project and in advance of commencement of construction activities. Recruiting existing trained personnel from ongoing or previous projects will be encouraged.
 - (xviii) Within 9 months of grant effectiveness, the PCU will conduct any required initial baseline physical and socioeconomic surveys, and submit a detailed implementation

monitoring plan for ADB review and concurrence. Within 9 months of grant effectiveness, the PCU will establish a gender and ethnicity segregated PPMS.

B. Conditions for Grant Effectiveness

121. Prior to grant effectiveness, the following conditions need to be met:

1. The Program Grant

(i) The project grant will have been duly executed and delivered on behalf of Nepal.

2. The Project Grant

(i) The program grant will have been duly executed and delivered on behalf of Nepal.

C. Conditions for Grant Disbursement

122. Conditions for the disbursement of the project grant include the following:

- (i) No disbursement on any civil works will be made until the technical positions in all DTOs have been filled.
- (ii) No disbursement on rural road civil works will be made until the OFID loan has become effective.

VI. RECOMMENDATION

123. I am satisfied that the proposed grants would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve:

- (i) the grant not exceeding the equivalent of \$50,000,000 to Nepal from ADB's Special Funds resources for the program part of the Rural Reconstruction and Rehabilitation Sector Development Program, on terms and conditions that are substantially in accordance with those set forth in the draft Program Grant Agreement presented to the Board;
- (ii) the grant not exceeding the equivalent of \$50,000,000 to Nepal, from ADB's Special Funds resources, for the project part of the Rural Reconstruction and Rehabilitation Sector Development Program, on terms and conditions that are substantially in accordance with those set forth in the draft Project Grant Agreement presented to the Board; and
- (iii) the administration by ADB of a loan not exceeding the equivalent of \$10,000,000 to Nepal for the project part of the Rural Reconstruction and Rehabilitation Sector Development Program to be provided by the OPEC Fund for International Development (OFID) under the terms of a Letter of Administration to be entered into between ADB and OFID.

Liqun Jin
Vice President (Operations 1)

20 November 2007

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>Impact Reduce rural poverty in hill, mountain, and terai districts where isolation and hardship are common</p>	<ul style="list-style-type: none"> Proportion of rural population living below poverty line decreases from current 34.6% to 25% by 2020 	<ul style="list-style-type: none"> National census and statistics (NCS) Nepal living standards survey 	<p>Assumption</p> <ul style="list-style-type: none"> Government development expenditure grows at 14% to 15% during the program <p>Risk</p> <ul style="list-style-type: none"> Political instability
<p>Outcome: Program Greater economic and social inclusion, good governance, and improved service delivery in rural infrastructure</p> <p>Outcome: Project Improved connectivity, enhanced economic and employment opportunities, and increased access to market and social services of rural communities</p>	<ul style="list-style-type: none"> Improved inclusion and participation of disadvantaged groups in the constituent assembly and government bureaucracy, International Labor Organization (ILO) Convention 169-driven institutional legislation Vacancies filled to enhance institutional capacity of district technical offices (DTOs) Sector coverage of public expenditure tracking survey increased Gazetted Procurement Act and regulations and Local Body Financial Administration Regulations (LBFAR) to strengthen financial and procurement management, including district development committee (DDC) procurement authority Project procurement monitoring office (PPMO) effectively monitors all public procurement Government officials' exposure to managing for development results (MfDR) concepts and practices increased through institutionalized public training programs Financial and institutional support provided to private sector investment in infrastructure development Rural infrastructure significantly rehabilitated and reconstructed <ul style="list-style-type: none"> Proportion of population in project districts that have to walk 4 hours in hills and 2 hours in terai to reach the road head reduced from about 36% to less than 25% Average household (HH) travel time to market centers in road-influence area (RIA) reduced by 50% Average number of annual household trips to market centers in RIA doubled Traffic counts and/or passenger in RIA increased by at least 30% Access to assured supply of drinking water increased for about 30,000 	<ul style="list-style-type: none"> National Planning Commission (NPC) monitoring reports Public Service Commission (PSC) reports Financial Controller General's Office (FCGO) reports on public expenditure tracking Cabinet decisions and gazette publications PPMO reports Federation of Nepalese Chambers of Commerce and Industry (FNCCI) reports NPC reports <ul style="list-style-type: none"> NCS National geographic information system (GIS) database on population access (Department of Roads) Targeted benchmark, midterm, and final impact evaluation studies, surveys, and reports Project completion report (PCR) 	<p>Assumptions</p> <ul style="list-style-type: none"> Government supports inclusive development and decentralization Survey data and findings used by Ministry of Finance (MOF) to improve public expenditure Procurement regulations and LBFAR are clear and support devolution Government committed to institutionalizing results-based management Private sector attracted to investment in infrastructure development Relevant capacities are developed in the PPMO <p>Risks</p> <ul style="list-style-type: none"> Government is intransigent on devolution Private sector investors afraid of political instability <p>Assumptions</p> <ul style="list-style-type: none"> Project areas remain safe and secure for development project implementation DDCs give priority to poverty reduction and good governance District development initiatives under the Project are not diverted or politicized in the run-up to elections

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
3. Strengthened support for rural infrastructure development	<p>with procurement act and regulations</p> <ul style="list-style-type: none"> • Functional and adequately resourced PPMO • Training plans for the DDCs and Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR) on LBFAR and procurement • Computerized DDC accounts and electronic networking between MLD and the DDCs • Approved manual with minimum conditions and performance measures for budget release and resource allocation to the DDCs • Approved monetary policy to facilitate establishment of an infrastructure development bank • Task force on public private partnership (PPP) policy and regulations established • Gazetted Non-Resident Nepali Act; draft regulations prepared • Approved 3-year strategic action plan for rural infrastructure • Revised DOLIDAR manual on approach for the development of rural and agriculture roads • Approved MLD guidelines for infrastructure projects on resettlement, social mobilization, gender sensitization, and community development • NPC has submitted revised resettlement policy to Cabinet for approval 	<p>computerized system</p> <ul style="list-style-type: none"> • MLD report • MLD manual • NRB monetary policy • NPC directive • Gazette notification • MLD report • DOLIDAR report • MLD guidelines • NPC report 	<p>Risks</p> <ul style="list-style-type: none"> • Frequent transfer of DTO staff • Weak institutional capacity of PPMO • Public expenditure tracking not widely institutionalized <p>Assumptions</p> <ul style="list-style-type: none"> • Government committed to attract private sector investment in infrastructure development • Private sector widely consulted during policy formulation • Rural infrastructure features as priority in development programs • Guidelines are well-designed and can be implemented <p>Risks</p> <ul style="list-style-type: none"> • Implementation of plans and guidelines is slow • Resource constraints • Resistance to resettlement policy
B. The Project			
1. Improved rural roads	<ul style="list-style-type: none"> • Improvement of 560 km of rural roads • Construction of 1,100 meters of bridges 	<ul style="list-style-type: none"> • Trimester project performance report (TPPR) • Review mission reports • PCR 	<p>Assumptions</p> <ul style="list-style-type: none"> • Subprojects selected by the DDCs (June/July 2007) are screened, prioritized, and confirmed for implementation • District implementation support teams (DISTs) in place by June 2008
2. Developed and improved community-based supplementary rural infrastructure	<ul style="list-style-type: none"> • 485 supplementary infrastructure (village trails, trail bridges, microirrigation, market buildings, primary schools, and health posts) undertaken based on community demands • 390 water supply subprojects constructed, rehabilitated, and functional 	<ul style="list-style-type: none"> • TPPR • Review mission reports • PCR 	<p>Assumptions</p> <ul style="list-style-type: none"> • Subprojects selected by DDC by July 2007 are confirmed for implementation • DISTs in place by June 2008

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
3. Enhanced equity, employment, and income opportunities for the poor and disadvantaged	<ul style="list-style-type: none"> • At least 75% of the district infrastructure coordination committee, village infrastructure user groups (VIUGs), and building groups are formed with at least 50% women and proportionate representation of major disadvantaged groups • At least 75% of the self-help groups (SHG) with at least 70% women and proportionate representation of major disadvantaged groups formed • Members of building groups receive full wages within 30 days of completed works; members of building groups are all insured • Men and women receive equal wages for work of equal value • Members of SHGs receive demand-driven skill training (600 training programs) with 50% female representation and at least proportionate representation from disadvantaged caste and ethnic groups • 50% representation of women in building groups, user groups, and coordination committees; and proportionate representation of disadvantaged, castes, and ethnic groups to their population in the project areas, with preference given to the poorest of the poor 	<ul style="list-style-type: none"> • TPPR statistics based on summaries of attendance sheets and meeting minutes that account for gender and disadvantaged classification • Profile of members of user groups, building groups, and committees from district benefit monitoring and evaluation summaries • Review mission reports • PCR 	<p>Risk</p> <p>Training opportunities are diverted from the poor and disadvantaged to upper strata villagers</p>
4. Strengthened institutional capacity of MLD, DOLIDAR, DDCs, and communities	<ul style="list-style-type: none"> • 20 DDC trainings in project orientation and awareness in year 1 • Five regional workshops held for DDCs on standards, requirements, and procedures for financial management, procurement, resettlement, environment, and social inclusion • Five regional workshops held on strengthening quality control and operation and maintenance (O&M) • Progress made toward sector/subsector integration (to program-based approaches (PBA)) 	<ul style="list-style-type: none"> • TPPR account summarizing training sessions and attendance • Review mission reports • PCR 	<p>Risk</p> <ul style="list-style-type: none"> • Trained staff are transferred before serving 2 or more years of service for the DDC
5. Improved project management	<ul style="list-style-type: none"> • Advanced procurement action (from October 2007) initiated for five individual start-up consultants; same fielded by January 2008; manuals/updating and training delivered to DDCs by individual consultants by March 2008 • Central implementation support consultants (CISC) under DOLIDAR fielded by April 2008 (advanced procurement action started from October 2007) 	<ul style="list-style-type: none"> • TPPR • Review mission reports • PCR 	<p>Risk</p> <ul style="list-style-type: none"> • Delegation of authority to DTOs is hindered by extended government procedures

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
	<ul style="list-style-type: none"> • DISTs with 33% women recruited (from February–May 2008) in 20 districts; additional 18 WSS engineers fielded in Decentralized Rural Infrastructure and Livelihood Project (DRILP) districts • CISC prepares project procedures and guidelines for project implementation, supervision and monitoring by May 2008 • Regular project coordination unit (PCU)/CISC and DPO/DIST supervision, monitoring, and guidance activities • The public audits of all completed works under subprojects carried out by December 2011 		

Activities and Milestone	Inputs
<p>A: The Program: Policy and institutional reforms to be completed by 30 November 2007 and the tranche disbursed thereafter</p> <ol style="list-style-type: none"> 1. Gazette amended Civil Service Act 2. NPC submits TYIP for Cabinet approval 3. Approve action plan for strengthening universal vital events registration system 4. Establish task force to review and refine project prioritization criteria 5. Implement gender strategies in three ministries 6. Issue directives to FCGO on public expenditure surveys 7. Gazette LBFAR 8. Develop training plan on procurement and LBFAR 9. Develop and adopt MFDR training modules in public sector training 10. Draft nonresident Nepali regulations for discussion in NRN convention 11. Establish task force for developing PPP policy and legislation 12. Approve 3-year interim strategic action plan for local infrastructure development 13. Revise manual on Approach for the Development of Rural and Agriculture Roads 14. Issue social and safeguard guidelines for all rural infrastructure projects 15. Submit resettlement policy to Cabinet for approval <p>B: The Project</p> <ol style="list-style-type: none"> 1. Rural roads <ol style="list-style-type: none"> a. Survey, investigation, and design; resettlement assessment and plan; environmental assessment and mitigation plan; and social mobilization and participation by December 2008 b. Land acquisition by March 2009 c. Contractors and/or building groups procured/trained (January 2009–July 2010) d. Equipment, tools, and materials procured by July 2008 e. Construction (April 2009–July 2011) f. O&M plan (by June 2008), training and implementation (August 2008–July 2010) 2. Supplementary infrastructure <ol style="list-style-type: none"> a. Survey, investigation, and design; environmental assessment and mitigation plan; and social mobilization by September 2008 for DRILP districts and by Feb 2009 for non-DRILP districts b. Contractors and/or community building groups procured/employed by September 2008 c. Equipment, tools, and/or materials procured (July 2008–July 2010) d. Construction (September 2008–December 2011) 	<p>A. The Program</p> <ul style="list-style-type: none"> • ADB: \$50 million grant <p>B. The Project</p> <ul style="list-style-type: none"> • ADB: \$50 million grant • OPEC Fund for International Development (OFID): \$10 million equivalent loan • Government of Nepal: \$15.7 million equivalent • Beneficiaries: \$2.7 million equivalent

<ul style="list-style-type: none"> e. O&M plan, training, and implementation 3. Community empowerment <ul style="list-style-type: none"> a. Community and group facilitation/organization (September 2008–July 2009) b. Supplementary infrastructure development facilitated/rural roads monitored (April 2009–July 2011) c. Training needs for SHGs identified and provided 4. Institutional capacity development <ul style="list-style-type: none"> a. District and community awareness campaign on Project (January–December 2008) b. Preparatory capacity-building through manual revisions and workshop presentations to the DDCs by December 2008 c. Training on quality control and O&M intermittent every year d. Progress made toward sector integration (sectorwide approach/PBA) 5. Project management services <ul style="list-style-type: none"> a. PCU and DPOs staffed and equipped (March 2008) b. Individual capacity-building consultants fielded (January 2008) c. CISC and DIST firms recruited (July 2008) d. Project operating procedures, monitoring, and reporting established (March 2008) e. PCU/CISC support and guidance for DPOs/DISTs f. Implement, monitor progress, adjust, complete, evaluate 	
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SECTOR ANALYSIS

1. **Sector Definition.** The Government's Local Infrastructure Development Policy 2004 defines rural infrastructure as infrastructure that can be planned, implemented, operated, and maintained by the local government bodies jointly with community groups. According to the policy, the rural infrastructure sector covers (i) rural transport (rural roads, bridges, and trails); (ii) rural water supply and sanitation; (iii) irrigation and river control; (iv) microhydropower; (v) housing and urban development; (vi) solid waste management; and (vii) social infrastructure.

2. **Sector Performance.** The findings of the second Nepal Living Standard Survey in 2004 showed that poverty is concentrated in rural areas due to inadequate access, illiteracy, and stagnant agriculture. Nepal needs 30,000 kilometers (km) of rural roads to meet the relevant Millennium Development Goal by 2015. The country has about 22,000 km of rural roads at present. However, road standards vary significantly with less than half motorable and of these only about 60% categorized as all-weather. Investment in rural transport needs to be substantially increased in the medium-term.

3. Recent statistics show that 77% of country's total population has access to reliable water supply. However, the proportion of the rural population currently accessing water supply is only about 65%. Access to reliable supplies of drinking water is a major concern in towns and rural areas in the hills and mountains. Many completed water supply schemes are in disrepair and functioning much below their design capacity. This indicates that the actual population served nationwide, and especially in rural areas, may be much lower than official statistics indicate.

4. Only about 70% of the cultivated land is irrigated, of which only 40% has year-round irrigation. Almost all the agency-managed irrigation systems are delivering irrigation much below their design capacity due to lack of proper operation and maintenance (O&M). The actual irrigated area, both seasonal and year-round, may be much lower than indicated by official statistics. The farmer-managed irrigation systems and private shallow tubewells function reasonably well due to beneficiary participation in construction and O&M. This suggests the need for strengthening beneficiary participation in identifying and implementing water supply and irrigation systems for sustainable O&M and secured service delivery.

5. **Sector Investment Plan.** To revitalize the rural economy and reintegrate the conflict-affected rural population, the Government prepared the Rural Infrastructure Reconstruction and Rehabilitation Investment Plan as a major component of Three Year Interim Plan. The interim plan places highest priority on rural transport development estimating around 60% of investments to the subsector during its 3-year period. Rural water supply and sanitation is the second priority with investments of around 15% followed by irrigation with about 5%, while the other subsectors are allotted lower investment. The broad strategic elements envisaged for implementing the Rural Infrastructure Reconstruction and Rehabilitation Investment Plan are (i) community-based undertakings, (ii) programs executed by the district development committees (DDCs), (iii) linking production with markets, (iv) local capacity building, and (v) supplementary investment to promote income-generating opportunities. The investment plan will also be a component of the strategic action plan for local infrastructure development covering FY2008 to FY2015, which includes the TYIP and the next 5-year plan period. Both of these documents allocate 30% of resources for construction of new rural infrastructure.

6. **Institutional Framework for Rural Infrastructure Development.** The Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR) is responsible for planning and implementing rural infrastructure. Due to the prevailing priority given to rural roads, it has strengthened its comparative advantage in rural roads followed by rural water supply. The establishment of DOLIDAR¹ in September 1998 under the Rural Infrastructure Development National Strategy 2054 (1998) allowed for a more flexible approach to setting standards of the different structures under consideration. While it is expected to cover other infrastructure as well, DOLIDAR and the district technical offices² mostly centered their attention on rural road construction, and rural water supply. However, DOLIDAR's comparative advantage in microirrigation and microhydropower, and alternative energy schemes have yet to be developed. As the

¹ The Rural Infrastructure Development National Strategy 2054 (1998) led to its establishment in September 1998.

² Formerly known as the district infrastructure development offices.

subsector policies are gradually identifying and giving away projects of a certain size to local bodies for their planning, implementation, and O&M, DOLIDAR needs to strengthen its capability to handle these aspects through the district technical offices.

7. As various other government agencies are responsible for this type of infrastructure, a clear demarcation of local and nonlocal dimensions must be obtained from the subsector-specific policy documents. For example, the Rural Water Supply and Sanitation Sectoral Strategic Action Plan (2004) defines any water supply schemes serving less than 1,000 people will be undertaken by local bodies and larger projects will be taken up by the Department of Water Supply and Sanitation. This will be guided by the institutional capacity of DOLIDAR, which currently has a strong comparative advantage for rural roads and motorable trail bridges. Similar such demarcation for irrigation (in terms of areas to be irrigated), hydropower (in terms of generation capacity), and roads (in terms of right of the way) are also defined in their respective subsector policy documents. In areas where DDCs and their line offices do not have technical capacity to handle the projects, they still need to be handled by district offices of the respective line ministries; for this purpose a memorandum of understanding has to be reached on a case-by-case basis.

8. The Local Self Governance Act 1999 and other subsector policy documents call for the preparation of periodic and subsector district development plans. They provide the list of projects in different subsectors identified after extensive consultations with all stakeholders, and approved by the DDCs. Although many need to be updated, in the absence of elected local bodies and the transitional arrangement to form them comprising representatives from the major political parties in the district and other civil societies, these district plan documents could be the starting point for selecting projects in different subsectors. They could be identified following a certain process and approved by the DDCs. Subprojects to be eligible for implementation must be from one of these district plan documents. But they need to be reranked and reprioritized to include poverty and social inclusion as prioritization criteria.

9. **Classification of Rural Roads.** Rural roads are classified under two government systems. The Department of Roads classifies feeder roads as rural roads that link district or zonal headquarters and major tourism, industrial, and public utility centers with strategic roads (national highways); and district roads as rural roads that link places within a district other than national highways, feeder roads, and urban roads. DOLIDAR classifies rural roads as district and village roads. All rural roads that connect one or more market, tourism and industrial centers, or link several village development committees (VDCs) with respective or adjoining district headquarters directly or through a strategic road network are classified as district roads. Rural roads that connect a VDC with another VDC, district road, strategic road, or major growth center in respective or neighboring districts are classified as village roads. Another classification of rural roads, mainly practiced in GTZ and SDC-supported projects, is green road. This classification includes primary district roads and secondary district roads. The rural roads linking several VDCs, market centers, or feeder roads are classified as primary district roads, while the rural roads linking two or more VDCs, connecting market centers with the district, or linking with other roads are classified as secondary district roads. All these roads intend to improve access of rural populations to market and economic and social services. These roads are constructed following different design and implementation standards. The Department of Roads is responsible for maintaining feeder roads, and the DDCs are responsible for maintaining district roads. The DDCs with concerned VDCs and user groups are responsible for maintaining village roads. However, most rural roads lack maintenance due to shortage of funds and lack of a proper mechanism established during construction.

10. **District Transport Master Plan.** District transport master plans (DTMPs) list the road alignments proposed by the VDCs. They make demands for additional road linkages with justifications based on population served and services they will provide, and also providing their own contribution. DTMPs were prepared for 74 districts and preparation of a DTMP is under way for one district. However, the DTMPs are not uniform in quality and coverage and many need to be updated. Nonetheless, as the screening and prioritizing process does not have explicit and objective criteria to cover poor and social inclusion aspects, these DTMPs need to be revisited. For this, the manuals providing guidelines for screening and prioritizing rural roads for new construction, upgrading, and rehabilitation need to be updated.

11. **Ongoing Rural Road Development Projects.** DOLIDAR is currently implementing four rural infrastructure projects, mainly focusing on improving rural access:

- (i) Decentralized Rural Infrastructure and Livelihood Project (DRILP: 2005–2011) assisted by the Asian Development Bank (ADB) and Swiss Agency for Development and Cooperation (SDC) in 18 districts,
- (ii) Rural Access Program (2001–2008) assisted by the Department for International Development of the United Kingdom in 7 districts,
- (iii) Rural Access Improvement and Decentralization Project (2005–2010) assisted by the World Bank in 20 districts, and
- (iv) District Roads Support Program (phase III: 2006–2010) assisted by SDC in four districts.

12. Aside from these, the Japan International Cooperation Agency is supporting bridge construction at several sites with SDC assistance in the construction of suspension bridges to improve connectivity to rural areas. The other rural infrastructure programs of DOLIDAR are (i) rural agriculture road and local development work program, (ii) repair and maintenance of large and local suspension bridges (with support from SDC), (iii) rural drinking water and sanitation program (with support from the Government of Finland), (iv) local development fund for small-scale infrastructure development (with United Nations Capital Development Fund), and (v) remote and special area development program.

13. These rural road projects and programs follow labor intensive, environment friendly, and participatory approaches. However, DOLIDAR's main concern has been inconsistent approaches adopted by donor-supported projects. These include (i) different criteria for subproject selection, (ii) separate implementation modalities, and (iii) varying reporting requirements. DOLIDAR intends to harmonize the operating procedures of donor- and Government-supported projects. As these projects have different time frames and are at different stages of implementation, broad agreement must be reached among all concerned on a single operating modality, even for ongoing projects, and a joint agreement for restructuring the ongoing projects may have to be initiated.

14. **Rural Water Supply and Sanitation.** The rural water supply and sanitation sectoral policies and Sectoral Action Plan (2004) provide major policy guidelines on water supply with a focus on community-owned and -managed systems and classify projects for the DDCs and Department of Water Supply and Sanitation to undertake based on number of population served by water supply schemes. Two major projects on water supply and sanitation are ongoing: Rural Water Supply and Sanitation Project Phase II supported by the World Bank, and Community-Based Water Supply and Sanitation Sector Project supported by ADB. Both will provide water supply to 2,400 communities in different parts of the country, and both work through water user groups. These projects are ending in 2009 and 2010, respectively. The Government of Finland is supporting a separate program on water resource management.

15. **Irrigation.** The Irrigation Policy (2003) and Irrigation Regulations (2004) are the policy documents guiding irrigation development in the country. Irrigation projects commanding more than 200 hectares (ha) in the terai and 25 hectares in the hills and mountains are under the jurisdiction of the Department of Irrigation, while the DDCs are mandated to implement irrigation projects servicing below these thresholds. However, irrespective of the size of the command area, irrigation projects have to be planned and implemented jointly with water user groups and associations. Two irrigation projects are ongoing: Community Groundwater Irrigation Sector Project and Community-Managed Irrigated Agriculture Sector Project, both supported by ADB, are to be closed in 2007 and 2012, respectively. The Government is preparing microirrigation policy and implementation guidelines to promote microirrigation, i.e., treadle pumps and drip and sprinkler systems targeted at marginal farmers.

16. **Experience in Land Acquisition.** As per the need for development projects, the Government acquires private land, and landowners are compensated according to the law of the land. Landowners are also allowed to donate their land. However, whether landowners donate land voluntarily or through social pressure is not always clear, as the process adopted during donations is often not properly recorded and verified by a third party. Whether landowners are given options for compensation or voluntary donation of their lands is also not clear. Such practice increases the risk of the landowners being worse off from a development project. Hence, a national policy is needed with clear guidelines to screen, assess, and plan land acquisition for development projects. Although provisions could be made for voluntary land donation by the nonpoor, greater care is needed in handling land acquisition from poor households and vulnerable

groups. This requires proper planning and monitoring. Land acquisition requiring involuntary resettlement should be avoided where feasible by exploring viable options; resettlement may disrupt residents' economic and social future. If displacement becomes unavoidable, they should be adequately compensated for the loss of and or means of livelihood or social support system.

17. **Lessons.** The design of the Rural Reconstruction and Rehabilitation Sector Development Program considers lessons from completed and ongoing projects/programs in the rural infrastructure in Nepal and other countries (Table A2).

Table A2: Key Lessons from Various Infrastructure Development Projects

Issue	Lesson	Remarks
Compliance with the policy objective of poverty reduction and social inclusion	Need for explicit criteria on poverty reduction and social inclusion in identifying and prioritizing projects	Poverty mapping and mapping of ethnic distribution for the district can be introduced; base maps can be prepared by DOLIDAR.
Overemphasis on improvement and construction of roads	Supplementary investments in community-based programs enhance social and economic impacts of road investment	Supplementary programs have to be identified during selection and planning of rural roads.
Inadequate construction supervision leading to poor work quality	Unskilled workers finalizing engineering design during construction	Need for full-time technical supervision and training on basic skills for laborers at the very beginning of project implementation
Inadequate provision for repair and maintenance	Failure to preserve the physical assets and hence reduce the use value	System for repair and maintenance, formation of maintenance fund with some seed money at the beginning of project implementation. System for revenue generation for repair and maintenance
Technical and policy guidance for ensuring quality of works	Standardization of the process, design standards, and environmental and social safeguards required even for a decentralized implementation framework	Such standardization facilitates administration and program/project implementation. Standardization is needed for rural construction through Government and DDC sources
Need for strong ownership by communities for smooth operation and maintenance	Community participation from the project planning to implementation	Capture by local elite still needs to be avoided, and the voices of disadvantaged communities need to be heard

DDC = district development committee, DOLIDAR = Department of Local Infrastructure Development and Agricultural Roads.

Source: Asian Development Bank.

EXTERNAL ASSISTANCE TO RURAL INFRASTRUCTURE

Title	Type of Assistance	Duration	Amount (\$ million)	Funding Source
Community-Based Rural Development Project (Siraha) Program	Grant	1990–1994	0.5	USAID
Rural Water Supply and Sanitation Support Program I	Grant	1990–1996	11.9	FINLAND
Rajapur Irrigation Rehabilitation Project	Loan	1991–2000	16.6	ADB
Rural Development (Gorkha) Program	Grant	1992–1996	1.3	Danida
Karnali Hills Development Program	Grant	1992–1997	0.5	SNV
Upper Sagarmatha Agricultural Development Project	Loan	1992–2002	13.4	ADB
Karnali Local Development Program	Grant	1993–1997	4.0	SNV
Irrigation Management Transfer Project	Loan	1994–2004	12.9	ADB
Rehabilitation of Flood Damaged Rural Infrastructure	Loan	1995–1996	4.3	WFP,IFAD
Rural Water Supply and Sanitation Support Program II	Grant	1996–1999	4.4	FINLAND
Rural Community Infrastructure Works Program	Grant	1996–2000	20.0	WFP
Second Irrigation Sector Project	Loan	1996–2003	25.0	ADB
Rural Infrastructure Development Project	Loan	1996–2005	12.2	ADB
Second Agriculture Program	Loan	1997–2000	50.0	ADB
Suspension Bridge Construction and Maintenance Project	Grant	1997–2001	3.0	SDC
Community Shallow Tubewell Irrigation	Loan	1997–2002	8.8	IFAD
Integrated Rural Development Program Gulmi-Arghakhanchi	Grant	1997–2002	12.5	EU
Nepal Irrigation Sector Project	Loan	1997–2004	79.8	WB
Irrigation Development Program	Grant	1997–2005	9.4	EU
Community Groundwater Irrigation Sector Project	Loan	1998–2007	32.8	ADB,CIDA
Rural Water Supply and Sanitation Support Program III	Grant	1999–2003	5.0	FINLAND
Rural Infrastructure Project	Loan	2000–2003	5.0	WB
Landslide Risk Assessment in the Rural Access Sector	Grant	2001–2003	0.6	DFID
Decentralized Financial and Development Program	Grant	2001–2005	10.0	UNCDF
Trail Bridge Subsector Program	Grant	2001–2006	8.2	SDC
Rural Access Program	Grant	2001–2008	50.3	DFID
Strengthen Maintenance Division Program	Grant	2002–2006	2.4	SDC
District Roads Support Program, Phase II	Grant	2002–2006	4.8	SDC
Rural Community Infrastructure Works Program	Grant	2002–2006	25.9	WFP,GTZ,DFID,Danida
Community Based Water Supply and Sanitation Sector Rural Program Nepal	Loan	2003–2010	24.0	ADB
Community-Managed Irrigated Agriculture Sector Project	Grant	2004–2007	7.8	GTZ
Community-Managed Irrigated Agriculture Sector Project	Loan	2004–2012	27.0	ADB,OFID
Rural Access Improvement and Decentralization Project	Grant	2005–2010	34.1	WB,SDC
Decentralized Rural Infrastructure and Livelihood Project	Loan	2005–2012	46.9	ADB,SDC
Rural Village Water Resource Management Project	Grant	2006–2010	15.0	FINLAND
District Roads Support Program, Phase III	Grant	2006–2010	6.9	SDC
Trail Bridge Subsector Program, Phase II	Grant	2007–2010	9.3	SDC,DFID
Total			514.42	

ADB = Asian Development Bank, CIDA = Canadian International Development Agency, Danida = Danish International Development Agency, DFID = United Kingdom's Department for International Development, EEC = European Economic Community, EU = European Union, GTZ = Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation), IFAD = International Fund for Agricultural Development, OFID = OPED Fund for International Development, SDC = Swiss Agency for Development and Cooperation, SNV = Netherlands Development Organization, UNCDF = United Nation Capital Development Fund, USAID = United States Agency for International Development, WB = World Bank, WFP = World Food Program.
Source: ADB estimates.

DEVELOPMENT POLICY LETTER AND POLICY MATRIX

A. Development Policy Letter



Dr. Ram Sharan Mahat
Finance Minister

Government of Nepal

MINISTRY OF FINANCE



DEVELOPMENT POLICY LETTER AND POLICY MATRIX

7 November 2007

Mr. Haruhiko Kuroda
President
Asian Development Bank
Manila, Philippines

Dear Mr. Kuroda,

Re: Rural Reconstruction and Rehabilitation Sector Development Program

1. The Government of Nepal is committed to poverty reduction, inclusive development, and promoting greater social equity. The country has made significant progress in combating poverty and in improving the standard of living even in a conflict environment. Between 1996 and 2004 poverty declined from 42% to 31% or a reduction of about one percentage point per year. This annual rate of decline continued through 2006 when poverty incidence was estimated to have fallen below 30%. While per capita income and consumption grew for all quintiles of the population, the level of improvement has been uneven, particularly in the remote regions.
2. The Government is aware that persistent poverty in these regions is linked to the unequal distribution of resources, and to a lack of connectivity. Therefore, policy initiatives will focus on immediate post conflict development priorities for improving inclusion and poverty reduction efforts. The Government has taken action to bring about electoral and administrative reform, aimed at increasing the effectiveness of poverty alleviation policies, service delivery, and inclusive growth. While these reforms are underway, the Government faces enormous challenges in terms of making institutions more representative and inclusive, improving service delivery, and strengthening institutions for accountability and transparency.
3. After the historic Peace Accord of November 2006 between the Seven Party Alliance (SPA) and the CPN-Maoist (CPN/M), the political environment for a lasting peace and the creation of a "New" Nepal has significantly improved. The Government has promulgated an Interim Constitution embodying the principles of a just, inclusive, representative, progressive, and democratic state. The Three Year Interim Plan (TYIP) forms the basis of the economic and social transformation of Nepal. The total capital expenditure, including investment from the private sector, for the TYIP is \$7.9 billion, with emphasis on reconstruction, rehabilitation, inclusive development, peace building, and revitalization of the economy. In addition, the Government envisages quick delivery of tangible benefits to the rural poor through increases in targeted programs for vulnerable groups and women. The TYIP projects to attain an annual average economic growth rate of 5.5% per annum and to lower the percentage of the population

living below the poverty line to 24% by the end of the plan. Reducing exclusion and poverty is the major focus of our reform agenda.

4. We recognize that the program as described in the following paragraphs is challenging in terms of its implementation aspects, but we believe that our commitment and recent actions towards the reform process demonstrate our full willingness and determination to implement the program. The Government agrees to undertake all of the policy actions as laid out in the Policy Matrix (Attachment) of the Rural Reconstruction and Rehabilitation Sector Development Program (RRRSDP). As the Policy Matrix indicates, the Government's policy priorities are three-fold: (i) enhancing poverty reduction and inclusive development, (ii) improving governance and decentralization, and (iii) supporting policies for infrastructure development. The major areas of the policy matrix are described below.

5. **Enhancing Poverty Reduction and Inclusive Development.** To enhance poverty reduction and inclusive development, the Government will take policy actions to increase the representation of women and excluded groups in political institutions and civil service, and will develop programs for improving their access to benefits and opportunities. In this context, we have already taken steps to bring about electoral reform by amending the Interim Constitution to secure broad political representation of its citizens. The Constituent Assembly Member Electoral Act allocates seats to women, *dalits*, ethnic groups, *Madhesis*, and the differently abled, among others for the 240 electoral seats under the Proportional Electoral System. Similarly, the 2007 amendment to the Civil Service Act reserves 45% of vacant posts to: women (33%), indigenous/ethnic groups (27%), *Madhesis* (22%), *Dalits* (9%), differently-abled (5%) and backward regions (4%) which we believe will contribute to a more representative bureaucracy, increase the effectiveness of the civil service, and improve public accountability.

6. The findings of a recent ADB regional study, which included Nepal, on the links between legal identity and access to services, benefits and opportunities have been brought to our attention. Realizing that the highest rates of non-registration of births are amongst women, ethnic minorities, and disadvantaged groups, we have prepared an Action Plan for strengthening the registration of vital events such as birth, death, marriage, divorce, and migration to promote more inclusive planning and facilitate the acquisition of legal identity. The amendment to the Citizenship Act which includes a provision for the acquisition of citizenship through the mother reinforces our commitment to gender equality. Additionally, we have ratified the ILO Convention on Indigenous and Tribal Peoples, and approved gender strategies of the Ministry of Agriculture and Cooperatives, Ministry of General Administration, and Ministry of Education and Sports demonstrating our commitment to remedying exclusionary practices. To improve the effectiveness of our policy actions we will develop more robust prioritization criteria to address objectively the concerns of poverty and social inclusion which will be reflected in the medium term expenditure framework of FY2009 and in new regional and social programs with secured budget allocations.

7. **Improving Inclusive Governance and Decentralization.** The policy matrix to which we are committed details a number of actions that Government will submit to Cabinet for consideration. These policy actions are envisaged to improving governance and decentralization, enhancing the implementation capacity of Local Bodies, including District Technical Offices, strengthening capacity for monitoring; improving procurement and financial management, and improving investment opportunities.

8. To improve procurement and financial management the Government has introduced a new Procurement Act and its Regulations which provide for a more transparent and competitive procurement and bidding process for goods, civil works, and services in line with acceptable international procedures. To give effect to the Procurement Act, the Local Bodies Financial Administration Regulations (LBFAR) will be harmonized, and we welcome the support provided by ADB in assisting us to bring the Regulations in line with the Procurement Act and its Regulations. The revised LBFAR will increase the level of financial authority of the local bodies, improve transparency through the provision of community procurement, public audit, and enhance accountability by requiring adherence to a procurement code of conduct.

9. Additionally, we have decided to establish a Public Procurement Monitoring Office (PPMO) in the Office of the Prime Minister and Council of Ministers, which will be headed by the Secretary. We hope this will increase transparency within Government processes to institutionalize accountability and transparency. Training on procurement will be provided to DDCs, district staff of line ministries, and DOLIDAR to improve capacity in contract management and procurement procedures.

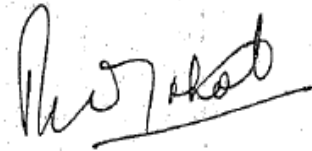
10. The Government has amended the Civil Service Act in 2007. This has enabled the vacant positions to be filled, which will expedite the recruitment of staff at the District Technical Offices and ensure smooth implementation of the investment project. The Public Service Commission will prepare a schedule for recruiting technical and administrative staff and advertise for the vacant positions.

11. **Support for Infrastructure Development.** The Government will work towards improving the policy environment to attract private sector participation, improving investment opportunities, and support policies for rural infrastructure development for disadvantaged communities. The Nepal Rastra Bank has approved a Monetary Policy which includes a commitment to issue separate regulations relating to capital, investment, loan loss provisioning, and other regulatory norms for establishing an Infrastructure Development Bank. The Government has approved an interim Strategic Action Plan for Local Infrastructure Development which will include a commitment to increase the access of excluded groups to services, opportunities, and resources. A common set of guidelines on social mobilization, gender sensitization and prioritization has been prepared for all rural infrastructure projects to ensure inclusion and adequate safeguards for vulnerable communities. Similarly, to promote consistency in the treatment of safeguard policy issues we have prepared a draft National Resettlement Policy to further enhance development impact.

12. The policy actions adopted under the program grant of RRRSDP reflect the Government's vision as laid out in the Interim Constitution and the TYIP. The implementation of these policy actions will give direction to the future reform process, with positive impacts on the implementation of the investment project vis-à-vis service delivery to the poor and socially excluded groups. We are confident that our strong ownership of this program, and much needed financial assistance from ADB, will assist us to achieve these reform goals.

Thank you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ram Sharan Mahat', written over a horizontal line.

Ram Sharan Mahat

Attachment: Policy Matrix

B. Policy Matrix

Table A4: Policy Matrix

A. Policy Objective	Policy Action Prior to Tranche Release	Concerned institution	Instrument	Expected Timeframe
Enhance Poverty Reduction and Inclusive Development				
To ensure political representation of women and excluded groups	The Parliament promulgates the Interim Constitution guaranteeing inclusiveness in the selection of candidates for the Constituent Assembly. The Government gazettes the Constituent Assembly Member Electoral Act, 2007, including provisions on the allocation of seats to women, <i>Dalits</i> , <i>Madhesis</i> , <i>Janjatis</i> and other disadvantaged groups for 240 electoral seats under the 'Proportional Electoral System'.	Interim Parliament	Interim Constitution	Completed
To make civil service more representative of the country's gender and social profile	The Interim Parliament ratifies the ILO Convention on Indigenous and Tribal Peoples (No. 169).	Interim Parliament	Ratification	Completed
To improve inclusiveness and equal access to benefits and opportunities	The Government gazettes the amended Civil Service Act, 1993, securing reservations for women, <i>Dalits</i> , <i>Madhesis</i> , and <i>Janjatis</i> , and backward regions. NDC approves the Approach Paper of the Three Year Interim Plan, with inclusive development as one of the pillars, and including a plan for rural infrastructure reconstruction and rehabilitation. NPC submits the Three-Year Interim Plan to the Cabinet for its approval.	Interim Parliament	Gazette notification	Completed
To ensure development programs reach disadvantaged communities and the poor.	NDC approves the Approach Paper of the Three Year Interim Plan, with inclusive development as one of the pillars, and including a plan for rural infrastructure reconstruction and rehabilitation. NPC submits the Three-Year Interim Plan to the Cabinet for its approval.	NDC	Approved approach paper	Completed
To mainstream gender issues	The Government gazettes the amended Citizenship Act, conferring citizenship through the mother's citizenship. MLD approves time bound action plan for strengthening the universal vital events registration system. MPPW approves the Interim Guidelines for Enhancing Poverty Reduction Impacts of Road Projects	NPC	Memo from NPC to Cabinet submitting TYIP.	30 Nov 07
To ensure development programs reach disadvantaged communities and the poor.	The Government gazettes the amended Citizenship Act, conferring citizenship through the mother's citizenship. MLD approves time bound action plan for strengthening the universal vital events registration system. MPPW approves the Interim Guidelines for Enhancing Poverty Reduction Impacts of Road Projects	Interim Parliament	Amended Act	Completed
To improve inclusiveness and equal access to benefits and opportunities	NPC establishes a task force with TOR to review and refine its prioritization criteria for development programs.	MLD	Approved action plan	Completed
To mainstream gender issues	MPPW approves the Interim Guidelines for Enhancing Poverty Reduction Impacts of Road Projects	MPPW	Approved guidelines	Completed
To improve inclusiveness and equal access to benefits and opportunities	NPC establishes a task force with TOR to review and refine its prioritization criteria for development programs.	NPC	Internal memo	Completed
To improve inclusiveness and equal access to benefits and opportunities	MOGA, MOES, and MoAC approve their respective gender strategies.	MOGA/MOES/MOAC	Approved gender strategies	Completed
Improving Inclusive Governance and Decentralization				
To support the decentralization for inclusiveness	The Interim Constitution provides for the establishment of the State Restructuring Commission.	Interim Parliament	Interim Constitution	Completed
To enhance capacity for output, outcome and impact monitoring.	MOF issues a directive to FCGO to undertake public expenditure tracking surveys, on a sample basis, for two sectors a year. Nepal Administrative Staff College (NASC) approves inclusion of MfDR curriculum in its public sector training programs.	MOF	Directive	Completed
		NASC	Confirmation letter	30 Nov 07

A. Policy Objective	Policy Action Prior to Tranche Release	Concerned institution	Instrument	Expected Timeframe
To improve procurement and financial management	<p>The Government gazettes the Procurement Act, 2007.</p> <p>Cabinet approves the Procurement Regulations, 2007.</p>	Interim Parliament Cabinet	Gazette notification Approved Procurement Regulations	Completed Completed
	<p>The Government establishes the Public Procurement Monitoring Office (PPMO).</p> <p>Cabinet approves the Local Bodies Financial Administration Regulations (LBFAR), including provisions for higher level of authorization for spending at the district level.</p> <p>MLD finalizes the time bound training plan for DDCs and DOLIDAR, with budget allocation, on procurement and LBFAR.</p> <p>MLD finalizes the computerization of all DDC accounts and establishes network between MLD and DDCs.</p> <p>MLD (i) establishes minimum conditions and performance measures for budget release and resource allocation to DDCs, (ii) approves its district manual, (iii) undertakes orientation programs, and (iv) prepares baseline data to monitor progress in (i).</p>	Cabinet Cabinet MLD MLD MLD	Cabinet decision Approved LBFAR Time bound Training Plan Computerized system Ministry decision	Completed Completed Completed Completed Completed
B. Supporting Rural Infrastructure Development				
To support private sector participation in infrastructure development	<p>NRB approves its monetary policy committing to issue separate regulatory norms for the establishment of an Infrastructure Development Bank</p> <p>NPC establishes a Task Force with TOR to formulate a comprehensive PPP policy and legislation.</p>	NRB NPC	Monetary Policy for 2007/08. Directive of NPC	Completed Completed
To improve investment opportunities for Non-Resident Nepalis	<p>The Government gazettes the Non-Resident Nepali Act, 2007, providing investment opportunities, including in infrastructure, for non-resident Nepalis.</p> <p>The Government submits the Draft Regulations for implementing the NRN Act, 2007, to the Non-Resident Nepali Conference scheduled for October 15-17, 2007.</p>	Interim Parliament Ministry of Foreign Affairs	Gazette notification Implementation provisions presented	Completed Completed
To support rural infrastructure development for disadvantaged communities.	<p>MLD approves the interim Strategic Action Plan for Local Infrastructure Development.</p> <p>DOLIDAR revises 'The Approach for the Development of Rural and Agriculture Roads' manual to incorporate poverty and social inclusion issues.</p> <p>MLD issues a directive DDCs to use common guidelines for all its infrastructure projects, including on social mobilization and participatory approach, gender sensitization, safeguard policies for indigenous communities and vulnerable groups, and environment.</p> <p>NPC submits the revised draft National Resettlement Policy to the Cabinet for its approval.</p>	MLD DOLIDAR MLD NPC	Approved Interim Strategic Action Plan Revised manual. Directive including Guidelines and instructions to DDCs Memo submitting Revised Resettlement Policy to the Cabinet	Completed Completed Completed Completed

DDC = district development committee, DOLIDAR = Department of Local Infrastructure Development and Agriculture Roads, LBFAR = Local Bodies Financial Administration Regulations, MfDR = managing for development results, MLD = Ministry of Local Development, MOAC = Ministry of Agriculture and Cooperatives, MOES = Ministry of Education and Sports, MOF = Ministry of Finance, MOGA = Ministry of General Administration, MPPW = Ministry of Physical Planning and Works, NASC = Nepal Administrative Staff College, NDC = National Development Council, NPC = National Planning Commission, NRB = Nepal Rastra Bank, PSC = Public Service Commission.

Source: Asian Development Bank.

IMMEDIATE COST OF REFORMS AND FINANCING GAP

(\$'000)

Policy Action Prior to Tranche Release	Cost Items	4 Years
A. Enhance Poverty Reduction and Inclusive Development		
Interim Constitution guarantees inclusiveness in the selection of candidates for the Constituent Assembly by political parties	Dissemination, orientation to politicians and political workers (up to ward level), awareness campaign to general public	8,000
Constituent Assembly Member Electoral Act provides for allocation of seats to women, <i>dalits</i> , <i>madhesis</i> , <i>janjatis</i> , and others	Disseminating, orientation to politicians, and awareness campaign for the general public	1,675
International Labor Organization Convention on Indigenous and Tribal Peoples (No. 169) is ratified	Dissemination, orientation and awareness, institutionalization, and legislation	2,500
Civil Service Act, 1993 amended and Civil Service Regulations approved for inclusive appointment for vacancies	Dissemination, coaching classes, orientation, and other support	2,800
Approach Paper of the Three Year Interim Plan (plan layout of NRs511.4 billion) approved	Preparation and dissemination	175
Three-Year Interim Plan completed and submitted to Cabinet for approval	Preparation, consultation, and dissemination	1,700
Citizenship Act amended to grant citizenship through the maternal line	Dissemination, orientation, and distribution cost of certificates to the new groups to be covered	1,800
Directive to registrar and local registrars to prepare action plan for universal vital events registration system	Preparation of action plan, training and orientation, implementation	12,500
Guidelines for Enhancing Poverty Reduction Impact of Road Projects prepared	Training and orientation, and application	1,650
Task force with terms of reference to review and refine prioritization criteria for development programs.	Preparation cost of the criteria (including pilot testing) and orientation to government bodies	200
MOGA, MOES, and MOAC approve their respective gender strategy	Orientation to ministry staff and program development	2,500
B. Improve inclusive Governance and Decentralization		
Provision made for state restructuring commission	Staffing, operating cost of the commission (including consultations and awareness campaigns)	1,400
Public expenditure tracking by instructing FCGO to conduct surveys in two sectors a year	Cost of undertaking the studies	300
Nepal Administrative Staff College includes MfDR concept and processes in its curriculum	Cost of developing curriculum, reading materials, and training session	500
Cabinet approves Procurement Act and Procurement Regulations	Dissemination and training	650
Public Procurement Monitoring Office established	Office operation cost, training, and other regular programs.	1,350
LBFAR approved along with training plan for DDCs,	Dissemination and training	1,000

Policy Action Prior to Tranche Release	Cost Items	4 Years
other district offices, and DOLIDAR on procurement and LBFAR		
All DDC accounts computerized and network between MLD and the DDCs established for electronic data transfer	Training and hardware and software and running cost	3,800
Minimum conditions and performance measures established for budget release and resource allocation	Training, dissemination, and implementation	2,500
C. Support Rural Infrastructure Development		
Separate regulatory norms established for the proposed infrastructure development bank	Preparation, consultation, orientation, and operation	350
Task force with terms of reference to formulate comprehensive public private partnership policy and legislation	Preparation and administrative cost	350
Non-Resident Nepali Act 2007 and draft regulations presented to NRN conference (15–17 Oct 2007)	Preparation and administrative cost	300
Interim Strategic Action Plan for Local Infrastructure Development approved	Preparation cost and program budget	30,000
Revision of the Approach for the Development of Rural and Agriculture Roads manual incorporates poverty and social inclusion issues in the identification and prioritization criteria and directives issued to the DDCs/DTOs to use it for revising and updating the DTMPs	Preparation, dissemination, training, and updating DTMPs	2,000
Common guidelines prepared for all infrastructure projects, including on social mobilization and participatory approach, gender sensitization, safeguard policies for indigenous communities and vulnerable groups, and environment	Preparation, dissemination, and training	1,800
Revised resettlement policy submitted	Finalization, dissemination, and training	1,000
Total		82,800

DDC = district development committee, DTO = district technical office, DTMP = district transport master plan, LBFAR = local body finance financial administration regulations, MLD = Ministry of Local Development, MOAC = Ministry of Agriculture and Cooperatives, MOES = Ministry of Education and Sports, MOGA = Ministry of General Administration, PPMO = Public Procurement Monitoring Office.

Source: Asian Development Bank estimates.

DESCRIPTION OF INELIGIBLE ITEMS

1. No withdrawals will be made from the grant account in respect of

- (i) expenditures for goods included in the following groups or subgroups of the United Nations Standard International Trade Classification:

Table A6: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver, or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

- (ii) expenditures in the currency of the Recipient or of goods supplied from the territory of the Recipient;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the Asian Development Bank (ADB);
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party and
- (vii) expenditures on account of any payment prohibited by the Recipient in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

AID COORDINATION AND DEVELOPMENT OF JOINT FUNDING

1. Approximately eight donors are currently funding at least 14 programs covering rural infrastructure and poverty reduction across Nepal, not including the many local projects supported by international agencies, nongovernment organizations, and community-based organizations. Not all major programs are present in each of the 75 districts, ranging from 2–8 in any given one. The foci of the major programs include

- (i) strengthening connectivity within rural areas;
- (ii) developing livelihoods and access;
- (iii) promoting labor-based and environmentally sound road construction and maintenance methods;
- (iv) strengthening capacity of decentralized local government for planning, quality, and sustainability of rural roads;
- (v) enabling families to gain and preserve assets that directly contribute to sustainable improvements in food security;
- (vi) providing easy access to markets, and to economic and basic service centers;
- (vii) strengthening local capabilities for implementing rural water supply and sanitation schemes;
- (viii) providing holistic support for sustainable, market-oriented agriculture and livestock development; and
- (ix) improving rural water supply and sanitation schemes through a demand-driven approach and empowering communities to take responsibility for operation and maintenance.

2. Given the number of programs and because many programs include more than just rural infrastructure components, the Government is faced with a major challenge to manage and coordinate the initiatives centrally among different ministries and in the districts. Additionally, donor requirements related to procurement, safeguards, reporting, etc., significantly strain the limited capacity and resources of the Government. These factors provide justification for developing an integrated framework to harmonize donor funding and to move the sector or subsector to joint funding arrangements. While the need is clear and urgent, development of such an arrangement requires several steps that could take up to 3–4 years. In the meantime, the Government proposes development of an interim joint donor framework to help coordinate rural infrastructure programs.

3. The Ministry of Local Development (MLD) is charged, under its charter, with developing local governance, rural infrastructure, and economic and social inclusion. It is seeking to lead a coordinated approach to alignment, harmonization, managing for results, and mutual accountability, across the various ongoing programs as well as prepare for new initiatives, through the framework of the Rural Reconstruction and Rehabilitation Sector Development Program. MLD has already taken the first step by changing the current Joint Local Transport Steering Committee into a joint steering committee for rural infrastructure (JSCRI). This new body will have a broader mandate, and comprise joint secretaries from seven key ministries and agencies including the National Planning Commission, and be chaired by MLD. Where areas overlap with programs in related sectors or jurisdictional conflicts arise with other infrastructure-related lead ministries, the presence of the National Planning Commission will enhance rational and early resolution of such conflicts.

4. MLD has still to resolve how to encourage other key steering committees to come together and work together at the center. Even though the boundaries of what exactly constitutes rural infrastructure remain somewhat unclear, donors supporting and working through district and village development committees are expected to join in the new JSCRI, either through direct participation

or through representation on behalf of a group of donors under other key steering committees. At the same time, MLD recognizes that it will need to coordinate in the regions and districts as well.

5. Key steps in the interim period, not necessarily in strict order or in series, are
 - (i) securing donors' agreement on adopting the donor coordination framework and governance mechanism at a newly relaunched JSCRI;
 - (ii) identifying any technical assistance required to assist MLD in moving to a joint funding arrangement and looking at low-cost options including assistance from existing donor-funded rural infrastructure programs;
 - (iii) joint assessment of and agreement on the gaps in current policy in rural infrastructure, including the steps needed to rectify these gaps;
 - (iv) formal launching of the SDP, and mobilization of central and district technical assistance;
 - (v) agreeing on central reforms needed for better governance of rural infrastructure initiatives for poverty reduction, and establishing a time frame with milestones and resources for implementation; and
 - (vi) agreeing on a road map to develop a sector or subsector joint funding arrangement, including tentative targets, outputs, and working groups as necessary.

6. With respect to a joint funding arrangement, experience to date confirms that countries engaged in sectorwide and program-based approaches have taken different paths.¹ The choice has been related to contextual factors specific to the country and sector. Nevertheless, common steps provide MLD with a basis for discussing the Government's desire and readiness for a rural infrastructure sectorwide or program-based approach, and to determine the donor community's willingness to join. The major steps include

- (i) a clear and nationally owned sector policy and overall strategy;
- (ii) a statement of intent between government and donors;
- (iii) Medium-Term Expenditure Framework programming and/or accounting for sector resources, and fund-flow mechanisms for both central and local levels;
- (iv) joint appraisal and monitoring;
- (v) sector performance monitoring and accountability system;
- (vi) mechanisms for sector dialogue and coordination;
- (vii) inclusive consultation mechanisms involving all stakeholders; and
- (viii) capacity-building plan.

7. To take advantage of current donor momentum behind this initiative, the SDP includes assistance under the capacity building component to help the Government develop the framework and interim measures to coordinate donor projects.

¹ The Organization for Economic Co-operation and Development and Learning Network on Program Based Approaches define the program-based approach as a way of engaging in development cooperation based on the principle of coordinated support for a locally owned program of development, such as a national poverty reduction strategy, sector program, thematic program, or program of a specific organization. PBAs share the following features: (i) leadership by the host country or organization; (ii) a single comprehensive program and budget framework; (iii) a formalized process for aid coordination and harmonization of donor procedures for reporting, budgeting, financial management and procurement; and (iv) efforts to increase the use of local systems for program design and implementation, financial management, monitoring, and evaluation. A sectorwide approach is a PBA operating for an entire sector.

CENTRAL IMPLEMENTATION SUPPORT CONSULTANTS

1. The objective of the central consulting services is to support the project coordination unit to (i) deliver the planned outputs and outcomes on schedule; (ii) backstop the district implementing agencies; (iii) ensure compliance with safeguard policies including social, environmental, and resettlement safeguards; (iv) meet reporting requirements of the Government and Asian Development Bank (ADB); and (v) develop institutional capacities of central and local institutions involved in rural infrastructure. Consultant inputs cover expertise related to engineering, construction supervision, social development, environmental management, resettlement and compensation policy, monitoring and evaluation, quality control and quality assurance, fiduciary and financial management, training and capacity building, procurement, sector stakeholder integration, and project management (work program and budgeting, administration, monitoring, and reporting).
2. A core team of consultants will comprise a rural infrastructure expert (team leader-international), construction engineer (deputy team leader), social development specialist, rural water supply and sanitation specialist, bridge specialist, environmental management specialist, resettlement specialist, procurement specialist, financial management specialist, and policy/aide effectiveness specialist. In addition, two full-time rural infrastructure engineers and two regional social coordinators will each be in charge of one of two regional groupings of project districts, as members of the central consulting team. Specialized services in areas like technical audit, quality assurance, impact evaluation, bioengineering, training, and capacity building will be procured for shorter durations on an as and when needed basis. This arrangement will optimize consultant inputs and provide flexibility during project implementation. The Project will be implemented in collaboration with other projects and benefit from other initiatives and expertise.
3. The project coordination unit will recruit the central consulting services in two subsets. First, five consultants will be recruited individually (the Government may seek permission and agree on procedures with ADB to initiate advance action for their recruitment) so that they can be fielded upon project effectiveness. The expertise recruited will be in procurement, financial management, environment, resettlement, and policy/aid effectiveness. The bulk of this consultant expertise (the first four experts) is critical to strengthen the capacity of the Department of Local Infrastructure Development and Agricultural Roads and district development committees, and establish procedures so that gaps can be filled to ensure an orderly and effective start-up. These consultants will be tasked to compile local-language manuals and step-by-step procedures, and deliver the manuals and training in regional workshops for district project office staff soon after project start-up. The fifth expert in policy/aide effectiveness will be charged with developing the framework for donor and government integration towards a common approach and financing scheme for rural infrastructure development. This is an area where interest is currently strong and where support is seen as imperative to maintain the momentum of building such an initiative.
4. The second subset of central implementation support consultants will contain the balance of needed expertise and will be recruited using a consultant package from a firm using the quality- and cost-based selection procedure in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). The Government may also seek permission and agree on procedures with ADB to initiate advance action for the recruitment of this package of consultants. Again, mobilize consultants upfront is important to help establish an early project implementation framework and management structures, and institutionalize procedures and guidelines.
5. Overall, for the individual and firm-packaged consultants, a total of 51 person-months of services from international and about 464 person-months from national consultants will be

required. An indicative list of the types of specialization and person-months of inputs are summarized in Table A8.

Table A8: Central Implementation Support Consultants

Consultants/Associates	Person-Months	
	International	National
A. Consultants		
Team Leader, Rural Infrastructure Specialist	42	
Deputy Team Leader, Construction Engineer		42
Social Development Specialist		42
Environmental Management Specialist		30
Rural Water Supply and Sanitation Specialist		42
Resettlement Specialist		36
Rural Infrastructure Engineers (2)		84
Regional Social Coordinators (2)		84
Bridge Specialist		24
Financial Management Specialist		24
Procurement Specialist		24
Rural Development Policy, Aid Effectiveness	9	
Unallocated (technical audit specialist, quality assurance specialist, impact evaluation specialist, training and capacity building specialist, decentralized planning and implementation specialist, evaluation specialist)		32
Subtotal	51	464
B. Associates		
Resettlement Assistants (3)		90
Environmental Assistants (3)		54
Unallocated (junior professionals)		48

Source: Asian Development Bank estimates.

DISTRICT IMPLEMENTATION SUPPORT TEAM

1. The district implementation support teams (DISTs) require social, technical, and professional inputs for (i) surveys, investigations, and design; (ii) resettlement planning and implementation; (iii) environmental assessment and mitigation; (iv) works supervision and quality control; (v) beneficiary mobilization, empowerment, and skills training; (vi) procurement and management of services; and (vii) accounting, monitoring, and reporting. The composition of the services will vary by district and typically include (i) a rural infrastructure engineer supported by two junior engineers/overseers and five suboverseers, (ii) a social development officer supported by three social mobilizers/community facilitators, (iii) a resettlement specialist and an environmental specialist, and (iv) an accountant and two support staff. Provision is made for unallocated input to meet special needs (such as geotechnical, hydrology, etc.). The services will generally be full time for the project period except for the resettlement environmental specialists who will be employed in the early phases of implementation, and subsequently only as needed, and the unallocated specialists who will be deployed only as needed.

2. The DISTs will set out works at sites with the participation of building groups and/or contractors to ensure that they understand the work to be undertaken. They provide coaching and on-job-training to workers to maintain quality and standards, as well as to enhance building group skills. They also monitor working conditions, social aspects, and compliance with environmental and resettlement recommendations.

3. Of the 38 project districts, 18 are districts of the Decentralized Rural Infrastructure and Livelihood Project (DRILP) and have district support teams in place. Therefore, the DISTs will be recruited by district project offices in the 20 new districts, for the Rural Reconstruction and Rehabilitation Sector Development Program, through a single firm or integrated association of firms/nongovernment organizations. Provision is made for one water resource engineer, overseer, and suboverseer for each of the 18 DRILP districts to cover rural water supply and sanitation. The water resource engineers and assistants are to be recruited individually by the DRILP district project offices.

Table A9: Indicative District Implementation Support, per District

Staff	Person-Months
A. DIST for 20 New RRRSDP Districts	
1. Technical Staff	
a. Rural Infrastructure Engineer, District Team Leader	42
b. Civil Engineer, Deputy District Team Leader	42
c. Social Development Specialist	24–40
d. Resettlement Specialist	12–18
e. Environmental Specialist	12–15
f. Unallocated	10
Subtotal	142–167
2. Support Staff/District	
a. Junior Engineers, Overseers (2 persons)	84
b. Sub-overseers (4 persons)	168
c. Social Mobilizers, Facilitators (4 persons)	168
d. Accountant/Administrative Assistant	42
B. Water Supply Support Staff for 18 DRILP Districts	
1. Rural Water Supply and Sanitation Engineer	30
2. Overseer (junior engineer)	30
3. Suboverseer	30

DIST = district implementation support team, RRRSDP = Rural Reconstruction and Rehabilitation Sector Development Program

Source: Asian Development Bank estimates.

DETAILED COST ESTIMATES
Table A10.1: Expenditure Accounts by Components

Item	Rural Transport	Supplementary Infrastructure	Community Empowerment	Institutional Capacity Building		Project Management	Total
				Community Empowerment	Building		
A. Investment Costs							
1. Survey/Investigation/Design/Preparatory Works	978.22	799.63	0.00	0.00	0.00	0.00	1,777.85
2. Civil Works							
a. Rural Roads by Communities	16,778.40	0.00	0.00	0.00	0.00	0.00	16,778.40
b. Rural Roads by Contractors	16,312.52	0.00	0.00	0.00	0.00	0.00	16,312.52
c. Supplementary Infrastructure by Communities	0.00	16,023.51	0.00	0.00	0.00	0.00	16,023.51
Subtotal (A2)	33,090.91	16,023.51	0.00	0.00	0.00	0.00	49,114.43
3. Land Acquisition/Compensation	4,513.20	0.00	0.00	0.00	0.00	0.00	4,513.20
4. Vehicles and Equipment							
a. 4-Wheel Drive Vehicles	0.00	0.00	0.00	0.00	1,426.48	0.00	1,426.48
b. Motorcycles	0.00	126.00	0.00	0.00	263.55	0.00	389.55
c. Equipment, Machinery, and Furniture	361.44	0.00	50.20	0.00	457.82	0.00	869.46
Subtotal (A4)	361.44	126.00	50.20	0.00	2,147.86	0.00	2,685.50
5. Consultant Services							
1. International Consultants	0.00	0.00	0.00	135.00	563.88	0.00	698.88
2. National Consultants	0.00	0.00	0.00	0.00	1,996.16	0.00	1,996.16
Subtotal (A5)	0.00	0.00	0.00	135.00	2,560.03	0.00	2,695.03
6. District Technical Services							
a. District Implementation Support Team	3,626.00	810.00	1,320.00	0.00	0.00	0.00	5,756.00
b. Local or NGO Contracts/Services	80.00	0.00	0.00	0.00	0.00	0.00	80.00
Subtotal (A6)	3,706.00	810.00	1,320.00	0.00	0.00	0.00	5,836.00
7. Studies, Workshops, Seminar and Research	0.00	0.00	0.00	0.00	138.55	0.00	138.55
8. Supervision and Implementation							
a. Staff	0.00	0.00	0.00	0.00	1,519.94	0.00	1,519.94
b. Incremental Operating Expenses	1,411.62	46.25	1,103.67	0.00	1,451.66	0.00	4,013.20
Subtotal (A7)	1,411.62	46.25	1,103.67	0.00	2,971.60	0.00	5,533.14
9. Training	0.00	0.00	682.72	214.04	0.00	0.00	896.76
Subtotal (A)	44,061.40	17,805.40	3,156.59	349.04	7,818.04	0.00	73,190.46
B. Recurrent Costs							
1. O&M of Roads	992.90	0.00	0.00	0.00	0.00	0.00	992.90
2. O&M of Supplementary Infrastructure	0.00	205.99	0.00	0.00	0.00	0.00	205.99
Subtotal (B)	992.90	205.99	0.00	0.00	0.00	0.00	1,198.90
Total Baseline Costs	45,054.31	18,011.39	3,156.59	349.04	7,818.04	0.00	74,389.36
Physical Contingencies	1,712.68	809.79	12.89	0.00	172.26	0.00	2,707.61
Price Contingencies	773.70	207.04	37.80	0.00	44.48	0.00	1,063.01
Total Costs to be Financed	47,540.68	19,028.22	3,207.28	349.04	8,034.78	0.00	78,159.99
Interest and Service Charge During Implementation							268.59
Total Project Cost							78,428.58

O&M = operation and maintenance, NGO = nongovernment organization.

Source: Asian Development Bank estimates.

Table A10.2: Expenditure Accounts by Financier
(\$'000)

Item	Govern- ment		ADB		OPEC		Bene- ficiaries		Total	
		%		%		%		%	Amount	%
A. Investment Costs										
1. Survey/Investigation/Design/Preparatory Works	0.00	0.00	1,777.85	100.00	0.00	0.00	0.00	0.00	1,777.85	2.30
2. Civil Works										
a. Rural Roads by Communities	3,058.99	17.00	9,864.51	54.80	5,070.54	28.20	0.00	0.00	17,994.03	22.90
b. Rural Roads by Contractors	2,974.05	17.00	9,590.60	54.80	4,929.75	28.20	0.00	0.00	17,494.40	22.30
c. Supplementary Infrastructure by Communities	5,399.06	31.70	9,077.91	53.30	0.00	0.00	2,554.76	15.00	17,031.73	21.70
Subtotal (A2)	11,432.09	21.80	28,533.02	54.30	10,000.28	19.00	2,554.76	4.90	52,520.16	67.00
3. Land Acquisition/Compensation	902.64	20.00	3,610.56	80.00	0.00	0.00	0.00	0.00	4,513.20	5.80
4. Vehicles and Equipment										
a. 4-Wheel Drive Vehicles	723.27	48.00	783.54	52.00	0.00	0.00	0.00	0.00	1,506.81	1.90
b. Motorcycles	205.35	50.00	205.35	50.00	0.00	0.00	0.00	0.00	410.69	0.50
c. Equipment, Machinery and Furniture	119.45	13.00	799.38	87.00	0.00	0.00	0.00	0.00	918.83	1.20
Subtotal (A4)	1,048.06	37.00	1,788.27	63.00	0.00	0.00	0.00	0.00	2,836.33	3.60
5. Consultant Services										
a. International Consultants	0.00	0.00	698.88	100.00	0.00	0.00	0.00	0.00	698.88	0.90
b. National Consultants	0.00	0.00	1,996.16	100.00	0.00	0.00	0.00	0.00	1,996.16	2.50
Subtotal (A5)	0.00	0.00	2,695.03	100.00	0.00	0.00	0.00	0.00	2,695.03	3.40
6. Locally Contracted Services										
a. District Implementation Support Team	0.00	0.00	5,756.00	100.00	0.00	0.00	0.00	0.00	5,756.00	7.30
b. Local or NGO Contracts/Services	0.00	0.00	80.00	100.00	0.00	0.00	0.00	0.00	80.00	0.10
Subtotal (A6)	0.00	0.00	5,836.00	100.00	0.00	0.00	0.00	0.00	5,836.00	7.40
7. Studies, Workshops, Seminar, and Research										
8. Supervision and Implementation										
a. Staff	1,519.94	100.00	0.00	0.00	0.00	0.00	0.00	0.00	1,519.94	1.90
b. Incremental Operating Expenses	0.00	0.00	4,207.80	100.00	0.00	0.00	0.00	0.00	4,207.80	5.40
Subtotal (A8)	1,519.94	26.50	4,207.80	73.50	0.00	0.00	0.00	0.00	5,727.74	7.30
9. Training	0.00	0.00	912.46	100.00	0.00	0.00	0.00	0.00	912.46	1.20
Subtotal (A)	14,902.73	19.40	49,503.32	64.30	10,000.28	13.00	2,554.76	3.30	76,961.09	98.10
B. Recurrent Costs										
1. O&M of Roads	496.45	50.00	496.45	50.00	0.00	0.00	0.00	0.00	992.90	1.30
2. O&M of Supplementary Infrastructure	0.00	0.00	0.00	0.00	0.00	0.00	205.99	100.00	205.99	0.30
Subtotal (B)	496.45	41.40	496.45	41.40	0.00	0.00	205.99	17.20	1,198.90	1.50
Total Costs to be Financed	15,399.18	19.70	49,999.77	64.00	10,000.28	12.80	2,760.75	3.50	78,159.99	99.70
Interest and Service Charge During Implementation	268.59	100.00	0.00	0.00	0.00	0.00	0.00	0.00	268.59	0.30
Total Project Cost	15,667.77	20.00	49,999.77	63.80	10,000.28	12.80	2,760.75	3.50	78,428.58	100.00

O&M = operation and maintenance, NGO = nongovernment organization.

Source: Asian Development Bank estimates.

SUBPROJECT SELECTION CRITERIA

A. Rural Roads

1. District eligibility criteria for rural road subprojects include
 - (i) district transport master plan prepared and approved by the district development committee (DDC) and acceptable to the Ministry of Local Development;
 - (ii) district office of Department of Survey and Land Revenue functional;
 - (iii) qualified district engineer in district technical office;
 - (iv) district infrastructure coordination committee formed and functioning;
 - (v) agreement between the DDCs and Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR) to implement the Project in accordance with project requirements and procedures, including the resettlement framework; and
 - (vi) district road maintenance fund established.

2. Rural road selection criteria include the following:
 - (i) The rural road is listed as a priority road in the district transport master plan.
 - (ii) The road will not have a significant negative environmental or resettlement impact, as defined in the environmental assessment and review procedures and the resettlement framework agreed to by the Asian Development Bank and the Government. Maximum effort will be made in design to ensure alignments that minimize impact on structures and settlements.
 - (iii) Road construction can be completed within 3 years using labor-based, environment-friendly, and participatory approaches.
 - (iv) The road has at least a 12% economic internal rate of return.
 - (v) The road does not exceed 40 kilometers (km); the cumulative length of all proposed roads in that district will not be more than 60 km.
 - (vi) The proposed road length covers the total length of the road alignment, not just partial sections.
 - (vii) The number of bridges will not exceed three or the total bridge cost will not exceed 25% of the total estimated cost of the proposed road alignment.

B. Supplementary Infrastructure other than Water Supply and Sanitation

3. The supplementary investment
 - (i) will generate additional access benefits for the rural road subproject it is near to;
 - (ii) was identified and planned through a community participatory process that involves the poorest and most socially excluded groups, and targets the poor, identified through earlier social mobilization activities;
 - (iii) does not duplicate activities of other development projects;
 - (iv) will contribute to income-generating opportunities;
 - (v) will be formulated with a sustainable operation and maintenance plan (financial, physical, and organizational); and
 - (vi) the community can contribute 15% (cash or in-kind).

4. Supplementary investment type by eligibility and budgetary ceilings includes

- (i) improvement of a village trail to improve access to the rural road subproject; maximum length 10 km, indicative costs NRs100,000 per km (maximum total cost NRs1 million);
- (ii) construction of a short span trail bridge on village trail to improve access to the main subproject; maximum span 120 meters, indicative costs: NRs20,000 per meter span (maximum total cost NRs2.4 million);
- (iii) reconstruction and rehabilitation of an existing small irrigation scheme;¹ maximum size 25 hectares (ha), indicative costs NRs100,000 per ha (maximum total cost NRs2.5 million);
- (iv) construction of a market building (agro collection centers, dairy, etc.); maximum size 100 square meters (m²), indicative costs NRs9,000 per m² (maximum total cost NRs900,000);
- (v) construction of a community building; maximum size 100 m², indicative costs NRs10,000 per m² (maximum total cost NRs1 million);
- (vi) construction of a new or rehabilitation/upgrading of an existing primary school; new construction: up to 3 classrooms, 32 m² per classroom, indicative costs NRs10,000 per m² (maximum total cost NRs960,000); and
- (vii) construction of a new or rehabilitation/upgrading of an existing health subpost; maximum size 100 m², indicative costs NRs10,000 per m² (maximum total cost NRs1 million).

C. Rural Water Supply and Sanitation Subproject Selection Criteria²

5. Participating DDCs will prioritize the demands from the village development committees (VDCs). The subprojects will be funded by the Project if they rank high according to the criteria. Willingness to share the costs of the water supply and sanitation subproject will be based on the Government's Rural Water Supply and Sanitation Sector Policy and Strategy. For poor communities³ in remote inaccessible areas, the minimum contribution will be reduced to 10% and 1% upfront cash is not mandatory. If the project districts overlap with community-based water supply and sanitation districts,⁴ the Project should select the subproject based on the existing priority list of the DDC.

6. Required eligibility criteria include

- (i) water supply and sanitation scheme is included in the district plan;
- (ii) demand for a water scheme originated from the community;

¹ Construction of new (as opposed to rehabilitation of existing) irrigation schemes has been excluded because of the complexity of the process of surveying and designing a new scheme and organizing participatory management.

² This is consistent with the criteria that 19 hill and mountain districts of the far Midwestern district, and 2 western (1 terai and 1 hill) districts following under the Community Based Water Supply and Sanitation Sector Project. Ministry of Physical Planning and Works (lead agency for water supply and sanitation) adopted the criteria for the Community Based Water Supply and Sanitation.

³ According to the Nepal Poverty Assessment 1999 indicators poor households are (i) households having food sufficiency for less than 6 months in a year; (ii) households whose major source of income is wage from labor; (iii) households headed by women with disabled persons; and (iv) other households with low literacy and unsatisfactory health indicators.

⁴ Accham, Baitadi, Bajhang, Bajura, Dadeldhura, Dailekha, Dang, Darchula, Dolpa, Doti, Gulmi, Humla, Jajarkot, Jumla, Kalikot, Kapilvastu, Mugu, Pyuthan, Rolpa, Rukum,, and Salyan.

- (iii) the community is willing to contribute as per the Government's Rural Water Supply and Sanitation Sector Policy and Strategies; community contribution is 20% (cash or in-kind) and 1% cash up-front;⁵
 - (iv) the community accepts responsibility for operation and maintenance of the scheme after its completion;
 - (v) the DDCs and VDCs commit to maintain the scheme in case of natural calamities and required major rehabilitation; and
 - (vi) maximum 1,000 people per scheme (and subject to available and equitably distributed supplementary investment budget across all districts); indicative costs per person, new construction up to NRs5,000 per person and rehabilitation up to NRs3,000 (maximum NRs5 million); water supply may be complemented by investments in sanitary/health infrastructure such as private and public toilets, and improved cooking stoves, as long as the total budgetary outlays remain within the indicated limits.
7. **Process of Prioritization.** Selected subproject must pass the screening criteria. After the screening process, the schemes demand is ranked as per the criteria for screening. Poverty, water supply coverage, and incidence of diarrhea and other waterborne diseases are major criteria for screening.
8. Village planning includes that the communities
- (i) submit the demand form to the DDCs through the VDCs, and
 - (ii) are willing to share the costs of the water supply and sanitation subproject as per the Government's Rural Water Supply and Sanitation Sector Policy.
9. District planning involves the following:
- (i) community demand must be included in the DDC plan,
 - (ii) the DDCs must prioritize all demands based on the social and poverty factors and hardship factors, and
 - (iii) criteria for subproject ranking will be defined and adopted for prioritizing the demand by community (through the VDCs) for implementation based on the priority.

⁵ However, in the case of poor and ultra-poor, the up-front cash requirement can be foregone, and the in-kind contribution lowered to 10%.

PROJECT IMPLEMENTATION SCHEDULE

Item	Year 0	Year 1	Year 2	Year 3	Year 4
Rural Roads					
Non-DRILP subprojects					
Prioritize rural roads for participation based on selection criteria					
Open district maintenance fund and use for O&M of district's infrastructure					
Subproject survey and design (social, environment, technical, and financial)					
Formation of village infrastructure construction coordination committee					
Preparation of resettlement plan					
Packaging of construction works					
Implementation of resettlement plan - land acquisition and compensation					
Procurement of gabion wire and tools (direct purchase and NCB)					
Construction of works through building groups					
Contracting of skilled works for local contractors					
Construction of works through local contractors					
Bio-engineering works on subprojects					
Supplementary Infrastructure (SI)					
Non-DRILP subprojects					
Community mobilization along the road alignments					
Formation of village infrastructure user groups					
Stocktaking of existing community support program					
Demands collections through VDCs					
Prioritization of demands for SI and select SI for RRRSDP					
Mobilization of community/users of selected SI					
Survey and design of selected SIs (social, environment, technical, and financial)					
Implementation of selected SI					
DRILP subprojects					
Community mobilization along the road alignments (done under DRILP)					
Formation of village infrastructure user groups (done under DRILP)					
Demands collections through VDCs					
Stocktaking of existing community support programs					
Prioritization of demands for SI and select SI for RRRSDP					
Engage individual consultants to support SI planning, design and implementation					
Mobilization of community for SI for RRRSDP					
Survey and design of selected SI (social, environment, technical and financial)					
Implementation of SI					

Item	Year 0	Year 1	Year 2	Year 3	Year 4
Community Empowerment					
Awareness of the project and opportunities					
Awareness on equal wage payment, gender and pro-poor strategy					
Inventory of community groups or organization in subproject area					
Formation of building groups					
Training building groups for construction					
Training on SI operation and maintenance					
Community-based auditing, social audits and financial accounting					
Demand-driven skill training					
Institutional Capacity Development					
DOLIDAR engage individual consultant (procurement/resettlement/environment/PBA)					
Individual consultants to support MLD, DOLIDAR and districts					
Supports to DOLIDAR on planning, management, technology, and M&E					
Train district technical support team on project procedure					
Support to district on planning, management, technology, and M&E					
Train DDC, VDC, user committees about maintenance, M&E, bioengineering					
Update and disseminate DRILP project procedures and manuals					
Develop and deliver training program on procurement, finance, resettlement, and environment					
Develop accounting manual, in both English and Nepali and provide training					
Donor harmonization and moving towards PBA					
Project Management Services					
Participating districts to enter into project agreement					
District call for district technical support team					
District technical support team tendered and evaluated					
District technical support team awarded and mobilized					
DOLIDAR call for central implementation support consultant					
Central consulting services tendered and evaluated					
Central consulting services awarded and mobilized					
Review workshops to share experience					
Annual work programming (loan disbursement projects and fiscal year budgeting)					
Progress reporting					
Monitoring: progress and performance, technical, social mobilization, and safeguards					
Community-based auditing					
Impact evaluation surveys					
Special evaluation studies					
Resettlement evaluation					
Review missions					

Notes: Monsoon rain periods shaded in grey

DDC = district development committee, DOLIDAR = Department of Local Infrastructure Development and Agricultural Roads, DRILP = Decentralized Rural Infrastructure and Livelihood Project, M&E = monitoring and evaluation, MLD = Ministry of Local Development, NCB = national competitive bidding, O&M = operations and maintenance, PBA = program-based approach, RRRSDP = Rural Reconstruction and Rehabilitation Sector Development Program, VDC = village development committee.

Source: Asian Development Bank.

PROCUREMENT PLAN

Project Information	
Project Name	Nepal: Rural Reconstruction and Rehabilitation Sector Development Program
Project Number	
Project Cost	\$78.4 million
Of Which ADB Grant Amounts	\$50.0 million
Executing Agency	Ministry of Local Development
Approval Date of Original Procurement Plan	8 November 2007
Approval of most recent Procurement Plan	Not applicable
Publication for Local Advertisements	Target in first quarter of 2008
Period covered by this Plan	18 months from date of grant effectiveness

Table A13.1: Procurement Thresholds for Goods and Related Services, Works and Supply

Procurement Method	Threshold (\$)
Goods	
International Competitive Bidding (ICB)	>1,000,000
National Competitive Bidding (NCB)	>100,000 and <= 1,000,000 Usage subject to the provisions of NCB annex
Shopping	<= 100,000
Works	
ICB	>1,000,000
NCB	>100,000 and <= 1,000,000 Usage subject to the provisions of NCB annex
Shopping	>30,000 and <=100,000
Community participation	<=30,000, in accordance with ADB's <i>Procurement Guidelines</i> (2007) para. 3.17, and PAI 3.05H, and PAI 5.12

Table A13.2: Procurement Thresholds for Consulting Services

Procurement Method	Threshold (\$)
Quality- and Cost-Based Selection (QCBS)	>200,000
Consultants Qualifications Selection (CQS)	<=200,000
Least-Cost Selection (LCS)	<=100,000
Single Source Selection (SSS)	Applied in accordance with paras. 2.29–2.31, ADB's <i>Guidelines on the Use of Consultants</i> (2007)
Individual Consultant Selection (ICS)	Applied in accordance with para. 2.34, ADB's <i>Guidelines on the Use of Consultants</i> (2007)

Table A13.3: Goods and Works Contracts in Excess of \$100,000

Contract Description	Estimated Cost (\$ million)	Number of Contracts	Procurement Method	Expected Date of Advertisement	Prior Review (Yes/No)
Civil Works	51.0	Multiple	NCB	October 2008	Yes
Vehicle and Equipment	3.2	Multiple	ICB / NCB	February 2008	Yes

Table A13.4: Consulting Services Contracts in Excess of \$100,000

Contract Description	Estimated Cost (\$ million)	Number of Contracts	Procurement Method	Expected Date of Advertisement	Prior Review (Yes/No)
Central Implementation Support Consultants	2.7	6	QCBS (1)/ ICS (5)	February 2008	Yes
District Implementation Support Team	5.8	Multiple	CQS (20)/ ICS/LCS	February 2008	Yes

PROJECT JUSTIFICATION AND ECONOMIC ANALYSIS

1. Five representative infrastructure subprojects were selected (one from each of the country's five regions) for economic analysis (Table 14.1).

Table A14.1: Profile Attributes of Subprojects

Core Subproject	Km	Zone 1 Population ^a	Number of HHs	Zone 2 Population ^b	Number of HHs	HH Size	Cultivation ha / HH
1. Bhojpur-Manebhanjyang Road	41.0	15,390	2,994	24,499	4,766	5.14	1.25
2. Khopasi-Taldhunga Road	43.0	26,756	4,891	31,649	5,786	5.47	0.85
3. Beni-Pakhapani Road	18.5	12,857	2,747	13,892	2,968	4.68	0.95
4. Dudhejhari-Tikapur Road	11.8	9,443	1,446	14,542	2,227	6.53	2.90
Core Subproject	Settlements Served	Population Served	Number of HHs Served	Average Number of Trips for Fetching Water per HH (number / day)	Average Time for Fetching Water per HH (hour/ day)	Average Water Consumpti on per HH (liter/day)	Average Water Consumption per HH (liter/person)
1. Chandane WSS	17	2,959	591	5.01	3.13	75.3	15.0

^a Number of people who have to walk up to 2 hours to reach road head.

^b Number of people who have to walk up to 4 hours to reach road head.

HH = household, ha = hectare, Km = kilometer, WSS = water supply and sanitation.

Source: Asian Development Bank estimates.

A. Investment Analysis

1. Benefits

10. **Rural Roads with Limited or No Motorized Traffic.** For rural roads with limited or no motorized traffic, the first benefit defined is for person-trip savings due to construction of the road and more efficient modes of transport. Pedestrian trips are time consuming and relatively costly compared with motorized transport¹ that will become available with provision of the road. Due to the savings and relative ease of motorized travel, more passenger trips will be generated. The value of the generated trips is taken at half the rate for existing trips.

11. Preproject cargo movement is estimated to comprise (i) the surplus of agriculture production beyond food, feed, seed, and wastage; and (ii) imports of 25 kilograms (kg)/capita/annum for nonagricultural goods and 200 kg/hectare (ha) for agricultural goods (fertilizer, compost, manure, agrochemicals, tools, seed, etc.). Existing goods transport is provided by porters, which costs NRs354 per ton-km. This rate is high by comparison to light trucks that will ply the road at NRs10.6 per ton-km.² For simplicity, the with-project vehicle operating cost (VOC) per ton-km is based on 75% truck and 25% porter carriage. The large savings for cargo transport dominate the benefits of new roads. The lowered cargo transport prices will also generate increased exports and imports.³ Per capita imports of nonagricultural goods are assumed to

¹ The vehicle operating cost per kilometer for a light bus ranges from NRs28 to NRs34 for fair-to-good condition, hilly-to-mountainous roads of earthen to gravel standard. The corresponding international roughness indexes are 10 to 13 for gravel surface and 13 to 16 for earthen surface. Bus carriage rate is 25 passengers.

² The vehicle operating cost per km for a light truck ranges from NRs23 to NRs30 for fair-to-good condition, hilly-to-mountainous roads of earthen to gravel standard. The corresponding international roughness indexes are 10 to 13 for gravel surface and 13 to 16 for earthen surface. Light truck load capacity is 4 tons.

³ However, since increased agricultural production due to opening the road is valued separately as a benefit, to avoid double counting of benefits, only generated nonagricultural goods transport is accounted for here.

increase from 25 to 50 kg/capita, including such items as building materials, food stuffs, and other household items. Per convention, the generated cargo is valued at one half the savings for existing goods.

12. With the introduction of the road and motorized transport, farmers gain better access to farm inputs, technology, and markets. This will result in (i) increased use of inputs, (ii) improved farm practices, and (iii) a move to more market-oriented production. With the Project, a modest change in mix of crops is assumed. Higher-value vegetables are assumed to take on an incremental 3% of the annual cropping regime. For the remaining cropping base (dominated by cereals), increases in inputs and yields are expected, with production expected to rise by 5%. These gains are assumed to be phased in equally over a 5-year period from road completion.

13. **Rural Road with Traffic and Traffic Count.** Benefits for the sample road upgrade in the plains are based on VOC savings and the value of generated trips. The basis for comparison of the without- and with-project scenarios is (i) the traffic count for the existing road/path, and (ii) the traffic count of an already upgraded road of similar setting and proximity. The traffic count for the existing road/path amounts to about 40 motor or animal-powered vehicles per day. The corresponding traffic count for the matched upgraded road is 391, for mostly motorized vehicles. For the existing situation, the setting is for poor earthen roads at international roughness index (IRI) of 20; and for the with-project condition, the condition is assessed as good gravel road (at IRI 10).

14. After completion of the subproject, a shift will occur to more efficient and cheaper means of transport (from nonmotorized to motorized transport). The existing alignment is subject to weather disruptions and fragmented due to lack of key crossings. The proposed subproject will upgrade to an all-weather surface and supply two critical bridges to allow traffic to flow unimpeded. The savings over existing travel is due to lower VOCs. Due to the savings, relative ease of motorized travel, and greater access, additional trips will be generated. The value of the incremental trips is taken at one half.

15. **Rural Water Supply and Sanitation.** For the representative subproject, currently 17 settlements secure their water supply from aged and simple systems, or natural springs. An average family spends over 3 hours per day securing household water needs. This comprises five trips per day per household, with 15 liters carried per trip. Villagers are also beset with a variety of waterborne illnesses and complications, including diarrhea, worms, and skin infections. These afflictions, besides the discomfort and threat to health, manifest in two quantifiable outcomes: medical expenditure and lost workdays. The reported water usage ranges from 60 to 150 liters per household per day among the settlements, with an overall average of 75.3 liters per household per day. This equates to 15 liters per capita per day.

16. With the subproject, villagers will have better access and availability to water access. Households are expected to reduce water-fetching times by half. Medical expenses for treating waterborne illnesses are expected to drop, as will adult working days lost to illnesses. Better access, higher quality, and more secure supplies will result in increased consumption; the increment of which is valued as generated usage. Table A14.2 provides the range and type of quantified benefits for the subprojects.

17. **Nonquantified Benefits.** Roads will bring substantial social value in the way of better access to services and increased mobility. Upgraded transport facilitates (i) contact with health and education service providers, (ii) social connectivity, and (iii) employment opportunities. Rural roads also tend to attract settlement and small-business development, with land values adjacent to roads increasing accordingly. Also with improved access, more buyers will ply the roads and increase the

market for livestock production and sales. Along with the primary road investment, a demand-driven community training and infrastructure program will be implemented. This complementary investment will target the poor and enhance livelihoods. The water supply approach includes measures to (i) bolster community sanitation, (ii) increase awareness of health and hygiene, and (iii) provide a vulnerable group plan.

Table A14.2: Subproject Benefits
(NRs '000)

Core Subproject	Savings over Existing Usage	Generated Usage Value	Producer Surplus	Total
1. Bhojpur–Manebhanjyang Road	40,345	1,303	17,268	58,915
2. Khopasi–Taldhunga Road	40,654	2,287	20,464	63,406
3. Beni–Pakhapani Road	11,787	491	12,010	24,288
4. Dudhejhari–Tikapur Road	6,041	15,214	0	21,255
5. Chandane WSS	2,714	4,182	0	6,897

WSS = water supply and sanitation.

Note: As the first three roads are being improved from paths to roads, producer surplus is included. The benefits for the fourth road, which is already traveled and has a traffic count, are taken as savings on vehicle operating costs and the value of generated travel. For the fifth subproject (water supply), only savings over existing usage and generated consumption are valued.

Source: Asian Development Bank estimates.

2. Costs

18. Costs for the subprojects are grouped into three main categories: (i) project preparation; (ii) construction; and (iii) safeguards for the roads, or community program in the case of drinking water supply. For roads, the safeguard program includes resettlement administration and compensation, and environmental and social mitigation and monitoring. The water supply community program includes environmental sanitation, health and hygiene, and a vulnerable group plan. Total subproject costs include physical and price contingencies. Both for roads and the rural drinking water supply subprojects, provision has been made for operation and maintenance (O&M). For comparison on a unit basis, Table A14.3 presents the physical costs (including preparation, construction, safeguard/community measures, and physical contingency, excluding price contingencies).

Table A14.3: Subproject Costs

Core Subproject	Total Costs (NRs million)	Per Km (NRs '000)	Per Hh (NRs)	Per Person (NRs)
Bhojpur–Manebhanjyang				
1. Road	203.0	4,941	67,660	13,163
2. Khopasi–Taldhunga Road	301.0	7,282	61,632	11,267
3. Beni–Pakhapani Road	97.0	5,258	35,373	7,558
4. Dudhejhari–Tikapur Road	48.9	4,153	33,813	5,178
5. Chandane WSS ^a	21.6	0	35,373	7,310

km = kilometer, WSS = water supply and sanitation.

^aFor the drinking water supply and sanitation subproject, per km measure does not apply.

Source: Asian Development Bank estimates.

3. Investment Return and Assessment

19. The subproject economic internal rates of return (EIRRs) range from 13% to 27%. For both roads and drinking water supply subprojects, sensitivity analysis was completed for cost overruns (+20%), benefit underachievement (–20%), and a combination of both (Table A14.4). With increased cost and decreased benefit, the EIRRs generally remain viable, and in all cases positive.

The Kopasi–Taldhunga road drops into the 10%–11% EIRR range with either the cost increases or benefit decreases. When subjected to both 20% cost increase and 20% benefit decrease at the same time, the Beni–Pakhapani road joins Kopasi–Taldhunga road at sub 12% EIRRs, at 10% and 8%, respectively. Table A14.4 also presents switching values, which indicate the percentage by which independent variables (such as benefits and cost) can vary before the dependent variable (EIRR) drops to a 12% cut-off.

Table A14.4: Subproject Returns

Core Subproject	Base Case		EIRR (%)			Switching Value (%)	
	NPV	EIRR	Costs	Benefits	Both ^a	Cost	Benefit
	(NRs)'000	(%)	+20%	-20%		Cost	Benefit
1. Bhojpur–Manebhanjyang Road	66,564	17	15	14	12	53	32
2. Khopasi–Taldhunga Road	15,160	13	11	10	8	8	7
3. Beni–Pakhapani Road	17,783	15	13	12	10	27	20
4. Dudhejhari–Tikapur Road	59,611	27	24	23	20	169	60
5. Chandane WSS	10,298	21	17	16	13	147	58

NPV = net present value, EIRR = economic internal rate of return, WSS = water supply and sanitation.

^a Increase in cost of 20% combined with decrease in benefits of 20%.

Source: Asian Development Bank estimates.

20. For the rural roads (Table A14.5), under a setting of limited to no O&M, surfaces are forecast to return to preproject serviceability in 7 years,⁴ and all EIRRs drop to unacceptable levels. Alternatively, under a similar setting of limited to no O&M, but with a major road rehabilitation undertaken every 6th year (at 25% of original improvement cost), the EIRRs also decline significantly, but remain positive. If the road influence area is increased from the base case of 2-hours to 4-hours distance, the EIRRs all rise.

Table A14.5: Road-Specific Sensitivity Analysis—EIRR (%)

Core Subproject	Base Case	Limited	6-Year Interval	Benefits Extended to 4-
		to No O&M	Rehabilitation Only	Hour Distant Influence Area
1. Bhojpur–Manebhanjyang Road	17	(12)	11	25
2. Khopasi–Taldhunga Road	13	(18)	6	15
3. Beni–Pakhapani Road	15	(15)	8	16
4. Dudhejhari–Tikapur Road ^a	27	(2)	18	0

() = negative, EIRR = economic internal rate of return, O&M = operation and maintenance.

^a Evaluation done on traffic basis only (vehicle operating cost-savings), and does not include producer surplus.

Source: Asian Development Bank estimates.

D. Household Income, Employment, and Production Gains

21. For the rural roads, most of the beneficiary households are agriculture-based. Increases in household income are expected due to improved farmer access to inputs, technology, and markets. For the hill locations, the road development is expected to induce an increase of 8%–13% in household farm income, and for the plains subproject, increases of 12%–17%. The large plains increment relative to the hills is due partly to the larger average farm size and to the growing conditions and yields in the lowland areas. For the water supply scheme, the value of savings for a household derives from reduced time for water fetching, reduced medical expenditure on waterborne disease, and reduction in lost workdays to illness. For water supply, average household gains are estimated as (i) NRs3,400 for time savings, (ii) NRs250 for medical

⁴ Along with this shortened life, benefits are assumed to decline proportionately, year-by-year.

expenditure saved, and (iii) NRs950 for reduction in lost workdays. For household income, wages during subproject construction will provide about NRs3.2 thousand to NRs12.6 thousand per household if employment is spread evenly (i) across the 2-hour distant populations of the road subprojects, and (ii) over the direct beneficiary population in the case of water supply. A labor-based approach is taken for construction. For the subprojects, the gain in construction employment (for households within 2-hours distance) ranges from 19 to 76 days per year during implementation. Increases in agricultural employment are expected with the completion of the road subprojects. Additional labor days per household are expected in the range of 12–52 per year for 2-hour distant populations of the different subprojects. Approximately two jobs per km will be created for O&M of the roads. With the opening of the road, some permanent roadside business and employment will be generated, estimated at 5–10 jobs generated per km. Lastly, agriculture production will increase in the influence zones of the road subprojects. Food and income security will be boosted, as production per family is expected to increase by 0.7–1.0 tons within 2 hours distance of the completed roads.

E. Distribution of Subproject Benefits

22. Table A14.6 provides a sample summary of the subproject distribution analyses. The assumption for the analysis is that the poor make up 90% of unskilled laborers and 60% of the general population of farmers, villagers, passengers, and water-users. The poor are also assumed to represent 0.0% of the vehicle owners, and have a 10% stake in the Government/economy. The share of benefits to the poor per net economic benefit is greater than the share of the poor in the population at large. This indicates that the poor benefit significantly from the Project and suggests that poverty reduction is targeted.

Table A14.6: Summary of Distribution Analysis
(NPV in NRs '000 at 12% discount rate)

Item	Unskilled Labor	Vehicle Owners	Farmers /		Total
			Passengers /Villagers	Government /Economy	
1. Bhojpur-Manebhanjyang Road					
Net Economic Effects	23,669	27,517	179,912	(164,534)	66,564
Economic Effects to the Poor	21,302	0	107,947	(16,453)	112,796
Poverty Impact Ratio					1.7
2. Chandane WSS					
Net Economic Effects	1,031		25,935	(16,669)	10,298
Economic Effects to the Poor	928		15,561	(1,667)	14,823
Poverty Impact Ratio					1.4

() = negative, NPV = net present value, WSS = water supply and sanitation.

Source: Asian Development Bank estimates.

F. Maintenance and Financial Capacity

23. Table A14.7 shows (i) typical rural infrastructure types and investment, (ii) O&M requirement (financial), (iii) sources of funding, and (iv) impact for the payer. For roads, the sources of funding are from the government, including local and national sources. An average district's annual revenue is about NRs200 million.⁵ For rural water supply and sanitation, the approach is for users to finance O&M through user fees. These are typically in the range of NRs20–NRs30 per household per month. While affordable to most, some poorer households are unable to meet the

⁵ Road Fund Nepal is another source of dedicated funds for road maintenance on a matching basis with district contributions. Internally generated revenue in an average district is about NRs10 million–NRs30 million.

expense. However, usually scope is available to contribute in-kind through labor to cover fees. The sample rural water supply and sanitation scheme is from the project preparatory technical assistance feasibility study. In terms of willingness to pay, the beneficiaries expressed in meetings and surveys (to the nongovernment organization executing the feasibility study) that they were willing to pay NRs30 per household per month, an amount in excess of the financially calculated NRs25 per household per month requirement. However, the community confirmed commitment to the higher rate so that benefits could be transferred to subsidize poorer families of the community. Lastly, community buildings (such as for commons, health, or education) provide an example of a public good for which direct benefits are not as tangible and distinct. In rural infrastructure such as this, public financing for O&M via village funds is common. The village grant from national budget is NRs 1 million per annum.

Table A14.7: O&M Requirement of Key Subprojects

Rural Infrastructure Example	O&M Requirement	Source of Funds	Comment on Relative Impact
District rural roads: 40 km at NRs4 million per km for NRs160 million investment	At standard of NRs100,000/km -> NRs4 million per year per district	Nepal Road Fund, the Government block grant to DDC, DDC-generated internal revenue	Average district revenues are about NRs200 million. Road Fund Nepal also provides matching funds.
Rural water supply (Chandane WSS): a gravity system of NRs18 million serving 591 households	Calculated annual O&M cost for maintenance workers and materials: NRs176,000, or NRs300/HH/year, or NRs25/HH/month	Rural water supply schemes are provided by the Government and operated by the users (financed by user charges)	Against average hill farm HH income of about NRs30,000–NRs35,000, the HH maintenance obligation is about 1% of that value
Community Building: 75 m ² at NRs10,000 per m ² , or about NRs750,000 for a post serving 100 HHs	at 1.5% of investment - > NRs11,250, or about NRs110 per HH	As a village facility serving the public welfare, O&M may be financed from village revenue, from community contributions, or a combination of both	The village block grant is NRs1 million per annum. HH net income in the hills commonly ranges from NRs15,000 to NRs60,000 per HH

DDC = district development committee, HH = household, O&M = operation and maintenance, WSS = water supply and sanitation.

Source: Asian Development Bank estimates.

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
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Contribution of the sector or subsector to reduce poverty in Nepal:

Poverty reduction is the overarching goal of the planned development, and the Three Year Interim Plan has targeted to reduce the incidence of poverty to 24% by 2010. To achieve this target the Government has assumed a 5% annual growth rate in gross domestic product (GDP). Remittances, more and more decentralized practices of program implementation, and improvement in access to socioeconomic infrastructures are some of the positive factors to help achieve the poverty reduction goals. Rural infrastructures development along with social sector development is one of the Government's core development strategies. The Local Infrastructure Development Policy 2004, covering various rural infrastructure, has the primary goal of poverty reduction by promoting access of local people particularly women, disabled, disadvantaged communities, and *dalits* to different economic opportunities and social service delivery.

The decade-long conflict has stalled rural infrastructure development in many rural areas. Rural infrastructure is damaged, stalled, or dilapidated due to disturbances in regular maintenance. Now, with the peace process in progress, this infrastructure needs reconstruction and rehabilitation. The sector development program (SDP) includes improved infrastructure, social mobilization, and livelihood skill development programs particularly aiming at the poor and disadvantaged communities. It will help poverty reduction through (i) directly employing poor people in the construction works (public works program), (ii) linking market and production centers and promoting commercialization of agriculture among subsistence farm households, (iii) reducing the prices of basic necessities, (iv) enhancing access to education and health services, (v) making local products competitive through reduced transportation cost, (vi) opening new employment opportunities such as in repair and maintenance of consumer durables (watches, transistor etc.), (vii) improving access to cheaper agricultural inputs and raw materials for other cottage and small industries, and (viii) increasing opportunities for technology transfer (training on livelihood skills, demonstration, and exposure).

The investment Project will focus on 20 districts and provide additional support for rural water supply and sanitation (WSS) in 18 districts of the Decentralized Rural Infrastructure and Livelihood Project. The eligibility and prioritization criteria ensure the planning and implementation of subprojects serving a maximum of target groups, and policy thrust on choice of technology is labor-based, environment friendly, and participative. With safeguard measures and various training programs planned for the poor for livelihood skills in place, the poor and vulnerable groups are directly targeted, and the Project will ensure poverty reduction. The Project will assess social impact and vulnerability of affected households through socioeconomic surveys and community meetings, and disaggregate information by gender, caste, and ethnicity. It will develop appropriate measures to restore livelihoods and enhance living standards of these people. Vulnerable groups, including women and disadvantaged ethnic and caste members will be supported by the use of proportional representation in project employment and construction work, and targeted programs through livelihood empowerment interventions.

The Project will enhance rural livelihoods through (i) direct wage payments to poorer households, amounting to about 70% of construction costs; (ii) training by social mobilizers for building groups and communities to access other development opportunities in the district; (iii) direct assistance for community-driven infrastructure investments to complement development of rural roads; and (iv) skills development to reduce vulnerability and social exclusion. A total of 15.8 million person-days of jobs and seasonal work will be created during construction and maintenance of rural roads and rural water supply facilities. The Project is expected to stimulate more productive agriculture through the cultivation of high-value crops, leading to at least an 8%–17% increase in family income.

B. Poverty Analysis

Targeting Classification: General intervention

What type of poverty analysis is needed?

Poverty in Nepal is basically a rural phenomenon; 35% of the rural population falls below the poverty line compared with 10% for the urban population. Nepal experienced a decline in poverty incidence by 11 percentage points between 1995/96 and 2003/04, from 42% in 1995/96 to 31% in 2003/04. The decline was less rapid in the rural areas, and much more prominent in urban areas. Poverty intensity and severity are also higher for rural areas. This means that the growth in urban areas did not have much distributive effect in rural areas due to weak physical and institutional links between the two areas. During the conflict, such linkage was even weaker. The other reasons are low agriculture growth rates that could have led to small spillover effects on nonagricultural growth in rural areas.

The relative position of the development regions has not changed much; poverty incidence is higher in the Midwestern and Farwestern development regions. The human development index (HDI) also shows broadly the same pattern as income poverty, Nepal with the HDI value of 0.527 ranked 138th of 150 countries in 2004.

Many Nepalese leave the country for work; their remittances have helped reduce poverty incidence. Remittances constitute 12%

of GDP and 35% of household income; 32% of households receive them. Households receiving remittances exist in all regions of the country, although somewhat more concentrated in the west mountains and hills.

People's access to socioeconomic infrastructure like motorable roads, schools, and health centers has increased markedly. The decline in poverty incidence and improvement in human development indicators are attributed to this improved access. Even then, the young girls may not go to school because their parents happen to be from disadvantaged communities, and they do not have easy access to the road and hence to other points of social service delivery.

The extreme poverty associated with social exclusion of disadvantaged communities has been partly responsible for conflict. The death casualty due to conflict in all the districts showed that such casualty is higher for the districts with higher poverty incidence and illiteracy. The social discrimination and exclusion have also contributed to the conflict through poverty. Conflict is more in the districts where social caste groups are polarized, and not so much in the districts where more fragmentation is observed with no the dominant caste groups. In such a situation, conflict or for that matter poverty could be reduced by increasing employment opportunities, and in the process increasing the opportunity cost of getting involved in the conflict significantly higher. In this context, the conflict heightened where the road access is exceedingly poor.

C. Participation Process

Is there a stakeholder analysis?

Yes

Is there a participation strategy?

Yes

The Project will promote participatory approaches through the decentralized government process. Subprojects will be prioritized through existing village development committee participation in finalizing district transport master plans or other sectoral development plans. The Project aims to increase the participation of local stakeholders, particularly socially excluded and poor, in the decision making through a community/social mobilization program. Workshops run by social mobilizers will help local stakeholders develop the confidence to speak at meetings and participate in collective decision making. Communities will be trained by the social mobilizers to acquire skills to run community consultations. Within building groups, the capacity of men and women to voice their concerns will be strengthened through training they will receive from the social mobilization and capacity-building activities.

The Project will promote economic and social inclusion by ensuring proportional representation of historically marginalized/disadvantaged population for all aspects of project planning and implementation, particularly in employment and income generation activities. Local social mobilizers will organize the poor and marginalized into groups. Village infrastructure user groups will also have proportional representation of local caste/ethnic groups along the project influence zone to (i) ensure participation of the poor and vulnerable groups in decision-making, (ii) raise their social capital and access to other development opportunities, and (iii) increase their use of health and education facilities in local areas.

The Project will build local ownership and maintenance of infrastructure work by employing local membership-based district and village user groups in planning, implementation, and monitoring of construction work. Community-based monitoring systems and public audit will be introduced to prevent corruption and increase social accountability and transparency.

D. Gender and Development

Strategy to maximize impacts on women:

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

The Project will provide opportunities for poor women by (i) including them in project employment and construction work, (ii) facilitating a gender responsive environment at the institutional level through awareness and training programs, and (iii) facilitating group-based women's empowerment through trainings in life-skills development and income generation. Under the social mobilization program, particular effort will be made to promote and advocate women's involvement in project planning and implementation. Meetings will be organized for women at times that are convenient for them given their many household responsibilities. The Project will address access needs in view of women's priorities. Supplementary investments will have a particular impact on women, for whom access to local facilities is very importantly, notably drinking water supplies, health subposts, primary schools, and market buildings. Supplementary projects exclusively benefiting women and disadvantaged caste and ethnic groups will be given priority.

The Project will address existing gender gaps by mandating (i) 50% of the building group members be women; (ii) 50% of women be represented in district and village infrastructure coordination committees and village infrastructure user groups, as well as in

leadership positions within the building groups; (iii) at least 50% women be targeted in livelihood interventions and related training programs. Proportional representation of women from all caste, ethnic, and minority groups will be ensured in building groups, village infrastructure user groups, and district implementation support teams. The Project will ensure that the social planning and implementation team will have gender and development experience and at least 33% of the project staff be women from diverse caste and ethnic groups.

Gender sensitivity training will be provided at both project management and institutions. All project-related training will have a gender module. Women and the disadvantaged population will be given extra training to build their leadership skills and confidence to penetrate elite capture and increase their bargaining power. For contract work, an appropriate clause will be established to ensure wage equality and appropriate facilities (day-care centers) to enable women to participate actively in construction work and to avoid being allocated the hardest or dirtiest construction tasks. Equipment for construction work will be prioritized for women so they can be employed immediately. Women-only building groups will be formed to enhance their participation. Women will not be confined to unskilled construction work, they will be provided with necessary training to develop their capacity to do skilled work. On-site gender sensitive training will include awareness programs on reproductive health and sexually transmitted diseases, and protective measures will be applied to ensure safety and security of women workers.

Women-only self-help groups will be formed to target livelihood enhancement skills training specific to women's needs and priorities and to develop their capacity to manage the Project independently. Savings and credit training will be introduced in self-help groups to help women maintain control of their earnings from construction work and gain a degree of independence. A group-based approach to empowerment activities will be promoted through trainings in life-skills development and income generation. Microenterprise development training will be provided for productive investment of individual and group savings. To avoid confining women to stereotyped occupations, the Project will encourage them to participate in life-skills and income generation programs that have been traditionally dominated by men. To ensure women's regular income after project completion, they will be trained for maintenance work (length workers). At least 50% of maintenance employment will be reserved for women.

Has an output been prepared? Yes.

A gender action plan was developed for the Project. The Project's executing and implementing agencies, assisted by consultants, will implement and monitor the plan during project implementation.

E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	Significant (particularly for subprojects with new road construction)	<p>Resettlement plans for three core subprojects as well as a resettlement framework for the Project were prepared. If a subproject involves any land acquisition/resettlement, an appropriate resettlement plan will be prepared, publicly disclosed to those affected, and submitted to the Asian Development Bank (ADB) in accordance to the resettlement framework and ADB's <i>Involuntary Resettlement Policy</i> (1995). All involuntary land acquisition will be compensated and those affected assisted. The required compensation will be completed before award of civil works contracts, while other rehabilitation activities will continue during project construction. The Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR) will submit semiannual progress reports on resettlement plan implementation.</p> <p>While the Project will allow voluntary donation of land in building rural infrastructure that provides direct benefits to the community, adequate safeguards will be built in resettlement plans to ensure that the donation is unforced and the poor people are not asked for donations. The safeguards include (i) full consultation with affected people on site selection; (ii) voluntary donations do not severely affect those affected (i.e., they do not fall below the poverty line and lose >20% landholding); (iii) voluntary donation will be confirmed through a</p>	Resettlement framework for the Project; and resettlement plans for subprojects

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
		written record, including a "no coercion" clause verified by an independent third party; and (iv) a grievance redress mechanism is in place.	
Affordability	None	There is no affordability issue.	
Labor	Not significant	The Project will increase income-earning opportunities for women and men, and reduce the need for male migration. The Project will monitor child labor and compliance with the international labor standards. The Project will ensure equal pay for equal work for men and women in the Project	
Indigenous Peoples	Significant	<p>Subprojects are not expected to have any adverse impact on the socioeconomic condition of indigenous people. The improved road network is expected to augment access of indigenous communities to various services, including health, education, and market opportunities. Inclusive measures are included in the project design to maximize project benefits and opportunities to indigenous groups through mainstreaming and targeted approaches.</p> <p>Among five core subprojects studied under the project preparatory technical assistance, only one subproject in Kabre district was noted to have f indigenous people who might experience significant positive impacts from project implementation. An indigenous people development plan was prepared for this subproject to maximize benefits to the indigenous people, including (i) employment of at least one member from each affected indigenous household in project construction and maintenance work; and (ii) at least one member from each indigenous household to participate in livelihood enhancement activities (skills training, income generation, awareness raising in health/sanitation, and other life-skills improvement). It also includes supplementary infrastructure facilities (e.g., drinking water) in the indigenous people settlements. Preference will be given to indigenous people in the recruitment of community facilitators, who will maintain frontline contact with indigenous communities when implementing the indigenous people development plan as well as overall subproject activities.</p> <p>An indigenous peoples framework was prepared for the Project to provide policy and procedures to screen subproject impacts on indigenous people and prepare planning documents during project implementation in full compliance with ADB's <i>Policy on Indigenous Peoples</i> (1998).</p>	Indigenous peoples framework for the Project; and an indigenous peoples development plan for one core subproject.
Other Risks/ Vulnerabilities	Not significant	Potential risks include political instability, weak capacity of local nongovernment organizations and consultants, delays in decentralization, and inadequate interagency coordination.	

GENDER ACTION PLAN

Activity/Measure	Indicators and Targets	Responsible
Rural Roads: Women from all caste, ethnicity, and minority groups have equal access to project resources and services.		
<p>Conduct a baseline survey to collect disaggregated data on gender, caste, ethnicity, and minority groups in the project districts. Conduct poverty mapping and gender assessment to identify the most vulnerable and the excluded. The mapping should include indicators to measure the differential socioeconomic situation of women from different caste, ethnic, and minority groups. The gender assessment should identify specific constraints and barriers to their participation in project activities.</p> <p>Ensure participation and representation of women from all caste, ethnic, and minority groups in project orientation, planning, management, and public and social auditing of rural road projects.</p> <p>Ensure participation and representation of women from all caste, ethnic, and minority groups in village infrastructure construction coordination committees (VICCCs), road building groups (RBG), and road maintenance committees.</p> <p>Apply the policy of equal pay for work of equal value in employment for rural roads.</p>	<p>Updated data disaggregated by gender, caste, ethnicity, and minority groups is obtained within 9 months of the start of the Project. The most vulnerable groups are identified.</p> <p>Women comprise 50% of total participants with proportionate representation from all caste, ethnic, and minority groups as per their population share in the village development committee (VDC)</p> <ul style="list-style-type: none"> • VICCC: 33% women representation and proportionate representation from disadvantaged caste, ethnic, and minority groups • RBG: 50% women representation • RBG leadership: 33% women from all caste, ethnic, and minority groups <p>Women and men RBG members receive equal payment for work of equal value.</p>	<p>Planning and monitoring specialist and social development specialist of the central implementation support consultants (CISCs)</p> <p>District implementation support team (DIST) social mobilizers and community facilitators</p> <p>DIST social mobilizers and community facilitators</p>
Supplementary Infrastructure: The supplementary infrastructure (water supply and sanitation, school toilets, microirrigation, trails, microhydropower, etc) have reduced women's drudgery and increased their involvement in economically productive activities.		
<p>Identify and select supplementary infrastructure projects in a participatory manner based on community demand.</p> <p>Ensure participation of women in village infrastructure building groups (VIBG)</p> <p>Provide supplementary infrastructure operation and maintenance training</p>	<p>Out of total consulted regarding project identification and selection, 50% are women. Women from all caste, ethnic, and minority groups are proportionately represented</p> <p>Women make up 50% of the VIBG and the leadership positions. Representation from caste, ethnic, minority groups is proportionate.</p> <p>Women make up 50% of those trained and 33% of maintenance committees. All caste, ethnic, and minority groups must be proportionately represented.</p>	<p>District project office (DPO)/DIST</p> <p>Social development officer/DPO</p> <p>Social development officer/social mobilizers/DPO</p>
Community Empowerment: Poor and disadvantaged, and particularly women from these groups, have increasing ability to speak out and influence decisions.		
<p>Ensure participation of women in all district, village, and group training and orientation programs on project approaches including gender action plan.</p> <p>Develop and deliver special livelihood enhancement skill training in the areas of</p>	<p>At least 50% of the total participants in all training are women with proportionate representation from all caste/ethnic groups.</p> <p>At least 70% of building group members are targeted in the empowerment package of which at least 50% are women. Proportionate</p>	<p>DISC, DPO, social mobilizers</p> <p>Social development specialist/officer</p>

Activity/Measure	Indicators and Targets	Responsible
<p>agriculture, livestock, forestry, soil conservation, microenterprise, health, literacy, and legal rights specific to the poor and disadvantaged. Incorporate gender section in each training package focusing on women's needs and priorities.</p> <p>Promote self-help group mobilization by developing special social mobilization package and tools (group mobilization, saving and credit, group management, project identification and proposal development, linkage, record keeping)</p> <p>To create enabling working environment for women, provide child care facilities, separate toilets for women and men, and first-aid facilities at the work place.</p> <p>Sensitize VICCC on gender equality, and economic and social inclusion.</p>	<p>percentage of women from all groups is represented.</p> <p>Training curriculum and manuals for specific sectors are available. Women are at least 50% of self-help group members, and representation from all groups is proportionate.</p> <p>At least one child care center is operating in each project district during the working season.</p> <p>At least 70% of the members of the VICCC are oriented on gender equality and social inclusion.</p>	<p>Social development specialist/officer</p> <p>Social development specialist/officer</p> <p>Social development officer/social mobilizers</p>
<p>Project Management Services: The project coordination unit (PCU) CISC, DPO, and DIST are responsive to gender issues and promote gender equality.</p>		
<p>Adopt gender action plan and formulate annual program for implementation. Instruct and orient DDC/DPO to prepare annual program and implement accordingly.</p> <p>Orient DDC/DPO and DIST on gender mainstreaming tools and gender action plan.</p> <p>Integrate gender and social inclusion concerns in all project events (training, review, periodic meetings) for its stakeholders.</p> <p>Establish monitoring system with gender, caste, ethnicity, and minority group disaggregated data.</p> <p>Integrate gender equality measures and monitoring indicators in project operating guidelines, I and subsector strategies</p> <p>Hire social mobilizers and community facilitators locally.</p> <p>Select junior technicians and road supervisors.</p> <p>Hire consultants for district and central implementation support team.</p>	<p>Annual district gender action plans are developed and implemented.</p> <p>DPO and DIST are equipped with gender mainstreaming tools and are effectively implementing district-specific gender action plans.</p> <p>All stakeholders are aware of gender and social inclusion concerns and are implementing activities to address them</p> <p>Output and impact data disaggregated by gender, caste, ethnicity, and minority groups are available.</p> <p>Project design and monitoring framework, guidelines, and strategies incorporate gender indicators and equality measures.</p> <p>At least 50% of social mobilizers and community facilitators are women and represent all caste/ethnic groups in the district.</p> <p>At least 33% are women</p> <p>The teams have at least 33% women professional staff from diverse caste and ethnic groups.</p>	<p>Social development specialist, DPO</p> <p>Social development specialist</p> <p>Monitoring specialist, social development specialist</p> <p>Planning and monitoring specialist, social development specialist</p> <p>Central and district implementation support units, DPO</p> <p>DDC, DPO</p> <p>PCU, DDC, DPO</p> <p>PCU, DDC, DPO</p>

CISC = central implementation support consultant, DDC = district development committee, DPO = district project office, DIST = district implementation support team, DPO = district project office, PCU = project coordination unit, RBG = road building group, VIBG = village infrastructure building group, VICCC = village infrastructure construction coordination committee.