Assessment of Village Development Committee Governance and the Use of Block Grants

Part I: Study Findings

Part 2: Strategy

Disclaimer:	This is an independent research study carried out by Inlogos. The findings and views presented here are those of Inlogos and do not necessarily represent the views of the commissioning agents, the Ministry of Local Development and the United Nations Development Programme.
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FOREWORD

A priority of the Government of Nepal and its development partners is to provide Nepal's rural communities with the authority, tools and resources to plan and actively participate in the implementation of the development of their local areas. From fiscal year 2008/09, major additional Government and donor funding has been and will be going to Nepal's district, village and municipal level governments to help local communities recover from the ten years of armed conflict and to accelerate progress towards achieving the Millennium Development Goals. This is in recognition of the fact that local people are often best placed to efficiently identify the priority areas for local development and the delivery of basic services and that their involvement in planning and implementation will enhance relevance and sustainability.

Much of this new support will increase the annual block grants to the local bodies. In 1995, the Government started providing village development committees (VDCs) with grants of 300,000 rupees a year to fund local development. In 2008/09 the amount was increased to at least 1.5 million rupees per year to all of Nepal's 3,915 VDCs up to 3 million rupees in certain VDCs. In its 2008/09 budget the Government allocated 8,000 million rupees (equivalent to US$ 100 million) for this purpose.

A major challenge is then to ensure that this money is spent wisely and efficiently to achieve better results and contribute to bringing the long awaited 'peace dividend' to local people.

To help address that concern, the Ministry of Local Development and the United Nations Development Programme commissioned the first ever study on VDC governance and the current use of block grants across a representative sample of 202 VDCs. The study results are presented in a set of three reports: 1) an assessment of the VDC block grant programme with a strategy for effective implementation; 2) a compilation of 25 case studies and 3) a user friendly version of the Government's VDC block grant guidelines.

We hope that these reports will help guide the work of the Government, the VDCs, civil society and the donor organisations involved in supporting local governance and development.

The release of these documents is very timely to feed into the strategy of the new multi-donor funded Local Government and Community Development Programme (LGCDP), which is led by the Ministry of Local Development, and also to strengthen service delivery and empower communities.

We would like to thank the study team from the Institute of Local Governance Studies (Inlogos), under the leadership of Khem Raj Nepal, for meeting the challenges of this study and for the insightful recommendations. We would also like to express our thanks to the many other people who made the study possible including the enumerators and the local people and officials who candidly shared their views and ideas with the team.

Anne-Isabelle Degryse-Blateau
Country Director
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PREFACE

The annual block grants to Nepal's village development committees have become an increasingly important means of devolving governance responsibilities from the central to the district and village levels. The large contribution that these grants make to local development has led the Government to increase the amount over recent years.

Many commentators on local governance have pointed out the lack of information on how these large amounts of money are being spent. We were therefore delighted to be chosen by the Ministry of Local Development and the United Nations Development Programme to carry out this assessment of VDC governance and the use of block grants. We see this as a very important topic that needs studying to provide insights into how the planning and use of these block grants could be made more effective.

The study was undertaken by the Institute of Local Governance Studies (Inlogos) in association with the Centre for Empowerment Innovation and Development-Nepal (CEMID). On behalf of Inlogos I would like to thank the many people who helped carry out the study.

I first of all thank my fellow study team members. Rabindra Nath Adhikary (governance expert), Binod Prasad Dhakal (planning expert), Urmila Shrestha (gender and inclusion expert), Bal Govinda Bista (financial management expert), Krishna Babu Joshi (monitoring expert) and Bharat Sharma (statistician) who all put in long hours designing and overseeing the study, collating the findings and producing the final reports. They were guided in their work by Sharad Kumar Sharma, Senior Development Advisor, who provided them with many useful suggestions.

The study team is highly indebted to the Project Advisory Board for providing support and guidance. Special thanks are due to Som Lal Subedi, Joint Secretary at the Ministry of Local Development and to other board members from the National Planning Commission (NPC), the Association of District Development Committees Nepal (ADDCN), the National Association of Village Development Committees Nepal (NAViN) and UNDP.

The study team acknowledges the support received from UNDP to carry out the study and thanks Sharad Neupane, UNDP Assistant Resident Representative, Dharma Swarnakar, UNDP Monitoring and Evaluation Analyst, and Chandra Kanta Sharma Paudel, UNDP Consultant for their support. Stephen Keeling edited the final version of this report and strategy.

We also thank the many INGO, NGO and donor officials and officials at the district development committees, Ministry of Local Development, NPC, the Financial Controller General's Office, NAViN, ADDCN, and the Municipal Association of Nepal (MuAN) who answered our questions whilst we were designing and carrying out the study.

The field study was carried out in December 2008 and January 2009. We extend our special thanks to the VDC secretaries and local people in the 202 VDCs who gave many hours of their time to answer our questions and who shared their insights on the functioning of VDCs and the use of block grants. We also thank the district development committee and other officials in the 25 districts for their help and cooperation and the study enumerators for administering the questionnaires, collecting case studies and carrying out the focus group discussions and key informant interviews.

We are confident that the findings will help improve the effective use of block grants for promoting the development of Nepal's rural communities.

Khem Raj Nepal
Study team leader and Executive Chairman,
Inlogos, 2009

EXECUTIVE SUMMARY

1. Background

Since 1995, Nepal's village-level local government bodies (village development committees — VDCs) have received annual block grants from the central Government for spending on improving local infrastructure and services. In fiscal year 2008/09 these grants were increased to a minimum of 1.5 million rupees and a maximum of 3 million rupees. A major rationale behind the greatly increased amounts of Government and donor money going to local government is to reinvigorate the local bodies and local government processes after the ten years of armed conflict and to enable the local bodies to become the main channel for fostering and implementing local development.

A serious policy constraint to VDCs' more effective use of their block grant money and other sources of funding has been the lack of knowledge about how this money has been used and what the impact has been. Thus, in 2008, the Ministry of Local Development and the United Nations Development Programme (UNDP) commissioned Inlogos to assess VDC governance and the use of VDC block grants.

The study was carried out by gathering data from household respondents, VDC secretaries, key informants, other local stakeholders and VDC records. The field study went ahead in 202 representative VDCs in 25 representative districts in December 2008 and January 2009. The household survey was of 3,526 households.

The outcomes of the study are being published in four parts with the current document having the study findings plus the strategy to operationalise the recommendations. The case studies and user friendly guidelines for district, VDC and community level stakeholders are published separately in Nepali.

2. Study findings

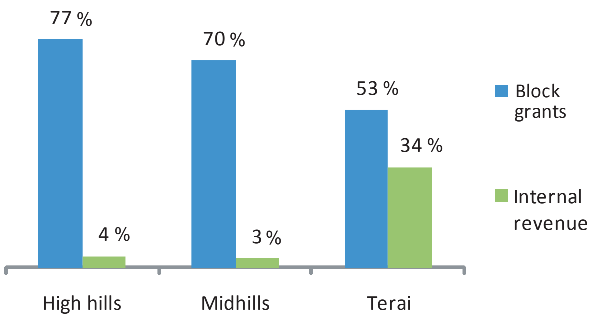
2.1. The functioning of VDCs — The absence of elected local government since mid-2002 means that Nepal's VDCs rely heavily on their Government-appointed secretaries. However, these secretaries are over-burdened and most lack facilities and staff to assist them.

The secretaries were found to be often unavailable to VDC service seekers with only a half of household respondents being able to meet them in the VDC offices as needed and only 30% of key informants saying their secretaries were regularly available. This frequent unavailability was said to be due to:

- 43% of the 202 VDCs' buildings being destroyed in the armed conflict — with only 10% rebuilt since then.
- 62% of VDC secretaries in the study's High hills districts and 37% in the Mid hills districts being assigned to look after more than one VDC.
- The multiple responsibilities that secretaries have, compounded by none of them having full-time accounting support.
- The frequent transfer of secretaries, with 40% of study VDC secretaries having spent less than a year in their previous postings as secretaries.
- The security concerns of secretaries in conflict-affected areas.

2.2. VDC revenues — This study found that the annual VDC block grants accounted for the majority of VDC revenue in almost all 202 VDCs. On average 77% of revenue of the High hills VDCs, 70% of the revenue of the Mid hills VDCs and 53% of the Terai VDCs' revenue came from VDC block grants in the two fiscal years for which data was collected (2006/2007 and 2007/2008). It was only the Terai VDCs that generated significant amounts of revenue from internal sources (land revenue and other taxes and fees) (see Figure 0.1).

Figure 0.1: Share of study VDCs' revenues from block grants and from revenue (average 2006/07 and 2007/08)



Source: VDC records

However, the study found that the block grants were often not being received on time by VDCs to fund their programmes due to:

- Late Ministry of Finance authorisation for district development committees (DDCs) to release the funds in the third trimester.
- Delays by DDCs in submitting VDCs' disbursement requests to district treasury offices.
- Late approval of plans and budgets by VDC councils and non-submission of required documents by VDCs.

2.3. VDC planning — The study found that the absence of elected local government has led to the VDC planning process being short-circuited with grassroots consultations either not happening or being run as a formality. Many respondents said that local politicians dominated decision-making on which projects should be funded from block grant money. These politicians have not been elected and so are not formally accountable to local people.

Forty-six percent of the VDC secretaries said that ward meetings and their associated VDC mass meetings were the dominant type of consultation for VDC planning (see Figure 5.2). However, only 27% of secretaries said that these meetings were the main basis for deciding which block grant project proposals to fund (Table 0.1).

Table 0.1: The main basis for VDC block grant project selection

Types of influence	%
Politicians' recommendations	36%
Ward & VDC mass meeting recommendations	27%
VDC committee recommendations	15%
CMC meeting recommendations	14%
Periodic plan priorities	5%
Pressure group demands	3%
Other	1%

Source: VDC secretaries survey, 2008

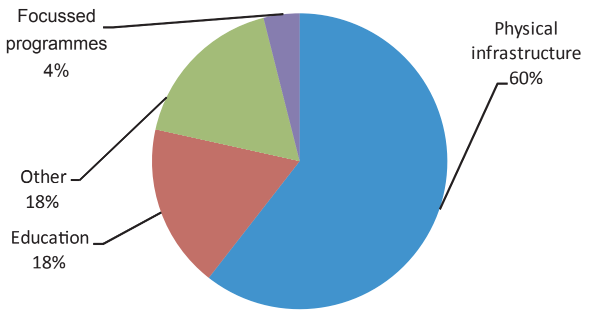
Other findings were:

- Chairmen-manager conference (CMC) meetings, as introduced by UNDP-funded local governance programmes, were found to be the dominant type of consultations for planning in 12% of VDCs and the main basis for VDC block grant selection in 14% of VDCs.
- Whilst only 25% of VDC secretaries said that the dominant type of VDC planning consultations were formal meetings with local politicians, 36% of them said that politicians' recommendations were the main basis for deciding which project proposals to fund from VDC block grants.
- The legislation requires VDCs to hold VDC council meetings to approve the current year's plan and budget and the tentative plan and budget for the coming year. However, 8 of the 202 VDCs had not held a council meeting in 2006/07 or 2007/08 meaning they had not received the capital part of their block grants.

2.4. Projects demanded and approved — In all, 4,890 of the 7,504 proposals received by the 202 study VDCs in 2006/07 and 2007/08 were approved for funding. The highest number of projects demanded by local people and approved for funding were physical infrastructure projects. Road building, electrification, drinking water and sanitation, and irrigation and agriculture projects accounted for 65% of all approved projects. The second most numerous was for teachers' salaries (9%).

In terms of the resources allocated to the different sectors, by far the highest proportion of block grant money went to physical infrastructure (60%) with education (18%) coming second. (Figure 0.2).

Figure 0.2: Planned allocation of VDC capital block grants by sector (% NR, 2006/07 and 2007/08)



Source: VDC records

2.5. Project implementation — The VDC records showed that only 78% of block grant projects for 2006/07 and 2007/08 had been completed by December 2008, five months after the end of the 2007/08 fiscal year, whilst 6% had yet to start by then. Household respondents said that the main reason for late completion was the late release of funds to user committees, with the unavailability of DDC technicians as the second most important reason.

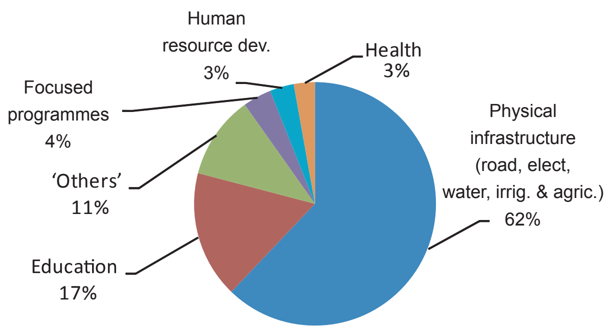
Regarding block grant expenditure:

- Each of the 202 study VDCs on average spent NR 949,617 of their block grants per year including their recurrent and capital expenditure.
- 62% of the expenditure of the capital part of block grants went on physical infrastructure projects, including road building (37% of the total), electrification (12%), drinking water and sanitation (11%), and irrigation and agriculture (2.5%), and 17% on education (teachers' salaries and school improvements) (Figure 0.3).
- VDC secretaries said that substantially more was actually spent on teachers' salary by manipulating the accounts.
- The amount spent on road building was considerably less than planned whilst that spent on drinking water and sanitation was almost twice the planned amount.

As regards monitoring, maintenance and transparency:

- 7% of study VDCs had no system whatsoever for monitoring the implementation of VDC projects. Such monitoring is crucial to facilitate timely correction and improvements based on feedback. Household respondents said that just over a half of study VDCs had formed project monitoring committees and only 18% had auditing committees in 2007/08.
- Only half of household respondents said that VDC staff, VDC representatives and local people were involved in monitoring projects.

Figure 0.3: Average sectoral expenditure of VDC capital block grants (annual average – 2006/07 and 2007/08)



Source: VDC records

- Although the carrying out of maintenance is crucial to safeguard the large investments of block grant money in infrastructure projects, a half of household respondents said that there was no system for maintaining and repairing VDC block grant projects. Only 28% of key informants reported the existence of maintenance and repair funds for completed projects.

Regarding the accountability and transparency of block grant use:

- None of the 202 VDCs had trained staff to help them manage their finances, resulting in proper procedures rarely being followed.
- In most cases, VDC secretaries were reluctant to publicise the details of their VDCs' finances.
- 81% of study VDCs lacked audit committees and audits were mostly carried out as a formality; and
- Only a third of study VDCs had held public hearings in 2006/07 and 2007/08 and only 70% had made public their annual programmes, budgets and audit reports.

2.6. Women and disadvantaged groups — The study found only limited involvement of women and disadvantaged group people in VDC planning and only few targeted benefits directed at them:

- VDC records showed that only 16% of participants in VDC council meetings were women, whilst only 9% of key informant respondents said that women actively participated in VDC planning and decision-making.
- Only 12% of household respondents said they had witnessed the *active* participation of disadvantaged group people (Dalits and Janajatis [ethnic groups]) in VDC decision-making.
- VDC records showed only 16% women's representation on project user committees with only 8% of these committees being led by women with disadvantaged group people making up 17% of user committee members and 27% of user committee leaders.
- Focused programmes for women and disadvantaged groups accounted for only 3.8% of capital block expenditure in 2006/07 and 2007/08 — much less than the minimum of 18.75% called for in the VDC block grant guidelines.
- The key informants said that the monitoring of project implementation was dominated by men and non-DAG people with only 8% of this monitoring being done by women and 7% by disadvantaged group people.

2.7. Overall impact of block grants:

- The greatly increased amounts of Government money going directly through block grants to the local level for local development has been a key factor in Nepal's progress since the mid-1990s on reducing poverty and achieving the Millennium Development Goals.
- The average of 12 new projects per VDC per year, with 153 beneficiaries per project and an average capital block grants expenditure of NR 746,634 per VDC per year, gives a per beneficiary cost of NR 403 (US$5). This is the cost if all projects are implemented as planned.
- Although only 33% of block grants expenditure went directly on achieving the MDGs, most of the rest, which went on road building and electrification, will directly contribute to reducing poverty and achieving the MDGs.

3. Strategy framework

The final chapter of the main text gives recommendations to overcome the weaknesses and shortcomings identified by the study. Following on from these, Part 2 presents a strategy-cum-action plan for implementing these recommendations. The framework's 10 strategies, 23 policies and 71 policy instruments are designed to improve VDC governance and VDC block grant use. This strategy proposes changes that should result in:

- The timely availability of block grant funds for VDCs and the effective management of these funds; and
- Good governance in VDCs for the effective use of block grants.

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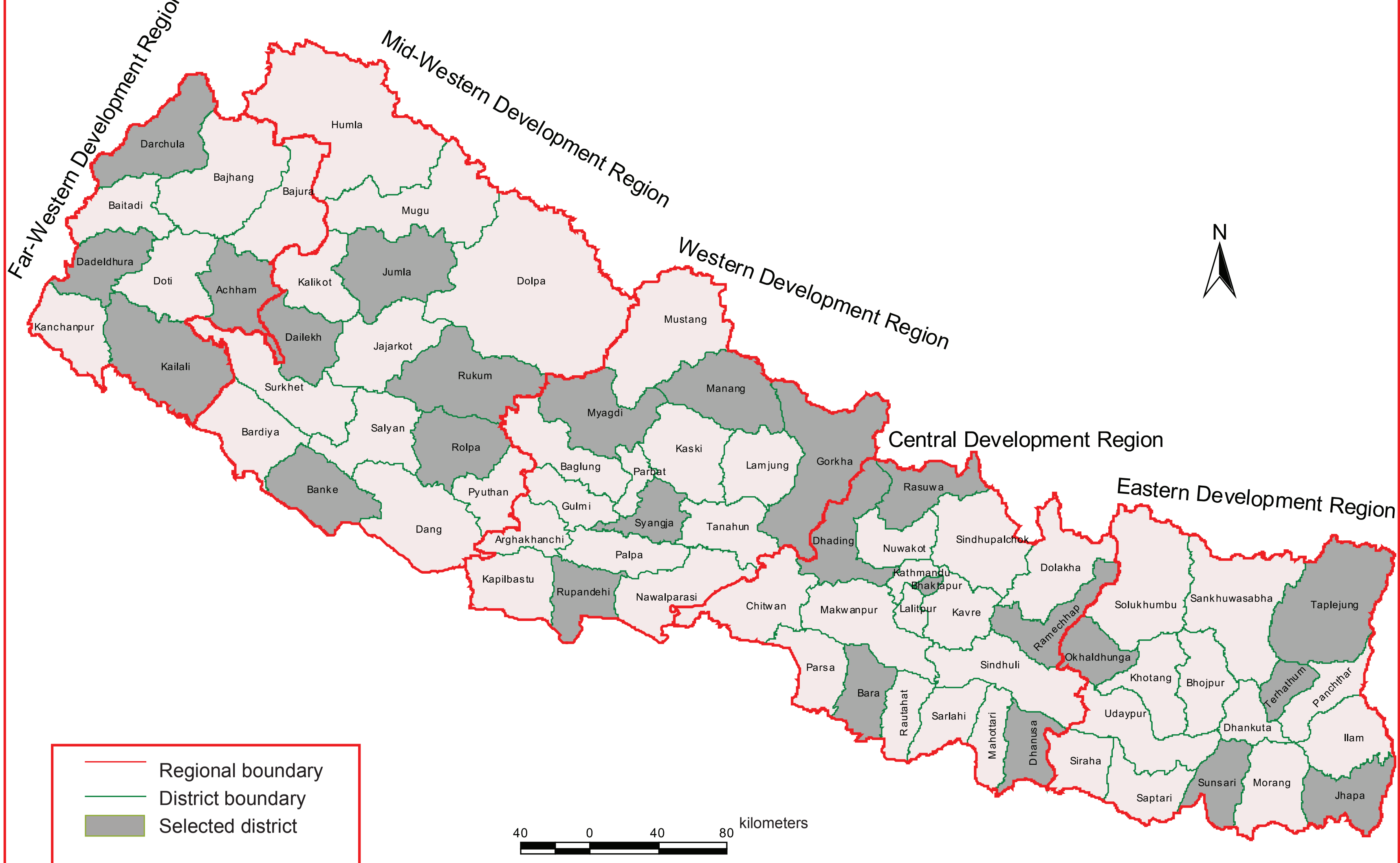
ACRONYMS AND ABBREVIATIONS

ADDCN	Association of District Development Committees, Nepal
AGO	Auditor General's Office
CBO	Community Based Organisations
CEMID	Centre for Empowerment Innovation and Development-Nepal
CMC	Chairman-Manager Conference
CO	Community Organisation
DAG	Disadvantaged Group
DDC	District Development Committee
DFDP	Decentralised Financing and Development Programme
DLGSP	Decentralised Local Governance Support Programme
DOLIDAR	Department of Local Infrastructure Development and Agricultural Roads
DTO	District Treasury Office
FCGO	Financial Comptroller General's Office
FNCCI	Federation of Nepali Chambers of Commerce and Industry
FY	Fiscal Year
GoN	Government of Nepal
hh	Household
Inlogos	Institute of Local Governance Studies
LBFR	Local Body Financial Regulations
LDFB	Local Development Fund Board
LSGA	Local Self-Governance Act
LSGR	Local Self-Governance Regulations
MDGs	Millennium Development Goals
MoF	Ministry of Finance
MoGA	Ministry of General Administration
MoIC	Ministry of Information and Communication
MoLD	Ministry of Local Development
MoLJCA	Ministry of Law, Justice and Constituent Assembly Affairs
MoWCSW	Ministry of Women, Children and Social Welfare
MuAN	Municipal Association of Nepal
NAViN	National Association of Village Development Committees, Nepal
NGO	Non-Governmental Organisation
NPC	National Planning Commission
NR	Nepalese rupees
SWC	Social Welfare Council
UC	User Committee
UNDP	United Nations Development Programme
VDC	Village Development Committee

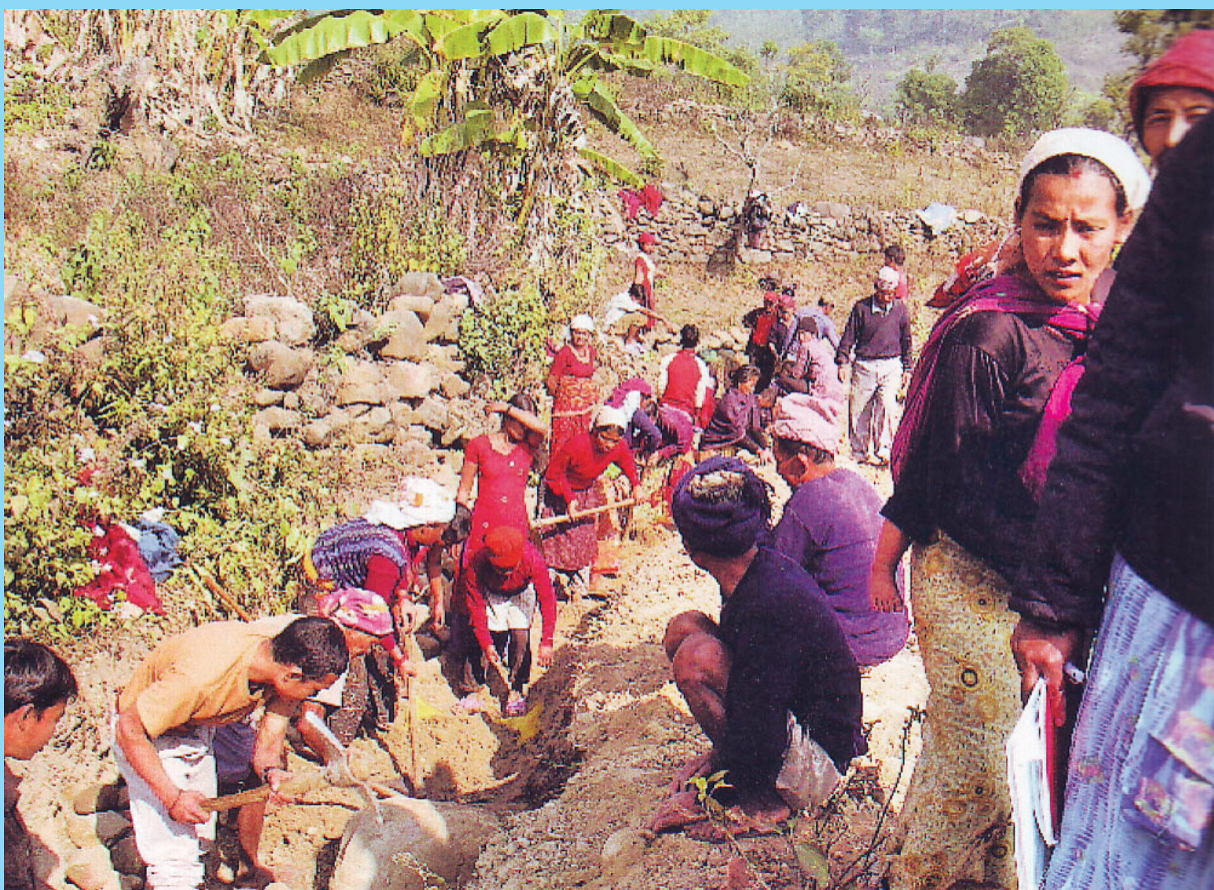
Exchange rate: NR 80 = $1 (March 2009)

Figure 1: Map of Nepal showing 25 study districts



PART 1

STUDY FINDINGS ON THE USE OF VDC BLOCK GRANTS



1 BACKGROUND

1.1 VDC level government in Nepal

Progress to 2002 — In Nepal, good progress was made during the 1990s and up to 2002 in devolving authority over district and local decision making from the centre to elected district, village and municipal bodies. The major landmarks were the successful holding of the 1991 and 1997 local government elections and the coming into force of the Local Self-governance Act (LSGA) and its rules (LSGR) in 1999 (MoLD 1999a and 1999b). This legislation has empowered local bodies and enabled them to provide services and conduct development activities at the local level using both their own resources and grants from central Government.

VDCs — Nepal's 75 District Development Committees (DDCs) make up the top tier of local government in Nepal. The second tier is occupied in the rural areas by the 3,915 Village Development Committees (VDCs) and in the urban areas by 58 municipalities. The third tier is made up of the wards, with nine wards per VDC. The term 'village development committee' is commonly used to refer both to the geographical area and the executive VDC committees of elected and nominated VDC officials.

Elected committees — The LSGA says that VDC committees should be made up of 11 elected people's representatives (a chairperson, a vice-chairperson and nine ward chairpersons), plus two nominated members. These officials can serve a term of up to five years after each election. The central Government appoints a civil servant as secretary to serve as VDC administrator.

Village councils — One of the most important functions of VDCs is to implement development programmes to improve local infrastructure, livelihoods and services. To promote the accountability of VDCs in carrying out these and other tasks, each VDC should regularly hold meetings of their village councils. These councils are made up of all elected VDC and ward officials plus six nominated persons and are the supreme authority within VDCs. They have to approve all major decisions including the current year's expenditure and programme and the following year's programme and budget.

Absence of elected local bodies — The armed conflict meant that the Government was unable to hold the third round of local elections after the 1997-elected local bodies' five-year terms ended in 2002. Since then Nepal's VDCs have been run by ad hoc three-member executive committees made up of VDC secretaries plus the civil servants incharge of the health post and the agriculture/livestock service centres. The composition of the VDC councils has been the same as the ad hoc committees with invitees from local political parties, community organisations, NGOs plus social leaders and women and disadvantaged group representatives able to raise issues. The invitees do not have voting rights and are not accountable to local people.

During the conflict and continuing to an extent today, many VDC secretaries have based themselves in the district headquarters because of security concerns.

Progress halted — The absence of elected people's representatives since 2002 has largely halted the devolution of political, administrative and financial functions to the local level. It has also led to only limited progress being made on overcoming other hindrances to the development of local government, foremost of which are the weak implementing capacity at the central and district levels, the limited internal revenues of local bodies and the nine sectoral acts that contradict the LSGA and its rules.

Interim VDCs — Although the Interim Constitution, 2007, calls for interim local bodies to be set up “with the participation and consensus of political parties active at the local level to operate until elections for local bodies are held”, such bodies have yet to be formed (as of June 2009). However, a similar system is already running in practice in many VDCs as the ad hoc VDC committees are involving local politicians in planning and other VDC decision-making as per the instructions in a Government-approved circular/directive issued by the Ministry of Local Development in July 2007.

New impetus — The end of the armed conflict, the start of major new multi-donor support to local government (the Local Governance and Community Development Programme — LGCDP) and substantial increases in the amount of the annual block grant have given a fresh impetus to local government in Nepal. An important development has been the 2008/09 introduction of formula-based VDC block grants.

Lessons learned — The new local governance support programme, LGCDP, aims to build on the lessons learned from previous donor-supported programmes (Box 1.1).

Since 1995 UNDP, UNCDF, DFID, Danida, Norway, SNV, SDC, GTZ and other donors have supported local government in Nepal. Most of these programmes have been run by the Ministry of Local Government (MoLD). This support has gone to building up the capacity of local bodies, building up the overall system for local governance and promoting the involvement of communities in local governance and community development. UNDP’s most recent initiative — the Decentralized Local Governance Support Programme (DLGSP) — focused on building up the capacity of local communities to develop their local areas. This and previous UNDP-supported programmes have helped set up thousands of community organisations to represent local communities.

Box 1.1: Lessons learned on local governance in Nepal

Sustainability — Local governments with good people’s participation are more likely to lead to sustainable development in line with communities’ needs than centrally-imposed development programmes.

Preconditions — Timely elections, predicable policies, formula-based revenue sharing, active people’s participation and law and order are preconditions for successful local government.

Transparency: The maintenance of good administrative and financial records and the full disclosure of them to the general public are crucial for developing local people’s support for local government and for its efficient functioning.

Fiscal autonomy: Local government bodies need adequate financial resources from local taxation and revenue sharing with the central Government to improve local infrastructure and efficiently provide local services. The capacity of local bodies to efficiently manage financial resources is also crucial.

Efficient grant procedures — There needs to be an efficient system for transferring block grant money from central to local government.

1.2 VDC block grants

Internal and external revenue — Nepal’s VDCs fund local development works and local services from internal and external sources of funding. The internal sources of revenue are mainly land transaction fees (the main type of land revenue), land taxes and other local taxes and fees. The main external source of revenue is the annual block grants provided by the central Government to all Nepal’s VDCs.

Amounts — Regular annual block grants to Nepal’s VDCs began in 1995/96 when each VDC was granted NR 300,000 by the central Government under the Aaphno Gaon

Aaphain Banau programme (Make your Own Village Yourselves Programme). Subsequent Government increased the amount to NR 0.5 million and then NR 1 million (Table 1.1). This amount was again increased in fiscal year 2008/09 to a minimum of NR 1.5 million and a maximum of NR 3 million per VDC with the amount calculated according to a VDC's area, population and the local cost of living. The Government allocated NR 7.8 billion for these block grants in its 2008/09 budget — double the amount of the previous year.

Table 1.1: Block grants support to Nepal's VDCs

Year introduced	Amount allocated per VDC
1995/96	NR 0.3 million
1997/98	NR 0.5 million
2006/07	NR 1 million
2008/09	NR 1.5–3 million

Guidelines — The government issued its VDC Grant Programme Operational Guidelines in 2006 (MoLD 2006). These guidelines require VDCs to carry out participatory planning and to follow transparent procedures for planning and implementing and accounting for block grant funds. Updated guidelines were produced in 2008 (MoLD 2008).

Some important points in the guidelines are:

- VDCs have to keep separate bank accounts and ledgers (financial accounts) for their block grant money.
- A maximum of 20% of block grant money can go for recurrent VDC running expenses with the other 80% going as capital expenditure for VDC development projects.
- According to the 2006 guidelines (clause 4.4d), at least NR 150,000 (18.75%) of the NR 800,000 of capital grant money should go for targeted programmes for empowering women and uplifting disadvantaged groups, the disabled and children.

These block grants provide the main source of revenue for many of Nepal's VDCs. As such they are a key means of alleviating poverty, promoting local development and decentralising governance.

There have been a number of significant changes in the considerably more detailed 2008 guidelines. These include the establishment of integrated VDC project planning committees for involving all major local stakeholder organisations and the new requirement for VDCs to make explicit beforehand their criteria for selecting projects to fund.

Block grant expenditure — The capital part of VDC block grants is generally spent on a variety of development interventions — referred to generically in this document as 'projects'. The projects include building local infrastructure, empowerment programmes for women and disadvantaged group people, paying school teachers' salaries and running livelihood development programmes for local people.

Study rationale — In spite of their importance and the large amounts of money involved, no major study had been carried out on their use. In 2008 UNDP, in partnership with the Ministry of Local Development, commissioned an assessment of the VDC block grant system. The consultancy company Inlogos carried out the study.

2 METHODOLOGY

2.1 Study objectives

The overall objective of the study was to assess the performance of VDCs in particular the effectiveness of their handling of VDC block grants to enhance local governance and service delivery.

The specific objectives were to:

- Assess the fund flow mechanism and related procedures of block grants to review their effectiveness for ensuring the timely availability of funds.
- Assess VDC governance (participation, decision making, social and gender inclusion, ownership, transparency, etc.) with reference to VDC block grants and their use.
- Suggest strategies for the more effective utilisation of the VDC block grants.

2.2 The study sample

The study collected quantitative and qualitative data from 3,526 households, the VDC secretaries and other local governance stakeholders in 202 VDCs of 25 districts. Box 2.1 shows how the study sample was put together.

Box 2.1: The VDC block grants study sample

- 25 representative districts;
- 202 representative VDCs (from the 25 districts);
- 606 wards (from the 202 VDCs) with 3 wards per VDC including 1 project-implementing ward, 1 project not-awarded ward and 1 project non-demanding ward per VDC;
- 3,526 households (from the 606 wards) including 50% from block grant project implementing wards and the rest from the other two types of wards;
- 404 projects, with 2 projects per project-implementing ward including 1 infrastructure project and 1 non-physical infrastructure project.

The following text describes how this representative sample of Nepal's VDCs and households within the VDCs was identified.

District selection

The 25 districts in Table 2.1 were selected as being representative of Nepal's three main ecological zones, five development regions, accessibility and remoteness, ethnic and caste make up and population densities. This represents a 33% sample of Nepal's 75 districts.

Table 2.1: The 25 sample districts

Development region	High hills	Midhills	Terai
Far-Western (4)	Darchula	Dadeldhura, Achham	Kailali
Mid-Western (5)	Jumla	Dailekh, Rolpa, Rukum	Banke
Western (5)	Manang, Gorkha	Myagdi, Syangja	Rupendehi
Central (6)	Rasuwa	Bhaktapur, Ramechhap, Dhading	Dhanusha, Bara
Eastern (5)	Taplejung	Terhathum, Okhaldhunga	Jhapa, Sunsari
Total	**6**	**12**	**7**

VDC selection

The 202 study VDCs were first of all selected by identifying a roughly equal number of VDCs from across the parliamentary constituencies in the 25 districts with an equal number classified as socially mobilised VDCs and non-socially mobilised VDCs according to a study carried out by MoLD in 2007 (MoLD/UNDP/Norway 2008). Social mobilisation was taken as meaning where local people had organised for their self-reliant planning and implementation of local development under development projects and programmes. However in practice this division does not seem to have been that significant as in practice almost all of Nepal's communities can be said to be socially mobilised to an extent.

At a secondary level the study VDCs were identified by their socioeconomic status and level of internal revenue generation as explained in the following two paragraphs.

Levels of deprivation — In 2008, an exercise was carried out by MoLD, with support from DLGSP, to map and rank the levels of deprivation of all VDCs in the 66 DLGSP districts (MoLD/UNDP/Norway 2008). This has since been extended to all 75 DDCs. This 'DAG mapping' ranked the VDCs into four categories from DAG 1 (the best-off VDCs) to DAG 4 (the most deprived). This was done by scoring them according to their relative deprivation against the seven parameters of food sufficiency, concentration of marginalised people, access to primary schooling and health posts, participation of women in decision making, prevalence of gender discrimination and prevalence of vulnerability. Table 2.2 shows how the study VDCs are broadly representative of all the VDCs in the 25 study districts by DAG ranking.

Table 2.2: DAG ranking of all VDCs in 25 study districts and of study VDCs

	DAG ranking of all VDCs in 25 study districts		Study VDCs	
	No.	%	No.	%
DAG 1 (richest)	3	0.2%	0	-
DAG 2	189	16%	50	25%
DAG 3	737	64%	116	57%
DAG 4 (poorest)	161	14%	25	12%
Not categorised	67	6%	11	5%
Total	1,157	100%	202	100

Internal resource generation — The study sample was selected to include VDCs with both high and low levels of internal resource generation with 43 'high internal resource generation' VDCs and 159 'low resource generation' VDCs. The threshold for low and high internal resource generation was NR 10,000 a year in the High hills districts, NR 40,000 a year in the Mid hills districts and NR 200,000 a year in the Terai districts. These thresholds were calculated after reviewing average revenues from land transactions, land taxes, and other taxes and fees.

Ward and project selection

All of Nepal's VDCs are divided into nine wards. To get a representative sample of VDC block grant projects the study, in consultation with VDC secretaries and other key informants, identified one of each of the following three types of wards according to their block grants status for 2006/07 and 2007/08 (note: the Nepali fiscal year runs from mid-July to mid-July):

- One VDC block grant project implementing ward.
- VDC block grant project requesting (but not awarded) ward.
- VDC block grant project non-demanding ward.

Then, in consultation with VDC secretaries and other key informants, one physical infrastructure and one non-physical infrastructure project was selected from amongst the block grant project implementing wards. The study then gathered the views of the wards' project user committee members, beneficiaries, and non-beneficiaries about how VDC block grant money was allocated and used and also to gather perceptions on VDCs planning and decision making.

Household selection

The 3,526 sample households were selected from across the 606 wards in the 202 VDCs by judgment sampling in consultation with VDC secretaries and key informants representing community organisations, women groups, local line agencies and local leaders. More than 50% of sample households were selected from block grant project implementing wards covering 25% of total project beneficiaries. The rest were selected from the two other types of wards (Table 2.3).

Disadvantaged groups — The study defined Dalits and Janajatis as disadvantaged groups.

2.3 Data collection

Study personnel — The central study team was made up of the team leader plus governance, planning, gender and inclusion, financial management and monitoring experts and a statistician. The team drew on the advice of a senior development advisor.

The field research teams were made up of:

- Five associate researchers in each development region who supported the district teams' field work.
- 25 research assistants in each project district, who organised district meetings, facilitated the focus group discussions, collected information from VDC. secretaries and supported the field survey enumerators; and
- 96 enumerators, who administered the household and secretary questionnaires, collected case studies, did key informant interviews and helped in focus group discussions.

Timing — The central level consultations took place in November 2008 and the field study in December 2008 and January 2009.

Advisory board — A project advisory board was set up with the representation from the Ministry of Local Development, the National Planning Commission (NPC), UNDP, the Association of District Development Committees, Nepal (ADDCN) and the National Association of Village Development Committees, Nepal (NAViN). The board provided valuable advice and guidance for carrying out the study especially for finalising

Table 2.3: Criteria for selecting the 3,526 study households

Ecological zone	Selection criteria	No. of households selected
High hills	Project implementing wards (7 households [hhs]): 2 user committee member, 3 project beneficiary and 2 non-beneficiary hhs (from project areas). Two non-project implementing wards (6 hhs): 3 hhs from each ward from amongst community organisation members, women groups, women and club member hhs.	13 households selected per VDC (468 households)
Mid hills	Project implementing wards (10 hhs): 3 user committee member hhs, 4 user hhs, 3 other hhs (from project areas). Two non-project implementing wards (8 hhs): 4 hhs from each ward from amongst community organisations, women groups, disadvantaged group people, women and club member hhs.	18 households selected per VDC (1,728 households)
Terai	Project implementing wards (11 hhs): 4 user committee member, 5 project beneficiary and 2 non-project beneficiary hhs (from project areas). Two project non-implementing wards (8 hhs): 4 households each (community organisations members, women groups, disadvantaged group, women, club members).	19 households selected per VDC (1,330 households)

the study methodology and tools, structuring the survey works, finalising the report structure and coordinating other tasks.

Literature review — The study team reviewed relevant literature including the LSGA and the block grant guidelines to guide the design of the study.

Consultations — Discussion meetings were held with the main central level local governance stakeholders (MoLD, NPC, ADDCN, NAViN, MuAN, FCGO, AGO and MoF) in November 2008 to brief them on the purpose of the study and to get their ideas on how the study should proceed.

In December 2008, prior to the start of the field study, the study team held consultation meetings in all 25 study districts and 202 study VDCs. These meetings briefed DDC, district treasury office, government line agency and VDC officials, local politicians, local NGO and community organisation representatives and other stakeholders about the purpose of the study and solicited their cooperation.

Household questionnaire — A structured questionnaire was designed, field tested, finalised and then administered to 3,526 household heads. Seventy-two percent of the household heads interviewed were men and 28% women.

VDC records — With the help of the VDC secretaries, the records of all 202 VDCs were consulted to get information on VDC block grants, block grant expenditure and funded projects for financial years 2006/07 and 2007/08 (Nepali fiscal years 2063/2064 and 2064/2065). The 202 study VDCs were looked after by 134 secretaries as a number of secretaries were assigned to more than one VDC.

VDC secretary survey — a separate questionnaire was administered to all the VDC secretaries asking them about VDC governance, project planning and implementation, financial management and other issues. The secretaries that looked after more than one VDC were separately asked about each of their VDCs.

Focus group discussions — Half-day focus group discussions were held in all 202 study VDCs with representatives from community organisations, women's groups, local politicians, project user committee members, disadvantaged group people and the VDC level government staff. These discussions provided qualitative information on VDC governance and the use of the block grants. Around 40% of meeting participants were women. These meetings were facilitated by VDC social mobilisers according to check lists of discussion topics.

Key informant interviews: Two key informants from each study VDC were selected in consultation with the VDC secretary and focus group discussion participants, to provide information on VDC governance and the effectiveness of VDC block grants. The key informants came from different strata representing men, women, Dalits, Janajatis, Madhesis and other groups.

Case studies: The views of project user committee members and project beneficiaries were collected and made into case studies. Success and failure cases were collected and are being published as Part 3 of the study reports. The major issues covered by the case studies are the planning process, people's participation, project execution, project monitoring, social mobilisation, VDC block grant use, and resource mobilisation.

Data compilation — The data was compiled and analysed using the Statistical Package for the Social Sciences (SPSS) software.

Regional and national workshops — The study team organised workshops in each of the five development regions with local development officers, executive secretaries of local development fund boards, VDC secretaries, and members of community organisations and user committees. These generated comments and feedback as inputs to the final draft report.

The study findings were presented to central level stakeholders at a national workshop in Patan, Lalitpur in May 2009. The feedback received has been incorporated in this report, the strategy document and the guidelines for district and community level stakeholders.

Study reports — The outcomes of the study are being published in four parts in three documents. Parts 1 and 2 are combined in this document whilst Parts 3 and 4 are published separately:

- Part 1: The main study findings (in English).
- Part 2: The strategy to operationalise the study's recommendations (in English).
- Part 3: The case studies collected by the study (in Nepali).
- Part 4: User friendly guidelines for district, VDC and community level stakeholders (in Nepali).

This chapter presents the main findings on the general functioning of the study VDCs at the time of the study in December 2008/ January 2009. The study's findings on VDC's revenues are given in Chapter 4 and on VDC planning and programming in Chapters 5 and 6.

3 THE FUNCTIONING OF VDC

3.1 VDC secretaries as the key personnel

At the time of the study, and continuing in May 2009, the interim local bodies that the Interim Constitution calls for have not been formed. In the meanwhile, and since the completion of the tenure of the elected bodies in 2002, it has been the VDC secretaries who have been responsible for managing and running VDC affairs. The secretaries are Government civil servants.

Availability of VDC secretaries — Only half of the 3,526 household questionnaire respondents said that they were usually able to meet their VDC secretaries in their VDC office (Table 3.1), when ideally all of them should have been able to do this. Just under a third met them most often in the district headquarters whilst most of the rest met secretaries at the secretaries' residences whilst seeking VDC-related services.

Table 3.1: Main meeting place of service seekers with VDC secretaries for VDC business

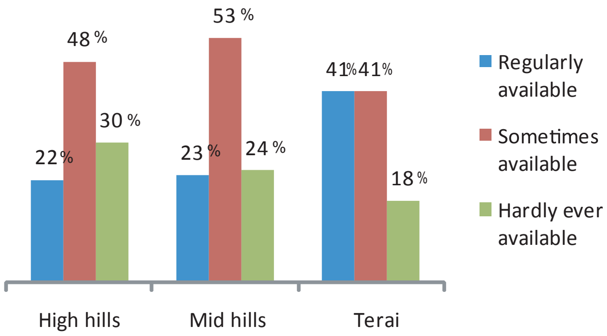
Ecological zone	VDC office	District HQ	Secretaries' residences and other places
High hills	45%	31%	24%
Mid hills	41%	42%	17%
Terai	64%	1 8%	19%
Average total	50%	31%	18%

Source : Household survey 2008

The secretaries were relatively more available in their VDC offices in the Terai that in the hill VDCs. Although their residences are accessible they do not provide a good work environment.

When asked about the availability of VDC secretaries only 30% of key informants said that secretaries were regularly available when needed by VDC service seekers (Figure 3.1). The secretaries were said to be almost twice as regularly available in the Terai study districts compared to the hill districts.

Figure 3.1: Reported availability of VDC secretaries (%)



Source: Key informant interviews, 2008

Factors governing availability — The study gathered data on the following factors that affect the availability of VDC secretaries and the quality of services they provide:

- Many VDCs not having an office building.
- Many secretaries being assigned to more than one VDC.
- The many responsibilities secretaries have.
- The frequent transfer of secretaries.

VDCs as the closest manifestation of Government to local people in rural areas are also often the target of people's frustrations with the Government as shown by the example in Box 3.1 about disruption in one VDC.

Box 3.1: People's perceptions of VDCs

The study team on arriving in Jogbudha VDC in Dadeldhura in December 2008 found the local community protesting against compensation for the victims of a recent flood mainly going to local influential people. They had locked up the VDC office in protest. This happened in spite of the compensation being the responsibility of the district administration office and not the VDC.

Source: VDC secretary survey, 2008

Apart from these factors the study also found that security concerns in the Terai and the eastern hill districts, and to some extent the lack of banking services in most VDCs (see Box 3.2), kept secretaries away from their VDCs.

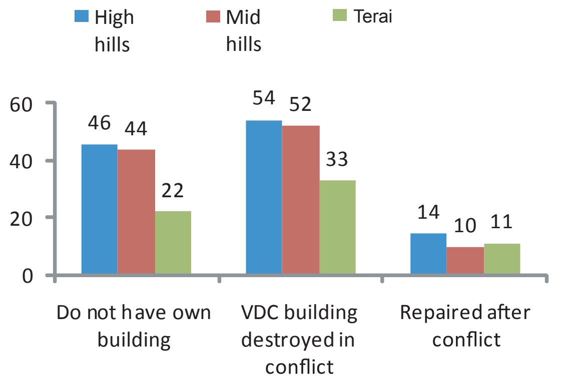
Box 3.2: Bank account operation

Even before the armed conflict (1996–2006) Nepal's banks only maintained a few branches outside the district centres in the rural areas. Most of these closed down during the conflict. The VDCs have to maintain bank accounts for their funds including separate accounts for block grant money. VDC secretaries from outlying VDCs said that the long distance to a bank was a large problem for them especially in terms of the security risk of bringing large amounts of money back to their VDCs.

VDC buildings — 43% of the study VDCs' office buildings had been destroyed in the armed conflict with a higher percentage destroyed in the High hills and Mid hills than in the Terai (Figure 3.2). Although 11% had been repaired, 37% of VDCs did not have their own buildings to work out of at the time of the study. The study also found that many VDC secretaries maintained an informal contact office in the district headquarters with usually several secretaries sharing a room.

Running more than one VDC — Nearly 62% of VDC secretaries in the study's High hills districts and 37% in the Mid hills districts were assigned to look after more than one

Figure 3.2: Status of VDC office buildings (no. out of 202 VDCs, December 2008)

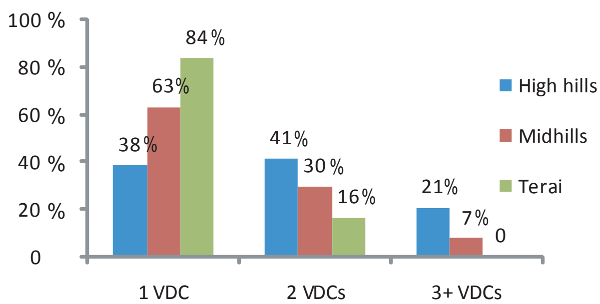


Source: VDC secretary survey, 2008

VDC (Figure 3.3). Twenty-one percent of the High hills secretaries had three or more VDCs to look after. This happens where a secretary position falls vacant and the secretary of an adjoining VDC is assigned to look after it before a permanent replacement is appointed. This data shows that many VDCs in the High hills and Mid hills did not have a full time secretary.

In these cases the secretaries said that the lack of allowances for them to travel between their VDCs meant that they could rarely visit the VDCs where they were acting secretaries. This would be especially the case in the High hills and remote Mid hill VDCs where VDC centres are a considerable distance apart. Thirty-four percent of the secretaries with more than one VDC to look after based themselves in the district headquarters.

Figure 3.3:VDC assigned per secretary (% of 202 study VDCs, December 2008)



Source: VDC records

Multiple responsibilities — Box 3.3 lists the many functions that VDC secretaries are expected to carry out. The absence of elected VDC officials has increased secretaries' workloads whilst the resources and support to carry out their jobs has not increased. This will have adversely affected the efficiency of VDC functioning including the effective use of block grants. The secretary of Jogbudha VDC, Dadeldhura told the study team that he has at least sixteen 'caps' to wear representing several governmental and parastatal organisations in addition to serving community activities.

The study found that all study VDC secretaries were solely responsible for financial accounting and reporting.

Managerial capacity — VDCs are very dependent on the efficiency of their secretaries. Almost all study VDC secretaries (97%) said they had received skill development training relevant to their job.

VDC secretaries burdened with their multiple responsibilities and with limited skills on financial management (on average only 25% of secretaries had received training on account keeping) were not fully capable of accomplishing VDC functions. This has led to poor performance in terms of transparency, information dissemination and accountability.

The average number of staff in a VDC was two in the high hills, three in the Midhills and four in the Terai VDCs. Most VDCs had a secretary, a support staff and a messenger. None of the VDCs had separate accountants. However, it is often the case that the staff are not qualified or able to provide the needed support as shown in Box 3.4.

Box 3.3: Responsibilities of VDC secretaries

- **As mandated by LSGA and rules (1999)**: i) Implement approved plans and projects; ii) maintain income and expenditure records; iii) maintain records and reports of projects and programmes; iv) minute VDC and VDC council decisions; v) maintain records of complaint cases; vi) register and maintain basic statistics; vii) function as chief VDC administrator; viii) maintain VDC accounts, ix) carry out delegated tasks.
- **As acting VDC chairperson:** i) Convene VDC council meetings; ii) prepare and submit agendas for VDC meetings; iii) formulate annual plans and budgets; iv) execute decisions; v) supervise, facilitate and control VDC office business; vi) maintain VDC physical assets; vii) issue recommendation letters to citizens; viii) carry out delegated tasks.
- **Functions delegated by Government ministries and departments through the DDC**: i) Support constituency development programme; ii) pay social security allowances and maintain records; iii) support remote area development programme (in remote districts); iv) support rural electrification programme; v) support immunisation and Vitamin A programmes; vi) serve as witness for multi-sectoral cases and disputes; vii) facilitate mobile service provision of other agencies; viii) register births and other vital registrations; ix) support preparation of voter lists.
- **Other tasks**: i) Deal with political interference in VDC business; ii) participate in other VDC level meetings; iii) participate in school and other management committees and partner NGO meetings; iv) witness or act as arbitrator in disputes; v) deal with visitors; vi) visit district headquarters to operate bank accounts and for other business; vii) travel to other assigned VDCs; viii) support VDC secretaries' union and NAViN.

Sources: LSGA 1999; MoLD regulations; observations by field study team, 2008

Box 3.4: Over-staffed but lacking capable personnel

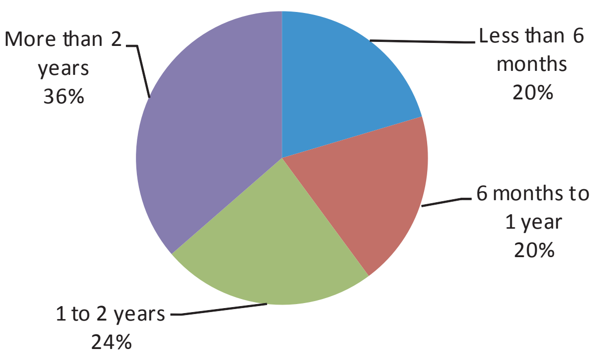
Anarmani VDC in Jhapa district has 12 staff members — the most of all 202 study VDCs. However, the VDC secretary said he lacked a skilled accountant and skilled personnel to monitor and supervise the block grant projects. Budhabare VDC of the same district, although it has six staff, had neither a technician nor an accountant. The general trend is to hire staff for general services through the pressure of local influential persons.

Source: VDC secretary survey, 2008

Frequent transfers — The study found that 40% of the study's VDC secretaries had spent less than a year in their previous postings as VDC secretaries (Figure 3.4). Around 29% of the secretaries in the High hills had been transferred before they had even served six months. Overall about two thirds of VDC secretaries were transferred before they had completed two years in a particular VDC. Most of the longer staying VDC secretaries were older local secretaries who are happy to serve nearby their homes.

The frequent transfers disrupt the provision of services as it generally takes a new secretary about six months to become reasonably well acquainted with a new VDC and its people to be able to properly carry out their job. This has been a particularly serious problem since 2002 as VDC secretaries are the only authority available

Figure 3.4: Average time spent by VDC secretaries in previous VDC secretary post (%)



Source: VDC secretary survey, 2008

at the village level. About 20% of household respondents said that they usually went along with a local leader or social worker when they went to meet their VDC secretary due to either a language problem or to be able to get recognition of their problems.

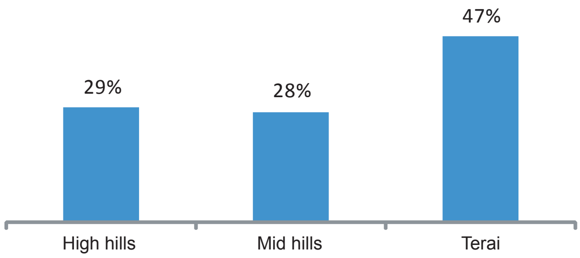
3.2 Citizens' charters, by-laws and social security

Citizens' charters

In 2004, the Government of Nepal made it compulsory for all public institutions that provide services to the public to display citizens' charters in their offices, preferably at the main entrance. These charters should provide service seekers with necessary information before they go to ask for services. The idea is to empower service seekers and protect them from harassment and from middlemen service providers.

Although 34% of VDCs were displaying charters, only 16% of household survey respondents said they had seen and read their VDC's citizens' charter. Most participants in focus group discussions reported the minimal use of citizen's charters in VDCs. (Figure 3.5).

Figure 3.5: Citizen's charter displayed by study VDCs (January 2009)

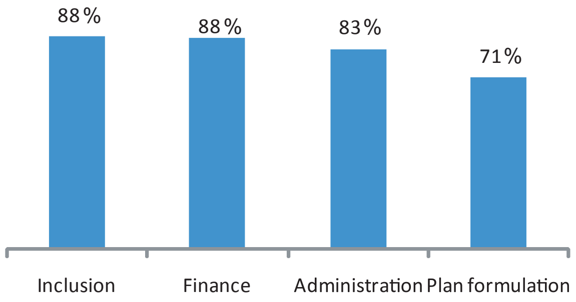


Source: Researcher's findings 2008

By-laws

All VDCs are supposed to make by-laws and produce directives to guide their administrative, financial, social inclusion and planning procedures in line with local conditions. However, the majority of study VDCs had not prepared them (Figure 3.6)

Figure 3.6: VDCs without main types of by-laws (December 2008, %)



Source: VDC secretary survey, 2008

with the absence of elected representatives being put forward as the main reason.

Social security

VDC secretaries are responsible for distributing social security payments to senior citizens (over 75 years old), widows and disabled people. Around 40% of the surveyed population who were receiving such support said they collected their money from their VDC office. They complained that the money was distributed irregularly and only 47% of them reported that they had received their dues for the past 12 months (Table 3.2). This data was gathered in a separate survey carried out alongside the main household survey.

Table 3.2: Method of distribution of social security money (%)

Ecological zone	From VDC office	Home delivery by VDC secretary	Handed over to family member	Other
High hills	23%	37%	20%	20%
Mid hills	33%	35%	29%	40%
Terai	65%	17%	4%	15%
Total	40%	30%	20%	10%

Source: Senior citizens survey, 2008

3.3 Conclusions

The absence of elected local government means that Nepal's VDCs rely heavily on their Government appointed secretaries. However, these secretaries are over-burdened with multiple responsibilities with most of them lacking facilities and other staff to assist them in their many tasks.

4 VDC REVENUE

VDC revenues come from external and internal sources. The external sources include the annual block grants from central Government, DDC block grant money, funds from other donors (mostly from INGO, NGO and other donor programmes) and shared revenue from central Government. The latter is a proportion of the fees and duties payable to the Government on forest products, sand, rock and other national natural resources. Most VDCs' main internal sources of revenue are 'land revenues' and other taxes and fees including road tolls, market stall rents and tourist entry fees. Land revenues include the amounts payable on land transactions, ownership entitlement fees and land taxes (malpot) payable on privately owned land. Most land revenue comes from the land transaction fees with land taxes only making up a small part.

4.1 Sources of revenue

In 2007/08, the average income of the 202 study VDCs was NR 1.73 million ($21,625 at the March 2009 exchange rate) compared to NR 415,000 ($5,187) during 2001/02 — a more than four times increase over five years without adjusting for inflation.

This amount includes the social security monies that the Government channels through VDCs to hand out to old people, widows and disabled people. In 2007/08 social security monies accounted for 10% of VDCs' income compared to 20% in 2001/02. This study has *not* included this social security money as 'income' in the following data and analysis as it is not available for spending on VDC development programmes. Nor does it include the substantial amounts carried over from one year to another.

The study VDCs' records showed that the proportion of their revenues coming from the annual block grants was about half, accounting for 51% of revenues in 2001/02 and 47% in 2006/07 (Table 4.1 and Figure 4.1). This is in spite of the amount of the block grant doubling from NR 0.5 million in 2001/02 to NR 1 million in 2007/08 meaning that the other sorts of revenue rose proportionately over the same period.

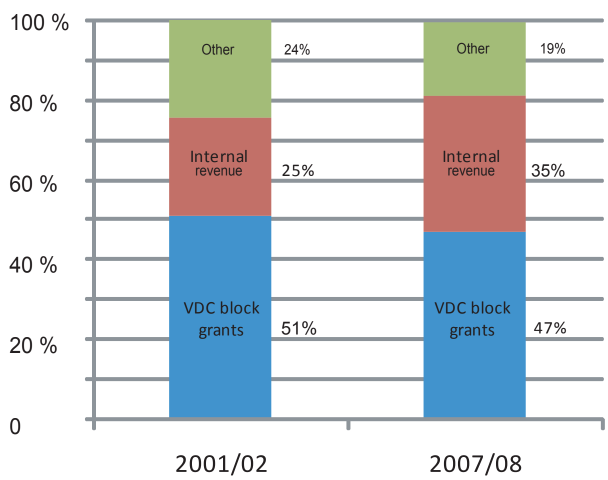
Table 4.1: Sources of VDC revenue (average for 202 study VDCs in 2001/02 and 2007/08)

	2001/02		2007/08	
	NR	%	NR	%
VDC block grants	34,650,000	51%	147,935,000	47%
Land revenue	11,746,000	17%	92,397,000	30%
Other	10,722,000	16%	28,950,000	9%
DDC block grant money	2,219,000	3%	20,305,000	6%
Taxes and other fees	4,779,000	7%	15,628,000	5%
Shared revenue	3,171,000	5%	7,761,000	2%
Total	67,287,000	100%	312,976,000	100%

Source: VDC records, 2008

Note: Other = money carried over from the previous year, money from external agencies and other sources.

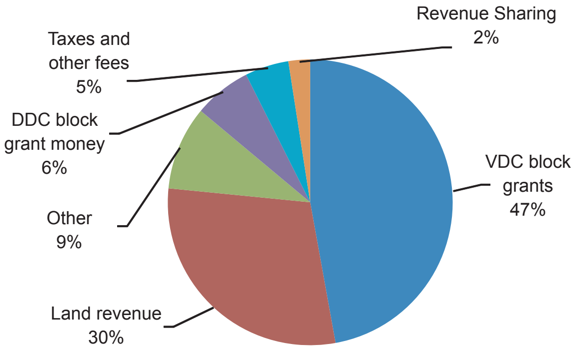
Figure 4.1: Proportion of VDC revenue from block grants in study VDCs (2001/02 and 2007/08)



Source: VDC Records

In 2007/08 the study VDCs raised 35% of their income internally from land revenue and local taxes and service fees (internal revenue) (Figures 4.1 and 4.2). The proportion coming from land revenues increased from 17% in 2001/02 to 30% in 2007/08 (Table 4.1) in spite of only 53% of household survey respondents reporting that they were paying land tax annually. In actuality, almost all of the household respondents will own land and therefore should be paying land tax.

Figure 4.2: Sources of VDC revenue in 2007/2008 (Average of 202 study VDCs)



Source: VDC records

The LSGA (1999) says that VDCs should mobilise other sources of funding for their development programmes. Sixty-five percent of the surveyed households said that external development agencies (NGOs, INGOs) were working in their locality at the grassroots level. Unfortunately data was not available on what proportion of the 'other' money in Figure 4.2 came from INGOs, NGOs and other external agencies.

Amongst the 202 VDCs, Urma VDC in Kailali generated the highest internal income with NR 225,800 per year. A total of 46 of the VDCs generated no internal revenue whatsoever, surprisingly including several Terai VDCs. In many cases this would have probably been due to an inability to collect rather than the absence of potential revenues.

Ecological zones — There was a substantial difference in the sources of revenue by ecological zone (Table 4.2 and Figure 0.1 in the Executive Summary). The most significant differences were as follows:

- The High hills VDCs were most dependent on VDC block grants as they made up 76% of their revenues with only 4% from internally generated revenue, whilst the Mid hills VDCs generated an even smaller proportion of their revenues internally (3.2%).
- Over a half of Terai VDCs' income came from block grants and a large proportion (34%) was internally generated; mostly

Table 4.2: Share of study VDCs' annual revenues from block grants and internal revenue (average for 2006/07 and 2007/08)

	Total revenue (NR average for 1 year)	Internal revenue (NR)	Internal revenue as % of total revenue	VDC block grant money received (NR)	Block grant money as % of total revenue
High hills	757,000	30,000	4%	579,000	76.5%
Mid hills	954,000	31,000	3.2%	664,000	69.6%
Terai	2,871,000	971,000	33.8%	1,519,000	52.9%
Socially mobilised	1,498,000	110,000	7.3%	1,128,000	75.3%
Non-socially mobilised	1,532,000	604,000	39.4%	768,000	50.1%
Total/average	**1,515,000**	**367,000**	**24.2%**	**948,000**	**62.6%**

from the taxes on land transactions (the main type of land revenue) as there are many high value agricultural land transactions in the Terai. All the same, a third of the study Terai VDCs were found to be heavily dependant on the block grant money and generated relatively low internal revenues.

By socially mobilised and non-socially mobilised VDCs — The study's socially mobilised VDCs on average received 47% more VDC block grant money per year (NR 1,128,000) than the non-socially mobilised VDCs (NR 768,000) (Table 4.2) indicating that they performed better on planning for and using the grant.

On the other hand, the non-socially mobilised VDCs earned more than five times more internal revenue per year (NR 604,000) than the socially mobilised VDCs (NR 110,000). This could be due to the fact that the development programmes that socially mobilise VDCs tend to choose more disadvantaged VDCs to direct support to.

VDC secretaries said that development partners preferred to implement their programmes in VDCs that had already been socially mobilised. This indicates that the social mobilisation process helps VDCs mobilise additional government and external revenue.

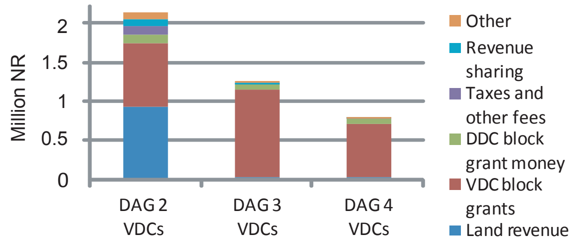
By deprived and advantaged VDC categories — A recent exercise grouped all the VDCs in the 66 DLGSP districts into the four DAG categories according to their level of deprivation. Table 2.2 (above) gives the DAG categorisation of the 202 study VDCs. Note that there were no DAG 1 (best-off) VDCs amongst the study's VDCs.

For fiscal years 2006/2007 and 2007/08:

- 43% of the DAG 2 VDCs' (most advantaged VDCs amongst the study VDCs) revenue came from internal sources of revenue (land revenue, taxes and fees) and 38% from VDC block grants; and
- 88% of DAG 3 VDCs and 84% of the most disadvantaged DAG 4 VDCs' revenues came from VDC block grants with only 2% and 4% of revenues respectively coming from internal sources.

Figure 4.3 shows the proportion from the different sources by the DAG categorisation.

Figure 4.3: Amount in Nepali rupees of types of revenue by DAG categorisation (average annual: 2006/07 and 2007/2008)



Source : VDC records

Awareness — In spite of the VDC block grants being the main source of revenue of most of the study VDCs, only 57% of household respondents knew that their VDCs received such grants. This indicates that many local people are unaware about this most important source of VDC revenue.

4.2 Fund flow mechanism of VDC block grants

The flow of the VDC block grants to VDCs is governed by the Financial Procedures Act (1998) and the VDC Block Grant Guidelines, 2006. The recurrent and capital expenditure amounts are supposed to be released separately at the beginning of each four month period (trimesterly) once previous accounts, advances and other requirements have been settled and met.

The study found that the VDCs usually received the recurrent expenditure block grant money on time whilst 40% of the VDCs received the capital expenditure block grant money at least one month after each trimester had started.

Ministry of Finance authorisation — The first step in the handing over of the funds to VDCs for every trimester is for the Ministry of Finance to set aside the funds and authorise DDCs to hand the money over to VDCs. The study found that during 2006/07 and 2007/08 the ministry issued these instructions in the first week of trimesters one and two. However, in both years the authorisation was issued late in the final (third) trimester (mid-March to mid-July) leading to the third trimester amounts only being released over three months late in the last weeks of the financial years. This led to this money being carried over to spend in the following fiscal year.

DDC and treasury office delays — The study found that almost all the 25 study DDCs were late in requesting their district treasury offices to disburse the capital grant money to VDCs as many waited to consolidate the requests of a number of VDCs before forwarding them to the treasury offices. This penalised the more efficient VDCs who completed their paperwork and other procedures on time.

In some cases delays were due to the district treasury office. Kailali DDC reported that it took 19 days from its submission of the budget disbursement request for the district treasury office to start releasing the money. A quarter of study VDCs reported similar problems.

VDC delays — The Block Grant Guidelines, 2006 (Clause 6.0b) specify how VDCs should request the release of the first trimester's grant along with proof of approval by the village council of the annual programme, cost estimates and project details; progress reports on projects completed in the previous year; a record of amounts advanced in the previous year for implementing projects and final audited report of the previous year on grant release and expenditure. The failure of many VDCs to do this was a major reason for delayed grant release.

Clause 26 of LSGA (1999) says that VDC councils are the final authority for approving VDC budgets, plans and programmes and that they must approve the current year's expenditure and programme implementation and the coming year's proposed programme and budget. The study found that the plans and budgets of 43% of the 202 VDCs had been approved by the village council for the following year (2008/09) by December 2008. As the rest of the VDCs still had a couple of months to complete this process on time, it was not possible to say to what extent delays in holding the VDC council led to delays in budget release. However, 4% of study VDCs had failed to hold a council in either 2006/07 or 2007/08 and so had not received any of their VDC capital block grants.

The failure of a few VDCs to submit the necessary documentation including annual expenditure plans, progress reports and the settlement of accounts each trimester meant that DDCs could not release the funds.

Many VDCs find it difficult to finalise the previous trimester's accounts before the start of the following trimester mainly because of the non-settlement of advance accounts by user committees and delays in technical evaluation and certification.

4.3 Conclusions

This data shows the importance of the VDC block grants as a source of revenue, although in the study's Terai VDCs, socially mobilised VDCs and DAG 2 VDCs, internal sources of revenue (principally land revenue) also made up a substantial part of revenues.

The main reasons for late release of the capital block grants were:

- Late Ministry of Finance authorisation for DDCs to release the funds in the third trimester in 2006/07 and 2007/08;
- Delays by DDCs in submitting VDCs' disbursement requests to district treasury offices; and
- Late approval of annual plans and budgets by VDC council meetings and non-submission of required documents by VDCs.

5 VDC PLANNING

The LSGA says that all VDCs should produce periodic and annual development plans. These planning exercises are supposed to go ahead in a participatory way to gather the views and reflect the needs of local people.

5.1 Periodic planning

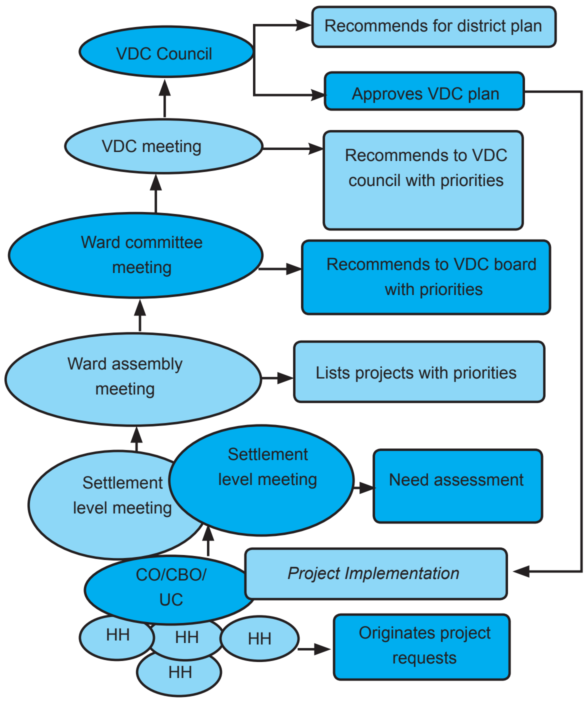
Clause 4.1 of the VDC Block Grant Guidelines, 2006, says that VDCs should produce periodic development plans (five-year plans) and VDC profiles. However, 70% of the study VDCs had never produced a periodic village development plan whilst 72% had never prepared a VDC profile. The LSGA says that VDCs should prepare resource maps of their areas and should operate information centres. The study found that 82% of them had neither. These plans, profiles, maps and centres are meant to inform VDC level planning. Their absence suggests that VDC planning is often not based on sound objective information.

5.2 Annual planning

Participatory planning and decision making to deliver quality public services and to improve local infrastructure is a keystone of the devolution of governance to the local level in Nepal. The LSGA and its rules (1999) stipulate that local people must be involved in VDC-level decision-making through settlement-level and ward meetings to discuss and identify their needs and to get them addressed in the annual VDC development plans (Box 5.1). The VDC Block Grant Guidelines, 2008, say that VDCs should carry out a participatory planning process, including how to spend block grants, and submit village development plans to the annual VDC council meeting for approval.

VDCs are required to produce annual plans that detail the coming year's programme and budget. This planning covers the expenditure of all types of revenue and the implementation of all types of projects including ones funded by the annual block grants and ones from other resources.

Box 5.1: VDC planning process



Source: developed from LSGR, 2000

Note: CO=Community organisation, CBO=Community Based Organisation, HH=Household

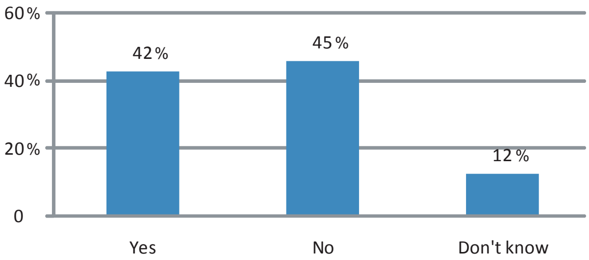
5.3 Local planning meetings

Community level meetings

The VDC secretaries and the participants in the focus groups said that there was significant participation of local people in requesting projects and in implementing VDC block grant funded projects as members of user committees. There was less involvement in VDC decision making processes such as project selection committees.

A number of types of forums and meetings — ward planning meetings (ward assemblies), VDC mass meetings, chairmen-manager conferences (CMCs) and meetings with politicians and local leaders — were held to facilitate local people's involvement in VDC planning. The study team was not able to find information in the VDC records on how often and how many of these meetings took place although 42% of household respondents said that ward meetings did usually occur (Figure 5.1).

Figure 5.1: Perception of occurrence of ward planning meetings



Household survey, 2008

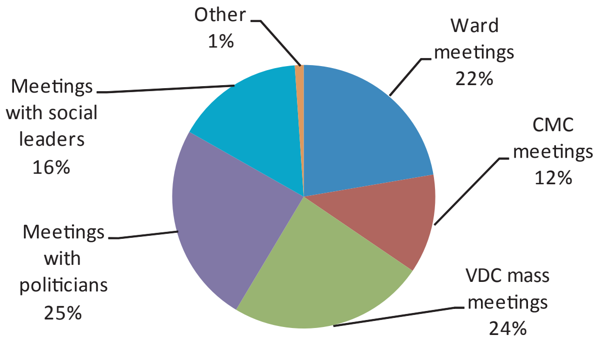
Ward level planning meetings should be the main means of involving local people in the planning process. Clause 66 of LSGR says that such meetings should be held in all nine wards of each VDC. The household survey data reports that their occurrence varied greatly from district to district (Box 5.2).

Box 5.2: The holding of ward meetings

The household survey data showed a great variation in the level to which the study VDCs held ward meetings. The Terhathum VDCs (79%) and Gorkha VDCs (68%) reported the highest compliance whilst in Jumla and Bara only 2% of VDCs held most of their ward planning meetings. In Bhaktapur only 9% of surveyed households reported that ward level planning meetings were held in 2006/07 and 2007/08. Overall, 33% of household respondents reported that their VDCs had organised CMC meetings while formulating VDC block grant projects in the two study years.

Forty-six percent of the VDC secretaries said that ward meetings and their associated VDC mass meetings were the dominant type of consultation for VDC planning (Figure 5.2). Such mass meetings were found to be held instead of ward meetings for planning purposes. However, only 27% of secretaries said that these meetings were the main basis for deciding which block grant project proposals to fund (Figure 5.3).

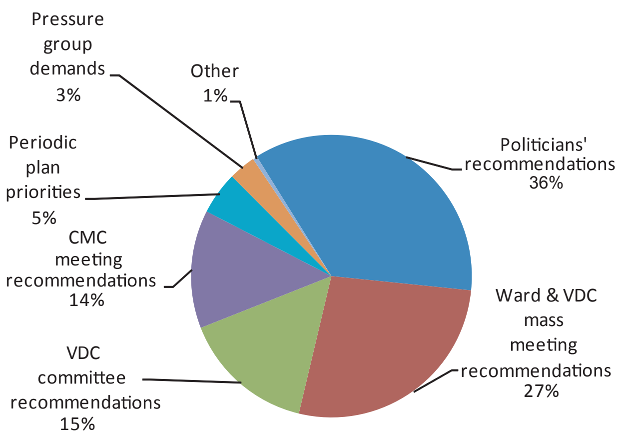
Figure 5.2: Dominant type of consultations for planning in study VDCs (2006/07, 2007/08)



Source: VDC secretaries survey, 2008

Chairperson-manager conference (CMC) meetings were first introduced in the mid-1990s in UNDP/MoLD local governance programme areas. These meetings involve all the chairpersons and managers of community organisations in a VDC. Although the legislation spells out the role of community organisations in VDC planning (clause 66 of LSGR), it does not mention CMCs. Even so, many socially mobilised VDCs hold them as a platform to discuss community level development and they have gained prominence in recent years in the absence of functioning ward committees.

Figure 5.3: The main basis for VDC block grant project selection (%)



Source: VDC secretaries survey, 2008

Twelve percent of the VDC secretaries said that CMC meetings were the dominant type of consultation process in VDC planning (Figure 5.2), whilst a similar proportion (14%) said that they were the main basis for selecting projects for block grant funding (Figure 5.3).

Participants in the focus group discussions said that CMCs informed local people about VDC planning, but they only usually involved the members of community organisation thus excluding local people who are not members.

The village level focus group discussions reported that around 100 persons generally participated in ward meetings and CMC meetings for VDC block grant project preparation.

Political influence

The study found that planning, budgeting and decision-making in many of the 202 VDCs were strongly influenced by politicians and to some extent by local elites. Although local politicians do have a role to play in VDC planning by suggesting what could happen, many study respondents said they exerted undue influence (Box 5.3).

Box 5.3: Critique of VDC planning

"The VDC planning process is not participatory and transparent as the VDC makes decisions on the interests and pressure from the political leaders. In this situation private contractors usually implement the projects though the agreement is made between the user committee and the VDC. This is the main reason that the VDC projects tend to be non-transparent and often fail."

Source: A member of Kaipal Youth Club, Kaipalmandu, Dadeldhura

The study findings were as follows:

- The key informants said that the ad hoc VDC executive committees, which have been in place since 2002, were often silent witnesses to decision making.
- 47% of Terai household respondents, 45% of Mid hills respondents and 34% of High hills respondents said that the funding of VDC projects was mainly decided by the direct or indirect pressure of local politicians. In all, 39% of household respondents said that decisions on the use of VDC block grants were highly influenced by local politicians.
- Focus group discussion participants said that the priority was given to projects requested by local political leaders and only a few project proposals requested by local people were approved as they matched the interests of the political leaders.
- Amongst the key informants, many local politicians, and especially those in the Terai, said that they were able to choose the projects demanded by their supporters and local elites.
- Although only 25% of VDC secretaries said that the dominant type of VDC planning consultations were formal meetings with local politicians (Figure 5.2), 35% of them said that politicians' recommendations were the main basis for VDCs deciding which project proposals to fund from the VDC block grants (Figure 5.3).

In contrast to these findings, 77% of the VDC secretaries said that their VDCs used participatory discussions whilst formulating VDC annual plans, whilst only 53% of household respondents said that this actually happened. The majority of VDC secretaries (87%) said that their VDC's annual programme and budget had been made public (see Figure 6.12 in Chapter 6).

Focus group participants reported that most VDCs carried out planning and project prioritisation in a haphazard way, often:

- By-passing the participatory planning and decision-making process and legal provisions in identifying projects for block grant funding.
- Only making public their annual budgets and programmes and no other important decisions.
- Being restrained by having insufficient staff to facilitate their planning and decision-making processes and to follow the legal requirements and Block Grant Guidelines.

5.4 VDC council meetings

The LSGA (Clause 22.3) says that VDCs should hold VDC council meetings between Shrawan (June-July) and Poush (December-January). The main purpose is to approve the current year's plan and budget and the tentative plan and budget for the following year. Since the dissolution of elected local government in mid-2002 the ad hoc VDC executive committees have had the authority of VDC councils. Theoretically the final decision therefore rests with this committee.

At the time of the study in December 2008/ January 2009 it was found that:

- Some VDCs were holding their VDC council meetings as late as April only two months before the mid-July end of the financial year.
- 67% of study VDCs had not held village council meetings to approve their tentative plan and budget for 2008/09 at the time of the study.
- 4% of study VDCs (8 VDCs) had not held a VDC council meeting at all in 2006/07 or in 2007/08 meaning they had not received their capital block grants.
- 127 of the 202 VDCs had held two council meetings in 2006/07–2007/08.

An average of 88 people attended the opening ceremony of village council meetings (Table 5.1). Actual participation in the substantial part of the meeting will have been less. VDC secretaries reported that the highest level of participation was from intellectuals, ex-Government staff, school teachers and local elites.

5.5 Involvement of women and disadvantaged groups

The LSGA and the block grant guidelines call for the full involvement of women and disadvantaged group people in VDC planning.

Women — Although 61% of household survey respondents and 76% of key informants said that women were usually present at ward, programme formulation and VDC council meetings, the key informants said that significantly more men than women were involved in VDC planning (Figure 5.4).

Table 5.1: Stakeholders' participation in VDC councils*

Stakeholder	Total no.	Average per VDC
VDC and DDC level officials **	2,022	10
Local politicians	1,543	8
Community organisation members	914	5
Local NGOs	921	5
Social leaders	4,563	23
Disadvantaged group people	3,487	17
The general public	4,336	21
Total	17,784	88

Source: VDC secretary survey, 2008

* Inaugural session participants only

** Including ex-VDC chairman and vice chairmen, staff of sub-district ilaka level service centres and DDC representatives

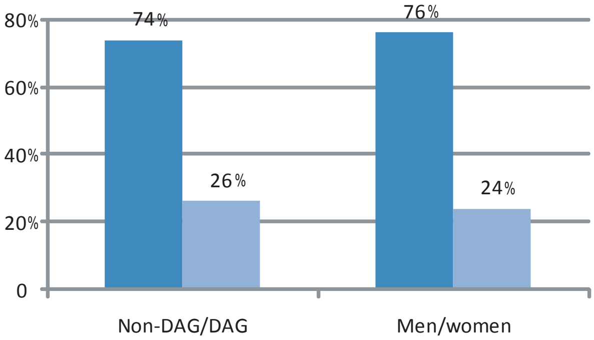
The VDC records showed that 16% of participants in VDC council meetings were women. But only 9% of key informants said that women were active participants in VDC planning and in decision making on projects as demonstrated by the case in Box 5.4.

Box 5.4: Local women say they are not consulted

Local politicians in the Lobtoli VDC, Dhanusha focus group discussion claimed that they collected project requests from community organisations and the women groups and positively responded to their demands. However, the women participants contradicted them saying that the VDC used to collect project idea requests from them but nowadays mostly made decisions upon politicians' recommendations.

Disadvantaged groups — In all, 62% of household respondents reported the participation of disadvantaged group (DAG) people during ward, plan formulation and VDC council meetings (The study defined DAGs as including all Dalit and Janajati [ethnic group] people). However, only 12% of household respondents said they had witnessed the *active* participation of disadvantaged group people in decision making. The key informants said there was 26% disadvantaged group people's participation in VDC planning (Figure 5.4).

Figure 5.4: Involvement of men/women and non-DAG/DAG people in VDC planning



Source: Key informant interviews, 2008

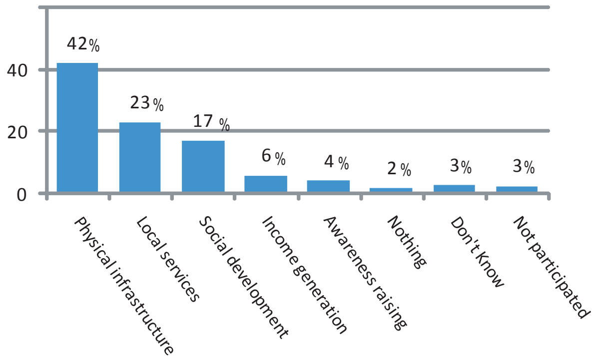
5.6 Projects demanded and approved

Demanding — The procedure for local people to submit their project proposals for including in their VDC's annual plan is to fill up and submit a project requisition form. The study found that in the socially mobilised VDCs community groups and their networks submitted their project requests to their VDCs and DDCs.

The household survey showed physical infrastructure projects to be most in demand accounting for 42% of all projects demanded (Figure 5.5). The second most demanded projects were for services, accounting for 23% of all demanded projects. Service projects include support for agriculture extension, veterinary services, public health provision, forest management and social mobilisation.

Approved — VDC records showed that 7,504 project proposals were submitted to the VDCs in 2006/2007 and 2007/2008 amounting to an average of 18.6 projects per

Figure 5.5: Types of projects demanded by local people in ward meetings (2006/07, 2007/08)



Source: Household survey, 2008

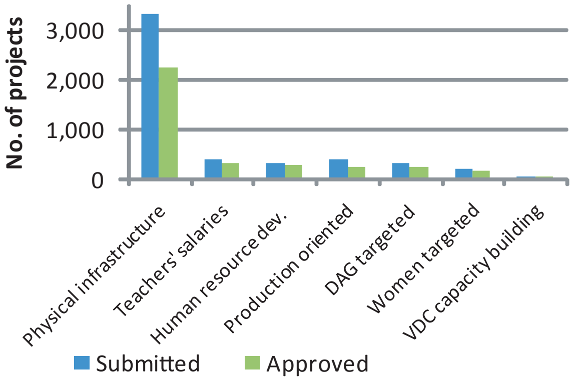
VDC per year. In all 4,890 or 65% of these proposals submitted by local communities were approved for funding in the two years (12.1 projects per VDC per year). The number approved included 1,284 projects carried over from previous years ('recurrent' projects) and 207 projects run in partnership with other agencies. The data and analysis in this section does not include these two types of projects as information was not available on which sector they covered.

The main steps for filtering (accepting or rejecting) project proposals submitted for funding to the VDC are outlined above in Box 5.1. Household respondents said that just over a half of study VDCs (53%) had formed project preparation committees. These committees facilitate the project selection process by recommending which proposals the VDC should accept and reject. Only 53% of household respondents said that these committees existed in their VDCs.

Between 81% and 60% of proposals were approved for funding. The highest proportion of approved proposals were for human resource development (training and exposure visits for community people — 81%) and school teachers' salaries (80%). The lowest proportion was for production oriented projects (enterprise development) with only 60% of proposals approved. (Note that VDCs pay teachers salaries as the Ministry of Education lacks the resources to pay, especially for new teaching posts in community-run public schools.)

VDC records showed that almost two-thirds of the approved block grant projects (65%) were physical infrastructure projects (Figure 5.6). The second most numerous type of 'project' approved was for teachers' salaries (9%). The low number of focussed projects for women (4%) and disadvantaged groups (6%) is reflected in the fact that most focus group and household survey participants said that they had not heard of such projects being supported by their VDC. The next section on the sectoral allocation block grants shows the proportional allocation of resources.

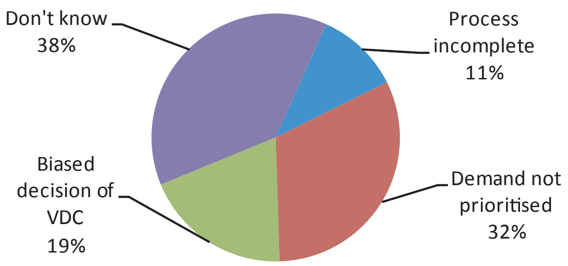
Figure 5.6: Types of projects submitted and approved for VDC block grant funding (2006/07 and 2007/08)



Source: VDC records

Thirty eight percent of the surveyed households said that they did not know why their project proposals had not been accepted for funding whilst 19% said that the decision-making process was biased (Figure 5.7).

Figure 5.7: Households respondents' perceptions on main reason for rejection of project ideas



Source: Households survey, 2008

5.7 Sectoral allocation of VDC capital block grants

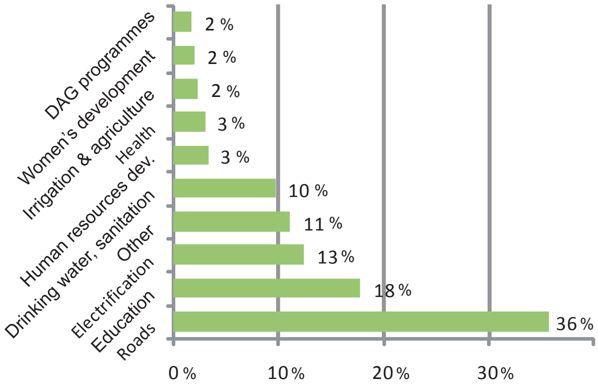
The above section relates to VDC project proposals and approvals funded from all sources of VDC revenues. This section just covers VDC projects paid for from the capital part of the annual VDC block grants.

Clause 4.4 of the 2006 block grant guidelines said that 20% of the NR 1 million block grants shall go for recurrent expenses (running costs) and 80% (NR 800,000) for capital expenditure. The study found that almost all of the study VDCs received and spent the 20% of their block grants to pay for their recurrent running costs.

Clauses 4.4b, c and d of the Block Grant Guidelines 2006 said that the other 80% is to go for “rural sector transformation projects” including rural electrification, roads, irrigation, bridges, drinking water, school building construction, whilst at least NR 150,000, or 18.75% of the NR 800,000, is for focused programmes for women and disadvantaged groups.

The study found that sector-wise by far the highest proportion of block grant money was allocated to road building in 2006/07 and 2007/08 with education (18%) and electrification (13%) having the second and third highest amounts allocated (Figure 5.8).

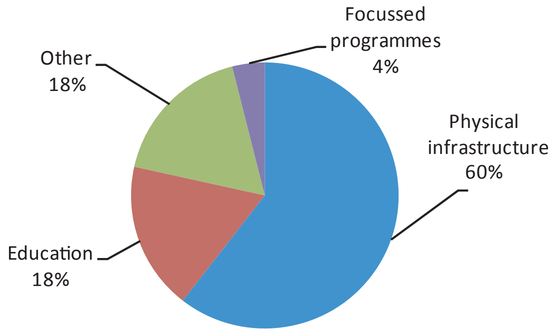
Figure 5.8: Sector-wise allocation of VDC capital block grants (NR, 2006/07 and 2007/08)



Source: VDC records (2008 survey)

The physical infrastructure projects altogether accounted for 60% of all the block grant money allocated in the two study years (Figure 5.9). The second highest amounts (18%) went on teachers’ salaries and ‘other’ (other, human resource development and health).

Figure 5.9: Planned allocation of VDC capital block grants by sectors (% NR, 2006/07 and 2007/08)



Source: VDC records

5.8 Conclusions

The absence of elected local government means that the VDC planning process is being short-circuited with grassroots consultations either not happening or being run just as formalities. Although the quantitative data is not definitive on this, many respondents and informants said that local politicians tended to dominate decision making on which projects should be funded from block grant money. These politicians have not been elected and so are not formally accountable to local people.

Sector-wise the highest numbers of projects demanded and approved for funding were physical infrastructure projects.

6 IMPLEMENTATION OF VDC PROJECTS

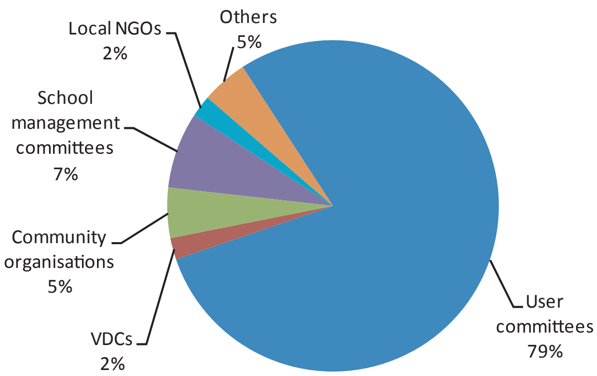
6.1 Project implementation

Implementing bodies

Clause 7.1 of the VDC Block Grants Guidelines (2006) says that, where appropriate, projects should be implemented by representatives of the intended beneficiaries formed into user committees. Eighty percent of the 4,890 projects approved for VDC block grant funding in 2006/07 and 2007/08 were implemented by user committees (Figure 6.1). The education 'projects' were implemented by school management committees.

Project user committees therefore play a crucial role in implementing most projects and managing outcomes. However, the study found that most user committee members had not been trained or given any basic orientation on implementing projects. Some user committees had reportedly been given one day orientations by their local development fund boards and donor supported programmes.

Figure 6.1: Project implementing agencies for 2006/07 and 2007/08 block grant projects (4,890 projects)



Source: VDC records

Participation of women and disadvantaged groups

The LSGA and the VDC Block Grants Guidelines have a number of provisions to empower and target support at women and disadvantaged groups (Box 6.1).

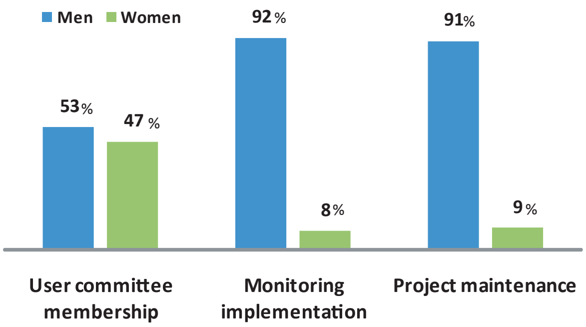
Box 6.1: Local governance provisions for social inclusion and women's empowerment

- VDCs shall give priority to projects that provide "direct benefits to women as well as [socially and economically] backward classes" (Clause 43.3e of LSGA).
- At least NR 150,000 of the NR 800,000 capital grant part of block grants (equivalent to 18.75%) must go to focused programmes for women's empowerment, mainstreaming Dalits and uplifting Janajatis and other excluded groups (VDC Block Grant Guidelines, 2006).
- A minimum of one-third of members of project user committees should be women and disadvantaged group people (VDC Block Grant Guidelines, 2006).

The key informants said there was about equal representation of men and women on project user committees (Figure 6.2), although VDC records showed only 16% women's representation on these committees with only 8% of these committees being led by women.

They also said that disadvantaged group people accounted for just under half of user

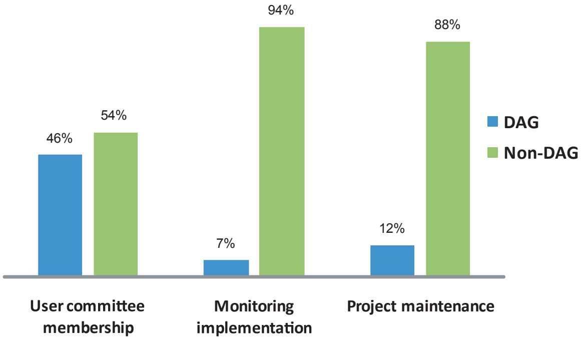
Figure 6.2: Participation of men and women in implementing and maintaining VDC-funded projects



Source: Key informant interviews, 2008

group members (Figure 6.3). The VDC secretaries gave a different picture saying that 17% of user committee members and 27% of user committee leaders were disadvantaged group people.

Figure 6.3: Participation of disadvantaged group people in VDC-funded projects

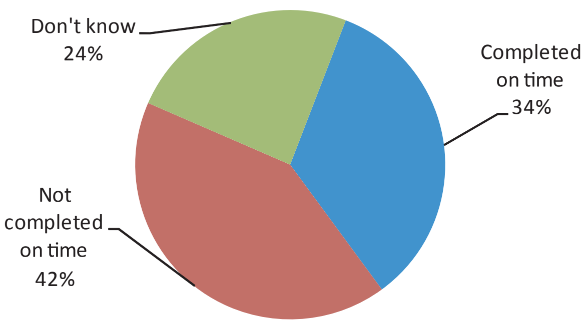


Source: key infromant interviews, 2008

6.2 Timely completion

Completion status — Only 34% of surveyed households said that VDC funded projects were completed on time (Figure 6.4). This proportion ranged from 63% in the Rasuwa VDCs to only 9% in the Bara VDCs. These respondents were referring to VDC infrastructure projects financed from all sources including block grants.

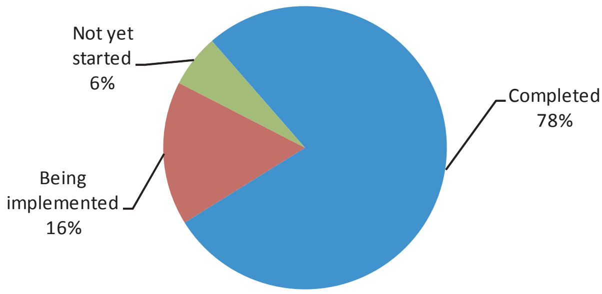
Figure 6.4: Local people's perceptions on timely completion of projects



Source: Household survey, 2008

According to VDC records, of the 4,890 approved block grant projects in 2006/07 and 2007/08 (mid-July to mid-July), 3,791 (78%) had been completed by December 2008, 803 were under implementation and 296 (6%) had yet to start (Figure 6.5).

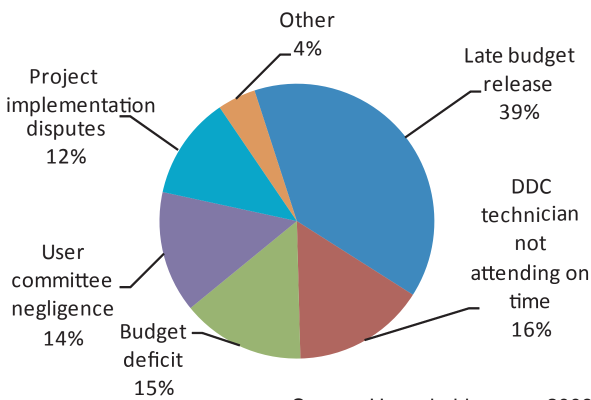
Figure 6.5: Status of VDC block grant projects (2006/07 and 2007/08 projects as of December 2008)



Source: VDC secretary survey, 2008

Reasons for late completion — Thirty-nine percent of household respondents pointed to the late release of funds to user committees as the main reason for the delayed completion of projects (Figure 6.6). The fact that 48% of Terai respondents reported this suggests that this is probably not a factor of remoteness as Terai VDCs are not remote.

Figure 6.6: Perceived main reasons for projects not being completed on time



Source: Household survey, 2008

Only 9% of study households in the most disadvantaged (DAG 4) VDCs, reported insufficient budget as the main cause of delayed completion compared to over twice as many (22%) of households from the best-off VDCs (DAG 2). A similar proportion of DAG 4 (18%), DAG 3 (14%) and DAG 2 (15%) VDCs reported the poor functioning of user committees as the main reason for delayed project completion.

Thirty-two of the 202 VDCs (16%) had hired technicians to oversee the implementation of projects. The other VDCs had to rely on DDC technicians for technical support. The frequent non-availability of DDC technicians was reported as the second most significant cause of the failure to complete projects on time (Figure 6.6). Cumbersome procurement procedures were also mentioned as a hindrance (Box 6.2), although this may have been due to lack of knowledge or experience.

Box 6.2: Cumbersome procurement procedures

Many VDC secretaries and key informants complained that several conditions listed in the procurement procedures of the Local Body Financial Regulations restrict the smooth implementation of VDC level projects. Specifically, the PAN (tax number) and VAT registration requirements for procuring goods and services through VDCs and user committees, especially in remote VDCs, are difficult to fulfil. Several procedures related to tender bidding are also cumbersome for VDCs.

6.3 Expenditure of block grants

Total expenditure — Each of the 202 study VDCs spent on average NR 946,617 per year from their VDC block grants in 2006/07 and 2007/08 with an average of NR 746,634 spent from the capital part of these grants (Table 6.1 and Table 6.2).

Table 6.1: Average annual expenditure of 202 study VDCs from VDC block grants (NR)

	2006/07	2007/08	Average annual
Recurrent	193,985	211,980	199,983
Capital	854,105	639,164	746,634
Total	**1,048,090**	**851,144**	**946,617**

Expenditure by sector — The study VDCs spent a high proportion of the capital part of their block grants on physical infrastructure projects. For the two fiscal years the VDC records showed 37% of expenditure on road building, 17% on education (school buildings, facility improvements and teachers' salaries) and 12% on electrification and 11% on drinking water and sanitation (Table 6.2 and Figures 6.7 and 6.8). In all, 62% of the expenditure went to physical infrastructure projects, including road building, electrification, drinking water and sanitation, and irrigation and agriculture (see Figure 0.3 in the Executive Summary).

Table 6.2: Average sectoral allocation and expenditure of VDC *capital* block grants (yearly average per study VDC — 2006/07, 2007/08)

	Allocated (planned %)	Expenditure (NR)	Expenditure (%)
Roads	46%	273,599	37%
Education	15%	126,599	17%
Electrification	11%	91,990	12%
Other (printing, reporting, logistics support, etc.)	11%	82,703	11%
Drinking water and sanitation	5%	80,099	11%
Human resource development	2%	23,886	3%
Health	3%	21,158	3%
Irrigation and agriculture	3%	18,455	2%
Focused programmes — women's development	2%	14,802	2%
Focused programmes — disadvantaged group	2%	13,342	2%
Total		**746,634**	**100**

VDC secretaries said that more was actually spent on education as substantial extra amounts of block grant money went for teachers' salary by manipulating the accounts (see Box 6.3). The 2008 block grant guidelines (2008) have put a ceiling of NR 100,000 per school on paying school teachers' salary from block grants.

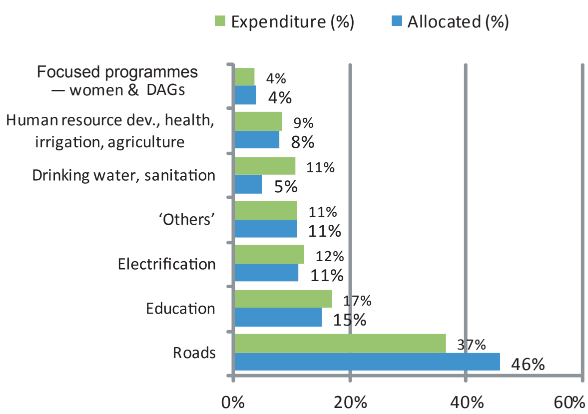
Box 6.3: Dealing with unspent money

DDC and VDC key informants said it was common practice for VDCs to manipulate their account books to avoid losing unspent block grant money at the end of the fiscal year. They did this by transferring residual amounts for on-going projects into non-freezing accounts in contravention of the regulations. Another common practise is to divert unspent money to pay teachers' salaries whilst recording the expenditure to another purpose.

In some instances VDCs should not be blamed for this as, as in 2007/ 08 where the third trimester funds were released very late, it was not possible for VDCs to spend their block grants on time.

The focused programmes for women and disadvantaged groups accounted for only 3.8% of capital block expenditure in 2006/07 and 2007/08 — much less than the 18.75% called for in the guidelines. A major reason for this is probably the study finding that very few people know about this provision of the guidelines. The amounts spent were almost the same as allocated in the VDCs' plans.

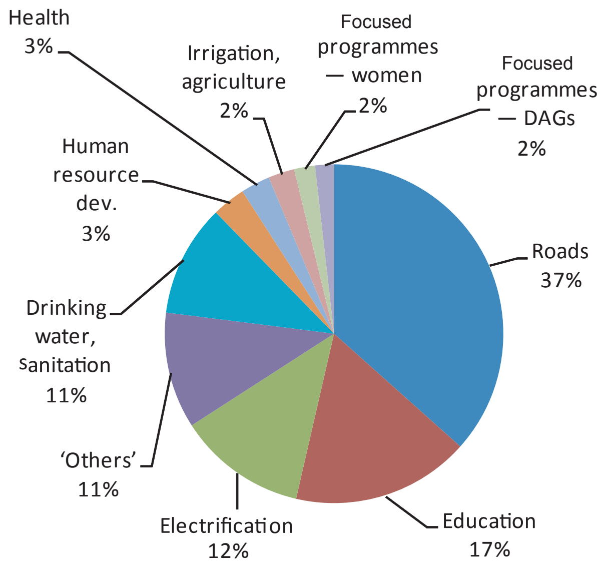
Figure 6.7: Average sectoral allocation and expenditure of VDC capital block grants (NR yearly average – 2006/07, 2007/08)



Source: VDC records (2008 survey)

A large amount of expenditure (11.1%) was recorded as 'Others' in VDC records (Table 6.2). Most of this went to payments to encourage women to give birth in health facilities, additional social security payments, and other VDC administrative costs such as printing, plan preparation and logistics support and other project costs.

Figure 6.8: Average sectoral expenditure of VDC capital block grants (NR yearly average — 2006/07, 2007/08)



Source: VDC records

The data in Table 6.2 shows considerable differences in the amounts allocated in VDC plans and the amounts actually spent. The amount spent on road building was considerably less than allocated whilst that spent on drinking water and sanitation was almost twice the allocated amount.

Other studies (CEDA 2007) have found that socially mobilised communities tend to make better use of their VDC block grants and also attract more matching funds from other sources — donor projects, INGOs, Government line agencies and other funding agencies — compared to non-socially mobilised communities.

User contributions — Project beneficiaries are required to contribute to project costs in the form of cash, labour or materials. The study found that they had contributed 33% of the costs of the 25 case studies documented by this study and published as a separate volume.

6.4 Beneficiaries

Beneficiaries and project costs — The study VDCs funded an average of 12 new projects from their block grants each year. VDC records showed that the number of planned individual beneficiaries from the 4,890 projects would be 748,356 once all the projects are completed. This gives a theoretical average number of beneficiaries per year of 1,853 community people per VDC. Box 6.4 shows the per capita cost of VDC projects.

Box 6.4: Per beneficiary cost of VDC block grants projects

The VDC records showed:

- For 2006/2007 and 2007/2008 — 4,890 VDC projects with 748,356 intended beneficiaries giving an average of 153 beneficiaries per project and 3,705 beneficiaries per VDC.
- Each VDC spending on average NR 746,634 per year of their capital block grants for 1,852 beneficiaries per year.
- The theoretical investment per beneficiary per year was therefore **NR 403**.

Women and disadvantaged group beneficiaries — The study found that the targeted populations of women and disadvantaged group people had benefited from income generating projects, group formation for social mobilisation and savings and credit, adult education and community health services.

Whilst many household respondents expressed mixed feelings on spending VDC block grants on projects focused on benefiting women and disadvantaged group people, 26% of household respondents (probably these people themselves) said that women and disadvantaged group people were discriminated against with the benefits being captured by already better-off people.

6.5 Monitoring and reporting systems

The LSGA and LSGR and block grant guidelines say that VDCs should monitor the implementation of projects they fund. They call for projects to be monitored by the VDC, DDC, local members of parliament (MPs), MoLD, MoF and NPC and by public auditing.

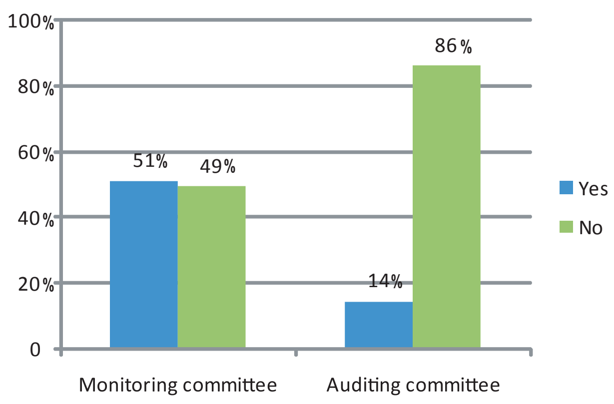
However, the study found that the trimesterly and annual progress reports VDCs submit to DDCs often fail to report on the status of projects. It also found that 7% of VDCs had no system for monitoring project implementation. Such monitoring is crucial to facilitate timely correction and improvements based on feedback.

The bodies responsible for implementing VDC block grant projects — user committees, community-based organisations and NGOs — are required to record the funds received and to submit documents, bills, receipts and progress reports to the VDC committee (LSGR Clause 67). Household survey respondents said that this only happened for 60% of projects. These respondents also said that just over a half of study VDCs had formed project monitoring committees in 2007/08 and only 18% had auditing committees (Figure 6.9).

Other related findings were as follows:

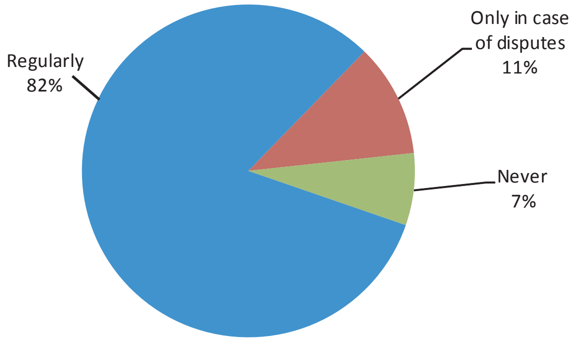
- The key informants said that the monitoring of project implementation was dominated by men and non-DAG people, with only about 8% of monitoring being done by women and 7% by disadvantaged group people (see Figure 6.2 above).
- VDC secretaries reported that 82% of VDCs monitored the implementation of projects regularly (Figure 6.10). In all, 62% of study VDCs had monitored the implementation of more than six projects, 13% had monitored between 4 and 6 projects and 25% between 1 and 3 projects in 2006/07 and 2007/08.
- Only 52% of household respondents said that VDC staff and VDC representatives were involved in monitoring projects.
- Fifty-two percent of surveyed households said that some kind of monitoring of project implementation by local people had taken place in the two years under review, whilst 20% said it had not.
- None of the VDC secretaries, household respondents or key informants knew of DDCs or parliamentarians monitoring VDC level projects.

Figure 6.9: VDC monitoring and auditing sub-committees existing in 2007/08



Source: Household survey, 2008

Figure 6.10: How often VDCs monitor block grant project implementation

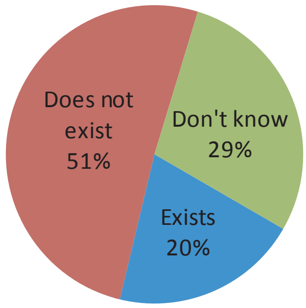


Source: VDC secretaries survey, 2008

6.6 Project maintenance and repair

To safeguard the large investments, it is crucial that provision is made for maintaining VDC physical infrastructure projects. However, a half of household respondents said that there was no system for maintaining and repairing VDC block grant projects (Figure 6.11).

Figure 6.11: Maintenance and repair system in place for VDC projects (% as of December 2008)



Source: Household survey, 2008

Twenty-eight percent of key informants reported the existence of maintenance and repair funds for completed projects. These funds are collected by charging fees and service charges. DDC officials in the focus group discussions said that community participation in maintaining infrastructure was relatively better in the socially mobilised VDCs.

Key informants said there was only 9% women's involvement (see Figure 6.2 above) and 12% disadvantaged group people's involvement (see Figure 6.3 above) in maintaining VDC-implemented projects.

6.7 Accountability and transparency

VDC accountability — VDC secretaries are solely responsible for VDC accounting and financial reporting even when elected representatives are in post. This work is governed by the LSGA and its rules (1999), the Local Body Financial Administration Regulations (2007) and the VDC Block Grant Guidelines, 2006. VDCs are supposed to submit trimesterly and annual financial statements to their DDCs and audited financial statements and reports to their councils.

The study found that none of the 202 VDCs had trained staff to help manage their finances resulting in proper procedures rarely being followed. Also, the researchers saw that in most cases, VDC secretaries were reluctant to publicise the details of their VDC's finances (see figure 6.11 above). Many focus group discussion participants and key informants said that the general insecurity, and in particular the danger of extortion in the Terai, was a major cause of this.

DDC and VDC auditing — Although the Financial Administration Regulations require VDC accounts to be internally and externally audited:

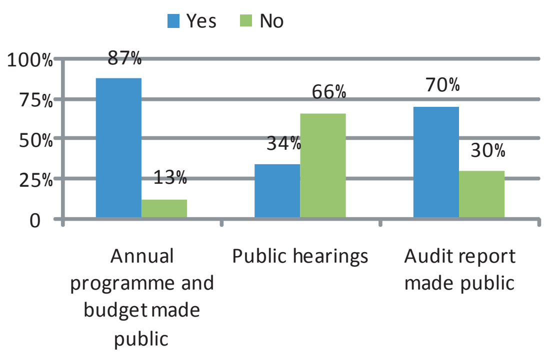
- 81% of study VDCs lacked audit committees (as reported by VDC secretaries) whilst 86% of household respondents reported the same thing (see Figure 6.9 above).
- Internal auditing had been completed in only 87% of the 202 VDCs in 2006/07 and in 65% of the VDCs in 2007/08.
- The final audit had been completed by 83% VDCs for 2006/07 and 37% of VDCs in 2007/08. (In the later case VDCs still had time to complete their final audits).

The study team perceived that VDC external and internal audits were usually carried out as a formality with more emphasis on verifying budget disbursements and expenditures and on vouching for financial transactions than on checking the authenticity of expenditure.

Public hearings and auditing

The VDC Block Grant Guidelines, 2006, and the Local Body Financial Administration Rules, 2007, say that local governments should hold public hearings and make public their annual programmes and audit reports to expose mismanagement, prevent corruption and promote transparency in VDC expenditure and decision-making. However, only a third of study VDCs had held public hearings in 2006/07 and 2007/08 and only 70% had made public their annual programmes, budgets and audit reports (Figure 6.12).

Figure 6.12: Secretaries' perception on status of transparency in VDC affairs (2006/07, 2007/08)



Source: VDC secretaries survey, 2008

6.8 Conclusions

The study found that:

- Most VDC capital block grant expenditure went to road building (37%), education (17%), electrification (12%) and drinking water and sanitation (11%). In all 62% of expenditure went to physical infrastructure projects.

- Only a third of VDC funded projects were completed on time. The main reason was said to be the late receipt of funds.
- Only a half of study VDCs had project monitoring committees whilst the same proportion of household respondents said that local people were involved in monitoring project implementation.
- Women and disadvantaged group people were only minimally involved in monitoring the implementation and maintenance of projects, although they were adequately represented on user committees.
- Only a half of households said there was a system for maintaining and repairing VDC block grant projects.
- Most VDCs lacked auditing committees and a number had failed to have their accounts audited.
- Many VDCs failed to hold public hearings and to make public their audit reports.

7 CONCLUSIONS AND RECOMMENDATIONS

This final chapter gives the main conclusions from the study and presents recommendations for overcoming the main constraints and challenges for improved VDC governance for improved block grant use. Part 2 of this document presents a strategy-cum-action plan for the implementation of the recommendations.

7.1 Overall impact of VDC block grants

The greatly increased amounts of Government money going directly through block grants to the local level to spend on local development has been a key factor in Nepal's good progress since the mid-1990s on reducing poverty and achieving the Millennium Development Goals.

Although the majority of expenditure in the study VDCs did not go directly to achieving the MDGs, there is a strong case to make that the 49% of the block grant expenditure that went on road building and electrification will have had a large impact on reducing poverty and accelerating progress towards the MDGs. Improved road networks make it easier for local people to market their products and move for work whilst also increasing local land values. Rural electrification provides power for local enterprises, for children to study and for health facilities to operate more effectively.

7.2 VDC functioning

Absence of elected VDC and ward committees — The absence of elected VDC committees since 2002 has led to reduced community participation in local government.

- Recommendation: Establish interim local government bodies according to the Interim Constitution 2007.

Over-burdened and often absent secretaries — VDC secretaries have a difficult job because of their multiple responsibilities, inadequate support, security concerns, and undue political influence. This has caused many secretaries to base themselves outside their VDCs in the district headquarters. This has directly affected the participatory planning process as local people find it difficult to submit their plan and projects to their VDCs. Also, many VDC secretary positions are vacant.

- Equip all VDCs with adequate trained staff and provide them with adequate security.
- Fill all vacant VDC secretary positions.
- Where appropriate, upgrade the position of VDC secretaries in VDCs where they have particularly large responsibilities.
- Rebuild and rehabilitate VDC buildings to provide a convenient working environment.

Support for secretaries — Most VDC secretaries lack adequate support to manage their many tasks, especially for maintaining VDC accounts. Only a few VDCs have technical assistants for implementing infrastructure projects and most rely on DDC technicians. But DDC technicians are often unavailable delaying project implementation, monitoring and final bill clearances for VDC block grant projects. This has led to poor performance in VDC transparency, information dissemination, accountability and project implementation.

- Appoint an accountant in each VDC and a technician (at least a sub-overseer) in a single VDC or cluster of VDCs based on VDCs' resources and work volume.
- Provide adequate training opportunities for secretaries and other VDC support staff.

Fund flow mechanism — The delayed release of funds to VDCs in 2006/07 and 2007/08 hampered their work.

- Make district treasury offices release funds directly to VDCs.
- Ensure that VDC block grant funds are released on time at the start of each trimester by simplifying the process for releasing the second and third trimester money.

Amount of block grants — From fiscal year 2007/08 the amount of the block grant is no longer fixed at one rate but is according to VDCs' performance and the local costs of goods and other factors. This should encourage VDCs to better implement projects.

7.3 The planning of VDC projects

Beneficiaries as silent observers — Community participation in planning and project implementation promotes the transparent use of VDC funds. However, the absence of functioning ward committees has resulted in the bypassing of important steps in the planning process. This has allowed non-accountable political forces to influence planning and has restricted transparency in the planning and use of VDC block grants. The study found community meetings, ward assemblies and even CMC meetings to be dominated by local politicians and local elites. The project beneficiaries and the general public mostly attended mass meetings, including VDC councils, as silent observers neither effectively requesting projects nor taking part in decision making.

- Increase the awareness of the general public about VDC functions and strengthen participatory bottom-up planning and the dissemination of information by VDCs.

Domination by local politicians — The absence of elected local bodies has led to the emergence of unaccountable political forces in local government. This has undermined participatory bottom-up planning.

- Institute interim VDCs to give legitimacy to political parties' participation and to ensure that politicians act as facilitators for participatory bottom-up planning.

Delays in VDC council meetings — Delayed VDC council meetings for approving the annual programmes and budgets leads to delays in releasing of block grant funds to VDCs.

- Ensure that VDCs hold their council meetings to approve the coming year's plan and budget before the start of the coming fiscal year to facilitate the timely release of block grant funds.

Planning process — The absence of elected VDC and ward committees has resulted in the bypassing of important steps in the planning process especially participatory bottom-up planning. The study found that community meetings and ward assemblies often did not serve as platforms to identify and prioritise local needs to feed into VDC's village development plans for the following year. This minimal involvement of beneficiaries has led to poor performance in project implementation and the sustainability of projects outcomes.

- Develop sequential procedures and formats for VDC planning starting from the settlement and ward level.
- Develop practical guidelines for involving NGOs, CBOs, and community organisations in VDC planning and projects.
- Provide VDCs with adequate physical and human resources including trained staff and officials to enable them to cope with planning, budgeting and accounting.

7.4 Block grant use

Increase internal revenue — Many VDCs generate limited amounts of internal revenue.

- Improve working procedures in VDC offices (computerisation if possible, if not possible then improve record keeping).
- Encourage the payment of service fees by project beneficiaries.
- Encourage the more effective collection of land taxes and other taxes and fees.

Teacher’s salaries — Large amounts of VDC block grant are spent on teachers' salary with much of this happening by adjusting the accounts and showing it as other expenditure.

- Prevent false accounting and ensure that the new limit on the amount of block grant that can go for teachers’ salaries is adhered to.

User committee functioning — User committees are responsible for implementing most VDC level projects. However, their limited capacity to identify needs, plan, budget, implement, book keep and share benefits seriously hinders the effective use of block grants. They lack knowledge on financial procedures, regulations and accounting practices leading to the possibility of mismanagement, misappropriation and fund manipulation.

- Provide at least two-day training courses to user committees on project management including on project execution, monitoring, accounting and reporting.
- Simplify the financial rules for VDCs and user committees to facilitate procurement at the local level.

Limited transparency and accountability — The limited transparency and accountability in the planning and implementation of VDC projects is a serious concern to village level beneficiaries and other stakeholders. Information on expenditure is often lacking and audit findings are not made public. The performance of user committees was also said to be poor with regard to transparency and accountability. DDCs' internal auditing officers, with only one assistant, cannot be expected to properly handle the internal auditing of VDCs.

- Provide extra personnel for DDCs to carry out auditing.
- VDCs should maintain regular contact with user committees.
- VDCs should carry out regular social/ public audits.
- Fix a minimum audit standard for VDCs.

Account keeping — Complicated accounting procedures, with VDCs having to maintain four kinds of ledgers (‘Ga 4’), hinders account keeping. In addition, the fixed timing before block grant money is ‘frozen’ (lost and returned to the central treasury) is a challenge in the High hill districts where implementation is difficult during the severe winter weather.

- Simplify the format for VDC account keeping to make it easier to maintain.
- Adopt the extended financial year for the non-freezing of block grant money as already practiced in the Karnali Zone and Bajura.

Not enough focused programmes for disadvantaged groups — The failure to run enough focused programmes for disadvantaged group people is probably due to the poor representation of women and disadvantaged group people in project selection.

- Increase the active involvement of women and disadvantaged group people in VDC planning, project implementation, monitoring and auditing.
- Support VDCs to identify the needs of DAGs and women and to facilitate the implementation of focused programmes.

Conflicting other legislation — Legislation in nine acts conflicts with provisions in the LSGA.

- Amend the clauses of the nine acts that contradict provisions in LSGA. It is most critical to amend the Forest Act as it seriously contradicts the LSGA.

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PART 2

STRATEGY FRAMEWORK FOR THE MORE EFFECTIVE USE OF VDC BLOCK GRANTS

STRATEGY FOR THE MORE EFFECTIVE USE OF VDC BLOCK GRANTS

The study of 202 representative VDCs by Inlogos in December 2008 and January 2009 showed that major policy reforms are needed to ensure the efficient and effective expenditure of VDC block grants and other VDC revenues. The study team proposes governance, planning, implementation, inclusion and resource mobilisation changes through the following 10 strategies, 23 policies and 71 policy instruments. Most of these policy instruments can be acted upon before interim local government bodies come into being.

Strategy	Policies	Policy instruments	Implications	Timing	Responsibility
Objective 1: Ensure timely availability of block grant funds for VDCs and the effective management of these funds					
1.1. Promote fiscal autonomy of VDCs to explore local level resource opportunities	1.1.1 Authorise VDCs to fix tax rates, fees and service charges and identify and access other external sources of funding	i) Amend clauses 55, 56, 57 and 58 of LSGA and rule 70 and 71 of LSGR, to give autonomy to VDCs in fixing taxes, fees and service charges. Also amend clauses 61.1 and 63.3 of LSGA on account operation (not applicable at present)	To help VDCs widen their resource base and increase their incomes, thus strengthening their fiscal autonomy.	Within a year	MoLD/GoN, MoF, MoLJCA
		ii) Extend the scope of intergovernmental fiscal transfer to VDC through revenue sharing by incorporating house/land registration fee, mine, forest and water resources royalty, and tourism entry fees (clause 220 of LSGA and formulate new rule in LSGR) for revenue sharing		Within a year	MoLD/GoN, MoF, NPC and concerned line ministries
		iii) Introduce a system whereby VDCs with genuinely small internal revenue generating capacities get higher levels of block grants.			
1.2 Streamline the system of intergovernmental fiscal transfers to VDCs	1.2.1. Refine and follow formula-based grant system	i) VDC funding criteria based on population, geographic area, and socioeconomic status (DAG) was introduced in 2008/09. Within this formula more weight should be given to socioeconomic status.	To strengthen VDCs' ability to fund local development.	Within six months	MoF, MoLD/GoN, NPC, DDCs
	1.2.2. Adopt performance based funding system for VDCs	i) Implement VDC block grant support on the basis of VDCs' classification as specified in clause 20 of LSGA and rule 4 of LSGR.	To encourage better VDC performance including better use of VDC block grants.	Within a year	MoF, MoLD/GoN, NPC
		ii) Develop indicators for additional funding to VDCs based on following performance measures: a) timely compliance with plan/budget formulation cycle, b) mobilisation of internal resources, c) management of resources and transparency in decision making and income and expenditure, d) accountability to local people.		Within six months	MoLD/GoN, NPC, NAViN, ADDCN

Strategy	Policies	Policy instruments	Implications	Timing	Responsibility
	1.2.3. Simplify the process of VDC block grant disbursement	i) Develop modalities for when VDCs provide matching funds from their block grants to development programmes/projects run with funding from INGOs, donor agencies, Government agencies and other organisations.	To enable VDCs to receive funds on time and better manage their finances including tracking receipts and expenditure. This in turn will facilitate project implementation by making funds available on time and will encourage and enable transparent accounting.	Within six months	MoLD/GoN, NAViN
		ii) Comply with the LSGA provision for VDC council meetings to approve annual plan and budget before new fiscal year begins to facilitate the timely release of VDC block grant funds		As per LSGA/LSGR	VDCs, MoLD/GoN, DDCs
		iii) Make district treasury offices (DTOs) release funds directly to VDCs by incorporating this provision in LBFR, 2007 and redefine the role of DDCs in controlling block grant funds.		Within a year	MoF, MoLD/GoN, FCGO
		iv) Ensure adequate and timely release of block grant funds to user committees by VDCs and the settlement of advances by user committees on time.		On-going	MoF, MoLD/GoN, DDC, VDC
		v) Extend banking services to VDCs for operating block grant funds disbursed directly from DTOs.		Within two years	MoF, MoLD/GoN, NPC, Nepal Rastra Bank
1.3 Ensure accountability and transparency in the use of VDC block grants	1.3.1. Develop modality to ensure VDC fiscal accountability and transparency mechanism	i) Improve VDC accounting systems to separate recurrent and capital expenditures by developing appropriate formats including sectoral expenses.	To ensure that VDC funds are spent on their planned purpose and to prevent mismanagement and misuse of funds.	Within six months	MoF, MoLD/GoN, FCGO, AGO
		ii) Develop a manual detailing procedures and formats for public auditing and public hearings.		Within six months	MoLD/GoN, DDCs
		iii) Enforce timely internal auditing.		Within six months	MoF, MoLD/GoN, DDCs, FCGO
		iv) Develop separate auditing standards for VDC.		Within six months	MoLD/GoN, DDCs, FCGO, AGO
		v) Simplify the existing financial rules for VDC and user committees to facilitate procurement at the local level.		Within six months	MoLD/GoN, DDCs, VDCs
		vi) Develop procedures for settling auditing irregularities.		Within one year	MoF, MoLD/GoN, DDCs, VDCs, FCGO, AGO

Strategy	Policies	Policy instruments	Implications	Timing	Responsibility
Objective 2: Ensure good governance in VDCs for effective use of block grants					
2.1 Increase the participation of stakeholders in the use of block grants	2.1.1 Enhance VDCs' capacity to use block grants and implement projects	i) Amend sectoral acts that contradict LSGA functioning: Forest Act; Vital Registration Act; and Financial Procedures Act. Other acts that need amending are the education, health, electricity; and land use and management acts. VDCs located in protected areas buffer-zones need amendments made to the National Park and Wildlife Protection Act.	To help institutionalise the devolution of local governance and develop VDCs as a focal point for local development. This will also induce harmony among agencies working at the field level and support the more integrated use of resources.	Within a year	MoLD, MoLJCA, sectoral ministries/GoN, DDCs, VDCs
		ii) Develop practical guidelines to complement, supplement and integrate NGO, CBO and CO activities with VDC activities.		Within six months	MoLD/GoN, MoWCSW, DDCs
		iii) Prepare inventories of VDCs' natural, human, financial and institutional resources.		Within one year	VDCs, DDCs, MoLD/GoN
	2.1.2 Ensure provision made for maintenance and repair of projects in the planning process	i) Provide technical support to estimate the availability of total VDC resources (including internal resources) in advance.	For the sustainable operation of VDC projects. This will also promote ideas for charging service fees from the operation of VDC block grant projects.	Regular	VDCs, user committees, community organisations (COs), DDC backed by MoLD/GoN, VDCs
		ii) Provide information on allocation of budget to communities including the provision for maintenance and repair.			
	2.1.3 Enhance the capacity of VDC officials, user committees and other stakeholders	i) Promote sectoral investment for VDC level development through public-private partnerships by developing a public-private policy on this subject.	To facilitate VDC stakeholders to carry out their responsibilities including improving local services and infrastructure and implementing projects. Enhancing the capacity of user committees will improve local ownership of VDC projects and lead to more maintenance and repair of infrastructure projects.	One year	DDCs, line agencies, FNCCI
		ii) Simplify, refine and make user-friendly the manual for user committees on their functions, roles and responsibilities.		Within six months	MoLD/GoN, ADDCN
		iii) Provide at least 2 days' orientation/training to user committees on project management.		Regular	MoLD/GoN, DDCs, VDCs
		iv) Carry out an organisation and development study of Nepal's VDCs, and, based on this, provide necessary staff and technical support to enable VDCs to cope with their planning, budgeting and accounting responsibilities.		Within one and a half years	MoLD, MoGA, MoF/GoN, DDCs

Strategy	Policies	Policy instruments	Implications	Timing	Responsibility
2.2 Strengthen participatory decision making in VDCs	2.2.1. VDCs to carry out improved bottom-up planning from the ward level up	i) Train/orient VDC staff on planning, budgeting, account keeping processes and monitoring and evaluation.	This will help to identify the real needs of local communities and support the best use of resources.	Regular	DDCs, MoLD/GoN
		ii) Provide basic technical training on local level infrastructure projects to beneficiaries.		Regular	DDCs, DOLIDAR, MoLD/GoN
		iii) Develop formats of sequential procedures for ward level planning process.		Within six months	DDCs, VDCs
		iv) Develop formats at VDC level to consolidate ward level project proposals.		Within six months	DDCs, VDCs
		v) Develop periodic village development plan.		Within two years	VDCs
	2.2.2 Increase the participation of community organisations (COs), CBOs and NGOs in VDC planning and decision making	i) Refine the block grant guidelines to involve COs, CBOs, and NGOs in VDC planning.	For more integrated and coordinated rural development activities at VDC level and to improve the use of resources and avoid duplication of efforts.	Annually	MoLD, NPC, MoF, GoN, DDCs, VDCs
		ii) Provide orientations and training to VDC officials on new planning guidelines and formats.		Immediately and regularly	DDCs, VDCs, MoLD/ GoN
		iii) Develop standard ToRs for the participation of COs, CBOs, and local NGOs in VDC development programmes.		Within six months	DDCs, VDCs, SWC
		iv) Develop a networking mechanism among COs, CBOs, user committees and other stakeholders to share experiences and facilitate the effective use of VDC block grants.		Within one year	DDC, VDC
	2.2.3 VDCs to make their plans and programmes according to available resources including those of other agencies working in the area	i) Inform VDCs about budget guidelines and ceilings before their planning processes begin (from centre to VDCs and from VDCs to ward level project formulation committees, COs and CBOs).	To make the planning process more realistic.	Within six months	DDCs, VDCs, MoLD, MoWCSW
		ii) Ensure that VDCs have access to information on what resources they will get.			

Strategy	Policies	Policy instruments	Implications	Timing	Responsibility
2.3 Internalise gender empowerment and social inclusion in VDC block grant use process	2.3.1 Introduce a system to review if social inclusion and women's empowerment is internalised before finalising village development plans	i) Provide opportunities to local target groups to identify their priorities.	To help VDC programmes better target the needs of women and DAGs and to facilitate the implementation of the required volume of focussed programmes.	Within six months	DDCs, VDCs
		ii) Allocate funds to hire representatives from targeted groups to oversee implementation of VDC programmes.			
		iii) Strengthen support provided by DDCs to VDCs to make their programmes inclusive.		Regular	DDCs, VDCs
	2.3.2 Ensure the quality participation of women and disadvantaged people (DAGs) in block grant use	i) Provide basic training on VDC block grants and their use to targeted communities.	To make VDC programmes better target the needs of women and DAGs and to facilitate the implementation of the required number of focussed programmes.	Within a year	MoLD/GoN, DDCs, VDCs
		ii) Promote awareness and advocacy programme to ensure inclusive participation in block grant projects.		Within a year	MoLD/GoN, DDCs, VDCs
		iii) Develop technical norms for monitoring the extent to which projects benefit women and disadvantaged group people.		Within a year	MoLD/GoN, DDCs, VDCs
	2.3.3 Integrate women and DAG supported sectoral programmes at VDC level	i) Orient VDC secretaries to facilitate women and DAGs to identify and implement targeted programs.	For the more efficient and effective use of resources for women and for DAG empowerment and socioeconomic development.	Within a year	MoLD/GoN, DDCs, VDCs
		ii) DDCs and development agencies should develop common implementation guidelines for benefiting women and DAG focused programmes in VDCs (they currently differ).		Within a year	MoLD/GoN, DDCs, line agencies, VDC
2.4 Establish monitoring systems that encourage ownership by local people of VDC block grant projects	2.4.1 Develop participatory monitoring of VDC projects	i) Produce a participatory monitoring manual with indicators and reporting formats	For less mismanagement and misuse of VDC project funds and for improved VDC project implementation.	Within six months	MoLD/GoN, DDCs

Strategy	Policies	Policy instruments	Implications	Timing	Responsibility
		ii) Introduce a system of minimum conditions for VDC functioning, including adequate participatory planning, to govern VDCs' access to higher levels of VDC block grant funding. Also, activate the supervision and monitoring of VDC functions by MoLD and DDC.		Within six months	MoLD/GoN, DDCs
		iii) Give legal status to a monitoring supervision system in VDC by revising LSGA and LSGR,		Within one year	VDCs, MoLD/GoN
		iv) Develop procedures and ensure participation of user committees, COs, CBOs and beneficiaries in project monitoring,		Within one year	VDCs
	2.4.2 Incorporate feedback mechanisms into project monitoring systems	i) Develop a strategic communication system between VDCs and user committees based on feedback mechanisms,	For improved project outcomes.	Within a year	MoLD/GoN, DDCs, VDCs
2.5 Strengthen governance practices with focus on transparency in VDC functioning	2.5.1 Hold elections or nominate political party representatives in VDCs to establish interim local bodies	i) Select only a few meritorious representatives of the political parties through political consensus to run VDCs.	Fundamental for providing more accountable and effective local Government and to go ahead with strengthening local government bodies.	Within six months	MoLD/GoN
		ii) Develop a code of conduct for VDC authorities.		Within six months	VDCs
		iii) Train nominated interim VDC officials before they assume office.			
	2.5.2 Ensure presence of VDC secretaries in their duty stations	i) Fill all vacant VDC secretary posts by: deputation or transfer of staff from government offices, recruitment from the Public Service Commission, or by maintaining a reserve pool of civil servants, or give authority to VDCs to fill these positions.	For all-round improvements in VDC functioning.	Within six months	MoLD, MoGA/GoN
		ii) Provide additional support staff to VDCs based on the internal resources they generate, their workload and other factors.		Within six months	MoLD, MoGA/GoN
		iii) Start an organisation and development study of VDC functioning on a pilot basis.			

Strategy	Policies	Policy instruments	Implications	Timing	Responsibility
		iv) Upgrade the civil service level of VDC secretaries in those VDCs with higher workloads/responsibilities and other factors.		Within a year	MoLD, MoGA/GoN, DDCs
		v) Rehabilitate rebuild VDC offices destroyed during the conflict.		Within a year	MoLD, MoF/GoN, DDCs
	2.5.3 Maintain transparency in VDC business	i) Use locally available communication media and local networking to help develop and maintain VDC transparency.	For the better use of VDC resources for local development and to ensure the proper use of funds.	Regular	DDCs, VDCs
		ii) Hold regular public hearings and public auditing on pre-fixed dates.		Regular	VDCs
		iii) VDCs to display their Citizens' Charter on their premises including in local languages.		Within six months	VDCs
		iv) VDCs make public their approved annual programmes, budget and audited financial statements.		Regular	VDCs
		v) VDCs to place a display board with all basic information at project sites.		Within six months	VDCs
		vi) VDCs to establish and operate information centres within their offices.			
	2.5.4 Formalise VDC functions	i) Support VDCs to develop by-laws, regulations, and guidelines for uniformity and streamlining their functions.	To help institutionalise democratic participatory development in VDCs as per the spirit of the LSGA and for more sustainable development through the more efficient use of VDC block grants.	Within six months	MoLD, DDCs, VDCs

Strategy	Policies	Policy instruments	Implications	Timing	Responsibility
2.6 Prepare a framework for disseminating information on VDC block grants	2.6.1 Develop a national information technology for VDC, programme in selected districts on a pilot basis	i) Develop a national network and computerised system including a treasury system at the central level on block grants use.	To facilitate the timely availability and flow of information, which in turn will enable planning and the improved flow of funds to VDCs and all-round sharing of information.	Within one and a half years	MoLD, MoIC, MoF, FCGO
		ii) Set-up a series of information outlets including public phone (STD/PCO) booths and community radio for disseminating information and making available information on VDC block grants use.		Long-term	MoLD, MoIC, the private sector
		iii) Encourage Nepal Telecommunications Corporation to provide phone lines and Internet access across the country to facilitate networking across DDCs and VDCs.		Within one and a half years	MoLD, MoIC, MoF, DDCs, VDCs
	2.6.2 Mobilise local print media on block grant activities	i) Disseminate information on block grants use in local newspapers, magazines and FM radio.	To make information on VDC affairs available to local people for greater people's participation and the better implementation of block grant projects.	Within one and a half years	DDCs, VDCs
		ii) VDCs to issue wall posters and leaflets on block grants use.		Within one and a half years	DDCs, VDCs
Objective3: Regular assessments of the use of block grants					
3.1 Regularly assess the use of VDC block grants	3.1.1 Carry out a large study using the same methodology and a similar sample	iv) Carry out assessment.	To enable progress to be gauged.	Five yearly	MoLD