

# **Joint Government/Donor Review of the Nepal Peace Trust Fund**

## **External Review Report**

*Final Version*

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## Joint Government/Donor Review of the Nepal Peace Trust Fund

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## Acronyms

CA	Constituent Assembly
CAP	Conflict Affected Person
CD	Capacity Development
CoD	Commission on the Disappeared
CPA	Comprehensive Peace Accord
CPN- UML	Communist Party of Nepal- Unified Marxist Leninist
CSO	Civil Society Organisation
DG	Donor Group
DTCO	District Treasury Controller Office
EPSP	Emergency Peace Support Project (World Bank)
EU	European Union
FCA	Foreign Currency Account
FCGO	Financial Comptroller General's Office
FM	Financial Management
FMO	Financial Management Officer
FMRs	Financial Monitoring Reports
FPR	Financial Procedures Rule 2007
FPA	Financial Procedures Act 2005
GoN	Government of Nepal
GoN-DG	Government of Nepal – Donor Group
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IAP	Immediate Action Plan
IAs	Implementing Agencies
IDPs	Internally Displaced Person(s)
I/NGOs	International/Non-Government Organizations
JFA	Joint Financing Arrangement
LPCs	Local Peace Committees
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MoPR	Ministry of Peace and Reconstruction
NAP	National Action Plan
NC	Nepali Congress
NFDIN	National Foundation for Development of Indigenous Nationalities
NPTF	Nepal Peace Trust Fund
NPR	Nepali Rupees
OAG	Office of the Auditor General
PBIS	Performance Based Incentive System
PDS	Peace and Development Strategy
PFM	Public Financial Management
PFOR	Peace Fund (Operation) Rules, 2008
PFS	Peace Fund Secretariat
PMM	Project Management Manual
PPA	Public Procurement Act 2007

PPR	Public Performance Report
PPR	Public Procurement Regulation 2008
PSWG	Peace Support Working Group
Pro-Doc	Project Document
RC/HC	Resident Coordinator/ Humanitarian Coordinator (UN)
TC	Technical Committee
TC Pool	Technical Cooperation Pool
TOR	Terms of Reference
UCPN-Maoist	United Communist Party of Nepal - Maoist
TA	Technical Assistance
TRC	Truth and Reconciliation Commission
UDMF	United Democratic Madhesi Front
UNMIN	United Nations Mission in Nepal
UNPFN	United Nations Peace Fund for Nepal
UNSCRs	United Nations Security Council Resolutions

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Our field trips to Sindhuli and Morang were successful due to the kind generosity of communities and officials for their time and efforts to contribute to this Review. We would like to thank Mohan Prasad Dhakal of the GIZ team in PFS for organising our schedule and actively supporting us on logistics. We also thank our designated driver Mr. Gopal Byanjankar for getting us from A to B, with very good grace, not only during our field visits but for the many meetings in Kathmandu.

## EXECUTIVE SUMMARY

This *2012 Joint Government Donor Review of the Nepal Peace Trust Fund (NPTF)* is the second external review of the Fund with the first having been completed in early 2010. This Review was tasked to (1) Assess the relevance and effectiveness of NPTF as an instrument in the current phase of the peace process (2) Assess the strengths and weaknesses of the NPTF's governance, technical and financial management structures and processes (3) Assess the impact of NPTF and NPTF funded projects on the peace process, and (4) Provide recommendations on the above and advise Government of Nepal (GoN) on a potential NPTF extension beyond Jan 2013.

The team fielded for the Review included Eleanor O'Gorman Bhojraj Pokharel, Namrata Sharma, Pratap Prasad Pradhan and Petter Bauck. The Team undertook 3 weeks of mission and field work in Nepal. We interviewed a wide range of government officials, political party leaders, donor representatives and civil society representatives. Two short field visits to review projects and meet with community groups and district administrators were undertaken in Sindhuli and Morang. This included meetings with Local Peace Committees (LPCs) and a visit to a reconstructed police unit.

The NPTF is a joint government-donor initiative that is operated by the Peace Fund Secretariat (PFS) of the Ministry for Peace and Reconstruction (MoPR) to provide support to the on-going Peace Process. As such it remains unique among internationally established peace trust funds. It currently funds projects in 4 Clusters: Cantonment Management and Integration/Rehabilitation of Maoist Army Combatants; Assistance to Conflict Affected Persons /Communities; Promotion of Security and Transitional Justice; Support to Constituent Assembly, Elections and Peace Building Initiatives on National and Local Levels. A fifth cluster operates as a cross-cutting theme in the form of Reconstruction of Public Infrastructure damaged during the conflict.

By February 2012 it had a portfolio of 42 projects: 18 ongoing; 24 completed; 25 in pipeline. Since 2007, it has administered approximately 10.5bn npr/ \$130m . Based on figures from November 2011 the present status of the Fund is that US\$ 41.79 million (projections of US\$ 180.80 less approved budget for projects US\$ 139.01) is available for the projects in pipeline.

The relevance of effectiveness of NPTF as an instrument for supporting the Peace Process has to be considered within an understanding of the current status of that Peace Process and the conflict and peace dynamics that exist in Nepal now and in the coming years. As a peace instrument and post-conflict funding mechanism NPTF is tied to the political process – it emerged in response to it. At this juncture in the Peace Process and 5 years of NPTF operations, the Review found different opinions among many interlocutors about (a) the conclusion of peace process and what constitutes an end point, and (b) what constitutes 'transition' in terms of international support and the move to longer term development and 'business as usual'. The all-party 7 point agreement of November 2011 has brought about the widespread use of the term 'logical conclusion to the peace process', referring to the achievement of key benchmarks. These include (i) the closure of the Cantonments and integration of former combatants, (ii) the completion of a draft constitution that at the very least outlines a federal republic and enshrines key rights and concerns of equity, equality, ethnicity, and inclusion (iii) preparation and conduct of national elections for a new government under the new constitution.

In the Review, many respondents from political parties, donor representations, government bureaucracy and civil society were very strong in the view that the drafting of a constitution and new elections would simply be the beginning of real peace building and recovery for the country. Indeed many concerns were expressed that the achievement of these milestones in themselves would bring

new tensions and potential conflicts as issues of identities, rights, land, federalism, livelihoods, community reintegration and recovery and demand and access to public services all surfaced as people faced the realities of living and building the peace when all agreements were made.

It was with this crossroads in mind that the Team considered its analysis and recommendations.

Since the 2010 Review, NPTF has been strengthening its internal working and consolidating its institutional mechanisms. In seeking to strengthen the effectiveness of the NPTF the Review has sought to clarify structures and roles and suggest some modifications to procedures. This means allowing the relatively recent changes of governance and process to consolidate rather than propose radical changes. However, this consolidation of governance needs to be accompanied by a shift of focus to external actions and relations to project the work and influence of the Fund. This is reflected in the recommendations of this Review that emphasise

- an urgent need to build core project and financial management capacities of PFS to strengthen its operational base
- a focus on NPTF as a statebuilding initiative to enhance the role of the state in peacebuilding while seeking ways to better engage civil society and find synergies with other peacebuilding initiatives
- the continuing need to better integrate cross-cutting issues of conflict-sensitivity, gender and inclusion
- communications and outreach with the public, civil society and wider government in terms of line agencies and other implementing agencies
- Strategic lift in terms of utilising the existing entry points to envision greater impact over the next 5 years; these include the Board, MoPR, and GoN-DG meetings and relations.
- greater coordination in terms of support and engagement with implementing agencies to improve quality and demand of projects and improve overall mapping and information sharing on peacebuilding initiatives by MoPR including bilateral and multilateral channels.

Public Financial Management receives strong attention in the report with some 20 recommendations on strengthening compliance with the Joint Financing Arrangement (signed by GoN and Donors in November 2010), urgently addressing capacity gaps in the Peace Fund Secretariat, and clarification of procedures and reporting.

Overall, the Review provides analysis on the thematic areas of the ToR and seeks to reflect achievements and strengths while making practical and constructive recommendations for enhancing governance, strategy, quality of projects, financial management, results and impact, coordination, role of civil society, gender and inclusion, conflict-sensitivity, and Government-Donor relations.

## **Recommendations of the 2012 Joint Review of NPTF**

The abbreviated version of the final recommendations is set out here. The fuller details of each Recommendation are found in the main report and should be referred to for follow-up purposes.

### **Extension of NPTF**

1. This Review recommends that NPTF is extended for 5 years until 2018 to provide a credible and predictable framework for supporting the ongoing peace process and taking stronger initiatives on mid to long-term peacebuilding. All other recommendations work to support this extension and strengthen the effectiveness and impact of the NPTF

## Governance and Institutions

2. The Board should focus on strategic guidance and guidelines for prioritization, based on the CPA as well as information on the total engagement in support of the peace process by the donors. The Concept Notes should be approved by the Board based on the recommendation of the Core Cluster. To relieve the Board from the detailed project discussion, the authority to approve Project Documents should be delegated to the Technical Committee.
3. The Technical Committee should, based on input from the Sector Clusters, make a final scrutiny of projects with a focus on key cross-cutting issues and financial management, as the basis for final approval. Furthermore the TC should engage in strengthening the active participation of the Line Agencies in the GoN as implementers, and a range of civil society actors.
4. The Core Cluster should remain a key in securing that the Sector Clusters work in accordance with the overall guidance and priorities set by the Board. The Core Cluster should be the main body under the MoPR to assure the best possible coordination of the total engagement towards the peace and transformation process in Nepal and regularly report to the Board as well as to GoN and the donors.
5. The Sector Clusters should remain the first level of scrutiny of projects according to set guidelines and priorities. A dedicated project officer in PFS should support each cluster and its convener. Cluster members should participate in follow up missions and monitoring visits.
6. The PFS should be staffed to be able to fulfill its role as secretariat for the different bodies governing NPTF in addition to managing the follow up of projects financed under NPTF. To strengthen PFS capacity, *4 programme officers* (one for each Cluster) should be recruited as a matter of urgency. Additional capacities of *Finance management Communications Officer and Gender Focal Point* are recommended in the Review.
7. MoPR should give priority to examine the feasibility of a Performance Based Incentive System as envisioned by the Capacity Development Strategy for consideration by Cabinet. This should include an assessment of the experience, implementation and impact of incentive schemes in other parts of MoPR and other Government offices.
8. Stronger focus should be on dissemination of rules and regulations, and of progress in process and results of projects to different levels within Implementing Agencies as well as within the GoN in general.
9. Feedback to the Cluster members on the developments and results of projects could be systematized as part of the overall Information and Communication strategy recommended below.
10. An early identification of capacity available or needed by Implementing Agency to develop ProDoc should be addressed at Concept Note stage.
11. It is recommended that cross-cutting issues like gender, inclusion, risk and conflict-sensitivity, and the need for qualitative indicators are dealt with also at the Concept Note stage. Project documents should also clearly outline qualitative indicators. Baseline data should be included if possible so that change and results can more easily be tracked. The Sectoral Cluster and the Technical Committee should assure quality control of these issues.

## **Public Financial Management**

### **(a) Improvement of financial management system:**

#### ***Capacity***

12. The present strength for financial management in PFS should be increased to three staff, Financial Management Officer, Accounts Office and an Accountant.
13. The Project Management Manual should include a section on Financial Management for the benefit of PFS and the IAs. It should address terms and conditions of the JFA and PFOR.
14. Workshop/trainings to be held for the finance staff of IAs, representatives from the FCGO and OAG.
15. PFS to hold regular workshop/meeting with the finance staff of the IAs, FCGO, OAG to interact about the problems, issues, solutions on the financial management.
16. The present role of EU in improving financial management should continue until FM functions and M&E are strengthened.

#### ***Monitoring and Evaluation***

17. A framework of internal and external M&E for PFM should be established integrating where feasible and effective with the overall NPTF M&E framework.

#### ***Procedures and Reporting***

18. Cost estimates in the ProDoc should be shown for each year (if the project is for more than one year). Annual expenditure should be further broken down into estimated expenditure for each trimester. Estimated expenditure for each trimester should be the basis of budget release.
19. Budget release to the IAs should be done by MoPR on the recommendation of PFS. PFS should recommend budget release for each trimester unless the project can prove that it requires additional fund vis a vis trimester estimate given in the ProDoc with valid justification.
20. Financial Monitoring Reports should be produced every trimester. The central unit of the line agencies should be made responsible for producing these reports based on the reports received from the subordinate offices. PFS recommendation for issuing budget authority letter to MoPR for release of fund to the IAs for the following trimester should be done on the submission of FMRs and fund forecast for the next trimester by the IAs.
21. PFS is responsible for submitting deposit of fund in FCA certified by the FCGO (with bank statement) to the donor group Chairperson. This condition of JFA should be complied with. As FCA is outside the jurisdiction of PFS, it does not get timely information of fund movements in the FCA (from FCGO and Donors). FCGO and Donor should send a copy of each transaction in FCA (deposit and withdrawal) to PFS in time so that it is aware about fund flow in FCA.
22. PFS should prepare cash forecast for Donor share of fund for each trimester. Based on the forecast of funds required for the trimester, PFS should request FCGO to transfer funds from FCA to the government treasury. Delay in fund transfer has an impact on the liquidity position of the government.
23. Memorandum account of FCA should be maintained by PFS. Transfer of funds from FCA should be done by the FCGO only on the request of PFS based on forecast of fund for next trimester as stated in Para 11 or actual expenditures incurred in the previous trimester submitted by PFS.
24. Funds released to the line agencies are treated as expenditure according to government accounting system. As a result the expenditure reports and the audited consolidated financial statement show



excess expenditure. This anomaly should be corrected in the consolidated audited financial statements so that correct status of actual expenditure is reported. The FM consultants currently in PFS could develop steps for the consolidation process to address this anomaly and include them in the proposed section on FM in the PMM.

25. JFA requires submission of audited financial statements to MoPR and Donors within nine months after the end of the financial year. PFS has not been able to meet this dateline. This shows weakness in accountability and transparency and a major concern of donors. Dateline for the submission of audit report certified by the OAG should be met.

#### **(b) Amendments to JFA and PFOR**

26. JFA requires classification of budget head into recurrent expenditure (budget head 62-3-205) and capital expenditures (budget head 62-4-205). But Project Performance Report (PPR) requires expenses to be reported under Personnel, Contracts, Training, Transport, Supplies and Commodities, Equipment, Travel, Miscellaneous expense classification. Expenditures classification under sub heads (for PPR reporting) should be done according to the government budget classification in the ProDoc and JFA reports.
27. JFA states that the project accounts of NGOs implementing NPTF projects will be audited by the OAG. A framework for auditing the accounts of NGOs would need to be developed, if they are to be included as IAs at the central level, as such audits fall outside the OAG mandate.
28. PFS is required to informally make available to the Donors the unaudited and the unapproved versions of NPTF related audits within three months of the end of the financial year. It should be made clear that unaudited financial statements should be certified by the FCGO. Considering the complexity of the financial management of NPTF Programme, time frame for the submission of unaudited accounts should be extended to six months.
29. GoN and Donors have made funding projections to NPTF. Donors may have specific preference in funding different projects. At present funding ratios of GoN and Donor funds have not been fixed (for the fund as a whole or for any specific Programme). GoN and Donor should discuss the merits and demerits of fixing the funding ratio (GoN: Donors) to make commitments of fund of both parties more specific and easier to forecast funding.
30. The present requirement of submitting monthly financial reports to PFS does not have much value. Instead of submitting monthly reports to PFS, central level Line Agencies should be made responsible in submitting trimester reports to PFS.
31. The 2010 review recommended the removal of 1% management fee which anyway is not indicative of the actual management cost of the fund. Part of the administrative overhead of the NPTF is currently covered through separate projects. This recommendation needs to be considered in the amendment of next JFA.

#### **Conflict Sensitivity, Gender and Inclusion**

##### ***Strategy***

32. MoPR, PFS and the DG should consider the ways and means in which existing entry points for strategy and priority for NPTF could be developed to enhance focus and impact. In terms of practical mapping of drivers for conflict and enablers for peace, there is scope for positive cooperation among NPTF, UNPFN and the Donor Group in developing analysis and enhancing coordination. Consideration could also be given to holding an annual workshop/seminar to assess the strategic focus and priorities of NPTF bringing together various stakeholders.

33. NPTF/PFS should consider commissioning a knowledge development exercise to more fully document and capture learning and peace-related impacts from completed and on-going projects as well as from the overall NPTF mechanism.

### ***Quality of Projects***

34. It is recommended that clear guidance as well as a checklist be developed to assist IAs, Board Members, Cluster Convenors, project staff and relevant reporting staff to understand conflict-sensitivity, gender-sensitivity and inclusion and how to ensure they are embedded in all aspects of an NPTF action. The Project Management Manual should include one section specifying actions. Training of Cluster member should be organized accordingly. Donors as well as the UN should be invited to take part and contribute to this.
35. It is further recommended that such tools be part of an overall training and capacity building effort to strengthen skills and knowledge on peacebuilding, conflict transformation, gender and inclusion. There is scope here for collaboration with UNPFN.

### ***Governance***

36. It is recommended that political leaders and Board Members are given a training event related to the issues of inclusion and gender.
37. A special provision should be considered that at least two members of the Board should be women. They can be added to the Board as external invitees outside of the Board quota so as not to disturb the current structure. Transparent criteria for selection purposes would be required.

### ***Capacity***

38. The role of the Gender Focal Point needs to be officially designated in NPTF by MoPR with an agreed Terms of Reference. Furthermore, a clear training and capacity plan has to be developed with the Gender Focal Point.
39. Gender experts need to be more fully involved during the technical appraisal phase of the project, particularly at Sector Cluster and Technical Committee stages.

### ***Monitoring and Evaluation***

40. The on-going work on M&E needs to be reinforced in terms of the finalisation of outcome indicators for projects and the overall NPTF mechanism itself, with a focus on peace effectiveness. This should take account of international efforts to develop such indicators and could usefully be engaged in collaboration with UNPFN, DG and specialist international NGOs.
41. The feasibility for NPTF to gather disaggregated data for both gender and ethnic minorities at the project level should be considered.
42. Reporting on projects should be encouraged and guided on better capturing qualitative observations in a systematic manner related to conflict-sensitivity, gender and inclusion.
43. In the next phase of joint reviews, M&E exercises, and other visits, remote districts and communities who have not been visited should be given priority.

### ***Projects***

44. NPTF should seek further synergies within its portfolio by encouraging projects to complement each other in addressing issues related to ethnic minorities. In addition potential needs should be examined in relatively neglected areas such as projects targeting violence against women as a conflict-related issue.
45. Projects suitable for youth involvement should be designed with inclusion of women and excluded minorities. Measures must be taken in account to prevent politicizing of these projects.

## **Role of Civil Society**

46. A gender/ civil society expert invited to the the Core Cluster and Sectoral Clusters
47. Invite members from the CSOs to participate in selected M&E activities
48. Consider hosting workshops at level of district or development regions where CAPs, IDPs and other beneficiaries of NPTF projects share with the civil society organisations under the auspices of MoPR.
49. NPTF to develop a pilot programme to strengthen a selected number of LPCs, situated in areas particularly affected by the conflict and with a high number of marginalized groups and people. Based on a clear set of criteria, LPCs would be able to present local projects aimed at strengthening reconciliation and transformation with the possibility of involving local CBOs and NGOs, reporting and social auditing in the local community. The conflict resolution potential of the LPCs could be strengthened in terms of further focus and capacity building. This initiative requires further scoping of the LPCs and criteria for selection of priority districts as well as overall feasibility and focus for taking this forward in the context of ongoing support to LPCs through the NPTF and through the World Bank EPSP.

## **Donor Role and Relations**

50. That the DG review and consider the relevance and effectiveness DAC Guidelines in shaping its on-going partnership with Government
51. MoPR and the Donor Group to review the purpose and agendas for the GoN DG meetings and consider ways and means of opening up policy space
52. The DG should give serious consideration to continuing and expanding its investment in the capacity of the donor secretariat given the challenges and complexity of engaging with NPTF as a joint DG-GoN initiative.

## **Coordination**

53. GoN should take a much more proactive and strong role in establishing a comprehensive coordination of all support given through government, bilateral and multilateral channels to the peace process and peace related activities. The proposal is that the Core Cluster on behalf of MoPR takes this responsibility in close cooperation with the UNPFN and the DG.
54. The Secretary of MoPR could play a strong role for inter-ministerial coordination in the form of a quarterly meeting should be called for all relevant ministries and agencies to strengthen coordination and mobilize active participation from all.

## **Communication and Information**

55. MoPR/PFS to develop a Communications and Information Strategy for the NPTF with a focus on outreach to the public, improved information with IAs and Donors, communicating results and lessons learned.
56. A Communications Officer post to be outlined and recruited for PFS to strengthen capacity and directly support development and implementation of Strategy
57. The Donor Group to consider internal discussions on improving information flows and gaps to also strengthen coordination among donors and between donors and MoPR/PFS.

## 1. INTRODUCTION

This Report is the final version of the *2012 Joint Government Donor Review of the Nepal Peace Trust Fund (NPTF)*. It is the second external review of the Fund with the first having been completed in early 2010. The main Terms of Reference for this Review were to,

1. Assess the relevance and effectiveness of NPTF as an instrument in the current phase of the peace process
2. Assess the strengths and weaknesses of the NPTF's governance, technical and financial management structures and processes
3. Assess the impact of NPTF and NPTF funded projects on the peace process

Most importantly, and of great interest to all stakeholders is the last task that was set for the team

4. Provide recommendations on the above and advise Government of Nepal (GoN) on a potential NPTF extension beyond Jan 2013.

The team fielded for the Review included Eleanor O'Gorman, Bhojraj Pokharel, Namrata Sharma, Pratap Prasad Pradhan and Petter Bauck. The Team undertook 3 weeks of mission and field work in Nepal. We interviewed a wide range of government officials, political party leaders, donor representatives and civil society representatives. Two short field visits to review projects and meet with community groups and district administrators were undertaken in Sindhuli and Morang. This included meetings with Local Peace Committees (LPCs) and a visit to a reconstructed police unit.

In terms of the scope of work for this Review, it is important to note that it is not an evaluation but an assessment of the status and trajectory of the NPTF; as such the evidence base for results and impact constitutes Monitoring and Evaluation (M&E) reporting and information, documentation review, interviews with a range of stakeholders, and community visits in two sites. Furthermore, in terms of examining the status of Public Financial Management (PFM), this Review does constitute an audit report; rather, it seeks to analyse the financial management framework, requirements, reporting, capacities and systems to examine current practices and challenges. As such, it is beyond the scope of the TOR to generate new variations of data or to resolve existing discrepancies in reported figures that are to be reconciled in the on-going preparation of audited reports<sup>1</sup>. With these caveats, the Review provides a breadth and depth of analysis on the thematic areas of the ToR and seeks to reflect achievements and strengths while making practical and constructive recommendations for enhancing governance, strategy, quality of projects, financial management, results and impact, coordination, role of civil society, gender and inclusion, conflict-sensitivity, and Government-Donor relations.

### *Mandate and scope of NPTF*

In March 2012, the NPTF marked its five year anniversary. It was established in the aftermath of the Comprehensive Peace Accord (CPA 2006) and started operations in January 2007. The mandate and scope of the NPTF is potentially wide given its goal of 'A sustainable peace in Nepal through effective implementation of the CPA and subsequent peace agreements'. Its purpose further states 'Core challenges of the peace process, as defined by policy makers and assigned to the NPTF, are professionally addressed and coordinated by the NPTF and its implementing agencies.'<sup>2</sup> In operational terms NPTF has recently reconfigured its focus in the form of the clusters of programme areas it addresses. This was the result of the 2010 Review of the NPTF that paved the way for a new Joint Financing Arrangement in November 2010. It establishes that NPTF works in four sectoral clusters:

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<sup>1</sup> Some concerns were expressed about the donor figures used in Progress Report No. 13 of the NPTF. PFM is discussed in Section 4 of this report.

<sup>2</sup> See official website <http://www.nptf.gov.np/> ; see also, the new 2010 Joint Financing Arrangement (including Programme Document in Annex H)

- Cantonment Management and Integration/Rehabilitation of Maoist Army Combatants.
- Assistance to Conflict Affected Persons /Communities.
- Promotion of Security and Transitional Justice.
- Support to Constituent Assembly, Elections and Peace Building Initiatives on National and Local Levels.
- A fifth cluster operates as a cross-cutting theme in the form of Reconstruction of Public Infrastructure damaged during the conflict.

The NPTF is a joint government-donor initiative that is operated by the Peace Fund Secretariat (PFS) of the Ministry for Peace and Reconstruction (MoPR). As such it is unique among internationally established peace trust funds. Some early benchmarks of the peace process have been achieved and were discussed in the last Review of 2010. NPTF flagship projects played a key role, notably in the coordination and management of Cantonments where Maoist army combatants were stationed as an interim measure, support to the successful conduct of the Constituent Assembly elections, support to Internally Displaced Persons (IDPs), and the setting up of LPCs.

More recently NPTF projects have supported the Secretariat to the Special Committee to oversee Supervision, Integration and Rehabilitation of Maoist army combatants. NPTF has also supported the reconstruction of police units in rural districts, and rehabilitation centres for those affected by conflict-related disabilities. External monitoring exercises conducted in 2011 provide evidence of results in terms of project level outputs that range across management of the Cantonments, access to services for local communities, rehabilitation, livelihoods, community security and participation. The efforts to refine and strengthen the measurement of results are on-going and NPTF has made significant progress in this direction since the last Review<sup>3</sup>.

Some key features of the Fund that define its value added are:

- NPTF is a unique peace fund; owned by and with 66% of funds from GoN, but with close involvement and scrutiny of the donors.
- NPTF is a flexible tool to implement key aspects in follow up to 2006 CPA
- NPTF has in its first 5 years engaged in emergency projects with immediate need to be addressed
- The NPTF continues to operate in the context of a protracted political process and focuses on projects that are demand-driven from government line agencies and bodies.

By February 2012 it had a portfolio of 42 projects: 18 ongoing; 24 completed; 25 in pipeline. Since 2007, it has administered approximately 10.5bn npr/ \$130m .

### *Current Fund Position*

The status of funding sources (GoN and Donors) with details of commitments made, funds transferred to the NPTF, disbursements made to IAs and fund balance is given in Table 1. Out of total projections of US\$ 180.80 million, disbursement made to NPTF stands at US\$130.49 (72.17%). The GoN share of that contribution is 67% and the Donor Group contribution is 33%. Onward disbursement of US\$ 111.60 million has been made to IAs which means 85.52% of those funds have been disbursed by NPTF.

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<sup>3</sup> M&E of the NPTF is discussed throughout the report. Current Phase 2 of the external monitoring includes development of outcome indicators to refine tools for measuring impact in terms of peace effectiveness.

**Table 1: Fund Details by Donor and GoN Contributions (adapted from Progress Report No. 13)**

US\$ Million

<b>Funding Source</b>	<b>Commitment</b>	<b>%</b>	<b>Disbursed to NPTF</b>	<b>%</b>	<b>Disbursed to IAs (16 Nov 11)</b>	<b>%</b>	<b>Balance</b>	<b>%</b>
DFID	18.94		18.94		18.85		0.09	
Norway	10.88		7.16		7.16		(0.00)	
Switzerland	11.05		5.46		2.63		2.82	
Finland	7.90		4.94		3.61		1.33	
Denmark	5.21		3.00		2.97		0.03	
EU	7.75		2.98		-		2.98	
Germany	4.00		1.18		0.00		1.18	
<b>Total DG</b>	<b>65.73</b>	<b>36%</b>	<b>43.66</b>	<b>33%</b>	<b>35.23</b>	<b>32%</b>	<b>8.43</b>	<b>45%</b>
<b>GoN</b>	<b>115.07</b>	<b>64%</b>	<b>86.84</b>	<b>67%</b>	<b>76.38</b>	<b>68%</b>	<b>10.46</b>	<b>55%</b>
<b>Grand Total</b>	<b>180.80</b>	<b>100%</b>	<b>130.49</b>	<b>100%</b>	<b>111.60</b>	<b>100%</b>	<b>18.89</b>	<b>100%</b>

(NPTF Progress Report 13)

**Table 2: Fund Details by Clusters<sup>4</sup>**

US\$ Million

<b>Projects</b>	<b>Total Project Costs</b>	<b>Approved Budget</b>	<b>Disbursed to IA</b>	<b>Cumulative Expenses</b>	<b>% of Approved Budget</b>
Cluster 1	69.46	65.39	65.30	59.33	90.73%
Cluster 2	6.53	6.53	6.50	3.01	46.17%
Cluster 3	26.99	24.19	24.19	8.38	34.63%
Cluster 4	72.31	42.91	37.00	21.49	50.07%
<b>Total</b>	<b>175.29</b>	<b>139.01</b>	<b>132.99</b>	<b>92.20</b>	<b>66.33%</b>

(NPTF Progress Report 13)

Out of total fund projections of US\$180.80m, the approved budget for projects is US\$139.01m (76.89%). As of November 2011 total expenditure of US\$92.20m has been incurred which is 51% of fund committed and 66.33% of approved budget. The highest amount of expenditure has been incurred for Cluster 1 compared to the approved budget (90.73%).

According to the present status US\$ 41.79 million (commitment of US\$ 180.80 less approved budget for projects US\$ 139.01) is available for the projects in pipeline. There are 25 projects in the pipeline according to the Core Cluster meeting held on 14 March 2012. The cost estimate of 13 projects (out of 25) amounts to US\$86m. Further review is necessary to assess the cost estimate of projects in pipeline and funding gaps. Details of projects in the pipeline are given in Annex J.

<sup>4</sup> NPTF has approved 41 projects out of which 24 projects have been completed. Lists of those projects (completed and ongoing) are given in Annex H and Annex I respectively. A summary of the project costs, approved budget, amount disbursed to IAs and expenses incurred is given in Table 2. There is a reporting discrepancy of US\$ 20.41m in the total amount of funds disbursed between Tables 1 and 2. This discrepancy should be reconciled once latest audited accounts are available. This difference will not have an impact on the total amount of funds available for future projects. Figures used here have been provided by the NPTF and are found in Progress Report No. 13 that refers to donor and GoN 'commitments'. Both the Review Team and Donors expressed interest in having a breakdown of allocations/disbursement according to IA but this data was not available in a consolidated format. It is currently dispersed across project documents and files. It will be useful in future when PFS capacity in financial management is strengthened to develop such a table. See Section 4 on PFM.

## 2. CONTEXT OF PEACE PROCESS FOR NPTF

The relevance of effectiveness of NPTF as an instrument for supporting the Peace Process has to be considered and assessed within an understanding of the current status of that Peace Process and the conflict and peace dynamics that exist in Nepal now and in the coming years.

The CPA signed in 2006 presents a shared vision among the major political parties on the future development of Nepal. At the same time the same political parties translate these visions differently, given their different history and political platforms. The on-going process has been marked by changing governments. There are 4 main parties dominating the current negotiations<sup>5</sup>. There has been slow progress in the work of the Constituent Assembly (elected in 2008) to draft a new constitution, and work on the draft Bills for a Truth and Reconciliation Commission (TRC) and a Commission on the Disappeared (CoD) has been severely delayed. In addition there has been a much extended process to agree packages for the integration of some 19,000 Maoist army combatants who have been in Cantonments until March 2012. Yet, Nepal has moved out of 10 years of armed conflict (1996-2006) and formed a political process to transform Nepal and build a sustainable peace.

Some observers, including many donors express fatigue, frustration and disappointment at the protracted process and the perceived positioning within and among the main parties. Such views are echoed in part by a lively press in Kathmandu reporting on public opinion and citizen views. At the same time, there is also a feeling of pride among the policy-makers that the Peace Process has been Nepali-owned which could lead towards sustaining the process, although the process may be long. Therefore, when one compares to other peace processes around the world, 5 years of political negotiation with no retreat to open armed conflict can be viewed as something of a unique success story.

There are on-going factors of conflict and peace and new dynamics that are emerging as the process continues and the implications of change and transition emerge. November 1, 2011 saw a sudden impetus that seemed to offer a long-awaited breakthrough in moving the process forward in the key areas of integration of Maoist army combatants, and constitution drafting. This arose from the specific 7 Point Agreement signed by the 4 main parties (UCPN-Maoist, NC, CPN-UML, and UDMF). The movement on the integration issue took the form of agreement about the packages to be offered to over 19,000 Maoist army combatants<sup>6</sup> in the Cantonments. Three options were proposed in the form of voluntary retirement (cash payment), army integration, or a rehabilitation programme. In the event, only 6 candidates chose the rehabilitation option and more than 9,000 chose army integration (posing a new challenge as a limit of 6,500 has been agreed) while over 7,000 opted for cash payments and immediate departure from the Cantonments.

Also in late November the CA received its fourth extension of mandate since 2008. It was extended by 6 months until May 2012 but only with a directive from the Supreme Court stating this would be the final extension and that a fresh mandate may then be required in continuing the work of drafting a constitution. A momentum therefore has formed but that is not to say that all outstanding issues of disagreement among the parties will be resolved by May. For example, there is a lot of debate and discussion about the form that state restructuring and federalism should take including ethnic-based and geographic considerations. There are some indications that this may simply be outlined in any likely constitution and the further details left until later when a new parliament and government is in place.

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<sup>5</sup> There have been 4 governments since the CA was elected in April 2008. The latest change of Government occurred in August 2011 when the current UCPN-Maoist Prime Minister assumed office with the support of the UDMF that involved a 4 point agreement including addressing Madhesi claims in terms of state restructuring and special provision to recruit Madhesi youths in to the Nepal army

<sup>6</sup> When combatants were 'regrouped' in accordance with Special Committee process, this UN verified figure was revised down from 19,602 to 16,982.

All of these issues remain contested and debated and are part of the on-going negotiations that are closely watched and reported by a very diverse media. The national ownership and leadership of this Peace Process is very evident. The trust, confidence and commitment for peace within and among the political actors were strong drivers for this. The challenge for concerned partners and observers is how to influence and support while respecting this national ownership, allowing and accounting for the dynamics of political negotiations involving all the parties. Political pundits are worried and analysing the possible overall negative impact on the future of peace and constitution writing process of the recent factional rifts within the UCPN-Maoist, though it must be noted that internal tensions and debates are evident among other parties too. In addition, possible threats to peace, even on a small scale, cannot be ruled out with the various small insurgent groups, and armed and underground groups operating throughout the country, though the government is involved in negotiation efforts with them. On-going political instability has resulted in poor performance of the government that has further frustrated the people so spoilers of the peace process may try to take advantage of such situations.

The challenge for the NPTF – government and donor partners – is to understand how the ongoing protracted political negotiations of the Peace Process at the formal level place constraints on the operations and objectives of the NPTF as a peacebuilding instrument. In understanding these constraints, NPTF partners can then consider the opportunities to strengthen and enable NPTF as a statebuilding initiative in terms of deepening the role of Government in peacebuilding across Nepal.

As a peace instrument and post-conflict funding mechanism NPTF is tied to the political process – it emerged in response to it. NPTF is not a line agency and neither is it an independent secretariat. Rather, it is a joint government-donor mechanism to support the Peace Process and is located in a government Ministry with a mandate to enable peace and reconstruction. NPTF cannot easily be de-linked to forge a separate agenda for the implementation of the CPA or the issues of the on-going negotiations as some participants would like. Indeed the 2010 JFA acknowledges that ‘The mandate and operations of the NPTF is largely determined by the willingness of political decision makers to provide a framework within which the NPTF can coordinate and implement its projects in collaboration with implementing partners’.<sup>7</sup>

At this juncture in the Peace Process and 5 years of NPTF operations, the Review found different opinions among many interlocutors about (a) the conclusion of peace process and what constitutes an end point, and (b) what constitutes ‘transition’ in terms of international support and the move to longer term development and ‘business as usual’. The all-party 7 point agreement of November 2011 has brought about the widespread use of the term ‘logical conclusion to the peace process’, referring to the achievement of key benchmarks. These include (i) the closure of the Cantonments and integration of former combatants, (ii) the completion of a draft constitution that at the very least outlines a federal republic and enshrines key rights and concerns of equity, equality, ethnicity, and inclusion (iii) preparation and conduct of national elections for a new government under the new constitution.

Different political forces in Nepal define the conclusion of the peace process quite differently, from those concluding the process with the constitution and the first election, to those envisaging the transformation of Nepal as an inclusive and equal society as the end point of the process. In the Review, many respondents from political parties, donor representations, government bureaucracy and civil society were very strong in the view that the drafting of a constitution and new elections would simply be the beginning of real peace building and recovery for the country. Indeed many concerns were expressed that the achievement of these milestones in themselves would bring new tensions and potential conflicts as issues of identities, rights, land, federalism, livelihoods, community reintegration and recovery and demand and access to public services all surfaced as people faced the realities of living and building the peace when all agreements were made. This view was also confirmed by field visits to Sindhuli and Morang districts that involved meetings with LPCs, community leaders and government officials.

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<sup>7</sup> NPTF Joint Financing Arrangement, 2010, Annex H p. 23.



The current status of the Peace Process requires NPTF to undertake strategic planning for the short to medium term to consider the focus and priorities of the Fund. The following Sections set out a range of areas in which the strategic and operational aspects of the Fund might focus in building on its first five years.

### **3. GOVERNANCE AND INSTITUTIONS OF NPTF**

#### **3.1 Scope and structures**

The NPTF was established in January 2007 as an internationally unique mechanism to support the vision and implementation of the CPA. Under the responsibility of the GoN, but with a strong role for the international donor community and a limited role for the civil society, this peace trust fund is the only one of its kind, controlled and mainly financed by the country concerned. With peace and transformation as key objectives the tasks of NPTF have since the beginning been complex.

The NPTF was originally established under the Ministry of Finance, but later it was transferred to the MoPR. A governance structure was built up with a multiple set of purposes:

- to ensure the national ownership,
- to strengthen the political ownership by all main political stakeholders,
- to coordinate and monitor the overall peace process,
- to guarantee a strong and coordinated role of the international donor community,
- to ensure proper selection of projects in line with CPA and subsequent peace agreements.
- to address emergency needs of the process as well as assure quality of projects.

With the recommendations of the 2010 Review additional steps were taken to strengthen the governance structure and its functioning. Perhaps the most important decision was to grant all the major political parties permanent representation on the Board of NPTF, where up until then the opposition had been invitees.

NPTF is governed by a Board, with the purpose of representing the broad political spectrum of stakeholders in the peace and transformation process and having the responsibility for the strategic direction of the fund. The Board from April 2007 to December 2011 had 11 meetings, an average twice a year, whereas it was expected to meet at least three times a year. Informative minutes are distributed. A broad attendance in addition to the members seems to be the rule.

Four Sector Clusters<sup>8</sup> were established to scrutinize projects within the 4 priority areas for NPTF funding, with representation from the donor community. Based on the recommendations from the 2010 Review a Core Cluster was introduced as an additional governance body, with the purpose of reviewing the pipeline of Concept Notes and projects, coordinating the Sectoral Clusters and to strengthen the quality<sup>9</sup>.

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<sup>8</sup>In April 2009 the Technical Committee approved a reconstitution of the Sectoral Clusters, with focus on the following 6 clusters. Based on the recommendations of the 2010 Review, the TC approved to reduce the number of clusters to 4, with the following focus 1) Cantonment Management and Integration/Rehabilitation of Cantonment, 2) Conflict Affected Persons/Communities, 3) Security and Transitional Justice, and 4) Constituent Assembly and Peace Building Initiatives on National and Local Level. (Minutes from TC meeting no. 21) Physical Infrastructure was instituted as a cross cutting concern.

<sup>9</sup>Cluster Guidelines for Core Cluster and Sectoral Clusters were approved by the TC in its meeting no. 21 in November 2010 and forwarded to the Board for approval. (See TC Minutes from Meeting no. 21) No recording of a formal approval by the Board can be found.

A Technical Committee (TC) was established to *assist and support the Board and to provide technical support to the programs on peace building implemented through other sources*.<sup>10</sup> Two civil society representatives (since April 2009)<sup>11</sup> are also represented in the TC. From 2007 to 2011 the TC met 26 times with irregular frequency. Minutes are very varied in quality, sometimes only focusing on decisions with no information on arguments presented. Participation from IAs varies though it seems that through the TC the Line Agencies have gained a stronger position within the set-up of NPTF. We heard from many interlocutors about the importance of TC to secure the role of the IAs in the process. In its deliberations on the projects the TC mainly focused on budget related issues, while its contribution on cross-cutting topics like gender, inclusion and conflict sensitivity or risk analysis are not reflected in its minutes. Neither is the importance of relevant indicators focused upon.

In line with the recommendations from the 2010 Review, to support the governance structure and its different stakeholders, the Board in its 8<sup>th</sup> meeting in October 2010 approved the Program Document of the NPTF (ProDoc) outlining objectives, methodological approach, Governance and Management, Financial Management, Monitoring and Evaluation, Public Accountability and Communication, Risk and Risk Management, Time Frame and Budget and Donor contributions to the NPTFs. Annex 5 to this ProDoc, 'Framework and Guidelines for Technical Cooperation for Capacity Development Pool', known as the TC-Pool, was included. The TC-Pool was established to strengthen the ability to draw on external resources in the management of the fund and development of relevant project proposals. The TC-pool is governed by a separate Steering Committee chaired by Secretary of MoPR, and where donors are also represented. In the same Board meeting the Revised JFA was approved and later signed between the GoN and the DG outlining the modalities of the cooperation with focus on financial management and reporting.

During interviews with different stakeholders to the NPTF and through study of relevant documents the team made a number of observations:

- The NPTF is seen as a key tool in the national endeavors to move the political process towards an acceptable and sustainable conclusion to the Peace Process.
- In view of the recommendations from the 2010 Review a commendable improvement can be observed, in particular in relation to the quality of the preparatory work carried out for projects presented.
- The national ownership of the NPTF has been strengthened, financially (now 67% from GoN), and in the overall decision-making process.
- The role of the Board has been strengthened, and in particular the process to secure a broad political representation regardless of which parties are in the government, is important. Rumors that the NPTF has been used to finance projects of particular interest for certain political parties are disputed by several members, who underlined the importance of national consensus.
- The structure and the procedures of the NPTF are seen by many of the stakeholders as cumbersome, complex and time consuming. At the same time these stakeholders underline the importance of the broad representation at different levels and their own involvement.
- Visibility of Non-State Actors remains weak and limited in the governance structures of the NPTF. Gender balance is a key concern at every level. Except in the TC and the presence of the Gender Focal Point in the Core Cluster there are no other mechanisms to include women and civil society. The presence of one woman should not be seen as achieving gender balance.

The structure of NPTF today is evolving in line with the recommendations of the 2010 Review. The intention to achieve a flexible mechanism to respond to the immediate needs of the peace process, to some extent seems to be lost in an attempt to strengthen representation and quality. For the team a

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<sup>10</sup> Peace Fund (Operation) Rules, 2065 (2008)(rule -11)

<sup>11</sup> See Minutes from TC meeting no. 14, 17<sup>th</sup> April 2009, where Civil Society representatives were nominated.

crucial question became if one ought to retreat on some of the recommendations from 2010 or if it would be possible to follow the recommendations and at the same time propose to change the way this structure works, to strengthen the flexibility and speed.

### *Portfolio Analysis*

Looking at the projects approved during the first 5 years of NPTF the main burden has been on the Clusters dealing with Cantonments and Elections, while Transitional Justice and Security has been limited to reconstruction of Police units. Budget-wise, projects linked to Cantonments (completed and ongoing) have taken 46% of the total allocation, according to the latest NPTF lists.<sup>12</sup> Constitutional Assembly and elections have taken 30%, of which only 1/20 have been allocated for the work of LPCs and work with Indigenous People, the two last both ongoing and severely delayed in their implementation. 20% of allocations have gone to Security and Transitional Justice with nearly all going to reconstruct Police units. Conflict Affected Persons (CAPs) and communities have only been allocated 4% of approved budgets

The allocation of funds indicates a focus on high political priority issues of immediate concern both for the political parties in Nepal and the international community (Cantonments, Security (Police units) and Elections/Constitution) What seems to be less prioritized apart from Transitional Justice is a proper follow up of CAPs and communities, and the strengthening of LPCs to establish a force in the local communities to promote the peace and transformation process and work for reconciliation<sup>13</sup>. Apart from the constitution writing process, the focus on more long-term peace-related activities has been minimal as have attempts to mobilize people in general for the democratic peace and transformation process. Seen as a whole, the support until now has had little focus on the sustainability of the process, something that should be focused in the future.

Given the current context of the Peace Process outlined earlier these indications of emphasis in the portfolio can be considered in the wider strategic planning process and strengthening that needs to take place as NPTF moves forward.

## **3.2 Roles**

The NPTF is under the MoPR with the Minister chairing the Board. The Secretary of MoPR chairs the TC, while 4 Joint Secretaries in MoPR head the Sectorial Clusters. Under the MoPR a Peace Fund Secretariat (PFS) headed by a Director, who is also a Joint Secretary in MoPR, is responsible for the day- to- day management of the NPTF. The Director heads the Core Cluster.

Through participation in a number of meetings of different bodies related to NPTF, through interviews and through the study of relevant documents, the team forms the view that there is a lack of clarity about the specific roles of the different bodies in the governance structure. The work of the different bodies seems to be mainly focused on individual projects rather than the visions outlined in the CPA and the overarching purpose of the NPTF.

When questioning different stakeholders, the argument seems to be that several of the governance bodies of NPTF are needed “because they secure certain stakeholder’s representation”. That they could play an active role in strengthening the participation of different stakeholders, such as the different IAs, is not focused upon. Likewise, it is easy to get the impression that the TC, Sector Clusters and Core Cluster in different ways should strengthen the quality of the projects. How they should play somewhat different roles in this regard is not discussed by participants.

The Board to a very limited degree takes a lead on outlining the strategic direction and priorities. With the strengthened representation of all key political parties it seems to act as a guarantor of a politically

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<sup>12</sup> See Annexes H, I and J.

<sup>13</sup> It should be recognised that cash payments to CAPs has mainly been provided through the Government, for example, as part of World Bank EPSP that is managed through MoPR.

balanced approach of the fund, but little more. The team is of the opinion that the GoN and MoPR should work towards making the Board the strategic leadership of NPTF. A first important issue to get in place is that all major political parties become full members of the Board, and not only participate as invitees as is the current practice. This status issue is important in terms of the experience of participation and the taking on of responsibility and needs to be formalized.

Accepting that the Board at present will continue to have a say related to individual projects, we propose that the Board approves the Concept Notes for new projects, as the most important decision in relation to the overall focus of NPTF. This should happen based on the recommendations of the Core Cluster.

The Technical Committee plays a key role in the quality assurance of the projects together with the Sectoral Clusters. With representation from the IAs as well as the donors and the civil society, the purpose is, based on a wide range of experience, to make the necessary quality checks. Until now the TC has forwarded its recommendations to the Board for the final approval of the Project Document. It is being recommended in this Review that the approval of Project Documents, where a Concept Note has been approved previously, is delegated to the TC, except when the TC or the PFS views the project as principally so important or difficult, so a Board approval is recommended. Likewise, the Board will when necessary handle the approval of emergency projects where the full project circle with Concept Notes is deviated from.

The Board should at each meeting have an update of the total engagement related to the peace and transformation process from governmental bodies, multilateral bodies and bilateral donors. The Core Cluster should be responsible, with the assistance of the PFS, the UNPFN and the DG to prepare this. For the MoPR leadership of the Board and the Board itself one challenge will be to use this information as a base for a strategic assessment, clarifying gaps and identifying possible actors to take up the gap filling.

The Core Cluster should, as intended, continue to play the role as a common arena for all the sector clusters. Realizing that coordination of the total engagement by GoN as well as donors in the fields of peace and transformation today is to a limited extent coordinated, the team propose that the Core Cluster, in close cooperation with UNPFN and the DG should take the responsibility of strengthening the coordination and establish on a regular basis an overview of the total aid, and identified planned projects, to be presented to the Board. Finally we propose that the Core Cluster forward its recommendation on the Concept Notes to the Board for approval.

From the Sector Clusters the message received is that after scrutinizing the project, the Cluster doesn't receive any information on what happens, neither in the approval process nor during implementation. To improve communication and coordination, it is necessary to bring the clusters into the overall project cycle. For example, periodic progress reports should be shared with the clusters and they should be involved in the M&E process including the joint field visits. During the discussion with Cluster Conveners a mixed impression was noticed. Some were confident and clear enough in their expected role and the process; but there was confusion and lack of clarity with others. Deliberation and communication in English was limiting the government officials' effective participation in the process.

Though the IAs are also represented in the Clusters, the clusters are dominated by MoPR officials (including staff from PFS). Participation of concerned officials of the GoN other than the potential IAs seeking NPTF's fund, is minimal. In addition, due to what seems to be the result of a lack of capacity within the PFS, the preparations for these meetings could be improved and relevant information circulated to the participants beforehand. The flow of information ahead of meetings in the governance structure, after conclusions have been reached, on results achieved and on the general status of the management of the fund often seems to be too limited, late or lacking. In addition knowledge on rules and regulations within the IAs, not the least on the local level, seems to be very

weak and patchy. Targeted project management, coordination, and communication capacities and actions will help to address these weaknesses.

### **3.3 Procedures**

As a follow up to the last Review the Concept Note was introduced as a first step to present the purpose and relevance of a project idea and get a preliminary acceptance or rejection, before starting to develop a full-fledged project document. The idea was to ease the introductory steps, while more focus was put on the quality of the Project Document. The Concept Notes for the IAs should be less cumbersome and this may be a matter of more guidance and training on developing them. In addition, the PFS and the governance bodies of the NPTF should have a stronger possibility to influence project proposals in line with the overall purpose of NPTF by guiding possible fund applicants.

The Concept Notes are today circulated to the members of the Core Cluster, including the donors, for comments, before they are discussed. Through interviews and studies of relevant documents the team gets the impression that the introduction of Concept Notes is regarded as a positive step, but that the quality of the notes varies a lot and the time given for comments is often short. Strategically important issues like gender, inclusion, risk and conflict sensitivity should according to the team observation be more prominent in the Concept Notes and the discussions in the Core Cluster. Likewise, when relevant, an identification of other projects and donors involved in the same or related field should be included, to assure the best possible coordination of different engagements. A quality check of the Notes by PFS before they are sent for comments, with the possibility to go back to the applicant to request improvements would strengthen the process. A check list for assessing new Concept Notes has been drafted and should be developed in accordance with the proposal above.

The writing up of a project document is said to be a time consuming process not the least due to the quality demands set out in the project manual, and the lack of adequate capacity and skills in the IAs. As a consequence the time lag from acceptance of a Concept Note until a project document is on the table can be months. Often the urgency of the project is lost in the process. The team is of the impression that a lot of time can be gained if capacity to write a project document could be clarified before a Concept Note is presented, and necessary identification of external resources when needed could be done at this stage.

The Review Team endorses the findings of the Capacity Assessment team<sup>14</sup> that “English language is a bottleneck in dealing with donors/ development partners, preparing project documents, minuting joint meetings, and reporting”. This is not only a capacity issue but is also about national ownership. It is clear that the requirement of high-level language capabilities in verbal and written presentation of technically complex projects affects participation and discussion. However, a recommendation on language is not being forwarded by the team as it was met with resistance by both MoPR and donors stating it would add to the process. This is surprising given the very strong feedback that arose from interviews and observations at meetings. The PFS and Donor Group might give consideration to adaptive measures to mitigate challenges of language, for example, the translation of the Concept Notes for discussion at the Board.

### **3.4 Human Resources and Capacity of PFS**

In key areas of the PFS either the positions are vacant for long time or they are supported by part time officials on deputation. (See Annex E). The Peace Fund Operation Rules (PFOR) has provisioned 4 professional positions in the area of finance, program, M&E and administration along with 7 other support staff to support the PFS Director. At present all the support staff is in place while the critical positions of the Program Management Officer and the Financial Management Officer (FMO) have been vacant for a long period. As a temporary solution a FMO from another project is assisting PFS

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<sup>14</sup> See *Capacity Assessment of MoPR and PFS*, November 2011.

part time and one additional account officer is also working on deputation. Technical experience in developing project proposals and conducting follow-up with IAs is also limited. In addition PFS has not been a place of attraction to most government officials and it does not fall within their priority<sup>15</sup>. In this context the leadership and hard work of PFS staff has to be acknowledged in ensuring the achievements and changes of the past two years. This has been enabled and supported by the considerable and dedicated efforts of the GIZ technical assistance team located in PFS.

Through GIZ, a technical assistance team is working with the PFS to build capacity in relation to program management, M&E and administration. Also, with support of the EU one international and one national expert have just initiated technical assistance on financial management. However, for such capacity building efforts to be sustainable, PFS itself has to have the staff in place for these functions. The TC-pool, established to strengthen the ability to draw on external resources in the management of the fund and development of relevant project proposals, should be more actively used. In addition there is a wider MoPR Capacity Development Strategy that was finalized in February 2012. The recommendations of this report reinforce some of the same priorities.

The team is of the opinion that without a substantial strengthening of human resources on the part of PFS, neither the set ambitions nor the necessary correction of identified weaknesses can be reached. To make the recruitment of human resources as efficient as possible MoPR and PFS should scrutinize the possibility to go public to hire in the market. Additional professional posts should be hired to cover project management (4), financial management (2-3), information and communication (1). Also, a possibility could be explored to assign for new project management staff in the PFS to work as the member secretary of the clusters, which would strengthen preparation and coordination and communication of these entities with the PFS.

### **3.5 Incentives**

This Review also has the same findings as the previous Review and MoPR Capacity Development Strategy that PFS is understaffed and key positions have been vacant for a long time. Staff motivation appears to be relatively low and retention is a major problem. It has negatively impacted on PFS performance and the TA team is over stretched even for the regular functioning of the PFS. “In parts of MoPR such as the Relief & Rehabilitation Unit (RRU)<sup>16</sup>, the Cantonment Management Office and the Special Committee Secretariat, incentive systems (allowances) for employees are operating, while the rest of the organization does not benefit from such incentives, resulting in dissatisfaction among employees”<sup>17</sup>. While employees have high expectations in terms of incentive systems, the human resource development and performance measurement systems have not been developed yet. During the discussions within the PFS and MoPR level, strong demands were made for the option of additional incentives.

The last Review in 2010 raised unmet expectations by mentioning an ‘incentive structure’. The team for this 2012 Review is mindful that since we propose hiring several new staff from the market, there is potential for tensions within PFS about the incentives issue. However, incentives/ allowances can only be considered sensible if they are a) based on a performance system and if they are b) agreed upon by GoN. Donors are very unlikely to want to fund allowances or to see the TC Pool as a source of developing capacity in this way. So any Performance Based Incentive System (PBIS) solution would have to be funded by the GoN as its own policy and priority. This position is in line with existing commitments arising from the Capacity Assessment of November 2011 and found in the recently approved Capacity Development Strategy of MoPR. The team suggests that the

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<sup>15</sup> This is a view that was found in the MoPR Capacity Assessment of 2011 and was reiterated in our interviews with government officials inside and outside of MoPR. Some of the reasons given include the perception that MoPR is a temporary structure, that PFS is a very demanding workplace with the NPTF, and that the type of work is different or requires particular skills that are beyond regular civil service work.

<sup>16</sup> It is noted that the RRU no longer operates an incentive system.

<sup>17</sup> MoPR Capacity Development Strategy, February 2012, p.10

implementation of that Strategy prioritise the exploration of PBIS as an option for MoPR to be presented through the appropriate government channels. The exploration of PBIS for MoPR should include an assessment of the experience, implementation and impact of incentive schemes in other parts of MoPR and other Government offices.

### **3.6 M and E and Reporting**

Several reporting requirements are provisioned in the JFA and ProDoc and standard formats have been developed. These include financial monitoring reports (monthly, trimester and yearly), audit report and progress reports of the projects. The reporting mechanism is built on a bottom-up approach whereby all the information for any project status originates from the field units of the IAs. Concerned Ministry/department of the IA compiles and submits reports to the PFS. PFS consolidates these reports into brief four monthly summaries and presents them to the TC and the NPTF Board. These consolidated reports include an overview of the Fund, progress of projects and minutes of relevant meetings. There have been 13 reports since the beginning of the project.

Timely submission of the reports by the IAs still remains a concern to the PFS. Similarly, once the reports are submitted to PFS, it is expected to follow up on gaps and respond. However, capacity constraint has limited PFS ability to deliver as expected. The Team, from the field visit and discussion with the IAs, concludes there is also a gap in required knowledge and capacity within the IAs even if there are accountants in the IAs who in theory can prepare the required financial reports from the government accounting system as the financial information can be extracted from the government accounting system. We share the view of the 2010 Review that reports are focusing on factual detail at activity level and not putting enough emphasis on outputs and impact. The team is hopeful of further improvements on this reporting, once the PFS capacity is strengthened with additional program officers.

In addition, a Completion Report for each project would be helpful to ensure transparency and accountability. Overall, the Monitoring and Evaluation has achieved great steps in past 2 years and with limited staff resources. This consideration influences our recommendation for greater capacity in PFS, notably in the recruitment of project officers who could reinforce M&E, among other functions. PFS has developed a Monitoring and Evaluation Strategy<sup>18</sup>, and launched an External Monitoring Exercise with contracted consultants Scott Wilson Nepal. Phase One is completed and gathered rich and interesting details on flagship projects like the Cantonments but also adding community and social audit evidence to the project outputs and implementation processes. Phase Two is underway with a greater focus on outcomes including the development of appropriate indicators. Over 10 Joint Monitoring visits have also been conducted including PFS, donor officials, IA officials and in some cases UNPFN counterparts. The available reports indicate that the relevance of the reporting can be further developed, not least concerning gender and inclusion, and financial management issues.

Through the study of a number of Project Documents the team forms the view that despite the general improvement in quality, there is still room for improvement, not the least related to cross-cutting issues like gender, inclusion, conflict-sensitivity, and risk analysis. Reporting will necessarily be based on approved ProDoc and in general these still tend to be very activity-oriented with quantitative indicators (if any). For example, in the project to support reconstruction of Police Units discussed in Section 5, the hardware with buildings are outlined in detail, while integrated soft components, like police community relations and the importance of making feasible conditions for a gender mixed police force, is not properly described. There is a need to develop more focus on qualitative indicators to establish a possibility to measure what has actually been achieved in support of the peace and

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<sup>18</sup> See *NPTF Monitoring and Evaluation Strategy*, Sept. 2011; *External Monitoring of the NPTF (Phase One) – Final Report*, Nov 2011; *External Monitoring of the NPTF (Phase Two) - Interim Report*, Jan 2012; ‘Consolidated Lessons Learned from Monitoring Field Visits’, Dec. 2011. Also, various Joint Monitoring Visit Reports.

transformation process.<sup>19</sup> Baseline data is seldom included, making measurement of results difficult. The team acknowledges the difficulties related to measuring qualitative changes, and that this might take more time than quantitative changes. We find it though important that a limited number of qualitative indicators are included in the ProDoc and that the M&E process is developed with these in mind.

## **4. PUBLIC FINANCIAL MANAGEMENT**

### **4.1 Overview**

The issue of Public Financial Management (PFM) has become a dominant theme in the overall performance and effectiveness of the NPTF. Some donors are now in a more management mode as the NPTF reaches its 5th year and the emergency modality and fast track process of the past is coming under greater scrutiny and attention. On a positive side, this creates space to reflect and to strengthen systems. Donors also face new pressures from their capitals in the context of the international financial crisis and the push for aid to be more effective than ever so that budget allocations can be justified. This has increased the pressure on results-based reporting. There is less appetite for risk even in post-conflict settings where political and fiduciary risk can be higher than in other cases.

PFS has not helped itself by seeking to function with continuing serious lack of capacity in this core area of fund management and accountability. This has placed very heavy pressures on senior management and detracted from overall development of the NPTF. Main reasons for poor compliance lie in the non-compliance with financial reporting requirements to the PFS by IAs and in the poor capacity of the PFS to consolidate and follow up on reporting. It is also important to create greater awareness about JFA requirements and to ensure that these are also aligned with government systems. The recent surge support that has come from EU support for PFM experts to engage and support strengthening of PFM is a welcome development. So too is the wider commitment of MoPR and the TC Pool to capacity development of the Ministry and PFS.

It is important for both partners in the NPTF - GoN and Donors - that the PFM issue is mapped out and clearly understood as it has come to dominate GoN-DG relations and meetings, with not always positive effects and dynamics. It has pushed out other areas of discussion and prevented strategic level partner-minded discussion. More seriously, it has contributed to the trust and confidence gap between the partners with implied mismanagement that is not evidence-based and is potentially damaging to the integrity of the NPTF and staff. There is a clear sense within the donor community and government of growing awareness about the importance of addressing financial weaknesses in a systematic way. The first step is to map out the respective obligations of the 2010 JFA alongside the actual working and functioning financial management systems of the GoN. This will help to establish where blockages are coming in terms of achieving a reporting and auditing system that does not create a parallel structure and aligns with national systems while meeting the proper requirements of accountability and transparency in the management of NPTF government and donor contributions.

This Review seeks to contribute to a shared mapping of the problems and assist the recently-launched work of the EU-supported experts in supporting the NPTF to find mutually acceptable, feasible and practical measures to strengthen the PFM functions and systems of PFS and improve GoN-Donor discussions on the issue in a more constructive and balanced direction.

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<sup>19</sup> These specific concerns are discussed in more detail in Section 5 of this report.



## 4.2 Joint Financing Arrangement

According to the Joint Financing Arrangement (JFA) signed between the government and donors in November 2010, all activities will be budgeted under the Peace Fund budget and GoN will maintain the accounting records of the Fund according to the prevailing laws. The Financial Procedures Act (FPA) 2005, Financial Procedures Rule (FPR) 2007, Public Procurement Act (PPA) 2007, and Public Procurement Regulation 2008 (PPR) are the key prevailing laws relating to financial administration system of the GoN. Implementation of these provisions is guided by Peace Fund Operation Regulations 2008 (PFOR). The intention is to work within the framework of the government system. The Financial Management (FM) system will ensure that the GoN is able to produce timely, relevant and reliable financial information for planning and implementation of the Programme, and monitoring of progress toward its objectives. FM information generated by the system will allow the Donors to evaluate compliance with agreed procedures. For this purpose, it has prescribed some FM reporting formats that need to be completed from information generated by the government reporting system. These formats are useful tools for monitoring the financial and results performance of the Programme.

The JFA has spelled out the FM reporting datelines which the GoN has not been able to adhere to. There has been delay in compiling the periodic reports and the submission of the consolidated financial statements of NPTF to MoPR and Donors. This has been the main concern of the donors which has clearly come out in the Perception Survey of February 2012<sup>20</sup>.

The national financial management system has been working well and complies with the existing government system. This is a common system used for the smaller units and big national and donor funded projects. The flaw lies in complying with the financial management reporting procedures required by JFA, which is in addition to the prevailing reporting requirements of the GoN. The non-compliance with the reporting requirement of the JFA is a hindrance to the effective implementation of JFA. PFS has not been able to address this issue in time and as a result Donors have raised serious concerns about the effectiveness and efficiency of the financial management system as a whole. The reasons of non-compliance with the JFA financial management requirements are:

- i. Inadequate capacity of the Financial Management Section at PFS to ask for the reports, follow up with IAs in time and consolidate the financial reports, as well as lack of motivation, incentives and training for PFS and IA staff
- ii. Delays at the central office of line agencies in receiving the financial statements from district offices scattered all over the country and compiling them in the format prescribed in JFA
- iii. Additional time and effort required for line agencies to complete the FMRs prescribed by the JFA
- iv. Lack of guidance and procedures in completing the reporting formats
- v. Expenditure heads of JFA not aligned with government budget codes; these should be included at the inception of the project design
- vi. Information on Foreign Currency Account (FCA) not available at PFS as it is operated by FCGO and PFS does not make sufficient efforts in obtaining this information from FCGO to regularly update the status of FCA; PFS should be made capable of taking the full responsibility of presenting financial figures to the government as well as the donors.
- vii. Lack of knowledge on the part of line agency staff about the importance of timely submission of the FMRs when staff should be properly briefed and followed up by PFS; in addition, due importance is not given by line agency staff to NPTF programmes as these programmes are very small compared to their regular programmes
- viii. Weak interaction and communication by PFS with line agencies
- ix. Weak monitoring and follow up on the part of FM section with line agencies
- x. Delay in preparing the consolidated financial statements by PFS for certification by OAG etc.

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<sup>20</sup> Regarding management of fund, timely and professional reporting and collaboration of NPTF with Implementing Agencies (IAs), the score is about 5 in the scale of 10 and in the case of timely and professional audit the score is below average.

The NPTF activities are implemented through a network of approximately 275 cost centres of IAs in all 75 districts of the country. The financial reports of these cost centres are consolidated in 13 central level offices of the respective line agencies which are then consolidated by PFS<sup>21</sup>. These units are the Programme expenditure spending cost centres and each of them maintains the accounting records. Although these cost centres are required to record and submit financial reports to the higher authority every month, including PFS, in practice PFS is being left out in the reporting loop. Weak FM at PFS is one of the contributing factors, as the PFS should be asking for these reports. FM at PFS could be more proactive, vigilant, supportive, and persuasive in getting the reports from the line agencies in time. Some improvements in the FM system have been noticed as indicated in the recent progress reports. But still much has to be done.

### **4.3 Budgeting and Fund Flow Arrangements**

In the initial stage for NPTF Programme implementation, the allocation of funds for the Programme was done through off-budget system and accordingly total funds were provided to NPTF which then provided fund to the IAs. At present the fund allocation for the Programme is provided in the national budget in alignment with Paris Declaration on Aid Effectiveness. The annual budget allocation for Programme is approved by the Parliament (Constituent Assembly) based on the plan submitted by MoPR based in turn on the plan prepared by PFS. The allocation of budget in the Red Book (budget book) is reflected under MoPR programme mentioning the GoN source and individual donor source. Total budget in the Red Book is classified into funding shares of GoN and each Donor participating in the NPTF. PFS submits allocation of annual budget for various IAs as given in the Red Book to MoPR, which issues letter of budget release authority to the respective IAs. Unlike other regular programmes of the government, the NPTF is not required to get the approval of the National Planning Commission for budget allocation and approval of the Programme. District Treasury Controller Office (DTCO) releases budget to IAs on the presentation of authority letter, authority to release donor share of fund issued by Financial Comptroller General (FCGO) and copy of agreement entered between PFS and the line agency. Budget is released for GoN and Donor share of funding. Fund flow and reporting procedures is given in Annex F.

Budget release to the IAs has not been a major issue resulting delay in Programme implementation as budget is released on the submission of project agreement entered between the PFS and line agency and issuance of budget authority letter. According to the PFOR, it is necessary for the IAs to intimate the budget release requests to the PFS but this has not happened. Again this is due to lack of information on the part of IAs and PFS not being able to disseminate this information to them.

There is a special provision in the PFOR that any funds not spent at the end of the year are transferred to a non-freeze account (in the regular government system any underspend is deposited in treasury). The reasons for this provision are the emergency nature of the programme and the fact that the project runs for more than one year. On the one hand, this special provision ensures availability of funds for Programme implementation as the nature of the Programme activities are related to emergency, but on the other hand, funds have remained 'idle' in non-freeze account due to budget release at the end of the year and also non-completion of project on time. This reflects weakness in the fund management which is one of the concerns of the Donors as well as the FCGO. Office of the Auditor General (OAG) in its FY 2009/10 report has stated that NPR 1.96 billion (US\$ 25 million) was outstanding in non-freeze account. PFS should review funds lying in the non-freeze account and funds relating to completed projects should be returned to NPTF.

With regard to reporting sources of funding, current reporting shows that projects are still targeted and donors funds are unevenly used. To address this, the PFS should establish a system of preparing cost estimates in the Programme Document (ProDoc) for each year with further break down into each trimester. The cost estimate should show the potential shares of government and donor funding. This

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<sup>21</sup> The list of the line agencies engaged in Programme implementation is given in Annex G.

will clearly show the fund commitment of both the GoN and Donor. Recommendation for budget release authority to MoPR should be made for each trimester based on the estimate so that funds remaining in the non-freeze account (GoN and Donor) are minimized. PFS should release next tranche of fund only on the submission of the trimester report and forecast of fund for the coming trimester.

Donors deposit their share of funding in a Foreign Currency Account (FCA) at Nepal Rastra Bank. The PFS is responsible to submit request for fund transfer from FCA through the Chairperson of the donor group in accordance with the provisions of the JFA. Once the fund is deposited in the FCA, the PFS should send receipt of funds certified by the Financial Comptroller General's Office (FCGO) (with bank statement) to the donor group Chairperson. Since FCA is operated by FCGO, PFS does not get timely information about fund movements in the FCA (from FCGO and Donors). PFS needs to visit FCGO regularly to get this information. With the signing of the new JFA, one FCA account is maintained for all donor funds but it will be necessary for FCGO to maintain subsidiary donor records to track contribution and usage of each donor's fund.

FCA is operated by the FCGO. GoN can withdraw money from this account once the expenditure has been incurred for the Programme. Moreover, GoN can make a withdrawal for funding of the Programme from the FCA equivalent to the Donor's share of expenditure estimates for the first trimester of the fiscal year. On the submission of Financial Monitoring Reports (FMRs) showing funds utilized during the trimester, cash balance position in FCA, and cash forecast for the remaining fiscal year, the GoN can make withdrawals from the FCA for the second and third trimesters. PFS has not been able to comply with this requirement of JFA. This again reflects weak capacity of FM section.

Effectively, GoN has been providing funds for Donor share of funding as well because funds are not withdrawn from FCA based on trimester forecast. FCGO makes withdrawal of funds from FCA at the end of the year only after it receives report of expenditure for Donor share of funding. But funds have not been withdrawn from the FCA since new JFA was signed. After the year end, it takes few more months for FCGO to receive report from all DTCOs, compile reports and transfer fund from FCA to government treasury. The crux of the problem lies at the PFS financial management section. The whole process of the financial management system as envisaged in the JFA has not been properly implemented. For trimester forecasting, PFS needs to collect up to date actual income and expenditure data from the line agencies within 45 days after the end of trimester and it not happening. In the absence of actual data, trimester forecasts cannot be done. It is evident from the fact that PFS has not been able to furnish the audited financial statements to the MoPR and Donors in time.

PFS is responsible in compiling and producing the financial reports including statement of FCA. PFS has to have up to date status of transactions recorded in FCA for monitoring, analysing and reporting to the Donors. It is, therefore, essential for PFS to maintain a memorandum record of FCA. It should compile expenditure incurred for each trimester and submit to FCGO for transfer of fund to the treasury from FCA instead of FCGO doing so at the end of the year from DTCO records. It will make PFS accountable for usage of funds and cross-verification of its records with DTCO statements will ensure correctness of the transactions recorded in FCA.

Government and donors make contributions for NPTF project activities. The ProDoc is the basis for signing an agreement with the IAs for project implementation. GoN and donor funds are disbursed to the projects based on the funding commitment of both parties. There is currently no clear indication of the ratio of funding of each party.

#### **4.4 Reporting**

The IAs maintain accounting records in accordance with the formats prescribed in the prevailing government accounting system and regulations. A monthly statement of accounts is prepared and

submitted to the DTCO and the hierarchy of the IAs. PFOR also requires submission of monthly financial report to PFS. It was observed that many IAs do not submit monthly expenditure reports to PFS because it is too burdensome for them to compile the information received from so many district offices in the format given in JFA in addition to government reporting requirements. Since PFS is required to prepare FMRs in the given format on trimester basis within 45 days of the end of each trimester, submission of monthly report to PFS is not of much use. The focus should be in receiving the consolidated trimester report from central units of IAs so that following reports can be prepared in time as required by JFA. Trimester reports (Progress Reports) currently arrive very late, sometimes with a delay up to 6 months. The templates annexed to the JFA 2010 are as follows:

- Statement of Funds Flow through Foreign Currency Account
- Four Monthly Financial Reports
- Programme Performance Report for Fiscal Year
- Four-monthly Programme Performance Report
- Annual Project Performance Report

The government accounting system has prescribed Chart of Accounts that has two broad categories of expenses i.e. Recurrent Expenses and Capital Expenses with sub classifications under these heads. Deviation in the classification of expenditure heads in the ProDoc and GoN expense codes requires additional time and effort in keeping the records and preparing reports for PFS. This also delays in reporting the FMRs to PFS. This issue should be addressed at the time of ProDoc preparation and as far as possible GoN Chart of Accounts should be adopted in the ProDoc. For example, Project Performance Report (PPR) has given break down of expenses in Personnel, Contracts, Training, Transport, Supplies and Commodities, Equipment, Travel, Miscellaneous but these heads do not exactly match with the government budget heads. If the accounting heads of PPR is in line with government budget line it will be easier to compile and consolidate the reports.

The IAs are the key stakeholder in maintaining the accounting records. It is not necessarily a priority to have a fully computerized system for PFS in producing the reports. The FM consultants recently arrived in PFS could assess further the need of computerization in the course of their advisory work. The present issue is the compilation of the reports submitted by the IAs which can be compiled in an excel sheet.

The IAs should be made aware about their role in keeping records, reporting formats, reporting requirements, implication if reports are not presented in time, auditing requirements etc. In our field visit we observed that the accounting staff and unit managers were not very aware about the NPTF, its activities and the reporting requirements. The finalised Project Management Manual (PMM) does not address in detail the accounting and reporting requirements, procedures in completing reports, terms and condition of the JFA, PFOR and implications if reports are not submitted in time etc. The PMM should have a separate section on financial management and it should be disseminated to all levels of the IAs. Training or orientation sessions should be organized for the central level accounting staff of the line agencies on the implementation of the proposed FM section of the PMM. They will be mentors for the accountants at the districts level for clarification on any issue that arises. If any line agency at the central or district level face problem in implementing the manual then PFS should arrange a special training or orientation session for them.

JFA has a provision that NPTF can receive contribution in cash and kind. There is requirement of accounting and reporting of contribution in kind in the GoN accounting system (Rule 48 and 49 of the Financial Procedure Regulation) but in practice, the value of contribution in kind is recorded in the inventory records only. The PMM should provide the procedures of accounting and reporting of contribution in kind.

At present, funds released to the line agencies by the treasury are treated as expenditure in the central government accounting and reporting. In the case of advances provided for programme activities, they

are treated as expenditure. This is a major issue as substantial amounts left unspent is also reported in the financial statement as expenditure. This anomaly should be corrected at the time of preparing the consolidated financial statements by PFS. The procedure of making adjustments to correct this issue should be explained in the PMM. Moreover, the procedures of review and refund of funds remaining in non-freeze account should also be explained.

#### **4.5 Monitoring and Evaluation**

Financial management is an important aspect of project management but monitoring and evaluation of FM in the NPTF has not been given due importance. Some M&E actions on FM can be found in the external Reviews (2010 and this current exercise) of the NPTF, reviews by the FM Advisor recruited by the EU for the Donor Group and EU PFM staff, as well as internal occasional monitoring by PFS staff. Some improvements have been achieved in financial management as a result which is evident from the fact that overdue audit reports for FY 2008/09 and FY 2009/10 have been submitted. The recent external monitoring exercise with Scott Wilson did not include financial management. The overall effect is ad hoc and there needs to a more robust and systematic M&E framework for FM and it should be included in the external monitoring exercises of NPTF with relevant expertise being contracted for the purpose.

#### **4.6 Auditing System**

Internal audit of the government accounts is carried out by the DTCOs periodically. Our verification at the field offices (DTCO at Sindhuli and seven IAs) confirmed that the internal audit of NPTF programme is being carried out on a regular basis.

The Office of the Auditor General of Nepal conducts a financial and compliance audit each year of all accounts, including the FCA and local currency accounts. OAG conducts audits of the line agencies by its respective directorates responsible for such audits. The audit covers all sources and uses of funds for the Programme and OAG presents audit report in a consolidated form for NPTF. The audit is carried out after the close of each fiscal year and the report is to be submitted to MoPR (with a copy to the Donors) within 9 months after the close of the fiscal year.

There has been delay in the submission of the audited report by the OAG. The Audit reports for FY 2008/09 and FY 2009/10 were issued by OAG only on 23 September 2011 (with delays of 17 and 5 months respectively). The delay lies on the part of PFS as it does not submit the consolidated financial statements to the OAG for certification in time. On the submission of the consolidated financial statements to the OAG, it verifies it with the audited statements of the line agencies and then issues the final audit report. This process normally takes 15 days. PFS is in the process of finalizing consolidation of project account for FY 2010/11 and it is trying its best to meet the dateline (15 April 2012).

According to clause 65 of JFA, PFS is required to informally make available to the Donors the unaudited and the unapproved versions of NPTF related audits (MoPR and IAs) within three months of the end of the Nepali financial year. This section is not very clear and needs clarification. It probably refers to unaudited consolidated financial statements. Submission of the consolidated unaudited financial statements certified by the FCGO will address this clause. Once the unaudited consolidated financial statement is prepared then it can be submitted to the OAG for verification and certification in time. The time frame for the submission of unaudited financial statements should be six months, considering the complexity of the Programme.

JFA states that the project accounts of Non-Governmental Organizations implementing projects of the Peace Fund will be audited by the OAG. Such audits are in fact outside the mandate of OAG. Any framework for the audit of the NGO accounts, their consolidation in the financial statements would

need to be designed separately. Unless this issue is addressed, any participation of civil society in the implementation of NPTF fund will be delayed.<sup>22</sup>

#### **4.7 Capacity of Financial Management Section at PFS**

The capacity of the finance staff is the main concern in effectively complying with financial management functions at PFS. According to PFOR, there is only one post (Financial Management Officer (FMO)) at the PFS. This is under-secretary level post (second class). This post is vacant since the last FMO retired. At present one part-time FMO and one full-time accounts officer have been deputed from other GoN office to address the immediate needs of FM section. The Financial Management Section at PFS has a key role in financial management rather than accounting. It needs to play a more proactive role in engaging with the line agencies for follow up on reporting requirements, consolidation of trimester and annual reports, producing timely unaudited consolidated financial statements and financial reports for inclusion in the progress report, coordination with FCGO, safeguarding GoN and Donor funds, coordination with OAG etc. This Section should also be part of the PFS team in finalising progress reports.

Considering the scope of work of the FM section, we feel that it should be staffed with three persons. Positions should be created for two junior staff (one accounts officer and one accountant) to support the FM Manager. The role of the FM Manager is overall financial management, planning, reporting, coordination with various agencies, fund management, compilation of the consolidated financial statements etc. The Accounts Officer will be responsible in coordinating with the line agencies, explaining to them the reporting requirements of the JFA, assisting them in preparing the reports, providing hands on assistance to line agency staff, constantly follow up with the line agencies in the production and submission of periodic reports to PFS. The Accountant will maintain the accounting records of PFS and support the FM Manager and Accounts Officer.

In order to improve the FM system at PFS, it is essential to engage and get the support of accountants of IAs. We observed that meetings and interactions with IA accounting staff is rarely held. It is necessary to hold workshops/ trainings with them to discuss about problems and issues of IAs and PFS. Such workshops will be a platform for exchanging ideas, presenting issues and problems, sharing success stories etc. For example, Nepal Police has been furnishing consolidated financial reports from 71 districts and central office in time. Such meetings should be held each trimester. Representatives from the FCGO and OAG should also be invited in these workshop/meetings.

The EU has taken a particular interest and lead in supporting the FM aspects of NPTF. It works closely with and oversees a local FM Advisor who is recruited on a rotational basis on behalf of the DG to review the financial management at PFS and provide guidance to FM staff in preparing the FMRs and consolidation of financial statements. DFID was the first donor to recruit this consultant who is now being financed by Finland. In order to enhance the FM capacity, the EU has fielded two further consultants (national and international) for a longer time span who will provide intermittent input in improving the financial management system. To be able to fully utilize this support the PFS needs to have proper FM staff in place on a permanent basis.

### **5. CONFLICT-SENSITIVITY, GENDER, AND INCLUSION**

#### **5.1 Conflict Sensitivity**

##### *Strategic Framework of NPTF*

There is a need for strategic strengthening of NPTF. On this need, there is broad agreement among most stakeholders interviewed. However, as indicated in Section 2 on the context of the Peace Process, this strategic perspective has to emerge within the existing political context of the peace

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<sup>22</sup> The role of civil society and NPTF is discussed in Section 6.

negotiations and the strong drive of national ownership of that process. While the previous review called for a Conflict Assessment, it is the view of this mission that such an exercise is not appropriate or practical at the present time. Rather, the associated idea of the last Review, of some form of mapping of conflict and peace factors in the short to medium term is a more pragmatic approach. Introducing conflict-sensitivity in the form of guiding discussions on drivers for peace and potential conflict risks could be helpful to planning and development activities of the NPTF. There is a sense in which some of this discussion happens in an ad hoc manner. However, it needs to be made more explicit. There is scope for NPTF to work with the UNPFN and Donor Group in developing this practical mapping approach in drawing on a range of inputs and also enhancing coordination.

The *Peace and Development Strategy* (PDS) was developed by international development partners in 2011 under the auspices of the UN and was shared with the Government as a basis for discussion and a contribution to peacebuilding<sup>23</sup>. It mapped out a number of peacebuilding concerns that are well known in terms of understanding peace and conflict factors in Nepal, not least because many of them are part of the 2006 CPA. These include state restructuring, inclusion, land reform, transitional justice, employment and economic recovery. There has been no formal follow-up to this. It was described by one donor representative as ‘a sleeping document’. PDS after its preparation has remained mainly a donor document, while the GoN has not actively endorsed it and developed ownership of it. It is seen by many international partners as having put issues out in the open even if it did not directly result in strategic dialogue as hoped. It is seen by others as having enhanced donor commitments in key areas, notably in terms of the agenda on women, peace and security in the National Action Plan (NAP) of UN Security Council Resolutions 1325 and 1820. However, among donors there are divergent views about the purpose and effect of the PDS. It is clear however, that wherever NPTF strategic discussions take place and how they are facilitated, the issues of the CPA remain many and complex in both ‘concluding’ the peace process and continuing peacebuilding.

It has to be said that despite many concerns about ‘strategy’, strategic entry points for NPTF do exist; they simply do not add up to the grand peacebuilding strategy that some observers would like:

- The CPA for all that it gives a wide-ranging and unwieldy mandate to MoPR and the NPTF, remains a foundation document for peace and transformation in Nepal.
- MoPR has a mandate to develop policy to guide the work of the Ministry; calls to strengthen this strategic role are found in the recent Capacity Assessment (Nov 2011) and Capacity Development Strategy (Feb 2012).
- The successful development of the NAP 1325/1820 on women, peace and security in 2010 was an example both of a widely consulted national process of government and civil society, and of constructive and effective donor coordination through the leadership of the Peace Support Working Group (PSWG).
- The diversifying of the NPTF Board ensures that it will have an all-party basis for strategic discussion; it constitutes one of the few all-party forums of the GoN apart from the Special Committee. The new Board needs to be formalised and enabled to realise its potential for greater strategic guidance to NPTF.
- The regular forum of the GoN-Donor Group (DG) meetings of the NPTF could be better utilised as a forum for policy dialogue in addition to strengthening coordination of the total aid to the peace process.
- The workshop conducted between NPTF partners in November 2011 to agree on priorities for the fund and with another planned for April/May 2012 has already improved pipeline development and management. Strategic issues related to the future emphasis of NPTF could be included.

A running theme of this Review is the ways in which these entry points can be reinforced to enhance the strategic level impact of NPTF.

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<sup>23</sup> See UN et al (2011) *Nepal Peace and Development Strategy 2010-2015: A contribution to development planning from Nepal's development partners*

### *Project Design and Development*

A review of selected project documents reveals that the awareness of conflict-sensitivity in terms of having a theory of change that outlines how the project will contribute to enabling peace or reducing conflict is not yet happening in a systematic manner. This may in part be due to the reactive mode the NPTF operated in for much of the past 5 years. There is a need to encourage the recent and ongoing steps for more strategic and proactive actions in defining outcomes for the NPTF funding approach and projects. Weak conflict sensitivity is however, also due to the wider constraints of quality of project proposals and weight of process that are covered in the Governance and Institutions section of this report. For example, the development of high quality documents in English with reference to international best practices in terms of mainstreaming and cross-cutting issues. This knowledge and capacity gap has to be recognized. Clear and practical guidance on what *conflict-sensitivity* means in designing a project, during implementation and the implications for M&E would assist in this matter. Some training and capacity development in this field has already been conducted. A further development of training at district and central levels should also be considered to ensure those working on NPTF projects and processes are supported to build peace effectiveness into all aspects of their work.

### *Monitoring and Evaluation*

In terms of peace and conflict impact, the recent External Monitoring exercise led by Scott Wilson Nepal provides some very interesting feedback on projects and communities. This systematic approach to qualitative information and building an evidence base is very positive. This focus on peace and conflict impact has to be further developed. The second phase of the External Monitoring that is ongoing will focus more on outcomes including the development of outcome indicators for impact in terms of peacebuilding. This is very welcome. It is not an easy exercise and internationally, many aid agencies and organisations still struggle to match the expectations of results-based reporting with the qualitative challenges of measuring change in attitudes and risks for peace and conflict around projects and programmes. The acknowledged challenge (not only in Nepal but in many other post-conflict settings), of measuring impacts on peace building and conflict reduction needs to inform and support NPTF efforts.

More can and needs to be done on documenting and capturing the learning from completed and ongoing programmes. It is clear from interviews and the field visits that much information is informal and needs to be formalised to strengthen the outcome reporting of NPTF. For example, strong views emerged during the mission on the focus of NPTF on ‘hardware’ of infrastructure such as roads and police posts as part of the reconstruction of damaged community facilities. The call is for more ‘software’ peace projects that focus on social mobilisation, psycho-social recovery, reconciliation activities, and community recovery. However, peacebuilding is not a matter of one or the other but rather the balance of restoring community infrastructure as ‘peace dividends’ that are visible to communities and can be the basis for confidence and recovery. The team witnessed this first hand in its visit to a reconstructed police unit in Mirchaiya. Observations from our visit to the site, including a public discussion forum included:

- public confidence in security and openness in voicing concerns and criticisms
- positive and constructive relations between police officers and community members with an ethos of partnership at leadership level
- clear expression of changes since the end of the conflict
- economic and community building benefits of police presence
- women activists raising issues related to their local campaigns and need for more support from the security forces
- gender-sensitive design and consideration of women police officers and separate holding cells for detainees



LPCs are also a strong example of a direct peacebuilding intervention. They can act as an inclusive conflict resolution mechanisms at the local level. Further training of the LPCs is recommended for them to fulfil their important task at the local level. Learning from the organisational evolution of these bodies as well as the documentation of conflict resolution approaches and impact is an important area of learning for NPTF in terms of impact and also future direction of possible peace-enabling initiatives at the community level. The possibility of LPCs to use local Community Based Organisations (CBOs) as IAs on the local level should be scrutinized.

An NPTF commissioned knowledge development and lessons learned exercise could usefully include a desk-based comparative analysis with other peace fund mechanisms (both globally and in Nepal) to establish particular features of the NPTF and learn from what other mechanisms have learned from their monitoring and evaluation work<sup>24</sup>.

## **5.2 Gender and Inclusion**

Both the CPA and The NPTF ProDoc have provisions on social inclusion and the rights of women and children. The NPTF ProDoc clearly states that whenever required participation of women and other discriminated groups should be included in cross-cutting structures of governance, management, and implementation. After the restoration of democracy in Nepal in 1990, the women's movement played a very positive role in bringing up women's issues. The Constituent Assembly has a provision of 33% seats reserved for women members; this provision percolates to the decentralised local elections. Also the LPCs have the same provision for women's participation. Despite this encouraging policy framework, not enough concrete steps have been taken to ensure participation and involvement of women and marginalized communities. The Review of 2010 pointed out several areas where the NPTF lacked proper implementation of provisions including how gender will be integrated into projects, the inclusion of marginalised group representatives in the governance structures, the role of a focal point, and the gender balance of staffing.

During this review it has been observed that although certain steps have been taken on specific activities to implement activities, a gender-sensitive approach still has not been institutionalised throughout the NPTF activities. Having commitments in a project document is one thing but actually implementing them is another. The finding of this review is that NPTF activities have been streamlined a lot since its inception but that cross-cutting issues are still not taken up in a systematic and comprehensive way. In order to make this possible it is important to make changes throughout the governance, project design, project assessments, management and implementation.

### *NPTF Board*

The recommendation of the 2010 Review to include all parties of the CPA as full-fledged members into the NPTF Board has been discussed earlier. However, apart from the Chair of NPTF who is the Minister of Peace and Reconstruction Ministry (who happens to be a woman) no other Board member is woman. There is a need for greater efforts to include women and representation from other marginalised communities.

### *Political parties*

The inclusion of leading political parties in the NPTF Board is a very positive step. Their participation in the LPCs also takes this all-party approach to the districts and in some cases to the villages as some

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<sup>24</sup> The suggested knowledge development exercise would not be limited to M&E lessons but would seek to draw out learning on governance, ownership, partnerships and effectiveness. For example, a review was conducted in 2007 of post-conflict multi-donor trust funds operated by the World Bank and the UN (Scanteam 2007). See also ODI (2009) for helpful discussion of post-conflict funding mechanisms in South Sudan. The global UN Peacebuilding Fund has carried out some country level project-based reviews of its work. While there was a UN report on the peacebuilding architecture of the Peacebuilding Commission, there has not been as yet a specific review or evaluation of the funding mechanism (UN 2010).

of the LPCs have set up Peace Committees at the Village Development Committee level too. During the interviews with the political party leaders it was clear that although they were sympathetic to the issues related to women, children and other marginalised communities, they lacked the technical insights on how to incorporate the issues into the implementation part of NPTF. They were also committed to the overall political agenda of their party and the communities they represented. Yet, one cross cutting view that was reflected included the fact both representatives of the political parties in the Board as well as in the LPC, and governmental employees working with the NPTF stated that “NPTF was a national project”.

### *Ethnic Communities and Indigenous People*

There have been efforts to address needs of ethnic communities especially via the project submitted by NFDIN which is yet to be implemented. Also projects like the media campaign submitted by Radio Nepal propose to address issues of minorities. Although both the CPA and the NPTF project documents include commitments to Ethnic Communities and Indigenous Peoples there are no specific sections in any reports or M&E where disaggregated data is given to quantify or qualify the activities related to the inclusion of ethnic communities affected during conflict and their involvement throughout the peace process. Given the importance of inclusion of ethnic communities the fact that the NFDIN project has not yet been implemented could be a critical factor of their issues not having been addressed so far.

### *Geographic Exclusion*

Although Nepal has a decentralised administrative system it is still a reality that the policymaking is focused in Kathmandu and the implementation of projects are instructed from the Capital. This is enforced by weak infrastructure leaving huge areas days away by walking. As a result many rural communities are only to a limited extent mobilised on the key issues of the peace process. The team could also observe that localized challenges related to the peace and transformation process are less focused by the centrally located stakeholders. While having a focus group discussion with an LPC during field visits, members (including IDPs and CAPs) reflected the fact that if an individual had connections with policymakers in the capital there were more chances of getting their issues addressed. This pointed to two important factors. Firstly, the fact that the marginalised who had no “...influential connections in the capital...” were further marginalised; and secondly, people may still be lacking proper information on how to access the services of NPTF. It is also a fact that most of the time monitoring and reviews are conducted in easily accessible areas like Chitwan, Sindhuli etc. whereas the very remote areas like far west are less accessible and therefore left out. Scott Wilson in their on-going M&E exercise indicates the attempt to try to reach more of the remote areas.

### *Youth*

Nepal has a very large young population. Their status in society, lack of opportunities for education and employment, outward migration for work, and how they were affected by the conflict, and also were part of the conflict are all factors that need to be considered. This is important if young people are not to be neglected and also be a potential factor for future discontent and conflict risk. “I have a Master’s degree but no job...came to my home town with the hope of teaching in high school here but I cannot get anywhere near the job as I have no connections...” said a youth in Sindhuli, adding that he felt the unemployment was one of the biggest reason for conflict in Nepal. His reflection matches with the fact that 46% of the young people aged 20-24 are highly underutilised<sup>25</sup>. More than 4,000 Maoist rebels were under the age of 18<sup>26</sup>. One of the major challenges of restoring peace in Nepal is finding creative ways of engaging the youth in the country’s development. NPTF has possibilities to explore projects that target young people as part of the peace process and positive agents for peace. There is a youth programme in the pipeline at present that requires further scrutiny to take account of political risks and ensure quality of design and inclusiveness of target groups.

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<sup>25</sup>Nepal Labour Force Survey, 2008

<sup>26</sup>[www.globalyouthconnect.org](http://www.globalyouthconnect.org)

### *Project Development: The Clusters and Technical Committee*

There is provision of women's representation from Civil Society in the TC. How effective they are while implementing their activities are not clear. Participation from a broader civil society should be invited, perhaps based on their particular profession, like rights, gender based violence, inclusion of ethnic groups and so on. At the Sectoral Clusters where the technical development of proposals occurs, there is weak evidence in available Minutes of gender and inclusion mainstreaming, even if the PSWG and UN Women have actively participated. There needs to be a more concrete input from the Clusters in order to increase ownership and that discussions and decisions are tracked to ensure gender mainstreaming is happening.

There is a Gender Focal Point nominated in NPTF but her official job description and duties are as an Administration Officer. As the role of Gender Focal Point has no official designation or Terms of Reference the role is disempowered. Furthermore, there has been no guidance, capacity building or training provided to the Focal Point to enable her to assume her responsibilities in Sector Cluster meetings or to guide others on gender sensitivity. However, one must also guard against the danger of the Focal Point becoming the only point for gender in PFS and so wider training and sensitization initiatives need to be planned for all NPTF staff and partners.

Projects still need to include sections which clearly mention how the activities will benefit women and other marginalised groups including CAPs, and disabled people. Where and if possible there should be gender disaggregated/other minority disaggregated data, as part of baseline data for the project and specifically mentioning how many women and other minorities are supposed to benefit. Gender and conflict-sensitivity requires induction and checklists (support actions) to be pro-actively integrated into clusters, projects and M& E. The Project Management Manual should include one section specifying actions.

### *Implementation of projects: some observations*

The 2010 Review noted that gender issues in Cantonment management have not been addressed. This review notes these issues remain challenging. Women combatants with children now have added responsibilities of child care. Women combatants aspiring to be integrated into Nepal Army fear being marginalised as compared to their male counterparts in terms of options for the future. The livelihoods of women combatants who have taken voluntary retirement may emerge as an issue for the near future. A pipeline project is now in process and this should be monitored in terms of ensuring project quality and effectiveness. In terms of the reconstruction of police posts we observed that this has included separate quarters for women police officers. We also saw separate holding cells for women and men. We met with women police officers and saw evidence of awareness of creating female-friendly environments. One gap that we noted is the need for projects to address issues related to Violence Against Women including sexual violence during conflict. There needs to be a proper mechanism to implement and monitor such projects. A particular concern voiced by some interlocutors is how such sexual violence has affected sexual minorities, and how such incidents have been kept in dark.

### *Gender and NAP 1325/1820*

One positive and strong area of gender success has been the National Action Plan (NAP) 1325/1820 on women, peace and security. The overall Goal of the NAP 1325/1820 is that human rights abuses of women victims of conflict are addressed. There are three expected outputs: 1. Effective planning, monitoring, coordination and record keeping system operating within MoPR; 2. District Administration Office and designated officers operating successfully at the national and district levels; 3. Capacity enhanced of key line ministries and other relevant agencies to better implement NAP.

The NAP is to be implemented by the MoPR as lead agency with IAs including Ministry of Agriculture and Cooperative Ministry of Defence; Ministry of Education; Ministry of Health and Population; Ministry of Home Affairs; Ministry of Industry; Ministry of Local Development; Ministry of Law and Justice; and, Ministry of Women Children and Social Welfare. The implementation is countrywide with two main target groups of women and girls affected by conflict, and works through the various IAs together with the local decentralised development organisations like the District Development Committees.

An NPTF project dedicated to implementing the NAP 1325/1820 is now being further developed by a consultant hired through the TC Pool. The project is titled ‘Engendering Conflict Transformation and Peace Building Process: Implementing NAP 1325 and 1820’. The project Goal is: “To ensure effective implementation of National Action Plan, on United Nations security Council Resolution (UNSCRs) 1325 and 1820 for achieving sustainable peace in Nepal”. The major focus of the project will be on strengthening the capacity of MoPR and line agencies in implementing projects aimed at holistic empowerment of Conflict Affected Women and Girls including documentation of violence. The project aims at a multi-pronged strategy towards a gender-sensitive conflict transformation and peace building process. The total budget allocated for the project is USD\$7.3m (NRs 59,99,13,751.00).

The UN Agencies and international agencies working in Nepal around women peace and security have formed a Peace Support Working Group (PSWG) on implementing UN Security Council Resolutions 1325 and 1820. The PSWG is a consortium of about 40 organisations with 20-25 active members including DFID, Norway, Finland, UN Women and UNFPA. This PSWG has been crucial in supporting MoPR in developing the NAP on 1325/1820. Initially the PSWG was chaired by the Norwegian Embassy; at present, UN Women is the Chair and Finland is the co-chair. Together with supporting the development of NAP 1325/1820 PSWG members have also actively participated in the Cluster 3 meetings and provided technical inputs wherever needed.

## **6. ROLE OF CIVIL SOCIETY**

The Role of civil society is very important in the Peace Process as the establishment of human rights, and inclusion cannot be completed without their involvement. Civil Society Organisations (CSOs) have been involved as crucial actors in the development sector since the restoration of democracy in 1990. However, the inclusion of CSOs as implementing agencies for the NPTF is not straightforward as the procurement system of the government is not very conducive for CSOs and there is wariness amongst some government officials in moving in this direction. During this Review, however, we found a strong willingness among key officials to include civil society and an acknowledgement of a need to do so. Donor opinion has consistently promoted the idea.

There are different opinions on how and if the civil society should be included as implementing agencies under the NPTF. Four options were floated during this review: (1) draw upon existing cooperation with UNPFN to contract NGOs as implementing partners of UN Agencies as a possible last resort rather than first resort<sup>27</sup> (2) draw upon the range and strength of existing donor engagement with NGOs in peacebuilding and contract through donor agencies as a channel for NPTF to identify and reach appropriate NGO partners. (3) Build a new and separate or parallel mechanism for the

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<sup>27</sup> This option was explored as it was raised by some interviewees. However, the primary focus of the UNPFN is on UN agencies, funds and programmes to encourage the UN to ‘work as One’ on peacebuilding in Nepal. Using UN channels to access civil society partners is not necessarily the most effective or cost-effective way of working with civil society organisations given overheads and so forth. The point here is not to suggest that NPTF should use UNPFN as a preferred channel for working with civil society but rather to highlight that this feature of UNPFN is a point of complementarity even if it is an indirect and costly route to civil society organisations.

NPTF to fund NGOs. 4) Engage NGOs at the local level through the LPCs for project implementation.

A common theme that emerged in discussions was that similar to government actors, civil society is a much contested space, politicised in many ways and affected by the conflict and peace dynamics of the post-conflict context. Another theme was the Kathmandu-centric focus and power of NGOs and the risk of supporting a familiar set of actors instead of targeting civil society at district and community level where the direct delivery of projects and working on issues of inclusion are key. Therefore, credible, transparent criteria would need to be established for identifying NGO partners and much investment made in terms of capacity to support a new stream of implementation at a central level. Furthermore the team question if NPTF will gain from adding NGOs as centrally hired IAs since that would demand a separate organisational set-up. It was discovered that the Auditor General, in accordance with his mandate, cannot be called upon by NPTF to audit civil society projects and organisations<sup>28</sup>.

Having considered all the 4 options outlined above in the overall context of this Review in terms of challenges and opportunities for the NPTF, we consider that it is not currently good timing to launch a new arm to the NPTF. Instead, our tendency is to deepen the statebuilding focus of the NPTF in terms of the role of the state in peacebuilding. This does not preclude the need for greater involvement and outreach to civil society nor does it deny the need for CSOs to be supported and developed as agents for peacebuilding. The 4<sup>th</sup> option on LPCs emerged as the area where the team would make a recommendation for greater direct NPTF engagement with civil society.

In addition, the review recommends better coordination with bilateral support to NGOs in taking on board elements of option 2. Most of the donors who are supporting the NPTF are also implementing bilateral projects related to the Peace Process via NGOs and CSOs. Greater information sharing and coordination of these efforts could be facilitated by the MoPR. This would increase transparency and contribute to a strategic overview of on-going peace -related initiatives<sup>29</sup>. Further recommendations are made in relation to improving civil society outreach and engagement in governance, strategy, and communications of the NPTF. These are elaborated in the relevant Sections and the final Recommendations.

## **7. DONOR ROLE AND RELATIONS**

Donor dynamics are part of the political economy of the NPTF alongside Government relations (MoPR and IAs), political parties and civil society. Donors constitute one side of the partnership that is the joint GoN-DG NPTF and they have been part of innovation and impact of this unique modality. The 7 donors to the NPTF are Denmark, EU, Finland, Germany, Norway, United Kingdom (DFID), and Switzerland. USAID is currently undertaking a due diligence exercise as it considers joining the NPTF. The Donor Group is chaired by the Swiss Ambassador and supported by a Secretariat in the form of one UK DFID official. This Secretariat support has been instrumental to the success of the NPTF in building the strong relations that do exist in supporting information and coordination of DG partnership with the GoN. Indeed, there is reason to suppose that this capacity is already fully stretched in terms of engaging and supporting the structures of the NPTF and being at the forefront of strategic and operational development on behalf of the DG. These efforts and impacts need to be recognised and appreciated by all stakeholders. In fact, the DG needs to give serious consideration to continuing and expanding its investment in the capacity of the donor secretariat given the challenges and complexity of engaging with NPTF as a joint DG-GoN initiative and its focus on statebuilding and peacebuilding that require relatively high levels of engagement from donors.

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<sup>28</sup> This auditing function of civil society is set out in the 2010 JFA but in fact cannot be complied with.

<sup>29</sup> This is further discussed Section 8 on Coordination.

Five years on from the launch of the joint government-donor trust fund, this Review found the donors in reflective mood on the state of the Peace Process and the role of aid. This is partly symptomatic of the protracted process and inevitable as questions arise of how long is the post-conflict transition? We found a range of views with some donors stating that what remained was to simply see through the commitments for the formal benchmarks alongside the imminent shift to long term development and sector support to line ministries and other actors. Others were keen to move the focus on peace activities from the negotiating table to the country at large. Donor concerns about the NPTF can be summarised around 4 issues: financial management, perceived political bias in project priorities, weak ability to influence the political process and the desire for a peacebuilding strategy from the Government.

There is also donor frustration at the outcome of the recent integration packages for combatants because many international actors had called and prepared for rehabilitation packages that would involve training and skills as is common practice other post-conflict settings. The rejection of this option in favour of cash payments and army integration has affected some donor perceptions and morale in terms of viewing it as yet another instance of ‘paying for peace’ and questioning its sustainability. This arises from similar debates about relief cash payments to various CAPs and the expectations that have been raised. The integration package deal comes alongside another key concern for the international partners in terms of the status of the transitional justice provisions of the CPA. Bills have been drafted but have not advanced as yet. There is concern that deals may be done on granting a general amnesty and thus undermine the process. As a result, there has been something of an over focus on the ‘wait and see’ of the Peace Process and disappointment with the deal-making.

The Team recognises that the GoN and the donors experience the work with NPTF from two different points of departure. For the GoN the continuous dynamism in the political give-and-take that is slowly moving the process forward is the daily context of work. For the donors similar experiences count, but in addition experiences from other peace processes, and the general trend of reduced funds and reduced willingness to take risks, diversify the picture, sometimes at the cost of the necessary patience with the process in Nepal. To work with a peace process so strongly owned by the local authorities, and where governmental funds are subject to scrutiny also by the donors, is not a common experience internationally. Rather, the UN and/or World Bank usually adopt this role in post-conflict settings.

As a result, there is a climate of increasing expectations and conditionality now influencing donor engagement with the NPTF that poses a new challenge for the effectiveness of the NPTF. PFS and donors need to openly address if these demands are placing too much pressure on the Fund and if the spectrum of donor issues could be prioritised and sequenced in terms of what can realistically be addressed in the context of an on-going post-conflict peace process. Rising expectations are expressed by some donors as a lower threshold for political and fiduciary risk than previously. Yet, in considering donor political and fiduciary risks, there has to be recognition of the fact that the GoN is putting its funds, and indeed is the larger contributor, and making them subject to the different and demanding project cycle, quality control, decision-making, and accountability mechanisms that involve both donors and government as joint partners. The joint scrutiny and process that is unique to NPTF as a post-conflict peace fund, also means that political sensitivities and discussion of projects are more transparent and accountable at different levels.

The Team, therefore, finds that a gap in confidence and trust emerges between the DG and GoN despite the positive feedback that NPTF leadership, systems and governance, and monitoring and evaluation are all seen by many donors to have improved over the past 2 years.<sup>30</sup> It was also observed from interviews and reports from Joint Monitoring Visits to districts that this new practice is making a positive contribution to confidence and relations government and donors.

The joint-venture basis of the NPTF as a government-donor partnership means that the mechanism enables close coordination between GoN and donors. This takes the form of regular GoN-DG

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<sup>30</sup> Interviews with donors; also see Perception Surveys carried out by PFS.

meetings. Trust and confidence need to be kept in focus in helping this forum to be a source of policy dialogue and discussion. Observation of meetings and review of minutes of past meetings indicate that the GoN-DG forum has been overtaken by repeated criticism of financial management reporting delays, project selection, and timeliness of documents. Both parties to the NPTF should review the purpose and agendas for these meetings and consider ways and means of opening up policy space and limiting the micro and operational details for other forums such as the Sector Clusters or working meetings with PFS management.

In considering the role of NPTF and its continuing relevance to the peace process and peacebuilding it is important from a donor perspective to place such considerations in the context of international commitments made through the OECD DAC guidelines. The Fragile States Principles (FSPs) were adopted in 2007 to act as a guide to good donorship in post-conflict and post-crisis settings<sup>31</sup>. This Review finds the following principles particularly helpful to remember in the current context of the NPTF.

- ✓ Take context as a starting point
- ✓ Focus on statebuilding as the central objective
- ✓ Recognise the links between political, security and development objectives
- ✓ Align with local priorities in different ways in different contexts
- ✓ Agree on practical co-ordination mechanisms between international actors
- ✓ Act fast.... but stay engaged long enough to give success a chance

These Principles reinforce the Paris Declaration on Aid Effectiveness (2005) that included commitments to national ownership of strategies, donor alignment and use of local systems, and donor harmonisation to simplify procedures, avoid duplication and share information. The Paris Declaration stressed the need to adapt principles of aid effectiveness in challenging environments. The 2011 synthesis report of the second monitoring exercise of the FSPs in practice found that ‘international stakeholder engagement is partially or fully off-track for eight out of ten’ principles. Issues of risk aversion, pressure for short-term results, development partner fragmentation are highlighted.<sup>32</sup>

These considerations are helpful in mapping out a likely future for NPTF. As mentioned in the earlier section on the Status of the Peace Process, donors have to be wary of not allowing impatience with the protracted and challenging process and concern about important unresolved issues such as transitional justice and integration to undermine the achievements and efforts of this unique joint government-donor venture to support statebuilding and peacebuilding in Nepal.

## 8. COORDINATION

### *Other Peacebuilding Initiatives*

NPTF operates within a wider context of international funding and support to peacebuilding initiatives. Two notable and close examples are the United Nations Peace Fund for Nepal (UNPFN) and World Bank Emergency Peace Support Project (EPSP). Many references were made to UNPFN as the ‘little sister’ of the NPTF. It has been operating since 2007 when it was an UNMIN fund and became a fund operated by the UN Country Team under the RC/HC from 2010. UNPFN has a total budget \$34m, focused on UN agencies in a competitive bidding process. It focuses on niche areas in

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<sup>31</sup> It is acknowledged that the term ‘fragile states’ remains sensitive and contentious for countries emerging from conflict as it is not always a welcome label. However, the point being made here is that these Guidelines constitute donor principles for best practice in post-conflict settings and so are relevant to the NPTF as a peace fund operating in a post-conflict environment. See <http://www.oecd.org/dataoecd/61/45/38368714.pdf> ; <http://www.oecd.org/dataoecd/35/13/47278529.pdf>

<sup>32</sup> OECD (2011) *International Engagement in Fragile States: Can't we do better?*

where UN can add comparative advantage.<sup>33</sup> UNPFN also shares some donors with the NPTF – Denmark, Norway, UK and Switzerland.

Staff members at both the UNPFN and the NPTF are to be commended for the very close collaboration and relations that have been forged over the past 2 years. This is undoubtedly been a major factor in the heightened complementarity of the mechanisms reflected in the following:

- ✓ The NPTF Board is the guidance body to both UNPFN and NPTF
- ✓ The Director of the NPTF is a member of the Executive Committee of the UNPFN
- ✓ Both funds share the same Donor Advisory Group
- ✓ UNPFN has an office in the PFS where staff regularly come and work
- ✓ Joint planning working took place in late 2011 to ensure complementarity of pipeline projects
- ✓ UNPFN participates in Joint Monitoring Visits with NPTF
- ✓ Regular information sharing and updating at GoN-DG Meetings
- ✓ UNPFN works with civil society partners as implementing partners through UN Agencies and so it complements the fact that NPTF cannot do so.

Synergies are also being created among projects. For example, in working on women, peace and security, NPTF is now the lead funder on the NAP for UNSCRs1325 and 1820 having just approved a preparatory project on this in the last Board meeting and is in the process of formulating further sectoral projects within the NAP. However, it was a UNPFN project that supported the MoPR to formulate and launch the GoN NAP. The UNPFN is also supporting a project through the UN agencies on the documentation of sexual violence. This demonstrates good coordination between the NPTF and UNPFN projects and shows how they can go beyond simply ‘avoiding overlap’.

There is good coordination and information exchange with WB EPSP which is in effect a MoPR programme led by a Joint Secretary in the Ministry. The Programme of USD\$50m has been running since 2008 and received a no-cost extension in 2011 for one year to June 2012. A review in 2010 restructured aspects of the programme and encouraged greater NPTF/EPSP coordination. It addresses relief payments to conflict-affected persons (CAPs), skills and training packages, and the setting up of a Management Information System to support transparency and accountability of payments and recipients. (This includes an NPTF module). A further review is due in March 2012 and will consider performance of past year and the possible case for further extension as budgets are still not fully disbursed. The Director of PFS is a member of the EPSP Steering Committee. There is sharing and consultations on manuals, guidelines and so forth. The World Bank will also be involved in the TC pool in terms of sharing expertise.

There is however, a pressing need for better coordination and information sharing on bilateral initiatives, beyond NPTF and UNPFN, notably to INGOs and local NGOs. It was clear from interviews that all donors have portfolios of projects that cover a range of thematic areas of peacebuilding and involve a range of international and local organisations. Yet, there seems too little mapping of these efforts or analysis of fit and complementarity with other mechanisms.

The NPTF was by GoN and donors alike intended to be the main vehicle in support of the political peace and transformation process outlined in the CPA. The reality today is that apart from support through the NPTF and the UNPFN, a number of donors are channeling their support (and an increasing portion of it) focused on the peace process either through INGOs and NGOs, through national line ministries and UN bodies. The result is far less coordination, undermining of the national ownership and insufficient account taken of the complex and time-consuming national political process going on. The Team observed from several bilateral donors an impatience to move from the Peace Process to Development. If the GoN and the donors allow this tendency to gain speed, the unique peace and transformation process in Nepal will soon come under threat, from lack of flexible financial resources and a weakened coordination of the efforts financed by different stakeholders.

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<sup>33</sup> See *UNPFN Fact Sheet*, Nov. 2011; *Independent External Review of the UNPFN*, Aug. 2011.



Both GoN and the donors will be confronted with tough decisions if the process is to remain a national owned one or if the international community should engage in a much more direct way.

Greater transparency is in line with the DAC principles through regular sharing of information and increased coordination on funding through Government, UN and other international organisations, and INGOs, NGOs and CSOs. The on-going evaluation by DANIDA should also contribute to an improved understanding of the range and diversity of organisations, districts and programme areas that have been addressed through bilateral support from 2006-2011. This ambitious 'International Evaluation of the Support to the Peace Process in Nepal 2006-2011' is spearheaded by Denmark with other donors participating including Switzerland .

MoPR/NPTF has a role to play in aid coordination for peacebuilding that is not currently fully assumed.<sup>34</sup> This applies not least to mapping out the projects directly managed by MoPR under the NPTF and outside the NPTF. Leadership in this area would enhance strategic level of discussion, address some of the trust gaps and give substance to the value added of the NPTF as an instrument to advance the role of government and national ownership in the Peace Process and peacebuilding. Greater coordination and sharing of information on the full range of support to peacebuilding would also assist with planning in terms of identifying synergies, avoiding duplication and strengthening state-civil society engagement on peacebuilding.

Overall in terms of division of labour and best practice, improved coordination for the NPTF with other peacebuilding initiatives requires: clarification of the role of MoPR in coordination of the overall support to the peace process; appreciation of the complementarities of NPTF and UNPFN that are improving overall effectiveness; the support from different donors to NGOs should be seen as possibly a more efficient channel than establishing a separate mechanism under NPTF for disbursing to civil society organisations, but it demands a well developed coordination and better flow of information. Preferably projects to be funded bilaterally could also request an advisory opinion from the NPTF clusters.

The proposal of this Review (see also p.15) is for the Core Cluster of the NPTF to take up the role of tracking total engagement by Government, donors, and multilateral channels in support to the Peace Process and peacebuilding.

### *Coordination with MoPR and Line Agencies*

Internally in the GoN the MoPR was supposed to be the facilitator/coordinator of all activities related to the Peace Process, a task that seems to be followed up only to a limited extent. Partly it is said that is due to the fact that MoPR remains in a relatively weak position within the Cabinet. The Team is also of the impression that this task has until now not had a high priority in the Ministry.

There is a unique relationship between the PFS and the MoPR. The PFS director is one of the Joint Secretaries of the MoPR and other staff members are also within the overall umbrella of the MoPR. PFS is an extended wing directly under the overall supervision, control and direction of MoPR. On the other hand, MoPR is also a major IA of the NPTF. Because of this position, striking a balance between MoPR as the supervisory authority and also as an IA is not an easy task for the PFS management. Similarly, once the agreements are approved between the IAs and PFS, PFS has to recommend to MoPR for the authorization of fund release to the concerned ministry. Most of the Joint Secretaries at the MoPR are playing a double role as a Convener of the Cluster and also in charge of the IA. In spite of some limitations, being within the MoPR umbrella, PFS enjoys the access to higher authority within the MoPR, which creates an enabling environment to push its agenda at the policy level for any higher level intervention required.

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<sup>34</sup> MoPR has various policy, strategic and focal point functions in its 17 point mandate.  
<http://www.peace.gov.np/mandates-18-en.html>

During the project selection phase, there is a strong coordination mechanism between the potential implementing agency and the PFS. However, once the project is finalized and resources are transferred to the IAs, the rest of the project implementation falls within the responsibility of the concerned line ministry/implementing agencies. PFS has to depend on regular reporting from them. However, the mechanism does not always work well as anticipated. PFS has experienced difficulty in getting timely reports from projects, especially which are spread throughout the country with several cost centres. On one side, there is not enough capacity within the PFS to constantly follow the issues. On the other side, delay in reporting from the line agencies frustrates the PFS. Since the regular government mechanisms have to be followed by the individual IAs, there is less room for the PFS to make a direct intervention. Thus, PFS performance largely depends on the performance of the individual line agencies.

A recent perception survey has revealed that understanding of NPTF is higher within MoPR/PFS than the other IAs<sup>35</sup>. Knowledge and understanding of other potential agencies could be even lower, which can be viewed from the low level of participation from potential implementing agencies and minimum pipeline projects in hand.

Strengthening the capacities of PFS in project management and financial management as well as the proposed role of the Core Cluster in coordinating information on overall peacebuilding efforts across Government as well as through bilateral and multilateral channels should enhance engagement with and by implementing agencies.

## **9. COMMUNICATION AND INFORMATION**

Throughout the protracted and nationally-owned peace process the NPTF has served as the flexible source of financing important measures for keep the political process moving. During its Review of the NPTF the team found that the knowledge of what has been achieved through the Fund as well as how the NPTF is unique and working differently from ordinary development projects under the GoN budgets, was very low. Among donors as well as within MoPR and PFS and the different governance bodies of the NPTF, better and more systematic information on developments and achievements were requested.

During the time of review process the MoPR marked the 5 year anniversary of the NPTF that included re-launching the website of NPTF and the commissioning of filmed documentary pieces for the occasion. Included in the website are a number of interviews made with beneficiaries of different NPTF funded projects, an indication of the potential for further developing the external information and communications.

At the same time the Team was told by some interlocutors that a particular focus on the NPTF was not preferred. Rather, the achievements in the political process should be highlighted. The NPTF served in this regard as the important supportive tool and mechanism. This concern is understandable and should be taken into consideration in the following.

The Peace Process develops continuously and will demand development of information material in a way and form that caters for the continuous changes. The daily newspapers for example give a diverse and composite picture of the challenges. For the NPTF and the PFS it will be necessary to engage with a number of interlocutors to reach the general public more widely. Not least, the young generation and the different groups of marginalized people in the country should be targeted. As the regular education channels in Nepal will not be able to have a particular focus on the ongoing transformation of the country, a challenge for any information and communication strategy developed for the NPTF will be to identify other channels to reach this important group.

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<sup>35</sup> Findings of the Perception Survey of NPTF, February 2012

A communication and information strategy should be developed and implemented for the NPTF as soon as possible. The strategy should aim at covering:

- External information on what has been achieved in the peace and transformation process in Nepal, explaining the challenges ahead.
- Information to the donor community on the use of funds, decisions by the Board and Technical Committee, progress of different projects, results of external monitoring and evaluation and other relevant issues.
- Communication to the line agencies centrally and locally on the work of the fund, its purpose, guidelines and requirements. This should form part of a regular training of key official in IAs.
- Lessons learned from the on-going peace and transformation process ongoing in Nepal, to be communicated within the country as well as to the donor community and the international audience.

The team chose not to go into more specific proposals through what channels and by what means, as we see this as an important part of the strategy development. This should be done in close cooperation with relevant stakeholders in the MoPR and PFS, implementing agencies, donor representatives and beneficiary groups.

In addition to the development of an information and communication strategy for the NPTF, the team formed an impression that the donor community is in need of developing a proper information flow for all relevant stakeholders, among the donors but also including GoN, to address stated gaps in updating on the actual developments of issues of concern to them.

## **10. THE FUTURE OF NPTF BEYOND 2013**

### **Five years on: NPTF, its role and valued added to the peace process**

Five years on, the focus and context of the NPTF need to be reconsidered in light of the changing Peace Process and its successes and challenges. Moving from an early rapid response mode, NPTF is now well-placed to reposition its focus to build on critical areas of intervention and develop a medium to long term focus that can better anticipate and respond to the peace and transformation process beyond the negotiating table. This means better anticipating the potential conflict risks that may emerge when the formal process reaches its benchmark agreements. In the current situation, the bargaining and negotiating of the peace table and its side rooms constitutes just one level of the Peace Process in Nepal. It does not preclude or exclude ongoing peacebuilding, transition and transformation needs and responses that are very much at the heart of the CPA and evident in communities across Nepal.

Some donors speak of ‘alternative channels’ that seem to refer to long-term development assistance in the form of direct budget support to particular sectors, and continued support through INGOs and local NGOs. This presumes that either peace has been achieved or that government ministries are sufficiently enabled to take up longer term development programmes with a peacebuilding approach. Legitimate and responsible donor approaches of diversifying risk and channels for aid and influence need to be offset with continued need for NPTF as a state-centred peacebuilding mechanism in a protracted and ongoing peace process. The risk of a ‘wait and see’ approach of ‘keeping options open’ with various channels that are not fully known is that it can have the effect of creating unpredictability and conditionality in the framework of the NPTF.

Since the 2010 Review, NPTF has been absorbed in strengthening its internal working and consolidating its institutional mechanisms. There is a need to continue to this work and allow it to bed

down. This means allowing the relatively recent changes of governance and process to consolidate and strengthen and to make the mechanism more efficient and effective in fulfilling its mandate. This needs to be accompanied by a shift of focus to external actions and relations to project the work and influence of the Fund. This is reflected in the recommendations of this Review that emphasise

- an urgent need to build core project and financial management capacities of PFS to strengthen its operational base
- communications and outreach with the public, civil society and wider government in terms of line agencies and other implementing agencies
- Strategic lift in terms of utilising the existing entry points to envision greater impact over the next 5 years; these include the Board, MoPR, and GoN-DG meetings and relations.
- greater coordination in terms of support and engagement with IAs to improve quality and demand of projects and improve overall mapping and information sharing on peacebuilding initiatives by MoPR including of bilateral donor activities.

### **Options for NPTF in 2013**

The experience with the Peace Process up to now is that moves along a winding and complex road with a number of opposing views that need somehow to be reconciled. At the same time there is an international recognition of the importance of the strong Nepali ownership of the process. To keep this process on track with its setbacks and successes, and to strengthen the national ownership and identification with the process, a predictable and medium term commitment from the donor community, including the UN, will be very helpful.

Specific reasons for a predictable term of extension for the NPTF include: (1) NPTF is the only formal mechanism within the government system where all the key national actors as well as international partners discuss the peace process. (2) Investments have been made by both GoN and Donors in growing and strengthening the operations of the Fund and have already delivered important results in this protracted peace process; the foundations are well-established for peacebuilding in terms of the formal Peace Process and in informal community-based recovery to be more widely implemented with greater effectiveness. (3) The peace process is finally moving to a new phase which may allow other issues to be addressed as the work of the Special Committee on the integration of Maoist army combatants and the closure and transition of the Cantonments is now finally advanced. (4) Political fragility is still a present factor and will remain so for a few years to come even as governance and peace are strengthened through institutions and elections; this period remains critical and an all-party mechanism will remain necessary to address the stabilization process (peace building). (5) This Fund is supposed to support the activities and recommendations of TRC and other commissions. If and when they are finalized, their discharge of responsibilities within the given time and future recommendations of the commissions (unaddressed during this period) will require support in implementation. In that context the NPTF remains a relevant and appropriate mechanism.

International experiences of statebuilding and peacebuilding in other post-conflict settings indicate that investment of time, human resources and a willingness to adapt to local context while tracking important benchmarks remain critical factors for effectiveness and sustainability of peace.

Based on this Review it is suggested that the following are areas of focus where the NPTF can consolidate its success, extend its activities and deepen national ownership of the on-going formal peace process and the transition needs of peacebuilding on a nation-wide level.

- Continuing to backstop and support key initiatives of the formal Peace Process as appropriate and when they emerge from the political negotiations. These are likely to include national priorities like TRC, CoD, dissemination of work of CA, next election, preparations for state restructuring/federalism.

- Move from an emergency phase to focus on medium and long term peace and transformation related activities
- Follow up of the emergency phase to secure sustainability by building on the legacy of projects. For example working with CAPs and former combatants on community reintegration and livelihoods or using the reconstructed police units as a platform for fuller community security projects; enhancing women's participation in decision-making with capacity building and leadership support; extending support to people with disabilities in a more systematic way; building on the LPCs for district and village-based reconciliation activities
- Being pro-active in anticipating and responding to new challenges from Peace Process
- Launching a dedicated initiative to empower the LPCs, possibly through financing of concrete proposals to support local reconciliation
- Introducing transition strategies in future engagements, clarifying when and how they will be included in GoN's annual budget to ensure that NPTF can be a catalytic channel and example for line agencies in working in conflict-affected communities with a peacebuilding focus.
- Focusing more on projects reaching out to ordinary Nepalis, not the least marginalized groups and conflict-affected people and communities. This should be done in a way to strengthen the sustainability of the ongoing peace process in the country.

An important observation is the concern that supported activities should be transferred to the ordinary governmental budget. The team recognize this as a valid concern. Our proposal is that new projects to be approved, in the Concept Note as well as the Project Document, should outline if, how and when the project is supposed to be transferred. This way IAs will have to consider the relevance of the project in view of their ordinary portfolio, and make a concrete recommendation (as appropriate on a case by case basis) how and when it will be transferred to the ordinary budget.

It is the finding of this Review that NPTF can be supported to evolve as a channel for emergency funding tied to the Peace Process to realising its potential more strongly as a unique peacebuilding mechanism with national ownership and reach. The value-added of NPTF at this juncture is as a statebuilding initiative to enhance the role of the state in peacebuilding on a nation-wide basis. The Review therefore outlines two options for the NPTF when its current second phase comes to an end in early 2013.

- NPTF phases out when certain benchmarks of the Peace Process are considered to be 'concluded' e.g. Constitution is agreed upon, elections are held and new parliament elected. NPTF activities are transferred to the ordinary governmental budget.

OR

- NPTF focuses more on medium and long-term challenges related to the transformation and peace process to strengthen sustainability. The NPTF is extended for a defined period. Certain adjustments are made not in the structure but rather in the roles and the procedures, and capacity is strengthened.

The Review supports the case for the second option. It will require specific commitments and improvements in governance, capacity, and strategy setting. We do not say that NPTF should be extended indefinitely but that it should be given a credible time-frame and predictable framework within a post-conflict setting to strengthen its success and results and to realise its potential in terms of reach and impact across the country and in critical emerging areas of peace and transformation. We have not opted for annual or bi-annual reviews to continue to 'check the pulse' and decide on incremental extensions. Such limiting horizons risk creating conditions of 'wait and see' in terms of the peace process that compromise and even paralyze mid to long term planning and vision

## **11.RECOMMENDATIONS**

### **EXTENSION OF NPTF**

1. This Review recommends that NPTF is extended for 5 years until 2018 to provide a credible and predictable framework for supporting the ongoing peace process and taking stronger initiatives on mid to long-term peacebuilding.

All other recommendations work to support this extension and strengthen the effectiveness and impact of the NPTF

### **GOVERNANCE AND INSTITUTIONS**

2. The strategic guidance of the NPTF by the Board and the MoPR is an issue of improvement to be focused on. The broad political representation in the Board is seen as a necessary condition to succeed. The Board should focus on strategic guidance and guidelines for prioritization, based on the CPA as well as information on the total engagement in support of the peace process by the donors. The important Concept Notes, outlining the main features and the relevance of a project proposal should be approved by the Board based on the recommendation of the Core Cluster. To relieve the Board from the detailed project discussion, the authority to approve Project Documents should be delegated to the Technical Committee.
3. The Technical Committee should, based on input from the Sector Clusters, make a final scrutiny of projects with a focus on key cross-cutting issues and financial management, as the basis for final approval. Furthermore the TC should engage in strengthening the active participation of the Line Agencies in the GoN as implementers, and a range of civil society actors as important sources of experience on particular projects.
4. The Core Cluster should remain a key in securing that the Sector Clusters work in accordance with the overall guidance and priorities set by the Board and that experiences gained are disseminated to the other clusters. The Core Cluster should be the main body under the MoPR to assure the best possible coordination of the total engagement towards the peace and transformation process in Nepal and regularly report to the Board as well as to GoN and the donors.
5. The Sector Clusters should remain the first level of scrutiny of projects according to set guidelines and priorities. The donors will continue to play a crucial role, and should be requested to also offer targeted training on specific topics for cluster members. A dedicated project officer in PFS should support each cluster and its convener, in preparation of the meetings, and the follow up both during the preparatory phase, but also during the implementation with the Implementing Agencies. This way the Sector Clusters will get a continuous feedback from projects already approved. Cluster members should participate in follow up missions and monitoring visits.
6. The PFS should be staffed to be able to fulfill its role as secretariat for the different bodies governing NPTF in addition to managing the follow up of projects financed under NPTF. To strengthen PFS capacity, 4 programme officers (one for each Cluster) should be recruited as a matter of urgency. The Cantonment/integration project officer could possibly covering LPCs as a special interest area too. These posts are to be opened up and recruited from the market. The job description of the project officers would include proposal development and support to IAs, backstopping and support to Cluster conveners, monitoring and evaluation (including field visits

and financial monitoring), coordination support, document development, archiving and information management.

Additional capacities are also recommended in other sections of this report.

- *Finance management*
- *Communications Officer*
- *Gender Focal Point strengthened*

7. MoPR should give priority to examine the feasibility of a Performance Based Incentive System as envisioned by the Capacity Development Strategy for consideration by Cabinet. This should include an assessment of the experience, implementation and impact of incentive schemes in other parts of MoPR and other Government offices.
8. Stronger focus should be on dissemination of rules and regulations, and of progress in process and results of projects to different levels within Implementing Agencies as well as within the GoN in general.
9. Feedback to the Cluster members on the developments and results of projects could be systematized as part of the overall Information and Communication strategy recommended below.
10. An early identification of capacity available or needed by Implementing Agency to develop Pro-Doc should be addressed at Concept Note stage to avoid unnecessary delay and speed up the finalization of preparatory work.
11. It is recommended that cross-cutting issues like gender, inclusion, risk and conflict-sensitivity, and the need for qualitative indicators are dealt with also at the Concept Note stage. Project documents should also clearly outline qualitative indicators as base for measuring results and as basis for reporting. Baseline data should be included if possible so that change and results can more easily be tracked. In the quality assurance process through the Sectoral Cluster and the Technical Committee these issues should be highlighted and requests to include them where needed. (See related M&E recommendations 17, 40, 41,42)

## **PUBLIC FINANCIAL MANAGEMENT**

*Compliance of the conditions given in JFA and PFOR should be the top priority of PFS and Donors in improving the financial management system.*

### **(c) Improvement of financial management system:**

#### ***Capacity***

12. The present provision of one Financial Management Officer at PFS is not adequate for effective and efficient financial management. The present strength should be increased to three staff, Financial Management Officer, Accounts Office and an Accountant.
13. The present Project Management Manual has not addressed most issues regarding the financial management system. PMM should include a section on Financial Management for the benefit of PFS and the IAs. This section should address terms and conditions of the JFA and PFOR on financial matters, financial aspects of the ProDocs, procedures in compiling and reporting receipts and expenditures of funds, operation and management of FCA, accounting of funds received in kind, procedures in completing financial reporting formats, consolidation of financial statements,

adjustment of unspent fund balance in expenditure, role of IAs in complying with internal and external audit requirements etc.

14. Once section on Financial Management for the PMM is prepared, it will be necessary to hold workshop/trainings for the finance staff of IAs, representatives from the FCGO and OAG. EU Public Financial Management staff and FM Advisor/Consultants could be drawn upon to orient target groups about the use of the manual. These target groups will be mentors for the accountants at the districts level for clarification on any issue that arises. If any line agency at the central or district level face problem in implementing the manual then PFS should arrange a special training or orientation session for them.
15. It is essential for PFS to hold regular workshop/meeting with the finance staff of the IAs, FCGO, OAG to interact about the problems, issues, solutions on the financial management. Such workshop/meetings should be held every four month. FM Advisor/Consultants could participate in the trimester workshop/meetings of the finance staff and DG should be briefed on developments and outcomes.
16. The present role of EU in improving financial management should continue until FM functions and M&E are strengthened.

#### ***Monitoring and Evaluation***

17. Internal and external Monitoring and Evaluation (M&E) of PFM should be done in a more systematic planned manner at PFS in order to improve performance of FM section at PFS. A framework of internal and external M&E should be established integrating where feasible and effective with the overall NPTF M&E framework.

#### ***Procedures and Reporting***

18. Cost estimates in the ProDoc should be shown for each year (if the project is for more than one year). Annual expenditure should be further broken down into estimated expenditure for each trimester. Estimated expenditure for each trimester should be the basis of budget release.
19. Budget release to the IAs should be done by MoPR on the recommendation of PFS. PFS should recommend budget release for each trimester unless the project can prove that it requires additional fund vis a vis trimester estimate given in the ProDoc with valid justification. For example, error in cost estimate or timing of expenditure.
20. Financial Monitoring Reports should be produced every trimester. The central unit of the line agencies should be made responsible for producing these reports based on the reports received from the subordinate offices. PFS recommendation for issuing budget authority letter to MoPR for release of fund to the IAs for the following trimester should be done on the submission of FMRs and fund forecast for the next trimester by the IAs.
21. PFS is responsible for submitting deposit of fund in FCA certified by the FCGO (with bank statement) to the donor group Chairperson. This condition of JFA should be complied with. As FCA is outside the jurisdiction of PFS, it does not get timely information of fund movements in the FCA (from FCGO and Donors). FCGO and Donor should send a copy of each transaction in FCA (deposit and withdrawal) to PFS in time so that it is aware about fund flow in FCA.
22. PFS should prepare cash forecast for Donor share of fund for each trimester. Based on the forecast of funds required for the trimester, PFS should request FCGO to transfer funds from FCA to the government treasury. Delay in fund transfer has an impact on the liquidity position of the government.



23. Memorandum account of FCA should be maintained by PFS. Transfer of funds from FCA should be done by the FCGO only on the request of PFS based on forecast of fund for next trimester as stated in Para 11 or actual expenditures incurred in the previous trimester submitted by PFS. It is, therefore, important to strengthen and update trimester reporting system at PFS.
24. Funds released to the line agencies are treated as expenditure according to government accounting system. As a result the expenditure reports and the audited consolidated financial statement show excess expenditure. This anomaly should be corrected in the consolidated audited financial statements so that correct status of actual expenditure is reported. The FM consultants currently in PFS could develop steps for the consolidation process to address this anomaly and include them in the proposed section on FM in the PMM.
25. JFA requires submission of audited financial statements to MoPR and Donors within nine months after the end of the financial year. PFS has not been able to meet this dateline. This shows weakness in accountability and transparency and a major concern of donors. Dateline for the submission of audit report certified by the OAG should be met.

**(d) Amendments to JFA and PFOR**

26. JFA requires classification of budget head into recurrent expenditure (budget head 62-3-205) and capital expenditures (budget head 62-4-205). But Project Performance Report (PPR) requires expenses to be reported under Personnel, Contracts, Training, Transport, Supplies and Commodities, Equipment, Travel, Miscellaneous expense classification. Expenditures classification under sub heads (for PPR reporting) should be done according to the government budget classification in the ProDoc and JFA reports.
27. JFA states that the project accounts of NGOs implementing NPTF projects will be audited by the OAG. A framework for auditing the accounts of NGOs would need to be developed, if they are to be included as IAs at the central level, as such audits fall outside the OAG mandate.
28. PFS is required to informally make available to the Donors the unaudited and the unapproved versions of NPTF related audits within three months of the end of the financial year. It should be made clear that unaudited financial statements should be certified by the FCGO. Considering the complexity of the financial management of NPTF Programme, time frame for the submission of unaudited accounts should be extended to six months.
29. GoN and Donors have made funding projections to NPTF. Donors may have specific preference in funding different projects. At present funding ratios of GoN and Donor funds have not been fixed (for the fund as a whole or for any specific Programme). GoN and Donor should discuss the merits and demerits of fixing the funding ratio (GoN: Donors) to make commitments of fund of both parties more specific and easier to forecast funding.
30. The present requirement of submitting monthly financial reports to PFS does not have much value. Instead of submitting monthly reports to PFS, central level Line Agencies should be made responsible in submitting trimester reports to PFS.
31. The 2010 review recommended the removal of 1% management fee which anyway is not indicative of the actual management cost of the fund. Part of the administrative overhead of the NPTF is currently covered through separate projects. This recommendation needs to be considered in the amendment of next JFA.

## **CONFLICT SENSITIVITY, GENDER AND INCLUSION**

### ***Strategy***

32. MoPR, PFS and the DG should consider the ways and means in which existing entry points for strategy and priority for NPTF could be developed to enhance focus and impact. These entry points include Board meetings, the MoPR policy mandate, and GoN-DG meetings and relations. In terms of practical mapping of drivers for conflict and enablers for peace, there is scope for positive cooperation among NPTF, UNPFN and the Donor Group in developing analysis and enhancing coordination. Consideration could also be given to holding an annual workshop/seminar to assess the strategic focus and priorities of NPTF bringing together various stakeholders including Board Members, GoN officials, DG, IAs, UNPFN and NGOs as well as some beneficiary or community groups.
33. NPTF/PFS should consider commissioning a knowledge development exercise to more fully document and capture learning and peace-related impacts from completed and on-going projects as well as from the overall NPTF mechanism.

### ***Quality of Projects***

34. It is recommended that clear guidance as well as a checklist be developed to assist IAs, Board Members, Cluster Convenors, project staff and relevant reporting staff to understand conflict-sensitivity, gender-sensitivity and inclusion and how to ensure they are embedded in all aspects of an NPTF action. The Project Management Manual should include one section specifying actions. Training of Cluster member should be organized accordingly. Donors as well as the UN should be invited to take part and contribute to this.
35. It is further recommended that such tools be part of an overall training and capacity building effort to strengthen skills and knowledge on peacebuilding, conflict transformation, gender and inclusion. These 'softer' essential skills and knowledge are critical to enhancing the effectiveness and impact of the NPTF. Identification of training needs should include a review of previous and on-going training events and capacity building measures for conflict-sensitivity by various actors. There is scope here for collaboration with UNPFN.

### ***Governance***

36. It is important to continue the inclusion of leading political parties in NPTF activities. It is recommended that political leaders and Board Members are given a training event related to the issues of inclusion and gender.
37. A special provision should be considered that at least two members of the Board should be women who could be political leaders or invited representatives taking up issues related to women and minorities. They can be added to the Board as external invitees outside of the Board quota so as not to disturb the current structure. Transparent criteria for selection purposes would be required.

### ***Capacity***

38. The role of the Gender Focal Point needs to be officially designated in NPTF by MoPR with an agreed Terms of Reference. Furthermore, a clear training and capacity plan has to be developed with the Gender Focal Point to equip her more effectively for the role and to enable her to guide others.
39. Gender experts need to be more fully involved during the technical appraisal phase of the project, particularly at Sector Cluster and Technical Committee stages. The strengthening of the NPTF

Gender Focal Point is one aspect of this but so too is widening the expert base to invite and draw from for technical inputs. The PSWG may be able to offer particular regular inputs in this regard building upon earlier involvements.

### ***Monitoring and Evaluation***

40. The on-going work on M&E needs to be reinforced in terms of the finalisation of outcome indicators for projects and the overall NPTF mechanism itself, with a focus on peace effectiveness. This should take account of international efforts to develop such indicators and could usefully be engaged in collaboration with UNPFN, DG and specialist international NGOs.
41. The feasibility for NPTF to gather disaggregated data for both gender and ethnic minorities at the project level should be considered where appropriate as a basis for better reporting on needs and impacts.
42. Reporting on projects, with the assistance of the yet to be finalised outcome indicators and recent external monitoring reports, should be encouraged and guided on better capturing qualitative observations in a systematic manner related to conflict-sensitivity, gender and inclusion.
43. In the next phase of joint reviews, M&E exercises, and other visits, remote districts and communities who have not been visited should be given priority.

### ***Projects***

44. NPTF should seek further synergies within its portfolio by encouraging projects to complement each other in addressing issues related to ethnic minorities. For example the project that is to be implemented by NFDIN could have an element of collaboration with Radio Nepal to include issues related to their target group. In addition potential needs should be examined in relatively neglected areas such as projects targeting violence against women as a conflict-related issue, and reaching out to ordinary Nepalis, particularly focusing on marginalized groups and conflict-affected people and communities.
45. Projects suitable for youth involvement in taking the peace process forward should be designed with inclusion of women and excluded minorities who can access these initiatives in the rural area to take these projects forward. However, measures must be taken in account to prevent politicizing of these projects.

## **ROLE OF CIVIL SOCIETY**

46. In order to make the overall activities of NPTF effective a gender/ civil society expert should be invited to the Core Cluster and Sectoral clusters so they can make sure that the issues related to gender, and inclusion of all disadvantaged and minority groups are addressed in projects.
47. Invite members from the civil society organisations to participate in selected NPTF monitoring and evaluation activities
48. Consider hosting workshops at level of district or development regions where CAPs, IDPs and other beneficiaries of NPTF projects share with the civil society organisations under the auspices of MoPR for wider communication and dissemination of NPTF activities and to also get the inputs for planning and M&E (*see related recommendation 32*)
49. NPTF to develop a pilot programme to strengthen a selected number of LPCs, situated in areas particularly affected by the conflict and with a high number of marginalized groups and people. Through this program the LPCs based on a clear set of criteria would be able to present local projects aimed at strengthening reconciliation and transformation. A budget frame could be given.

The LPC would be responsible for implementation, with the possibility of involving local CBOs and NGOs, reporting and social auditing in the local community. The conflict resolution potential of the LPCs could be strengthened in terms of further focus and capacity building. This initiative requires further scoping of the LPCs and criteria for selection of priority districts as well as overall feasibility and focus for taking this forward in the context of ongoing support to LPCs through the NPTF and through the World Bank EPSP.

## **DONOR ROLE AND RELATIONS**

50. That the DG review and consider the relevance and effectiveness DAC Guidelines in shaping its on-going partnership with Government in the NPTF
51. MoPR and the Donor Group to review the purpose and agendas for the GoN DG meetings and consider ways and means of opening up policy space and limiting the micro and operational details for other forums such as the Sector Clusters or working meetings with PFS management.
52. The DG should give serious consideration to continuing and expanding its investment in the capacity of the donor secretariat given the challenges and complexity of engaging with NPTF as a joint DG-GoN initiative.

## **COORDINATION**

53. GoN should take a much more proactive and strong role in establishing a comprehensive coordination of all support given through government, bilateral and multilateral channels to the peace process and peace related activities. The proposal is that the Core Cluster on behalf of MoPR takes this responsibility in close cooperation with the UNPFN and the DG. The aim should be to establish a unified knowledge on all activities as well as secure maximum synergy and avoid overlap or double financing of activities.
54. GoN should empower MoPR to better fulfill its task as the internal coordinator in the government of peace related activities. The Secretary of MoPR could play a strong role for inter-ministerial coordination in the form of a quarterly meeting should be called for all relevant ministries and agencies to strengthen coordination and mobilize active participation from all.

## **COMMUNICATION AND INFORMATION**

55. MoPR/PFS to develop a Communications and Information Strategy for the NPTF with a focus on outreach to the public, improved information with IAs and Donors, communicating results and lessons learned
56. A Communications Officer post to be outlined and recruited for PFS to strengthen capacity and directly support the development and implementation of the recommended Communications and Information Strategy
57. The Donor Group to consider internal discussions on improving information flows and gaps as a basis of feeding into the proposed Communications strategy, and to also strengthen coordination among donors and between donors and MoPR/PFS.