Performance Monitoring System of Local Government in Nepal

1. Chosen sector for this presentation:
   Governance sector (especially at local government level)
   Focus: Performance Monitoring System

2. Overview of local government system in Nepal:

   Nepal is known as a Himalayan country and now in politically transitional phase. Even if the new political movement in 2007 has directed that the new constitution will establish as a federal country, Nepal is still practicing unitary governance system because of derailing the new constitution making process. According to the political division, Nepal has divided 75 districts, 58 municipalities and 3915 village development committees (VDC) which are known as local bodies (local governments). VDC and municipality is the lowest political unit. Nepal's interim constitution (2007) has adopted the principle of devolution to promote the self-governance system in enhancing the local services, balancing the regional development, and promoting the social equity. Local self-governance Act (LSGA), 1999 is the main law for it.

   In summary, we can say that there is unitary government system with central and local government having two layers of local government which is shown here:

   ![Diagram of General Government Structure in Nepal]

   Figure 1: General Government Structure in Nepal
   Note: This figure is developed to describe the overall structure in brief.

   The decentralization is common agenda in Nepal. To promote the decentralized services these are the major efforts towards it.
   - There is almost 50 years’ experience towards the decentralization.
Main basis of local government system is local self-governance, and principle of devolution. Based on the principle, other acts and regulations are implementing.

Local Self-Governance Act (LSGA), 1999, is in place as main law.

Decentralization practices in sectors are also been implementing as the spirit of constitutional provision.

General working structure of local governments in Nepal looks as follows:

![Organization Structure of Local Government in Nepal](image)

Note: This figure is developed to describe the overall structure in brief.

The council, executive committee and chair-person/Mayor is elected from direct voting from local people. This figure shows that there is many rights for their own decision taking and implementing. It means that LGs are autonomous institutions.

3. LGs' performance situation and its issues

Current Situation

- LGs have been given functional and financial power to decide and implement their priorities.
- There was growing trend of functional responsibilities and source of funding (grants from central government and other development partners)
- The new local self-governance act was enacted and elected local governments were working.
- The central political leadership was not so strong. Local leaderships were comparatively strong, but there was not unified working environment.
- But many LGs were not accountable according to the spirit of devolution
- Encouraged bureaucratic team was working in local affair agency (LAA).

However, overall the central monitoring and control of LB expenditure was very weak
Issues on the performance of LGs

- Planning and Implementation were not conducted on time
- Difficult to align the local investment in according to the provision
- Control from center was almost impossible because of the issue of autonomy and weak controlling capacity of local affair agency (LAA)

4. Selected policy issue:

For this sharing purpose, I have chosen this issue "How the local governments could be monitored without avoiding the principle of local autonomy and made them responsible for their responsibilities".

The reasons for choosing the issue are:

- To show how the small initiation can influence in policy
- To explore the example of team effort and its causes

To address the issue, an introduce MCPM system to monitor the performance of Local Governments was adopted as counter measure.

5. Analysis of the issue

The following three basic matters were the key driving elements of selecting the system:

- Need to establish Performance Based Grant System (PBGS)
- Need to improve the local services and develop an accountable LG
- Need to introduce strong and effective tools to monitor the LGs

This system (MCPM) will work as follows:

- It affects the relations between center and local government, local politicians and people, and local government units and their clients which is shown in figure 1.
- Assessment will be done on the set indicators. For MC, there is only 2 option; Yes or No, and for PM; there is total 100 marks in 57 indicators. Then, the result will use to allocate the grants.

How it was initiated:

This was a team effort. There were not any single leaders. This is a result of common team effort in single agenda. In general, we can say that these are the leaders:

- Bureaucratic Team within LAA
- Forum of local elected leaders
- Support from Development Partners (a project DFDP’s continue support)

The first pilot testing was conducted in 2004 in 20 districts and that result was used in funding the project –DFDP in FY 2005/06.
Mainstreaming the system:
- After testing in 20 districts, the assessment system was implemented in all LGs (districts, municipalities and villages) gradually
- Then, the result is used to allocate unconditional (block) grant and some project specific grants (e.g. LGCDP funding)
- To assure the trust (validity and reliability) of assessment process and result, quality assurance mechanism is developed.

How the system addressed in Government Policy:
- After seeing positive outcomes (in improving service delivery, planning and monitoring culture, spending capacity, record keeping and so on), Government formally accepted this system from FY 2006/07 and aligned in National System.

Components for sustaining the system:
- This system is legalized through government regulation.
- It is accepted as a part of regular government function and resource allocation
  - DPs are also supporting/funding
- A independent national agency (local bodies fiscal commission-LBFC) is assigned to execute the assessment process
- Linkage with financial incentives and penalties
- Ownership:
  - Lead by central govt. agency (LAA)
  - Fully accepted by LGs

Issue for improvement of this system
This is one continuous learning and improving process. It also expects the level of improvement. The current effort can be taken as first level effort. Therefore, there is some issues for its betterment as follows:
- Improvement of Indicators (process based indicators to outcome based indicators), and
- Link the results to other governance indicators

My eagerness after taking this course (PDI-in-DCs):
- How can we develop the team effort culture at leadership level? Does this example present the potentiality of such types of leadership in the macro context of developing countries?
  In other word, does this type of team working mechanism effort to formulate the macro-level policies? Is it feasible in other sectors?
What is MCPM?

Minimum Conditions and Performance Measure (MCPM) is a system which assesses the performance of local government. To measure it, there is set the certain standards on the basis of current legal provision. The result is used for providing unconditional grants and revenue sharing. The local affair agency, in Nepal Ministry of Federal Affairs and Local Development (MoFALD) is bearing this role, is responsible to evaluate the local government's performance on the basis of the set standards. MoFALD has delegated this role to Local Bodies Fiscal Commission (LBFC).

There are two sets of indicators for monitoring the performance of local governments. 1) Indicators for measuring Minimum Conditions (MC), where are 4 areas and 15 indicators in the case of District level. 2) Indicators for measuring Performance Measures (PM), where are 8 areas and 57 indicators.

Areas and indicators of MC (total 15)
1) Planning and Management (5)
2) Financial Management (7)
3) Formation and Function of Committees (2)
4) Transparency (1)

Areas and indicators of PM (total 57)
1) Planning and Programme management capacity (8)
2) Budget Management (6)
3) Financial Management (9)
4) Fiscal Resource Management Capacity (6)
5) Budget release and Programme Execution (7)
6) Communication and Transparency (8)
7) Monitoring and Evaluation (5)
8) Organizations, Service Delivery and Property Management (8)

This system has been introduced for strengthening the local services, and promoting accountability of local government, and establishing the concept of Performance Base Grant System (PBGS).

The overall objective of this performance monitoring system is
- to improve the performance of local government by using the incentive and penalty mechanism
- to promote accountable local government.

The first pilot testing was conducted in 2004 in 20 districts and used the result for funding the project 'Decentralized Financing and Development Project (DFDP)' grant in 2005/06. After then, the evaluation result is using to allocate unconditional (block) grant. The outcomes were very positive in improving service delivery, planning and monitoring culture, spending capacity, record keeping and so on. Then, this system has been fully implemented in all districts, municipalities and villages gradually.

Assessment manual, quality assurance, third party (independent) evaluation (Team composition: local governance expert and financial management expert), and transparent
indicators & process, appeal system are the keys for its success. The overall assessment process looks as follows:

Figure 4: Working Flow of performance monitoring system

Note: This figure shows the general understanding of the working flow

After getting the assessment result, it is used as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Performance “rating” and conditions</th>
<th>Reward/Sanction</th>
<th>Staff Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>MC not met</td>
<td>Lose all formula based grant</td>
<td>=</td>
</tr>
<tr>
<td>2</td>
<td>MC met but failed in any one of the areas of PMs</td>
<td>Less by 20 %</td>
<td>=</td>
</tr>
<tr>
<td>3</td>
<td>MC met &amp; obtained 36-50 marks in PMs</td>
<td>Status quo</td>
<td>=</td>
</tr>
<tr>
<td>4</td>
<td>MC met &amp; obtained 51-65 marks in PMs</td>
<td>20 % more Rs. 100 thousand</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>MC met &amp; obtained 66-80 marks in PMs</td>
<td>25 % more Rs. 125 thousand</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>MC met &amp; obtained 80 + marks in PMs</td>
<td>30 % more Rs. 150 thousand</td>
<td></td>
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</tbody>
</table>

The methods of calculating the formula based grants (the affect of performance result) can be seen in figure 3. Small portion of grant will allocate as an entitlement grant and major portion of grant will allocate on the formula basis. And, the formula based grants will be tied on the MCPM result.

Government formally accepted this system from FY 2006/07 and aligned in National System. The indicators (both MC and PM) are linked in core performance areas like planning, financial management, good governance, transparent working culture, and so on.

The following shows the effect of this system that how the performance status is changed:
Similarly, the following one case will help to understand how this system affects

“Kathmandu Metropolitan City failed in FY 2008/09 in MC/PM. This triggered the local politicians who questioned the staff why it happened. Then, the things started improving. This shows that the system is not unfavorable for resource poor local bodies as some tend to blame performance based system.”

Learning from others

The concept has been transferred from developed (industrialized) countries and lessons from Uganda and Philippines were in center.

References:


