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INTERNATIONAL DEVELOPMENT ASSOCIATION

EMERGENCY PROJECT PAPER

FOR A

PROPOSED GRANT

**IN THE AMOUNT OF SDR 31.3 MILLION
(US\$50 MILLION EQUIVALENT)**

TO

NEPAL

FOR AN

EMERGENCY PEACE SUPPORT PROJECT

April 21, 2008

**Human Development Unit
Nepal Country Management Unit
South Asia Region**

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Currency and Equivalents
(Exchange Rate Effective April 1, 2008)

Currency Unit = Nepali Rupee (NRs.)
US\$1 = NRs. 63.7
NRs = US\$ 0.016

Fiscal Year
July 15 – July 14

Abbreviations and Acronyms

23PA	23 Point Agreement
ARCS	Audit Report Compliance System
CA	Constituent Assembly
CBO	Community Based Organization
CDD	Community Driven Development
CDO	Chief District Officer
CFAA	Country Financial Accountability Assessment
CPA	Comprehensive Peace Accord
CQ	Consultant Qualifications
DFID	Department for International Development (UK)
DOs	Development Objectives
DOA	Department of Agriculture
DOI	Department of Industry
DTCO	District Treasury Controller Office
EPP	Emergency Project Paper
ERTA	Economic Reform Technical Assistance
ERW	Explosive Remnants of Conflict
EU	European Union
FAR	Financial Administration Regulations
FM	Financial Management
FPR	Financial Procedures Regulations
GON	Government of Nepal
GTZ	German Agency for Technical Cooperation
IC	Individual Consultants
ICLA	Information, Counseling and Legal Assistance
IDPs	Internally Displaced people
IEC	Information Education Campaigns
INSEC	Informal Sector Service Center
IPR	Implementation Progress Report
IRC	International Rescue Committee
ISN	Interim Strategy Note
LPCs	Local Peace Committees
MIS	Management Information System
MOF	Ministry of Finance
MOPR	Ministry of Peace and Reconstruction
NCB	National Competitive Bidding

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NGO	Non-Governmental Organization
NPC	National Planning Commission
NPTF	Nepal Peace Trust Fund
NRB	Nepal Rastra Bank
NRC	Norwegian Refugee Council
OAG	Office of Auditor General
OTI	Office of Transitional Initiatives
OP/BP	Operational Policy/Business Policy
PAF	Poverty Alleviation Fund
PC	Peace Commission
PEFA	Public Expenditure Financial Accountability
PEM	Public Expenditure Management
PFAA	Public Financial Accountability Assessment
PFM	Public Financial Management
PMT	Project Management Team
QBS	Quality Based Selection
QCBS	Quality and Cost Based Selection
RR	Rapid Response Operation
SOEs	Statements of Expenditures
SPA	Seven Party Alliance
SPP	Simplified Procurement Plan
TA	Technical Assistance
TFs	Trust Funds
TORs	Terms of Reference
USAID	United States Agency for International Development
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNMIN	United Nations Mission in Nepal

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NEPAL
Emergency Peace Support Project

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RAPID RESPONSE OPERATION PROJECT PAPER DATA SHEET

Nepal

Emergency Peace Support Project

South Asia Region

Date: April 21, 2008 Country Director: Susan G. Goldmark (SACNP) Sector Manager: Mansoora Rashid (SASHD) Lending instrument: Rapid Response Lending (OP/BP 8.0)	Team Leaders: Philip O'Keefe (SASHD) and Roshan Bajracharya (SASPR) Sectors: Other social services Themes: Conflict prevention and post-conflict reconstruction, Social risk mitigation Environmental screening category: C		
Project ID (s): PE-P110762			
Type of Operation: New Operation <input checked="" type="checkbox"/> Additional Financing <input type="checkbox"/> Existing Financing (restructuring) <input type="checkbox"/>			
Financing type: Loan <input type="checkbox"/> Credit <input type="checkbox"/> IDA Grant <input checked="" type="checkbox"/> Other <input type="checkbox"/>			
Project ID(s): PE-P110762	Total Amount: US\$50 mln. (31.3 million SDR)		
Proposed terms: IDA Grant	Expected implementation period: 3 years		
Expected effectiveness date: June 15, 2008	Expected closing date: June 30, 2011		
Borrower: Ministry of Finance, Government of Nepal	Responsible agency: Ministry of Peace and Reconstruction, Government of Nepal		
Development Objective: The overall objective of the project is to contribute to the consolidation of the Nepal peace process by supporting: (i) Government to meet commitments to selected groups affected by the conflict, including families of those killed as a result of the conflict, conflict-related widows and orphans, disabled people, and individual Maoists in cantonments; (ii) ensuring transparency in implementation of benefits under the Project for the conflict-affected groups, including the Maoists in cantonments; and (iii) strengthening of key institutions which are tasked with policy and implementation functions in peace building, reintegration and rehabilitation.			
Short Description: The proposed grant would help finance the costs associated with commitments of the Government of Nepal (GON) to post-conflict recovery interventions related to the peace process for identified groups. The proposed support will help respond to the situation by: (i) financing agreed payments and reintegration interventions to selected groups affected by the conflict, including families of those killed as a result of the conflict, conflict-related widows and orphans, and disabled people; (ii) financing agreed periodic payments to individual Maoists in cantonments in respect of implementation of the Comprehensive Peace Accord; and (iii) capacity building and technical assistance to GON to perform its peace building, reintegration and rehabilitation functions in the post-conflict period.			
Financing Plan (US\$ million)			
Source	Local	Foreign	Total
Borrower			
Total IDA (Grant)	47.2	2.8	50.0
Trust Funds			
Others			
Total	47.2	2.8	50.0

Estimated disbursements (Bank FY/US\$ million)						
	2007	2008	2009	2010	2011	2012
Total IDA Grant Trust Funds			38.0	9.0	3.0	
Does the emergency operation require any exceptions from Bank policies? Have these been approved by Bank management?						Yes [] No [x] Yes [] No [x]
Are there any critical risks rated “substantial” or “high”?						Yes [x] No []
What safeguard policies are triggered, if any?						None
Significant, non-standard conditions, if any: None						

A. Introduction

1. This Project Paper seeks the approval of the Executive Directors to provide a grant in an amount of US\$50 million equivalent (SDR 31.3 million) to Nepal for an Emergency Peace Support Project. The Project has been prepared in accordance with OP/BP 8.00, Rapid Response to Crises and Emergencies.

2. The proposed grant would help finance the costs associated with commitments of GON – including its major coalition partners in the Seven Party Alliance (SPA) – to post-conflict recovery interventions related to the peace process for identified groups. The proposed support will help respond to the situation by: (i) financing agreed payments and reintegration interventions to selected groups affected by the conflict, including families of those killed as a result of the conflict, conflict-related widows and orphans, and disabled people; (ii) financing agreed periodic payments to individual Maoists in cantonments in respect of implementation of the Comprehensive Peace Agreement¹; and (iii) capacity building and technical assistance to GON to perform its peace building, reintegration and rehabilitation functions in the post-conflict period.

3. **The expected outcomes** include contributing to the consolidation of the Nepal peace process by supporting: (i) improved compliance with the 23 Point Agreement as a result of timely delivery of benefit payments to families of deceased and individual Maoists in cantonments; (ii) improved trust between the parties to the 23 Point Agreement; (iii) ensuring transparency in implementation of benefits under the Project for the conflict-affected groups, including the Maoists in cantonments; (iv) development of a medium term strategy for reintegration and rehabilitation of conflict-affected populations; and (v) robustly designed and piloted interventions to support reintegration of conflict-affected populations into social and economic life.

4. **Partnership arrangements:** While there is no explicit co-financing for the operation from other agencies, a variety of agencies are involved in the broader efforts supporting the peace process. This includes support to reintegration of former combatants who are minors, support to families of those killed in the conflict and families displaced by the conflict, and related issues such as security force reform. The United Nations agencies include UNICEF, UNDP, UNFPA, and UNMIN, the European Union (EU) is providing ongoing support, and bilaterals include the UK Department for International Development (DFID), German Agency for Technical Cooperation (GTZ), the Governments of Denmark, Finland, Switzerland, United States Agency for International Development (USAID) and others. In addition, a host of international and local NGOs are involved in provision of specific services to the target populations, including Norwegian Refugee Council, International Rescue Committee, and the Save the Children Alliance. The Bank team has benefited from the inputs of these partners during project preparation (including DFID Peer Review), and has initiated structured coordination through participation in meetings of the Nepal Peace Trust Fund (NPTF), the key vehicle for bringing together Government and donors to discuss policy, institutional, financing and implementation issues related to the peace process. The project will be harmonized to the maximum extent possible with the NPTF (see below on Institutional Issues).

¹ As agreed with GON at Negotiations, “Maoists in cantonment” means those beneficiaries encamped in cantonments, as per the Comprehensive Peace Accord dated November 21, 2006, who have subsequently been verified by the United Nations Mission in Nepal through its two-stage verification process, and who are eligible for benefits under the Project.

B. Emergency Challenge: Country Context, Recovery Strategy and Rationale for Proposed Bank Emergency Project

5. Nepal is one of the poorest countries in the world, averaging GDP per capita of US\$270 in 2005, with adverse, though in some cases improving, social indicators. Despite this, the country has made substantial progress in poverty reduction in the decade to 2003/04, with the headcount rate falling from 42 to 31 percent. This is remarkable considering that an armed conflict ran from 1996 to 2006 which imposed a heavy toll in terms of human lives: over 14,000 people were killed, many displaced (with estimates over recent years ranging from around 25,000 to around 100,000 people), and others disabled or “disappeared”. As such, unresolved tensions remain in many parts of the country.

6. In the past two years, a fragile peace has been sustained - though not without ongoing unrest and periodic political setbacks – and important steps have been taken towards a “new Nepal”. This includes establishment of the Seven Party Alliance (SPA) in November 2005 with involvement of the Maoists, ending of royal rule in April 2006 and immediate establishment of an interim SPA Government, signing of a Comprehensive Peace Agreement (CPA) between the Government of Nepal and the Communist Party (CPN-Maoist) in November 2006 and subsequently CPN-M joined government in April 2007, and promulgation of an interim Constitution in 2007. Elections were held on April 10, 2008 for a Constituent Assembly (CA) which will draft a new Constitution and be the basis for formation of a new government. The elections were judged by observers to have been credible, and initial results indicate a strong performance for the CPN-Maoist.² However, final results will not be known for several weeks, and hence the final political composition of the new Government remains to be seen. The CA elections had twice been postponed, the second postponement induced by a short-lived Maoist withdrawal from the coalition in late 2007. The Maoists re-entered Government following the signing of the 23 Point Agreement (23PA) between the members of the SPA in December 2007.

7. A second set of developments over the past year has been considerable unrest - including bandhs (strikes, stoppages and blockades), intermittent violence (including killings), disruption of non-Madhesi political meetings, etc. - in the Tarai region by groups promoting the interests of Madhesis.³ However, at the end of February 2008, agreements were signed between GON and major Madhesi political blocs which should help to calm such tensions. These agreements, however, will imply significant financial obligations for the incoming government which will create additional pressure on fiscal resources.

8. Now that the CA elections have been conducted in a timely and effective manner, the post-electoral period will open up a new set of challenges to the peace and nation-building processes. While the CPN-Maoist appears set to take over the leadership of the new Government, both processes will require sustained confidence building between all stakeholders. The most

² The CA will be comprised of 601 members, of whom 240 were directly elected on a first-past-the-post basis, with a further 335 members elected on the basis of proportional representation and 26 members appointed by the Council of Ministers on a consensus basis. International observers who have judged the elections a success include the EU Election Observer Mission, the Asian Network for Free Elections, and the Carter Center.

³ Twenty two districts in the southern plains bordering India make up the Tarai, alternately known as Madhesi. The Tarai occupies 17 percent of Nepal's total land area and is home to nearly 48 percent of the population, including migrants from the hills. According to official statistics, 31.2 percent of Nepal's total population is of Madhesi origin.

immediate will be the composition of the new Government, for which it remains unclear at this stage what parties would join the CPN-Maoist. Another challenge will be meeting the wide-ranging commitments to different population groups which have been made in the recent past. A further key challenge facing Government will be the systematic and substantive review and reform of the security system – in particular the political challenge of the proposed integration of the Maoists in cantonments and the fiscal challenge of sustaining such integration.

9. These and other challenges will require sustaining the existing level of confidence among different political parties and deepening it over time in order to consolidate the peace and start the transition from an emphasis on post-conflict to developmental policies. Meeting prior commitments that have financial implications, particularly to the different groups affected by the conflict, will be critical to not only bolster this confidence building and transition process; but also, protect the on-going pro-poor expenditures initiated during the Tenth Plan.

10. The 23PA outlines several key agreements between the parties with respect to the ongoing peace process which provide the specific context for the proposed operation. These include: (i) payment of outstanding allowances to individual Maoists in cantonments, agreement to make future allowance payments, and to engage in further deliberations on their reintegration following eventual release from cantonments; (ii) commitment to provide compensation payments to families of those killed as a result of the conflict; (iii) provision for rapid release and payment of allowances to those in cantonments who were not verified as eligible by reason of being under age or having entered cantonment after a prior cut-off date; and (iv) commitment that private and public property seized during the armed conflict will be returned to concerned individuals and agencies. Primary responsibility for implementation of these commitments rests with the Ministry of Peace and Reconstruction (MOPR).

11. The details on the official numbers of, and modalities and levels of payments to various conflict affected groups have subsequently been outlined in different GON official documents. In the case of Maoists in cantonments, the Council of Ministers affirmed a monthly benefit payment of NRs. 3,000 (around US\$48) for the period of confinement in cantonments.⁴ For families of those killed, the commitments are outlined in a document recently approved by Cabinet.⁵ The officially endorsed numbers on different groups are outlined in a GON Task Force report mandated by the Council of Ministers and that was submitted in March 2008.

12. The institutional architecture in GON for dealing with different aspects of the peace and reconstruction process is summarized in the 23PA. There is commitment to formation of several high level Commissions tasked with guiding different aspects of the peace process. A key institution in this respect is the High Level Peace Commission (PC), intended to be a body with cross-party representation which acts as the policy and oversight body.⁶ It is required to coordinate closely with the MOPR. Pending formation of the PC, GON approved shortly prior to elections a Peace and Conflict Management Committee with high level civil society participation. Apart from governmental institutions, a range of UN, international and national agencies are supporting different aspects of the peace process. The coordinating UN agency is the United Nations Mission in Nepal (UNMIN), a special political mission established by the UN Security

⁴ See Letter of Chief Secretary, dated October 7, 2007.

⁵ See Norms for Financial Support and Relief of Conflict Victims.

⁶ In addition to the Peace Commission, other relevant institutions mandated in the 23 Point Agreement are: (i) Truth and Reconciliation Commission; (ii) Commission for the Investigation of the Disappeared; (iii) High level Committee for Monitoring the Effective Implementation of the CPA and other Agreements; and (iv) State Restructuring Commission.

Council to support the peace process in Nepal and in particular to assist in the conduct of the CA election in a free and fair atmosphere. UNMIN officially began its work in January 2007, and its current mandate runs to mid-July 2008.

13. Given the range of UN and bilateral players involved in supporting the peace process, the proposed project has been designed taking into account existing and planned support to the GON from other development partners. The key coordinating mechanisms and funding vehicles for donors involved in supporting the peace process are: (i) the Nepal Peace Trust Fund (NPTF) administered by Ministry of Finance (MOF) and technically supported by MOPR; and (ii) the UN Peace Trust Fund for Nepal, administered by the UN and focused on activities which the Government itself is not able to implement. Both trust funds (TFs) are overseen by a Joint Steering Committee. Consultations between the project team and the NPTF group have helped to ensure that the project interventions will avoid duplication of effort and institutional structures, but are also complementary in areas where Bank support is considered useful to leverage greater impact of the efforts of various development partners.

14. The rationale for Bank involvement has several elements in light of the request from GON for urgent support. The first is that the Bank has considerable international experience in providing support to peace processes, specifically dealing with conflict-affected populations and those who have participated directly in conflicts. Secondly, the Bank's strong local presence and significant resources allow for a speed and level of project response not possible for many development partners. Thirdly, the procedures and project management systems required by the Bank, and the expertise in public expenditure management (PEM) among national Bank staff, are seen to contribute to enhanced transparency in public financial management of peace-related expenditures. Finally, the existing involvement of the Bank in a range of development related sectors relevant to the future integration of conflict-affected populations provides significant potential for downstream linkages between the support under the proposed project and various ongoing and planned developmental activities of the GON.

C. Bank Response and Strategy

Brief description of Bank's strategy of emergency support

15. The Bank's post-conflict transition support strategy for Nepal is outlined in the Interim Strategy Note (ISN) discussed at the Board in February 2007.⁷ It is framed around three possible country scenarios – “stalled transition” where stability holds but development is very difficult; “steady transition” where both peace and development are pursued without significant reversals; and “deterioration scenario”, where the political process fails and the state struggles to maintain basic functions. The key themes/focus areas to support the post-conflict transition outlined in the ISN are: (i) protecting the reforms already undertaken in selected areas, including in the education sector, in PFM, and in promoting inclusion through community-based projects and policy work; and (ii) supporting a post-conflict economic program (and eventually a new Poverty Reduction and Development Strategy), including state building, promoting partnerships between public and private/community sectors, improving governance and promoting inclusive development. The ISN also envisages possibly supporting the transition to a more stable political environment through measures such as support to victims of the conflict if considered important to support the peace process and/or protect developmental expenditures.

⁷ IDA Interim Strategy Note for Nepal, January 22, 2007. Report No. 38119-NEP.

Project Development Objectives

16. The proposed project comes at a critical juncture in Nepal's history and is considered to have an important role in contributing to consolidation of the peace process and the democratic transition. The rapid and early commitment to Bank financing of commitments under the 23PA also acted as confidence building measure between major parties in the run-up to elections. The overall objective of the project is to contribute to the consolidation of the peace process in Nepal by supporting: (i) Government to meet commitments to people affected by the conflict, including families of the deceased, orphans, widows and disabled people, and Maoists in cantonments; (ii) ensuring transparency in implementation of benefits under the Project for the conflict-affected groups including the Maoists in cantonments; and (iii) strengthening of key institutions which are tasked with policy and implementation functions in peace building, reintegration and rehabilitation.

Summary of Project Components (see Annex 1 also)

17. The project would consist of three components:

- ***Transitional safety net payments to Maoists in cantonments during the transition period (US\$18.55 million).*** Over 19,000 eligible Maoists have been placed in twenty-eight cantonments (seven central sites and twenty one satellites) following the Peace Accord, with commitment by political parties to payment of regular allowances to reduce the chances of disenchantment and to mitigate against a need for rent-seeking behavior while the Maoists are encamped. These act in effect as transitional safety net payments. However, 10 months of payments were outstanding as of mid-April 2008, and there are presently no funds budgeted for forward payments that will be necessary for the months following elections. This component would finance transitional safety net payments for 19,602 Maoists in cantonments. The eligible Maoists were registered and verified by a two-stage process involving the two parties to the conflict and UNMIN, which conducted a detailed verification of each potential beneficiary and issued individual bar-coded identity cards to those verified. The verification and registration process is considered to have followed good international practice by Bank and UN staff familiar with similar operations in other countries. The component would cover both payment arrears from July 2007 and forward payments for the period to mid-January 2009 for those registered through this process.⁸ Arrears would be paid on a one-off basis and forward payments on a regular periodic basis. The benefits would be paid out to the individual beneficiaries in the form of individual checks for the initial payments, with an effort to move to bank account deposits as the payment modality before the end of the project-financed period of benefits.⁹ The payment process would involve administrative officials, Maoists representatives and an agreed independent third party to witness the payments. Periodic payments would be made according to an agreed set of guidelines which are intended to ensure transparency in the process, and compliance with the guidelines would be a condition of disbursement of project funds for payments. Project financing would be provided on a reimbursement basis, providing an additional check on compliance with the agreed procedures. There would also be financing under Component 3

⁸ The breakdown of the 19,602 is: (i) 18,789 fully verified Maoists in cantonments; (ii) 153 Maoists eligible but not in cantonment as providing VIP security services; and (iii) 660 Maoists in cantonments from Phase II verification also awaiting final decisions but eligible. For the latter two groups arrears are owed from November 2006.

⁹ The payment method contrasts with the one round of payments made in 2007, where a lump-sum payment was made to the Maoist camp commanders for subsequent distribution to those in the cantonment.

for a communications campaign to inform beneficiaries of their entitlements and the payment process, as well as surveys of beneficiaries initiated as soon as possible after payments begin to be made. Finally, GON and the Bank would need to agree, as part of the payment guidelines, on a grievance redressal mechanism for beneficiaries in the event of irregularities in the payment process. While the ultimate period of future residence in cantonments is not known at this point, a cut-off date has been agreed with GON which balances estimates of future need with the need for an exit strategy for the Bank. Benefit payments beyond January 2009 would be expected to be picked up within the budget through a proposal of supplementary budget if required. In addition to the financing of transitional safety net payments, there would be provision for incremental operating costs associated with delivery of benefits in a manner consistent with the Bank and GON's fiduciary standards (e.g., logistical costs of physical delivery of payments). Assuming payment of arrears and an additional nine months of payments, post-elections, the estimated value of this component is US\$18.55 million, of which US\$550,000 would be for incremental operating costs.

- ***Benefits to families of those killed as a result of the conflict and reintegration support to other conflict-affected populations (US\$28.23 million)***. This component would have two sub-components. The first component would finance benefit payments to survivor families of people killed as a result of the conflict. Therefore, this component would provide compensation payments to 14,000 plus families in the amount of NRs. 100,000 (US\$1570) per person killed as per GON decision in March 2008. This would be paid as a lump sum, though payments would in practice be spread over several months to achieve national coverage. These families were identified through a process conducted under the leadership of Chief District Officers (CDOs), with input from several sources to verify eligible families and with close review by higher levels of administration and Government. This process is therefore considered to have done a reliable job of identification by national and international observers of the process, including identifying the eligible individual in the families of those killed who would be entitled to receive the payment.¹⁰ Given the significant lump sum amount of the benefit, payments would be required to be made into bank accounts of individual beneficiaries in order to reduce risks. There would also be a set of guidelines agreed for the payment process which would be required to be followed as a condition of disbursement of project funds for payments. This would include a role for local third parties who could advise beneficiaries both during the payment process and subsequently on options for use of the funds. As with first component, there would be provision for incremental operating costs associated with delivery of benefits in a manner consistent with the Bank and GON's fiduciary standards. There would also be linked support under Component 3 for a communications campaign to beneficiaries, special external reviews of the payment process and beneficiary surveys which would be implemented from early in the process to gain insights into the effectiveness of the payment procedures and adjust them as necessary for other districts where payments are made later. There would also need to be a grievance process agreed as part of the payment process guidelines. The estimated size of the payments and recurrent cost support under the first sub-component is US\$23.23 million, of which around US\$455,000 would be for incremental operating costs.

The second sub-component would provide support for reintegration assistance to other conflict-affected groups (including, *inter alia*, people disabled in the conflict; internally

¹⁰ Confidence in the official number of families with a member killed as a result of the conflict is bolstered by the fact that a national NGO (INSEC) conducted detailed information collection throughout the conflict on those killed through a network of local investigators. Their figures on the number of people killed as a result of the conflict and their composition are remarkably close to the official numbers.

displaced people (IDPs); families of persons who have disappeared; minors involved in the conflict; orphaned children; widows). This could take a variety of forms (e.g., training; legal and counseling services; rehabilitation services for disabled people; piloting of interventions) and would be elaborated by GON with the assistance of technical assistance (TA) provided under the third component and in close consultation with other development partners through the mechanism of the Nepal Peace Trust Fund. Given the uncertainty on the specific reintegration assistance and its scale, the team proposes that a dedicated pool be provided in the project to finance reintegration support for selected conflict-affected groups. This would be more specifically defined and programmed during the first year of project implementation, including through pilot activities, and closely coordinated to maximize complementarity with the activities of GON and the development partners. This would be consolidated into operational guidelines for accessing these funds which would be a condition of disbursement for the sub-component, an approach used previously in Nepal under the Economic Reform Technical Assistance (ERTA) Project. It is not expected that the funds proposed would be sufficient to cover the likely overall reintegration support needs of these groups. However, as the policy framework is elaborated by GON, additional resources could be made available through either reallocation of existing funds or seeking supplemental financing as appropriate. The proposed amount for reintegration support interventions would be US\$5million.

- *Capacity building of key institutional structures in support of the peace process and project management support (US\$3.22 million).* This component would have three sub-components: (i) capacity building and technical assistance for the Ministry of Peace and Reconstruction to perform their core functions more effectively. This would include as an immediate priority its oversight role on payments to families of deceased and Maoists in cantonments (e.g., strengthening the MIS system, internal procedures, communications campaigns for beneficiaries of project-financed payments, and monitoring/reporting, including beneficiary surveys), and programs for other conflict-affected groups such as orphans, widows, and disabled people. In addition, it would include technical assistance and capacity building for performance of the Ministry's roles in supporting the peace process, within an overall vision of the Ministry as a coordinator rather than executor. This would include training, legal advisory support for its secretariat functions in drafting new policies and procedural guidelines, advisory services on development of GON's overall reintegration strategy and specific reintegration interventions programs, and capacity for information education campaigns (IEC) which are considered a critical element in building awareness and confidence in the overall peace process. The component would promote exposure to best international practices in reintegration, reconciliation and rehabilitation, devising appropriate mechanisms for integrating peace and developmental activities, reorienting sectoral ministries towards conflict-sensitive design of development projects, and supporting effective functioning of the peace focal points in each ministry. The technical assistance under this component would inform design of the reintegration support activities for various groups to be financed under Component 2. It will be critical to ensure that more specific definition of TA support is done in close coordination with other development partners, several of which have or plan for support to peace and reintegration activities. The proposed vehicle for ensuring such harmonization of approach is the NPTF, pending formation of the Peace Commission or agreement on such subsequent politically inclusive mechanism; (ii) support for core project implementation tasks of the Project Management Team (PMT) such as procurement, financial management (FM), including evaluation of project interventions through surveys and other assessment tools; and (iii) training, workshops and technical assistance for other actors in the peace process as needed, including the Peace Commission once formed, the Peace and Conflict Management Committee if required, Local Peace

Committees, and other groups such as parliamentarians and possibly other bodies related to the peace process envisaged in the 23PA.¹¹ Given the relatively short project implementation period and nature of interventions, this component is estimated to cost US\$3.22 million.

Eligibility for Processing under OP/BP 8.00

18. The application of OP/BP 8.00 is justified for this operation due to the project's nature as well as the need for a rapid and flexible response. Consistent with BP 8.00, the project would explicitly help to: (i) facilitate peace building (paragraph 4.e); and (ii) establish and/or preserve human, institutional, and/or social capital, including economic reintegration of vulnerable groups (paragraph 4.d). The use of streamlined procedures allowed for under OP/BP 8.00 has helped to ensure timely processing of the operation in direct support of the immediate needs of Government which had sought a clear commitment from the Bank prior to the elections, and rapid start-up of project activities following elections. In light of this, and given uncertainties around some of the activities which may impact the operation (particularly integration of the Maoists in cantonments), the OP/BP's emphasis on ex-post controls and more intensive supervision to facilitate adjustments to implementation realities as appropriate is also particularly relevant. The Bank considered other options such as general budgetary support, but the importance of robust fiduciary standards in use of the funds suggested that a Rapid Response (RR) investment operation (RR) was a more appropriate instrument. An additional important feature of such operations is the flexibility allowed for under OP/BP 8.00 to adapt elements of the project to an evolving institutional and policy situation such as one sees in Nepal presently. No existing or well-developed pipeline projects easily lend themselves to restructuring or redesign given the size and importance of the cash transfer component proposed under this operation. The task team anticipates that down-stream linkages with the ongoing Poverty Alleviation Fund (PAF, a CDD-type operation) would be explored for medium-term support to populations and communities affected by the conflict. The Government welcomes the involvement of a third party financier in terms of providing assurance on the credibility of payment and as a second channel for reviewing the payment process to ensure transparency and that payments reach the intended beneficiaries.

Consistency with Country Strategy

19. As noted above, the proposed operation is consistent with the 2007 Nepal ISN, which emphasizes both the need for ensuring sustained support for peace building efforts and also the need to remain flexible to a fluid transitional environment in the country. Particular importance is attached to rapid response to help reinforce the nascent peace in order to capitalize on Nepal's window for laying the ground for sustained peace and development. The ISN clearly notes the importance of short term support and confidence building measures to increase the chances of Nepal progressing to a steady and sustained transition scenario. More specifically, the ISN anticipates the possibility of providing financial support for immediate needs during the peace process, including immediate relief to victims of the conflict, in order to avoid crowding out of much needed development spending.

¹¹ The 23 Point Agreement foresees the formation of a set of high level bodies which would help carry the peace process forward. Apart from the Peace Commission, these include the Commission for the Investigation of the Disappeared, Truth and Reconciliation Commission, State Restructuring Commission, Study and Recommendation Commission for Scientific Land Reform, and the High Level Committee for Monitoring the Effective Implementation of the CPA and Other Agreements. See Text of 23PA, dated December 23, 2007.

Expected Outcomes and Indicators

20. **Project outcomes:** The following outcomes are anticipated from the project: (i) improved compliance with the 23PA as a result of timely delivery of cash payments to people affected by the conflict, including families of those killed as a result of the conflict (including widows and orphans) and Maoists in cantonments; (ii) improved trust between parties to the 23 Point Agreement; (iii) increased transparency in the payments process with respect to payments due to people affected by the conflict, including families of deceased, disabled people, widows and orphans and Maoists in cantonments; (iv) development of a medium term strategy for reintegration of conflict-affected populations; and (v) robustly designed and piloted interventions to support reintegration of conflict-affected populations into economic activity.

21. **Outcome Indicators:** The following indicators would be used to monitor the achievement of the above outcomes: (i) proportion of eligible Maoists in cantonments and families of deceased receiving timely due payments on an individual basis; (ii) regular and effective coordination between the Ministry of Peace and Reconstruction and other relevant agencies at the central and district levels; (iii) acceptable audit reports on payments and compliance with agreed payment procedures; (iv) medium term strategy for economic reintegration of selected conflict-affected populations; and (v) inclusion of selected conflict-affected populations in programs providing support for reintegration. See Annex 2 (Results and Monitoring Framework) for more details.

D. Appraisal of Project Activities

22. **Economic Aspects:** The overarching economic justification for the operation is that it will contribute to confidence building in the peace process, contributing in turn to an environment which is more conducive to the economic development of Nepal. At the same time, it is important to recognize that many other factors will feed into the attainment of sustainable peace and development. Thus, while a suitable accommodation with Maoists and other conflict-affected groups is a necessary condition of peace building, it is not sufficient. However, by explicitly involving the Bank as an actor supporting the peace process, it is hoped that the operation will also give the institution a more complete scope of involvement in Nepal's development. More specifically, the TA and capacity building in support of peace building and reconstruction should contribute over time to a policy and institutional environment which promotes social and economic reintegration of conflict-affected groups, increasing initially their ability to support themselves and in time contribute more actively to economic activity in the country.

23. **Institutional Issues:** A key institutional issue relevant to the design and effective implementation of the project is the political inclusiveness of institutions which will be responsible for moving the peace process forward. The political representativeness of these institutions will have a direct impact on the acceptability of the project to different actors. The Peace Commission (PC) is anticipated by the 23PA as a key high level and politically inclusive body to guide the peace process. Terms of reference (TORs) for the PC were endorsed by the Council of Ministers in March 2008. It is expected that the PC will be formally established after elections, though the precise timing remains unclear at this point. Pending formation of the PC, the Bank, GON and development partners have discussed a multi-party mechanism for providing oversight and guidance to the project and peace process activities more broadly. Such a multi-party mechanism is considered crucial by all actors in promoting buy-in by different political players to activities in support of the peace process, including the project. It is also considered

important that such a politically inclusive oversight and policy body for the project be the same as that relied on by other development partners supporting the peace process in order to promote harmonization. Pending future developments, it has been agreed that the Steering Committee for the NPTF, which involves multi-party representation would be the oversight body for the operation. This arrangement would be discussed with the new Government in the nearest future, and there may be subsequent options agreed by the new Government, the Bank and development partners. Whatever the decision on the eventual oversight and policy body beyond the NPTF SC, GON, development partners and the Bank would continue to coordinate closely to ensure that the multi-party oversight mechanism for the project is one that has support of all actors and promotes close coordination of effort and harmonization between the efforts of Government and donors. After the interim period, establishing and operationalizing an institutional relationship that has the PC as the key policy and oversight body in the peace process with the Ministry as in effect its executing secretariat is one possible model. The flexibility allowed for under OP/BP 8.00 will be useful to allow the oversight arrangements for the project to respond to the evolving scenario in the coming weeks and months. In addition to the planned national level Peace Commission, district level Local Peace Committees (LPCs), with representation from the administration, local political parties, and civil society, have been or are expected to be constituted to take the peace process to the grassroots level. Up till April 2008, 24 such LPCs had been established (out of a required total of 75 – one per district), though their full effectiveness will require both establishment of the Peace Commission and capacity building.

24. A second institutional issue relevant to project implementation is the linkages to the NPTF, formed in 2007. The NPTF was until recently an off-budget fund for the donor portion, though donors have recently discussed with GON modalities to bring it on budget. The implications of this move for FM procedures and funds flow are in the process of being defined. Key development partners have expressed a desire for the Bank under this project to ensure close coordination with the NPTF and maximum harmonization with the NPTF activities and institutional arrangements. Consistent with the Paris Principles of Aid Effectiveness, the Bank, GON and development partners agree that harmonized and coordinated approach is desirable and have been exploring how to operationalize such a relationship while also ensuring compliance with the Bank's fiduciary requirements.

25. Harmonization of the project and NPTF activities involves several aspects, including harmonization of strategic planning, of the financial management and implementation mechanisms, of reporting, recording and monitoring and of institutional arrangements. The Bank has had intensive initial discussions with GON and NPTF development partners on how harmonization can be promoted, and there appears to be agreement on modalities. Firstly, mutual sharing of information and plans of the Bank and other development partners will be deepened through the NPTF mechanism in order to ensure complementarity of peace support efforts. This will be particularly important for the project TA and reintegration support activities, where early and sustained discussion of strategic priorities for donor support is essential to avoid duplication of effort. In order to ensure this, it is proposed that the Project Management Team share TOR for consultancy assignments over an agreed threshold with the Technical Committee of the NPTF and seek its comments and suggestions prior to procurement of the consultancy services. Harmonizing reporting of project and NPTF activities would also be desirable, and it is proposed to have the project's financial and performance reports included in the four monthly technical and financial reporting of NPTF. With respect to financial management and funds flow mechanisms, when the NPTF comes on budget, and assuming that the revised NPTF procedures are fully compliant with regular GON budgetary systems, the GON, development partners and the Bank would aim to align the fund flow system in the coming Nepali fiscal year for project-financed activities under Component 2 B (for reintegration support) and Component 3 (for capacity

building). There would in any event remain earmarking of Bank funding (as allowed for under NPTF procedures), given that some eligible activities of the NPTF, e.g., related to security force reform, are not eligible for Bank financing. With respect to the cash payment support under Component 1 and 2A, these would be subject to the agreed guidelines and procedures which would ensure maximum transparency and accountability, ensuring that all payments go to the intended individual beneficiaries.

26. On the narrower issue of project implementation arrangements, it has been agreed with GON that the Project Management Team be located in the MOPR, with regular staff from relevant departments, including the cantonment management unit which sits in MOPR but reports to MOF. The PMT would thus be integrated into regular governmental operations, in contrast to a traditional PCU. An important issue for discussion is putting in place reporting arrangements from the PMT to both the Ministry and the PC – or the interim multi-party oversight mechanism pending establishment of the PC – which ensure that oversight of project implementation is done in a politically inclusive manner. The vehicle for oversight beyond MOPR, pending the establishment of the PC, would be the Steering Committee of NPTF or such subsequent politically inclusive oversight and policy making body as agreed with the new Government. At the technical level, the PMT would coordinate with the Technical Committee of the NPTF as noted above in order to ensure that project-financed activities for reintegration and capacity building benefit from the Technical Committee's expertise and to promote coherence of technical support under the project, from GON and from development partners.

27. **Lessons of Experience:** The project has benefited from lessons learned on similar operations in post-conflict settings focusing on supporting peace processes and prepared under OP/BP8.00 procedures. The team drew on Bank-wide expertise and included a member who has worked extensively on similar operations in African post-conflict settings. Some of the lessons reflected in design include: (i) keeping project design relatively simple and focused on interventions where national capacity is felt to be adequate; and (ii) application of fiduciary arrangements, particularly with respect to FM, which reflect lessons of the Nepal portfolio and similar cash payment operations in other countries. This includes reliance on a dedicated budget line item for fund transfer, a robust beneficiary identification process; and a planned payment process which involves both Government and Maoist input and oversight. Other lessons drawn upon from similar operations include ensuring high-level policy guidance for project activities – including seeking harmonization of donor approaches to support for the peace process - allowing sufficient flexibility in project design to adapt to changes in policy and implementation environment, and relying on existing systems and institutions to ensure reasonably rapid execution. Finally, despite the short-term focus of the project, the project team has also included interventions with a longer term benefit in order to help sustain some of the impacts.

28. **Safeguards and Environmental Issues:** The proposed environmental category for the project is “C”, reflecting the nature of proposed interventions (cash payments; provision of consultancy services and training; office equipment), which are not expected to have adverse environmental impacts. No safeguards policies are triggered, as summarized in the ISDS which has been reviewed and approved by the regional safeguards team.

29. The project has been prepared in line with OP/BP 8.00 and does not involve any exceptions to Bank policies.

E. Implementation Arrangements and Financing Plan

30. Institutional Arrangements for Project Implementation: The institutional arrangements for project implementation would be as follows. At the highest level, it is expected that the PC – once formally established – would act as a high-level oversight and policy-making institution on project activities as part of its broader functions in overseeing the peace process. Pending PC establishment, an interim oversight mechanism under the Steering Committee of the NPTF would be used, subject to any further agreement with GON and development partners on an alternative politically inclusive oversight mechanism (see above). Beneath this, the MOPR would be the primary implementing agency for the project, with the PMT located in the Ministry under the overall supervision of the Commission and the interim oversight mechanism pending its formation. The MOPR has formed a Project Management Team (PMT) headed by the Project Coordinator (Joint Secretary of the Conflict Management Division) and comprised of representatives from other Divisions/Sections – Conflict Analysis and Policy Formulation Division, Relief and Rehabilitation Section, Planning and Monitoring Section and Cantonment Management Division. The Team will include a dedicated Accounts Officer and a part-time Procurement Officer who will pull resources/consultants when required from the system when specific procurement support is required. For Component 1, the PMT will deliver cash benefits through the Cantonment Management Section which has Cantonment Officers in each of the main cantonment sites/districts. For cash payments under Component 2, the PMT will work through the 75 Chief District Officers (CDOs) which are heading the authorized district offices that maintain records of families of people killed as a result of the conflict.

31. The proposed operation will use the normal government procedures followed by a normal budget line item, with such additional checks and balances as agreed under the payment guidelines for payments to individual Maoists in cantonments and families of those killed as a result of the conflict. The budgeting procedures for preparation, approval, implementation, and monitoring are elaborated in the Financial Procedures Regulations (FPR). The annual work program and budget will be based on the work program to be prepared by the MOPR. Annual work programs and budgets are submitted to the National Planning Commission (NPC) and the Ministry of Finance (MOF) for discussion.

32. MOF will release authorizations for expenditure to MOPR. The Secretary of MOPR will issue authorization to the Secretary of the Office of Central Coordination for Cantonment Management (OCCCM) for Component 1 and to the Project Coordinator for Components 2 and 3 for disbursement of funds. The Secretary of OCCCM will issue spending authorizations to the Cantonment Officers located in seven districts (Jhapa, Sindhuli, Chitwan, Nawalparasi, Rolpa, Surkhet and Kailali) and copy such authorization letters to the MOPR Secretary, the Financial Comptroller General and the District Treasury Controller of seven districts. Fund release to the Cantonment Offices will then take place through a normal release procedure through respective District Treasury Controller Offices (DTCOs). The Secretary of OCCCM will eventually be held accountable for disbursements of funds under Component 1. Similarly, for Component 2A, the Project Coordinator would issue spending authorizations to the Chief District Officers (CDOs) of 75 districts and copy such authorization letters to the MOPR Secretary, the Financial Comptroller General and the District Treasurer Controller of 75 districts. Fund release to the CDOs will take place through a normal release procedure through respective DTCOs. The Project Coordinator and CDOs are held accountable for expenses under Component 2.

33. Once the funds are released to the Cantonment Officers in the seven districts through the respective DTCOs for Component 1 (payments to individual Maoists in cantonments), a modification in the current system is warranted in order to ensure that cash transfers take place to

the intended beneficiaries. Transactions would be made only through checks in the name of individual beneficiaries as per the approved list of eligible Maoists in cantonments by using the services of banks with a network in the cantonment locations. Checks would not be transferred unless a GON representative from the cantonment management office and Maoist representative certify the eligibility of payments as per the agreed norms. It would also be required that an independent third party witness the payment process, and arrangement be made to that effect with the involvement of the Maoists and GON which is also acceptable to IDA. Such an arrangement would need to elaborate the scope of the third party's role in "witnessing the payments" which ensures a standard process for the role of the third party witness. Documents based on which checks would be issued are the approved Attendance Roster, vouchers generated for payments to each individual and checks prepared based on such approved vouchers. Where feasible, beneficiaries will be encouraged to open individual savings accounts so that payments can be made directly to their savings accounts. GON has entered into dialogue with the government owned banks to facilitate the process. Arrangements will be made for mobile banks to provide services in a specified date in each cantonment. Maoists in cantonments would encash their checks through mobile banking. Banks will check the identity of each individual, verify the check, and obtain receipts of checks and payments from each individual. For Component 2A (payments to families of deceased people), the Chief District Officer (CDO) will be accountable to verify and attest the receipt of payments made to the identified beneficiaries. One-off cash transfers in this case will also be made through banking arrangements through checks, preferably, in the individual savings accounts if not, through demand checks.

34. As mandated by the Interim Constitution of Nepal, Project Audits would be carried out by the Supreme Audit Institution, the Office of the Auditor General.

35. **Project costs and financing plan:** Total project costs are estimated at US\$50 million. The breakdown of by expenditure category would be as outlined in the table below.

36. With respect to the financing and disbursement schedule, the scale of anticipated cash payments and their urgency suggests that the disbursement profile will be front-loaded compared to a typical project, particularly in light of the proposed level of retroactive financing that is allowed for under OP 8.00. The bulk of disbursements are therefore anticipated in FY09.

Expenditure category	Estimated US\$ Allocation
Goods	200,000
Cash Payments	40,800,000
Consulting services, Training	2,800,000
Reintegration Support	5,000,000
Incremental Operating Costs	1,200,000
Total	50,000,000

37. **Disbursement arrangements:** Disbursements from IDA will be made in accordance with traditional disbursement procedures, including full documentation for contracts above the

Prior Review threshold or Statements of Expenditures (SOEs). To facilitate disbursements, a Designated Account in Nepali Rupees will be established. For all payments, including cash transfers, GON will pre-fund the activities, and disbursements from IDA will be made via replenishments of the Designated Account. For payments in foreign currency under Component 3, if any, would be made through request for direct payments by IDA to the concerned party.

38. **Retroactive Financing:** To facilitate speedy support to Maoists in cantonments prior to project effectiveness, the Project would allow retroactive financing in the amount of US\$20 million (up to 40 percent of the IDA grant amount) for benefit transfers that occurred after July 2007 and have followed the disbursement/FM procedures agreed under this project to ensure eligibility of expenditures.

39. **Use of Statement of Expenditures (SOEs):** SOEs will be used for the following expenditures: (i) all cash transfers under components 1 and 2; (ii) all training, workshop and study tours; and (iv) all incremental operating costs; (v) contracts for equipment and vehicles, costing less than US\$100,000 equivalent per contract; (vi) contracts for services of consulting firms costing less than US\$50,000 equivalent per contract; and (vii) contracts for services of individual consultants costing less than US\$25,000 equivalent per contract. During the initial IDA supervision, the mission will closely review the SOE claims to ensure that the funds are utilized for the intended purposes. Any ineligible expenditure identified during this and subsequent reviews will need to be refunded to IDA.

40. **Designated Accounts:** A separate Designated Account in Nepali Rupees will be established, on terms and conditions satisfactory to IDA. The authorized allocations for the Designated Account under the Grant will be NRs. 300,000,000. For the utilization of IDA's share of project expenditures, the PMT in MOPR may open and maintain the Designated Accounts in Nepali Rupees at the Nepal Rastra Bank under terms and conditions acceptable to IDA. The Designated Accounts will be managed under the joint signatures of the Project Coordinator and the Accounts Officer.

41. **Procurement:** The PMT Project Coordinator has good experience and training in procurement. An additional procurement resource person will be pulled in on consultancy or on deputation terms as and when the procurement function requires substantial inputs. In general, however, the project activities are not expected to involve complex procurement, i.e. the bulk of project financing is for cash transfers, which are not subject to procurement considerations. There is no civil works procurement under this Project. For the anticipated goods, training and consultancy services anticipated, the packages are not expected to exceed the relevant procurement thresholds which would require more complex procurement methods. The limited goods purchased would be done according to national shopping procedures, as the goods are expected to be readily available off the shelf or standard specification commodities. Request for Quotation documents will be satisfactory to and agreed with the Bank. Non-consulting services under the project will include delivery of seminars and selected training shall be obtained from local service providers through request for proposals using a lump sum format of contract or shopping. Consultancy services will be procured according to national shopping procedures in cases where firms are required to provide the service, and according to Section V of the Consultant Guidelines for selection of individual consultants. Short lists of consultants for services estimated to cost less than US\$ 200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Further details on procurement thresholds for different activities and review procedures are outlined in Annex 5.

42. **Arrangements for Bank supervision, monitoring, and evaluation:** Bank supervision would be done on a continuous basis out of the Bank's Nepal Country Office, where the co-task team leader (TTL), FM specialist and operations analyst (a consultant) are located. In addition, formal regular supervision missions would be conducted initially on a quarterly basis and subsequently as needed (but no less than twice a year). The other co-TTL and procurement staff are located in the Bank's New Delhi office and are thus accessible for both regular and formal supervision as required. An ex-post review of cash transfers will also be carried out by using the qualified consulting firm. Through the capacity building component, studies will also be undertaken of the cash payment process in order to assess the robustness and propose modifications as needed.

43. Given the very short preparation period of the project, supervision demands in the initial 6-12 months of project implementation can be expected to be intensive. This is typical of OP 8.00 operations where quality assurance is unusually dependent on supervision ex post, and where the inherent uncertainty of the situation requires close supervision to allow the project to respond to an evolving situation. In addition, the need to elaborate the packages of reintegration support interventions for different conflict-affected populations will require close involvement of team members as well as close coordination with the other development partners providing assistance to the peace process. This will therefore need to be taken this account in allocation of supervision budget for the project, especially for the forthcoming fiscal year.

44. With respect to evaluation, there would be periodic monitoring of performance based on the agreed performance indicators outlined in Annex 2, and TA funds are proposed to be allocated for conducting studies during project life to assess the situation of different conflict-affected groups. This would include household and local area surveys, qualitative studies on perceptions of reintegration among different groups, and other methods to be agreed in the initial months of project implementation.

45. **Illustrative implementation schedule.** The proposed closing date for the project is June 30, 2011. The estimated implementation schedule is as follows: (i) Board approval, late-April, 2008; (ii) Project Effectiveness, June 2008 (iii) Initial formal supervision mission, June 2008; and (iv) Project Closing in June 2011. Given the likely scheduling of cash payments, it is expected that the large majority of disbursements would take place in the first 6-12 months of project life.

F. Project Risks and Mitigating Measures

46. The project has a number of risks that could undermine the achievement of its development objectives (DOs). Overall, and inherent in the post-conflict situation, the risks of the project not achieving its objectives fully or sustainably are high. Even with the proposed mitigation measures, the residual risks remain significant in some cases, and the project can therefore be considered a "high risk, high reward" operation. Even if the project is well implemented and project-specific risks are well managed, broader political and social risks could undermine achievement of the objectives and can not be fully mitigated within the project itself. The key risks and proposed mitigating measures are outlined below:

Risk	Mitigating measures
Political risks <ul style="list-style-type: none"> Breakdown in the democratic transition process and key players cease to abide by the 23PA 	<ul style="list-style-type: none"> Larger risk which the project can not properly mitigate, but project support for meeting financial commitments of peace process acts as confidence building measure
Implementation risks <ul style="list-style-type: none"> Cash benefits are not paid in a manner consistent with required fiduciary, particularly FM, procedures Uncertainty on future period of residence in cantonments results in unclear exit strategy for Bank in financing allowances PC or other multi-party oversight body unable to exercise effective cross-party oversight of project and other peace support expenditures Uncertainty on reintegration options for conflict-affected target groups undermines sustainability of beneficiary transitions 	<ul style="list-style-type: none"> Well-defined fiduciary/FM arrangements, with third party involvement in payment process and intensive monitoring by IDA Agree cut-off date with GON for IDA financing of payments and on budgetary procedures for financing allowance payments beyond project allocation. Composition of PC is sufficiently representative with high-level membership. TA for capacity strengthening of PC and MOPR. Disbursements linked to effective PC oversight. TA to deepen engagement with GON on developing options for successful reintegration of different groups. On Maoists in cantonments, continuation of GON Committee on security force reform with support of other UN agencies and bilaterals.
Reputational risks <ul style="list-style-type: none"> Bank viewed as not being politically even-handed under project in balancing support to various specific conflict-affected groups Cash benefits partly accrue to Maoists and Bank is viewed as providing support to Maoist party instead of to individual Maoists in cantonments 	<ul style="list-style-type: none"> Providing support to both Maoist and non-Maoist victims of the conflict as well as providing institutional support to GON. Engagement with multi-party PC or equivalent interim body to ensure ongoing buy-in across the political spectrum Regular monitoring of project implementation and use of individual check payments. Periodic monitoring surveys and other assessment tools.

G. Terms and Conditions for Project Financing

47. The Project will be financed entirely through IDA grant, as have been all recent projects approved for Nepal. Financing of project costs would be done on a 100 percent basis.

48. Prior to disbursement, it would be essential to have three actions finalized, which are essential to ensuring that the payments made under Components 1 and 2 (1) are delivered in a manner which satisfies fiduciary standards and reflects a political and institutional commitment among the respective actors to robust payment processes for both Maoists in cantonments and families of those killed as a result of the conflict. In addition, the guidelines for reintegration support will need to be elaborated in the initial months of the Project in order to proceed with

interventions under that sub-component. The Conditions of Disbursement for the respective components are therefore as follows:

- (a) under Component 1: (i) Benefit Payment Operational Guidelines satisfactory to IDA have been prepared; and (ii) GON has executed a memorandum of understanding with each of the Rastriya Banijya Bank, the Nepal Bank Limited, and the Nepal Rastra Bank, as applicable, setting forth implementation and internal control arrangements for Benefit payments under Part 1 of the Project satisfactory to the Association.
 - (b) under Component (2)(a): MOF and MOPR have agreed on Guidelines for the Process of Family Benefit Payments to eligible families of those killed as a result of the conflict, in form and substance satisfactory to IDA.
 - (c) under Category (2)(b): (i) the Reintegration Support Operational Guidelines satisfactory to the Association have been prepared; and (ii) the Peace Commission, or any other alternative mechanism acceptable to IDA, has endorsed the information provided by MOPR on cash payments to Maoists in cantonments and families of deceased.
49. There are also proposed to be several covenants, as follows:
- The Recipient shall ensure that: (i) Component 2, sub-component 2 of the Project is implemented in accordance with the provisions of the Operational Guidelines for reintegration support to be developed; and (ii) no action is taken which would prevent or interfere with such implementation.
 - The Recipient shall ensure that the identification and verification of Beneficiaries under Components 1 and 2 of the Project and the transfers of transitional safety net payments to such Beneficiaries shall be made in accordance with the principles, criteria and procedures satisfactory to the Association.
 - The Recipient shall, by April 10, 2008 complete the staffing of, and thereafter maintain the Project Management Team (PMT) with functions and key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association.
50. There are also several FM-specific covenants, as follows:
- submission of annual audited project financial statements;
 - submission of IPR each trimester; and
 - annual work program and budget for each component would be shared with IDA.

Annex 1: Detailed Description of Project Components

Nepal Emergency Peace Support Project

1. As highlighted in the main text of the EPP, the project would consist of three main components: (i) transitional safety-net allowance payments to Maoists in cantonments during a transitional period, (ii) cash benefits to the families of those killed during the conflict and reintegration support for other conflict-affected populations, and (iii) capacity building of key institutional structures in support of the peace and project management support. These components are described below.

2. *Component 1: Transitional safety net payments to Maoists in cantonments during the transition period.* Over 19,000 eligible Maoists have been placed in seven cantonments following the Peace Agreement, with commitment by political parties to payment of regular allowances to reduce the chances of disenchantment and to mitigate against a need for rent-seeking behavior while the Maoists are encamped. These act in effect as transitional safety net payments. However, eight months of payments were outstanding as of mid-February 2008, and there are presently no funds budgeted for forward payments that will be necessary for the months following elections. This component would finance transitional safety net payments for 19,602 Maoists in cantonments. The eligible Maoists were registered and verified by a two stage process involving the two parties to the conflict and UNMIN, which conducted a detailed verification of each potential beneficiary and issued individual bar-coded identity cards to those verified. The verification and registration process is considered to have followed good international practice by Bank and UN staff familiar with similar operations in other countries.

3. The component would cover both payment arrears from July 2007 and forward payments for the period to mid-January 2009 for those registered through this process.¹² The benefits would be paid out to the individual beneficiaries in the form of individual checks for the initial payments, with an effort to move to bank account deposits as the payment modality before the end of the project-financed period of benefits.¹³ The payment process would involve administrative officials, Maoists representatives and an agreed independent third party to witness the payment process. Payments would be made according to an agreed set of guidelines, which are intended to ensure transparency in the process, and compliance with the guidelines would be a condition of disbursement of project funds for payments. Project financing would be provided on a reimbursement basis, providing an additional check on compliance with the agreed procedures. Details of the funds flow arrangements and institutional roles are provided in the FM annex and Section E of the main EPP on Implementation Arrangements. The payments would be made in a single payment for arrears and then on a regular periodic basis for the forward payments. There would also be financing under Component 3 for a communications campaign to inform beneficiaries of their entitlements and the payment process, as well as surveys of beneficiaries after payments begin to be made (though such surveys will need to be negotiated with the Maoists leadership in order to ensure that they provide useful insights into the payment process). Effective communications to beneficiaries, particularly in settings like cantonments, has been

¹² The breakdown of the 19,602 is: (i) 18,789 fully verified Maoists in cantonments; (ii) 153 Maoists eligible but not in cantonment as providing VIP security services; and (iii) 660 Maoists in cantonments from Phase II verification also awaiting final decisions but eligible. For the latter two groups arrears are owed from November 2006.

¹³ The payment method contrasts with the one round of payments made in 2007, where a lump sum payment was made to the Maoist camp commander for subsequent distribution to those in the cantonment.

shown in other parts of the world to be critical in terms of managing expectations and increasing the transparency of payment processes. Finally, there would need to be agreement on a grievance process for beneficiaries in the event of irregularities in the payment procedure and this would be reflected in the payment guidelines. While the ultimate period of future residence in cantonments is not known at this point, a cut-off date has been agreed with GON which balances estimates of future need with the need for an exit strategy for the Bank. Benefit payments beyond January 2009 would be expected to be picked up within the budget through a proposal of supplementary budget if required. In addition to the financing of transitional safety net payments, there would be provision for incremental operating costs associated with delivery of benefits in a manner consistent with the Bank and GON's fiduciary standards (e.g., logistical costs of physical delivery of payments). Assuming payment of arrears and an additional nine months of payments, post-elections, the estimated value of this component is US\$18.55 million, of which US\$550,000 would be for incremental operating costs.

4. *Component 2: Benefits to families of those killed as a result of the conflict and reintegration support to other conflict-affected populations.* This component would have two sub-components:

5. *Sub-component 1:* The sub-component would finance *benefit payments to survivor families of people killed as a result of the conflict*. Therefore, this component would provide compensation payments to 14,000 plus families in the amount of NRs. 100,000 (US\$1570) per person killed as per GON decision in March 2008. This would be paid as a lump-sum benefit, though payment would be spread over several months to achieve national coverage. These families were identified through a process conducted under the leadership of Chief District Officers (CDOs), with input from several sources to verify eligible families and with close review by higher levels of administration and Government. These lists have therefore been officially endorsed and are maintained at the district level for families resident in each district. This process is therefore considered to have done a reliable job of identification by national and international observers, including identifying the eligible individual in the families of those killed who would be entitled to receive the payment.¹⁴ Given the significant lump sum amount of the benefit, payments would be required to be made into bank accounts of individual beneficiaries in order to reduce risks. There would also be a set of guidelines agreed for the payment process which would be required to be followed as a condition of disbursement of project funds for payments. This would include a role for local third parties who could advise beneficiaries in order to reduce the prospects of both predatory behavior by others and ill-informed decisions by beneficiaries (though ultimately it would remain the prerogative of individual beneficiaries how to use their benefit payments). As with first component, there would be provision for incremental operating costs associated with delivery of benefits in a manner consistent with the Bank and GON's fiduciary standards. There would also be linked support under Component 3 for a communications campaign to beneficiaries, special reviews of the payment process and beneficiary surveys which would be implemented from early in the process to gain insights into the effectiveness of the payment procedures and adjust them as necessary for other districts where payments are made later. There would also need to be a grievance process agreed as part of the payment guidelines. Given that the payment schedule across 75 districts is expected to take place over several months, it is hoped that the lessons from districts where payments are made first will be useful. The estimated size of the payments and recurrent cost support under the first sub-

¹⁴ Confidence in the official number of families with a member killed as a result of the conflict is bolstered by the fact that a national NGO (INSEC) conducted detailed information collection throughout the conflict on those killed through a network of local investigators. Their figures on the number of people killed as a result of the conflict and their composition are remarkably close to the official numbers.

component is US\$23.23 million, of which around US\$455,000 would be for incremental operating costs.

6. ***Sub-component 2:*** The sub-component would provide *support for reintegration assistance to other conflict-affected groups* (e.g., people disabled in the conflict; internally displaced people (IDPs); families of persons who have disappeared; minors involved in the conflict; orphaned children; widows). This could take a variety of forms (e.g., training; legal and counseling services; rehabilitation services for disabled people; piloting of interventions) and would be elaborated by GON with the assistance of technical assistance (TA) provided under the third component and in close consultation with other development partners through the mechanism of the Nepal Peace Trust Fund. Given the uncertainty on the specific reintegration assistance and its scale, the team proposes that a dedicated pool be provided in the project to finance reintegration support for selected conflict-affected groups. This would be more specifically defined and programmed during the first year of project implementation, including through pilot activities, and closely coordinated to maximize complementarity with the activities of GON and the development partners. In order to promote close coordination with other donors, proposals for activities under this sub-component would be shared with the Technical Committee of the NPTF (or such other body as mutually agreed with GON, development partners and the Bank). This would be consolidated into operational guidelines for accessing these funds which would be a condition of disbursement for the sub-component, an approach used previously in Nepal under the Economic Reform Technical Assistance (ERTA) Project. It is not expected that the funds proposed would be sufficient to cover the likely overall reintegration support needs of these groups. However, as the policy framework is elaborated by GON, additional resources could be made available through either reallocation of existing funds or seeking supplemental financing as appropriate. The proposed amount for reintegration support interventions would be US\$ 5 million.

7. ***Component 3: Capacity building of key institutional structures in support of the peace process and project management support.*** Given the relatively short project implementation period and nature of interventions, this component is estimated to cost US\$3.22 million. This component would have three sub-components:

8. ***Sub-component 1: Capacity building and technical assistance for the Ministry of Peace and Reconstruction to perform their core functions more effectively.*** This would include as an immediate priority its oversight role on payments to families of deceased and Maoists in cantonments (e.g., strengthening the MIS system, internal procedures, communications campaigns for beneficiaries of project-financed payments, and monitoring/reporting, including beneficiary surveys), and programs for other conflict-affected groups such as orphans, widows, and disabled people. In addition, it would include technical assistance and capacity building for performance of the Ministry's roles in supporting the peace process support, within an overall vision of the Ministry as a coordinator rather than executor. This would include training, legal advisory support for its secretariat functions in drafting new policies and procedural guidelines, advisory services on development of GON's overall reintegration strategy and specific reintegration interventions programs, and capacity for information education campaigns (IEC) which are considered a critical element in building awareness and confidence in the overall peace process. The component would promote exposure to best international practices in reintegration, reconciliation and rehabilitation, devising appropriate mechanisms for integrating peace and developmental activities, reorienting sectoral ministries towards conflict-sensitive design of development projects, and supporting effective functioning of the peace focal points in each ministry. The technical assistance under this component would inform design of the reintegration support activities for various groups to be financed under Component 2. It will be critical to

ensure that more specific definition of TA support is done in close coordination with other development partners, several of which have or plan for ongoing support for peace and reintegration activities. The proposed vehicle for ensuring such harmonization of approach is the NPTF.

9. ***Sub-component 2: Support for core project implementation tasks of the Project Management Team*** (PMT) such as procurement, financial management (FM), including evaluation of project interventions through surveys and other assessment tools. The PMT would be located in the MOPR, with staff from relevant departments, including the cantonment management unit which sits in MOPR but reports to MOF. The PMT would also have a key role in ensuring that the agreed guidelines for payments to Maoists and cantonments and families to those killed as a result of the conflict were followed, including channeling financial support for incremental operating costs associated with delivery of the payments.

10. ***Sub-component 3: Training, workshops and technical assistance for other actors in the peace process*** as needed, including the Peace Commission once formed, the Peace and Conflict Management Committee if required, Local Peace Committees, and other groups such as parliamentarians and possibly other bodies related to the peace process envisaged in the 23PA.¹⁵ The priorities for use of the funds under this sub-component would be determined in light of GON's priorities for support to the peace process and in close consultation with the technical Committee of the NPTF or such other politically inclusive mechanism as agreed with GON and other development partners.

¹⁵ The 23 Point Agreement foresees the formation of a set of high level bodies which would help carry the peace process forward. Apart from the Peace Commission, these include the Commission for the Investigation of the Disappeared, Truth and Reconciliation Commission, State Restructuring Commission, Study and Recommendation Commission for Scientific Land Reform, and the High Level Committee for Monitoring the Effective Implementation of the CPA and Other Agreements. See Text of 23PA, dated December 23, 2007.

Annex 2: Project Results Framework and Monitoring
Nepal Emergency Peace Support Project

Project Title: Nepal Emergency Peace Support Project			
Summary	Proposed Indicators	Means of Verification	Critical Assumptions
Project Development Objective	<ul style="list-style-type: none"> ■ Participation of parties to the peace process in agreed upon structures and mechanisms addressing the peace at central and district levels ■ Number of specific agreements of the CPA and 23 Point Agreement adhered to 	<ul style="list-style-type: none"> ■ UN SRSG report to Security Council ■ Supervision mission assessment (with specific input from development partner political offices) 	<ul style="list-style-type: none"> ■ Continued participation of the CPN (Maoist) in Interim Government and stable Government after elections ■ Other parties (including Nepali Army and UN Monitoring mission) fulfill their responsibilities as outlined in the CPA
Component Outcomes	<ul style="list-style-type: none"> 1. Improved level of trust between parties to the peace process 2. Increased transparency in provision of benefits to conflict-affected groups 	<ul style="list-style-type: none"> ■ Reduction in cease-fire violations ■ Level of satisfaction with payments (deceased families, community members, Maoists in cantonments) ■ Summary payment information available for public review 	<ul style="list-style-type: none"> ■ UN ceasefire reports ■ Press reports ■ Independent opinion surveys conducted among conflict-affected groups addressed by project ■ Special audit reports ■ Quarterly project progress

¹⁶ Established with offices and secretariat, multi-party membership and meeting regularly as per Cabinet guidance, providing formal policy guidance to Ministry of Peace and Reconstruction and other relevant peace institutions, fulfilling TORs.

¹⁷ Regular to be defined in relevant coordinating body TORs, etc., and effective to be measured by percent of appropriate participation in coordination meetings, proportion of key actions agreed upon undertaken, etc.

Project Title: Nepal Emergency Peace Support Project			
Summary	Proposed Indicators	Means of Verification	Critical Assumptions
	<ul style="list-style-type: none"> ▪ Unqualified special audit reports on cash payments ▪ Medium term strategy for reintegration of other conflict affected populations defined 	reports	
3. Key peace institutions functioning efficiently	<ul style="list-style-type: none"> ▪ Peace Commission constituted and operational¹⁶ and agreed multi-party mechanism in place pending PC formation ▪ Peace Ministry executing strategy formulation and coordination of peace initiatives ▪ Regular and effective¹⁷ coordination between Ministry and relevant organizations at center & districts ▪ Project management rated satisfactory 	<ul style="list-style-type: none"> ▪ Quarterly project progress reports ▪ PC Meeting minutes ▪ Aides Memoires and ▪ Implementation Status and Results (ISR) reports 	<ul style="list-style-type: none"> ▪ Stable Government in place within reasonable period after elections and harmonious relations between major political parties ▪ Other key institutions (Truth and Reconciliation, Land, and State Restructuring Commissions) are also constituted, supported and operate effectively
Component Outputs			
1. Cash payments to encamped Maoists in cantonments completed	<ul style="list-style-type: none"> ▪ Timely¹⁸ delivery of (i) back-log, and (ii) monthly allowance payments ▪ 95% eligible Maoists in cantonments indicating having 	<ul style="list-style-type: none"> ▪ Independent survey conducted in cantonment centers 	<ul style="list-style-type: none"> ▪ Adequate banking arrangements are or can be made available to allow significant cash transfers

¹⁸ (i) Within 1 month of availability of funds, and (ii) not more than 1 month delayed.

¹⁹ As per “Norms for Financial Support and Relief” directive of Government.

²⁰ Within 4 months of close of each semi-annual project period.

Project Title: Nepal Emergency Peace Support Project			
Summary	Proposed Indicators	Means of Verification	Critical Assumptions
2. Cash benefits to the families of those killed as a result of the conflict provided.	<ul style="list-style-type: none"> ■ received payments ■ Proportion of families of those killed as a result of the conflict receiving agreed cash payments ■ Proportion of families of those killed during the conflict accessing other mandated benefits¹⁹ 	<ul style="list-style-type: none"> ■ Project/Ministry MIS 	<ul style="list-style-type: none"> ■ Continued commitment to entitlements to conflict-affected families endorsed by Cabinet in March 2008
3. Reintegration support for other conflict-affected populations developed and piloted	<ul style="list-style-type: none"> ■ Reintegration strategy developed and endorsed by GON ■ Proportion of other conflict-affected provided assistance as per strategy ■ Proportion assisted within 24 months of agreement/access 	<ul style="list-style-type: none"> ■ Project/Ministry MIS 	<ul style="list-style-type: none"> ■ Government endorses proposed strategies and providing adequate support to implementing institutions
4. PMT strengthened	<ul style="list-style-type: none"> ■ Timely (quarterly) submission of progress reports ■ Timely (per SPP) completion of agreed-upon procurement actions ■ Timely²⁰ conduct of project audits ■ Regular sharing of project performance information with NPTF 	<ul style="list-style-type: none"> ■ Aides mémoires 	<ul style="list-style-type: none"> ■ Political commitment of senior Ministry officials ■ Continued collaboration with GON and donor partners within NPTF mechanism or equivalent politically inclusive process as mutually agreed
5. Support to Peace Commission and other Peace institutions provided	<ul style="list-style-type: none"> ■ Proportion of key inputs (policy guidance, technical advice) acted upon/adopted 	<ul style="list-style-type: none"> ■ Supervision mission assessment 	<ul style="list-style-type: none"> • Peace Commission and other peace bodies established in reasonable period and accepted by major political parties

Project Title: Nepal Emergency Peace Support Project			
Summary	Proposed Indicators	Means of Verification	Critical Assumptions
Activities			
1. Combatant cash-transfer systems	<ul style="list-style-type: none"> ■ Registration and payment system ■ Banking arrangements ■ Financial management systems 	<ul style="list-style-type: none"> ■ Peace structures remain intact and adequately staffed ■ UN registration system remains secure 	
2. Cash benefits to families of deceased	<ul style="list-style-type: none"> ■ Finalized lists endorsed by Peace Commission or equivalent multi-party oversight mechanism ■ MIS/tracking system ■ Financial management and banking arrangements ■ Follow-up verification 	<ul style="list-style-type: none"> ■ Design of relevant strategies ■ Agreement on operational arrangements ■ Pilot activities ■ Assessment of outcomes 	
3. Support to other conflict-affected		<ul style="list-style-type: none"> ■ Technical assistance and training ■ Basic logistical support 	
4. Support to other peace institutions		<ul style="list-style-type: none"> ■ Provision of technical assistance and capacity building in technical 	
5. Program management			

Project Title: Nepal Emergency Peace Support Project			
Summary	Proposed Indicators	Means of Verification	Critical Assumptions
<p>6. Donor Coordination mechanisms with other development partners</p> <ul style="list-style-type: none"> ▪ areas and project management linked to the operation. ▪ Independent Audits ▪ External evaluations 	<ul style="list-style-type: none"> • Regular participation of Bank staff in NPTF meetings and other fora of peace process partners • Deepen harmonization of project activities with NPTF systems and/or such other multi-donor bodies as agreed between GON, development partners and the Bank 	<ul style="list-style-type: none"> • Minutes of NPTF meetings • Regular NPTF and project performance reports 	

Annex 3: Estimated Project Costs Breakdown
Nepal Emergency Peace Support Project

Component	Estimated allocation (US\$ Million)
1. Transitional safety net payments to Maoists in cantonments during the transition period	
(a) Cash payments	18.0
(b) Incremental recurrent costs	0.55
2. Cash benefits to families of those killed as a result of the conflict and reintegration support to other conflict-affected populations	
(a) Cash payments to families	22.8
(b) Incremental recurrent costs	0.45
(c) Reintegration support interventions	5.0
3. Capacity building of key institutional structures in support of the peace process and project management	
(a) Capacity building and technical assistance for the Ministry of Peace and Reconstruction to perform their core functions more effectively	2.8
(b) Training and technical assistance for other actors in the peace process	
(c) Support for core project implementation tasks of the PMT including evaluation of project interventions and goods	0.4
TOTAL PROJECT COST	50.0

Annex 4: Financial Management and Disbursement Arrangements Nepal Emergency Peace Support Project

Country Financial Management Environment

1. The Nepal Country Financial Accountability Assessment (CFAA) that was conducted jointly by the Government of Nepal (GON) and IDA in 2002 and subsequently updated in 2005, concluded that the failure to comply with the impressive legal and regulatory fiduciary framework makes the fiduciary risk in Nepal “High”, but the risk is similar to that in most developing countries. The situation has not significantly changed. The draft Public Financial Management (PFM) Review (May 2007) have reaffirmed that the PFM system in Nepal is well designed but unevenly implemented. The Public Financial Accountability Assessment (PFAA) issued in February 2008, has also reiterated that the fiduciary risk in Nepal continues to be “High”. The GON, however, is committed to improving the overall financial accountability framework. This has been demonstrated by promulgating the Public Procurement Act and Public Procurement Regulations in 2007, amending the Financial Administration Regulations in 2007, and also leading the self-assessment of various PFM Indicators as per Public Expenditure Financial Accountability (PEFA) Guidelines. Further work on PFM including setting up the PFM benchmarks as per the PEFA Guidelines carried out in 2007, and subsequent implementation of actions that need to be agreed with GON will help to mitigate the inherent country risk.

Background on the Implementing Agency and Program

2. The Ministry of Peace and Reconstruction (MOPR) was established by GON in 2007 (by the decision of the Government of Nepal, Allocation of Business Rules, 2007, as published in the Nepal Gazette on May 7, 2007) with the following key mandate: (i) formulate, implement and monitor the immediate and long-term policies, strategies, plans and programs for the establishment of peace, conflict management and reconstruction of physical infrastructures damaged due to conflict; (ii) formulate policies, strategies and programs of social and economic development of conflict-affected regions; (iii) monitor the implementation of various peace agreements including the Comprehensive Peace Accord; and (iv) assume transitional management of the peace process and conflict-related reconstruction plans.

3. The proposed emergency operation on Peace Support is to respond to GON to contribute to the consolidation of the Nepal peace process to ultimately result in bringing a lasting development impact. The overall objective of the project is to contribute to the consolidation of the Nepal peace process by supporting: (i) Government to meet commitments to selected groups affected by the conflict, including families of those killed as a result of the conflict, conflict-related widows and orphans, disabled people, and individual Maoists in cantonments; (ii) ensuring transparency in implementation of benefits under the Project for the conflict-affected groups, including the Maoists in cantonments; and (ii) strengthening of key institutions which are tasked with policy and implementation functions in peace building, reintegration and rehabilitation. The primary target group of beneficiaries is the estimated 19,602 eligible Maoists in cantonments from Maoist who are currently placed in seven cantonments following the Peace Agreement and the survivor families of the estimated 14,344 deceased people who were killed during the conflict. The proposed emergency operation will have three components: (a) cash transfers to Maoists in cantonments during the transition period; (b) cash transfers (one time) to families of victims killed as a result of the conflict and initial reintegration support to other

conflict-affected populations; and (c) capacity building for MOPR and key institutional structures in support of the peace process.

Adequacy of Financial Management Arrangements

4. The project is an emergency response to GON's request to support the consolidation of the Nepal peace process. There is a high level commitment at the political level to ensure lasting peace in Nepal. A clear indicator of this is the signing of the 23 Peace Agreement (23PA) among the top leaders of the seven political parties toward implementation of the Comprehensive Peace Agreement. In response to this, the Council of Ministers issued directives on December 24, 2007 to all ministries to ensure timely implementation of the 23PA. The proposed emergency operation is a response to contribute towards implementation of the comprehensive peace agreement and sustainable peace and stability in the post conflict context of Nepal. GON has established strategic priorities for peace-related efforts, and the proposed operation is targeting to address some of those priorities as explained above. In order to respond to two core areas of cash transfers to Maoists in cantonments and to the families of persons killed as a result of the conflict, GON has already established an institutional mechanism for cash transfers coordinating closely with UNMIN, the UN body responsible for authenticating eligible Maoists in cantonments and which has oversight in cantonment sites in seven districts. Similarly, GON has made a Cabinet level decision (on October 8, 2007) regarding the norms of rates to be paid to the Maoists in cantonments, which form a basis for the cash transfers to be made to them. Regarding the one time cash transfers to the eligible families of those killed as a result of the conflict, GON is relying on the record and certification of the 75 CDOs who are the authorized district authorities for maintaining such records. A Directive describing the norms for financial support to such families was approved by the Cabinet in March 2008. For greater transparency and for ensuring better controls on cash transfers, modification of the current system is warranted which is described in this assessment, which has been discussed and agreed with GON. This is to ensure that funds that are disbursed following the approved norms actually reach the intended beneficiaries.

5. The institutional arrangements to implement the various cash transfer schemes are already in place. The MOPR has formed a PMT headed by the Project Coordinator (Joint Secretary of the Conflict Management Division) and comprised of representatives from other Divisions/Sections, including the Conflict Analysis and Policy Formulation Division, Relief and Rehabilitation Section, Planning and Monitoring Section and Cantonment Management Division. It will include a dedicated Accounts Officer and a part-time Procurement Officer who will pull resources/consultants when required from the system when specific procurement support is required. For Component 1, the PMT will work through the Cantonment Management Section which has a Cantonment Officer in each of the seven cantonment sites/districts. UNMIN has detailed information on each of the Maoists in cantonments. For Component 2, the PMT will work through the 75 CDOs which are heading the authenticated authorized district offices which maintain records of families of people killed as a result of the conflict. The Directives that are currently under the Cabinet review will form the basis to implement the cash transfers under the component. To guide the MOPR and the PMT, the PC – or such interim politically inclusive body as mutually agreed pending formation of the PC – would act as a high level oversight institution on project activities as part of its broader function to oversee the peace process. Overall, the FM arrangements for the project are adequate at this initial stage of project implementation with some modifications as will be described in this assessment. These will need to be further improved in the areas indicated below to ensure a satisfactory FM system throughout the project implementation.

Risk Analysis

6. From the FM perspective, the overall risk is “substantial”. High-level priority to implement the 23PA, facilitation by UNMIN in the peace process, commitment of seven political parties for sustained peace, and institutional arrangements that are in place are some of the factors that aim to mitigate the risks. Overall, the decision to integrate the funding of this program through the government’s financial management system will ensure adequate parliamentary oversight and scrutiny by other oversight agencies. Special efforts will be taken by MOPR to establish the monitoring system to monitor the project activities. Arrangements will also be made for ex-post review of cash transfers made under Components 1 and 2 through the use of consultants. Further, there will be strong efforts to build capacity both in technical areas as well as overall project management including procurement and FM. The capacity building component would provide TA to MOPR to perform their core functions more effectively. Amongst others, it would also support training programs for various groups involved in the peace process including the PC, the LPC members and the targeted parliamentarians committees. To address certain gaps that have been identified during the assessment, risk mitigation action plans have been agreed, and the risks will be reduced as the action plans get implemented. The creation of the PC for policy guidance and oversight on implementation of peace process is an indication of the priority given to implementing this program.

Strengths

7. The proposed operation has the following FM strengths: (i) high-level government and seven party commitment to implement the 23PA; (ii) UNMIN facilitation of the peace process; (iii) policy decisions of the Cabinet on cash payments to Maoists in cantonments and norms for cash payments to families of people killed in the conflict; (iv) a strong PMT in MOPR under the leadership of the joint Secretary; (v) ensuring the program follows existing country systems to make the process transparent with regard to the budget and the accompanying parliamentary oversight; and (vi) capacity building component to strengthen the technical capacity of MOPR and peace-related efforts.

Weaknesses and Resolutions

8. Deputation of core staff in the PMT and their continuity throughout project implementation is important for the successful implementation. An emergency operation like this one requires strong commitment and high level coordination both at the political and bureaucratic levels. Strong donor coordination is also key to helping ensure a successfully implemented peace process. Developing the FM system and accountability framework in the MOPR is also critical to ensure better accountability over funds disbursed and making information accessible to public. Integrating the Maoists in cantonments and families of those killed in the conflict into the country’s development framework is an opportunity that should not be overlooked.

Planning and Budgeting

9. The proposed operation will follow the same government procedure as used with any normal budget line item. The budgeting procedures for preparation, approval, implementation, and monitoring are elaborated in the Financial Procedure Regulations (FPR). The annual work program and budget will be based on the work program to be prepared by MOPR. Annual work programs and budgets are submitted to the National Planning Commission (NPC) and MOF for discussion. The current fiscal year ‘Appropriation Book’ (Budget 2007/08) has three dedicated budget line items through which the project’s activities can be implemented. The budget lines

are: 95-4-976 (Peace Trust Fund – including cantonment management) or budget lines: 95-3-951 and 95-4-951 (contingency). All activities under this project will be “on-budget”.

10. MOF will release authorizations for expenditure to MOPR. The Secretary of MOPR will issue authorization to the Secretary of the Office of Central Coordination for Cantonment Management (OCCCM) for Component 1 and to the Project Coordinator for Components 2 and 3 for disbursement of funds. The Secretary of OCCCM will issue spending authorizations to the Cantonment Officers located in seven districts (Jhapa, Sindhuli, Chitwan, Nawalparasi, Rolpa, Surkhet and Kailali) and copy such authorization letters to the MOPR Secretary, the Financial Comptroller General and the District Treasury Controller of seven districts. Fund release to the Cantonment Offices will then take place through a normal release procedure through respective District Treasury Controller Offices (DTCOs). The Secretary of OCCCM will eventually be held accountable for disbursements of funds under Component 1. Similarly, for Component 2, the Project Coordinator issues spending authorizations to the Chief District Officers (CDOs) of 75 districts and copy such authorization letters to the MOPR Secretary, the Financial Comptroller General and the District Treasurer Controller of 75 districts. Fund release to the CDOs will take place through a normal release procedure through respective DTCOs. The Project Coordinator and CDOs are held accountable for expenses under Component 2.

Funds Flow Arrangements

11. GON will release the budget as per the approved work program for the project in three tranches as per its fund release procedures. The budget approved by GON will be indicated in the government’s budget (Red Book). Prior to the approval of the work program and budget, one-third release of the previous year expenditures or projected expenditures for the first trimester, whichever is greater, will be made to the respective cost centers through the respective DTCOs. Fund release for IDA’s share of expenditures will be pre-financed through GON’s consolidated fund. Upon approval of the work program and budget, appropriate adjustments will be made against the advance for the first trimester release. Subsequent second and third trimester releases are based on performance reflected by the physical progress reports as required by Schedule 2 of the FPR.

12. For reimbursement of IDA’s share of expenditures to GON’s consolidated fund, a Special Designated Accounts will be established in Nepali Rupees at NRB to facilitate quick payments of various activities under the project including the reimbursement under terms and conditions acceptable to IDA. MOPR will designate the signatories to operate the special designated accounts, and it will normally be the Project Coordinator and the Accounts Officer. Transaction-based (traditional) disbursement procedures will be applied for withdrawal of funds from the grant. Reporting formats for the Implementation Progress Report (IPR; comprising physical progress report, financial monitoring report and procurement management report) will be prepared, discussed and agreed with the Bank prior to negotiations.

Project Financial Accounting, Reporting and Internal Controls

13. In order to ensure that project financial statements are consolidated, the PMT in MOPR will ensure that separate books of accounts are maintained for the project and accounts are prepared on a cash basis. The PMT will coordinate overall activities and work under the guidance of the MOPR Secretary and the PC. The PMT will be accountable to prepare trimester IPRs and project financial statements. Accounting information will be regularly updated to timely generate financial reports. As required by government system, MOPR will maintain required ledgers including the Withdrawal Monitoring Register and Special Designated Accounts

Ledger. GON's internal control system will be applied to monitor the progress of the project in accordance with sound accounting practices. The accounting systems contain the following features: (i) application of consistent cash accounting principles for documenting, recording, and reporting its financial transactions; (ii) a well-defined chart of accounts that allows meaningful summarization of financial transactions for financial reporting purposes; (iii) maintenance of withdrawal monitoring register, the record of SOEs and Designated Accounts register; (iv) the asset register; (v) monthly closing and reconciliation of accounts and statements; and (vi) the production of annual financial statements.

Financial Management Staffing

14. The PMT in MOPR will be the overall coordination office to coordinate the overall implementation and day-to-day management of project activities. An Accounts Officer has been designated to maintain the accounts of the Project. He will be supported by his assistants. As two of the three components are "one-off" cash transfers, the current team of staff is capable of handling the project transaction.

Internal Control on Cash Transfers

15. Once the funds are released to the Cantonment coffers in the seven districts through the respective DTCOs for Component 1 (payments to Maoists in cantonments), a modification in the current system is warranted in order to ensure that cash transfers take place to the intended beneficiaries. Transactions would be made only through checks in the name of individual beneficiaries as per the approved list of eligible Maoists in cantonments by using the services of banks with a network in the cantonment locations. Checks would not be transferred unless a GON representative from the cantonment management office and Maoist representative certify the eligibility of payments as per the agreed norms. It would also be required that an independent third party witness the payment process, with GON and the Maoist leadership to agree on and with such third party which is also acceptable to IDA. The agreement between the GON Maoist representatives and the third party would need to elaborate the scope of the third party's role in "witnessing the payments" which ensures a standard process for the role of the third party witness. Documents based on which checks would be issued are the approved Attendance Roster, vouchers generated for payments to each individual and checks prepared based on such approved vouchers. Where feasible, beneficiaries will be encouraged to open individual savings accounts so that payments can be made directly to their savings accounts. GON has entered into dialogue with the government owned banks to facilitate the process. Arrangements will be made for mobile banks to provide services in a specified date in each cantonment. Maoists in cantonments would encash their checks through mobile banking. Banks will check the identity of each individual, verify the check, and obtain receipts of checks and payments from each individual. For Component 2 (payments to families of deceased people), the Chief District Officer (CDO) will be accountable to verify and attest the receipt of payments made to the identified beneficiaries. One-off cash transfers in this case will also be made through banking arrangements through checks, preferably, in the individual savings accounts if not, through demand checks.

Internal Review of Cash Transactions

16. In order to ensure that cash transfers are made to the intended beneficiaries, arrangement for timely review of such transactions will be made by the MOPR through use of the consulting/auditing firm to verify that payments are made through set norms to confirm that evidences of payments can be tracked through the system. MOPR will carry out such review in close consultation with IDA three times a year after the end of each trimester. The first of such

review would be carried out within three months after the effectiveness of the Grant when the funds under retroactive financing would have been disbursed.

Internal Audit

17. District Treasury Controller Offices (DTCOs) will be responsible to carry out internal audits of this operation as all fund release are made through respective DTCOs for both Components 1 and 2. Internal audits will be carried out on a trimester basis. DTCOs submit their internal audit reports to respective cost centers, copies of which are sent to MOPR and FCGO.

Implementation Progress Report (IPR)

18. The interim financial report of the project IPR will report total investments to be separated by specific component/activity so that total investments as envisaged can be tracked and monitored. The project IPR will be prepared from outset, showing the sources and uses of funds, output monitoring report, procurement management report and narrative progress report in formats to be agreed upon during negotiations. To match the public sector planning and reporting cycle, the IPR will be produced on a trimester basis and submitted within 45 days from the end of the preceding trimester.

External Audit

19. The following are the audit²¹ requirements under the project:

Annual consolidated project financial statements and Designated Accounts statements will be audited by OAG, which is considered acceptable by IDA for this purpose, and submitted to IDA within six months after the end of the fiscal year – January 15.

20. The following audit report would be monitored in the Audit Report Compliance system (ARCS):

Implementing Agency	Audit	Auditors	Audit Due Date
MOPR	Project Financial Statements (including SOE Statement and Special Designated Accounts)	OAG	6 months after the end of fiscal year (January 15 th)

Financial Management Action Plan

21. Action plans to strengthen the financial management capacity of the project were agreed between the Recipient and IDA and are summarized below:

²¹ Terms of reference acceptable to IDA were discussed and agreed prior to Negotiations with OAG.

Financial Management Action Plan

Action	Responsibility	Completion Date
1. The Benefit Payment Operational Guidelines satisfactory to the Association have been prepared and agreed among relevant parties.	MOPR/GON, in consultation with Maoists and third party witness	Prior to disbursement for Component 1
2. GON to execute a memorandum of understanding with each of the Rastriya Banijya Bank, the Nepal Bank Limited, and the Nepal Rastra Bank, as applicable, setting forth implementation and internal control arrangements for Benefit payments	GON and banks	Prior to disbursement for Component 1
3. Peace Commission – or alternative agreed multi-party mechanism pending formation of the Peace Commission - acknowledges the information on payments made to Maoists in cantonments and families of deceased.	Peace Commission or alternative	Disbursement Condition for Component 2 (2)
4. Agreement on satisfactory guidelines for cash payments to families of deceased, including payment into bank accounts of the beneficiaries.	MOPR and MOF	Prior to disbursement for Component 2 (1)
5. Approval of Directives on Norms for Financial Support and Relief to the families of those killed in the conflict.	Cabinet	Approved March 2008
6. Develop and agree on the TOR for audit.	MOPR, OAG and IDA	Completed
7. Develop and agree on the formats for IPRs and Project Financial Statements.	DOI, DOA and IDA	Completed
8. Carry out ex-post review through special arrangements in coordination with the government of cash transactions that are made following cash transfers at the one-third level.	MOPR in consultation with IDA	Within 3 months of project effectiveness when retroactive financing would have been disbursed

Covenants

22. There are three FM-specific covenants: (i) submission of annual audited project financial statements; (ii) submission of IPR each trimester; and (iii) annual work program and budget for each component would be shared with IDA.

Disclosure of Information and Corporate Governance

23. With recent enactment of the Rights to Information Act, 2007, disclosure requirements will be complied with to make information transparent and all information readily available for public disclosure. MOPR will post in its website all available guidelines, procedures, and other key information related to peace process. MOPR has specifically agreed to disclose the following through its website: Overall Peace Support Budget, Allocation by Activity and Budget Line; Details of Cash Transfers; Trimester Implementation Progress Reports (approved versions); and Annual Audited Financial Statements. At the decentralized level, payments made to Maoists in cantonments would be displayed in the bulletin boards of Cantonment Offices, and in case of

payments made to families of deceased under Component 2, such information will be displayed at the bulletin boards of CDOs.

Supervision Plan

24. Project implementation progress will be closely monitored by MOPR and IDA. IDA will supervise project implementation for the purposes of supervision on fiduciary aspects of both procurement and financial management. IDA will ensure to closely coordinate with other development partners supporting the peace process. The PMT in MOPR will report on project implementation progress through a trimester report, the IPR. The agreed action plan will be closely monitored to ensure appropriate actions are being implemented. Key FM fiduciary work includes: (i) ex-post review of cash transfer transactions; (ii) reviews of implementation progress reports and audit reports and preparing summaries of such reports; and (iii) participating in supervision missions and keeping the team informed of FM issues or improvements.

Disbursement

Allocation of grant proceeds (Table C)

25. Disbursement under proposed grant will be made as specified in Table C, which indicates the percentage of financing for different categories of expenditures of the project. The total project cost is estimated at US\$50.0 million, to be fully contributed by IDA. It is expected that the allocations under Components 1 and 2 will be disbursed over a period of approximately six-eight months from effectiveness, and the total amount will be disbursed over a period of three years. The Closing Date of the Grant is June 30, 2011.

Table C: Allocation of Grant Proceeds

Category	Amount of the Financing Allocated (in SDR)	Percentage of Expenditures to be Financed (Inclusive of Taxes)
(1) Benefit payments under Component 1 of the Project	11,240,000	100%
(2) Benefit payments and Reintegration Support under Component 2 of the Project		
(a) Benefit Payments	14,230,000	
(b) Reintegration Support	3,130,000	
(3) Goods, consultants' services, training, workshops under Component 3 of the Project, and operating costs under Components 1, 2 and 3 of the Project	2,700,000	100%
TOTAL AMOUNT	31,300,000	

Disbursement Arrangements

26. Disbursements from IDA will be made in accordance with traditional disbursement procedures, including full documentation for contracts above the Prior Review threshold or SOEs. To facilitate disbursements, a Designated Account in Nepali Rupees will be established. For all payments, including cash transfers, GON will pre-fund the activities, and disbursements from IDA will be made via replenishments of the Designated Account. For payments in foreign currency under Component 3, if any, would be made through request for direct payments by IDA to the concerned party.

Retroactive Financing

27. To facilitate speedy support to Maoists in cantonments and families of deceased prior to project effectiveness, the Project would allow retroactive financing in the amount of up to US\$20 million equivalent (i.e., 40 percent of the IDA grant amount, in line with OP 8.00 rules) for all benefit transfers that occurred after July 2007 and follow the disbursement/FM procedures agreed under this project to ensure eligibility of expenditures.

Use of Statement of Expenditures (SOEs)

28. SOEs will be used for following expenditures: (i) all cash transfers under components 1 and 2; (ii) all training, workshop and study tours; (iii) all incremental operating costs; (iv) contracts for equipment and vehicles, costing less than US\$100,000 equivalent per contract; (v) contracts for services of consulting firms costing less than US\$ 50,000 equivalent per contract; and (vi) contracts for services of individual consultants costing less than US\$25,000 equivalent per contract. During the IDA initial supervision, the mission will closely review the SOE claims to ensure that the funds are utilized for the intended purposes. Any ineligible expenditure identified during this and subsequent reviews will need to be refunded to IDA.

Designated Accounts

29. A separate Designated Account in Nepali Rupees will be established, on terms and conditions satisfactory to IDA. The authorized allocations for the Designated Account under the Grant will be NRs. 300,000,000. For the utilization of IDA's share of project expenditures, the PMT in MOPR may open and maintain the Designated Accounts in Nepali Rupees at the Nepal Rastra Bank under terms and conditions acceptable to IDA. The Designated Accounts will be managed under the joint signatures of the Project Coordinator and the Accounts Officer.

30. The PMT will ensure that the bank/cash books are reconciled with bank statements every month. PMT will separately submit replenishment applications for the Designated Accounts on a monthly basis, or when 25 percent of the authorized allocation has been used, whichever occurs first. Replenishment applications will be accompanied by reconciled statements from the bank in which the account is maintained, showing all Designated Account transactions. Supporting documentation will be maintained by the respective cost centers for at least one fiscal year after the year in which the last disbursement from the grant took place, and will be available for review by IDA staff and independent auditors.

31. An aggregate cash transfer beneficiaries and total actual receipt amount will be submitted on a Statement of Expenditures for IDA's reimbursement of cash transfers to the Designated Account.

Attachment 1

Financial Management Risk Rating Summary

	Risk Assessment				Previous Risk Assessment	Risk Mitigating Measures	Residual Risk
	H	S	M	L			
INHERENT RISKS							
<i>Country level</i>	X				H		H
- Quality of PFM institutions (see PEFA-PMF,CFAA, CPAR, CPIA and other diagnostics), standard of financial accounting, reporting and auditing, quality of FM profession.						Implementation of CFAA, CPAR action plan; PFM sector work and implementation of actions; country dialogue	
<i>Entity level</i>	X				S	Implementation of FM Improvement Action Plan	M
- Independence of entity's management, appropriateness of the organizational structure, impact of civil service rules							
<i>Project level</i>	X				S		M
- Relative size of the Bank loan, type of lending instrument, complexity of the project (e.g. sectors involved, number of implementing and sub-implementing entities, multi-donor etc.)						Full placement of staff at PMT	
OVERALL INHERENT RISK	X				S	Implementation of Action Plan	M
CONTROL RISKS							
Budget		X			M	Assign separate budget code and allocation of budget for FY2008/09	L
Accounting		X			M	Development of a separate books of accounts for the Project and maintain in the computerized spreadsheet in Excel or appropriate software	L
Internal Controls		X			M	Segregation of duties and monitoring of procedures	L
Funds flow		X			M		L
Financial Reporting	X				S	Develop an excel spreadsheet to capture financial information.	S
Auditing	X				S	Better coordination through the MOPR	M

	<i>Risk Assessment</i>				<i>Previous Risk Assessment</i>	<i>Risk Mitigating Measures</i>	<i>Residual Risk</i>
	<i>H</i>	<i>S</i>	<i>M</i>	<i>L</i>			
OVERALL CONTROL RISK							M
RESIDUAL RISK RATING	1	5	4	0	S		S

H – High

S – Substantial

M – Modest

L – Low

Annex 5: Procurement Arrangements Nepal Emergency Peace Support Project

General

1. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 as revised as of October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 and revised as of October 2006, and the provisions stipulated in the Legal Agreement. The general description of various items under different expenditure categories are described below. For each contract to be financed by the Loan/Credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Project Procurement Arrangements

2. The following procurement arrangements are proposed for the Nepal Emergency Peace Support Project. The Project Coordinator of the Project Management Team has good experience and training in procurement (having undertaken the Turin-based procurement training course successfully). Additional procurement resource will be drawn upon on a consultancy or on deputation as and when procurement function is envisaged for substantial inputs. The dedicated procurement function could be expected to become close to full time as the technical assistance activities under the project expand, and especially as and when the Reintegration Support activities under Component 2 gain momentum.

3. Given the rapid project preparation under OP 8.00 and the need for greater clarity on the specific activities to be undertaken within the Reintegration Support activities sub-component during the first year of implementation, it is anticipated that the Bank's Senior Procurement Specialist (based on New Delhi Office) will assist the Implementing Agency and Bank team in ensuring that procurement and consultant selection procedures and criteria for service provision, training and related activities under that sub-component are agreed in detail prior to initiation of procurement of such services.

4. **Procurement of Works:** There is no works procurement under this Project.

5. **Cash Payments:** Cash payments to be made directly to Maoists in cantonments and families of those killed during conflict under Components 1 and 2 are not subject to procurement procedures.

6. **Procurement of Goods:** Goods procured under this project would include IT equipment and solutions (computers and peripherals, software, customized MIS) that is to be procured through NCB by the Project Management Team located in the Ministry of Peace and Reconstruction.

7. In addition, there will be some small value procurement of miscellaneous goods (office equipment and furniture), printing (of dissemination material), etc., that shall be carried out by the Implementing Agency through NCB or shopping procedures.

8. NCB procedures to be used will be in accordance with national procedures as defined by the Public Procurement Law and its related Regulations, and using bid documents reviewed by and agreed with the Bank.

9. **Consultants:** For contracts with consulting firms/institutions valued below US\$100,000 equivalent per contract (under Component 3 and the Reintegration Support sub-component of Component 2), the methods of selection may either be QCBS, consultant's qualifications or Single Source Selection based on the appropriateness of the procedures relevant to the requirements.

10. For contracts with NGOs and CBOs estimated to cost less than the equivalent of US\$ 200,000 per contract (under the Reintegration Support sub-component of Component 2), the selection methods may be either Consultants Qualifications or Single Source Selection. For Individual consultants, no contract shall exceed US\$200,000 equivalent per contract.

11. For consultancies estimated to cost US\$200,000 or less, the shortlist can comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. GON would also be encouraged to identify a "pool of experts" or a list of "pre-selected" consulting firms/ individuals that may be appropriate for supporting the PMT, similar in concept to an indefinite Delivery Contract.

Training

12. Non-consulting services under the project will include delivery of seminars, training and limited study/exposure tours and shall be obtained from local service providers through request for proposals using a lump sum format of contract or shopping.

Procurement Capacity of PMT

13. The Project Coordinator of the PMT has hands-on experience of implementing procurement in a Bank-funded project, as well as extensive prior experience in procurement according to Government systems. He has also undergone training on Bank procurement procedures at ILO in Turin. In addition, given the need for dedicated procurement capacity, a procurement officer will be brought in who has Bank procurement accreditation, and the Bank and MOPR shall agree on such other remedial measures deemed necessary to ensure the capacity is adequate. This will be assessed by a more detailed procurement capacity assessment, which will be initiated in the nearest future and prior to Board consideration.

Review requirements

- (i) Post review of sub-projects: At the end of the first year of the project, an independent agency shall be hired by the Implementing Agency to carry out post review of Procurement carried out on a sample basis – the sample size being 10 percent of contracts. In addition, to strengthen transparency, there would be public disclosure requirements for procurement actions (e.g., publication on MOPR website or other measures to be agreed at Negotiations).

(ii) Any ICB contracts, each contract for goods estimated to cost US\$100,000 equivalent and above, any shopping contract estimated at US\$50,000 equivalent and above, and all single source/direct contracts estimated at US\$20,000 equivalent and above shall be subject to prior review.

(iii) Each contract for consulting services with firms following QCBS, QBS or other competitive selection estimated at US\$100,000 equivalent and above; all contracts procured using CQ or single source selection methods that are estimated at US\$ 50,000 equivalent and above, and all contracts with individuals valued at US\$15,000 equivalent and above shall be subject to the Bank's prior review.

Simplified Procurement Plan

14. Following is a Simplified Procurement Plan (SPP) as per requirements of OP/BP 8.00 which covers the first months of project implementation. A more detailed Procurement Plan will be developed in this period and subsequently be subject to the usual requirements for procurement planning under Bank projects.

Simplified Procurement Plan (Nepal Emergency Peace Support Project)

	Contract Package	Estimat-ed Cost (US\$)	Procure- ment Method	Pre- or Post quali- fication	Domestic	Prior or Post- review by	Expected date of bid Openin...
(A) GOODS							
1	Computer equipment						
	Computers Printers & UPSs General Software MIS/database software	150,000	NCB	Post	No	Post	July 30, 08
2	Office Furniture						
	Desks Chairs Cabinets Other misc. furniture	50,000	Shopping	Post	No	Post	June 30, 08
3	Communications materials						
	Posters and Pamphlets Radio spots Printing of documents and materials	100,000	Shopping	Post	No	Post	Various
Sub-Total Goods		300,000					

Simplified Procurement Plan (Nepal Emergency Peace Support Project)

	Contract Package	Estimated Cost (US\$)	Procurement Method	Pre- or Post qualification	Domestic Preference	Prior or Post-review by Bank	Expected date of bid Opening
(B) NON-CONSULTING SERVICES							
4	Training						
	Local Peace Cmtes Project Staff Peace Commission and other relevant personnel Reintegration partner organizations	300,000	Lump sum or Shopping	Post	Yes	Post	Various
	Sub-Total Non-Consultant Services	300,000					

	Contract Package	Estimated Cost (US\$)	Selection Method	Prior or Post Review by Bank	Expected Commencement Date
(C) SERVICES					
1	Database/MIS Design	160,000	CQS	Prior	May 15, 2008
2	IEC Strategy and message development	180,000	CQS	Prior	June 1, 2008
3	Reintegration strategy development; other conflict-affected – several sub-assignments	120,000	IC	Prior	Aug 1, 2008
4	Legal/Institutional design (key peace institutions) – several sub-assignments	150,000	IC	Prior	June 1, 2008
5	Opinion poll surveys	100,000	CQS	Prior	July 1, 2008
6	Periodic impact assessments	100,000	CQS	Prior	July 1, 2008
8	Random survey of cash-payment recipients (2-3 times)	90,000	CQS	Prior	Aug 1, 2008
	Sub-total Consultant Services	900,000			

Annex 6: Implementation and Monitoring Arrangements Nepal Emergency Peace Support Project

Implementation Arrangements by Project Components:

1. The three project components are: (a) Cash payment to Maoists in cantonments; (b) One time cash payment to the family of deceased and support for reintegration interventions for other conflict-affected groups; and (c) Capacity building and institutional strengthening of the Ministry of Peace and Reconstruction, and other institutions involved in the peace process, plus project management. The implementing agency for all three components is the Ministry of Peace and Reconstruction, under the oversight of the Peace Commission once constituted.
2. The MOPR has formed a Project Management Team (PMT) headed by the Project Coordinator (Joint Secretary of the Conflict Management Division) and comprised of representatives from other Divisions/Sections – Conflict Analysis and Policy Formulation Division, Relief and Rehabilitation Section, Planning and Monitoring Section and Cantonment Management Division. The Team includes a dedicated Accounts Officer and a part-time Procurement Officer who will pull resources/consultants when required from the system when specific procurement support is required. For Component 1, the Project Management Team will work through the Cantonment Management Section which has Cantonment Officers in seven cantonment sites/districts. For Component 2 cash payments, the Project Management Team will work through the 75 CDOs which are authenticated authorized district offices which maintain records of families of deceased people killed during the conflict. To guide the MOPR and its Project Management Team, the Peace Commission – once formed - would act as a high level oversight institution on project activities as part of its functions in overseeing the peace process.

Monitoring Arrangements:

3. The Project will be implemented following normal government systems, making the process transparent and budget vetted by the Parliament. This will ensure adequate control and monitoring of funds disbursed through the government's budgetary system. The fund flow, recording and reporting will be carried out through designated government institutions. The budget authorization is given by the Ministry of Finance to the Ministry of Peace and Reconstruction, which will be accountable to maintain project financial statements and reporting. The Financial Comptroller General Office maintains the central level consolidated financial information. The Supreme Audit Institute, the Office of the Auditor General, will be accountable to carry out independent external audit. The Auditor General reports to the Parliament, and audit findings are subject to external scrutiny by the Public Accounts Committee. All cash transfers to identified beneficiaries are verified and vetted by: a) for cash transfers to Maoists in cantonments, by a tripartite team; and, b) for cash transfers to the family of deceased, by the respective district verification committee headed by the Chief District Officer. The MIS will be developed in MOPR under capacity building component to ensure strengthening of its monitoring system.

4. An important additional element of monitoring under the project would be surveys/studies to be carried out on beneficiaries of both cash payments and reintegration interventions. This would be used both to gain insights into the impacts of these interventions, but also to learn and inform adjustments in future programs of GON, development partners, and in the future possibly the Bank itself. In addition, for payments to families of those killed as a result of the conflict, there is planned to be a role in monitoring the payment process for local citizens of good repute who can both oversee the payment process to encourage transparency and be a source of advice to beneficiaries. These citizens may be in local NGOs or other groups.

Annex 7: Project Preparation and Appraisal Team Members Nepal Emergency Peace Support Project

1. The Sector Manager overseeing project preparation is Mansoora Rashid, SASHD and the Acting Sector Director is John Roome. The team members and their roles are outlined below.

Team Member	Role
Philip O'Keefe, SASHD	Co-Task Team Leader
Roshan Bajracharya, SASPR	Co-Task Team Leader
Bigyan Pradhan, SARFM	Senior Financial Management Specialist
Deborah Bateman, SACNA	Country Program Coordinator
Hiroko Imamura, LEGES	Senior Counsel
Rajib Upadhyaya, SAREX	Senior External Affairs Officer
Kiran Ranjan Baral, SARPS	Senior Procurement Specialist
Kishor Uprety, LEGES	Senior Counsel
Mohammed Ihsan Ajwad, SASHD	Senior Economist
Sean Bradley, AFTCS	Senior SD and Post-Conflict Specialist
Stephanie Borsboom, Consultant	ET Consultant
Susan Goldmark, SACNA	Country Director
Rajashree Paralkar, SACNA	Senior Country Officer
Sushila Rai, SASHD	Program Assistant
Gertrude Cooper, SASHD	Program Assistant
Ian Bannon, AFTCS	Peer Reviewer, Manager, Conflict Unit
Bernard Harborne, AFMC1	Peer Reviewer, Lead Specialist
Simon Arthy, DFID Nepal	Peer Reviewer, Peace Advisor

2. In addition to the core team members noted above, the project benefited from the inputs of country and thematic specialists in and outside the Bank in the rapid review and preparation process, which accompanies an emergency operation prepared under OP/BP 8.00. These included Markus Kostner, Sima Kanaan, and Laura Bailey (OPCTF); Ernesto May (SASPF); Christine Wallich, Brigitte Duces and Barbara Kafka (SARVP); Myrna Alexander (Bank consultant); David Wood and John Norris (UNMIN); Bella Bird (DFID Nepal); the representatives of bilaterals on the NPTF advisory group; Djanabou Mahonde (UNICEF Nepal); and others.

**Annex 8: Documents in Project Files
Nepal Emergency Peace Support Project**

23 Point Agreement between Seven Party Alliance, December 2007.

Ghimire, M. Paper presented on behalf of Government of Nepal on Peace and Reconstruction Policies and Needs to Donor Pre-Consultation, February 2007.

Government of Nepal IDP Policy, February 2007.

IDA Interim Strategy Note for Nepal, January 22, 2007. Report No. 38119-NEP.

International Crisis Group. Nepal: Peace Postponed, December 2007.

Nepal Comprehensive Peace Agreement, November 2006.

Norwegian Refugee Council. Briefing Note on Internally Displaced People in Nepal.

World Bank Country Assistance Strategy for Nepal 2004-07. Report No. 26509-NEP.

World Bank – Status Update Note on Nepal Peace Support Operation. February 2008.

World Bank Nepal Poverty Assessment, 2007.

World Bank Cash Payments Guidance Note for Emergency Operations, October 2007.

Annex 9: Support of UN Agencies, Bilaterals and Others for Peace Process (as it relates to the Emergency Peace Support Project)
Nepal Emergency Peace Support Project

DFID	DFID has helped to design the Nepal Peace Trust Fund and is currently the largest bilateral contributor, prioritized establishment of cantonments for Maoist combatants, elections and electoral security, and resettlement of Internally Displaced People. In addition, DFID is providing \$3m of direct support to the construction of Maoist cantonments, election preparation and the mobilization of national and international electoral observers. DFID has also provided more than \$4.5m towards strengthening the UN Mission in Nepal, UNOHCHR, UNDP and UNICEF.
GTZ	GTZ has been active in some of the cantonments to provide water, through pipes using a pump from the source to the water tank or simple gravity systems, and supporting PLA health workers. GTZ also provided medicines to some of the cantonments, together with WHO.
Informal Sector Service Center (INSEC)	INSEC is a human rights organization that has exposed instances of human rights violations. During the conflict in Nepal, INSEC maintained detailed records of victims killed by State and Maoists in connection with "People's Conflict" (13 Feb, 1996 – 31 Dec, 2006). In addition, records are kept on disappearances, abductions and conflict induced displaced.
International Rescue Committee (IRC)	<p>IRC assists displaced and other conflict-affected communities in Nepal. They are active in: the delivery of integrated programs targeted at assisting the demobilization and reintegration of former child combatants; the delivery of quick-impact inputs to IDP and conflict-affected households; the improvement of field data-gathering and information analysis capacity on displacement and return; the building of local capacity for child protection; the strengthening of local education services; and the reestablishment of primary healthcare.</p> <p>IRC is a lead agency in the CAAFAG working group headed by UNICEF. IRC has been particularly important in the training of members as they begin their DDR programs with recently demobilized children. IRC provides support to two of the seven cantonment sites operating interim care facilities and providing reintegration services for children formerly associated with fighting forces.</p>
Norwegian Refugee Council (NRC)	The NRC officially launched its 'Information, Counselling and Legal Assistance (ICLA) project in Nepalganj, Biratnagar and Kathmandu in March, with the opening of project offices in all the three locations. The program provides legal aid, information and

	return assistance to Internally Displaced Persons (IDPs). The NRC collects data on the numbers, conditions and locations of IDPs to share with the humanitarian community, and also drafts case management guidelines for recurring legal issues relating to displacement, return and reintegration in Nepal. NRC also supports the Government of Nepal to draft Directives on implementation of the new IDP policies.
UNDP	UNDP provided technical and administrative support to the 10 UNMIN verification units in the verification and registration process of Maoists in the seven cantonments. In addition, UNDP together with UNMIN and UNICEF expect to provide support in the discharge of ineligible Maoists in the cantonments. For this activity, UNDP will take the lead on discharging the ineligibles who were over the age of 18 before 25 May 2006.
UNFPA	UNFPA, together with GTZ, is supporting the PLA health workers, who are delivering health care (mainly curative services) in some of the cantonment sites. In addition, UNFPA has also deployed doctors to some of the cantonments in need of personnel.
UNICEF	Child protection officers from the UNICEF were involved in verifying the details of registered Maoists who were under the age of 18 before 25 May 2006. This process was coordinated by UNMIN and included personnel from the UNDP. In addition, UNICEF is expected to provide support in the discharge of ineligible Maoists in the cantonments who were under the age of 18 before 25 May 2006. UNICEF and OHCHR support efforts to make cantonments consistent with the rights of children, and support the integration of children affected by the conflict through youth clubs and catch-up education.
United Nations Mission in Nepal (UNMIN)	UNMIN is a special political mission established in January 2007 to support the peace process in Nepal and continues its mandate until 22 July 2008. UNMIN's mandate includes: monitoring the management of arms and armed personnel of the Nepal army and the Maoists and assisting in the monitoring of ceasefire arrangements. To this end, UNMIN maintains a 24-hour presence at all 7 cantonment sites. UNMIN also coordinated the two stage verification and registration process of Maoists in cantonments. In addition, UNMIN will verify the payment of allowances to the eligible Maoists in cantonments, along with a representative of Government and the Maoists.
UNOPS	UNOPS has a project in place to contribute to the safe storage and destruction of all Explosive Remnants of War (ERW) stored at cantonment and satellite sites by the provision of technical advice to assist and support the Maoists.

USAID/Office of Transitional Initiatives (OTI)	USAID/OTI has sought to support the peace process through the Min of Peace and Reconstruction in areas of communications and facilitation support for local peace committees. USAID has also recently awarded a 5-year \$15 million contract to Winrock Int'l for a Skills Development Project targeting conflict-affected youth. This project will support literacy/life-skills, agriculture production and vocational education training support for an estimated 62,000 people. OTI is also supporting the National Democratic Institute which provides technical assistance for the elections process.
WFP	<p>WFP is providing evidence-based analysis in the poorest and conflict-affected districts of Nepal to facilitate UNMIN's civil affairs monitoring activities; drive the UN consolidated response for post-conflict reconciliation; and support the GON's peace-building efforts. WFP also provides field level support to UNMIN's district based Civil Affairs officers and monitors.</p> <p>WFP is providing emergency food assistance to 1,265,600 conflict-affected people. The project, which began in July 2007, is expected to continue until June 2008. The objective of the project was to safeguard the lives and livelihoods of conflict affected persons and contribute to peace during the immediate post-conflict period in Nepal. The project places special emphasis on marginalized and vulnerable groups including women, children, ethnic minorities and indigenous populations. WFP's three priority areas for intervention are: return and reintegration of conflict displaced persons; critical infrastructure repair and creation through workfare schemes; and non-formal education support.</p>

Annex 10: Statement of Loans and Credits Nepal Emergency Peace Support Project

Project ID	FY	Purpose	Original Amount in US\$ Millions						Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P105860	2008	PAF II	0.00	100.00	0.00	0.00	0.00	100.00	0.00	0.00
P099296	2008	Irrigation & Water Rural	0.00	50.00	0.00	0.00	0.00	50.00	0.00	0.00
P095977	2008	Road Sector Development	0.00	42.60	0.00	0.00	0.00	42.60	0.00	0.00
P107558	2008	Education For All Additional Financing	0.00	60.00	0.00	0.00	0.00	60.00	0.00	0.00
P090967	2007	Second Higher Education	0.00	60.00	0.00	0.00	0.00	60.00	0.00	0.00
P100342	2007	Avian Influenza Control	0.00	18.20	0.00	0.00	0.00	17.00	-4.00	0.00
P074633	2005	Education for All Project	0.00	110.00	0.00	0.00	0.00	72.30	0.00	0.00
P093294	2005	NP. Economic Reform TA	0.00	3.00	0.00	0.00	0.00	1.60	5.00	0.00
P040613	2005	Nepal Health Sector Program Project	0.00	50.00	0.00	0.00	0.00	18.20	0.00	0.00
P083923	2005	Rural Access Improve. & Decentralization	0.00	32.00	0.00	0.00	0.00	27.30	9.00	0.00
P084219	2004	NP Fin Sector Restructuring (Phase II)	0.00	75.50	0.00	0.00	0.00	20.50	29.00	0.00
P081968	2004	Poverty Alleviation Fund	0.00	40.00	0.00	0.00	0.00	15.90	0.00	0.00
P071285	2004	Rural Water Supply & Sanitation Project	0.00	25.30	0.00	0.00	0.00	8.70	-5.00	0.00
P071291	2003	NP Financial Sector Technical Assistance	0.00	16.00	0.00	0.00	0.00	7.90	28.00	0.00
P043311	2003	POWER DEVELOPMENT PROJECT	0.00	74.80	0.00	0.00	0.00	68.60	37.00	0.00
P082646	2003	Community School Support Project	0.00	5.00	0.00	0.00	0.00	3.77	0.00	0.00
P050671	2002	NP: Telecommunications Sector Reform	0.00	20.40	0.00	0.00	0.00	8.70	41.00	0.00
Total:			0.00	782.80	0.00	0.00	0.00	\$23.07	140.00	0.00

NEPAL
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC		IFC		Loan	Equity	Quasi	Partic.
1996/98	Bhote Koshi	1.89	0.00	0.00	0.00	1.89	0.00	0.00	0.00
1994	Himal Power	21.47	0.00	2.92	0.00	21.47	0.00	2.92	0.00
2001	ILFC - Nepal	0.00	0.30	0.00	0.00	0.00	0.30	0.00	0.00
1998	Jomsom Resort	4.00	0.00	0.00	0.00	4.00	0.00	0.00	0.00
Total portfolio:		27.36	0.30	2.92	0.00	27.36	0.30	2.92	0.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
	Total pending commitment:	0.00	0.00	0.00	0.00

