

**PROJECT INFORMATION DOCUMENT (PID)**  
**APPRAISAL STAGE**

Report No.: AB3799

<b>Project Name</b>	Nepal Peace Support Project
<b>Region</b>	SOUTH ASIA
<b>Sector</b>	Other social services (100%)
<b>Project ID</b>	P110762
<b>Borrower(s)</b>	GOVERNMENT OF NEPAL
<b>Implementing Agency</b>	Ministry of Peace and Reconstruction, Government of Nepal
<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<b>Date PID Prepared</b>	April 3, 2008
<b>Date of Appraisal Authorization</b>	March 12, 2008
<b>Date of Board Approval</b>	April 22, 2008

### 1. Country and Sector Background

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.

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 are now scheduled for April 2008 for a Constituent Assembly (CA) which would draft a new Constitution and be the basis for formation of a new government. 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.

A second set of developments over the past year has been considerable unrest - including bandhs, intermittent violence (including killings), disruption of non-Madhesi political meetings, etc., – in the Terai region by groups promoting the interests of Madhesi. However, at the end of February 2008, agreements have been 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.

Confidence is growing that CA elections will be conducted as planned on April 10, 2008 in a timely and effective manner; just as importantly, the post-electoral period will open up a new set of challenges to the peace and nation-building processes. These will require sustained confidence building between all

stakeholders. The most immediate will be the process of formation of a new Government which will likely be a multi-party coalition with involvement of both sides to the conflict. Another challenge will be meeting the wide-ranging commitments to different population groups which have been made in the recent past. A final challenge facing Government will be the systematic and substantive review and reform of the security system – in particular the political challenge of a proposed integration of the Maoists in cantonments and the financial challenge of sustaining such an integration.

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.

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 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).

The institutional architecture in GON for dealing with different aspects of the peace and reconstruction process is summarized in the 23 Point Agreement. 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, intended to be a body with cross-party representation which acts as the policy and oversight body with respect to the peace process. It is required under the 23PA to coordinate closely with the Ministry of Peace and Reconstruction. The Commission is expected to be formed in the near future. Apart from governmental institutions, a range of UN, international and national agencies are supporting different aspects of the peace process. The coordinating agency among the UN agencies is the United Nations Mission in Nepal (UNMIN), a special political mission established by the UN Security 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. A second important institution is the Nepal Peace Trust Fund (NPTF) the coordinating mechanism for bilateral donors involved in supporting the peace process.

## 2. Objectives

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.

## 3. Rationale for Bank Involvement

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.

#### 4. 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 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.

#### 5. Financing

The proposed project size is USD 50 million, equivalent in SDR, to be provided as an IDA grant with 100 percent financing of eligible project expenditures under the Grant. The expected period of implementation is around three years, with the closing date proposed as June 30, 2011.

Source:	(\$m.)
BORROWER/RECIPIENT	0
IDA Grant	50
Total	50

#### 6. Implementation

##### *Institutional arrangements*

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 institution on project activities as part of its broader functions in overseeing the peace process. Pending PC establishment, an interim oversight mechanism would be necessary, most likely under the Steering Committee of the NPTF or such other inclusive mechanism as otherwise agreed with GON. 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 a Cantonment Officers in each of the seven 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 which maintain records of families of people killed as a result of the conflict.

A second institutional issue relevant to project implementation is the potential linkages to the NPTF. The NPTF has to date been an off-budget fund since its establishment in 2007. Key development partners have expressed a desire for the Bank under this project to ensure close coordination with the NPTF and explore possibilities for further harmonization once the NPTF comes on budget. 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.

Harmonization of the project and NPTF activities involves several aspects, including harmonization of strategic planning, of the financial management and implementation mechanisms, of reporting and monitoring and of institutional arrangements. The Bank has already initiated 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. Harmonizing reporting of project and NPTF activities is also possible, 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 design a better integrated fund flow system, bringing the two mechanisms more closely in line in the coming fiscal year. There would in any event remain earmarking of Bank funding, given that some eligible activities of the NPTF, e.g. related to elections, are not eligible for Bank financing.

#### *Financial Management and Procurement*

The proposed operation will use the normal government procedures followed by a normal budget line item. 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.

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 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.

The Project Management Team has good experience and training in procurement and will have a dedicated procurement officer. 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 goods, training and consultancy services anticipated, packages are not expected to exceed the relevant procurement thresholds which would require 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. 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 \$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the Consultant Guidelines.

*Monitoring and Evaluation (M & E):*

No formal impact evaluation of the Project is proposed, though the project team would conduct periodic monitoring of performance based on the agreed performance indicators, and TA funds are proposed to be allocated for conducting studies during project life to assess the situation of different conflict-affected groups and implementation of project activities.

*Management Information System (MIS):*

An effective MIS is a critical management tool to register and monitor the target group beneficiaries, as well as program implementation progress and effectiveness. Furthermore, a solid MIS can provide monitoring data, track utilization of project funds and enhance financial management. TA is provided for under the project to strengthen the MIS of MOPR on peace-related activities of GON and for periodic surveys to monitor progress.

## 7. Sustainability

As an emergency project, there is not as strong an emphasis on sustainability of support as in typical projects. However, the project has components on both capacity building for institutions involved in the peace process and on reintegration support for conflict affected groups which should contribute to the medium term goal of a more sustainable peace (at the societal level) and more sustainable life opportunities (at the household level).

## 8. Lessons Learned from Past Operations in the Country/Sector

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 financial management, which reflect lessons of the Nepal portfolio and similar cash payment operations in other countries. This includes reliance on dedicated budget line item for fund transfer, a robust beneficiary identification process preferably with third party involvement in witnessing the payments, 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, 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.

## 9. Safeguard Policies

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
<a href="#">Environmental Assessment (OP/BP 4.01)</a>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Natural Habitats ( <a href="#">OP/BP 4.04</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management ( <a href="#">OP 4.09</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Physical Cultural Resources ( <a href="#">OP/BP 4.11</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement ( <a href="#">OP/BP 4.12</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples ( <a href="#">OP/BP 4.10</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests ( <a href="#">OP/BP 4.36</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams ( <a href="#">OP/BP 4.37</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas ( <a href="#">OP/BP 7.60</a> )*	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways ( <a href="#">OP/BP 7.50</a> )	<input type="checkbox"/>	<input checked="" type="checkbox"/>

## 10. List of Factual Technical Documents

Nepal: Emergency Peace Support Project Emergency Project Paper (draft to be publicly available after Board approval)

Nepal: Status Update on NEPS Project, Main mission, February 2008

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

NEPS Integrated Safeguards Data Sheet, April 2008.

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\* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

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