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Report No.: PAD1639

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 107.6 MILLION  
(US\$150 MILLION EQUIVALENT)

TO NEPAL

FOR A

STRENGTHENING SYSTEMS FOR SOCIAL PROTECTION AND CIVIL  
REGISTRATION PROJECT

NOVEMBER 8, 2016

Social Protection and Labor Global Practice  
South Asia Region

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CURRENCY EQUIVALENTS  
(Exchange Rate Effective August 31, 2016)

Currency Unit = Nepalese Rupee (NPR)  
NPR107.15001 = US\$1  
US\$ 1.39434 = SDR 1

FISCAL YEAR  
July 16 – July 15

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
BLB	Branchless Banking
CBS	Central Bureau of Statistics
CCT	Conditional Cash Transfer
CPS	Country Partnership Strategy
CR	Civil Registration
CRVS	Civil Registration and Vital Statistics
DA	Designated Account
DAO	District Administration Office
DDC	District Development Committee
DLI	Disbursement-Linked Indicator
DL-PIU	District-level Project Implementation Unit
DOCR	Department of Civil Registration
DP	Development Partner
DPCC	District Project Coordination Committee
DTCO	District Treasury Comptroller's Office
EEP	Eligible Expenditure Program
G2P	Government-to-People
GDP	Gross Domestic Product
GoN	Government of Nepal
GRS	Grievance Redress Service
HDSP	Human Development and Social Protection
ICT	Information and Communication Technology
IEC	Information, Education, and Communication
IT	Information Technology
IUFR	Interim Unaudited Financial Report
KEP	Karnali Employment Program
LDO	Local Development Officer
M&E	Monitoring and Evaluation
MIS	Management Information System

MOF	Ministry of Finance
MOFALD	Ministry of Federal Affairs and Local Development
MOHA	Ministry of Home Affairs
NDHS	Nepal Demographic Health Survey
NGO	Nongovernmental Organization
OD	Organizational Development
PDO	Project Development Objective
PMU	Project Management Unit
PSC	Project Steering Committee
PSP	Payment Service Provider
PTC	Project Technical Committee
RBF	Results-Based Financing
RCIW	Rural Community Infrastructure Works
SDG	Sustainable Development Goal
SOE	Statement of Expenditure
SP	Social Protection
SSA	Social Security Allowance
SSNP	Social Safety Nets Project
SU	Service Unit
TA	Technical Assistance
TOR	Terms of Reference
TTL	Task Team Leader
UNCDF	United Nations Capital Development Fund
UNICEF	United Nations Children's Fund
VCDP	Vulnerable Community Development Plan
VDC	Village Development Committee
VER	Vital Event Registration
WFP	World Food Programme
WHO	World Health Organization

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**NEPAL**  
**Strengthening Systems for Social Protection and Civil Registration Project (P154548)**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>I. STRATEGIC CONTEXT .....</b>	<b>1</b>
A. Country Context.....	1
B. Sectoral and Institutional Context.....	2
C. Higher Level Objectives to which the Project Contributes .....	5
<b>II. PROJECT DEVELOPMENT OBJECTIVES .....</b>	<b>5</b>
A. PDO.....	5
B. Project Beneficiaries .....	5
C. PDO Level Results Indicators.....	6
<b>III. PROJECT DESCRIPTION .....</b>	<b>6</b>
A. Project Components .....	6
B. Project Cost and Financing .....	9
C. Lessons Learned and Reflected in the Project Design.....	10
<b>IV. IMPLEMENTATION .....</b>	<b>12</b>
A. Institutional and Implementation Arrangements .....	12
B. Results Monitoring and Evaluation .....	13
C. Sustainability.....	13
<b>V. KEY RISKS .....</b>	<b>14</b>
A. Overall Risk Rating and Explanation of Key Risks.....	14
<b>VI. APPRAISAL SUMMARY .....</b>	<b>16</b>
A. Economic and Financial (if applicable) Analysis .....	16
B. Technical.....	18
C. Financial Management.....	19
D. Procurement .....	20
E. Social (including Safeguards).....	21
F. Environment (including Safeguards) .....	22
G. World Bank Grievance Redress.....	23

<b>Annex 1: Results Framework and Monitoring .....</b>	<b>24</b>
<b>Annex 2: Detailed Project Description.....</b>	<b>29</b>
<b>Annex 3: Implementation Arrangements .....</b>	<b>53</b>
<b>Annex 4: Implementation Support Plan .....</b>	<b>68</b>
<b>Annex 5: Economic Analysis.....</b>	<b>71</b>
<b>Annex 6: Payment Pilots .....</b>	<b>78</b>
<b>Annex 7: Concept Note for Service Units .....</b>	<b>81</b>

**PAD DATA SHEET**

*Nepal*

*Strengthening Systems for Social Protection and Civil Registration Project (P154548)*

**PROJECT APPRAISAL DOCUMENT**

*SOUTH ASIA*

*GSP06*

Report No.: PAD1639

<b>Basic Information</b>			
Project ID P154548	EA Category C - Not Required	Team Leader(s) Yasuhiko Matsuda, Jasmine Rajbhandary	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 01-Feb-2017	Project Implementation End Date 30-Nov-2021		
Expected Effectiveness Date 01-Feb-2017	Expected Closing Date 30-Nov-2021		
Joint IFC No			
Practice Manager/Manager Pablo Gottret	Senior Global Practice Director Michal J. Rutkowski	Country Director Qimiao Fan	Regional Vice President Annette Dixon
Borrower: Government of Nepal (GoN)			
Responsible Agency: Department of Civil Registration (DOCR), Ministry of Federal Affairs and Local Development (MOFALD)			
Contact: Telephone No.: 01-4233879	Anil Kumar Thakur	Title: Email:	Director General Anilkthakur123@gmail.com
<b>Project Financing Data(in US\$, millions)</b>			
[ ] Loan	[ ] IDA Grant	[ ] Guarantee	
[ X ] Credit	[ ] Grant	[ ] Other	

Total Project Cost:	323.00	Total Bank Financing:	150.00							
Financing Gap:	0.00									
<b>Financing Source</b>										
			<b>Amount</b>							
Recipient			173.00							
International Development Association (IDA)			150.00							
Total			323.00							
<b>Expected Disbursements (in US\$, millions)</b>										
Fiscal Year	2016	2017	2018	2019	2020	2021	2022	0000	0000	0000
Annual	0.00	7.00	20.50	33.50	40.00	34.50	14.50	0.00	0.00	0.00
Cumulative	0.00	7.00	27.50	61.00	101.00	135.50	150.00	0.00	0.00	00.00
<b>Institutional Data</b>										
<b>Practice Area (Lead)</b>										
Social Protection & Labor										
<b>Contributing Practice Areas</b>										
Governance										
<b>Proposed Development Objective(s)</b>										
The project development objective is to improve the coverage of social security allowances and civil registration, and the delivery of social security allowances.										
<b>Components</b>										
<b>Component Name</b>								<b>Cost (US\$, millions)</b>		
Component 1: Improving Coverage of Civil Registration and Social Security Allowances								37.00		
Component 2: Modernizing Social Security Delivery Systems								220.00		
Component 3: Institutional Strengthening								50.00		
Component 4: Project Management, Monitoring and Evaluation								16.00		
<b>Systematic Operations Risk-Rating Tool (SORT)</b>										
<b>Risk Category</b>								<b>Rating</b>		
1. Political and Governance								High		
2. Macroeconomic								Substantial		
3. Sector Strategies and Policies								Moderate		

4. Technical Design of Project or Program	Substantial		
5. Institutional Capacity for Implementation and Sustainability	High		
6. Fiduciary	Substantial		
7. Environment and Social	Moderate		
8. Stakeholders	Substantial		
9. Other			
<b>OVERALL</b>	High		
<b>Compliance</b>			
<b>Policy</b>			
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]	
Does the project require any waivers of Bank policies?	Yes [ ]	No [ X ]	
Have these been approved by Bank management?	Yes [ ]	No [ ]	
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]	
<b>Safeguard Policies Triggered by the Project</b>			
	<b>Yes</b>	<b>No</b>	
Environmental Assessment OP/BP 4.01		<b>X</b>	
Natural Habitats OP/BP 4.04		<b>X</b>	
Forests OP/BP 4.36		<b>X</b>	
Pest Management OP 4.09		<b>X</b>	
Physical Cultural Resources OP/BP 4.11		<b>X</b>	
Indigenous Peoples OP/BP 4.10	<b>X</b>		
Involuntary Resettlement OP/BP 4.12		<b>X</b>	
Safety of Dams OP/BP 4.37		<b>X</b>	
Projects on International Waterways OP/BP 7.50		<b>X</b>	
Projects in Disputed Areas OP/BP 7.60		<b>X</b>	
<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
PSC, PTC, and PMU maintenance	<b>X</b>		CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall maintain throughout the period of implementation of the project, the Project Steering Committee, the Project Technical Committee with functions, composition, and resources acceptable to the Association and the Project Management Unit, housed within DOCR, with adequate professional and			

administrative staff, in numbers and with qualification and experience, and under terms of reference satisfactory to the Association.

Name	Recurrent	Due Date	Frequency
Project Management Unit staffing (1)		1 month after the Effective Date	

**Description of Covenant**

The Recipient shall hire two procurement specialists and one financial management specialist, with qualification and experience, and under terms of reference satisfactory to the Association, as part of the PMU.

Name	Recurrent	Due Date	Frequency
Project Management Unit staffing (2)		3 months after the Effective Date	

**Description of Covenant**

The Recipient shall hire a senior accounts assistant with qualification and experience and under terms of reference satisfactory to the Association as part of the PMU.

Name	Recurrent	Due Date	Frequency
Human Resources Firm		10 months after the Effective Date	

**Description of Covenant**

The Recipient shall hire a human resources firm under terms of reference acceptable to the Association to assist the Recipient in the selection and recruitment of qualified firms and individuals, including contractors and consultants serving in the DL-PIUs and SUs, in accordance with the provisions of the Operations Manual and the Procurement Plan.

Name	Recurrent	Due Date	Frequency
District-level Project Implementation Units	X	Prior to the initiation of any procurement activities under the project at the district level in a given district	CONTINUOUS

**Description of Covenant**

The Recipient shall establish, and thereafter maintain throughout the period of implementation of the project, a district-level project implementation unit (DL-PIU) at the respective DDC, to be led by the local development officer or his/her designate and meeting the requirements set forth in the Operations Manual, including with adequate professional and administrative staff, in numbers and with qualification and experience, and under terms of reference satisfactory to the Association, including a project officer, an MIS assistant, and an administrative/accounts assistant.

Name	Recurrent	Due Date	Frequency
District Project Coordination Committees	X	1 month after the establishment of each DL-PIU	CONTINUOUS

<b>Description of Covenant</b>			
The Recipient shall establish, and thereafter maintain throughout the period of implementation of the project, a District Project Coordination Committee (DPCCs), at the respective DDC, to be chaired by the local development officer and with functions, composition, and resources acceptable to the Association.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Service Units	X	2 months after the completion of the data collection activities under Part 1.1 of the project	CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall establish one or more Service Units in numbers and with adequate professional and administrative staff, with qualification and experience, and under terms of reference satisfactory to the Association at selected locations in each such district, all in accordance with the requirements set forth in the Operations Manual.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Eligible Expenditure Program	X		CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall provide social security allowances to enrolled beneficiaries in the EEP districts in accordance with eligibility criteria and procedures acceptable to the Association and described in the Social Security Program Operation Procedure; and ensure that the amount of SSAs are paid to the intended eligible enrolled beneficiaries.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Payment Agreement	X	Prior to initiating e-payments for the delivery of SSAs in a given SSA district	CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall engage the services of one or more PSPs in accordance with criteria acceptable to the Association as set forth in the SSA payment strategy and conclude, and thereafter implement, one or more service agreements with each PSP operating in EEP districts, on terms and conditions acceptable to the Association.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Safeguards	X		CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall carry out the project in accordance with the Vulnerable Community Development Plan, and pursuant to the objectives, policies, procedures, and other provisions set forth therein, in a manner and substance satisfactory to the Association.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Mid-term Report		On or about September 30, 2019	
<b>Description of Covenant</b>			

The Recipient shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association a midterm report on the progress achieved in the carrying out of the project.

Name	Recurrent	Due Date	Frequency
Midterm Review		October 31, 2019	

**Description of Covenant**

The Recipient shall review jointly with the Association the midterm report and take all measures required to ensure the efficient completion of the project and the achievement of its objectives.

Name	Recurrent	Due Date	Frequency
Audits	X		Yearly

**Description of Covenant**

The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one Fiscal Year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than nine (9) months after the end of such period.

**Conditions**

Source Of Fund	Name	Type
IDA	Operations Manual	Effectiveness

**Description of Condition**

The Recipient has adopted the Operations Manual in accordance with Section I.B.1 of Schedule 2 to the Financing Agreement.

Source Of Fund	Name	Type
IDA	Project Steering Committee	Effectiveness

**Description of Condition**

The Recipient has established the Project Steering Committee in accordance with Section I.A.1 (a) of Schedule 2 to the Financing Agreement.

Source Of Fund	Name	Type
IDA	Project Technical Committee	Effectiveness

**Description of Condition**

The Recipient has established the Project Technical Committee in accordance with Section I.A.1 (b) of Schedule 2 to the Financing Agreement.

Source Of Fund	Name	Type
IDA	Project Management Unit	Effectiveness

**Description of Condition**

The Recipient has established the Project Management Unit in accordance with Section I.A.1 (c) of Schedule 2 to the Financing Agreement.

Source Of Fund	Name	Type
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IDA	Evidence of DLI achievement and expenditures	Disbursement		
<b>Description of Condition</b>				
No withdrawal shall be made under Category (3), unless and until the Recipient has furnished evidence satisfactory to the Association in accordance with the DLI Verification Protocol that the Recipient has achieved the respective DLI targets set forth in the Schedule 4 and complied with the additional instructions referred to in Section IV.A.1 of the Schedule 2 to the Financing Agreement.				
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>		
IDA	DLI 1 achievement as condition for DLI 2 disbursement	Disbursement		
<b>Description of Condition</b>				
No withdrawal with respect to DLI 2 shall be made unless and until evidence satisfactory to the Association has been furnished in accordance with the DLI Verification Protocol that DLI 1 target has been achieved.				
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>		
IDA	DLI verification agent	Disbursement		
<b>Description of Condition</b>				
No withdrawal shall be made under Category (3), with respect to DLI 2, unless and until the Recipient has arranged for a DLI Verification Agent having qualifications and terms of reference acceptable to the Association to verify the achievement of the DLI 2 targets as provided in Schedule 4 to the Financing Agreement and the DLI Verification Protocol.				
<b>Team Composition</b>				
<b>Bank Staff</b>				
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Yasuhiko Matsuda	Team Leader (ADM Responsible)	Senior Public Sector Specialist		GSP06
Jasmine Rajbhandary	Team Leader	Senior Social Protection Specialist		GSP06
Geeta Shivdasani	Procurement Specialist (ADM Responsible)	Procurement Analyst		GGO06
Shambhu Prasad Uprety	Procurement Specialist	Senior Procurement Specialist		GGO06
Timila Shrestha	Financial Management Specialist	Financial Management Specialist		GGO24
Annu Rajbhandari	Safeguards Specialist	Environmental Specialist		GEN06
Roshan Darshan Bajracharya	Team Member	Senior Economist		GMF06
Anup Tamang	Team Member	Consultant		GSP06

Ashish Joshi	Team Member	Consultant		GED02	
Bandita Sijapati	Safeguards Specialist	Consultant		GSURR	
Drona Raj Ghimire	Safeguards Specialist	Senior Environmental Specialist		GEN06	
Giovanni Bo	Counsel	Counsel	Country Lawyer	LEGES	
Jun Zeng	Safeguards Specialist	Senior Social Development Specialist		GSU06	
Jyoti Maya Pandey	Team Member	Consultant		GSP06	
Kenichi Victor Nishikawa Chavez	Team Member	Consultant		GSP04	
Lansong Zhang	Team Member	Operations Analyst		GSP02	
Laura B. Rawlings	Peer Reviewer	Lead Social Protection Specialist		GSP01	
Philip B. O'Keefe	Peer Reviewer	Lead Economist		GSP02	
Phillippe George Pereira Guimaraes Leite	Team Member	Senior Social Protection Economist		GSP07	
Ramesh Bista	Team Member				
Robert J. Palacios	Peer Reviewer	Team Leader		GSPDR	
Satish Kumar Shivakumar	Team Member	Finance Officer	Finance Officer	WFALN	
Soyesh Lakhey	Team Member	Consultant		GSP06	
Suravi Bhandary	Team Member	Consultant		GSP06	
Sushila Rai	Team Member	Program Assistant		SACNP	
Thomas Walker	Team Member	Economist		GSP06	
<b>Extended Team</b>					
<b>Name</b>	<b>Title</b>	<b>Office Phone</b>	<b>Location</b>		
<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
<b>Consultants (Will be disclosed in the Monthly Operational Summary)</b>					
Consultants Required? Consulting services to be determined					

## I. STRATEGIC CONTEXT

### A. Country Context

1. Nepal is a landlocked, low-income country with a per capita income of US\$730 (2014). It is characterized by a high degree of social diversity and cultural complexity. The ethno-linguistic and caste stratifications that have been a source of Nepal's rich sociocultural diversity have also contributed to frequent social and political tensions. While Nepal's political development marked important milestones with the end of the decade-long civil strife in 2006 and the subsequent abolition of the monarchy in 2008, the country is still going through a prolonged process of political transition and settlement, sometimes characterized by political instability, including prolonged political protests that resulted in effective closing of the Nepal-India borders over 2015–16.

2. A new constitution that defined Nepal as a federal democratic republic was promulgated in September 2015. Under the new constitution, Nepal is expected to transition to a federal state structure with autonomous subnational governments to be run by elected authorities. However, this transition is expected to take some time to complete. Until the transition completes, the country will continue to be governed under the existing structure of center-local relations which presently divide the entire country into 75 districts, 217 municipalities, and 3,157 Village Development Committees (VDCs), each overseen by a centrally appointed civil servant.<sup>1</sup> Some VDCs lack sufficient staff and resources, which constrains the effective delivery of services.

3. Nepal is a predominantly rural economy with around two-thirds of the employment in or linked to agriculture and a little more than a third of the gross domestic product (GDP) generated from it. While the service sector accounts for about half of the GDP, employment is largely informal, and the country's modest growth in recent years (averaging 4.18 percent over 2005–13) has depended heavily on domestic consumption boosted by steady and growing inflow of remittances. The small export and industrial bases have shrunk steadily for more than a decade, partly because of the lack of adequate infrastructure to support those economic activities.<sup>2</sup>

4. In contrast to the lackluster growth performance, Nepal has registered remarkable progress in poverty reduction and improvements in some basic social indicators such as school enrollment. The poverty headcount (at US\$1.25 per day) fell from 53 percent in 2003–04 to 25 percent in 2010–11, the most recent year for which national household survey data exist. However, much of the poverty reduction has been attributed to the dramatic increase in remittances, which nearly quadrupled in this period and reached over 25 percent of GDP in 2013, rather than to expansion in domestic economic activities.

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<sup>1</sup> The districts are overseen by the chief district officer appointed by the Ministry of Home Affairs (MOHA), who is primarily in charge of the security matters and the Local Development Officer (LDO) appointed by the Ministry of Federal Affairs and Local Development (MOFALD), who is responsible for development-related responsibilities. The municipalities and the VDCs are headed by executive officers and secretaries appointed by MOFALD. The government policy of consolidating some VDCs into municipalities has translated into constant changes in the total number of VDCs and municipalities.

<sup>2</sup> *Nepal: Staff Report for the 2015 Article IV Consultation*, International Monetary Fund, November 2015.

5. Low income and limited access to economic opportunities are not the only sources of vulnerability for the ordinary Nepalese. Nepal's highly diverse social fabric has proven to be both a cultural asset and source of social tension. Certain segments of society have historically fared poorly in their access to opportunities and social standing while certain geographic areas suffer from chronic food insecurity and climate-related risks such as natural disasters. Finally, a number of people are likely being excluded from accessing public services because of lack of official documentation, most importantly, citizenship documents. The exact extent of this type of exclusion has not been documented.

6. The recent major earthquakes exposed Nepal's vulnerability to natural disasters, its relative lack of preparedness, and its weak capacity for rapid response. The earthquakes resulted in over 8,700 deaths and 25,000 injuries and caused economic damages estimated at US\$7 billion. Although the Government tried to respond quickly, its efforts were initially hampered by the difficulty of obtaining accurate information from the affected areas, some of which remained unreachable for an extended period because of the remoteness and poor or nonexistent transport infrastructure. Delivery of the planned relief and recovery efforts was channeled through the existing local body structure, but in the worst hit areas, the earthquakes rendered local bodies themselves inoperable. Lack of a comprehensive national population database further added significant hurdles to the Government, international agencies, and nongovernmental organizations (NGOs) in identifying eligible recipients of assistance for disaster relief and recovery.

7. This snapshot suggests that Nepal would benefit from a stronger system of safety nets linked to a comprehensive population register to protect the vulnerable from shocks, including frequent natural disasters. While a political consensus to overhaul the country's social protection (SP) policy is absent at the moment, incremental improvements in the existing delivery systems are a viable possibility, especially if these build on the demonstrated successes from previous pilots within Nepal.

## **B. Sectoral and Institutional Context**

8. Nepal's social protection (SP) sector consists of numerous programs, most of them relatively small and poorly coordinated with each other. The fiscal cost of the current portfolio of SP programs in Nepal reaches 2.5 percent of the GDP (2011–12). The lion's share (about 1.5 percent of GDP) of this spending is on public sector pensions, which reach only about 3 percent of the workforce. Programs that can be classified as social assistance programs, usually intended to assist the poor and the vulnerable, amount to about 0.9 percent of the GDP altogether. The impact of these programs on poverty is limited, both because most of the programs are small and fragmented and are not explicitly designed as poverty reduction interventions. The Government has recognized the importance of consolidating some of these disparate programs, but this recognition is yet to translate into concrete policy commitments or actions.

9. The bulk of Nepal's social assistance expenditures are under MOFALD and consists of the social security allowances (SSAs) and the two public works programs: Rural Community

Infrastructure Works (RCIW) and Karnali Employment Program (KEP).<sup>3</sup> Even within MOFALD, there is some degree of fragmentation as the two public works programs are managed by two separate units within the ministry while the SSA is under the attached Department of Civil Registration (DOCR).

10. The SSA is the largest of the social assistance programs in Nepal. The five SSA schemes on old-age pension, single woman's pension, the child grant, disability grant, and endangered ethnicity grant together reach more than 2.2 million individual beneficiaries, with the benefit amounts ranging from NPR 400 per month per child for the child grant to NPR 2,000 per month for the elderly benefit. The total budget allocation for FY2016–17 for the SSAs is NPR 32.0 billion. Although these allowances are not explicitly targeted at the poor, they are intended for those who are considered socially and/or economically vulnerable.

11. For the SSA program, MOFALD has relied on manual recording of beneficiary information and benefit payments by local officials at each of the roughly 3,157 VDCs and 217 municipalities. The manual and decentralized record keeping of beneficiary information is a major hurdle for addressing issues of duplication, under-coverage, and weak oversight facing the administration of the SSA program. The District Development Committees (DDCs), headed by MOFALD-appointed LDOs, are supposed to oversee the operations. In practice, however, the DDCs' roles are limited to serving as intermediaries between the VDCs and the ministry for reporting beneficiary and payment information and managing flow of funds to the VDCs for each round of payments processed three times a year. MOFALD's weak administrative systems has given rise to a host of problems, both real and perceived, including lingering suspicions of duplication, alleged leakage of funds, and delayed benefit payments. Furthermore, the World Bank's recent analysis has indicated considerable under-coverage of around 30–40 percent of eligible beneficiaries of senior citizen and single woman pensions, with the incidence slightly worse at the lower end of the income distribution.<sup>4</sup>

12. The fragmented and non-robust identity ecosystem in the country further adds to the challenges of reducing duplications and identifying eligible SSA beneficiaries. Citizenship certificates and civil registration (CR) certificates are the primary means of identifying eligible beneficiaries for the SSA program.<sup>5</sup> The World Bank's recent study on under-coverage highlighted the access to these documents as one of the major reasons for the exclusion of certain eligible beneficiaries. However, even the existing registers for both of these sources of identification cannot be utilized to identify eligible beneficiaries because of lack of digitization and consolidation of their paper records. Both the citizenship identification and the CR systems operate without a nationally unique identification number for each certificate and/or individual, thus increasing

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<sup>3</sup> The RCIW has been operating since the mid-1990s, often in partnership with the World Food Programme (WFP), and operates in selected VDCs in 21 food insecure districts. The KEP started in 2006 and runs only in five far-western districts in a particularly remote, mountainous area of Nepal called Karnali. The U.K. Department for International Development is providing technical and financial support to the KEP. The stated objectives of these programs are to offer a certain number of days of employment as safety nets against poverty and other forms of deprivation (KEP) or food insecurity (RCIW).

<sup>4</sup> *Nepal Social Protection Study - Improving Social Protection for the Vulnerable in Nepal: Review of Social Assistance Programs and Expenditures*, September 2014, Report No. ACS10594.

<sup>5</sup> Although voter registration and driving license certificates also serve as identifying documents in different contexts, both are based on the citizenship certificate of the individual.

chances of duplication and fraud. Two different ministries and their district-level offices are responsible for administering citizenship and CR services; however, there is no coordination between the two.

13. Nepal also lacks a comprehensive National Population Register which could, in theory, uniquely identify all residents of the country and link the identification documents issued by various agencies.<sup>6</sup> A regularly updated National Population Register would not only help clean the existing SSA beneficiary database by uniquely identifying each beneficiary but also help identify potential beneficiaries as they become eligible so they can be targeted for enrollment to increase coverage. However, for a population register to be useful, it needs to be linked to the CR system for regular updating.

14. Nepal's CR system started operating in the late 1970s and captures five vital events—birth, death, marriage, divorce, and migration. Each VDC/municipal secretary is designated as a local registrar and is responsible for recording vital events in each VDC/municipality when residents come forward voluntarily to report a particular event. Besides its linkages to the SSA program, the CR system would also be a foundation for people's legal identities and their access to a range of public and private services.

15. However, Nepal's CR system is under developed. The decentralized and paper-based recording of documents collected during registrations limits the potential usage of the information to generate vital statistics for planning and other purposes. Limited awareness among the population and difficulty in accessing local body offices have led to low registration rates and coverage.<sup>7</sup> Transitioning to a digital CR system that is linked to a population register and the SSA Beneficiary Register would facilitate improved coverage and delivery of both CR and SSA.

16. MOFALD recently stepped up its institutional commitment to strengthen its capacity to manage CR and SSA by creating a new DOCR. The DOCR is headed by a director-general at the rank of joint secretary and concurrently, designated as the national registrar.

17. With World Bank assistance, MOFALD recently developed a management information system (MIS) to use as a database on specific information about actual beneficiaries and program implementation (for example, details on payment transactions) and piloted the use of commercial banks as SSA payment service providers (PSPs) in three districts. MOFALD's MIS is capable of recording CR data as well as the SSA beneficiary data and hence, serves as a tool to integrate the two strands of related services for which MOFALD, now through DOCR, is responsible. MOFALD has deployed the MIS in approximately 25 districts and plans to continue its rollout to all 75 districts. Rollout in some districts was supported by the Asian Development Bank (ADB).

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<sup>6</sup> The national ID being developed to replace the citizenship certificates is in its nascent stage of development, with no formal policy having been adopted yet, and will only serve the population above 16 years of age. Hence, the national ID database will not capture the entire population.

<sup>7</sup> The latest Nepal Demographic Health Survey (NDHS) 2011 found that only 42.3 percent of the children under 5 years at the time of the survey had their births registered. Of those with births registered, only about 37.8 percent of them had a birth certificate. A recent sample study by the DOCR estimates the coverage of birth registration for children below one year to be around 70.8 percent, while the 2014 Multiple Indicator Cluster Survey by the United Nations Children's Fund estimated that the rate of birth registration under 5 years was 58.1 percent.

18. The recent experiences and organizational development (OD) of the DOCR have led to its recognition of the need of a system-wide overhauling for better management and coordination between its two core mandates of CR and SSA programs. The department has also identified the lack of a population register to link its CR and SSA beneficiary and payment information as one of the key bottlenecks for improving the administration of its two functions. The DOCR has expressed interest in receiving the World Bank's assistance to develop a project to improve the existing system of delivery and administration of its two core functions.

### **C. Higher Level Objectives to which the Project Contributes**

19. The DOCR is in the process of finalizing its strategic road map to set a wider vision as well as specific objectives for strengthening its ability to deliver CR and SSA services more effectively. The proposed project would contribute to the Government's long-term plan to strengthen administrative capacities to manage its most fundamental service delivery responsibilities, CR and SSA. Improved delivery is an essential, if not sufficient, condition to strengthen the impact of Nepal's social programs in protecting the vulnerable from adverse risks and shocks. Some of the SSA schemes are directly targeted at women in vulnerable statuses, such as widows, elderly single women, and mothers with young children from deprived geographic or social backgrounds. Furthermore, comprehensive and up-to-date CR would facilitate people's access to legal identity and public services beyond SP (for example, primary education). The focus on strengthening systems is a key agenda in the Government's soon-to-be finalized National Social Protection Framework.

20. The proposed project is fully in line with the current Country Partnership Strategy (CPS) FY2014-2018 (Report No. 83148-NP), which was approved in May 2014. Under two pillars, the CPS prioritizes support for (a) increasing economic growth and competitiveness and (b) inclusive growth and opportunities for shared prosperity. Social protection falls under the second pillar. Under the CPS Outcome (2.4) "More efficient and transparent social safety net system," the World Bank assistance aims to support administrative aspects of the SP systems by "strengthening building blocks of (Nepal's) social protection program, including management information and payment systems" (CPS, p 21).

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

21. The project development objective (PDO) is to improve the coverage of social security allowances and civil registration, and the delivery of social security allowances.

### **Project Beneficiaries**

22. The direct project beneficiaries are the current and future beneficiaries of the SSA and the general population who will benefit from improved CR services. Currently, 2.26 million individuals benefit from the SSA, of whom roughly 1.5 million are female. The project will be implemented in all 75 of Nepal's districts, except the rollout of electronic means to deliver SSA payments, which will be limited to 25 districts.

## **PDO Level Results Indicators**

23. The project pursues the twin objectives of increasing coverage in CR and SSA, and improving the delivery of SSA in terms of efficiency, accountability, and user-friendliness. The PDO-level indicators related to the coverage objective are the following:

- (a) Number of beneficiaries in the SSA program
- (b) Percentage of births registered for 0 to 1-year-olds

24. The PDO-level indicator/s to capture improved SSA delivery is the following:

- (a) Number of districts where SSA entitlements are delivered via e-payments

## **III. PROJECT DESCRIPTION**

### **A. Project Components**

25. The project supports the DOCR's Civil Registration and Social Security Strengthening Program and consists of four components. Over a five-year period, the project is expected to support (a) the establishment of a comprehensive National Population Register and expanded coverage of CR and SSA and (b) improved delivery of SSA via transition to e-payments in selected districts and improvements in related processes. These will be supplemented with institutional strengthening at both central and local levels.

### **Component 1: Improving Coverage of Civil Registration and Social Security Allowances**

26. Component 1 will support the expansion of coverage of CR and SSA by establishing a National Population Register of individuals and household/family folders. The register will be updated through regular CRs and targeted outreach and communications campaigns. The population register will be housed in the DOCR's existing MIS, which will be enhanced to accommodate the additional functionalities required (to be supported under Component 3). The goal is to establish a CR system that will allow all individuals/residents easy access to CR, enable regular monitoring of registrations, generate timely vital statistics from a central database, and establish linkage with programs such as SSA.

27. The component consists of the following:

- Subcomponent 1.1: Data collection to establish a population register - Data collection through a combination of door-to-door household visits and ward-level registration camps in selected locations nationwide, except in areas where such data are already available in an appropriate digital format, to establish a National Population Register with household/family folders
- Subcomponent 1.2: Communication and outreach campaign - Information and outreach campaigns to support the data collection, promotion of regular registration of vital events, and enrollment of the eligible into SSA, including annual camps

28. The population register will serve as a basis for identifying the eligible population for SSA, except the disability benefit, and those excluded from accessing CR services. The identification of the excluded individuals will enable tailored communications and outreach programs to encourage them to register vital events and/or enroll in applicable social security schemes. Local-level registration camps will be organized once, immediately after the data collection, and annually thereafter during the project period to improve access to CR services. Given that disability is a non-demographic scheme, the project will have additional outreach activities to reach potential beneficiaries for the disability grant. The expected outcome of the component is expanded coverage of CR and SSA through the following outputs:

- The establishment of a population register with household/family folders where each member has a unique ID.
- Increased outreach for CR and SSA among the target population

## **Component 2: Modernizing Social Security Delivery Systems**

29. The current system of SSA delivery suffers from ineffective control and accountability, low operational efficiency, and poor services. Specific sources of the weaknesses include the absence of a reliable, modern information technology (IT) system to record and manage beneficiary enrollments and payment transactions and the lack of sufficiently trained personnel to manage these processes at the local level. These weaknesses have resulted in leakages and delayed payments. Building on recent pilot projects, MOFALD plans to transition to electronic payments (e-payments)<sup>8</sup> for the delivery of SSA. The component will support the rollout of e-payments to improve operational efficiency and accountability of the SSA program in 25 of Nepal's 75 districts using performance targets defined as disbursement-linked indicators (DLIs) (Subcomponent 2.1). The subcomponent will also finance the SSA benefit payments in 6 of these 25 districts as the Eligible Expenditure Program (EEP). The World Bank's financial support for this subcomponent will be limited to the financing of the EEP as detailed in the following paragraphs. It will also support strengthening of other facets of the SSA benefit delivery largely through increased and improved citizen engagement and use of IT in all 75 districts (Subcomponent 2.2). This component consists of the following subcomponents:

- Subcomponent 2.1: Rolling out electronic payments - Payment of SSA benefits in six selected districts and phased rollout of e-payments via contracted PSPs using a results-based financing (RBF) approach with DLIs in 25 selected districts
- Subcomponent 2.2: Improving accountability and citizen engagement in the social security delivery process - Improving accountability and citizen engagement in the social security delivery process particularly enrollment and payment verification, monitoring and grievance redress, and applicable improvements in manual payment delivery in all 75 districts, following the traditional investment lending modality

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<sup>8</sup> E-payments is defined as a method of cash delivery that could include electronic bank transfers, smart/debit cards, mobile terminals, ATMs, point-of-sale machines, and biometric verification. The specifics of e-payments will be further defined through the SSA Payment Strategy being developed by the DOCR.

30. The specific outputs of the component are the following:
- Functioning e-payment system with the deployment of e-payments in 25 districts
  - Improvements in SSA benefit delivery, monitoring, and grievance redress mechanisms
31. The DLIs used in the Subcomponent 2.1 are as follows. The detailed matrix is in annex 2.
- (a) DLI 1: SSA Payment Strategy
  - (b) DLI 2: Number of districts where SSAs are delivered via e-payments
32. Under Subcomponent 2.2, to improve accountability and citizen engagement in the social security delivery process, the project will finance activities including (a) review of the current institutional setup for monitoring and oversight; and (b) capacity building activities and support to local stakeholders.

### **Component 3: Institutional Strengthening**

33. To achieve the project objectives of increased coverage of social security beneficiaries and CR and improved delivery of SSA, the institutional framework regulating these two functions as well as the organizational capacity of the implementing bodies need to be enhanced. Component 3 is designed to support a range of crosscutting activities for sustainable institutionalization of the improvements supported under Components 1 and 2 by building the Government's organizational and institutional capacities for managing CR and SSA functions at both the central and local levels. The activities supported under this component will be divided into the following subcomponents:

- Subcomponent 3.1: Strengthening Systems at the Central Level - Support strengthening of the DOCR as the central oversight agency of CR and SSA by defining improved business processes for CR and SSA, reviewing DOCR's organizational structure and staffing requirements, developing the organizational capacity of the DOCR, and enhancing the DOCR's existing management information system to align its functionalities to the requirements of the new IT-based CR and SSA business processes
  - Subcomponent 3.2: Strengthening Systems at the Local Level - Support the setting up of approximately 1,000 service units, primarily for administration of social security allowances and civil registration, including through the financing of equipment and remuneration of contracted staff in the service units, to provide IT-based, front-, and back-end support and provision of associated staff training at the local level and provision of capacity-building activities for staff assigned to service units, as well as relevant to local Government staff
34. Expected outputs of the subcomponent are the following:
- Operation Manuals for the MIS-based CR and SSA services

- Fully equipped and functional DOCR with proper organizational structure and capacity
- Enhanced MIS platform
- Functional and fully staffed and equipped service units (SUs)
- SU personnel and relevant staff at the local level trained on improved business processes and the use of MIS to manage the CR and SSA database

#### **Component 4: Project Management, Monitoring and Evaluation**

35. The component will support project implementation and monitoring and evaluation (M&E) by establishing and maintaining an effective Project Management Unit (PMU) and district-level project implementation units (DL-PIUs), building capacity of the project management staff, and financing specific project evaluation studies (for example, spot checks, base/mid/end-line surveys).

##### **B. Project Cost and Financing**

36. The lending instrument for the project is Investment Project Financing. Component 2.1 will use DLIs-based financing, whereby IDA funds of US\$42 million equivalent will be disbursed against achievement of agreed DLIs and against the agreed EEP. The EEP is the SSA of the selected districts for the planned project period of five years. The budget for the EEP, that is, the SSA, are provided under MOFALD. Each DDC and municipality is provided respective budget for SSA through budget authority. Six districts for the EEP (Kathmandu, Bhaktapur, Kaski, Chitwan, Banke, and Morang) were selected based on the criteria of the volume of SSA expenditure and reliability of expenditure verification. The number of municipalities in the districts were used as proxy indicators for the second criteria. Verification of expenditures in districts with a higher number of municipalities is likely to be more reliable as municipalities are more likely to process SSA payments through banking channels. These districts are also among the 25 selected for the rollout of the e-payments supported under Subcomponent 2.1 of this project.

37. The budget allocation for the SSA benefit payments in these six districts in FY2015–16 was US\$19 million and the estimated total for the project period, given the current benefit level (that was doubled from the FY2015–16 budget), is approximately US\$210 million. The selection of the six districts follows the consideration about the minimum disbursement requirement of the EEP. If all or most of the DLIs are met in the second year, for example, the cumulative EEP of at least US\$42 million will be required to disburse DLI financing of US\$42 million. The estimated budget of the first two years in these six districts is approximately US\$80 million, sufficient to cover the required US\$42 million should the DOCR manage to meet all DLIs by the second year. Therefore, the eligible expenditures of the first incurred US\$42 million will be considered as the EEP for disbursement comparison.

38. The agreed DLIs are as follows (the detailed matrix is in annex 2):

- (a) DLI 1: SSA Payment Strategy

(b) DLI 2: Number of districts where SSAs are delivered via e-payments

39. E-payment related expenditures, such as the costs of the PSPs, will be funded by Government financing. The Government is conducting several exercises to finalize the amount of funding required for this, including preparing the SSA Payment Strategy and coming to agreement on pricing options for payments to PSPs.

40. All other components will disburse based on the usual investment lending process and actual expenditure transactions.

41. The total project cost is US\$323 million. The estimated Government counterpart funding is US\$173 million over the project period, broken down between US\$5 million for the estimated fees for the PSPs plus US\$210 million for the EEP, less the US\$42 million allocated for the DLI component, which partially reimburse the EEP incurred.

#### Project Cost and Financing

Project Components	Project Cost (US\$, millions)	IDA Financing (US\$, millions)	% of IDA Financing
1. Improving Coverage of Civil Registration and Social Security Allowances	37	37	100
2. Modernizing Social Security Delivery Systems*	220	47	21
3. Institutional Strengthening	50	50	100
4. Project Management, Monitoring and Evaluation	16	16	100
<b>Total Project Costs</b>	<b>323</b>	<b>150</b>	<b>46</b>

Note: \*Of US\$47 million of IDA financing, US\$42 million corresponds to financing based on DLIs under the Subcomponent 2.1.

### C. Lessons Learned and Reflected in the Project Design

42. The project draws on both the World Bank's global strategy for social protection and labor and Nepal's own recent experiences. Globally, the World Bank's Social Protection and Labor Strategy for 2012–22 advocates focus on strengthening SP systems (that is, portfolio of programs) to reduce fragmentation across programs or Government agencies/levels involved in managing them and thereby, increase efficiency, enhance coverage, and improve responsiveness. The strategy further promotes tailoring approaches to country circumstances. The SP portfolio in Nepal is indeed fragmented both across and within ministries, including MOFALD. The delivery system platform for beneficiary management and service delivery that this project will support for SSA can eventually be used by other programs to bring about a greater level of coherence and harmonization among MOFALD's SP portfolio. Over time, the same platform could also be used by the SP programs being implemented or developed by other ministries (for example, poverty targeted scholarships or health insurance).

43. The project builds on the recent engagements in SP delivery systems' building by the World Bank and other development partner (DP) agencies. The World Bank's own involvement in Nepal's SP is relatively recent and dates back to emergency operations in the late 2000s. These were the Emergency Peace Building Project in which the Government provided compensatory cash transfers and employment training to those affected by the decade-long civil war and the

Social Safety Nets Project (SSNP) which financed temporary expansion of the pre-existing food/cash-for-work program, among other interventions, to alleviate the negative effects of the food, fuel, and financial crisis. Both projects closed over FY2014–15 but left behind relevant, experienced-based lessons. The SSNP in particular supported the development of MOFALD’s MIS and the branchless banking (BLB) payment pilot in three districts. Under the World Bank-funded Human Development and Social Protection (HDSP) Pilot Project, MOFALD conducted another pilot on BLB payments with direct support from the United Nations Capital Development Fund (UNCDF) over 2013–14. These experiences solidified MOFALD’s appreciation for tangible benefits of these administrative subsystems such as much-improved control over expenditure and increased administrative efficiency and led to the Government’s explicit request to the World Bank to support its plan to further develop and deploy them nationwide.

44. The World Bank and the UNCDF collaborated to carry out detailed process evaluations of both payment pilots,<sup>9</sup> along with a detailed study of relative costs and benefits of BLB payments versus the traditional manual payments through the VDCs.<sup>10</sup> The World Bank also conducted a qualitative study on the reasons for under-coverage in the SSA program in Nepal.<sup>11</sup> The findings and lessons from these studies have informed the design of the various components and activities of the proposed project. Some key lessons that are reflected in the project design include the following:

- Lack of awareness of program details for enrollment among eligible beneficiaries led to delayed or non-enrollment, further exacerbated by the absence of accessible and responsive grievance redress system. Extensive outreach and mobilization of local institutions and networks would help increase coverage of the SSA beneficiaries and also provide additional support to file their grievances.
- Poor community engagement during the payment pilots led to some beneficiary dissatisfaction over the new payment methods. Additional implementation support before and during the introduction of e-payment methods and associated changes in business processes (for communication, grievances, enrollment, payment, and so on) would be necessary to ensure efficient implementation and improved beneficiary experience.
- Lack of clarity on roles of stakeholders during transition to e-payments led to poor coordination between the PSPs and local government staff. Local-level stakeholders’ adherence to revised business processes for managing electronic beneficiary lists, following a clear payment strategy, is essential to ensure consistent and efficient implementation of the new service delivery mechanisms.

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<sup>9</sup> Rana et al. 2014. *Process Evaluation of Branchless Banking Methods to deliver HDSPP Educational Grants*. World Bank; Rana et al. 2014. *Social Safety Nets Project Branchless Banking Pilot: Process Evaluation Findings*. World Bank.

<sup>10</sup> MicroSave 2015. *Alternative Methods for Processing Social Security Benefit Payments in Nepal: Cost-Benefit Analysis*, UNCDF.

<sup>11</sup> Rana et al. 2015. *Reasons for Under-coverage in Nepal’s Social Security Allowance Program: Findings from a Qualitative Study*. World Bank.

- Local governments generally have low capacity (physical and human) to manage MIS-based CR and SSA service delivery processes and are often overburdened with other responsibilities to be fully engaged in the implementation of these new processes. Variations in capacities and geographic constraints across the local bodies also call for building of a minimum infrastructure and human resource capacity at all levels of the government. The concept of SUs to serve a cluster of local bodies, and that of training local government employees, have been derived from these observations.

## **IV. IMPLEMENTATION**

### **A. Institutional and Implementation Arrangements**

45. The implementing agency of this project will be the DOCR. Because the project supports the DOCR's core mandates of delivering CR and SSA services, its implementation arrangements will also leverage the DOCR's existing structure as much as feasible.

46. A Project Steering Committee (PSC) will be chaired by the MOFALD secretary and will include joint secretaries from MOFALD and relevant ministries, with the DOCR director-general as the member secretary. A Project Technical Committee (PTC) will also be formed with undersecretary-level representatives of all the agencies in the steering committee. The PTC will share information and coordinate technical-level decisions across concerned ministries, when relevant for project implementation. At the district level, a District Project Coordination Committee (DPCC) chaired by the LDO will be formed to facilitate coordination across relevant agencies. The DPCC will include relevant DDC officials and representatives from other agencies, including the District Treasury Comptroller's Office (DTCO), and the District Administration Office (DAO).

47. The DOCR will set up a PMU to be headed by the DOCR director-general as the project director. The existing directors at the DOCR (under-secretaries) will support the project director in line with their regular portfolio of responsibilities and existing personnel while also being responsible for their designated component activities. Besides, the PMU will include a number of consultants for financial management, procurement, and specific technical areas such as payment, SP, CR, procurement, governance/institutional strengthening, survey, communications, MIS, M&E, and others, as needed.

48. To ensure adequate coordination and execution at the local level, the DOCR will set up DL-PIUs in each of the 75 districts. The LDO, or a designated officer, will chair a DL-PIU to ensure appropriate coordination across relevant agencies. The project will further provide additional support staff (a project officer, an MIS assistant, and an administrative/accounts assistant) to ensure timely implementation of project activities.

49. The SUs will be established under Subcomponent 3.2 at those local bodies that will be specially designated by the DOCR for IT-based capability as the lowest level of PIU in this project. Each SU will be staffed by an MIS operator and a field assistant. The SUs will work with the designated local registrars of the relevant local bodies/units (the VDC secretaries or municipal/ward secretaries) to ensure implementation of MIS-based business processes for CR

and SSA services. DOCR will hire a human resources firm to select and recruit technical personnel to be deployed at both the DL-PIUs and the SUs.

## **B. Results Monitoring and Evaluation**

50. The project's progress toward the PDO will be measured primarily with data from the following sources. First, based on the extent to which the National Population Register is built, the increase in the coverage of CR and SSA can be tracked by the DOCR's MIS. The DOCR's contracts with the survey firms are expected to be based on performance criteria, whereby the firms will be paid as they satisfactorily upload collected data to the DOCR's MIS after multiple checks on the data completeness and quality, including by third-party verifications. Comparing the data on the National Population Register and the data on actual CR and SSA enrollments will allow the DOCR to develop a relatively accurate sense of the extent of remaining under-coverage in any given area, where the population register has been established.

51. Second, progress toward achieving the specific milestones set for the rollout of e-payments will be tracked as DLIs that have specified verification protocols. Upon the Association's review of the government's experience with internal and external verification and reporting, a government agency acceptable to the Association may be selected as DLI Verification agent, provided it is capable of providing independent verification. In the event that capacity is not in place, verification will be carried out through an external third party operating under terms of reference acceptable to the Association (e.g., an independent entity, centers of excellence, NGOs, or private sector entities). Finally, the project, will finance three rounds of beneficiary surveys (baseline, mid-line, and end-line) to capture information about beneficiary perceptions and experiences with the new systems of delivering CR and SSA services. In addition, citizen engagement and accountability activities will also capture local-level experiences. Component 4 will also finance a series of smaller-scale spot checks (for example, to review how effectively the SUs are operating) and monitoring activities, including detailed process reviews of the new business models for delivering CR and SSA services.

## **C. Sustainability**

52. The client ownership of this project is strong as it is based on the DOCR/MOFALD's own recent reform experiences as described above, as well as the department's road map. Both the CR and SSA programs have been running for decades with full budgetary coverage by the Government, though with limitations in terms of efficiency, coverage, and accountability of resource use. The creation of the DOCR as a specialized agency to manage both CR and SSA is a clear manifestation of the priority that MOFALD has given to these core state functions.

53. The project is designed to ensure sustainability. The project financing is focused on lump sum one-time costs such as the nationwide data collection to establish a population register (Subcomponent 1.1) and the setup of the approximately 1,000 SUs within existing local bodies with adequate IT and human resource capabilities (Subcomponent 3.2). The establishment of the SUs is a part of MOFALD's own strategy to eventually support all local government functions. The project will provide initial support to establish these units to deliver CR and SSA functions. Once these types of administrative infrastructure are in place, the Government is expected to cover the necessary recurrent costs as part of its regular, ongoing costs. Furthermore, Component 3

supports institutional strengthening of both the DOCR and the local bodies with the explicit aim of sustainable institutionalization of the gains from the investments supported under the Components 1 and 2. While Component 3 will finance additional personnel that the SUs will require, the expectation is that these additional positions will be formalized and absorbed by the Government by the project's closing.

## **V. KEY RISKS**

### **A. Overall Risk Rating and Explanation of Key Risks**

54. The overall risk rating is High. While some risk areas are rated as Moderate, the combined weight of the several that are rated as either High or Substantial is judged to outweigh the others and tilt the overall rating. The most concerning is the country's evolving political environment and uncertainty this entails over the institutional structure of the Nepalese state and the possibility of policy stalemate due to political discord. Other sources of considerable risk include the weak institutional capacity of the Government bureaucracy and the Government's decision to cover the entire country with this project, necessitating complicated decentralized management of a number of the activities.

55. The political and governance risk is High. Nepal finds itself in a midst of prolonged political transition following the end of the decade-long civil strife in 2006. Since then, the post of the country's prime minister has changed nine times, reflecting the challenge of sustaining political consensus among major political parties. The frequent changes in government have often led to corresponding changes in appointed personnel in the bureaucracy. Some political disputes have resulted in street protests and demonstrations including a prolonged episode in 2015. Few risk mitigation measures are available against countrywide political risks, although macro political crisis may not necessarily disrupt all day-to-day operations of the government, including implementation of this project. A possible mitigation measure includes adjustments to phasing of the geographic focus of some of the project activities such as the rollout of the e-payments, if it is judged that possible disruptions are likely to be concentrated in certain parts of the country.

56. Even if the political disputes are fully settled, the transition from the current unitary structure to a future federal structure that the recent adoption of the new constitution requires is likely to be a slow and somewhat unpredictable process.<sup>12</sup> As this project supports strengthening of administrative capacity of selected local bodies, the uncertain future of Nepal's federal structure poses a particular risk. Although the constitution explicitly calls for creation of village councils and municipal/district assemblies, their exact boundaries are still undefined at the moment and these could become sources of additional political disputes. Besides, the changes in relations between the DOCR and local bodies/governments could potentially lead to uncertainty over the future roles of the SUs and their reporting and management arrangements.<sup>13</sup> The risk that the

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<sup>12</sup> As of early 2016, the Government has formed a commission to study how the existing local bodies may be clustered into local political/administrative jurisdictions for which elections will eventually be held. The commission has submitted its initial recommendations, which are being discussed. The commission is expected to come up with its recommendations for restructuring local bodies by early 2017.

<sup>13</sup> The constitution assigns a fairly extensive list of responsibilities including "social security and poverty alleviation" and "registration of personal incidents, birth, death, marriage and statistics" (that is, CR) as concurrent responsibilities between the federal, provincial, and local levels.

implementation of the federal structure will disrupt project implementation or threaten sustainability of its impacts (for example, SUs) will be mitigated, to the extent possible, by ensuring that both the implementing agency and the World Bank teams stay abreast of the development and the Government plans and if necessary, flexibly adjusting the project design or implementation strategy (for example, changing the selected locations of the SUs, proposing a specific institutional arrangement for sustainable management of the SUs under the federal structure).

57. Risks related to macroeconomic situations and sector strategies are judged to be Substantial because of Nepal's vulnerability to external and internal shocks, such as the recent trade disruptions with India. However, direct impact on the project may be limited unless the shocks translate into severe fiscal contraction that affects the Government's budgetary outlays. The probability that this scenario will materialize is judged to be low given that the government has generally managed to budget for SSA benefits in the past. However, should it materialize, the impact on the project could be severe as it would compromise the disbursement of the DLI-supported sub-component. A possible mitigation measure would be to agree with the Government to prioritize provision of SSA benefits in the EEP districts.

58. Risks related to the technical design are Substantial. In particular, the capacity of the private sector survey firms to conduct household data collection in a nationwide census style is likely limited as no survey firm in Nepal has experience with operations of this magnitude. A mitigation measure is to divide the country into several clusters of districts, ensuring the size of each cluster is logistically manageable given the current capacity of the survey firms, and deploy multiple firms in a phased implementation approach. The other is uncertainty about the expected behavior of commercial banks and other entities that may be engaged as SSA PSPs. In Nepal, the geographic reach of financial institutions is limited largely to urban areas and no single bank is present in all 75 districts. During the payment pilot supported under the SSNP, procurement of a PSP for one of the two clusters of three districts had to be cancelled after procurement failure. Similar outcomes are possible in some districts, especially those that commercial financial institutions may deem unviable from a business point of view. The project will mitigate this risk by carefully reviewing the presence of financial institutions at the district level. However, this is a risk the project will have to be prepared to take since one of the objectives is to bring e-payments even to some of the more remote areas. In locations where no PSP is willing to enter, the project will explore alternative approaches to improve SSA benefit delivery through Subcomponent 2.2.

59. Another high risk area is the Government bureaucracy's generally inadequate capacities to implement projects ('Institutional capacity for implementation and sustainability'). Although the current DOCR management is fully committed to the reform agenda to be supported with this project, staff turnover is frequent in the Nepalese Government bureaucracy and the technical command of the reform agenda among the DOCR staff, other than its senior echelon, is weak. Furthermore, implementation will require full buy-in and cooperation from the large number of local-level officials. This risk is particularly relevant for Subcomponent 3.2 which will be implemented at the local level. The Government's decision to aim at nationwide coverage in all components except Subcomponent 2.1 is also expected to stretch the constrained capacity considerably. Primary mitigation measures would be to strengthen the Government's project implementation capacity by financing an extensive network of the DL-PIUs and the SUs in every

district and involve technical and local-level staff through awareness-raising and training activities in the earliest phase of project implementation.

60. The integrated fiduciary risk is assessed as Substantial considering the size and the scope of the project and the inadequate capacity of the DOCR to effectively manage fiduciary requirements of the project spread across the 75 districts of the country. The DOCR is a recently established department and as such has no exposure, as an institution, to World Bank procurement procedures. Second, the project entails the procurement of a number of items, which are complex in nature with regard to the value and volume of procurement. Finally, the procurement and financial management responsibilities of the project are substantial and spread from the center to the districts. As mitigation measures, the fiduciary management capacity of the PMU will be strengthened by training existing procurement and financial management staff and hiring an appropriate number of procurement and financial management consultants, including at each of the DL-PIUs while precluding any procurement activities at the SU level. Furthermore, the Project Operations Manual will include a detailed section on procurement, contract management, procurement record keeping, budgeting, accounting, internal control, and financial reporting.

61. The stakeholder risk is Substantial because the major activities to be supported under each of the three components involves high-level policy implications that go beyond the DOCR and MOFALD's policy mandates. The development of the National Population Register intersects with the Government's ongoing plan to develop an electronic national identification system under MOHA. MOHA has begun a small-scale pilot to issue electronic national ID cards with financial assistance from the ADB and intends to subsequently roll out the system nationwide. MOFALD and the DOCR have been in communications with MOHA and its National ID Management Center and have reached an agreement, in principle, that the National Population Register will feed into the national ID system using birth registration as entry into, and death registration as exit from, the latter. However, continuous close coordination will be needed to ensure smooth implementation of these parallel initiatives. As for the e-payment rollout, some of the key policy decisions that enable this modality rest with the Nepal Rastra Bank and the Ministry of Finance (MOF). MOFALD and the DOCR have been engaging both entities with a view to ensure their operational requirements would be adequately reflected in the Government's overall policy on Government-to-People (G2P) payments. The World Bank is supporting these dialogues with parallel technical assistance (TA), in coordination with the related work by IFC and the UNCDF. Stakeholder risks around the support to set up SUs nationwide are likely to worsen once Nepal starts implementing its planned shift to the federal structure. The investments in building institutional capacity at the local level could potentially be captured or diverted by newly elected local governments. Through ongoing TA, the World Bank is working with the DOCR to explore an institutional design option that could possibly minimize the extent of these risks.

## **VI. APPRAISAL SUMMARY**

### **A. Economic and Financial (if applicable) Analysis**

62. Given the nature of the project, the economic analysis combined a qualitative assessment and an estimation of fiscal savings. The former focused on assessing expected benefits of the National Population Register and a functioning CR system. The latter quantified expected fiscal

savings from the introduction of e-payments and associated improvements such as a digital roster of SSA beneficiaries.

63. Benefits that result from the investment in developing the National Population Register cannot easily be quantified but are expected to be far-reaching and significant in changing beneficiaries' life situations. Beyond enabling better coverage and administration of SP programs like SSA, strengthened CRVS will contribute to improved governance and larger development outcomes because

- birth registration provides individuals with legal proof of identify;
- CR enables access to a range of essential services; for example, a birth certificate is required for accessing the child grant and enrolling a child in school and a death certificate of a husband is a requirement for the widow to receive widow's pension;
- a CR system with regular updating provides robust and continuous data on vital statistics unlike periodic surveys; and
- a comprehensive National Population Register can prove instrumental in disaster relief and recovery by providing timely, key figures like the number of households and individuals for enhanced emergency planning and speedy provision of relief.

64. Manual delivery of SSA benefits entails two types of cost: (i) significant staff time, especially at the local level, devoted to processing the payments and (ii) additional budgetary outlays because of inclusion errors (inclusion of beneficiaries who are not eligible or do not exist) and other forms of leakage. Introduction of e-payments could result in considerable savings in the form of staff time freed up from various steps of SSA delivery and budgetary saving from reduction in considerable inclusion errors that the system suffers. Use of the PSPs would reduce time commitment by local officials and allow them to dedicate additional time to other tasks that cannot be outsourced or delegated to others.

65. Switching to e-payments will also improve control of leakages of SSA funds, owing to reduction of inclusion errors via a two-step process: first, through the digitization of beneficiary data in the MIS which will allow de-duplication of the beneficiary list and second, at the time of opening beneficiary account by the PSPs when each beneficiary's biometric data will be captured for subsequent identity verification for payment. The three e-payment pilot districts saw a 10–12 percent reduction in the number of beneficiaries as a consequence of the digitization of manual records into the MIS and a further 12–13 percent reduction due to elimination of 'ghosts' at the time of account opening which required biometric data for beneficiaries' identity verification. The combined impact of both steps led to the elimination of an estimated 22 percent to 25 percent of ineligible/unaccounted-for beneficiaries.<sup>14</sup>

66. In addition to the budget saved due to elimination of ineligible/duplicate beneficiaries, the existence of an updated National Population Register obviates the need for digitizing beneficiary

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<sup>14</sup> It is necessary to note that the reduction in the number of beneficiaries could have been in part also due to some eligible beneficiaries missing enrolled by the PSP and the limited time frame of the pilot, as well as some natural attrition in beneficiary numbers.

lists from manual records. The list of eligible beneficiaries for SSA can be generated automatically from the National Population Register. At an estimated digitization cost of US\$0.30 per beneficiary record, the total one-time cost for digitizing over two million beneficiaries would be over US\$6 million.

67. The savings achieved due to the establishment of the National Population Register and the rollout of e-payments include the avoided cost of digitization, reduction in the number of beneficiaries due to digitization and de-duplication of manual records, and a further elimination of ghost beneficiaries at the time of account opening. Establishment of the National Population Register, digitization of beneficiary database, and the transition to e-payments is being achieved gradually and so the savings would be realized over time. Allowing for a phased implementation of the household data collection in 64 districts (for the remaining 11 earthquake-affected districts, the relevant data have already been collected through the housing damage assessment survey in 2016) and the transition to e-payments in 25 districts over the five-year project period, the net present value of savings due to the project is estimated to be around US\$51 million at a discount rate of 10 percent.

68. Given that CRVS and SSA are public goods and core mandates of the DOCR, public financing is considered appropriate in this area. Without Government intervention in systems strengthening, it is unlikely that the current status of CR and SSA will improve. The magnitude of up-front investment requirement and the need to build systems and processes to ensure continued updating after the initial setup fully justifies financial and technical support by the World Bank. The Government is mobilizing the private sector in the delivery of SSA and the spread of e-payments could contribute to expansion of financial inclusion over time, even though this is not an explicit objective of this project. The World Bank has supported Nepal's SP systems strengthening agenda for the past several years through recently closed projects and continues to engage in this area with ongoing Safety Net System Building TA.<sup>15</sup>

69. The achievement of the PDO about increasing the SSA coverage would entail increased budgetary requirements. The total number of beneficiaries that the Government is expected to achieve by the last year of the project is estimated to be 2.9 million. At the current benefit level, this would cost approximately US\$413 million by the last year of project, compared to US\$164 million in FY2015–16. Given the Government's past record in fully funding SSAs, despite occasional increases in benefit levels or expansion in coverage criteria, it is expected that the Government will fully meet the additional budget requirement with its own resources.

## **B. Technical**

70. The project design is technically sound. It draws on successful recent pilots in Nepal. Implementation of the nationwide household visits to collect data for the population register (Subcomponent 1.1) will benefit from lessons learned from the ongoing household census in 11 earthquake-affected districts, as well as the earlier household census conducted by MOFALD in two districts for HDSP Pilot. The project's strong, explicit focus on sustainable institutionalization primarily through Component 3 enhances the likelihood of long-term impact.

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<sup>15</sup> Funded by the World Bank-executed Rapid Social Response Trust Fund.

### **C. Financial Management**

71. The project will follow the Government's financial management system/procedures. Given the size and scope of the project and the associated fiduciary risk as Substantial, financial management consultants will be provided from the project funds both for the DOCR PMU and for each DL-PIU to ensure effective financial management of the project. In light of the spread of cost centers over 75 districts, a financial management specialist and a senior-level accounts assistant will support the PMU, while a senior-level administrative/accounts assistant will be assigned to each DL-PIU. The assistant will support the accounts officer of the DDC, both of whom will be members of the DL-PIU. Funds to the DL-PIUs will only flow after adequate staffing arrangements are in place. This arrangement is considered adequate for DL-PIUs as a large part of district-level financial management involves processing project and contracted staff salaries into bank accounts. The procurement of assets for districts and 'SUs' to be handled at the district level are not of significant amount. There will be no procurement below the district level. For petty cash requirements at the SUs, advance will be provided to designated SU staff, which will be settled at the DL-PIU level.

72. The budget for the project consists of the budget line for the SSA benefits under MOFALD including the EEPs and a separate line item for the rest of the project-financed activities under DOCR in the Red Book. The budget for the EEPs will be executed directly by MOFALD whereas the project allocated to the DOCR for the other project-financed activities will be either executed directly DOCR or delegated to the districts through the budget authority. Based on the PMU's guidelines and specification of activities/expenditures' line items, the DL-PIUs will incur expenditures and report the same to the PMU on a monthly basis. The DL-PIUs can access the Government Treasury for payments through signatories, the LDO (or his/her delegate), and the DDC accounts officer. This will also provide a basis for verification of expenditures through data from the Government Treasury accounts. The PMU will maintain separate books of accounts for the project, including the EEP and district-level expenditures based on the reports received from the DL-PIUs. The EEP and other expenditures will be accounted for and reported based on actual incurrence as opposed to advance.

73. To mitigate risks such as incurrence of ineligible expenditures, as they materialized in a previous MOFALD-implemented project, the Project Operations Manual will include detailed sections on accounting, internal controls, and monitoring. Additional mechanisms to ensure that the EEP is used for the intended purpose, such as cross-verification of beneficiary data on a sample basis with bank statements (when available) or other supporting documents (payment receipt list with beneficiaries' signatures/thumbprints), will be detailed in the Project Operations Manual. The mechanism for verifying the validity of the beneficiary data for the EEP will also be included in the Project Operations Manual.

74. The financial progress of the project will be reported on a trimester basis through the Interim Unaudited Financial Reports (IUFs) to be submitted within 45 days from the end of each trimester. The external audit report for each year of project implementation (including for the EEP) will be required to be submitted by nine months from the year-end. There are no outstanding external audit reports to be received from the projects implemented by MOFALD.

75. The disbursements from the World Bank will be based on Statements of Expenditures (SOEs) for both DLI and non-DLI components. The Government-consolidated funds will be used for pre-financing eligible expenditures for both types of components. For the DLI component (Subcomponent 2.1), disbursement will be based on the achievement of pre-defined DLI targets that will be validated by the World Bank as defined in the verification protocol. For DLI disbursements, two conditions need to be satisfied: (a) defined DLI targets must be met and validated and (b) incurred expenditures for the EEP must be reported. The DLI disbursement from the World Bank will be made directly to the Government Treasury. The disbursement amount will be based on the lower value of (a) the incurred expenditures for the EEP and (b) the amount assigned to the DLIs achieved and validated. In any period, the unutilized amounts from the two aspects can be rolled over for disbursement in the subsequent reporting periods. To facilitate disbursement for the non-DLI components, a segregated designated account (DA) in U.S. dollars will be opened at the Nepal Rastra Bank. An advance not exceeding the threshold specified in the Disbursement Letter will be provided in the DA for this component. Direct payments to various payees or reimbursements to the Government Treasury can be made from the advance provided in the DA. In the case of non-DLI components, for large amounts above the threshold specified in the Disbursement Letter, direct payments to various payees or direct reimbursements to the Government Treasury can also be requested directly from the World Bank. The disbursement for the district level will also be managed by the PMU based on the reports provided by the DL-PIUs for the expenditures pre-financed from the Government Treasury. If required, the PMU will also manage direct payments for the DL-PIUs.

#### **D. Procurement**

76. The risks associated with procurement for this project are Substantial given the DOCR's lack of experience with World Bank-financed projects and the complexity of some of the planned procurement activities in terms of value and volume. Additionally, the project envisages both centralized and decentralized procurement arrangements with some procurement responsibility devolved to 75 districts. This high level of decentralization of some procurement increases the risk, although the procurement of goods for districts and 'SUs' is not of significant amount. There will be no procurements below the district level.

77. The procurement activities for this project mainly involve selection of firms for data collection, software development, and quality assurance for the data collection and other expert consultants (individuals or firms). Similarly, other procurement activities include selection of a human resources firm under the non-consulting services category according to the World Bank's Procurement Guidelines. The scope of the services of the human resources firm will include providing support to the DOCR in (a) selection of about 1,000 MIS operators as Service Delivery Contractors for the SUs according to the World Bank's Consultant Guidelines and (b) selection of about 225 project personnel as individual consultants at the 75 DL-PIUs according to the World Bank's Consultant Guidelines. The 75 DL-PIUs will also recruit additional 1,000 field assistants for the SUs as Service Delivery Contractors as per the World Bank's Consultant Guidelines. The project also involves some capacity-building programs to be implemented through procurement and non-procurement modalities, depending upon the nature of each program. With regard to selection of consultants, the DOCR/PMU will be responsible for procuring all consulting services required for the PMU and for all the DL-PIUs. For procurement of goods, the PMU will procure

all goods required at the central level whereas, the DL-PIUs will procure goods, mainly office equipment, logistics, and furniture required for them and the VDCs/SUs.

78. The risks will be mitigated through early selection of procurement consultants to support the PMU and assist in training of the DOCR and district-level staff involved in procurement. The Project Operation Manual will include detailed section on procurement, contract management, and procurement record keeping.

79. **Applicable procurement procedure.** Procurement for the proposed operation will be carried out in accordance with the World Bank's 'Guidelines: Procurement of Goods, Works, and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers', published by the World Bank in January 2011, revised July 2014 in the case of goods and non-consulting services and 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers', published by the World Bank in January 2011, revised July 2014 in the case of consultants' services. However, procurement of goods under national competitive bidding may be done according to the Public Procurement Act and Regulations with additional IDA prescribed caveats, considering the latest amendment made to the Public Procurement Act.

#### **E. Social (including Safeguards)**

80. **Citizen engagement.** The project will rely extensively on partnerships with local civil society groups/organizations as well as on a variety of citizen engagement activities. Key to increasing coverage of both CR and social security is a good level of awareness and understanding among the population about the benefits of these programs and details of how to access them. Extensive communications and outreach campaigns will mobilize local-level actors, including the 'social mobilizers' who are permanently stationed in each VDC to support MOFALD's Local Governance and Community Development Program. The project will also invest in strengthening the grievance redress mechanisms of MOFALD/DOCR so that aggrieved stakeholders can channel their complaints and/or feedback through a properly designed system to elicit responses from the Government. The data collection for the National Population Register will be outsourced to survey firms, but the DOCR/PMU will contract an independent third party, which may be a research-focused civil society organization, to carry out ongoing check on the data collection work by the firms. Finally, the DOCR will conduct three rounds of beneficiary feedback surveys throughout project implementation.

81. **Gender focus.** The project also places a strong emphasis on gender equity. There are more women than men beneficiaries of the SSA because one of the five schemes is particularly focused on women (single women and widows). However, gender-based social exclusion is a concern that also affects efforts to expand coverage of CR and SSA. The data on the CRVS and SSA beneficiaries will therefore be disaggregated in the MIS, allowing the DOCR to better understand possible exclusion of men or women, and as mentioned in the description of Component 2, then better target its outreach to them more specifically, if required. The gender constraints linked to the registration of vital events, which may exist for women in particular, will also be addressed within the mandate of the DOCR, through training, awareness raising for registrars, and the mobilization of community organizations, which could include women's groups.

82. The project involves a risk of exclusion of hitherto marginalized groups, including indigenous peoples, during the implementation of various subcomponents designed to strengthen SSA delivery and CR. Accordingly, the World Bank's OP 4.10 on 'Indigenous Peoples' has been triggered mainly to ensure outreach, inclusion, effective targeting, and monitoring of hitherto marginalized groups, including indigenous peoples, during the implementation of various subcomponents.

83. The government has prepared and disclosed a Vulnerable Community Development Plan (VCDP) that details the steps that will be taken to mitigate against any risks of exclusion and also provide measures for enhancing project benefits. The draft VCDP was disclosed in-country on July 29, 2016 on the DOCR's website. A national consultation was also held on July 31, 2016. The final VCDP was submitted to the World Bank on September 26, 2016. The VCDP was then disclosed through the InfoShop on October 3, 2016. Specifically, the VCDP includes a working definition of vulnerable groups relevant to the project; review of analysis of relevant Nepalese laws and the World Bank's safeguards policies related to gender and vulnerable groups; analysis of the positive and negative impacts of the project on vulnerable groups; and a plan for mitigating risks; enhancing project beneficiaries; monitoring indicators; grievance redress mechanism; communication strategy; and budget for the implementation of the VCDP. The VCDP focuses on two areas of actions: enhanced and expanded communication activities and capacity building of the DOCR; and the relevant local-level stakeholders, including the DDC and SU staff. The VCDP is consistent with the World Bank's policy on indigenous peoples and the specific guidelines for the Indigenous Peoples Plan.

#### **F. Environment (including Safeguards)**

84. Considering the nature and the activities of the project, which is to strengthen the efficiency of the DOCR/local bodies through support and investments in hardware and software aspects of delivery of SSA and not to support any type of civil works including maintenance and rehabilitation, the project is classified as category C. Therefore, the project will have no significant, large-scale or irreversible adverse environmental or social impact. There are no safeguard documents on environment which need to be complied with or prepared. As a proactive measure, the project will strive to adopt environment good practices such as waste management, purchase of energy efficient goods, and recyclable and reusable hardware goods and to reduce the environmental impacts of government operations and promote environmental stewardship by integrating environmental performance considerations in the procurement process.

85. The project has been screened for climate and disaster risks. The overall risk rating is low. The project activity most susceptible to this risk is the setup of the 1,000 SUs. Initially, these will be selected among those VDCs with adequate physical infrastructure, including site locations with minimum geo-hazard risks. The project will not finance any civil works to construct or repair VDC buildings to make them functional as SUs. However, a residual risk that some of these may be affected by unforeseen climate events during project implementation or later cannot be fully discarded. The capacity-building and training activities will help prepare for and cope with hazards or build longer-term resilience.

## **G. World Bank Grievance Redress**

86. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## Annex 1: Results Framework and Monitoring

**Country: Nepal**

**Project Name: Strengthening Systems for Social Protection and Civil Registration Project (P154548)**

### Results Framework

<b>Project Development Objectives</b>							
<b>PDO Statement</b>							
The Project Development Objective (PDO) is to improve the coverage of social security allowances and civil registration, and the delivery of social security allowances.							
<b>These results are at</b>		Project Level					
<b>Project Development Objective Indicators</b>							
		<b>Cumulative Target Values</b>					
<b>Indicator Name</b>	<b>Baseline</b>	<b>YR1</b>	<b>YR2</b>	<b>YR3</b>	<b>YR4</b>	<b>YR5</b>	<b>End Target</b>
Beneficiaries in the SSA program (Number)	2,260,400 Female: 1,446,700 Male: 813,700	2,317,900 Female: 1,483,500 Male: 834,400	2,377,000 Female: 1,521,300 Male: 855,700	2,532,300 Female: 1,620,700 Male: 911,600	2,741,200 Female: 1,754,400 Male: 986,800	2,959,000 Female: 1,893,800 Male: 1,065,200	2,959,000 Female: 1,893,800 Male: 1,065,200
Percentage of births registered for 0 to 1-year-olds* (Percentage)	28.6	n.a.	n.a.	50.0	n.a.	80.0	80.0
Number of districts where SSA entitlements are delivered via e-payments (DLI 2) (Number)	0	0	5	15	25	25	25

*Note:* \*Nepal Demographic and Health Survey 2011.

<b>Intermediate Results Indicators</b>							
		<b>Cumulative Target Values</b>					
<b>Indicator Name</b>	<b>Baseline</b>	<b>YR1</b>	<b>YR2</b>	<b>YR3</b>	<b>YR4</b>	<b>YR5</b>	<b>End Target</b>
Number of districts with an electronic population register established (Number)	0	11	23	49	75	75	75
Number of districts where targeted outreach campaigns have been conducted (Number)	0	0	23	49	75	75	75
Percentage of births registered for 2 to 4-year-olds (less than 5 years) (Percentage)	50.8	n.a.	n.a.	75	n.a.	90	90
Number of births registered in MIS within the first year of birth (Number)	7,000	n.a.	173,800	371,200	378,700	440,400	440,400
Number of deaths registered in MIS within one year of the event occurring (Number)	4,000	n.a.	57,400	123,700	127,600	150,200	150,200
Grievance mechanism established and operational in the MIS (Yes/No)	No	No	Yes	Yes	Yes	Yes	Yes
Percentage of ineligible/unaccounted for beneficiaries eliminated from the SSA beneficiary list (Percentage)	0	0	10% of beneficiaries in the new e-payment districts	10% of beneficiaries in the new e-payment districts	10% of beneficiaries in the new e-payment districts	n.a.	10% of beneficiaries in all e-payment districts
Percentage of SSA beneficiaries satisfied with the improved delivery in SSA payments (Percentage)	n.a.	n.a.	n.a.	80	n.a.	80	80
SSA Payment Strategy approved (DLI 1) (Yes/No)	No	Yes	n.a.	n.a.	n.a.	n.a.	Yes
Number of service units established (Number)	0	0	400	800	1,000	1,000	1,000
Number of districts with staff trained on improved business processes (Number)	0	0	23	49	75	75	75

### Indicator Description

<b>Project Development Objective Indicators</b>				
<b>Indicator Name</b>	<b>Description (indicator definition)</b>	<b>Frequency</b>	<b>Data Source/ Methodology</b>	<b>Responsibility for Data Collection</b>
Beneficiaries in the SSA program	<p>The change in the total number of SSA beneficiaries from the most recent fiscal year to the end of the project.</p> <p>Targets for the 11 earthquake districts based on increase in coverage from 60% to 65% and targets for the remaining 64 districts based on increase in coverage from the current 60%<sup>16</sup> to 70%.</p> <p>Data disaggregation by gender was available for 21 districts. The ratio was used for these districts to extrapolate the total number of female and male beneficiaries for the 75 districts.</p>	Annual	DOCR Administrative Data	DOCR
Percentage of births registered for 0 to 1-year-olds	<p>Increase in coverage of birth registration as percentage of population in that age group. While the project will monitor changes in the registration for other vital events, the PDO-level indicator will measure birth registrations because of their links to other essential public services as described in this Project Appraisal Document. Also projections for other vital events (especially marriage, divorce, and migration) is difficult to calculate given lack of available data to base those on.</p> <p>Birth registrations for 2 to 4-year-olds (percentage) will be tracked as an intermediate results indicator.</p> <p><i>Note:</i> The baseline figures capture percentage of births registered and not percentage of certificates issued.</p>	Three times	DOCR Administrative Data	DOCR
Number of districts where SSA entitlements are delivered via e-payments (DLI 2)	SSA benefit payments by the PSP completed for three consecutive trimesters and payment reconciliation recorded in MIS. Three consecutive trimesters may cover more than one fiscal year depending on when e-payments start during a given fiscal year.	Annual	DOCR Administrative Data	DOCR

<sup>16</sup> CBS (2011) National Living Standards Survey 2010/2011.

<b>Intermediate Results Indicators</b>				
<b>Indicator Name</b>	<b>Description (indicator definition)</b>	<b>Frequency</b>	<b>Data Source / Methodology</b>	<b>Responsibility for Data Collection</b>
Number of districts with an electronic population register established	Number of districts that have a population register (the family folder system) for all its local bodies. Population register is an electronic list of its residents living within a district organized by households/families.	Annual	DOCR Administrative Data	DOCR
Number of districts where targeted outreach campaigns have been conducted	<p>Targeted campaign is defined as a series of outreach campaigns after the establishment of the National Population Register in a given district following a protocol to be defined by the DOCR for the specific purpose of encouraging those excluded from either CR or SSA to register/enroll.</p> <p>The communication materials will incorporate any changes or improvements to the current business processes for the SSA and CR that DOCR may introduce and the project will collaborate with and mobilize third-party groups including private vendors and NGOs and will also finance annual registration camps.</p>	Annual	DOCR Administrative Data	DOCR
Percentage of births registered for 2 to 4-year-olds (less than 5)	<p>Increase in coverage of birth registration as percent of population in that age group.</p> <p><i>Note:</i> The baseline figures capture percentage of births registered and not percentage of certificates issued.</p>	Three times	DOCR Administrative Data	DOCR
Number of births registered in MIS within the first year of birth	Total number of births registered in districts using MOFALD MIS	Annual	DOCR Administrative Data	DOCR
Number of deaths registered in MIS within one year of the event occurring	Total number of deaths registered in districts using MOFALD MIS	Annual	DOCR Administrative Data	DOCR
Grievance mechanism established and operational in the MIS	Grievance module added to the MOFALD MIS and annual grievance report generated using the MIS	Annual	DOCR Administrative Data	DOCR
Percentage of ineligible/unaccounted for beneficiaries eliminated from the SSA beneficiary list (Percentage)	Beneficiaries removed as a percentage of total number of beneficiaries from the SSA beneficiary roster in the selected e-payment districts through the beneficiary roster digitization and e-payments as a measure of improved accountability in SSA benefit delivery.	Annual	DOCR Administrative Data	DOCR

Percentage of SSA beneficiaries satisfied with the improved delivery in SSA payments	Effectiveness of the intervention measured through the beneficiary experience in a sample of districts. Interventions will include intensive outreach, support for improved accountability, and local oversight in the SSA program.	Three Times	Sample Survey	DOCR/World Bank
SSA Payment Strategy approved (DLI 1)	SSA Payment Reform Strategy will guide the DOCR's plans and actions to improve delivery of SSA payments, particularly the transition to e-payments where possible.	One-time	DOCR Administrative Data	DOCR
Number of service units established	An SU will be set up at an existing local body specially designated by the DOCR for IT-based capability upgrade and will have all equipment, trained personnel, and functional MIS in place.	Annual	DOCR Administrative Data	DOCR
Number of districts with staff trained on improved business processes	Training on new business processes, including the use of MIS, to manage the CRVS and SSA, for grievances, monitoring, and oversight. For a district to count, training needs to be given to designated staff of at least 90 percent of the VDCs and municipalities in the district.	Annual	DOCR Administrative Data; Training Reports	DOCR

## **Annex 2: Detailed Project Description**

### **Nepal: Strengthening Systems for Social Protection and Civil Registration Project**

1. The project supports the Department of Civil Registration's (DOCR) Consolidated Social Protection and Vital Event Program and consists of four components. Over a five-year period, the project is expected to support (a) the establishment of a comprehensive National Population Register and expanded coverage of CR and SSA and (b) improved delivery of SSA via transition to e-payments in selected districts and improved overall business process for SSA service delivery. These will be supplemented by institutional strengthening at both central and local levels to ensure sustainability of the gains of the first two objectives.

#### **General Background**

2. The DOCR under MOFALD is the agency charged with the responsibility of managing CR and administering the SSAs in Nepal. The CR system in Nepal records five vital events: birth, death, marriage, divorce, and migration. Registration of these events is mandatory and is done at VDCs or municipal ward offices where the head of the office is the local registrar. CR is the basis of legal identity of citizens and some CR documents are required for obtaining certain public and private services. For example, a birth registration certificate is required for enrolling a child in school and accessing a child grant. A death certificate is required for inheritance proceedings and accessing a widow allowance.

3. The DOCR's second mandate is the delivery of SSA. The SSA schemes provide cash transfers to the elderly, single women, those with disability, members of endangered ethnic groups, and mothers of children under five years in the hilly midwestern region of Karnali, which consists of five of the poorest districts and of poor *dalit* households nationwide (child grant). Except for the disability grant, the eligibility criteria of the schemes are tied to demographic criteria. A key issue in SSA is under-coverage.

4. The DOCR delivers these two core services through the existing bureaucratic structure of the local bodies which consist of around 3,200 Village Development Committees (VDCs), supervised by 75 District Development Committees (DDCs), and around 200 municipalities. Although these local bodies were intended to be headed by elected officials, Nepal has not held local elections since 1997. Hence, the VDCs and the municipalities have been led by secretaries, and the DDCs by Local Development Officers (LDOs), appointed by MOFALD. DOCR and the local bodies operate these functions largely without the aid of modern information technology because most VDCs and some municipalities lack human, financial, and physical conditions to operate computers and lack Internet connectivity. The DOCR requires considerable investments in both its physical infrastructure and human resources to upgrade its service delivery capacity.

5. The proposed project addresses each of the abovementioned challenges faced by the DOCR.

## **Component 1: Improving Coverage of Civil Registration and Social Security Allowances**

### ***Background***

6. The current CRVS system in Nepal has many weaknesses both on the demand and supply sides. On the demand side, the key issues are lack of awareness among the population about the need for and/or benefits of registration and the high transaction costs. Accessing a registration point, a VDC or a municipal ward office, is not always easy for people living in remote areas. Besides the distance and travel time, the VDC secretaries are often unavailable in a number of VDCs. Therefore, people tend to register their events only when the registration certificate is required for some other official transaction. For example, a birth is registered only when a child reaches school-going age and needs birth registration for school enrollment. In the absence of CR, many may have been deprived of legal identity and access to services.

7. On the supply side, one of the key weaknesses is the manual record keeping, which entails risks of inaccuracy, duplication, and difficulties in preserving the records. This also makes it difficult for an individual to retrieve lost CR certificates. Another major weakness is the limited capacity of local bodies, which serve as local registrars. VDCs and municipal wards are the frontline agencies for delivering most government services. As such, they are overburdened with multiple duties without specific administrative and human resources assigned to specific functions. While the local bodies are required to report the aggregate number of CRs periodically, there is no concerted push to increase coverage of the registrations. Finally, there is limited coordination between MOFALD and the health sector in facilitating birth and death registrations.

8. These issues have led to significant gaps in the coverage of CR. The latest NDHS 2011 found that only 42.3 percent of the children under 5 years at the time of survey had their birth registered. Of those with birth registered, only about 37.8 percent of them had a birth certificate. A recent sample study by the DOCR estimates the coverage to be around 75 percent.<sup>17</sup> Another survey to determine a more representative baseline is being planned in collaboration with the Central Bureau of Statistics (CBS).

9. The existing CR system is designed only to issue certificates and not to record and archive personal information of uniquely identifiable individuals. Manual record keeping and high undercoverage coupled with the lack of an integrated electronic population register means that the CR system cannot generate robust vital statistics that could be used for efficient policy making and program planning. The information collected in application forms, especially for birth and death registrations, has high potential utility for generating vital statistics. However, because these paper forms are stored at district level and only aggregate registration figures are reported to the DOCR, the data in these forms have not been used to produce vital statistics on health and demographic trends in the country. The decadal census conducted by the CBS and the sample-based NDHS conducted by the Ministry of Health and Population are the main sources of vital statistics in the country. The current CR system lacks linkages or coordination with these agencies and as such its potential of generating vital statistics has not been exploited.

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<sup>17</sup> Rates for birth, death, and marriage registrations are estimated to be at 75 percent, divorce registration is estimated to be much higher at 87 percent, and migration registration at a low 60 percent.

10. Similarly, there are both demand- and supply-side challenges in expanding the coverage of SSA. On the demand side, one issue is the information gap among eligible beneficiaries regarding eligibility criteria, application timeline, and requirements for application. On the supply side, resource constraint and the absence of an explicit policy to ensure full coverage of eligible individuals result in tame outreach efforts to identify and enroll those who are eligible but are excluded. Absence of reliable data means that the DOCR is unable to estimate the extent of under-coverage and its exact incidence by geography or segments of the population.

11. In this context, a strengthened CRVS system and comprehensive and up-to-date family/household folders will provide multiple benefits. First, it will help improve the coverage of SSA by helping identify the eligible population. Beyond SSA, it will enable the Government to track all social assistance at the household level because the family/household folders will also assign each individual member of the household a unique identifier for management purposes.

12. Second, it will assist all citizens in acquiring legal identity and facilitate access to a range of services such as school enrollment and bank account opening. This will reduce the risk of marginalization and promote social inclusion by promoting access of historically marginalized groups. Third, robust data on births and deaths will allow effective monitoring of health indicators, including fertility, mortality, and disease patterns to inform public health programming as well as other demographic-based policy making (for example, pension).

13. Finally, an updated population register will greatly facilitate disaster risk management and recovery. The recent earthquake in Nepal has shown how the lack of a population register can hinder relief and recovery work. Key figures such as the number of households and individuals by age group and location could have enhanced emergency planning and speedy provision of relief. The earthquake has also led to many affected individuals losing their identity documents. Replacing the documents will be much easier with an integrated electronic CRVS system.

14. A robust CRVS system will thereby serve as a basic foundation to promote citizens' access to basic services and social transfers, promote inclusive development, and enhance disaster risk management. Altogether, these will in turn contribute to reducing poverty and social exclusion.

15. Support to strengthening CRVS will help the GoN implement international recommendations of Commission of Information and Accountability for Women's and Children's Health and achieve the relevant Sustainable Development Goal (SDG) targets. The first of the 10 recommendations of the Commission of Information and Accountability for Women's and Children's Health is that by 2015, countries have made significant steps for improving their CRVS systems to register births, deaths, and causes-of-death to achieve a high level of completeness from routine CRVS systems. SDG 16.9 commits governments to provide legal identity for all, including birth registration, by 2030.

#### **Box 1. The Identity Ecosystem in Nepal**

Several government entities are mandated to deal with certain aspects of identity and have some identity assets in Nepal. Nevertheless, the overall identity ecosystem remains non-robust and highly fragmented. While the DOCR manages CR and has the mandate to establish family folders, it is MOHA that issues citizenship cards to all citizens over the age of 16. These are paper-based cards and are not backed up by a centralized database containing the identity of all individuals who have received these cards. The citizenship numbers are supposed to be unique only within the district where these are issued. The uniqueness is lost when individuals migrate in/out of their original districts. The

absence of an electronic database and the uniqueness of the ID numbers only within a district lead to likely duplications of individual identity documents. To establish a more robust identity instrument, the Government established the National Identity Management Center under MOHA in 2011, with the mandate of issuing National IDs in the form of smart cards with biometric data. However, due to implementation delays, the National Identity Management Center has only begun distributing the first batch of the IDs in a small-scale pilot in 2016.

The electoral register maintained by the Election Commission (EC) is another database of individual records which are in electronic format. However, this is not a complete database of all individuals in the country as it only captures registered voters 17 years or older. The Poor Household Identification, Identity Card Management, and Distribution Coordination Board under the Ministry of Cooperatives and Poverty Alleviation has the mandate of identifying poor households and issuing poverty cards. So far, however, only 25 of the 75 districts have been surveyed for this purpose and the effort to cover the remaining districts has stalled since 2014.

Given this prevailing situation, a National Population Register would contribute to reducing the fragmentation in the ID ecosystem and serve as a basis for the eventual establishment of a national ID system and a possible poverty targeting system. Each individual in the National Population Register will be assigned a unique ID number (UIN) in the system. For the existing population, the UIN will be assigned at the time of the house-to-house data collection. Each newborn will be assigned a UIN at the time of birth registration. The UIN in the National Population Register cannot substitute for the national ID numbers which, by law, can only be issued by MOHA. The National Population Register will therefore be designed to be interoperable with the national ID system under MOHA. The point of entry into the interlinked systems would be the birth registration. An individual would ‘exit’ from the system when his/her death is registered on the National Population Register. Smooth transfer of data between these systems would ensure accurate matching of the records.

### ***Component Objectives and Key Outputs***

16. The key objective of Component 1 is to expand coverage of CR and SSA in terms of the number of individuals and events captured in the civil registry for the former and the number of SSA beneficiaries enrolled in the program for the latter. These objectives will be pursued with a combination of a population register of individuals and household/family folders and subsequent regular updating of its content. The register will be updated through regular CRs, supported with targeted outreach and communications campaigns. The population register will be housed in the DOCR’s existing MIS, which will be enhanced to accommodate the additional functionalities required (to be supported under Component 3). The goal is to establish a CRVS system that will allow all individuals/residents easy access to CR, enable regular monitoring of registration, generate timely vital statistics from a central database, and enable linkage with programs such as SSA and future disaster responses, among others.

17. The component will support the following:

- Data collection through a combination of door-to-door household visits and ward-level registration camps in selected locations nationwide, except in areas where such data are already available in an appropriate digital format, to establish a National Population Register with household/family folders
- Information and outreach campaigns to support the data collection, promotion of regular registration of vital events, and enrollment of the eligible into SSA, including annual camps

18. The expected outcome of the component is expanded coverage of CR and SSA by achieving the following outputs:

- The establishment of a population register with household/family folders where each individual member has a unique ID
- Increased outreach for CR and SSA among the target population

***Subcomponent 1.1: Data Collection to Establish a Population Register***

19. Data will be collected mainly through door-to-door visits to households to capture basic demographic information of the population to establish the population register. In some cases, ward-level registration camps (demand-driven approach)<sup>18</sup> may be used where people will be invited to come and provide their household information and register their vital events.

20. Door-to-door data collection will be conducted in phases to collect the basic demographic information and verify whether any member of the household receives SSA and whether they have registered all recent vital events. The data from the door-to-door visits and demand-driven approach will be entered into the DOCR's MIS to establish the population register where each individual will be assigned a unique identifier.<sup>19</sup> The uniqueness will be ensured via text-based de-duplication of multiple data fields. The DOCR system is designed to be interoperable with the national ID system. The DOCR and MOHA have agreed that entry into the national ID will be through birth registrations. Whether this unique ID generated by the DOCR system for the surveyed population and assigned to each new birth remains internal to the DOCR or it becomes the number communicated to the citizen and used by all other agencies is a policy question to be resolved.

21. In areas where the census approach is not as effective and local government offices are fairly accessible (primarily urban municipalities with relatively high population density), a demand-driven approach may be used. In such cases, an intensive outreach campaign will be conducted to invite households to come and fill out survey forms to collect the basic demographic data and register any unregistered vital events.

22. Following the data collection, local-level CR camps will be organized to capture unregistered vital events. The household-level data collection will identify individuals who have not registered specific vital events. The DOCR (through the corresponding local bodies) will encourage these individuals to come forward with supporting documents and register vital events in specially organized registration camps following the door-to-door visits by the enumerators. Because much of the required data will already be in the MIS from the door-to-door data collection, only additional information required for vital event registration will be collected at that point. The accuracy of data in the MIS will be cross-checked against the documents. The registration drive following the door-to-door data collection will focus on registering births of children under five years and unregistered events that occurred in the past one year. These registration camps will

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<sup>18</sup> Wards are subunits of either a municipality (in 'urban' areas) or a VDC (in rural areas). In municipalities, wards have a small office with some level of service delivery capabilities whereas in VDCs, wards are usually mere administrative demarcation without any presence of a sub-VDC office. Nepal has recently consolidated and converted a number of VDCs into municipalities, which has created municipalities that are 'urban' in name only in many locations.

<sup>19</sup> This identifier will remain at the back-end of the DOCR's MIS and will not be Nepal's official national ID number. The National ID program is under development by MOHA.

mitigate the demand-side constraints to an extent by taking the registrar's services closer to the population.

23. The collected data on CR will be uploaded to the DOCR's MIS and certificates printed at SUs (described in Component 3) or the nearest location with connectivity. Designated personnel will be responsible for collecting the certificates and delivering them to the individuals. Registration drives will be conducted soon after the door-to-door data collection across each VDC, ward by ward, over a period of time, with consideration to convenience of the people.

24. Through door-to-door visits, enumerators will also collect data on whether any member of the household is receiving any SSA. The demographic information will help check the eligibility of each member for the SSA. The eligibility combined with the information on who is currently receiving a benefit will allow the DOCR to assess under-coverage and identify the individuals who need to be covered. The DOCR will target these individuals in outreach campaigns to bring them into the SSA program coverage (to be supported under Subcomponent 1.2).

25. The existing MOFALD MIS will be enhanced to ensure data security and integrity. An industry-standard audit trail mechanism will be built in the MIS to track, maintain, and monitor user activities. Similarly, the user access rights and control functionality in the MIS will ensure that the level of data access rights and privilege to the users for data visibility are fully controlled. This means that the MIS administrator could potentially determine who could access what level of MIS data. Also, technically the MIS design framework will adhere to the notion that once the data is digitized/recorded in the system, it could never get deleted but rather archived. In addition, during the project inception stage, a detailed study will be conducted with regard to the data security and protection laws of the GoN to ensure its compliance.

26. The housing damage assessment has captured relevant household information for the National Population Register in 11 of the 14 districts affected by the 2015 earthquakes. The DOCR will use this data to construct the population register in these 11 districts, which will obviate the need to cover them in the door-to-door data collection and will limit the geographic coverage of this subcomponent to the remaining 64 districts. The subcomponent will support CR camps following the household data collection nationwide, including in selected locations among the 11 earthquake-affected districts.

### ***Subcomponent 1.2: Communication and Outreach Campaign***

27. A broad communication strategy with layers of targeted communication and outreach activities will be required to sustain high coverage rate of CR and SSA beyond the establishment of the population register. The activities under this subcomponent will enhance the communications and outreach currently being conducted by the DOCR and local bodies for CR and SSA.

28. **Communication and outreach for regular CR.** The communication and outreach campaigns conducted by the DOCR through mass media and by local bodies and other organizations in the recent years have resulted in a rise in registrations in some parts of the country. However, areas of improvements still exist to further increase the public's awareness of the processes, requirements, and benefits of registration, and also penalties of non-registration.

Following the initial data collection, communication and outreach campaigns will be strengthened to promote regular CR as events occur to ensure that all events are registered and the population register is updated. The content and the strategy currently used for communication will be reviewed and augmented. Information, education, and communication (IEC) materials on the benefits and the process for registration will be developed and disseminated throughout the country. In the districts selected for intensive interventions, existing networks of local agents such as social mobilizers and female community health volunteers may be mobilized. Towards that end, the component can support orientations and workshops at the local level for DDC/VDC staff, health workers and citizen forums.

29. **Communication and outreach to expand coverage of SSA.** A regularly updated population register will be able to generate a list of individuals eligible for SSA. This, combined with the data on SSA beneficiaries, will generate a list of those who are eligible but not receiving benefits. The list of eligible beneficiaries generated from the MIS will be provided to each VDC and will be made public at the VDC. To reach those who have been identified to be eligible but remain uncovered, targeted outreach will be conducted by the VDCs. The VDCs will be responsible for providing the DOCR with a list of eligible but unenrolled beneficiaries with possible reasons for non-enrollment at the end of every enrollment cycle. The VDC will be supported by additional project staff to conduct the outreach. The list of eligible beneficiaries for the disability grant will not be generated by the population register, as the eligibility criteria for this transfer is not linked to any of the vital registrations. The project could support additional/special activities to reach out to those with disability to ensure that they are covered by the SSA.

30. Given that one of the key challenges is the information gap among potential beneficiaries, this component will also support development and dissemination of standardized IEC materials and orientation of relevant stakeholders. The communication materials will incorporate any changes or improvements to the current business processes for SSA and CR that the DOCR may introduce.

31. The project will also finance annual ward-level registration camps to capture any events that remain unregistered during the year and enroll any eligible beneficiaries for SSA. These camps will be run by the VDCs with the support of SU staff. The camps will make registration and enrollment more accessible for the population.

32. For each of these communication activities, the project will collaborate with and mobilize third-party groups, including private vendors and NGOs. The project will also explore partnerships with other programs that involve community outreach (for example, the Water, Sanitation and Hygiene (WASH) program and vaccination campaigns) as well as the use of information and communication technology (ICT) in facilitating these communication activities. The World Health Organization (WHO) will provide in-kind TA to Component 1 through a parallel arrangement with the DOCR outside this project's financing scope.

## Component 2: Modernizing Social Security Delivery Systems

### Background

33. The GoN initiated payment of noncontributory social pensions at NPR 100 per month to elderly persons above 75 years of age in 1994. Since then, a range of additional schemes for other demographic categories often considered socially and/or economically vulnerable have been added and the benefit amounts adjusted upward through occasional political decisions. Most recently, the Government, through the finance minister’s budget speech in June 2016, announced its intention to double the benefit amounts of the SSAs in FY2016–17. Today, Nepal’s SSA program provides pension benefits to the elderly, single women/widows, members of ‘endangered’ ethnicities who have tended to face social discrimination, persons with disability, and children under five years of age in the far western region of Karnali as well as *dalit* children nationwide. Benefit amounts vary from one scheme to another. The current rule prohibits a single individual who may qualify for multiple schemes (for example, a 70-year-old single woman who is disabled) from receiving more than one benefit. The guidelines also prohibit those receiving a government civil service pension from accessing any of these allowances. The Government delivers SSA benefit payments three times a year.

**Table 2.1. Snapshot of SSA Schemes**

Cash Transfer	Eligibility Criteria*	Benefit amount (NPR)**
Senior citizens’ allowance	<ul style="list-style-type: none"> <li>All citizens 70 years or older</li> <li>All <i>dalits</i> and Karnali residents 60 years or older</li> </ul>	2,000 per month 1,000 per month
Single women’s allowance	<ul style="list-style-type: none"> <li>Widows of all ages</li> <li>Single women, 60 years or older***</li> </ul>	1,000 per month
Child Grant	<ul style="list-style-type: none"> <li>All children under 5 years of age living in Karnali</li> <li>Poor <i>dalit</i> children under 5 years of age</li> </ul>	400 per child per month (maximum 800 per family/mother)
Disability Grant	<ul style="list-style-type: none"> <li><b>Full disability.</b> Disabled people dependent on others for daily life are eligible for full disability grant.</li> </ul>	2,000 per month
	<ul style="list-style-type: none"> <li><b>Partial disability.</b> Beneficiaries with disability but are able to manage daily functions without help from others are eligible for partial disability grant.</li> </ul>	600 per month
Endangered Ethnicity Grant	<ul style="list-style-type: none"> <li>Belong to one of the ten endangered ethnic groups****</li> </ul>	2,000 per month

*Note:* These figures represent benefit levels after the Government announcement of doubling the benefit levels in the FY2016–2017 budget speech.

\* Individuals may not receive more than one transfer and are ineligible if they already receive a salary or pension from the Government.

\*\*Although the above transfer amounts are described in monthly terms, the money is aggregated and delivered three times by VDCs and municipalities.

\*\*\*The Supreme Court of Nepal has recently ruled that all widows regardless of age, should be eligible for this grant.

\*\*\*\*There are 59 officially recognized *Janajati* or indigenous groups in Nepal. Out of these, 10 have been identified as endangered and are eligible for the grant.

34. Except for urban municipalities where commercial banks deliver payments (though not always through individual bank accounts), the vast majority of the local bodies rely on their VDC secretaries or municipal ward officials who collect cash from the DDC and distribute it to individual beneficiaries in person usually at their respective offices (VDCs or municipal wards). To record the payment transactions, the beneficiaries have their thumbprint taken on the

beneficiary list as well as on their own logbooks. No biometric data are captured to ensure unique identities of the beneficiaries. Most VDCs and municipalities lack computer equipment and/or internet access to record these transactions on the DOCR's MIS directly. The secretaries then submit the records of the beneficiary payment transactions to the DDC where staff prepare consolidated reports (that is, number of beneficiaries paid per SSA category) and submit them to the DOCR. In other words, the DOCR currently lacks direct access to individual beneficiary list and payment transaction records to confirm that the right beneficiaries received the right amounts of benefits at the right time.

35. Although the DOCR's guidelines indicate the timing of the three payments in mid-September, mid-January, and mid-May of each year, frequent delays in payments as well as misappropriation of funds are often alleged or suspected. A small sample (100 VDCs) survey conducted by a World Bank-funded social accountability program indicated that no one was receiving the benefits on time, although three-quarters of them reported eventually receiving the right amount for the year.

36. For enrollment each beneficiary must personally appear at the VDC/municipal ward office to register or renew enrollment each year. The applicants' citizenship numbers are used to ensure their unique identities, but the citizenship numbers are unique only within the district where they are issued. Hence, the uniqueness is lost if someone moves out of his/her original district and tries to enroll in an SSA scheme elsewhere. Since other CR records that are the basis for confirming the person's identity and eligibility are also kept in a particular VDC or a municipal ward and not available through a central MIS, in practice a person can receive an SSA benefit only in his/her official place of residence.<sup>20</sup> A formal grievance redress process exists but this is generally believed to be ineffective. No systematic record is kept of grievances filed and processed.

37. The SSA Program Operation Procedure, 2016 mandates district and local-level committees (with membership of representatives of local government, political parties, and civil society) to play a role in verification and monitoring of SSA payments. However, in most parts of the country, these either do not exist or are not effective.

38. As this brief description indicates, the current systems and methods used to manage the entire cycle of SSA benefit delivery suffer from problems of ineffective control and accountability, low operational efficiency and poor services. Specific sources of the weaknesses include the absence of a reliable, modern IT system to record and manage beneficiary enrollments and payment transactions and the lack of sufficiently trained personnel to manage these processes at the district and village/municipal levels. While records of applications and supporting documents of individual beneficiaries are kept at the VDC level, DDCs receive only a list of these beneficiaries by category for all VDCs. The DOCR, however, only receives aggregate data of district-wise beneficiary numbers by category. The retrieval of individual records is an arduous task and hence is not conducted as part of the regular business process. Relatively simple data breakdown such as the number of beneficiaries by gender is nearly impossible to collate at the central level. The data accuracy is impossible to verify given the absence of a unique national ID

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<sup>20</sup> The formal procedure would be for the person to file a migration registration in both his/her original VDC and the new locations. However, anecdotes suggest that the extent to which people comply with this rule and register their moves appears low.

system. Besides the benefit payments, the VDC/municipal secretaries manage all other aspects of the SSA service delivery as well as a broad range of other government mandates, often without support from additional personnel, as the only officials at the frontline representing the Government. At the district level, typically a low-ranked administrative clerk is assigned to consolidate SSA beneficiary and payment records submitted by the VDCs. The DDCs seem to provide little active oversight of the ways in which the VDCs manage SSA service delivery nor do they offer systematic support or guidance where needed.

39. E-payments is defined as a method of cash delivery that could include electronic bank transfers, smart/debit cards, mobile terminals, ATMs, point-of-sale machines, and biometric verification. The specifics of e-payments will be further defined through the SSA Payment Strategy currently being developed by the DOCR. E-payments in Nepal is still in a nascent stage, particularly in terms of G2P payments. It is constrained by limited infrastructure (for example, roads, mobile network, and electricity connections) and shallow penetration of financial institutions in remote areas. However, in the last few years, a few government programs, including civil service pensions and some scholarships, have begun to use deposits into bank accounts as a method of payment delivery. Some private sector banks have also been exploring electronic and mobile payments for their customers.

40. Against this backdrop, MOFALD (before the creation of the DOCR in early 2015) piloted delivery of SSA benefit payments through commercial banks as contracted PSPs in 2013–14. The pilot, supported under the IDA-funded SSNP (P113002), took place in three districts where a contracted private bank carried out beneficiary enrollment using digital biometric data capture (10 fingers) and subsequent delivery of payments through a network of BLB agents throughout the three districts. Although the pilot encountered some operational hiccups (for example, delays in payment delivery because MOFALD's MIS had not prepared the beneficiary roster on time), it generated a number of useful lessons and solidified MOFALD's commitment to roll out similar methods of payments throughout the country. One of the most tangible benefits that the pilot demonstrated was the elimination of 'ghost' or absent beneficiaries. In the three pilot districts, of the 94,778 individuals listed as beneficiaries at the beginning of the fiscal year, only 75,572 enrolled through the PSP for payment. Over 20 percent of the beneficiaries were eliminated following digitization of the roster and PSP enrollment using biometric technology. These beneficiary names removed from the roster would have consisted of a mix of (a) legitimate beneficiaries who have deceased since enrollment in the previous year; (b) legitimate beneficiaries who have migrated out of the district; and/or (c) so-called ghosts. An effective CR system that captures deaths and migration (that is, changes of address) would have allowed the DOCR to know the exact extent of 'ghost' beneficiary phenomenon.

41. An integral element of the SSNP pilot was the use of an MIS, developed with support from both the SSNP and another World Bank-funded TA project, HDSP Pilot.<sup>21</sup> Under the SSNP, MOFALD deployed the MIS to 12 districts, including those where the payment pilots proceeded. With the MIS, these districts conducted a one-time exercise to digitize all the paper records of SSA

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<sup>21</sup> Under the HDSP, funded with the Rapid Social Response Multi-Donor Trust Fund managed by the World Bank, MOFALD experimented with a conditional cash transfer (CCT) scheme tied to primary school attendance and delivered a few payments using a contracted PSP. The UNCDF provided direct TA with the payment aspect of the pilot, including funding of the CCT benefit, whereas the World Bank focused its efforts on the CCT design and the MIS development.

beneficiaries and de-duplication of the digitized records to identify duplicate entries. The number of duplicate entries identified and eliminated through this exercise ranged from 10 to 15 percent of the total number of beneficiaries in each district's roster. Since then, with the support of ADB, the DOCR has rolled out the same MIS in 10 additional districts.

### ***Component Objectives and Key Outputs***

42. This component will build on these pilot experiences and support the modernization of the social security delivery systems. The support will focus on improving the efficiency, accountability and service quality of the social security delivery systems. The component will support the following:

- Payment of SSA benefits in 6 selected districts and phased rollout of e-payments via contracted PSPs in 25 selected districts, using an RBF-based financing approach
- Additional modernization efforts to improve key facets of the social security service delivery, particularly enrollment and payment verification, monitoring and grievance redress, and applicable improvements in manual payment delivery in all 75 districts

43. The specific outputs of the component are the following:

- Functioning e-payment system with the deployment of e-payments in approximately 25 districts
- Improvements in SSA benefit delivery, monitoring, and grievance redress mechanisms

### ***Subcomponent 2.1: Rolling Out Electronic Payments***

44. The primary aim of this subcomponent is to support improved efficiency and accountability in the SSA benefit payments via a phased rollout of the e-payment system through contracted PSPs while financing the SSA benefit payments in six selected districts as the EEP. The method of e-payment will be defined by the SSA payment strategy developed by DOCR. Once they are routinized, payments through PSPs are likely to improve predictability, timeliness, and accountability in benefit payments, including the possibility to verify payments to specific beneficiaries through cross-checking of data with the DOCR's beneficiary database, hence permitting the DOCR to ensure payments to 'the right people in the right amount, at the right time.'

45. This subcomponent will use an RBF approach that links disbursements to the achievement of prespecified results measured by a set of DLIs. This assumes PSP contracts will be rolled out in five batches over the project period, eventually covering 25 districts but if the DOCR manages to move faster and finish covering the 25 districts in fewer than five batches, corresponding disbursements will also be accelerated accordingly because each disbursement is not linked to a batch but to an individual district.

46. The key parameters of the e-payment rollout such as the selection of the 25 districts have been agreed upon. A set of criteria and indicators were used to rank all 75 districts guided by an overarching considerations for implementation and maximum coverage of beneficiaries. Each

criterion was given a relative weight to correspond to the DOCR’s understanding of the significance of each and is as described in table 2.2.

**Table 2.2. Criteria for the Selection of E-payment Districts**

<b>Criteria</b>	<b>Weight (%)</b>
Presence of Class A + B World Bank branches	30
Household electricity and mobile phone coverage	15
Coverage of SSA beneficiaries	30
DDC past performance	25

47. Based on the methodology outlined above and the fact that the project aims to cover the e-payment rollout in 25 of the 75 districts, it was decided that one-third of the top ranked districts from each of the seven provinces will be selected to ensure geographic representation throughout the country. These districts are Banke, Bhaktapur, Chitwan, Dadeldhura, Dailekh, Dhankuta, Dhanusa, Gulmi, Jhapa, Jumla, Kailali, Kanchapur, Kaski, Kathmandu, Morang, Palpa, Parsa, Rupandehi, Sindhupalchowk, Siraha, Sunsari, Surkhet, Syangja, Tanahun, and Udaypur.

48. However, the specific ways in which these may be clustered are currently being developed and expected to be finalized as part of the DOCR’s payment strategy.<sup>22</sup> The formal approval of the strategy will constitute the DLI 1. Once the e-payment rollout starts implementation, this will be supported with a DLI linked to the completion of e-payments for three consecutive trimesters (as the equivalent of a full fiscal year). The DLI 1 is non-scalable. The achievement of the DLI 2 is expected to span over three years according to the targets indicated in Table 2.3. If, however, the achievement is partial vis-à-vis the target in any given year, the unachieved portion of the DLI 2 will be treated as a ‘floating’ DLI and can be carried over to the following year. However, approval of the payment reform strategy (DLI 1 target) is a prerequisite for the disbursement of DLI 2.

49. The proposed EEP is the SSA (Senior Citizen, Disabled, Endangered Ethnicities, and Single Women Protection Scheme) for six districts (Kathmandu, Bhaktapur, Kaski, Chitawan, Banke, and Morang). These districts were selected based on the volume of the SSA expenditure and ease of expenditure verification. The number of municipalities in the districts were used as proxy indicators for the second criteria. Verification of expenditures in districts with a higher number of municipalities is likely to be more reliable as municipalities are more likely to process SSA payments through banking channels. The budget allocation for the SSA benefit payments in these six districts in FY2015–16 was US\$19 million and the estimated total for the project period given the current benefit level (that was doubled from FY2015 to FY2016) is approximately US\$210 million.

50. Achieving these DLIs can be challenging given the DOCR’s current organizational capacity. While Component 3 is designed to provide support to build up the DOCR’s capacity over time, a main source of TA on SSA payments in the short run is expected to be the UNCDF which has a long-standing engagement with the DOCR/MOFALD, often in close coordination and partnership with the World Bank, in the area of G2P payments. Contracting PSPs would involve

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<sup>22</sup> This work is supported through parallel joint TA by the World Bank, funded with the Rapid Social Response Trust Fund and UNCDF.

fee payments. The Government will contract them following its own procurement rules and use its own regular budgetary allocation to cover the cost of the PSP fees.

**Table 2.3. Proposed Disbursement-Linked Indicators**

<b>DLIs</b>	<b>Year 1 (Date of the Financing Agreement - July 15, 2018)</b>	<b>Year 2 (July 16, 2018–July 15, 2019)</b>	<b>Year 3 (July 16, 2019–July 15, 2020)</b>	<b>Year 4 (July 16, 2020–July 15, 2021)</b>	<b>Year 5 (July 16, 2021–Closing Date)</b>
<b>DLI 1:</b> SSA Payment Strategy	<b>DLI 1 Target:</b> SSA Payment Strategy approved and adopted by MOFALD				
DLI 1 Value (US\$)	7,000,000				
<b>DLI 2:</b> Number of Districts where Social Security Allowances are Delivered via e-Payments		<b>DLI 2.1 Target:</b> Payments of Social Security Allowances by Payment Service Providers completed for 3 consecutive SSA Payment Periods and payment reconciliation recorded in MIS in 5 SSA Districts.	<b>DLI 2.2 Target:</b> Payments of Social Security Allowances by Payment Service Providers completed for 3 consecutive SSA Payment Periods and payment reconciliation recorded in MIS in an additional 10 SSA Districts.	<b>DLI 2.3 Target:</b> Payments of Social Security Allowances by Payment Service Providers completed for 3 consecutive SSA Payment Periods and payment reconciliation recorded in MIS in an additional 10 SSA Districts.	
DLI 2 Value (US\$)		7,000,000  <i>Disbursement Rule:</i> 1,400,000 for each SSA District	14,000,000  <i>Disbursement Rule:</i> 1,400,000 for each additional SSA District	14,000,000  <i>Disbursement Rule:</i> 1,400,000 for each additional SSA District	

*Note:* It is assumed that each batch of PSP contract will cover five districts, on average, but the actual number may vary.

**Table 2.4. Verification Protocol for Disbursement-Linked Indicators**

<b>Disbursement-Linked Indicators</b>	<b>Verification Protocol</b>
1. SSA Payment Strategy	<p>Verification protocol: Copy of the MOFALD approved payment strategy. The strategy should include:</p> <ul style="list-style-type: none"> <li>• payment distribution methods and clearly defined actions for transitioning to e-payments (including technological options to enable beneficiaries to easily access their benefits)</li> <li>• beneficiary authentication procedures for cash withdrawals</li> <li>• phasing and selection of districts for rollout of the strategy</li> <li>• reference to e-payments should align with definition in Verification Protocol for DLI 2.</li> </ul> <p>Data Source: DOCR Evidence: MOFALD approved copy of SSA Payment Strategy</p>
2. Number of districts where SSAs are delivered via e-payments	<p>Verification protocol:</p> <p>1. Copy of the PSP contract or agreement for a minimum of three years and payment delivery and reconciliation reports generated from MIS which includes details of SSA amount as per MIS, amounts transferred to the PSP(s), the beneficiaries to be paid per PSP, payments made to each of the beneficiary accounts by the PSP(s), instances of bounce-back and the amount(s) involved, and the balance amount returned to DOCR. Data source: DOCR</p> <p>2. Verification report by way of audits/spot checks of a sample of payment transaction records/data. Verification agent to be arranged for by the Government. Data source: DLI verification agent</p> <ul style="list-style-type: none"> <li>• For a district to be eligible, e-payments must reach at least two thirds of the VDCs/municipalities in it. Within each VDC/municipality, e-payments must reach at least 50% beneficiaries in their respective jurisdiction.</li> <li>• For a payment method to qualify as ‘e-payments’ as defined here, SSA benefit payments must be delivered by a PSP, based on a specific contract or a general agreement with the Government, through individual accounts in the names of the beneficiaries with a two-factor authentication (such as biometric) of the identities of the individual beneficiaries so as to ensure the right person receives the right amount of SSA benefits in each payment cycle.</li> <li>• A payment is considered ‘delivered’ by e-payments once a corresponding benefit amount is electronically transferred into his/her beneficiary account at the PSP.</li> <li>• Three consecutive payment cycles may cover more than one fiscal year depending on when e-payments start during a given fiscal year. One SSA payment period consists of a period of four calendar months.</li> <li>• Once e-payment rollout is considered ‘accomplished’ in a district and the corresponding DLI amount is disbursed, the same district cannot be counted again as another accomplished DLI.</li> </ul>

51. Because of Nepal’s challenging geographic and infrastructure conditions, some areas may not be serviceable by PSPs. BLB by PSPs requires use of modern technology such as point-of-sale machines or mobile banking methods, which in turn requires reliable supply of electricity as well

as internet and/or mobile phone connectivity. Areas where such minimum infrastructure conditions do not hold may therefore need to continue relying on the traditional method of payment distribution through VDCs. Procedural improvements in accountability and service quality in these cases, as well as improvements in other aspects of SSA benefit delivery besides payments, will be explored under Subcomponent 2.2.

### ***Subcomponent 2.2: Improving Accountability and Citizen Engagement in the Social Security Delivery Process***

52. This subcomponent will finance implementation of measures to improve the social security delivery systems beyond e-payments. This will include both VDCs which will be included in the phased shift to e-payments as well as those which are not able to shift to e-payments because of infrastructure and other constraints.<sup>23</sup> The key facets of improvement will be on enrollment, payment verification, and monitoring and grievance redress, with a focus on increasing citizen engagement and accountability along with the use of IT in these processes in the program.

53. The revised SSA Program Operation Procedures, 2016 has limited provisions for allowing beneficiaries and applicants to file grievances related to the program. According to the Operation Procedures, the VDCs or municipal offices are responsible for collecting and investigating complaints related to enrollment and eligibility of applicants within seven days of the publishing of the list of new and renewed beneficiaries for the next fiscal year. The revised policy document also allows for grievances to be filed at VDCs/municipalities and DDC offices on inclusion/exclusion errors and financial irregularity issues. Anecdotal evidence from the field suggests that this is not uniformly implemented in practice. The limited time frame for grievance collection, lack of communication, and limited access to VDC secretaries has resulted in a low level of access to the existing grievance redress mechanism. No separate records of applications and enrollment exist at local bodies, which precludes the possibility of assessing how many applications were rejected and for what reasons, and whether grievances were filed in those cases. The revised policy document also does not clarify the process and the timeline to be followed for grievance redress. The lack of provision for involvement of neutral or third-party agencies for grievance collection and redress may also deter some applicants from filing grievances. Given the high reported rates of under-coverage among eligible beneficiaries and reports of payment irregularities in some locations, it is of utmost importance to strengthen the grievance redress mechanism to make it accessible, responsive, and transparent to improve beneficiary experience of the program.

54. The SSA Program Operation Procedure has specific provisions for local and district-level monitoring and verification processes with coordination committees formed at both levels to ensure broader civic participation in the oversight of the delivery of the program. The Local Social Security Coordination Committee (LSSCC) is responsible for reviewing applications received for enrollment and for monitoring of payments. The District Social Security Coordination Committee is a larger body consisting of representatives from various government offices and other civic committees and organizations. Besides monitoring the SSA program, it is also responsible for conducting activities to increase awareness and transparency of SSA delivery as well as supporting local bodies in maintaining proper archives of program-related documents and selecting banks for

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<sup>23</sup> The assumption here is that even within a single district, e-payments may not reach some of the more remote VDCs.

transition to bank-based payment delivery. The procedure also provides for another monitoring committee consisting of representatives from various district-level bodies (DAO, District Women and Child Office, Federation of Nepali Journalists, and so on) to conduct at least one field visit per year and report on issues or grievances and good practices to the DDC. However, the functionality of these committees, especially the latter two, is limited due to lack of administrative budget as well as the large size of the committees which makes it difficult for the committee to meet often. The presence of the LSSCC is also not consistently observed, and their formal participation in enrollment and payment verification is limited and in some cases, simulated (lists of new beneficiaries with signatures of committee members are observed but no formal meeting as such is reported). Effective citizen participation and oversight in the roles of these committees, especially at the local level, could lead to their improved functioning, and also local ownership and satisfaction with the program overall.

55. The specific measures to be supported under this subcomponent will include (a) improvement of the grievance redress mechanism, and (b) improved monitoring and verification in enrollment and payment processes. These will include partnerships with community organizations active and trusted in given communities as neutral collection points for grievances and diligent recording of the collected grievances and their resolutions in the MIS. Once the complaints are captured in the MIS grievance module, the DOCR will be able to not only systematically collect complaints but also analyze the various categories of grievances and provide systematic responses on time. In addition, the DOCR will be able to use the grievance module of the MIS for annual reviews as part of the program feedback loop to improve programming and policies as relevant.

56. More specifically, the activities focused on improvement of the processes for enrollment and payment verification and monitoring supported by this component will include (a) review of the current institutional setup for monitoring and oversight and (b) capacity building activities and support to local stakeholders.

57. The activities supported under this subcomponent will follow and support existing models of civic participation in both monitoring and grievance redress for other programs and services delivered by local bodies. For example, public hearings, public audits, and citizen awareness center activities, which are some of MOFALD's existing good practices, will be used, where possible, to mobilize civic participation in the delivery of the SSA program.

### **Component 3: Institutional Strengthening**

#### ***Background***

58. To achieve the project objectives of increased coverage of social security beneficiaries and CR and improved delivery of SSA, the institutional framework regulating and facilitating these two functions as well as the organizational capacity of implementing bodies need to be enhanced. Component 3 is designed to support a range of cross-cutting activities for sustainable institutionalization of the improvements supported under Components 1 and 2. The activities supported under this component will be divided into those conducted at the central level and those at the local level.

59. The recently formed DOCR is currently responsible for overseeing administration of CR and social security services at the central level. A relatively small section in MOFALD handled both functions until the creation of the DOCR by the Government’s decision in late 2014. The DOCR is headed by a director-general, at the rank of joint secretary, and three directors, at the rank of undersecretary. The DOCR’s current organizational structure is largely a legacy of the way the related sections had been structured and staffed when it was a unit of MOFALD.

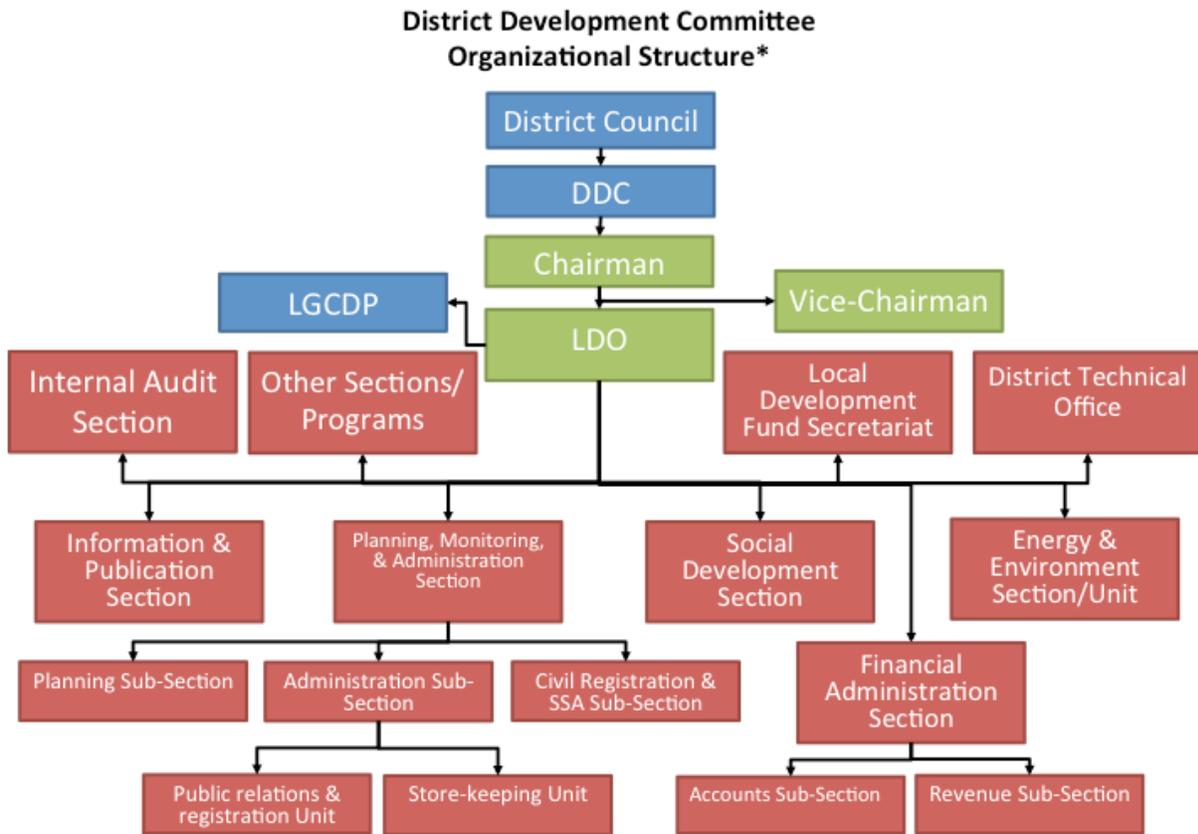
**Figure 2.1. Department of Civil Registration Organizational Structure**



\* From <http://www.docr.gov.np/docr/en/content/organizational-structure>  
Does not include MIS unit team hired on contract.

60. The district-level offices function as intermediaries between the DOCR and the frontline service delivery points (VDCs and municipal wards under the current constitutional structure). The district offices (DDCs, under the current constitutional structure) primarily perform monitoring, record-keeping, and reporting functions for both CR and social security services. They are also responsible for financial management of social security payments made to the beneficiaries through the local bodies. The district-level CR and SSA sections are typically staffed by a low-level administrative clerk without much managerial authority or technical expertise. The thin staffing both in terms of the number and the qualification severely limits districts’ ability to provide effective oversight and support for the CR and SSA service delivery at the local level.

Figure 2.2. District Development Committee Organizational Structure



\* The actual structure and sections may vary between districts

61. At the front-end of the CR/SSA service delivery chain are the 3,200 VDCs and 200 municipalities and sub/metropolitan cities. In reality, however, service delivery through VDCs often suffer from multiple weaknesses ranging from weak physical infrastructure (for example, electricity, Internet connectivity), limiting the use of modern ICT tools, to absence of a VDC secretary (either because of a vacancy or the absenteeism of the appointed secretary). VDC secretaries are also overburdened with multiple responsibilities and mandates because they are the only Government authorities at the village level and, hence, have to handle almost anything the Government requires at that level. Most of these are unfunded mandates. Most VDC secretaries operate with little to no staff support.

62. The current system for recording vital events and social security enrollment and payment information is manual and paper based. About 25 districts are reportedly equipped and trained to use the DOCR's MIS to digitize social security beneficiary lists. The CR function of the MIS is also being piloted in 16 municipalities and 24 VDCs across the country.

63. The nationwide implementation of a central MIS to manage population, vital events, and social security database, as proposed through this project, will require changes in the existing business processes as well as in the roles of different government bodies for provision of both services. Federalization of the state and restructuring of local bodies in the new state structure will also necessitate changes in the current business processes governing the administration of these

two services. These changes need to be incorporated or formalized in the operational guidelines and policy documents regulating these services and a strategic plan developed for the implementation of the new systems to be developed with support of this project.

64. The changes in the institutional framework guiding the two functions also need to be supplemented by organizational capacity building at the central as well as local level, in terms of human resources, ICT infrastructure, and technical capacity.

### ***Subcomponent 3.1: Strengthening Systems at the Central Level***

65. The activities in this subcomponent will support revision of the current institutional framework (including business processes and policy guidelines) and organizational capacity building of the DOCR at the central level to manage both its CR and the SSA functions with efficiency and effective control and implement the agreed improved business processes.

66. The DOCR is in the process of finalizing its strategic road map to set a wider vision as well as specific objectives for strengthening its ability to deliver CR and SSA services more effectively. The activities proposed in the first two components of this project are aligned with the strategic vision outlined in the draft road map and as such will support the department to achieve some of its own stated goals. The activities supported in the project will be the preliminary step to identify improvements to the existing business processes as the DOCR transitions to fully MIS-based CR and SSA delivery and data management system. A business process review for the transition from manual to MIS-based CR and SSA systems, midway through the project, will be important before formalizing the project's proposed processes in the DOCR's legal and policy documents.

67. The revised Social Security Operational Procedure, 2016 represents a positive step toward improving the delivery of SSA in that it formally establishes the role of the newly formed department; specifies the use of MIS for maintaining the database of beneficiaries; and clarifies and simplifies application procedures, timeline, and required documents more clearly than the 2012 version. However, the revised policy document would benefit from clarifications on certain other issues as well—for example, that of the need to review the current horizontal and vertical oversight mechanism, the roles of local bodies in using the MIS for updating (non-electronic) payment information, change in roles of local bodies (especially DDC and state governments) in federalized state structure, and so on.

68. The DOCR is also in the process of amending the Vital Events Registration Act, 1977 to formally incorporate the department in the policy documents governing its mandates (since the existing policy documents predate the recent creation of DOCR), and also, more importantly, to increase the effectiveness, efficiency, transparency, and accountability of the existing business processes and institutional arrangements for the provision of its two core services. The revisions or amendments to the CR policy documents will also consider the changes that will be brought about by implementation of the federal structure, and also other institutional developments (for example, relation of the National ID implementation to CR, role of health and other institutions in CR, and so on). The business process review that will be conducted midway through the project may also provide input to the necessary amendments in both the CR and SSA policy documents.

69. Being a newly formed department, the DOCR's terms of reference (TOR) and organizational structure are still evolving. The DOCR has identified the need to restructure itself and acquire additional human, technical, and physical resources to fully manage the institutional and procedural changes envisioned under its strategic road map. The expanded and restructured DOCR will also need additional capacity-building support for specific functions.

70. Some of the organizational changes considered include the possibility of forming

- a specialized payment system management unit responsible for planning, implementation, and monitoring of alternative payment methods for social security transfers; and
- an oversight unit to monitor and analyze operational data of both CR and SSA generated by the MIS and create feedback loops to correct poor performance or scale up good practices.

71. To formalize the organizational changes and, especially, to obtain Government authorization for additional human resources to fulfill its mandates with the new organizational structure and business processes, the department will need to conduct an OD study, as per the Government's rules. The subcomponent will support these activities.

72. The MIS platform, which is the key technological infrastructure for the new system, will also be hosted and managed centrally at the DOCR. The DOCR currently has an MIS unit working on digitizing and updating available SSA and CR data. However, the capacity of the MIS unit will need to be enhanced to implement additional functions and handle the increased workload with the implementation of the project.

73. The functionality of the MIS and its database servers also need to be upgraded, as the database size will increase considerably after the nationwide collection of population and CR data. Further enhancements will also be needed to incorporate the improvements in the business processes, for example, to automatically identify and remove social security beneficiaries based on the CR data. Security of the MIS servers may also need to be enhanced to ensure privacy of confidential information in the population register. Additional features, such as interoperability with other government databases (for example, the voter list, the National ID database, and so on) and the level of access to be given to other government agencies, also need to be assessed.

74. The activities under this subcomponent will support the DOCR to

- define improved business processes for CR and SSA and associated institutional arrangements linking the DOCR at the center and frontline service delivery points (for example, local registrars) at the local level;
- define a new organizational structure and staffing requirements for the DOCR;
- develop organizational capacity of the DOCR (equipping and, if required, furnishing its office, capacity building of its staff); and
- enhance the existing MIS platform.

75. Outputs of these activities will be

- operation manuals for MIS-based CR and SSA services and amended CR and SSA policies;
- A fully equipped and functional DOCR with proper organizational structure and capacity; and
- An enhanced MIS platform.

### ***Subcomponent 3.2: Strengthening Systems at the Local Level***

76. Digitization of CR and social security enrollment processes and usage of e-payment systems to manage cash transfers for the programs (in selected areas) will lead to changes in the existing business processes and also in the roles and responsibilities of local government bodies (VDCs, municipalities, and DDCs) directly involved in the management of these two functions. These changes will in turn require different sets of technical capacities and additional physical resources (for example, computers, Internet connectivity, and so on) in the local bodies to fulfill their redefined roles. This subcomponent will support required investments in terms of both physical setup and human capacity development to ensure effective and sustainable operationalization of the new institutional arrangements for CR and SSA at the local government level.

77. Given the practical challenge of equipping all the VDCs with the necessary physical assets (for example, computer-based MIS) and human resources, the DOCR is planning to develop some of the existing VDCs as SUs to serve clusters of VDCs. These SUs will be equipped with the necessary ICT equipment and additional personnel with support from the project. Each SU will have an MIS operator and a field assistant, the latter to aid in the flow of documents and information between VDCs in the cluster. In addition to serving as ‘back offices’ to manage transition of CR and social security databases from the current paper-based to a digitized system, the SUs will also provide front-end services for issuance of CR certificates, enrollment of social security beneficiaries, and updating of beneficiary list and payment information for all VDCs in the cluster. For CR, the field assistant or a VDC employee may be required to make routine trips between the SUs and the VDCs within the cluster to bring application/information forms for entry into the MIS and take back printed certificates to distribute to the applicants. Similarly, enrollment and payment data for SSA may be entered into the MIS for all VDCs in the cluster at these SUs with the field assistant or a VDC employee periodically carrying the application forms and payment receipts to these SUs. Grievances collected by community organizations and the VDC office will also be similarly carried to the SU for entry into the MIS.

78. As part of the federalization process, the GoN has also formed a Local Level Restructuring Commission (LLRC) to recommend restructuring of the current local bodies (VDCs and municipalities) to a smaller number of village and municipal councils, to consolidate service delivery in the federal structure. Currently, the LLRC has fixed the total number of local bodies in all 75 districts to a maximum of 565 and has instructed local bodies to identify the existing local bodies to be merged to form the prescribed number of bodies in each district. Under the new structure, the proposed SUs may not necessarily serve a cluster of VDCs but a cluster of wards in

the consolidated local bodies. The DOCR and the World Bank will work together to ensure that the SUs are established in accordance with the larger political and administrative restructuring happening at the national level.

79. During project implementation, these SUs will focus specifically on functions related to CR and social security so as not to dilute the focus needed early on to establish the new system and processes. In the long run, the DOCR, in coordination with the Government, may plan to ‘expand’ the roles of these SUs to include IT support for other functions of the local bodies such as annual program planning and implementation; land revenue tax collection; recommendation for citizenship, land registration, and transfer of titles; property valuation; and issuing of building permits. However, such an evolution of the SUs will only be a long-term possibility at this point. Furthermore, the exact way in which these future arrangements will evolve will be highly contingent on how the Government will finalize details of the federal structure and how transition to that new structure will unfold. The project design will retain as much flexibility as practical to be able to adjust to the changing institutional environment linking the central Government to the local levels.

80. In districts where SUs are not rolled out during the early phase of the project, data entry of CR and social security beneficiary information into the MIS will also have to occur at the district level. It is crucial for the population database to be regularly updated into the MIS to maintain its completeness and validity. In such cases, the DDCs may temporarily need to acquire the functions of SUs, such as to process both CR and SSA enrollment and payment data. Additional capacity-building support (in terms of training and/or physical and human resources) may be needed at such DDCs to handle the increased workload. These structures may be reviewed as per any changes during the transition to federalism.

81. The DOCR has developed a draft concept note of SUs to outline their scope and core functions, criteria for selection, and their institutional relationship with local government bodies (annex 7). A ‘VDC Resource Survey’ is also currently being conducted by the DOCR to all VDCs in the country to generate data and criteria for clustering of VDCs and selection of SUs.<sup>24</sup>

82. Municipalities, in general, have more developed infrastructure and capacity than VDCs, and they also serve a larger and denser population body. Hence, these are critical locations to consolidate the use of the MIS-based CR and SSA systems, in terms of feasibility and also to increase the demographic reach of the proposed project. The DOCR has already launched MIS-based CR in 16 municipalities and 24 VDCs in 9 districts.

83. Municipalities, however, also vary in terms of their technical and human capacities to implement the changes in CR and SSA service delivery under improved business processes and amended policy requirements. In particular the newly formed but also some of the older municipalities may need additional investment in personnel and physical assets/equipment (in

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<sup>24</sup> The Government is preparing to form a ‘Local Body Restructuring Commission’ to recommend revisions to the existing structure of local bodies to align with the mandates of the new constitution of the country. The Government is considering the possibility of merging VDCs to capacitate local bodies to fulfill all the functions assigned by the new constitution in the federal structure. This would obviously affect the clustering and selection of ‘service center’ VDCs proposed in this project. The DOCR is in communication with MOFALD to align the project’s activities with the Government’s decision.

other words, developed as SUs) to effectively fulfill its functions, whereas others may only require capacity-building support (MIS training and so on) to their existing staff. An assessment to identify capacity-building needs of municipalities for the purpose will be carried out by the DOCR while selecting municipalities to be developed as SUs.

84. The physical setup and staffing of the SUs to implement improved MIS-based business processes for CR and SSA also need to be supported by extensive capacity-building activities. Training on the use of MIS and the changed business processes for the two services need to be provided not only to the personnel at the SU but also to all relevant local government staff, to ensure effective implementation and sustainability of the project interventions. Capacity-building activities may be contracted out to a third party (private company or national/regional NGO) to develop training materials and manage implementation of the training at the central, regional, and local levels. The DOCR will develop a detailed capacity-building strategy and implementation plan for the purpose.

85. Activities supported under this subcomponent will be as follows:

- Equip selected local bodies to function as SUs.
- Recruit human resources for SUs.<sup>25</sup>
- Build capacity of the newly recruited ‘service center’ personnel as well as those of local bodies (DDC/municipality/VDC).

86. Expected outputs of the subcomponent are

- functional and fully equipped ‘service centers/units’; and
- ‘service center/unit’ personnel and relevant staff at local bodies trained on improved business processes and the use of MIS to manage the CR and SSA database.

#### **Component 4: Project Management, Monitoring and Evaluation**

87. This component will support project management at both the central and local levels. The activities to be supported under this component include (a) recruitment of experienced project management staff and technical experts at the PMU and the DL-PIUs, financing their salaries and benefits; (b) capacity building for project staff in general project management, fiduciary management, safeguards, and monitoring; and (c) communications with relevant government agencies, partners, payment providers, and other stakeholders. This component will also finance the necessary office rentals and equipment and vehicles for project site visits.

88. In regard to project M&E, this component will support activities to (a) enhance the PMU’s M&E capacity; (b) analyze data in the MIS developed under the project and update the project outcome indicators with disaggregation; (c) carry out periodic evaluation studies, including spot

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<sup>25</sup> These personnel should be absorbed with the Government budget by the project closing.

checks of CR and SSA payments service delivery; (d) strengthen the beneficiary feedback mechanism; and (e) verify and report the achievements of DLIs.

## Annex 3: Implementation Arrangements

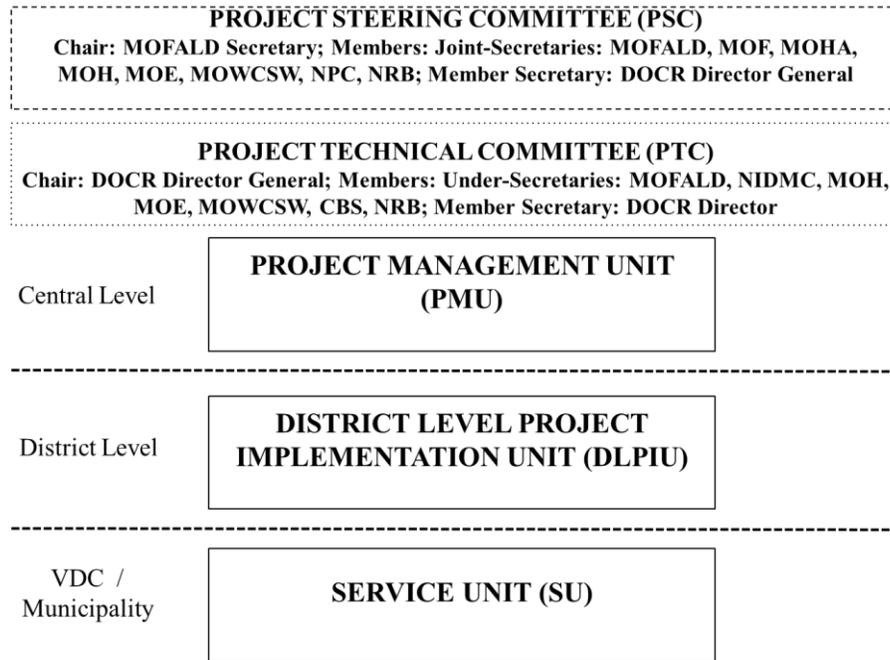
### Nepal: Strengthening Systems for Social Protection and Civil Registration Project

#### Project Institutional and Implementation Arrangements

##### *Project Administration Mechanisms*

1. The implementing agency for this project will be the Department of Civil Registration (DOCR) of the Ministry of Federal Affairs and Local Development (MOFALD). The DOCR is currently structured under four sections: the Population and Registration Section, the Social Security and Monitoring Section, the Administration and Legal Section, and the Financial Administration Section. Each section is headed by a director at the rank of undersecretary, except the Financial Administration Section, which is headed by a senior accountant. Because the project supports activities that are central to the DOCR's day-to-day responsibilities, its implementation arrangement will also leverage the DOCR's existing structure as much as feasible.
2. A **Project Steering Committee (PSC)** will be formed before project effectiveness under the leadership of the MOFALD secretary to provide policy guidance and support while coordinating with other line agencies and local (and provincial) bodies for the implementation of the project. The committee will include joint secretaries of relevant divisions and/or sections within MOFALD, with the director-general of the DOCR serving as the member secretary. The PSC will also include joint secretaries from other ministries such as MOHA, the MOF, Ministry of Health, Ministry of Education, National Planning Commission, and Ministry of Women, Children and Social Welfare. Among possible policy-level considerations that the PSC may need to handle are coordination with the National ID Program, with the CBS in the design and conduct of the house-to-house data collection for the National Population Register, and with the MOF and the Nepal Rastra Bank regarding Government-wide policies on G2P payments. Other ministries in the committee will provide policy guidance on issues related to their respective portfolios and will also mobilize their district- and local-level institutions to aid in CR and SSA enrollment, among others. The PSC may also need to play an active role in ensuring smooth cooperation by district- and local-level officials who do not report directly to the DOCR within MOFALD's existing hierarchy and guide the project in adjusting its implementation according to the specifics of the planned shift to the federal structure. The PSC will meet at least twice a year.
3. A **Project Technical Committee (PTC)** will also be formed before project effectiveness to provide technical guidance on relevant issues across the components. The committee will be chaired by the Director General of the DOCR and will include undersecretaries of all agencies included in the PSC.
4. The DOCR will set up a PMU before project effectiveness to be headed by the DOCR director-general as the project director. The DOCR's section directors will support the project director as project managers. Each project manager will be responsible for implementing activities in specific components, while also ensuring alignment with the regular portfolio of their responsibilities. Each project manager will be supported by a component coordinator to ensure horizontal coordination with the other components, as well as adequate communications with district-level implementation units.

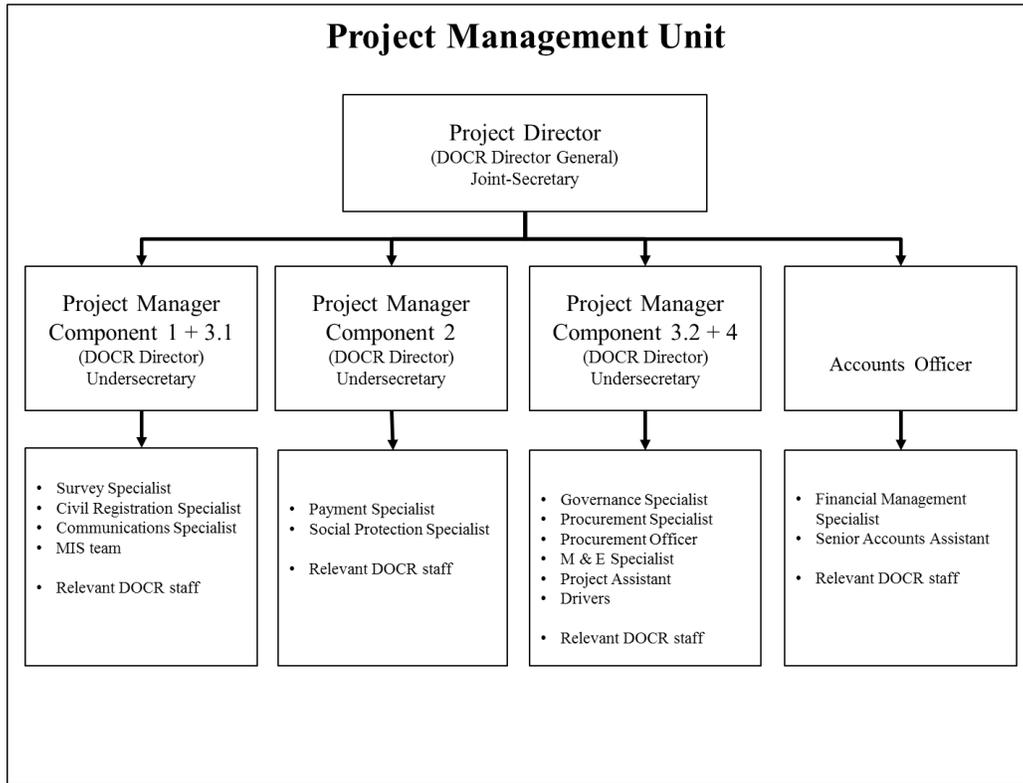
**Figure 3.1. Project Implementation Structure**



*Note:* NPC = National Planning Commission; MOWCSW = Ministry of Women, Children and Social Welfare; MOH = Ministry of Health.

5. The PMU will include an adequate number of staff/consultants under each of the project managers. The specialist consultants to be recruited include a CR specialist, survey specialist, communication specialist, payments specialist, SP specialist, MIS specialists, governance/institutional-strengthening specialist, senior procurement consultant, a financial management specialist, senior accounts assistant, and an M&E expert specialist who will also take on safeguards responsibilities, among other required positions (Figure 3.2). Other positions in the PMU will be filled by the existing DOCR and/or contracted staff.

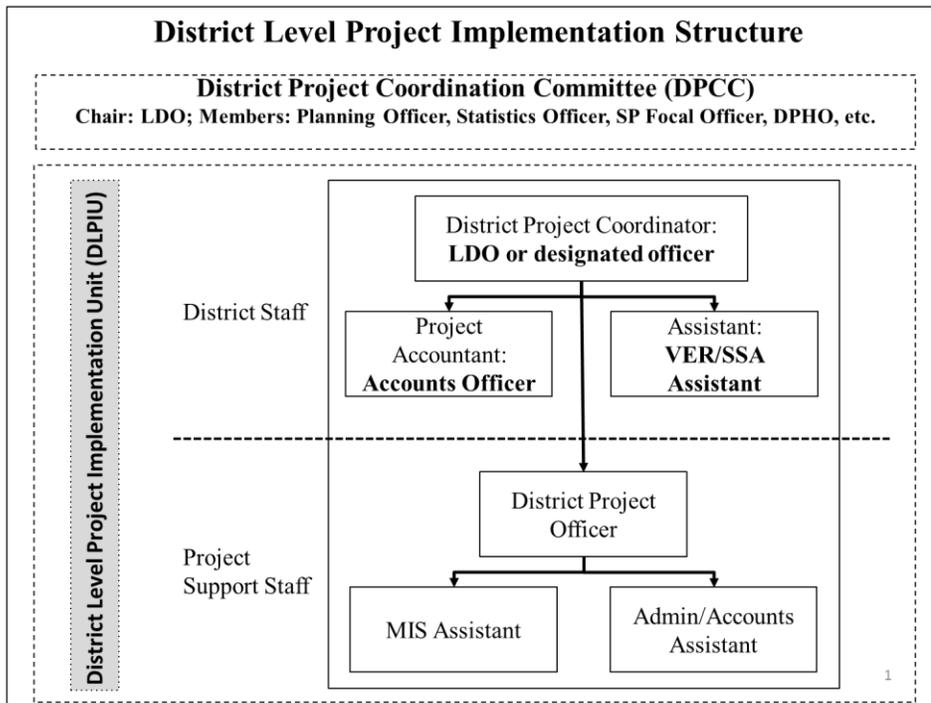
**Figure 3.2. PMU Structure**



6. To ensure adequate coordination and execution at the local level, The DOCR will set up a DL-PIU within the DDC in each of the 75 districts before the initiation of any procurement activities at the district level. The LDO, or a designated officer, will lead each DL-PIU as district project coordinator with support from the DDC accountant and Vital Event Registration/SSA assistant at each DDC office. The project will further provide additional contracted staff (a project officer, an MIS assistant, and an administrative/accounts assistant) to ensure timely implementation of project activities. Once Nepal completes its planned transition to a federal structure, the current DDCs may cease to exist as a level of Government with executive responsibilities. The reporting arrangement within the DL-PIU may need to be adjusted accordingly.

7. All financial-management- and procurement-related activities to be carried out at the local level (the district and VDC/municipality) will be conducted through the DL-PIU. The Government accountant provided by the DDC and the designated district project coordinator will verify and approve all financial reports prepared by the accounts assistant recruited for each DL-PIU. Similarly, the project officer will be responsible for all procurement-related activities at the district and local levels.

Figure 3.3. DL-PIU Structure

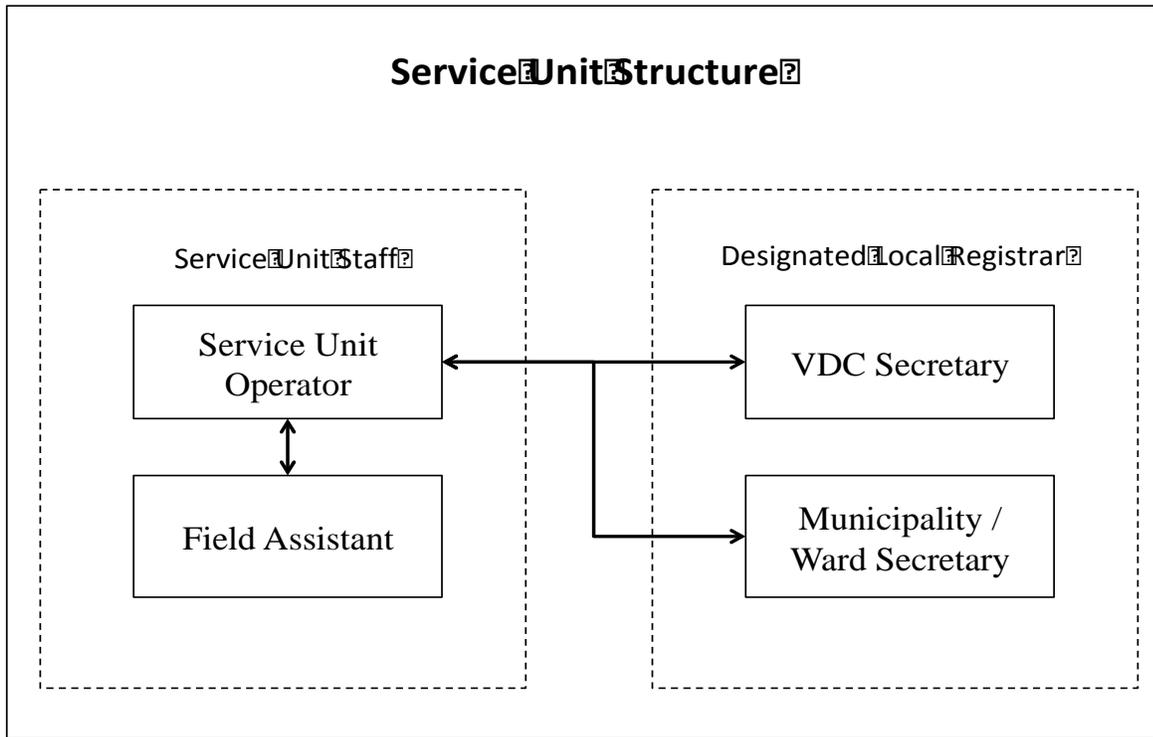


Note: VER = Vital Event Registration; DPHO = District Public Health Office.

8. A DPCC will also be formed no later than one month after the establishment of any of the DL-PIUs to facilitate project activities and mobilize support from local bodies (VDCs and municipalities) and other district-level government offices (for example the District Statistics Office, District Public Health Office, and so on) for implementation of various activities. The DPCC will be chaired by the LDO and will consist of the planning officer, district statistical officer, and representatives from DTCO, DAO, DPHO, District Education Office and so on, and civic organizations. Similar to the reporting arrangement of the DL-PIUs, the status of the DPCC may be adjusted with the transition to the federal structure.

9. The SU will be the lowest level of project implementation at the local level. Each SU will be staffed by an MIS operator and a field assistant and will be established no later than two months after the completion of the data collection activities under Subcomponent 1.1 in a district. The SUs will work with the designated local registrars of the relevant local body/unit (VDC secretary or municipal/ward secretary) to ensure implementation of MIS-based business processes for CR and SSA services. The SUs will not be responsible for any procurement or financial management activities. All such activities will be managed by the DL-PIU in the same district as required. The specific responsibilities of the SUs and the institutional arrangement between the SUs with the local bodies/units will be determined in the 'Service Unit Concept Note' approved by the DOCR and MOFALD. The details of this will be provided in the Project Operations Manual. DOCR will hire a human resources firm to select and recruit technical personnel to be deployed at both the DL-PIUs and the SUs.

Figure 3.4. SU Structure



10. **Operations Manual.** The DOCR will develop an Operations Manual that will be developed by project effectiveness and will provide all the necessary guidance and information to staff involved in implementation at all levels. The document will detail the project activities and the procedures for implementation, monitoring, supervision, and reporting. It specifies implementation steps and contains sub-manuals for procurement and financial management. The draft Operations Manual will be developed by the DOCR and reviewed and approved by the World Bank as a condition of effectiveness. The Operations Manual will be updated periodically by the PMU as needed throughout the implementation period. Any revision of the Operations Manual will also be subject to review and approval by the World Bank.

### Financial Management, Disbursements and Procurement

#### *Financial Management*

11. **Financial management capacity.** The DOCR, which previously functioned as a section under MOFALD, was established as a separate department over a year ago. The DOCR has a Finance Unit managed by an accounts officer and an accounts assistant is expected to join shortly. The DOCR has garnered experience in the implementation of a recently closed ADB project. Considering the nationwide scope of the proposed project, it was agreed that the DOCR will hire two financial management consultants (specialist and assistant, respectively) on a full-time basis from the project funds to support in effective financial management of the project. The financial management consultants will be part of the DOCR PMU. To support district-level financial management, a senior-level administrative/accounts assistant will be hired for each of the 75 DL-PIUs. Most of the district-level financial management will involve payment processing of staff recruited under the project in addition to some procurement of assets. As payment to various staff

will be made into their respective bank accounts and the district-level procurements will not be of a significant amount, assistant-level support is considered adequate for administrative/accounts support. A senior-level assistant has been agreed for each district to ensure the quality of support. The administrative/accounts assistant will support the accounts officer of the DDC who will also be a member of the respective DL-PIU. This will address the capacity constraint identified in the assessment conducted under the Community Action for Nutrition Project financed by the World Bank, which is also being implemented through various DDCs. The assessment also identified resource constraints at the DDC level, such as computers and equipment which the proposed project will be funding. The resources required for the municipalities will also be procured/managed at the district office level, thus financial management of the project funds will be extended only down to the DL-PIU level and will not reach the level of the municipality, VDCs, or SUs.

12. **Planning and budgeting.** The proposed project will follow the Government planning and budgeting procedure. The Finance Unit will provide support in the preparation of the budget and the work program and will coordinate with the Social Security, the Vital Registration, and the Administration Units. As the DOCR does not have experience in preparing a budget and a work program of significant size and scope, it has been agreed that a financial management specialist will be hired immediately upon effectiveness (that is, by one month of project effectiveness) to support preparation of the budget and the work program of the coming fiscal year when a substantial part of the project is expected to begin. The budget for the proposed project will include details in respect of the various activities and expenditures. The budget will be proposed through the Line Ministry Budget Information System, which ensures the detailed basis for the budget preparation. In the fiscal year 2016-17, a budget line for all the project-financed activities except the SSA benefits as eligible expenditures was created and a notional amount of NPR 10 million (US\$94,000) was provided under the DOCR as IDA source. As the project is expected to be effective in before the end of the FY 2016-17, if the allocated budget is not adequate, additional budget will need to be requested to the MOF through MOFALD. The budget to be implemented at the district level will also be provided at the DOCR level. The DOCR will provide budget authority to each DL-PIU with guidelines and specifications of activity/work programs and expenditure line items to ensure effective district-level financial management. Implementation of these budgets and work programs will be monitored by the PMU and reported on a trimester basis through IUFs.

13. The EEP against the DLIs is the SSA budget for the districts of Kathmandu, Bhaktapur, Kaski, Chitawan, Banke, and Morang for the estimated project period of five years. This budget is provided under MOFALD (Budget Code 365015). The estimated total amount of the EEP for the project period is around US\$210 million, of which the World Bank will finance up to US\$42 million through the DLI component, leaving US\$168 million as Government counterpart funding for this purpose. In addition, the DOCR will fund the cost of the fee payments to PSPs which the DOCR will engage to channel SSA benefit delivery through e-payments. The estimated total cost of the PSP fees is US\$5 million for the project period. In sum, the estimated total Government counterpart funding for this project is US\$173 million.

14. **Funds flow.** As is the general practice in projects in Nepal, most of the payments are expected to be pre-financed from the Government's Treasury accounts. A DA will be established at Nepal Rastra Bank to facilitate disbursements. The expenditures pre-financed through the

Government's Treasury accounts will be reimbursed from the DA or directly from the World Bank for amounts exceeding the threshold specified in the Disbursement Letter. For larger amounts, direct payment from the World Bank can also be made to the contractors/suppliers and other payees. Direct payments can also be made from the DA.

15. The payments at the district level will be pre-financed from the Government Treasury based on budget authority provided to each district. At the district level, the accounts officer of the Government who is also one of the signatories for accessing the Government's Treasury will be managing project funds with support from the project-funded administrative/accounts assistant. The district-level funds flow management will be monitored from the PMU. Based on the reports received from DL-PIU, the PMU will reimburse district-level expenditure amounts to Government Treasury and manage direct payments for DL-PIUs, if required. The Government's Financial Administration Regulation will be followed for overall funds management. Roles and responsibilities for fund management are clearly described in the regulation, based on which financial management consultants (both at the central and district levels) will help ensure that the project funds are effectively managed.

16. **Accounting, financial reporting, and internal controls.** The Government's cash basis accounting system will be followed. Based on the same, the IUFs will be prepared on a trimester basis. The format and the content of IUFs will be agreed during negotiation. Accounting information is maintained manually at the DOCR. It has been agreed with the DOCR to install an accounting software, preferably Computerized Government Accounting System (software developed by Financial Comptroller General Office, by one month of project effectiveness to ensure quality and timeliness of accounting and financial reporting. Most of the DDCs have adopted an accounting software. The project accounts are required to be maintained separately by each DL-PIU and reported on a monthly basis to the PMU by the seventh day of each preceding month. Based on the report received of the expenditures incurred at the district level, the PMU will maintain accounts at the DOCR for all the project expenditures. The IUFs with consolidated information from all of the districts will be prepared by the PMU and submitted to the World Bank within 45 days from the end of each trimester. The PMU will maintain a separate book of accounts against the separate budget line provided for the project. All the required ledgers including the DA Ledger, Credit Register, and so on will be maintained at the PMU. The internal control process of the Government will be applied, including trimester internal audit by the DTCOs. Internal audit will also cover the EEP. As per Government policy, emphasis will be placed on ensuring that internal audit is conducted on a trimester basis, which is an important tool of the internal control system. The financial management consultants hired for the project will help ensure timely and quality accounting, financial reporting, and effective internal controls. The external audit report of the DOCR for FY2014–15 raised audit observations on the need to strengthen asset management and monitoring. The DOCR has agreed to conduct periodic physical verification and update records accordingly. The DOCR is also in the process of obtaining confirmation for the accounting of assets transferred to the various DDCs. To ensure effective monitoring, the DOCR has agreed to develop monitoring guidelines with mechanisms and periodicity for monitoring of the project expenditures of all the spending units. These and other specific requirements for effective project operations will be included in the Project Operations Manual.

17. The EEP will be separately accounted for and reported in the IUFs. The SSAs of six districts (Kathmandu, Bhaktapur, Kaski, Chitwan, Banke, and Morang) was selected based on the

criteria of volume of the SSA expenditure and relative ease and reliability of expenditure verification. The geographical accessibility of the districts and the number of municipalities in the districts were used as proxy indicators for the second criteria. Verification of expenditures in districts with a higher number of municipalities is likely to be more reliable as municipalities are more likely to process SSA payments through banking channels. This will facilitate the verification of the expenditures incurred as EEP. These are also among the 25 districts for the rollout of e-payments supported under Subcomponent 2.1 of this project. It is noted that no other DPs are financing SSA in these six districts. The EEP verification process will be detailed in the Project Operations Manual and will be based on sample cross-verification of the bank statements (if available) or other supporting documents from MIS or other available beneficiary data. The beneficiary data are maintained at each DDC/municipality based on reports/statements submitted by the VDCs/wards. VDCs/wards maintain records of eligible beneficiaries based on eligibility criteria substantiated by the supporting documents submitted by potential beneficiaries. The validity of the beneficiary data will also be verified on a sample basis at the VDC/ward level based on the supporting documents submitted by the beneficiaries.

18. EEP as well as other project expenditures will be accounted for and reported in the project accounts only upon incurrence of actual expenditures (as opposed to advance). Disbursement from the World Bank will also be based on the same.

19. **External audit.** The project financial statements including SOEs and DA statements will be audited by the Office of the Auditor General. The external audit report for each year of project implementation will be submitted to the World Bank within nine months from the end of each fiscal year. To avert delays in audit report submission, the DOCR PMU will coordinate with the Office of the Auditor General by May of each year to ensure that the project's audit (including district-level project accounts and EEPs) is scheduled on time.

20. **Supervision plan.** Project implementation progress will be closely monitored by the PMU and the World Bank. Key financial management fiduciary work includes (a) implementation support to the project, including participation in supervision missions and informing the task team of financial management issues or required improvements and (b) review of financial/audit reports and preparing summaries of such reports for further action, if required.

21. The integrated fiduciary risk is assessed as Substantial considering the size and scope of the project and inadequate capacity of the DOCR to effectively manage fiduciary requirements of the project spread across the 75 districts of the country.

#### *Disbursements*

22. **Allocation of credit proceeds.** Disbursement under the proposed additional funding will be made as specified in table 3.1, which indicates the amounts and percentages of financing.

**Table 3.1. Allocation of Credit Proceeds (in US\$, thousands)**

<b>Category</b>	<b>Amount of the Credit Allocated</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods, non-consulting services, consultants' services (including remuneration for SU contractors), and training and workshops for the project	90,000	100%
(2) Operating costs under the project	18,000	100%
(3) EEP under Subcomponent 2.1 of the project	42,000	100% up to the total DLI Value
Total Amount	150,000	

23. **Disbursement arrangements.** The disbursements from the World Bank will be based on SOEs for both DLI and non-DLI components. The Government Treasury funds will be used for pre-financing eligible expenditures for both types of components. For the DLI component (Subcomponent 2.1), disbursement will be based on the achievement of pre-defined DLI targets based on the World Bank validation as defined in the verification protocol. For DLI disbursements, two conditions need to be satisfied: (a) defined DLI targets must be met and validated and (b) incurred expenditures for the EEP must be reported. For disbursement claims with the World Bank, the EEP will be reported through an SOE. The DLI disbursement from the World Bank will be made directly to the Government Treasury. The disbursement amount will be based on the lower of the (a) incurred expenditures for the EEP and (b) the amount assigned to the DLIs achieved and validated. In any period, the unutilized amounts from the two aspects can be rolled over for disbursement in subsequent reporting periods. The SOE format will be designed to track both these separately to prevent excess claims.

24. IDA disbursement for the non-DLI components will also be based on SOEs for the incurred eligible expenditures. To facilitate disbursement for the non-DLI components, a segregated DA in U.S. dollars will be opened at Nepal Rastra Bank. The DA will be operated under the joint signatures of the designated officials of the DOCR. An advance not exceeding the threshold specified in the Disbursement Letter will be provided in the DA for these components. Direct payments to various payees or reimbursement to the Government Treasury can be made from the advance provided in the DA. The DA will be replenished through a Withdrawal Application to maintain the specified amount in the DA. In case of the non-DLI components, for larger amounts above the threshold specified in the Disbursement Letter, direct payments to various payees or direct reimbursement to the Government Treasury can also be requested directly from the World Bank.

#### *Procurement*

25. The procurement profile under the project includes, among other things, procurement of office equipment and furniture and contracting a human resource firm which will recruit DL-PIU consultants at 75 districts and MIS operators to support SUs, a firm for capacity-building and training activities, a firm for developing IEC materials for outreach, a quality control firm to conduct spot checks on the household data collection, a firm to conduct baseline beneficiary surveys, an independent third party for verification of achievement of the DLIs, individual

consultants to strengthen the capacity of the PMU, and selection of NGOs for social accountability for each of the 75 DL-PIUs.

26. Procurement for the project will be carried out in accordance with the World Bank's 'Guidelines: Procurement of Goods, Works, and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers' published by the World Bank in January 2011, revised July 2014, in the case of goods and non-consulting services; 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers' published by the Bank in January 2011, revised July 2014 in the case of consultants services; and the provisions stipulated in the Legal Agreement.

27. **Procurement arrangements.** Procurement will occur at both the central and district levels. Major procurement activities such as hiring of human resources and survey firms and procurement of tablets, laptops, routers/switches/cables, vehicles, and an Oracle license will be at the central level. The DOCR, headed by the director-general and supported by the PMU, will be responsible for providing fiduciary guidance and for overall procurement under the project. The 75 DL-PIUs will be responsible for decentralized procurement of small-value items including office equipment and furniture required for DL-PIUs and SUs and recruitments of SU field assistants. The DOCR will ensure that the DL-PIU consultants are provided basic procurement training and will ensure that all procurements are in line with the approved procurement plan. Additionally, the Project Operations Manual will have a section on procurement and contract management to guide the DL-PIUs in conducting and managing their procurement responsibilities. There will be no procurement below the district level.

28. **Monitoring and supervision of procurement.** The DOCR's administration and legal section director will be the main point of contact for the World Bank for procurement-related functions. The Administration and Legal Section will prepare a consolidated summary report of progress status as described in the Project Operations Manual.

29. **Procurement capacity.** The DOCR is a new department under MOFALD constituted in October 2014 and formally inaugurated in March 2015. It is headed by the director-general of the rank of a joint secretary and has three directors (rank of undersecretary), demographers, section officers, and IT and support staff. The director-general is the Chief of Office in the DOCR and is responsible for making, among others, all fiduciary decisions by himself/herself or by other officials as per the delegation of authority. The value of procurement of the survey firms alone is costed at the equivalent of US\$29 million approximately. Given (a) the complexities involved in IT procurement, (b) the high value of procurement of consulting services, (c) the high volume of small-value procurement decentralized to 75 DL-PIUs, and (d) a newly formed DOCR with limited human resources and exposure to World Bank procurement procedures, the DOCR's capacity to carry out project procurement to meet the PDO is assessed to be low. To strengthen procurement capacity at the central level and initiate critical procurement activities at the earliest, two procurement experts, including a senior one, will be hired by the DOCR at the earliest. The project is recommended to use Single- source Selection to hire procurement specialists for up to six months to expedite the project procurement. Simultaneously, the project will initiate selection of procurement consultants on a competitive basis for a longer period. The procurement specialists will report to the project manager (the DOCR director) and will work closely with other experts in

the PMU. They will also be responsible for transfer of skills and capacity building of DOCR staff involved in procurement.

30. **Use of e-procurement.** Currently, the Public Procurement Monitoring Office is maintaining two e-procurement systems. The first system is [bolpatra.gov.np](http://bolpatra.gov.np), which has been fully operational for several years and provides facility only up to the e-submission of the bids. Documents related to bids are scanned and uploaded in this system. The second one is called [bolpatra.gov.np/e-GP](http://bolpatra.gov.np/e-GP), which is a full-fledged online e-procurement system covering a full cycle of procurement including bid submission, evaluation, and contract management. Currently, this system is being used for certain government agencies as a pilot, but for real-life procurement. The project procurement will also use these e-procurement systems to the extent of applicability and facilities offered by the Public Procurement Monitoring Office.

31. **Procurement assessment.** The World Bank fiduciary team has assessed the fiduciary capacity of the project, mainly of the DOCR. Considering the high complexity and large volume of procurement and limited capacity of the newly-established implementing agency—DOCR—the overall residual integrated fiduciary risk rating for the project is determined as Substantial. The details of the assessment, including associated risks and corresponding mitigation measures proposed, are available in separate project files. Also, all the details related to the procurement part will be entered in the Procurement Risk Assessment Management System (P-RAMS) system under the operations portal. This risk rating is subject to change and depends on the project's procurement performance which will be reviewed during the World Bank's implementation support missions.

32. To mitigate the main risks associated with the limited procurement capacity of the implementing agencies, two procurement consultants will be contracted no later than one month after project effectiveness. Similarly, a dedicated procurement officer (civil servant) will be deputed to manage the whole procurement portfolio and supervise the consultants. In addition to this, the following capacity-building programs will also be conducted: (a) a project launching and orientation program in the beginning of the project for all key project staff including procurement, financial management, and others on the project essentials; (b) a special procurement and financial management orientation program for procurement and financial management staff and higher-level project officials; (c) customized procurement training for staff involved in the initiating, reviewing, and decision-making process of procurement with different modules; (d) use of the e-procurement systems to the extent possible; and (e) regular monitoring of decentralized procurement by the PMU and so on.

33. **Methods of procurement.** The following methods may be used for those contracts as specified in the Procurement Plan. For procurement of goods and non-consulting services: (a) International Competitive Bidding; (b) National Competitive Bidding in accordance with the provisions of the Public Procurement Act (and regulations made thereunder), subject to the additional provisions set out in the legal agreement; (c) Limited International Bidding; (d) Shopping; (e) procurement under Framework Agreements in accordance with procedures which have been found acceptable to the Association; (f) Direct Contracting; and (g) Procurement from United Nations agencies; (h) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the Association; and (i) community participation procedures acceptable to the Association. For consultants' services: (a) Quality- and Cost-Based Selection; (b) Quality-based Selection; (c) Selection under a Fixed Budget; (d) Least-

Cost Selection; (e) Selection Based on the Consultants' Qualifications; (f) Single-source Selection of Consulting Firms; (g) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (h) Single-source Procedures for the Selection of Individual Consultants. The thresholds applicable to these methods of procurement are indicated in the Procurement Plan. These thresholds will be modified as required.

34. **Procurement Plan.** The Government has prepared a Procurement Plan for the first 18 months of the project implementation. This will be closely monitored and updated as required. No procurement, regardless of value, will be carried out under the project unless it has been included in the Procurement Plan. Any change in the estimated cost of any contract will be promptly conveyed to the World Bank for clearance. No changes will be accepted after bidding documents have been made available to bidders. The Procurement Plan will be updated at least annually, or as is required, to reflect the actual project implementation needs and improvements in institutional capacity. The Procurement Plan and its updates, as approved by the World Bank, will be published on the website of the DOCR. STEP, the World Bank's new procurement planning tool, will be adopted for the project and the World Bank will provide training to the project staff to this effect.

35. **Review by the World Bank.** The Procurement Plan shall set forth those contracts that shall be subject to the World Bank's prior review. The justifications for all contracts to be procured on a Limited International Bidding, single-source, or Direct Contracting basis will be subject to prior review. In the case of the selection of consulting firms and individual consultants, the TOR will be prior reviewed regardless of post or prior review requirement as per the Procurement Plan.

36. **Post review.** All other contracts will be subjected to post review by the World Bank. The PMU will send a list of post review contracts as per the World Bank's request. The World Bank will select contracts in a sample of about 5–20 percent of the contracts based on the procurement capacity risk rating of the DOCR.

37. **Procurement complaints handling.** The World Bank recommends that a procurement handling protocol be established by the DOCR for efficient and speedy handling of procurement complaints received under the project.

38. **Frequency of procurement supervision.** The World Bank will normally carry out the implementation support mission on a semiannual basis. The frequency of the missions may be increased or decreased based on the procurement performance of the project.

#### *Environmental and Social (including safeguards)*

39. **Citizen engagement.** The project will rely extensively on partnerships with local civil society groups/organizations as well as on a variety of citizen engagement activities. The key to increasing coverage of both CR and social security is a good level of awareness and understanding among the population about the benefits of these programs and details on how to access them. Extensive communications and outreach campaigns will mobilize local-level actors including the 'social mobilizers' who are permanently stationed in each VDC to support MOFALD's Local Governance and Community Development Program. The project will also invest in strengthening MOFALD/DOCR's grievance redress mechanisms so that aggrieved stakeholders can channel their complaints and/or feedback through a properly designed system to elicit responses from the

Government. The data collection for the National Population Register will be outsourced to survey firms, but the DOCR/PMU will contract an independent third party, which may be a research-focused civil society organization, to carry out ongoing check on the data collection work by the firms. Finally, the DOCR will conduct three rounds of beneficiary feedback surveys throughout project implementation.

40. **Gender focus.** The project also places a strong emphasis on gender equity. There are also more women than men beneficiaries of the SSA by virtue of one of the five schemes particularly focused on women (single women and widows). But, gender-based social exclusion is a concern that also affects efforts to expand coverage of CR and SSA. The data on CRVS and SSA beneficiaries will therefore be disaggregated in the MIS, allowing the DOCR to better understand possible exclusion of men or women, and as mentioned in the description of Component 2, then better target its outreach to them more specifically, if required. The gender constraints linked to the registration of vital events, which may exist for women in particular, will also be addressed within the mandate of the DOCR, through training and awareness raising for registrars as well as the mobilization of community organizations, which could include women's groups.

41. The project involves a risk of exclusion of hitherto marginalized groups, including indigenous peoples, during the implementation of various subcomponents designed to strengthen SSA delivery and CR. Accordingly, the World Bank's OP 4.10 on indigenous peoples has been triggered mainly to ensure outreach, inclusion, effective targeting, and monitoring of hitherto marginalized groups, including indigenous peoples, during the implementation of various subcomponents.

42. The Government has prepared and disclosed a VCDP that details the steps that will be taken to mitigate against any risks of exclusion and also provides measures for enhancing project benefits. The draft VCDP was disclosed in-country on July 29, 2016 on the DOCR's website. A national consultation was also held on July 31, 2016. The final VCDP was submitted to the World Bank on September 26, 2016. The VCDP was then disclosed through the InfoShop on October 3, 2016. Specifically, the VCDP includes a working definition of vulnerable groups relevant to the project; review of analysis of relevant Nepali laws and World Bank's safeguards policies related to gender and vulnerable groups; analysis of the positive and negative impacts of the project on vulnerable groups; and a plan for mitigating risks, enhancing project beneficiaries, monitoring indicators, grievance redress mechanism, communication strategy, and budget for the implementation of the VCDP. The VCDP focuses on two areas of actions: enhanced and expanded communication activities and capacity building of the DOCR and the relevant local-level stakeholders including the DDC and service center staff. The VCDP is consistent with the World Bank's policy on indigenous peoples and the specific guidelines for Indigenous Peoples Plan.

43. Considering the nature and the activities of the project which is to strengthen the efficiency of the DOCR/local bodies through support and investments in hardware and software aspects of delivery of SSA and not to support any type of civil works including maintenance and rehabilitation, the project is classified as category 'C' project. Therefore, the project will have no significant, large-scale, or irreversible adverse environmental or social impact. There are no safeguard documents on environment which need to be complied with or prepared. As a proactive measure, the project will strive to adopt environment good practices such as waste management, purchase of energy-efficient goods and recyclable and reusable hardware goods, and so on to

reduce the environmental impacts of government operations and promote environmental stewardship by integrating environmental performance considerations in the procurement process.

#### *Monitoring and Evaluation*

44. The project's progress toward the PDO will be measured primarily with data from the following sources. First, the extent to which the National Population Register is built can be tracked by following completion of data uploads by the contracted survey firms and by checking the DOCR's MIS. The DOCR's contracts with the survey firms are expected to be based on performance criteria whereby the firms will be paid as they satisfactorily upload collected data onto the DOCR's MIS after multiple checks on the data completeness and quality, including by third-party verifications. The data collection work in each VDC/district is supposed to be monitored by the respective local bodies. A designated district official's 'sign-off' will be required before the enumeration team can exit the area upon completion of the data collection.

45. Second, the increases in the coverage of both CR and social security can be tracked on the DOCR's MIS which will capture all new registrants/enrollees as the DOCR moves away from the current paper records. Contrasting the data on the National Population Register and the data on actual CRs and SSA enrollments will allow the DOCR to develop a relatively accurate sense of the extent of remaining under-coverage in any given area where the population register has been established. Three rounds of beneficiary surveys will supplement the administrative data on the DOCR's MIS.

46. Third, progress toward achieving the specific milestones set for the rollout of e-payments will be tracked as DLIs. Verification of the DLI achievements will rely primarily on the payment reconciliation reports to be generated from the DOCR's MIS. The Government will also engage a third-party agent to verify the completion of the DLIs based on sample audits of the financial transaction records and interviews with a sample of beneficiaries.

47. Finally, progress in setting up the SUs and operating them as intended will be monitored by one or more of the third-party monitoring partners. World Bank field supervisions will include site visits to locations where SUs are supposed to be operating. The project will also conduct detailed process evaluations to review CR and social security enrollment processes involving the SUs and benefit payment processing by the contracted PSPs, with particular emphasis on citizen/beneficiary experiences.

#### *Role of Partners (if applicable)*

48. The project supports the DOCR's multiyear program to enhance its overall capability to meet its two core mandates. While asking the World Bank to lead this project, the Government also requested the World Bank to convene and coordinate other interested DPs in supporting specific aspects of the DOCR's institutional 'road map'. So far, the WHO and UNCDF have responded to this call and agreed to participate as partners. Both organizations will supplement the World Bank's financial and TA with parallel programs of in-kind TA outside the financing scope of this project. The WHO will focus its involvement in improving business processes for CR whereas UNCDF will support improvements in the DOCR's SSA payments, especially the rollout

of e-payments. Both agencies will provide direct in-kind TA to support the DOCR outside this project's financing scope.

## Annex 4: Implementation Support Plan

### Nepal: Strengthening Systems for Social Protection and Civil Registration Project

#### Strategy and Approach for Implementation Support

1. The World Bank will support the implementation of the Strengthening Systems for Social Protection and Civil Registration Project. Based on the risks identified and the mitigation measures proposed in the risk section, the World Bank team will provide the necessary support to facilitate achievement of the PDO linked to the results/outcomes defined in the results framework. The support will be focused on technical advice, fiduciary management, safeguards, and M&E. The World Bank will bring in expertise in the areas of CRVS, service delivery, allowance payment, institutional diagnostics and capacity building, M&E, and others as needed. The World Bank will provide training and guidance on procurement, financial management, and social and environmental aspects of project management. The World Bank team will provide support through regular communication and meetings (by the Country Office-based staff), regular supervision missions, TA in thematic areas, project document review, and routine communications.

#### Implementation Support Plan

2. The project is expected to become effective in the second half of FY2017 and have a five-year implementation period. The midterm review is tentatively scheduled in September 2019. During the first year of implementation, the project will have one project launch workshop nationally as well as in selected districts. During the second year, following the rollout of the key activities, the World Bank task team will conduct field visits to the districts where activities are being implemented. As the co-task team leader (TTL) as well as most of the World Bank component leads and technical consultants are based in Nepal, there will be regular meetings with the relevant PMU component managers during year one and two, to ensure appropriate technical support is provided to assist the DOCR to achieve timely implementation. From the third to the last year of implementation, the World Bank team will conduct an implementation support mission every six months. The World Bank team will emphasize that the PMU prepare progress reports and annual plans as a basis for the project implementation review. The technical missions will be organized between the regular implementation support missions, as needed.

3. The World Bank team will be led by the TTLs and consist of experts/specialists on relevant technical areas, fiduciary management, safeguards, and general operations management. The main focus and detailed skills required are summarized below:

- (a) **Procurement.** The World Bank team will ensure that procurement is conducted in accordance with the World Bank guidelines and procedures by: (i) providing training to the PMU and the DL-PIUs on the World Bank's procurement guidelines and procedures; (ii) reviewing procurement documents and providing timely feedback on procurement issues; and (iii) conducting field supervision/reviews at least twice a year to inspect the actual deployment and utilization of procured goods, services, or personnel.
- (b) **Financial management.** The World Bank team will provide support by (i) carrying out regular desk reviews and communications with borrowers; (ii) monitoring the

continuing adequacy of the financial management arrangements including accounting, auditing, budgeting, financial reporting, internal control, and funds flow; (iii) conducting site visits twice a year or as necessary; and (iv) following up on action plans agreed as well as on observations derived from reviews of audit reports, management letters, and interim financial reports.

- (c) **Safeguards.** The World Bank team will closely monitor the implementation of VCDP and other social aspects during project implementation to ensure compliance with the World Bank’s safeguard policies. The safeguard specialists will join the supervision missions and visit the project sites twice a year. The World Bank team will monitor the activities to ensure that there are no environmental impacts during the implementation.
- (d) **Technical support.** Key areas of TA for the project include, but are not limited to, the CRVS data collection and analysis, MIS enhancement, governance and OD, and M&E. The World Bank team will mobilize an expert team who will be part of the World Bank’s supervision missions as needed and provide timely guidance on technical issues. The WHO and UNCDF will also be providing direct in-kind technical support to the DOCR for project implementation.
- (e) **Monitoring and evaluation.** The World Bank team will organize training on M&E for the DOCR, PMU, and DL-PIUs in this regard. Further, through regular interaction with the DOCR and PMU, the World Bank team will emphasize regular updates of the indicators defined in the results framework.

**Skills Mix Required for Implementation Support**

<b>Skills Needed</b>	<b>Number of Staff Weeks</b>	<b>Number of Trips (for HQ-based staff)</b>	<b>Comments</b>
Task team leadership	16 SWs first 12 months, 12 SWs second 12 months, and then 8 SWs annually	At least twice a year	Co-TTL managed by HQ and Nepal country office
Social protection	16 SWs annually for first two years and then 8 SWs annually	At least twice a year	Nepal country office
Procurement	6 SWs first 12 months and then 4 SWs annually	Twice a year	Country office
Financial Management	6 SWs first 12 months and then 4 SWs annually	Twice a year	Country office
Safeguards (including gender and other social aspects)	4 SWs first 12 months and then 2 SWs annually	Twice a year	Country office
Operations management	6 SWs first 12 months and then 4 SWs annually	Twice a year	HQ/Nepal country office
MIS	6 SWs first 12 months, 5 SWs second 12 months, and then 4 SWs annually	At least twice a year	Consultant
E-payment	6 SWs first 12 months, 5 SWs second 12 months, and then 4 SWs annually	At least twice a year	Local consultant

<b>Skills Needed</b>	<b>Number of Staff Weeks</b>	<b>Number of Trips (for HQ-based staff)</b>	<b>Comments</b>
Institutional capacity building	6 SWs first 12 months, 5 SWs second 12 months, and then 4 SWs annually	At least twice a year	Local consultant
M&E	6 SWs first 12 months and then 4 SWs annually	Twice a year	Local consultant

*Note: SW = staff week.*

**Partners**

<b>Name</b>	<b>Institution/Country</b>	<b>Role</b>
WHO	Kathmandu office	Technical support on CR
UNCDF	Kathmandu office	Technical support on e-payments

## Annex 5: Economic Analysis

### Nepal: Strengthening Systems for Social Protection and Civil Registration Project

1. Given the nature of the project, the economic analysis combined a qualitative assessment and an estimation of fiscal savings. The former focused on assessing expected benefits of the National Population Register and a functioning CR system. The latter quantified expected fiscal savings from the introduction of e-payments and associated improvements such as a digital roster of SSA beneficiaries.
2. Two key challenges in the delivery of SSA are under coverage and leakage. A recent study conducted by the World Bank using the 2010–2011 Nepal Living Standards Survey III data estimated that a third of households with eligible beneficiaries in the old-age and widow pensions, two of the largest SSA schemes, did not receive benefits in the year of the survey.<sup>26</sup> Absence of electronic beneficiary registry and manual delivery of cash also exposes the system to leakages. These two issues are compounded by the absence of a comprehensive National Population Register that would help identify eligible beneficiaries. The CR system, which could serve as the entry and exit mechanism of individuals for the National Population Register, is underdeveloped and suffers from low coverage. The decentralized and paper-based recording of documents collected during registrations effectively precludes usage of the information to generate vital statistics for planning and other purposes.

#### National Population Register and its Impact on Improving Coverage

3. This project aims to improve the coverage of both CR and SSA by establishing the National Population Register that is regularly updated via a strengthened CR system. Transitioning to an electronic CR system that is linked to a population register and a comprehensive SSA beneficiary register linked to the MIS for the program would help improve the coverage of both CR and SSA program. The population register will serve as a basis for identifying the eligible population for SSA and those excluded from accessing CR services. Once the excluded are identified, the Government could conduct tailored communications and outreach programs to encourage them to register vital events (births, deaths, and so on) and/or enroll in applicable social security schemes (old-age, widows pensions, and so on).
4. The initial investment required to set up the National Population Register is high. The cost of data collection is estimated to be around US\$23.5 million.<sup>27</sup> The cost of the data collection via door-to-door visits in a census style is based on an estimated average cost of US\$4.50 per household for 64 districts.<sup>28</sup> The estimated cost is reasonable compared to the cost of similar

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<sup>26</sup> World Bank. 2015. *Improving Social Protection for the Vulnerable in Nepal*. GSPDR, South Asia.

<sup>27</sup> The data collection firms will be required to conduct a registration camp after the household enumeration is completed to capture unregistered vital events. Once the cost of running these camps is added, the estimated total cost of procuring these survey firms reaches US\$29 million.

<sup>28</sup> For the earthquake-affected 11 districts, the National Population Register will draw data from the earthquake housing census.

exercises in other countries.<sup>29</sup> Increase in the SSA coverage would also entail increased budgetary requirements. The total number of beneficiaries that the Government is expected to achieve by the last year of the project is estimated to be 2.9 million. At the current benefit level, this would cost approximately US\$413 million by the last year of project, compared to US\$164 million in FY2015–16. Given the Government’s past record in fully funding SSAs, despite occasional increases in benefit levels or expansion in coverage criteria, it is expected that the Government will fully meet the additional budget requirement with its own resources.<sup>30</sup>

5. Benefits that result from the investment in the National Population Register cannot be easily and fully quantified but are expected to be far-reaching and significant in changing beneficiaries’ life situations. A comprehensive National Population Register would be a valuable tool for responding to disaster situations, to which Nepal is highly vulnerable. The 2015 earthquakes caused heavy loss of life and assets (dwellings, livestock), leading to an estimated additional 2.5–3.5 percent of the population falling back into poverty. In this case, the lack of a population register prevented the Government from developing an accurate count of affected population and hindered immediate relief and recovery efforts. Key figures like the number of households and individuals by age group and location could have enhanced emergency planning and speedy provision of relief. For example, a grant to all children under five in the affected areas by the United Nations Children’s Fund required them to first conduct a survey to identify the beneficiaries, which added cost and time delays to the implementation. Many other government and nongovernment agencies were forced to conduct their own beneficiary identification surveys.

6. A regularly updated population register with unique IDs will also support consolidation of SP programs across the Government. Such a system would allow for integration of beneficiary databases among various SP programs and ministries administering them. This in turn would allow for cross-program de-duplication of beneficiaries and some level of coordination among the fragmented SP programs.

7. Establishing a National Population Register will be accompanied by investments in strengthening the CR system. A robust CR system will contribute to improved governance and larger development outcomes. Birth registration provides individuals with legal proof of identity, age, nationality, and parentage. Furthermore, an effective CR system enables access to a range of essential services; for example, a birth certificate is required for accessing child grant and enrolling a child in school. Currently, Dalit children and those living in Karnali under five years of age are eligible for the child grant, which is intended to help improve the nutrition of young children who are considered socially and/or economically vulnerable.<sup>31</sup> Additionally, a fully functioning CR system would be instrumental for planners and decision makers in the education sector to estimate the potential size of the school-going population; measure children’s access to education; provide information on geographical distribution of the population to plan location of schools, teacher deployment, and so on; and increase overall efficiency of the education system.

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<sup>29</sup> According to a Health Metrics Network study which looked at seven countries, the cost of census ranges from US\$0.23–2 per person or US\$1.15–10 per household, assuming a household size of five. Health Metrics Network. 2012. *The Case for Investment in CRVS Systems*. November 1, 2012.

<sup>30</sup> The SSA budget doubled from US\$164 million to US\$326 million.

<sup>31</sup> Child grant in Karnali and for Dalit children is assumed to be 12.52 percent of the total population under five, based on Nepal Living Standards Survey III.

8. Strengthened CR would provide robust and continuous data on vital statistics. Vital statistics data play a fundamental role in monitoring and planning public health outcomes as well as a broad range of outcomes in other policy domains. It helps improve the targeting of services and increasing the efficiency of resource allocation. Generating reliable statistics on mortality levels and trends, and on causes of death, enables not only the identification of those groups at most risk, but is the key to evaluating the responses mounted to emerging health threats.

9. The World Bank's engagement in CR is relevant given the World Bank's commitment to achieving the SDGs. SDG 16.9 target urges states to provide legal identity for all, including birth registration by 2030. In 2014, the World Bank Group launched its Identification for Development program to address SDG 16.9 in a more integrated way. Providing robust means of identification will fundamentally support the achievement of at least 10 other SDGs as well.

### **Impact of SSA Modernization on Improving Coverage and Limiting Leakages**

10. To address the issue of high under-coverage and to curb leakages to improve efficiency and accountability in the delivery system of SSA, this project is supporting the transition to e-payments and improving other aspects of the SSA delivery. The current mode of manual delivery of SSA incurs costs in mainly two ways. First is the cost of delivering the SSA benefits through inefficient manual procedures. These costs are substantial even though they are not fully recognized in the Government's accounting practice, which gives the impression that SSA delivery through the existing local body structure is economical. These costs consist of staff costs due to time spent in delivering the SSA benefits and payment reconciliation and non-staff costs (office space, travel, office equipment, electricity, and stationery). The second type of cost, which also goes undetected, arises from leakages due to the inclusion of nonexistent beneficiaries in the beneficiary roster and the current system's inability to ensure that right persons receive right payments at the right time.

11. To make these 'hidden costs' explicit and demonstrate potential savings from introducing e-payments, the DOCR/MOFALD, UNCDF, and the World Bank conducted a detailed exercise to compare the costs and benefits of delivering SSA electronically via a contracted PSP with the traditional manual payment method through local bodies. The study used the activity-based costing method to impute financial costs of staff time dedicated to providing the SSA benefit payment at each level of the SSA delivery chain in a sample of six districts. The staff costs were computed for one VDC, the DDC, and the Social Security Section at MOFALD (now reorganized as the DOCR) for a year by averaging the costs in the sample districts. This estimate was then multiplied by the total number of VDCs and municipalities in the country. The sample covered districts with different geographic characteristics (mountains, hills, and *terai*) as well as a mix of payment methods used, including two districts where MOFALD had piloted e-payment through BLB agents contracted via a PSP.

12. The results show that the imputed transaction cost of the manual method is about three times higher than that associated with e-payments. The time saved translates to a total saving for the GoN per year of approximately US\$2.8 million in 25 districts and US\$8.5 million in 75 districts.<sup>32</sup> A switch to e-payment method will also ensure that the DOCR/MOFALD, the DDCs,

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<sup>32</sup> The assumption is that the average costs for VDCs and DDCs will hold for other districts as the pilot districts.

and the VDCs can begin to focus on their respective core activities. These estimated savings do not necessarily imply that the Government will be able to reduce budgetary expenditures by the corresponding amounts because these costs reflect portions of the fixed cost of maintaining the minimum level of staffing at the VDCs and DDCs. However, they do indicate the extent of opportunity cost incurred and the potential that, with efficiency gains expected from the rollout of e-payments, these local officials who are reportedly overburdened with numerous ‘unfunded’ mandates could devote their time to other roles and responsibilities that cannot be easily outsourced.

**Table 5.1. Total Annual Cost in NPR for Delivery of SSA**

	1 VDC	1 DDC	MOFALD	Subtotal for all VDCs	Subtotal for 75 DDCs	Grand Total
	Millions					
<b>Manual payment</b>	371,085	524,706	1.64	1,286.55	39.35	1,327.54
<b>e-payment</b>	125,571	507,808	1.64	435.35	38.10	475.09

Source: UNCDF and World Bank (2015).

13. Another cost incurred by the Government in SSA delivery is in the form of leakage of funds due to inclusion errors. Under the current method of delivery, management of beneficiary data at every step is handled manually. This process is prone to errors and data inaccuracy. This has resulted in a significant number of duplicate and ghost beneficiaries and corresponding over-allocation of funds and undetected leakage of funds.

14. There are several ways in which the beneficiary roster could be unduly inflated. It could contain names of those who no longer exist to claim the benefit. This in turn could be either because the individuals are deceased or have moved out of the area. Some of these could potentially be ‘ghost’ beneficiaries. The roster could also contain some ineligible beneficiaries. Finally, there can be multiple entries of the same individual simply due to administrative errors that are common with the use of manual record keeping. The use of e-payments procedures allows the Government to weed out these individuals on the Government’s beneficiary list through a two-step process of control. First, the digitization of beneficiary data in the MIS and subsequent de-duplication of the roster removes duplicate entries. Second, at the time of opening a beneficiary account, the PSPs verify each beneficiary’s identity using biometric data. The three e-payment pilot districts saw a 10–12 percent reduction in the number of beneficiaries on the roster as a consequence of the digitization and de-duplication of manual records and a further 12–13 percent reduction due to elimination of ghosts at the time of account opening. In total, the two-step process led to the elimination of an estimated 22–25 percent of ineligible/unaccounted for beneficiaries.<sup>33</sup>

15. Given the small and non-representative sample comprising the three pilot districts, the figure could have a large margin of error. Allowing for a margin of error of 25 percent, the ‘savings’ rate was conservatively assumed at 17 percent to estimate expected savings from rolling out e-payments to the rest of the country (of which 8 percent is attributed to the reduction in

<sup>33</sup> It is necessary to note that the reduction in the number of beneficiaries could have been in part also due to some eligible beneficiaries missing enrollment by the PSP and the limited time frame of the pilot, as well as some natural attrition in beneficiary numbers.

beneficiaries due to digitization and a further 9 percent reduction due to bank enrollments). Importantly, this is a recurrent saving to the budget because an ineligible/ghost beneficiary is not a one-off but a recurrent cost.

16. In addition to the budget saved due to elimination of ineligible/duplicate beneficiaries, the existence of an updated National Population Register precludes the need for digitizing beneficiary lists from manual records in the future. The list of eligible beneficiaries for SSA can be generated automatically from the National Population Register. At an estimated cost of digitization of US\$0.30 per beneficiary record, the total one-time cost for digitizing over two million beneficiaries would be over US\$6 million.

17. The savings achieved due to the establishment of the National Population Register and the rollout of e-payments include the avoided cost of digitization, reduction in the number of beneficiaries due to digitization and de-duplication of manual records, and a further elimination of ghost beneficiaries at the time of account opening. Establishment of the National Population Register, digitization of the beneficiary database, and the transition to e-payments is being achieved gradually and so the savings would be realized over a period of time. Approximately a third of the districts have already digitized the beneficiary database. This project will support digitization of the database in the remaining districts through the National Population Register and support the switch to e-payments in about 25 districts. Allowing for a phased implementation of the census in 64 districts and the transition to e-payments in 25 districts over the five-year project period, the net present value of savings due to the project is estimated to be around US\$51 million at a discount rate of 10 percent (Table 5.2).

18. Once routinized, e-payments will also improve predictability, timeliness, and accountability in benefit payments as well as increase people's access to financial services and encourage/establish saving habits.

19. International experiences in switching to an alternative method of payments have been largely positive. During the 1990s, the Mexican Government took an initiative of centralizing and digitizing all Government payments-federal salaries, pensions, and cash transfers. The Mexican Government is currently saving an estimated US\$1.27 billion per year, or 3.3 percent of its total expenditure on wages, pensions, and social transfers.<sup>34</sup> Similarly, the Government of India launched the Direct Benefit Transfer program to transform service delivery of the Mahatma Gandhi National Rural Employment Guarantee scheme by transferring benefits directly into beneficiaries' bank accounts. In Madhya Pradesh (a state in central India), after digitization of beneficiary data and account opening, the Government found 5.3 million (44.1 percent) fake/ghost beneficiaries out of the total of 12 million beneficiaries in the state.<sup>35</sup>

20. The improvements in CRVS and delivery of SSA will be supplemented by organizational capacity building at both the central and the local levels, in terms of human resources, ICT infrastructure, and technical capacity. Required investments range from physical setup and human

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<sup>34</sup> Goodwin-Groen, Ruth. 2015. "Digitization of Payments in Mexico Saves Billions," *Public Financial Management* (blog), February 9. <http://blog-pfm.imf.org/pfmblog/2015/02/digitization-of-payments-in-mexico-saves-billions.html>

<sup>35</sup> Arora, Chandna C. 2013. "MGNREGA in Madhya Pradesh: A tale of 53 lakh ghost beneficiaries," *First Post*, April 11. <http://www.firstpost.com/india/mgnrega-in-madhya-pradesh-a-tale-of-53-lakh-ghost-beneficiaries-694800.html>

capacity development including training of local staff, operational guidelines, improved business process, and an OD study.

### **Justifications for Public Sector Involvement and Fiscal Implications**

21. Given that CRVS and SSA are public goods and core mandates of the DOCR, public financing is considered appropriate in this area. Without Government intervention in systems strengthening, it is unlikely that the current status of CR and SSA will improve. The Government is mobilizing the private sector as well as civil society organizations in the delivery of SSA.

22. The World Bank has supported Nepal's SP systems strengthening agenda for the past several years through recently closed projects. The World Bank continues to engage in this area with an ongoing Safety Net System Building TA.<sup>36</sup> The World Bank offers in-depth technical knowledge and expertise in the areas of CR and SP. Furthermore, this proposed operation builds upon World Bank-supported pilot projects and analytical work and a long policy dialogue aiming to support the GoN to develop a more efficient and accountable SP system.

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<sup>36</sup> Funded by the World Bank-executed Rapid Social Response Trust Fund.

**Table 5.2. Net Present Value of Savings due to Project Intervention**

	<b>Baseline</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Total</b>	
SSA beneficiary per district (annual growth rate of 2.5%)	30,100	30,800	31,600	32,400	33,200	34,000	—	
E-payment rollout districts	—	—	5	5	5	10	25	
Additional districts digitizing SSA beneficiary list	—	—	14	10	25	0	49	
Districts with National Population Register established	—	—	12	26	26	0	64*	
<b>Savings (in NPR)</b>								
	<b>Baseline</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Total (NPR)</b>	<b>Total (US\$)</b>
Avoided cost of digitization (NPR 30/beneficiary)	0	0	13,296,700	9,735,000	24,946,100	0	47,977,800	452,620.75
8% reduction of beneficiaries due to digitization	0	0	489,813,300	860,672,000	1,801,135,400	1,846,163,800	4,997,784,500	47,148,910.38
9% reduction due to e-payments	0	0	196,800,000	605,160,000	1,033,815,000	1,059,660,300	2,895,435,300	27,315,427.36
<b>Total savings</b>	<b>0</b>	<b>0</b>	<b>699,910,000</b>	<b>1,475,567,000</b>	<b>2,859,896,500</b>	<b>2,905,824,100</b>	<b>7,941,197,600</b>	<b>74,916,958.49</b>
Present Value Total Savings	0	0	578,438,000	1,108,615,300	1,953,347,700	1,804,288,100	5,444,689,100	51,364,991.51
<b>Net Present Value Total Savings</b>	<b>0</b>	<b>0</b>	—	—	—	—	<b>5,444,689,100</b>	<b>51,364,992</b>

\* The primary cost of developing the National Population Register is the cost of household data collection. However, for 11 of the districts, the relevant data were collected through the housing damage assessment survey conducted in the wake of the earthquakes in 2015. Hence this project will cover the cost of additional data collection in 64 districts.

## **Annex 6: Payment Pilots**

### **NEPAL: Strengthening Systems for Social Protection and Civil Registration Project**

#### **Background**

1. E-payments in Nepal is still in a nascent stage, particularly in terms of G2P payments. It is constrained by limited infrastructure such as of roads, mobile network, and electricity connections. However, in the last few years, a few Government programs, including civil service pensions and some scholarships, have begun to use deposits into bank accounts as a method of payment delivery. Some private sector banks have also been exploring electronic and mobile payments for their customers.

2. Between 2010 and 2015, MOFALD implemented two pilots of e-payment systems. These pilots followed a policy decision, reflected in the budget speech of 2013 and 2014, which was motivated by the need to get the right amount of money, at the right time, to the right person. Outside of these pilots, that is, still in almost all of Nepal, the SSAs are physically delivered in cash by the VDC secretary. In most municipalities, SSAs have been distributed through bank branches since 2013.

#### **Piloting Electronic Payments**

3. Under the World Bank-financed SSNP, MOFALD piloted e-payments for SSAs in three districts. The project design included the development of an MIS for the SSA, rollout of the MIS in 12 districts, followed by piloting of e-payments of SSA in 6 of those 12 districts. Unfortunately, one of the two procurement packages (each for a cluster of three districts) was not completed and thus the pilot was carried out only in one cluster of three districts (Surkhet, Baglung, and Banke).

4. Citizen's Bank was selected as the PSP by MOFALD for this task. The PSP established a network of BLB points with a point-of-sale device for transactions. The PSP was responsible for ensuring that there was at least one BLB agent for every 800 beneficiaries. Around 80,000 beneficiaries received their SSA payments through this pilot. The selected PSP made three SSA payments using BLB agents and biometrics (fingerprints) for verification by the end of September 30, 2014. These three SSA payments included two payments for FY 2070/71 (2013/2014) and one payment for FY71/72 (2014/2015). The project closed in September 2014.

5. According to the SSNP payments process evaluation, stakeholders including beneficiaries found the new system of delivery using branchless agents as promising. At the DDC level, officials were hoping that the pilot would pave the way for the introduction of banking services in the three pilot districts. VDC secretaries unanimously voiced feeling relieved not having to take the risk of carrying money on their own to distribute allowances. They also noted that they would have more time to devote toward other developmental tasks at the local level. For some beneficiaries, the new system brings promise of receiving SSA on time. Yet, it is not surprising that the payment pilot experienced a number of implementation challenges. And as such the process evaluation report recommends (a) policy-level clarity of eligibility criteria and the rollout of this information across the VDCs; (b) improvement in beneficiary enrollment and list management; (c) improved management of the PSP; (d) development of a detailed payments manual; and (e) better orientation of the agents. It also recommends improvements in communications and grievance redress.

6. In a second pilot, HDSP Pilot, supported by the World Bank and UNCDF, MOFALD piloted e-payments of poverty-targeted scholarships in two districts (Kanchanpur and Dadeldhura). In this case, the Siddhartha Bank was selected as the PSP under a UNCDF contract. This contract included ensuring the presence of one bank agent in each VDC as well as some exposure of the beneficiaries to financial literacy. There were 17,000 beneficiaries under this pilot. In this pilot, households who fell below cut-off poverty scores and had children of 6–15 years attending public schools from classes 1–8 in Dadeldhura and Kanchanpur districts received educational grants. The payments of NPR 430 were delivered three times a year before the commencement of school trimesters for the annual total benefit of NPR 1,290. Preparatory work for this payment pilot commenced in 2012 and the first payment to beneficiaries was made in May 2014.

7. According to the process evaluation of this pilot, the BLB pilot was well implemented: the selected PSP had a clearly outlined and detailed implementation plan; there was good coordination between MOFALD, UNCDF, and Siddhartha Bank in addressing local-level challenges; there was a good working relationship between the PSP staff and the HDSP TA team at the district level; and payments were made in a transparent manner. In addition, beneficiaries were appreciative of the Government's effort to help them educate their children and most of them were planning to use the money toward buying school uniforms, textbooks, and other educational materials. Key recommendations for future rollout included (a) establishing a functional mechanism of collection and grievance redress; (b) tweaking the MIS to allow better alignment with the bank's system; (c) enhancing the ownership of key local players at the district level; and (d) improving communications and payment camp processes.

8. Unfortunately, neither contract was extended the following year, and the payments pilot was discontinued. In the case of HDSP, the pilot itself came to a close given MOFALD's clear stance that neither scholarships nor poverty targeting was their sole mandate. In the case of SSNP, while MOFALD and Citizen's Bank underwent a negotiation for extension of the contract, this was not successful.

9. UNCDF and the World Bank have continued collaboration to ensure policies are based on robust analytics and evidence as well as broad consensus among key stakeholders. As such, MOFALD, with support from UNCDF and the World Bank, organized a workshop to reflect on SP payments in Bangladesh and Pakistan as well as in Nepal itself. The workshop brought together the Government, private sector, and DPs to discuss how to move forward. As a result, a committee including private sector banks, Nepal Rastra Bank (central bank), the MOF, and MOFALD was set up to ensure collaboration in making the shift to e-payments for SSA. The World Bank and UNCDF also funded an activity-based costing of manual and electronic payment methods to better understand the costs involved in these different modes of SSA payments and propose pricing range/pricing options to ensure that e-payments can be financially sustainable for both the government and PSPs. Analysis to date suggests that the shift to e-payments has reduced the number of ineligible/unaccounted for beneficiaries by about 10–15 percent.

### **Recent Plans and Expansion of E-payments Systems**

10. Building on these experiences and learning, the Emergency Housing Reconstruction Project, financed by the World Bank, U.S. Agency for International Development, and Japan

International Cooperation Agency, uses banks as payment agents for the cash transfers for housing reconstruction. The Emergency Housing Reconstruction Project payment system builds on lessons learned by MOFALD and uses the same MIS for managing beneficiary and payment information.

11. MOFALD, through the DOCR, has committed to implement e-payments in at least five districts in the next fiscal year and to expand it to a total of 25 districts in the next five years. This commitment also forms the core of the DOCR's three-year road map. To take this forward, the DOCR is preparing procurement documents to continue the e-payments in the five pilot districts. They are also preparing the TOR for a team to assist them with the development of a payments strategy, which is intended to guide their payments modalities, decisions, and transition to e-payments nationally. The DOCR has also begun discussions with Nepal Rastra Bank and the MOF about possible pricing options. The World Bank and UNCDF are providing TA for these tasks with funding from the Rapid Social Response Trust Fund.

## **Annex 7: Concept Note for Service Units**

### **NEPAL: Strengthening Systems for Social Protection and Civil Registration Project**

#### **Background**

1. The strategic road map of the DOCR guides the department's planned transition from the current paper-based method to integrated MIS-based CR and SSA service delivery and data management. The current manual method limits our capacity to create and manage a national civil registry as well as a digitized SSA registry. Additionally, the current infrastructure limitations have led to delays and inconsistencies in reporting from local bodies and also limits the ability of a centralized oversight mechanism to monitor and correct problems faced in the delivery of these services by local bodies. Local bodies that provide these services to the population generally have limited infrastructure and human resources that are necessary to function in an online and digital ecosystem. Given the difficulty in developing physical and human capacity at all local bodies, together with MOFALD, the DOCR has proposed a concept of developing the capacity of selected local bodies to function as SUs to provide online and MIS-based CR and SSA services for a cluster of surrounding local bodies.

2. The objective of this concept note is to define and outline the key responsibilities and operational procedures for these SUs, their institutional relationship with local bodies, and the process and criteria for their selection.

#### **Definition**

3. An SU is an operational unit established in a selected VDC or municipality ward endowed with the human and physical capacity to implement online MIS-based CR and SSA service delivery to its own constituency (as in the case of municipalities) or for a cluster of constituencies (VDCs). A municipality office or municipal ward office which has been provided additional physical and human resources support will also be recognized as an SU. This concept note will focus on SUs located in VDCs.

#### **Service Unit Composition**

4. The SU will be endowed with a minimum of one position that will serve as the SU operator. Depending on the operational requirements, the SUs may also be staffed with an additional position (field assistant) to support the field communication and document collection activities among the cluster of local bodies served by the SU.

5. The SU operator will be responsible for the following activities:

- Perform regular data entry, update and perform all transactions related to CR and SSA programs through online MIS platform.
- Communicate and coordinate regularly with the VDCs or other local body units in the cluster.
- Administratively manage the SU.

- Coordinate the activities of the field assistant.
  - Support communication and outreach activities.
  - Report to the central DOCR MIS team and/or DL-PIU consultants in case of any MIS/IT-related issues.
6. Similarly, the field assistant will be responsible for carrying out the following activities:
- Collect CR and SSA applications and other documents for the purpose of digitization in the SU.
  - Communication liaison between relevant local-level civic organizations, VDC and/or other local body personnel, and the SU (for SSA enrollment, CR, collecting grievances and so on).
  - Provide orientation to relevant local civic organizations and local officials on civic engagement activities and outreach support.
  - Conduct communication and outreach activities.

### **Roles and Responsibilities**

7. Initially the SU will specifically focus on CR and SSA delivery functions of local bodies.<sup>37</sup> Specific roles will be as follows:

#### *Civil Registration*

- The SU will provide front-end CR service delivery to the residents of the host local body.
- As such, it may directly accept CR applications and supporting documents from applicants residing in the same VDC or municipal ward where the SU is located. Designated staff at the local body office will conduct verification of the documents. The SU operator, using MIS, will print out the certificate after entry of all information into the MIS and provide it to the designated registrar to sign and distribute the certificate to the applicant.
- For the other VDCs in the cluster, the SU will receive the applications and supporting documentations through the VDC secretary or other designated personnel, enter the information into the MIS, and print out certificates as requested. The corresponding VDC staff will be responsible for conducting verification of the documents. The field assistant where available, may facilitate the delivery of printed certificates back to the respective VDC for distribution.

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<sup>37</sup> These functions may increase in the future to include other relevant government services.

- The SU may also be required to refer back to older manual registers for previously issued CR certificates to either verify information of applicants or reissue lost/damaged certificates.

#### *SSA Program*

- The SU will be responsible for documenting and digitizing all applications received for the SSA program from all local bodies in the cluster.
- The SU will also be responsible for entering the final approved list of new and renewed beneficiaries approved by the corresponding LSSCC as well as any relevant deliberation on eligibility of received applications. Information on both enrolled and eligible-unenrolled beneficiaries and applicants will be entered into the MIS.
- The SU will also be responsible for updating the list of beneficiaries based on new information received through the CR process and inform the respective VDC and/or ward secretaries of the changes. The updating of the list may happen at the end of the fiscal year and also after each payment cycle.
- The SU will also be responsible for digitizing the SSA payment reconciliation as well as any documentation (LSSCC minutes and so on) confirming the payments and non-payments for all VDCs in the cluster.

#### *Grievance/Case Management*

- The SU will also serve as the collection point for all grievances related to CR or SSA filed in all collection points in the cluster. The SUs will coordinate with other local bodies and local civic organizations in the cluster to collect grievances.
- The collected grievances will be entered into the MIS and tracked for response and/or resolution by the concerned agency.
- The SU may also follow up with the concerned VDC or other offices regarding the progress on responding to the grievances.

#### *Record Keeping*

- The SU will be responsible for proper filing and digitization of all documents received from the VDCs in the cluster for both CR and SSA.

#### *Communication/Outreach*

- The SU may also be required to support VDC to conduct communication and outreach with other local networks and institutions to increase coverage of CR and eligible SSA beneficiaries and also disseminate information regarding grievance processes for both.

### *Repair/Maintenance of Equipment*

- The SU will be responsible for ensuring timely repair and maintenance of all equipment at the center. The SU may coordinate with the DDC for repair/maintenance.

### **Institutional Arrangements**

8. The DOCR initially plans to set up approximately 1,000 SUs nationwide. Under the existing institutional arrangement, the SUs will report to the DDC, which will be responsible for oversight and monitoring of the performance of each of these units within its district. While the DOCR is seeking World Bank financing for the initial setup of the SUs, the Government will continue to fund their operations beyond the closing of the World Bank-financed project, either as deconcentrated units of the federal government or devolved to elected local governments.

9. The implementation of the federal structure as provisioned in the Constitution of Nepal (CoN) will further redefine the roles of local, state, and federal governments. The CoN has defined CR and SSA as concurrent functions of all three levels of the Government. The existing institutional framework guiding these two mandates currently served at the center by the DOCR will have to be revised to take this definition into consideration and define specific responsibilities of the different levels of the Government. The institutional position of the SU will be redefined by future changes in policies, not only in relation to CR and SSA but also of the overall framework of governance in the new federal republic of Nepal.

### **Implementation Scheme**

10. The DOCR, in coordination with and approval from MOFALD, will develop a set of criteria and methodology to be used while clustering and selecting SU locations. A preliminary list of criteria for SU selection and clustering may be as follows:

- Existing infrastructure (office space, electricity, Internet)
- Demand for CR and SSA in the cluster (population, beneficiaries, and so on)
- Geographic centrality to the cluster of local bodies
- Distance from district headquarters
- Geography/terrain
- Market/economic development potential
- Historical continuity in the clustered VDCs (demographic and so on)

### **Selection Process**

11. The DOCR is implementing a ‘VDC Resource Survey’ for all VDCs in the country to collect information about the existing infrastructure and capacity of VDC offices and their

centrality to surrounding VDCs. The data collected through this survey, along with other geographic and demographic data available through secondary sources, will be used to identify optimal cluster of VDCs and select SU locations. The DOCR will collaborate with MOFALD to review and approve the recommendations from the analysis. MOFALD may share the recommendations with the concerned DDCs for review, recommendation, and final approval.

## **Note**

12. The GoN has formed a high-level LLRC to recommend the number, boundaries, and possible names of restructured village councils, municipal councils, and special/protected/autonomous areas as per Article 295, Sub-Article 3 of the CoN. As per the TOR of the LLRC, the restructuring of current local bodies must adhere to goals of “increasing administrative capacity, developing local bodies as viable units for local governance, to create foundations for inclusive self-governance, and effective implementation of constitutionally given rights and responsibilities.” The LLRC has recently fixed the total number of local bodies (including village and municipal councils) in all 75 districts to 565, with a specific number of local bodies prescribed for each district based on the population of the district and also geography and population density in some cases. District- and local-level discussions on exact restructuring of the existing VDCs and municipalities are under way, with final recommendations from the LLRC expected soon.

13. The DOCR will work together with MOFALD to ensure alignment of the SU selection process with that of the ongoing restructuring being conducted by the LLRC. The restructured local bodies will on average comprise around 4–6 existing VDCs, with the existing VDC offices not selected as the headquarters of the new local body continuing to function as ‘ward (integrated) service centers’. In case the SU location is not selected as the center for the restructured local body (village/municipal council), the SU could continue to serve as a ‘strengthened’ ward office of the restructured and larger local body. In case there is more than one SU in a local body, the newly demarcated wards of the local body will be clustered around the SUs. The exact number and location of the SUs will be determined during the project period once more political- and policy-level clarity emerges on the implementation of the federal state structure.