Brokering urban development in Nepal

Lessons for service delivery and institutional change

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Acknowledgements

Contents

Acronyms

ADB	Asian Development Bank
AEPC	Alternative Energy Promotion Centre
ASI	Adam Smith International
CIG	Centre for Inclusive Growth
DFID	UK Department for International Development
EO	Executive Officer
EOI	Expression of Interest
GDP	Gross Domestic Product
GoN	Government of Nepal
ILO	International Labour Organization
MCPM	Minimum Conditions and Performance Monitoring
MoF	Ministry of Finance
MoFALD	Ministry of Federal Affairs and Local Development
MoSTE	Ministry of Science and Technology
MoU	Memorandum of Understanding
NGO	Non-Governmental Organisation
ODI	Overseas Development Institute
PCCI	Pokhara Chamber of Commerce and Industry
PPP	Public–Private Partnership
PSMCO	Pokhara Sub-Metropolitan City Office
PTC	Pokhara Tourism Council
SSL	Solar Street Lighting
TA	Technical Assistance
UK	United Kingdom
WM	Waste Management
WTTC	World Travel and Tourism Council

Executive Summary

This paper documents the experience of the Centre for Inclusive Growth's (CIG's) 'Public–Private Partnership (PPP) Modalities in Tourism' policy project, as well as emerging lessons for policy and practice in Nepal and elsewhere. The CIG is a project funded by the UK Department for International Development (DFID) that aims to facilitate practical solutions for inclusive growth in Nepal, through brokered technical assistance (TA). It began in December 2010 and will run until December 2014.

Limited and low-quality provision of infrastructure is frequently highlighted as a binding constraint to inclusive growth in Nepal. The government of Nepal faces major challenges in filling this gap, typically failing to mobilise at least 20% of its annual capital budget. Of the money that is spent, not enough is in urban areas: despite 62% of the country's gross domestic product (GDP) being generated in cities, there is in fact a bias against public investment in these areas. There are also challenges for the responsiveness of local government, and in ensuring public spending delivers goods and services of sufficient quality. These problems are particularly crucial in the development of tourism, where low management capacity and under-provision of local public goods in key tourist hubs represent a major constraint to sector development.

This project sought to address these problems by building a partnership between the private sector and government in Pokhara, securing tangible benefits through collaborative projects and institutionalising the approach locally and nationally. The CIG provided no funding for partnership projects, instead providing facilitation and TA, playing the role of neutral 'broker', helping local actors come together and agree on collective action, and build links between central and local actors.

The project experience, elaborated here, shows that progress was not straightforward, but there was eventually some notable success. The partnership undertook a joint solar street lighting (SSL) project, contributing to the security of locals and tourists in a country that experiences up to 18 hours per day of power cuts, and in the process mobilising and effectively overseeing the spend of around NPR 22 million of funding from local and national government and the private sector. The resulting modality has broader applicability than just for tourism development. The PPP enabled local government to better draw on the available local capacities and resources, and ensured service delivery was more accountable and responsive to local needs. The partnership continues to strengthen, with larger resource commitments to future joint projects as well as institutionalised functions for partnership coordination and assistance.

In addition, the experience is quickly being scaled up nationwide, leveraging many times the project budget. Success in Pokhara very quickly precipitated demand for SSL from other municipalities, with work underway to build 10 times the number of lights installed in Pokhara around the country, with 8 times the level of municipal funding mobilised and a rapidly increasing central government budget allocation. This is being used as a vehicle to scale up the partnership approach, which will now be replicated in a number of other municipalities through the government body responsible for solar energy.

The project may be seen by some as relatively narrow, focusing too much on the 'nitty gritty' and without sufficiently large-scale ambition for

policy and reform. The authors would suggest that readers focus on the broader evidence of impact available for approaches to reform that are built around grand plans and formal policy change (e.g. Andrews, 2013). These show consistently disappointing outcomes and a failure to have significant impact other than changes in policies and plans on paper. In a context such as Nepal, it is quite common for even very well-funded programmes to leave behind no sustained impact after donor funding finishes, and a large number of initiatives fail due to a lack of ownership and inability to adequately draw on available capacities. These challenges are particularly acute at local government level, and there is a major knowledge gap on how to implement government policy outside Kathmandu.

This project therefore has real value in building a model proven to have tangible results, shown to function and sustain itself in the absence of external funding, and one which is actively in demand from Nepali stakeholders. The PPP model is an approach that can be replicated elsewhere in the country, and factors contributing to that success which could be replicated elsewhere to facilitate local leadership on economic development include:

- Working with the grain of informal systems

- Unlocking local potential through externally brokered collective action

- Using tangible outputs as a springboard for institutional change

- Harnessing central-local linkages and the 'copycat' mentality

The experience has also highlighted areas of policy and programming where there may be considerable potential for pursuing locally-owned reforms that could achieve broad, long-lasting results. Suggestions are provided for policy change, as well as recommendations on a programme that would capitalise on these dynamics to improve the provision of quality local infrastructure and services nationwide, which should include components on technical assistance, funding, facilitation and policy.

The project has broader lessons for international development. It has highlighted the need for work on urban development, and urban service delivery, to be approached with an understanding of political economy factors, and it has demonstrated the potential for urban programmes that include a focus on institutional change. In particular, there seem to be reasons to recommend further trialling of a brokering approach to solving urban problems in Nepal and elsewhere, working to facilitate collective action at the local level in a way that is linked to national reform efforts.

Crucial to the success of this project has been the flexible, heuristic model of the CIG programme. While the project was designed in response to the practical realities of the problem in hand, the experience re-emphasises the potential of taking a new approach to institutional reform. This means working in a politically-smart, locally-led way and drawing on complexity and political economy-inspired programming models that have been a recent focus of many researchers, policy-makers and practitioners (e.g. Andrews et al., 2012; Tavakoli et al., 2013; Booth and Unsworth, 2014). This project offers another case study to add to that ongoing effort, as well as providing practical suggestions on how such an approach can be put to work on economic development issues in a fragile state, and highlighting ways in which the approach can be fit into the prevailing structures and pressures of donor agencies.

BUILDING ON EXISTING LOCAL ORGANISATION | HARRY JONES

1 Introduction

The Centre for Inclusive Growth (CIG) is a project funded by the UK Department for International Development (DFID) that aims to facilitate practical solutions for inclusive growth in Nepal through brokered technical assistance (TA). The CIG began running in December 2010 and will terminate operations in December 2014. Under the CIG there were a total of eight 'policy projects' on various topics, with the largest cluster focusing on hydropower development.

This document outlines the experience of the Public–Private Partnership (PPP) Modalities in Tourism policy project and lessons that emerged. This project was conceived following a scoping study carried out between May and December 2011, with planning carried out between January and June 2012; and implementation from July 2012 to December 2014. The project has mobilised many times its own value in Nepali funding, and seemingly has catalysed broad and tangible institutional improvements at the local and national levels.

The aim of this paper is to capture what has been learnt through the implementation of this project. It is hoped this will inform future work by government and donors in Nepal, with its concrete recommendations made for policy and practice, as well as broader reflections on the lessons this case has for international development actors.

The analysis of the implementation process is based on the observations and reflections of the project managers, interactions with local- and national-level stakeholders (both those who have and a number who have not been directly involved in the project), project documents and a review of the wider literature on development issues in Nepal. Following principles of a 'process tracing' method, key points and lessons have been validated with a number of individuals who have had a close interaction with the project, and every attempt has been made to triangulate assessments using all available evidence and to interrogate alternative explanations. However, because of the limitations in doing this in a case where decision processes are opaque and involve a very small number of people, there are limitations to the levels of validation that were possible. Reflections that are given on the broader implications for Nepal draw on broader research studies and programme design assignments carried out in the country by the authors during the project implementation period. These involved considerable literature reviews, consultations and expert interviews (e.g. ODI, 2014; Jones, 2013; Jones and Basnett, 2013), and suggestions for broader policy and practice additionally draw on other ongoing streams of work on similar flexible, adaptive programming approaches (e.g. Tavakoli et al. 2013), and on institutional approaches to urban service delivery (Jones et al. 2014).

However, even set against this background, clearly the project represents just one case. As such the lessons that emerge are predominantly in the form of 1) showing the potential for undertaking a certain approach to certain issues, and 2) illustrating how such an approach can be implemented in

practice. It is hoped that the paper will provide a useful perspective of the 'messy realities' of implementation and local action, as well as demonstrable conclusions on how international development actors can best contribute.

The paper is structured as follows. First, it outlines the **project aims and approach,** set against the development needs they are trying to address and the contextual drivers. Second, it lays out the **experience** from project implementation. This is followed by a discussion of project achievements and **results** and then of the **implications for policy and practice in Nepal.** Finally, it discusses the **broader lessons** for development theory and practice.

WALKING AROUND POKHARA, NEPAL, AT NIGHT | MATT ZIMMERMAN

2 Aims, approach and context

This section outlines the focal policy problem for the project and the contextual drivers behind these issues, then going on to outline the project objectives and theory of change. The basis for the project was a scoping study on tourism (Jones, 2013) that highlighted key problems for the sector and the reason they have persisted, and identified potential entry points for CIG projects. Building on an early draft of this study, plans were iterated for the tourism policy project; this section builds on those as well as the scoping study and supporting documents.[1] This section predominantly draws on that scoping study and those project documents.

Policy problem and significance

Economic growth in Nepal is the slowest in South Asia. A large number of studies identify one of the binding constraints to growth as the limited and low-quality provision of transport infrastructure and other public goods and services (e.g. in 2011 the World Economic Forum's Global Competitiveness Report ranked Nepal bottom among 139 nations with regard to the competitiveness of infrastructure; the Asian Development Bank (ADB) et al. (2009) highlight this as a 'binding constraint' to inclusive growth; the Overseas Development Institute (ODI, 2014) identifies it as a central issue to address in order to promote economic transformation). The issue is affected by governance and financial management challenges: Nepal has big problems with mobilising the budget for public services, with only

80% spent in FY 2012/13 and, over the first half of FY 2013/14, only 30.3% (ADB, 2014).

There are challenges for accountability and responsiveness of local government, and even where money has been spent on infrastructure, there are major pitfalls in terms of leakage and ineffectiveness, especially at the local government level (Adam Smith International (ASI), 2011). These challenges are particularly acute for urban areas. As of 2011, officially only 17% of Nepal's population lived in urban areas, but it is one of the fastest urbanising countries in South Asia (e.g., since that census, 72 additional municipalities have been declared, adding to the existing 58), and urban areas already account for 62% of gross domestic product (GDP) (up from 28% in 1975) (Muzzini and Aparicio, 2013). Unplanned and poorly managed urban growth has led to a great many challenges, including related to water, transport infrastructure and solid waste management (ibid.). Despite these needs, and the importance of Nepal's towns and cities for the economy, investment in infrastructure is in fact biased against large urban centres and has declined in real terms over the past six years (ibid.).

This issue has a direct impact on the development of tourism, one of the most promising sectors for Nepal's economy. The CIG scoping study (Jones, 2013) identified

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1. This section draws on various project documents developed at the time, primarily Jones and Fine (2011).

constraints and barriers to managing and developing tourism at the destination level as a central problem for the sector, especially for a few crucial (urban) tourism hubs. Weak management of tourism assets and activities and poor local governance in general, combined with low provision and quality of local infrastructure and other services, have direct effects on the quality and competitiveness of existing products, their protection and the ability for the industry to develop new products and services.

Contextual drivers

An assessment of the drivers and constraints around central and local management of tourism and provision of infrastructure and services led to a choice to work on the latter. There are very large obstacles to improved tourism management at central level, where government has shown very low interest in or ability to lead or manage the development of the sector. The lack of central government leadership and a disjuncture between policy and the reality of implementation are symptomatic of broader trends and drivers of economic management in Nepal. A consistent level of political instability and uncertainty, combined with a high degree of fragmentation among political groups and in society more broadly, tends to lead to short-term, zero-sum decisions by central government (Basnett et al., 2014). Fragmented and incoherent policies, partly in response to fragmented and shifting donor demands and partly a reflection of Nepal's recent conflict and political history, are often not put into practice outside Kathmandu, where low capacity and accountability compound the challenges.

The prospects of improving tourism management at destination level seemed better than at national level, with clear constraints but also some potential and opportunities. The scoping study identified a number of drivers of local governance and destination-level management of tourism. Local government across the country has relatively low technical and managerial capacity, as well as few incentives to take the lead on local development issues; the absence of local elections for the past 16 years means there is no formal mechanism for ensuring accountable and responsive local

government, in the absence of which informal relationships and norms of patronage prevail. These were not, however, seen to necessarily preclude good enough governance (Grindle, 2007), since some prevailing norms were incentivising local leaders to provide rewards and benefits to broad local constituencies.

More promising still, the private sector was seen to operate in a context that incentivised good destination-level management, with a number of common interests and potential joint actions that could improve business earnings profits through improved product offerings. Moreover, businesses providing visible benefits to the local area are likely to help ensure a stable operating environment – and there are many public goods and common resources important for tourism development that are non-excludible and have broad local benefits.

Despite this potential, the management of tourism was more frequently characterised by poor partnerships between and within subsections of the industry and between the private sector and government. There was seen to be a pervasive, self-fulfilling and institutionalised distrust between a variety of actors. Thus, business efforts to contribute to local destination management and local services were generally conducted on an individual basis, and hence were fragmented and relatively ineffective.

Project aims and theory of change

Based on the choice of issue and an assessment of the key drivers in an early draft of the scoping study, a CIG policy project was designed. Drawing on the scoping analysis, the project was conceived as an attempt to improve destination-level management of tourism, with three objectives:

1. Catalysing tourism development by pioneering an 'entrepreneurial partnership' approach;

2. Obtaining direct benefits for the Pokhara and Annapurna area, through partnership actions; [2]

3. Testing the broader value of this approach and assessing the potential for transferring it elsewhere ('learning objective').

The value of a private sector partnership: It was hypothesised that strengthening partnership between businesses would allow the private sector to become more proactive and effective in contributing to

2. This was to include facilitating the development of new products and helping tourism drive improvements in local services with direct and indirect benefits to various groups.

destination-level management. This is because strengthened collaborative norms and institutions would allow for more effective actions, but also because it would enable them to overcome collective action problems and eliminate free riders (e.g. relating to poor waste management and pollution of the lake). In addition, a united private sector would be able to more powerfully assert and defend its interests in negotiations with other local actors.

A bandwagon for the local government: It was hypothesised that this informal balance of power was crucial to the success of the project, with formal systems and processes 'necessary but not sufficient' for success. The local government seemed unlikely to take the lead on this kind of process, but it was supposed that it would commit to a collaborative enterprise if it saw that this had momentum and would happen anyway. Going along with initiatives in this way would allow local government to 'save face' and claim credit for successes – that is, it would have informal political benefits.

Tangible benefits as a springboard for institutional development: It was seen as crucial to ensure partnership building entailed tangible short-term benefits as well as longer-term improvements in relationships and institutions. Catalysing visible benefits in the short term was seen to be critical in order to win supporters, change mindsets and build momentum. Without these, it seemed likely that collective efforts might lack credibility, and working to implement concrete local actions would probably provide some of the most important learning on how best this could be supported through rules in the longer term.

Local results to lead broader change: It was envisaged that new institutional forms and relations could be built once some tangible projects had been completed successfully. At that stage, there would be an improved understanding of their potential functioning and importance, and nascent informal institutions around which to build these. It was foreseen that broader partnership lessons could be brokered at a national level once the opportunities and constraints were clearer. As such, the objective of directly benefiting the development of tourism at the local level was being used as a means to achieve the other objective, of strengthening partnership and testing the modality.

CIG as an external broker: The role of the CIG project was to provide flexible support to the development of the partnership by facilitating the partnership and brokering knowledge and technical expertise. It was hypothesised the CIG was well placed, as a neutral and external actor, to provide an exogenous 'nudge' to the system to enable local

actors to find new ways of organising themselves and working together. Knowledge and TA was seen to be vital to this role, to support the development of a common and credible vision of the problems faced, as well as providing neutral recommendations on possible courses of action and advice that would ensure the effectiveness of collective action.

Scale-up built in from the outset: The hypotheses about project scale-up were based on three ideas. First, the potential for scale-up was built into project activities from the start: by not providing direct funding to the partnership project, and by working with and through Nepali individuals and organisations, it was hypothesised that the resulting actions and institutional forms would be easier to spread elsewhere without significant extra support. Second, the project aimed to capture lessons throughout the process, to be transferred to key actors once it was clear what the lessons were and for whom they would be most appropriate. Third, links were to be made throughout the project to central government institutions; like the local-level action, this was to be led by tangible actions and only working where there seemed to be genuine commitment.

The choice of Pokhara

Pokhara was chosen to pilot the approach for a number of reasons.[3] First, it exhibits many of the key features of the policy problem of interest. With an official population of around 300,000 (likely larger in reality), it is the fastest-growing city in Nepal, at 5% per year, and functions as a service centre for the entire region (Adhikari and Seddon, 2002). A major effort to build local infrastructure in the 1970s gave a large boost to the local economy and to residents' quality of life. Since then, there has been less public investment in the city, with limited and low-quality provision of infrastructure and services and the local government increasingly relying on foreign funding to carry out major projects (ibid.). Growth and development has been predominantly unplanned and unmanaged since the mid-1970s, and the city now faces challenges related to unsuitable land use; absence of a public sewage system and the lack by a majority of houses of a latrine or sceptic tank; and considerable solid waste management issues.

Receiving an estimated 400,000 foreign tourists every year (and probably the same number again of domestic tourists (WTTC, 2013)), it is a critical

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3. Pokhara and Namche Bazaar/Lukla were the two locations initially proposed.

tourism hub, but such services are generally poorly managed and hampered by the under-provision of public goods and services. Provision of public spaces is poor, as are the safety and development of local attractions, as a result of the under-provision of transport infrastructure. Phewa Lake is a major tourism asset, but is also an unfortunate symbol of the city's current problems. In 1996, the water was shown to be unfit for any human usage but, lacking any other options, many residents and local businesses still use it to meet all their water and sanitation needs (Adhikari and Seddon, 2002).

As such, Pokhara exhibited key features of the problem the project had set out to address. Given its importance for local tourism and as a hub for other tourist activity, providing direct benefits to the area would itself be an important contribution to the development of Nepali tourism in general.

Moreover, many of the contextual factors and drivers from the scoping study seemed to be present in the case of Pokhara. This included challenges such as:

- **A fragmented private sector:** There were more than 10 separate tourism-related associations for the city, as well as an umbrella body with a largely ceremonial role. Many tourism businesses were locally owned, although there was often cooperation according to the group identities of a large number of ethnicities (Adhikari and Seddon, 2002). In addition to this, there was a broader split between businesses in the main tourist area (Lakeside) and those in the main business district of the town (New Road), and within groups there was a prevalence of cliques and personality politics.

- **An unresponsive local government:** The municipality was seen to provide little, if any, support to the development of the local economy, and there was minimal evidence of proactive provision of infrastructure or services. More typically, the municipality saw the relative wealth of tourist areas as a reason to leave service provision to businesses, or would use instances of the private sector setting out to provide infrastructure themselves as opportunities to capture funds.

- **Weak collaboration:** There were few examples of sustained and successful collaboration between businesses, and even fewer between businesses and local government. The highest-value collaborations had been building a playground in a local park (apparently at the cost of around NPR 200,000), which quickly fell into disrepair and was looted, and the tarmacking of the main Lakeside road, paid for by the private sector around 20 years ago.

Pokhara was also seen to have some favourable conditions for the building of a partnership: as tourism was well established and was growing locally, it was thought that it would be more likely businesses would be able to work to longer time horizons rather than focusing on short-term self-interest. The city also seemed to have relatively stable political and social conditions, and proximity to Kathmandu provided a number of strategic and logistical benefits. Nonetheless, given the constraints present, it was still expected that all elements of the programme theory – especially the provision of direct, tangible benefits – would need to function as hypothesised in order to ensure success.

BOX 1: IMPLEMENTATION ARRANGEMENTS

The project team consisted of:

- **Project manager:** With overall responsibility for project progress, based in Pokhara after the validation phase;

- **Project coordinator:** Based in Pokhara, with considerable experience of local government and responsibility for liaising with local stakeholders and coordinating the activities of the partnership;

- **Kathmandu liaison:** Part-time on the project, based in Kathmandu with a remit to lead on liaison with central government stakeholders, as well as assisting with activities in Pokhara;

- **Contracted technical experts:** Two experts on solar technologies brought in on fixed-term contracts to fulfil various advisory functions for the partnership; managed by the project manager but effectively reporting to the partnership.

As of the end of August 2014, the project had spent a total of around was £160,000. The project began with a validation phase in March 2012; although it is set to run until the end of 2014 this was not predetermined – there were regular reviews at key milestones in order to ensure the project was still viable.

3 Project experience

This section outlines the process of implementing the CIG policy project in Pokhara, divided roughly into three stages. For each stage, the basic decisions and actions are described. This is followed by a discussion of the behaviour of key actors and what seems to have driven this, as well as the strategies and tactics employed to overcome constraints and minimise risks.

Conception, validation and planning (March-October 2012)

This phase of the project built on the aforementioned scoping study, and was aimed at validating key aspects of the study in a specific locality and testing interest in the project concept and willingness to engage and participate. Based on demonstrated interest in the concept, groups formed committees around project priorities. These committees then developed plans for short-term collaborative activities. The basic activities carried out were:

- Informal meetings to discuss the project concept and its potential to work in Pokhara, held with individuals from local businesses and local government and local people of influence;

- Two large workshops to go over the project concept and focus down on practical next steps and priorities for short-term interventions. Attendees included business people and entrepreneurs and representatives of local industry bodies and associations and the Pokhara Sub-Metropolitan City Office (PSMCO);

- Regular meetings for updates and approval with PSMCO executive officers (EOs) (of which there were three over this period), with notification given to the Ministry of Federal Affairs and Local Development (MoFALD) of the intention to work together;

- Based on priorities decided in those workshops, formation of three committees, to focus on short-term actions on tourist entry points, waste management (WM) and solar street lighting (SSL). These were given the task of planning a 'self-help' scheme, led by and part-funded by the private sector but with inputs from PSMCO and elsewhere.

LOCAL CONSULTATIONS BETWEEN THE PRIVATE SECTOR AND LOCAL GOVERNMENT | HARRY JONES

Solar street lighting	Waste management	Tourist entry points
The SSL committee planned to install SSL, to be funded by PSMCO, by local businesses (through sale of advertising on the poles) and by accessing other funds in Kathmandu. Maintenance was to be funded from the advertising revenues, to be managed by a continuation of the SSL committee.	The WM committee designed an initiative whereby tourism businesses would separate their waste and it would be collected, with the intention to build this into a self-regulating group for tourism businesses practising and promoting responsible behaviour towards the local environment. It would be self-financing, with membership fees covering the cost of attractive colour-coded bins and regular collection of each type of waste.	The entry points committee was to focus on improving the bus park and the airport. Despite repeated attempts to convene the committee, the committee failed and, after three months, was discontinued.
The CIG was to bear the administrative and logistical burden of the procurement process, and to finance technical experts on solar lights who would advise the committee.	The CIG was to provide facilitation and training for business managers and employees and to finance a study to assess waste management challenges in the area and potential future contributions by business.	
Agreement was reached on the areas for SSL installation (Lakeside, the main tourist area and New Road – the main town centre), and the basic parameters and budget, and provisional resource commitments were made by PSMCO and private sector associations.	A detailed business plan was put together by the WM committee to ensure fees covered costs in all likely scenarios for future membership, following which the scheme was approved by all and rollout began, with collection schedules published, membership fees collected and bins purchased and distributed.	
A broad memorandum of understanding (MoU) was drafted between the CIG and the Alternative Energy Promotion Centre (AEPC), with a remit for the AEPC to provide TA and funding and the CIG to help with policy and programme development and with finding entry points for AEPC work.	At this stage there was a U-turn by PSMCO. Despite having been involved in all committee activities and signing off the final plans, it indicated that the scheme could not go ahead without paying commission to PSMCO. The requested 30% of revenues would have made the scheme unworkable, and it was abandoned.	

Behaviour, drivers and CIG strategy

Ownership and the drivers of private sector behaviour: In the face of a complex operating context, opaque processes and considerable uncertainty, successful validation was seen to be a necessary condition for action. It was observed in the workshops that tourism businesses in Pokhara were relatively fragmented, and had deep distrust of local government, but were willing to explore options for collaboration. Common financial interests clearly bound some, but a clear and visible common symbol was also central: there was a perceived major threat to the central tourist asset, Phewa Lake.[4] There had previously been attempts by businesses to contribute to local infrastructure and services, but these were mostly individual and largely ineffective – a number of individuals highlighted the importance of bringing in the right technical knowledge to boost the effectiveness of collective efforts.

Ownership[5] was crucial to the success of the project, but expectations around foreign assistance made it difficult to uncover. Many perceived foreign-funded projects either as an opportunity for individuals to get their own 'pet projects' funded or as a way of seeming to go along with external priorities for change in return for financial and other benefits accrued by engaging with them. A number of participants at early meetings had a 'talking shop' mentality, making fine speeches divorced from practical feasibility, and commitments of assistance made in workshops often failed to materialise afterwards.

4. The lake is suffering from various forms of pollution, and is shrinking as a result of siltation. It is not clear the actual extent to which the shrinking problem is human-driven (e.g. it could owe to natural processes or be a result of increased road-building activities upstream).

5. 'Ownership' was seen to relate to an interest to pursue projects and institutional strengthening regardless of whether there was foreign support, and a willingness to invest one's own resources in this effort.

The CIG project took pains to highlight its criteria for supporting only projects that had benefits that would accrue to a broad set of actors, emphasising that the project would facilitate but not finance activities. Special efforts were made to persuade local opinion leaders, and to ensure the project responded to their needs. Slowly, increasing commitments were required of participants in terms of both their time and in-kind contributions to the collaborative process. This saw a changing cast of attendees for workshops and working groups, with a broad set of interested stakeholders and a small but initially fluid 'core' of key players.

The immediate costs to individual businesses were of course very important factors in discussions and decisions around the different initiatives. There was some focused discussion and analysis of likely costs for both the SSL and the WM schemes, and the primary reason the latter fell apart was the sudden hike in costs falling on participating businesses. Despite keen attention to the costs of each initiative, most businesses were happy for the benefits of these actions to be quite intangible or long term; this seemed to signal a willingness on the part of businesses to effectively pay for the chance of improved collaboration.

More broadly, the way the private sector engaged with the project mirrored to some extent typical dynamics for the diffusion and uptake of innovations (Rogers, 2003). There was a small set of 'innovators', often idealistic or visionary, keen on finding new ways to work together and contribute to the local area for its own sake. Another group seemed closer to the 'early adopters', forward-thinking entrepreneurs who were nonetheless hard-nosed and business-minded, ready to commit once a clear and feasible idea was on the table and action seemed likely. It was judged by local associations that the remaining business community would follow as and when they saw most others change behaviour.

The CIG – an external, credible broker: Efforts were made to ensure the project was not initiated from within (and was not seen to come from) one particular institution. This was important given the prevailing distrust and entrenched expectations about vested interests lying behind any apparently collaborative effort, held by individuals and local organisations. Some local institutions were in place to provide a common platform for action, but these were traditionally symbolic only, and had no budget or capacity for action. Multiple committees were started due to the uncertainties about which, if any, had prospects for success.

The CIG project aimed to play the role of a neutral broker of collaboration, the potential for which was grounded in its 'outsider' status and

WASTE MANAGEMENT: POKHARA'S LANDFILL | AMIT PRADHAN

transparent operation. It was for this reason that various individuals were approached, as well as associations, that early workshops were not held in the offices of any government or non-government organisation and that invitations to be based within various organisations were not immediately taken up. The Pokhara Tourism Council (PTC) was chosen as the location for the CIG Pokhara office, but only after the SSL initiative had gone some way towards implementation and the partner group was relatively solidified.

Although PSMCO had a PPP officer, there are no formal rules for PPP processes at the local level, or any other formal arrangements governing interactions between business and the private sector, meaning that management arrangements had to be developed anew. The CIG's role as an external actor and the presence of international staff was important to many of the private sector stakeholders as guaranteeing a level of integrity to the process, and to help protect the funds committed to collective action. This seemed to ensure each side gave the initiatives the benefit of the doubt, in the context of rent seeking but also of high and self-fulfilling distrust between business and government and between businesses. A number of actors indicated they were happy to proceed only so long as the process was 'clean', meaning that transparency and frequent two-way communication through both formal and informal channels were essential.

Rent seeking and spoilers to collective action: Rent seeking and corruption were the major potential spoilers to collective action. Stakeholders explained the failure of the entry points initiative by its need to work with bus cartels (whose operation is illegal and sustained by behind-the-scenes political support) and the Civil Aviation Authority (which has a reputation for attracting government employees searching for positions in which they can extract bribes, and has limited interest in improving the management of airports). There had been a history of tourism businesses attempting to work with the local government to improve the bus park, but, according to

various reports, on each occasion PSMCO had seen the private sector interest in getting something done as an excuse to put in no money, and in some cases had apparently attempted to demand a commission for allowing it to manage it.

Behaviour around the WM initiative, although not illegal, gave the clearest example of rent seeking. The sequence of events seems to indicate that PSMCO let activities go as far as possible down the line so as to make it impossible to reverse, before using key powers of local government to attempt to leverage commissions.

Further engagement on the WM issue led to a deeper understanding: this approach to WM as a key source of income for municipalities is widespread, and is sustained by the lack of strict rules on PPPs and government subcontracting.[6] Competitive procurement for WM services is run by local bodies, and is based on which companies will charge the least amount to end users and which promise the highest level of commission to be paid back to the government.

In this context, the local body serves as an obstacle to better local services and a potential driver of corruption. In the face of this kind of competition, WM entrepreneurs reported that it was very difficult to run an honest business. Margins are small in WM; this means that in order to win contracts where competition is based explicitly on which company takes the lowest margin, entrepreneurs must either plan on not fulfilling their obligations or simply bribe decision-makers. A highly successful WM entrepreneur reported this situation in a large workshop involving government, donors and WM entrepreneurs.

The ability for the CIG to discontinue support to the WM initiative when broader constraints emerged was essential. Without this, considerable resources would have been spent on a scheme that stood little chance of living past the project intervention, and there would have been a real chance of project funds being diverted.

Procurement and resource mobilisation (October 2012 - January 2014)

This stage of the project focused on implementing the agreed actions from the one remaining action committee, on SSL, including conducting a procurement process,[7] mobilising the committed funding and signing the contract for the lights. In brief, it involved the following:

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6. Although this fact emerged from ongoing engagement with the issue, it seems to have escaped the notice of many donors working on the issue. Such donors press ahead with attempts to promote waste to energy technologies at the municipal level, despite this issue that severely constrains the ability for the waste to be collected properly in the first place.

7. The full procurement process is described in the detailed procurement report (CIG, 2013).

Procurement process	Resource mobilisation
A call for expressions of interest (EOIs) was drafted, agreed and published. Fifteen EOIs were received and four companies were shortlisted, with the scoring carried out by technical experts hired by the CIG and reporting to the committee.	The SSL committee agreed on final funding contributions and implementation arrangements. Requests were sent for the transfer of funds.
The technical experts drafted the full request for tenders and a marking scheme, working to specifications from the committee. Three full tenders were received, and the bidding companies gave presentations for local stakeholders.	The committee, along with PSMCO, submitted a proposal for funding to AEPC. This was then passed up to the Ministry of Science and Technology (MoSTE) for approval, and from MoSTE on to the Ministry of Finance (MoF). The funds were confirmed under the budget for FY 2013/14, and were transferred from MoF to MoSTE to AEPC.
Selected representatives of different groups funding the SSL scored the proposals, with the technical experts marking certain sections. A winning company was identified and informed.	After the AEPC funding was committed, PSMCO pulled out support for the project and refused to allow it to proceed.[8] There was a considerable delay as various local stakeholders lobbied PSMCO. Officials from MoFALD and AEPC provided troubleshooting and mediation.
	After a delay of more than eight months the municipal council body, with participation from the PSMCO EO and a MoFALD joint secretary, passed a special 'working procedure' (drafted with assistance from the CIG legal advisor). This formally ratified the functions of the SSL committee and the soundness of the procurement process.
	The contracts for installation were finalised and signed (one for each installation area), and tranches of funding were transferred. Additional funds were provided by the CIG to cover a shortfall owing to foreign exchange fluctuations arising during the long intervening time period.

Behaviour, drivers and CIG strategy

Local partnership development: Over the course of the planning and procurement process, relationships seemed to improve between various groups. Individuals who had previously refused to sit in the same room as each other were now regularly taking part in the same meetings. Businesses seemed increasingly confident in the potential for working together and the feasibility of finding a constructive way to work with local government. Meetings were scheduled on a monthly basis to ensure swift progress. Divergence in preferred initiatives witnessed in the initial workshops dissolved as a genuine prospect for tangible outcomes emerged. Associations that had previously not showed great interest joined the initiative with firm resource commitments.

The dynamic included competitive forces: the Lakeside group was traditionally more divided and took longer to agree on actions, whereas the New Road group was more unified and action-oriented from the start.[9] Local competition and pride helped drive coherence, as the prospect of New Road acquiring lights before Lakeside helped ensure the Lakeside group followed with commitments when it became apparent New Road could and would proceed without them.

Key to partnership development was a learning process about SSL technology and design issues, drawing on external sources of expertise. From the outset, a variety of individuals demanded

8. Various reasons were given: first that the winning company was incompetent; then that the process had proceeded without proper PSMCO sign-off; then that the process was invalidated by PSMCO having not worded the request for approval to MoFALD correctly in 2012; and finally that there had been a mistake in how the call for EOIs was published. The first of these is incorrect; the second is incorrect; the issue of 'permissions' is unclear but seems unlikely to have genuinely required stopping the process; and the issue on calls for EOIs is a grey area, and irrelevant given unfolding events (see below, in this section).

9. By this stage, business involvement in the project from Lakeside comprised predominantly representatives of a number of local tourism associations as well as a few influential individuals. The New Road Development Committee, a single association of businesses and residents from that area, represented New Road.

access to relevant technical expertise, and the CIG-hired experts were heavily involved in committee meetings as well as being contacted outside of meetings by many stakeholders.

The interaction with the SSL companies was also crucial to the learning process. The procurement process was designed to be 'output-oriented': rather than specifying in detail the inputs or component specifications for the SSL, the call for EOIs and full tender documents specified the outputs required, giving the flexibility for innovation in delivering the SSL. This also allowed the committee to build on the collective expertise of the private sector at sequential stages of the process, inputting the best ideas from the EOI stage into the full tender document, and the best ideas from that into the final design.

A key issue for institutionalising the SSL partnership was the development and implementation of rules over fund flows and management. It was very important for the private sector partners that the funds for the SSL were held and managed outside of PSMCO; this condition was close to being non-negotiable for some, with business associations extremely reluctant for their money to be accessible by local government employees, and sceptical

about the likelihood of local government consistently managing a project such as this transparently. This arrangement created some problems for implementation, given the difficulties government faced in transferring funds to a non-governmental body; the solution that emerged involved enshrining the SSL committee as a 'user committee', with PSMCO and other funds to be transferred in one block. The issue of payment milestones were central to the contract negotiations, and the lakeside and New Road groups decided to have separate contracts with the supplier in order to allow more smooth functioning.

Drivers of the stalemate and its resolution: The aftermath of the conclusion to the procurement process saw concerted lobbying of key individuals by SSL companies that had applied and failed, as well as by a number that had not even applied. It is likely that inducements were offered to key individuals in business associations as well as to those in government. Rumours circulated of malpractice and mismanagement of the procurement process and of vested interests of partners and CIG project staff. These factors, as well as uncertainties about compliance with formal processes,[10] seem to have been instrumental in causing the long delay. The experience suggests that compliance with formal processes is necessary but not sufficient to ensure a smooth process and successful outcome.

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10. The logo of a foreign-funded project such as the CIG is typically only used in procurement adverts only when the project is putting funding towards what is be procured. The advert was published at a stage in the project when it was expected that the final portion of funds would be sourced from a donor agency, whereas the major proportion came from AEPC. In the end, however, funding was provided by the CIG towards installation costs to cover the foreign exchange difference; in retrospect, this was in line with the rules.

It is difficult to judge what factor was most important in breaking the stalemate. The perceived problem with the formalities was fixed and it is certainly possible that this was the primary reason. However, some stakeholders commented that the formal fix seemed to follow from an agreement to move forward rather than to precipitate it.

The local pressure was considerable, with PSMCO going against the wishes of a large number of local business and community groups, with no obvious supporters. Relations between locals and PSMCO became increasingly tense, and local associations publically criticised the government's conduct. However, there were no formal mechanisms enabling the formal expression of these perspectives: the local body set up in order to oversee municipality actions and provide that accountability function (the municipal council) was ineffective.[11]

The open and transparent way the process had been carried out was an enabling factor in keeping local coherence and commitment, as was the delegation of as much of the proposal scoring as possible to the partners themselves. However, it may also have been the influence of central government and senior bureaucrats that swayed PSMCO. Some suggested the change of central government in Kathmandu may have shifted power bases; others highlighted as an important driver the perceived imminence of local elections that followed the national elections

Kathmandu linkages: Therefore, linkages with central government bodies were essential for progress in Pokhara at a number of stages. Most obvious was the process of mobilising resources through formal bodies and informal networking in Kathmandu. The formal process of applying for funding to AEPC was accompanied by considerable engagement through personal networks on the part of the CIG Kathmandu liaison. Representatives of each stakeholder in the partnership attended key meetings in Kathmandu, showing considerable solidarity in travelling to Kathmandu together and jointly lobbying AEPC, the National Planning Commission and MoF.

Tabs were kept on the progress of the proposal through other 'friends' in the ministries. When the proposal was passed up from AEPC, it was first met with lack of interest in MoSTE, owing to the lack of foreign funding attached; a high-profile Nepali academic who works with the CIG joined other project staff in lobbying the concerned individuals in MoSTE and then MoF. The informal side of decision-making for

resource mobilisation did not all work out in the interests of the project. As the funding was transferred back down, part of the budget that had been allocated to the Pokhara SSL project was diverted towards four other cities by high-level officials at MoSTE.

Kathmandu bodies also played an enabling and mediating role in the partnership. When the process stalled after a winning bidder was identified, MoFALD made interventions; it convened key individuals, attempted to understand the perspectives on the issue the different stakeholders held and recommended practical courses of action to overcome the stalemate. Officials from AEPC, notably the deputy director, also attended a partnership meeting in order to help find a solution, mediating between factions as well as providing guidance on improving management and implementation arrangements

ONE OF THE SSL INSTALLED IN LAKESIDE | KHEM RAJ BANDHARI

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11. In practice, it currently has only one member, namely, the PSMCO EO himself.

BOX 2: SOLAR STREET LIGHTING DETAILS

180 streetlights were installed, with 101 in Lakeside from Fishtail Gate to Khavre Chowk in Lakeside, and on the full length of79 in New Road, covering a total of 2.4km and 1.6km respectively (with roughly 35m spacing between them40m spacing where lights were on both sides of the street, and 25m where they were only on one side). Each light has a 40W LED bulb, a 150 Wp solar panel modules and a 100 Ah tubular GEL battery – and each is on at full power from 6pm to midnight and half power from midnight to 6am. In lakeside, additional panels and batteries were installed to power 12 CCTV cameras that were previously non-functional.

The total cost of installing the SSL was NPR 20,274,8782,586,214. The funding came from the AEPC (6,000,000 in FY 2013/14 with an expected 4,500,000 the following year), the local government PSMCO, covered by (NPR 4,500,000 from PSMCO), NPR 2,175,983 from the Lakeside private sector (NPR 2,892,879), NPR 1,756,918 from the New Road private sector (NPR 1,756,918), a contribution to cover the additional cost due to currency fluctuation in between the end of the procurement process and the signing of the contract, provided by the CIG (1,968,000). The remaining will be taken from the NPR 3,500,000 from earned from selling the first year's advertising rights and AEPC (who have given an initial NPR 6,000,000 and the remainder will be applied for midway through the financial year). The costs for maintaining the streetlights are expected to be NPR 872,150 per year for the first 25 years.

Installation and maintenance of the SSL is overseen by the SSL coordination committee, established under Pokhara Tourism Council (PTC) with membership from PSMCO, the New Road Development Committee, PTC, the Pokhara Chamber of Commerce and Industry (PCCI) and others. The maintenance costs will be covered from the second year by the annual advertising revenues, expected to be NPR 3,500,000 per year. As these are expected to be considerably higher than maintenance costs, leftover funds from advertising revenues will be held to cover any unexpected maintenance needs and used to fund additional streetlights.

Pokhara actions	National scale-up
The chosen solar company mobilised and delivered in the six months allowed between signing of the contract and expected completion date. The SSL technical subcommittee monitored and approved the raw materials and constructed lights. The deputy prime minister of Nepal inaugurated the lights on 8 August 2014	Within a month of the installation beginning, more than 25 municipalities wrote to AEPC asking for assistance with installing SSL and committing their own funding.
An advertising contract was signed with a Kathmandu-based advertising firm, securing NPR 3.5 million towards installation in the first year; from the second year onwards, this revenue was to cover the maintenance costs, with considerable amounts left over.	An AEPC-led, CIG-supported workshop was held to inform municipalities of key procurement and technical issues, as well as passing on lessons around funding and management learnt from the Pokhara experience.
The SSL will oversee operation and maintenance of the SSL, and will also draw on the excess advertising revenue to fund its functioning and the installation of future SSL.	The CIG is also supporting AEPC in the short term to deal with the SSL proposals as they come in, providing TA and brokering support to municipalities, and helping proposals move from conception to the tendering stage.
PSMCO included the scale-up of SSL as a centrepiece of its FY 2014/15 plan and budget, committing more than double the amount it contributed to the first project and beginning these projects in partnership with local private sector actors.	For the longer term, the CIG is working with AEPC to help build systems and processes for processing and responding to SSL proposals. This will be part of a programme of action for which AEPC will be seeking funding from the government of Nepal and donors
A workshop is being held to identify the next round of potential collaborative projects and to set the course for institutionalising the partnership and put in place some longer-term goals for its contribution to development in Pokhara	

Installation, institutionalisation and scale-up (January 2014 - present)

After the contract was signed, the SSL installation and associated publicity were followed by the emergence of considerable demand from elsewhere for SSL. The ongoing and remaining work of the CIG includes institutionalising the Pokhara partnership and working with AEPC to help integrate lessons learnt as they scale up their work on SSL.

Behaviour, drivers and the CIG strategy

Partnership in Pokhara: The importance of strong and coherent partnership continued to be evident throughout implementation, evidenced by the contrasts between Lakeside and New Road business communities. While the latter group was organised and efficient at every stage, the former continued to exhibit some level of fragmentation. For example, despite lakeside associations having considerably larger budgets available, full funding took a long time to mobilise, as different associations seemed to be waiting for each other to make the largest contribution, and there were difficulties in ensuring local compliance with installation processes. These were overcome, and a contemporaneous example in Kathmandu emphasised the importance of sustaining local ownership. Foreign-funded SSL in Durbar Marg had had its adverts torn down and lights turned off because local businesses were displeased at having other companies advertising on their doorstep; the Pokhara SSL committee foresaw this issue, reserving 20 poles for adverts by local businesses as a compromise.

Looking forward, plans for maintenance are in place but need to be implemented – constraints and disagreements often emerge at this stage. Participation and in-kind assistance are likely from local businesses that have each invested a 'user fee' in the lights – a result of door-to-door campaigning by PTC. The advertising revenues going into the SSL bank account provide the potential for these first SSL to 'grow' many others (up to 25 SSL per year – which would double the number installed every 8 years), as well as a potential funding source for a continued 'secretariat' function to the collaborative enterprise.

Additional funding will be sought for the partnership function as part of the upcoming planning workshop. Local leaders feel this still needs to be tied to specific upcoming tangible projects in order to be acceptable to contributing individuals and organisations. However, a notable difference between this stage and the situation prior to the initial partnership work is that the previous tendency to leave a long time between resource requests has been dropped, and the next round of projects seems to have considerably greater ambition – both of which factors have been put down to improved confidence in collective action. Discussions are being held on ways to further establish, embed and institutionalise platforms for collaboration, building on the model pioneered by the SSL committee.

Institutionalisation within AEPC: The work to institutionalise the lessons from the Pokhara experience proceeded very quickly, as a result of the long-established working relationship between the CIG and AEPC, their familiarity with the Pokhara project and also their effectiveness in mobilising the budget and participating in high-profile, tangible successes. In the workshop, assessments were made to confirm that capacity gaps observed in the Pokhara case were present in the case of other municipalities. The level of demand was validated by requiring local resource commitments as part of any application for SSL.

While AEPC itself has human and financial gaps that need to be filled to properly respond to emerging demand, guidelines and management processes are being put in place. There is a conviction that, if this approach can be institutionalised satisfactorily, strong demand and demonstrable success will enable it to attract funding from donors as well as the government of Nepal.

Attempts were made to scale up and institutionalise the approach through MoFALD, by helping it promote municipal-level PPPs. Discussions were started, and ministry interest was initially forthcoming, but the process subsequently stalled. There are a number of possible explanations for this. For one, it could be that the prospect of MoFALD working with a foreign agency without an associated allocation of foreign funding was slightly alien (MoFALD is a high-profile ministry and also one that receives perhaps the largest proportion of donor budget support). Alternatively, it could be that the timing was poor: although there was an interest in PPPs, this was seen as one element of a larger programme it wished to develop on local economic development, and there seemed to be a danger of the CIG efforts getting sucked into, or sidelined by, this. Whatever the reason, clearly the flexibility of the CIG model was again essential, enabling the team to turn its attention to a different government body to institutionalise lessons.

4 Project results: tangible benefits and institutionalisation

This section describes the achievements of the project with respect to its three initial aims.

Tangible benefits

With respect to providing direct benefits to Pokhara, this objective has been achieved. More than NPR 22 million has been mobilised for local infrastructure, and has been spent in a transparent and well-informed manner on something that was a joint priority for local government and businesses. The amount of money spent and spent effectively is particularly relevant given the large challenges Nepal has in mobilising its budget every year.

The SSL will increase the safety and security of tourists and employees in the tourism sector as well as those of local residents, and should provide other, albeit less tangible, benefits by improving the image of the town for tourists and others. The end impact on local growth or living standards is very hard to assess, but some estimates can be offered that give an indication of other possible impacts:

- Of around 800,000 tourists who visit Pokhara each year (half of them Nepali, half of them foreign), a very significant proportion visit or spend considerable time in one or both of the lit-up areas, and thus benefit from improved safety and security.

- The lights are estimated to directly benefit more than 600 businesses across both sites. It is likely that around 200,000[12] jobs directly or indirectly rely on these tourists, meaning a good proportion of these workers are also likely to benefit from the increased safety and security in Lakeside.

- The New Road area is central to the non-tourist economy in Pokhara, meaning a good proportion of the 300,000 residents and similar numbers from surrounding towns are likely to benefit from these lights.

These results can be attributed to the project with some degree of confidence. The importance of the PPP can be seen by comparison with two donor-financed SSL projects which, as of the time of writing, had made little progress for nearly two years despite the high level of funding. Also, a previous project promoting local PPPs resulted in low quality infrastructure due largely to minimal facilitation and local ownership.

Partnership development

The partnership showed real promise for improving accountability, transparency, and responsiveness in decision-making over local infrastructure and service delivery, and it enabled the local government to draw on greater resources and capacities than would have otherwise been available. Coherence between local businesses and the working relationship between business and government have strengthened considerably, although they will need further embedding to reach a consistently high level of functionality.

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12. Drawing on previous figures used to estimate employment from tourism in Nepal, a figure of 0.6 full-time employment equivalents are likely to result from every 1 foreign tourist.

THE PTC PRESIDENT, DEPUTY PM AND PSMCO EO AT THE SSL INAUGURATION | PRAJWAL

The SSL committee continues to function, and now has its own bank account, financial reporting systems and governance arrangements and a reliable source of funding through the advertising revenues. The SSL are a major milestone in collective action by business and in the management of Pokhara as a tourist destination, given the history of small and/or unsuccessful attempts. There are several clear signs of a sustained partnership, with improved relationships between many individuals and organisations, regular meetings independently set up and common projects now regularly discussed. The bodies that are meant to bring the private sector together have improved local credibility and functionality and are now being subject to increasing requests and demands for common interest projects.

There are some good signs that the behaviour of local government has shifted, and that the momentum built by the success of the lights will continue. The FY 2014/15 municipal plan ran under the slogan of 'Our town, illuminated town', with PSMCO announcing an allocation of NPR 8 million towards expansion of the SSL elsewhere in the city (nearly double its budget allocation for the initial SSL), as well as having secured support for an additional 500 lights from elsewhere (likely to amount to another NPR 50 million; Nagarik, 2014). The municipality is following the PPP model, working with the private sector in the respective areas for the new projects and also requesting further TA and facilitation from the CIG. The private sector has also requested CIG facilitation for planning and implementing another round of project proposals.

These requests also highlight the fact that further support is likely to be required until a free-standing, sustainable and functional partnership has been achieved. Some level of TA and of support with transaction costs and implementation capacity is likely still to be needed, and it is possible the attitudes and behaviour changes may be fragile: without further tangible initiatives and reflection on how to improve local institutional arrangements, the SSL is in danger of being a 'one-off'.

Lessons and scale-up

Although activities relating to this objective are very much still in progress, important and tangible achievements have already been made. A great deal has been learnt from the process, which has been captured and shared in this report and in other non-public outputs. It has also been communicated through formal workshops and informal meetings with relevant government departments.

While the original entry point for the project was tourism, project activities were working on a constellation of issues around local governance and service delivery more broadly, and the model pioneered has more broad relevance around Nepal. This can be seen in the considerable demand emerging for SSL, which will provide an important vehicle for the scale-up and transfer of the project lessons and modalities nationwide:

- More than 25 municipalities have applied to AEPC for assistance with their own SSL since the initial publicity about the Pokhara lights.

- In the AEPC–CIG workshop in August 2014, all 15 participating municipalities indicated they intended to install their own lights, with 8 submitting proposals during the workshop itself.

- These proposals amount to more than 1,900 SSL with a value of around NPR 150 million, and the municipalities have committed NPR 35 million of their own budget to the endeavour.

- The partnership approach seems likely to be taken up by more than half of these municipalities, with the applications indicating they expected to leverage significant local funding (between 10% and 40% of the total budget from project to project). There is also a clear demand for help with coordination and facilitation.[13]

The contribution of the CIG project to this scale up can be evidenced by the timing of these demands following the publicity, and the contribution of CIG lobbying to the GoN budget allocation.

The scale-up of Nepali-funded solar street lights

Pre 2014
(29)

2014 following Pokhara project (180)

2015 planned installations across Nepal (1900)

💡 = 20
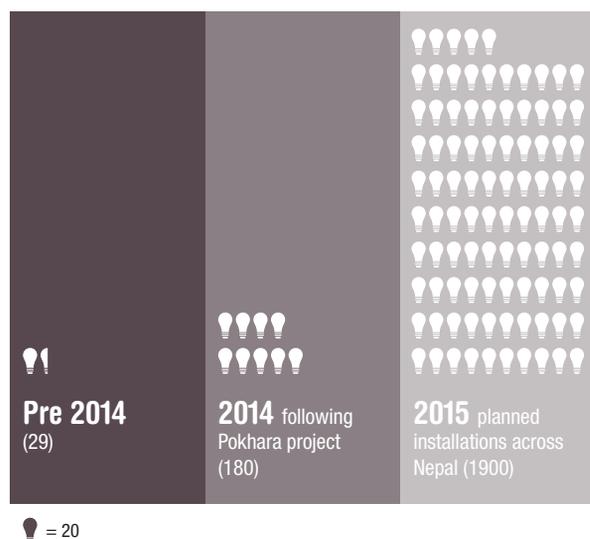
The project must count as good value-for-money for DFID, with the project leveraging potentially ten times its value in local investment.[14] As well as this induced demand, there are ongoing efforts to institutionalise the partnership approach in central government bodies, beginning with the AEPC:

- In AEPC, a new SSL proposal form has been developed, and a manual has been drafted and trialled containing technical, procurement, management and funding guidelines. These draw on the experience in Pokhara, requiring municipalities to explore options for local partnerships, ensuring that an independent coordinator is appointed, and making recommendations in line with other lessons that emerged during the process.

- An effort is underway to set in place the funding, staff and processes to ensure AEPC can meet the increasing demand for SSL (the basics of this can be seen in the programme for PPP infrastructure in the next section – a version of this was drafted for the AEPC at their request). This will help institutionalise the partnership approach by priority being given to project proposals that include a partnership approach (e.g. with criteria for minimum local resource mobilisation), and by a facilitation component whereby an NGO managed by AEPC works at the local level to broker agreement and partnership.

- As well as this, the genuine ownership of scale-up activities can be seen in the government of Nepal budget allocations: while in 2012 there was no budget at all available to spend on solar-related public infrastructure in urban areas (only rural), a combination of AEPC and CIG lobbying successfully contributed to the first-ever allocation in 2013/14, of NPR 40 million, and an increased allocation in 2014/15 (at time of publication the full amount had yet to be release).

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13. A 72% of respondents from the workshop indicated they would like some assistance in mobilisation, facilitation and coordination. 61% said they would be happy to work with a non-governmental organisation (NGO) carrying out this function and 9 asked for CIG assistance.

14. Those who might seek to question the wisdom of this investment would do well to recognise that it was a product of people with hard-earned experience of and not inconsiderable success in the tourism sector in Pokhara (i.e. people who possibly know better how to invest money locally).

5 Lessons for programming in Nepal: PPPs and local leadership

This section draws out the key lessons for donors, government and others working to promote local economic development in Nepal. These lessons are particularly important in the Nepali context, where there is a major knowledge gap on how to implement government policy outside Kathmandu, and a large number of initiatives fail due to a lack of ownership and inability to adequately draw on available capacities. Hence there is real value in building on a model proven to have tangible results, shown to function and sustain itself in the absence of external funding, and one which is actively in demand from Nepali stakeholders. This section provides suggestions on how local ownership can be harnessed for the benefit of local economic development activities, and lays out the areas of policy and programming highlighted by the project experience where there may be considerable potential for pursuing locally-owned reform that has the potential to achieve broad, long-lasting results.

An important caveat is that these recommendations are built predominantly on the experience of one project – however, this has, where possible, been set against experience of the authors on other research and design assignments in Nepal (for DFID, Danida, and the Government of Nepal) in the fields of governance and also economic development, and compared against other available evidence. Moreover, the project involved intensive engagement and ongoing scoping and analysis, and in line with 'good practice' for facilitating institutional reform, one only gets a genuine picture of the real opportunities and constraints presented by a context through actually acting in that context and attempting to make changes (see, for example, Andrews et al., 2012).

Facilitating leadership on local economic development

The hypotheses contained in the project's theory of change have been validated to a good extent by the progress made in Pokhara and more broadly. These hypotheses point towards the basics of a model for promoting local economic development in Nepal. It builds on functionalities in the existing system and could promise to bring progress that would not rely on the success of significant institutional reforms, and could in fact lead an incremental process of policy reform through experimentation and adaptation.

Broad engagement and institutional development for delivering public goods: It is clear the private sector is a force that can be harnessed to contribute to improved local service delivery and better management of tourist destinations, and that improving the partnership between entrepreneurs is a key part of doing so. More broadly, the strategy of a broad initial engagement in an area, with formal and informal groups and leaders, contributed to ensuring project benefits were not captured by a narrow group.

NEW ROAD, POKHARA | VIVIDMAN

External, adaptive intervention to avoid difficult gatekeepers: The project worked around the idea that the municipality might not proactively lead on an issue but would not let a 'bandwagon' leave without joining in, and in the end this central hypotheses proved correct. Combined with the experience on the WM initiative, the lesson shows the importance of action being initiated from outside local government and of being able to switch entry points when met by non-cooperative gatekeepers. Some kind of seed fund in which a small contribution is made available to catalyse action (dependent on matching local allocations) could further enhance this effect.

Informal accountability: The increase in power as a result of building a more cohesive business lobby was noticeable, and resulted in pressure on the local government through relationships and informal accountability practices. Informal arrangements are not ideal and the length of time taken to get from conception to installation of the SSL showed the ability of local government to hold out, but local pressure seemed instrumental in the project winning through. It seems possible that similar efforts would stand a higher chance of success if and when there are local elections.

Tangible outputs instrumental in wider change: Self-fulfilling attitudes and beliefs that militated against collective action were indeed important in constraining the provision of local public goods. The slow pace of progress of the SSL committee until the project was nearly completed, followed by the way PSMCO seized the opportunity once the first project went up, as well as the fast pace of uptake outside of Pokhara, evidences the way visible success can make it possible to break out of these ruts. The fast progress and well-received practical recommendations for institutionalisation post-SSL installation also highlight the importance of tangible projects leading institutional development.

High potential for brokering change: It has been strongly borne out in practice that there is a need for an external broker in order to catalyse such a partnership, including the funding of TA and providing multifaceted support to the implementation process. The project helped reduce transaction costs in building new ways of working, as well as reducing uncertainties by being a neutral guarantor of process.

Central–local links: One key dynamic not strongly built into project design from the outset was the ability to link local efforts to Kathmandu. Lobbying and interaction proved an essential ingredient of

success, following the (informally) established practices around how areas outside Kathmandu access central resources and appeal to higher authorities for troubleshooting and intervention. For the central bodies, links to proactive local groups give them higher certainty of mobilising resources and demonstrating tangible impacts.

Harnessing the 'copycat' mentality: The role of local rivalry in ensuring both areas of SSL were built, and, more starkly, the high speed and wide spread of the SSL concept after initial publicity, shows the benefits of undertaking scalable actions; this mirrors the recent startling success of a road-widening initiative that might have been seen to be impossible just a few years ago. Although doing something for the first time will often face a great many obstacles, if it is scalable and attractive given the prevailing incentives among various key players, uptake can be extremely quick. External support can focus on getting the 'vanguard' through the difficult 'firsts', followed by supporting central capacity to handle increasing demand.

'Incubating' success: The project has highlighted where there is genuine local ownership and demand for reform; in the process, it has illuminated specific capacity and funding gaps the filling of which would be likely to have broad, positive and lasting results. The need to find these kinds of opportunities is very important given the large policy–implementation gap. There are already some examples of successful 'incubator' programmes in Nepal, which have taken an experimental approach and in the process have spun off larger, more traditional programmes of donor support (e.g. DFID's Enabling State Programme). This project adds further suggestions on how these can be best run, and further evidence on their suitability in the Nepali context.

Although a number of features of the project context and the ways it functioned seem likely to be quite typical, some caveats must be given with regard to external validity. While Pokhara has some features common to other municipalities, it is relatively prosperous, it is relatively peaceful and stable, Kathmandu is relatively accessible and it has a relatively high proportion of locally owned businesses. SSL has some characteristics when compared with other infrastructure that make it particularly suitable for this kind of project: it is not a 'lumpy' investment and can be increased incrementally; the benefits to local stakeholders are highly visible; and there is a relatively short period for installation. It is therefore likely that approaches would need to be tailored to different types of infrastructure

and different locations, although it does not seem that these factors undermine the more general applicability of the above principles.

Policy implications

The project process has illuminated features of the institutional context that play important roles in constraining change, and areas where alterations could improve development outcomes. In this regard, the following policy recommendations can be made:

Make a policy for local PPPs: The lack of formal institutional arrangements for PPPs at a local government level was partly responsible for constraining collaborative efforts.

- A PPP white paper was published back in March 2011 (GoN, 2011): there needs to be a serious effort to get these suggestions set into regulation, or even incorporated as guidelines within MoFALD or elsewhere.

- A proposed process and requirements for local PPPs are provided in Appendix 1 of this paper.

- As important as the specifics is that there are some formalised rules to guide actors, rather than arrangements being developed on a case-by-case basis, which leads to high transaction costs and lower chances of success.

Reduce process requirements: Various aspects of the procurement process that emphasise adherence to a vast swathe of detailed and differentiated pre-set standards and procedures, seem to be playing a role in restricting government action; on the other hand, focusing on tangible outputs and outcomes seems to provide an instrumental and constructive metric for progress.

- A focus on outputs and outcomes could be used instead of the myriad of complicated procedures, with broadly applicable, simple practices for guiding the process.

- Output-oriented procurement should be encouraged for suitable infrastructure and services – along with a campaign to explain the approach to bidding companies.

- The minimum conditions and performance monitoring (MCPM) criteria, used to allocate the performance-based block of funding for local bodies, should include a greater focus on outputs and outcomes (e.g. infrastructure built, number of people reached with services), and these should replace some of the process-oriented requirements.

Broaden user committee policy: There needs to be an alteration on the rules for 'user committees', to ensure projects conceived of under partnership approaches can continue in this way through implementation.

- Representation rules that focus solely on the participation of marginalised groups should also allow for projects where the important dimensions of inclusion are across the public and private sectors.

- The maximum project size of NPR 6 million should be increased (e.g. to NPR 25 million), or guidance should be provided on linking a number of user committees on one large project.

- More broadly, rules that restrict the ability of government to transfer funds to, or share funds with, non-governmental actors need to be reassessed, to ensure projects can best draw on locally available capacities.

Restrict extractive interactions with the private sector: There will need to be robust regulation to stop local government from using private sector service delivery as a source of income and in the process precluding adequate service delivery:

- Requiring outsourced service providers to pay commissions to government should be outlawed.

- If complete discontinuation is not possible, the focus should be on areas where this behaviour has the most detrimental effects. In particular, rate of commission should not be allowed to be a criterion for bids in competitive procurement, and those outsourced services that have relatively narrow margins for businesses (such as WM) should be given special protection.

- Strict guidelines should be written to ensure any excess revenue nominally accruing to government from PPPs or through contracting services, should be spent to cover management and maintenance costs, and/or used to fund additional local services/infrastructure.

Reduce the anti-urban bias: As set out in Section 2, there are great needs and opportunities for government and donor action focusing on urban areas in Nepal. Some important changes would be as follows:

- Some government bodies have explicit rules restricting the ability to work in urban areas, in some cases, such as for AEPC, these owe to earmarks in the budget put in place by donors. These need to be altered.

- The bias against infrastructure spending in these areas should be corrected in government spending, through MoFALD, the Ministry of Physical Planning and Works and others.

- Spending should also be spread around the major urban centres, including the rapidly urbanising village development committees on the periphery of cities, rather than being overly focused on the central Kathmandu Valley.

Local first: This programme shows the value in institutional reform and central government programming that follows from action and innovation at a subnational level. Donors in particular should improve the way they engage at the subnational level.

- A tendency for donors to bypass local governments when implementing programmes should be stopped immediately. At a minimum, engagement should be a requirement of all donor-funded enterprises in districts and municipalities.

- Rather than funding large international TA packages to carry out analysis for policy dialogue or institutional reform, efforts could be better directed at looking for models that work in practice in different areas of Nepal (similar to a 'positive deviance' approach; Ramalingam, 2013).

- Where no such examples exist, central government, with donor assistance if needed, should actively innovate and experiment with different approaches at the local level, and build on tangible successes.

- This requires an alteration to typical practices around 'pilot' projects – they need to involve more active learning and adaptation, and need to be designed in a way that is quickly and easily scalable (i.e. not 'hot-housed').

Programme for local PPP infrastructure

The lessons learnt and potential shown by the CIG project point towards an opportunity for a new joint donor–government of Nepal programme. The director of the AEPC asked for CIG assistance in outlining a programme of support for SSL, which is the basis for what is contained in this subsection. However with growing interest in MoFALD and from other Ministries, it seems that there is the potential to use this approach to promote various types of small and medium infrastructure, to be constructed using a partnership approach.

The main elements of the programme would be as follows:

Seed funding for capital requirements: A contribution to the capital/installation costs of infrastructure will be required, ideally an on-budget transfer to the concerned ministry. This would be 'seed funding', protected by requirements for a certain percentage of funding from local government budgets (e.g. 33%) and a required minimum percentage of private sector or community group funding and revenue streams (e.g. 25%).

Local facilitation: This would be required at destinations where such support is requested, or where new types of infrastructure are being built under the programme. A contracted NGO would focus on mobilising the private sector or other local groups, and brokering agreement on and momentum for practical action between key groups.[15] It would need to be externally instigated, but, over the course of a few projects, as relationships get built, formal structures and platforms can be set up to ensure the sustainability of the partnerships and to allow the phase-out of external assistance.

Brokered technical assistance: The gap in technical capacity outside Kathmandu will have to be remedied, with inputs mobilised in response to local demands (depending on genuine ownership, e.g. resource commitment). Given the lack of experience of delivering TA appropriate to local needs, this would initially function as a learning exercise on local needs and how they can best be met. The primary implementing partners would be Nepali institutions for TA (e.g. AEPC when working with alternative energy technologies); their function to provide such support on an ongoing basis should be strengthened at the same time.

Developing policies and guidelines: As discussed in this section, changes in policy and practice are needed to facilitate this kind of work in the future. Any proposed rules should also be trialled and adapted in practice before finalising them, with strong ministry involvement.

MoFALD would be a key partner, although the programme could be based in key TA ministries – there is already an appetite for this kind of support within AEPC. From a donor, TA would be required, as well as budget support. Potentially donors would need to hire the NGO to play the brokering role, given current difficulties in the government of Nepal directly contracting NGOs. It seems likely that coordination and liaison functions would be needed in Kathmandu, potentially as part of a project implementation team.

Implementation of the programme should be results-led. Funding can be provided towards infrastructure in a tranched manner responding to actual construction of the infrastructure and tied to corresponding milestones between the local partnership and the implementing contractor. It should be forthcoming only when local momentum and commitment are clearly there. Facilitators can be assessed based on the amount of funding mobilised as well as the diversity of that funding. And approaches will be scaled up elsewhere only if and when they have borne tangible results.

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15. Brokers need to come from outside of the local government and local business community, and need to not have any interests in infrastructure contracting. Given these criteria, it seems likely that an NGO is the most appropriate actor

23

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Broader implications: adaptive programming and urban development

The project was designed based on an understanding of the practical realities related to the specific problem at hand, and did not purposefully set out to reflect or test any broader theories. However, considering the experience ex post, some comparisons can be made with prevailing development discourse and practice.

The project may be seen by some as relatively small and narrow, focusing too much on the 'nitty gritty' and without sufficient large-scale ambition for policy and reform. The authors would suggest that readers pay attention to the available evidence of impact for approaches to reform built around grand plans and formal policy change, which shows consistently disappointing outcomes and a failure to have significant impact other than changes in policies and plans on paper (e.g. Andrews, 2013). In a context such as Nepal, it is quite common for even very well-funded programmes to leave behind no sustained impact

after donor funding finishes, many fail to perform their basic intended function even during periods of external funding (e.g. the Local Governance and Accountability Fund),[16] and these problems are particularly acute for achieving change at local government level (e.g. see the Economist's article on aid and corruption in Nepal, 2011).

As such, we would argue that the changes catalysed by the project are small, but important. The project has highlighted some of the 'nuts and bolts' of government action in Nepal, and suggested ways to complement and implement the existing remits of government bodies, working incrementally led by local actors. These echo key tenets emerging of a better approach to institutional reform recommended elsewhere (e.g. Tavakoli et al., 2013; Booth and Unsworth, 2014). The project provides evidence as to the potential value in working on certain issues, and of taking a particular approach to them, as well as illustrating how the approach can be implemented.

Institutions for urban development and infrastructure

Urban development: Development programming has historically focused more on rural areas than on urban ones. The messy realities of cities in developing countries, and of the stakeholders and governance structures involved, seem to lead to a low level of engagement, and there is limited understanding of how typical aid modalities and programme forms might be best adapted to urban contexts. While some agencies (particularly

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16. The LGAF was designed to strengthen local accountability through independent and citizen-led monitoring of local government expenditure, as part of the large Local Governance and Community Development Programme funded by the Government of Nepal (around £800m) with around £200m of donor funding. However, few of the envisaged activities failed to materialise, with only one round of the intended four rounds of grants was disbursed and no available report on the resultant activities. Despite evaluations pointing to the lack of ownership and the importance of paying careful attention to fund disbursement channels (Freedman et al. 2012), the follow-up programme, beginning in 2014, looks in danger of repeating the mistake due to continued lack of attention to fund flow mechanisms.

the multilaterals) do provide infrastructure and other 'hard' investments in urban areas, these often have disappointing results (Nepal has its own back catalogue of expensive foreign-funded infrastructure that has fallen into disrepair), and there is considerably less work on service delivery or institutional change in urban areas. This project shows the potential for donor programming to bring results to urban areas, partly building on principles typically applied in rural areas of context assessment, and participation – but with some key differences. The key lessons for doing this echo the findings of a recent literature review on urban service delivery (Jones et al., 2014), namely:

- Separate treatment of urban areas. Needs, problems, potential and opportunities share some common characteristics in urban areas, and they are quite different from those in rural areas (for example, most stakeholders agreed that the PPP approach would not have been feasible in rural areas);

- A differentiated approach, recognising that different infrastructure and services face different drivers and constraints owing to political economy dynamics (e.g. as with the success of SSL vs. the failure of the WM initiative).

Institutions for infrastructure and service delivery: This project highlights how institutional and political economy factors can be central to project failures or success – the key strands of the theory of change are built on these types of features. The typical 'silos' of development agencies do not always make this kind of work easy: the kind of institutional change that became the focus of the project is typically seen as the remit of 'governance' programming by aid agencies. Yet governance projects typically shy away from sectoral entry points on institutional change, and it is particularly rare for governance work to be carried out in productive sectors. The experience from this project echoes recent work highlighting that 'the technical is political' (Batley and Harris, 2014); what seems to be needed is:

- Programme components focusing on institutional innovation and development relating to infrastructure development and/or service delivery, informed by recent learning on how to approach governance (as opposed to taking blueprint, technically led approaches – more on this later in the section);

- An integrative approach, bringing a focus on institutions and governance together with TA and financing components, in a tailored and joined-up manner.

Taken together, this experience also **highlights the potential for working on institutional dimensions of urban infrastructure and service delivery –** again, a theme that has been echoed elsewhere recently (Boex et al., 2013; Jones et al., 2014).

Value in complexity/political economy-inspired programming

Possibly the more stark departure from traditional practice was in how the project was implemented. Again, the project was designed to best meet the challenges it faced as seen by the CIG director and the project manager, but the emerging lessons bear a number of striking similarities with recent (and some less recent) understandings of, and approaches to tackling complex problems and institutional change, as encapsulated in a recent review by Root et al. (2014), for example. It is hoped that this report will be a useful addition to the literature on these approaches, where there are not yet enough well-documented cases.

Collective action and institutional change: Inherent to many problems are actors who may have quite different immediate interests, the pursuit of which harms their aggregate, longer-term interests. It was argued recently that a large number of development problems have the form of collective action problems (Booth, 2012), and this was definitely the case within the Pokhara private sector, which was relatively fragmented, and between it and the local government. All would clearly find benefits in the provision of public goods such as local infrastructure, but the existing institutions did not enable them to overcome challenges posed by externalities and free riders that are particularly prevalent in the delivery of urban services (Jones et al., 2014). As shown in the literature, the solution to these kinds of problem is found in institutional development; it was quite clear from the scoping study that institutional innovation was needed to improve local development outcomes (Jones, 2013). The challenges were even starker in Lakeside, where the uneven benefits of private sector growth had led to a more heterogeneous collection of actors and more clear functionality gaps in their local institutions.

A broad swathe of experience has shown that, in the face of this kind of problem, interventions must involve locally led institutional development, built around crucial processes of learning and negotiated change, with the potential for external actors to broker these (Root et al., 2014).

- The project ensured there was space for local leadership on two levels: it remained agnostic on the most appropriate (formal) institutional form to carry out collaborative activities, as well as on what should be the focus of practical initiatives undertaken by the partnership.

- The experience from project implementation echoes the findings in the literature on building institutions for collective action (e.g. Ostrom, 1990), such as the importance of face-to-face interaction, social learning and tangible common projects.

- Working as a broker entailed concretely lowering the transaction costs associated with forming new institutions and implementing collective projects, by providing coordination capacity through the CIG team and various guarantees on the integrity of common projects.

Dealing with distributed capacities: One key feature of facilitating institutional change is that the knowledge and capacities required to tackle problems are often spread across actors without strong, formalised institutional links (Jones, 2011). This is seen for this project across a number of dimensions: capacity at local level is shared across the private sector and local government, a common trend in the literature on urban service delivery, where the variety of actors often leads to policy incoherence in the absence of strong horizontal linkages (Jones et al., 2014). Also highly characteristic of the wider literature is the split between formal and informal institutions (echoing North, 1990 and many others), with neither system sufficient for pursuing effective actions on its own – another strong feature of this case.

In the face of this kind of challenge, the prevailing understanding is that interventions must work to best capitalise on distributed capacities, engaging a broad range of groups, working with or through existing institutions and strategically strengthening linkages between certain actors (Root et al., 2014). The project's engagement strategy seems to fall firmly in line with these principles, working broadly at both local and national level, through both formal and informal channels.

- In particular, the eventual success of the project relied on interactions between central and local players, echoing Andrews et al.'s (2012) strong focus on the need for central government bodies to provide the right kind of 'authorising environment' for local experimentation and action.

- Building an entrepreneurial partnership was a matter of strengthening linkages, and the improvised PPP approach can be seen as in line with 'polycentric governance' approaches that have proven central in urban service delivery in many countries (Jones et al., 2014).

Uncertain change pathways: With many development problems, it is unclear how to achieve a given aim in a given context, and/or change processes involve significant, uncontrollable forces, with opportunities for change coming and going unpredictably (Ramalingam and Jones, 2008). This was clearly the case at the outset of this project: while there were some ex ante indications about the importance of the destination management problem, the potential for a local partnership to make improvements and some of the contextual constraints, these were hypotheses, not established facts. As is typical of institutional reform processes, an understanding of the real opportunities and constraints a context presents can be truly uncovered only by actually acting in that context and attempting to make changes (see, for example, Andrews et al., 2012). In addition, local ownership of project principles and activities, one of the key resources required for the project to function, was unknown at inception, and, although there were some ideas on how to build and maintain it, these were far from tried and tested in the Pokhara context, and the dynamics of the process were relatively unpredictable.

In the face of uncertainty, it is generally recognised that interventions must innovate, foster learning about how change happens and be flexible enough to adapt to emerging signals (Jones, 2011; Tavakoli et al., 2013; Laric, 2012) – and the project experience definitely bears this out.

- In the first instance, the project looked to try a number of different intervention points with the three initiatives – and maintained the flexibility to close down or scale up efforts in each, depending on emerging opportunities and constraints.

- In order to work with the unpredictable process of building ownership and local momentum, there was the initial 'validation' stage as well as very regular ongoing informal monitoring of interest and buy-in. The attempt to find innovative institutional forms that would facilitate improved collaboration itself reflects calls in the literature to experiment and participate in active learning (e.g. Andrews et al., 2012; Mosse et al., 1998).

- The need to hold outputs and outcomes as central elements of planning and decision-making processes in the face of uncertain change pathways (as opposed to inputs or procedural requirements) was reflected in the project's aim focus on tangible short-term results, with the output-focused SSL procurement, as well as more broadly in the make-up of the CIG, which works on an output-based contract from DFID.

Based on the above subsection, it seems reasonable to argue that the project experiences resonate with the need for donors and their implementing partners to identify which (if any) of the challenges of complexity an intervention faces (distributed capacities, divergent goals, uncertainty), and to adopt appropriate measures for dealing with them (Jones, 2011; Root et al., 2014).

Lessons for donor support

The CIG programme model was relatively unconventional. There has been a good deal of attention to how donor agencies are not typically well set up to handle this kind of an approach. For example, Booth and Unsworth (2014) highlight how the formal systems and informal incentives prevailing in donor agencies militate against what is needed in order to best facilitate institutional reform.

- One aspect of this is systems for planning and funding approval that pressure programmes to commit to highly specific goals and fix key activities and budget lines in advance, which militates against the flexibility that can prove important in pursuing reform aims (Natsios, 2010).

- These processes are often dominated by a drive to reduce bureaucratic risk, leading to a bias against projects that focus on areas where potential benefits are initially intangible or long term rather than fitting within three-year programme timeframes.

- Reform programmes and TA are often delivered in a 'supply-driven' mould, with considerable efforts spent on research production and small, ex post efforts to communicate research reports after publication, which push particular options; these often fail owing to the importance of reform processes being locally owned and driven and the need for TA to respond to demand (Jones et al., 2012).

- Incentives and practice lead to a tendency for donors to focus at the level of national policy: considerable efforts are put into policy dialogue with ministries and the content of legislation, while a 'missing middle' persists, as well as a considerable gap on issues of implementation and service delivery and work on figuring out the 'nuts and bolts' of how what is on paper will be put into practice (Williamson and Dom, 2010).

What should be clear from this report is that this project was able to operate despite these prevailing pressures – working in a flexible way, promoting institutional reform in a demand-led manner and working on 'nuts and bolts' rather than high-flung policy pieces. One potential explanation for this is the funding agency: DFID is the donor for a number cases in recent collections of 'good practice' examples (Booth and Unsworth, 2014). It is thus possible that this agency has a lower incidence of these pressures, greater space for operating in a flexible manner, or a higher incidence of innovative staff. One or more of these may be the case, but also it is worth examining more broadly how the mode of funding and the features of the Pokhara project, and the CIG more broadly, appeared to enable it to operate in this manner.
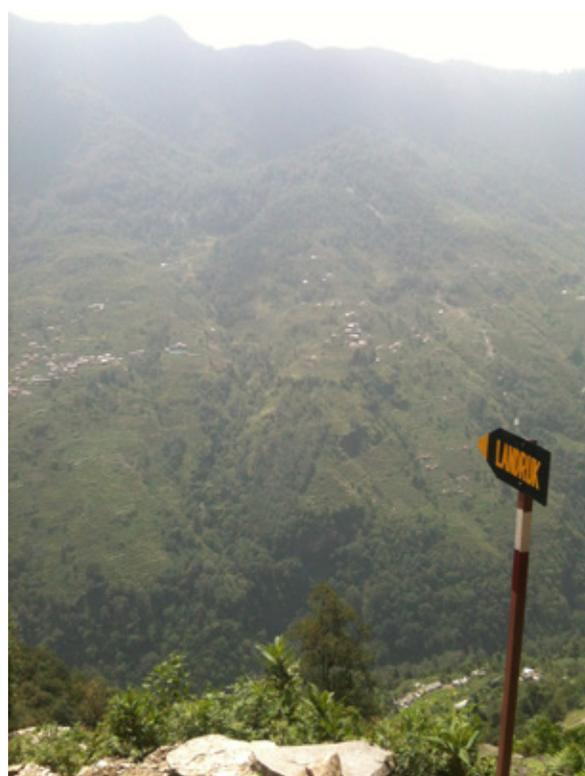
THE MISSING MIDDLE? GETTING FROM A TO B CAN BE COMPLEX
| HARRY JONES

Implementing agent: The emerging 'good practice' on flexibly facilitating institutional reform highlights the need for a body that can operate outside both government and donor structures (Booth and Unsworth, 2014). For the Pokhara project, as well as the CIG more broadly, the ability to approach issues from outside – working with and through government, but also with others and not tied to one particular entry point or gatekeeper – seems to have been an essential ingredient of success. In terms of the distance between donor and implementing agent, this is a more mixed picture compared with emerging 'good practice'. Booth (2013) argues that agents may need to work at 'arm's length' from donors, highlighting the need for agents to be independent, domestic organisations, typically with some kind of core funding arrangement. There was tighter control on the implementing agent than in some of the other examples given elsewhere (e.g. the Africa Governance Initiative in Tavakoli et al. 2013), as the agent was a private sector consultancy implementing a project according to the donor contract. Informally, there was often a relatively 'arm's length' relationship between the programme and DFID Nepal, with the CIG given considerable flexibility to operate as the director and its staff saw fit. It could be that this was sufficient to provide for the necessary 'buffer' Booth envisages, or it could be that, in certain contexts, or in the presence of other enabling factors, this is not as essential.

Managing key risks: An important part of the space the CIG was given to operate could be put down to how risks were balanced with potential benefits. A number of important risks were carefully managed:

- **Political risks:** These were less important with the Pokhara project, but more so on other CIG policy projects; these were carefully managed on a day-to-day basis, but most important was the key tenet that the CIG would work 'below the radar', not seeking publicity for itself but ensuring the domestic players it was supporting got all the credit for their decisions. In turn, this meant it was considerably harder to cast DFID's agent as undertaking politically controversial actions (not that attempts to suggest this were not made).

- **Impact risk:** The risk of projects failing to have the intended impact was a central focus of project management and implementation. From the outset, it was clear that ownership was not guaranteed; nor was success an automatic result from strong ownership combined with well-delivered TA. The

main way the CIG dealt with this was to be prepared to shut down and discontinue part or all of policy projects if and when it became apparent they might not meet their core aims. This is, in many ways, a much more active and resource-efficient way of managing these risks than tying programmes to certain activities and partners in advance.

- **Corruption risk:** Related to how impact risks were dealt with, the project could also keep watch on the potential for corruption. In the first instance, the vast majority of the CIG's support came in the form of in-kind contributions (staff time, TA etc.) and hence were inherently less fungible. In addition to this, as can be seen from interactions with local government in Pokhara, and also from key decisions taken in the hydro policy project, the ability to alter entry points, carefully facilitate ongoing processes and work on the basis of genuine ownership made it possible to avoid a number of tangible pitfalls that could easily have led to the misuse of DFID funding.

Assessing likely benefits: As well as mitigating key risks, there were some characteristics to the benefits the CIG offered. First, its working on hydropower offered DFID the potential to influence a 'big ticket' item that could have such large, quantifiable and transformational effects on the whole country. That the CIG had this high-profile item in its portfolio was possibly quite important in providing cover for other projects that offered less easily quantifiable upfront benefits. Second, the focus of the Pokhara project on working based on tangible outputs played into the evidential preferences within donor agencies; although this tangible output was actually a means to an end for the project, its achievement surely bought considerable room for manoeuvre. Also useful was the catalytic approach that 'crowded in' domestic funding – which meant favourable 'value for money' metrics could be calculated.

Formal project tools: Some features of the formal operating structures of the CIG seem to have facilitated this flexible way of working.

- **Context analysis:** As may be clear from this report, the Pokhara project was relatively light on detail in the upfront planning, but there was a considerable amount of context mapping, scoping and validation before it was initiated; this resonates with other similar projects that have invested in political economy analysis and other such

work (whether these are carried out through formal studies or otherwise; Booth and Unsworth, 2014).

- **Testable project theory:** This analysis was focused on some core, testable hypotheses about how the project would function and how and why it expected this to lead to progress and impact. In contrast with prevailing practice on 'theories of change' in donor agencies, this was a relatively condensed and theory-heavy approach with clearly falsifiable propositions – as opposed to often seemingly 'theory-free' theories of change, which can function as diagrammatic representations of log frames with very few of the hypothesised causal mechanisms elaborated (Valters, 2014).

- **Process-focused log frame:** Departing from typical practice, the log frame for the CIG was not set around central thematic areas of work. Instead, it centred on key elements of the CIG that were required to be in place to facilitate impact – including the centre being set up, opportunities identified and validated and domestic capacity strengthened. In addition, the option to revise log frames [was taken up, with outputs focusing on tangible results for certain projects set in place, once those had demonstrated they were worth scaling up support.

- **Output-based contract:** The other relatively flexible planning tools were to some extent enabled only because the contract with ASI for the CIG was output-based. This allowed considerable flexibility on how funds were spent, enabling sufficient space for experimentation and, where required, failure; on the other hand, it kept in place a very clear incentive for ASI to ensure outputs and outcomes were delivered.

Informal factors: In addition to the formal structures mentioned above, other factors, less immediately controllable, seem to have been important in determining the progress of the CIG. Particularly crucial was a strong working relationship between DFID, the ASI project manager and the CIG director. Echoing findings from elsewhere that working flexibly requires donor staff to stay more engaged in the substance of the programme throughout implementation, these interactions focused on substantive issues, requiring domain expertise and considerable professionalism (ibid.). Regular communication was important between the CIG director and the Pokhara project manager, to ensure things were on course and to correct the situation if they were not; considerable patience was also required on the part of the CIG director and DFID when the project hit obstacles and considerable delays.

It is hoped that this report can contribute to the small but growing body of evidence about what iterative, adaptive programming working in a politically-smart, locally-led fashion, looks like in practice (e.g. Andrews et al. 2012; Tavakoli et al. 2013; Booth and Unsworth, 2014).

Appendix: Proposed PPP rules

This section proposals for regulation on local PPPs in Nepal. Given the considerations of external validity highlighted above, it will be important that the proposals below be tested with other types of infrastructure and service, and in other locations, before any guidelines are finalised. The document 'Concept Note for Cooperation between MoFALD and the CIG on PPPs for Local Economic Development' outlines a process through which the rules could be tested and finalised, and a programme to implement them developed subsequent to termination of the current CIG project.

Proposed process and requirements for local PPPs

Below, a generic process for delivering local infrastructure and services through PPPs is outlined – these could be the starting point for a set of MoFALD PPP guidelines. Having an established process for PPPs (any process) would in itself lower transaction costs by allowing all concerned to simply follow agreed guidelines. Further to this, the proposed rules build on the project experience of what would work to better engage local stakeholders, where and how to draw on expertise and how to reduce transaction costs.

1. Project identification and prioritisation:

- A consultation process of at least one month must be held to elicit project ideas, and to prioritise them in terms of feasibility and value.

- This process should be led by external facilitators or mobilisers.

- This process must involve broad engagement at the local level, including citizens, the private sector and government representatives. It must include individuals unaffiliated to local associations and institutions. Open meetings should be publically advertised one month in advance.

- Selected projects must have broad benefits, that is, positive impacts for a number of local groups, and positively affect a large number of local people or businesses.

- Projects should involve collaboration, requiring substantive material, financial or labour inputs from both the public and the private sector

2. Project planning and procurement:

- For any potential project that meets the above criteria, a working group can be set up to develop the idea into a practical proposal.

- The working group must include at least one representative from local government, at least one from local business and at least one from the local community more broadly with no institutional affiliation.

- Process support and TA will be made available to support working groups. Local PPP project working groups can apply for this support by submitting a short concept note, which will be awarded on a competitive basis by the MoFALD PPP committee. Requests can also be sent to the technical departments of other government bodies depending on the project (e.g. Ministry of Urban Development, AEPC).

- Working groups should prepare detailed plans for funding, initiating and managing the proposed infrastructure/service, and for allocating revenues.

- Plans should include a budget, and must include clear financial commitments from groups involved in developing the proposals.

- Competitive procurement should where possible be done on the basis of outputs rather than inputs or detailed, fixed building specifications.

3. Funding requirements and project selection:

- Projects must have at least 25% of their start-up cost funded by the local government from its own budget lines.

- Projects must have at least 25% of their start-up cost funded by local businesses or their associations.

- Projects can apply for a maximum of 40% of their budget to be funded by a centralised PPP seed fund, operated by MoFALD.

- Projects should be eligible to apply to other government bodies (e.g. AEPC) and national business bodies for funding.

- Once a project has attracted sufficient funding (within the rules prescribed above), it can go ahead.

4. Resource management and oversight:

- The installation and then ongoing management of the infrastructure/service will be overseen by a committee to be formally established outside the local government.

- The committee must include representatives of each main funding contributor, and must have technical advisors with relevant qualifications to oversee the installation or management of the infrastructure/service involved.

- Revenues generated by the service must be first channelled to pay for the maintenance, upkeep (etc.) of that service/infrastructure.

- Any excess revenue (after maintenance costs etc.) should be split according to the proportions of funding for the initial start-up costs.

- Any excess revenues accruing to government bodies must be either used by the management committee to expand the service through the existing committee or returned to the MoFALD PPP unit.

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