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Reimagining LRED in Lumbini Province

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About The Booklet

This booklet is about the accomplishments of the Local and Provincial Economic Development Programme (LPED) implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH from June 2019 to April 2023. It outlines the Local and Regional Economic Development (LRED) approach adopted by the programme to improve the economic framework conditions in eleven selected Municipalities of Lumbini, Karnali and Sudurpashchim Provinces. In this booklet, LPED programme staff document their experiences and share the knowledge they have gained during programme implementation. They included selected Local and Regional Economic Development (LRED) tools, case studies from the ground and testimonials from participants who participated in various LRED activities. This publication highlights the prospect of LRED in Nepal by referencing the experiences and achievements of the GIZ LPED programme.

This booklet targets LRED practitioners, development partners and governments who intend to promote economic development at the sub-national level in Nepal.

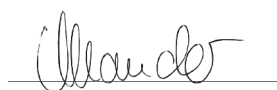
Preface

GIZ's priority areas of development policy promise to advance the process of realigning economic policies to achieve a sustainable transformation of the economy and the financial sector. With its commitment to climate-compatible, resilient economic development, the GIZ GRAPE¹/LPED programme promotes Local and Regional Economic Development (LRED) in Nepal.

LRED is a participatory approach for planning and implementing local economic development initiatives with the participation of local government and other actors from the public, private and cooperative sectors. In other words, it is a participatory approach to improve the competitiveness of local and provincial territories, which ultimately aims for inclusive growth. LRED is a continuous process that mobilises the public, private and cooperative sectors and civil society stakeholders to become partners in creating more resilient conditions for business development, entrepreneurship, and employment generation.

In Nepal, LRED is the essence behind the rationale of the country's federalisation. Thus, LRED is not only an optional approach to economic development but a must-have process to achieve accelerated economic recovery to countervail past political, social and environmental events in the country. In Nepal, there have been several scattered LRED efforts in the past, but more needs to be done at the consolidated level. Recent years have seen increased interest and efforts in LRED promotion in the country. The formal interest in LRED emerged after restoring the multiparty democracy in 1990. Since then, different development partners have been practising various LRED initiatives, including GIZ.

This booklet captures insights and learning from the recent LPED programme, which is helpful for all organisations embarking on LRED activities in the country. The booklet summarises authentic first-hand experiences from Nepal on designing and implementing LRED processes and activities. It aims to be a valuable resource for everyone involved or interested in building climate-compatible and resilient local economies in Nepal.



Magali Ana Mander
Programme Manager LPED



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International Advisor LRED
LPED programme

¹ From 2021, the Green Resilient Agricultural Productive Ecosystems (GRAPE) action is implemented as part of the LPED programme and the whole programme is thus referred to as GRAPE. GRAPE is jointly funded by the European Union (EU), the Ministry for Foreign Affairs of Finland and the Federal Ministry for Economic Cooperation and Development (BMZ) under the Team Europe approach aims at promoting climate resilient green growth of Sudurpaschim and Karnali provinces.

About the Programme

The Local and Provincial Economic Development (LPED) programme started in June 2019. It was commissioned for three years to improve the framework conditions for economic development in eleven selected Municipalities and three provinces in Nepal. LPED is a cooperation programme between the Government of Nepal (GoN) and Germany, implemented under the guidance of the Ministry of Land Management, Cooperatives and Poverty Alleviation (MoLCPA) in Nepal and with technical support from the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the German Federal Ministry of Economic Cooperation and Development (BMZ).

The LPED programme implemented GIZ's territorial economic development approach called Local and Regional Economic Development (LRED) combined with selected value chain promotion initiatives. LRED is a participatory approach for planning and implementing local economic development initiatives with engagement from selected Municipalities and determined actors from the public, private and cooperative sectors.

The programme was implemented in the provinces Lumbini, Karnali and Sudurpashchim in the West of Nepal, including the following Municipalities: Siddharthanagar, Butwal, Lamahi, Ghorahi, Tulsipur, Kohalpur, Nepalgunj (Lumbini Province), Bheriganga, Birendranagar (Karnali Province), Dhangadhi and Godawari (Sudurpashchim Province). The programme cooperated with various Municipalities to improve economic framework conditions and promote the local economy by identifying competitive advantages of Municipalities, conducting business climate surveys, setting up small programme support funds, conducting inter-municipal and public-private-cooperative dialogue fora, and implementing capacity-building measures for local stakeholders.

Unfortunately, the Covid-19 pandemic hit during the programmes' peak implementation period and greatly affected some activities. In its adaptive capacities, the programme pivoted and re-designed several interventions to continue the implementation. For instance, the Innovation Fund¹ was re-designed into a Small Project Support Fund (SPSF) to financially and technically assist selected private and cooperative-led enterprises that were impacted by the effect of the pandemic. Likewise, several tools and processes, including the two editions of the Business Climate Survey (BCS), were implemented virtually to protect interviewers and respondents against virus transmission while leveraging the programme's momentum.

¹ The Innovation Fund was earlier conceptualized as an intervention to promote new and upscaling enterprises and nurture innovation by providing seed capital in the form of a revolving soft loan.

Later, in the year 2021, the LPED programme merged with the Green Resilient Agricultural Productive Ecosystems (GRAPE) action, which is jointly funded by the European Union (EU), the Ministry for Foreign Affairs of Finland and the BMZ under the Team Europe approach to emphasise the EU and its member states' cooperation with Nepal. The GRAPE is a development cooperation programme contributing to the green, resilient, and inclusive development approach adopted by the GoN and the International Development Partners Group (IDPG) to pursue long-term sustainable economic development. The GRAPE programme focuses on strengthening agricultural ecosystems using sustainable climate-resilient technologies and practices. The action aims at fostering climate-resilient, green economic growth in Sudurpashchim and Karnali Provinces. Lumbini Province was part of the programme until April 2023, focusing on local and provincial economic development.

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Acronyms

ADB	Asian Development Bank
ADO	Agriculture Development Office
AKC	Agriculture Knowledge Centres
APM	All Parties Mechanism
BCI	Business Climate Index
BCS	Business Climate Survey
BMO	Business Member Organisations
BMZ	German Federal Ministry for Economic Cooperation and Development
CAO	Chief Administrative Officer
CBS	Central Bureau of Statistics
CCI	Chambers of Commerce and Industry
CD-SG	Capacity Development Support to Governance Project
CIDA	Canadian International Development Agency
CSF	Critical Success Factors
CTA	Chief Technical Advisor
DCU	District Cooperative Unit
DDDP	Dhading District Development Program
DFO	District Forest Office
EDS	Economic Development Strategy
EU	European Union
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FNCSI	Federation Nepalese Cottage and Small Industries
FWEAN	Federation of Women Entrepreneurs' Association of Nepal
GRAPE	Green Resilient Agricultural Productive Ecosystems
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GoN	Government of Nepal
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
ICWPO	Industry and Consumer Welfare Protection Office
IDP	Integrated Development Project
IDPG	International Development Partners Groups
IEDI	Industrial Enterprise Development Institute
INCLUDE	Inclusive Development of the Economy Program
JICA	Japan International Cooperation Agency
KBIRD	Karnali-Bheri Integrated Rural Development Project
KHARDEP	Koshi Hill Area Rural Development Programme
LDTA	Local Development Training Academy

LED	Local Economic Development
LPED	Local and Provincial Economic Development
LRED	Local and Regional Economic Development
NCF	Nepal Cooperative Federation of Nepal
NGO	Non-Governmental Organisation
NPC	National Planning Commission
NPCS	National Planning Commission Secretariat
MED	Micro Enterprise Model
MEDEP	Micro Enterprise Development Program
MEDPA	Micro-Enterprise Development for Poverty Alleviation
MEM	Micro Enterprise Model
MoFAGA	Ministry of Federal Affairs and General Administration
MoICS	Ministry of Industry, Commerce and Supplies
MoITFE	Ministry of Industry, Tourism, Forest, and Environment
MoLCPA	Ministry of Land Management, Cooperatives and Poverty Alleviation
MoLMAC	Ministry of Land Management, Agriculture, and Cooperative
MoU	Memorandum of Understanding
MSMEs	Micro, Small and Medium Enterprises
MuAN	Municipality Association of Nepal
NARMIN	National Association of Rural Municipalities in Nepal
NPC	National Planning Commission
NPCS	National Planning Commission Secretariat
ODA	Official Development Assistance
PACA	Participatory Appraisal of Competitive Advantage
PSP	Private Sector Programme
PPCD	Public-Private Cooperative Dialogue
RANSU	Rasuwa Nuwakot Rural Development Project
RUPP	Rural-Urban Partnership Programme
SMC	Sub-Metropolitan City
SME	Small and Medium Enterprises
SNV	Netherlands Development Organisation
SPSF	Small Project Support Fund
TAED	Technical Advisor Economic Development
UDLE	Urban Development through Local Efforts
UNDP	United Nations Development Programme
VC	Value Chain
VCD	Value Chain Development
VDC	Village Development Committees
VHLSEC	Veterinary Hospital and Livestock Service Expert Centre
WEAN	Women Entrepreneurs' Associations in Nepal

Acknowledgement

On behalf of the programme, we would like to express our gratitude to all partner Municipalities of LPED; with their interest and commitment to analyse the needs of local actors and businesses, and their drive to promote the local economy, interventions were successful.

We are sincerely thankful to all the business chambers and cooperative association bodies for their cooperation during the technical support provided by the programme. We acknowledge that the Covid-19 pandemic impacted the programme's implementation, but despite the challenging situation for all, the programme successfully achieved the expected outcomes.

Ms Magali Ana Mander, the Programme Manager LPED, deserves great appreciation for her leadership and continuous support when implementing this programme in one of the most challenging contexts during the pandemic.

We are also grateful to Dr Volker Steigerwald, the former Chief Technical Advisor of the GIZ LPED programme, for integrating the LRED concept into the programme context and facilitating all the required support.

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Finally, we appreciate the entire LPED team, including the Technical Advisors of Economic Development (TAEDs) and the Como-Mesopartner consortium, for their continuous flexibility and hard work in successfully implementing the programme.

Thank You.

CHAPTER I:
Understanding LRED
in the Nepali Context

1.1 History of LRED In Nepal

Local and Regional Economic Development (LRED) is a well-known concept in Nepal, as the country has evolved through several social, political, and economic transformations.

A series of programmes on local area development was designed and implemented to accelerate the multi-faceted development of various regions in Nepal from the late seventies to the eighties. Some of these projects included the Rasuwa Nuwakot development project (1976, RANSU, UNDP), Integrated Development Project - IDP (1974, SWISS), Sagarmatha Koshi Hill Area Programme (KHARDEP, 1979, ODA/UK), Mahakali Integrated Project (1979, IDA, UNDP), Rapti Valley Project (1980, USAID), Karnali-Bheri Development Project (KBIRD, 198, CIDA), Dhading District Development Program (1983, DDDP, GTZ), Seti Integrated Development Programme (1986, ADB), Mechi Hill Integrated Development Programme (1986, SNV), Lumbini Development Project (1980, JICA), Bhaktapur Development Project (Urban Renewal, conservation, economic development, 1975, German support), Rural - Urban Partnership Programme (1997, RUPP/UNDP) and Urban Development through Local Efforts Project - UDLE (1991-2001, GTZ). The fundamental work of all these projects was Local Economic Development (LED), with a focus on developing specific locations, identifying the competitiveness of local areas, creating jobs, and developing markets for local products.

Nepal had successfully introduced a few LRED initiatives before democratising the country, particularly as public-private cooperation projects. However, the interest in LRED formally sparked when the country witnessed the introduction of a multiparty-system-led democracy in 1990.

In 1994, the development program Aafno Gau Aafai Banau was introduced by the first elected communist government, which gained massive popularity despite its short implementation period. The program allocated NPR 5,000,000 to each Village Development Committee (VDCs) to select and implement local projects in their locality.

In 1998, the GoN and UNDP initiated the Micro Enterprise Development Program (MEDEP) to support small enterprise development, which evolved into a successful poverty reduction initiative based on the project's Micro Enterprise Model (MED). The program was then integrated into the GoN's Five Year Strategic Plan in 2013 to build capacities of GoN agencies and private sector organisations for sustainable micro-enterprise development in Nepal. MEDEP phased out in July 2018 and was integrated into the government-led Micro-Enterprise Development for Poverty Alleviation (MEDPA) initiative. This program is currently implemented by the Ministry of Industry, Commerce and Supplies (MoICS) as MEDPA-Technical Assistance and rolled out in all 753 Local Governments in the seven Provinces.

The Industrial Enterprise Development Institute (IEDI) was established in 1996 to develop human resources for entrepreneurship and business promotion in Nepal. IEDI set another critical milestone in initiating LRED in the region. Since then, it has produced skilled trainers, entrepreneurs, and management consultants, creating a link between the government and private sectors focusing on industry and enterprise development.

As a development partner approach, LRED was introduced in 2004 by GTZ's Private Sector Programme (PSP) and the Urban Development through Local Effort (UDLE) project, the German Development Service (ded) and SEQUA as a 'Joint LED Initiative'. The partnership resulted in knowledge generation on private sector development, cooperation as a prerequisite for stimulating local economies and resource sharing by bringing together Municipalities and local chambers.

During a fact-finding mission in 2004, the GTZ-led team visited different municipal areas and selected the first three Municipalities, Lekhnath, Butwal and Tansen/Palpa to pilot their approach. An early LRED activity of this joint initiative was a Participatory Appraisal of Competitive Advantage (PACA) training and exercise organised in Pokhara/Lekhnath in January 2005. Local public, private and cooperative sector stakeholders and the GTZ team acquired profound knowledge in LRED and the PACA methodology. In line with the principles of LRED and PACA², the local stakeholders in Lekhnath jointly selected priority sectors, LED strategies, and activities. The local stakeholders took ownership of their LRED process, achieved greater results, and ensured sustainability.

With three implementation phases, the subsequent GTZ/GIZ Inclusive Development of the Economy (INCLUDE) Programme (2008-2019) continued promoting the LRED approach in Nepal. Under this programme, local private sector organisations, such as local chambers of commerce and industry, promoted the entrepreneurial ecosystem in their locality in close cooperation with other stakeholders, including district government, local governments, and other business organisations.

In 2019, the GIZ-Local and Provincial Economic Development (LPED) programme embarked on improving the framework conditions for LRED at the local and provincial levels in Nepal. The programme implemented GIZ's territorial economic development approach, LRED, and the selected value chain promotion initiatives. The LPED programme piloted various LRED tools and methods that were customised to the Nepali context, including PACA, Business Climate Surveys (BCS), Public Private Cooperative Dialogues (PPCD), Small Project Support Funds (SPSF), Economic Development Strategies (EDS) and others. These tools are outlined in more detail in Chapter 2.

¹ PACA was called LOCA at that time in Nepal. LOCA stands for "Local Competitive Advantage".

The LPED programme conducted PACA exercises in ten Municipalities and, as a result, identified feasible LRED projects, out of which more than 60 per cent were implemented during Covid-19 pandemic despite the shift from economic development towards pandemic and health management projects. A 60 per cent implementation rate of PACA proposals is considered successful even under normal conditions. In addition, the LPED programme conducted two editions of the BCS in 2020 and 2022. The first version covered 11 LPED Municipalities, whereas the second edition upscaled to 42 Municipalities from various projects: GIZ GRAPE/ LPED/, GIZ CD-SG and Sajhedari-Support to Federalism. All three projects worked with Municipalities to promote economic governance and realised that the BCS was a valuable tool to assess economic governance from an enterprise perspective. Upscaling the BCS to its second edition was only possible because all three projects aimed at strengthening economic governance in their partner Municipalities.

As the LPED programme mainly works in Sudurpashchim and Karnali Provinces, the LRED work was conducted in the seven Municipalities of Lumbini Province and concentrated on appraising competitiveness, formulating economic development strategies, building local capacities on LRED and moderating dialogue fora.

In 2022, the Ministry of Federal Affairs and General Administration (MoFAGA) initiated a flagship program on LED in Nepal. This federal LED programme has an initial funding of three billion Nepali Rupees to be disbursed through conditional grants to the Local Government. Benefitting projects in the respective Municipalities will be identified based on the competitiveness of their economic sectors, sub-sectors and other eligibility criteria. In the fiscal year BS 2079/2080 (AD 2022/2023), MoFAGA plans to initiate the LED programme, provide LED grants to around 300 Municipalities, and upscale their support to all 753 Municipalities in coming years.

To institutionalise and ensure the implementation of the LED programme, MoFAGA has developed a draft guideline titled 'Innovative Local Economic Development Programme Operation Procedure, 2022' to be presented in early 2023 by the Ministry.

In addition, the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) formed a dedicated LED sub-committee in 2021 to liaise with government agencies to engage, participate and contribute to the local economic development in the country.

Furthermore, the interest in LED/LRED activities at the municipal level increased. For instance, the Lishankhu Pakhar Rural Municipality (Sindhupalchok) applied the PACA approach to develop a strategic and sustainable LED plan supporting MoFAGA and the Local Development Training Academy (LDTA). The LED plan describes the institutional framework for an LED committee plus the organisation of LED dialogue fora and foresees installing an LED focal point in the Local Government.

The LED/LRED efforts promoted by various stakeholders during the past decades have created a positive image of the country's bottom-up approach to economic development. For developing sustainable and resilient local economies at local and regional levels, perseverance, cross-sectoral collaboration, synergies, and clear strategic orientation are required.

1.2 LRED Concept and Approach

Since 2015, Nepal has been going through a decentralisation and federalisation process. The LPED programme initially supported the countries' decentralisation effort by institutionalising LRED as an economic planning and development approach.

LRED is a participatory and territorial approach to improve the competitiveness of a sub-national territory, ultimately aiming at inclusive growth. It is a process that mobilises stakeholders from the public, private and cooperative sectors, as well as from civil society, to become partners to create more resilient conditions for business development, entrepreneurship, and employment generation.

LRED attempts to intervene at a local level to positively influence its economic trajectory. A pre-condition to promote LRED is a deep understanding of a local economic system, for example, a Municipality.

The diagnosis of a local economy focuses on answering five key questions:

- What are the key characteristics and structures of the local economy?
- Who are the critical actors in the local economy, and how are they related?
- What are the competitive advantages and disadvantages of the local economy?
- What is the locality's trajectory (past – present – future)?
- What strategic interventions would help to improve the local economy?

Understanding what is currently happening in a local economy, what has happened in the past, and envisioning what might happen in the future, helps in designing systemic interventions and unravelling opportunities with the potential to move the economy in a positive direction. However, knowledge and insights cannot only be generated through analysis and research in systems as complex and dynamic as local economies. Therefore, a key element of LRED is creating a learning-by-doing approach and identifying the best solutions through safe-to-fail experiments.

LRED is highly interrelated with other economic development approaches, as all serve a common objective: Strengthening the competitiveness and resilience of locations, their sectors, and enterprises. LRED and value chain development (VCD) can work complementarily and mutually beneficial when combined appropriately. Solely focusing on LRED and ignoring crucial local value chains can result in limited market access. Merely working on value chain promotion means constantly battling with local framework conditions. Thus, LPED combined

the two analytical frameworks: 1) LRED and 2) climate sensitive VCD. This combination helps to gain a more systemic understanding of what is happening in a Municipality or Province and to widen the portfolio of possible interventions.

The LRED project in Nepal has two institutional entry points, one at the local level in the target locations and another at the federal level. On the local level, LRED activities started with a few pilot locations (11) to gain experience implementing LRED in the country. Later, the project extended its interventions to the three supported provinces and across 26 locations. Entering at both local and federal levels is essential if LRED is to be taken seriously as an economic development approach and included in national priority and strategy discussions. A national-level entry point can also facilitate the adjustment of legal and regulatory framework conditions at different administrative levels.

LRED in Nepal draws on a toolkit comprising sensitization, analytical, planning, learning and innovation, monitoring and evaluation, and strategy tools (see Chapter II). Therefore, the initial task of the LPED programme was to identify participatory LRED tools suitable for the Nepali context and, secondly, to train a pool of national experts who could implement them in the project context. Throughout the projects' implementation period (2019 – early 2023), the number of national LRED practitioners grew to an expert pool of more than 30 national and local LRED facilitators. The LPED programme also curated LRED knowledge, experience, and expertise to promote the documentation and codification of the emerging LRED practice in the country. This included expanding the LRED toolkit and producing knowledge products such as manuals and facilitation guides, managing the pool of LRED experts, and building awareness at various government levels. All these elements are crucial preconditions to enable and promote the LRED processes across Nepal.

The following points summarise the conceptual underpinnings of LRED:

- The main intervention strategy of LRED is facilitation, and external projects avoid taking up functions that should be held locally
- Local ownership is central to a successful LRED process.
- LRED anchors interventions in a locality and makes the results locally visible.
- LRED provides entry points based on local priorities.
- LRED widens the sector-focused lens to better understand the institutional, political, social, and cultural context of a locality that shapes economic development.
- LRED focuses on establishing problem-solving processes rather than solving problems, and on improving an economy's resilience.

1.3 LRED Principles

LRED is characterised by a set of principles distinguishing it from other economic development approaches and defining its DNA.

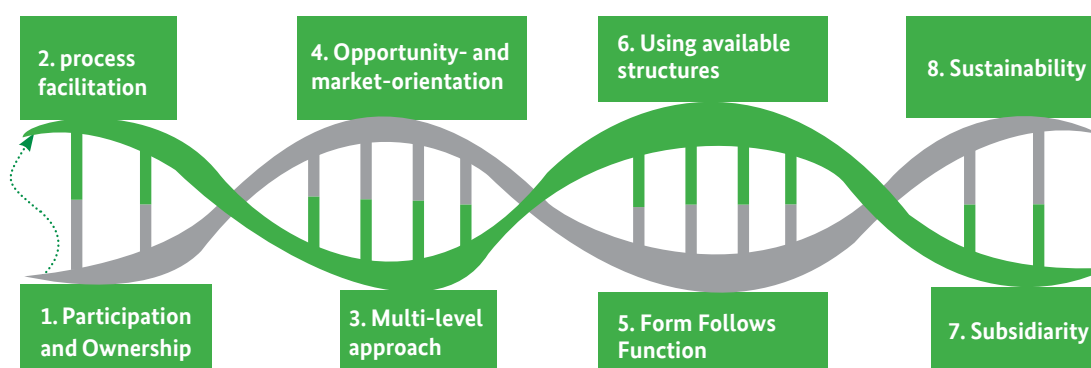


Figure 1: LRED Principles
Source: the authors

Participation and Ownership

LRED is based on **participatory** planning and the implementation of practical activities, which presumes the continuous design, testing and re-design of short- and long-term development interventions at the local level.

LRED is primarily a bottom-up approach to be delivered, designed, and **owned locally**. It is about pragmatic collaboration between the public, private and cooperative sector actors. LRED requires the building of trust and social capital among local actors. LRED process facilitation is effective when it creates and mobilises local knowledge.

Multi-level approach

Establishing LRED as an approach requires multi-level engagement, in which national and provincial levels play an enabling and reinforcing role in promoting economic change.

LRED needs to consider how interventions at one level of a system trigger change at other levels. A profound LRED initiative should address all four levels of systemic competitiveness (meta, macro, meso, and micro levels) either directly or indirectly.

Opportunity- and market-orientation

LRED is opportunity- and market-driven, and the business and cooperative sectors must play a key role in formulating, implementing, and evaluating LRED activities. LRED favours demand-oriented solutions that tackle shortcomings at the local level as they are considered more efficient, sustainable, and less distorting than government interventions. The problem of one company/cooperative is usually a business opportunity for another, which can be solved by offering solutions in the form of (new) services or products.

Multi-stakeholder dialogue is a core element of sustainable LRED. An LRED programme must establish an effective dialogue culture that enables public, private, and cooperative actors to align priorities and strategies.

Form Follows Function

The starting point of any LRED activity is the identification and assessment of issues and needs. Whatever might be necessary to set up specific alliances, networks, or institutions to address a particular issue or need, the appropriate mandate, function or task of those alliances, networks or institutions must be defined before any decision on the specific organisational form is made. This aligns with the principle of using available structures instead of building new, and often parallel, ones.

Subsidiarity

Subsidiarity is an organisational principle stating that a matter ought to be handled by the smallest group, the most hands-on organisation on the ground, or the least centralised authority capable of addressing it effectively. In the LRED context, the lowest possible administrative level should perform those tasks and activities it can still master. Suppose that the lowest administrative level (e.g., a ward) cannot perform a task or solve a problem due to, for example, a lack of facilities or expertise; then the next higher level must take on that role and responsibility (e.g., a Municipality) and so forth.

Sustainability

When designing LRED interventions, the principles of social and environmental sustainability, inclusiveness, and resilience must be discussed and considered. Sustainability dimensions have become increasingly important in economic development efforts.

1.4 LRED Process

An LRED process should be designed to enable an organically evolving learning process at the local and national levels. LRED is a process of constant search and continuous discovery. It explores ways to achieve change in a complex system, such as a local economy or a value chain. The LRED process proposes six elements that might happen consecutively, in parallel or overlap.

The application of each instrument (right column in Table 1) and the process of weaving them together (left column in Table 1) will ultimately achieve change.

LRED Process Elements	LRED Instruments (as applied by LPED)
1. Hypotheses and Orientation (forming and sensitising the PACA team and local stakeholders)	a. LRED training
2. Diagnosis (understanding what is going on in the location)	b. Participatory Appraisal of Competitive Advantages (PACA)
3. Making Sense (finding patterns)	c. Business Climate Surveys (BCS)
4. Intervention (design and implementation)	d. Economic Development Strategy (EDS)
4. Strategic Intent (sense of direction)	e. BMO Organisational Strategy Development
5. Learning and Adjusting (changing emphasis of the process and adapt)	f. Public Private Cooperative Dialogue (PPCD)
	g. Small Project Support Fund (SPSF)

Table 1: LRED process elements and tools
Source: the authors

Each instrument supports different process elements simultaneously. For instance, a PACA exercise (step 1) supports learning on LRED, generates hypotheses, helps to diagnose the local economy, and designs interventions.

Figure 2 presents the flow of instruments and process elements.

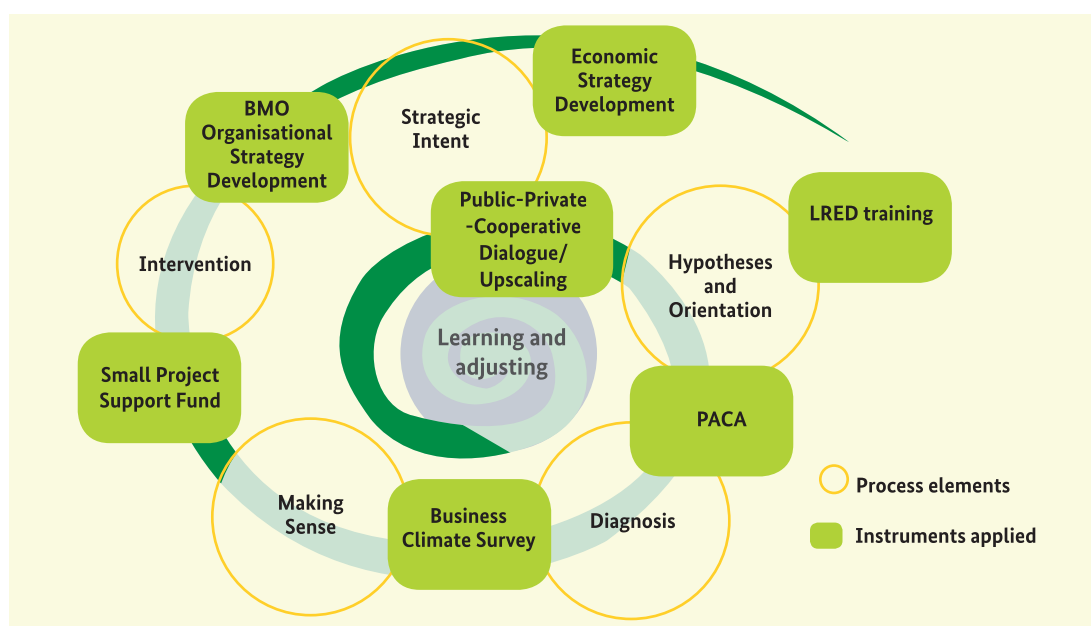


Figure 2: LRED Process Elements

Source: the authors

The initial LRED analysis (PACA exercise) in a Municipality usually generates several ideas and proposals for quickly implementable LRED activities, for example, initiating a dialogue forum on entrepreneurship promotion. Implementing such “quick win” activities creates confidence and motivation. It also builds trust and promotes skills development and knowledge exchange among local stakeholders so that the LRED process can evolve into more complex and ambitious activities. As the exact path of this collective learning journey cannot be foreseen and is different for every location, facilitating an LRED process should focus on uncovering the unique characteristics of the local economy. Given the complexity of an LRED process and its interrelatedness with developing a local economy, a change at one point in the local economy (system) might trigger many other changes, which cannot always be foreseen. Consequently, the LRED process supported by the project was unique in each Municipality and developed differently over time.

In conclusion, LRED is an iterative and open-ended process. It involves learning by doing, also known as action learning (act, reflect, learn, plan in a repetitive and continuous process). The primary role of the team of local LRED practitioners is facilitation, i.e., connecting actors and stimulating self-help potentials for economic development. The LRED process facilitation and coordination is efficient when it creates and mobilises local knowledge, connects it with relevant stakeholders, compares local and external knowledge, and distinguishes perceptions from facts. LRED empowers local players to think outside the box and to do things they had never considered before.

1.5 Key players

To understand why LRED is intervening at the various level, it is essential to describe the different mandates, functions and tasks performed at each level.

Local Level

The Local Government, as the third-level government division in Nepal, and the Provincial Government, have adopted several legislations within their jurisdiction, supervised by the Federal Government. Article 56 of the Constitution of Nepal 2015 defines Local Government as Rural Municipalities, Municipalities, and District Assemblies.

The Local Government oversees the management of local markets, environmental conservation and biological diversity, agricultural roads, irrigation, farming and livestock, agriculture production management, cooperatives, disaster management, agriculture extension and local business taxes.

The governing body of the Rural Municipalities and Municipalities is called the Village Executive and Municipal Executive, respectively. The District Coordination Committee governs the District Assembly.

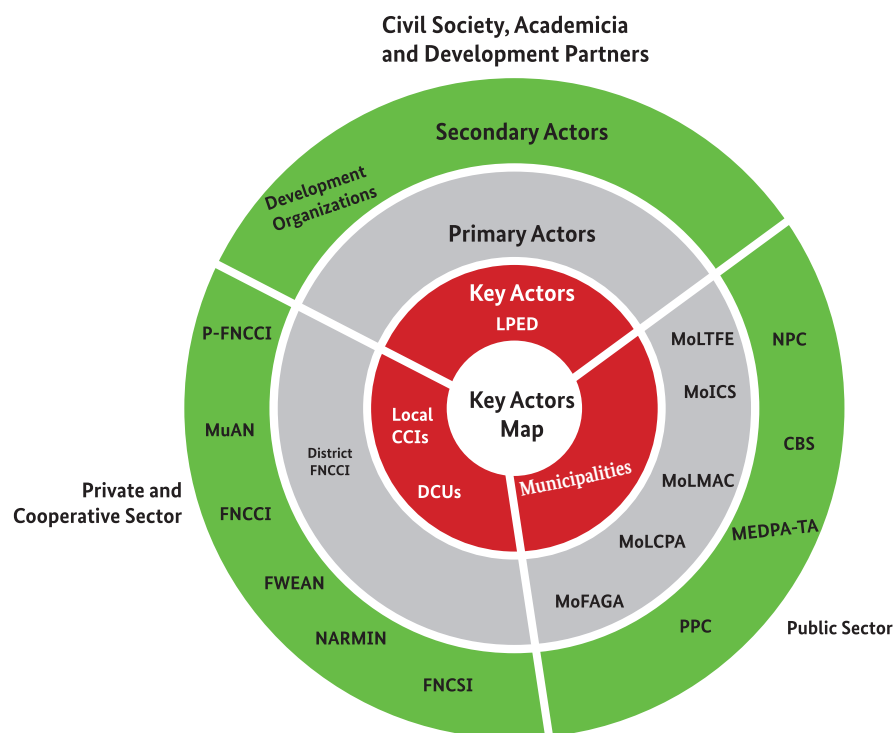


Figure 3: Actors Map – General Overview
Source: the authors

There are 77 districts and their District Assemblies and 753 Municipalities (including six Metropolises, eleven Sub-Metropolises, 276 Municipalities and 460 rural municipalities (gaunpalikas)), each with its own executive body. The Constitution of Nepal 2015 gives 22 powers¹ to these local levels, which range from managing local taxes to providing basic services, such as education and health. These powers enable them to formulate laws to implement their mandates. Besides these single powers, there are 15 concurrent powers that all three levels of state (federation, province, and local levels) can implement based on the principles of coordination, cooperation, and coexistence.

Rural and Urban municipalities associate with their respective member organisations.

- The Municipality Association of Nepal (MuAN), established in 1994, is an umbrella organisation representing the urban municipalities of Nepal. It is a non-profit and non-political organisation. All 293 Urban municipalities, including Metropolitan and Sub-Metropolitan cities, are members of MuAN. This organisation's objective is to safeguard Municipalities' common interests through advocacy and lobbying, networking, and advisory support services. (<https://muannepal.org.np>)
- The National Association of Rural Municipalities in Nepal (NARMIN), established in 1995, is now an umbrella organisation of 460 Rural Municipalities in Nepal. NARMIN contributes to transforming Rural Municipalities into efficient, transparent, and

¹ Please refer to Annex 1 for a list of local level powers mentioned in the Constitution of Nepal 2015.

responsive Local Governments. It empowers Rural Municipalities by representing and promoting their interests and strengthening their institutional capacity for local self-governance and effective service delivery to the people. (<https://narmin.org.np>)

Local Chambers of Commerce and Industry (CCI) and other business membership organisations represent the private sector at the local level. Local CCIs are non-profit private sector institutions performing as an umbrella association to develop, promote and increase the competitive capacities/advantages of the industries and trade businesses in their Municipalities or districts. LED, entrepreneurship development and advocacy to solve regulatory business problems are typical CCI objectives.

District Cooperative Unions (DCUs) are membership organisations that promote the development of the country's cooperative movement. They are formed at the district level and are responsible for promoting and supporting the establishment and growth of cooperatives in their respective districts. They provide training, financial, and technical assistance and support the formation of new cooperatives. They also play an essential role in promoting the welfare of cooperative members by ensuring compliance with legal and regulatory requirements and working with other stakeholders to promote the development of the cooperative sector in Nepal. In addition, more than 200 subjective cooperative unions are at the district level.

Provincial Level

The Provincial Government has exclusive power over banks and the operations of financial institutions, cooperatives, agriculture and livestock development, trade and business within the province, transportation, industrialisation, taxes on agricultural income, irrigation projects, drinking water, land management, management of national forest, water resources and ecology within the province.

The ministries related to LRED at the provincial level are, but are not limited to:

- Provincial Ministry of Land Management, Agriculture, and Cooperative (MoLMAC)
- Provincial Ministry of Industry, Tourism, Forest, and Environment (MoITFE)

MoLMAC has two directorates: the Agriculture Development Directorate and the Directorate of Livestock and Fisheries Development. The Agriculture Knowledge Centres (AKC), the Agriculture Development Office (ADO) and the Veterinary Hospital and Livestock Service Expert Centre (VHLSEC) are under these directorates.

MoITFE has different provincial and district-level structures, such as the Provincial Forest Directorate, Industry and Consumer Welfare Protection Directorate, Division Forest Office (DFO) and the Industry and Consumer Welfare Protection Office (ICWPO).

In the wake of Nepal's federalisation process, the national-level FNCCI decentralised its organisational structure. Since 2017, FNCCI has established its provincial chapters for better outreach to the private sector and representation of its interests at the provincial and federal levels. There are currently seven provincial FNCCIs in Province 1, Madhesh Province, Bagmati Province, Gandaki Province, Lumbini Province, Karnali Province, and Sudurpaschim Province. Provincial FNCCIs are critical in promoting private sector interests at the provincial level and acting as a liaison between the local and federal levels. The members of the provincial FNCCI are lower-level district and municipal CCI, entrepreneurs/business owners, and larger companies.

Federal Level

The Federal Government is exclusively responsible for standards and metrology, national and international ecology management, international trade, currency exchange, ports and quarantines, forest policy, insurance policy, cooperative regulations, land use policy, environment adaptation and poverty alleviation.

The MoFAGA supervises activities undertaken by local governments in Nepal. MoFAGA also regulates and manages the civil service. MoFAGA is the only ministry directly linked to the country's Municipalities, Rural Municipalities, and provinces. It also plays a critical role in implementing various e-services in local governments. MoFAGA is responsible for enhancing the access to government services of socially and economically disadvantaged regions, communities and groups. It mainly empowers women, Dalits, indigenous peoples, Madheshi, Muslims, disabled and ultra-poor people (<https://www.mofaga.gov.np>).

The **Ministry of Land Management, Cooperatives and Poverty Alleviation (MoLCPA)** is responsible for land administration and management activities to ensure efficient and effective administration and sustainable management of available land resources. Formerly known as the Ministry of Land Reform and Management, the Ministry was merged with the Ministry of Co-operatives and Poverty Alleviation to form the Ministry of Agriculture, Land Management and Cooperatives in February 2018, but was renewed and renamed as a separate ministry in August 2018, and is now known as MoLCPA (<https://molcpa.gov.np>).

The **MoICS** monitors and manages the country's industries. One of the most significant sub-divisions is the Department of Industry, which implements the Ministry's rules and regulations to stimulate the industry sector. In 2018 the ministry's portfolio was enlarged by adding Commerce and Supplies to the formerly known Ministry of Industry and thereby replaced the Ministry of Commerce. Critical functions of the Ministry include creating a conducive environment for industrial development and investment promotion, regulating and facilitating internal, bilateral, and regional trade fall under their mandate, and protecting and

building industrial infrastructure and intellectual property rights. The Ministry also engages in formulating policies and programs concerning industry, trade and commerce.

The National Planning Commission (NPC) is an apex advisory body of the GoN, specialised in formulating a national vision and development policy, developing periodic plans and sectoral policies for the nation's overall development. The Prime Minister heads the NPC. Furthermore, the NPC assesses resource needs, identifies funding sources, and allocates a budget for socioeconomic development. It is also a central agency for monitoring and evaluating development policies, plans and programs. The NPC is an intellectual hub for exchanging new development ideas and proposals from scholars, the private sector, civil society, and development partners (<https://npc.gov.np/en>).

The Central Bureau of Statistics (CBS) was established in 1959 under the Statistics Act, 2015 BS as the central agency for collecting, consolidating, processing, analysing, publishing, and disseminating statistics. The CBS works under Nepal's National Planning Commission Secretariat (NPCS) and is a national statistical organisation for the GoN. The CBS generates socio-economic statistics primarily through conducting censuses and surveys. The main intention of setting up the CBS was to make data available to the NPC and other government agencies to formulate data-driven national plans and policies and to produce national account estimates to measure the country's economic growth (<https://cbs.gov.np>).

The **FNCCI** is Nepal's umbrella organisation of businesses. Organised as a representative body of business organisations in the country, it represents the interests of the private sector. It is involved in the promotion of the socio-economic development of Nepal through private sector-led economic growth. FNCCI was involved in LED activities in the past. For instance, FNCCI teamed up with GIZ in 2013 to conduct a sub-national Business Climate Survey in selected districts in Western Nepal. More recently, FNCCI established a LED committee to put a stronger focus on developing the business environment at the local level (<https://www.fncci.org>).

The **Federation of Nepalese Cottage and Small Industries (FNCSI)** is a non-profit, non-political, non-governmental Business Membership Organization (BMO) organised as a representative body of business organisations in the country. The general members of FNCSI are the micro, cottage and small industries registered with the respective government authorities of Nepal. The FNCSI represents their interests and is involved in the promotion of the socio-economic development of Nepal through private sector-led economic growth. It has 121 district- and municipality-level chambers in 77 districts of Nepal and 20 bi-national chambers. Up to now, about 35,000 general members, including about 11,000 women entrepreneurs, are associated with all district chapters of the FNCSI network. Besides, the 123 national-level commodity associations have their membership network; the central-level

commodity associations only are the institutional members of the FNCSI (<https://fncci.org/introduction-299.html>).

The **Federation of Women Entrepreneurs' Association of Nepal (FWEAN)** is a non-profit apex body of the Women Entrepreneurs' Associations in Nepal (WEAN). Currently, 57 WEAN chapters are associated with FWEAN. It intends to establish subsidiary WEAN chapters in all 77 districts of Nepal, thus involving 10 per cent of the 500,000 self-employed women running MSMEs. To enhance and expand its work, FWEAN has developed affiliations and strong ties with several national federations, organisations, networks, and stakeholders (<https://www.fwean.org.np>).

The **National Cooperative Federation of Nepal (NCF)** is an apex body of the cooperative sector in Nepal. NCF was founded based on universally accepted cooperative values and principles. It is a leading organisation which advocates for the cooperative movement at the national policy level. In coordination with cooperatives at different levels, NCF has provided recognition to the cooperative sector as one of the three pillars of economic development in the Constitution of Nepal 2015. NCF has been instrumental in providing tangible feedback for developing national cooperative policies and programs to strengthen cooperatives and promote an inclusive, equitable and sustainable development of the country. NCF is also an active International Cooperative Alliance (ICA) member. It has 304 different cooperative unions/federations at different levels (district, provincial and national levels) as its members and 11 associate members (www.ncfnepal.com.np/members-database).

The **Nepal Agriculture Cooperative Central Federation Ltd.** is an umbrella organization of Small Farmers' Agricultural Cooperatives and other agricultural cooperatives. It provides capacity development services and other non-financial services to farmers through its member agriculture cooperatives. It has 1,139 small farmers and other agricultural cooperatives as its members spread over all 77 districts of Nepal. Its services and networks have benefitted more than 5 million rural populations (www.naaccfl.org.np).

CHAPTER II: LRED tools, methods and their field application

The LPED programme customised, piloted, and rolled out various LRED tools and methods to implement the different stages of an LRED process in the Nepali context. In line with the LRED principles, all tools are participatory, inclusive, and replicable and require skilful facilitation.

2.1 Capacity development (LRED training)

LPED's basic LRED was designed as a highly interactive, participatory, inclusive, two-day onsite training course for four types of actors that are relevant for developing a local economy:

1. Local officials and politicians
2. Provincial officials and politicians
3. Local representatives of chambers and DCUs
4. Provincial representatives of chambers and DCUs

The course covers a wide range of topics, structured into the following key thematic areas:

- LRED concept and principles
- LRED target groups and locational factors
- LRED facilitation and governance
- Policy priorities and synergies at the local level
- Analysing a local economy and designing interventions
- Designing an overall LRED process
- Climate resilience and green economic development

The LRED training aims at enabling and enhancing the capacity of public, private, and cooperative key stakeholders at the local and provincial levels to understand their local economies better, to design more suitable and effective local economic development interventions and implement them, and to build the local economy's resilience with a foresighted, systemic, and capacity-enhancing perspective. Besides, the training introduces selected LRED tools already tested by the LPED programme, such as PACA, BCS, or EDS. It presents how LRED intervention areas, e.g., entrepreneurship development, economic governance, and climate resilience, are interlinked.

The training is organised in municipal clusters. In every cluster, two training activities take place: one with local officials and politicians and another with representatives of chambers and DCUs. Each training accommodates a maximum of 20 participants.

Examples of LRED Training

From December 2021 to March 2022, the LPED programme conducted six local-level LRED training workshops with 143 participants covering elected officials, local officers, private sector, and cooperative representatives (CCI and DCU).

Throughout the training, the LRED concept, its processes and tools were explained and became more tangible to the participants. Thanks to a newly created puzzle game⁴, the participants began to understand the dynamics of a local economy and how to design and implement relevant LRED interventions. Considering their local context, the participants also learned to define LRED in their locality.

The training was beneficial for individuals working in the Municipality's planning process to promote local economic development. They realised that economic development is not limited to government efforts alone but that the private and cooperative sectors play an equally important role. Therefore, it is recommended to joint training train the Municipality, private and cooperative sector representatives in one batch. In general, the demand for LRED training is growing across Nepal, also in Municipalities beyond the LPED scope.

Similar LRED training was conducted for all 19 GRAPE supported Municipalities at the end of 2022 and the beginning of 2023. The training was organised in eight clusters, with about 160 local participants. The participants were Mayors, Deputy Mayors and CAOs, and representatives of provincial Ministry of Land Management, Agriculture and Cooperatives (MoLMAC), CCI, Federation of Women Entrepreneurs Association of Nepal (FWEAN) district chapter, DCU and NGOs.

“The LRED training helped me to understand the economic development potentials of my Municipality,” says Mrs Rewa Rawat, an officer from the Industry and Business Promotion Section at Tulsipur Sub-Metropolitan City. Mrs Rawat attended a two-day LRED training for elected and non-elected officials of Municipalities from the Dang cluster. Mrs Rawat realised that through the appropriate technical support offered by government and non-governmental organisations and the development of suitable business plans by the private sector, cottage and small-scale industries can be stabilised, promoted and established, and local employment and income rates could be boosted in the large-scale industries in Tulsipur area. She insisted that “economic development is not possible with government effort alone but also requires the commitment of the private sector and cooperatives”.



Mrs Rewa Rawat, officer,
Industry and Business
Promotion Section, TSMC

³ The project designed the puzzle game as a tool to understand the circular flow of a local economy demonstrating how money, goods and services are moving between sectors and actors in an economic system.

Furthermore, she shared that participating in the training has been valuable for her daily work. “The LRED training was beyond my expectation. I learnt a few useful tools and concepts which I can use while planning and designing projects on skills and entrepreneurship.” Mrs Rawat emphasised that most sessions were participatory, interactive, and lively and that the training focused on enhancing local products and prioritising sectors for business promotion. She suggested engaging the private sector in this training to help them plan business activities, prioritise sectors, prepare budgets, and set timelines.

The previous Mayor of Kohalpur Municipality, Mr. L. B. Rawat, also shared his perspective on the training “As a politician, I attended hundreds of training workshops, but I have never attended a training during which I gained such a deep understanding on local economic development. In my opinion, the training should have been delivered even earlier, when the elected municipal officials started their term, so the whole planning process could have been based on the LRED approach. Also, a heterogenous group of participants in the same training, including Municipalities and private/ cooperative sectors, would have offered a great opportunity to jointly formulate a development strategy for the local economy“.



Mr L. B. Rawat, previous Mayor, Kohalpur Municipality

Since 2019, Madan Kumar Karki is working with the Butwal Chamber of Commerce (BuCCI) as the Executive Director. He participated in a PACA exercise in 2019 and was very impressed by the PACA process applied to identify the competitive advantages of Butwal. As the Executive Director of BuCCI, he proudly shared that the short-term projects identified in the PACA exercise were implemented. Mr. Karki highlighted, “one of the successful PACA projects that the BuCCI led was the Rupandehi Business incubation for start-ups. In the first phase, 20 incubees were nurtured. The second phase currently runs with 12 incubees. Another initiative implemented from the PACA activities is the development of local product profiles, focusing on local production and its promotion” (<https://www.bcci.org.np/product-list>).



Mr Madan Kumar Karki, Executive Director, BuCCI

Another PACA project initiated an online job matching platform (<https://www.butwalrojgar.com>) for local employment promotion. The Butwal SMC hosts the server and the BuCCI administers the platform.

After attending the LRED training, Mr. Karki realized that the Butwal CCI board members would also benefit from such training. With the technical support of LPED, a one-day training was organized for over 60 CCI members to better understand and strengthen the local economy. BuCCI and the Butwal SMC developed a common understanding of tourism promotion and a strategy to revive Butwal's oldest economic activities in the same workshop.

"We were confused and lacked the know-how and confidence to identify activities for local economic development. The PACA exercise and LRED training helped us in planning proper LRED activities. We received suggestions and feedback from the GIZ programme team throughout the process whenever necessary."

Mr. Karki shared that his team applies tools like SWOT analysis and competitive advantages mapping when planning LRED activities. He also mentioned, "Butwal is evolving into a satellite city for local economic development activities in the entire region. We realized that the LRED process of Butwal should incorporate adjacent Municipalities, as it would offer an opportunity to develop LRED activities jointly with them".

2.2 Participatory Appraisal for Competitive Advantage (PACA)

PACA is a participatory, bottom-up, pragmatic, and market-oriented approach to sustainable LRED. PACA is used to diagnose and assess a local economy and its potential, to formulate projects and plan activities in a participatory manner to stimulate the local economy, and to strengthen its resilience. PACA is highly action-oriented. It emphasises follow-up activities for realising short-, medium- and long-term economic development opportunities to generate income, create jobs, and enhance the capabilities of local actors in doing economic development.

PACA is particularly useful for launching an LRED initiative or investigating why existing initiatives have little or no economic development impact. A PACA team usually consists of 2 or 3 external specialists and 6 to 8 local actors from different public/private/cooperative organisations or academia, who conduct the various PACA exercises and involve local stakeholders from all societal groups in this inclusive process, mainly through interviews, workshops, and large-scale events. Learning and transferring LRED skills are key elements of the approach. A local PACA host (Municipality, chamber, or other local organisation) helps to organise the PACA exercise, invites relevant stakeholders to key events and coordinates follow-up activities.

Preparing a PACA exercise takes up to four weeks, whereas conducting the actual PACA exercise takes about 12 days, including training local team members. Depending on the kind

of project proposals identified in the PACA process and the speed of project implementation, between six to twelve months should be scheduled for the implementation and follow-up of PACA activities. Please refer to the PACA Manual for more information on the process and exercises.

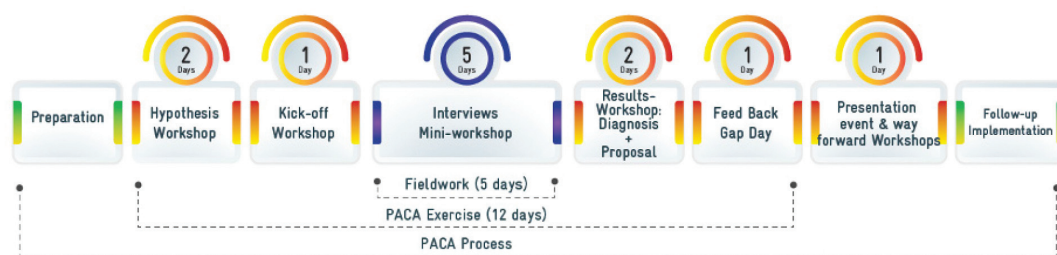


Figure 4: The PACA process and timeline in Nepal

Source: the authors

Examples of PACA exercises

From November 2019 to April 2022, the LPED programme conducted PACA exercises in ten Municipalities in the provinces Lumbini, Karnali and Sudurpashchim and thereby helped the various local PACA teams to identify feasible LRED projects, out of which more than 60 per cent were implemented within 12 to 15 months despite of the challenges connected to the Covid-19 pandemic.

The PACA exercises were conducted in nine Municipalities with the financial support of LPED. Only the PACA in Tulsipur was significantly co-financed by the Tulsipur SMC, which is a precedent in the Nepali context.

The PACA exercises helped to identify sub-sectors or value chains that offer economic potentials and income opportunities. Apart from the economic sectors, the PACA teams also assessed the local institutional landscape at the meso-level that drives the LRED process in all Municipalities. Each PACA exercise generated a list of proposals for feasible activities that stimulate the local economy sustainably and inclusively. The list included mid and long-term projects and projects that yield quick wins and visible results. The results of the PACA exercises provided a foundation for the design of a mid-term economic development strategy in many Municipalities in Lumbini Province (see section 2.4).

Following the first round of PACA exercises, the project prepared a PACA Manual and Facilitation Guide and customised them to the Nepali context (available in English and Nepali). The PACA team in Tulsipur was the first to use the PACA Manual as a guide to design their PACA process.

Ultimately, the PACA exercises enhanced the capacity of local LRED practitioners and champions from the public, private and cooperative sectors at the municipal, district, and

provincial levels to understand their local economies better, to be able to identify their competitive advantages, to design and implement local economic development interventions, and to strengthen the local economy's resilience. The PACA exercises in Nepal were scheduled so the results could feed into the budget planning process of the municipalities for the following fiscal year.

Through the PACA exercises, the relationship between public institutions, businesses, and cooperatives improved, and networking between various societal groups and economic sectors at the local level was stimulated. The LRED proposals included disadvantaged and marginalized groups in the planned economic development activities whenever possible. The LRED proposals also integrated local enterprises and cooperatives into value chains to improve market access. Other proposals emphasised the need for theme-based stakeholder dialogues to create awareness, exchange relevant information and to share knowledge.

According to Mr Nabaraj Poudyal, Chief Administrative Officer (CAO) in the Siddharthanagar Municipality, the PACA exercise was the first milestone in identifying economic sub-sectors with competitive advantages. The process was participatory, inclusive, and driven by local stakeholders. For all sub-sectors, information and perceptions were collected from various actors, including farmers and farmer groups, representatives of local SMEs, public and private business support providers, academia, Local Government, and business associations. Mr Poudyal recently joined the Municipality, and the PACA report helped him better understand the economic sectors and potential projects to strengthen their competitiveness. In addition, the PACA exercise guided the Municipality in allocating the annual budget to relevant economic development activities, for example, to establish the Koseli Ghar (souvenir house) – a space provided by the Municipality for local product promotion.



*Mr Nabaraj Poudyal,
Chief Administrative
Officer, Siddharthanagar
Municipality*

The Nepalgunj SMC is another PACA location in Lumbini Province. Mr Krishna Prasad Joshi, the SMC's Social Development Officer, emphasised that: "LRED is required for our entire planning and project design process".

Since the introduction of federalism, the Nepalgunj SMC has done little to support local economic development until LPED was introduced in September 2019 and guided the city in developing a strategy for economic growth. After the PACA,



*Mr Krishna Prasad Joshi,
Social Development Officer,
Nepalgunj SMC*

Nepalgunj gained increasing attention from the Federal and Provincial Governments and the private sector because the Municipality established an incubation centre to promote an entrepreneurship ecosystem, a PACA project that is currently implemented in the city. Mr. Joshi stated "the incubation program has already supported 20 new start-ups in developing their innovative ideas into business models, and several are implementing them. As the first incubation centre supported by the Municipality, we want to become a fertile ground for start-ups". The Municipality understood the importance of developing LRED-related policies and training and is now offering short-term loans to MSMEs. A tole-level (community level) organisation at the ward level was formed to generate ownership for local-level planning. Mr Joshi emphasised "We observed positive economic development after the introduction of PACA and EDS in the Nepalgunj Sub-Metropolitan City. We identified local competitive advantages, made economic development an important discussion topic and developed a 20-year long-term strategy as a foundation for our planning. Throughout drafting the strategy, we witnessed the meaningful participation of all stakeholders. The local team mobilization led to a high level of ownership. The strategy will create opportunities and assure positive sentiments for future investors".

2.3 Business Climate Survey (BCS)

BCS is a tool to measure a territory's economic development progress and economic governance. The BCS is a tool to track and measure a territory's economic development status and progress by comparing relevant economic indicators over time (intra-territorial). However, a more significant benchmark is a territorial comparison with other areas (inter-territorial). Inter-territorial benchmarking may fuel competition among locations and, thus, accelerate development progress. The survey results provide essential information to feed public discussions and policy formulation. The objectives of conducting the BCS in Nepal are:

- Monitoring the attractiveness and competitiveness of Municipalities for retaining or attracting business operations and investments
- Measuring the quality of economic and climate-smart governance of Municipalities
- Measuring private sector performance in terms of investment, employment, trade and legal compliance, sustainability, and climate resilience
- Exploring municipals responsiveness during the Covid-19 pandemic and its local economic impact
- Ranking Municipalities, triggering competition and improving municipal performance
- Providing data-driven information for policy dialogue and planning at the municipal and provincial level

The LPED programme conducted the first BCS in 2020/21 to assess economic governance and business sentiments in 11 Municipalities in the three provinces of Lumbini, Karnali and Sudurpashchim. The programme revised the BCS in 2021 and added another set of indicators to assess the municipal performance in dealing with climate change and developing climate-resilient governance solutions at the municipal level, particularly for the agricultural sector.

The second BCS edition in 2021/2022 was a telephone-based survey with 5,690 enterprises from 42 Municipalities. The interview sample reflects the actual economic structure in the Municipalities. The analysis also included secondary data source for calculating the Business Climate Index (BCI), consisting of 49 indicators in eight sub-indices based on survey results and statistics.

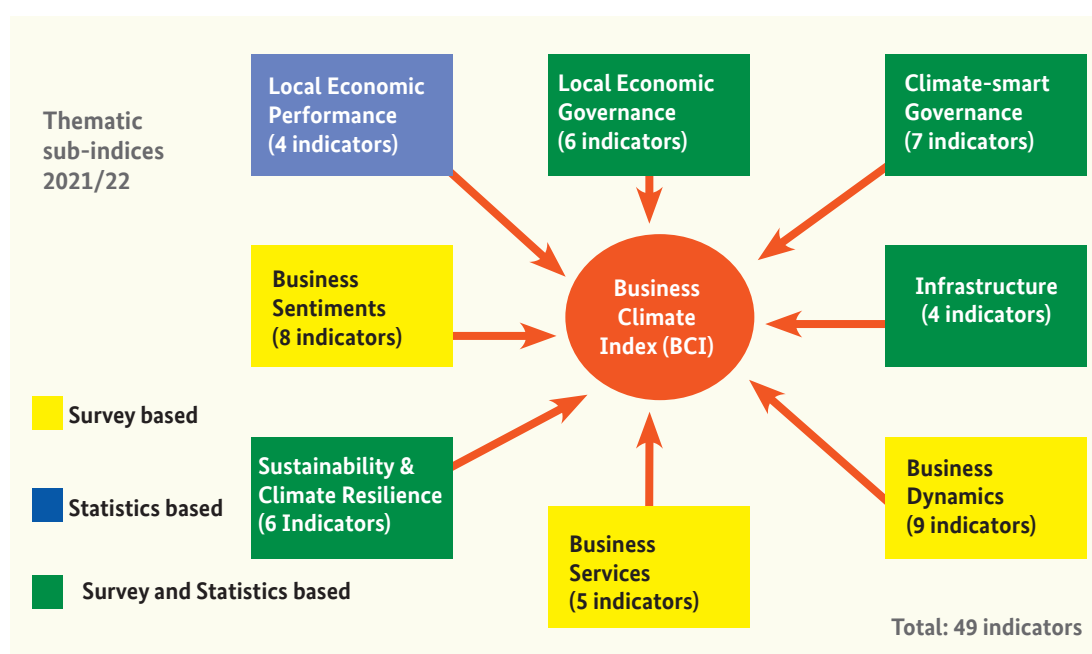


Figure 5: BCS Sub-indices and Indicators (2021/22)

Source: the authors

The BCS is a promising tool for assessing and benchmarking Nepal's economic governance and development dynamics. The methodology was tested internationally and tailored to the Nepali context, local circumstances, and requirements. The BCI ranked Municipalities on economic governance and performance, which triggered competition among them and made them strive to improve municipal performance.

For more information on the BCS methodology, please visit our BCS Guide and BCS 2021/22 results report⁵.

⁶ https://admin.bcsnepal.org/data/static/reports/20230201_LPED_GRAPE_BCS_Results_2021-22_Eng_Final780376.pdf

Examples of BCS

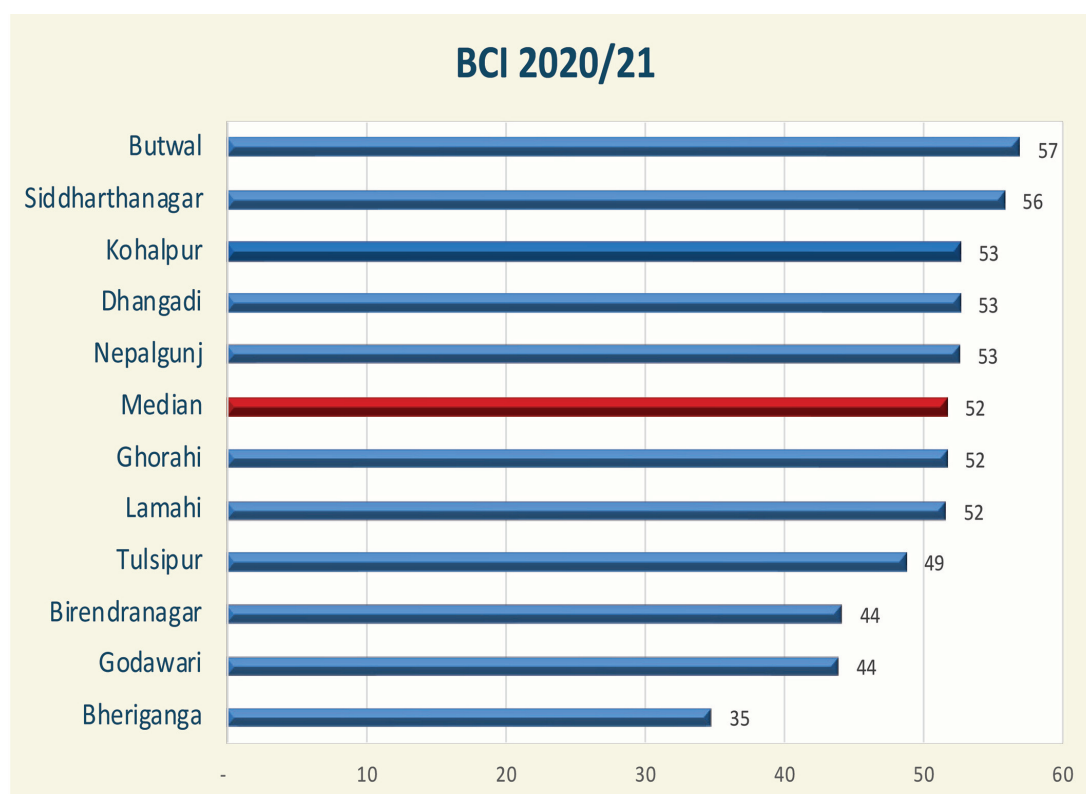


Figure 6: Business Climate Index 2020/21

Source: the authors

In the BCS 2020/21, Butwal stood ahead of the other ten Municipalities in the BCI (see Figure 6) with an average score of 57 (on a 1-to-100 scale, where 1 is the weakest possible performer, and 100 is the highest possible performer). Similarly, in the second BCS 2021/22, Birendranagar Municipality, with an average score of 59, topped the other 41 Municipalities in the BCI. Siddharthanagar Municipality ranked 2nd in both editions. All Municipalities are encouraged to improve their performance across the 49 indicators. This, however, is particularly true for the Municipalities ranking below the median.

Two national dissemination workshops were organised to share the BCS results. The first workshop was organised in August 2021, hosted by the MoLCPA. The BCS results of 2020/21 were presented to 70 participants, covering 11 Municipalities. A second national workshop was organised in April 2022 to present the results of 2021/22 covering 42 Municipalities.

Following the first BCS edition in 2021, on-demand BCS diagnostic workshops were organised in more than half of the Municipalities to explain the BCS results in more detail, discuss the strengths and weaknesses of each Municipality regarding the BCI dimensions, and to elaborate recommendations for improvement. After the second BCS edition in 2022, BCS diagnostic workshops were conducted on demand in most participating Municipalities to discuss the BCS results and to elaborate recommendations to improve each Municipality's

economic governance and business environment. The objective of the diagnostic workshop was to share the findings, engage the stakeholders collectively, facilitate a discussion and develop a joint action plan on what can be done to improve the respective Municipalities' low-performing and moderately performing indicators.

When analysing the data of the second BCS survey, it became evident that a one-year gap between the two surveys was too short to measure improvements at the municipal level. During the BCS diagnostic workshops, the participants usually come up with different recommendations for action that take time to implement and create a visible impact. Therefore, the programme recommends a minimum gap of two years between the BCS surveys to help the Municipalities understand their economic governance status and facilitate the necessary improvements.

In brief, the BCS workshops engage stakeholders on their economic performance and promote evidence-based policy intervention design. It covers key aspects of economic governance at municipal and provincial levels and captures the essence of local economic performance. The thematic approach has helped to explore investments, innovations, entrepreneurship, the competitiveness of enterprises/cooperative-led enterprises and business dynamics. In some cases, the results of the BCS were eye-opening for local governments when confronted with an aggregated enterprise perspective on their performance. Many municipalities assessed their governance performance better than the enterprises in the survey. The diagnostic workshops were instrumental in bringing all stakeholders together to exchange on improving the overall economic governance and various indicators impacting local economic performance.

Mr Hem Shrestha, Manager of the Research Department at FACTS Nepal, the service provider that conducted for BCS in the field. Mr Shrestha remarked, "During the secondary data collection, which was required to develop the BCI, I learned that data are scattered and often archived in different formats. I realized that only a minimum effort was made in harmonising and structuring data uniformly. In some Rural Municipalities, databases are not maintained, and database systems are underdeveloped." In Nepal, the lack of accurate, agile data at the local/provincial level is one of the biggest challenges that the country is facing after the federalisation. This data crunch has created challenges during planning, programme implementation, and service delivery.



*Mr. Hem Shrestha, Manager,
Research Department,
FACTS*

Mr Shrestha highlighted that the programme helped him understand how Municipalities handle enterprise data. "While developing the BCS sampling framework of agriculture enterprises, I worked with different groups and enterprises. The major challenge was

the segregation of agriculture enterprises involved in animal husbandry and agriculture. As in some places, individual firms were recorded twice: in the animal husbandry and the agriculture division of the Municipality, which required manual segregation”. Mr Shrestha further shared that the data generated from a particular department is not shared with other departments/divisions. It seems that a lot of resources, time and energy is invested into collecting the same data repeatedly. This coordination challenge happens within one office and between government agencies; little effort has been made to solve it. Yet, the reliability and accessibility of data are crucial for evidence-based decision-making at the local level.

2.4 Designing an Economic Development Strategy

A territorial strategy for economic development offers a perspective and provides an orientation to promote economic activities jointly and helps prioritizing relevant economic sub-sectors. A local EDS provides a long-term perspective based on joint visions, missions, local cultures and previous achievements, describing the preferred future trajectory of a locality. It attempts to improve sustainable economic performance compared to the past and in comparison, to other Municipalities or regions.

The development of an EDS must be inclusive and consider the interests of various economic actors in the locality. The ownership of the EDS should be with the Municipality, which is expected to align its annual plans and budgets to facilitate the EDS’s implementation. The EDS provides a conceptual frame and strategic orientation that helps government and donor programs to develop suitable technical and financial support and align their programming towards the need of the locality.

In the LRED process, EDS design is a medium-term step, not the starting point. The EDS design provides a decision-making framework for public, private, and cooperative key actors. It helps them to understand what is certain or uncertain about the future and how to make the best possible use of their resources. The participatory EDS design process strengthens the commitment and motivation of local leaders to decide on a desirable future trajectory of the locality jointly and to follow this development path.

The EDS process takes at least six months when it is properly facilitated. When setting up the local team, selecting the right candidates is crucial. The local team members bring the knowledge, information, and networks to develop the long-term strategy for the Municipality. However, ensuring female participation on the local teams has been a challenge. This shows that female participation in any strategic position is still low. For any similar process, women representing bodies should be approached to select the right female experts.

Designing an EDS contains different steps, including drafting an MoU, forming a local drafting team consisting of four-six local key stakeholders, reviewing Municipal, Provincial, and Federal Government plans, studying survey results (BCS, Covid-19 surveys) and statistics, examining relevant PACA and VCD results, and reading existing studies and reports of other development partners. The respective Municipality forms the local drafting team, and tasks them with formulating the strategy document. This ensures local ownership in developing a long-term vision and paves the way for endorsement by the Municipal Council.

The work with the local drafting team starts with an internal three-day facilitated review workshop, followed by a kick-off workshop and a scenario workshop to validate the desk review results, explore future directions, and formulate a vision and mission for economic development in the locality. Thereafter, a PPCD event is conducted to finetune the future vision and pinpoint sector priorities, examine trends and determine future prospects. With coaching support, the local drafting team prepares the draft strategy paper during a three-day writing workshop, which is presented at a final strategy presentation workshop. Thereafter, the EDS is finalised.

The EDS design process is visualised in the chart below.

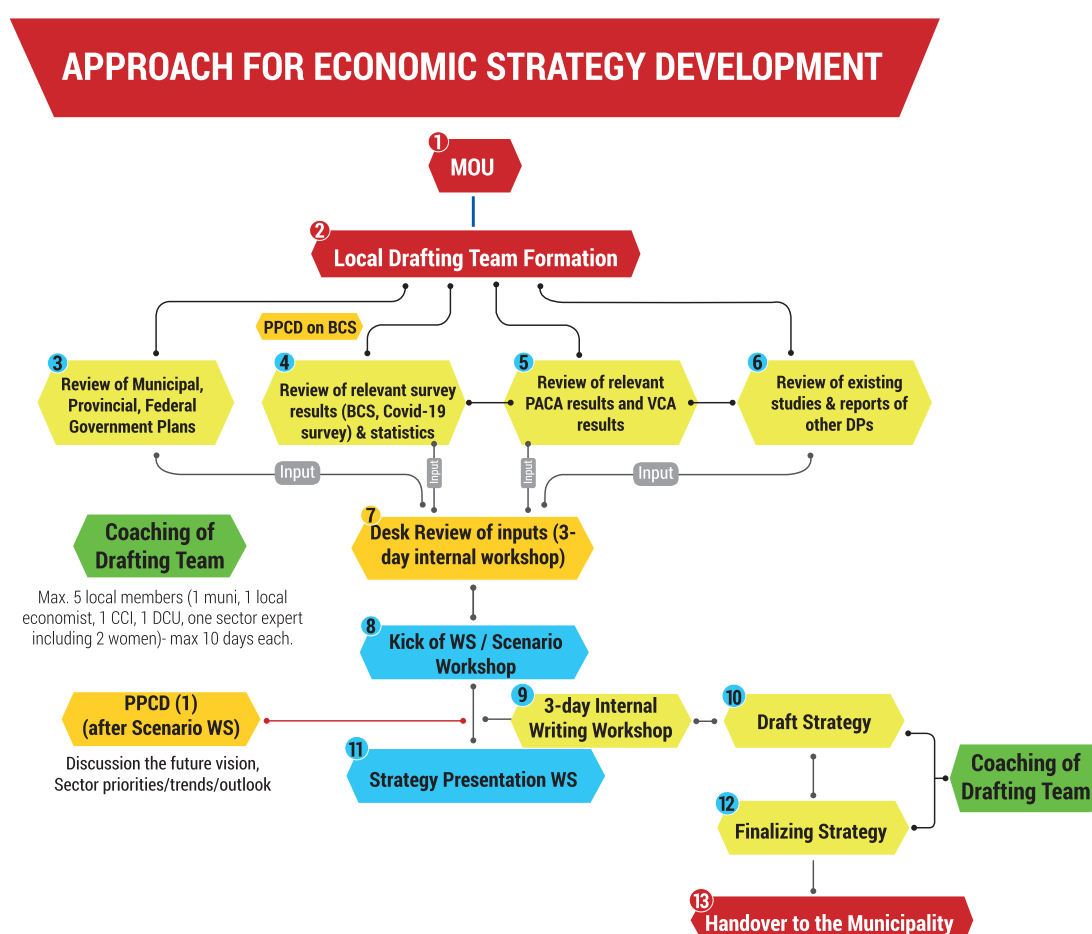


Figure 7: EDS Design Process

Source: the authors

During the drafting process of the EDS, GIZ LPED programme supported and coached the local team in reviewing documents, arranging and coordinating interviews, hosting and organising the required meetings and workshops, drafting the strategy, and sharing the final strategy with relevant key stakeholders.

Examples of EDS

Through consultation meetings with 11 Municipalities in Lumbini Province and a subsequent online survey, LPED learned that five Municipalities (Nepalgunj, Kohalpur, Lamahi, Ghorahi and Siddharthanagar) are interested in developing an EDS to accelerate their local economic growth and to achieve higher economic resilience. In addition, Butwal SMC and Tulsipur SMC agreed to review their existing EDS with the support from the programme. The strategy documents were revised by experts and handed over to the respective Municipalities with recommendations.

MoUs between LPED and the respective Municipalities provided a frame for the joint development of the EDS. The programme agreed to facilitate the EDS process, while the respective Municipality ensured the full commitment of local key decision-makers and stakeholders, i.e., the Mayor, Deputy Mayor, Economic Division within the Municipality, private sector, cooperative sector, civil society actors and other key players in the Municipality.

The main principles of the EDS process are participation and ownership. Considering the workload and time constraints of the local team members, it was decided to become more effective by convening the drafting team for two workshop sessions: a review workshop and a writing workshop. The strategy is prepared in Nepali and English to facilitate feedback from the local team and other municipal stakeholders. Another lesson learned was that sufficient time should be allocated for feedback from the stakeholders and the final review.

When the EDS for Siddharthanagar was drafted, specific sectors, such as tourism, were prioritized, and a budget was allocated to promote training in the industry. Mr Nabaraj Poudyal, CAO of Siddharthanagar Municipality, stated: "I thank the programme team for their proactive support in strengthening the capacity of the Local Government and their active involvement throughout the process. As a result of the EDS process, we will be able to plan better tourism promotion programs, develop tour packages for long-term guests and design exciting tourism activities to attract visitors, utilizing the newly opened International Airport in Siddharthanagar."



Mr Nabaraj Poudyal,
Chief Administrative
Officer, Siddharthanagar
Municipality

According to Mrs Manju Pandey, Women Development Officer, in Nepalgunj SMC, the most rewarding experience was the EDS process: “The whole EDS process was unique and designed in a way to ensure inclusiveness, diversity and local ownership”. Mrs Pandey shared that the EDS process promoted local knowledge and expertise and encouraged stakeholders to come with an open mind and to co-create the future economic roadmap. “We incorporated people from various backgrounds, including the disadvantaged and marginalised communities, and even businesses from the informal sectors”. Mrs Pandey highlighted the importance of targeting entrepreneurship development and MSME promotion. Entrepreneurs and MSMEs make up 95 per cent of businesses in the country’s economy and therefore have a significant role to play in the location’s economic development.



Mrs Manju Pandey, Women Development Officer, Nepalgunj SMC

Mrs Pandey recommended including cost-benefit analyses in the EDS to be able to calculate a return on investment of the strategic intervention. Mrs Pandey highlighted that the Municipality leads the EDS process. “The composition of the local team is inclusive and helps to tap into the full knowledge and potential of the location”, she added. Mrs Pandey also shared that after being involved in the EDS process, she formed a committee/helpdesk to support women entrepreneurship.

Mr Bir Bahadur Hamal, Proprietor of Everest Organic Agro Farm in Nepalgunj, describes the EDS process as unique and meaningful. “We have a local team, national consultants, and international colleagues who support us. I have sound experience in strategy development, but developing the EDS is the most inclusive and participatory process I know”, Mr Hamal stated.



Mr Bir Bahadur Hamal, Proprietor Everest Organic Agro Farm, Nepalgunj

“The biggest surprise was the local ownership throughout the process, which led to meaningful participation and results”.

2.5 Facilitating an Organisational Strategy Development

In the wake of Nepal's federalization process, the FNCCI decentralized its operations. Since 2017, FNCCI has established seven provincial chambers to improve outreach to the private sector and represent their interests at the provincial and federal levels. The seven newly established provincial FNCCI chapters are critical in promoting the private sector at the provincial level and connecting the local and federal levels. However, the provincial chapters still need to develop clear strategies to be able to perform as apex bodies for the private sector at the sub-national level and to become effective in supporting their members in promoting local and provincial economic development.

Behind this backdrop, the LPED programme decided to design and pilot a participatory approach to organisational strategy development for BMO, primarily focusing on supporting the provincial FNCCI chambers in Nepal.

A BMOs organisational strategy aims to increase the capacity of their sub-national BMOs, such as the provincial FNCCI chambers, in mobilising the local private sector to promote a resilient, inclusive, sustainable, and climate-smart provincial economy.

The organisational strategy development process of a BMO should be designed in a participatory manner and driven by the members' expectations and the organisation's strategic mandates. The design process of an organisational strategy contains five steps and a follow-up process to ensure the implementation of identified activities.

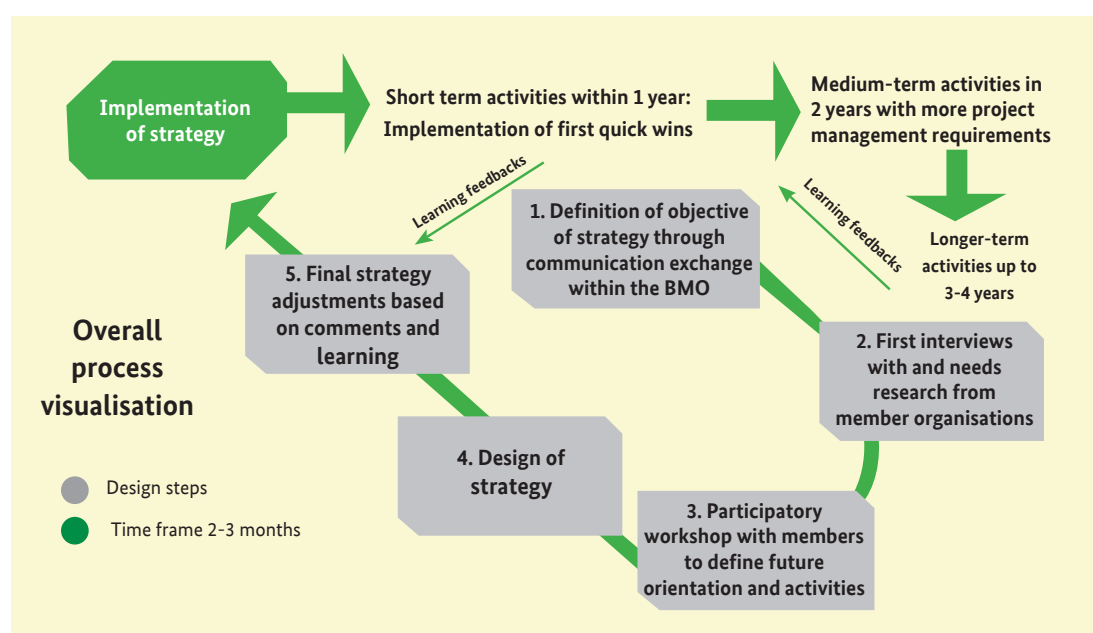


Figure 8: Overview of the organizational BMO strategy development process

Source: the authors

Below we outlined a six-step design process for the development of a provincial FNCCI strategy in Nepal:

1. The strategy design starts with an internal reflection on the organisation's key role / mandate, and how it defines its objectives.
2. After clarifying the organisation's objectives, interviews and meetings with members are organised to understand their expectations, the challenges they face, and the envisioned role and responsibility of the BMO.
3. A participatory and inclusive workshop with BMO members focuses on the future orientation of the BMO, identifies areas of work, the collaborative network and communication requirements, the service and lobbying support.
4. Based on the workshop results, a draft strategy is designed, including the BMO's mission, main areas of work, lead activities, milestones, and its strategy timeframe.
5. The draft strategy is discussed with the BMO's internal management and selected members.
6. The implementation process aims at achieving results in the first year of implementation (focus on low-hanging fruits).

The BMO strategy development should be driven by its members, but one or two national consultants could moderate the process. Active involvement of the BMO board and representative members is crucial in all process steps to ensure ownership and commitment during implementation. LPED developed a guidebook to support BMOs in their organisational strategy development process. For more information, please visit our guidebook.

Examples of BMO organisational strategy development

The LPED programme supported formulating an organisational strategy for the FNCCI-Lumbini and co-designed a participatory process for developing an organisational strategy.

The process was co-created by the local core team led by the chamber's President, and jointly facilitated by national and international consultants to the LPED programme. The organisational strategy development process commenced with interviewing the representatives of the FNCCI-Lumbini to better understand their needs regarding key organisational development aspects.

Representatives from 36 local CCIs were invited for a two-day on-site workshop to create ownership of the strategy design process. The workshop was hosted on 24th and 25th November 2021 by the Dang Chamber of Commerce at Ghorahi and was designed to capture the inputs from all 36 district CCIs on the organisational vision, critical success factors, areas of work, milestones, and time suggestions.

The workshop started with identifying a vision and mission and reflecting on critical success factors (CSF) for developing the FNCCI-Lumbini. Based on the expectations and ideas for action, a draft strategy with short-, medium- and long-term activities was designed. Subsequently, FNCCI-Lumbini prioritised the most suitable and realistic activities. The CSF generated a fruitful ground for way-forward discussion on core strategic fields for future action and identifying key work areas and activities.

The workshop provided a platform for FNCCI-Lumbini members to share their expectations and helped them develop solutions for their own problems. After the workshop, the member chambers even initiated regular meetings to improve communication between members and the FNCCI-Lumbini management.

In 2022, the LPED programme adapted the approach to facilitate a three-year organisational strategy development process of the Surkhet CCI, using moderation tools such as the World Café method and CSF discussion during a two-day workshop.

According to Mr Krishna Prasad Sharma, President of FNCCI Lumbini, the process of drafting the strategy for Lumbini FNCCI was very participatory. The Provincial FNCCI team and the representatives of 32 local CCI jointly prioritized realistic short-, medium-, and longer-term activities to promote private sector activities and, with the implementation of these activities, boost their resilience. The provincial chamber's vision and mission were also developed jointly. The strategy design process creates a lot of ownership in the team.



*Mr Krishna Prasad Sharma,
President FNCCI Lumbini*

Mr Sharma highlighted that “the strategy should be implemented and revised periodically even if new leaders are assigned to the CCI. There should be timely follow-up of the planned activities and the team members are responsible for monitoring and ensuring that the activities are implemented as planned.” Mr Sharma shared that some activities already improved communication between the secretariat and CCI members. As outlined in the organizational strategy, the member CCIs proactively organized monthly meetings in different locations for their members. Mr Sharma highlighted, “We look forward to achieving all our milestones and developing ourselves as a provincial-level apex body of the private sector. The strategy development process has illustrated our potential and opened our eyes to the challenges we are facing and their solutions. We take it as a recipe for organizational growth and to improve our relationship with federal officials and other stakeholders.”

2.6 Moderating Public-Private Cooperative Dialogue (PPCD)

“Public-Private Cooperative Dialogue” in this context refers to the structured and moderated interaction between the public, private and cooperative sectors to promote an enabling environment for private and cooperative sector development, to improve the business climate, and reduce poverty. It is about stakeholders coming together to define and analyse problems, discuss, and agree on specific reforms, and their joint and coordinated work to make these ideas a reality.

The LPED programme facilitated intra-municipal, inter-municipal and provincial-level PPCD to stimulate stakeholder exchanges on the abovementioned topics. By that, the initiative assisted local and provincial stakeholders in increasing their locations’ competitiveness and supporting private sector development.

The provincial PPCD dialogue events aim to exchange selected LRED topics that are of interest and urgency to all participants.

- Here are four specific objectives of provincial PPCDs:
- Enable an open conversation and facilitated discussion on topics relevant and vital to different stakeholder groups in a province and some of its Municipalities,
- Collect diverse perspectives and ideas on related challenges and opportunities, and reach a shared understanding of how to address them,
- Contribute to participatory and evidence-based policymaking,
- Create a common platform for a theme-based or problem-based discussion and formulate common strategies.

A provincial-level organisation like the Provincial FNCCI or the Provincial Planning Commission should host the event. The moderator designs a tailor-made agenda in consultation with provincial actors before each event. Specific topics to be discussed are usually agreed upon before the events.

A diverse, gender-balanced audience from the public, private and cooperative sectors is invited to each provincial PPCD dialogue forum. The moderator prepares questions that enable discussions and exchanges related to the topic. Throughout the discussion, participants explore the complexity of a given problem and create a shared understanding of its challenges and the scope of possible solutions.

The dialogue format can include different moderation tools, such as impulse presentation by a resource person, an open moderated feedback session, a panel discussion with representatives from different sectors and interest groups, photo galleries visualising the issues, break-out groups, World Café sessions or an Open Space.

The different representatives from the invited Municipalities should participate in each provincial PPCD, including key representatives from the Municipality (Mayor, Deputy Mayor, Chief Administrative Officer), the local CCI President and the DCU President. The group will be complemented by important provincial stakeholders from the public, private and cooperative sectors, civil society, and representatives from development organisations supporting LRED or having an interest in the topic. The total number of participants should be at most 40 persons.

Examples of Public-Private Cooperative Dialogue (PPCD)

An inter-municipal dialogue and orientation meeting on LED took place from 4th to 5th December 2022 in the Lumbini Sanskritic Municipality. The MoFAGA organised the event with LPED support. More than 110 participants attended the two-day event, including elected officials from 25 Municipalities, CAO, and representatives of the private and cooperative sectors. The dialogue event included a panel discussion on LED topics, and participants exchanged knowledge and information, shared best practices, and presented LRED initiatives in various formats. Two success stories were shared with the participants that show how LRED is done. The first one, shared by Mr Thageshwor Pokhrel, was the public-private partnership project between the cooperative and Butwal SMC on waste management. For this project, the cooperative led the implementation with grant money from the Municipality. The second case study from Nepalgunj was shared by Mr Krishna Joshi, who shared the Municipality's approach to promoting innovative ideas on entrepreneurship through establishing an incubation centre.

During the drafting of the EDS in 2022, five PPCD events were conducted in Nepalgunj, Kohalpur, Siddharthanagar, Ghorahi and Lamahi to create a vision for the economic development of the respective Municipalities. After three rounds of panel and open discussions, each PPCD concluded with the participants agreeing on a common vision for economic development in the respective Municipality.

A structured exchange format between public, private, and cooperative sectors is necessary to utilise local resources and to build local capacities to foster LRED. The LRED dialogue is not a one-time event but should take place at regular intervals. As there is no “one-size-fits-all approach” because different Municipalities have different needs, the PPCD should be moderated. Each PPCD requires a tailor-made agenda and process flow to ensure results, should be well-resourced to ensure inclusiveness and have a clear objective. Dialogues are essential platforms in an LRED process. Therefore, sufficient resources must be allocated to them per local context and opportunities.

Mr Raj Kumar Bohora, section officer at local resource mobilization coordination authority of MoFAGA, is a member of the ministry's LED team.

MoFAGA collaborated with the LPED programme to organise an inter-municipal dialogue forum and LED orientation event in Lumbini Province in December 2022. Mr Bohora highlighted that “the tools introduced by the LPED programme, such as PPCD, PACA, EDS and BCS are very useful and applicable to the local government level. We want to continue the cooperation and sign an MoU with GIZ. The Nepal government aims to achieve sustainable economic growth based on LED innovations in all 753 Municipalities”.



*Mr Raj Kumar Bohora,
section officer MoFAGA*

2.7 Running a Small Project Support Fund (SPSF)

SPSF intends to support innovative business ideas and enterprises. The support fund prioritised cooperatives, enterprises and entrepreneurs operating in the target municipalities on a competitive basis. Through the SPSF, LPED supports networking and cooperation among enterprises and cooperatives, thereby encouraging partnerships to create synergies, preferably in the value chains selected by LPED. Thus, the SPSF encourages cooperatives and enterprises to develop and implement innovative business ideas, including novel products or services, and to strengthen the local economy during and after the Covid-19 pandemic. This intervention ultimately backed the Municipalities' responsibility to promote LRED.

To select eligible proposals, the programme set up a committee consisting of two Municipality representatives, one CCI representative, one DCU representative, and two LPED programme representatives. The committee was responsible for screening and recommending proposals for selection. Afterwards, LPED's Chief Technical Advisor (CTA) approved suggested proposals for contracting. The programme selection committee was also responsible for monitoring the programmes during implementation.

The process of SPSF implementation is described in the flow chart below. Figure 9: The SPSF implementation process

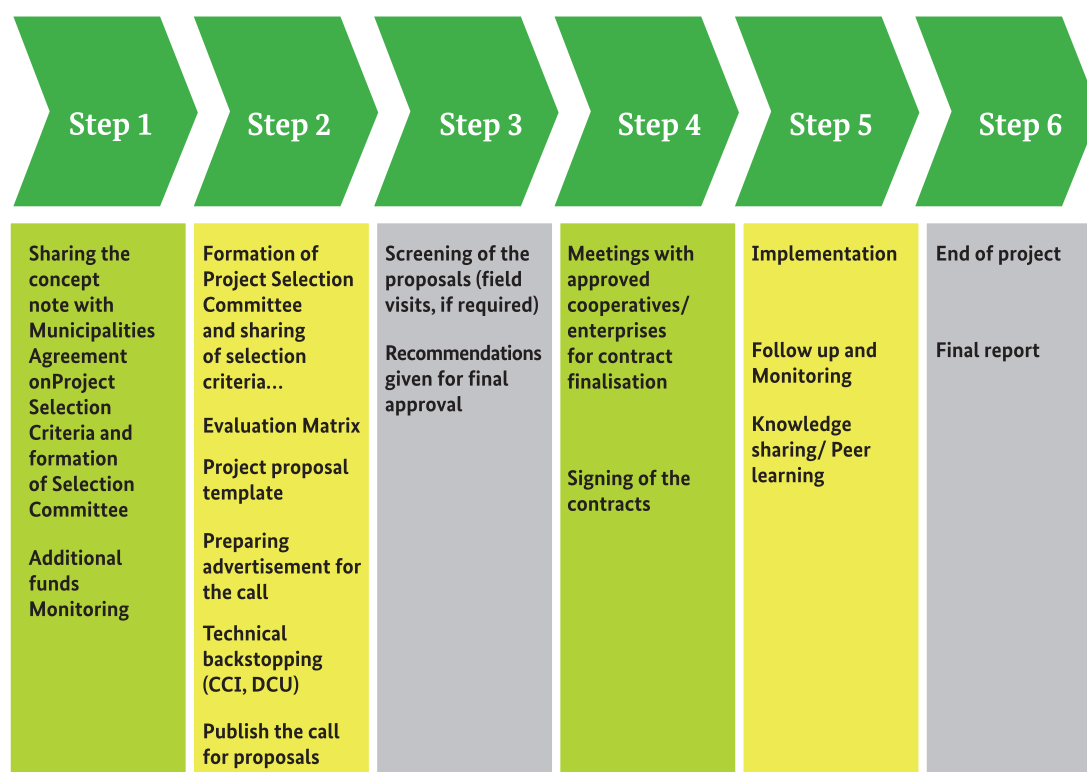


Figure 9: The SPSF implementation process

Source: the authors

Examples of SPSF

The first call for proposals opened for cooperatives and enterprises registered and operating in the respective Municipalities. Among all applicants, 32 beneficiaries (15 cooperatives and 17 enterprises) were selected in a competitive process, supported, and advised.

Among the SPSF beneficiaries, four enterprises were supported to develop Goat Resource Centers (co-supported by Heifer International Nepal), and seven enterprises received additional facilitation support to prepare business plans. The SPSF implementation was accompanied by participative value chain analyses to assess the value chain functionalities and to identify value chain gaps. A final results-sharing event with SPSF beneficiaries and other relevant stakeholders helped to improve business strategies and enhance exchange and coordination among VC actors.

Other SPSF-recipient cooperatives and enterprises implemented innovations to promote climate-resilience and water-efficient use. The interventions focused on upgrading technology and upscaling of production in the selected value chains. All SPSF reports indicated positive results in increasing production and productivity in the selected value chains, covering 1,141 direct and 2,796 indirect beneficiaries

Exemplarily, four SPSF case studies and testimonials from beneficiaries are presented below.

Beekeeping for Sustainable Livelihood

A picturesque scene: Along a quiet road in the middle of an open field with bright yellow patches of mustard lie a few traditional Nepali-style mud houses on the outskirts of Tulsipur (Central Western Nepal). Amongst the houses is the Acharya household, where Ashok Acharya resides with his family, including his elderly mother. Behind their humble home is a well-organised bee farm, formally established in December 2019. The farm has 50 beehives that produce 800 kgs of honey annually.

In search of a steady income, Ashok has worked in different sectors. He saw opportunities in beekeeping as the country owns a wide range of honeybee species and diverse pastures. However, like many small businesses, 'Acharya Mahuri, Krishi Tatha Pasupanchhi Palan Bahudehesiya Firm' faced challenges sustaining through the pandemic.

Ashok came up with the idea to use the beeswax produced by the farmers to produce hive bases for the bees. He purchased a total of 1.2 tons of beeswax from nearby farmers, with which more than 10,000 beehives have been produced. The beehive bases are better shaped and of higher quality than the imported ones. Ashok could sell his beehive bases to local farmers at a lower price than the imported ones. In addition, Ashok collaborated with the local Municipality and trained ten farmers on queen bee production. Eight trained farmers established their own beekeeping farms and have earned good revenue from their ventures.



Ashok Acharya, Acharya Mahuri, Krishi Tatha Pasupanchhi Palan Bahudehesiya Firm, Tulsipur.



Ashok Acharya, Acharya Mahuri, Krishi Tatha Pasupanchhi Palan Bahudehesiya Firm, Tulsipur.

Beekeeping is known to have a significant positive impact on biodiversity. Although, in commercial bee farming, pesticides endanger both wild and domesticated bee populations. As for Ashok, he takes pride in producing 100% organic honey and has spent more than seven years building his business to be recognized as one of Tulsipur's most prosperous beekeeping farms. He says, “beekeeping is a profitable family business that requires minimum resources to yield great results, with income generation all year round. The honey produced by Nepali farmers is insufficient, and there is a great opportunity for us as farmers to meet the domestic demand jointly”.

Earthworms, Farmer's Friend for Agricultural Sustainability

Mr. Bir Bhahadur Hamal from Nepalgunj, a former development sector professional, chose to quit his job and take up vermicomposting as a living. In 2014, he began his social entrepreneurship journey with the establishment of 'Everest Organic Agro Farm'. Bir Bahadur believes that vermicomposting is an important part of the organic farming system.

Following the pandemic, Bir Bahadur saw a significant rise in demand for organic fertilizers and organic produce. However, he struggled to cater to the demand with the scale of business at hand. Through the programme's support, Mr. Hamal supported ten farmers from marginalised communities with individual vermicomposting structures. Under Bir Bahadur's guidance, the ten farmers are now fully trained in vermicomposting and are generating a steady income. In the past year, Mr. Hamal, through this firm and his network of farmers, produced and sold 24 tons of vermicompost with a total revenue of over NPR 600,000.

Bir Bahadur says, "vermi-compost is easy to make, has useful properties, does not harm plants and is profitable. Vermicompost plays a vital role in the enrichment of our soil, and earthworms are not just key soil species but a farmer's friend. Farmers no longer must use expensive chemical fertilizers and pesticides for better cultivation". He believes his social enterprise thrived and provided employment opportunities through the project's support. He aspires to produce 400 tons annually within five years while encouraging and engaging more farmers to take up vermicomposting for income generatio



Bir Bahadur Hamal, Proprietor Everest Organic Agro Farm, Nepalgunj

Mushroom Farming, a Thriving Agribusiness

The majority of Nepal's sub-urban and rural population depends on subsistent agriculture for food, income, employment, and livelihood. Mushroom cultivation is one of its fastest-growing agribusinesses. Mushrooms are a common food delicacy in Nepali cuisine and popular among vegetarians, who refer to it as one of the primary substitutes for meat.

Mushrooms are composed of more than 90 per cent water and require controlled humid climatic conditions. Realising a solid business prospect but with limited knowledge and resources, Mr. Manoj Raj Padal from Dhangadhi started mushroom farming in 2017. "I initially failed miserably with 'Far-western Agro Firm', particularly during the off-season (April to August). Later, after installing and applying a Fogger and Sprinkler system with GIZ support, I maintained the required humidity levels across all seasons and thus created favourable conditions for the mushrooms to grow better", says the now successful mushroom farmer.

Due to lacking expertise and access to the right technologies, many farmers perceive mushroom farming as a gamble, leaving their crop's productivity to fate. Today, Manoj's organization's main goal is to make high-quality spawns for farmers in the area. With the project's support, Manoj has sold 70,000 packets of spawns to 100 farmers and conducted training with more than 100 farmers. Furthermore, he established drying facility to preserve peak-season mushrooms that he sells during the off-season. With the sprinkler system and drying facility in place, Manoj's firm grew by 35 per cent compared to the previous year.



Packaging ongoing, Far-western Agro Firm, Dhangadhi.

He now chairs the Mushroom Agriculture Association and collaborates closely with the Dhangadhi SMC to support aspiring farmers in acquiring the necessary technical expertise to start mushroom farming.



Manoj Raj Padal, Far-western Agro Firm, Dhangadhi.

Waste management and environmental conservation program for organic manure production

The cooperative **Butwal Sarsafai Tatha Batabaran Samrakshan Sahakari Limited** has implemented the “Waste management and environmental conservation program for organic manure production” project since 2021. Mr. Toplal Sharma is the cooperative manager and explained that before the project started, people used to carry sacks of waste on their motorbikes and bicycles and dumped them in the forest, which caused massive pollution. Mr. Sharma added, “with the idea to conserve the community forest, a 10-year strategic plan was developed to manage and recycle the waste scattered around in the forest for environmental conservation and for keeping the city clean”. The project is implemented on three hectares of land within the Shivanagar Community Forest area in Butwal SMC



*Mr. Toplal Sharma
Cooperative Manager
Butwal Sarsafai Tatha
Batabaran Samrakshan
Sahakari Limited*

This venture is a Public Private Partnership in a trilateral cooperation agreement among Butwal SMC, the cooperative and Shivanagar Community Forest Users Group.

The cooperative estimates that it will collect approximately 55 tons of waste per day, of which 64 per cent will be degradable waste, 28 per cent recyclable, and 8 per cent remaining dust.

The project has recently started collecting 8 tons of compostable and non-compostable garbage from around 5,500 households in two wards every day.

Once in full operation, the cooperative plans to mobilize 100 people for waste collection. The cooperative also intends to train local staff on how to operate the machines and run the vehicles, which offers employment opportunities for many locals. There are different machines set at the project site, a conveyer belt (to segregate degradable and non-degradable waste), welling machine (to compress non-degradable waste), a screener (to screen waste) and a shredder (to shred waste into small pieces). Waste generated from plastics could be transformed into plastic grains, thus opening another small business opportunity.

Electricity expenses could be challenging for the project as the monthly base fee is Rs. 10,000. It is still uncertain whether solar panels, as an alternative energy source, could supply sufficient power to run heavy machines.

Mr Sharma shared that “we received support from GIZ during the project's initial design and development phase. The support from GIZ was essential seed money for the project.” Lumbini Province government and the Butwal SMC offer additional support.

CHAPTER III:

Outlook on LRED in Nepal

The private sector is the key driver in a market economy, and often the main engine of LRED as enterprises create the largest number of jobs and generate the most income in a society. However, the private sector alone cannot achieve much without favourable business conditions to sustain and grow businesses. Therefore, Local Government and other public institutions have a significant role in creating a conducive business environment and investment climate.

Besides the public and private sectors, the cooperative sector is recognized as the third pillar of the national and local economy by the Constitution of Nepal 2015. With a large membership base and direct linkages to various productive sectors, cooperatives and their member organisations are key players in LRED.

3.1 Conditions of successful LRED in Nepal

Experience has shown that the success of LRED depends on various factors. First and foremost, public, private and other relevant stakeholders must be **interested and motivated** in improving local and regional economic conditions and performance. LRED tries to motivate local stakeholders early in the process by identifying so-called “quick win” activities and concentrating on their successful implementation.

Furthermore, relevant stakeholders need the **capacity to act**, i.e., the ability and autonomy to take decisions, access the necessary resources and connect functional economic areas across administrative borders. This condition is usually established or emerging during a decentralisation process of power from a higher administrative level to a sub-national level.

The success of LRED depends on **further decentralising** powers, functions, and financial means to the local government level, intending to make resources more accessible, programmes more locally context-sensitive, and framework conditions for LRED more supportive. LRED could become an enabler for decentralisation as it improves **local participation and accountability** and promotes dynamic cooperation between different stakeholder groups and strong **local ownership**.

The willingness of local key actors to **coordinate and cooperate** for the joint development of their local economy is an essential success criterion of LRED. Collaboration across sector boundaries (public, private, cooperative) and within each sector, including sharing of resources, is necessary to make LRED work. LRED aims to create new behavioural patterns, forge cooperation networks, build trust, and change the local framework conditions. Effective cooperation presupposes that public, private and cooperative actors can agree on **priorities and strategies**.

Local actors must understand LRED as an open-ended process. This **process view** could make economic development facilitation more strategic and sustainable. This view can move them away from project-focused thinking, typical for many governance and infrastructure initiatives.

Competence and management structures of key actors to steer and sustain an LRED process are another vital precondition for the LRED approach. Local Government should have a unit with a clear mandate for economic development in charge of implementing LRED policies conducive to the private and cooperative sectors.

3.2 The future role of the local level government in LRED

The country's new constitution has triggered Nepal's decentralisation and federalisation processes propagated in 2015. Newly defined provinces have replaced development regions, and Municipalities have received extensive decision-making powers. However, it is still being discussed how power and financial resources will be further decentralised to the municipal level.

The essence of federalism is the decentralisation of power to the local level and, with that, the decision-making on economic development is localized. Hence, Local Government play an important role in LRED in Nepal.

The critical function of Local Government is to offer essential services. They aim to optimally use the local resources for wealth creation, employment generation and the overall development of the locations.

The Local Government have the authority to formulate and implement policies that can directly impact the promotion of local products and enterprise development, harness local capabilities, and promote competitiveness. In addition, they can be responsible for ensuring good governance to improve economic growth and performance of enterprises in the locality.

The Local Government can be crucial in coordinating and building synergies among the private and cooperative sectors. LRED methods can be integrated into the annual planning of the Municipalities by engaging the local stakeholders to develop, design and deliver the projects. To institutionalise LRED, a mechanism could be established at the local government level, an LRED division/section with a dedicated focal person that implements projects works on improving framework conditions, strengthens partnerships, and enhances the capacity for private and cooperative sector development for job and wealth creation.

A key activity that Local Government can lead and facilitate is the exchange between different economic and societal groups, e.g., by initiating dialogue fora and inviting stakeholders for periodically facilitated conversations on topics related to LRED.

In promoting LRED, the Local Government acts as ecosystem enabler by nurturing the business environment and investment climate through institutional safeguarding and the promotion of legislation.

Strengthening LRED requires broadening the focus from the local level – where traditionally LRED initiatives operate – to the broader system that enables LRED. Conceptually, LRED

should be understood as a system comprising local, provincial, and federal-level stakeholders and intermediaries who can move between these levels. Various actors at all levels must work together to create the conditions necessary for LRED to work, including the relevant legislation, policies, processes, mandates, knowledge and information flows, development plans, etc. The LRED system comprises all local, provincial and federal actors, and their relationships that enable effective and meaningful LRED processes, as depicted schematically in Figure 10. The illustration shows the vertical and horizontal relationships on each level.

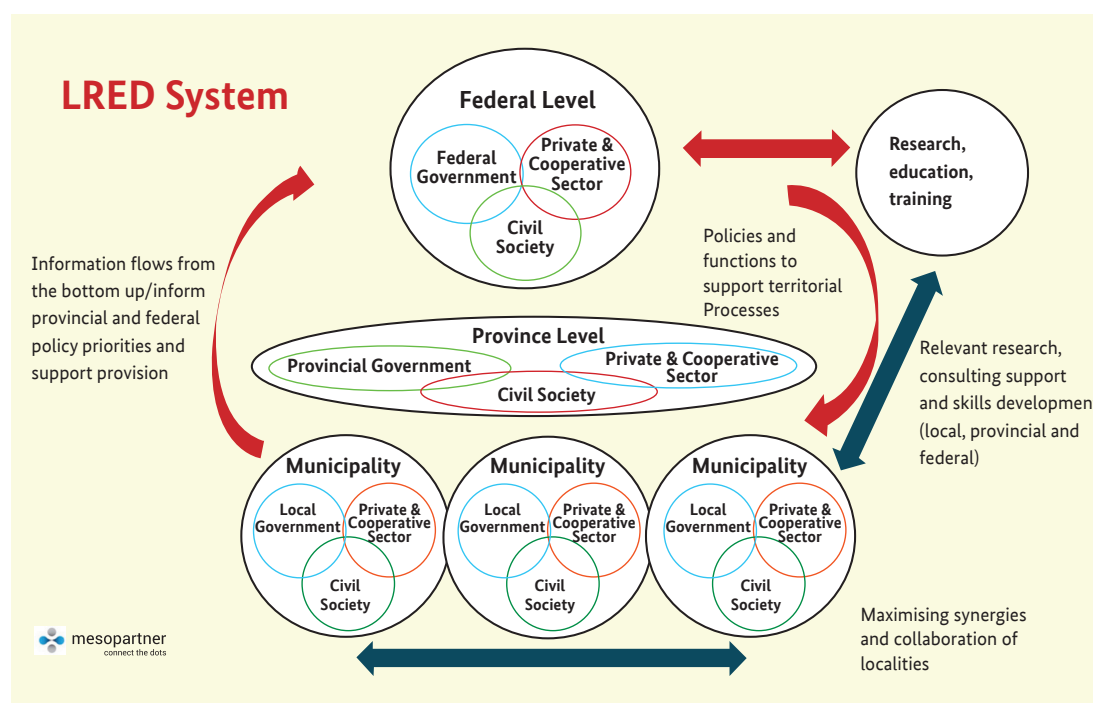


Figure 17: A schematic depiction of the LED System perspective

Source: Mesopartner 2022

Federal-level actors should design LRED policies and support territorial processes by providing funding or technical expertise. Provincial and local actors are also engaged in the LRED process. They feed information back to the federal level to inform national policy priorities and articulate the support demand to the federal level. Research, education, and training institutions provide relevant data, consulting support, and skills development on all levels. At the local level, actors maximise synergies through exchange and collaboration across the different localities facilitated by federal-level actors.

3.3 The future role of the federal level government in LRED

LRED is still a new concept in Nepal and requires continuous integration into government plans and programmes. In Nepal, MoFAGA is the responsible ministry under which all 753 Local Governments are assembled and provided with capacity building on local development

topics. The ministry and its line agencies at the national level have a great pool of resources, human talents and programmes that could be transferred to the local level and facilitate this process.

The federal government can be crucial in introducing and promoting the LRED concept. MoFAGA is considered the primary promoter, supervisor and sometimes an implementing agency for LRED and is currently initiating a flagship programme on supporting innovative LED solutions that includes identifying eligible local projects, prioritising, funding, and monitoring their implementation.

In addition, the Federal Government and its key ministries act as liaison points to other ministries, development partners and national-level stakeholders (FNCCI, NCF, etc.) to create synergies and cooperation opportunities in promoting LRED. MoFAGA leads the LED committee of focal persons from other concerned ministries, holding regular meetings and developing communication channels and cooperation. On the part of the private and cooperative sectors, their national federations (FNCCI and NCF) are responsible for lobbying, negotiating, and coordinating LRED activities.

3.4 The future role of the provincial level government in LRED

Nepal is in the transitional phase of institutionalising provincial organisations. In the countries' federalisation process since 2017, many national-level organisations, including government bodies, business associations and political parties, have reformed their organisational structures to decentralise their representation and services. However, they lack experience in decentralisation, the newly set up resource mapping and allocation systems, revenue generation and in maintaining relationships with federal and local levels.

The provincial-level governments are formulating legislation supporting economic sector development and location development. In addition, the governmental and non-governmental provincial organisations develop frameworks for the private and cooperative sectors to support economic development. There are several LRED projects which the Provincial Government and Local Government jointly fund, such as establishing a cold storage or vegetable haat bazaar.

The provincial-level actors can play a strategic role in knowledge sharing and upscaling LRED activities. Given the right resources and capacities, the Provincial Government can promote LRED activities throughout the region. The provincial-level actors with tight linkages to the Local Government have information, networks, and knowledge to expand and upscale LRED activities. They can facilitate and expedite the LRED process throughout the province.

If the Provincial Government and provincial-level private and cooperative associations, including FNCCI provincial chapters, promoted LRED, the country's economic development would accelerate. As a start, the provincial government could invite the other provincial organisations and Local Government for dialogue format to exchange experiences. In addition, the provincial government and other provincial stakeholders could play an important role in successfully implementing the upcoming LED programme of MoFAGA.

3.5 The future role of the LRED practitioners

LRED practitioners are local facilitators who provide their services and expertise for planning, designing, and implementing economic development strategies and interventions. The LRED practitioners liaise between public, private and cooperative sectors and the extended community. With their experiences, knowledge, and educational background, LRED practitioners act as catalysts for promoting public-private-cooperative partnerships.

During the absence of the elected Local Government for almost two decades in Nepal (past 2002), the representatives of user groups, management committees (forest, water, school), cooperatives, civil society and local CCI acted as LRED practitioners in the past. They were crucial in coordinating and supporting DDC, VDC and Municipalities. Since the Local Governments were heavily dependent on the then central government for resource distribution and selection of projects, the LRED practitioners, who were usually the representatives of the private sectors and intellectual communities (teachers, consumer groups, school management committee members, CSOs etc.) had to rely on the central government for budget allocation.

In recent years, LPED has enabled LRED practitioners to coordinate and facilitate development planning and support local government staff in this effort. LRED awareness, understanding, and using LRED as a local development process must be mainstreamed to enable local economic development. LRED practitioners could play a central role in exchanging information, ideas, and experiences on LRED; for that, a national network of experts should be formed and become functional. A regular dialogue among local LRED practitioners and national LRED consultants should also be organised.

In Nepal, there is an increasing readiness among the Local Governments to adopt the LRED concept. The LRED ecosystem is growing, creating a high demand for LRED facilitators and practitioners in Nepal. The LRED practitioners' capacity must continuously be enhanced through training, knowledge exchange programmes, exposure tours and dialogue events. It is recommended to all tiers of relevant government units, line agencies and development partners to design and develop LRED programmes catering to facilitators' and practitioners' capacity development.

In Nepal, the conditions for LRED are better than ever before. Eight years after the new constitution was enacted, the time seems ripe to implement LRED on a large scale nationwide. Many success factors of LRED are in place, a multilayer government system is established with decision-making power at each level, and the interest in vertical cooperation and the willingness to learn from successful cases at the local level and upscale them to other locations is evident. Various LRED/LED tools and instruments have been tested at the local government level in cooperation with local/provincial institutions by GIZ and other development partners. A pool of national and local consultants and LRED practitioners has been established who master the tools and are ready to apply them on demand. Finally, the determined local response to the Covid-19 crisis has demonstrated to many local public, private and cooperative actors that collaboration and taking joint initiative at their level of governance can be successful and steer the trajectory of a location in a desirable direction.

ANNEX 1: List of Local Level Powers

(Relating to clause (4) of Article 57, clause (2) of Article 214, clause (2) of Article 221 and clause (1) of Article 226 of Local Government Operation Act 2017)

SN	Matters
1.	Town police
2.	Cooperative institutions
3.	Operation of F.M.
4.	Local taxes (wealth tax, house rent tax, land and building registration fee, motor vehicle tax), service charge, fee, tourism fee, advertisement tax, business tax, land tax (land revenue), penalty, entertainment tax, land revenue collection
5.	Management of the Local services
6.	Collection of local statistics and records
7.	Local level development plans and projects
8.	Basic and secondary education
9.	Basic health and sanitation
10.	Local market management, environment protection and biodiversity
11.	Local roads, rural roads, agro-roads, irrigation
12.	Management of Village Assembly, Municipal Assembly, District Assembly, local courts, mediation and arbitration Assembly, local courts, mediation and arbitration
13.	Local records management
14.	Distribution of house and land ownership certificates
15.	Agriculture and animal husbandry, agro-products management, animal health, cooperatives
16.	Management of senior citizens, persons with disabilities and the incapacitated
17.	Collection of statistics of the unemployed
18.	Management, operation and control of agricultural extension
19.	Water supply, small hydropower projects, alternative energy
20.	Disaster management
21.	Protection of watersheds, wildlife, mines and minerals
22.	Protection and development of languages, cultures and fine arts

