



## 1. Project Data

<b>Project ID</b> P164783	<b>Project Name</b> Integrated PFM reform Project	
<b>Country</b> Nepal	<b>Practice Area(Lead)</b> Governance	
<b>L/C/TF Number(s)</b> TF-A7474,TF-A7475	<b>Closing Date (Original)</b> 30-Jul-2021	<b>Total Project Cost (USD)</b> 7,663,608.07
<b>Bank Approval Date</b> 27-Jun-2018	<b>Closing Date (Actual)</b> 16-Jul-2023	
	<b>IBRD/IDA (USD)</b>	<b>Grants (USD)</b>
Original Commitment	15,000,000.00	15,000,000.00
Revised Commitment	9,000,000.00	7,663,608.07
Actual	7,663,608.07	7,663,608.07

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## 2. Project Objectives and Components

### a. Objectives

The project's development objective (PDO), as stated in the Project Appraisal Document (p. 4), was to strengthen the effectiveness of selected public financial management (PFM) institutions and procurement institutions, systems, and procedures at the federal and sub-national levels. For purposes of this Review, IEG parses this into four sub-objectives:

- 1) Strengthen the effectiveness of procurement at the federal and sub-national levels,



- 2) Strengthen the effectiveness of budgeting at the federal and sub-national levels
- 3) Strengthen the effectiveness of accounting and reporting procedures at the Federal and Sub-national government (SNG) levels, and
- 4) Strengthen the audit planning and quality management for audit of Federal and Sub-National entities.

**b. Were the project objectives/key associated outcome targets revised during implementation?**

No

**c. Will a split evaluation be undertaken?**

No

**d. Components**

Component 1: **Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments** (US\$ 7 million at appraisal and US\$4.3 million at closing) This component aims to establish coherent and improved Public financial management (PFM) procedures for planning, budgeting, reporting, and auditing across government and establish sustainable Public financial management (PFM) training arrangements. The three sub-components include enhancing budget and revenue management, better fiscal controls, and enhanced public financial management capacity.

Component 2: **Strengthening the Office of the Auditor General** (US\$ 4 million at appraisal and US\$3.3 million at closing) This component involves improving the systems, processes and capacity of the Office of the Auditor General via deepening knowledge of ISSAI (International Standards of Supreme Audit Institutions) -compliant methodologies, building quality assurance and follow up functions and dealing with new audit requirements from sub-national governments. This component had three subcomponents: (a) enhancing audit quality and reliability in federal and subnational government audits, (b) enhancing the sustainability and use of IT tools for audit management, and (c) strengthening citizen participatory performance audits (ICR page 4).

Component 3: **Improving Public Procurement** (US\$ 4 million at appraisal and US\$ 2.17 million at closing) This component supported the PDO by improving public procurement performance in five Key Sector Agencies (KSAs). There were three sub-components: (a) public procurement governance and oversight, (b) procurement capacity development and professionalization, and (c) performance monitoring with an electronic government procurement (e-GP) platform. The sub-component "Strengthening public procurement governance and oversight" was dropped after the first restructuring due to a lack of ownership by the authorities. This included activities related to the e-gp system, but some of this was subsequently added in the 4th restructuring after greater ownership by the government.

Component 4: **PFM Reform Management and Coordination** (US\$ 3 million at appraisal and US\$ 1.04 million at closing) The goal of this component is to bolster the PEFA Secretariat and its overall performance. This consisted of three subcomponents: (a) strengthening the PEFA Secretariat and supporting project



management; (b) preparing and implementing a citizen engagement strategy that will span all major PFM reform activities; and (c) just-in-time interventions for federalization of PFM functions.

**e. Comments on Project Cost, Financing, Borrower Contribution, and Dates**

The actual disbursement (US\$ 9.19 million) was almost half of the original amount that was estimated originally (US\$18 million). The World Bank financing originally was US\$15 million, with the borrower contribution being US\$ 3 million. At the point of disbursement, the World Bank financing was US\$7.7 million, with the borrower contribution being US\$1.5 million. The ICR attributes this to the several restructurings that were done related to project financing, which were caused by COVID-19 pandemic-related delays, the dropping of certain activities related to the e-GP system and citizen engagement and other operational delays related to the alignment of the parent and child trust funds to the extended timeline. Funding was from a multi-donor trust fund (MDTF) financed by Australian Aid, the European Union, Norway, Switzerland, United Kingdom Aid, and the US Agency for International Development and administered by the World Bank. More details of the restructurings are given in the next paragraph below.

There were 6 restructurings done during the implementation of the project. The first restructuring was done in March 2021 due to the delays caused by the COVID-19 pandemic, with the closing date extended to July 15th, 2022, from the original closing date of July 30th, 2021. Moreover, US\$6 million from the original US\$15 million allotted was canceled due to the lack of ownership shown by PPMO leadership. These included activities related to the e-GP system and citizen engagement initiatives. The second restructuring was completed in July 2021 to extend the closing date to September 30, 2021. The extension of the corresponding parent trust fund to align with the extended timeline of the project was sighted as a reason. The third restructuring was subsequently done in September 2021 to extend the closing date of the project to July 15th, 2022. The fourth restructuring was done in December 2021 to add back some elements of the e-gp system and review elements related to procurement management, including its laws and regulations and its performance. This was done without any increase in the project's net commitment of US\$9 million. Subsequently, the fifth restructuring was done in April 2022 to extend the closing date of TF0A7474 AND TF0A7475 to July 16, 2023, based on a request by the Government of Nepal. Lastly, the 6th restructuring was done in November 2022, based upon the Government of Nepal's request, to amend the description of 'incremental operating costs' to cover allowances for federal PEFA assessment.

### 3. Relevance of Objectives

#### Rationale

Despite the above-mentioned national policy towards PFM reforms, many challenges had to be addressed. This is clearly shown in the Theory of Change (TOC), which highlights some of these issues. There were issues related to a lack of linkages between the budgets and the medium-term expenditure framework (METF), a lack of standardized fiscal controls at the local levels, and there were many systems in silos within the PFM system. Further to this, there were challenges with a coherent data reporting structure for financial management and a need for basic procurement documentation and performance measurement systems. There were also shortcomings in the audit system and its coverage of SNGs and very little public participation, with a lack of female participation in the process as well. All of these were roadblocks to the



developmental process and were considered to be developmental constraints for the country. Despite numerous earlier attempts to address these issues by the World Bank, progress remained to be made given the scale and complexity of some of the political economy issues in the country (ICR, Table 1: pp1-2).

Public Financial Management (PFM) has been an important component of Nepal's strategy (medium-term developmental national strategy) to ensure effective and inclusive development. The strategy highlights PFM reforms as one of the key areas along with transparency and efficiency of public institutions. According to the strategy, some examples of PFM priority areas are improved budget and revenue management and involvement of citizen engagement in the PFM process, among others. Based on the Public Expenditure and Financial Accountability (PEFA) assessments in 2008 and 2015, Nepal has been implementing a variety of PFM-related reforms that the World Bank's initiatives have largely supported (page 5. ICR).

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The PDO comprises the areas that the Bank and government deemed to be the highest priority in strengthening the effectiveness of PFM at the federal and sub-national levels. As an example of the alignment of this project to the broader World Bank's mandate in the country and its commitment to this effort, the World Bank gave the highest priority, as part of its Country Partnership Framework (CPF) for FY2019-2024, to support 'country's institutions, systems, and process reforms.' One of the key focus areas of the CPF was the reforms related to public institutions to enhance the transparency and efficiency of these institutions. The CPF mentions 'improved budget and revenue management and strengthened institutions for public sector management and service delivery' (Page 11, CPF 2019-2024) as one of the key objectives. The PFM reforms aim to address some of these key objectives of the CPF. Hence, there is a reasonable alignment of this project to the broader goals of the CPF.

Objectives such as improved aggregate capital budget out-turns at the federal level, comprehensive accounting and reporting procedures in place at the Federal and SNG levels and improved audit planning and quality management for audit of federal and sub-national entities are quite relevant to the PDO of strengthening the effectiveness of selected PFM institutions and procurement institutions, systems and procedures at the federal and sub-national levels. These are important to address some of the developmental constraints mentioned earlier, such as MTEF and greater coordination within the components of the PFM system. The TOC (Table 1 and Table 4) gives examples of how they have enabled to address some of the issues along with the necessary interventions.



While the PDO and sub-objectives are broadly relevant, the rationale for supporting certain PFM reform areas rather than others could be clearer. The indicators need to be more granular at the sub-national level. For more information on this, refer to the examples in the ‘Assessment of Bank Performance’ section later in the ICRR.

## **Rating**

Substantial

## **4. Achievement of Objectives (Efficacy)**

### **OBJECTIVE 1**

#### **Objective**

Strengthen public expenditure and revenue management at the Federal and Subnational levels

#### **Rationale**

Theory of Change (TOC): The TOC held that strengthening the Medium-Term Expenditure Framework (MTEF) with guidelines for sub-national government levels (SNG), federal-level internal control guidelines, an internal audit institutional framework, standards, and capacity building of the same, would address weaknesses in budget credibility and internal controls at the federal and local levels. In addition, a roadmap towards the establishment of an Integrated Financial Management Information System (IFMIS), improvements in IT security systems and IT policies and a sustainability plan would strengthen the IT systems, facilitate integration, and support the performance of the budget.

#### **Intermediate Results and Outcomes:**

**IRI 1: *Credible MTEF in place:*** At completion, the MTEF had been developed for federal and provincial governments. This was achieved through the development of comprehensive MTEF guidelines and adoption of MTEF software, which allowed the federal and provincial governments to develop their respective MTEFs. MTEF guidelines for local level government was also issued. Capacity building activities were conducted for the three tiers of government. The difference between multi-year estimates and subsequent setting of annual budget ceilings for the federal government are now explained in the Analysis and Projection Report of the Revenue Estimate Committee.

**IRI 2: *Comprehensive internal control procedures adopted at SNGs:*** At completion, SNGs that cumulatively manage 62 percent of the overall SNG budget have adopted their own internal control manual. In line with the *2078 Internal Control Framework* based on international standards, internal control guidelines for the local level were issued. According to the *Local Government Institutional Capacity Self-Assessment (LISA)*, 362 local level institutions have adopted internal control procedures. In addition, the seven provinces have also developed their internal control procedures based on the framework issued by the Financial Comptroller General Office (FCGO).



**IRI 3: IFMIS developed, and pilot tested:** At completion, 5 pilots were completed and the IFMIS was operational. Following the recommendations of the IFMIS assessment, budgeting, treasury, revenue, accounting, and asset management systems were integrated to produce specific Ministry/ Department-wise consolidated information as well as consolidated Nepal Public Sector Accounting Standards (NPSAS) based information for the three tiers of government and Extrabudgetary Units. Subnational Treasury Regulatory Application (SuTRA) had also been integrated with Line Ministry Budget Information System (LMBIS) through Treasury Single Account (TSA) system to monitor expenditures on fiscal transfer. The five pilot phases were as follows:

1. LMBIS with federal and provincial TSA and Computerized Government Accounting System (CGAS) to monitor execution against the budget.
2. RMIS with CGAS for accounting and reporting of revenue collection.
3. LMBIS with SuTRA through TSA to monitor execution of fiscal transfers to local level, and CGAS with external systems for payment directly in bank accounts:
  - Social Protection Management Information System for social security allowances payment;
  - Revenue Accounting System of Inland Revenue Department for electronic Tax Deduction at Source;
  - Pension Management System for pension payments;
  - Provident Fund Management System for provident fund deposits;
  - System of Nepal Clearing House Limited for real time fund transfer into bank accounts;
  - System of Nepal Telecom Limited for government utility payments.

4. Treasury Accounting System with TSA and CGAS for monitoring overall cash and treasury position

5. Information from all above systems as well as Public Asset Management System (PAMS) has been pulled together in a single platform named Financial Management Information system (FMIS) enabling production of consolidated financial statements for the three tiers of government based on NPSAS.

**IRI 4: Enhancing participation and capacity of technical female staff in training/workshops:** At completion, the target was partially met, with 19 percent achievement, compared to a target of 30 percent. Despite the government's efforts in prioritizing female participation in all the workshops and organizing specifically female-targeted trainings, limited female staff in PFM was a binding constraint as the trainings were targeted towards relevant Officials, who were predominantly male. The target proved ambitious in the absence of baseline data regarding female staff during project preparation (ICR, p. 22).

**RI5: Unified budget guidelines including gender responsive budget processes introduced in SNGs:** At completion, SNGs that managed approximately 79 percent of the overall SNG budget (cumulatively), had adopted the unified budgeting guidelines including gender responsive budget processes.

#### **Outcomes:**

##### ***PDO Indicator 1: Improved aggregate capital budget out-turns at the federal level.***

At completion, the target of 75 percent had not been achieved. The actual (61 percent in FY23) was lower than the baseline of 64 percent. Achievement of the PDO indicator was impacted by a number of factors including the COVID-19 pandemic, supply chain disruptions and general economic slowdown that contributed to delays in public construction, and hence, lower-than-expected capital budget outturns. The target of 75





percent did not adequately factor in multiple factors which could impact the capital budget out-turn including, slow decision-making and long project gestation and completion periods.

The PDO indicator was pitched at a budget component level but does not adequately reflect the budget improvements achieved under the objective. The PDO indicator measures the capital budget, while improvements in the systems and capacity necessary related to revenue and expenditure budget management are significant achievements.

While the PDO indicator was not met, the MTEF, and the operationalization of IFMIS are expected to contribute to improved planning, budgeting and execution, and overtime, an improvement in capital budget-outturns.

### **Rating**

Substantial

## **OBJECTIVE 2**

### **Objective**

Strengthening the capacity of the Office of the Auditor General (OAGN)

### **Rationale**

Theory of Change: The TOC held that strengthening the OAGN systems, processes and capacity would be achieved through enhanced audit quality and reliability through: (i) implementation of International Standards of Supreme Audit Institutions (ISSAI) and its extension to financial audit of subnational governments; (ii) enhanced use of IT tools for planning, execution, and follow-up of audits; and (iii) supporting in-depth citizen participatory performance audits. These activities included updating manuals and guidelines to enhance audit planning, execution, reporting, and quality assurance. In addition, the equipping of the OAGN with software and hardware would help to expand the use of the Nepal Audit Management System and computer-assisted auditing techniques (CAAT) which would also facilitate replication in SNG offices and promote greater citizen participation. Capacity building using consultancies, training, and cross-learning through exchange programs with supreme audit institutions would enhance the effectiveness of the OAGN.

### **Intermediate Results and Outcomes:**

**IR1:** *Timely submission of financial audit reports of SNGs to appropriate authorities within legal time frame:* At closure of the project, the target had been met and exceeded. At project appraisal, there was no explicit timeline for audit reports and no legal time frame. However, the OAGN had been practicing a timeline of 9 months. Although impacted during the COVID-19 period, OAGN reverted to the 9-month practice shortly thereafter. The Annual Report of FY22 financial statements was submitted on April 13, 2023, and the audit reports of all provincial governments as well as 751 (out of 753) local level offices were submitted on April 12, 2023. The Nepal Audit Management System has also been operationalized with audit reports issued through the system.

**IR2:** *Number of citizens mobilized and involved in audit process through Civil Society Organisations (CSOs), of which 50 percent are female:* At completion, the target had been met and exceeded. An estimated 778



citizens had been mobilized in the audit process. However, the target for female participation was not met due in part to a lack of interest, with only 147 female participants being mobilized during the project period.

**IRI3: Effective audit follow-up:** At project completion, the target of a score of 2 in Dimension 7 (iii) of the Supreme Audit Institution (SAI) PFM had been met. The score of 2 in Dimensions 11 (iii), 14 (iii) and 17 (iii), which replaced the earlier Dimension 7 (iii) of the SAI.

**IRI4: A citizen engagement strategy (CES) is prepared and implemented as per proposed sequence:** At completion, the target had been met. The CES had been prepared and endorsed by the PFM Steering Committee. It had also been disseminated for implementation by the three tiers of government. At project closure, several recommendations had already been implemented, including by subnational governments. The recommendations which had not been implemented, such as the Citizen Budget were integrated in the PFM Reform Strategy to ensure implementation.

#### **Outcomes:**

##### ***PDO indicator 1: Improved audit planning and quality management for audit of federal and sub-national entities.***

At project completion, the target had been achieved. According to the Performance Measurement Report of the Supreme Audit Institution Performance Measurement Framework (SAI PMF) (2016), OAGN scored 4 on Indicator 9 (the indicator for audit planning). While indicator 9 was replaced with Indicator 7, OAGN scored 3- or more for the various 10 indicators for audit quality and reporting (now replaced with indicators 8,9,10,11, 12, 13, 14, 15, 16, and 17).

##### ***PDO indicator 2: Comprehensive accounting and reporting procedures in place in Federal and SNGs.***

At the end of the project, the target had been achieved. NPSAS based financial statements for federal government for the year FY22 had been prepared within six months by FCGO and submitted to OAGN for audit in line with Financial Procedures and Fiscal Responsibility Act (FPFRA). With system enhancements and integration, consolidated financial statements based on NPSAS for the three tiers of government, including Extrabudgetary Units could have been produced from the system from FY23 (ICR, p. 18). In addition, reporting requirements of SNGs are now largely based on the FPFRA, which requires the provincial and local governments to keep accounts as prescribed by FCGO. FCGO had issued Chart of Accounts and embedded NPSAS requirements into CGAS for provincial governments and Subnational Treasury Regulatory Application System (SuTRA) for local level, which are implemented by all SNGs (ICR, p.18). The systems were further enhanced in FY23 based on the revised International Public Sector Accounting Standards (IPSAS) standards as per the 2017 framework. FCGO's reported that SNGs that cumulatively manage 53% of overall SNG budget have their own reporting procedural manual adopted. The IPSAS Standards and Chart of Accounts which have been integrated into provincial and local governments' information systems are used by the SNGs on a daily basis, with comprehensive accounting and reporting procedures have been established in all subnational governments.

**Rating**  
Substantial





## **OBJECTIVE 3**

### **Objective**

Improve public procurement institutions and systems

### **Rationale**

Theory of Change: The TOC held that improved public procurement performance in 5 KSAs [1] would be achieved through public procurement governance and oversight, capacity development and professionalization, and performance monitoring with an electronic government procurement (e-GP) platform. Key activities would include procurement consultancies, refurbishment of Public Procurement Management Office (PPMO), capacity development, including twinning arrangements, and exposure visits.

Restructuring.

The first restructuring, which saw the cancellation of the sub-component “strengthening public procurement governance and oversight” impacted the overall results. The main activities which were affected included the e-GP system and citizen engagement and transparency in procurement. The major activities which were cancelled included: (a) e-GP gap assessment and enhancement, (b) developing and integrating procurement performance measurement module and contract management module, (c) developing e-learning module, (d) developing and integrating grievance redress mechanism.

Subsequently, some activities were re-integrated in the fourth restructuring. These included the e-GP gap assessment and e-learning module, of which the activities related to e-learning module were completed. Other activities, not initially planned were added based on Government’s request: (a) hardware and software support for e-GP operationalization, (b) review of procurement laws and regulations, (c) monitoring and evaluation of procurement performance of public entities at all levels of government, of which all activities were completed.

### **Intermediate Results and Outcomes:**

Two corresponding IRIs related to the e-GP system were subsequently dropped (*complaints resolved following an effective complaints-handling mechanism in e-GP; system-generated performance reporting prepared for KSAs*).

**IRI1:** *Basic procurement documents and guidelines developed for sub-national government (out of a master list of sub-national level documents to be prepared):* At completion, the target had been partially met. Out of ten documents planned, four procurement documents had been developed resulting in 40 percent achievement, compared to the 80 percent set as the target. This activity was impacted by the low level of priority placed on this activity by the PPMO (ICR, p. 25)

**IRI2:** *Procuring entities of the KSAs with at least one certified procurement staff established (as a percentage of the total procuring entities):* A total of 1119 government officials from five KSAs, PPMOs and provincial governments had achieved procurement management certification. As such, more than 84 percent of KSA procuring entities had at least one staff member who was a trained, certified procurement staff, exceeding the target of 80 (ICR p. 25). In addition to the formal training supported by the project, the project also contributed to procurement management.



Outcomes:

**PDO indicator 1: Contracts awarded within the initial bid validity period by 5 KSAs and selected SNGs.**

At completion, the target had been achieved. Out of 724 bids invited by five KSAs and SNGs during the FYs 2021/22 and 2022/23, 717 contracts were awarded within the bid validity period. Despite the cancellation of some activities as originally planned, the overall project interventions contributed to improved outcomes in procurement. The PPMO and Administrative Staff College had established a Standardized Training Module to train the three tiers of government on procurement management. As such, staff of the procuring entities of the KSAs were trained, certified in procurement management. Staff from the provincial and local governments were also trained and certified. The PPMO had been equipped with the tools to guide subnational procurement management and SNGs had established frameworks for streamlined procurement procedures (ICR, p. 8). The project support to hardware and software for e-GP contributed to the adoption and using of e-GP system for procurement processing by all federal, provincial and local level procuring entities (ICR p. 8). This is improving procurement effectiveness, efficiency, transparency and fairness (ICR, Table 5, p. 8).

Complaints handling and the legal and regulatory framework for procurement had been enhanced through the project interventions. At the end of the project, the e-GP related activities were being undertaken through the government's own resources.

[1] Departments of Roads, Local Infrastructure Development and Agricultural Roads, Irrigation, Health Services and Water Supply and Sewerage

**Rating**

Substantial

**OVERALL EFFICACY**

**Rationale**

At completion, out of the four PDO indicators, three had been fully achieved. The federal PEFA Assessment which was underway at project completion was in the final stages. Preliminary findings showed significant improvements in several PFM areas, mostly attributable to the project activities. The majority of IRIs had also been met. The PDO indicators which were fully achieved included timely contract awards by KSAs and SNGs, comprehensive accounting and reporting procedures in the federal and subnational governments, and improved audit planning and quality management for audits of federal and sub-national governments. The PDO indicator for improving the aggregate capital budget outturn was not achieved. This may be due to the choice of a PDO indicator which did not adequately capture the activities supported under this objective.

Overall, the project had significant success in PFM. Citizen engagement was strengthened, further supporting enhanced accountability and transparency. Citizen engagement in the various PFM phases (planning, budgeting, execution, and oversight) is attributed to the development and implementation of the



Citizen Engagement Strategy (CES) for PFM by all three tiers of government. While the ICR (p. 26) identifies the CES as an IRI under Component 4, “A citizen engagement strategy is prepared and implemented as per proposed sequence”, this review incorporates the IRI under PDO2. On the CES, some of the citizen engagement mechanisms were institutionalized, including the public disclosure of the MTEF, the annual budget and its execution status, the monthly fiscal bulletin, and citizen participation in performance audits (ICR, p. 8). Extensive citizen consultations were also conducted during the preparation of the FY2024 through the Revenue Advisory Committee and sub-committees (ICR, p.8).

### **Overall Efficacy Rating**

Substantial

## **5. Efficiency**

Economic analysis. No economic analysis is provided to assess the project's efficiency. The ex-ante analysis primarily focused on the activities by project intervention (ICR, Table 6, p. 10). The ICR does not discuss whether an economic analysis (Net Present Value or Economic Rate of Return) could have been undertaken. Instead, the ICR notes that direct comparison of effectiveness and efficiencies achieved could not be made due to a lack of ex-ante analysis and baseline data during project preparation, (ICR, p.10). While the ICR elaborates on the benefits of project interventions in Tables 4, 5 and 6, to illustrate effectiveness and efficiency gains, it doesn't analyze how resources and inputs were economically converted to results. It does submit however, that most planned results were achieved with less than the commitment at approval (ICR, p. 11).

Aspects of design and implementation. The ICRR also notes many factors during the implementation, subject to the WB and government control, that reduced efficiency. Notably:

1. It took five years, from June 2018 to July 2023, to implement the project, 2 years over the timeline of the original project, even when some components related to e-GP had been removed.
2. Multiple restructurings: The project underwent 6 restructurings, five of which occurred within 12 months and involved an extension of the loan closing date four times. While the justifications for the restructurings are clear, the share number and the cancellation of some project activities would have impacted on overall efficiency.
3. There were delays in the start of the project. The ICR attributes this to a complex project design with multiple agencies, as well as the low level of ownership and commitment due to high staff turnover and the lack of a dedicated reform mechanism in the first two years.

Efficiency is rated Modest, given limited quantitative evidence that resources and inputs were economically converted to results. However, the review acknowledges that the project demonstrated key achievements during implementation that positively impacted efficiency.

### **Efficiency Rating**

Modest



a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate		0	0 <input type="checkbox"/> Not Applicable

\* Refers to percent of total project cost for which ERR/FRR was calculated.

## 6. Outcome

Despite the implementation delays, the shortcomings in the operation’s achievement of its objectives and in its efficiency were moderate, the overall outcome is rated Moderately Satisfactory. This reflects a substantial rating in the relevance of objectives, a substantial overall efficacy rating on the project’s original objectives and a modest efficiency rating.

- a. **Outcome Rating**  
Moderately Satisfactory

## 7. Risk to Development Outcome

The project design was based on the country strategy and implementation arrangements, which lowers the risks to development outcomes. However, systems require maintenance, and as such, without budget for maintenance, training, and capacity building some of the gains may be eroded overtime.

The risks to policy reversal are also present with a change in administration.

## 8. Assessment of Bank Performance

### a. Quality-at-Entry

Quality at entry is rated Satisfactory. The project was underpinned by the second PFM Reform Program (FY16/17-25/26), and other country related strategies, however the PD and ICR are not sufficiently explicit as to other the diagnostics or studies which were used to inform the key project components. Some of the objectives were pitched at an ambitious level, considering the limited project interventions and timeline, and the lack of baseline data. The ICR also highlights a lack of political buy-in, and these are factors which should have been factored into the project design at entry. Political and



governance risks were rated high at appraisal, with a recognition that with a new government, state restructuring on the scale envisioned was uncharted territory for Nepal, and that a smooth transition from the previous unitary system to the new federal one would remain a daunting task (PD, p. 10). Notwithstanding the project was able to achieve significant gains overtime.

**Quality-at-Entry Rating**  
Satisfactory

**b. Quality of supervision**

The quality of supervision is rated Satisfactory. The Bank adapted, albeit a few years late, to the initial years of very slow progress. The team acknowledged that the project had added challenges in terms of coordination due in part to the complex design across multiple agencies, as well as the low level of ownership and commitment. This was further compounded by high staff turnover and the lack of a dedicated reform mechanism.

The Bank was able to adapt in the third year of the project, with monthly review meetings and extensive hands-on implementation and coordination support (ICR, p. 14). The project's Task Team Leader was located to Nepal in the later years of the project, which contributed to improved coordination and better implementation. This coupled with proactive restructurings, including the cancellation of one-third of the commitment amount, enabled the project to come out of potential problem status (ICR, p. 14).

**Quality of Supervision Rating**  
Satisfactory

**Overall Bank Performance Rating**  
Satisfactory

**9. M&E Design, Implementation, & Utilization**

**a. M&E Design**

The ICRR concurs with the ICR that the M&E design was capable of systematically tracking project implementation progress. The Results Framework, along with the intermediate results indicators, guided the process.

**b. M&E Implementation**

Monitoring and evaluation (M&E) efforts were coordinated by the PEFA Secretariat with overall M&E provided by the PFM Steering Committee. M&E for subnational governments was limited, given that the project implementation arrangements did not include subnational representation (ICR, p. 14). The ICR also noted that limited meetings of the PFM Steering Committee would have impacted the effectiveness



of the M&E functions. However, coordination between the steering committee, development partners and MDTF supported overall implementation and monitoring of the reforms.

**c. M&E Utilization**

The ICRR concurs with the ICR that based on the M&E findings, course corrections were made. The delayed activities were dropped and one-third of the committed amount for the project was proactively cancelled. The M&E findings were also used as a basis for project restructurings and extensions.

**M&E Quality Rating**

Substantial

**10. Other Issues**

**a. Safeguards**

There is no mention of safeguards in the ICR document.

**b. Fiduciary Compliance**

No

**c. Unintended impacts (Positive or Negative)**

No

**d. Other**

NA

**11. Ratings**

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Satisfactory	





Quality of M&E	Substantial	Substantial
Quality of ICR	---	Modest

## 12. Lessons

The ICRR concurs with the Lessons articulated in the ICR as follows:

**Representation of subnational governments:** Representation of subnational governments in the implementation arrangements at the strategic and technical levels should be considered in the design and implementation phases of highly complex projects. In this case, the ICR acknowledges that broad-based PFM reforms require subnational government representation in the country system-based implementation arrangements (ICR, p. 15).

**Development Partner harmonization and collaboration:** In situations where multiple parties are engaged, a mechanism to prevent overlap of development partners' support should be developed to ensure coordination and synergy. Such a strategy would have to be approved at the appropriate level to ensure that the agreements are binding on all agencies, included government agencies.

The ICRR adds one lesson:

**Results frameworks for institutional reforms:** Results frameworks should include, where feasible more detailed milestones for the implementation steps along the results chain. A sufficiently detailed results framework would track proposed activities and measure more closely the expected results/outcomes.

## 13. Assessment Recommended?

No

## 14. Comments on Quality of ICR

Overall, the ICR provides a general record of the project context, design, outputs, and operationally relevant lessons. The narrative, however, is not coherent and does not follow the ICR guidelines with respect to a discussion around the objectives. The report does not include a discussion of the project's TOC. Most of the information, including the TOC elements is placed in table form, which makes it difficult to follow the narrative. The ICR could have clarified some aspects of the PDO and intermediate result indicators, explaining how targets were determined at appraisal, and how results were collected. The Results Framework in the PD is designed around components, without a strong link to the PDO indicators and the results chain. Also, the ICR doesn't give much sense of the difficult implantation environment for carrying out the operation given the size of the government provincial and local context.



**a. Quality of ICR Rating**  
Modest