

**Validation Report**  
February 2022

# Nepal: Capital Market and Infrastructure Capacity Support Project

Reference Number: PVR-849  
Project Number: 43490-013  
Grant Number: 0252



*Raising development impact through evaluation*

## ABBREVIATIONS

ADB	– Asian Development Bank
BOOT	– build, own, operate and transfer
DMF	– design and monitoring framework
DOMS	– Debt Operations and Management Software
IT	– information technology
MOF	– Ministry of Finance
OIBN	– Office of the Investment Board Nepal
PCR	– project completion report
PDMO	– Public Debt Management Office
PMCC	– Project Management and Coordination Committee
PPP	– public-private partnership
PPPIA	– Private Partnership and Investment Act
PSP	– private sector participation
UK	– United Kingdom

## NOTE

In this report, “\$” refers to United States dollars.

<b>Director General</b>	Emmanuel Jimenez, Independent Evaluation Department (IED)
<b>Deputy Director General</b>	Sona Shrestha IED
<b>Director</b>	Nathan Subramaniam, Sector and Project Division (IESP)
<b>Team Leader</b>	Ambra Avenia, Evaluation Specialist IESP

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## PROJECT BASIC DATA

Project number	43490-013	PCR circulation date	4 Oct 2021	
Grant number	0252	PCR validation date	Feb 2022	
Project name	Capital Market and Infrastructure Capacity Support Project			
Sector and subsector	Finance	Money and capital markets		
Strategic agenda	Inclusive economic growth			
Safeguard categories	Environment		C	
	Involuntary resettlement		C	
	Indigenous peoples		C	
Country	Nepal		Approved (\$ million)	Actual (\$ million)
ADB financing (\$ million)	ADF: 5.00	Total project costs	6.25	3.18
	OCR: 0.00	Grant	5.00	2.74
		Borrower	1.25	0.44
		Beneficiaries	0.00	0.00
		Others	0.00	0.00
Cofinancier	–	Total cofinancing	0.00	0.00
Approval date	19 Apr 2011	Effectiveness date	25 Sep 2011	9 Aug 2011
Signing date	27 Jun 2011	Grant closing date	30 Nov 2014	31 Dec 2019
		Financial closing date	–	7 Jul 2020
Project officers <sup>a</sup>	J. Torres	Location	From	To
	R. Tuladhar / Y. Acharya	ADB headquarters	Aug 2011	Jul 2013
	C. Sapkota	Nepal Resident Mission	Aug 2011	Jul 2013
	R. Tuladhar	Nepal Resident Mission	Jul 2013	Oct 2015
		Nepal Resident Mission	Oct 2015	Sep 2016
	A. Panday	Nepal Resident Mission	Sep 2016	Dec 2019
IED review				
Director	N. Subramaniam, IESP			
Team leader	A. Avenia, IESP <sup>b</sup>			

ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IESP = Sector and Project Division, OCR = ordinary capital resources, PCR = project completion report.

<sup>a</sup> Data provided by the project team.

<sup>b</sup> Team members: H. Hettige (quality reviewer), F. De Guzman (Senior Evaluation Officer), C. Dingcong (consultant).

## I. PROJECT DESCRIPTION

### A. Rationale

1. Nepal underwent political transition, rehabilitation, and reconstruction after a decade-long armed conflict. The post-conflict era presented daunting development challenges across all sectors. Poverty was widespread and economic growth remained uneven. Infrastructure was grossly underdeveloped, with large proportion of the population lacking access to basic services.<sup>1</sup>

2. At the time of the grant proposal, Nepal spent less than 1% of the total gross domestic product (GDP) on infrastructure that was significantly lower than other countries in the region.<sup>2</sup> The high cost of post-conflict reconstruction efforts and limited fiscal space constrained infrastructure investments. Private sector investments were needed to bridge the infrastructure

<sup>1</sup> Asian Development Bank. 2009. *Country Diagnostic Studies. Nepal: Critical Development Constraints*. Manila.

<sup>2</sup> India spent about 4.8% of GDP in infrastructure in 2007 and 2008. It was estimated that South Asian countries need an annual investment in key infrastructure of about 6%–7% of their GDP to achieve their growth targets. Footnote 4.

financing gap. However, private sector participation (PSP) was low due to the lack of an enabling environment to attract larger infrastructure investments.

3. The government's initial efforts to introduce policies and incentives for infrastructure financing were ad hoc and fragmented. The absence of a well-developed capital market for raising long-term funds, inadequate policy and regulatory framework, and lack of structured viable project to attract private sector investments constrained infrastructure financing. The difficult political transition affected the investor sentiment, which exacerbated these constraints.<sup>3</sup>

4. The Capital Market and Infrastructure Capacity Support Project (the project) was aimed at creating an enabling environment to spur long-term financing and enhance PSP.<sup>4</sup> In view of Nepal's political uncertainty, nascent capital market, and limited absorptive capacity of institutions, an incremental approach to capital market development was envisioned. The project was to focus on fundamental aspects of financial sector development and PSP, specifically to develop the basic regulatory and institutional framework and market infrastructure.

## **B. Expected Impact, Outcome, and Outputs**

5. The project's envisaged impact was greater availability of infrastructure services. Its expected outcome was greater private sector investment in the infrastructure sector. The project had three expected outputs: (i) establishing a regulatory and institutional framework for bond market development; (ii) enabling a policy and institutional framework for greater PSP in infrastructure; and developing a public-private partnership (PPP) demonstration project.

## **C. Provision of Inputs**

6. The Asian Development Bank (ADB) approved the \$5 million project grant in April 2011, and it became effective 4 months later. The grant was closed in December 2019, more than 5 years later than the planned completion date. The project completion report (PCR)<sup>5</sup> indicated that the project's slow implementation arose from the evolving country context and unsettled political environment, including delays in the establishment of the Public Debt Management Office (PDMO) and PPP center and the disruptions caused by the 2015 earthquake and subsequent trade blockade. There were also delays in awarding consultant contracts and procuring information technology (IT) packages. The grant was extended four times to complete project activities. The project was financially closed in July 2020.

7. The estimated total project cost at appraisal was \$6.25 million. The total project cost at completion was nearly half of the estimated appraisal cost. ADB funded about 86%, with the borrower shouldering the remaining cost. The lower completion cost was attributed to: (i) underbidding of the debt operations and management software (DOMS) and hardware packages; (ii) consultants' lower claims; (iii) cancellation of IT procurement package for the PPP center; and (iv) underutilization of the fund earmarked for training and project administrative expenses. The unutilized \$2 million was canceled in October 2019 (\$1 million) and June 2020 (\$1 million). In July

<sup>3</sup> The constituent assembly extended tenure ended in May 2011. The new government under Prime Minister Jhaia Nath Khanal was sworn in on 6 February 2011. The political situation was expected to remain uncertain as concluding the peace process remained challenging.

<sup>4</sup> ADB. 2011. *Report and Recommendation of the President to the Board of Directors on the Proposed Grant for Nepal Capital Market and Infrastructure Capacity Support Project*. Manila.

<sup>5</sup> ADB. 2021. *Completion Report: Capital Market and Infrastructure Capacity Support Project in Nepal*. Manila.

2020, ADB canceled another \$0.26 million and reclaimed \$0.04 million in unutilized funds. The project disbursed a total of \$2.74 million, which was about 55% of the total original grant.

8. The project mobilized national consultants (i.e., project management specialist, accounting and auditing specialist, information technology expert) to support project implementation and a national procurement specialist to support the recruitment of international consulting services. Procurement comprised two IT packages: an integrated DOMS system for the PDMO and an IT equipment for the PPP center.<sup>6</sup>

9. The project safeguards were classified category C for environment, involuntary resettlement, and indigenous peoples. The policy, regulatory, and institutional reforms, and the capacity building activities did not have any adverse socioeconomic and environmental impact. There were no direct resettlement implications. The project had no gender elements.

## **D. Implementation Arrangements**

10. As envisaged, the Ministry of Finance (MOF) was the executing agency. The Project Management and Coordination Office was instituted as the Project Management Coordination Committee (PMCC) at the MOF. The PMCC managed the project's day-to-day operations, such as coordination with implementing agencies and stakeholders and engagement with the steering committee and consultants. The Nepal Rastra Bank, the Securities Board of Nepal, and the Financial Comptroller General's Office, in coordination with the MOF, were the implementing agencies for activities of output 1. The National Planning Commission, in coordination with the MOF, was the implementing agency for outputs 2 and 3. A high-level project steering committee provided overall policy direction and oversight with representation from the MOF and all implementing agencies. The implementation arrangement was suitable for the project's expected outputs.

11. None of the covenants were modified, suspended, or waived, and 14 of 15 covenants were complied with. A single covenant on the identification and development of a PPP was not complied with.

## **II. EVALUATION OF PERFORMANCE AND RATINGS**

### **A. Relevance of Design and Formulation**

12. The PCR rated the project relevant at appraisal until completion. It indicated that the project was able to address the development constraints. The PCR also noted that the project was in consonance with the government's and ADB's plans and strategies. The outputs were considered appropriate and modest in building incremental achievements, given limited government capacity and resources. The PCR also indicated the government's high ownership of the project.

13. The PCR noted issues in the results chain and design and monitoring framework (DMF), specifically the link between outputs and outcome. The sole outcome indicator—one PPP project reaching financial closure by 2015—did not capture the outputs' immediate and direct contributions. While this indicator captured part of the impact and was related to the output on development of a PPP demonstration project (i.e., output 3), critical steps are necessary before

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<sup>6</sup> The PCR assessed the performance of both the consultants and the contractors as satisfactory.

the selected PPP project could reach financial closure.<sup>7</sup> The PCR also noted that the financial closure outcome indicator of one PPP project against the baseline was highly ambitious and a significant departure from the project's intended incremental approach. Moreover, aside from a PPP indicator at the outcome level, another indicator could have been included to show the project's contribution in strengthening the country's public debt management.

14. During implementation, a few output indicators were adjusted and dropped following the midterm review in 2014. However, a change in scope for ADB approval was not processed. For the output on regulatory and institutional framework for bond market development (output 1), the target on the amendments to the Securities Related Act 2007 was adjusted. Instead of submitting amendments to the Parliament, it was changed to cabinet's approval. The targets on the regular issuance calendar to promote a benchmark yield curve and improve the eligibility criteria and regulation of primary dealers were dropped from the DMF. For the output on enabling policy and institutional framework for greater PSP in infrastructure (output 2), the target on amending the Build, Own, Operate and Transfer (BOOT) Act 2006 was also adjusted.<sup>8</sup> Similarly, instead of submitting recommendations to amend the BOOT Act 2006 to the Parliament, it was changed to submission of the draft Public Private Partnership and Investment Act (PPPIA) for cabinet approval.

15. This validation notes that the project was aligned with the government's successive periodic plans that highlighted the importance of infrastructure in Nepal's development and poverty reduction efforts.<sup>9</sup> It was aligned with ADB's country partnership strategies and with the operational priority under ADB's Strategy 2030 on strengthening governance and institutional capacity.<sup>10</sup> During the project's formulation stage, recommendations of the country assistance program evaluation (2009) on the need to prioritize assistance for infrastructure, including taking a longer-term approach that encourages private sector investment and PPPs, were considered.<sup>11</sup> The project was a timely response to the constraints on infrastructure financing at a time when the economic growth and poverty reduction agenda needed to move forward after a decade of conflict. The grant modality was suitable, given the government's limited fiscal space and the goal to strengthen the enabling environment needed for generating resources to develop quality infrastructure in the long-term.

16. This validation notes the outputs' weak link with the envisaged outcome. Having at least one PPP reaching financial closure at project completion was not aligned with the project's incremental design and the country context. Nepal's nascent capital market had limited institutional capacities, given the evolving political situation. This could have been foreseen since the design at appraisal acknowledged the political uncertainty, limited capacity, and resources of public institutions. The adjustments to the two output indicators and the removal of two targets resulted in the project's alignment with the realities in the capital market and infrastructure

<sup>7</sup> These activities typically include the bid process management, technical and financial bid evaluation, contract award, contract effectiveness and financial closure by submission of a functioning PPP agency entrusted to execute these responsibilities. In practice, these require a functioning PPP agency to execute these responsibilities.

<sup>8</sup> BOOT Act refers to the Act of Private Financing in Build and Operation of Infrastructure, 2006.

<sup>9</sup> Government of Nepal. National Planning Commission. 2007. *Three-Year Plan, FY2008–FY2010*. Kathmandu; Government of Nepal, National Planning Commission. 2010. *Three-Year Plan Approach Paper, FY2011–FY2013*. Kathmandu; and Government of Nepal, National Planning Commission. 2020. *Fifteenth Plan, FY2020–FY2024*. Kathmandu.

<sup>10</sup> ADB. 2019. *Nepal Country Partnership Strategy 2010–2012*. Manila; ADB. 2012. *Nepal Country Partnership Strategy 2013–2017*. Manila; ADB. 2019. *Nepal Country Partnership Strategy 2020–2024*. Manila; and ADB. 2018. *Strategy 2030. Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>11</sup> ADB. 2009. *Country Assistance Program Evaluation in Nepal: Delivering Assistance in a Challenging Environment*. Manila.

capacity. These too could have been foreseen at appraisal. In view of the outcome indicator's deficiency, the PCR used "improved capacity of debt management" and "enhanced PPP environment" as two leading indicators to assess outcome. This validation notes that these leading indicators are not suitable as performance outcome indicators, as these will not result in greater private sector investment in the infrastructure sector, with tangible private sector investments at project completion. The outcome statement should have been modified.

17. Notwithstanding the DMF deficiencies, the project's design attempted to set the initial phase of an enabling environment for long-term financing and PSP in infrastructure. It was aligned with the government's development priorities and ADB's country strategies for Nepal. It was timely, given the need to support the government's development priorities after a decade of conflict. Based on the above discussions, this validation assesses the project relevant.

## **B. Effectiveness in Achieving Project Outcome and Outputs**

18. The PCR rated the project effective, based on the outcome indicators and weighted score of output achievements. In view of the DMF outcome indicator's deficiency in capturing the outputs' direct benefits, the PCR used two leading indicators to assess the envisaged outcome. The PCR regarded these indicators appropriate because they were consistent with the project's original intent to develop a basic regulatory and institutional framework and market infrastructure.<sup>12</sup> It noted that these indicators were suitable given the project outputs and incremental achievements. However, this validation notes that a change in scope should have been carried out to modify the DMF outcome statement and its indicators in line with existing realities.

19. The PCR indicated that the envisaged outcome was achieved, based on the two leading outcome indicators. First, the indicator on debt management's improved capacity was achieved. This was based on (i) the draft Public Debt Management Act that was submitted to Parliament and likely to be ratified; (ii) the PDMO's regular participation in external debt negotiations; and (iii) regular dissemination of debt analysis and reports for government and development partners. Second, the PCR noted that the indicator on enhanced PPP environment was achieved. This result was based on (i) the PPP and Investment Regulation's approval in 2020; (ii) the PPPIA strategic plan's approval in 2021; and (iii) PPP unit at the Office of the Investment Board Nepal (OIBN) supporting pipelined PPP projects, with five projects in the procurement stage. The PCR noted that of the 10 output targets, 1 was exceeded, 5 were achieved, 3 were partially achieved, and 1 not achieved. Using weights based on the actual costs, the output achievement was assessed as 85%.<sup>13</sup>

20. However, this validation notes that the outcome target set at appraisal was not achieved. Not a single PPP had reached financial closure by 2014/2015. This target was overly ambitious, given Nepal's prevailing conditions and outputs that were expected of the project. Moreover, PCR's leading outcome indicators should have been processed and approved following the midterm review.

21. This validation assesses the three outputs partially achieved. Output 1 on regulatory and institutional framework for bond market development was partly achieved. Of the four targets under this output, three were achieved and one was partly achieved. The target on dedicating

<sup>12</sup> ADB. 2016. *Guidelines for the Evaluation of Public Sector Operations*. Manila. The PCR referred to para. 31 of the Guidelines in redefining DMF outcomes and outputs if there are problems with indicators and targets in the DMF.

<sup>13</sup> PCR, para. 35, Appendix 1, Table A1.2.

PDMO within MOF was achieved and the DOMS was developed and operationalized. Capacity building and training for debt management and capital markets were delivered. The original and revised target on the amendments to the Securities Related Act 2007 was met. The amendments were submitted to Parliament following the cabinet's approval. The necessary legal and institutional analyses to support the amendments were delivered. The target on regular issuance calendar to promote a benchmark yield curve that was removed following the midterm review was partly achieved. The Nepal Rastra Bank issued the Market Maker Work Procedure 2013 (amended in 2019) aimed to promote public bonds' primary- and secondary-market trading. Similarly, it issued Online Bidding Work Procedure 2016 to guide market participants. These initial steps were aimed at developing a sovereign benchmark yield curve over different time horizons for pricing corporate bonds and long-term debt financing. Another target removed after the midterm review was the improvement on the primary dealers' eligibility criteria when the Market Maker Work Procedure was introduced to set the qualification and guidelines for primary dealers, and 33 banks and financial institutions were authorized to perform the role of market maker.

22. Output 2 on enabling policy and institutional framework for greater PSP in infrastructure was partially achieved. Of the four targets, two were achieved and two partly achieved. The target on the National PPP policy strategy was achieved when the government approved the policy and adopted it as the national strategy. The Parliament enacted the PPPIA in March 2019, exceeding the revised target of draft submission for cabinet approval. The target on the Central PPP Cell within the National Planning Commission was partly met. The enactment of the PPPIA allowed the establishment of a PPP unit at the OIBN. Under the newly enacted law, the OIBN acted as a nodal agency for PPP operations aside from its role to promote large-scale private investment in Nepal. However, OIBN's capacity building activities on PPP were not realized in view of the inadequate time remaining in the project following the PPPIA's enactment. The target to develop a model PPP concession was also partly met. Draft PPP template agreements, documentation for bidding processes, request for proposal and quotation, draft guidelines, and manuals were prepared. However, these are yet to be updated to align with the PPPIA.

23. Output 3 on developing PPP demonstration project was partly achieved. Potential PPP projects was identified. A short-list of five PPP projects were approved for pre-feasibility studies. Subsequently, pre-feasibility studies were conducted, reports were shared and discussed with line agencies and stakeholders. The target bid stage preparation to demonstrate the PPP project was not achieved. The Convention and Exhibition Center, initially considered as pilot PPP project, did not materialize because it was later considered under public funding. In sum, the three outputs were partly delivered, and the outcome as specified in the DMF was not achieved. This validation assesses the project less than effective.

### **C. Efficiency of Resource Use**

24. The PCR rated the project less than efficient because of the project's significant implementation delays—from 3 years to nearly 9 years with four extensions. There were delays from the grant signing to procurement, awarding of IT packages, and delivery of goods and services. The frequent turnover of officials at the executing and implementing agencies affected the momentum of the reforms and the project's progress. The political transitions, elections, natural calamities, and trade blockade slowed down the pace of implementing policy, legal, and institutional reforms. Pertinent stakeholders did not fully commit to the institutional set up for a PPP nodal agency proposed in the PPP policy until 2019 when the new leadership in 2018 took the decisive step to assign the OIBN as the nodal agency through the PPPIA. Further, the PCR noted the cancelation of more than \$2 million of the grant.

25. This validation notes that the significant delay in implementation and the evolving country context affected the schedule of reforms. The resources which ADB provided were underutilized and did not deliver the envisaged outcome of greater private sector investment in the infrastructure sector. This validation assesses the project less than efficient.

#### **D. Preliminary Assessment of Sustainability**

26. The PCR rated the project likely sustainable, based on the likelihood that initiatives supported through the project will continue. PDMO has been institutionalized with adequate staff requirements. Government has provided sufficient resources to support PDMO's operations, based on the MOF's detailed budget allocation report known as the Redbook.<sup>14</sup> PDMO will promote secondary-market trading of public bonds in phased manner to deepen financial and capital markets. The proposed amendment to the Securities Related Act submitted to the Parliament following cabinet's approval will give the capital market regulator a greater authority to monitor capital market activities and enforce discipline.

27. The PPPIA enactment provided the legal framework to sustain PPP operations. The law specifically stipulates the establishment of a dedicated fund to support OIBN's operations, with contributions from the national government, foreign governments, international agencies, and investors. Since its establishment in 2012, both the Nepal and the United Kingdom (UK) governments have been financially supporting the OIBN.<sup>15</sup> The government remains fully committed to support PPPIA-mandated OIBN's operations. The UK government is also likely to continue its support. OIBN is considering several PPP projects in the pipeline that include infrastructure projects in agriculture, aviation, energy, and road sectors.<sup>16</sup> OIBN has also selected a large hydropower project as PPP project under the PPPIA mandate.

28. This validation notes the institutional mechanisms, legal and policy framework, and funding support that are in place to sustain the project's achievements. The government approved and adopted the PPP policy in 2015 that outlined PPP strategies. The PPPIA enactment that replaced the BOOT Act was a significant development in providing an enabling legal environment for greater PSP in infrastructure. The PDMO within the MOF has strengthened the institutional framework for public debt management. The proposed Public Debt Management Act and the proposed amendments to the Securities Related Act 2007 will further strengthen the regulatory, legal, and institutional framework for bond market development. The government has committed to sustain both the OIBN's and the PDMO's operations with annual budget allocations since 2019. In view of the institutional mechanism in place, legal and policy framework, budget support, and likely approval of pending bills on public debt management and amendments to the Securities Act, this validation assesses the project likely sustainable.

<sup>14</sup> The fiscal year (FY) 2021 Redbook showed PDMO's actual expenditure was NRs19 million in 2019. For FY2020, it was NRs55 million, and the allocated budget for FY2021 was NRs41 million.

<sup>15</sup> The FY2021 Redbook shows that the OIBN recorded expenditure of NRs103.6 million in FY2019; the revised estimate for FY2020 shows that its expenditure was NRs312.8 million; and the allocated budget for FY2021 was NRs654.8 million. The UK government provided consulting services through 30 full-time staff with specialized expertise in different areas.

<sup>16</sup> Government of Nepal. Investment Board Nepal. IBN Projects. Investment Board Nepal – Partnership for Economic Prosperity. <https://ibn.gov.np/>

### III. OTHER PERFORMANCE ASSESSMENTS

#### A. Preliminary Assessment of Development Impact

29. The PCR rated the project's development impact satisfactory. It attributed the rating mainly to the policy and legal reforms and supporting institutional strengthening measures that laid the foundations for an enabling environment to develop long-term financing and PPP in infrastructure. The project's outputs started to facilitate and promote investment in infrastructure with a pipeline of PPP projects under consideration.

30. This validation notes that the impact target of at least three infrastructure projects having private sector, foreign direct investment, or commercial financing was partly achieved. At project completion, the Arun-3 Hydropower PPP project was the only project that reached financial closure. While this achievement was less than what was envisaged, it was nonetheless a marked improvement, given the lack of an enabling environment for PSP in infrastructure prior to the project, fluid political context, and limited capacity of institutions. The project was able to achieve its intention of realizing modest and incremental improvements on the fundamental aspects of financial sector development and PSP. These achievements will advance the government's infrastructure development agenda. Based on this discussion, this validation assesses the project's development impact satisfactory.

#### B. Performance of the Borrower and Executing Agency

31. The PCR rated the performance of the borrower and executing agency as satisfactory. The government demonstrated strong and consistent ownership to actively supervise the project. The MOF prioritized the reforms reflected in the government's periodic plans and budget. Its efforts enabled the project to make progress in the envisaged reforms. The new government formed in 2018 facilitated the execution of key initiatives, such as the PDMO establishment and the PPPIA enactment. The steering committee provided adequate oversight and guidance to the PMCC during implementation. MOF submitted the necessary audit financial and progress reports. The covenants were complied with, except for the one related to reaching bid stage for a demonstration project. This validation assesses the performance of the executing agency satisfactory.

#### C. Performance of the Asian Development Bank and Cofinanciers

32. The PCR rated ADB's performance satisfactory. ADB fielded a total of 13 missions. The ratings on implementation progress varied indicating development of problems throughout implementation.<sup>17</sup> ADB was actively involved in discussions with the government from processing to implementation. It conducted consultations with government and stakeholders to gather inputs in support of the reforms. It provided guidance and inputs using its specialized policy areas such as discussions with the Office of Public-Private Partnership. ADB staff actively communicated with their counterparts on the preparatory activities leading to the establishment of PDMO and the PPP unit. It also provided ample guidance throughout the project's implementation. However, the weaknesses in the DMF should have been rectified during implementation. This validation assesses the performance of ADB satisfactory.

#### D. Others

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<sup>17</sup> Based on the PCR Basic Data C.4.

33. The government's PCR rated the project successful as it was relevant, effective, and likely sustainable despite some delay issues in project implementation.<sup>18</sup>

#### IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

##### A. Overall Assessment and Ratings

34. The PCR rated the project successful. This validation assesses the project relevant, less than effective, less than efficient, and likely sustainable. The project was relevant as it addressed key impediments to infrastructure development, aligned with the government's development priorities and ADB's country strategies, and timely in supporting government's development priorities after a decade of conflict. The project was less than effective as the outcome target was not achieved and the three expected outputs were partly met. It was less than efficient due to the significant delays in implementing and underutilizing resources. It is likely sustainable on account of the institutional mechanism in place, legal and policy framework for bond market development and greater PSP in infrastructure, and budget support for the OIBN and the PDMO. Overall, this validation assesses the project less than successful.

**Overall Ratings**

Validation criteria	PCR	IED review	Reason for disagreement and/or comments
Relevance	Relevant	Relevant	
Effectiveness	Effective	Less than effective	Outcome was not achieved. Three outputs were partly achieved.
Efficiency	Less than efficient	Less than efficient	
Sustainability	Likely sustainable	Likely sustainable	
<b>Overall assessment</b>	<b>Successful</b>	<b>Less than successful</b>	
Preliminary assessment of impact	Satisfactory	Satisfactory	
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Quality of PCR		Satisfactory	Para. 39.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.  
Source: ADB (IED).

##### B. Lessons

35. This validation notes that the lessons presented in the PCR are useful. Performance indicators for outcome targets need to be carefully identified and selected to facilitate alignment with planned outputs. Specifically, the outcome target was highly ambitious. Implementation needs to be understood in terms of phases. Although the flexibility accorded during implementation was justified, it was not adequate to substitute the need for more programmatic approach required for implementing reforms. The project incurred significant transaction costs to the government and ADB staff for a relatively small project grant. It could have been delivered more efficiently through a technical assistance under a policy-based loan. Existing standard IT

<sup>18</sup> Government of Nepal. 2021. *Project Completion Report: Capital Market and Infrastructure Capacity Support Project*. Kathmandu.

architecture can be customized to suit local contexts. Appropriate selection of the executing agency is also crucial to generate support in achieving the reforms.

36. This validation adds two lessons. First, it is important to develop a logical framework with coherent nexus of inputs to outputs that can clearly present how the project design is expected to achieve its intended results. A project that involves complex reforms with evolving country context needs to have a well-formulated DMF. Clearly defined indicators should be achievable and realistic to facilitate better assessment of project performance. Second, the government's greater ownership and commitment during a period of political transition are critical for reform implementation to support the project's expected outcome. A dedicated and responsive project team with adequate support and guidance from the borrowers helps in the delivery of project results.

### **C. Recommendations for Follow-Up**

37. The recommendations of the PCR are sound and appropriate. The government should provide continuous support to the newly created PDMO and PPP unit. Ongoing institutionalization of the PPP unit should be completed, and its expertise continuously strengthened. Other initiatives should complete its operations to attract greater PSP. These include implementing a robust currency risk-hedging mechanism in investment projects; completing a sovereign rating; and improving coordination among government agencies. There is also need for adopting enhanced disclosure and transparency of PPP projects; integrating PPPs within the medium-term expenditure framework; and managing contingent liabilities.

## **V. OTHER CONSIDERATIONS AND FOLLOW-UP**

### **A. Monitoring and Reporting**

38. The project monitoring was adequate and satisfactory. The PMCC monitored the progress of project implementation and performance, based on the DMF. Quarterly reports were produced, and the necessary audited financial statements were submitted as required.

### **B. Comments on Project Completion Report Quality**

39. The quality of the PCR is assessed satisfactory. The discussions and analysis provided adequate details and were informative. The ratings were substantiated with evidence. The lessons were drawn from the findings and the recommendations useful. The appendixes provided information that supported the main text. In the discussion on outputs, it would have been easier to the reader if the indicators were specifically mentioned instead of referring to them as indicator 1.1, 1.2, 1.4, etc.

### **C. Data Sources for Validation**

40. The sources for this validation were the report and recommendation to the President, back-to-office reports, the PCR, government's PCR, and minutes of the staff review meeting, as well as the country partnership strategy, and national planning documents.

### **D. Recommendation for Independent Evaluation Department Follow-Up**

41. None.