Report Number : ICRR0020886

1. Project Data

Project ID P120265	**Project Name** NP: Emerging Towns Project
Country Nepal	**Practice Area(Lead)** Social, Urban, Rural and Resilience Global Practice

L/C/TF Number(s) IDA-49050,IDA-H6610	**Closing Date (Original)** 31-Jul-2016	**Total Project Cost (USD)** 35,137,170.00
Bank Approval Date 10-May-2011	**Closing Date (Actual)** 31-Jan-2017	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	25,000,000.00	0.00
Revised Commitment	15,133,538.73	0.00
Actual	12,005,145.55	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The Project Development Objective (PDO) as stated in the Financing Agreement (Schedule 1, page 5) and in the Project Appraisal Document (PAD, page 6) was:

"To improve delivery and sustainable provision of basic services and priority infrastructure in the participating municipalities".

There was a one Level-1 restructuring (2013). According to the amended FA (page 1), the PDO was revised:

"To improve the capacity of the participating municipalities to plan, implement and fund urban development activities".

The assessment of the project's outcome will be based on a split rating of objectives before and after restructuring.

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

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

04-Jul-2013

c. Will a split evaluation be undertaken?

Yes

d. Components

There were three components (PAD, pages 7- 10).

Component One. Strengthening Municipal Planning Capacity for Urban Development (Appraisal estimate US$5.00 million. Revised estimate at restructuring US$4.43 million. Actual cost at closure US$4.43 million). This component aimed at providing municipal grants to the participating municipalities to finance eligible activities whose objective was to improve municipal service delivery through on-the-ground community development initiatives.

Component Two. Socio-Economic Infrastructure Development (Appraisal estimate US$16.37 million. Revised estimate at restructuring US$5.10 million. Actual cost at closure US$4.59 million). This component aimed at financing social and economic infrastructure sub-projects through a combination of grant and loans. The sub-projects were to include social infrastructure sub-projects (such as basic health centers, community centers, public toilets, green spaces, slum upgrading, etc.), urban or utility sub-projects (such as water, sewerage, solid waste and municipal roads, etc.) and revenue-generating or commercial infrastructure sub-projects (such as markets, tourism facilities, parking spaces, transportation terminals, etc.). The scope of this component was substantially reduced in line with the borrowing and implementation capacity of the participating municipalities and the original allocation for this component was reduced drastically following the level one restructuring and this accounted for the reduced revised estimates.

Component Three. Institutional Development. Appraisal estimate US$3.63 million. Revised estimate at restructuring US$3.38 million. Actual cost at closure US$2.34 million). This component aimed at supporting institutional strengthening and providing project management assistance to the participating municipalities, the Ministry of Physical Planning and Works, the Ministry of Local Development, the Department of Urban Development and Building Construction, the Town Development Fund and other project implementing units established for implementing the project. Activities in this component included areas such as: (i) project specific Monitoring and Evaluation (M&E): (ii) the Environmental and Social Management Framework (ESMF) and grievance redressed mechanisms: (iii) logistics and equipment: (iv) preparing an Information, Education and Communication (IEC) Strategy: (v) financial management and procurement: and, (vi) financing studies, workshops and program expansion activities.

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

Project Cost. Appraisal estimate US$35.13 million. Revised estimate at restructuring US$12.90 million. Actual cost at closure US$11.66 million. Actual cost was lower than estimated for a combination of factors including substantially reduced scope of component two activities.

Project Financing. An IDA Grant of US$25.00 million was approved. A total of US$10.00 million was cancelled. This included cancellation of US$6.55 million due to the reduced scope of component two activities following the Level-1 restructuring and subsequent cancellation of US$3.45 million following the second level two restructuring, as these funds were not likely to be used by the revised project closing date. About US$1.6 million was unutilized at project closure, mainly due to the depreciation of Nepalese currency and final bid price that was lower than originally estimated. Amount disbursed at closure was US$11.66 million. There was co-financing from *Deutsche Gesellschaft fur Internationale Zusmmenarbeit GmbH* (GIZ). Appraisal estimate US$3.00 million. Amount disbursed at closure US$1.78 million. There was parallel financing for complementary urban sector activities from the Asian Development Bank (ADB) and the United Nations Development Program (UNDP).

Borrower Contribution. Appraisal estimate US$5.00 million. Their contribution at closure was US$0.00 million. Contribution from local communities/municipalities was agreed to be US$2.13 million; their contribution at closure was US$1.78 million.

Dates. There were two Level-2 restructurings and one at Level-1 restructuring. The first Level-2 restructuring was on 01/21/2013. With the establishment of the Ministry of Urban Development (MoUD) in May 2012 as a new dedicated ministry of urban development, MoUD replaced the erstwhile Ministry of Physical Planning and Works (MPPW) as the project executing agency and the main project agencies including the Town Development Fund, the Department of Urban Development and Building Construction and the Project Coordination Office that were under the purview of the MPPW were placed under the MoUD.

The following changes were made through the Level-1 restructuring on 07/19/2013: (i) the PDO was changed and in line with the revised PDO, the name of the first component was changed from "Service delivery improvement" to "Strengthening municipal planning capacity for urban development": (ii) the second component was reduced in scope and the results framework and the original three key outcome indicators were revised in view of the change in the PDO.

The following changes were made through the second Level-2 restructuring on 07/18/2016: The project closing date was extended from July 31. 2016 to January 31, 2017 to complete on-going municipal sub-projects and institutional strengthening activities that had been delayed due to a combination of factors, such as the earthquake in April 2015 and political instability that led to disruptions in the supply of essential commodities, including fuel and construction materials. The project closed six months behind schedule.

Restructuring and Split Rating. The project was restructured at Level-1 when 46% of the grant was disbursed. The assessment of the project's outcome will therefore be based on a split rating of achievements weighted by disbursement before and after restructuring.

3. Relevance of Objectives & Design

a. Relevance of Objectives

Original Objective. Substantial.
The PDO continues to be relevant to the government strategy. Before appraisal in early 2000s, the urban population was growing about three times more than the national growth rate of total population of about 2.1 per annum in Nepal. Although urban population was projected to be around 4.4 million out of a population of 12 million by 2010, the urban population exceeded 5 million by 2007 and Nepal's existing urban infrastructure (such as access to piped water, roads, sewerage facilities and solid waste management) had not kept pace with the growing urban population. Alongside this, although the government had adopted a new constitution based on decentralization as a guiding principle, local functionaries such as the municipalities neither had the capacity nor the financial capabilities to address delivery of urban services. The National Urban Policy (NUP) adopted in 2008 included the objectives of balanced national urban structure and poverty reduction, clean urban environment and effective urban management. The 12th Three-Year Interim Plan (TYIP) for 2010-2013 called for developing large urban centers as regional economic centers, linking them with medium and small growth centers through improved infrastructure and developing small towns by improving their linkages with the hinterlands. The TYIP also highlighted the Government's commitment to decentralization and emphasized the need for strengthening local governments and making them the primary implementers of urban plans. transitioning central agencies into focusing on policy formulation and monitoring, directly transferring funds to local governments and mobilization and sharing of revenues between local bodies.
The PDOs were relevant to the Bank strategy. At appraisal, the PDO was well aligned with the three key pillars of the Bank's Nepal Interim Strategy Note (ISN) issued in 2007. The pillars were promoting capable state structures and systems, fostering accountable institutions and laying the foundation for sustainable and inclusive economic growth and enhancing equitable access to services. The PDO was consistent with the Bank's Country Partnership Strategy (CPS) for 2014-2018 across two strategic areas of engagement, competitiveness and inclusion.
Revised Objective. High.
The revised objectives was reduced in scope and focused on activities and outcomes that could be realistically financed by the grant. The relevance of the original objectives, therefore, applies also to the revised statement.

Rating	Revised Rating
Substantial	High

b. Relevance of Design

Original Design.
The original objectives were a bit vague. Component one activities aimed at providing municipal grants to finance eligible activities could be expected to strengthen the municipal planning for urban development. Component two activities aimed at financing social and infrastructure sub projects could be expected to aid in

the socio-economic infrastructure development of the participating municipalities. These activities in conjunction with institutional development (component three) activities could be expected to contribute to the PDO of improving delivery of urban services and contribute to the sustainable provision of priority infrastructure in the participating municipalities. However, there were shortcomings in the original design.

- The project scope was too ambitious and complex with respect to the implementation capacities of the project agencies and the participating municipalities. The project agencies had no prior experience in implementing World Bank financed projects and the participating municipalities neither had the institutional nor the technical capacity for implementing the project. The focus on enabling municipal borrowers to execute infrastructure works was unrealistic, given their low absorptive capacity. The willingness to borrow of the municipalities in general proved to be inadequate to absorb the loan financing for infrastructure sub-projects, and even municipalities with a stronger revenue base showed limited willingness to borrow for municipal revenue-generating sub-projects. These factors contributed to the reduced scope of component two activities and cancellation of grant funds during implementation.
- It is not clear if the design that envisioned supporting municipalities in financing infrastructure sub-projects through a combination of grant and loan (through borrowing for service delivery) was appropriate, given the low revenue base and the weak financial management capacities of the participating municipalities. A more appropriate design would have been to strengthen the municipalities’ ability to mobilize resources before considering the option of borrowing for service delivery.
- It is not clear if the activities were tailored to the needs of the municipalities, given the differences in the fiscal capacities of the participating municipalities.
- The project required involvement of as many as 11 agencies (including the Ministry of Physical Planning and Works, the Town Development Fund, the Urban Development Training Center, Local Bodies Fiscal Commission, the Municipal Association of Nepal and six participating municipalities). Given that many of the institutions had unclear roles and responsibilities, it is not clear if the design incorporated an appropriate coordination mechanism for bringing the Project Coordination Office (PCO), the project agencies, the participating municipalities and the Municipal Support Team together for executing the project.

Revised Design.

The revised design focused on a smaller number of sub-projects that had already been appraised and reduced the scope of component two activities to strengthening the capacity of municipalities in all aspects of urban development in an integrated manner (including planning, social, environmental aspects). This could be expected to contributing to the PDO of improving the capacity of the participating municipalities to plan, implement and fund urban infrastructure activities and thereby to the higher-level objective of improving service delivery at the local level. Given the multiplicity of entities involved in the project, the revised design strengthened the coordination role of the PCO, with a full-time Project Director dedicated to the project and increased staffing of the PCO.

Rating	Revised Rating
Modest	Substantial

4. Achievement of Objectives (Efficacy)

Objective 1
Objective

The two sub-objectives were: (i) To improve delivery of basic services and priority infrastructure. (ii) sustainable provision of basic services and priority infrastructure.

Rationale
Before restructuring.
Sub-objective (i) ***To improve delivery*** *of basic services and priority infrastructure.*
Outputs.
These outputs were common to both the original and revised objectives.

- Six municipalities submitted annual plans for the municipal block grants to the Ministry of Urban Development as targeted.
- An Integrated Revenue and Accounting Software was developed and was being implemented at project closure. Seven training programs in key capacity-gap areas for 275 municipal staff; six training manuals were prepared for the training programs.
- A Geographic Information System (GIS) maps of all six municipalities were prepared.

Outcomes.

- Indicators were output-oriented. There is little evidence that these activities contributed to improving delivery of basic services and priority infrastructure in the participating municipalities.

Sub-objective (ii). ***Sustainable provision*** *of basic services and priority infrastructure***.**
Outputs.
The following outputs were common to both the original and revised objectives.

- Six municipalities submitted satisfactory annual progress reports to the Ministry of Urban Development as targeted.
- Capacity building support was provided for the participating municipalities to implement large-scale urban infrastructure development sub-projects.
- Geographic Information System (GIS) maps of all six municipalities were prepared.
- A Business Restructuring Action Plan (BRAP) was prepared by the Town Development Fund (TDF) as targeted. Four training programs were conducted by the TDF for 125 participants. No targets were set for this indicator.

Outcomes.

- Indicators were output-oriented. There is little evidence that these activities contributed to improving delivery of basic services and priority infrastructure in the participating municipalities.

Rating
Modest

Objective 1 Revision 1

Revised Objective

To improve the capacity of the participating municipalities to plan urban development activities.

Revised Rationale

Outputs.
In addition to the outputs described above the following activities were completed**.**

- Six municipalities developed and approved planning norms and building byelaws based on the Ministry of Urban Development guidelines, as targeted.
- Policy guidelines and procedures for municipalities on governance and budget planning was updated and implemented by the Ministry of Federal Affairs and Local Development as targeted.
- A total of 1,683 activities were supported through the grant. The supported activities included road improvements of 134.75 kilometers (km) of roads, drainage improvements of 17.05 km, rehabilitation of 80 water supply taps, 151 community building construction/maintenance activities (such as municipal office, community building, schools and hospitals, 389 community assets (such as, parks, toilets, temples, protection walls, play grounds and electrification), 695 social development programs (such as community level trainings, orientation, solid waste management, public health and conservation) and 39 activities associated wit municipal capacity development.
- 14 out of the 15 sub-projects were completed at closure. The sub-projects included five sub-projects associated with road improvements, four park improvement sub-projects, two local market improvement sub-projects, one bridge sub-project, one multi-purpose building construction sub-project, one temple construction sub-project and one entrance gate beautification sub-project. One sub-project was dropped due to land clearance issues.
- An Integrated Revenue and Accounting software was developed and was being implemented at project closure. Seven training programs in key capacity gap areas for 275 municipal staff were conducted and six training manuals were prepared for the training programs.
- 86% of funds for municipal sub-projects were disbursed as compared to the target of 100%.

Outcomes.

- Six municipalities prepared and updated their Investment and Operation and Management (O&M) plans annually as targeted. The O&M plans were included in the municipalities' annual plans and budgets for implementation.
- 93% of the construction of the municipal sub-projects were on track at project completion as compared to the target of 90%.

- The total number of beneficiaries benefitting from the project activities increased from 25,000 at the baseline to 124,224 at project closure. This exceeded both the original and revised targets of 100,000 and 92,000 respectively. 55% of the beneficiaries were women as compared to the revised target of 35% and 50% of the beneficiaries were from disadvantaged group as compared to the revised target of 10%.
- The collection rate of the Town Development Fund by participating municipalities increased from 75% to 90% as targeted.
- Own source revenue of the participating municipalities increased from 15% at the baseline to 33% at project closure. This exceeded the target of 25%.

While it is difficult to ascertain the extent to which the project activities per se contributed to the outcome, it is reasonable to conclude that the project activities may have made a substantial contribution to improving the capacity of the participating municipalities to plan urban development activities.

Revised Rating
Substantial

5. Efficiency

Economic Analysis. The municipal grants were expected to provide discretionary resources for small-scale interventions and the benefits of the project were to come from improved service delivery standards and meeting the basic service needs of poor and disadvantaged groups. However, given that the use of municipal grants could not be determined *a priori,* a conventional economic analysis was not carried at appraisal (PAD, page 18). A comprehensive ex-post economic analysis was not carried out at project completion, due to the lack of reliable data or robust methodology for assessing quantitative benefits. The principal qualitative benefits from the project were to come from factors including the strengthened municipal planning for urban development and capacity building for municipal infrastructure investments (ICR, page 16).
Operational and Administrative Issues. There were administrative shortcomings. Frequent changes in project leadership, unclear mandates of the implementing agencies, lack of an appropriate mechanism for coordinating the activities of the different agencies and underestimation of the capacity of the implementing agencies contributed to the reduction in the scope of project activities and cancellation of about 40% of IDA funds in 2013. How far exogenous factors over which the project had no control (such as political instability and a major earthquake on April 25,2015 and the subsequent aftershocks) contributed to further cancellation of funds is unclear (discussed in section 2e). At project closure, all but one sub-project was completed by the project closing date.

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 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

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

6. Outcome

Relevance of the **original objectives** to both the country and Bank strategy is rated as Substantial. Design, however of the original project was complex and unrealistic in relation to the PDO and is rated as Modest. Although some of the intermediate goals were attained, there is no clear evidence that the project activities contributed to the original objective of improving the delivery and sustainable provision of basic services and priority infrastructure in the participating municipalities. Efficacy before restructuring was rated as Moderately Unsatisfactory. Efficiency was rated as Modest in view of the administrative and operation inefficiencies that contributed to a significant cancellation of IDA grant.
The **revised objectives,** which reduced the scope of project activities was rated as High. Design after restructuring was much simpler and geared to what could realistically achieved given the capacity constraints in the country. Revised design was hence rated as Substantial. Efficacy of the three revised sub-objectives - to improve the capacity of the participating municipalities to plan, implement and fund urban development activities - was rated as Moderately Satisfactory. All outcomes were either realized or surpassed. While it is difficult to ascertain the extent to which the project activities per se contributed to realizing the revised objective, it is reasonable to assume that the project activities made a significant contribution to improving the capacity of the participating municipalities to plan, implement and fund urban development activities. Efficiency was rated as Modest.
Taking into account the ratings discussed above and given the shares of disbursements before and after restructuring the weighted outcome was (0.46*3+0.54*4) = 3.54 (scale 6 = High; 1 = Highly Unsatisfactory). Thus the overall outcome rating is Moderately Satisfactory reflecting moderate shortcomings in the project's achievement of its development outcomes and efficiency.

a. Outcome Rating
Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating

Institutional Risk. **Substantial.** At project closure, the revenue enhancement plans approved by the municipal councils had been updated and Operational and Maintenance (O&M) Plans had been developed annually. While this would help in generating enough revenue from own sources to recover O&M costs of some of the assets created by the project (such as local market, slaughter house, multi-purpose building), it is not clear if O&M plans of other infrastructure, such as roads and drainage systems could be covered through revenue from own sources, without financial support from the municipalities.

Technical Risk. **Modest**. Although the project activities aimed at increasing the capacity of the participating municipalities in complying with environmental and social safeguards and procurement procedures, at project closure the federal governance system was still being set up. It is not clear if the municipal staff will be trained on an on-going basis.

a. Risk to Development Outcome Rating

Substantial

8. Assessment of Bank Performance

a. Quality-at-Entry

Given that this was Bank's first investment since the late 1980s in the urban sector and the first operation directly targeting local governments in Nepal, the design incorporated relevant lessons from global experience, lessons from similar programs in Nepal (such as the Local Governance and Community Development Program (LGCDP) and the Small Towns Water Supply and Sanitation Project (STWSSP), and the conclusions of the 2008 Independent Evaluation Group's (IEG) study on municipal development. Two lessons incorporated in the design of this project were: the attempt to improve systemic capacities by mainstreaming implementation through existing institutions and systems; and strengthening them incrementally while devoting attention to ensuring broad and deep stakeholder involvement at all levels. Given that the IEG's study had identified that among the three dimensions of municipal management - planning, finance and service provision - support for strengthening municipal finance often yielded the best results, the design aimed at continuing support to tightening municipal financial management through revenue-raising measures, including bringing municipalities to local credit market, when appropriate conditions are present (PAD, page 12). Appropriate arrangements were made at appraisal for compliance with safeguards and fiduciary issues (discussed in section 11).

As indicated in Section 3b, there were shortcomings in Quality-at-Entry including, a complex and ambitious design considering the implementation capacity of the project agencies and participating municipalities, not tailoring the activities to the needs of the various municipalities and inadequate attention to the coordination mechanism given the involvement of the various entities involved in implementing project activities. These shortcomings in turn contributed subsequently to a reduced scope of project activities and significant cancellation of the IDA grant during implementation.

The design underestimated the risks associated with institutional, political and governance risks. The transition to federalism and the formulation of the new constitution, which was anticipated at appraisal, was stalled due to the political-economy considerations. Unclear mandates and fragmented responsibilities between the Ministry of Federal Affairs and Local Development (MOFALD) and the Ministry of Urban Development (MOUD) contributed to the lack of strong leadership and ownership during the early stage of project implementation. This in conjunction with political instability, subsequent changes in government and

frequent changes in project staff, contributed to implementation difficulties.
There were shortcomings in M&E design.

Quality-at-Entry Rating
Moderately Unsatisfactory

b. Quality of supervision

Supervision missions took place, on average, twice a year. The supervision missions which in most cases included joint site visits with the Government team, helped in identifying and addressing implementation issues proactively at the municipal level. The supervision team also provided technical support for developing urban policy and regulations at both central and local levels and facilitated knowledge sharing of relevant successful practices with trust fund support. Given the delays in the initial years, the project was restructured at Government's request in a timely fashion and appropriately restricted the scope of the project to what could be realistically achieved under conditions in a fragile environment.

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. Assessment of Borrower Performance

a. Government Performance

The Government's s commitment to improve the capacity of the participating municipalities during project implementation was demonstrated through its issuance of a number of policy directives and setting up of a steering committee chaired by both the Ministry of Urban Development and the Ministry of Federal Affairs and Local Development. The Department of Urban Development and Building Construction coordinated with the project stakeholders.
The significant delays in the initial years were mainly due to the government ownership and leadership which contributed to the frequent turnover of Project Directors (PD) and other staff. This in turn contributed to the significant reduction in scope of project activities and cancellation of about 40% of the IDA grant. Unclear mandates and fragmented responsibilities between the Ministry of Federal Affairs and Local Development and ownership during the initial project years contributed to implementation delays and this in conjunction with political instability contributed to the implementation difficulties in the initial years.

Government Performance Rating
Moderately Unsatisfactory

b. Implementing Agency Performance

The main implementing agency was the Department of Urban Development and Building Construction

(DUDBC) in the Ministry of Urban Development (formerly known as the Ministry of Physical Planning and Works. The Project Coordination Office (PCO) in DUDBC was responsible for day-to-day project management, supervision and reporting. The implementing agencies complied with the fiduciary requirements (discussed in Section 11). Although the lack of clarity regarding the responsibilities and mandate of the various agencies was not clear in the initial years of the project and this contributed to significant delays, this was rectified. The performance of the PCO and the main implementing agencies is summarized below:

The Project Coordination Office (PCO) carried out frequent site visits and this contributed to ensure the project's progress in the latter years. Additionally, the technical consultation team was staffed adequately, including by a dedicated Project Director. Strong accounting and financial systems were established and this aided in fiduciary compliance and also provided capacity building activities to assist municipalities.

The two main implementing agencies - Ministry of Urban Development (MoUD) and the Department of Urban Development and Building Construction in MoUD- guided the the PCO and addressed project issues and provided implementation support on capacity building activities. Frequent changes in staff of the two agencies contributed to implementation delays in the initial years of the project.

Implementing Agency Performance Rating

Moderately Satisfactory

Overall Borrower Performance Rating

Moderately Satisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design

The original results framework had three key outcome indicators - percent increase in citizens who say that the infrastructure services offered by the municipality better met their needs than in the previous year, percentage increase in citizens who reported that they had participated in planning meetings at the ward level than in the previous year and the total number of people who benefitted from urban services and infrastructure services (including females and from disadvantaged persons). Of these three, the third indicator was appropriate. The first two indicators were intended to measure the original PDOs before the Level 1 restructuring. These indicators were dropped and never monitored.

The original M&E design did not have an appropriate indicator for monitoring the original PDO of sustainable provision of basic services and priority infrastructure in the participating municipalities.

Institutional arrangements were established at the Project Coordination Office to obtain information from project implementing agencies, and an M&E reporting format was designed for the municipalities to collect information from the field at design.

b. M&E Implementation

Following the Level 1 restructuring, there were three key outcome indicators - the number of participating

municipalities with funded investment and O&M plans, increase in municipal own revenues in the participating municipalities and the total number of people (of which female and from disadvantaged groups) benefitting from the project activities. These indicators were appropriate for monitoring the revised objective.
The Municipal Support Team (MST) was used by the Project Coordination Unit to obtain reports from both the participating municipalities and the central level project implementing agencies during implementation.

c. M&E Utilization

The M&E reports were utilized by the Project Coordination Office, the implementing agencies and the Bank team to make corrections and improvements in the work program and for monitoring project performance.

M&E Quality Rating

Modest

11. Other Issues

a. Safeguards

The project was classified as a Category 'B' project under OP/BP4.01 Environmental Assessment.
Five other safeguards were triggered: Natural Habitats (OP/BP 4.04): Indigenous Peoples (OP/BP 4.10): Physical Cultural Resources (OP/BP 4.11): Involuntary Resettlement (OP/BP 4.12); and Forests (OP/BP 4.36).
Environmental Assessment, Physical Cultural Resources, natural Habitats and Forests. The PAD (pages 24-25) notes that although the majority of the sub-projects were expected to have limited environmental impacts, a few infrastructure sub-projects could have environmental risks. The safeguards pertaining to Physical Cultural Resources was triggered as there were cultural sites of local significance in each of the participating municipalities. The safeguards pertaining to natural habitats was triggered in view of the possibility that some activities in Lekhnath municipality may be implemented closed to the lakes and the safeguards pertaining to forests was triggered in view of the small patches of forests in and around some of the participating municipalities. The PAD (page 24) notes that an Environmental Management Framework (EMF) that was consistent with the Government's and Bank requirements and publicly disclosed as required at appraisal.
The ICR (page 10) notes that the Project Coordination Office's safeguard staff provided close support to the municipalities and there was compliance with the environmental safeguards.
Involuntary Resettlement and Indigenous Peoples. The PAD (page 22) notes that a Social Assessment (SA) was carried out at appraisal and a Social Management Framework (SMF) was prepared which focused on three issues: (i) involuntary resettlement: (ii) social equity and inclusion (indigenous people/vulnerable communities); and, (III) social accountability and demand side governance. A Resettlement Policy Framework (RPF) and an Indigenous People and Vulnerable Communities Development Framework (IP-VCDF) to address the needs of the vulnerable communities was prepared at appraisal (page 23).
The ICR provides little details but notes that compliance with social safeguards was deemed to be satisfactory (ICR, page 10).

b. Fiduciary Compliance

Financial Management. The PAD (page 45) notes that a financial management assessment was conducted at appraisal of the six municipalities, the Ministry of Local Development, the Town Development Fund (TDF) and the Department of Urban Development and Building Construction (DUDBC). The assessment concluded that although the municipalities were among the better-managed local bodies, the Bank was working at the municipal level for the first time and both the TDF and DUDBC had not worked with the Bank for a long time. Given this, the financial management was rated as Substantial. A Financial Management Action Plan to mitigate the financial management risks was prepared at appraisal (PAD, page 49).

The ICR (page 10) notes that despite some moderate shortcomings associated with delays in submission of audit reports, compliance with Bank financial management requirements was deemed to be satisfactory during implementation.

Procurement. The PAD (page 22) notes that assessments were made of the central agencies and municipalities to address procurement issues. The assessment concluded that although the central agencies were familiar with the procurement under donor-funded projects, the capacity of the municipalities was weak and the overall procurement risk was rated as Substantial.

The ICR (page 10) notes that the Project Coordination office took the lead role in building the capacity of the municipalities through training and compliance with procurement was deemed to be satisfactory during implementation.

c. Unintended impacts (Positive or Negative)

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d. Other

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12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---

Quality of ICR	Substantial	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons

The ICR draws the following main lessons from implementing this project, with some adaptation of language.
(1) The Bank's support to local governments in a fragile political environment and weak governance structure would benefit from a realistic and simple project design and clear implementation arrangements. This project was the first Bank urban operation since the late 1980s and the project agencies and municipalities did not have prior experience of working with the Bank and this in conjunction with a complex and ambitious design, contributed to implementation delays in the initial years and eventual reduction in the scope of project activities during implementation.
(2) Government strengthening and institutional development may require time to show results, especially in a fragile environment. In the case of this project, the project required close support and follow up with municipalities, a strong socialization process and institutional support. This however contributed to the outcome of improved sustainability of urban development.
(3) An effective urban governance program may require institutional building at both national and local levels. This project strengthened institutions both at the national level and at the level of municipalities.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The ICR is concise, well-written and provides a good analysis. Given the delays that were experienced in the initial years, the ICR provides a good and candid analysis of the reasons for the delays that eventually led to reduction in scope of project activities. The ICR is internally consistent and its assessment of ratings is consistent with OPCS guidelines.
The ICR provides little information on the quality of audits and its discussion of compliance with safeguards is brief.

a. Quality of ICR Rating
Substantial