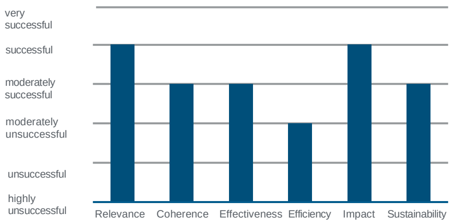
KfW Development Bank

Ex-post evaluation Urban development programme II & III, Nepal

Title	Urban Development Programme II & III also known as Town Development Programme (TDP)
Sector and CRS code	Urban development and administration; CRS code: 43030
Project number	BMZ No. 2000 65 003; BMZ No. 2008 65 246
Comissioned by	Federal Ministry for Economic Cooperation and Development
Recipient/ Project-executing agency	Republic of Nepal / Town Development Fund (TDF)
Project volume/ Financing instrument	TDP II - EUR 7.55 million (FC grant); TDP III - EUR 7.5 million (FC grant)
Project duration	*TDP II: 2000 - 2018; TDP III: 2010 - 2021*
Year of report	2024 **Year of random sample** 2023

Overall rating: **Moderately successful**



Objectives and project outline

The objectives of TDP II and III were to develop the TDF into a self-sustaining fund for financing municipal infrastructure and to make the use of this infrastructure sustainable (FC module objective). This was intended to contribute to securing and improving the living conditions of the urban population and to strengthening municipal structures (overarching development objective). The projects were mainly aimed at the urban population, but the rural population also benefited indirectly from social and economic infrastructure. The FC programmes were implemented by the TDF through social infrastructure projects (grants) and income-generating infrastructure measures (loans and grants) (output). This was flanked by the accompanying measures implemented by TC (later FC) for municipalities and the TDF. Political events significantly influenced and delayed the implementation of the projects.

Key findings

The following aspects justify the overall rating of "limited success":

- The conception of the TDP on the one hand, but also the establishment and continuous support of the Town Development Fund were a direct response to the urgently needed support for the nationwide financing of municipal infrastructure and still represent a milestone for good governance today.
- The coordination and complementarity between FC and TC components were coherent and structured. However, it would have been helpful if the duration of the components had also been coordinated.
- Insufficient donor coordination in cooperation with the TDF as well as competition from additional subsidies from the government to the municipalities and subsidised offers from other development partners made it difficult to fill the project pipeline for the TDP in the envisaged period. Even today, the TDF has not yet fully achieved the political independence and sovereignty to avert a similar situation.
- In view of the institutional, economic and political situation in Nepal during the term, which led to massive delays in project implementation and insufficient political ownership, it would have been better to support the TDF in developing into a strong, well-functioning organisation.
- The aim is to develop a state agency for the development, financing and implementation of infrastructure projects that is well-equipped and professionally experienced, rather than focussing on the revolving nature of the fund in its objectives.
- The vast majority of projects are functional and in an acceptable condition even after more than 10 years of operation. However, infrastructure maintenance is a major problem across the country, as funds are often channelled into individual municipal maintenance budgets and used for the maintenance of non-related infrastructure, meaning that proactive maintenance does not take place.
- The programme had a recognisable (albeit unquantifiable) developmental impact. The revenue-generating projects of TDP II and III led to a direct increase in municipal revenues. Anecdotal examples point to unintended positive effects beyond TDP II & III.
- The Nepalese side also made the agreed contribution during the crisis.

Conclusions

- When setting up a financing instrument for municipal funding such as the TDP, it is important to contractually agree future obligations for sustainable operation with the beneficiary municipalities.
- The integration of revenue-generating investments in the planning of municipal infrastructure promotes the sustainability of investments, including in social infrastructure.
- Coordination with other donors to ensure a level playing field and compliance with the same rules is essential when establishing a financing instrument.

Ex-post evaluation - assessment according to OECD DAC criteria

Overview of the rating per criterion:

Relevance	2
Coherence	3
Effectiveness	3
Efficiency	4
Overarching developmental impact	2
Sustainability	3
Overall rating:	**3**

General conditions and classification of the project

Current framework conditions in Nepal (2024)

Nepal is a landlocked country in South Asia, located on the border between China and India. With a total area of 147,180 km² and an average altitude of 3,265 metres above sea level, it is one of the highest countries in the world[1]. The population of Nepal in 2024 was 31,240,315 people[2], with the urban population accounting for 21.9%[3] of the total population in 2023 and rising. GDP per capita in 2024 was USD 1,400[4] and the inflation rate was around 6.3 per cent, while GDP growth was estimated at 3.1 per cent p.a.[5].

Nepal is divided into seven provinces and has a total of 753 municipalities. These are divided into 293 urban municipalities (6 metropolises, 11 sub-metropolises and 276 districts/municipalities) and 460 rural municipalities. (according to the 2015 constitution)[6][7]. The capital Kathmandu is also the largest city in the country. Inadequate management of expenditure and debt at the federal level and inadequate resource planning and management at the sub-national level have been major obstacles to the establishment of a sound public financial management system. At both national and sub-national levels, these challenges impeded the implementation of the federal system of government and the provision of basic services as mandated by the 2015 Constitution.

Overview of the most important historical events in the course of the project

- 1768 to 2008: Kingdom of Nepal with a Hindu king
- 1996-2006: Civil war in Nepal. Maoist rebels fought against the monarchy and the Hindu caste system. This conflict claimed around 15,000 lives (*relevance for the implementation of TDP II*)
- 2008: Abolition of the monarchy and proclamation of the republic (*relevance for the implementation of TDP II and III*)
- 2015: Adoption of a new constitution that provides for a federal state structure. This constitution establishes a multi-party parliamentary democracy and sets the course towards Federalisation (the number of local self-government units increased to 753). (*Relevance for the implementation of TDP II and III*)
- 2023: The fourth presidential election in Nepal took place on 9 March 2023.

[1] Laenderdaten.info (2024): Nepal. Available at: Nepal: Country data and statistics (laenderdaten.info) (accessed: May 2024).
[2] Macrotrends LLC (2024): Nepal. Available at: Nepal Population 1950-2024| MacroTrends (accessed May 2024).
[3] Statista (2024): Share of the urban population in Nepal from 2014 to 2023. Available at: Nepal: share of urban population 2023 | Statista (accessed July 2024).
[4] International monetary fund (2024): Nepal Datasets. Available at: IMF DataMapper (accessed July 2024).
[5] See above
[6] UNRCO (2018): NEPAL: Administrative Unit Map. Available at: UN Digital Library Nepal: View Document (accessed July 2024).
[7] Australian Aid (2017): Diagnostic Study of Local Governance in Federal Nepal 2017. available at: Diagnostic Study of Local Governance in Federal Nepal 2017 (asiafoundation.org) (accessed May 2024).

General conditions at the time of the TDP II (1999/2000)[8]

At the time of preparing the TDP II in 1997, Nepal was one of poorest countries in the world with a per capita income of USD 220. At that time, a total of around 23 million people lived in Nepal, with the rural population structure largely characterising the country with a share of 90%. With the increase in the number of cities from 36 to 58 in 1997, the proportion of the urban population rose to around 13%. Although the proportion was low, the cities, especially in the Kathmandu Valley, recorded considerable population growth of up to 7% per year, while the average population growth in Nepal was around 2.4% per year. The strong urban growth was largely disorganised, as the Nepalese city administrations were unable to provide the growing population with sufficient infrastructure and services of an appropriate quality due to financial and organisational bottlenecks. The lack of infrastructure in development centres outside the Kathmandu Valley was a bottleneck for the development of the commercial sector and the creation of employment opportunities outside agriculture. With the adoption of the new municipal constitution in 1992, the country's 36 "old" towns were granted autonomous status, which gave them the right to levy municipal taxes. In 1998, a further 22 units that had previously organised as village communities were elevated to town status by law.

Until the beginning of 1999, the cities financed themselves primarily from their own financial resources, mainly through the octroi tax, which accounted for up to 82% of the municipalities' total own income. With the entry into force of the new Community law on defunding in 1998, the octroi tax was abolished and replaced by a "development tax", which was financed from import taxes and passed on to the municipalities via the Ministry of Local Development. The amount of this tax was frozen at the level of the revenue from the octroi tax in the last year of its collection, without annual adjustments. This forced the municipalities to additional taxes in order to maintain a stable financial situation. The levying of the octroi tax favoured municipalities on major roads without financial equalisation between municipalities. In addition, state funds were often delayed or not disbursed in full. The income from the development tax covered the operating costs, but not necessary investments in the municipal infrastructure, which had to be financed from own funds.

General conditions at the time of the TDP III (2008)[9]

In 2007, Nepal's annual per capita income was just USD 340, which continued to make the country one of the poorest in the world. Around 25% of the population lived below the international poverty line of USD 1 per day, while around two thirds had to get by on less than USD 2 per day. Despite an annual economic growth rate of 4% and a high population growth rate of 2%, Nepal was unable to record any significant development: Nepal ranked 142nd out of 177 countries in the 2007/08 Human Development Index. At that time, around 27 million people lived in Nepal, around 16% of whom lived in cities. The political environment was unstable, characterised by frequent changes of government and the civil war from 1991 to 2006. Since 2006, however, the political situation has eased with the dissolution of the monarchy (2008) and the peace agreement, although the political and security situation remains fragile.

As a result of the calming of the political situation in Nepal, significant economic growth was recorded, with an average GDP growth of 2.5% between 2003 and 2007. The inflation rate was 7% in 2008. The strong population growth led to a continuing rural exodus and large differences between urban and rural areas. The urban population grew disproportionately compared to the national population growth, which led to disorganised urban development. Due to financial and organisational constraints, Nepalese city administrations were unable to adequately cater for the growing population. State aid to cover infrastructure needs was limited, and the abolition of the local development tax in 2011 exacerbated the financial situation of cities and municipalities. The high inflation rates and the banking sector, which is still in the development phase, were unable to satisfy the demand for long-term financing. The desolate state of the infrastructure and the lack of technical capacity at local level were serious obstacles to the country's economic development.

Brief description of the project

The urban development programmes (TDP I-III) were FC grants to the Nepalese Town Development Fund (TDF), which founded in 1987 as part of a GTZ project. The TDF is an autonomous body under the supervision of the Ministry of Urban Development (MoUD) with the aim of promoting the development of municipal infrastructure in Nepal as a sustainable financing institution. The TDF provides long-term loans and grants to cities and municipalities to finance social and economic infrastructure projects and also supports the municipalities in planning and

[8] See also module proposal from TDP II
[9] See also module proposal from TDP III

implementing the projects. Over the past decades, the TDF has implemented a large number of urban infrastructure projects financed through grants, soft loans and loans with the support of the Government of Nepal (GoN), the German Technical and Financial Cooperation (GIZ/KfW), the World Bank (WB) and the Asian Development Bank (ADB).

The objectives of TDP II and III were largely identical and provided for the expansion of the TDF into a self-sustaining revolving fund to finance municipal infrastructure and the sustainable utilisation of this infrastructure (FC module objective). This was intended to contribute to securing and improving the living conditions of the urban population and to strengthening municipal structures (overarching development policy objective). The target group of both programmes (TDP II and III) was primarily the urban population of Nepal (approx. 3 million inhabitants in 2000, approx. 6.5 million inhabitants in 2022[10]). The rural population in the urban environment also benefited indirectly through the provision of social and economic infrastructure (e.g. marketplaces, bus terminals, access roads). In TDP III, there was a shift from small grant projects (e.g. schools) to larger income-generating loan projects (e.g. bus car parks, shopping centres).

TDP II and TDP III are evaluated together, as a separate assessment is not possible or reasonable due to the project design and implementation as well as the financing modalities through FC funds.

Predecessor of TDP II and III - Urban Development Programme Phase I (1995-2000)[11]

In 1995, the Nepalese government signed a financing agreement with KfW for a total amount of DM 10 million (equivalent to NPR 300 million) as a grant for the implementation of TDP I. The primary objective of this agreement was to improve the availability of social and revenue-generating infrastructure for the urban population of Nepal. The primary objective of this agreement was to improve the availability of social and revenue-generating infrastructure for the urban population of Nepal by providing funding for municipal social and revenue-generating projects. The grant provided under TDP I was used on the one hand as a subsidised loan for the extension and on the other hand as a grant to municipal projects in the context of social and revenue-generating urban infrastructure. Around DM 9 million was made available for the financing of municipal infrastructure projects and DM 1 million for the financing of feasibility studies and local construction supervision.

As part of TDP I, a total of 113 projects were implemented in 32 municipalities across the country. These included 96 projects that were supported by grants and 17 projects that were financed as loans, focussing on revenue-generating infrastructure investments.

TDP I was not part of this ex-post evaluation.

Breakdown of total costs

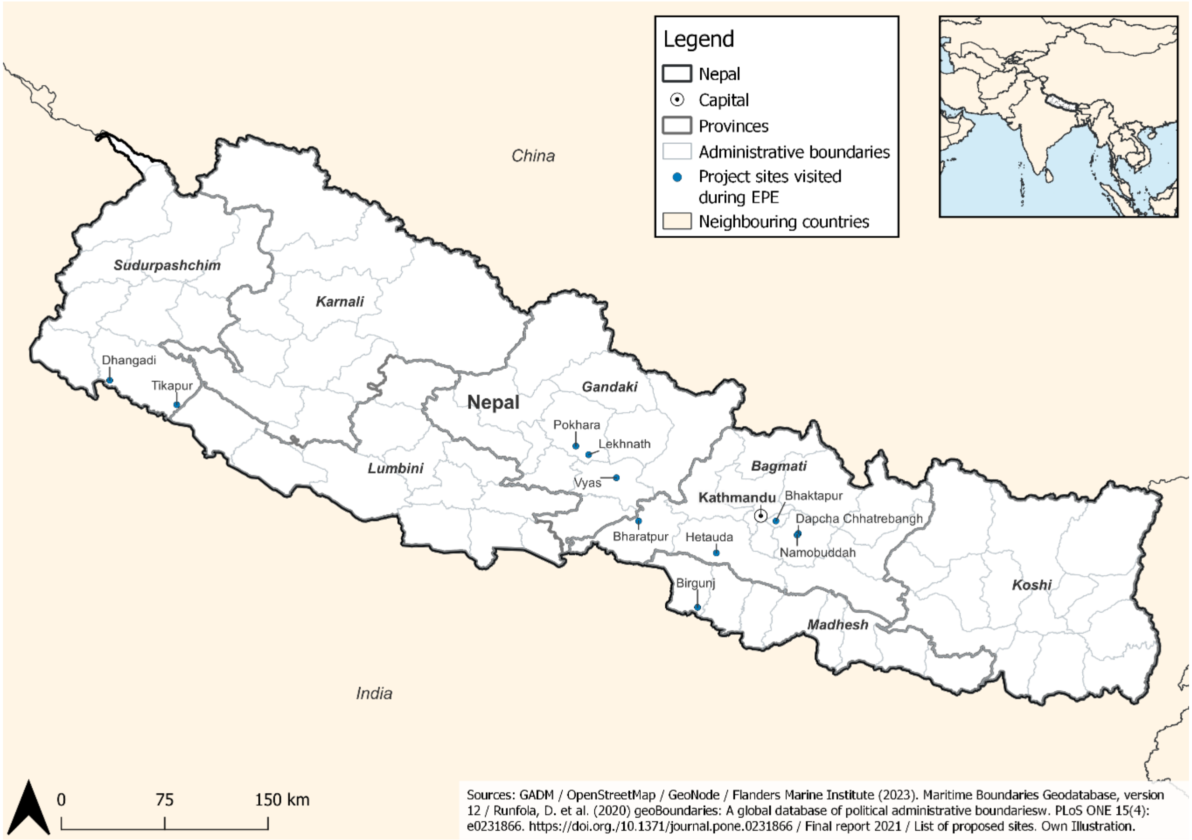
The total costs of TDP II and III were:

	TDP II		TDP III	
In EUR million	**Inv. (Plan)**	**Inv. (Actual)**	**Inv. (Plan)**	**Inv. (Actual)**
Total costs	**7.55**	**10**	**7.5**	**8**
FC subsidy	**7.55**	**7.5**	**7.5**	**7.15**
Government contribution (Matching Fund)	N.A.	1.65	N.A.	0.62
Own contribution from cities	N.A.	0.84	N.A.	0.26

Plus KfW's own contribution and SBF funds totalling EUR 60,000 to finance consulting costs after the end of the GIZ accompanying measures Component

[10] Macrotrends LLC (2024): Nepal. Available at: Nepal Population 1950-2024| MacroTrends (accessed May 2024).
[11] Town Development Fund (2009): Loan and Grant Policy for Town Development Programme Phase III. available at: TDP III Loan and Grant Policy Final 04.03.09 (tdf.org.np) (accessed April 2024).

Map of the project country incl. project areas



Rating according to OECD DAC criteria

Relevance

1. Alignment with policies and priorities

At the time of its conception, the project addressed the strengthening of municipal structures in the context of the Nepalese decentralisation process as an important prerequisite for combating poverty. The strong urban growth was largely disorganised, as the Nepalese municipal administrations were unable to provide adequate infrastructure and services of an appropriate quality for the growing population due to financial and organisational bottlenecks.

The municipalities were given the right to generate their own revenue through various tax systems, while at the same time they had to ensure that their population was provided with adequate economic and social infrastructure. However, revenues from taxes and other sources were not sufficient to cover basic operating costs, leaving little or no financial leeway to invest in social and economic infrastructure from their own resources. In order to cover the high demand for infrastructure, cities and municipalities were dependent on access to long-term debt financing from development institutions or commercial banks in addition to public funds. However, long-term loans were hardly available, at best short-term loans (up to 5 years) with high interest rates. The reasons for this high inflation, a banking sector in the development phase and the perception of municipalities as high-risk customers with little long-term collateral.

Against this background, the objectives of TDP II and TDP III were consistent with the general policy orientation of the Nepalese government at the time with regard to the urbanisation and decentralisation of the country and the government's medium-term national development plans. The intended improvement in the living conditions of the urban population through this needs-oriented municipal development programme was in line with the objectives and content of Nepal's decentralisation and regional development policy at the time of the project appraisal and implementation of the measures. Nepal's economic policy was and is development-orientated and integrates measures to combat poverty.

Furthermore, TDP took into account the BMZ's "Support Concept for Environmentally Friendly Urban Development" with Nepal in its design, which from today's perspective represents the basis for achieving the goals of the 2030 Agenda (see also the section on contributions to the 2030 Agenda). TDP is also a key supporter of Nepal's long-term Vision 2100 programme, which aims to transform the country into a developed nation by 2043. Some of the most important goals to which the TDP programmes contribute are: i) combating poverty and increasing incomes, ii) access to modern infrastructure and iii) good governance.

The FC intervention concept took into account relevant political and institutional framework conditions as well as the involvement of political decision-makers at government level (see also institutional structure of the TDF).

2. Alignment with the needs and capacities of the beneficiaries and stakeholders

The development measures were adequately designed to meet the growing needs of the increasing number of municipalities in Nepal. According to the Municipal Act 2048 (of 1992), 36 old towns were autonomous status. By 1998, 22 new cities were added. The 2015 constitution ultimately defines 753 municipalities, including 293 urban and 460 rural municipalities. There has also been an increase in the urban population, which is putting a strain on the already underdeveloped municipal infrastructure. The TDP programmes became relevant for the municipalities in Nepal, as almost all municipalities had a deficit in urban infrastructure and therefore a high need for financing.

Most of the measures met the requirements of the beneficiaries, particularly with regard to increasing municipal revenue streams through revenue-generating projects or components of social infrastructure projects. The concept of TDP II was based on the "Analysis of the Economic Situation and Evaluation of the TDF Loan and Grant Policy (November 1999)". TDP III continued the concept of the previous phase and integrated some necessary adjustments to the evolving external factors (e.g. changes in the loan and grant policy, adjustment of the categorisation of municipalities, reduction of the grant element in TDF financing).

At the time TDF II was conceived at the end of the 1990s, municipal capacities planning, developing, financing and implementing urban development projects were still very weak. The aforementioned weaknesses could be specifically addressed through technical support and capacity building by means of TDF expertise and TDF II and III advisory services (needs-based support in the preparation and revision/quality control of feasibility studies, design documents, tenders, construction supervision, etc.) as well as the GIZ project measures (structured longer-term support and training in the areas of procurement, financial management and urban planning for local actors) under the UDLE programme.

The target group of both projects was primarily the urban population of Nepal (approx. 3 million inhabitants in 2000, approx. 6.5 million inhabitants in 2022). The rural population in the urban environment also benefited indirectly through the provision of social and economic infrastructure (e.g. marketplaces, bus terminals, access roads). At the project appraisal (PA) of TDP III, it was already explained that no clearly definable target group could be identified that would directly benefit from the project and for which an impact assessment could be carried out. At the same time, the underlying impact logic does not clearly differentiate between the beneficiaries of the infrastructure on the one hand and the fund/TDF and its employees as such on the other.

From a generalised perspective, the concept was geared towards the needs and capacities of the beneficiaries and those affected (Nepalese communities and the population living in them) and correctly identified the core problem. However, no further concretisation and specification of parts of the population and their needs and capacities was undertaken. This applies in particular to disadvantaged and vulnerable groups. The project impacts are therefore only indirectly relevant to poverty and the intended impacts on gender equality, led to the GG:1 rating, cannot be clearly demonstrated from today's perspective.

3. Appropriateness of design

The project objective defined at project appraisal (outcome level) was to expand the existing "Town Development Fund" into a self-sustaining revolving fund for the financing of municipal infrastructure projects and the sustainable utilisation of this infrastructure. This was intended to contribute to maintaining and improving the living conditions and environmental situation of the urban population and to strengthening municipal structures (then overall objective, now overarching development policy objective at impact level). The adapted project objective within the framework of the EPE is "TDF acts as a (revolving) fund or is utilised and implements municipal infrastructure".

The overarching development objective complemented the objective of the GIZ programme, which aims to promote local self-government and civilian self-government in the spirit of good governance. However, no indicators were defined for the overarching development objective at the time of the appraisal for TDP II. It was subsequently determined during the course of the project that indicators (3) and (4) should also be used as a basis for the achievement of the overarching development objective.

The TDP II and TDP III concepts were a direct response to the issue of much needed support for financing urban infrastructure at the municipal level across the country and secured the first milestone of loan financing for urban infrastructure in Nepal. The conceptual approach of the TDPs was a key factor in demonstrating improved revenue generation to create sustainable urban development through debt financing. The key issues were identified during the design of the development measures and are based on the experience gained during the implementation of TDP I.

The concept and the underlying chain of effects, according to which the urban population should experience an improvement in living conditions and the strengthening of municipal structures through the provision of needs-orientated financing by the TDF, appear to be fundamentally comprehensible. For many municipalities, the financing of income-generating projects has been a key pillar on the way to increasing their public revenue. Focussing on revenue-generating and financially self-sustaining projects (in terms of OPEX) in TDP II and TDP III was a relevant and appropriate response to the problem. This led to an improvement in local infrastructure with a significant increase in municipal revenues (in some cases even doubling public revenues) and in turn enabled timely loan repayment.

However, from today's perspective, there are gaps and deficits in the underlying impact logic, which largely due to the unspecified and overly broad view of the target groups. On the one hand the FC module objective was intended to develop the TDF into a self-sustaining revolving fund to finance municipal infrastructure projects and at the same time achieve the sustainable utilisation of the infrastructure (FC module objective). From today's perspective, the ambition of the revolving nature of the fund appears to be too high in view of the framework conditions at the time of the project appraisal and later. At impact level, on the other hand, the achievement of objectives is measured by the quality and utilisation of the infrastructure created, which is largely selected and implemented by the municipalities.

Furthermore, the impact logic assumed that the municipalities had sufficient knowledge, personnel capacities and resources to ensure the long-term maintenance of the infrastructure. However, the review shows that this was too ambitious and that there is a fundamental need to catch up in the country in terms of understanding maintenance and repair. This was not sufficiently taken into account in the project design. The unequal terms between TC and FC components also had a negative impact, with the result that the technical support ended before the investment measures under the TDP were completed. As a result, KfW engaged and financed an external expert to take over some of the technical support. Due to limited funds, this expert focussed on priority investments and construction supervision.

4. Adaptability- response to change

The module objective adapted as part of the EPE is as follows: TDF acts as a fund for municipal promotion or is used for this purpose or implements municipal infrastructure. The revolving fund component set up as part of the TDP within the TDF continues to function and is still today to fully finance projects or via a mixed financing mechanism with other funds. The adjusted objective of the programme can therefore be considered fulfilled.

In addition to taking into account the relevant political, institutional and framework conditions, the programme concepts also demonstrated adaptability, as they were able to address the urgent needs of post-civil war reconstruction and earthquake relief (2015) on an ad hoc basis.

Rating summary

The improvement in the living conditions of the urban population targeted by the needs-based basic programme is in line with the objectives and content of Nepal's decentralisation and regional development policy. The specific measures of TDP II and III in the eligible project sectors were appropriately designed to support the country's efforts to develop and strengthen the new federal structure. The technical capacities of the old and newly established municipalities were improved as part of the TDP II and III programmes, own revenues were increased and the poor condition of the municipal infrastructure (and thus the living conditions of the population) were improved. The strengthening of the municipal financial system formed the basis for structural poverty reduction sustainable development. We rate the relevance as high both at the time of appraisal and from today's perspective. Although more than 20 years have passed between the time of the project appraisal for TDP II and the evaluation of TDP II and TDP III and further aspects have been added, the TDF - as a result of the FC programmes supported - addresses the following issues - The core problems of municipal financing in Nepal continue.

Relevance: 2 for TDP II and TDP III

Coherence

5. Internal coherence

The development measures were in line with the development policy objectives of the German government in its cooperation with Nepal. When designing the programmes, the guidelines documented in the BMZ's "Environmentally sound urban development" funding concept and the profile of German development policy in Asia in the areas of "democratisation, good governance and conflict transformation" were taken into account. The main priorities of German development cooperation (DC), which strongly characterised the evaluated measures, were the promotion of local self-government (from the priority area strategy "Promotion of local self-government and civil society") and comprehensive poverty reduction at macro and sector level.

The projects TDP II and III are a continuation of the FC/TC cooperation project "Urban Development Programme I", BMZ No. 95 65 128, which was implemented from 1995 to 2000. Furthermore, they (TDP II and III) are a continuation of the support provided by TC for the TDF since 1995.

The coordination and synergy between FC and TC was important from the outset and had a complementary effect. The successful two-sided but synergetic approach in the concept of FC and TC measures should be emphasised in particular. This consists of a combination of broad technical support (TC) and project financing (FC). The preparation and design of the TDP II and III measures took full account of the TC activities in the sector, which were integrated into the FC projects as an indispensable component. As part of the cooperation programme, TC took over the executing agency support measures at the TDF, focusing on strengthening management capacity and providing support in the area of project planning and monitoring. Furthermore, TC continued to advise the municipal administrations in the areas of urban planning, organisation, administrative and financial management, and supported central government agencies and other institutions in promoting decentralisation and urban development.

While FC funds were used to provide project financing for the TDF, TC provided technical support (via its Local Effort Programme - UDLE and the Sub National Government Programme - SUNAG) for the TDF (project identification, appraisals, planning, information management, monitoring, etc.) and the local authorities in the areas relevant to the objectives of TDP II and III (urban planning, financial management, good governance, etc.). In addition, TC used the mutual trust with the municipalities to promote the financing opportunities offered by the FC interventions at local level to cover the needs and thus contributed to raising awareness of the TDF in general and the TDP II and III projects in particular. This enabled local communities to improve their management and investment capacities for infrastructure, understand the concept of the programme and prioritise the most urgent investment needs in terms of revenue generation, social or environmental projects. At the time of the development of the interventions, but also today, municipal capacities for the planning, development, financing and implementation of urban development projects are Resstill very weak. Unfortunately, the TC commitment in the sector ended in 2016, two and five years before the finalisation of TDP II and TDP III respectively.

6. External coherence

The project objectives were and are in line with the Nepalese state's own efforts to implement fiscal federalism following the promulgation of Nepal's constitution and to achieve middle-income country status by 2030 and developed country status by 2043 (as set out in the 15th Five-Year Plan and the Government of Nepal's 25-year long-term vision programme to develop Nepal into a middle-income country).

The grant and loan policies established under the TDP II/III and their distribution according to the specific categorisation of the beneficiary municipalities for the revolving fund resources can be considered appropriate for the needs of the municipalities, while the introduction of income contributions (through the matching fund to be raised by the government and the municipalities) can be assessed as a suitable instrument for creating and promoting ownership (which in turn was one of the elements of the national federalisation adopted by Nepal).

The TDF is under the patronage of the Nepalese Ministry of Urban Development (MoUD). High-ranking representatives (state secretaries) of the Ministry of Finance and the Ministry of Urban Development are members of the TDF Board. Although the TDF is an important instrument for the government to achieve its goals in financing and developing municipal infrastructure, political support for the institution varies from government to government. There have been cases of competition and overlap between the MoUD and the TDF, leading to duplication and losses for the fund. The release of the government's so-called "reserve fund", a fund retained by the central government that was exempt from the collection of octroi (a former local tax) from 2001 to 2016, was not in line with the TDP approach and delayed the implementation of TDP II and III. Municipalities implemented several projects that were initially planned from TDF grants and were then financed from the reserve fund with more favourable conditions.

Development policy coordination with other donors was moderate (the World Bank has supported the TDF together with the GTZ since it was founded in 1987). The core mechanisms created under TDP II and III were and are used by other donors to channel their development aid (Asian Development Bank, World Bank, etc.). However, the role of the TDF in projects of development partners such as the Asian Development Bank (ADB) and the World Bank (WB) was essentially that of a "conduit", which in contrast to the long-term approach of TC and FC in institution building. The development of a sustainable financing system for municipalities was therefore partly undermined by short-term project implementation goals of other development partners. The additional funds placed an additional burden on TDF staff, while the organisational structure was only minimally adapted to the new situation (additional staff only for specific donor projects in the form of external, temporary employees). The projects of the other development partners had different financing modalities, in particular a significantly higher grant component compared to the TDP conditions and were therefore more attractive for the end customer.

In 2009, the TDF attempted to reduce the problem of the lack of harmonisation of development assistance provided through the TDF by adopting Common Loan and Grant Policy to simplify the terms and conditions for loans and grants under the TDP ll/lll. An attempt was also made to create a basis for a coordinated approach to the awarding of loans and grants by the various donors cooperating with the TDF. Although the other donors have basically adhered to the general *system* laid down therein (mix of loans, grants and counterpart contributions, categorisation of communities, project identification, evaluation criteria, contracting, implementation, monitoring, etc.), there are still different *modalities* for granting loans and grants with different donorsadapted to their own financial conditions. The specific financial thresholds, interest rates and service fees contained in the "Common Loan and Grant Policy" remained fully valid only for TDP II and III and expired with their termination.

Some infrastructure and especially some social projects were complemented by other components from other donors (Reep Nepal for libraries, EU-funded emergency centre in the municipal building), which shows links to other donors and a form of ex-post external coherence. The ADB is currently continuing the national water supply programme with the TDF. In addition, ADB has categorised the TDF reforms as one of the key pillars of its USD 200 million Policy-Based Loan (PBL) operation (2021-2025), which aims to improve financial management at national and subnational government levels in the country. One pillar of the PBL includes the necessary reforms of the TDF (some of which are also recommendations of the FC final inspection) in terms of legal restructuring of the TDF as well as capital restructuring, specifying the financial sources of the fund to ensure financial sustainability. Some of these have already been adopted by the GoN, while the law that will implement and operationalise the future strategy is still being prepared by the MoUD and was still pending at the time of the EPE.

Rating summary

The coordination and complementarity between the FC and TC components were coherent, structured and exemplary for development cooperation. However, it would have been helpful if the duration of the components had also been harmonised and the GIZ component had not ended before the FC component was completed. We therefore rate the internal coherence as successful. However, this does not apply to external coherence, i.e. coordination with the government and other donors. The establishment of a sustainable financing system for municipalities was at times undermined by short-term project implementation goals of other development partners, financing modalities in the sector were not harmonised and donor coordination was not pursued to the necessary extent by all parties involved. For the reasons outlined above, we rate the external coherence as rather unsuccessful. As the lack of external coherence proved to be an extreme obstacle to the implementation of individual TDF projects, we rate the coherence as just barely successful.

Coherence: 3 for TDP II and TDP III

Effectiveness

The project objective was adjusted: "TDF acts as a (revolving) fund and respectively is utilised and implements municipal infrastructure". See relevance above.

As part of TDP II/III, a total of 121 projects (TDP II: 97, TDP III: 24) were financed in 51 municipalities in the seven regions of Nepal. In TDP II, there was a shift from small grant projects (e.g. schools) to larger income-generating loan projects (e.g. bus parks, shopping centres). The sectoral distribution was as follows:

- Economic infrastructure (marketplaces, bus stations, shopping centres) 33% TDP II & 79% TDP II
- Social infrastructure (health, education, environment/water): 67% TDP II % 21% TDP III

The achievement of the objective at outcome level can be summarised as follows:

Table Target achievement Outcome:

Indicator	Status at PA	Target value according to PA/EPE	Actual value at PCR (2021l)	Actual value at EPE
(1) At least 85% of the capital service by the municipalities is provided on time (i.e. end of fiscal year)	-	85%	TDP II: 99.49% (only one city was in default as of 15 July 2021) TDP III: 99.18% (off says TDF)	Value TDP II: 96% TDP III: 99% (TDF data) *Fulfilled*
(2) Debt service arrears of more than 6 months do not exceed 10% or 5% of the portfolio affected by such arrears (TDP II only)	-	10% at PP, 5% modified	TDP II: 2.69% of the capital service was utilised	Value: TDP II 7.9% (TDF data) *Not fulfilled*

(3) At least 80% of the projects are properly utilised and maintained (random checks)	-	80%	TDP II (9 projects): 100% in use, 75% well to satisfactorily maintained and 25% poorly maintained TDP III (6 projects): >80% of the systems utilised and satisfactorily maintained (statement by TDF & consultant)	TDP II: 85% TDP III: 85% (TDF data) *Fulfilled*
(4) The profitable projects are operated on a cost-covering basis	-	80% TDP II and 90% TDP III	TDP II (4 projects): 3 out of 4 plants generated profit for the cities, 1 plant still in start-up phase TDP III (5 projects): 4 projects start-up phase. TDF confirms according to its own data that the majority of income-generating projects cover their costs.	TDP II: 80% TDP III: 90% (TDF data) *Fulfilled*

The target indicators of the third phase are based on those of the first and second phases but have been slightly modified. The indicator "The share of projects financed by grants in the award volume falls to 15%" agreed during the appraisal of TDP III was cancelled without replacement in agreement with the BMZ in 2014, as a higher share of grants was still necessary when implementing the measures.

No baseline values were defined for the selected indicators at project appraisal. Furthermore, the basis of measurement for indicators 3 and 4 was not clearly agreed, meaning that TDF data must be used here, which was not systematically collected for the KfW projects. The heterogeneous database is based on the Management Information System (MIS), which was developed as part of the TC component for monitoring the TDF projects, is still in use and contributes to the monitoring of ongoing projects. With the end of the TC component in 2016, responsibility for the MIS now lies entirely with the TDF, which has made selective improvements to the MIS on a small scale. For example, TDF introduced several new functions to the MIS (e.g. online travel orders, internal memo for authorising payments). In addition, TDF also introduced the Real Time Monitoring System software and integrated it with the corresponding MIS databases. However, to bring TDF's operations in line with modern financial institutions, further upgrades to the existing system, the recruitment of knowledgeable staff and the procurement of appropriate banking software are required.

However, taking into account the data from the TDF and the impressions gained during the mission, a positive assessment can be made regarding the fulfilment of the agreed indicators.

- Indicator (1) was fulfilled according to the TDF data;
- Indicator (2) was not met. Some cities are more than 6 months behind in debt service arrears, which is why the current value is above the target of 5%;
- Indicators (3) and (4) are considered to be fulfilled. Over 80% and 90% of the income-generating projects are adequately utilised and operated to cover costs.

8. Contribution to the achievement of objectives

Although the indicators at outcome level were largely fulfilled, it can be stated that from today's perspective the selected project objective (FC module objective) appears to be too ambitious. The claim to the revolving nature of the fund did not correspond to the potential and framework conditions. This is also due to the external reasons mentioned (see section on Coherence under donor coordination and political volatility). In addition, it was difficult for the municipalities to identify and technically prepare adequate project proposals. Furthermore, the internal upper limits for project volumes prevented the realisation of large-volume projects. There was a pronounced demand for funds to finance municipal infrastructure, but this could not always be satisfied. This can be seen from the subsidies utilised from the government and other donors.

The previously suspected deficits in internal management as a risk to the sustainable institutional development of the TDF have been confirmed. As part of the final audit, it was established, among other things, that the funds from loan repayments and interest reflows were only invested on a revolving basis in phases over the course of the project. This is due to Board decisions on the upper limit of the investment amount (max. EUR 45 thousand per project until 2019) and is closely linked to the lack of necessary grants from the Nepalese Ministry of Finance. The appointment of the Executive Director was included as an implementation agreement under TDP III, but there were repeated personnel gaps in the post over the course of the project, which limited the sustainable institutional development of the TDF. The idle delay in recruiting new staff for vacant positions, combined with the restriction of TDF salaries in line with ministry salaries, which in turn caused staff fluctuations and hardly allowed any employer incentives, was a major obstacle to the autonomy of the TDF on the one hand and the selection and implementation of projects on the other. This problem is partially mitigated by the financing of TDF employees on a project basis by donors who implement their own investment programmes with the TDF.

Given the fundamental institutional, economic and political situation in Nepal, it would have been better to support the TDF to develop into a strong, well-resourced and skilled government agency for the development, financing (from various available sources through blended finance) and implementation of infrastructure projects, rather than focusing on the revolving nature of the fund.

The random project visits showed that the infrastructure created (outputs) is being properly utilised. The majority of the projects visited have been in operation for over ten years, with the oldest project even being in use for 28 years. Only at one location was the public toilet demolished in favour of a bus station after more than 20 years in operation. There were complaints about the market hall in Birgunj, the design of which was rated as inadequate and is therefore not being utilised to its full capacity. During the visit to the secondary school in Leknath, the inadequate budget for infrastructure maintenance once again became apparent: many of the floors were worn and crumbling. The classrooms and toilets were not in an acceptable condition overall. Interestingly, this does not apply to the façade work on the TDP-financed component, which appears much more robust than the much more recent new builds. In this case, this leads to the conclusion that the quality of the infrastructure built by the TDP programme is above average, in contrast to infrastructure built in the same way. Overall, the hurdles due to insufficient funds for maintenance can be categorised as high.

The discussions with the project managers revealed that they all understood the relevance of income-generating project ideas for the development of municipal infrastructure, and even in the case of social infrastructure, they pay attention to the inclusion of small shops or rentable premises.

As already explained in the project appraisal, the role of women and vulnerable groups is heavily dependent on the respective project type. Furthermore, no definable target group was identified that is a direct beneficiary of the TDP II/III and for which an impact assessment can take place. The gender relevance of the measures and the categorisation as a GG:1 project is based on the assumption that improving the social and economic infrastructure in the cities will make an important contribution to indirect poverty reduction, from which women in particular would benefit.

During the random sample review of projects on the topic of gender, it became clear that there is a lack of knowledge about the extent to which women benefit from the respective projects. Many public officials referred to the state quotas for filling positions in the public sector but were unable to provide any information on the gender impact of municipal infrastructure. The involvement of the target group in project selection and planning in the form of user committees depends largely on the infrastructure and location and does not per se include women. The TDF does not collect gender-segregated data on the target group, but on bankable projects. From today's perspective, the projects would therefore be categorised as GG:0.

9. Quality of implementation

The municipalities were responsible for identifying, preparing and submitting project applications to the TDF. Among other things, the TC component supported the municipalities in identifying capacity gaps at local level as a prerequisite customised capacity development. After the TC component ended, FC transferred the necessary support to an external consultant, who was responsible for supporting and reviewing construction management and accounting.

When reviewing project applications for loan financing, the debt capacity of the respective municipalities was taken into account, i.e. assessed in advance by the TDF on the basis of budget development, expected cash flow and available collateral. In addition, the project applications were assessed on the basis of the following criteria: i) proof of need, ii) institutional and financial capacity of the municipalities with regard to the implementation/operation and maintenance of the measures, iii) economic and financial feasibility (cost efficiency), iv) technical feasibility and v) environmental and socio-cultural impact. The investment measures were implemented following a national public tender. The municipalities acted as contracting authorities. The TDF works together with local consultants to monitor construction.

The commitment and quality of work by the municipalities was crucial to the progress of the programme. The better they prepared their projects, created the necessary approval planning requirements and clarified the ownership structure, the better the resources of the revolving fund could be implemented. Even though the TC component addressed the strengthening of planning and implementation capacities, the duration and scope was too short to cover the large (catch-up) demand, especially after federalisation and the increase in the number of municipalities. The project structure does allow the TDF to utilise local consultants in the planning and preparation of feasibility studies in order to ensure the quality of the project applications. However, this budget must be viewed in the context of the fund's available investment volume and can therefore only be activated to a limited extent. In order to motivate the municipalities to become more involved in the identification and planning of projects, it was decided that the grants provided by the TDF for the planning and identification phase could alternatively be used to finance the project itself.

The implementation of the individual measures and, consequently, the outflow of funds from the revolving fund are dependent on the quality of the applications submitted by the municipality with little controllability by the TDF. The volatile external framework conditions had a considerable impact on the operationalisation of the RF and led

to the significant delays. Furthermore, the administrative effort involved in planning and processing the large number of small projects exceeded the capacities of the TDF, meaning that some investment funds remained unutilised.

10. Unintended effects (positive or negative)

There are no known negative unintended effects, even after consultation with those involved. During on-site discussions with tenants in properties managed by the municipality, the advantages of the tenancy with the municipality were emphasised several times. In contrast to private/commercial offers, they reported feeling less harassed, especially in Covid-19 times, rent payments were sometimes collected less strongly and defaults were not immediately penalised with termination. Rents start at a commercial level and are increased moderately each year, making them more favourable in the long term. This results in positive unintended effects for local shop owners from the TDP-supported infrastructure.

During our visits to the two subsidised libraries, we were also able to see that, in addition to their own functionality, they offer further training for the self-determination of women and in sustainable agriculture, thus partially fulfilling the character of a multi-purpose building for the community.

Rating summary

To summarise, it can be said that the TDF continues to be used and the infrastructure created is still utilised and valued many years after its establishment. However, it cannot be denied that the aforementioned deficits in management, staffing and inconsistencies in terms and conditions reduced the impact, with external and internal factors playing a role that the project structure could only influence to a limited extent. We consider the modified module objective and the majority of the selected indicators to have been achieved. Overall, we rate the effectiveness of the programme as limited.

Effectiveness: 3 for TDP II and TDP III

Efficiency

11. Production efficiency

The total costs of TDP II and III amounted to EUR 18,070,805.79[1212] at final inspection (TDP II: EUR 10,033,601.36; TDP III: EUR 8,037,204.43). The FC contribution amounts to EUR 14,699,733.05 (TDP II: 7,553,287.18 EUR; TDP III: 7,146,445.87 EUR). The contributions from the Nepalese government totalled around 19% of the total costs or EUR 3,371,072.74 (TDP II: EUR 2,480,314.18; TDP III: EUR 890,758.55).

After completion of the construction work, there were still residual funds of around EUR 353 thousand that could not be absorbed due to a lack of adequate project proposals that could be realised in time.

The TDP II and III programmes were completed with considerable delays. TDP II was planned for the period 2000 to 2005, but was only completed in 2018 with a delay of 13 years. TDP III was planned for the period 2010 to 2014 but was not completed until 2021 with a delay of 7 years. Recording production efficiency over a period of more than 10 years is extremely challenging, especially if an industry-standard comparison is sought. The complexity and diversity of the factors involved make precise measurement difficult, as external political reasons often do not allow a clear causality between input and output. The situation of TDP II and III compared to similar FC interventions was unique in terms of the number and severity of complicated events within a relatively short period of time (e.g. Maoist insurgency and ongoing civil war, abolition of the monarchy and change in constitutional order, formation of hundreds of new municipalities, devastating earthquake, Covid-19). This means that production efficiency cannot be adequately measured.

The most important external factors were the conflict situation and the unstable political environment (both of which have already been described in detail). Insufficient capacity and ownership were also identified in many communities. With the start of the peace process and the re-establishment of the local authorities - albeit still in a mediating role - TDF financing activities could be organised much more effectively, which led to an improvement in the expansion of infrastructure in the customer system. The situation at municipal level improved further when mayors were elected under the new constitution for the first time in 20 years in 2017. The Nepalese counterpart contribution was provided over the term of the projects (approx. 19% of the total investment amount - see also the annex on total costs).

The main internal factors were the limited capacity of the TDF to review and apply for project ideas submitted by the municipalities, hire planning and monitoring consultants, monitor and make decisions. The MIS system introduced with TC support was not fully functional during the on-site evaluation in 2024 and only partially meets the needs of the TDF. The position of Executive Director was vacant for an extended period of time, while the middle management level of the TDF was understaffed. Furthermore, the complex and time-consuming procedures for processing applications and reviews slowed down project implementation within the TDPII.

Another reason for the long delay was insufficient donor coordination and competition from additional government grants to the municipalities and subsidised offers from other development partners (e.g. the World Bank). This 'crowding-out effect' made it difficult to fill the project pipeline for the TDP. Even today, the TDF has not yet achieved the political independence and sovereignty to avert a similar situation.

Although the main external factors that impaired the effectiveness of the TDP have largely been overcome, on the internal side, issues relating to the staffing of administrative positions, personnel capacities, the rationalisation and digitalisation of processes and the development of a common, universally applicable financing strategy (for all donors and all fund qualities) remain relevant.

12. Allocation efficiency

The evaluation of allocation efficiency, i.e. the ratio of inputs to outcome or impact, proved to be extremely difficult due to the long period of time involved. This means, on the one hand, collecting clear and meaningful data and, on the other, making an appropriate comparison with commercial or state offers. Given the volatile political framework conditions, this did not seem permissible.

[12] he conversion rate was calculated from the average of the respective term. For TDP II this was 1 EUR- 99.6596 NPR and TDP III 1 EUR-136.6556 NPR.

The long duration of the project and the significant changes do not allow for a serious before/after comparison. We have therefore refrained from calculating allocation efficiency. It should be noted that the TDF still benefits from a unique selling point in Nepalese municipal financing, which generates impact (see overarching developmental impact).

The project visits to Tikapur and Nepalgunj, during which recently completed bus stations were visited, can also serve as an anecdotal example. It quickly became apparent that the TDF's investment measures in Nepalgunj were much better thought out and made a better impression than the investment in the MoUD-financed bus station in Tikapur. However, no general validity can be derived from this individual case. It is therefore not considered possible to adequately assess the efficiency of resource allocation in this context.

Rating summary

There were considerable delays in the implementation of the projects. For the reasons outlined above, efficiency is rated as rather unsuccessful. Irrespective of the fact that there were some understandable reasons for the massive delays, some of which are outside the scope of the programme's impact, the impression prevails that political support on the Nepalese side should have been more pronounced so that the intended module objective could have been achieved in a timely manner.

Efficiency: 4

Overarching developmental impact

13. Overarching (intended) developmental changes

The overarching developmental objective is to contribute to securing and improving the living conditions of the urban population and to strengthening municipal structures. No independent indicator for the achievement of the overarching developmental objective was agreed at the appraisal of TDP II. At the appraisal of TDP III, the achievement of the objective at impact level was summarised as follows. And henceforth used for both projects.

Table Target achievement Impact:

Indicator	Status PP	Target value according to PA	IActual value at PCR	Ist-Wert bei EPE
(1) At least 80% of the projects are utilised and in withstood	-	80%	≥ 80%	Wert erfüllt*
(2) At least 90% the income generating projects are operated an a cost-covering basis	-	90%	≥90%	Wert erfüllt*
* based on the data from TDP and confirmed by the random test				

From today's perspective, these success indicators do not appear appropriate for TDP III, as they represent an outcome indicator and a duplication of the selected outcome indicators. Instead, an indicator that measures the beneficiaries of the infrastructure according to the intended use (e.g. tenants, pupils, visitors) or the number of municipalities with which the TDP has cooperated would be more appropriate. In addition to technical difficulties on the part of the TDF to systematically record the beneficiaries for the KfW projects in MIS, there are also problems with recording the number of municipalities. As already explained, the number of municipalities more than doubled statistically during the term of the programme. Without clear contextualisation, the information provided by the municipalities is therefore less meaningful. As a result, it is not possible or reasonable to adequately present the developmental impact in terms of the number of municipalities or users.

However, the effects attributed to the projects in terms of improving the living conditions of the local population and strengthening communal structures are evident, which was noted at all project locations visited and uniformly confirmed by those responsible.

In view of the initial situation when the TDF was founded, it is clear how important it is. The project period is characterised by great political instability in one of the poorest countries in the world. A municipal financial system was de facto non-existent, meaning that many of the necessary investments in basic infrastructure could not be made. The poor condition of the infrastructure and the lack of expertise at local level were major obstacles to economic development and structural poverty reduction in the country. State subsidies to cover investment requirements were and are limited and confusing. Financing via commercial banks was out of the question for many municipalities due to the short-term nature of the loans and the comparatively high interest rates. Although the political situation has improved with the democratisation process in the 2010s, there is still a large financing gap at municipal level and an inefficient transfer system in which different ministries are responsible for the administration and use of different financial pots.

This makes the TDP's record even more impressive, with 121 projects in all zones of the country and in 51 original municipalities, achieving nationwide coverage and creating infrastructure measures that continue to be used and needed (see Appendix Project measures and results). Most of the income-generating projects are still in operation and contribute to economic activity in their regions. They provide small entrepreneurs with stable

opportunities to carry out their activities and promote employment.

14. Contribution to overarching (intended) developmental changes

The targeted provision of financial services enabled the municipalities to bridge the gap between their newly acquired powers as a result of federalisation (responsibility for the quality of life of citizens and the associated critical infrastructure) and the lack of financial resources to implement measures to improve the living conditions of their respective populations. By involving and supporting municipal structures in infrastructure investments, the municipal administrations were strengthened and the state decentralisation process was supported.

The revenue-generating projects led to a direct increase in municipal revenue, in some cases even doubling municipal revenue. This enabled more extensive municipal measures in the areas of infrastructure and social affairs, which in turn benefited the entire population. This developmental additionality. Loan financing an absolute novelty for some municipalities. Thanks to the support provided under the TDP, almost all project municipalities were able to make repayments on time. This in turn creates incentives to improve the revenue situation and financial management and serves to improve local governance, which was a secondary objective of the programme.

The social projects funded under TDP II and III made a significant and direct contribution to improving the quality of life of the target groups. Income-generating elements were also used in social projects wherever possible in order make the project infrastructure as self-supporting as possible and to eliminate or reduce the burden on the end users.

15. Contribution to overarching (unintended) developmental changes

There are no indications of overarching (unintended) development policy changes.

Rating summary

In terms of the individual projects actually implemented, the overarching developmental impact can be considered successful. It should be noted that most of the income-generating projects are still in operation and contribute to economic activity in their regions. The income-generating projects and components of TDP II and III led to a direct increase in municipal revenues and were particularly recognised and appreciated by the interviewees. The work of the TDP heralded a paradigm shift in municipal financing for some Nepalese municipalities and created incentives to improve the revenue situation and financial management in the spirit of good governance.

Overarching developmental impact: 2 for TDP II and TDP III

Sustainability

According to the sample of 19 projects (out of a total of 121) carried out during the on-site mission, the vast majority of projects are functional and are still in an acceptable condition even after more than 10 years of operation. Revenue-generating individual projects generally still generate income for the municipal budgets.

Infrastructure maintenance appears to be a major problem throughout the country. Although the required 5% of the project value was spent on maintenance as an own contribution in all TDP projects, the funds often flowed into individual municipal maintenance budgets and were also used for the maintenance of non-TDP infrastructure. Most repairs are carried out when necessary, but no predictive maintenance is carried out. Nevertheless, the condition of the project infrastructure is good in some cases, mainly due to the committed approach of the beneficiaries managing the infrastructure (e.g. administrative co- mitees), the creative approach of the TDF to integrate income-generating components even in non-income-generating projects (e.g. rentable retail space on the ground floor of libraries) and, in some cases, the support of the municipalities. The planned inclusion of detailed maintenance obligations with earmarked use of funds in the contracts with the TDF-supported municipalities could bring further improvements in the future.

The municipalities (especially the less affluent ones) regard the TDF as an important instrument for financing their infrastructure needs, with a particular focus on revenue-generating projects that can lead to a significant

increase in their budgets. Most of the municipalities surveyed stated that they had either applied for new TDF projects or were preparing further applications. Even the city of Birgunj, whose projects with the TDF fallen short of expectations according to its own statements, is interested in further cooperation with the TDF and is corresponding applications. One of the most important long-term achievements of TPD II and III, which was confirmed by a large number of interviewees, was the gradual internalisation and promotion of a culture of long-term loan financing for the development of urban infrastructure.

Although the TDF has only partially achieved the status of a fully independent, stand-alone revolving fund (the revolving fund component within the TDF has operational to date), it is still very active and has established itself through the TDP projects as an indispensable vehicle for the central government, the municipalities and other development partners for the identification and preparation of projects, financing and implementation of infrastructure investments. The TDF Investment Guidelines 2015 were developed and approved for the utilisation of the "revolving fund", which continue to serve as a guideline for debt financing by the TDF in the urban sector from this source/financial framework.

The internal sustainability of the TDF is jeopardised by the personnel problem, as a considerable number of management positions are still vacant. Unnecessary delays in filling vacancies and the capping of government salaries, which in turn leads to staff turnover, affect the TDF's capacity. This is partially mitigated by the funding of TDF staff on a project basis by donors implementing investment programmes with the TDF. The disadvantage of this approach can that several support activities are carried out simultaneously by different donors within the TDF. This can lead to a gap between core and project staff and to problems with ownership. Furthermore, these are only temporary solutions instead of a sustainable, longer-term organisational adjustment the TDF cannot achieve on its own. Filling vacancies in the fund and finding suitable solutions to increase salaries would help to attract and retain qualified staff and thus ensure the sustainability of human resources in the long term.

Since the loan and grant policy of TDP III was no longer applied after the FC measures ended, the service fees (8% of the project value) that the TDF was authorised to charge per financed project, and thus a steady and predictable source of income for the fund, also ceased to apply. The current practice, according to which the TDF is entitled to receive a symbolic share of the interest margin (to cover staff salaries, other operating costs and the replenishment of the revolving fund), does not appear sustainable in the long term and could impair the competitiveness of TDF financial products. The reintroduction of service/administration fees at an appropriate level would ensure and enable the proper operation of the TDF in the long term but is based on negotiations between GoN and the TDF.

Political support for the TDF appears to be unstable and insufficient in some cases. The competition the responsible ministry and the TDF, which at times appears to be greater than the synergies, poses a considerable risk to long-term sustainability. For the construction of the new bus station in Tikapur, the TDF assumed that it would later be able to finance this commercial project via the revolving fund and assumed the costs for the preparation of the planning documents. However, the project was ultimately realised by the MoUD on a grant basis, without the TDF being compensated for the financing already provided. Unfortunately, this is not an isolated case, meaning that a compensation mechanism for the TDF should be developed and agreed as a matter of urgency.

Another aspect of reform is the changing needs of Nepalese municipalities. In view of the relative financial strength of the larger urban municipalities, the financing rules and criteria of the TDF need to be reformed in order to enable the financing of large "game changer" projects and public-private partnerships. The municipalities expressed two expectations of the TDF: on the one hand, it should be made more accessible to smaller rural municipalities that are financially weaker. On the other hand, the financing of larger regional/provincial projects should also be channelled through the TDF.

The adoption of new guidelines for the TDF was also one of the main recommendations of the final inspection in 2021 with the aim of enabling the TDF to adapt to new market conditions and respond appropriately to the changing needs of clients/beneficiaries. Although the draft of the aforementioned guidelines was already adopted in 2021, it was not adopted and the implementation of the reforms in line with the draft and the recommendations of the final inspection only began with the support of the ADB through its reform financing programme (PBL). In the first PBL phase (May 2021 to August 2023), the Nepalese government has already approved a restructuring strategy[13] for the TDF to extend its mandate to the provincial governments and strengthen its capital structure. In the second PBL phase (September 2023 to September 2025), the government will implement this restructuring strategy by passing a bill to expand the TDF's activities to the provincial and municipal levels with a larger capital base, which will replace or amend the current TDF Act (1997).

The adoption of the new TDF law by the government for the following for the TDF: 1) support for Public Private Partnerships (PPPs), 2) financing via provincial governments, 3) the provision of guarantees for the issuance of municipal bonds, 4) a defined capital structure and the subsequent adjustment of the internal TDF guidelines to increase the financing thresholds and adapt current market demand in order to secure the sustainable future of the fund. The support of the TDF reform process by multilateral donors such as the ADB not only underpins the importance and sustainable impact of the German TDF results vis-à-vis the TDF, but also ensures that the necessary reform steps are actually implemented by the Nepalese government, as the TDF does not seem to be able to do so on its own.

As was established during the evaluation mission and confirmed by all stakeholders interviewed (central government, municipalities and development finance institutions), the TDF continues to act as the only intermediary financial institution that grants loans (and subsidies) to local authorities to finance infrastructure projects. To summarise, the sustainability of the interventions can be assessed as successful to a limited extent.

Rating summary

The sustainability of the investment projects is given, as the vast majority of the projects visited are functional and in an acceptable condition even after more than 10 years of operation. Revenue-generating projects generally continue to generate income for the municipal budgets. However, the maintenance of infrastructure is a major problem throughout the country, as funds are often channelled into individual municipal maintenance budgets and proactive maintenance does not take place. In addition, political support for the TDF is volatile and unstable. Filling vacant positions in the fund is still a problem today. Important reforms to the TDF are being planned, but the long-term sustainability of the fund depends crucially on this.

Sustainability: 3 for TDP II and TDP III

Overall rating

Strengthening the municipal financial system in Nepal forms the basis for structural poverty reduction. The conception of the TDP on the one hand, but also the establishment and continuous support of the Town Development Fund were and continue to be a direct response to the urgent need for support for the nationwide financing of municipal infrastructure and still represent a milestone for good governance today. The TDP programmes thus

[13] Town Development Fund (2023): Strategy Paper for Expanding Scope of Works and Capital Restructuring of Town Develop- ment Fund. Available at: TDF Strategy Paper.pdf (accessed May 2024).

laid the foundation for the development of a culture of debt financing for the construction of municipal infrastructure. We therefore rate the relevance of the evaluated programmes as very high. The coordination and complementarity between FC and TC components were coherent and structured. However, it would have been helpful if the duration of the components had also been harmonised and the TC component had not ended before the FC component was completed. We rate the internal coherence as successful. However, this does not apply to external coherence, i.e. coordination and cooperation with other partners/donors. The establishment of a sustainable financing system for municipalities was partially undermined by short-term project implementation goals of other development partners, financing modalities in the sector were not harmonised and donor coordination was not followed to the necessary extent by the participants. For the reasons outlined above, we rate the coherence of both projects as having limited success on average.

The TDF did not fully achieve the module objective, but this seems too ambitious in view of the input from German development cooperation. At the same time, according to the TDF data and the project visits as part of the EPE, the objectives at outcome level were almost completely fulfilled for the individual projects implemented. In view of the fundamental institutional, economic and political situation in Nepal, it would have been better to support the TDF in developing into a strong, well-equipped and technically experienced state agency for the development, financing (from various available sources through mixed financing) and implementation of infrastructure projects, instead of focussing on the revolving nature of the fund and measuring project success against this. Overall, we rate the effectiveness of the projects as limited.

The realisation of the project has been considerably delayed. This is due to a number of external and internal factors over which the project structure had only limited influence. Irrespective of the fact that there were some understandable reasons for the massive delays, some of which are outside the scope of the programme's impact, the impression prevails that political support on the Nepalese side would have to be more pronounced in order for the intended impact of the module to unfold on time. For the reasons outlined above, the efficiency of the programme is rated as rather unsuccessful.

With regard to the sustainability of the local infrastructure projects, we consider the lack of suitable concepts and sufficient funds for maintenance and repair, and therefore the guarantee of long-term utilisation, to be a cause for concern. On the other hand, the random sample analysis has shown that many of the planned infrastructure projects exist, are operated and utilised beyond their initial term. This results in the assessment of sustainability as having limited success.

Efficient municipal self-administration and simplified access to financial resources for the implementation of municipal infrastructure improved the living conditions of the urban and rural environment. The evaluation concludes that positive changes - albeit not quantifiable - have occurred at the impact level, which are categorised as successful.

To summarise, we rate both projects as partially successful.

Contributions to the 2030 Agenda

Although the design of the programme (in particular the commitment of Phase 1 in 1995) and the project appraisal of TDP II (1999) were carried out long before the adoption of the Millennium Development Goals and the 2030 Agenda, the measures supported under TDP II and III contribute to improving living conditions and sustainable development.

The measures implemented are in line with many of the goals of the 2030 Agenda. The broad sectoral approach in the project selection of the TDF proved to be useful. An important direct contribution is being made to SDG 16 - Peace, Justice and Strong Institutions through good governance and the establishment and expansion of the TDF, which works with communities in a needs-based, inclusive, participatory and representative manner and can serve them with long-term loans and grants. With the implementation and financing of more than 120 individual projects, TDP II and III significantly support SDG 9 - Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

Furthermore, the broad-based commitment of the TDF has a direct and/or indirect impact on the achievement of the following SDGs: SDG 1 - No poverty, SDG 4 - Quality education, SDG 6 - Clean water and sanitation, SDG 7 - Affordable and clean energy, SDG 8 - Decent work and economic growth, SDG 11 - Sustainable cities and communities, Goal 13 - Climate action.

Project-specific strengths/weaknesses and general conclusions/lessons learned

The strengths and weaknesses of the project include, in particular, strengths:

- The analysis of the initial situation appears appropriate and timely. The core problem was addressed in an exemplary manner with the establishment of the TDF and the development of the TDP phases, meaning that the relevance of the TDF remains high from today's perspective.
- One of the most important long-term achievements of TPD II and III was the gradual promotion of a culture of loan financing for the development of urban infrastructure and the internalisation of the income-generating idea in the planning of municipal infrastructure.
- The TDF's activities were heavily affected by the volatile, negative developments during the project period. Despite this, the TDF was still able to respond and continue its operations in the medium term, despite breaks. In times of crisis, it was one of the vehicles for rebuilding infrastructure.
- The project serves as a model coordination and synergy between TC and FC components, but it would also have been desirable to adjust the duration of both components.

Weaknesses:

- There was a failure to agree on a legal formalisation of the Nepalese state's obligations to support the fund (administration fee from the state or the beneficiary communities or regular, predictable transfers from the state) and thus to establish clear political ownership.
- Inadequate donor coordination and a lack of political support still make it difficult for the TDF to offer standardised conditions and to position itself competitively against alternative offers.

Conclusions and lessons learned:

- The coordination of donors with a view to ensuring a level playing field and compliance with the same rules is essential and should be initiated at an early stage by the representatives of German development cooperation and considered in the process.
- The decentralisation of the TDF with local project offices as contact points for old and new customers can increase the customer base and promote the reach of the TDF. This is particularly beneficial for the many new Nepalese communities that have had little access to funding opportunities to date.
- Internalisation of the income-generating idea in the planning of municipal infrastructure in the sense of OPEX promotes the sustainability of investments and is also possible in the case of social infrastructure.

- To ensure a sense of political responsibility, care should be taken to ensure that future commitments to sustainable operation (e.g. management fees) are discussed and contractually agreed at the project negotiation stage, particularly when a new instrument is established.

Evaluation approach and methods

Methodology of the ex-post evaluation

The ex-post evaluation follows the methodology of a rapid appraisal, i.e. a data-supported, qualitative contribution analysis and represents an expert judgement. This involves attributing impacts to the project through plausibility considerations based on the careful analysis of documents, data, facts and impressions. Where possible, this also includes the use of digital data sources and modern techniques (e.g. satellite data, online surveys, geocoding). Causes of any contradictory information are investigated, attempts are made to eliminate them and the assessment is based on statements that are - if possible - confirmed by several sources of information (triangulation).

Documents:
Internal project documents, secondary technical literature, strategy papers, context, country and sector analyses, impact evaluations

Data sources and analysis tools:
e.g. (digital) databases, on-site data collection, partner monitoring data, surveys

Interview partner:
- Project organiser
- Target group
- Other encoders
- GIZ
- External consultant
- Internal project managers

The analysis of impacts is based on assumed interdependencies, documented in the impact matrix developed during the project appraisal and, if necessary, updated during the ex-post evaluation. The evaluation report presents arguments as to why which influencing factors were identified for the identified results and why the analysed project presumably made which contribution (contribution analysis). The context of the development project is taken into account with regard to its influence on the results. The conclusions are set in relation to the availability and quality of the data basis. An evaluation design is the reference framework for the evaluation.

For project evaluations, the method offers a - on average - balanced cost-benefit ratio, in which the knowledge gained and the evaluation effort are in equilibrium, and allows a systematic assessment of the effectiveness of FC projects across all project evaluations. The individual ex-post evaluation can therefore not fulfil the requirements of a scientific assessment in the sense of a clear causal analysis.

The following aspects limited the evaluation:

The project period is characterised by great political instability in one of the poorest countries in the world, meaning that the evaluation of the concept and its implementation covers a period of over 25 years. As a result, many of the contact persons at the time are no longer in office, the development policy objectives for cooperation with the Republic of Nepal have changed several times and the country has since been placed on the exit list of German development cooperation.

As already mentioned, one of the challenges for the evaluation was that the indicators originally formulated to assess target achievement at outcome level were not populated with baseline values at the time of the project appraisal and were only tracked sporadically in subsequent years.

Methodology of the performance evaluation

A six-point scale is used to assess the programme according to the OECD DAC criteria. The scale values are assigned as follows:

Level 1	Very successful: result significantly above expectations
Level 2	Successful: result fully in line with expectations, without significant deficiencies
Level 3	Moderately successful: below expectations, but positive results dominate
Level 4	Moderately unsuccessful: is significantly below expectations and negative results dominate despite recognisable positive results
Level 5	Unsuccessful: despite some positive partial results, the negative results clearly dominate
Level 6	Highly unsuccessful: the project is useless or the situation has worsened

The overall rating on the six-point scale is based on a project-specific weighting of the six individual criteria. Levels 1-3 of the overall rating indicate a "successful" project, while levels 4-6 indicate an "unsuccessful" project. It should be noted that a project can generally only be considered developmentally "successful" if the achievement of the project objective ("effectiveness") and the impact on the overall objective ("overarching developmental impact") as well as the sustainability are rated as at least "Moderately successful" (rating 3).

The annex to this report is available upon request (German only).

List of abbreviations:

ADB	Asian Development Bank
BMZ	German Federal Ministry for Economic Cooperation and Development
CBO	Community based organisation
DAC	Development Assistance Committee
DC	Development cooperation
ED	Executive Director
EUR	Euro
FC E	FC Evaluation
FC	Financial cooperation
FCBO	Foreign Commonwealth & Development Office
GDP	Gross Domestic Product
GM	German Mark
GG	Gender equality (DAC marker)
GIZ/GTZ	German Society for International Cooperation
GoN	Government of Nepal
HDI	Human Development Index
KPI	Key Performance Indicator
MIS	Management Information System
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MoUD	Ministry of Urban Development
NPR	Nepalese rupee
OPEX	Operational Expenditure
PA	Project appraisal
PAR	Project appraisal report
PBL	Policy-based lending (reform financing)
PCR	Project completion report
PP	Project proposal
PPP	Private-Public Partnership
RF	Revolving fund
SDG	Sustainable Development Goals
SOP	Standard Operating Procedure
SUNAG	Sub National Government Programme (GTZ/GIZ Programmes)
TC	Technical co-operation
TDC	Town Development Committee TDP IITown Development Programme 2
TDF	Town Development Fund
TDP III	Town Development Programme 3
UDLE	Urban Development through Local Efforts Programme (GTZ/GIZ Programmes)
WB	World Bank
USD	US Dollar

Imprint

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