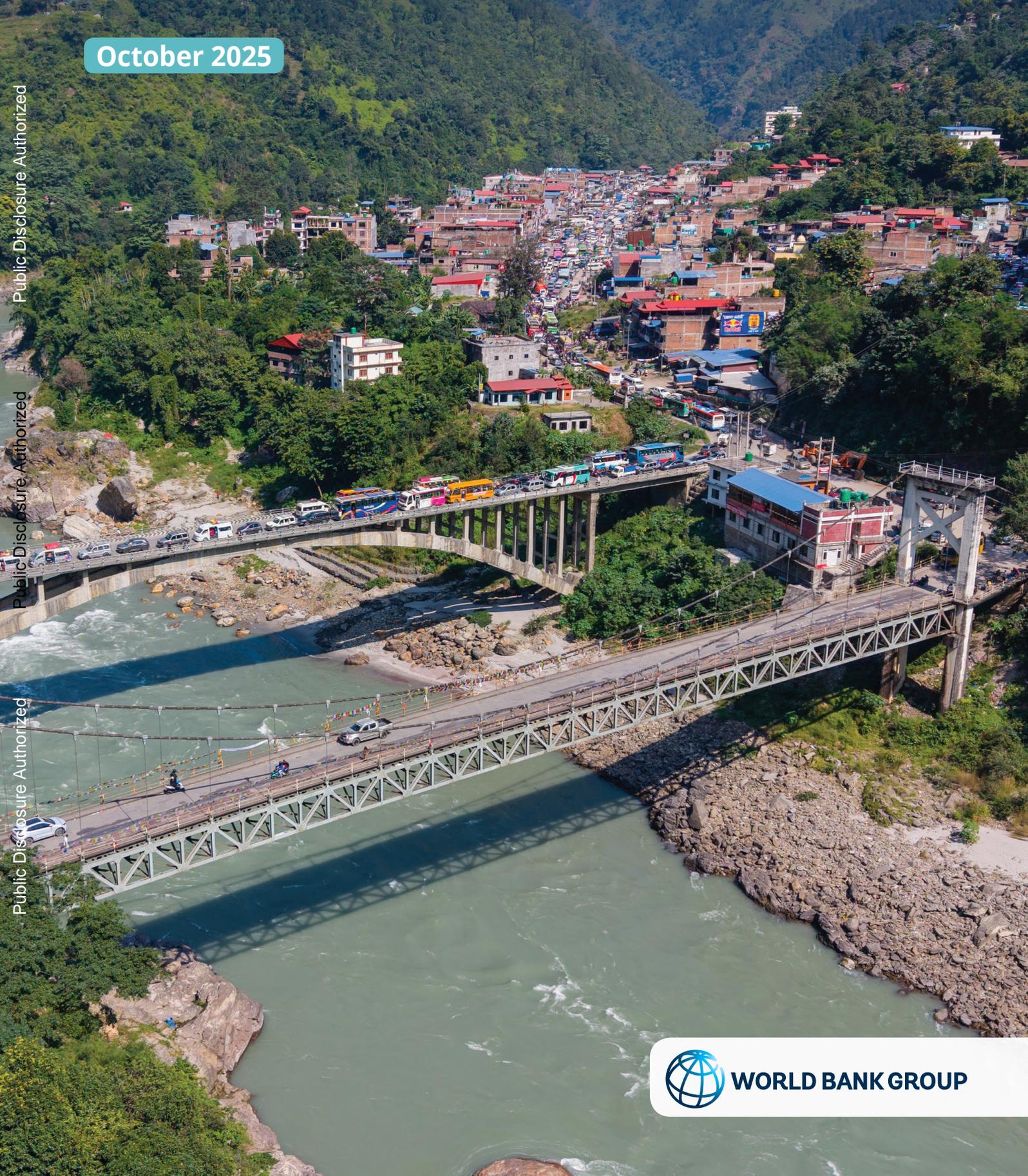


NEPAL CAPITAL EXPENDITURE BOTTLENECKS ANALYSIS

October 2025



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ACRONYMS

ALB	Abnormally Low Bids
ADB	Asian Development Bank
CDC	Compensation Determination Committee
CDO	Chief District Officer
CGAS	Computerize Government Accounting System
CIAA	Commission for the Investigation of Abuse of Authority
CEM	Country Economic Memorandum
DFO	Division Forest Office
DoR	Department of Roads
EIA	Environmental Impact Assessment
EPR	Environment Protection Rules
ESR	Environmental and Social Review
FCGO	Financial Comptroller General Office
FPFRA	Financial Procedures and Fiscal Responsibility Act
FPFRR	Financial Procedures and Fiscal Responsibility Regulations
FY	Fiscal Year
GDP	Gross Domestic Product
GIS	Geographic information system
IECCD	International Economic Cooperation Coordination Division
LAA	Land Acquisition Act
LIC	Low Income Countries
LMBIS	Line Ministry Budget Information System
LMIC	Lower Middle Income Countries
LRO	Land Revenue Office
LRMIMS	Land Record Information Management System
LPT	Land & Property Tax
MTEF	Medium-Term Expenditure Framework
MoF	Ministry of Finance
MoFE	Ministry of Forest and Environment

MoHA	Ministry of Home Affairs
MoLMCPA	Ministry of Land Management, Cooperatives and Poverty Alleviation
MoPIT	Ministry of Physical Infrastructure and Transport
MRJKIS2	Modernization of Rani Jamara Kulariya Irrigation Scheme
NFR	National Forest Regulation
NNM	Nagdhunga Naubise Mugling
NPP	National Pride Project
NPB	National Project Bank
NPR	Nepalese Rupee
NPBMIS	National Project Bank Management Information System
NPC	National Planning Commission
NREC	National Resource Estimation Committee
NFR	National Forest Regulation
NeLIS	Nepal Land Information System
OAG	Office of the Auditor General
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PIU	Project Implementation Unit
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PPA	Public Procurement Act
PPR	Public Procurement Regulations
PTT	Property Transfer Tax
QCBS	Quality and Cost-Based Selection
RAP	Resettlement Action Plan
SAR	South Asia Region
SRCTIP	Strategic Road Connectivity & Trade Improvement Project
STEP	Systematic Tracking of Exchanges in Procurement System
TEC	Total Estimated Costs
THB	Thai Baht
TSA	Treasury Single Account
UNCITRAL	United Nations Commission on International Trade Law
USD	United States dollar
VO	Variation Order
WB	World Bank
WEO	World Economic Outlook
VGGT	Voluntary Guidelines on the Responsible Governance of Tenure
IVSC	International Valuation Standards Council

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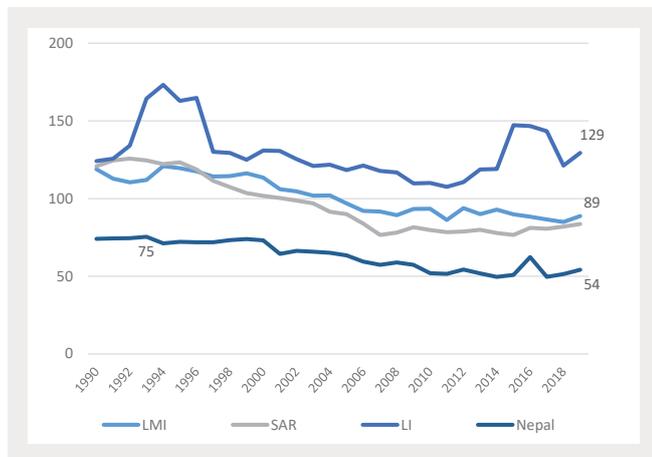
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1

PROBLEM STATEMENT & REPORT OUTLINE

Nepal’s persistently low execution of infrastructure projects has significantly constrained the accumulation of public capital, creating substantial barriers to economic growth. Given Nepal’s challenging geography and topography, improved connectivity infrastructure is essential for job creation, private sector development, tourism growth, productivity gains, and broader economic expansion. However, structural challenges in capital expenditure execution have contributed to a considerable deterioration in Nepal’s public capital stock from approximately 75 percent of Gross Domestic Product (GDP) in the mid-1990s to approximately 54 percent in 2019 (see figure 1).

Figure 1: Public Capital Stock (Nominal, percent of GDP)

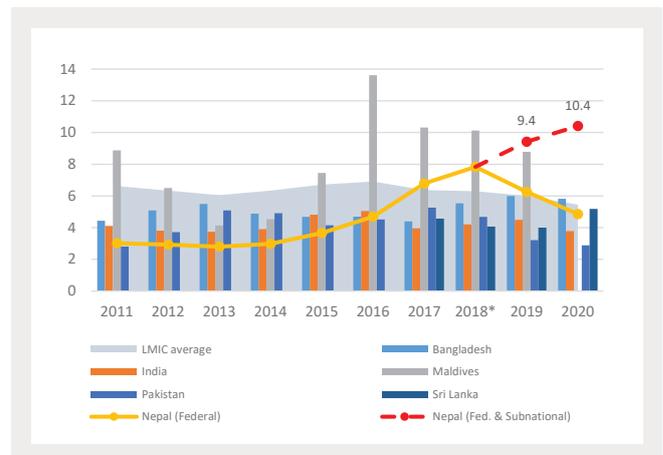


Source. World Bank staff based on IMF Investment & Capital Stock Dataset 2021. Notes: LMI – Lower Middle Income Countries; SAR – South Asia Region; LI – Low Income Countries

Despite a spike of public investment over FYs 16-21, Nepal’s current infrastructure gaps stem from a legacy of low and inefficient public investment. Over FYs 05-15, public capital spending in Nepal consistently lagged South Asian and Lower Middle-Income peers averaging approximately 2.7 percent of GDP (Figure 2). The reconstruction effort following the April 2015 earthquake and the decentralization of public

investment functions in FY18 marked a departure from this trend with capital expenditure peaking at 11.4 percent of GDP in FY21 (Figure 3).¹ Nevertheless, consolidated capital spending has declined steadily since FY21, reaching 7.9 percent of GDP in FY24. This level of public investment is inadequate to address Nepal’s infrastructure requirements. According to the World Bank’s 2019 Infrastructure Sector Assessment, Nepal would need to invest 10 to 15 percent of GDP over 2020-2029 to bridge existing infrastructure gaps.

Figure 2: Public Capital Spending Comparison with Peer Countries (percent of GDP)



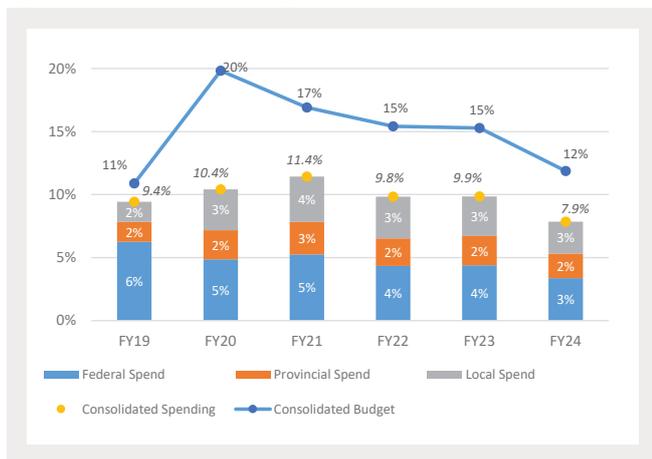
Source. World Bank staff based on WEO (World Economic Outlook)-IMF General Government Capital Spending (South Asia/LMIC), Nepal Office of the Auditor General (OAG) Reports (Federal & Subnational), & Boost Dataset (Sri Lanka). Notes: Nepal consolidated capital spending at Federal and Subnational Level is not available for FY17/18. Figures exclude investment through Public Corporations.

The decline in public investment observed since FY21 resulted from a substantial reduction in capital allocations and weakened budget execution at federal and subnational levels (Figures 3 and 4). Total capital allocations across federal, provincial and local levels decreased from 20 to 12 percent of GDP over FYs 20-24 (Figure 3). In parallel, capital budget execution rates fell very significantly at the

¹ Fiscal decentralization became effective in FY18 with the devolution of expenditure responsibilities to subnational governments including infrastructure development for primary and secondary education, health and sanitation, and irrigation.

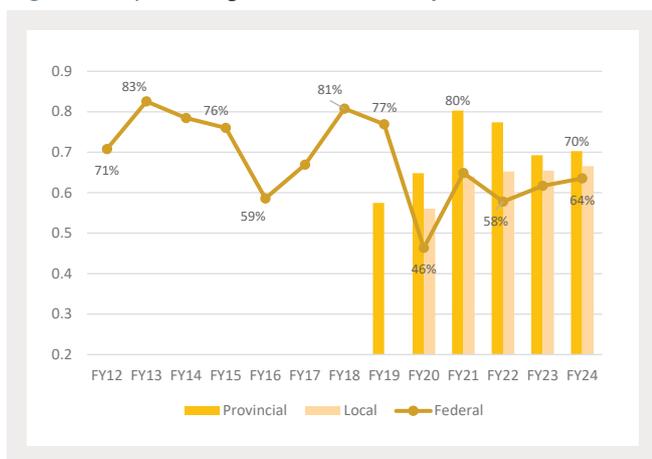
federal level from an average of 74 percent over FYs 12-19 to approximately 60 percent over FYs 20-24 (Figure 4). In FY22, federal capital budget performance reached a particularly low level for foreign-funded allocations - roughly one third of capital spending over FY18/19-21/22 - at less than 40 percent of the allocated amount (Figure 5). Despite improvements, execution of capital expenditures among local governments remains below 70 percent. Additionally, the performance of the provincial capital budget has shown a consistent decline over the past three budget cycles, falling to 70 percent. Overall, the under-execution of the capital budget reduced public investment by an average of 5 percent of GDP over FYs 21-24, a significant loss for a country with major infrastructure gaps.

Figure 3: Consolidated Capital Budget & Actual Spending by Level of Government (percent of GDP)



Source. World Bank staff based on OAG Reports for FY19-24.

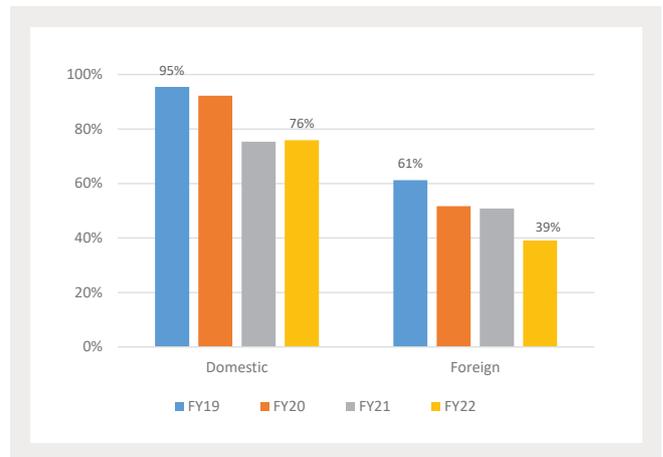
Figure 4: Capital Budget Execution Rate by Level of Government



Source. World Bank staff based on Ministry of Finance (MoF) data & OAG Reports.

Note. Subnational data is unavailable prior to FY19.

Figure 5: Federal Capital Budget Execution by Funding Source



Source. World Bank staff based on MoF data Consolidated Financial Statements, Financial Comptroller General Office (FCGO).

Note. Break down of budget execution data by funding source is not available beyond FY22.

Previous diagnostics of public investment management (PIM) in Nepal – notably the 2024 Public Expenditure and Financial Accountability (PEFA), 2021 Public Investment Management Assessment (PIMA), 2021 Public Expenditure Review (PER), and 2017 Country Economic Memorandum (CEM) – consistently identify multifaceted constraints across the entire project cycle holding back project execution. The 2021 PIMA report highlighted that, despite Nepal’s robust PIM institutional design, its operational effectiveness remains limited, particularly during the allocation and implementation phases.² Previous assessments note that, in the project preparation stage, project appraisals are frequently not conducted, despite the existence of formal procedures. This results in poorly prepared projects. During budget planning, projects were found to be routinely funded without comprehensive cost estimates or timelines. Across these assessments, implementation challenges were consistently linked to slow procurement processes and an overreliance on lowest-bid selection. The absence of systematic data for monitoring ongoing projects was also cited as a core constraint to public investment effectiveness.

This report analyzes five critical public investment bottlenecks cutting across the project cycle (Figure 6).

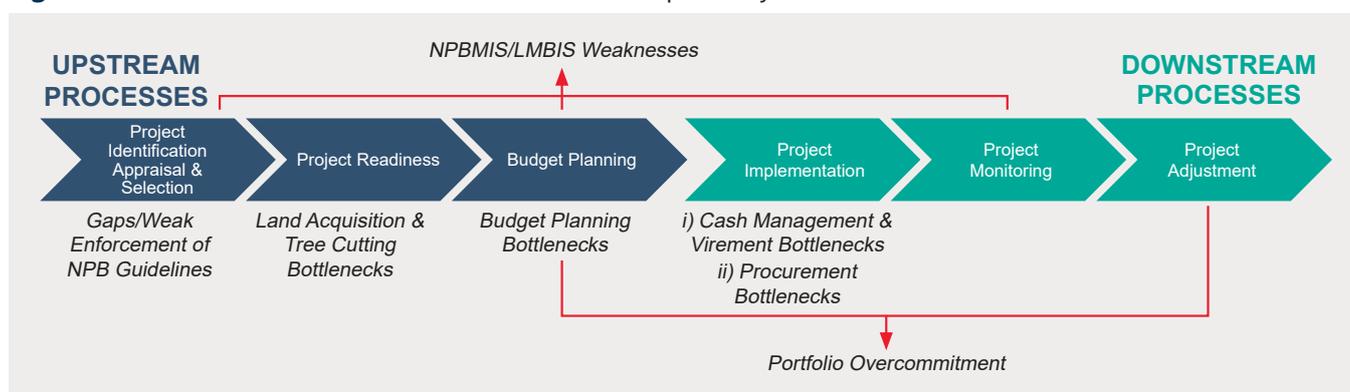
The selection of these bottlenecks was informed by these previous assessments and discussions with government counterparts. At the upstream level, this report reviews recent developments in Nepal’s project appraisal, selection and

² The PIMA Report notes that Nepal could double its infrastructure outcomes if PIM efficiency matched its best performing peers.

monitoring system (i.e., the National Project Bank - NPB) and its implications on budget planning. Furthermore, the report includes two deep dives of project readiness bottlenecks: the tree cutting clearance process and the land acquisition process. At the downstream level, the report provides an updated analysis of implementation challenges emerging from inefficiencies in cash management and the budget reallocation process (i.e., virements). The report concludes with an examination of key drivers of public procurement inefficiencies including gaps in the procurement regulatory framework. The analysis is focused on bottlenecks in the

planning and implementation of federal infrastructure projects.³ Project implementation is affected by other critical issues that fall outside the scope of this chapter and warrant further analysis. These include, inter alia, challenges associated with the transition to federalism, high turnover of project-level staff, the absence of a performance assessment system for public employees, the role and effectiveness of oversight agencies, and bureaucratic constraints to the payment and repatriation of profits for international contractors.

Figure 6: Selected Public Investment Bottlenecks for In-Depth Analysis



Source. World Bank Staff based on Kim, Fallov and Groom 2020, 92.

Note. NPB – National Project Bank; NPBMIS – National Project Bank Management Information System; LMBIS – Line Ministry Budget Information System.

³ Two World Bank funded projects - Strategic Road Connectivity & Trade Improvement (SRCTIP), and Modernization of Rani Jamara Kulariya Irrigation Scheme (MRJKIS2) – were selected as case studies to analyze project readiness, virements and procurement bottlenecks.

2

UPSTREAM PROJECT INVESTMENT MANAGEMENT PROCESSES

2.1. INVESTMENT PROJECT PLANNING & BUDGETING BOTTLENECKS

Insufficient enforcement of project appraisal and selection procedures, inadequate monitoring of ongoing projects, and ineffective multi-year budgeting contribute to a persistently overcommitted public investment portfolio.

In Nepal, the effectiveness of public investment management is hindered by the weak enforcement of project selection guidelines. The NPB was introduced in FY20 to address systemic weaknesses in project identification, appraisal and selection. It aims to be a centralized repository of projects that have undergone a structured appraisal and prioritization process. In theory, projects only become eligible to receive budget appropriations once they clear this prioritization process.⁴ However, evidence suggests projects continue to be integrated into the Medium-Term Expenditure Framework (MTEF) and Annual Budget circumventing the prioritization process (World Bank, 2021).

The National Planning Commission (NPC) revised the NPB guidelines in March 2025 to support the effective roll-out of the prioritization and selection system. The revised guidelines introduced several improvements including: i) a minimum cost threshold (i.e., NPR 30 million) for NPB entry; ii) more comprehensive mandatory requirements including pre-feasibility and feasibility studies and engineering designs; and iii) the establishment of a multi-stakeholder recommendation committee to appraise projects above NPR 1 billion. Furthermore, the latest iteration mandates

the removal of projects from NPB that are inactive for more than five years, and the re-appraisal of problematic projects.⁵ Importantly, the updated guidelines also instruct that, upon final selection of projects, realistic cost estimates over a three-year horizon are submitted and reflected in the MTEF. Finally, the new guidelines mandate quarterly reporting of financial and physical progress of ongoing projects and the integration of NPB with the Provincial and Local Project Banks.

Despite improvements, the revised guidelines still exhibit significant gaps, which may hinder enhancements to the project selection process and will require a sustained institutional effort to be fully operationalized. The revised guidelines contain a list of requirements for NPB entry (e.g., concept note, pre-feasibility study) but lack templates or recommended methodologies to guide their preparation by the project proponent. Furthermore, NPB entry requirements are not tailored to different typologies of projects and are applied uniformly regardless of project scale, sector, and risk profile.⁶ The document also lacks a recommended methodology and business process to guide the appraisal of project proposals by NPC. While the review of and the review problematic projects is mandated, the criteria for identifying these projects and the frequency of such reviews is not specified. Lastly, no guidance is provided to categorize projects along the recommended classification (e.g. national priority, transformational, national pride) undermining its effectiveness.

Both project selection and monitoring are constrained by deficiencies in the NPB Management Information System (NPBMIS). NPBMIS is intended to consolidate data on projects under preparation and implementation. This

⁴ The formal prioritization process includes 3 stages: i) project identification and development by the proponent line ministry or central agency; ii) project appraisal and formal NPB entry or rejection by NPC in consultation with MoF, relevant line ministry and external experts; and iii) project prioritization and selection for annual budget financing proposed by proponent line ministries and approved by NPC and MoF. Project prioritization criteria are included in the MTEF guidelines for each FY and includes factors such as alignment with the national plan and sectoral strategies, contribution towards inclusiveness, or the level of project readiness.

⁵ Problematic projects are simply defined as those not completed on time and those with major cost/time overruns.

⁶ The only explicit distinction in the current Guidelines is between infrastructure and non-infrastructure projects.

includes the start and planned completion date, initial and revised total estimated costs, annual budget allocations, and actual spending. However, this information is often lacking or inaccurate. An analysis of National Pride Project (NPPs) Reports shows that the Total Estimated Costs (TEC) reported annually by NPC was updated less than three times, on average, across the NPP portfolio over FY13-23.⁷ Consequently, updated TECs were lower than initial inflation-adjusted cost estimates for 13 out of 24 NPPs with comprehensive data. This poses challenges for the accurate monitoring of project financial performance. Beyond the NPP portfolio and other selected mega-projects, no information is systematically published on total project costs in either the MTEF or Annual Budget.

Data gaps in NPBMIS are partially driven by the lack of integration with other financial management systems.

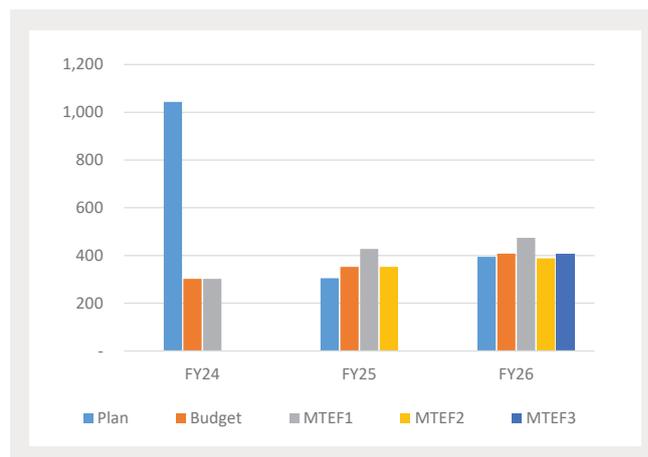
Project financial data needs to be extracted from the Line Ministry Budget Information System (LMBIS) and manually integrated with NPBMIS given the lack of a unique project identification number across the two systems. Moreover, multiple projects are frequently aggregated under a single budget sub-head in LMBIS posing challenges to the extraction of project level data (e.g., 2, 110 road projects are aggregated into 55 budget subheads). No standardized data collection and consolidation system is in place for non-financial indicators, such as physical progress. Therefore, this type of data is generated ad hoc at the project level leaving an important information gap for capital budget planning. The lack of integration between NPBMIS, LMBIS and the MTEF system also facilitates the incorporation of un-appraised projects into the Annual Budget and MTEF and gives rise to systematic inconsistencies between these documents. The new NPB Guidelines mandate the integration of NPBMIS with LMBIS and MTEF, which should constitute a priority over the short to medium term.

The poor implementation of the project selection system and lack of robust project monitoring lead to systematic inefficiencies in the composition of the annual budget and MTEF.

The National Resource Estimation Committee (NREC) sets the aggregate budget ceiling for recurrent and capital expenditure based on growth and revenue forecasts over the next three fiscal years.⁸ The aggregate recurrent allocation is largely determined on an incremental basis leaving the capital envelope as the residual. Subsequently, the Ministry of Finance breaks down the aggregate recurrent

and capital ceilings across line ministries. In the absence of a comprehensive dataset with information on the future commitments of ongoing projects, the line ministry-level capital allocations are often mis-aligned with actual needs. Most importantly, this process precludes an accurate estimation of the available fiscal space for new investments. This undermines the formal NPB selection process.

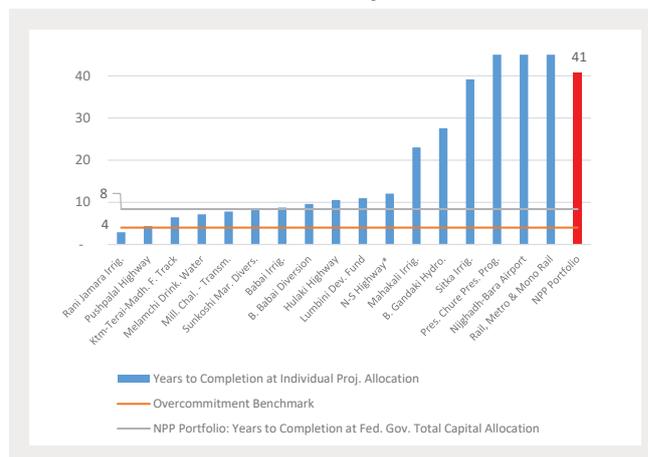
Figure 7: Capital Budget Allocations in annual Budget, MTEFs & 5 Year Plan (NPR billion)



Source. World Bank Staff based on MoF & NPC data.

Note. 15th Plan for FY24, 16th Plan for FYs25-26. MTEF1: FY24–FY26; MTEF2: FY25–FY27; & MTEF3: FY26–FY28. METF and Budget match on the 1st FY.

Figure 8: Number of Years to Completion at FY24 Budget Allocation, 17 National Pride Projects⁹



Source. World Bank Staff based on NPP Annual Reports data.

Note. The number of years to completion corresponds to the ratio between outstanding project costs at the end of FY 24 over the FY24 budget allocation. The North-South (N-S) Highway aggregates the Koshi, Karnali & Kaligandaki corridors.

⁷ National Pride Projects are a set of 27 large-scale infrastructure projects designated as high priority by the Cabinet.

⁸ The NREC is chaired by NPC with participation of MoF and is responsible for macroeconomic and revenue forecasting.

⁹ The Budhi Gandaki Hydropower Project did not receive a budget allocation in FY24, figure is based on the FY23 allocation. The Melamchi Drinking Water Project FY24 TEC is inaccurate; therefore, calculation is based on the FY23 TEC.

These inefficiencies are demonstrated by the systematic discrepancies between the MTEF and annual budgets, and in the overcommitment of the investment portfolio.

The five-year plan and MTEF outer year estimates tend to overestimate the resource envelope undermining the effectiveness of these instruments. For instance, the capital budget allocations for FY25 and FY26 were 15 percent lower, on average, than the FY24 MTEF outer years estimates (Figure 7). The overcommitment of the public investment portfolio, and the associated shortages of capital and maintenance funding, are a direct result of the lack of MTEF credibility. Data available for 17 ongoing NPP projects shows that, at the allocation provided in the FY24 budget, it would take 41 years to complete this subset of projects (Figure 8). Even if the entire federal capital budget of FY24 was allocated exclusively to these 17 projects, it would still take eight years to finalize them, illustrating the overcommitment of the broader portfolio.¹⁰ Improving the adequacy of project financing will require the rationalization of the existing portfolio. However, this exercise will require the development of a more comprehensive database of ongoing projects to ensure that the rationalization of investments is objective and accounts for outstanding liabilities.

Policy Recommendations

Enhance NPBMIS to improve the monitoring of projects under implementation. A more comprehensive data collection system could be initially lodged in a standardized excel or google sheets' template and be rolled out progressively, starting with large-scale projects. Over the medium term, the integration of core financial and planning information systems - including the NPBMIS, MTEF System, LMBIS, and the Computerized Government Accounting System (CGAS) - will be critical to ensure a seamless data exchange.¹¹ Once fully operational, the digital contract monitoring system - being developed with support from the Asian Development Bank (ADB) - should also be integrated with the NPBMIS to provide a more comprehensive view of project implementation.

Enhance coherence between the MTEF, annual budget and investment project multi-year commitments. Building on enhanced data availability for ongoing projects, the MTEF and Budget Formulation guidelines should be revised to institutionalize an improved budgeting approach linking Multi-Year Project Commitments, the MTEF, and Annual

Budgets. These guidelines should ensure that aggregate and line ministry capital ceilings and the estimation of fiscal space for new investment projects are informed by spending forecasts for ongoing investment projects.

Reduce the overcommitment of the investment portfolio by rationalizing underperforming or non-strategic projects and improving project selection. The prioritization exercise could be conducted in a phased manner starting with NPPs or selected sectors. The process should be grounded in objective prioritization criteria building on an improved database of projects under implementation. Once a comprehensive database of ongoing projects becomes available, NPC could also consider mandating regular portfolio reviews to avoid the accumulation of problematic projects in the public investment portfolio. Concurrently, the selection of new investment projects should be improved through the effective implementation of NPB guidelines and the differentiation of NPB entry requirements based on project scale, sector, and risk profile. Furthermore, subsidiary templates and guidelines for project preparation and appraisal should be developed to improve the quality of the selection process. The complexity of project feasibility reports and other NPB entry requirements should be commensurate with the resources available for project preparation.

2.2 PROJECT READINESS BOTTLENECKS

Quality-at-entry of large infrastructure projects is consistently hindered by delays in obtaining permits for tree clearance and in concluding land acquisition processes. *The timeliness of the tree cutting clearance process is undermined by the requirement to survey forest areas twice using manual methods. Land acquisition is systematically delayed by disputes over land valuation and a cumbersome business process.*

2.2.1 TREE CUTTING CLEARANCE BOTTLENECKS¹²

Securing tree cutting clearances for infrastructure projects typically takes 22 to 24 months, involving manual methods to identify relevant forest areas and various layers of approval.¹³ As illustrated in Figure 9, the tree cutting clearance process starts with the preparation and

¹⁰ Both figures are considerably higher than the 4-year benchmark for portfolio overcommitment (Kim, Fallov, & Groom, 2020).

¹¹ Integration of these systems is foreseen amongst the activities under the Public Financial Management for Development Effectiveness Project.

¹² The tree cutting clearance process depends on the environmental risk profile of each project and the type of environmental assessment required. This section focuses on infrastructure projects requiring an Environmental Impact Assessment (EIA).

¹³ The Tree Cutting Clearance Business Process was mapped using the Nagdhunga-Naubise-Mugling road - part of the broader SRCTIP project - as a case study. It involved extensive consultations with informants involved in the EIA process.

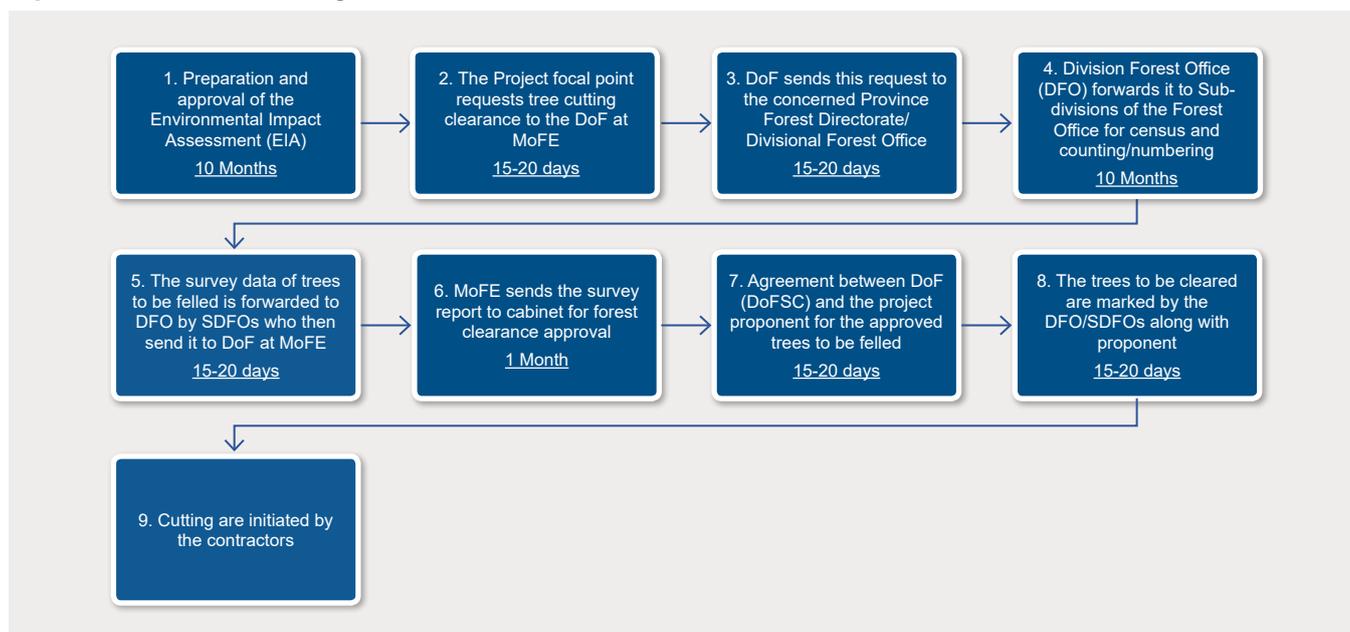
approval of the project Environmental Impact Assessment (EIA) containing a survey with an estimated number, type and volume of trees to be felled in the project site (Step 1).¹⁴ Following EIA approval, the project proponent submits a request to the Ministry of Forest and Environment (MoFE) for clearance of the selected forest areas (Step 2). Subsequently, the request is forwarded to the respective Provincial Government (Step 3) who instructs the Division Forest Office (DFO) to conduct a manual census of the trees located in the designated forest area (Step 4). The tree census is intended to confirm or reject the findings of the EIA survey. If the findings of the census align with the EIA survey, the results are sent back to MoFE (Step 5), and subsequently to Cabinet (Step 6). Following Cabinet approval, the tree cutting clearance is formalized between the project team and MoFE (Step 7). Finally, DFOs proceed with marking the trees to be felled (Step 8) before the actual tree cutting is conducted (Step 9).

The prolonged duration of the tree cutting clearance process is driven by preparation of the manual tree census to verify EIA survey estimates and, when substantial discrepancies emerge, the requirement to conduct a supplementary EIA. Currently, tree censuses are conducted manually by DFOs, a lengthy and human-resource intensive process (i.e., 10 months on average). Digital solutions available to capture both the number, type and volume of trees (e.g., LiDAR¹⁵ survey, satellite imagery) are seldomly

used regardless of the scale of the relevant forest area due to lack of financial resources and technical expertise.¹⁶ Delays are exacerbated when discrepancies between the original EIA survey and the manual tree census prompt MoFE to require a supplementary EIA effectively reinitiating the clearance process.

Supplementary EIAs are primarily triggered due to the poor quality of the original environmental study or on account of long intervals between EIA approval and project initiation. Multiple informants highlighted the substandard quality of the EIA reports – and the tree surveys contained therein – as a core reason for the requirement of supplementary EIAs. Consultations for this report indicated that EIA report quality is often undermined by the employment of underqualified consultants, insufficient resources for comprehensive field work, and inadequate staff for quality assurance at the Environment and Biodiversity Division – MoFE.¹⁷ Moreover, long time gaps are frequently observed between EIA approval and the start of project implementation increasing the likelihood of large disparities between the initial tree surveys and the subsequent tree census. Finally, the current Environment Protection Rules (EPR, 2020) do not include clear criteria for when a supplementary EIA is required. Therefore, the decision is subject to MoFE’s discretion affecting the transparency of the process.

Figure 9: Current Tree Cutting Clearance Business Process



Source. World Bank staff.

¹⁴ A forest survey is a sample-based estimate of the number and type of trees to be felled, involving map creation, data collection by field crews, in line with EIA requirements.

¹⁵ Light detection and Ranging (LiDAR) survey involves using laser scanning from aircraft, drone or ground vehicle to create detailed 3D models and point clouds of a forest.

¹⁶ LiDAR data can be utilized to precisely count the number, type and volume of trees in a specific area. Satellite imagery can be used for counting and monitoring trees, a cost-effective and efficient alternative to manual surveys. These technologies have already been utilized in projects such as the Rani Jamara Kulariya Irrigation Project.

¹⁷ Furthermore, several informants indicated that selected EIA consultants frequently subcontract individuals who lack sufficient expertise in the relevant field.

The length of tree cutting clearance processes is also affected by insufficient digitalization of the business process and seasonal restrictions on tree marking and cutting within conservation areas. The clearance process currently involves nine different steps requiring the exchange of documentation across three tiers of government. This exchange of information is largely manual, creating unnecessary delays. Finally, the marking and cutting of trees is prohibited within conservation areas from Mid-March to Mid-September (Rule 20(2), National Forest Regulation, 2022). While these limitations are justified to avoid conducting forest clearances during the rainy season, the time horizon could be reasonably extended to minimize the disruptions caused to project implementation.

Policy Recommendations

Streamline the Business Process for tree cutting clearance approval. The most critical measure is to mandate the preparation of a tree census, with active involvement of DFOs as an integral part of the EIA.¹⁸ This approach would avoid the recounting of trees after EIA approval, thus addressing the circularity of the current process. In case projects are initiated more than three years after the EIA approval, verification of results through a sample-based method by the Provincial Authorities would be required. Disparities of more than 10 percent in the number of trees to be felled would warrant the preparation of a new census. Recounting the number of trees to be felled would remain necessary when changes to the project design expand or change of the affected forest area. Moreover, approval of the tree census (Step 6) should be reassigned from Cabinet to MoFE to expedite the clearance process. Finally, the permitted time frame for the marking and cutting trees can be extended from mid-September until the end of May, considering the rainy season occurs from mid-June to mid-September.¹⁹

Leverage digital solutions to expedite the tree census and tree cutting clearance business process. Starting with largescale donor-funded projects, implementing agencies

should be mandated to gradually adopt modern IT solutions (i.e., LiDAR, Satellite Imagery, Geographic information system (GIS)) for the counting, measurement of volume, and valuation of trees and timber to be cut.²⁰ Moreover, developing and effectively implementing a digitalized tree cutting clearance process to replace the existing handwritten copy clearance process will help expedite the procedure.²¹

Improve the quality of EIA. To increase the quality of the EIA document, the government could consider the introduction of stricter selection criteria for the award of EIA consulting contracts and mandating the declaration of sub-contractual relations in bidding documents or restricting sub-contracting practices altogether.²² Moreover, MoFE could develop a roster of qualified Environmental and Social Review (ESR) contractors to improve the screening process of consultants.

2.2.2 LAND ACQUISITION BOTTLENECKS²³

Land acquisition in Nepal typically takes 2-3 years, on average, to be completed for infrastructure projects involving multiple steps in coordination with both the district and federal levels.²⁴ As shown in Figure 10, the process begins with the request of land-related data from the relevant district(s) by the project team (Step 1). After a preliminary decision is made at the district level (Step 2), the project team gathers data and prepares the necessary report in close collaboration with the district (Step 3). This report is then sent to the concerned line ministry which, in coordination with the Ministry of Home Affairs (MoHA), requests final cabinet approval to proceed with the land acquisition process (Step 4).²⁵ Once the cabinet approves the land acquisition process, the Compensation Determination Committee (CDC), led by the Chief District Officer (CDO), is established to determine the compensation value for the affected parties (Step 5). Finally, land ownership is transferred from the landowner to the project team (Step 6), allowing the land acquisition process to be finalized (Step 7).

¹⁸ This measure would require the amendment of Clause 9 (5) and Clause 11 of the EPR (2020).

¹⁹ Rule 20, Section 2 - National Forest Regulation (NFR), 2022.

²⁰ This measure would require amendments to Schedule 9 of the NFR relating to Sub-rule (2) of Rule 19 and sections (a) and (d) of Rule 131.

²¹ The Asian Development Bank (ADB) is providing technical assistance to MoFE to digitalize the business process.

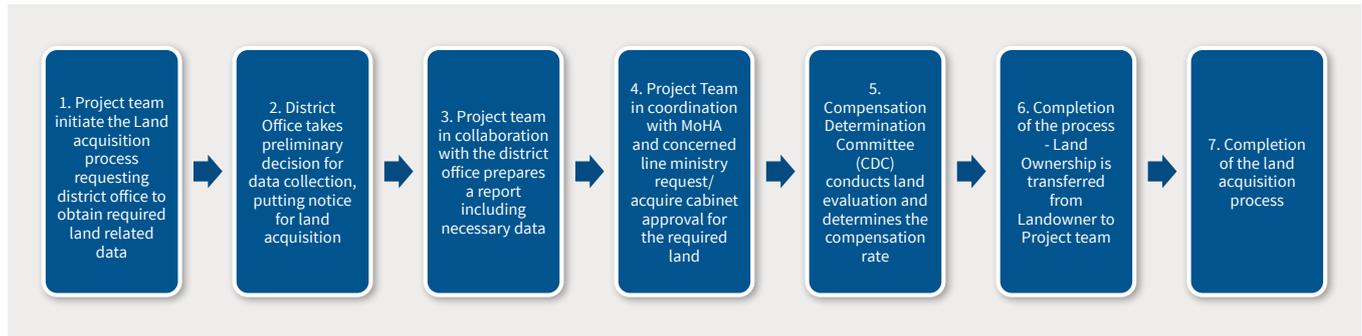
²² To be further specified in Schedule - 13 relating to Sub-rule (6) of Rule 7 of the EPR (2020).

²³ The land acquisition process depends on the nature of the land required for a project. This sub-section focuses on instances of government-led land acquisition (eminent domain) in the context of infrastructure projects.

²⁴ The land acquisition for the SRCTIP project in the Nagdhunga-Naubise-Mugling (NNM) corridor took 35 months to finalize, experiencing a 148 percent time overrun compared to the estimated time in the Resettlement Action Plan (RAP).

²⁵ A recent amendment to the Land Acquisition Act (2025) eliminated the cabinet approval requirement.

Figure 10: Government-led Land Acquisition process



Source. World Bank staff based on the Land Acquisition Act of 1977 and data gathered from various stakeholders.

The land acquisition process is hampered by an incomplete land management information system.

While the LRIMS has been rolled out to 98 percent of Land Revenue Offices (LROs), the Nepal Land Information System (NeLIS), holding cadastral data, is only available at 65 percent of survey offices. Additionally, the LRIMS and NeLIS data are not integrated due to the absence of a common unique identification number for land parcels across the two systems. Finally, land transaction sales prices are not publicly available – though included in land deeds – constraining the ability of authorities to use them as a source of information to assess the value of land for taxation and acquisition purposes.

The absence of a unified and widely accepted land valuation standard leads to multiple official valuations for the same property causing disagreements over compensation amounts (see Table 1).

The valuation of land for the Property Transfer Tax (PTT) is conducted by a District Committee based on a minimum valuation approach

which tends to underestimate market values.²⁶ The minimum valuation is a simplistic methodology for mass valuation of land based on factors such as the proximity to roads and its classification as rural or urban.²⁷ The PTT is charged on the self-declared land transaction value or minimum valuation, whichever is higher. Therefore, in the absence of a robust monitoring system, buyers and sellers are incentivized to under-declare transaction amounts, frequently reporting the minimum land valuation rather than the actual sale price.²⁸ On the other hand, valuation for property tax purposes is handled by local governments using a separate minimum valuation methodology. Finally, Districts – via the CDCs – are in charge of determining compensation amounts for government-led acquisitions. CDC valuations are typically anchored in the minimum land valuations, and as such, also tend to be lower than prevailing market rates. The absence of a standardized land valuation approach reflective of market prices frequently leads to litigation resulting in considerable delays in acquisition processes.²⁹

²⁶ District Valuation Committees have no representation of Land Valuation Professionals or the obligation to consult them.

²⁷ The minimum valuation is meant to be updated on an annual basis but many districts fail to do so.

²⁸ These perverse incentives create systematic gaps between minimum valuations and the actual market price of properties.

²⁹ Over 2014-17, 385,978 land cases were active across formal courts, land revenue and reform offices. Approximately 26 percent of these cases are taken to formal courts, where resolution takes at least one year (WB, unpublished, 2024).

Table 1: Overview of Various Land Valuation Approaches.

Land Related Tax/ Compensation	Responsible Bodies	Approach and Criteria
Property Transfer Tax (PTT)	District: Minimum land valuation committee, headed by Chief District Officer (CDO).	Minimum land valuation should be carried out annually, considering road access, land classification, and suitability for housing.
Land & Property Tax (LPT)	Local Government: The local revenue advisory board.	Land and property tax assessments should be carried out annually. The valuation of land depends on the rate per designated area, considering its proximity to the main road or other roads.
Compensation related to Land Acquisition	District: CDC headed by CDO.	Minimum Valuation Approach is based on various criteria including the land value at the time of the notice, the value of standing crops, trees, and structures, and an assessment of any losses or damages incurred by displaced individuals, including relocation and business disruption costs.

Source: World Bank Staff based on World Bank 2024 (unpublished).

The Land Acquisition Act (LAA) dating back to 1977 requires a comprehensive revision to enable more timely and efficient land acquisition processes.

The institutional setup of the CDC is not conducive to the determination of fair compensation amounts. CDCs are chaired by the Chief District Officer and must include the District Co-ordination Committee chair, the Chief Land Revenue Officer and the Project Officer. However, there is no mandatory requirement for CDCs to include i) a district survey officer who holds cadastral data, and ii) land valuation experts, which could support the determination of compensation amounts more aligned with market values. Furthermore, the definition of land possession in Clause 2 of the Land Acquisition Act (1977) does not recognize informal occupation or use of land, which may have been cultivated or inhabited for generations.³⁰ This creates issues regarding compensation of informal landowners, frequently leading to disputes.

Policy Recommendations

Complete the rollout of the land records and cadastral management information systems and harmonize the two information management systems. Additionally, the Commission for the Investigation of Abuse of Authority (CIAA) and the Court System should be mandated to accept digital

land and cadastral records allowing district offices to fully utilize digital records.³¹

Standardize the Land Valuation System. Standardizing the land valuation system by establishing a common and internationally recognized valuation standard – potentially through a land valuation law - which should be consistent for taxation, land acquisition and other purposes (e.g. International Valuation Standards Council (IVSC), Voluntary Guidelines on the Responsible Governance of Tenure (VGGT) guidelines, and World Bank (WB) safeguards).³² Given the complexity of this issue, this reform would need to be implemented gradually with adequate technical assistance and strong commitment from the Government.

Upgrade the Compensation Determination System by revisiting the minimum land valuation approach and amending the LAA 1977. The act could be revised to incorporate market value considerations, rather than solely relying on the minimum valuation approach (i.e., Clause 16(2)). Similarly, the CDC should mandatorily include independent land valuation professionals and representatives from the respective Survey Office. Finally, the clause should include land being legitimately possessed for the last 10 years or more, even if the land has not been formally surveyed and mapped (in consistency with the Land Act 1964).

³⁰ 1.3 million households live in Informal tenure in 2025. Available at <https://unhabitat.org/nepal>.

³¹ Legal authorization for the use of digital land records requires an amendment to the Electronic Transaction Act (2008).

3

DOWNSTREAM PROJECT INVESTMENT MANAGEMENT PROCESSES

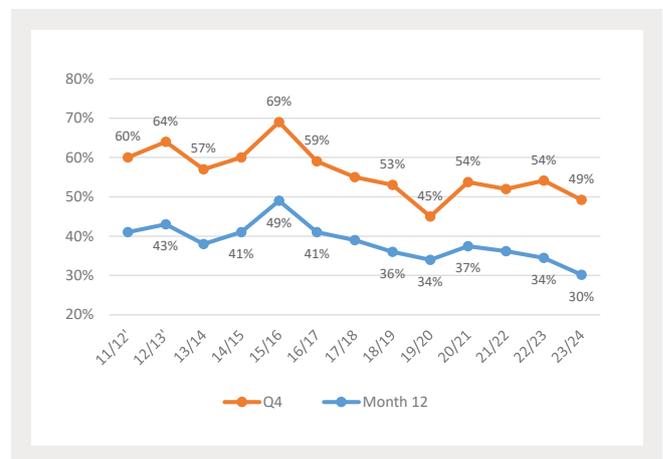
3.1 BUDGET EXECUTION BOTTLENECKS

Implementation challenges emerging from budget planning inefficiencies and lack of project readiness are compounded by suboptimal cash management practices and rigid budget reallocation rules. These factors contribute to an excessive concentration of capital expenditures at the end of the Fiscal Year.

3.1.1 CASH MANAGEMENT & EXPENDITURE BUNCHING BOTTLENECKS

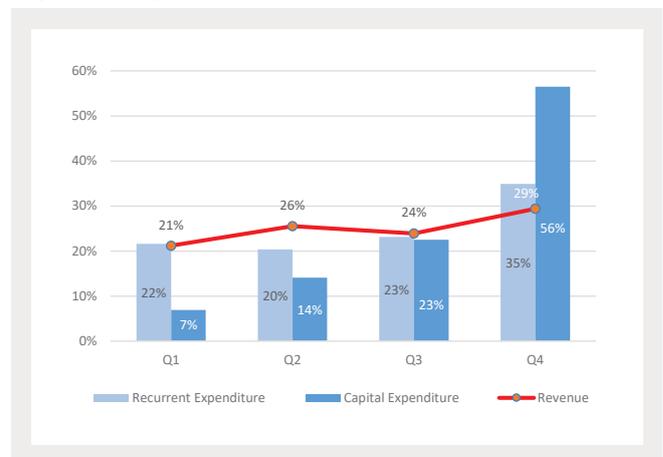
Investment project implementation is hindered by budget planning inefficiencies, project readiness delays, and cash flow issues, as shown by the bunching of capital spending in the last quarter of the FY. Despite noticeable improvements since FY12, capital spending remains markedly low in the first 3 quarters of the FY (i.e., below 50 percent in aggregate) constraining the implementation of investment projects (Figures 11 and 12). This phenomenon is partly driven by budget misallocations and logistical problems described in previous sections. Furthermore, cash flow constraints also contribute to this issue. Actual revenue collection has deteriorated considerably in comparison to budgeted amounts over FYs 23 and 24 (i.e., shortfalls of approximately 25 percent) what typically constrains the execution of the capital budget (Figure 13).³³ Equally important, external grant disbursements have remained chronically low since at least FY17 (i.e., execution rate of 47 percent on average). This has had direct consequences on foreign-funded projects as evidenced by their lower budget execution rates.

Figure 11: Percent Capital Expenditure executed in FY Quarter 4 & Month 12



Source. MOF and world bank staff calculations, Note: Nepal's fiscal year begins on July 16 and ends July 15.

Figure 12: Average Distribution of Actual Revenue & Expenditure per Quarter, FYs13/14-23/24

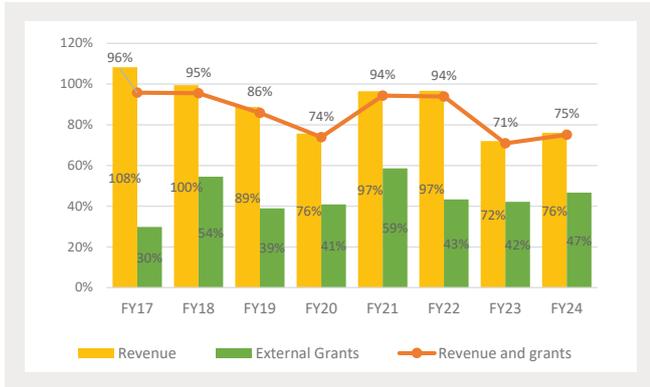


Source. World Bank staff based on MoF data. Note: Nepal's fiscal year begins on July 16 and ends July 15.

³² The legislation should clearly define property valuation bases for taxation and compensation purposes. Legislation should also mandate the adoption of a single property valuation for Property Transfer Tax/Capital Gains Tax and Property Taxation.

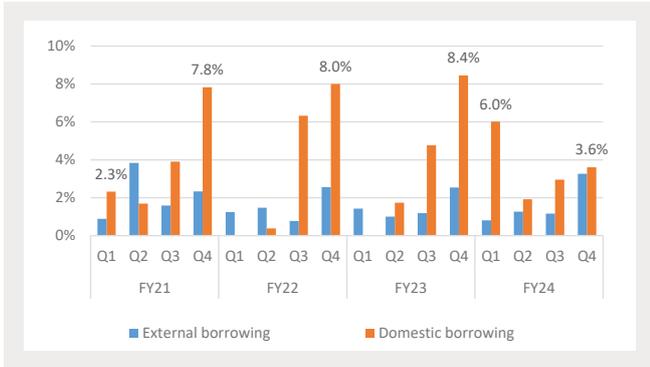
³³ Actual revenue collection is more evenly distributed than capital spending during the FY. However, in the presence of revenue shortfalls, recurrent obligations (e.g., salaries) tend to be prioritized over capital spending.

Figure 13: Annual Revenue & Grants Budget Execution, FYs 17-24



Source. MoF and World Bank calculations. Note: Nepal's fiscal year begins on July 16 and ends July 15.

Figure 14: Quarterly Government Borrowing as share of Budgeted Expenditure



Source. MoF and World Bank calculations. Note: Nepal's fiscal year begins on July 16 and ends July 15.

The cash flow challenges hampering the implementation of projects emanate from weak cash planning and management practices. *De jure*, spending units are authorized to commit their entire annual budget allocation upon the approval of the Annual Appropriation Act (i.e., Clause 4, Appropriation Act - FY25; and Rule 28, Financial Procedures and Fiscal Responsibility Regulations).³⁴ Nonetheless, cash is effectively released on a quarterly basis, with frequent reliance on liquidity rationing to manage revenue shortfalls and the overcommitment of the investment portfolio. This process often results in funding shortages for lower priority projects.³⁵ Cash flow forecasts are based on a simple breakdown of annual appropriations over four quarters disregarding existing commitments and cash needs throughout the FY (PEFA Secretariat, 2024).³⁶ This weak forecasting approach

heightens the probability that cash rationing measures are necessary during budget implementation. Moreover, available data suggests government borrowing is not proactively used to smooth out spending patterns. Over FYs 21-24, issuances of domestic debt were primarily concentrated in the fourth quarter (i.e., 40 percent on average) in line with the prevailing spending patterns (Figure 14).

Challenges posed by the withholding or late release of funds are particularly acute for foreign-funded projects.

In line with the 'Internal Work Procedure related to the Release of Sources of Foreign Aid' (FY25), the Financial Comptroller General Office (FCGO) only releases funds for reimbursable external grants and loans for the 3rd and 4th quarters after receiving donor reimbursements for expenditures incurred up to the 1st and 2nd Quarters, respectively. Due to budget allocation inefficiencies, domestic contributions for foreign-funded projects frequently fall short of the co-financing ratios stipulated in financing agreements. As a result, the government often reports higher spending against donor-reimbursable budget lines than the agreed foreign-funded ratio. This misalignment implies that a portion of expenditures recorded as foreign-funded are not reimbursed by development partners, prompting FCGO to withhold funds programmed for the third and fourth quarters. This process effectively locks foreign-funded projects in a path-dependency of low budget execution throughout the entire budget exercise.

Policy Recommendations

Improve cash planning and management practices. MoF may consider aligning the commitment authorization issued at the start of the FY (Clause 4, Appropriation Act) with quarterly cash releases and shifting the expenditure control function from payment to commitment stage – leveraging the new CGAS commitment recording module. In conjunction with enhanced cash flow forecasting mechanisms, these reforms would improve the effectiveness of quarterly budget releases and reduce reliance on cash rationing.³⁷ Furthermore, FCGO could consider easing the budget release policy for foreign-funded projects by allowing fund releases during Quarters 3 and 4 when domestic co-financing shortfalls occur during the first half of the fiscal year.³⁸ MoF could also mitigate counterpart financing shortages through improved budget

³⁴ Clause 4 of the Appropriation Act does not apply to foreign-funded projects which are formally subject to quarterly releases.
³⁵ Unlike most peer countries, in Nepal MoF has the authority to revise budget appropriations during the mid-year review when faced with severe revenue shortfalls without parliamentary approval (FPFRA clause 21, 2019; FPFRA clause 34, 2021).
³⁶ CGAS now contains a commitment records module which can be used to control spending at commitment stage and to improve cash plans and forecasting. Cash balances are also consolidated on a monthly basis through the Treasury Single Account (TSA) system providing a wealth of information for improved cash management and planning.
³⁷ Consolidated cash plans produced by the TSA system and the new CGAS commitment recording module can be leveraged for this purpose.
³⁸ The budget release for quarters 3 and 4 could be proportional to the donor reimbursement for quarters 1 and 2. The release of funds would be contingent on a commitment from the Accountable Officer (secretary of relevant line ministry) and MoF to address domestic co-financing shortfalls during quarters 3 and 4 or the following FY.

planning and the negotiation of lower domestic co-financing requirements for foreign-funded projects. Alternatively, the utilization of designated accounts with advance disbursements can also be considered in selected cases to address reimbursement and budget release delays.

Improve the accuracy of cash flow forecasting. This would require improving the realism of revenue forecasts produced before the start of the fiscal year and the introduction of rolling updates as new cash balance data becomes available. Moreover, the accuracy of expenditure projections could be enhanced by incorporating spending units' workplans, multi-year commitments, and procurement plans.³⁹

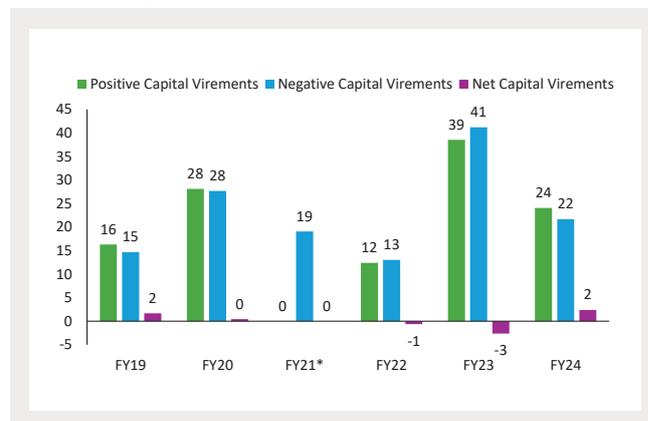
Building on improved cash management, use short-term debt instruments more strategically to smooth out expenditure patterns. An enhanced cash management and forecasting function will enable MoF to have a better understanding of cash needs throughout the FY. On this basis, MoF could consider a more proactive use of short-term debt instruments to address the uneven distribution of revenue collection and reduce the reliance on cash rationing.

3.1.2 VIREMENT BOTTLENECKS⁴⁰

Budget planning inefficiencies and the resulting resource misallocations also lead to a high volume of in-year budget reallocations in Nepal, despite rigid virement rules.⁴¹ Over FYs 19-24, the volume of positive reallocations to capital budget lines was, on average, 24 percent of the original capital allocation (Figure 15).⁴² The large majority of these virements moved resources between different capital budget lines as demonstrated by the small volume of net reallocations to and from the capital budget (i.e., average of +0.2 percent of the original capital budget during FYs 19-24).⁴³ The substantial volume of reallocations across capital budget lines is likely driven by efforts to correct budget

misallocations within and across investment projects which impede their implementation.

Figure 15: Nepal Capital Virements as Share of Original Capital Budget



Source. World Bank based on Consolidated Financial Statements, FCGO.

Note. FY21 report lacks data on positive/net virements.

In the absence of improved budget planning processes, cumbersome virement rules pose additional constraints to the execution of the capital budget (Table 2). Current regulations require MoF approval for all budget reallocations to capital lines across Ministries, Departments, Projects and Economic Codes (e.g., Road & Bridge Construction - 31151). *De Jure*, Line Ministries have discretion to conduct virements between existing activities under the same economic code of a given project during the first half of the fiscal year. However, in practice such reallocations also require MoF approval. Formally, Line Ministries also have the authority to process virements falling under their discretion in LMBIS. However, sector agencies effectively rely on MoF to perform these tasks due to the lack of trained users, or the appropriate user rights. Finally, there also temporal restrictions on virements which are forbidden during the first quarter and last month of the Fiscal Year.

³⁹ Consolidated cash plans produced by the TSA system and the new CGAS commitment recording module can be leveraged.

⁴⁰ Virements refer to the reallocation of funds across approved budget appropriations during the execution of the budget.

⁴¹ Virements refer to the reallocation of funds across approved budget appropriations during the execution of the budget.

⁴² The percentage corresponds to the ratio between the total volume of positive budget reallocations to capital line items over the original budget capital allocation.

⁴³ Virement figures include reallocations from the capital contingency budget line which can only be executed once vired to other budget lines. Nevertheless, the contingency allocation was insignificant over FY19-24 at 1.9 percent of the original capital budget.

Table 2. Nepal Virement Regulations

Types of Virements		Approval Authority	Applicable Rules
<i>Inter-Ministerial:</i> Virements Across Different Budget Heads		MoF	Shall not exceed 10 percent of total original budget.
<i>Intra-Ministerial:</i> Virements across budget subheads and economic codes	Recurrent to Recurrent Budget Lines	Line Ministry/ MoF	Line Ministries can conduct virements up to 25 percent of initial budget head allocation without changing funding sources until Mid-January. Changes to salaries and personal allowances are excluded. MoF approval is required beyond the 25 percent threshold and during Q3/Q4.
	Capital to Recurrent Budget Lines	MoF	Only permitted to cover debt service expenses. No ceiling specified in legislation.
	Recurrent/Capital to Capital Budget Lines	MoF	No ceiling specified in legislation.
<i>Intra-Economic Code:</i> Virements across activities		Line Ministry/ MoF	Virements across activities under the same economic code (e.g., Road and Bridge Construction - 31151) can be conducted by Line Ministries until Mid-January. MoF approval required thereafter.

LMBIS Changes: *De jure*, Line Ministries are allowed to process virements under their discretion. *De facto*, all virements are processed in LMBIS by MoF.

Temporal Restrictions: Virements are prohibited during Quarter 1 and Month 12 of each FY.

Source: World Bank Staff based on Financial Procedures & Fiscal Responsibility Act (FPFRA) 2019; Financial Procedures & Fiscal Responsibility Regulations (FPFRR) 2021; Appropriation Act 2025.

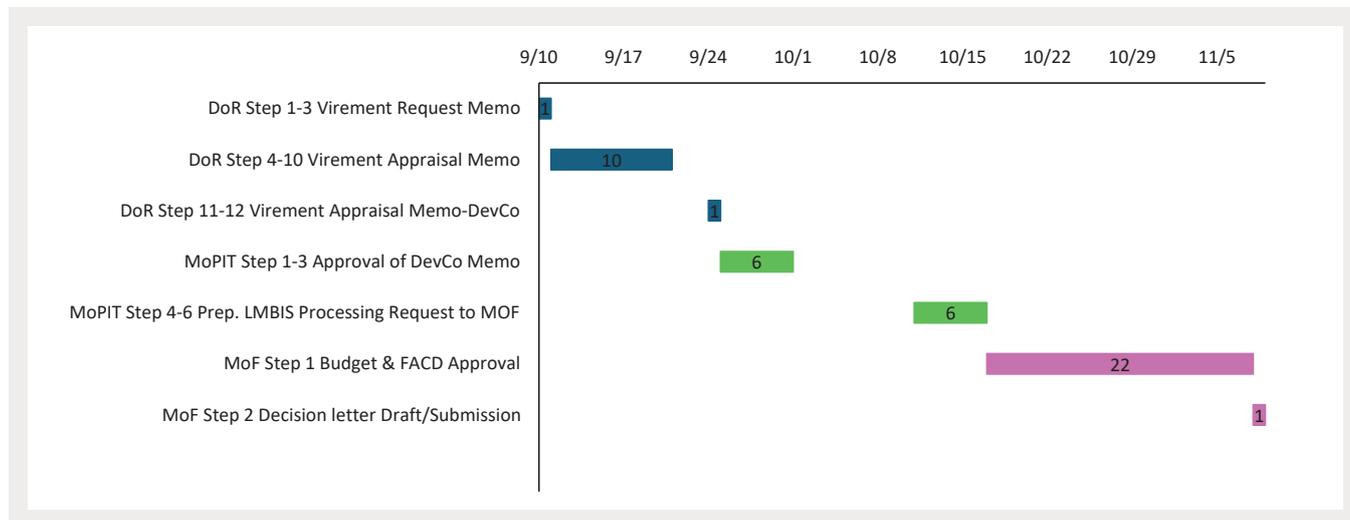
Regional and aspirational peers provide additional discretion to Line Ministries over capital virements within well-defined boundaries. Both Sri Lanka and Thailand allow virements to be conducted throughout the entire Fiscal Year without restrictions. Furthermore, Thailand grants a degree of flexibility to line ministries with respect to capital virements. Specifically, sectoral ministries are allowed to conduct capital reallocations without prior MoF approval of up to THB 10 million (i.e., approximately USD 300k) within the same budget subhead (i.e., project/department), and up to THB 1 million (i.e., approximately USD 30k) within the same economic code.

In addition to stringent regulations, the processing of virements in Nepal is further complicated by an intricate business process involving several layers of approval. A virement case study conducted for this report found that it took 59 days to process a NPR 1 billion virement from the Ministry of Physical Infrastructure and Transport's (MoPIT) recurrent contingency to the Roads Board budget line for roads maintenance (Figure 16).⁴⁴ The business process involved 25 different steps – including the preparation of 5 memorandums and letters - across 8 divisions under the Department of Roads (DoR), MoPIT and MoF. DoR and MoPIT required 12 and 22 days to complete the first and second phases of the business process, respectively. Subsequently, MoF took 23 days to grant the final approval.⁴⁵

⁴⁴ *De Jure*, this type of virement could be conducted within the discretion provided to MoPIT (Table 2). *De facto*, MoF approval and processing through LMBIS is a requirement.

⁴⁵ Key informants indicated that MoF approval can take considerably longer over January-June due to Budget preparation.

Figure 16. Steps & Number of Days Required for Approval of Virement from Ministry of Physical Infrastructure & Transport (MoPIT) to the Roads Board. September 10th to November 9th, 2023



Source. Consultations with MoPIT/MoF & World Bank Staff Analysis.

Note. Virement from MoPIT - Recurrent Contingency Allocation to Road Board - Road & Bridge Construction Allocation. DoR: Department of Roads. DevCo: Development Cooperation Implementation Division, DoR. IECCD: International Economic Cooperation Coordination Division, MoF.

Policy Recommendations

Provide additional discretion to Line Ministries over the approval of capital-related virements within the same Budget Sub-Head without altering the source of funds.

Line Ministries should be allowed to exercise the level of discretion over virements foreseen in existing regulations (Table 2).⁴⁶ Moreover, MoF could grant sector ministries with authority to conduct capital budget reallocations within the same project up to 25 percent of the original budget subhead allocation (i.e. 8 digit) without changing the source of funds.

Under the restrictions outlined in the regulatory framework, authorize the processing of virements during the 1st Quarter and last month of the Fiscal Year (FY).

Given the current spending patterns in Nepal, this reform would contribute to a faster execution of investment projects. The authority retained by MoF to authorize virements beyond the limited level of discretion granted to line ministries will mitigate risks to budget credibility and fiscal discipline.

Simplify the virement business process and enable Line Ministries to directly process virements in LMBIS.

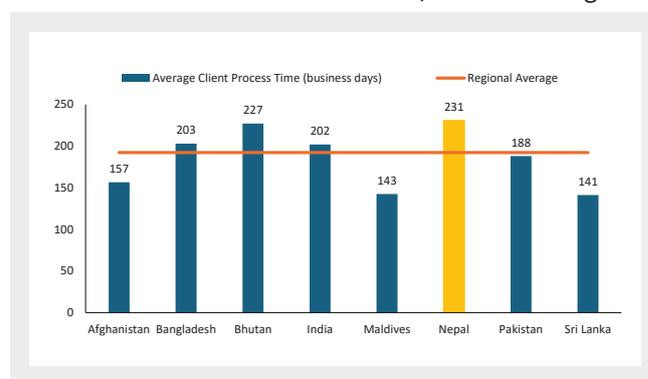
A business process with fewer internal approvals and directly processed by Line Ministries in LMBIS would improve the timeliness of budget reallocations.⁴⁷ The revised business process and applicable regulations for each type of

virement – currently dispersed across the PPFRA, PPFRR, and Appropriation Act - should be consolidated and outlined as part of the annual budget execution guidelines.

3.2 PROCUREMENT BOTTLENECKS

The timeliness and quality of public procurement is hampered by insufficient delegation of decision-making, an overreliance on lowest-bid selection and disproportionate penalties for contract termination.

Figure 17. Average Government Procurement Processing Time - World Bank Funded Contracts, South Asia Region



Source: World Bank Standard Report - Systematic Tracking of Exchanges in Procurement System (STEP), 2018-2024.

⁴⁶ A negative list of activities (e.g. vehicle purchases) can be developed for activity level virements to contain associated risks.

⁴⁷ The length of the case study would be reduced by 29 to 39 days (50 to 65 percent) if MoPIT had de facto discretion to approve the analyzed virement and could directly process the reallocation in LMBIS.

Procurement data from World Bank systems indicates that the Government of Nepal had the highest average processing time for contracts awarded across the South Asia Region (SAR) between 2018 and 2024 (Figure 17). According to data from the World Bank’s Systematic Tracking of Exchanges in Procurement System (STEP), the Government of Nepal took, on average, 231 business days to process the multiple stages of the procurement process for contracts awarded between 2018 and 2024.^{48,49} This figure was highest in SAR where the corresponding average stood at 192 days. The disparity between Nepal and its regional peers is illustrative of the inefficiencies and bottlenecks which characterize the procurement cycle in the country.

A business process review of the 19 largest active contracts funded by the World Bank in Nepal revealed average procurement delays of 89 business days for consultancy contracts and 110 business days for works contracts (see Box 1, for Business Process details). Amongst the consulting contract subset (i.e., 7 out of 19 contracts), the stage involving the preparation of the Bidder Shortlist and Request for Proposals is the main driver of delays in the procurement cycle with average deviations from planned timelines of 100 business days (Figure 18a). On the other hand, the primary source of delays in the award of works contracts under analysis (i.e., 12 out of 19 contracts) were time overruns in the preparation of the pre-qualification

evaluation report, and the drafting of bidding documents (Figure 18b).

Multi-layered review processes, lack of capacity in Project Implementation Units (PIUs), and a weak business process design collectively undermine the timeliness of procurement processes. Discussions with the Government and WB Procurement Officials suggest that procurement delays are frequently associated with the formulation of overly detailed evaluation criteria in consulting contracts, which tend to make bid assessments more complex. Additionally, the decision-making authority delegated to PIUs tends to be very limited. Therefore, advancing through the various stages of the procurement cycle often entails multiple layers of hierarchical approval. As an example, bid evaluations must undergo a two-tier review process (i.e., at project and departmental level) regardless of the value of the contract at hand. Relatedly, the absence of pre-defined workflows and the reliance on paper-based approval processes exacerbates time overruns and undermines transparency. Furthermore, evaluation committees frequently lack independent sector experts, undermining the quality and objectivity of evaluations and potentially leading to suboptimal procurement outcomes. These factors collectively exacerbate inefficiencies in Nepal’s procurement processes.

Box 1. Summary of procurement processes for works contracts and consultancy services in World Bank financed projects.⁵⁰

Standard steps in the works contract procurement process



Standard steps in the consulting services procurement process



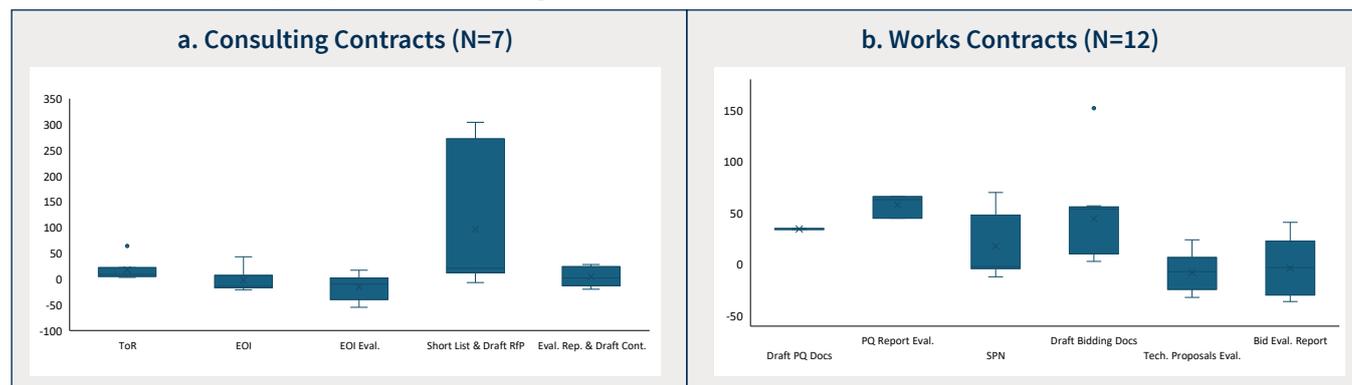
The procurement of works and consultancy contracts in World Bank financed projects follows a transparent and competitive process, ensuring compliance with both development partner and local regulations. The procurement of works starts with defining the project scope, objectives, and budget, followed by the preparation and advertisement of detailed bidding documents. Bids are then evaluated on technical and financial criteria, with contract awards made to the lowest substantially responsive bidder. Similarly, procurement of consultancy services includes the development of detailed Terms of Reference, the selection of an appropriate selection method (such as Quality and Cost-Based Selection (QCBS)), publication of the opportunity, shortlisting of candidates, and evaluation of submitted proposals based on technical and financial criteria.

⁴⁸ Business days refer to a five-day workweek.

⁴⁹ STEP is the World Bank’s online procurement planning and tracking system. Government procurement data was not available.

⁵⁰ Procurement business process steps aligned with the World Bank’s Procurement Regulations.

Figure 18: Business Process Analysis of the 19 Largest Active World Bank-Funded Contracts in Nepal Variance from Planned Timeline (# Business Days) by Procurement Stage



Source. World Bank staff based on STEP data.

Note. TOR: Terms of Reference. EOI: Expression of Interest. Eval: Evaluation. Rep: Report, RFP: Request for Proposals. Draft Cont: Draft Negotiated Contract. PQ: Pre-qualification. SPN: Specific Procurement Notice. Docs: Documents. Tech: Technical.

The delays and inefficiencies in the procurement of works and consulting contracts are directly related to flaws in Nepal’s procurement regulatory framework. The Public Procurement Act (PPA, 2007) and Public Procurement Regulations (PPR, 2007) have been subject to fourteen amendments over time, which introduced reforms to address implementation issues such as fast-track provisions, extended project deadlines, and e-GP directives. However, many of these changes have diverged from international standards and the United Nations Commission on International Trade Law (UNCITRAL) model law.⁵¹

estimate approval are lower than those applicable to bid acceptance, creating unnecessary complexity. In addition, the approval process for variation orders (VOs) is governed by relatively low decision-making thresholds (i.e., Section 54 of the PPA). Specifically, cost variations may be authorized by the officer in charge, departmental head, or the Secretary of the Line Ministry for amounts not exceeding 10 percent, 15 percent, and 25 percent of the original contract, respectively. VOs exceeding 25 percent require Cabinet approval, often taking 3–5 months to be granted. These approval thresholds are applicable to all types of contracts regardless of their

Table 3. Approval Thresholds for Cost Estimates and Bid Approval of Works and Consulting Procurement

Cost Estimate Approval Thresholds			Works Bid & Consulting Proposals Acceptance Thresholds		
Officer	Works in million NPR	Consultancy in million NPR	Officer	Works in million NPR	Consultancy in million NPR
Third Class Officer	50	2	Third Class Officer	100	2
Second Class Officer	100	5	Second Class Officer	200	10
First Class Officer	200	10	First Class Officer	500	50
Departmental head	>200	>10	Departmental head	>500	>50 (The minimum threshold for international contracts is 150 million NPR)

Source: Sections 14, 67, and 81A of Public Procurement Regulations (2007).

The introduction of a hierarchical approval system for original cost estimates and cost variation orders (i.e., Section 54, PPA) is one of the core factors leading to persistent delays in contract award and execution processes.⁵² Sections 14, 67, and 81A of PPR established multi-layered approvals for cost estimates and the acceptance of bid submissions for both works and consulting contracts (Table 3). However, thresholds for cost

value. Therefore, even variation orders to small-value contracts may require high-level approvals delaying contract implementation.

The heavy penalties for contract termination mandated in the PPA hinder contract management, create legal complications, and delay project implementation. Section 59 of the PPA stipulated that in the event of

⁵¹ These include a provision to recover the full cost of remaining works from the contractor in the event of contract termination.

⁵² Cost Estimates correspond to the total expected financial resources needed to carry out a contract. A variation order is a formal instruction issued after contract award that modifies the original terms of a contract.

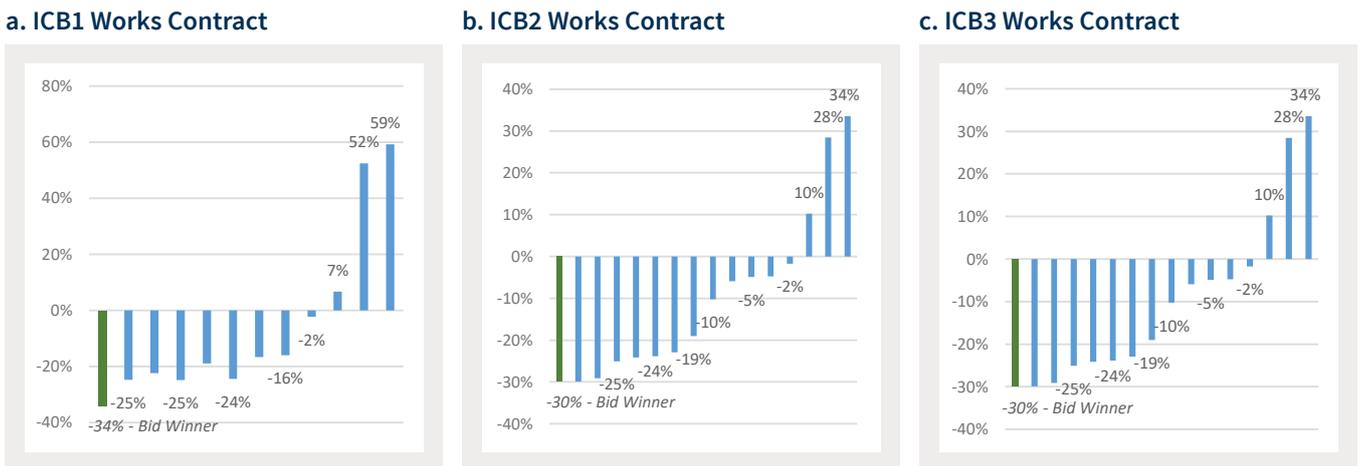
contract termination - due to delays, cost overruns, or other compliance issues – the contractor is liable to pay the full outstanding contract amount, irrespective of the extent to which the works have been executed. This provision leads contractors to be reluctant in accepting public sector contracts or to undertake projects with excessive caution. For the government, enforcing this clause has proven legally complex, as disputes over the calculation of remaining costs and liabilities often lead to prolonged litigation.

The lack of procurement and contract execution manuals and technical guidance notes has hindered the transparent and efficient implementation of procurement processes by implementing entities. Sections 65 and 74A of the PPA authorize the PPMO to develop procurement manuals, and technical notes. However, the PPMO has failed to provide

these manuals and notes to the public. Procuring entities face significant uncertainty in procurement and contract execution procedures and different agencies interpret the PPA and PPR provisions inconsistently. This lack of clarity has led to uncompliant procurement processes resulting in delays in the award of contracts.

The absence of a solid legal basis to reject abnormally low bids compromises project quality. The PPA instructs procuring entities to award contracts to the lowest evaluated substantially responsive bidder.⁵³ However, it does not provide a clear mandate for the rejection of abnormally low bids (ALB). The distribution of bid values for 3 large works contracts awarded under the World Bank-financed SRCTIP provides a clear example of the challenges posed by this omission in the PPA (Figure 19). Across these 3 contracts, the

Figure 19: Percentage difference between Bids & Contract Estimated Cost by Ranking Order Strategic Road Connectivity & Trade Improvement Project (SRCTIP)



Source. World Bank Staff based on Department of Roads data.

Note. This table illustrates the Engineers Estimate vs the Bidders bidding amount of the three contracts.

winning was 25 to 35 percent below the government’s cost estimate demonstrating the perverse incentives provided by the current award criteria. Awarding contracts to bidders whose proposals deviate significantly from estimated costs often leads to substandard infrastructure or considerable cost overruns, ultimately compromising the integrity of the bidding process.

Policy Recommendations

Amend the PPA and PPR to enhance efficiency and fairness in contract award and management. The PPR should clearly describe what constitutes an ALB and enforce the provision that contracts should be awarded to the lowest evaluated substantially responsive bid by rejecting the abnormally low bid contracts.⁵⁴ Furthermore, the

⁵³ The lowest evaluated substantially responsive bid corresponds to the lowest value proposal among those that are deemed substantially responsive to the bidding document. A bid is considered substantially responsive when it meets all the eligibility, qualification and completion criteria.

⁵⁴ The World Bank and Asian Development Bank are going to replace the mandatory lowest-price bidding system, which often leads to unrealistically low bids and poor project outcomes, with a Merit Point Criteria Bid Evaluation System.

government may consider raising thresholds for different levels of variation order approval in the PPA and segregate contracts according to their value to facilitate the approval process for small contracts. Similarly, the PPR should be amended to revise the approval threshold for cost estimates and bid proposals. Finally, contract termination provisions (PPA, Section 59) should be reverted to their original form, whereby defaulting contractors are only liable for the public entity's incremental costs resulting from termination.

Streamline the procurement process through higher decision thresholds, standardized workflows, and proactive collaboration. Standardized business processes should include clear internal workflows within PIUs, with responsibilities and timelines assigned to technical, legal, and financial teams, ensuring reviews are conducted in parallel rather than sequentially. The approval thresholds for cost estimates, contract amounts and variation orders should be increased to empower the Project Managers and expedite processes. Early engagement of technical experts, finance teams, and concerned stakeholders in RFPs and Bidding Document will improve quality and reduce excessive iterations.

4

SUMMARY OF POLICY RECOMMENDATIONS

PIM Bottleneck	Recommendation
Investment Planning and Budgeting Lead: NPC and MoF	Improve Monitoring of Ongoing Projects*** <ul style="list-style-type: none"> Develop a standardized excel tool to monitor large-scale projects (ST) Enhance of NPBMIS for project monitoring including integration with MTEF, LMBIS and CGAS (MT)
	Rationalize the public investment portfolio through closure or downscaling of underperforming or non-strategic projects. Rationalization exercise should be anchored on robust project monitoring data and objective criteria. Once a comprehensive database of ongoing projects becomes available, consider mandating regular portfolio reviews to avoid the accumulation of problematic projects in the investment portfolio. (MT)***
	Improve Appraisal and Selection of New Projects*** <ul style="list-style-type: none"> Refine NPB Guidelines by i) tailoring NPB entry requirements to project scale, sector, and risk profile, and ii) development of subsidiary templates and guidelines for project preparation and appraisal (ST) Effective enforcement of NPB appraisal and selection system (MT)
	Improve Multi-Year Budgeting by revising and implementing MTEF and Budget Formulation Guidelines to institutionalize integration of multi-year project commitments in the Annual Budget and MTEF (MT)***
Project Readiness: Tree Cutting Clearance Lead: MoFE	Streamline the Tree Cutting Clearance Process by i) mandating the preparation of a tree census, with active involvement of DFOs, as part of the project EIA; and ii) reassigning the tree census approval from Cabinet to MoFE (ST)***
	Leverage Digital Solutions to expedite Tree Censuses and Tree Cutting Clearances** <ul style="list-style-type: none"> Employ modern IT solutions (e.g., LiDAR) for mapping and valuation of forest areas (ST) Digitalize the Tree Cutting Clearance Business Process (Supported by ADB) (ST)
	Improve the Quality of Environmental Impact Assessments** <ul style="list-style-type: none"> Introduce stricter selection criteria for the award of EIA consulting contracts (ST) Mandate declaration of sub-contractual relations in bidding documents (ST) Develop a roster of qualified ESR contractors (ST)
Project Readiness: Land Acquisition Lead: MoLMCPA⁵⁵ and MoHA	Amend the LAA (1977) to incorporate market value considerations in the Compensation Determination System and mandate inclusion of independent land valuation professionals and Survey Office representatives in CDCs (ST)***
	Standardize the Land Valuation System by establishing common and internationally recognized valuation standard – potentially through a land valuation law - which should be consistent for taxation, land acquisition and other purposes (MT)***
	Complete the rollout of the Land Administration Management Information Systems and harmonize the two information management systems, and mandate CIAA and the Court System to accept digital land and cadastral records (ST)**

⁵⁵ MoLMCPA: Ministry of Land Management, Cooperatives and Poverty Alleviation

<p>Cash Management and Virements</p> <p><i>Lead: FCGO and MoF</i></p>	<p>Improve Cash Planning and Management Practices</p> <ul style="list-style-type: none"> • Allow partial release of funds to foreign-funded projects during Quarters 3 and 4 when domestic co-financing shortfalls occur during the first half of the FY (ST)*** • Negotiate lower domestic co-financing requirements for foreign-funded projects (ST)*** • Reduce the reliance on cash rationing by: i) aligning the commitment authorization issued at the start of the FY with the quarterly cash release schedule; ii) shifting the expenditure control function from payment to commitment stage; and iii) introducing improved cash flow forecasting mechanisms. (MT)** <p>Increase Line Ministry discretion over capital-related virements by i) enforcing existing regulations on activity-level changes; ii) allowing reallocations up to 25 percent of the original budget subhead capital allocation; and iii) extend LMBIS virement functionality to Line Ministries (ST)***</p> <p>Enable the processing of virements during Quarter 1 and Month 12 of the FY, under the restrictions outlined in the regulatory framework (ST)**</p>
<p>Procurement</p> <p><i>Lead: PPMO</i></p>	<p>Enhance the procurement process through the following regulatory amendments:</p> <ul style="list-style-type: none"> • Conduct additional screening of qualified bids to determine if the bids are abnormally low (ST) • Streamline the VO, cost estimate and bid/proposal approval process by granting more authority to the project-in-charge (ST) • Amend the contract termination clause by making the contractor only liable for the incremental costs incurred by the Public Entity for the completion of the works stipulated in the original contract (ST) <p>Streamline procurement processes through a standard business process workflow</p> <ul style="list-style-type: none"> • Develop procurement and contract execution manuals to facilitate implementation of relevant legislation (ST) • Establish clear, pre-defined approval workflows and thresholds for different types of procurement to expedite contract awards (ST)

Note. Timeline Classification: ST - Short-Term (1-2 Years); MT - Medium-Term (3-5 Years). Priority Classification: *** - High Priority; ** - Medium Priority; * - Low Priority.

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