

## Annual Review - Summary Sheet

<b>Title: Rural Access Programme Phase 3 (RAP3)</b>		
<b>Programme Value: £72.5m</b>	<b>Review Date: September 2017</b>	
	<b>Period Under Review: Sept 16 to Sept. 17</b>	
<b>Programme Code: 203186</b>	<b>Start Date: 13/05/2013</b>	<b>End Date: 31/10/2019</b>

### Summary of Programme Performance

Year	2014	2015	2016	2017			
Programme Score	<b>B</b>	<b>A</b>	<b>A</b>	<b>A</b>			
Risk Rating	<b>M</b>	<b>M</b>	<b>M</b>	<b>Major</b>			

### Summary of progress and lessons learnt since last review

The Rural Access Programme Phase 3 continues to deliver significant results including:

- (i) Delivery of 1.21 million decent work days to over 8,000 poor and vulnerable households
- (ii) Increased government funding of the labour based road maintenance approach that delivered over 80 days work each for 2,010 maintenance workers, and nearly £0.5m in GoN co-finance
- (iii) Improvements to Karnali Employment Programme (KEP) systems has helped the government deliver over 670,000 labour days in the Karnali region
- (iv) RAP Connect has leveraged £488,074 of investment into business benefitting 3,382 people

### Lessons

- MEL evidence shows that multiple years of cash income from RAP3 has resulted in sustained improvement in the wellbeing of Road Groups and increased resilience to climate shocks
- Incremental improvements in government systems are possible, but require long term commitment
- The transition to local governance structures, are having significant impacts on the programme
- The approach of Connect is successful and should be better linked to other DFID Market Programmes

### Summary of key recommendations for the next year

#	Recommendation, Who leads and Due Date
1.	Develop and implement an effective transition plan to support the new local bodies deliver local roads. Who: RAP 3 TA, (with DFID & DoLIDAR ), When: Plan by December 2017
2.	Define a sustainability strategy for supporting the GoN take up the funding and management of RAP initiatives after 2019. Who: DFID (with RAP3 TA, MEL and DoLIDAR and MoF), When: By Jan 18.
3.	Examine options for redesigning KEP support with the government in light of local government restructuring which has increased the risks for Financial Aid. When: By Dec. 2017
4.	Examine options for ensuring commitment to Government funding for the Mugu Humla Link Road Who: DFID (with RAP3 TA, DoLIDAR, and MoF), When: By November 2017
5.	Develop plans to scale up Connect support with other market programmes. Who: RAP 3 Connect TA and other Market programmes When: By December 2017
6.	Ensure that RAP programmes actively improve coherence with other DFID and GoN programming in the RAP 3 project areas. Who: DFID, Coherence team When: November 2017- March 2018
7.	RAP 3 TA to review the gender composition of higher level/management positions in RAP3 (including the interns programme) and recommend ways to increase female participation at all levels. Who: RAP 3 TA, with DFID and Skills programme, When: By December
8.	Define the information needs for evaluation of the programme and mechanisms to ensure lessons are taken up by future programmes. Who: DFID with MEL team, When: By January 2018
9.	RAP 3 should work with the DFID Skills programme to assess whether RAP 4 could provide on the job, certified, training for construction work and access to better work overseas. Who: RAP 3 TA, with DFID and Skills programme, When: By December 2017
10.	RAP 3 will work with DFID's Market programmes to assess overall market potential in the Mid and Far West to inform options for RAP4. Who: RAP 3 TA & DFID Mkt Prog. When: By Dec. 2017
11.	Define, and start scoping for design of RAP4. Who: DFID When: Define RAP4 design process December 2017, strategic case April '18

## ACRONYMS AND ABBREVIATIONS

ARAMP	Annual Road Asset Management Plan
AWP	Annual Work Plan
CIM	Continual Improvement Matrix
CDP	Community Development Programme
DCC	District Coordination Committee
DDC	District Development Committee
CCI	District Committee for Commerce and Industries
DLI	Disbursement Linked Indicator
DoLIDAR	Department of Local Infrastructure Development and Agricultural Roads
DOR	Department of Roads
DRCN	District Road Core Network
DRSP	District Road Support Programme
DTL	District Team Leader
EO	Engineering Officers
FA	Financial Aid
FMIP	Financial Management Improvement Plan
FMR	Financial Management Review
FRA	Fiduciary Risk Assessment
GE	Graduate Engineers
GIDC	Government Integrated Data Centre
GoN	Government of Nepal
HRIS	Human Resources Information System
ICEA	International Civil Engineers Association
KEP	Karnali Employment Project
KRDU	Karnali Regional Development Unit
LDO	Local Development Officers
LRN	Local Road Network
LBs	Local Bodies
MCPM	Minimum Conditions Performance Measure
MEL	Monitoring Evaluation and Learning
MoFALD	Ministry of Federal Affairs and Local Development
MSME	Micro, Small and Medium Enterprise
NCCSP	Nepal Climate Change Support Programme
OPM	Oxford Policy Management
P4R	Programme for Results
PFM	Public Financial Management
PMV	Performance Management and Verification
PPMO	Public Procurement Monitoring Office
PWP	Public Works Programme
RAP	Rural Access Programme
RCA	Reality Check Approach
RBG	Road Building Group
RMG	Road Maintenance Group
RTIA	Rural Transport Infrastructure Area
SMG	Special Maintenance Groups
SMT	Strategic Management Team
SBG	Special Building Group
SF	Social Facilitators
SNRTP	Strengthening National Rural Transport Project
TMC	Term Maintenance Contract
TS-KEP	Technical Assistance to Karnali Employment Programme
TA	Technical Assistance
VDC	Village Development Committee
VET	Village Engineering Training



## B: PERFORMANCE AND CONCLUSIONS

### Annual outcome assessment

The outcome statement is: 'Improved incomes and resilience through employment, and improved access to services & economic opportunities in the rural transport infrastructure area (RTIA) of RAP; with increased policy ownership and capacity over both rural road asset management and social protection by GoN.' Overall, the programme has performed well in achieving the outcome targets supporting an overall project score of A. The outcome achievements are detailed below:

### Outcomes 1 and 2 – Local Road Networks users

- **Over 2 million people in 14 districts in Nepal are now benefitting from the local road networks (LRN) works under RAP3 with 97.5km new local roads built and 2200km maintained in 2017.** The main reason for this achievement is the continued routine maintenance of roads by Road Maintenance Groups (RMGs).
- **RAP3 MEL's in-depth interviews with users of roads all cite noticeable change in the number of vehicles using roads due to positive maintenance improvements<sup>1</sup>.** The annual traffic is estimated at 4.9 million vehicle journeys p.a. on the roads being maintained under RAP3.
- Progress in outcomes 1 and 2, i.e. people and traffic benefitting from roads maintained and built under RAP3; demonstrate effectiveness of delivering LRN infrastructure and employment outputs (outputs 1 and 2). The achievements in these outcomes are mainly driven by road maintenance works, and are expected to remain constant if GoN funding for RMGs is not interrupted.
- **The design of Mugu Humla Link Road (MHLR) is now complete** and DFID finance is committed to the project. DFID must now, as priority meet with MoF, MoFALD and DoLIDAR to agree the source of government finance for the remaining £6-7m pounds to complete the MHLR.

### Outcome 3 - LRN direct employment

- **RAP3 Midline Impact Assessment conducted by the Independent MEL shows that the Road Building Groups (RBGs) and Road Maintenance Groups (RMGs) are getting reasonable and consistent income from the RAP3 programme<sup>2</sup>.** Multiple years of income has resulted in better wellbeing of the RMGs and RBGs - in west Nepal where others' incomes are falling. The road builders were also less vulnerable to the severe droughts in the region last year.
- The 6,846 RAP3 new road builders in average received more than 80 days per annum employment last year. 1,621 Road Maintenance Group members received 110 days-120 days of employment p.a.
- KEP TS has helped the Karnali employment programme deliver (and pay for), 670,929 employment days for 17,435 households in the Karnali region.

### Outcome 4 i) - LRN GoN funding and capacities

- **Performance of GoN in the LRN sector** - In the fourteen RAP3 district governments and GoN central government performance is measured on a 10 point scale for a range of key elements. These include maintenance delivery, planning, technical, financial, institutional and social/political capacities. The overall score 6.4 means 64% readiness of the districts and central government to move towards a LRN sector wide approach, one of the GoN's long term ambitions in the rural transport sector. The Pilot districts have had six years of capacity building under the RAP2 and RAP3 and now stand at 70% compliance whereas the RAP3 core districts with over three and half years exposure averaged 60% of compliance.
- **The Government of Nepal (MoFALD and DoLIDAR in particular) has strengthened ownership and funding of the RAP3-RMG approach.** It has disbursed NPR 65 million for Pilot maintenance districts since October 2016. As a result, from Sept 2016 to June 2017 the GoN contribution for capital expenditure has risen from nil to 46% in RAP3's total spend for RMGs. The GoN has also committed NPR 150-160 million per annum, expanding its funding for all of ten maintenance districts from July 2017 onwards.

<sup>1</sup> RAP3 MEL- RAP Beneficiaries' Feedback Report (draft), June 2017.

<sup>2</sup> RMGs - NPR 6000/month for 12 months and RBGs – up to NPR 10,000-13,000/month in working seasons.

### **Outcome 4 ii) and Outcome 6 - Karnali Employment Programme**

- The programme has increased the compliance to KEP Guidelines and improved KEP systems and delivery capacity through training and targeting support.
- Revised KEP guidelines have been drafted and the revised the budget proposed by KRDU for the next fiscal year includes key social protection outcomes. It is expected social protection outcomes will be included in the revised guidelines when finalised.
- Financial Aid did not start. Due to local government changes fiduciary risks have increased and it is now unlikely that the FA will start as originally envisaged. As a matter of priority DFID must discuss with MoFALD/KRDU and MoF options for the use of, and management of the £6m of KEP FA.

### **Outcome 5 - RAP3 Connect**

- Outcome Indicator 5 relates to the CONNECT Pilot whose progress is monitored by tracking the amount of money that CONNECT is able to leverage from third parties such as GoN, public sector, donor programmes and broader private sector i.e. banks, financial institutions etc. to its Micro, Small and Medium sized Enterprise (MSME) and Enabling Environment (EE) partners. So far CONNECT team has been able to leverage twice the expected amount of funding from the private sector, which now stands at £ 488,074. A good outcome based on the limited amount of time that the Connect component has been running.

### **Gender and Inclusion**

RAP3 is designed as a poverty, gender, and inclusion focused project. Starting from its geographic location. The Mid and Far West of Nepal have some of the highest poverty and percentage of female headed households in the country, due to isolation and migration. RAP has given 87,700 of these marginalised people better access, from new RAP roads. In addition 2.1 million people have sustained from maintenance of existing roads.

More directly labour based work targeting ensures that all workers are poor (under the national poverty line) and come from disadvantaged groups. As a result among RMG members, 44% are women and 68% Dalits (low caste untouchable people) and Janajatis (ethnic indigenous people). 41% of RBGs are women and 25% are Dalits. As noted in the mid-line survey the wages received have resulted in increased wellbeing of these people and ability to cope with climate shocks.

Jobs for women has been a focus under the Connect market programme which has increased the incomes of 3,382 households. For example the Unilever Nepal Hamri Didis initiative has enabled 228 poor women to start their own small businesses, and increase their incomes by up to NRs 13,000. The project is now seeking to scale up this initiative with Unilever. The team is also testing Yuva Vayus approach where lead women framers provide services to other farmers

The Karnali Employment Programme is also targeted on the poor and excluded. DFID TA has helped improve KEP systems to register over 18,000 workers and enable KEP to better target work for women , introduce electronic payment, speed payment times and increase multi-year entitlements.

**Overall output score and description: A – Meets Expectations.** The project has made good progress against output milestones in most areas.

## **Key lessons**

- The change in context has been significant - local elections were held in Nepal after two decades. Elections for provincial and central parliaments/ governments are expected to happen this year. All components now need to think critically about (i) opportunities this creates to help deliver the programme goals; (ii) risks that emerge; (iii) implications for sustainability of interventions post 2019.
- In particular the future of DFID's financial aid support to the Government's KEP programme needs to be reassessed in light of government restructuring and the TA's ability to support KEP delivery.
- The change of government has also created uncertainty over the role of central government for funding local roads, and in particular guaranteeing GoN funding for the MHLR.
- With two years to go, DFID and implementing partners need to focus on ensuring sustainability, dropping things that are not working and supporting viable opportunities as they emerge.
- DFID and implementing partners need to step up their engagement with, and thinking on "coherence", of interventions e.g. other infrastructure, market development, access to finance, climate and DRR and local governance programmes – along with other development partners and GoN programmes.
- Other programmes could learn from RAP3's LRN - performance evaluation and measurement system (CIM) and could be used to strengthen the performance approach for the new local government technical level staff.
- The external monitoring activities of MEL have contributed to improvements in RAP3 and partner meetings have improved. The focus now needs to have a much more significant on lesson take up and evaluation.

**Key actions** are summarised in the recommendations tables.

### **Has the logframe been updated since the last review?**

Yes. MEL led the LF revision process with strong support from DFID, RAP3 TA and OPM.

## C: DETAILED OUTPUT SCORING

Output Title	Development & Sustained Management of Local Road Network in RAP3 districts		
Output number per LF	1	Output Score	A
Risk:	Moderate	Impact weighting (%):	20%
Risk revised since last AR?	No	Impact weighting % revised since last AR?	Yes (revised)

Indicator(s)	Milestones	Progress <sup>3</sup>
1.1 : Km of roads under RMG maintenance (annual)	2150km	<b>Progress exceeded target by 6%</b> 2281km
1.2 : Km of new roads constructed	2.5m wide track: 92.75km, 3.5m wide: 79.25km, 4.5m wide road: 70.75km, and Completed: 0 km (four progressive stages)	<b>Progress exceeded target by 5%</b> 2.5m wide track: 94.7km, 3.5m wide: 83.4km 4.5m wide road : 76.7km Completed: 0km

### Observations

RAP3 performed well in building and maintaining local roads in the programme districts and overachieved stretching Logframe targets. This score is based on RAP3- Independent MEL's beneficiary feedback study, midline impact assessment, and independent verification of results.

Local Road Network (LRN) maintenance (Indicator 1.1):

RAP3 has continued to deliver routine and recurrent maintenance through Road Maintenance Groups (RMG) on 2,281 km of the core LRN in thirteen programme districts. This success is appreciated by the Government of Nepal and by the World Bank and the Swiss - the other two major donors in the LRN sector. RAP3 has also started maintenance in new districts (Bajura, Mugu, & Kalikot). MEL's second independent verification (Feb-March 2017) sampled one maintenance district and the findings were positive (maintenance works were completed to a good standard). MEL- Beneficiary Feedback states that RMG workers are positive about the work.

RAP3's new Specific Maintenance Groups (SMG) Pilot for heavier road maintenance (e.g. protective walls etc.) has completed its first cycle. The pilot is expected to demonstrate an alternative to conventional approach of using small-works contractors and Users' Committees. Term Maintenance Contracting Pilots, another alternative approach to improve emergency and specific maintenance delivery, will be launched in September 2017. GoN's procurement management lead Public Procurement Monitoring Office (PPMO) has been positive about this support. These alternative contracting pilots will continue in the next year. RAP3 TA has closed local technical assistance for GoN funded road improvement works in Morang and Jhapa in mid-July 2017<sup>4</sup>. This was decided after assessing the risks associated with poor performance i.e. incomplete and poor works quality.

Local Road Network (LRN) new roads (Indicator 1.2):

RAP3 has progressed well in building new roads in extremely remote and poor municipalities in provinces 6 and 7. The programme has responded well to the challenges of rock breaking and construction of heavy structures. The plan is to complete five out of seven roads by July 2018, and all roads by June 2019. In April 2017 three milestone test drives were completed: one on the Sanighat – Shipkana Road in Kalikot and two on roads in Bajura. MEL's two consecutive verifications show that roads are completed to a good standard as per RAP reporting.

The LRN successes were achieved last year despite political uncertainties, significant transitions in local governance, frequent transfers of government officials, and a risky operational environment in some districts in the western and Terai regions of Nepal. GoN ownership demonstrates good responses towards the last AR recommendations for sustainability and sensible exit strategy. RAP3 TA's RAP3 management team in Kathmandu will have to continuously monitor and avoid risks to ensure GoN funding is available and budgeted for in the coming years and plans of new municipal bodies.

<sup>3</sup> Date source for outputs 1-4: RAP3 10 Monthly Report by IMC, July 2017.

<sup>4</sup> IMC, July 2017 RAP3 Monthly Report.

**Mugu Humla Link Road (MHLR). The design work is now complete** and budget costings available. In addition DFID has completed the contracting of the supervising contractor to deliver the works. In parallel DFID and RAP 3 has drafted and shared a joint management and funding agreement to ensure government and DFID finance is available to complete the road. DFID finance is now committed to the project.

#### **Recommendations for next year**

- RAP3 TA to prioritize handover of maintenance works and supervision in five 'pilot districts', so as to focus on nine core districts and conclude piloting. Detailed plan by December 2017.
- RAP3 TA to review and disseminate learning from SMG and TMC pilots, in order to prepare GoN for scale up and guidelines. By: SMG- January 2018, TMC initial dissemination- June 2018
- RAP3 TA to ensure effective and formal handover of RAP3 roads to LBs with clear financing and other roles well before completion to ensure effective maintenance of the new roads.
- RAP3 TA to encourage the Local Bodies through which the new road passes to prioritize maintenance (all types) of local roads through their annual budgets and strategic/ multiyear plans mobilizing available and potential GoN budgets.
- DFID must, as a priority meet with MoF, MoFALD and DoLIDAR to agree the source of government finance for the remaining £6-7m pounds to complete the MHLR.
- RAP3 TA to complete analysis of road and climate relevant data for climate resilience and implement recommendations from the disaster and resilience ICAI review. Complete revision of the Rural Roads Standards to ensure dedicated safeguards for disaster and climate resilience. Continue using Safety and Resilience Audits for new construction road using innovative technologies (e.g. traffic video).

<b>Output Title</b>	<b>Increased &amp; reliable pro-poor earning opportunities for RAP3 target households</b>		
Output number per LF	2	Output Score	A
Risk:	Moderate	Impact weighting (%):	20%
Risk revised since last AR?	Yes	Impact weighting % revised since last AR?	Yes (new, previously in outcome)

### Observations

RAP3 performed well in delivering employment days through building and maintaining local roads and over achieved the Logframe targets. RAP3- Independent MEL's independent verification of results highlighted significant positive impacts for this output.

The standard RAP3 labour based approach in road construction and maintenance has continued to deliver employment and off-farm income to the poor and disadvantaged. Road Building Groups (RBGs) and Special Building Groups (SBGs) are the beneficiaries of new road construction. Road Maintenance Groups (RMGs) are delivering road maintenance. Well established pro-poor and inclusive targeting has been one of RAP3's main strengths, all direct beneficiaries are under the national poverty line. Among the RMG members, 44% are women and 68% Dalits (low caste untouchable people) and Janajatis (ethnic indigenous people). 41% of RBGs are women and 25% are Dalits. Verification by MEL shows that employment days reported by RAP are accurate but data management systems could be improved to reduce manual entry and improve analysis for management use.

### Recommendations

- RAP3 TA to carry out more detailed analysis of the employment data and information to share lessons, with support from MEL.  
(Who: RAP3 TA, By When: March 2018)
- RAP3 TA to handover of employment data (system and figures) to GoN in maintenance districts.(Who: RAP3 TA, By When: March 2018)

<b>Output Title</b>	<b>Institutional capacity &amp; policy commitment to manage LRN assets strengthened</b>		
Output number per LF	3	Output Score	A
Risk:	Moderate	Impact weighting (%):	5%
Risk revised since last AR?	N	Impact weighting % revised since last AR?	Yes (revised)

<b>Indicator(s)</b>	<b>Milestones</b>	<b>Progress</b>
3.1 Number of Annual Support Plans, as agreed with GoN, successfully delivered (total per year)	15	15 <b>(met target)</b>
3.2 Number of person training days delivered for Engineers and technicians at the district level (annual)	16,090	16,189 <b>(met target)</b>
3.3 Number of policies/guidelines with influencing agenda developed and delivered.	11	11 <b>(met target)</b>

### Observations

RAP3 met targets for all institutional strengthening and capacity building indicators in the Logframe.

RAP3 developed annual support plans for 14 programme districts and central governments and has continued to deliver solid progress in training, focused on technical and managerial skills. The training is linked to the Continuing Professional Development (CPD) philosophy of the UK based International Civil Engineers Association (ICE). RAP3's Graduate Engineers initiative has been a successful innovation to drive value for money in RAP3 road works. Through on the job training and mentoring, it also allows talented Nepali young engineers acquire internationally recognized Chartered status. About 100 engineers have worked as RAP3 interns recruited twice a year. 20 RAP3 graduate engineers have been selected from the better performing interns.

RAP3's collaboration with DoLIDAR continued to ensure Steering Committee decisions for GoN funding for RMG and cost sharing in new roads. Collaboration also continued with GoN on improved policies and guidelines, e.g. the GoN led RMG Guidelines, was also another milestone success. Other donors; in particular World Bank, IFAD and Danish Embassy; have sought advice from DFID and RAP3 on institutional strengthening and physical works in the local roads sector. Work was also undertaken to analyse the implication of new local government structures and identify priorities for support from RAP3 in the coming year.

### Recommendations

- RAP3 TA to develop and implement a work plan in agreement with DFID and GoN (MoFALD and DoLIDAR in particular) for effective transition and necessary changes in policy, strategy and guidelines to empower newly elected local bodies to deliver LRN responsibilities.  
(Who: DFID and RAP3 TA, By When: December 2018)
- RAP 3 TA to look at the gender composition of the interns programme and recommend ways to increase female participation.  
(Who: DFID and RAP3 TA, By When: December 2018)

<b>Output Title</b>	<b>Improved functioning and scaled up markets in RAP3 Connect districts</b>		
Output number per LF	4	Output Score	A
Risk:	Moderate	Impact weighting (%):	10%
Risk revised since last AR?	N	Impact weighting % revised since last AR?	Yes (revised)

<b>Indicator(s)</b>	<b>Milestones</b>	<b>Progress</b>
4.1 Number of a) households & b) individuals engaged in pilots and interventions per year	a) 2,500 b) 300	CONNECT has a) engaged 3,382 households and b) 838 individuals
4.2 No of districts with policy reform paper on reservation of seats for women on DCCI Executive Committees (i) drafted; (ii) circulated to executive committees; and (iii) tabled at the AGM	i) 6 ii) 2 iii) 1	By June 2017 the policy reform paper has been (i) drafted for all six CONNECT Districts; (ii) circulated to six DCCI Executive Committees and (iii) tabled at two DCCI AGMs, achieving the targets. The policy reform paper has been passed by two DCCIs and we expect will be implemented in FY 2017-18.
4.3 % of partners' work plans which are on time	30%	There have been a total of 45 monthly workplans generated with our 9 MSME partners. 20 of these workplans, (44% )were completed on or ahead of time.

### Key Points

In its first year of enterprise support RAP3 CONNECT has exceeded its targets. Establishing 9 partnerships with the private sector as well as a range of activities on the enabling environment. Key highlights include:

- 228 Unilever Nepal Hamri Didis trading, having self-invested NPR 3,332,558 in stock and declared profits to date ranging from NPR 200 to 13,000.
- CONNECT's 9 business partners have purchased NPR 102,358,466 of produce from their downstream supply chains increasing volumes traded by 32% and revenues by 31%.
- CONNECT spent £318,674 during our first year of implementation and leveraged £488,074 in third party investment, achieving a leverage ratio of 1:1.53 in year one.

A table of key partners is listed below:

<b>No</b>	<b>MSME Pilots</b>	<b>Households</b>	<b>Progress against LF indicators</b>
1	<b>Aastha General Store &amp; Suppliers</b> Jumla Jumli Beans aggregator, wholesaler and retailer	726	4 MT of beans sold to national retailers
2	<b>Hamri Didis Women's micro-franchise network</b> Achham, Bajura, Dadeldhura, Dailekh, Doti, Jumla Unilever Nepal Limited direct to door sales agents	232	382 HDs appointed 228 HDs trading
3	<b>Belpata Dairy Cooperative</b> Dailekh Commercial Dairy business	188	33,261 litres of milk purchased
4	<b>Pawan Agriculture Collection Centre</b> Dailekh Fresh vegetables aggregator, wholesaler and retailer	583	89,604 kgs of fresh vegetables purchased
5	<b>Organic Mountain Flavour Private Limited</b> Organic ginger collection and processing	362	111,480 kgs of ginger purchased
6	<b>Dadeldhura Farmers' Cooperative Society Limited</b> Achham, Bajura, Doti Vegetable and cereal seed production business	533	213,100 kgs of seed purchased
7	<b>Shoba Trader and Order Suppliers</b> Doti Poultry wholesale, retail and value added dry meat	20	267,544 kgs of poultry purchased
8	<b>Shree Kunwar Kirana General Store</b> Achham Fresh vegetables aggregator, wholesaler and retailer	417	213,100 kgs of fresh vegetable purchased
9	<b>Hatemalo Seed Promotion Cooperative</b> Dailekh Vegetable and cereal seed production business	316	27,861 kgs of seeds purchased

The programme has demonstrated genuine “adaptive learning” and as it enters year 2, the programme will exit two MSME pilots, wind down a third and close one Enabling Environment partnership. The remaining six MSME pilots are scaling-up.

### **Key Observations**

The programme was tasked with exploring what works in terms of building economic development along the RAP roads. By establishing an adaptive approach, the team (and DFID) are genuinely learning. Key conversations have included:

- People in the Mid and Far West are hungry for commercial opportunities and a holistic solution is essential for developing commercial activities. Examples of what this could mean include:
  - Asking a lead buyer to combine buy-back contracts with other services to their farmers (e.g. access to finance through products such as crop and livestock insurance, technical assistance and preferential terms for inputs sourcing);
  - Building governance in SMEs is tough but essential. The RAP3 Connect Team has seen greatest success where the leadership team is fully engaged in the business. In year two the team will continue to build leadership teams’ capacity to manage, think strategically and make smart commercial decisions.
  - Creating a model in which technical and commercial services for smallholders are sustainable is key. The team have established Yuva Vayus (lead women framers who provide services to other farmers) and year 2 will test if this works.
- CONNECT’s design was to propose a modality, enter partnerships and backstop MSME partners. We have seen excellent increases in production, trade and income but the pace of progress on core SME strengthening has been slow and will require far greater engagement than originally envisioned.

### **Recommendations**

- With 2 years to go, the team needs to focus on ensuring the sustainability of interventions, drop things as required and take advantage of emerging opportunities.
- With such rich learning, it will be important for Connect to identify how to share and apply lessons—enabling the programme to “scale”. Including working with existing DFID and other donor programmes (e.g. through the Nepal Market Development Forum and other programmes).
- As federalism takes shape over the coming year, it is important to remain agile and explore emerging opportunities to engage locally (e.g. opportunity to engage in local economic planning).

<b>Output Title</b>	<b>DFID financial assistance (FA) to Karnali Employment Programme (KEP) provides opportunity for improved coverage &amp; targeting of direct beneficiaries by the Government of Nepal's Karnali Regional Development Unit (KRDU)</b>		
Output number per LF	5	Output Score	B
Risk:	Major	Impact weighting (%):	15%
Risk revised since last AR?	Yes	Impact weighting % revised since last AR?	Yes (new output)

<b>Indicator(s)</b>	<b>Milestones</b>	<b>Progress</b>
5.1 Annual KEP work plan and budget developed, agreed with DFID, approved by GoN & implemented as per KEP guidelines by KRDU	0	0

### Key Points

No FA has been disbursed due to FM risks and government restructuring that may impact FA viability.

This output seeks to measure the progress of the financial aid support to Government of Nepal for beneficiary wages in the expansion of the Karnali Employment Programme. Disbursement may only begin in FY2018 and so, this year the work has been largely preparatory - with an emphasis on signing the Financing Agreement and developing financial management tools, as detailed below:

- **Financing Agreement:** The TS-KEP team and DFID advisors worked with the Government of Nepal to develop and sign (March 2017) a Financing Agreement for up to £6 million to begin in FY2017. With government restructuring creating significant challenges, it was agreed to delay the Financial Aid until FY2018 and review the FA delivery mechanism.
- **Financial Reporting:** The TS-KEP team developed the tools (FMIP action plan, FMR, Assurance Framework) that are required to successfully monitor the FA in the second year. This will be a significant challenge in the new federal structure, requiring coordination across 40 municipalities.
- **KEP Programme Document and AWP:** TS KEP supported KRDU in the development of the 2017/18 plans and budgets for KEP. These have not been formally agreed, but include work on:
  - (i) a toll-free grievance number for KEP workers;
  - (ii) insurance for KEP workers;
  - (iii) provision for the printing of job cards;
  - (iv) the provision of social facilitators;
  - (v) increased training to KRDU/Local Governments on KEP/MIS/Finance; and,
  - (vi) increased M&E and oversight of the programme.
- **Rapid Assessments:** In preparation for the monitoring of the Financial Aid, the TS-KEP team has started to develop the methodology for Rapid Assessments that will be implemented to provide independent check of the financial aid – if it goes ahead.

### Recommendations

- One of the conditions for the financing agreement relates to confidence in programme delivery in light of government restructuring. So it will be important to jointly review risks to programme delivery. These include; MoFALD's position in the new structure, fund flow mechanisms, capacity to implement projects, financial management and controls mechanisms and assurance from Internal and external audits.
- In light of government restructuring, DFID should only support programmes that support federalism principles and structures. It is recommended that TS-KEP works with MoFALD to ensure consistency with these emerging government policies and identifies pilots that may be able to test new working modalities. For example using KEP to provide labour to priority infrastructure projects identified by gaunpalikas.
- Given the uncertainties on the two issues above, DFID now needs to engage with GoN to discuss alternative delivery mechanisms for delivery of the FA.

<b>Output Title</b>	<b>Government of Nepal Karnali Employment Programme (KEP) systems &amp; capacity strengthened to deliver social protection through Public Works Programmes (PWPs)</b>		
Output number per LF	6	Output Score	A+
Risk:	Moderate	Impact weighting (%):	10%
Risk revised since last AR?	No	Impact weighting % revised since last AR?	Yes (revised output)

<b>Indicator(s)</b>	<b>Milestones</b>	<b>Progress</b>
6.1 No. of beneficiaries registered on MIS system with corresponding job card	5000	18,092
6.2 No. of beneficiaries paid through banks through payment systems:	250	3,109 (2945 facilitated by TS-KEP)
6.3 No of people trained on systems/process as per the KEP guideline, including targeting, VET, MIS, etc.: a) Central level b) District level c) (VfM Indicator) Ward Level training through KRDU	a) 20 b) 300 c) 500	a) 16 b) 383 c) 0

### Key Points

TS-KEP support has focused on building and enhancing systems that help KRDU to deliver and manage the KEP. At the heart of this support has been the development and roll out of a dedicated Management Information System for the KEP. In addition, the team has supported the development of a monitoring and evaluation framework, development and roll-out of Village Engineering Training, and also supported work on payment systems. While there has been good progress in this area, it remains important to ensure an effective process of skill transfer from TS-KEP teams to KRDU and local government employees implementing KEP. This will continue to require effort and innovation in ways of working.

- **Management Information System:** TS-KEP has developed an MIS system that (i) captures registration for all KEP workers; (ii) information for all current and previous KEP assets; (iii) captures information on the whereabouts and stocks equipment and materials; (iv) monitors individual project progress; (v) tracks worker attendance at; and, (vi) produce payroll reports. The MIS can be accessed through its own registered domain ([www.kep.gov.np](http://www.kep.gov.np)). To support the use of the MIS, TS-KEP has delivered training in coordination with KRDU and MoFALD in Nepalgunj. TS-KEP continues to monitor the MIS to make continued improvements to the system, including the visualisation of data, and introduction of quality assurance mechanisms, including an MIS user guide.
- **Job cards and registration forms:** TS-KEP supported the printing of job cards and registration forms. In total, 20,000 Job Cards were printed for full coverage across the KEP working area and were distributed and registered in the MIS. Of the 18,093 KEP workers registered on the MIS, job cards have been provided to all of them.
- **Payment systems:** Timely payment is critical to KEP beneficiaries. The Government of Nepal is committed to shifting to electronic payments. This can be challenging in remote areas. TS-KEP has supported the Government to expand electronic payments. In particular, helping 2,945 beneficiaries access bank accounts<sup>5</sup> and coordinating with other programmes and partners (i.e. Sakchyam, UNCDF, World Bank) working on electronic payments to ensure coherence in approaches. Also tackling **late payment** arising from the government bank account migration in the districts, as a result of the local level restructuring.
- **Village Engineering Training (VET):** TS-KEP supported the development and roll out of a pictorial VET manual and training of trainers that aim to provide basic engineering principles to community level implementers. The VET material (manual and training) was developed through a consultative process involving technical inputs and field-level testing. A range of training events (in Kathmandu

<sup>5</sup> A number of bank branches are not keen to open bank accounts for KEP workers as they do not believe it is within their best financial interests given the limited financial capacity of these individuals.

and all 6 districts) served to familiarize key stakeholders (Assistant Sub-Engineers and KEP Sub-Engineers) with the material. While the VET materials are welcomed, there remains a demand for more technical engineering training by KEP engineers that is beyond the scope of TS-KEP.

- **Monitoring and Evaluation:** TS-KEP has supported the development of an M&E framework for the KEP. TS-KEP submitted a draft M&E framework including guideline, manual, and draft tools to KRDU/ITAD for feedback. This activity will be continued as a priority in the second year of support.
- **Operational and Implementation Manuals:** TS-KEP has been working with KRDU to systematize KEP procedures by: (i) KEP Guidelines (sets out the requirements of KEP), (ii) KEP Operational Manual (sets out how the TS-KEP team works to support the KRDU) and (iii) Project Implementation Manual (a new document that provides more comprehensive guidelines on KEP implementation)

Issues relating to KEP systems and capacity include:

- Government restructuring has diverted attention of local officials and created practical challenges with the opening and closing of accounts that has impeded payments in a number of locations.
- Providing high quality programme supervision by KEP teams. Partly due to the terms and conditions for sub-engineers that have resulted in sub-engineers not receiving salaries for months. It is also a function of delays which result in the bulk of construction being carried in three months.
- Unrealistic payment standards in the Guidelines (payment every 15 days) which cannot be implemented and create confusion.

Positive developments have also included:

- The Government commitment to electronic payments is to be commended and there is significant potential in continuing to achieve results in this area, in KEP and beyond.

## **Recommendations**

- The future of DFID's support to KEP programme, including TS-KEP needs to be discussed with MoFALD as a matter of urgency given the local government changes underway.
- TS-KEP should continue to work with the KRDU to revise the Guidelines to improve the clarity and transparency around payments and to remove the 15 day requirement which has proven to be confusing and unrealistic.
- While the MIS is an excellent tool - to ensure buy-in and value for money, it is recommended that the TS-KEP and MoFALD teams jointly assess how the MIS is being used, how to improve it, and on ensuring that data is used for decision making at local and national levels.
- Focus on electronic payment is commendable but there are multiple challenges in Karnali including cost of accounts, distance to point of service, lack of familiarity with banking services. TS-KEP should continue its work to identify challenges and strategies to increase the effective use of banking and improved payment solutions.
- The VET materials are useful and relevant to programmes beyond KEP that support community infrastructure. It is recommended that the VET materials be shared with other DFID-funded programmes where they may be relevant- namely CDP and NCCSP.
- The development of guidance and operational manuals is a valuable exercise in making the implementation of KEP more transparent and clear. It is recommended that the development of the Project Implementation Manual reflect principles of good local governance and the authority of local departments in decision making.

<b>Output Title</b>	<b>Government of Nepal Karnali Employment Programme (KEP) social protection policy objectives supported &amp; strengthened</b>		
Output number per LF	Output 7	<b>Output Score</b>	<b>B</b>
Risk:	Minor	Impact weighting (%):	10%
Risk revised since last AR?	Yes	Impact weighting % revised since last AR?	Yes (revised output)

<b>Indicator(s)</b>	<b>Milestones</b>	<b>Progress</b>
7.1 No. of learning reports/policy documents produced, shared and used by KRDU	0	0
7.2 KEP guideline reviewed and strengthened (cumulative)	1	0

### Key Points

In Year 1 TS-KEP focused on the social protection outcomes of KEP, including (i) targeting; (ii) payments; (iii) health and safety; and (iv) and how to operate under the new government structure. TS-KEP was able to support a number of positive improvements that will help delivery next year:

- **Targeting:** The TS-KEP team revised the guidelines and training on targeting to simplify the wealth ranking analysis and them easier to implement. In addition, local dispute management related sessions were also added.
- TS-KEP delivered **integrated training** on targeting and dispute management in all 6 districts to 310 participants (Social Mobilisers, VDC Secretaries/staff, and Social Facilitators (SFs) in every district). The targeting will ensure KEP focuses on the poorest and most vulnerable. Ensuring adherence to guidelines will be a challenge in the context of local government restructuring.
- **Health and safety for workers and Insurance for workers:** TS-KEP reviewed health and safety practices to understand the budget requirements for equipment for the next fiscal year. TS-KEP also procured first aid kits/medicine top-ups for all 6 districts. In addition TS-KEP supported KRDU in assessing options for the provision of group insurance for workers with Insurance companies.
- **Multi-year entitlements:** Using the new MIS system, TS-KEP carried out an inventory of KEP projects from the last 3 years. Through this activity KRDU, and local level governments, will be able to see what infrastructure has been developed and could be continued in future years or selected as maintenance projects, helping increase multi-year entitlements for eligible KEP workers.
- **Understanding the implications of local level restructuring:** TS-KEP helped KRDU understand how KEP will be delivered through the new local government structure including a tentative engagement plan for KEP/TS-KEP and a new staffing structure to match new local structures.
- **Payment Mechanisms:** The work on payment mechanisms is described under Output 6, as the emphasis has been largely on the facilitation of electronic payments. Given the challenges in delivering payments and the importance of payments, it is critical that this remain a priority in the coming year.

The main issues relating to delivery of better social protection outcomes from KEP are:

- Extensive payment delays to KEP beneficiaries which undermines social protection outcomes
- Lack of awareness of beneficiaries of their work entitlements.
- Procurement delays resulting in workers having poor tools, health and safety equipment.

Positive developments have included:

- Government interest and commitment in considering how KEP workers could be used as part of other government infrastructure programmes
- Government interest in raising health and safety standards on KEP

While TS-KEP has made progress in a number of areas, this has not been reflected in performance against LF indicators because of

- KRDU's priorities and level of engagement in analysis and reports;
- Lack of opportunity to review and update the KEP Guidelines; and
- The LF indicators were not updated to reflect the ways of working and priorities of KRDU

## Recommendations

1. MoFALD and KRDU has requested that support on thematic issues be delivered through more 'action-oriented' activities, not reports. As a result, this indicator for this Output should be revised to reflect less emphasis on 'reports' and greater emphasis on action-learning.
2. Ensuring that workers receive their wages promptly is the most important challenge for KEP becoming an effective social protection programme. TS-KEP should focus on this in the coming year.
3. Increasing transparency and information to KEP workers is critical if they are to hold their locally elected officials accountable for their entitlements. TS-KEP should focus on this in the coming year.
4. It is excellent to see the discussion on multi-year entitlements moving forward. This reflects (i) continuation of existing KEP works over multiple years, (ii) invitation of KEP workers to engage on other government projects and (iii) possibility of using KEP workers to maintain public works. It is recommended that progress in this area be monitored and captured in the forthcoming year- and more detailed guidelines be developed on the implementation and benefits of these approaches. . It is recommended that TS KEP support KRDU in by providing commercial and technical analysis of proposed insurance packages and also supporting the KRDU in reviewing guidance and procurement practices for tools, safety equipment and first aid equipment. .
5. In response to local government restructuring, TS-KEP has proposed a revised staffing and office structure presence. TS-KEP should focus on the implementation of this plan in the coming year.
6. Public Works Coherence work (2016-2017) produced valuable maps and databases. TS-KEP should ensure that teams have access to these to strengthen better local implementation and coordination.

<b>Output Title</b>	<b>Independent monitoring, evaluation &amp; learning promotes improved understanding of programmatic &amp; poverty challenges in RAP 3 and generates policy-relevant knowledge</b>		
Output number per LF	8	<b>Output Score</b>	<b>A</b>
Risk:	Minor	Impact weighting (%):	10%
Risk revised since last AR?	No	Impact weighting % revised since last AR?	No

<b>Indicator(s)</b>	<b>Milestones</b>	<b>Progress</b>
8.1 Monitoring, Evaluative Research and Learning reports completed	4	Achieved 5
8.2 Number of community members consulted to provide feedback that informs RAP policy	400	Achieved 600+

### **Key Points**

The MEL team delivered the 5 reports. The additional report was the Midline Impact Assessment Report. The agreed target of 400 community members to be consulted for feedback to inform RAP policy (indicator 8.2) was exceeded with over 600 direct and non-direct beneficiaries consulted. So for the purposes of scoring performance against this output an A is appropriate as MEL.

However there is considerable potential for partner engagement to be improved so that and more learning achieved from MEL. MEL is working to increase the impacts of their outputs and support assessment of progress towards the projects impact statement.

**Summary of responses to issues raised in previous annual reviews (See Annex 1).**

### **Recommendations**

1. There are several MIS systems in place to capture information. The MEL team needs to take a lead role in ensuring coherence to the collection and management of this data.
2. MEL to continue to ensure that findings and key insights are shared widely and genuinely used.
3. MEL to build on the beneficiary feedback work they have been doing and include some more in depth case studies of KEP beneficiaries into the next beneficiaries study.

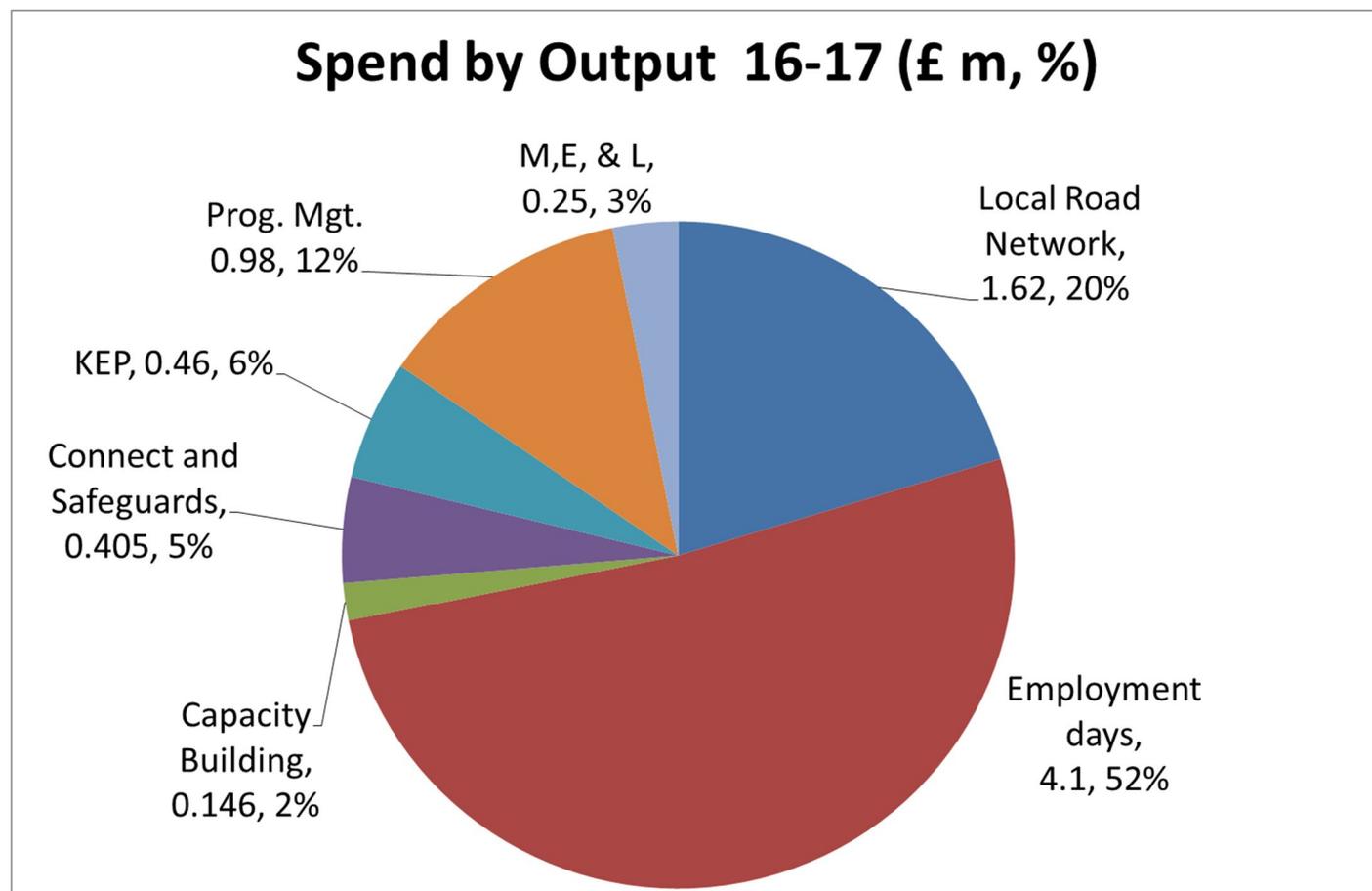
## D: VALUE FOR MONEY & FINANCIAL PERFORMANCE

### Performance of key cost drivers

Programme spend is driven by programme implementation activities and payments for procurement and supply of construction tools and materials safety gears, construction supervision and support to capacity building at district and central levels. Total spend towards programme management technical assistance fees in the reporting period was £ 984,600.86 and the breakup under programme components is shown in the table below.

Cost of Outputs	Budget 13-19 £M	Project Budget %	Spend 16-17 (£ m)	Share 16-17	Diff from Alloc. 16-17 (+ve overspend)
1. Local Road Network	£8.20	15%	£1.62	20%	5%
2. Employment days	£20.79	38%	£4.10	52%	13%
3. Capacity Building	£1.96	4%	£0.15	2%	-2%
4. Connect and Safeguards	£6.68	12%	£0.41	5%	-7%
5.6.7 TS-KEP	£4.79	9%	£ 0.46	6%	-3%
8. M,E, & L	£2.43	4%	£ 0.25	3%	-1%
Prog. Mgt. Costs (Incl. Demand responsive TA)	£9.69	18%	£ 0.98	12%	-5%
<b>Total</b>	<b>£54.54</b>	<b>100%</b>	<b>£ 7.96</b>	<b>100%</b>	

The split of spend for 16-17 is set out graphically below.



Programme cost drivers related to component outputs are presented below.

Outputs	Key cost drivers and returns
<p><b>Output 1: Development and Sustainable Management of Local Road Network (LRN) in RAP3 districts</b> £1,612,093 = 20% of spend</p>	<p>The key cost drivers were conducting surveys and design, road maintenance and new construction, construction tools and materials, safety gear and fees for construction supervision.</p> <p>This resulted in routine and recurrent road maintenance of 2,281km existing DRCN, mobilising road maintenance groups in RAP3 road maintenance districts. Total spend on maintenance was £ 518,594.61.</p> <p>Continued new road construction activities of 97.5km in 7 corridors. Total spend on new construction works, construction tools and materials and safety gears was £ 1,093,499.07.</p>
<p><b>Output 2: Increased and reliable pro-poor earning opportunities for RAP targeted households -</b> £4,090,095 = 52% of spend</p>	<p>The key cost drivers were employment days created through road maintenance and new construction works.</p> <p>Total spend on employment days created by road maintenance works in 10 maintenance districts was £ 624,765.93.</p> <p>Total spend on employment days created by new road construction was £ 3,465,329.51.</p> <p>Total employment days created was 1.21 million.</p>
<p><b>Output 3: Institutional capacity and policy commitment to manage LRN assets strengthened -</b> £146,630 = 2% of spend</p>	<p>The key cost drivers related to institutional capacity and policies to manage LRN assets include implementation of support plans for GoN agencies, training organised to Engineers and Technicians in programme districts and support developed sectoral policies and guideline to GoN.</p> <p>15 ASPs successfully implemented, delivered cumulative 16,189 training days and 11 policies and guidelines developed and delivered.</p>
<p><b>Output 4: Improved functioning and scaled up markets in RAP3 Connect and</b> £404,778.= 5% of spend</p>	<p>The key cost drivers include support for private businesses, women representation at executive committees in businesses organisations e.g. district chamber of commerce and industries, and mobilisation activities in new construction districts. Outputs include:</p> <p>Increased private investment leverage and helped established market linkages between downstream farmers and business entrepreneurs.</p> <p>Safeguard inputs include social mobilisation and support to RBG wage payments and implementation of social and environmental safeguard measures.</p> <p>Engaged 3,383 households and 888 individuals, ensured women participation in 6 districts and £ 32,940 leveraged in start-up capital in connect districts.</p>
<p><b>Output 5,6,7: Technical Support to Karnali Employment Programme</b> £460,000 = 6% of spend</p>	<p>Key cost drives are the consultancy time and associated inputs to deliver policy and systems support to KEP.</p> <p>Key outputs included improvements to KEP MIS and delivery systems, and improved targeting of support in preparation for new local governance.</p>
<p><b>Output 7: Independent monitoring, evaluation and learning</b> £250,000 = 3% of spend</p>	<p>The MEL investment predominantly funds the team's time to conduct research, verification, run learning workshops and work on other associated activities.</p> <p>Key outputs include Beneficiary Feedback study, Independent Results Verification, Support to DoLIDAR for LRN Results Harmonisation, RAP3 Logframe revision and Midline impact assessment.</p>
<p><b>Prog. Mgt. Costs - (Inc. responsive TA)</b> £984,600 = 12% of spend</p>	<p>Programme management technical assistance comprising a multi-disciplinary team of specialists engaged deriving results on the above listed outputs.</p> <p>Total spend was £ 984,600.86, which at 13.60% demonstrates a very good value for money.</p>

## Key cost drivers and performance

The Rural Access Programme 3 currently has six main funding envelopes implemented by three commercial partners. Two further lines have been added since design, Financial Aid to support KEP and a new contract to build the Mugu-Humla Link Road. Detailed analysis of spending envelopes are show that over 70% of the budget is a direct beneficiary cost:

## VfM performance compared to the original VfM proposition in the business case

Most of the programme components continue to demonstrate VfM - as assessed against the metrics set out in the original business case. As in previous years the majority of spend has been on the main RAP roads component which has made a number of VfM savings this year:

### Economy

- **Graduate Engineers:** Over the period, RAP3 has employed 21 Graduate Engineers (GE's). GE's have comparable levels of responsibility to Engineering Officers (EO's) but cost the programme £ 6,186 per annum vs. the £ 13,213 per annum cost of EO's. For a total of 21 GE's over the period, this amounts to total cost savings of £ 122,972.
- **In-house vs. External Supervision:** As a result of switching from supervision consultants to in-house supervision for road maintenance and new construction, cost savings of £ 43,628 have been generated .
- **First Aid Supplies:** We have shifted our approach from local direct procurements to bulk via the Nepalgunj regional hub. This has resulted in cost savings of £ 6,600 (or 27%) vs. previous direct procurements and has allowed the programme to maintain better quality control.
- **Material procurement innovations:** RAP3 has been testing an 'Incentive Contract' for gabion boxes whereby a premium percentage is offered on the manufacturer's price if the manufacturer uses a mechanised method preparing gabion boxes. As a result, one of RAP3 regular suppliers is investing in a machine to improve quality. RAP3 has also used 'Bonus Clauses' that incentivises suppliers (with ready stock) to price more competitively.
- **Procurement Scheduling:** RAP3 is carrying out main procurements after the July GoN financial year rush/price hikes. In this way, the programme buys when there are very few other customers thus avoiding the price hikes.
- **Feather & Wedge:** we are using locally made Feather & Wedges instead of factory-made, which has resulted in cost savings of £ 8,450 (or 50%) and supports the local private sector.

### Efficiency

- **Time savings from the Human Resources Information System (HRIS):** RAP3 has improved the HR management through a new HRIS. This saves 310 person days saved a year and £ 4,694 in HR staff salaries.
- **Support GoN ownership through scaling down pilot district teams:** In four RAP3 pilot districts, Graduate Engineers have replaced District Team Leaders to support sustainable handover to GoN. This change has generated savings of £ 714 per month/district in saving £ 23,562 for the period.

### Effectiveness

- **RAP3 CONNECT third-party investment leveraged:** The CONNECT component has leveraged £ 680,327 from third-parties (incl. partners, financial institutions and other donor programmes) in cash and in-kind investments for the period. Key activities responsible for generating the investments include:
  - Working capital limits facilitated for MSMEs from banks
  - Value chain financing secured for ginger and turmeric farmers
  - SME partner co-investment in vehicle purchase to ease transport constraints for aggregating smallholder production

- **GoN funding for RMGs in Pilot Districts:** In 2016, RAP3 worked closely with DoLIDAR and MoFALD to secure GoN funding for road maintenance in pilot districts. Since then, GoN have disbursed NPR 64m or nearly £0.5m for this purpose and is receiving technical support from RAP3 for the management of RMGs. This is a breakthrough initiative, which promotes GoN ownership and the overall sustainability of the rural road sector in Nepal.

**Equity**

- The average composition of RBG and SBG workers in RAP3 for the period was 60% male to 40% female – with 26% for disadvantaged groups. For RMG workers, the average composition was 57% male to 43% female – with 27% for disadvantaged groups.

**Total VfM savings for the review period**

Total VfM savings for the period is estimated at £ 210,000 as set out below.

Components	Item	Savings (£)
LRN	Graduates vs. EOs	122,972
	In-house Supervision	43,628
	First Aid Supplies	6,600
	Local Feather and Wedge	8,450
	Scale-down staff in pilot districts	23,562
TA	HRIS Staff Time Savings	4,694
<b>Total VfM Savings (£)</b>		<b>209,906</b>

**Recommendation:**

DFID to finalise a joint VfM framework with RAP3 TA, OPM and ITAD – ensuring the metrics are linked with the revised logframe and identify key areas where financial performance and VfM can be improved.

**Quality of financial management**

RAP 3 Suppliers invoice DFID using a payment for result approach (P4R) based on pre- agreed Disbursement Linked Indicators (DLIs). Suppliers invoice DFID each calendar month, stating which DLI's have been achieved during the month plus the TA costs. Suppliers send monthly progress report with details results achieved, financial monitoring including forecast for next month, risk management and confirmation that there is no cushion between the invoiced amount and achieved results. The unit rate of the DLIs are changeable each Trimester to allow their invoicing to match their actual expenditure.

Quality of financial forecasting has been one of RAP3's strengths, mainly developed through continuous learnings by DFID and RAP3 TA for the P4R approach. An external financial audit of RAP3 accounting records of financial transactions for the period from February 2016 to June 2017 commenced in August 2017. An audit report will be shared with audit findings and auditor's recommendations. Suppliers will update the status against the recommendations and actions in the trimester reports. In the previous audit for the period from 1 October 2014 to 31 January 2016; out of 13,600 transactions, 132 audit issues were raised. RAP3 TA has reported all of the 132 issues have been resolved by February 2017.

Date of last narrative financial report	RAP: Monthly Financial monitoring report of July 2017
Date of last audited annual statement	RAP: The financial audit for the period of 1 February 2016 to 30 June 2017 is commencing in August 2017. TS-KEP: Audited report for the period of 15 July 2016 to 14 July 2017. Report to be received. MEL: Not required.

## **E: RISK**

### **Overall risk rating: Major**

RAP has inherent risks given that it principally involves cash payments to informal groups of workers in remote Nepal. The team considers that with controls established - the net risk is Major. Key assurance controls include (i) ensuring our partners have robust policies and procedures (e.g. the RAP team have an internal audit department that takes a risk based approach to assessing district operations); (ii) all DFID payments are made against development indicator outputs, and all invoices are verified by the DFID programme team; (iii) "risky" delivery mechanisms including the District Development Funds and KEP, have ring-fenced finance with no objection checks in place to prevent misuse of funds; (iv) delivery on roads is independently verified twice a year.

### **Overview of programme risk**

A detailed assessment of programme risks is included in the delivery plans. Key risks are discussed monthly with project partners and the risk matrix is reviewed and revised formally every trimester. Key risks that the team are actively working with partners to understand further and respond appropriately are:

- (i) How the change to a Federal context will impact delivery for both RAP and KEP;
- (ii) If and how DFID can support KEP with financial aid.
- (iii) GoN finance for the MHLR.

## **F: COMMERCIAL CONSIDERATIONS**

### **Delivery against planned timeframe**

The programme is on track to deliver against the agreed annual work plan. We are monitoring closely the £1.3 million saving made from the cost extension, which is being used to deliver additional results. This innovative fund is managed by DFID through RAP3 TA. DFID has been continuously engaged with partners to realign plans to ensure overall delivery of project outcomes.

### **Performance of partnerships**

RAP3 implementing partners have their internal performance management verification systems (PMV) which includes field verification of results systems of delivery and strong internal audit. Findings of the PMV and audit are discussed in monthly management meeting. Improvements needed are put in time bound plans and shared/monitored with districts. All partners provide delivery chain maps and the DFID team review them regularly.

### **Asset monitoring and control**

All partners have produced a verified and certified asset lists which is checked by the DFID programme team every 6 months (Vault nos. 12764577 and 11750707). Asset spot checks were completed during field visits in Humla office Kalikot and Dailekh and at RAP3 TA Kathmandu office in 2017. (Vault no 14858435). There were no major issues but found some of IT equipment was damaged which we recommended for disposal. At TS-KEP Kathmandu office we also conducted spot checks in 2017 (Vault no 13,795,900). During the spot check, we found that some of the IT equipment that was used by the previous government officials had not been returned to the programme.

**Recommendation:** TS-KEP to follow up with GoN and ensure equipment is returned (and/or properly accounted for) from GoN officials.

## **G: CONDITIONALITY**

### **Update on partnership principles (if relevant)**

Not Relevant

## **H: MONITORING & EVALUATION**

### **Evidence and evaluation**

The MEL team completed a “midline” household survey of 3,600 households during this reporting period. This information has been used to verify the theory of change, revise Logframe and inform development partners understanding of the issues of programming in the MFW.

### **Monitoring progress throughout the review period**

The MEL component worked with RAP and TS-KEP on M&E frameworks and learning to improve delivery. The team also worked with DoLIDAR to support sector M&E. Both RAP and TS-KEP have good field presence to monitor activities closely and send regular reports to the programme’s central offices in Kathmandu. These are summarized to produce monthly and trimester reports for DFID. DFID also conducts regular management meetings with service providers and the RAP3 Steering Committee meets twice a year. The DFID team have also engaged on a number of field trips to support this AR.

### **Annual Review Process**

This Annual Review has been developed by Gareth Weir (Economic Development Team Lead DFID Nepal), Suman Baidya (Infrastructure Adviser DFID Nepal), June Shrestha (Programme Manager DFID Nepal), Nina Schuler (Social Development Advisor DFID Nepal), Craig Irwin (Statistics Adviser DFID Nepal). It has been reviewed by Simon Lucas (Inclusive Growth and Resilience Team Leader, DFID India). The process and objectives of the review were agreed by the review team and service providers in a Terms of Reference. The review has been conducted, which set of the process for independent review and a revised logframe (VAULT No: 5781218). Findings from the review have been shared and discussed with service providers and government counterparts.

### **RAP3 field trips:**

Dailekh and Kalikot in June 2017. This field visit focused on:

- Performance of TS-KEP (Kalikot) - issues, challenges
- Performance of CONNECT (Dailekh) - lessons in market systems approaches
- Engagement with RAP3 teams
- Understanding of context in Dailekh/ Kalikot, local realities of restructuring

Humla in April 2017. This field visit focused on:

- Exposure and understanding of KEP implementation in Humla
- To provide input into the RAP3 Annual Review
- Understand implications of state restructuring for KEP

Dadeldhura, Doti and Bajura in 22-29 January 2017. This field visit focused on:

- Progress and challenges of LRN activities
- Interaction with relevant beneficiaries/partners of RAP3
- Performance of CONNECT activities

Kalikot and Dailekh in February/March in 2017. This field visit focused on:

- Progress and challenges of LRN activities (Kalikot and Dailekh)
- Interaction with beneficiaries/partners of RAP3 along nearly complete new road (Kalikot)
- Performance of CONNECT activities (Dailekh)

## Annex 1: Progress against AR 2016 Recommendations

#	Recommendation in AR 2016	Progress in July 2017
1	RAP3 TA to disseminate RAP3's good practices and achievements through communication work and workshops in coordination with DFID and GoN (to publicise successes and help engage other Local Road Network programmes) (Dec 2016 onwards)	<b>Completed and ongoing.</b> RAP3 TA has disseminated RAP3's good practices and achievements through its social media posts (Facebook and RAP3 Web page). Rap also provided DFID and FCO with numerous DFID and FCO social media posts. Positive stories about RAP3 were published in major national newspapers in Nepal.
2	RAP3 TA to implement the exit plan for pilot districts as concluded in the LRN sustainability approach and put in place an action plan for handing over core district maintenance to the GoN (e.g. help access the Road Fund). This should include funding and human resources to manage RMGs.	<b>Completed.</b> GoN has started funding road maintenance in pilot and core districts. RAP3 TA has started implementing the exit plan for pilot district as concluded in LRN extension's sustainability approach.
3	RAP3 TA to ensure a cost management plan is in place to actively manage the cost of the extension period. This should include working with DFID, RAP Co-ordinator and GoN officials to prepare for and deliver a steering committee which formally agrees to "cap" costs for the extension period (and mitigate the cost overrun risk) (Dec 2016)	<b>Completed.</b> RAP3 TA reviews work plan and costs of new roads every trimester. RAP3 TA, DFID, and GoN agreed for effective cost control or/and cost sharing mechanism through a RAP3 Steering Committee decision for GoN to top up beyond a tolerable inflation to mitigate the cost overrun risk.
4	RAP3 TA to develop and implement a matrix to document and track progress against main recommendations from the reviews conducted including MEL's independent reviews, MEL's independent verification of LRN's major results, Crown Agent's Fiduciary Risk Assessment, RAP3 Performance Management and Verification audits (technical audit and verifications, independent financial audit etc.) and IAD DFID internal Audit. DFID to update RAP3 delivery plan every trimester accordingly. (Nov 2016 onwards)	<b>Completed.</b> RAP3 TA and MEL updated on the PMV, independent verification and other studies conducted by MEL.  <b>Ongoing.</b> FRA and IAD recommendation implementation is updated in monthly meetings.
5	DFID and RAP3 TA to review the revised "open book" output based payment approach in year 1 of the extension period (early 2017).	<b>Completed and ongoing-</b> DFID and RAP3 TA have reviewed regularly the "open book" output based payment approach. It so now working well.
6	RAP3 TA to shift the implementation year to align with the GoN fiscal year (June 2017)	<b>Completed.</b>
7	As the new CONNECT approach is designed to test new approaches and take greater risks, the RAP3 TA team will need to ensure they actively manage and flag risks as well as ensure the team is actively learning and being bold to stop what is not working and scale / replicate what is.	<b>Completed</b> Process and ways of working well established with the Connect team – and clear examples of having stopped initiatives that have not been working.
8	Linking with the new overall RAP3 logframe being developed and contract extension, RAP3 TA to work with MEL to consolidate "capacity building support to GoN" and develop a mini LF that captures the key activities, innovations, and results (Mar 2016)	<b>Completed.</b> RAP3 TA and ITAD worked together for LF revision, including for CB.
9	RAP3 TA and MEL to develop and implement a work plan in agreement with DFID and GoN (MoFALD and DoLIDAR in particular) for enhancing LRN sector coordination (Nov 2016 onwards)	<b>Completed.</b> A joint strategy for LRN coordination, institutional strengthening agreed among GoN, DFID, RAP3 TA and ITAD. RAP3 TA and ITAD participated in WB/GoN/SDC's SNRTP review process. GoN approved a common RMG Guideline for all LRN programmes.

10	In the next period, TS-KEP will not be focusing on policy influencing and will instead be focusing on capacity development to support the implementation of KEP. However, it is recommended that TS-KEP strengthen the working relationship with KRDU to ensure that all TS-KEP activities are grounded within MoFALD and that all knowledge products developed for and with the Government of Nepal are fit for purpose (DFID to verify March 2017)	<p><b>Completed – but ongoing task</b></p> <p>The TS-TS-KEP team has worked directly with KRDU to develop and roll out a number of tools and systems.</p> <p>The TA team has consulted and involved KRDU/MoFALD in each activity and ensured there has been no duplication of efforts.</p>
11	In the next phase, TS-KEP will be focusing primarily on building institutional capacity within KRDU and within the implementation districts. The programme would benefit from developing and implementing a targeted system of tracking- on an ongoing basis- capacity enhancement and institutional reform within KEP (similar to the Capacity Improvement Matrix). Ongoing monitoring can allow the team to adapt and trouble-shoot as needed (March 2017)	<p><b>In progress – good hands on support but without the formal measurement “capability Matrix” expected</b></p> <p>The work of TS-KEP over the last year has been largely dedicated to enhancing the capacity of KRDU to run and manage KEP towards achieving better social protection outcomes for the beneficiaries.</p> <p>Overall, the TA team provided adequate support that led to an acceptable level of adherence to the KEP guidelines. It is however important to note that this is still a key area for next year, and the TA team will need to increase their effort in capacity enhancement with the new Local Government Bodies.</p>
12	Given the increased focus on sustainability in the RAP3 Extension, it will be important to identify how the MEL team can positively contribute to key policy goals (e.g. GoN taking on the funding and management of RMGs). (August 2017)	<p><b>Good progress – but ongoing task</b></p> <p>Some progress has been made but work needs to be continued to include working with Government to increase capacity to undertake MEL of the sector in future given Changes taking place due to the introduction of Federalism.</p>
13	Given the investment in the RCA report and subsequent “Midline Report”, it will be important for DFID and the MEL team to ensure that the findings and key insights are shared widely and genuinely used. This should include exploring in detail cross cutting themes such as gender and conflict. (Dissemination plan due by January 2017)	<p><b>Completed</b></p> <p>There are concerns that MEL have not engage with implementation partners. MEL acknowledges that partners are not always sure what to do with their recommendations. MEL has not engaged much with KEP. As highlighted in the recommendation the key piece of work delivered in this reporting period has been the midline impact review.</p>
14	MEL team to lead a process engaging all partners to finalise the updates the logframe for the extension period (Dec 2016)	<p><b>Completed</b></p> <p>The engagement with partners and finalisation of the logframe to cover the extension period has been well received.</p>
15	Whilst there have been examples of improvements in VFM, understanding and measuring VFM as a routine process is still not sufficiently developed. Post the finalization of the logframe led by the MEL team, all partners will work with DFID to define a robust measurable VFM framework which can be monitored routinely (Jan 2017)	<p><b>Partially completed</b></p> <p>There is working VfM analysis for the project which is reported trimesterly – but more needs to be done to finalise this to ensure a meaningful approach to VfM.</p>

## Annex 2: Detailed Output level recommendations for RAP 3 2017 - 2018

#	Recommendation, Who leads and Due Date
1.	RAP3 TA to prioritize full handover of maintenance works and supervision in five 'pilot districts' , so as to focus RAP3 roads and capacity building works in nine core districts. Who: RAP3 TA and Municipal bodies, By When: Detailed plan by Dec 2017, handover July 18
2.	RAP3 TA to review and disseminate learnings of SMG and TMC pilots, in order to prepare GoN for scale up and guidelines. Who: RAP3 TA, By When: for SMG- January 2018, for TMC initial dissemination- June 2018
3.	RAP3 TA to complete analysis of relevant data for climate resilience and implement recommendations from disaster Resilience ICAI review. This should include revision of the Rural Roads Standards to ensure dedicated safeguards for disaster and climate resilience. Who: RAP3 TA, By When: November 2017 onwards
4.	RAP3 TA to continue the practice of Safety and Resilience Audits for new construction roads using innovative technologies (e.g. long traffic video) as much as possible. Who: RAP3 TA, By When: November 2017 onwards
5.	RAP3 TA to ensure effective and formal handover of new roads to DCCs and Local Bodies with clear financing and other roles well before completion to ensure effective RMG maintenance. Who: RAP3 TA, By When: 4 months before opening of new roads
6.	RAP3 TA to encourage the Local Bodies through which the new road passes and DCCs to prioritize maintenance (all types) of local roads through their annual budgets and strategic/ multiyear plans mobilizing available and potential GoN budgets. (Who: RAP3 TA, By When: November 2017 onwards)
7.	RAP3 TA to carry out analysis of the employment data and information to share lessons, with support from MEL and handover of data to GoN in maintenance districts. Who: RAP3 TA -PMV Team, By When: December 2017
8.	RAP3 TA to develop and implement a work plan in agreement with DFID and GoN for effective transition and necessary changes in policy, strategy, and guidelines to empower newly elected local bodies to deliver LRN responsibilities. Who: RAP3 TA, MoFALD and DoLIDAR, By When: Detailed plan by November 2017, and implementation December 2017-March 2018
9.	Connect team to identify how to share and apply lessons learnt – enabling the programme to “scale”. This could include codifying success (e.g. what could be taken up as “policy”) and working with existing DFID and other donor programmes. Who: RAP3 TA, and DFID , By When: Learning plan by November 2017
10.	It remains to be seen how the local government restructuring will affect the delivery of KEP. As one of the conditions for the financing agreement relates to confidence in programme delivery in light of government restructuring- it will be important for TS-KEP and MOFALD to jointly participate in an exercise to document and review risks to programme delivery including: MoFALD’s position in the new structure, fund flow mechanisms, capacity to implement projects at the LGs, financial management and controls mechanisms at the LGs, and assurance from Internal and external audits. It will be important to ensure that there is an adequate mechanism for reporting to DFID. Who: TS-KEP and DFID , By When: Plan by November 2017
11.	KEP-TS to support KEP to adapt its delivery model to the new federal federalism principles rather than reinforce central level control. Who: TS-KEP and DFID , By When: Plan by November 2017
12.	TS-KEP should continue to work with the KRDU to revise the Guidelines to streamline the delivery of KEP- particularly to improve the clarity and transparency around payments and to remove the 15 day requirement which has proven to be confusing and unrealistic. Who: TS-KEP and DFID , By When: Plan by November 2017
13.	TS-KEP and MoFALD teams conduct a joint exercise to assess how the MIS is being used, and identify and implement areas for improvement. Who: TS-KEP and DFID , By When: Plan by November 2017
14.	TS-KEP continues its work to identify challenges and strategies to increase the effective use of banking solutions. Any analysis and work in this area should prioritize the issues that are faced by beneficiaries in using banking services.

	Who: TS-KEP and DFID , By When: Plan by November 2017
15.	The development of guidance and operational manuals is a valuable exercise in making the implementation of KEP more transparent and clear. It is recommended that the development of the Project Implementation Manual reflect principles of good local governance and the authority of local departments in decision making. Who: TS-KEP and DFID , By When: Plan by November 2017
16.	The VET materials are useful and relevant to programmes beyond KEP that support community infrastructure. It is recommended that the VET materials be shared with other DFID-funded programmes where they may be relevant- namely CDP and NCCSP Who: TS-KEP and DFID , By When: Plan by November 2017
17.	Update the KEP indicator on analysis and reports affecting KEP polices to reflect less emphasis on 'reports' and greater emphasis on action-learning. Who: TS-KEP and DFID , By When: Plan by November 2017
18.	Increasing transparency and information to KEP workers is critical if they are to be empowered to hold their locally elected officials accountable. It is recommended that TS-KEP work with KRDU to identify and implement ways to increase beneficiary awareness of their entitlements. It is recommended that this be measured a performance indicator within the MIS and within the TS-KEP Who: TS-KEP and DFID , By When: Plan by November 2017
19.	It is excellent to see the discussion on multi-year entitlements moving forward. This reflects (i) continuation of existing KEP works over multiple years, (ii) invitation of KEP workers to engage on other government projects and (iii) possibility of using KEP workers to maintain public works. It is recommended that progress in this area be monitored and captured in the forthcoming year- and more detailed guidelines be developed on the implementation and benefits of these approaches. Who: TS-KEP and DFID , By When: Plan by November 2017
20.	It is recommended that TS-KEP support KRDU in by providing commercial and technical analysis of proposed insurance packages and also supporting the KRDU in reviewing guidance and procurement practices for tools, safety equipment and first aid equipment. Who: TS-KEP and DFID , By When: Plan by November 2017
21.	In response to local government restructuring, TS-KEP has proposed a revised staffing and office structure- with greater local presence. It is advised that this staffing structure be implemented, in order to facilitate a strong local presence Who: TS-KEP and DFID , By When: Plan by November 2017
22.	The Public Works Coherence activities of 2016-2017 produced some valuable maps and databases. TS-KEP should ensure that local teams have access to these and are using them to strengthen better local implementation and coordination. Who: TS-KEP and DFID , By When: Plan by November 2017
23.	. MEL team to take a leadership role in ensuring some coherence to the collection and management of this data with a view to sustainability and the Government in time needing to manage this information collection. Who: MEL and DFID , By When: Plan by November 2017
24.	MEL to continue to ensure that findings and key insights are shared widely and genuinely used through continued improved engagement with partners. MEL to work with DFID and partners to agree a list of products to be developed and disseminated over the next year. Who: MEL and DFID , By When: Plan by November 2017
25.	DFID to monitor actively the relevant recommendations from MEL and helping to ensure that partners (RAP3 TA and OPM) follow up on these. Who: MEL and DFID , By When: Plan by November 2017
26.	MEL to build on the beneficiary feedback work they have been doing and include some more in depth case studies of KEP beneficiaries into the next beneficiaries study. This could be part of the regular study or a separate study. Who: MEL and DFID , By When: Plan by November 2017