

I. COUNTRY REFORM PROGRESS

The first Domestic Revenue Mobilization Strategy (DRMS), building on continuing capacity support from the IMF, has been published by the Ministry of Finance in September 2024. A headquarter-led mission in September focused on assisting formulate Nepal's inaugural tax expenditure policy as part of the DRMS, while also enhancing relevant capacity through training deliver in a workshop.

II. PROJECT DELIVERY HIGHLIGHTS

Revenue Module I – Tax Policy
Key Progress in FY25: A headquarter-led mission in September focused on helping formulate Nepal's inaugural tax expenditure (TE) policy as part of the DRMS, while also enhancing relevant capacity through training deliver in a workshop. Next Steps: Continuing strengthening capacity in the areas of TE costing and reporting will be the focus of CD support in the near term. Options for TE reforms will help build the next structural benchmark as part of the IMF's Extended Credit Facility (ECF) program.

III. LOGICAL FRAMEWORK

Country – Nepal		
Objective – Improve Tax Policy Design - TPD		Rating - 2
Outcome	Rating	Narrative
Increased/decreased revenue quantity	3 Largely Achieved	A comprehensive strategy on revenue mobilization, as well as strategies to develop TE costing and reporting, has been formulated. These reforms are awaiting implementation by the authorities to maximize their impact.
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	3 Largely Achieved	A comprehensive strategy on revenue mobilization, as well as strategies to develop TE costing and reporting, has been formulated. These reforms are awaiting implementation by the authorities to maximize their impact.
Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 2
Outcome	Rating	Narrative
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	3 Largely Achieved	Relevant trainings in strengthening tax policy monitoring, evaluation and institution have been provided. Main actions are awaiting implementation by the authorities to maximize their impact.
Improved transparency and outreach	3 Largely Achieved	Relevant trainings in strengthening tax policy monitoring, evaluation and institution have been provided. Main actions are awaiting implementation by the authorities to maximize their impact.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External climate/conditions		
Risk that external events create a more challenging environment to implement reforms.	Low	Ensure sufficient flexibility in program execution and allow for ability to adjust activities in the case of adverse events.
Management and Technical Staff Support and Commitment		
Low commitment of management and staff in finance ministry and revenue authority to adopt and implement TE policy framework.	Medium	Engage with senior management and technical staff pro-actively and explain their role in driving reforms. Ensure frequent engagement to maintain momentum and rekindle commitment where needed.
Political Support		
The political cycle generates governance instabilities, restricting policy making and delivery.	Low	Secure policy continuity if political instability occurs. Ensure transparency, accountability, and inclusion in policy implementation. Engage regularly with ministers and senior management to ensure government ownership of reforms.
Resource Adequacy		
Insufficient technical capacity and human resources necessary to implement TE reforms are limited.	High	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas where resources are limited, in line with country engagement strategy.
Other Risks		
Multiple donors are providing technical assistance on strengthening revenue mobilization. Overlaps may arise as a result	Low	Under the leadership of the country team take an active role in engaging with other donors to ensure support is well coordinated.

V. PROJECT MANAGERS CONTACT INFORMATION

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