NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

January-June, 2014
Progress Report

Australian Aid
UKaid from the British people
EUROPEAN UNION

Acknowledgments

This progress report has been prepared by the MDTF Program Management (Robert Bou Jaoude and Pragya Shrestha), on behalf of the World Bank as Administrator of the Trust Fund. The report includes inputs and guidance from the task teams of MDTF (Manoj Jain, Leslie Isao Kojima, Luiza A. Nora & PRAN team, Saurav Dev Bhatta and Roshan Darshan Bajracharya). The MDTF is especially grateful to the PEFA Secretariat Nepal for their continued support.

Cover Photo: *David Waldorf*
Photo Credits: *David Waldorf (Pages 8 and 14);*
PRAN (Pages 11, 12 and 13) and
Yogesh Bom Malla (Pages 16 and 17)

Edited by: *Sheldon I. Lippman*
Design by: *Rajan Shakya*

Abbreviations and Acronyms

AA	Administrative Agreement
ASB	Accounting Standards Board
BER	Budget Evaluation Report
CECI	Centre for International Studies and Cooperation
CSO	Civil society organization
DFID	Department for International Development (UK)
DTCO	District Treasury Controller Office
EU	European Union
FCGO	Financial Comptroller General Office
FRMB	Fiscal Responsibility and Budget Management (Act)
ICAN	Institute of Chartered Accountants of Nepal
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
ISSAI	International Standard of Supreme Audit Institutions
MDTF	Multi-Donor Trust Fund
MoF	Ministry of Finance
MTEF	Medium-term expenditure framework
NFRS	Nepalese Financial Reporting Standard
NPC	National Planning Commission
NPSAS	Nepalese Public Sector Accounting Standard
NRB	Nepal Rastra Bank
OAG	Office of the Auditor General (of Nepal)
ORA	Operations Risk Assessment
PAC	Public Accounts Committee
PCC	Program Coordination Committee
PCN	Project Concept Note
PEFA	Public Expenditure Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public financial management
PRAN	Program for Accountability in Nepal
SAcP	Social Accountability Practitioners
SAI	Supreme Audit Institution
TSA	Treasury single account
VDC	Village Development Committee
WBI	World Bank Institute

Contents

5 FORWORD

6 INTRODUCTION

8 PART I. OVERVIEW OF RESULTS

A. Component One: Strengthening PFM System and Capacities
B. Component Two: Enhancing Accountability in Public Financial Management

14 PART II: SECTOR WORK

A. Component Three: Deepening Knowledge Related to Nepal PFM System
B. Component Four: Program Management and Administration
C. Way Forward: Toward the Next Phase of PFM Reforms

18 PART III: FINANCIAL REPORT

24 Annex A: Project Data

26 Annex B: Snippets of Demand-side Activities

FOREWORD

A good and efficient financial management system is more vital than ever to ensure the most effective use of the government's limited resources. Even with limited resources, governments are expected to provide more for its citizens and assure deliveries of needed services- and this is not easy. To reply to such challenge, The Nepal Public Financial Management (PFM) Multi-Donor Trust Fund (MDTF) needs to grow and increase the pace of delivery of results.

While this report presents an opportunity for us to focus on achievements and results delivered through the MDTF, it is also necessary to reflect on the analytical work that reveals the need for more reforms in the Nepal PFM system. Opportunities for more delivery have emerged during the first half of 2014. These opportunities are presented by the new Nepalese Government that is committed to change and reforms, by the donor community that expressed its readiness to continue support of the Government's PFM agenda, and through lessons learned from the current round of implementation, thus building on the success and generating faster results.

With the completion and delivery of the Operational Risk Assessment (ORA) and finalization of the Public Expenditure and Financial Accountability (PEFA) assessment, the Government of Nepal will have the needed analytical work to develop the PFM reform strategy and translate this strategy into reform activities. Such reform strategy will be needed for the next phase of engagement with the World Bank and development partners for additional support toward its implementation.

Meanwhile, the Government of Nepal, the World Bank, and the development partners remain committed to a more effective MDTF, supporting wider PFM reforms so that the people of Nepal can fully benefit from greater economic and social progress and receive better services.

While we, all stakeholders, make every effort in supporting the Government of Nepal (GoN) to achieve greater reform, this report highlights concrete results achieved over the past six months-January-June 2014. Through its Strengthening the PFM System Project, MDTF has finalized the roll out of the treasury single account (TSA) system to all 75 districts, resulting in the generation of timely budget financial reports reflecting the government expenditures, revenues, and the deficit figure. Work is also progressing on the introduction of the commitment accounting, piloting of the newly designed Revenue Management Information Systems (RMIS) module, preparation of financial statements for two pilot ministries following the International Public Sector Accounting Standards (IPSAS), and analyzing the IT infrastructure for sustaining and consolidating TSA rollout for additional financing.

MDTF has also continued the support to the Office of the Auditor General (OAG) through the MDTF-financed sub-project Strengthening the Office of the Auditor General of Nepal. The risk audit approach has been introduced in the revised audit manual of which a draft was finalized, the performance audits continued to be performed, on pilot basis, as agreed, and the OAG used the social accountability approach through engaging with the citizens in two districts where the officials listened to citizens' feedback and provided evidence from the field for the audit process. The Nepal OAG shared the experience of citizen engagement with other Auditors General in the Region through a series of video conferences that exchange knowledge on such audit approach and how its impact can be increased.

Under the demand side through the sub-project, Strengthening CSOs use of social accountability to improve PFM, the project team delivered all the defined engagements in the selected 10 districts. The CSOs were trained on this approach, and the citizens were informed about the budget process and what the budget brings to them as benefits, rights, and obligations. This process has allowed many citizens to claim their benefits in full.

Analytical work —Public expenditure tracking and quantitative services delivery system in Nepal education sector (PETS) — was finalized, delivered, and disseminated to government officials as well as development partners. The support to the budget preparation process, has also delivered the first set of outputs where it introduced a new platform for budget preparation, completed the PFM gap assessment, worked on improving the linkages of the priorities and budget resources, and completed the drafting of the Fiscal Responsibility and Budget management Act. Also the finalization of the PEFA assessment, which will feed into the PFM reform strategy, is expected in August 2014.

We take this opportunity to welcome the European Union (EU) who joined the roster of donors to the PFM MDTF. The Administrative Agreement was signed with the World Bank on June 6, 2014, with the first installment of funds received by the MDTF administrator on June 30, 2014.

Looking ahead, we are confident that our collaborative efforts to deliver results and effectively meet the Nepal PFM reforms challenges will bear fruit. With finalization of the PFM reform strategy and building upon achievements to date, Nepal will be moving toward an efficient PFM system that ensures transparency and accountability in the management of public funds.

Robert Bou Jaoude
Program Manager, Nepal PFM MDTF

INTRODUCTION

Public financial management (PFM) is a key element of the Government of Nepal's strategy for ensuring effective resource allocation, strengthening public service delivery, and creating an inclusive and broad-based development. The PFM agenda has also been a top priority for the development partners to promote efficient and effective public service delivery. As part of this effort, the Multi Donor Trust Fund (MDTF) was established in December 2010.

The MDTF is administered by the World Bank and jointly funded by five donors: the European Union (EU) who joined the MDTF donors in June 2014, UK Department for International Development (DFID), the Governments of Norway and Denmark, and the Australian Government Department of Foreign Affairs and Trade (DFAT). Switzerland will also be joining the MDTF donors following the signing of the Administrative Agreement with the World Bank.

The objective of the MDTF is to strengthen the performance, transparency, and accountability in public financial management in Nepal. The MDTF supports activities that will:

(a) Strengthen PFM systems and processes (the supply side);
(b) Strengthen institutions of accountability and civil society to enhance their oversight of PFM processes and performance (the demand side), and
(c) Deepen knowledge about current PFM practices and options for improvements (analytical assessments).

In 2007, the Government of Nepal, with support from the World Bank and other development partners, conducted a Public Expenditure and Financial Accountability (PEFA) assessment. This assessment concluded that Nepal's PFM and procurement systems had some good design features but were not well implemented, leading to fiscal and fiduciary risks. The findings of the PEFA assessment led to the PFM Performance Measurement Framework prepared by the Public Expenditure Working Group (World Bank, IMF, and Joint Donor Public Expenditure and Financial Accountability Unit).

There are four components under the PFM MDTF (Figure 1):

Component 1 deals with strengthening PFM system and capacities. This component has one main operation that relates to strengthening PFM system and three sub-components:
(a) supporting implementation of treasury single account (TSA) system,
(b) implementation of public sector accounting standards, and
(c) strengthening the PEFA Secretariat.

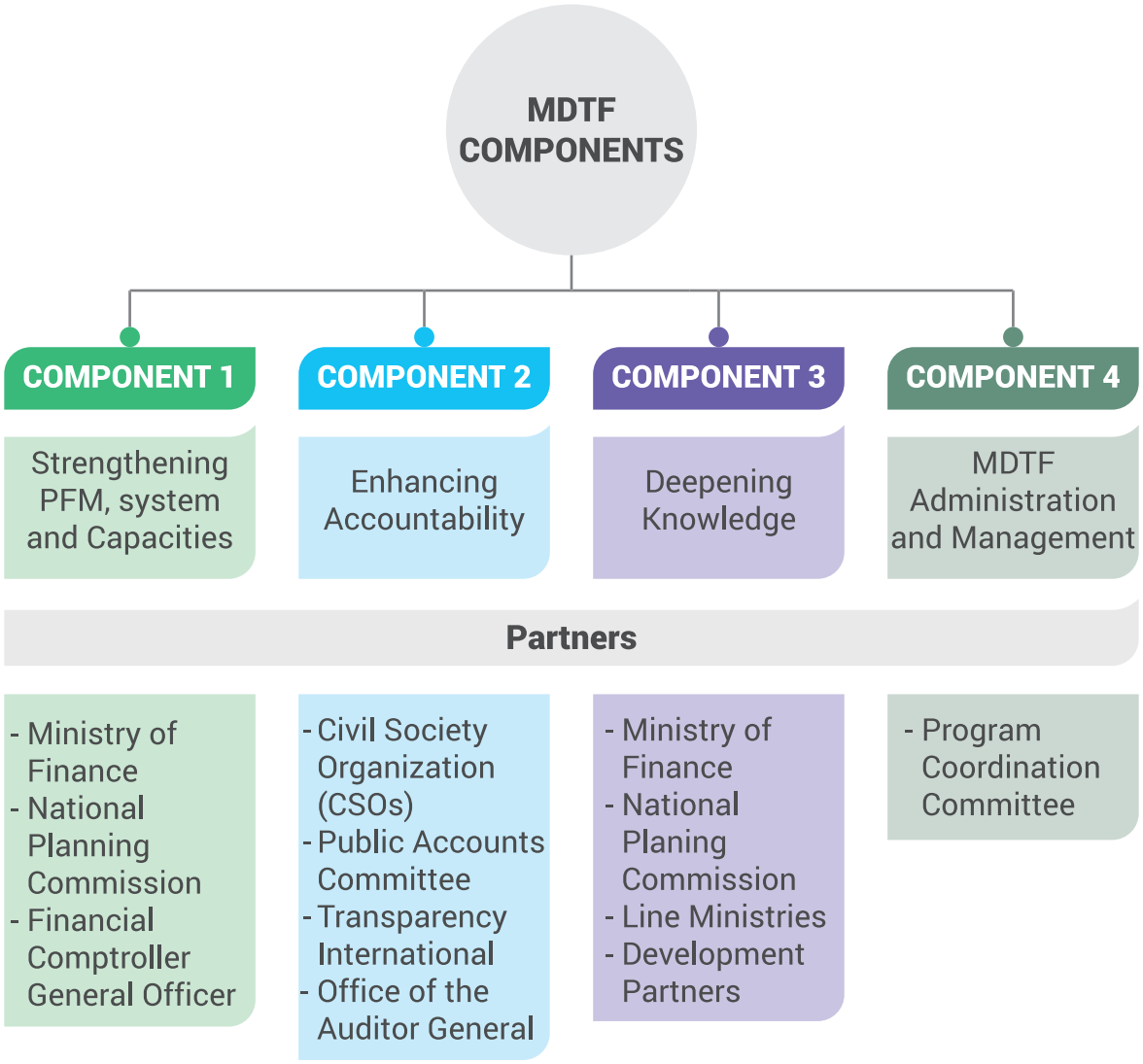
Component 2 deals with enhancing PFM accountability. This component has two sub-project operations that relate to strengthening the Office of the Auditor General (OAG) and strengthening civil service organizations' (CSO) use of social accountability to improve PFM.

Component 3 deals with deepening PFM-related knowledge. This component carries out analytical work for knowledge dissemination. Two analytical works have been completed: the Public Expenditure Tracking Survey (PETS) in the education sector and the Operational Risk Assessment (ORA) in the PFM sector.

Component 4 deals with program management and administration.

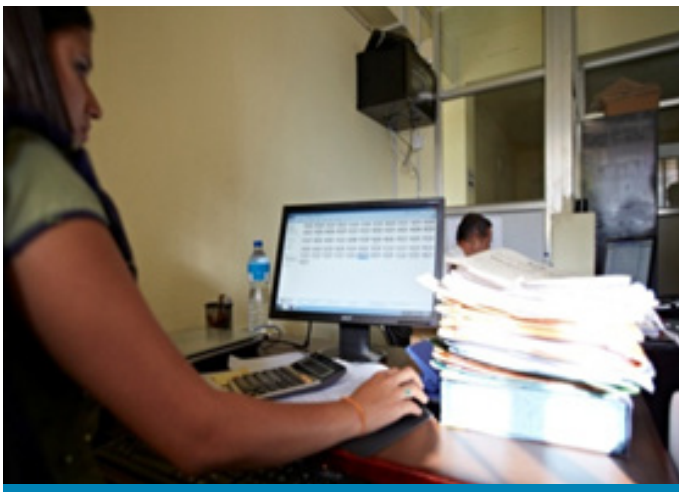
Figure 1

MDTF Components



PART I. OVERVIEW OF RESULTS

A. Component One: Strengthening PFM System and Capacities
Strengthening PFM Systems (Approved total budget, US$5.15 million)



Kathmandu DTCO

Continuing as a hallmark move toward strengthening PFM systems, the complete rollout of the treasury single account (TSA) system across all 75 districts in Nepal has led to 100 percent coverage of the budget. This target was accomplished a year ahead of the scheduled period and is already producing substantial savings for the government through better management of idle cash balances. The roll-out has also enabled the government to centralize the payment function at District Treasury Controller Offices (DTCOs) and strengthen the TSA systems by closing down about 14,000 bank accounts – not an easy feat considering the time and challenges that similar reforms have posed elsewhere in the world.

Through this project, a daily budgetary status is now available that depicts aggregate revenue, expenditures, and budgetary surplus/deficit with only a lag of a day. In addition, the following monthly reports are now available:

- Ministry-wide economic classification of the expenditures;
- Ministry-wide budget, expenditures incurred, and balance available; and
- District-wide budget expenditures.

These reports are available at www.fcgo.gov.np/report-publications. This positive achievement is in line with the project results framework. In the making are plans to further consolidate by improving the content and comprehensiveness of fiscal reporting. Table 1 gives details on the results achieved during this reporting period (January 1-June 30, 2014).

The needs assessment for upgrading a financial management information system (FMIS) to further strengthen the core treasury system is proceeding satisfactorily. International experience was shared with the government in developing a blueprint for implementing commitment accounting in the existing TSA system upon consultation with all stakeholders. Required FMIS software modifications for implementing the recommended blueprint were developed in-house. These will be now piloted with effect in the next fiscal year (FY15).

This project engaged the Financial Comptroller General Office (FCGO) together with Nepal Rastra Bank (NRB) and other stake holders. A workshop early in 2014 was held with these stakeholders to brainstorm on enhancing business processes in the area of cash management, remittances, bank reconciliations, and overall revenue management. As a result, a task force comprising officials from NRB, FCGO, and 5 commercial banks was formed, and a draft recommendation was presented to the stakeholders. This recommendation is now being finalized for field testing and piloting within FY15. Furthermore, the Oracle software license has also been procured in a transparent manner, and a contract has been awarded.

Another activity that has progressed well is the drafting of the Nepalese Financial Reporting Standards (NFRS), modeled on International Financial Reporting Standards (IFRS), by the Accounting Standards Board (ASB) after an extensive consultative process. The Institute of Chartered Accountants of Nepal (ICAN) has pronounced these standards with a road map for implementation. Pilots for rolling out Nepalese Public Sector Accounting Standards (NPSASs) in two ministries have been completed and financial statements in accordance with cash-based International Public Sector Accounting Standard (IPSAS), Part I, have been prepared. Final reporting is likely to be issued by mid-July 2014 after which a senior policy-level workshop will take place to definethe way forward.

Capacity-building activities of the PEFA Secretariat continue to make exemplary progress in reaching out to various stakeholders across the country to more remote districts, demand-side stakeholders, line departments, and the general public on increasing PFM awareness and building a solid foundation for ensuing PFM reform processes. Research work in 5 high-priority areas has already begun with likely completion by the end of 2014.

Table 1: Key results under Strengthening PFM System Project

- TSA system has been rolled out across all 75 districts in Nepal with effect from July 2013 and operating on an on-line basis.
- Out of around 14,000 bank accounts, about 13,717 have been closed. FCGO is working on closing the accounts that are no longer required due to the presence of TSA.
- The Government of Nepal has been able to save around US$2 million from commissions/operating costs due to closure of accounts.
- Provide a license for the IT system.
- FCGO web publishes monthly and quarterly budget execution reports that contain budget and variance information. It also produces and disseminates daily budgetary status containing information on aggregate revenue, expenditures, and budget surplus/deficit.
- NFRS aligned to IFRS has been pronounced by ICAN.
- NPSAS aligned to IPSAS has been piloted in Ministry of Physical Infrastructure and Transport; and Ministry of Women, Children, and Social Welfare

This project has made remarkable accomplishments, but there are challenges. These challenges relate to the reconciliation process with the Nepal Rastra Bank, management of revenues, and the frequent turnover of staff. Regarding the staff turnover, new FCGO and PEFA coordinators have recently been appointed. On the technical side, a senior-level staff member (IT and procurement), well versed with the project, has also been transferred. These challenges have adversely affected the pace of implementation, which is visible in monthly updates in the second quarter of 2014. The Bank is trying to bring this issue to the attention of Government Senior Management in order to resurrect the implementation. One activity, which has moved at a slow pace, relates to the procurement of a consultant for the preparation of the accounting manual; but actions are underway to complete the activity at the earliest.

The project plans to move forward with preparing additional financing for consolidating TSA rollout. Since mid-term review, the Government of Nepal has evinced interest in seeking additional financing (primarily for component 1) along with a request to reallocate savings of US$0.5 million from component 2 to component 1. Tentative estimate for additional financing is US$3.3 million. An appraisal will be fielded for the additional financing after a formal request has been received to consider (a) re-allocation between component 2 and 1, (b) revision of results of framework to incorporate additional financing, and (c) possible extension of the closing date of existing project from June 2015 to June 2017.

B. Component Two: Enhancing Accountability in Public Financial Management Strengthening the Office of the Auditor General of Nepal (Approved total budget, US$2.46 million)

Enhancing the quality of audit.
Following a review of the experiences from the first 2 rounds of pilot financial audits, the Auditor General directed his senior staff to apply the new project-tested pilot standard working papers. This office-wide rollout of developed and field-tested audit procedures can be expected to have an immediate impact in terms of upgrading the financial audit procedures applied by OAG to International Standards of Supreme Audit Institutions(ISSAI). The pilot audit teams (25 auditors) visited SAI Malaysia, June 2-13, 2014, in order to take customized training in financial audit standards and procedures and in the use of electronic audit working paper software. The consultants together with selected pilot auditors will devise a 1-week training course on the new standard audit working papers to be delivered to approximately 200 audit officers and audit directors in 4-5 batches during July and August 2014. Electronic audit working paper software has been procured and is in the process of being configured

By end July 2014, a working version of the software, populated to include the audit observations from the previous year's audits, is scheduled to be installed on 30-50 computers, ready for training and use in the current year pilot audits. It should be noted that OAG has been provided access to the transactions-level data in TSA system. Table 2 gives details on the sub project results achieved during this reporting period (January 1-June 30, 2014).

Table 2: Key results under strengthening OAG of Nepal Project

- Auditor General submitted the 51st annual report of FY 13 in April 2014.
- Move to risk-based auditing approach.
- Project consultants (Cowater) reviewed the OAG Quality Assurance Handbook and delivered workshops to senior management and to audit staff on quality assurance.
- The project has been conducting 2 performance audits per year. Additional three in-depth performance audits in progress (Kathmandu Valley Road Improvement Project, Health Service Delivery, and Social Security Allowances) applying the revised performance audit guide procedures.
- OAG has been collaborating with CSOs to engage civil societies in the auditing process.

At the end of June 2014, a team from the Comptroller and Auditor General of India was in the process of conducting a peer review of OAG using the pilot test version of INTOSAI's new SAI Performance Measurement Framework. The peer review report is expected to be finalized and disseminated at a senior management workshop in early September 2014; thereafter, the final report will be considered with other project outputs, including recommendations on organization structure, quality assurance procedures, and human resources, in order to prepare an updated OAG Strategic Development Plan for the period 2015-2020. The MDTF may consider future support for implementation of the OAG Strategic Development Plan in conjunction with its consideration of the updated PFM reform action plan prepared by the Government of Nepal based on the ongoing PEFA exercise.

Enhancing the impact of audit.
During the past 6 months, the Auditor General submitted his annual audit report to the President, a new Constituent Assembly was formed, and a new Public Accounts Committee (PAC) was constituted. However, a PAC chair has yet to be nominated, the audit reports of the past three years have not been scrutinized by any PAC, and the previous PAC left some unfinished business having not scrutinized audit reports to 2010. The timeliness and quality of the reports of the Auditor General accordingly appear to be less of an issue than the effectiveness of the legislative scrutiny of the audit reports. In this respect, it was noted that the 51-member PAC formed in April 2014, although slightly smaller than the 64-member PAC of the previous parliament, is believed to be the largest PAC in the world at the moment.

The designers of the strengthening OAG project had not anticipated that there would not be an active PAC during the first two years of the subproject, and the design does not include direct support to the PAC itself. However, the project stands ready if requested to provide orientation sessions with the new chair members, and staff of the PAC.

Because of the lack of a sitting parliament, the project began exploring ways that the Auditor General could "report" directly to citizens rather than through their elected representatives. That led to a learning event with the Commission on Audit of the Philippines, which was followed by series of workshops in Nepal that introduced the OAG to CSOs in the country working on governance and accountability. The workshops were facilitated by resource persons from India and South Africa and identified possible entry points for public participation in the audit process. The results have been remarkable. The June 2014 implementation support mission for strengthening OAG project noted that OAG had made "impressive gains" in encouraging public participation in the audit process. In particular, it was noted that the pilot performance audits conducted in recent months had included deliberate and systematic consideration of CSO inputs during the planning (identification of risks and audit criteria) and fieldwork stages (gathering audit evidence through focus groups and administration of questionnaires) of the audits. Once the reports are made public, CSOs are also likely to be involved in disseminating the audit findings, conclusions, and recommendations.

Further to the project's results, OAG Nepal hosted a series of regional brown-bag lunches (April 15, May 19, June 10) with the SAIs and CSOs of all 7 other SAR countries to share experiences and also learn from the SAIs of Argentina, India,South Korea, and the Philippines on enhancing public participation in the audit process. The OAG Nepal was invited to present its experiences at a major UN event in Seoul,

South Korea, on June 24-25, 2014, on "Innovations in Public Accountability: The Role of Supreme Audit Institutions and Citizens"

The Auditor General is scheduled to participate in a SAI South Africa Study Tour during the first week of July 2014; another tour of the SAI in United States and Canada is being scheduled for the second week of July. These study tours for the Auditor General and a senior delegation to relevant SAIs will inform current dialogue in the country on the appropriate constitutional and legislative provisions for OAG Nepal.

From a project management standpoint, it should be noted that OAG has yet to forward a request to the Ministry of Finance to request the World Bank to restructure the strengthening OAG project to revise the Results Framework with simplified indicators and updated targets as agreed with the mid-term review mission in January 2014.

Public participation in the audit process.

Strengthening CSOs Use of Social Accountability to Improve PFM (Approved total budget, US$1.5 million)

The recipient-executed component was extended from June 30, 2014 until September 30, 2014, and the Bank-executed part of the project was extended until June 30, 2015. Most activities under both grants were completed in June 2014. The program is seeking additional financing of US$1.5 million to build on existing experience and to scale up activities from September 2014 until June 2016.

Major activities of the Strengthening CSO Use of Social Accountability project, accomplished between January and June, 2014, are presented in Table 3.

Table 3: Summary of key results achieved under strengthening CSOs subproject

- Dissemination of preliminary results on social security entitlements;
- Workshop for all grantees on analysis, communication, and dissemination of results;
- Production of information, education, and communication materials on budgetary issues;
- Auditor General Office and CSOs develop framework for engagement through a peer-assisted process;
- Public consultation by OAG Nepal in Kapilvastu;
- Simplified booklet on Nepal's Auditing System and Practices published.

Preliminary results of social security entitlements based on PETS.

During the reporting period, 40 CSOs were trained to facilitate data collection through local Public Expenditure Tracking Surveys (PETS) around three categories of Government-provided social security entitlements. These CSOs conducted PETS in 80 village development committees(VDCs) of 10 districts (Achham, Bajura, Dang, Gorkha, Jajarkot, Kailali, Kalikot, Kapilvastu, Palpa, and Rolpa) and collected 11,158 data sets. The survey is the first of its kind in Nepal regarding social security entitlements both in terms of the extensive size of the database collected from these 10 districts and in terms of who conducted it; local citizens, both women and men from diverse castes and ethnicities, worked in their own rural communities to help improve governance and accountability at the most fundamental unit of administration – the village (see Box 1). Some key findings of the PETS are provided in Annex B.

Completion of activities under 40 local and 3 national grants.
Between January and June 2014, the demand side continued its work with 40 grantees in 10 districts supporting 80 VDC-level interventions where the rural communities were made aware oftheir VDC budgets through workshops and outreach activities facilitated by selected CSOs.

Development of information, education, and communication materials on budgetary issues. These materials were developed on local budgeting, and pro-poor and gender budgeting that can be used by the grantees and other practitioners. In particular, flipcharts were developed for training and illustrating the importance of budget at the local level. A simple tool, these flipcharts are most useful for NGOs, government counterparts, and academics working with the community to help impart understanding of Nepal's budget process. The flipcharts specifically cover:

- Concept of public budget;
- National and local budget;
- Principles and values of budgeting efficiency, effectiveness, equity, and fairness;
- Participation in budgeting process, and active citizenship and budgeting;
- Budget process and accountability— horizontal, vertical downward, vertical upward, etc.;
- Concepts of pro-poor and gender budgeting;
- Existing government policies, directives on pro-poor, and gender budgeting;
- Indicators and yardsticks to analyze local bodies' budget from the lens of poor and women.

Program for Accountability in Nepal (PRAN) received a letter on June 10 confirming decision by the Ministry of Federal Affairs and Local Development to publish and distribute the materials at their own costs to all municipalities, District Development Committees, Ward Citizen Forum, and Citizen Awareness Centers.

Advancing public participation in the audit process in Nepal.
Under the collaborative support from the World Bank Institute and the MDTF, two components (OAG and demand side) joined efforts to design and launch an innovative program that consists of leveraging citizen engagement in the budget and audit cycle. This project is instrumental in improving transparency, information, and accountability in the use of public resources in Nepal. As part of this initiative, the following activities took place from January to June 2014:

Conducting PETS on social security entitlements.

- ***Developing a strategy paper outlining entry points for citizen engagement (Jan 2014-present).*** The Bank is supporting the multi-stakeholder working group, consisting of OAG Nepal officials and CSO representatives in developing a strategy paper outlining feasible entry points for CSO engagement. This is to maximize the efficiency and impact of government auditing in Nepal.

- ***Public consultation by OAG Nepal in Kapilvastu (January 2014).*** In January 2014, OAG Nepal held a public consultation on performance audit that was attended by 50 CSOs, including PRAN grantees in Kapilvastu. This exercise has helped to expand the scope and enhance the quality of performance audit process.

- ***Regional virtual learning series (April 2014-June2014).*** A South Asia Region (SAR) virtual learning series was organized targeting stakeholders in Supreme Audit Institutions from the Region, CSOs, think tanks, and academia. Six countries in the Region, including Afghanistan, Bangladesh, India, the Maldives, Nepal, and Pakistan, participated in the series.

- ***Simplified booklet on Nepal's auditing system and practices.*** As an important step toward CSO involvement in auditing, PRAN prepared a booklet, Audit System, Process and Practices in Nepal. The main purpose of this booklet is to inform civil society on Nepal's audit process for a meaningful partnership. The booklet highlights the role of the OAG, auditing procedures, and the institutions responsible for action on its findings.

Box 1: Raising Awareness on Social Security Allowance

As a widow whose husband passed away five years ago, Pena Chamaar, 51, struggled without money. Nowadays life has been easier for her in the village with her monthly allowance. For someone who had never been to village meetings, Pena of Patariya VDC in Kapilvastu district and who was unaware of state provision of social security allowances is elated that she receives Rs.500 a month (single woman allowance).

During PETS, the CSOs collected information about recipients' experiences and backgrounds, and the challenges they faced. They also conducted village- and ward-level meetings and awareness-raising consultations, as results of which, everyone in the village had a clearer picture about their rights. Ward Citizen Forums and the social mobilizers then provided information about the eligibility and the processes of application.

Due to this intervention, Patariya VDC has added 59 names of entitlement recipients for this fiscal year. The VDC office has also been distributing the entitlements in timely manner and has now committed to support the villagers with their entitlement application processes. Also, as a result of the awareness raising, the VDC has widened its outreach in the community by providing updated entitlement information.

Demystification of budget through information, education, & communication.

PART II: SECTOR WORK

Part II covers the components that deal with analytical work, program management and administration.

A. Component Three: Deepening Knowledge Related to Nepal PFM System PETS in the Education Sector (US$150,000)

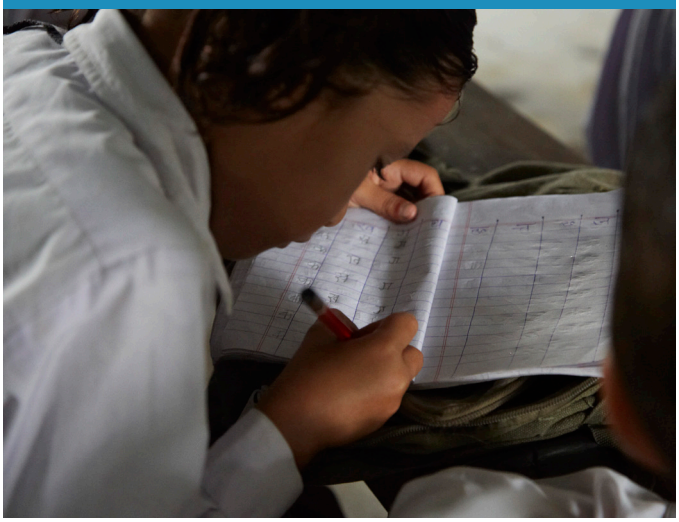
The PETS for Nepal's education sector was conducted to identify the school-level flow of public funds, their management, and utilization and to assess the quality of delivery of educational services. The PETS suggested recommendations for improving the flow of resources and reducing inefficiencies. The survey report was presented internally and externally to government officials and development partners as part of its dissemination plan.

The PETS, on which the team based its analysis, collected data from a sample of 440 schools and communities located in 20 districts representing all development regions and climatic belts in the country. The team also conducted a desk review of secondary sources, including government documents on budget procedures and guidelines, and held interactions with government officials, development partners, and other stakeholders.

The survey report identified both strengths and weaknesses in district-level financial management. Strengths include disbursal of funds to schools is based on prescribed guidelines, submission of expenditure statements to the DTCOs is done in a timely manner, and school auditors are assigned on time. However, identified challenges include not having adequate financial reports, unreliable school audits, evidence of ineligible expenditures, and limited enforcement of compliance on audits findings and actions for funds release. As a result of the weak financial management, the survey report identified the school-level fiduciary risk as high.

On service delivery, the survey report identified that the rate of receipt for textbooks by the students was quite high. According to the findings, 93 percent of students reported on having received textbooks from schools, out of which 87 percent received full sets of textbooks. Furthermore, 50 percent of schools and 61.2 percent of students reported having received full sets of textbooks within the first two weeks of the new school session. Schools conducting regular financial and social audits were more likely to receive full sets of textbooks on time. These schools also had fewer discrepancies in financial accounting and record keeping. Based on this survey, 76 percent of teachers received their salary from District Education Offices, and 90 percent of teachers received salary once every trimester.

The potential leakage due to "ghost" teachers was identified as minimal but enrolment discrepancies between the education system and PETS warrant further



examination on the effect of ghost enrolments and the impact of such enrolment on textbooks and scholarships. In terms of scholarships, 80 percentof students received them as per schedule; however, these scholarships were not always distributed as per the guidelines of the Department of Education, and some students were not getting the full amount.

Bunching of expenditures occurred during the last month of the fiscal year so funds were released to schools only in the last month of the trimester. Some students highlighted the fact that the government has been unable to satisfactorily resolve issues of quality of printing and timely distribution of textbooks. In addition, the PETS report also recommended that the self-reported census data of schools need to be verified by independent agencies and complemented by a compliance monitoring system.

Subproject: Strengthening Budgeting Process for Results (Approved total budget, US$905,000)

In the area of strengthening budgeting process for results, interventions for an upstream budget planning and execution strengthening reform plan have phased in. A diagnostic of reforms with an action plan was prepared, including completion of various on-going activities. The team seeks to (a) internalize ownership of the budget reform process among government stakeholders, (b) foster mutual accountability among key institutions for delivery of agreed activities, and (c) synchronize upstream reform plans with on-going downstream PFM reform and institutional strengthening activities.

The following summary describes the results achieved as of June 2014:

- **Completed digitization of annual work plan.** Budget 2015 was formulated under this new platform, now known as Line Ministry Budget Information System (LMBIS). [1] The first building block of the annual performance-based budgeting process is negotiations among the planning, budgeting, and implementing institutions, which helps bind together all stakeholders. In Nepal, this process, known as Approval of the Annual Work Program Budget, is central to the release of the annual budget. Output-based budget forms were used to prepare FY15 budget. [2] MDTF supplements the Bank Budget in completing this activity, the programming of which was initiated in FY12.

- **PFM gap identification assessment completed (initial draft).** [3] As there is no diagnostic mechanism currently available in Nepal, the team completed an assessment of the gaps in budget planning and budget formulation process. More specifically, the assessment identified entry points for capacity building by reviewing progress on the Government's PFM reform plan in
  (a) policy-based budget formulation,
  (b) budget execution, and
  (c) monitoring.
  This assessment identified policy and technical issues and defined a roadmap to improve budget formulation, tax revenue collection, budget execution and monitoring, and release of budgetary performance and fiscal information. Upon submitting the initial findings of the PFM and medium-term expenditure framework (MTEF) gap assessments to government counterparts, the team was requested to draft a Fiscal Responsibility and Budget Management (FRMB) Act, which was completed and delivered.

- **Improving the linkages of budget priorities with resources – MTEF gap assessment.** [4] The team completed the identification of gaps in MTEF implementation and assessed the feasibility of implementing it. The findings of PFM gap, MTEF gap analysis, and PEFA assessment were distilled to draft the FRBM Act and recommendations submitted to influence 2015 budget preparation.

- **Completed the drafting of the FRMB Act.** [5] The proposed FRMB Action incorporates solutions as identified under the two PFM and MTEF gap analysis reports, providing the anchor for reforms downstream. A separate note (other than the draft FRBM Act) was submitted to the Ministry of Finance of plausible PFM policy announcement to be incorporated in the FY15 Budget Speech.

- **Piloting of tax expenditure and quasi-fiscal expenditure reports.** [6] Substantial amount of public expenditure through tax code exemptions are in practice. This level could be as high as 3-5 percent of GDP. If quasi-fiscal activities are included, public expenditure from these two channels could be in the neighborhood of 10 to 12 percent of GDP. To get a good handle of total public expenditure, the team has completed the following:

  (a) For quasi-fiscal activities, a background report showing scale of quasi-fiscal activities identified based on public information. The team is awaiting nomination of Government counterparts to complete this assessment.

  (b) For tax expenditure, upon closer examination of the internal assessment, the skills set may not be available in the local market. Identification of an international firm to complete is under process. The identified firm is expected to complete this assessment in December of 2014 to influence the 2016 Budget.

- **Strengthening budget credibility**. [7] MTEF is not delivering as it should. One reason, among many, is a weak fiscal framework. To strengthen this important platform, an international consultant will conducting-residence training on financial programming to the identified government personnel (25 in total) in August 2014.

[1] Component (ii) of Project Concept Note (PCN).
[2] NPC form 1/ budget form 6.04.01 and 6.04.02. Annual budget call forms, with trimester output targets and corresponding budgets must be signed by the budget line manager and the custodian of the budget for the respective ministry. Government of Nepal has completed the Oracle-based online budget planning program at the aggregate level. Additional activity-level code programming is needed before further rollout of this software.
[3] Component (iii) of PCN.
[4] Component (v) of PCN.
[5] Outcome of the assessment [component (i) of the PCN].
[6] Component (vii) of the PCN.
[7] Component (iv) of the PCN.

The team (national consultants and the Bank team) worked as an extension of the Budget Division of the Ministry of Finance. Since, all interventions are embedded as government activities under MoF leadership, there is high degree of sustainability.

Repeater PEFA assessment.
The second PEFA assessment is progressing well. The Government of Nepal has constituted 9 subgroups, each headed by a joint secretary for the process. A first draft was shared with the World Bank on which comments and suggestions have been provided. The second round of discussion is on-going with respective teams. The overall assessment is expected to be completed and ready for wider internal Bank circulation, post budget announcement. During this reporting period, the PEFA Secretariat of Nepal conducted several PEFA workshops. The first workshop was held on March 17, 2014, where the entire group of PEFA assessors gathered to share their preliminary assessment of all the indicators. The second workshop was held on March 26, 2014, at the Ministry of Finance to update the group on the status of the assessment. The third workshop was held on April 3, 2014, at the Ministry of Finance to present the status of the assessment to the Finance Secretary and to discuss the findings.

B. Component Four: Program Management and Administration

EU delegation joins MDTF.
The Administrative Agreement between the World Bank and the European Union (EU) Delegation to Nepal was signed on June 6, 2014, and the first installment of the pledged funds received on June 30, 2014. With the additional EU pledge, the total contribution toward the Nepal PFM MDTF is US$17.5 million.

Program Coordination Committee (PCC) meeting. The sixth PCC meeting (January 24, 2014) was chaired by Country Director Johannes Zutt and attended by the PEFA Secretariat of Nepal along with the MDTF development partners. The Manager for the Financial Management Unit of South Asia, Fily Sissoko, also participated in the meeting and introduced the new MDTF Program Manager, Robert Bou Jaoude, Senior Financial Management Specialist. The meeting discussed the MDTF mid-term review findings, semi-annual progress report, and additional financing proposal of the demand side. The PCC also agreed in principle for a no-cost extension to MDTF but noted that it is done in the context of a long-term strategy, which will be further informed by the PEFA recommendations. The PCC also supported the need for a longer-term vision and approach (5 to 10 years) toward PFM reform. During the PCC meeting, the World Bank and EU were in the process of preparing the Administrative Agreement. The Administrative Agreement has now been signed and initial pledge has been received from the EU. The PCC supported the additional financing for demand side work and in-principle provided approval to extend this project in-line with the overall time frame of the MDTF. Regarding the position of the Program Manager, the PCC agreed unanimously that it is important that this position be based in Kathmandu.

PEFA Head visit in Nepal.
Philip Sinnett, head of PEFA Secretariat, based in Washington, D.C., visited Nepal (June 3-5, 2014) to talk about the changes to the PEFA framework. During his visit, he interacted with key government officials involved in the PEFA assessment. Philip's first hand observations were very positive. Philip cited the previous and ongoing PEFA assessments to be good examples of full country ownership and an effective integration and engagement of representatives from both upstream and downstream.

Visit to Dolakha district.
To gain a perspective on TSA operation in a remote district, the team embarked on a trip to Dolakha district (Box 2). Considering Dolakha district is only four hours away from Kathmandu, it was quite remote. The program management team of MDTF along with the PEFA Secretariat and DFID visited the DTCO in Dolakha and met with the Chief District Treasury Controller. The DTCO Chief briefed the team on the budget release, expenditure, and reporting process under the TSA system. The DTCO in Dolakha operates with 11 employees and covers 39 district offices (2 local bodies, 1 army office, 4 police, and 32 other government offices).

Philip Sinnett, Head of PEFA Secretariat

TSA field visit to Dolakha district (March 13, 2014)

Box 2: TSA System working in the remote Dolakha district

The TSA system has made lives easier for spending units in Dolakha by processing the payment orders and issuing the checks in 20-60 minutes. This was the observation made during the interaction with beneficiaries at the DTCO in Dolakha. The beneficiaries also expressed that the process had been going well, and they were receiving checks on a timely basis. The team also observed the payment request registration, verification of signatures, processing of payments, and issuance of checks to spending units. On average, the DTCO issues 100 checks per day. On monthly basis, The DTCO receives budget forecast details and generates summary of transaction reports and sends it to the Nepal Rastra Bank and FCGO. These transaction reports comprise recurrent and capital expenditure and monthly revenue collection status. The DTCO generates annual reports based on daily and monthly reports. On the revenue side, it receives daily revenue voucher and bank statements that it posts to the TSA system.

However, there were issues related to slow server and delay in reconciliation of bank statements as a result of manual banking. Since the banks provide manual vouchers, this leaves room for errors. In order to run the TSA system more smoothly, the DTCO staff recommended that banks should use an appropriate software application instead of doing it manually.

C. Way Forward: Toward the Next Phase of PFM Reforms

Since 2010, the MDTF has moved from a simple funding mechanism for PFM reform projects to a strategic instrument supported by the Government of Nepal, the development partners, and the World Bank aiming at contributing and supporting transparency and accountability and helping the government to build its own capacityby leading on the implementation of the PFM reforms.

Despite the limited amount of funds pledged initially for the MDTF, these funds have been committed in an efficient way. The Government's most important elements identified in the reform plan have been supported. The results generated through this engagement have established the basis upon which the future reform actions will build. The reform strategy that will be developed through the use of the ORA and the PEFA assessment needs to complement prior achievements and should feed into the revised results framework document that will guide the second round of PFM MDTF programming.

Following the general elections in March 2014, a new government was appointed in Nepal with ambitious agendas for change. This momentum has been illustrated in the discussion and adoption of a new approach for budget preparation, and plans to improve linkage between the budget priorities and the resources and to introduce a fiscal responsibility act that will define the discipline of budget management. Government priorities have evolved since 2010 when the MDTF was established, and capacities have been enhanced with the PEFA Secretariat in place resulting in a better position for the government to articulate its needs.

In this context, the PFM MDTF has undertaken multiple analyses to identify the PFM system status; these include

(a) Operational Risk Assessment;
(b) PEFA assessment; and
(c) stock-taking of IT needs to support the government IFMIS.

These assessments are expected to feed into the PFM reform strategy by the second half of FY15 helping to feed into the budget and work plan for FY15-16. However, there are some topics, such as the internal audit work within the government, which the development of the action plan can start prior to finalization of the strategy. Such weaknesses in the internal audit work have been identified in different reports and assessments.

Going forward, it is essential that MDTF activities build on the current achievements and are scaled up and flexible to ensure that the reform impact of MDTF interventions is transformational and increases exponentially and the benefits are sustained. The MDTF will continue strengthening institutional capacity in the public sector, especially in budget planning, executing, reporting, and external auditing. This will ensure that the PFM MDTF is able to assist the Government with medium-term, capacity-building programs.

PART III: FINANCIAL REPORT

Current Status of Contributions

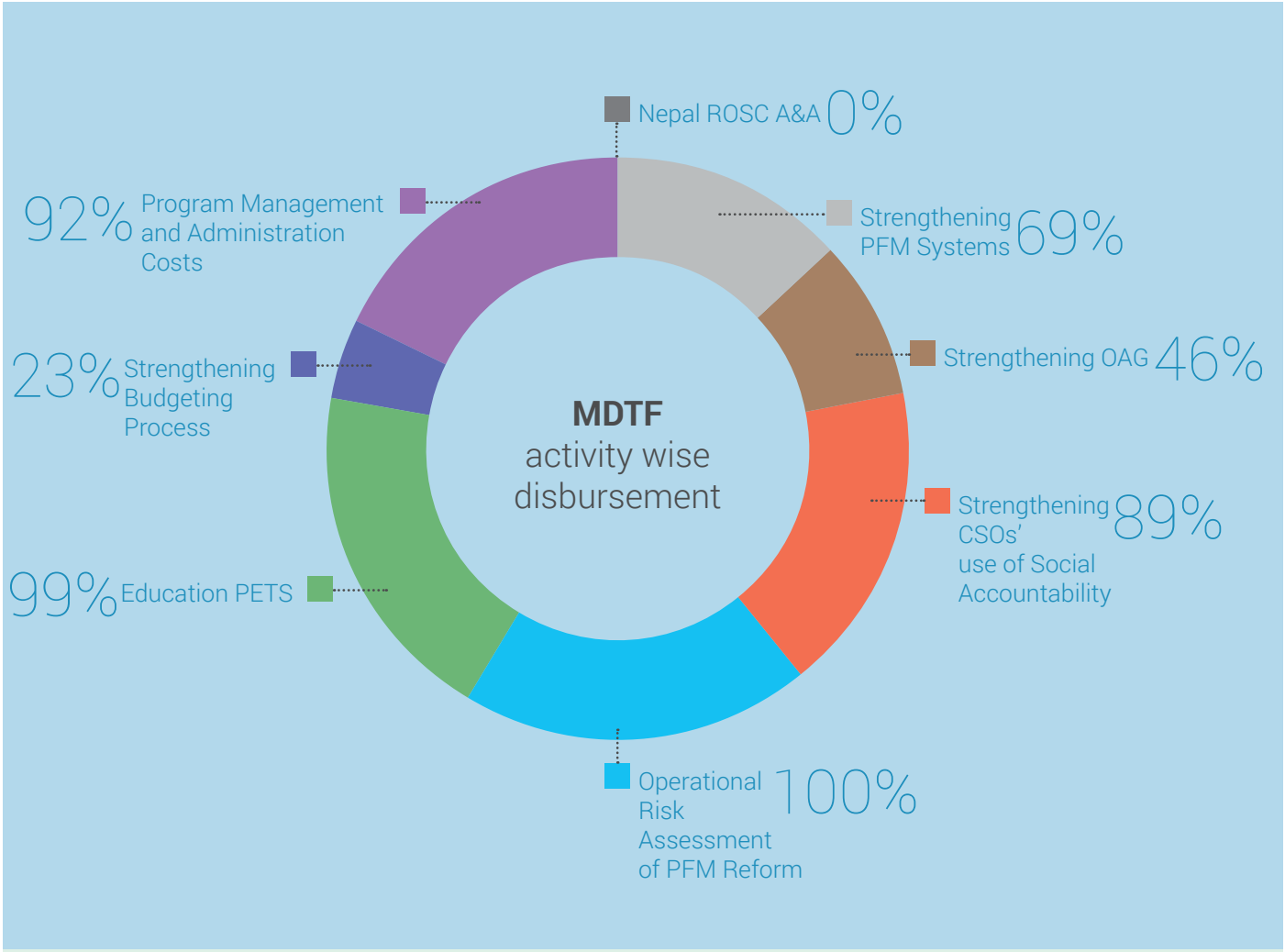
During the last semester, the EU joined the MDTF donors through pledging EURO's 4.5 million. As of 30 June 2014, the total pledged amount to the MDTF, by 5 donors, was at the equivalent of US$ 17.71million. All donors have signed administrative agreements (AA), demonstrating their commitment to the MDTF and its objectives. Current deposits (i.e., funds received by the Administrator) stand at US$ 14.6 million, with the balance of pledged funds to be paid into the MDTF account, administered by the WB, as per the AA.

Table 4: Donor Contribution to MDTF

Donor Name	Country Currency	Amount in Country Currency	Amount in USD	Receipts in Country Currency	Receipts in USD	Balance in Country Currency	Balance in USD
Royal Norwegian Embassy	NOK	15,000,000.00	2,615,314.36	15,000,000.00	2,615,314.36	0.00	0.00
United Kingdom-Department for International Development (DFID)	GBP	3,500,000.00	5,571,360.00	3,500,000.00	5,571,360.00	0.00	0.00
Department of Foreign Affairs and Trade (formerly known as AusAid)	AUS	2,850,000.00	2,991,120.00	2,850,000.00	2,991,120.00	0.00	0.00
Embassy of Denmark	DKK	2,000,000.00	378,465.32	2,000,000.00	378,465.32	0.00	0.00
European Union	EUR	4,500,000.00	6,124,844.75	2,250,000.00	3,080,025.00	2,250,000.00	3,044,819.75
Total		27,850,000.00	17,680,104.43	25,600,000.00	14,635,284.68	2,250,000.00	3,044,819.75

Table 5: Disbursements as of June 30, 2014

Grant Number	Grant Name	Grant Closing Date	Grant Amount USD	Disbursements USD	Fund Balance USD	Commitments USD	Available Balance USD
TF013011	Operational Risk Assessment of PFM reform in Nepal	6/30/2013	199,983.75	199,983.75	0.00	0.00	0.00
TF010623	Program Management and Administration Costs.	6/30/2015	314,135.00	290,057.40	24,077.60	1,332.78	22,744.82
TF010454	Preparation, appraisal, supervision, monitoring, reporting costs of Strengthening PFM Systems	6/30/2015	350,000.00	223,845.26	126,154.74	0.00	126,154.74
TF010482	PREPARATION AND SUPERVISION COSTS OF STRENGTHENING OFFICE OF THE AUDITOR GENERAL PROJECT	6/30/2015	160,000.00	131,011.55	28,988.45	0.00	28,988.45
TF012492	NP ED PETS	12/31/2014	150,000.00	148,346.99	1,653.01	0.00	1,653.01
TF012524	Strengthening Civil Society Organisations' Use of Social Accountability to Improve Public Financial Management in Nepal	6/30/2015	700,000.00	531,502.52	168,497.48	81,778.68	86,718.80
TF012668	NLTA under the SPFM Project to Govt of Nepal	6/30/2015	500,000.00	198,227.11	301,772.89	116,555.92	185,216.97
TF015354	Nepal: Strengthening Budgeting Process	7/30/2015	905,000.00	204,358.84	700,641.16	47,187.55	653,453.61
TF017673	Nepal ROSC A&A	6/30/2015	35,000.00	0.00	35,000.00	0.00	35,000.00
TF010452	Strengthening Public Financial Management (PFM) System (Treasury System, Financial Reporting and PFM Capacity Building)	6/30/2015	4,300,000.00	3,153,226.26	353,892.85	1,146,773.74	792,880.89
TF010455	Strengthening the Office of the Auditor General Project	6/30/2015	2,300,000.00	994,409.96	1,305,590.04	1,305,590.04	0.00
TF012485	Strengthening Civil Society Organisations' use of Social Accountability to improve Public Financial Management in Nepal	9/30/2014	800,000.00	800,000.00	0.00	0.00	0.00
	TF Admin Fee		231,105.19				
	Unallocated		3,776,542.89				
	Total		14,721,766.83	6,874,969.64	3,046,268.22	2,699,218.71	1,932,811.29


MDTF
activity wise
disbursement
Nepal ROSC A&A 0%
Strengthening PFM Systems 69%
Strengthening OAG 46%
Strengthening CSOs' use of Social Accountability 89%
Operational Risk Assessment of PFM Reform 100%
99% Education PETS
23% Strengthening Budgeting Process
92% Program Management and Administration Costs

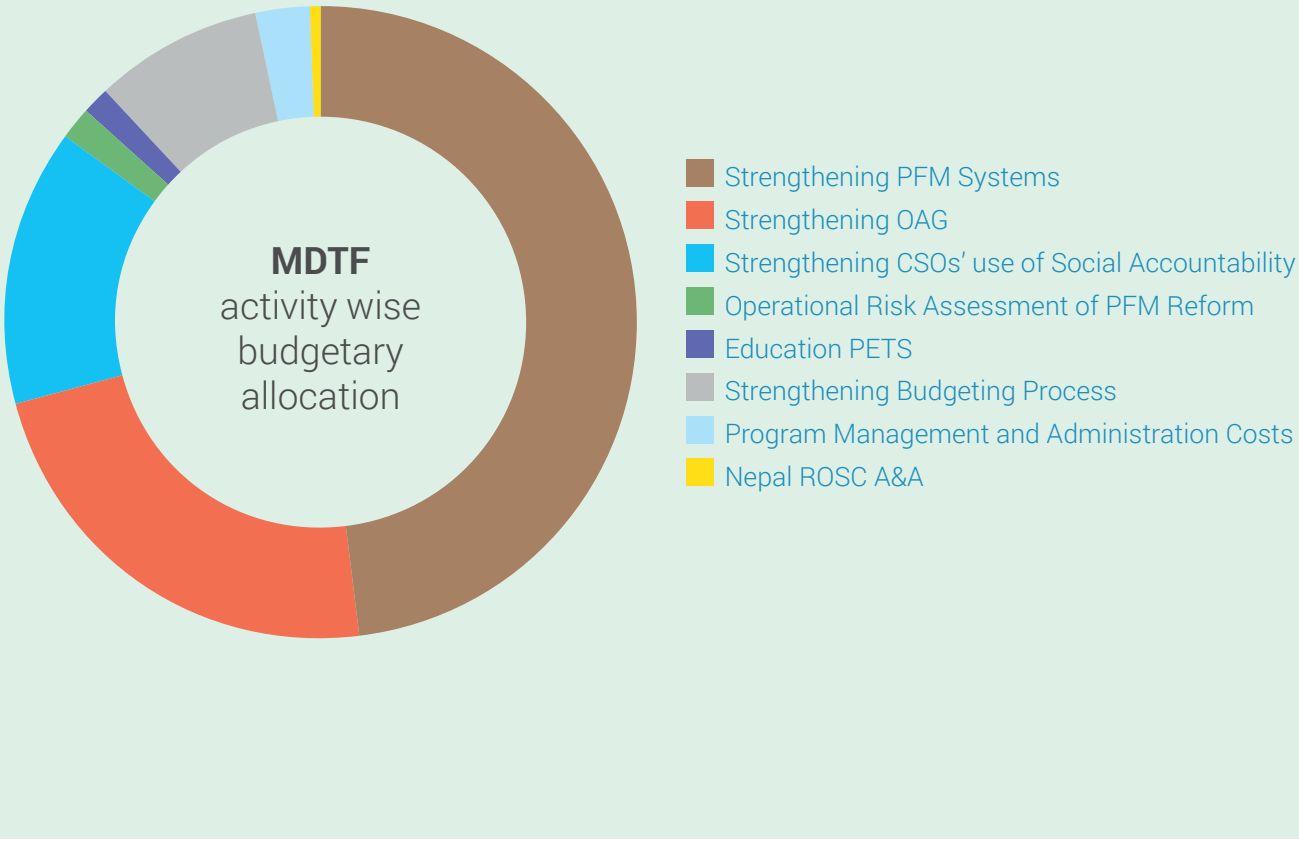

MDTF
activity wise
budgetary
allocation
Strengthening PFM Systems
Strengthening OAG
Strengthening CSOs' use of Social Accountability
Operational Risk Assessment of PFM Reform
Education PETS
Strengthening Budgeting Process
Program Management and Administration Costs
Nepal ROSC A&A

Figure 2

Strengthening PFM Results Chain for the Nepal MDTF

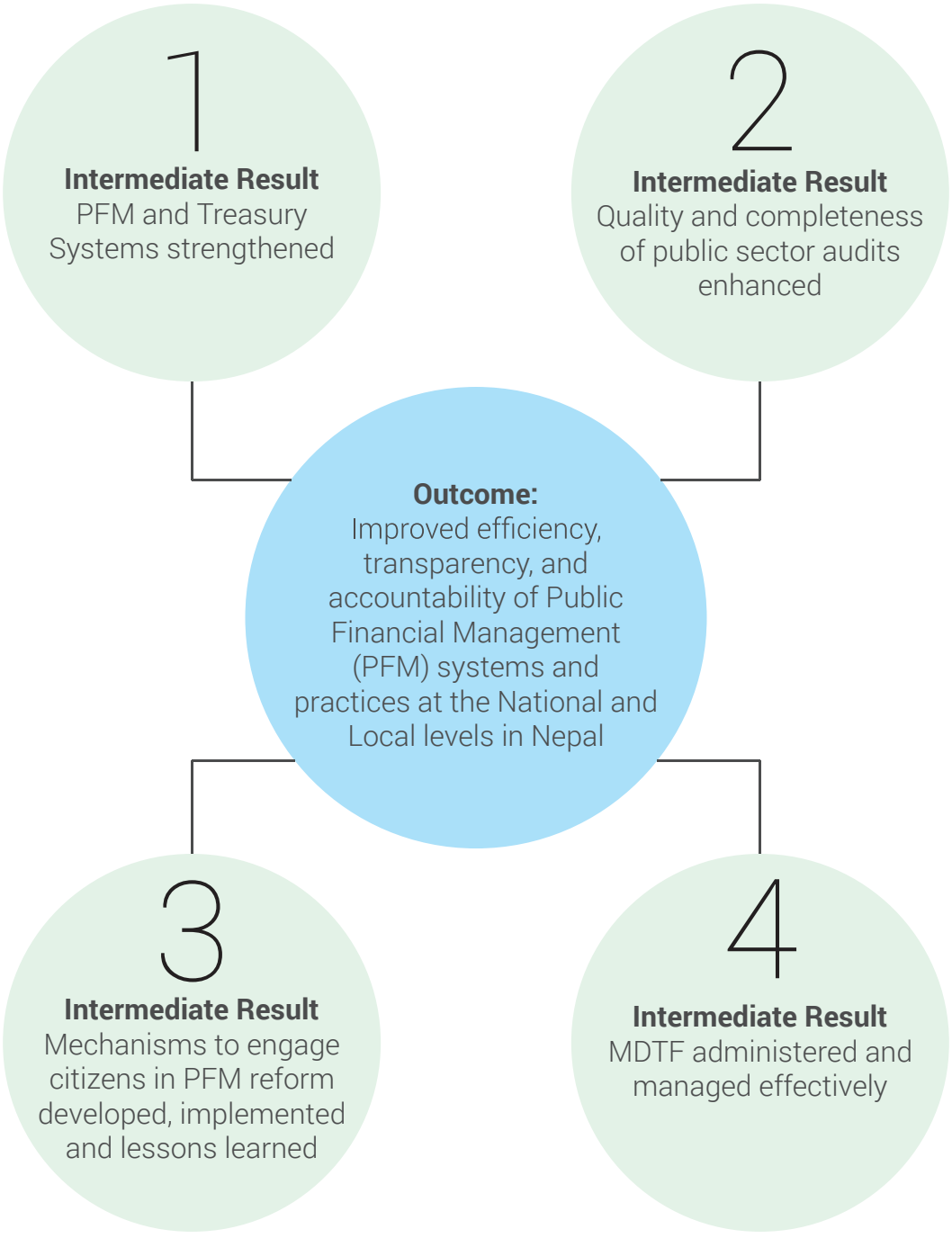


Table 6: Strengthening PFM Results Chain for the Nepal MDTF

(Prepared by Nepal MDTF Program Management)

Outcome	Indicators	Baselines and targets	Status update
Improved efficiency, transparency, and accountability of PFM systems and practices at the national and local levels in Nepal.	Efficiency: Reduction in the percentage of capital budget executed in the fourth quarter of the fiscal year.	Baseline: 70% (2011) Target : 60% (2015)	Activity just implemented; result not yet observed.
	Transparency: Number of sectors for which information on budget allocation and expenditures are made available to the public	Baseline: No information on budget allocation and expenditure of sector ministries available to the public (2011) Target: Information on budget allocation and expenditure in 2 sector ministries made public by June 2015.	FCGO has enhanced BER monthly reports to contain budget and variance information, effective late 2013; and monthly and quarterly reports are being published on the web: monthly reports before the 7th of the following month and quarterly reports before the 15th of the month following the end of the quarter.
	Accountability (a): Time for submission of audit reports to the legislature (in months).	Baseline: 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors). Target: 8 months from the end of the period covered (in the case of financial statements from their receipt by the audit office)	Auditor General submitted the FY12/13 within 9 months of the end of fiscal year in April 2014.
	Accountability (b): Percentage of individuals getting the right amount of entitlements at the right time in 80 VDCs of the 10 districts targeted	Baseline: 0 (2013) Target: 75% (2014)	PETS for assessing right time and right amount with regard to old age, single women (widow), disability (full or partial) entitlements being conducted in 80 VDCs and 10 districts. As per reports provided by 40 small grant CSOs engaged in exercise. 11,158 data sets were collected and preliminary results were presented.

Intermediate results	Indicator	Baseline and targets	Status update
IR #1: PFM and Treasury Systems strengthened.	Number of districts in which TSA system is implemented.	Baseline : 8 districts (2011) Target: 75 districts (July 2014)	TSA has been rolled out across all 75 districts in Nepal with effect from July 2013 and operating on an on-line basis.
	Reduction in the percentage of bank accounts maintained by spending units.	Baseline: 14,000 accounts in existence (2011) Target: at least 75% of bank accounts reduced compared to baseline (June 2015)..	About 13,500 bank accounts have been closed so far. Analysis is being undertaken as how to further rationalize the existing bank accounts (which stand at about 700).
IR #2: Quality and completeness of public sector audits enhanced.	Increase in the percentage of financial statement audits meeting the OAG auditing standards.	Baseline: 35% (2011). Target 60% (June 2015).	June 2014: 50%
	Increase in the frequency of performance audit reports meeting quality and completeness criteria set by the OAG.	Baseline: One per year (2011). Target: 3 per year (June 2015).	June 2014: 2 per year.
IR #3: Mechanisms to engage citizens in PFM reform developed and implemented and lessons learned shared.	Increase in the number of independent budget analyses at national-level conducted and shared by social accountability grantees.	Baseline: 0 (2013). Target: 3 (June 2014).	As per agreed deliverables in their contract, large grant CSOs to achieve this by 2014.
	Number of VDCs in which social security allowance expenditure is tracked.	Baseline: 0 (2013) Target: 60 VDCs (June 2014).	Social security allowance expenditure tracking using surveys in process in 80 VDCs as of June 2014. Preliminary findings from survey data presented during the reporting period.
IR #4: MDTF administered and managed effectively.	Functional M&E system for the MDTF program established.	Baseline: No program results indictors in place (2011). Target: Program results indicators monitored and reported (2014).	Program results indicators monitored and reported through six monthly progress reports.
	MDTF work program results and reports disseminated.	Baseline: No organized system in place for the dissemination of program results and reports (2011). Target: Program results and reports uploaded and disseminated through a program website (2014).	MDTF Website effective from October 2013. Website updated regularly with relevant reports, newsletters, and project documents.

Annex A: Project Data

Table A1: Strengthening PFM System Project

Project name	Strengthening Public Financial Management Systems
Grant amount	USD $5.15 million
Duration	October 31, 2011 - June 30, 2015
Implementing agency	FCGO
Objective	The development objective is to improve expenditure control and enhance government accountability and transparency by strengthening treasury system, improving financial reporting and building up PFM capacity. The project is expected to improve controls in public expenditure management and budget monitoring of Government of Nepal. The components of this project are a. Implementation of TSA system; b. Enhancing government accounting and reporting practices c. supporting capacity of the PEFA secretariat, d. project management.
Disbursement	US$3.6 million
Status of disbursement	On track
Results achieved	• TSA has been rolled out across all 75 districts in Nepal with effect from July 2013 and operating on an on-line basis. • Out of 14000 bank accounts, about 13,717 have been closed. FCGO is working on closing the accounts that are no longer required due to the presence of TSA. • The Government of Nepal has been able to save around USD $2 million from commissions/operating costs due to closure of accounts. • FCGO web publishes monthly and quarterly budget execution reports that contain budget and variance information. It also produces and disseminates daily budgetary status, containing information on aggregate revenue, expenditures, and budget surplus/deficit. • NFRS aligned to IFRS has been pronounced by ICAN. • NPSAS aligned to IPSAS will be piloted in two ministries: Ministry of Physical Infrastructure and Transport; Ministry of Women, Children, and Social Welfare. • Software licensing has been granted for the IT software.

Table A2: Strengthening OAG Project

Project name	Strengthening the Office of the Auditor General Project
Grant amount	US$2.46million
Duration	Feb 23, 2012 – June 30, 2015
Implementing agency	Office of Auditor General, Nepal
Objective	The development objectives of Strengthening the Office of the Auditor General Project are to enhance the quality and impact of public sector audit in Nepal.
Disbursement	US$1.1 million
Status of disbursement	On track
Results achieved	● The Auditor General submitted the 51st annual report of FY2012/13 in April 2014. ● Move to risk-based auditing approach. ● The project consultants (Cowaters) have reviewed the OAG Quality Assurance Handbook and delivered workshops to senior management and to audit staff on quality assurance. ● The project has been conducting 2 performance audits per year. Three additional in-depth performance audits in progress (Kathmandu Valley Road Improvement Project, Health Service Delivery, and Social Security Allowances) applying the revised performance audit guide procedures. ● OAG has been collaborating with CSOs to engage the civil societies in the auditing process.

Table A3: Strengthening CSOs Use of Social Accountability to improve PFM

Project name	Strengthening CSOUse of Social Accountability to Improve PFM Nepal
Grant amount	US$1.5 million
Duration	Aug 30, 2012 - September 30, 2014
Implementing agency	Centre for International Studies and Cooperation(CECI)
Objective	The development objectives are to strengthen the transparency, efficiency, and inclusiveness of three specific areas of PFM in 10 districts of Nepal through fostering the use of different social accountability approaches by Nepali CSOs. The three PFM areas are a. national budget planning, dissemination, and analysis; b. local (district, municipal, and village) budget planning, dissemination, and analysis; and c. local monitoring of procurement, budget execution, and service performance.
Disbursement	US$1.3 million
Status of disbursement	On track
Results achieved	● Dissemination of preliminary results on social security entitlements. ● Workshop for all grantees on analysis, communication, and dissemination of results. ● Production of information, education, and communication materials on budgetary issues. ● OAG and CSOs develop framework for engagement through a peer-assisted process. ● Public consultation by OAG Nepalin Kapilvastu. ● Simplified booklet on Nepal's Auditing System and Practices published.

Annex B: Snippets of Demand-side Activities

Completion of activities under 40 local and 3 national grants
A two-day workshop was organized in Nepalgunj in order to (a) develop a better understanding on VDC budget allocation, basic budget tracking, and writing case study narratives based on those findings; (b) reorient the Social Accountability Practitioners (SAcPs) on how to conduct surveys and administer questionnaires together with improved ways of conducting comparative research and tracking change over time; and (c) improve each SAcP's individual case story writing skills through peer critiques.
Results are presented in the Table B1.

Table B1: Results of Workshop in Nepalguni

Outline of sessions	Output
Share recent experiences reviewing FY1968/69 and 1969/70 VDC budget minutes. Provide orientation in budget tracking and allocation to extract budgetary data, as well as calculate budget allocation and mandatory compliance in allocations from VDC budget meeting minutes	Trained CSO SAcPs to analyze minutes and budget allocations.
Peer group work to extract and analyze budget allocation data, as well as writing narratives to explain the variance or compliance.	Increased knowledge on possible variations in budget allocationpractices across VDCs and impact for future advocacy work.
CSO buzz groups with small group presentation to discuss what SAcPs learned regarding budget analysis and how to use in future advocacy work on budget tracking andbudget literacy initiatives.	Identify future engagement areas and building a basis for sustainable exit plans.
Review case stories to focus further on what and how to write, as well as provide overnight assignment to teams to refine case stories.	Improve writing and presentation skills to have these ready for PRAN reporting.
Share results framework, including outputs and outcomes, by linking these with the VDC Secretary baseline and identify points of focus of the endline; have a buzz group on CSO experiences in conducting the baseline and the challenges and a presentation of small group learning.	CSO re-oriented on results framework, plus building a focused and shared understanding about it.
End line questionnaire and checklist orientation.	CSO SAcPs familiarized with the questionnaire along with the checklist and the possible problem spots, as well as how to probe for responses and triangulate responses.
Team presentation and collective learning points.	Increased understanding of conducting interviews and increased familiarity with research tools.
Present case stories and wrap up.	Improved case story writing skill.

Completion of Radio Community Program on PFM
This component of the program was designed to create greater awareness by informing and educating to the local communities to increase their service-seeking behavior on budgetary issues in 10 districts. Each producer selected community radio stations, and CSO representatives participatedin the initial training. As a result of the training, community radio stations produced and broadcast weekly 30-minute radio program over a period of 10 months, focusing on identified PFM issues on content guidelines provided by ACORAB. FM stations produced and broadcast 10 PSAs and 30 notices. They also organized 30 public hearings: in each district two public hearings were at the VDC level and one was for district-level issues.In addition, all 10-community radio stations have been broadcasting PFM-related public service announcements.

Findings of Preliminary Results of Social Security Entitlements based on PETS

Demographic:
Irrespective of gender or type of entitlement received, most of the citizens accessing entitlements were preliterate -- that is, with basic literacy skills only. Most respondents (81 percent) reported they were aware of the amount of entitlement to which they were eligible to receive. Almost all (98 percent) of the respondents accessing old age social security entitlement were married or widowed. For those who were only recently widowed, this change of marital status was not updated in their entitlement IDs. Interestingly, 82 percent of the 316 unmarried citizens were also in the disabled category.

Awareness and access:
About 81 percent of respondents said they knew what the entitlement amount was. Of these, over 94 percent actually had the correct knowledge about the amount. There was no significant difference by either gender or educational status in the level of awareness around social security entitlement amounts. About 25 percent reported not receiving their full monthly entitlement amount. About 77 percent of the respondents reported less than 10 percent deductions, 17 percent between 10 to 25 percent deductions, and 6 percent more than 25 percent deductions.

Receiving a notice from the VDC was the primary source of information about entitlement disbursement dates with 76 percent or two-thirds reported that this was how they were informed. Family members helped 43 percent receive disbursement date information, while community media and others together comprised 34 percent or about one-third.
More than 81% of respondents could not say what the entitlement distribution date for each quarterly disbursement was. Even among the 19 percent who said they knew the date, less than 50 percent of those who believed that they knew could state with accuracy the exact dates for each of the three installments.

Allocations:
Overall, entitlement amounts were spent on medical treatment (88 percent), food (83 percent) and clothes (71 percent) followed by the education of their grandchildren (31 percent), religious activities (13 percent), and other (11 percent). In terms of allocations, 35 percent was spent for medical treatment, 32 percent for food, 19 percent for clothes, 6 percent for the education of grandchildren, 5 percent for religious activities, and 3 percent for other.

Problems:
Respondents referred to administrative obstacles in "registering" their eligibility for social security entitlements, including problems with arranging renewal of their ID cards (25 percent), reaching locations of entitlement distribution (38 percent), and untimely distribution of the social security entitlement (53 percent). In addition, respondents also mentioned their concerns about not receiving their full amount (11 percent) and the amount itself being nominal (71 percent). See Table B2.

Table B2: Problems experienced as a recipient of social security entitlements (in percentage)

Entitlement type	Nominal	Not timely	Not full	Mobility	Administrative
Senior citizen	69	52	11	40	24
Widow	73	53	11	36	26
Partial disability	80	60	19	39	28
Full disability	64	53	17	39	30
Total	71	53	11	38	25

MDTF Contact Person
Pragya Shrestha
Operations Analyst
Governance
The World Bank
Email: Pshrestha1@worldbank.org
Tel.: 4226792 (Ext. 6171)

www.mdtfpfm.org.np