NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

July-December, 2014
Progress Report

Nepal Public Financial Management
Multi-Donor Trust Fund

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ACKNOWLEDGMENTS

ABBREVIATIONS AND ACRONYMS

CAAT	Computer-aided audit techniques
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
GDP	Gross domestic product
ICGFM	International Consortium of Government Financial Management
IFMIS	Integrated financial management information system
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
MoFALD	Ministry of Federal Affairs and Local Development
MTBF	Medium-term budget framework
MTEF	Medium-term expenditure framework
NPSAS	Nepalese Public Sector Accounting Standard
OAG	Office of the Auditor General (of Nepal)
PAC	Public Accounts Committee
PCC	Program Coordination Committee
PEFA	Public Expenditure Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public financial management
PRAN	Program for Accountability in Nepal
SAI	Supreme Audit Institution
TSA	Treasury single account
VDC	Village development committee

CONTENTS

FOREWORD

As a core area for reform in developing countries, public financial management (PFM) systems support decision making on fiscal policy and underpin budget implementation and reporting. Shortcomings in such systems can dissipate fiscal discipline and macro-economic instability, weaken alignment between the allocation of public resources and national policy priorities, and contribute to greater waste and corruption in the delivery of public services. The effects are even more pronounced in countries with limited resources. To address these challenges, the Nepal PFM Multi-Donor Trust Fund (MDTF) continues to play a vital role and achieve visible results.

The MDTF role should be expanded to continue realization of further gains. The past six months, July to December 2014, have seen significant developments in MDTF operations. An extension of MDTF to January 31, 2018 is currently being processed. Through the Strengthening of PFM System Project, MDTF is preparing for additional financing to Phase II of the treasury single account (TSA) consolidation, and enhancing the core treasury systems. After the TSA has been successfully rolled out, the additional financing will support IT infrastructure required to sustain the systems. The additional financing will also focus on PFM capacity building in-country through accreditation courses for government officials.

Two piloted projects have been completed for rolling out financial statements that are compliant with Nepalese Public Sector Accounting Standards (NPSAS). These NPSAS-based financial reports received certification by the International Consortium of Government Financial Management (ICGFM). The PEFA Secretariat continues its exemplary efforts in conducting research and outreach to various stakeholders through field visits, training, newsletters, journals, website, and media.

The MDTF continues its support to the Strengthening the Office of the Auditor General (SOAG) Project. The project has already achieved the end-of-project target for the number of in-depth performance audits. The Supreme Audit Institution (SAI) India, having completed the peer review of OAG, will share the peer review report in near future and will provide a plank for development of the next strategic development plan of the OAG. The MDTF task team has received a formal request from the Government of Nepal for restructuring of the results

framework and extension of closing date (of the SOAG Project). This request is currently being processed.

Demand-side activity to improve PFM continues its collaboration with OAG through the Strengthening Civil Society Organizations Use of Social Accountability (SCSO) Project. This demand-side component is in the final stages of preparing for Phase II. The concept note went through a virtual review and incorporated comments received from MDTF development partners and the World Bank. Following the approval of the concept note, a project paper was prepared and is currently under review.

Following extensive consultations and discussions among stakeholders, the second Public Expenditure and Financial Accountability (PEFA) assessment is nearing finalization. This joint process included a self-assessment prepared by the Government of Nepal (with nine teams formed for the purpose and led by joint secretaries); this joint process was qualitatively assessed by a World Bank team and PEFA Secretariat (in Washington, D.C.). This report was endorsed at the decision meeting held on December 16, 2014 where it was acknowledged as a unique achievement and deserved credit not only in terms of candor and quality of the assessment but also in respect of support from MDTF donors and commitment of the Government of Nepal for further improvements. With the completion of the second PEFA assessment, the Government of Nepal is currently in the process of developing the new PFM reform action plan. Preparation of this action plan will help sustain the ongoing PFM reforms in Nepal and promote effective and transparent public spending. The future work program of MDTF will be based on the activities identified in the new PFM reform action plan.

We take this opportunity to welcome the Government of the Swiss Confederation to MDTF. The Administrative Agreement was signed between the World Bank and the Government of the Swiss Confederation on September 12, 2014.

Manoj Jain
Program Manager, 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 inclusive and broad-based development. The PFM agenda has also been a top priority for 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, UK Department for International Development (DFID), the Governments of Norway and Denmark, and the Australian Government Department of Foreign Affairs and Trade (DFAT). Switzerland became the sixth donor to join the MDTF following the signing of the Administrative Agreement with the World Bank in September 2014.

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. The PEFA 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).
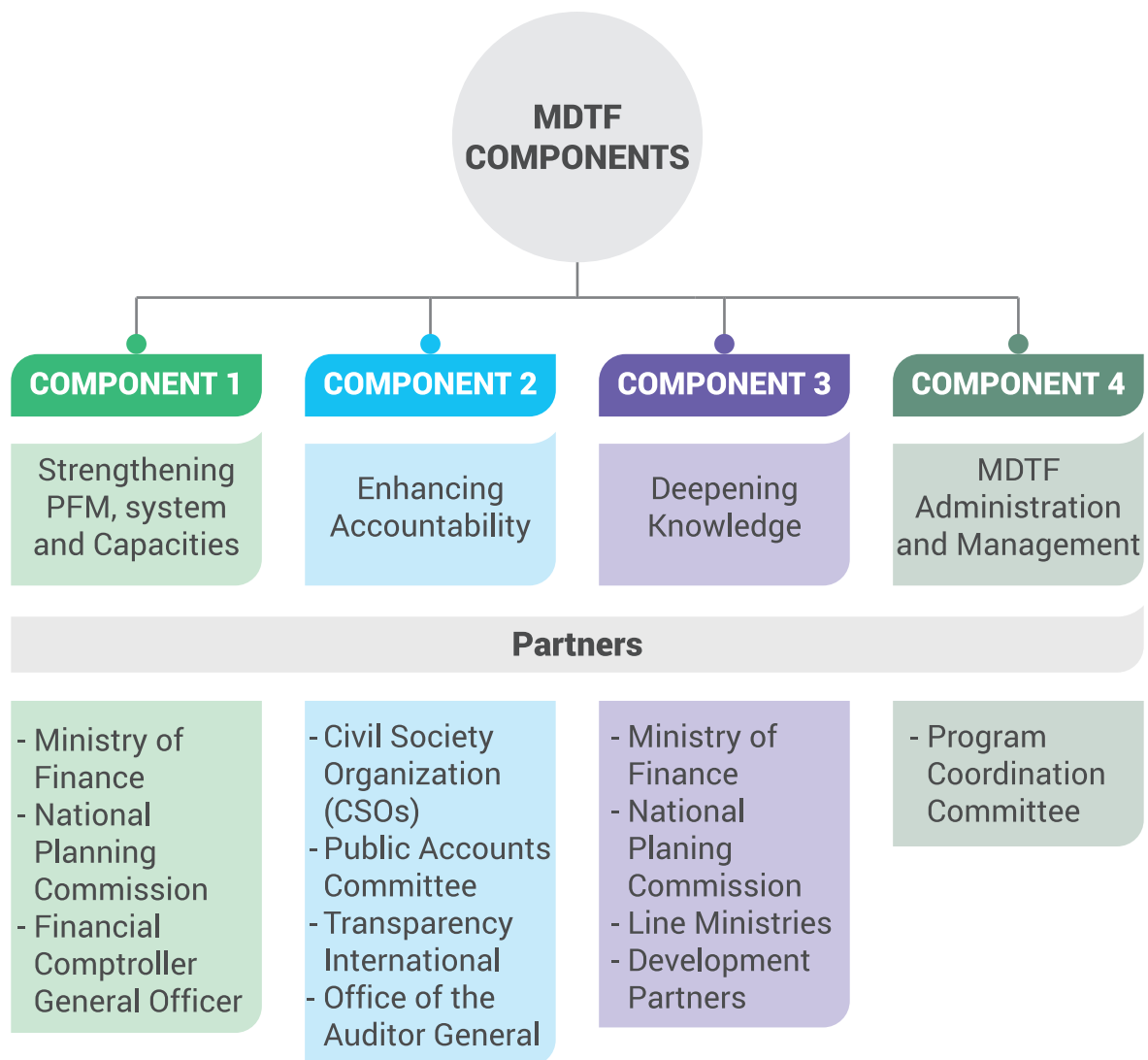
The objective of the MDTF in Nepal is to strengthen PFM performance, transparency, and accountability (Annex B). The MDTF supports activities that will:
- Strengthen PFM systems and processes (supply side);
- Strengthen institutions of accountability and civil society to enhance their oversight of PFM processesand performance (demand side), and
- Deepen knowledge about current PFM practices and options for improvements (analytical assessments).

There are four components under the PFM MDTF listed as follows and illustrated in Figure 1:

- **Component 1, strengthening PFM system and capacities,** has one main operation 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, enhancing PFM accountability,** has two sub-project operations that relate to (a) strengthening the OAG and (b) strengthening CSOs' use of social accountability to improve PFM.

- **Component 3, deepening PFM-related knowledge,** 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 in the PFM sector.

- **Component 4 deals with program management and administration.**

Figure 1: MDTF Components

MDTF COMPONENTS

COMPONENT 1	COMPONENT 2	COMPONENT 3	COMPONENT 4
Strengthening PFM, system and Capacities	Enhancing Accountability	Deepening Knowledge	MDTF Administration and Management

Partners

- Ministry of Finance - National Planning Commission - Financial Comptroller General Officer	- Civil Society Organization (CSOs) - Public Accounts Committee - Transparency International - Office of the Auditor General	- Ministry of Finance - National Planing Commission - Line Ministries - Development Partners	- Program Coordination Committee

PART I.
OVERVIEW OF RESULTS

Part I covers progress on two components: Strengthening PFM System and Capacities and Enhancing Accountability in Public Financial Management. The first component has one sub-project on Strengthening PFM Systems. The second component comprises of two sub-projects that relate to strengthening the OAG and strengthening CSOs' use of social accountability to improve PFM.

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

Table 1: Performance ratings of SPFM Project

Project Data		Projects Performance Ratings		
Approval date	October 31, 2011	Summary Ratings	Previous	Current
Effectiveness date	October 31, 2011	Achievement of PDO	S	S
Closing date:	June 30, 2015	Implementation Progress	S	S
Grant amount	US$ 4,300,000	Monitoring & Evaluation	S	S
Amount disbursed (Percent of total project)	US$ 4,192,140 (97%)*	Project Management	S	S
		Procurement	S	S
		Financial Management	S	S
		Counterpart Fund	S	S

*Application in pipeline of US$1.03 million, which will take disbursement to US$4.18 million (97%).
Ratings: S=Satisfactory.

Subcomponent 1.

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 a year ahead of the planned schedule. Alongside improved management of idle cash balances, this complete rollout has helped centralize payments at District Treasury Controller Offices (DTCOs) and closed down about 14,000 bank accounts. Through this project, a daily budgetary status is also generated that provides information on aggregate revenue, expenditures, and budgetary surplus/deficit with a lag of only one 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. Upgrading of the integrated financial management information system (IFMIS) to further strengthen the core treasury system is also progressing satisfactorily. **This will include, recording of commitments, cash forecasting reports, secure automatic daily bank reconciliation, capturing of missing receipt information (e.g., customs, VAT), and development of additional reports.**

Daily budgetary status displayed through visual media
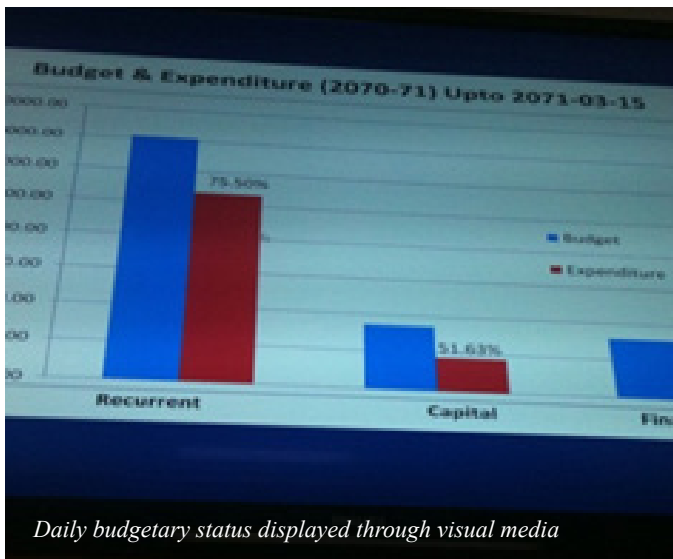
Subcomponent 2.

The two pilots for rolling out the NPSAS-compliant financial statements for FY11/12 and FY12/13 are complete. NP-SAS-based financial reports have been certified by ICGFM in Washington, D.C. The Financial Comptroller General Office (FCGO) also organized a high-level stakeholder workshop in July 2014 to review the results of the NPSAS pilots and analyze the costs and benefits of their application. The workshop also helped reach consensus on a recommended roadmap for improving public sector accounting and reporting in Nepal. The staff of the two pilot departments underwent training and started preparing NPSAS-compliant financial statements-forFY13/14 in the two respective line ministries; the statements will be audited and certified by OAG.

Subcomponent 3.

The PEFA Secretariat continues its exemplary efforts in reaching out to various stakeholders through field visits, training, newsletters, journals, website, and media. The PEFA Secretariat funded a radio program to disseminate information on PFM reform featuring interviews with various public sector PFM experts with broadcasts on the first and last Friday of every month through Radio Nepal. The PEFA Secretariat is conducting research in five high-priority areas with completion slated by April 2015:

a) Study on Internal Audit System in Nepal
b) Pattern and implication of off-budget items in public financial accountability
c) Feasibility study on establishing a National Institute of PFM
d) Impact of government investment in public enterprises in terms of loan and share investment
e) Impact of implementation of TSA in public finance.

Going forward, the Secretariat will put more focus toward conducting research and analytical studies. Following extensive consultations and discussions among various stakeholders, the second PEFA assessment is nearing finalization. This joint process included a self-assessment prepared by the Government of Nepal (with nine teams formed for this sole purpose, led by joint secretaries) that was thereafter qualitatively assessed by a World Bank team and PEFA Secretariat (in Washington, D.C.). This PEFA report was endorsed at the decision meeting held on December 16, 2014, where it was recognized as a unique achievement not only in terms of candor and quality of the assessment but also with respect to support from MDTF donors and commitment of the Government of Nepal for further improvements.

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)

Considerable progress was noted with respect to risk-based annual audit planning, financial audits, financial audit manual, performance audits, training related to performance audit and the design of the Electronic Working Papers – Nepal Audit Management System (NAMS). A peer review report by the Supreme Audit Institute India has been finalized and submitted to the World Bank. In addition, the end-of-project target for the number of in-depth performance audits to be reported to Parliament next year has already been achieved, and OAG has enhanced public participation in the performance audit practice. Further, the review team noted that the OAG submitted its Annual Report for FY12/13 to the President within nine months of the end of fiscal year. The review team did note a lag in the component relating to the Public Accounts Committee (PAC). However, for the first time in over two years a PAC has been constituted.

Table 2: Performance ratings of SOAG Project

Project Data		Projects Performance Ratings		
Approval date	August 16, 2011	Summary Ratings	Previous	Current
Effectiveness date	February 23, 2012	Achievement of PDO	MS	MS
MTR date	January 26-29, 2014	Implementation Progress	MS	MS
Closing date:	June 30, 2015	Project Management	MS	MS
Grant amount	US$ 2.3 million	Financial Management	MS	MS
Amount disbursed (Percent of total project)	US$ 0.99 million (43%)*	Procurement	S	S
		Monitoring and Evaluation	MU	MU
		Counterpart Funding	S	S

*Disbursement of about US$733,000 is under processing, which will take the total amount to US$1.72 million (75% of the project).
Ratings: S=Satisfactory; MS=Moderately Satisfactory; MU=Moderately Unsatisfactory.

Subcomponent 1.

The OAG used the ISSAI framework of risk-based audit planning for FY12-13 and FY13-14.Intensive follow-up by both the SPFM and SOAG Projects has successfully resulted in allowing access of transactions-level data in TSA system to OAG. Since OAG did not have access to the transactions-level data in the TSA system in year one of the project, the first 13 piloted financial audits were unable to incorporate the use of computer-assisted audit techniques to select statistically valid samples for substantive audit testing, or to "mine" the data through the application of computer-assisted audit techniques. Although the audit of spending units without financial statements was more in the nature of regularity/compliance audit, it contributed toward the financial statement audit of the concerned line ministry and the Government as a whole. The Financial Audit Manual is being revised by a consultant; the final draft of the Manual will be reviewed by an international FM expert (hired by OAG) before being submitting to OAG.

The OAG has received the draft report of the peer review completed by a team from the Comptroller and Auditor General of India using the piloted version of INTOSAI's new SAI Performance Measurement Framework. The final peer review report will be considered in preparing an updated Strategic Development Plan for the period July 2015–July 2020. Since the PFM reform action plan is being developed by the Government of Nepal, the MDTF might consider which parts of the new Strategic Development Plan could be supported through a follow-on project.

In April 2014, for the first time in two years, a new PAC was constituted. The PAC, comprising 51 members, is known to be the largest in the world. However, until recently, its chair had not been elected. During the past 3 years, annual OAG reports have not been scrutinized by any Parliament, and the previous PAC had left some unfinished business in scrutinizing audit reports going back to 2010.

Since an important element of the SOAG Project is providing technical assistance to PAC, an international expert from the consulting team will help the PAC understand the immediate objectives it needs to accomplish and eventually help design the intervention that can be implemented successfully. Due to time constraints in the project, the focus will be on capacity building of PAC members and secretariat. The World Bank is planning a technical mission for January/February 2015 to interact with PAC members and the secretariat along with the international expert.

On September 3-4, 2014, among nearly 90 participants attending a high-level stakeholder workshop — Independence of Supreme Audit Institutions and the Need for New Audit Legislation in Nepal —were PAC members, government officials, and development partners At the invitation of the Nepal OAG, the Norwegian Auditor General addressed the workshop on the importance of independent SAIs. In addition to excellent technical analyses by the Norwegian and Nepal audit offices comparing the Nepal audit legislation to the INTOSAI standards on audit independence, participants

were reminded of the recent resolutions of the UN General Assembly and of the Asia Regional Association of Public Accounts Committees (ARAPAC) calling on all members to ensure that audit legislation in their respective countries adhere to the INTOSAI principles.[1] Next steps are to continue to support the Nepal OAG in policy dialogue on the need for audit legislation, and to respond for a request by the Parliament for technical assistance or orientation training for the new PAC.

The end-of-project target for the number of in-depth performance audits to be reported to Parliament has already been achieved, and OAG has also enhanced public participation in the performance audit process. This initiative began primarily because of the lack of a sitting Parliament and functioning PAC

The World Bank has received the government request to restructure the results framework.OAG and the Bank have already agreed upon the indicators of the revised results framework, which takes into account the updated authorizing environment, attribution to the project activities, and the current status of implementation (Annex A). Given that the time remaining is insufficient for satisfactorily completing all the activities under this project, an extension of 12months (to June 30, 2016) is considered essential for allowing full achievement of the project development objectives. It was agreed that OAG will, through the Ministry of Finance, request the Bank to extend the closing date that will enable simultaneous consideration of this request, along with the request for restructuring the results framework by the Bank's Senior Management.

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

Subcomponent 2.

Phase 1 of the Strengthening of CSOs recipient-executed grant implemented by the Centre for International Studies and Cooperation (CECI) closed on September 30, 2014. During this period, CECI collected and reviewed the final completion reports of the 40 CSOs working at the village development committee (VDC) level in 10districts of the West, Midwest, and Far West Regions. These CSOs conducted local-level participatory planning and budget awareness training as well as participatory gender and pro-poor budget analysis, and participatory procurement monitoring along with public expenditure tracking survey (PETS) with the direct involvement of the community beneficiaries. These activities increased local awareness of PFM budgetary issues as well as increased their capacity to demand for legal social security entitlements.

A similar increase was seen in the participation of women in VDC meetings, in particular, and that of Dalit and disadvantaged communities. These historically disadvantaged communities were able to ensure a larger allocation of the annual VDC budget as required under the MoFALD Local Body Resource Mobilization and Management Operation Guideline, 2069. Because of the local initiative encouraged by the strengthening project, the records of VDC entitlement recipients were updated and the VDC planning and budget was made public. Among the lessons learned under Phase 1 is the importance to expand the project timeframe to include a full budget cycle (at least 18 months for training and analysis) and reach a larger geographic area to produce tangible and lasting impact at the VDC and district level.

Beneficiaries of PRAN gather for budget literacy program in Rolpa district

[1]Nepal is a member of the UN and ARAPAC.

Likewise, to improve the national enabling environment for PFM, local-level learning and achievements need to be brought to the central level where the Nepal Government decision-makers can change policies and procedures. Similarly, collaborating with the existing local government structures is important for sustaining a social accountability program. Phase 2 of the demand-side MDTF program, therefore, will collaborate more closely with VDC governance structures.

Follow-on project (Phase 2). The revised demand-side concept note was prepared and discussed in a technical review, followed by a virtual review. Agreement was given to support a follow-on project for US$1.5 million from January 2015 through June 2016 to extend the project into 15districts (300 VDCs) through closer alignment with the MoFALD Local Government Community Development Program as well as continuing the work with OAG and the PEFA Secretariat. Detailed comments were provided by donors and World Bank colleagues. The final Concept Note package was approved on December 5, 2014, by Takuya Kamata, Nepal Country Manager. The Phase 2Project Proposal was submitted to the Program Coordination Committee (PCC) in late December 2014 and is in the process of finalization.

C. Looking Ahead: Additional financing

The World Bank conducted an implementation support review and preparation mission during December 15-19, 2014, in order to discuss progress to-date and technical details of additional financing. Through additional financing, the SPFM project will further consolidate TSA rollout and enhance the capacity building on PFM through conducting accredited courses.

After the successful rollout of TSA in 75 districts, the Government plans to enhance IFMIS and implement the rollout of commitment management and revenue management — Revenue Management Information System (RMIS) — across all districts. The business process for RMIS has been configured based on the recommendation of a task team comprising officials from FCGO, Nepal Rastra Bank, and commercial banks. RMIS is being piloted in three large revenue-receiving districts (Bhaktapur, Kathmandu, and Lalitpur). The additional financing will support these reforms and consolidate the TSA rollout by upgrading the IT infrastructure (equipment, hardware, networking, and power back-up)to enhance sustainability of the systems. Due to the massive change management challenges involved in successful accomplishment of these activities, the Government anticipates slower progress compared to the earlier rapid implementation of the expenditure TSA and therefore has requested two-year extension of the project completion date to June 30, 2017.

The additional financing will also consider expanding the rollout of NPSAS-compliant financial statements to other ministries and will depend upon a rollout plan prepared by FCGO. In addition, it will also support the capacity-building program that will address the demand for PFM courses and skill gaps. This program will be piloted before development into a full-fledged PFM training project.

PART II.
SECTOR WORK

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

A. Component Three: Deepening Knowledge Related to Nepal PFM System

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.

A virtual review of the most recent Government-led PEFA assessment took place on December 5, 2014; based on this review, a response matrix comprising comments of all peer reviewers and development partners was circulated to the country team, government of Nepal and development partners. A decision review meeting, chaired by Country Manager Takuya Kamata, on December 16, 2014, endorsed the alignment of the methodology and analysis with the PEFA field guideline. The meeting also noted that this assessment provides appropriate justifications and rationale for the respective ratings. The PEFA assessment team will further provide more details on the few identified indicators; make adjustments to the timeline, and work with the Government to resolve ratings of four indicator sub-ratings. The team will prepare a separate note on policy recommendations.

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

This intervention has 13 activities (components) that are interlinked to leverage 3 outcomes — as described below, (I) Credible budget, (II) Linkage of plan to budget, and (III) Program performance accountability —with an objective to strengthen budget process for results. Three foundational-setting activities have been completed: PFM gap analysis (component iii); medium-term expenditure framework (MTEF)

gap analysis (component v); and digitization of annual work plan (component ii). Linked to these completed activities, the next level activities so anchored on the assessment reports and underway, described as follows [with estimated delivery dates]:

Outcome I: Credible budget

(a) **Strengthening budget credibility** (component iv) and **improve the linkages of budget with resources** (component v). Two of several budget formulation weaknesses have been identified: unreal budget (PFM gap analysis) and loose linkages of periodic plans and its strategy to budget (MTEF gap analysis). To strengthen budget credibility and improve the linkages of budget with resources, an international expert has been hired to assist the National Planning Commission to anchor the 2030 Vision and break down the Vision to the Commission's current Graduation Plan through a CGE model,[2] which not only guides the formulation of a new sector strategy and its costing but also defines the quantum of public investment outlays annually to achieve the envisaged outcomes. [Target completion date is June 2015.]

(b) **Piloting of tax expenditure** (component vii). Substantial amount of public expenditure through tax code is in practice. 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

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[2] ADB is financing the GTAB database.

Ministry of Finance is piloting the reporting of tax expenditure. An international firm has been hired to conduct a comprehensive tax expenditure assessment. [The international firm is expected to complete this assessment in May 2015.]

(c) **Fiscal devolution** (component viii). This component is on hold until the political boundaries of the federal states are settled. At the request of the National Planning Commission, a national consultant is completing a report on transfer formulae. [Completion date is February 2015.]

(d) **Medium-term budget framework (MTBF) implementation** (component vi). The Government plans an incremental graduation from MTEF (Medium-term expenditure framework) to MTBF. A local consultant is working on the MTEF fiscal framework that will anchor the FY2016 budget size. Together with sectorial business plans (see Outcome II), piloting of movement to MTBF is being undertaken. [Target completion dates: Fiscal framework, February 2015; and prioritization and support to business plans, June 2015.]

Outcome II: Linkage of plan to budget

(e) **Preparation of sectorial MTEFs** (components xi and xii). Only two sector strategies have a financing plan to link to outputs. In absence of costed strategies, preparation of sector business plan was in practice, which up to now is discontinued. With the government decision to graduate

MTEF to MTBF, a local consultant is in the process of preparing the sectorial business plan under the guidance of a committee headed by the National Planning Commission. [Completion date is June 2015.]

Outcome III: Program performance accountability

(f) **Synchronization of budget MIS** (component xii(subpart 1). Although three separate MIS platforms, namely BMIS, FMIS, and LIMs, are in operation, there is no integrated financial management information system (IFMIS) that collates data to facilitate policy decision on public expenditure. With the completion of Line Ministry Budget Management System (output of component ii) and operationalization of TSA, it is now possible to integrate all PFM information systems onto a single platform to generate custom-designed public finance data for policy-making. The first phase of synchronization of a budget management information system is now complete. The expenditure reports generated were shared with the development partners at a workshop in November 2014. Upon completion of synchronization of all the systems, the web-based IFMIS reports will facilitate budget planning, negotiations, and enhance transparency of public resource use. [This activity will be complete in April 2015.]

B. Component Four: Program Management and Administration

Signing of the MDTF Administrative Agreement

The Government of the Swiss Confederation joins MDTF

The Government of the Swiss Confederation, acting through the State Secretariat for Economic Affairs, joined the MDTF on September 12, 2014. The Administrative Agreement was signed by World Bank Country Director for Nepal, Johannes Zutt, and His Excellency Urs Herren from the Swiss Government. The Swiss Confederation pledged CHF 3,000,000 (equivalent to US$3.19 million) to MDTF. The initial pledge will be issued as soon as the extension process for MDTF is complete.

Program Coordination Committee (PCC) meeting

The seventh PCC meeting (September 12, 2014) was chaired by Country Manager Takuya Kamata and attended by the PEFA Secretariat of Nepal as well as MDTF Program Manager Manoj Jain and the MDTF development partners. The Practice Manager for the Financial Management Unit of South Asia, Fily Sissoko, participated in this meeting and provided an overview of the implementation progress of MDTF since the last PCC meeting. In line with the PCC meeting discussions, his remarks highlighted the following activities in the way forward:

- Processing of additional financing of two sub-projects (SPFM and demand side)
- Preparing Phase 2 of the PFM reform strategy (action plan) based on the PEFA findings and drafting of future work program; and
- Revising the MDTF results framework.

MDTF PCC meeting

In-principle the PCC provided approval to the additional financing for SPFM and demand-side work. The PCC also agreed on establishing a technical-level working group for discussing all technical issues in projects and their progress, which can then feed into the PCC.
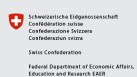
Technical review meeting

As per the agreement in the PCC meeting, a technical review meeting was held at the World Bank on October 31, 2014. It discussed the structure of the technical review, the MDTF logo, and the demand-side concept note. This was followed by a virtual review of the demand-side concept note and then of the project paper. The meeting participants proposed that a technical review meeting be conducted regularly to integrate inputs and develop clarity on subprojects and brainstorm on other PFM issues. Along these lines of this proposal, when the technical review meeting is held for subproject proposals, the meeting should ideally rollover into a PCC virtual review. It was also proposed that future technical meetings could have one session held at the Ministry of Finance or FCGO. The Bank informed the group that the Bank's Operations Manual should be revised to include 'technical review meetings'.

The PCC had proposed establishing a unified logo that would enhance MDTF visibility. The program management team worked closely with development partners to design a logo for use in all MDTF communication and outreach materials. The group agreed that it is essential to have visibility of donor contributions, but an entirely different logo would not be necessary. As agreed in this technical review meeting, the MDTF program management will circulate a proposed logo for comments. This proposed logo would comprise a stylized script that spells out the Nepal PFM MDTF and includes all the six logos or national flags of MDTF development partners.

Proposed logo for MDTF

Nepal Public Financial Management Multi-Donor Trust Fund

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C. Looking Ahead: Toward the next phase of PFM reforms

The PFM reform strategy will be the foundation upon which the future PFM MDTF work program (Phase 2) would be structured. Moving forward, the Operational Risk Assessment and the most recent PEFA assessment will feed into the PFM reform strategy. The achievements and lessons learned in PFM will also strengthen the reform strategy and the revised MDTF results framework.

As results of the Government-led PEFA assessment become evident, there has been considerable progress shown: 19 indicators have improved, 10 remain constant, and only 2 have been downgraded (mainly due to the absence of PAC). The findings from the PEFA assessment will be the basis for developing the GoN's PFM reform strategy. It was agreed with the PEFA Secretariat that the GoN's PFM reform strategy(Phase 2) will require establishing a joint task force. An international expert will be hired to help finalize this strategy.

This strategy will be presented to the various development partners who will provide quality assurance, and then be discussed in a higher-level steering committee. This GoN's PFM reform strategy(Phase 2) will feed into the PFM MDTF work program (phase 2).. This will also necessitate new pledges to finance this emerging MDTF work program for which discussions with donor partners will be initiated shortly.

Following the PCC recommendations in September 2014, the MDTF members have designed a common logo to strengthen MDTF visibility in all public documents. MDTF task teams have already initiated the process for seeking approval for additional financing/extension of a closing date of SPFM Phase II of the demand-side project and revising the SOAG project results framework.

PART III.
FINANCIAL REPORT

In September 2014, the Government of the Swiss Confederation joined the MDTF donors with a pledge of CHF 3 million. As of December 31, 2014, the total pledged amount to the MDTF by its 6 donors was at the equivalent of US$19.83million (Table 3). All donors have signed administrative agreements, demonstrating their commitment to the MDTF and its objectives. Current deposits (i.e., funds received by the Administrator) stand at US$14.7 million, with the balance of pledged funds to be paid into the MDTF account, administered by the World Bank, as per the Administration Agreements (Table 4).
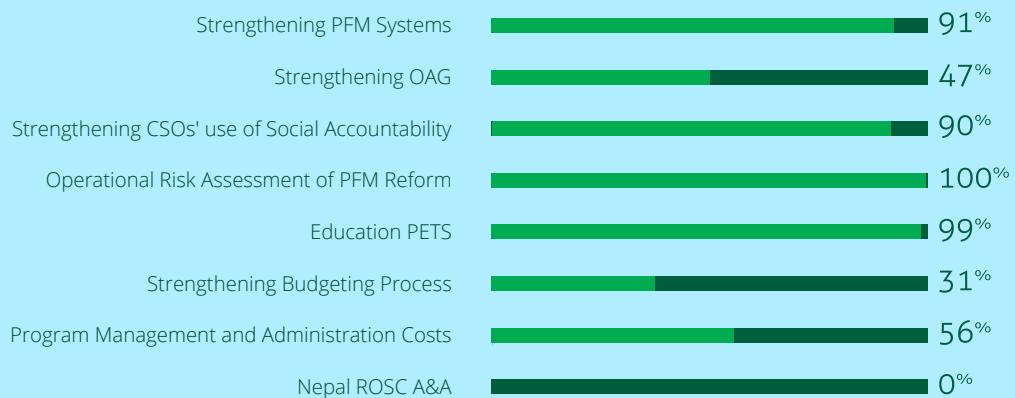
Table 3: Donor Contribution to MDTF

Donor Name	Pledged Amount		Receipts as on November 30, 2014		Balance	
United Kingdom- Department for International Development (DFID)	GBP 3.5 m	Eqv. US$ 5.57 m	GBP 2.6 m	US$ 5.57 m	-	-
Royal Norwegian Embassy	NOK 15 m	Eqv. US$ 2.62 m	NOK 15 m	US$ 2.62 m	-	-
Embassy of Denmarkt	DKK 2 m	Eqv. US$ 0.38 m	DKK 2 m	US$ 0.38 m	-	-
Department of Foreign Affairs and Trade Australia	AUD 2.85 m	Eqv. US$ 2.99 m	AUD 2.85 m	US$ 2.99 m	-	-
European Union	€4.5 m	Eqv. US$ 5.31 m	€2.25 m	US$ 3.08 m	€2.0 m	US$ 2.37 m
Government of the Swiss Confederation	CHF 3.0 m	Eqv. US$ 2.958			CHF 3.0 m	US$ 2.958

Note: Expected further cash inflow: Out of pledges received up to August 31, 2014 – US$3.1 million (EU); and new pledge from Swiss CHF 3.0 million. Government of the Swiss Confederation: first tranche of CHF 1 million following effectiveness of the Administrative Agreement; CHF 1 million on or before February 28, 2016; and CHF 1 million on or before February 28, 2017. For EU, a second tranche of EUR 1,800,000 and final tranche of EUR 450,000.

Table 4: Disbursements as of December 31, 2014

Grant Number	Grant Name	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	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	100%	0.00	0.00	0.00
TF010623	Program Management and Administration Costs.	6/30/2015	585,411.39	325,636.75	56%	259,774.64	12,288.26	247,486.38
TF010454	Preparation, appraisal, supervision, monitoring, reporting costs of Strengthening PFM Systems	6/30/2015	350,000.00	276,672.81	79%	73,327.19	0.00	73,327.19

Grant Number	Grant Name	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD
TF010482	PREPARATION AND SUPERVISION COSTS OF STRENGTHENING OFFICE OF THE AUDITOR GENERAL PROJECT	6/30/2015	160,000.00	154,888.27	97%	5,111.73	4,700.39	411.34
TF012492	NP ED PETS	12/31/2014	150,000.00	148,346.99	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	554,743.36	79%	145,256.64	118,209.11	27,047.53
TF012668	NLTA under the SPFM Project to Govt of Nepal	6/30/2015	500,000.00	216,369.83	43%	283,630.17	103,525.74	180,104.43
TF015354	Nepal: Strengthening Budgeting Process	7/30/2015	905,000.00	276,975.72	31%	628,024.28	272,243.24	355,781.04
TF017673	Nepal ROSC A&A	6/30/2015	35,000.00	0.00	0%	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	4,192,140.31	97%	107,859.69	107,859.69	0.00
TF010455	Strengthening the Office of the Auditor General Project	6/30/2015	2,300,000.00	994,409.96	43%	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	100%	0.00	0.00	0.00
	TF Admin Fee		292,705.70	292,705.70	100%	0.00	0.00	
	Unallocated from the paid in funds & Investment Income		3,463,291.69	0	0%	3,463,291.69	0	3,463,291.69
	Grand Total		14,741,392.53	8,432,873.45	57%	6,308,519.08	1,924,416.47	4,384,102.61

Strengthening PFM Systems 91%
Strengthening OAG 47%
Strengthening CSOs' use of Social Accountability 90%
Operational Risk Assessment of PFM Reform 100%
Education PETS 99%
Strengthening Budgeting Process 31%
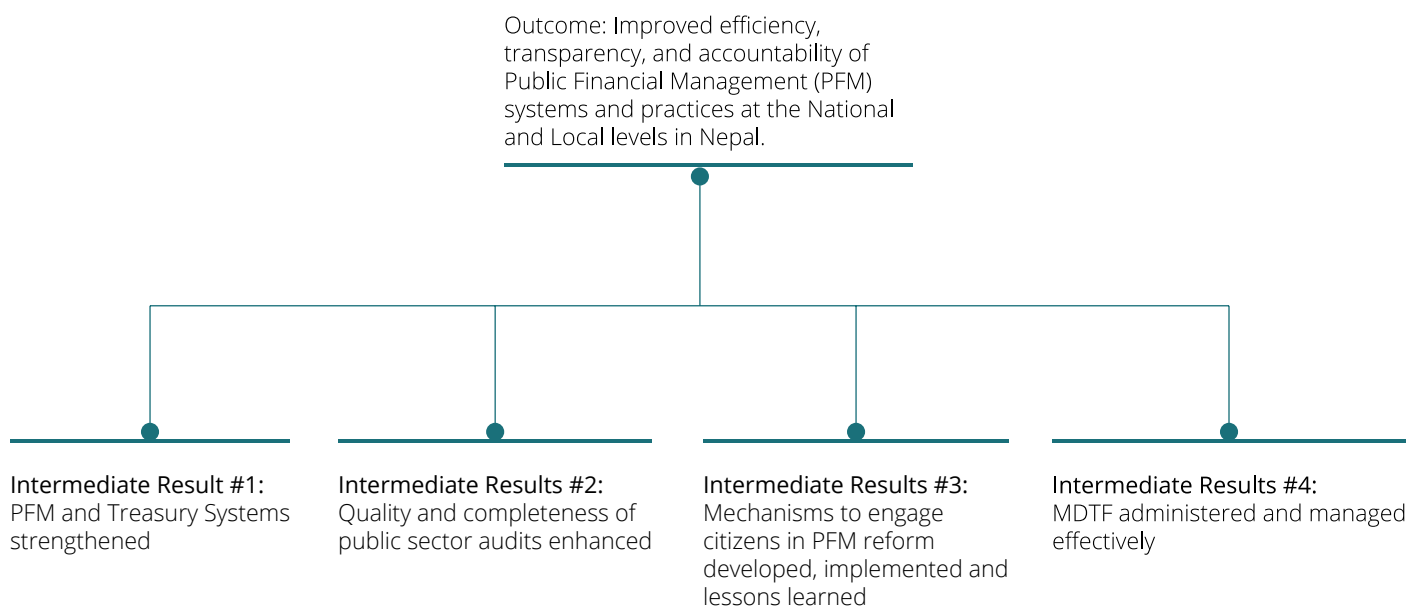Program Management and Administration Costs 56%
Nepal ROSC A&A 0%

Activity wise allocation & disbursement

ANNEX A:
RESULTS FRAMEWORK

Strengthening Public Financial Management of the Government of Nepal
Results Chain for the Nepal Multi-Donor Trust Fund (MDTF)

(Prepared by the Nepal MDTF Program Management 2013)

Outcome: Improved efficiency, transparency, and accountability of Public Financial Management (PFM) systems and practices at the National and Local levels in Nepal.

Intermediate Result #1:
PFM and Treasury Systems strengthened

Intermediate Results #2:
Quality and completeness of public sector audits enhanced

Intermediate Results #3:
Mechanisms to engage citizens in PFM reform developed, implemented and lessons learned

Intermediate Results #4:
MDTF administered and managed effectively

Results Chain for MDTF

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 FY.	Baseline: 70% (2011) Target : 60% (2015)	Project 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 monthly Budget Evaluation 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 following month and quarterly reports before 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 end of the period covered (for audit of financial statements from their receipt by the auditors).

Target: 8 months from end of the period covered (in the case of financial statements from their receipt by the Audit Office). | The Auditor General submitted the FY2012/13 within 9 months of end of FY 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) | According to the Baseline Study conducted in July/August 2013, 64% of beneficiaries reported getting correct amount of entitlements at the right time. Percentage increased to 74% by time of end line survey conducted in July/August 2014. |

Intermediate results (IR)	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 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. Further analysis will determine how to 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 that meet OAG auditing standards | Baseline: 35% (2011).

Target 60% (June 2015). | Dec 2014: 50%. |
| | Increase in frequency of performance audit reports that meet OAG quality and completeness criteria. | Baseline: One per year (2011).

Target: 3 per year (June 2015). | Dec 2014: 3 per year. |

IR # 3: Mechanisms to engage citizens in PFM reform developed and implemented, and lessons learned.	Increase in number of independent budget analyses at national level conducted and shared by social accountability grantees.	Baseline: 0 (2013) Target: 3 (June 2014)	Large grantees completed independent budget analysis of health, education, and local development ministries in 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 beneficiary surveys conducted by the 40 local grantees (CSOs). Consolidated report draft submitted in November 2014. Final report due in January 2015.
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).	MDTF Program Results Framework agreed and adopted on September 2013. Program results indicators monitored and reported through 6monthly 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 B:
PROJECT DATA

Table B1: Strengthening PFM System Project

Project name	Strengthening Public Financial Management Systems
Grant amount	US$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$4.8 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 13,500 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. • NPSAS aligned to IPSAS piloted in two ministries: Ministry of Physical Infrastructure and Transport; Ministry of Women, Children, and Social Welfare. • NPSAS based financial reports certified by ICGFM • Preparation Mission conducted on the additional financing of this project

Table B2: 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	• Risk based audit planning according to International Standards of Supreme Audit Institutions (ISSAI) framework of risk based audit • OAG has received the draft report of the peer review completed by a team from the Comptroller and Auditor General of India • OAG has been collaborating with CSOs in the performance auditing process. • Workshop held on 'Independence of supreme audit institutions and the need for new audit legislation in Nepal'

Table B3: Strengthening CSOs Use of Social Accountability to improve PFM

Project name	Strengthening CSO Useof 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	• Citizen Engagement Framework for Office of the Auditor General of Nepal • Multi-stakeholder Knowledge Forum on Social Accountability • Closure of the Strengthening of CSOs Phase 1 Recipient-Executed Component • Strengthening of CSOs Phase 2 Additional Financing Concept Note

ANNEX C:
DEMAND SIDE IN ACTION

Citizen Engagement Framework for the Office of the Auditor General of Nepal

Citizen Engagement in performance audit in Gorkha

A new Citizen Engagement Framework will officially recognize CSOs as an important partner in the Nepal Government audit process as well as permanently systemize the CSO-OAG partnership. The Strengthening of CSOs sub-component organized a peer-assisted expert visit to Nepal. This visit, in collaboration with World Bank's Advancing Public Participation

in the Budget and Audit Processes (PPBA), resulted in a report that was submitted to the OAG and the MDTF-supported, multi-stakeholder working group in August 2014. This report provided the input by the working group in preparing the Citizen Engagement Framework for OAG.

The Program for Accountability in Nepal (PRAN) is collaborating with OAG and the working group to finalize and effectively implement this Citizen Engagement Framework. Initial plans for expanding civil society support to OAG will include engaging CSOs in audit processes, especially VDC-level performance audits; creating a district-level CSO database and setting their selection criteria; dissemination of audit reports; and identifying information from accountability tools to use in audit reports.[1] The final report was submitted to the Auditor General in January 2015 in order to be used as an official guideline in future audit processes.

Multi-Stakeholder Knowledge Forum on Social Accountability

Orientation program on social accountability in Dhading district

The Multi-Stakeholder Knowledge Forum to promote citizen engagement for social accountability in Nepal took place in Kathmandu on September 10 and 11, 2014. More than 100

representatives from government, civil society organizations (CSOs), and development partners attended. Organized in close association with the Government of Nepal, the Forum enhanced the shared commitment of the World Bank and Government of Nepal to expand social accountability through a more participatory approach. This was also an opportunity to showcase a wide range of successful results from MDTF-funded field-based social accountability activities, and INGO/NGO community initiatives during a related Social Accountability Knowledge Fair.

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[1]Examples of tools include public hearings, social audits, community scorecards, PETS, and expenditure tracking.

During the Knowledge Forum, participants shared experiences and discussed various tools, approaches, and practices on social accountability in Nepal. The Forum recognizedthe growing body of social accountability knowledge and practice supported by a wide variety of programs and organizations in Nepal. Different stakeholders have a roles to play to this process. The Forum participants shared lessons that strengthen the nation's achievements using social accountability through a more collaborative network of development partners, civil society and citizen groups, government, private sector, donors, and the media.

While the Government of Nepalcan ensure a favorable environment for CSOs to function, the CSOs and community associations need to efficiently reach and mobilize people at the grassroots level and ensure effective representation of their interests, particularly among women and the most marginalized communities, especially in the current political situation where there continues to be a lack of elected local government bodies.[2]

Social Security Entitlement Case Story

Local PETS identifies married women who intentionally applied for monthly single-woman allowances in Rokaya Gaun VDC, Jajarkot district

Since 2009 Jaya Bohara and Baishakhi Dangi, residents of Ward No. 3 of Rokaya Gaun VDC, Jajakot district, had been receiving a single woman's allowance from their VDC while they were neither widows nor single. This unjustified monthly payment of NRs500 (US$5.15) cost the VDC budget NRs36,000 (US$371.13) over several years.

The two women had obtained single-woman identity cards by providing false information to the VDC office. The information was based on oral verification by the VDC secretary and account assistant, who were new to the village and thus not aware of the villagers' background. Moreover, Karna Bahadur Bohara, husband of Jaya Bohara, actually went to VDC himself to receive his wife's single-woman allowance payment.

These specific cases were revealed during the local PETS research on social security entitlements supported by the Rural Integrated Development Center, a PRAN partner. In the PETS process, information on social security entitlement recipients (specifically single-woman, disability, and old-age allowances) and relevant budget allocations were collected from the VDC and the District Treasury Comptroller Office.

Local PETS volunteers were given an orientation program, after which they collected data on social security beneficiaries in their wards. Interviews were also conducted with the recipients about their experience in receiving allowances. [The final survey results from the 10 districts covered by PETS in Phase 1 of the Strengthening of CSOs Project will be disseminated shortly.]

During the verification of information in his ward, volunteer Birendra Bahadur Bohara found out about the two women receiving the single-woman entitlements despite being married and living with their husbands. Along with these two cases, other cases were revealed where the single-woman allowances were still issued in the names of women who had moved from the VDC or had died.

When the PETS research was completed, the results were made public in the village. The meeting where these findings were discussed was attended by 35 villagers and the VDC staff. A decision to rid the list of social security entitlements of "false" beneficiaries was made at this meeting. Now, the two women who were never legally entitled to these social security payments have been excluded. Also migrated and deceased people have been removed from the VDC social security entitlements beneficiaries' list.

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[2]A video on the Knowledge Forum is available at:http://www.worldbank.org/en/news/video/2014/09/17/social-accountability-matters

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