

NEPAL MULTI- DONOR TRUST FUND FOR PUBLIC FINANCIAL MANAGEMENT



Semi-Annual Progress Report July - December, 2013



The World Bank
January 14, 2014

Abbreviations and Acronyms

ADB	Asian Development Bank
CECI	Centre for International Studies and Cooperation
CSO	Civil Society Organization
DDC	District Development Committee
DECS	District Expenditure Control System
DFID	Department for International Development (UK)
DP	Development Partner
DTCO	District Treasury Controller Office
EU	European Union
FCGO	Financial Comptroller General Office
GoN	Government of Nepal
HQ	Headquarters (PEFA Secretariat)
ICAN	Institute of Chartered Accountants of Nepal
IDPG	International Development Partners Group
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
MDTF	Multi-Donor Trust Fund
MoF	Ministry of Finance
MoHP	Ministry of Health and Population
MOU	Memorandum of Understanding
NAS	Nepal Accounting Standard
NFRS	Nepalese Financial Reporting Standard
NPC	National Planning Commission
OAG	Office of the Auditor General (of Nepal)
ODI	Overseas Development Institute
OECD	Organization for Economic Cooperation and Development
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 System of Accounts
VDC	Village Development Committee
WBI	World Bank Institute

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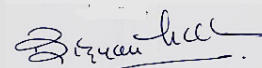
From the Program Manager's Desk

Dear Colleagues,

As was decided in the last Program Coordination Committee (PCC) meeting, the progress report is now prepared twice a year covering a six-month period, from January to June and July to December. This is the first of such six monthly reports covering the period of July to December 2013. During this period, it is encouraging to note some tangible progress in the Public Financial Management (PFM) reform agenda. PFM has now become a central theme of the development agenda and is being discussed at various forums such as portfolio review meetings, sectoral discussions, and donor forums and meetings. The Operational Risk Assessment in PFM Reform that was concluded in June was officially disseminated in September 2013. The Assessment suggested the need to improve performance in four areas that contribute to public spending; they are need for strengthening oversight and scrutiny, improving budget processes, improving implementation of capital projects, and strengthening central finance institutions. It has also highlighted the strengths of the Nepal PFM system as formally defined planning process, sound fiscal management, efforts at innovation that include initiation of Treasury Single Account (TSA) and a new Chart of Accounts, and gradual adoption of accounting and auditing standards. Coinciding with this assessment, the Government in close consultation with the World Bank has now agreed to undertake the second Public Expenditure and Financial Accountability (PEFA) Assessment. Already in process, the PEFA is targeted to have the final report issued by September 2014. Since the first PEFA assessment was carried out and results disseminated in 2007, Nepal has passed through a difficult political crisis with extreme uncertainties in pushing forward the PFM reform, yet efforts have been made to set up a PFM Steering Committee and establish a PEFA Secretariat, which have been the driving force of the momentum of continued reforms despite all the challenges. The initiation of the second PEFA Assessment and the development of an action plan would certainly help to lay out a path for second generation of PFM reforms.

With the Government's strong commitment toward PFM reforms, there would be a need to mobilize more resources to support such reforms. The mid-term evaluation of the Multi-Donor Trust Fund (MDTF) has just been concluded, and has recommended that the MDTF objectives continue to be highly relevant. One of the key agenda topics during the upcoming Program Coordination Committee is to decide on the future role of the MDTF support to the PFM agenda. Following are some example where continued efforts are required to scale up our support: There is an increased demand to look at the quality and sustainability aspects of TSA implementation and gradually move toward an Integrated Financial Management Information System (IFMIS). With successes observed on demand side of PFM with the engagement of civil society organizations, opportunities are being explored to find ways to leverage this success through working more collaboratively with supply-side institutions such as the Financial Comptroller General Office and the Office of the Auditor General (OAG). Reforms will need to continue in OAG focusing more on quality aspects as well as increasing capacity for performance auditing. There is a need for substantial reforms in internal auditing in the public sector. The Operational Risk Assessment has mapped out some short- to medium-term actions; more needs will be identified through the second PEFA Assessment. Eventually, Nepal will have a sequenced and prioritized Action Plan for PFM improvement that will need to be resourced through government's own resources and with contribution from development partners. Dialogue both at the political and technical level and continued support from development partners would contribute to push the PFM reform agenda that would promote transparency and better accountability towards the effective and efficient use of public resources.

On behalf of the MDTF Program Management, I would like to thank all our development partners including the potential partners for their continued support and guidance. I would also like to sincerely thank our new Country Director, Johannes Zutt, and our Sector Manager for Financial Management, Fily Sissoko, for their guidance and strong support to the MDTF Team. I also take this opportunity to extend appreciation for the support from our Country Manager, Tahseen Sayed who has completed her assignment in Nepal in December 2013 and moved to Albania as the Country Manager. Last but not the least, I also extend my appreciation to the partnership of the outgoing PEFA Secretariat Coordinator, Mr. Rajendra Bajracharya (who recently retired), and the incoming new PEFA Secretariat Coordinator, Dr. Mukti Narayan Poudel, and the entire Secretariat team for their continued collaboration. My sincere appreciation goes to the Task Leaders of various sub-projects, the entire MDTF team for their tireless efforts to contribute to PFM agenda, and to all my colleagues.



Bigyan Pradhan

Overview

This progress report for the Nepal Multi-Donor Trust Fund (MDTF) for Public Financial Management (PFM) is the first of newly instituted twice yearly reporting as per the decision of the Program Coordination Committee (PCC) at its July 2013 meeting. The progress report is now prepared for periods covering January to June and July to December of each calendar year. This report, covering the period July to December 2013 is an effort to highlight the key achievements of the programs supported through the Nepal MDTF for PFM. It also provides an overview of the financial position of the MDTF, including progress on disbursement of the approved budget for various subprojects over the last six months.

During the reporting period, MDTF-supported projects made good progress reflected by improved disbursements reaching closely to the target of 62 percent of the MDTF allocations by the end of December 2013. Some key activities include a mid-term review of Strengthening PFM Systems from July 30 to August 5, 2013; conclusion of the Operational Risk Assessment of PFM Reform with the dissemination of the report on September 9, 2013; mid-term review of MDTF-PFM carried out during September/October 2013; and adoption of the MDTF Program Results Framework in October 2013. In addition to these, the second Public Expenditure Financial Accountability (PEFA) Assessment was initiated with the Government of Nepal taking the lead and the World Bank providing technical and financial support through the MDTF, following the World Bank's decision meeting on November 7, 2013 chaired by the Country Director, which gave authorization to take this agenda forward.

This progress report is organized into three sections: Part One provides an update on the implementation progress of the current MDTF-sponsored activities and is organized under the various components of the MDTF. It also provides an update on the progress in relation to the agreed MDTF Results Framework. Part Two provides a brief account and analysis of the financial position of the MDTF and the disbursement performance of the various projects of the MDTF. Part Three provides information on the news and events that have taken place during this reporting period.

Part One: Progress Report Update

Component One: Strengthening PFM System and Capacities

Sub-Project: Strengthening PFM Systems

(Approved total budget US\$5.15 million)

A tangible result observed during the period is the full-scale implementation of the Treasury Single Account (TSA) with rollout in all 75 districts, covering almost 100 percent of budgeted revenue and expenditures of the Government. This target was accomplished one year ahead of the scheduled period and is expected to have a huge impact on overall cash management of the public expenditure system. The real impact is yet to be seen, and a study is planned to assess its benefits on the national economy. Successful implementation of the TSA, despite continuing political instability, can be cited as a success story for Nepal with technical leaders owning the reform, gaining political consensus from all political parties. The full rollout of the system can now support the compilation of consolidated cash flow statements for individual ministries as well as for the Government. The upgrading of the Integrated Financial Management Information System (IFMIS) to strengthen the core treasury system has also progressed with the hiring of the international consultant involved in the initial design of the existing IFMIS. The Financial Comptroller General Office (FCGO) website (www.fcgo.gov.np) now posts the monthly budget execution reports on a timely basis. Plans are underway to further consolidate the gains by improving the content, quality, comprehensiveness, and timeliness of fiscal reporting. The Accounting Standards Board has successfully prepared the Nepalese Financial Reporting Standards (modeled on International Financial Reporting Standards) after an extensive consultative process and has handed them over to the Institute of Chartered Accountants of Nepal (ICAN) for implementation. ICAN issued the letter of pronouncement on September 13, 2013.

The Public Expenditure and Financial Accountability (PEFA) Secretariat continues its efforts to reach out to various stakeholders to increase PFM awareness through orientation programs and through regular publishing of PEFA newsletters and journals (PEFA Secretariat website www.pefa.gov.np). Under the leadership of the PEFA Secretariat, the second PEFA Assessment was initiated in November 2013 following the decision meeting held on November 7, 2013, which was chaired by the World Bank Country Director for Nepal. The Assessment falls under the technical guidance of the World Bank team with MDTF financial support. The final PEFA Concept Note is attached as Annex A.

The PEFA Secretariat held the initial workshop of the PEFA Assessment on December 7-9, 2013. The objective of the workshop was to provide introduction to methodology, explain the PFM indicators, and take initial stock of initiatives and challenges under these indicators. The workshop drew about 20 PFM professionals and practitioners who would be taking lead of each indicator while carrying out the assessment. Annex B presents the program outline and list of participants.



A mid-term review of the Strengthening PFM System Project was carried out during the period July 30 to August 5, 2013. The review was undertaken to assess the overall mid-term progress of the project (including the three components) with follow up on agreed actions and to determine the need for project restructuring. Key results during the mid-term review were as follows:

- The TSA system has been rolled out to all 75 districts as of July 16, 2013, completing the coverage of ex ante budget execution control at all districts a year ahead of the target date. The rollout has also enabled the Government to centralize the payment function at the DTCOs and strengthen TSA by closing down 13,717 bank accounts. In terms of coverage, TSA is now able to cover almost 100 percent of budgeted revenue and expenditures¹ of the Government of Nepal. The system can now support the compilation of consolidated cash flow statements for individual ministries as well as for the government.



- The Accounting Standards Board published a two-volume set of Nepal Financial Reporting Standards (NFRSs) and recommended these for promulgation and issuance to ICAN on July 16, 2013. Of the 40 NFRSs recommended by the Accounting Standards Board, 19 replaced mandatory Nepal Accounting Standards (NASs), 7 replaced voluntary NASs, and 14 were new standards to upgrade Nepal Accounting Standards to International Financial Reporting Standards (IFRSs). The new NFRSs are fully in line with IFRSs with the same flexibility that is provided with the original IFRSs.
- A 14-member delegation led by the Financial Comptroller General, Mr. Suman Prasad Sharma, visited Russia during the period October 1-10, 2013, to learn from the successful experience of TSA implementation in Russia and to have a deeper understanding of their IFMIS implementation, which would contribute to taking TSA implementation to the next level.

Sub-Project: Strengthening Budgeting Process for Results
(Approved total budget, US\$905,000)

The PCC meeting in July 2013 approved the project on Strengthening Budgeting Process for Results. The main objective of the project is to implement policy-based budget process focusing in the following areas: (a) developing consensus on a capacity-building action plan, (b) completion of digitization of annual work plan, (c) carrying out a diagnostic study identifying the gaps in budget planning and budget formulation, (d) strengthening budget credibility, (e) improving the linkages of budget priorities with resources, and (f) operationalizing MTBF on an incremental coverage. The Bank team is supporting the Government of Nepal in taking these objectives forward by closely working with the Budget Division of the Ministry of Finance. While significant progress is yet to be seen, some initial activities of getting consultants on board have been initiated. The initiative of coding of activities has now been taken forward to the activity level.

¹ The expenditures include capital/donor-funded projects. Payroll expenditures are recorded in the system on a summary voucher basis. The system records debt-related transactions on an ex ante basis, along with devolution of budget that central government incurred through District Development Committees (DDC) (4 ministries – Agriculture, Livestock, Health and Education). The unconditional grants to the local bodies and DDCs are recorded as expenditures at the time of transfer. These transactions contribute substantially toward comprehensiveness of budget execution coverage within the system for better reporting and improved controls.

Component Two: Enhancing Accountability in Public Financial Management

Sub-Project: Strengthening the Office of the Auditor General of Nepal

(Approved total budget, US\$2.46 million)

With strong leadership of the Auditor General, reforms as envisaged through the Strengthening of the Office of the Auditor General (OAG) of Nepal are being actively pursued. Various capacity-building initiatives to the OAG staff are also being pursued through the project and through other means. For example, a few senior OAG staff participated in a training course in September 2013, delivered by INTOSAI Development Initiative in India on the SAI Performance Measurement Framework. Based on this framework, the SAI India, which has been agreed upon as the peer reviewer for OAG Nepal, will use this framework while conducting the peer review planned during the period January-May 2014. Based on the recommendations of the peer review, OAG Nepal plans to refine/update the strategic development plan that was prepared with SAI Norway support.

The Auditor General participated as the resource person in “The 2013 CAPE Conference: Budgeting in the Real World”, an international workshop organized by the ODI, Center for Aid and Public Expenditures, and held in London, United Kingdom, on November 13-14, 2013. In the conference, the Auditor General shared the Nepalese experience on the link of budget reforms to development outcomes. He emphasized the fact that PFM supports enhanced state effectiveness through improved revenue collection, efficient resources allocation, improved transparency, accountability, and governance. Similarly, it will contribute to effective service delivery and sustainability in public finance policies enhancing the state credibility. The Auditor General’s message also reiterated that Nepal needs to move forward with the PFM reform agenda targeting to achieve development outcome through sustainable fiscal policy, improved service delivery, good governance, and capacity development. The success of the PFM reform agenda will largely depend on strengthening of institutions, including oversight agencies, and coordination and meaningful alignment with donors. He added “fixing the budget process, strengthening the oversight agencies, implementing capital projects, strengthening coordination between central finance institutions and adopting inclusive development strategies are the key areas that need utmost attention in Nepal”.

In December, the Auditor General visited SAI Norway and agreed to extend the Memorandum of Understanding (MOU) with SAI Norway by five years to December 2018; the MOU expired on December 31, 2013.

OAG Nepal also took the initiative to explore ways to partner with civil society organizations (CSOs) to improve the impact of audit. On October 6-7, 2013, OAG Nepal organized a workshop on “Advancing Public Participation in the Audit Process in Nepal”, which has given a paradigm shift toward the approach to the auditing process in Nepal. For the first time in the history of Nepal, it brought forward an agenda that promises to maximize the efficiency and impact of OAG through engagement with other stakeholders. This workshop was organized in collaboration with the World Bank Nepal Country Office, the Program for Accountability in Nepal (PRAN), and the World Bank Institute (WBI). The major objective was to facilitate the engagement between OAG (supply side) and civil societies (demand side) toward exploring challenges and opportunities for implementing various participatory audit mechanisms in Nepal.



With consultant support to the OAG, the Auditor General is also initiating preparation of a draft audit bill to be submitted to the new Parliament. The proposed bill would provide the Auditor General with greater audit independence in line with the INTOSAI declarations on auditor independence

OAG Nepal has been envisaging access to the detailed transaction-level data in the TSA/DECS system at FCGO that is now being used to generate budget realization reports for government ministries and departments. The main purpose is to ensure interface and synergies between the reform initiatives undergoing in FCGO to improve the accuracy, quality, and timeliness of financial reports and audits. This access has not yet been provided to OAG Nepal for some technical reasons, and the World Bank has requested FCGO to expedite the process to provide this access.

A mid-term review and third implementation support mission of this project is planned during the period January 26-29, 2014.

Sub-Project: Strengthening CSO Use of Social Accountability to Improve PFM (Approved total budget, US\$1.5 million)

Programs under the demand-side dimension have been enhanced at a full-scale collaboration with CSOs and with the PEFA Secretariat and OAG Nepal. Following are key activities that were initiated in the last six months:

- Six episodes of a national tele-drama were produced through the famous Nepalese Artist Group. *MA HA Sanchar* focuses on the message of misuse of social security entitlements for the marginalized and poor. The video drama aired through Nepal Television in July and August 2013.
- PRAN in collaboration with the Policy Research and Development Nepal organized the “Capacity Building Workshop on Procurement System Monitoring” for local-level participants. Forty small grantees and nine mentors attended the workshop on December 17, 2013.
- A seven-day review meeting was organized for the original 33 sub-grantees (30 small and 3 large grants) in September 2013. A second round of review was conducted for 40 small grantees in December. These meetings benefited from the attendance of social accountability practitioners, respective mentors, and representatives from the Program Coordination Unit (PCU) and Center for International Studies and Cooperation (CECI). These meetings enabled all participants to learn from other’s experiences. In addition, CECI signed contracts with 10 selected CSOs in September for a period of seven months. Female social accountability practitioners comprised 90 percent of these CSOs.
- A total of 72 radio program episodes were designed, produced, and broadcasted during this reporting period. Targeting 10 community radio producers and 7 CSO representatives, a creative workshop was organized in Butwal in September 2013. All 10 community radio stations have been broadcasting public service announcement on PFM and promotions of the radio programs since the third week of October. To promote the



programs in social media, a Facebook page for *Budget Hamro Sarokar* has also been created.

- PRAN in close collaboration with its implementing partners, mainly New ERA, organized a two-day workshop on July 28-29, 2013, in Nepalgunj. The purpose of the workshop was capacity-development orientation on field research, data collection, and conducting surveys to assess the budget situation of 10 new CSOs. A workshop on “Inclusion Round” was organized on September 29, 2013, for conducting field survey and assessing budget situation using VDC Secretary Questionnaire.



- A workshop was organized on October 6-7, 2013 by the OAG Nepal in collaboration with the World Bank Nepal Country Office, PRAN, and WBI, which facilitated the engagement between OAG (supply side) and civil societies (demand side) toward exploring challenges and opportunities for implementing various participatory audit mechanisms in Nepal. As a follow-up to the workshop, a concept note is being prepared to formally define the mechanism of collaboration between the OAG and CSOs, which is expected to be agreed upon and finalized in January 2014.
- PRAN in close collaboration with the PEFA Secretariat and WBI organized a capacity-building workshop on the practical application of the Public Expenditure Tracking System (PETS) in social security. The workshop, held September 30 to October 3, 2013, was attended by 66 participants, including MDTF PFM sub-grantees, mentors, and key PRAN partners. The main purpose of the workshop was to learn about the practical application of PETS, such as the efficiency in the flow of funds and improvement of service delivery.

Component Three: Deepening Knowledge Related to PEFA

Sub-project: Public Expenditure Tracking Survey in the Education Sector (US\$150,000)

There has been some delay in finalizing the analytical work on PETS in the education sector. The draft PETS report has been prepared and shared with the development partners and the concerned authorities of the Government of Nepal. Comments are now being collected. The revised draft is planned for release by January 20, 2014, and a final report by March 2014.

Sub-project: Operational Risk Assessment of PFM reform in Nepal (US\$200,000)

The Operational Risk Assessment of PFM Reform in Nepal was completed in June 2013. The final report, published in August, observes that public spending is compromised in Nepal and suggested improvements in four key areas: (a) oversight and scrutiny, (b) budget processes, (c) implementation of capital projects, and (d) organization of central finance institutions. The system does have its strengths: formally defined planning process; sound fiscal management; efforts at innovation, including introduction of TSA and new chart of accounts; and gradual adoption of accounting and auditing standards. The institutional context for this is progress in

peace process, a fairly professional civil service, and PEFA Steering Committee, which brings several PFM actors together.



Launch of the Operational Risk Assessment of PFM Reform in Nepal: A Review of Challenges and Opportunities (September 9, 2013)

The final report identifies reform opportunities for the short, medium, and long term and argues for engagement in 'quick-win' reforms. Fixing the budget and improving accountability are areas of primary attention. This can be done, for example, by:

- Defining qualification standards for local government auditors;
- Separating internal audit functions from treasury roles in DTCOs (to avoid conflict of interest);
- Strengthening whatever remains of Public Accounts Committee;
- Moving to risk-based auditing (from the current emphasis on compliance);
- Undertaking joint work by central finance institutions to re-define and adhere to budget calendar;
- Requiring line ministries to finalize the annual work plan and budget and procurement plans before the budget is approved;
- Strengthening PEFA Steering Committee by mobilizing support/ownership of line ministries; and
- Improving local government capacity to monitor capital expenditure through social accountability initiatives, among others.

The report also presents some indicators, which both the government and development partners could agree to monitor to track progress toward results.

The report was disseminated on September 9 at a national workshop attended by the Auditor General, the Finance Secretary, the Financial Comptroller General, and several other senior officials of government and development partners. Both the government and development partners expressed support and appreciation for the practical approach the report had taken in its recommendations.

In addition to its technical aspects, the Operational Risk Assessment contributed to building partnerships between government authorities and international resource centers on PFM systems. For example, the Auditor General and a representative from the PEFA Secretariat were invited by ODI to attend the annual conference of Centre for Aid and Public Expenditure (CAPE) organized in London from November 13-14, 2013. The Auditor General was the keynote speaker at the conference.

Component Four: Program Management and Administration

MDTF Program Results Framework

Following consultations with the government authorities and development partners, the MDTF Results Framework was agreed upon and finalized in September 2013. The progress status of the Results Framework is provided in Annex C.

PFM Thematic Group meetings

The PFM Thematic Group, which is co-chaired by the World Bank and DFID, meets regularly every two months. During the reporting period, the Group met three times. On August 13, 2013, the Group discussed the preparation of a brief note on PFM messages on the advice of IDPG, was briefed on the outcome of the Mid-Term Review of Strengthening PFM System Project, and was briefed on the implementation status of ADB support in PFM. On October 21, 2013, the Group discussed and finalized key PFM messages; and on December 17, 2013, presentations were made on revenue reforms and implementation of the second PEFA assessment. The next meeting is planned for the last week of February 2014.



Thematic Group Meeting (December 17, 2013)

Mid-Term Review of MDTF

An independent mid-term review of MDTF was undertaken during the period September-October 2013. The review objectives were to (a) assess the MDTF program performance (both efficacy and efficiency) in achieving its objectives and desired results, and provide guidance on how to improve this performance; (b) identify responsibility for each area of progress or lack of progress and, for the latter, make clear recommendations to the relevant stakeholders to spur improvement in progress; (c) assess the extent to which the MDTF program and strategy remain relevant to the PFM reform agenda and priorities of the Government of Nepal and its development partners, keeping in mind the weak governance and institutional environment in the country; (d) assess its effectiveness in addressing government's priorities in PFM; and (f) assess the performance of the MDTF program in establishing linkages and communication across all relevant parts of the Government of Nepal and stakeholders outside the Government. The evaluation was carried out by Mr. Clay Wescott, an independent consultant. During the review, the consultant met all concerned stakeholders from the Government and also interacted with development partners

European Union Joining the MDTF

The broad agreement between the EU and GON was formalized in December 2013. The EU and the World Bank are now discussing the draft Administrative Agreement that is expected to be finalized in February 2014. Following the signing of the Administrative Agreement, an additional US\$6.0 million is expected from the EU to the MDTF.

Part Two: Financial Report

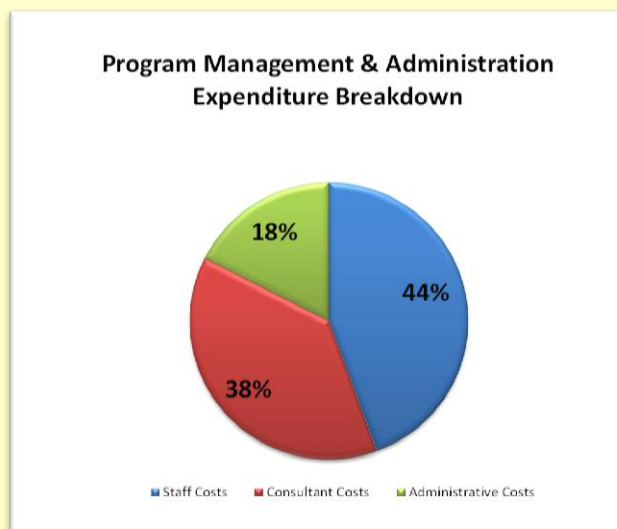
Highlights of the Period (July-December, 2013)

Total expenditures (including actual and committed) is about 62 percent of the total MDTF commitment, of which actual disbursement is about 57 percent.

With the final contribution of US\$1.48 million received from DFID, 100 percent of the pledged contributions are realized.

Summary Financial Report

The opening balance as of July 1, 2013, was US\$6.65 million. During this reporting period, there was an inflow of US\$1.48 million from DFID and an investment income of US\$ 0.01 million, and outflow of US\$2.78 million toward disbursements for various subprojects (including trust fund administration fee). Program management costs during the period amounted to US\$0.05 million. The closing balance as at December 31, 2013, was US\$5.36 million (Table 1).



Receipts and Disbursement of Program Funds

During this reporting period, there was an inflow of US\$1.48 million from DFID and 100 percent of the pledged contributions are realized (Table 3).

Cumulative disbursement of program funds allocated to individual sub-projects stood at US\$3.50 million as at June 30, 2013. During the reporting period, there was a disbursement of US\$2.78 million resulting in an aggregate actual disbursement of US\$6.28 million. With the funds already committed, the aggregate expected expenditure amounts to US\$6.82 million (62 percent of the total budget; see Table 2 for details). As shown in Table 4, projected disbursement for the next six months is estimated at around US\$1.21 million (about 11 percent of the total budget).

Table 1

Six Monthly Financial Report (July 01 - December 31, 2013)

Description	Amount in US\$
Sources of Funds-	
Opening balance as at July 01, 2013	6,645,438.22
Donor Receipts	1,478,610.00
Investment Income*	10,061.53
Total Sources of Funds (A)	8,134,109.75
Uses of Funds-	
Strengthening PFM Systems	1,539,209.53
Strengthening OAG	655,648.62
Strengthening CSOs' use of Social Accountability	376,715.63
Operational Risk Assessment of PFM Reform	39,975.60
Education PETS	59,417.47
Strengthening Budgeting Process	28,952.40
Program Management and Administration Costs	47,171.22
TF Administration Fee charged during the six months**	29,572.20
Total Uses of Funds (B)	2,776,662.67
Closing Fund Balance (A-B)	5,357,447.08

Note:

* This relates to income generated from the MDTF Contributions and credited to this program.

** 2% fee charged by the World Bank on donor contributions paid in for costs of administration and other expenses under the TF Agreement.

Table 2									
Disbursement Profile of Activities supported by the MDTF									
S. No.	Activity Name	Total Budget (US\$)*	Cumulative Disbursement Up to June 30, 2013 (US\$)	Disbursement July - Dec, 2013(US\$)	Total Disbursement (US\$)	Disbursement % against Total Budget (Rounded Off)	Commitments (US\$)	Commitments+ Total Actual Disbursement (US\$)	Total Actual Disbursement + Commitment % against Total Budget
1	Strengthening PFM Systems	5,150,000.00	1,904,730.71	1,539,209.53	3,443,940.24	67%	152,273.06	3,596,213.30	70%
2	Strengthening OAG	2,460,000.00	445,740.29	655,648.62	1,101,388.91	45%	-	1,101,388.91	45%
3	Strengthening CSOs' use of Social Accountability	1,500,000.00	575,651.62	376,715.63	952,367.25	63%	257,760.12	1,210,127.37	81%
4	Operational Risk Assessment of PFM Reform	200,000.00	160,008.15	39,975.60	199,983.75	100%	-	199,983.75	100%
5	Education PETS	150,000.00	61,127.57	59,417.47	120,545.04	80%	-	120,545.04	80%
6	Strengthening Budgeting Process	905,000.00	NA	28,952.40	28,952.40	3%	117,073.41	146,025.81	16%
7	Program Management and Administration Costs**	490,000.00	157,720.04	47,171.22	204,891.26	42%	12,732.00	217,623.26	44%
8	TF Administration Fee***	230,000.00	201,532.99	29,572.20	231,105.19	100%	-	231,105.19	100%
	Total	11,085,000.00	3,506,511.37	2,776,662.67	6,283,174.04	57%	539,838.59	6,823,012.63	62%

Note:

* Total budget includes both the Recipient Executed and Bank Executed portions of each activity

** 4% of the total contributions pledged by donors

***2% of the contributions paid in by donor partners and used for costs of trust fund administration by the World Bank

Table 3

Donor Contribution Report				
Donor Name	Pledged Amount		Receipts as on December 31, 2013	
DFID	GBP 3.5 m	Eqv. US\$ 5.57 m	GBP 3.5 m	US\$ 5.57 m
Norway	NOK 15 m	Eqv. US\$ 2.62 m	NOK 15 m	US\$ 2.62 m
Denmark	DKK 2 m	Eqv. US\$ 0.38 m	DKK 2 m	US\$ 0.38 m
AusAID	AUD 2.85 m	Eqv. US\$ 2.99 m	AUD 2.85 m	US\$ 2.99 m

Table 4

**Projected Receipts and Disbursements for the next six months
of FY 2013/14 (January 01, 2014 - June 30, 2014)**

Description	Amount in US\$	Description	Amount in US\$
Opening Balance as at Jan 01, 2014	5,357,447.08		
Expected Receipt of Funds-		Expected Disbursement of Funds-	
Donor Contributions*		Strengthening PFM Systems	385,000.00
EU**	1,500,000.00	Strengthening OAG	280,000.00
		Strengthening CSOs' use of Social Accountability	290,000.00
		Strengthening Budgeting Process	150,000.00
		Education PETS	30,000.00
		Program Management and Administration Costs	75,000.00
Sub-Total of Expected Receipt of Funds	1,500,000.00	Sub-Total of Expected Disbursement of Funds	1,210,000.00
		Expected Closing Balance as at June 30, 2014	5,647,447.08
Total	6,857,447.08	Total	6,857,447.08

Note:

* Expected Donor contributions in equivalent US\$.

** Administrative Agreement with EU is expected to be signed by February 2014.

Part Three: News and Events

Notice Board

- Ms. Tahseen Sayed, Country Manager for the World Bank, Nepal, completed her assignment in Nepal as the Country Manager, and took over a new assignment as Country Manager in Albania, effective December 2, 2013.
- PEFA Secretariat Coordinator, Mr. Rajendra Bajracharya, retired in September 6, 2013, serving the Secretariat for about four months. Dr. Mukti Narayan Poudel has been appointed as the new PEFA Secretariat Coordinator effective from September 11, 2013.

Events Diary

- The PFM MDTF thematic meetings were held on **August 13, October 21, and December 17, 2013**. These meetings were co-chaired by the World Bank and DFID. The next thematic group meeting is planned for February 2013.



A visit to the FCGO with Sector Director, Idah Z. Pswarayi-Riddihough

- The fifth PCC meeting was held on **July 18, 2013**. The meeting was chaired by the Country Manager, Tahseen Sayed. Sector Director for Operations and Quality Services for South Asia Region, Idah Z. Pswarayi-Riddihough, also participated in the meeting. From the government, PEFA Secretariat Coordinator, Rajendra Bajracharya; the PEFA Secretariat Member Secretary, Baburam Subedi; and the Under Secretary of the Ministry of Finance, Tek Bahadur Khatri, participated.
- The report, Operational Risk Assessment of PFM Reform in Nepal: A Review of Challenges and Opportunities, was launched on September 9, 2013. The lead author, Philipp Krause, from Overseas Development Institute (ODI) presented the report during the launch ceremony. The Auditor General, Mr. Bhanu Prasad Acharya, was the Chief Guest of the ceremony.
- The mid-term review of Strengthening PFM Project was carried out during the period of July 30 to August 5, 2013.
- The MDTF Operations Manual was finalized and circulated in September 2013.

Annex A. Second Public Expenditure and Financial Accountability (PEFA) Assessment

Concept Note

A. Background and Rationale

1. A sound Public Financial Management (PFM) system is essential for the effective implementation of policies and achievement of intended outcomes by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. The Government of Nepal (GoN) has continued reform program of PFM; and, concomitantly encouraged the Development Partners (DPs) to move fully onto utilization of country systems. This policy is enunciated in the draft Foreign Aid Policy. In light of this policy intent, the GoN is undertaking a second Public Expenditure and Financial Accountability (PEFA) Assessment. The first PEFA assessment was carried out in 2007 and its results published in 2008 and are available at the PEFA secretariat (HQ) website (www.pefa.org).
2. The 2007 Public Expenditure and Financial Accountability (PEFA) assessment concluded that while PFM systems are in place in Nepal, several key systemic weaknesses remain, especially in the enforcement of rules and regulations during budget implementation. Even though formal systems have been instituted, informal practices have not changed much; moreover, while some central systems were upgraded (e.g. information systems, strengthened audit practices) progress in line ministries in the areas of budget execution monitoring and budget discipline has been limited. The PEFA identified five main areas for strengthening: (i) tax administration, (ii) budget preparation/formulation, (iii) budget execution and internal controls, (iv) accounting and reporting, and (v) external audits.
3. The Government recognizes the importance of sound public financial management and has initiated several performance enhancing measures/activities to strengthen all stages of PFM cycles from budget planning and formulation to accountability and effectiveness of public expenditures. In recognition of the importance of PFM systems in supporting service delivery, a group of DPs, has established a Multi Donor Trust Fund (MDTF) to fund PFM reforms in 2012.
4. Notable progress has been made in terms of the accuracy, comprehensiveness, reliability, and timeliness of financial and fiscal reporting; enhanced transparency; and oversight of the use of public monies through risk-based audits. In public procurement, although progress has been made, several challenges remain, including the establishment of an effective appeals process and an effective monitoring and evaluation system. Since enhancing accountability, transparency, and reducing opportunities for corruption are core elements to improve governance and reduced fiduciary risks; strengthening

internal reporting, audits and public procurement reforms are on-going and supported by MDTF.

5. Treasury Single Account (TSA) is functioning, government has moved to IMF GFS-compliant Chart of Accounts and risk based auditing has been introduced. Selected line ministries will be in the position to monitor budget execution on a real time basis, within this fiscal year. The reliability of reports have significantly improved with material reductions in un-reconcilable differences and lowered the widespread use of suspense accounts. Reconciliation levels are consistently above 95% for receipts and expenditures.
6. An assessment of the performance of PFM systems in place was conducted in 2007. With many actions taken in recent years there is a need to take stock of their impact on the PFM systems performance. The government, therefore, intends to carry out a Public Expenditure and Financial Accountability (PEFA) update aimed to be completed by September 2014 to provide a clear picture of changes in performance, since the 2007 assessment. The assessment is expected to provide a common information pool with establishment of new baselines against which further progress in PFM development can be assessed. Finally, it will be a valuable input for government and development partners for the development of priority interventions and reforms to address areas of weakness.

B. Objectives of the Assessment

7. The objective of this assessment² is to update the Public Financial Management Review published in early 2008 (Report No. 43384-NP). Upon completion, the assessment will assist the government to: (a) establish indicator-led assessment of the country's PFM system; (b) update the fiduciary environment of the PFM systems and processes of the country; and, (c) assist in identifying those parts of the PFM system that may need further reform and development.
8. The specific objectives of this assessment are to:
 - ❖ Update the overview of PFM performance in accordance with PEFA Performance Management Framework;
 - ❖ Establish and explain the level of performance against PEFA 2007 scores.
 - ❖ Prepare PFM-PR report which would feed into government and donor dialogue on PFM reform in the short, medium and long term including the following:
 - ❖ Identify possible short term interventions to assist in improving processes;

² Central Government expenditure. Data permitting, information on social security and extra-budgetary information will be presented but will not be assessed or scored.

- ❖ Identify priority PFM reform areas, which can be developed to improve the management and control of resource use (tax and aid) within a medium to long term period.

C. Scope of the PFMA Assessment and Methodology

9. The assessment will use the PFM Performance Measurement Framework developed by the PEFA partners, in collaboration with the OECD/DAC Task Force on PFM³. The Framework enables the identification of information for measurement and monitoring of PFM performance progress over time, and serve as a common platform for dialogue. The Framework supports shared information pool thus avoiding duplicative and analytical inconsistencies, country-led reform, donor harmonization, alignment around the country strategy, and a focus on monitoring and results.

10. The PEFA framework identifies seven critical dimensions of an open and orderly PFM system. The critical dimensions are:
 - a) *Credibility of the budget* - The budget is realistic and is implemented as intended.
 - b) *Comprehensiveness and transparency* - The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
 - c) *Policy-based budgeting* - The budget is prepared with due regard to government policy.
 - d) *Predictability and control in budget execution* - The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds, including transparency in procurement.
 - e) *Accounting, recording and reporting* – Adequate records and information are produced, maintained and disseminated to meet decision-making, management control, and reporting purposes.
 - f) *External scrutiny and audit* - Arrangements for scrutiny of public finances and follow up by executive are in place and operating.
 - g) *Roles and responsibilities of Development Partners* – alignment with national priorities, harmonization of assistance and areas of cooperation.

11. Against the above critical dimensions, a set of 31 high-level indicators measures the operational performance of the key elements of the PFM systems, processes and institutions of a government. In addition, the indicator-based analysis is used to develop an integrated assessment of the PFM system and evaluate the likely impact of PFM weaknesses on the three levels of budgetary outcomes in terms

³ Guidance – (i) PEFA. 2009. Good practices in Applying the PEFA Framework; (ii) PEFA. 2012. Field Guide for Undertaking an Assessment Using the PEFA Performance Measurement Framework; and (iii) PEFA. 2010. Guidance Note in Repeat Assessments iv) PEFA. 2012. PEFA Check Note V) PEFA.2012. PEFA Check FAQ

of aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery; namely:

- ❖ *PFM system out-turns*: these capture the immediate results of the PFM system in terms of actual expenditures and revenues by comparing them to the original approved budget, as well as level of and changes in expenditure arrears.
- ❖ *Cross-cutting features of the PFM system*: these capture the comprehensiveness and transparency of the PFM system across the whole of the budget cycle.
- ❖ *Budget cycle*: these capture the performance of the key systems, processes and institutions within the budget cycle of the central government.
- ❖ *Donor practices*: Capture elements of donor performances which impact the performance of country PFM system.

12. The assessment will also be guided by “good practice” along the following lines, namely:

- a) For each indicator, the previous assessment will serve as a starting point when explaining the trajectory of changes. The narrative will identify the factors that impact a change in rating and the performance change; and
- b) Caution will be exercised for possible reasons contributing to change in scores such as change in definitions, improved access to information and aggregation etc. Further, while overall rating of an indicator may remain unchanged, individual dimensions may change differently; this will be noted.

13. The scope of the current assessment will be comprehensive using the PEFA Secretariat (HQ) guideline for second assessments.⁴ Further, this assessment will build on the existing body of knowledge where reviews have already been undertaken by the Government, Bank and other donors. The assessment will cover fiscal relations between central government and subnational governments. As part of this exercise, a “rapid PEFA assessment” will be completed by March 2014 with participation of practitioners and national experts. PEFA experts (national and international) will review the report, identify and suggest areas/sections for improvement (May 2014). This draft report will be shared with the task team along with supporting evidence to move towards finalization of the report with more data evidences – end of June 2014. A final report, incorporating final comments from stakeholders, area specialists, peer reviewers and PEFA Secretariat (HQ), will be delivered for dissemination by September 2014. (See *Annex A.3 for process flowchart*).

⁴ See. PEFA. 2010. Guidance Note in Repeat Assessments

D. Output of the PFMA Assessment

14. Second PEFA assessment report will provide a comprehensive assessment of PFM performance including an assessment of the extent to which institutional arrangements within government support timely planning and implementation of PFM reforms. Information provided by the assessment would feed into the government and donor dialogue. The standard structure of the report is provided in Annexure one. This will be adjusted where necessary to take account of specific and arising circumstances.

E. Government Partnership Arrangements and Proposed Approach

15. This assessment will be undertaken under the full ownership and participation of the Government of Nepal. It will be coordinated by the Ministry of Finance and guided by the process developed by PEFA Secretariat (HQ) based in Washington DC. This second PEFA assessment is guided by past successful partnership arrangement of the first PEFA assessment, wherein World Bank closely partnered with the government led team. Joint assessment of individual indicators will be vetted by the team, as a group; before a score is assigned that will entail several iterations of assessment justifications.
16. To ensure co-ordination amongst various government institutions, the following institutional and organizational approach has been agreed with the Government of Nepal⁵:
 - **Steering Committee:** The Government's high level PFM Steering Committee, under the Chairmanship of the Finance Secretary, will provide policy guidance to conduct and complete the assessment. PFM Steering Committee will invite joint secretary level Working Committee representatives from selected ministries to provide policy guidance, in general, but, more specifically, comment of assessment report and proposed indicators. The PFM Steering Committee will guide and approve the assessment content and specific indicator scores during the course of the assessment.
 - **Working Committee.** The Working Committee will be co-chaired by the Chief of Budget and Program Division of the Ministry of Finance and the PEFA Secretariat (Nepal) Coordinator. The PEFA Secretariat (Nepal) will be the Coordination desk of the task. The "lead/focal person" of six core dimension assessment leaders will be the members of Working Committee. The member secretary PEFA Secretariat (Nepal) is also the member secretary of the Working Committee. The PEFA Secretariat (Nepal) will coordinate the working of six core dimension assessment leaders, also known as lead focal person. The Lead Focal Person is

⁵ See Annex A.3 and A.4 for details.

responsible of delivering the assessment reports under the core pillars. The Committee may invite experts and PFM consultants who have extensive work experience and knowledge of PFM issues for consultation and advice.

- Assessment team will have five members led by the lead focal person. The team can create sub-groups while accessing functional areas.
- A launch of the assessment will be in the form of an inaugural session amongst the government task teams and the World Bank. At the inaugural session, the government team and the Bank will discuss issues pertaining to the PEFA Framework and the working methodology to be adopted. This will help to enhance the understanding of the processes and to mutually agree, up-front, on the outcome of the assessments. Subsequently, training/workshop on PEFA assessment will be imparted to the whole team.
- The working committee will compile the assessment of the PEFA high-level performance indicator set as contained in Annexure two of the concept note together with, as applicable, appropriate supporting documentation and analyses. Initially, an inventory of existing materials will be prepared, identifying the documentation and data. The starting point will be data and documents available from previous and ongoing assessments.
- The task team will support and make a follow up with field work, where required, to collect missing information, with special focus on shortcomings in institutional arrangements, systems, and processes in the entire PFM cycle. The assessment will include collection of further documentation as required⁶; and minutes of meetings and interviews with the Government counterpart team and main stakeholders. Thereafter, the team will prepare a Draft Performance Report – “rapid assessment” in accordance with the PEFA Public Financial Management Performance Measurement Framework guidelines
- The draft report “rapid assessment”, includes indicator ratings and commentaries. PEFA experts (which include international consultant to be part of the Bank team) will review this draft report and identify areas that could be strengthened with more documentation. The output of this phase, after incorporating changes, stakeholders will be informed of the contents of the draft report through workshops. Views from the participants will be incorporated and an advance final draft of PEFA assessment will be completed by end of the fiscal year 2013/14 (June).
- The final draft report will go through the Bank’s formal quality assurance process and this assessment report is expected to be delivered for dissemination by September 2014.
- The advance final draft report, to be produced after the stakeholders’ workshop, will form the basis for the preparation of a Summary Diagnostic Matrix pertaining to weak performance areas which will mirror a synopsis of the action points aimed at improving the PFM

⁶ Consultation will be carried with non-state institutions/actors on tax, procurement and delivery issues.

reform environment. The diagnostics matrix, will inform on future government reform strategy in devising a prioritized and time-bound action plan aimed at reversing the weaknesses. While PEFA indicators scoring the ratings of 'C' & 'D' will be given particular focus, priority improvement actions will be taken on all defined areas of material weaknesses, including some rating scores of 'B'. Prioritized PFM reform actions will be announced through the FY 15 budget speech and implementation initiated during the FY 15 period.

F. Dissemination

17. *Dissemination:* The report will be prepared in close consultation with the Government's Steering Committee and MDTF members before, during, and after the stakeholders' workshop on the draft final report. Communication strategy to disseminate findings will be developed by the government in coordination with the WB task team. Stake holders' interests, especially the demand side requests, will be prioritized and activity programmed as per interest groups' needs. Dissemination of the report to the parliamentarians will be undertaken through parliamentary committees of the constituent assembly/parliament. PEFA Secretariat (HQ) will peer review the assessment during the process and ensure quality check. Such a process will ensure that the dissemination of the report becomes a continuous activity. Besides reports, short notes will be prepared to influence the 2015 budget formulation and improve budget implementation. These short notes will serve the purpose of informing stakeholders of assessment findings on burning issues. The final Government approved report will be printed and issued as the Government report. It will also be posted on the Government and Bank websites.

G. Risks and Mitigation

18. The team has identified the following risks in the assessment:
 - Timely delivery of the final report depends greatly upon the prompt provision of data from all concerned stakeholders. Appointment of a Lead Focal Person should facilitate the identification of the appropriate source of information required. Dedicated local consultants will work closely with the government officials, with regular monitoring by the task team members to ensure that the agreed timelines are adhered to.
 - Since this assessment is being conducted in parallel with budget implementation, delays may be inter-related.
 - The key risk currently foreseen is the acceptability of the report in case the assessment does not identify improvements in the indicators or results in deterioration of ratings. To manage these expectations, the team will hold an event highlighting the objectivity and detailed guidance for application of the Framework. The task team members assigned to particular indicators will maintain contact with their counterparts in the government to ensure credibility and ownership of data as well as to build an understanding of the conclusions

reached on the basis of that data. Comments will be sought at two stages, once from the Steering Committee members on the draft report and subsequently from a wider group of stakeholders at a workshop to discuss the revised draft report. Peer reviewers will be included from other regions of the Bank, participating development partners and also respected PFM experts to add credibility and secure acceptability.

- Transfer of key staff. The delivery of PEFA assessment report is a priority of the government and the Finance Secretary has assured his leadership and his commitment towards timely delivery of the product. The working committee chair’s term expires within the assessment period and delay in nomination to this chair is a risk. The team has notified the concerned officials of this risk and has been assured that this – delay in nominating the Coordinator of the PEFA Secretariat (Nepal) - should not tax the assessment schedule.

H. Implementation schedule, timetable, deliverables and budget:

19. The specific steps to be undertaken, outputs to be produced in connection with each stage of the assessment and the timetable for the assessment is presented in the table below:

<u>Activity</u>	<u>Estimated Date</u>
1. PCN approval	November 7 th , 2013
2. Teams formed	November 10 th , 2013
3. Assessment first draft	March 31 st 2014
4. PEFA advance draft	June 29 th 2014
5. PEFA report dissemination	September 30 th 2014

20. The resources for this work will be mobilized from the following sources: the Recipient executed Strengthening PFM System Project (for expenses related to workshop, discussion sessions, training and other expenses – US \$ 156,000) and the hiring of international consultant/advisor and national consultants through the Bank execution MDTF (this proposal). In addition, the Bank resources (three staff from Nepal Country Office), other teams members of the Bank, and the peer reviewers will also be added.
21. The total cost of this assessment is US \$ 130,000 and this covers staff, training and consultants (national and internal) time and travel costs.

I. Task Team/Quality Assurance

22. From the Bank, the cross-sectoral team will consist of Roshan Darshan Bajracharya (TTL, PREM), Manoj Jain (Co TTL, SARFM) Mohan Nagarajan (PREM), Bigyan Pradhan (CMU), and national consultants, all who have extensive public financial management knowledge. The team will seamlessly work with

Government team in assuring assessment quality. The Team will work under the guidance of the government's PFM Steering Committee.

23. Peer reviewers will include the following: **(I)** from the government (a) PEFA Secretariat (Nepal); (b) Budget Division Chief, Ministry of Finance; (c) Division Chief of Economic Policy and Planning, NPC; (d) OAG office; **(II)** from development partners, (a) Ms. Laura Leyser, PFM Advisor, DFID; (b) Ms. Yakovleva Ekaterina , PFM Advisor, EU; (c) Mr. Sid Vikram, Governance Advisor, ADB, (d) Mr. Thomas Richardson, Senior Resident Representative, IMF **(III)** from the Bank: (a) Nicola Smithers, Public Financial Management Cluster Leader, PREM Public Sector Anchor; (b) Sanjay N. Vani, Lead Financial Management Specialist (OPCS) and (c) Parminder P.S. Brar, Lead Financial Management Specialist (AFTME) and **(IV)** PEFA Secretariat (DC). The Team will constantly seek guidance from the DC based PEFA Secretariat (HQ), and work closely with the member nominated by the PEFA Secretariat (HQ).

Annex A.1: Contents

EXECUTIVE SUMMARY

- A. PFM performance
- B. Assessment of the Impact of PFM Performance

I. INTRODUCTION

Background

PFM Performance Measurement

PFM Framework

II. OVERALL PERFORMANCE OF PUBLIC FINANCIAL MANAGEMENT (PFM) SYSTEM

- A. Credibility of the Budget
- B. Comprehensiveness and Transparency
- C. Budget Cycle - C (I) “Policy-Based Budgeting”
- D. Donor Practices

III. SUSTAINING AND STRENGTHENING PFM PERFORMANCE: A ROADMAP

Annex 1 - Development Action Plan to Strengthen Public Financial Management (PFM)
Performance in Nepal Short- and Medium-Term Action Plan

IV. CONCLUSIONS

Annex A.2: NEPAL PFM High-Level Performance Indicator Set

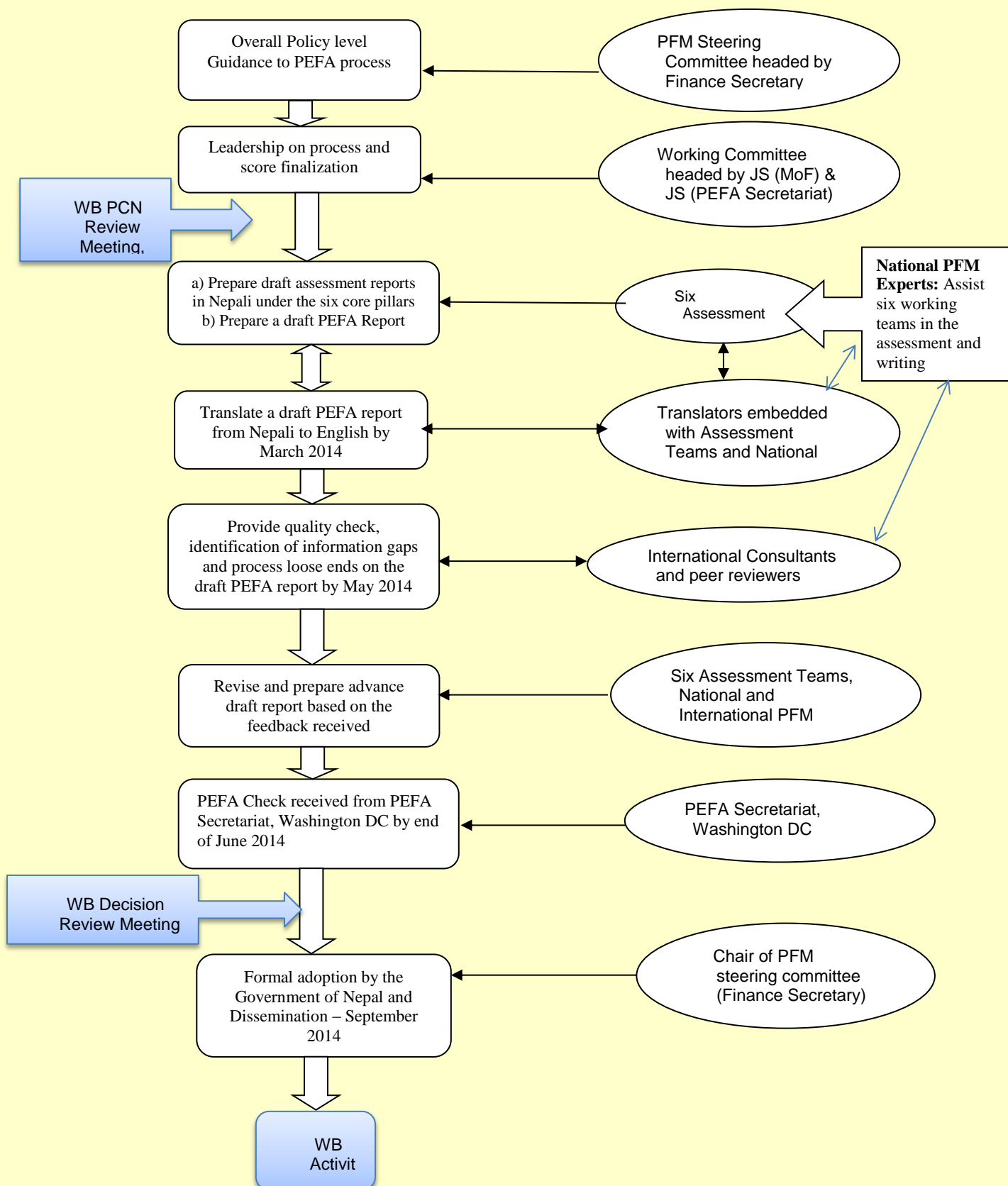
Overview of the Indicator Set

A. PFM OUT-TURNS: Credibility of the budget		Result	A	B	C	D
PI-1	Aggregate expenditure outturn compared to original approved budget	B				
PI-2	Composition of expenditure outturn compared to original approved budget	C				
PI-3	Aggregate revenue outturn compared to original approved budget	A				
PI-4	Stock and monitoring of expenditure payment arrears	D+				
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency						
PI-5	Classification of the budget	C				
PI-6	Comprehensiveness of information included in budget documentation	B				
PI-7	Extent of unreported government operations	C				
PI-8	Transparency of inter-governmental fiscal relations	C				
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D+				
PI-10	Public access to key fiscal information	B				
C. BUDGET CYCLE						
C(i) Policy-based Budgeting						
PI-11	Orderliness and participation in the annual budget process	C+				
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+				
C(ii) Predictability and Control in Budget Execution						
PI-13	Transparency of taxpayer obligations and liabilities	C+				
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C				
PI-15	Effectiveness in collection of tax payments	D+				
PI-16	Predictability in the availability of funds for commitment of expenditures	C+				
PI-17	Recording and management of cash balances, debt and guarantees	C+				
PI-18	Effectiveness of payroll controls	C+				
PI-19	Competition, value for money and controls in procurement	C				
PI-20	Effectiveness of internal controls for non-salary expenditure	C				
PI-21	Effectiveness of internal audit	D+				
C(iii) Accounting, Recording and Reporting						
PI-22	Timeliness and regularity of accounts reconciliation	C+				
PI-23	Availability of information on resources received by service delivery units	C				

PI-24	Quality and timeliness of in-year budget reports	C+	
PI-25	Quality and timeliness of annual financial statements	C+	
C(iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	D+	
PI-27	Legislative scrutiny of the annual budget law	D+	
PI-28	Legislative scrutiny of external audit reports	D+	

D. DONOR PRACTICES			
D-1	Predictability of Direct Budget Support	D	
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	
D-3	Proportion of aid that is managed by use of national procedures	D	

Annex A.3: Nepal Repeat PEFA Assessment – Process Flowchart



Annex A.4: Roles and Responsibilities of Stakeholders

No.	Unit/Committee/ People	Institution (s)	Led/Chaired by	Responsibility
1.	PFM Steering Committee	i) Ministry of Finance, ii) FCGO; iii) Secretaries of NPC, MPPW, MOLD, Edu.; Health; PMO, OAG; iv) Joint Secretaries of FACD and Budget	Finance Secretary	Overall Policy Guidance
2.	Working Committee	Ministry of Finance and PEFA Secretariat (NP)	Co-chairs: JS – MoF, JS – PEFA Secretariat Coordinator (NP)	Overall leadership on i) policy and assessment score finalization by JS-MoF; and ii) PEFA assessment process by JS- PEFA Secretariat Coordinator (NP)
3.	Six Assessment teams	MoF and PEFA Secretariat (NP)	Led by Six Focal Person	Delivering the assessment reports under six pillars including a draft PEFA
4.	National PFM experts/consultants (about 3-4)	Independent PFM experts (national)	-	Assist six working teams in the assessment process, writing assessment reports and a draft PEFA report
5.	Translator (s)	-	-	Translators embedded with Six Assessments teams/National PFM experts. Translators will also translate draft PEFA report from Nepali to English simultaneously.
6.	International PFM Consultant (s)	Independent PEFA Experts (International)	-	Provide quality check, identification of information gaps and process loose ends on the draft PEFA report produced by working teams/National PFM experts.
7.	PEFA Secretariat Team (HQ, Washington DC)	PEFA Secretariat, Washington DC	Head of PEFA Secretariat (HQ)	The PEFA Secretariat (HQ) will provide overall quality assurance process (PEFA Check).
8.	Development Partners	DFID, EU, ADB, Aus Aid, IMF	PFM Advisors/Focal Person	Peer Review, provide feedback on the content and process as needed, participate in workshops, and provide funding.
9.	World Bank Task Team	PREM and FM team	Senior Economist (TTL) and Lead FM Specialist (Co-TTL)	Work with the Government team in assuring assessment quality. Coordinate the overall process within the World Bank, with DPs, international consultants, and PEFA Secretariat (HQ) and ensure timeliness in delivery.

Annex A.5

ID	Task Mode	Task Name	Duration	Start	Finish	May 11		July 21	
						4/28	6/2	7/7	8/11
0		PEFA activity schedule	351 days?	Mon 8/5/13	Mon 12/8/14				
1		PCN approval	15 days	Wed 10/30/13	Tue 11/19/13				
47		Tors for the task team prepared	3 days	Mon 11/11/13	Wed 11/13/13				
2		Team formation	7 days	Mon 8/12/13	Tue 8/20/13				
3		Workshops (launching and team discussions)	3 days	Sun 11/17/13	Tue 11/19/13				
4		Progress update	120 days	Sun 11/17/13	Thu 5/1/14				
41		International consultant hired	40 days	Wed 1/22/14	Tue 3/18/14				
49		Workshop to finalize PEFA scores	3 days	Mon 2/3/14	Wed 2/5/14				
42		Quick assessment report finalization	5 days	Tue 4/22/14	Mon 4/28/14				
43		Workshop to seek comments from wider stakeholders	3 days	Tue 5/6/14	Thu 5/8/14				
46		Second draft report	20 days	Tue 5/20/14	Mon 6/16/14				
45		Field trip	10 days	Mon 7/14/14	Fri 7/25/14				
44		Workshop	3 days	Mon 7/21/14	Wed 7/23/14				
48		Final Report			Tue 9/23/14				

Project: PEFA activity schedule Date: Sun 11/3/13	Task		External Milestone		Manual Summary Rollup
	Split		Inactive Task		Manual Summary
	Milestone		Inactive Milestone		Start-only
	Summary		Inactive Summary		Finish-only
	Project Summary		Manual Task		Deadline
	External Tasks		Duration-only		Progress

Annex B: Workshop on Second PEFA Assessment (December 2013)

Venue: Godawari Resort
Contents and Session Planning

Date	Time	Topic of the Session	Contents to be Covered	Resource Persons	Contact No.
Conceptual Overview Module					
2070/8/2 2 Saturday, December 7 th 2013	8:00-9:00	Arrival, Registration and Breakfast			
	9:00-10:30	Overview of Public Financial Management	<ul style="list-style-type: none"> PFM from Policy and Planning perspective 	Prof. Prithvi Raj Legal	
	10:30-10:45	Tea Break			
	10:45-12:15	Overview of Public Financial Management	<ul style="list-style-type: none"> PFM from Comprehensiveness of Budget and Information perspective 	Rameshwor Khanal	
	12:15-1:15	Lunch			
	1:15-2:45	Overview of Public Financial Management	<ul style="list-style-type: none"> PEFA Framework and Assessment methodology 	Roshan Darshan Bajracharya	
	2:45-3:00	Tea Break			
Assessment Methodology Module/Workshop					
	3:00-4:30	Credibility of the Budget	<ul style="list-style-type: none"> Methods of Assessment Based on PEFA Indicators: PI-1 PI-2, PI-3, PI-4, 	Ram Sharan Pudasaini/Baikuntha Aryal	9841358949/
	4:00-5:00	Recap of the Day : Mr. Suman P Sharma/ Baburam Subedi			
Conceptual Overview Module					
	8:00-9:00	Breakfast			
2070/8/2 3 Sunday, December 8 th 2013	9:00-10:30	Overview of Public Financial Management	<ul style="list-style-type: none"> PFM from Budget Implementation and Control perspective 	Bhanu Prasad Acharya	
	10:30-10:45	Tea Break			
Assessment Methodology Module/Workshop					
	10:45-12:15	Comprehensiveness and Transparency of Budget	<ul style="list-style-type: none"> Methods of Assessment based on PEFA Indicators: PI-5, PI-6, PI-7, PI-8, PI-9, PI-10 	Ram Sharan Pudasaini/Diya Pant	9841358949/ 9721437666
	12:15-1:15	Lunch			
	1:15-2:45	Budget Cycle and Policy Based Budgeting	<ul style="list-style-type: none"> Methods of Assessment based on PEFA Indicators: PI-11, PI-12 	Puspa Lal Shakya/Baikuntha Aryal	9841556233/
	2:45-3:00	Tea Break			
	3:00-4:30	Budget Cycle and Predictability and Control in Budget Execution	<ul style="list-style-type: none"> Methods of Assessment based on PEFA Indicators: PI-13, PI-14, PI-15 	Ram Sharan Pudasaini/Rajan Khanal	9841358949/
	4:00-5:00	Recap of the Day: Dr. M.N Paudel/ BR Subedi			
2070/8/2 4 Monday, December 9 th 2013	8:00-9:00	Breakfast			
	9:00-10:30	Budget Cycle and Predictability and Control in Budget Execution	<ul style="list-style-type: none"> Methods of Assessment Predictability and Control in Budget Execution Based on PEFA Indicators: PI-16, PI-17, PI-18, PI-19, PI-20, PI-21 	Suresh Pradhan/Dr. Mukti Narayan Paudel	9841399752/ 9741201083
	10:30-10:45	Tea Break			
	10:45-12:15	Accounting,	<ul style="list-style-type: none"> Methods of Assessment based on PEFA 	Dev Raj Pathak/Jaya	9841224550/

Date	Time	Topic of the Session	Contents to be Covered	Resource Persons	Contact No.
		Recording and Reporting Practices in Public Sector	Indicators: PI-22, PI-23,PI-24,PI-25	Dev Shrestha	
	12:15-1:15	Lunch			
	1:15-2:45	External Scrutiny and Audit for Creating Transparency in the use of Public Funds	<ul style="list-style-type: none"> • Methods of Assessment based on PEFA Indicators: PI-26, PI-27,PI-28, 	Babu Ram Gautam/	9841410690/
	2:45-3:00	Tea Break			
	3:00-4:30	Donor Practices/Harmonization/Mutual Accountability	<ul style="list-style-type: none"> • Status of Donor Practices based on PEFA Indicators 	Madhu Marasini/ Bigyan Pradhan	9851089432/
	4:00-5:00	Recap of the Day and Closing of the Program			

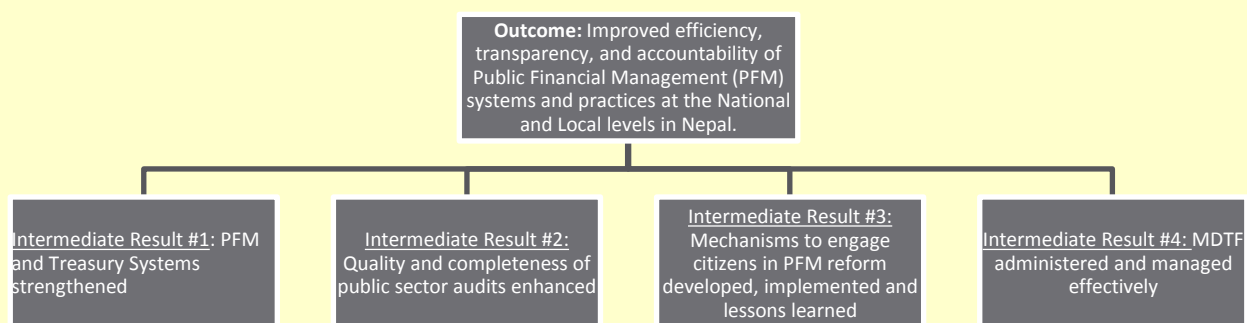
List of Participants in PFM and PEFA ToT

S. N.	Name	Designation	Institution/Office	Contact No.	Email	Remarks
1	Rajendra Bajracharya	Coordinator	PEFA Secretariat	9841337955		PEFA
2	Baburam Subedi	Member Secretary	PEFA Secretariat	9841289939		
3	Tolendra Karki	Accounts Officer	PEFA Secretariat	9841522140		
4	Anupama Karki	Accounts Officer	PEFA Secretariat	9841575852		
5	Hari Prasad Phuyal	DFCG	FCGO	9851122922		FCGO
6	Shaligram Sharma Paudel	DFCG	FCGO	9841260777		
7	Baburam Gyawali	DFCG	FCGO	9849056833		
8	Kaman Singh Khatri	DFCG	FCGO	9851040972		
9	Sukadev Baskota	DFCG	FCGO	9841297837		
10	Shreekrishna Nepal	Chief Treasury Comptroller	DTCO, Rupadehi	9847111515		DPIUs
11	Yam Prasad Bhusal	Chief Treasury Comptroller	DTCO, Kailali	9841569355		
12	Umesh Dhungana	Chief Treasury Comptroller	DTCO, Jumla	9841405205		
13	Bhesh Prasad Bhurtel	Chief Treasury Comptroller	DTCO, Ilam	9841438834		
14	Birendra Kumar Mishra	Chief Treasury Comptroller	DTCO, Mahottari	9844030617		
15	Damber B. Karki	Under Secretary- Accounts	MoITM	9851129333		PIUs
16	Khagendra Pd. Pokharel	Accounts Officer	NPC	9841550095		
17	Ghanashyam Parajuli	Director	OAG	9841362286		
18	Nokh Bahadur Basyal	Under Secretary	MOHP	9841812756		
19	Khadananda Adhikari	Section Officer	PPMO	9848243897		
20	Bhumi Ram Sharma	Under Secretary	MoF			

Annex C. Strengthening PFM of the Government of Nepal

Results Chain for the Nepal Multi-Donor Trust Fund (MDTF)

(Prepared by the Nepal MDTF Program Management 2013)



Results Chain			
Outcome	Indicators	Baselines and Targets	Status Update
Improved efficiency, transparency, and accountability of Public Financial Management (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)	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 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 7 th of the following month and quarterly reports before the 15 th 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)	The Auditor General submitted the FY2011/12 within 9 months of the end of fiscal year in April 2013.
	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 re: 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 this exercise, this is in various stages of completion as of December 2013.

Intermediate Results (IR)	Indicator	Baseline and Targets	Status Update
IR #1: PFM and Treasury Systems strengthened	Number of districts in which Treasury Single Account (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: 14000 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 to how 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 Auditor General's (OAG) auditing standards	Baseline: 35% (2011) Target 60% (June 2015)	Dec 2013: 40%
	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)	Dec 2013: 2 per year
IR # 3: Mechanisms to engage citizens in PFM reform developed, implemented and lessons learned	Increase in the number of independent budget analyses at national-level conducted and shared by Social Accountability (SA) 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 December 2013. Survey data expected within the first quarter of 2014.
IR #4: MDTF administered and managed effectively	Functional M&E system for the MDTF Program established	Baseline: No Program Results Indicators 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 Six Monthly Progress Report.
	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.