

# NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

January-June, 2015  
Progress Report



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Supported by:



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## Nepal Public Financial Management Multi-Donor Trust Fund

Supported by:



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Federal Department of Economic Affairs,  
Education and Research DARE,  
State Secretariat for Economic Affairs SECO



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WORLD BANK GROUP

# ACKNOWLEDGMENTS

This progress report has been prepared by MDTF Program Management (Manoj Jain, Pragya Shrestha and Shraddha Shah), on behalf of the World Bank as MDTF Administrator. The report includes inputs and guidance from the MDTF task teams (Luiza A. Nora, Keith Douglas Leslie, Anjalee Maiya Thakalee, Akmal Minallah, and Roshan Darshan Bajracharya). The MDTF management and team is especially grateful to the PEFA Secretariat Nepal for their continued support.

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Foreword Photo: Anand Pardhy  
Design by: Rajan Shakya

# 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

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# FOREWORD

The earthquakes that hit Nepal on April 25 and May 12, 2015, affected almost half of the country's districts. This calamity affected primarily rural areas, with the most poor and vulnerable disproportionately impacted. Nearly 9,000 people lost their lives, more than 22,000 people were injured, and more than 500,000 houses collapsed or were damaged. At the request of the Government of Nepal, the World Bank undertook a comprehensive assessment of the damages and losses. There was also technical assistance from development partners. The earthquakes took a striking toll on the economy with immediate losses of about USD 2 billion, bringing the combined economic effect to USD 7 billion at the very least.<sup>1</sup> This was the first step toward recovery planning, which helped identify recovery needs as well as helped develop a strategy for implementation. This is just the beginning. A long road stretches ahead.

One might look upon this natural disaster as a unique opportunity to rebuild a more resilient and inclusive Nepal that can continue progressing on its development pathway. The public financial management (PFM) systems of Nepal take on a more critical role in the context of what happened in the country where there is a greater need for directing appropriate resources in an efficient, timely, transparent, and accountable manner toward relief and reconstruction activities, and ultimately a quick recovery.

As a core area for reform in developing countries, PFM systems support decision-making on fiscal policy and strategic allocation of resources and underpin budget implementation and reporting. Shortcomings in PFM 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 importance placed on PFM systems becomes even more pronounced in a country like Nepal due to its limited resources, fragile environment, and the devastating task of dealing with post-disaster recovery. To address these challenges and achieve visible and sustainable results, the Nepal PFM Multi-Donor Trust Fund (MDTF) continues to play a vital role.

The past six months, January to June 2015, have seen significant developments in MDTF operations. Through a revised administration agreement with all development partners, the PFM MDTF has been extended until January 2018. The Strengthening PFM System Project I (SPFM I) and Strengthening the Office of the Auditor General Project have been restructured and extended until June 2016. The follow-up project to SPFM I is being processed as SPFM II, a new project with updated World Bank rules. Added to the list of developments, the Strengthening Civil Society Organizations Use of Social Accountability Project II has been processed and has become effective.

In response to the damages caused by the earthquakes to the district treasuries, a field assessment has been conducted and report prepared on the basis of information provided by the Financial Comptroller General Office. The SPFM II now includes activity to finance the loss of IT, office space, power backup, and networking equipment along with small repairs and maintenance. The Government of Nepal is in the process of preparing separate plans for civil works reconstruction of the public sector buildings, which will include the three district offices that were destroyed.

The completed PEFA II assessment was formally launched by the Finance Minister, Dr. Ram Sharan Mahat, on June 19, 2015 in an official ceremony organized by the PEFA Secretariat. With the completion of the second PEFA assessment report, the Government of Nepal also prepared an initial draft of Phase II of the PFM Reform Action Plan. Preparation of this action plan will help expedite the ongoing PFM reforms in Nepal and continue to improve the effectiveness and transparency of the public spending. The future MDTF work program will be based on the activities identified in the new PFM Reform Action Plan.

The PFM MDTF continues its support of the Strengthening the Office of the Auditor General (SOAG) Project. The SOAG Project has already achieved the end-of-project target in several areas. The Supreme Audit Institution (SAI) India, has completed the peer review of the Office of the Auditor General of Nepal. The

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<sup>1</sup> Nepal Earthquake 2015: Post Disaster Needs Assessment (National Planning Commission, Government of Nepal, Kathmandu, 2015). Accessible at [icnr2015.mof.gov](http://icnr2015.mof.gov).



OAGN building was damaged in the April earthquake, requiring the OAGN staff to work in make-shift office arrangements. Relocation to a better space is imminent and will allow for full functioning to resume. In view of the impact of the earthquakes, a recent mission for the SOAG Project has agreed to extend the timeline for consultancy to December 31, 2015, and to identify milestones for each of the deliverables. The ongoing SOAG Project will also fund the necessary networking and IT equipment that will be required to facilitate the transfer to the new OAGN space.

On behalf of the PFM MDTF, it gives me immense pleasure to add in this message that Nepal PFM MDTF won a Vice President's Award in South Asia Region of the World Bank in April 2015. There was serious competition for this highly coveted award. Nine projects were selected out of from the entire portfolio of the South Asia Region. The criteria for selection included results, collaboration, innovation, and client focus. In addition the South Asia Region Vice President's Office cited a specific criterion: the use of solid analytical work in informing Bank-financed projects and/or advice provided to Governments. This success reflects the excellent collaborative and results-focused spirit among the PFM MDTF development partners.

Among other administrative highlights this year, the PFM MDTF team hosted technical review meetings to discuss substantive PFM-related issues among partners and technical staff and experts. The first four technical review meetings were very productive in terms of shaping the PFM MDTF agenda.

On behalf of the PFM MDTF team and partners, I welcome the United States Agency for International Development (USAID) as an MDTF partner. The Administrative Agreement was signed between the World Bank and USAID on February 3, 2015.

This Program Report summarizes our past year's achievements. Our team looks forward to fruitful, future interactions to help shape the Phase II Reform Action Plan and work program for the PFM MDTF.

*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 PFM Multi-Donor Trust Fund (MDTF) was established in December 2010.

The MDTF is administered by the World Bank and jointly funded by seven donors—the European Union; Department for International Development (United Kingdom); Governments of Norway and Denmark; Australian Government Department of Foreign Affairs and Trade; Government of the Swiss Confederation; and, most recently, the United States Agency for International Development, which became the seventh donor following the signing of the Administrative Agreement with the World Bank in February 2015.

The objective of the PFM MDTF in Nepal is to strengthen PFM performance, transparency, and accountability. 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 processes and performance (demand side), and
- Deepen knowledge about current PFM practices and options for improvements (analytical assessments).

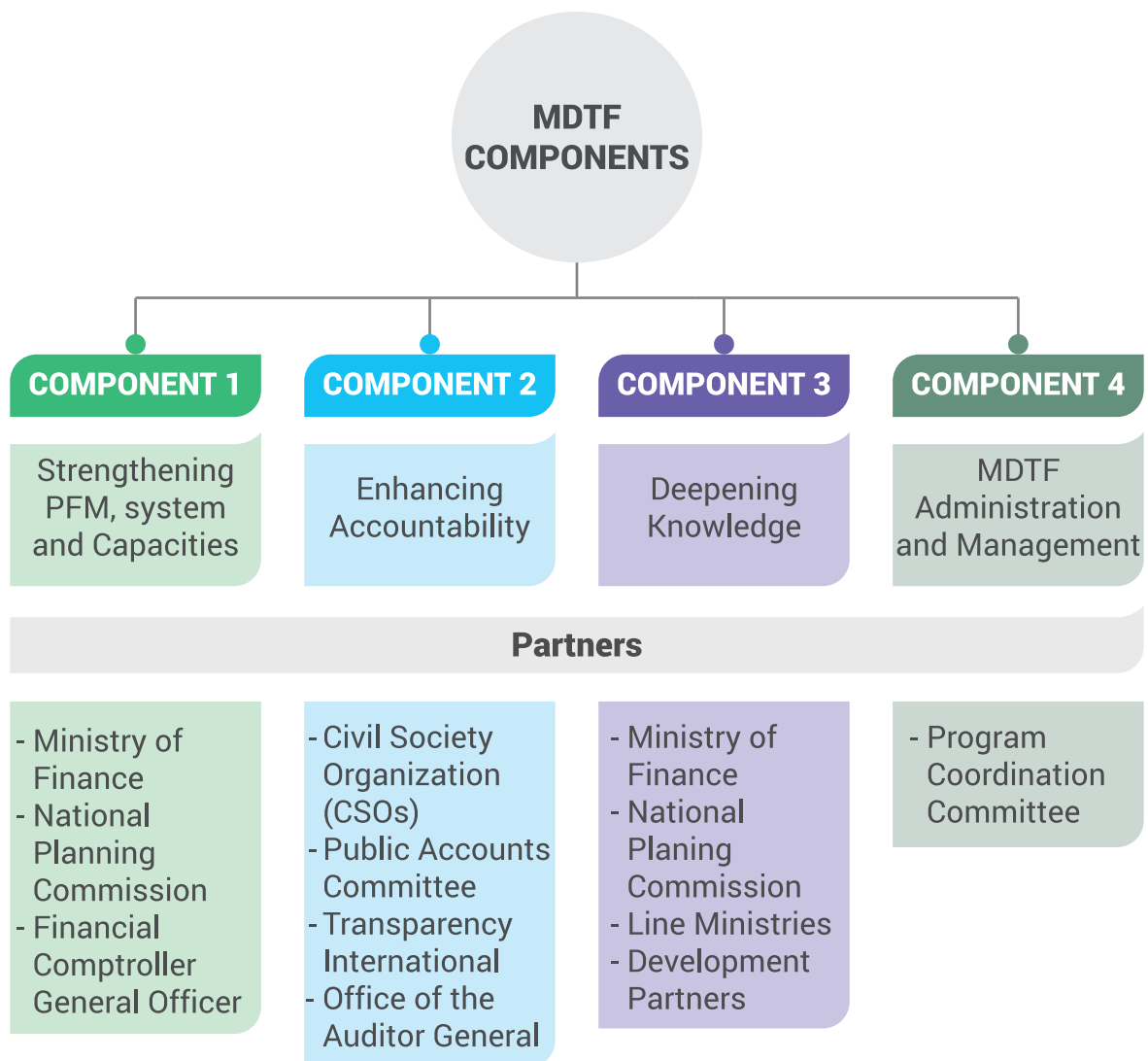
Following are the four components under the PFM MDTF.

- **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 Accountability in Public Financial Management**, has two sub-project operations that relate to (a) strengthening the Office of the Auditor General in Nepal (OAGN) and (b) strengthening civil society organizations' use of social accountability to improve public financial management.
- **Component 3, Deepening Knowledge Related to Nepal PFM System**, 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.



The four components are illustrated in Figure 1.

*Figure 1: MDTF Components*



Current status of results obtained from PFM MDTF is provided in Annex A.

# PART I.

## OVERVIEW OF RESULTS

Part I covers progress on Component 1, Strengthening PFM System and Capacities, and Component 2, Enhancing Accountability in Public Financial Management. The first component has one main operation on strengthening PFM systems and capacities with three subcomponents. The second component comprises two subprojects that relate to strengthening the OAGN and strengthening use of social accountability by civil society organizations (CSO) to improve public financial management. Additional project data is provided in Annex C.

### A. Component 1: Strengthening PFM System and Capacities

#### Subproject: Strengthening PFM Reform (Approved total budget, USD 5.15 million)

##### Subcomponent 1.

The Strengthening Public Financial Management Reform (SPFM) Project has been highly successful in implementing the treasury single account (TSA) system. The complete rollout of the TSA system across all 75 districts in Nepal helped to centralize payments at District Treasury Controller Offices and close down 13,500 bank accounts at least one year ahead of the target deadline, leading to 100 percent coverage of the budget. Real-time budgetary expenditures are now available to all stakeholders through the website of the Financial Comptroller General Office (FCGO), which has had significant impact on the decision-making behavior of line managers and has helped improve the transparency in public finances.

These results are also clearly evident in the upgrade to several ratings in the draft Public Expenditure Financial Accountability (PEFA) II report. Monthly budget executions reports (across the board with regard to ministries, spending districts, and economic classification) have been strengthened and made available on a timely basis. Daily reports on aggregate budget implementation are also made available on the FCGO website and visual media located at strategic locations. Further plans are being made to enhance the usefulness of reports and strengthening accountability by reaching out to other stakeholders, including demand side, such as civil society organizations and the media. Recording of commitments

across all 75 districts and pilots with respect to the newly designed Revenue Management Information Systems (RMIS) in 3 large revenue-receiving districts (Kathmandu, Lalitpur, and Bhaktapur) has been implemented. Adding to these positive results, Nepal's Accounting Standards Board successfully drafted the Nepal Financial Reporting Standards (modeled on International Financial Reporting Standards) after an extensive consultative process. Pilot usage of Nepal Public Sector Accounting Standards (NPSAS) have been successfully completed.

The Government of Nepal sent a request for a one-year extension (to June 30, 2016), reallocation among components, and additional financing the SPFM Project. An extension and reallocation was processed by the World Bank, and accordingly a revised letter of agreement was signed in June 2015. The additional financing is based on the affirmative decision of the Program Coordination Committee (PCC) meeting of the PFM MDTF held in September 2014 and in response to the request from the Government received in June 2014. A virtual review was conducted March 19-27, 2015, for the Concept Memorandum for Nepal Public Financial Management (PFM) Multi Donor Trust Fund (MDTF) Financed Additional Financing for Strengthening Public Financial Management (SPFM) Project (AF ID: P154401). The concept package was approved on May 8 and circulated to development partners.

Due to the World Bank's recent internal guidelines on small grants and trust funds, the proposed additional financing is being processed as a stand-alone project (SPFM II). SPFM II will be a follow-up project to the ongoing SPFM Project and will primarily allow the Government to upgrade the IT infrastructure for enhanced sustainability of the TSA system and enhance the financial management information system (FMIS) in order to fully implement commitment recording and enhance revenue management. All of these activities are important to sustain the results obtained under the ongoing SPFM; in this light, SPFM II shares the same project development objective, which is "improving expenditure control and enhancing government accountability and transparency by strengthening treasury system, improving financial reporting, and building up PFM capacity".

Given the immediate devastation of the 2015 earthquakes in Nepal and the need to quickly resurrect the payment function in affected districts, this proposed project will also include an activity under Component 1 to quickly assess the damages caused to the TSA system infrastructure in the District Treasury Controller Offices, and identify necessary measures that would need undertaking to resurrect the operations for allowing relief and reconstruction efforts to take place on a seamless basis.

## Subcomponent 2.

After the successful completion of the two pilots of NPSAS-compliant financial statements for FY11/12 and FY12/13 in the Ministry of Physical Infrastructure and Transport and the Ministry of Women, Children, and Social Welfare, the Financial Comptroller General Office is planning for scaling up this rollout across all ministries. This would require consultancy support and necessary training and capacity-building activities. A practical rollout plan has been drawn up that takes into account lessons learned from the previous pilots.

Promulgating Nepal Financial Reporting Standards (NFRS) in line with International Financial Reporting Standards (IFRS) is a manifestation of the Government's full commitment to and ownership to the PFM reform agenda. Nepal's Accounting Standards Board has formulated 40 NFRS as earlier pronounced by the Institute of Chartered Accountants of Nepal (ICAN), Nepal's professional accounting organization. The Accounting Standards Board has planned and completed supportive activities such as preparation and development of NFRS for small and medium-size enterprises (SMEs),

guidance notes for 15 NFRS, training-the-trainer in NFRS, and familiarization with exposure drafts of NFRS. The Accounting Standards Board has completed the preparation of 15 guidance notes and the training-the-trainer program for qualified Chartered Accountants as well as publication of the 40 Nepal Financial Reporting Standards.

The primary mandate for implementation of financial reporting standards in Nepal is the prerogative of ICAN. Looking ahead at the promulgation of standards in Nepal, there will be separate follow-up and capacity-building dialogue of a comprehensive assessment of Nepal's accounting and auditing regime in the forthcoming Report on the Observance of Standards and Codes, Accounting and Auditing (June 2015, World Bank). This will necessitate a slight revision in an intermediate results indicator with reference to the state-owned enterprises.

## Subcomponent 3.

The finalization of the second PEFA assessment was a significant achievement. This self-assessment conducted under the leadership of the Government of Nepal received endorsement from the PFM Steering Committee and the Finance Secretary. The PEFA II Final Report (2015) has been published and accessible at [pefa.gov.np](http://pefa.gov.np).

The PEFA Secretariat has made significant achievements through its communications and outreach activities such as PFM training, publication of journals and newsletters, and radio programming. These activities will be sustained through the extension and the follow-up SPFM II Project. The PEFA Secretariat is conducting research in five high-priority areas:

- Study of the internal audit system in Nepal,
- Pattern and implication of off-budget items in public financial accountability,
- Feasibility study on establishing a national institute of PFM,
- Impact of government investment in public enterprises in terms of loan and share investment, and
- Impact of implementation of TSA system in public finance.

Going forward, the PEFA Secretariat will be conducting more high-priority research and analytical studies. In addition, SPFM II will help build and support and national PFM training and capacity-building capabilities by partnering with local academic pioneer institutions (such as the Nepal Administrative Staff

College) and working on developing a PFM core curriculum for public sector practitioners. Options for international collaborations are also being explored.

## **B. Component 2: Enhancing Accountability in Public Financial Management**

### **Subcomponent 1. Strengthening the Office of the Auditor General of Nepal,** (Approved total budget, USD 2.48 million)

Despite challenges, the Strengthening of the Office of the Auditor General (SOAG) Project continues to make significant progress. In April 2015, as a result of the intense earthquakes and aftershocks, the Office of the Auditor General of Nepal was declared unsafe and had to be abandoned. The OAGN staff went to work in make-shift arrangements. At present, a new leased building is undergoing work to make it usable for the Office of the Auditor General. The earthquake did not have an immediate impact on the OAGN audit timelines. Prior to April 2015, the audited financial statements for 2013-14 were presented to the President, however, project activities were severely hampered in the aftermath of the earthquake. As a result of the force majeure, OAGN requested an extension of the closing date of the SOAG Project. The project closure date was extended from June 30, 2015, to June 30, 2016.

The extension allows for completion of activities that were in progress and facilitates attainment of development objectives. The main consultants under the SOAG Project, Cowater, and OAGN had set deadlines for completing the project activities by end of September 2015, which appears to be ambitious and would require efforts from both sides to achieve satisfactory completion. Cowater will request a non-cost extension of the contract up to December 31, 2015.

While there had been reduction in activities during the quarter following post-earthquake dislocation of OAGN staff and consultants, overall progress has been made in achieving the critical milestones. The Financial Audit Manual has been updated and will be submitted to OAGN for final review. Fifteen financial audits were completed under the risk-based audit methodology. The Financial Controller General Office has a cadre of internal auditors. Fifteen internal auditors will receive training to familiarize them in the use of the Financial Audit Manual and to the requirements of risk-based audits in order that internal audit activity will usefully complement external audit.

The completed implementation of the TSA system in Nepal provides an opportunity for computer-based audits. With the help of consultants, OAGN has selected IDEA as a preferred software for its computer-assisted auditing techniques (CAAT). Consultants are preparing user CAAT guidelines and, in September 2015, will begin training master trainers, who will in turn provide training to 200 end-users.

At the request of OAGN, a peer review team of the Comptroller and Auditor General of India assessed performance of OAGN. This is an extensive report and provides a good diagnostic as input to the OAGN strategic plan. The report recognizes significant improvement in timeliness of the submission of the annual audit report to the President during the last three years (2013-2015). Although OAGN has adopted a risk-based audit, there is need for improvement in audit quality and allocation of scarce resources for audit coverage by OAGN of high-risk entities. An action plan of peer-reviewed findings in OAGN, under preparation, will be critical for ensuring that the new methods and tools are mainstreamed in the audit practices of OAGN. SAI Norway is also providing help in developing an OAGN strategic plan, which will need coordination with the peer-reviewed action plan.

The OAGN, under the SOAG Project, has completed six ISSAI-compliant performance audits within areas like health, local government, and water and sanitation. The Auditor General is keen to increase the coverage and improve the quality of performance audits. Toward this goal, consultants are reviewing the files of pilot performance audits; an assessment of the gaps in comparison to ISSAI will be shared with the OAGN in a workshop in September 2015. As a parallel activity, the demand-side project is collaborating with OAGN in developing citizen-centric guidelines on performance audits. The demand-side project will require a greater need for collaboration.

The OAGN is preparing plans for undertaking activities in the next phase of the SOAG Project. Key priorities include further embedding of the Financial Audit Manual, the use of electronic working papers and computer-assisted auditing techniques, development of the strategic plan, and building capacity within OAGN to provide assurance in expenditures for the expected high volume of activities incurred on reconstruction and rehabilitation.

There is a critical period of time through the end of September 2015 for the satisfactory completion of tasks related to the SOAG Project. This will require extensive monitoring and frequent review meetings to ensure that none of the teams miss the targets. The project deliverables will feed into the program for the next phase. In particular, embedding an electronic working paper system in mainstream audits of OAGN will continue to require effort and support.

## **Subcomponent 2: Strengthening CSOs Use of Social Accountability to Improve PFM**

(Approved total budget: USD 3.0 million)

Phase 1 of this demand-side subcomponent closed on September 30, 2014. A total of 40 sub-grants were implemented by 40 CSOs, in ten districts of the Far West, Mid-West and Western regions covering 80 VDCs (two per CSO). They also took on participatory gender and pro-poor budget analysis and participatory procurement monitoring and monitored a public expenditure tracking survey (PETS). Phase 1 work has catalyzed changes in the demand-side PFM system at the most fundamental level of government administration, namely the village development committee, by engaging local CSOs and building their capacity for conducting varied PFM-related activities.

The analysis of the baseline and end-line research of Phase 1 has shown that CSO activities have contributed toward achievement of objectives of the Program for Accountability in Nepal (PRAN). It did this by improving transparency, efficiency, accountability, and inclusiveness. Events were also organized for engaging citizens in participatory budget analysis, making the budget accessible to the public, and holding PFM-related consultation meetings with VDC service providers. The program led to increased citizen awareness about the local planning and budgeting process, closer examination of the distribution of SSEs, greater participation by women and marginalized groups in local governance structures, the introduction of a locally-managed PETS on SSEs, the use of the Community Scorecard to improve the community management of government schools and even the refunding of misused or misallocated funds back to the VDC and ward budgets.

Phase I of the project also highlighted areas that require more improvements and also more research. The analysis of the

baseline and end-line data revealed areas requiring targeted efforts by the government and also some areas of exploration for future PRAN. The data indicates low values of participation of women and the disadvantaged Dalits community in matters of local procurement in particular and in other critical areas of decision-making. This may not only weaken their influence but also erode opportunities for future generations.

Drawing from the experience in Phase 1, the following learning notes were finalized between January and June 2015:

- **Strengthening Social Accountability in Public Finance Management: An Opportunity for Constructive Engagement between the Office of the Auditor General and the Civil Society Organizations in Nepal** highlights the importance of the engagement with the OAGN and CSOs as well as provides insights and lessons learned in the process.
- **Strengthening Social Accountability in Public Service Provision: Building Constructive Engagement between Service Providers and Service Users** encapsulates how the program has been successful in generating grassroots demand for improvement of basic services provision.
- **Strengthening Social Accountability in Local Development by Focusing on Inclusion in Nepal: What can be done by Civil Society Organizations?** Although a gender equity and social inclusion (GESI) approach is being mainstreamed into laws, regulations, and initiatives related to local development processes, implementation



remains challenging. This note builds on the prevailing situation in Nepal and CSO experiences, supported by PRAN in GESI mainstreaming in local development.

- **Strengthening the Role of Media in Promoting Social Accountability: Ways Forward** summarizes the experiences of CSOs that received grants from PRAN for strengthening the role of media in promoting social accountability in Nepal.

Phase 2 of the project has been finalized and the project became active as of July, 2015. This gives continuity to the momentum on the demand side of the Strengthening CSOs Use of Social Accountability to Improve PFM Project

Annex B provides details with regard to demand-side activities planned with OAG in Phase 1 that had to be moved to Phase 2 due to Earthquake.

# PART II. SECTOR WORK

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

## A.Component 3: Deepening Knowledge Related to Nepal PFM System

(Approved total budget, USD 2.46 million)

### Subproject: Strengthening Budgeting Process for Results

The technical assistance on this subproject aims for 3 outcome pillars:

- Outcome 1. Credible Budget,
- Outcome 2. Linkage of Annual Plan to Budget, and
- Outcome 3. Program Performance Accountability.

Under these three pillars, 13 distinct activities (place holders) were identified and implemented with an objective to strengthen the budget process for results. More than 70 percent of the planned activities were completed as

envisaged. The balance of funds is approximately USD 319,500 out of USD 905,000 (original closing of June 30, 2015). A one-year extension to June 30, 2016, if forthcoming.

#### Outcome I: Credible budget

Credible budget is anchored by 8 activities under 2 pillars—knowledge and process strengthening. One activity, fiscal devolution, was kept on hold at the request of the Government of Nepal. Box 1 summarizes the activities under the corresponding pillar with the results for each.

*Box 1: Credible budget activities for results*

Knowledge	Process Strengthening
<ul style="list-style-type: none"> <li>• PFM Gap Assessment Report completed.</li> <li>• MTEF Gap Assessment Report completed.</li> <li>• Tax Expenditure Report completed.</li> <li>• Formula-Based Budget Allocation Framework Report completed.</li> <li>• Quasi Fiscal Activity Note completed.</li> </ul>	<ul style="list-style-type: none"> <li>• Line Ministry Budget Information System (LMBIS) implemented.</li> <li>• General Equilibrium Model of Nepal and the World (GEMNeW) implemented.</li> <li>• Medium-term Budget Framework implementation is on-going.</li> </ul>

#### Results

<ul style="list-style-type: none"> <li>• A preamble in the draft Constitution states that the budget will be presented to Parliament for approval on May 15 of each year.</li> <li>• Fiscal Responsibility and Budget Management Act has been drafted.</li> </ul>	<ul style="list-style-type: none"> <li>• LMBIS anchors annual budget.</li> <li>• GEMNeW anchored in (i) PDNA impact analysis and (ii) On-going Vision 2030 planning document.</li> </ul>
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## **Outcome II: Linkage of plan to budget**

This outcome has two activities in terms of aligning sector strategies to budget and costing of activities. The earthquake of April 2015 had an impact on the completion of these activities. On-going sector costing is on hold to internalize the cost of rehabilitation and reconstruction from the earthquake. However, the preparation of a sectoral medium-term expenditure framework (MTEF) is continuing. Once this activity is completed, there may be a need to revisit these near-completed sectoral papers to strengthen the reconstruction component with costing of projects and programs as approved by the newly created Reconstruction Authority.

## **Outcome III: Program performance accountability**

Program performance accountability outcome is anchored by three activities:

- Synchronization of PFM information systems – LMBIS, RMIS, TSA, and FMIS (completed);
- PFM Information System (completed);
- Parliamentary participation in budget formulation (dropped).

The results of this outcome are (a) the budget negotiation has been strengthened and (b) real-time public expenditure information is available among ministries, sectors, and broadly spanned locations.

## **Future Activities under Outcomes I, II, and III (under the extended period)**

**Deepening budget credibility.** The Ministry of Finance has requested technical assistance to strengthen the analytical capacity of policy-making institutions, namely Ministry of Finance, National Planning Committee, and Nepal Rastra Bank, starting with the transfer of knowledge of public expenditure review analysis to make the budget credible

**Fiscal devolution.** It is proposed that PFM MDTF assists the Government of Nepal with preparation of a fiscal devolution framework once the political boundaries of provinces are settled.

## **Operationalizing MTBF on an incremental coverage.**

The on-going MTEF strengthening activity was disrupted by the April 2015 earthquake. To ensure aggregate macro fiscal sustainability and allocation efficiency of public expenditure

reacting to the pressures of large resource needs for rehabilitation, technical assistance and requisite support will be provided for MTBF implementation by the Government of Nepal, including measures to implement activities identified by the first phase scoping assessment.

**Program performance and expenditure information made available for third party monitoring.** Encouraged by the real-time availability of expenditure data to the policymakers categorized by ministries, sectors, and districts, the Government of Nepal would be provided technical assistance to help support issuance of account payee checks to the beneficiaries who are due funds. To operationalize this intervention (enunciated in the Budget 2016 policy), current PFM information system program codes and payment process forms will be changed. And training to District Treasury Controller Office personnel in 14 earthquake-affected districts will be provided as a start and thereafter rolled out to the whole nation.

**Parliamentarian and expanded line ministry participation in formulation and approval of Fiscal Responsibility and Budget Management Act.** Support for a wider consultation process is planned to enable the Ministry of Finance build consensus among stakeholders (parliamentarians, line ministries, and others) so that the proposed Act can be passed by the Parliament during the 2015-16 winter session. Passage of this Act will greatly improve budget execution, especially on the capital expenditure side.

## B. Component 4: Program Management and Administration

### MDTF extension

Legal amendments to the PFM MDTF Administration Agreements with all development partners have been signed. The PFM MDTF has been extended to January 31, 2018, as discussed and agreed on by the Program Coordination Committee during the meeting of January 24, 2014. This extension of the closing date will allow MDTF-financed subprojects and the activities to be initiated as a result of the additional funds (from the European Union, Government of the Swiss Confederation, and USAID) to achieve the development objectives and deliver expected results.

### USAID joins MDTF

The United States Agency for International Development joined the PFM MDTF on February 3, 2015. A signing ceremony was also held on March 18, 2015, where the Administrative Agreement was exchanged between the Country Manager for Nepal, Takuya Kamata, and USAID Mission Director, Dr. Beth Dunford, with a donor contribution to PFM MDTF of USD 712,575.

### Technical review meetings and PCC meetings

As established at the seventh Program Coordination Committee meeting in September 2014, technical review meetings have been organized and conducted in an effort to provide open discussions on substantive PFM issues. Four technical review meetings have been held to date in October 2014, March 2015, April 2015, and July 2015. All have been helpful in furthering the PFM MDTF agenda. The meetings are meant as a forum for more operational decision-making and less on strategic decisions such as workplan, agreements, project approvals; these latter types of meetings are a mandate for PCC meetings, which are chaired by the Country Director and MDTF Program Manager as per the agreed authorization.

The technical review meetings are intended to be working-level brainstorming sessions, which feed into the PCC-level discussions. In light of these technical review meetings, the Operations Manual is being amended accordingly. As follow-up to technical review meetings on subproject proposals, three virtual PCC review meetings were also organized to review the various subprojects under preparation. Minutes of these meetings are available on the PFM MDTF website, [mdtffpm.org.np](http://mdtffpm.org.np)

## PART III. FINANCIAL REPORT

In April 2015, USAID joined the PFM MDTF donors with a pledge of USD 712,575. As of June 30, 2015, the total pledged amount to PFM MDTF by its 7 donors was USD 20.92 million (Table 1). All donors have signed Administrative Agreements demonstrating their commitment to the PFM MDTF and its objectives. Current deposits, meaning funds received by the MDTF Administrator, stand at USD 16.66 million, with the balance of pledged funds to be paid into the MDTF account, administered by the World Bank, as per the Administration Agreements.

The total disbursement as of June 30, 2015 is USD 9.76 million (about 58.59% of total fund receipt). For the further details refer (Table 2) and (Chart 1).

*Table 1: Donor Contribution to MDTF*

Donor Name	Pledged Amount		Receipts as on June 30, 2014		Balance	
United Kingdom- Department for International Development (DFID)	GBP 3.5 m	Eqv. USD 5.57 m	GBP 3.5 m	USD 5.57 m	-	-
Royal Norwegian Embassy	NOK 15 m	Eqv. USD 2.62 m	NOK 15 m	USD 2.62 m	-	-
Embassy of Denmark	DKK 2 m	Eqv. USD 0.38 m	DKK 2 m	USD 0.38 m	-	-
Department of Foreign Affairs and Trade Australia	AUD 2.85 m	Eqv. USD 2.99 m	AUD 2.85 m	USD 2.99 m	-	-
European Union	EUR 4.5 m	Eqv. USD 5.60 m	EUR 4.5 m	USD 5.11 m	EUR 0.45 m	Eqv. USD 0.49 m
Government of the Swiss Confederation	CHF 3.0 m	Eqv. USD 3.05 m	CHF 0.00 m	Eqv. USD 0.00 m	CHF 3.0 m	Eqv. USD 3.05 m
United States Agency for International Development (USAID)	USD 0.71 m	Eqv. USD 0.71 m	USD 0.00 m	Eqv. USD 0.00 m	USD 0.71 m	Eqv. USD 0.71 m

*Table 2: Disbursements as of June 30, 2015*

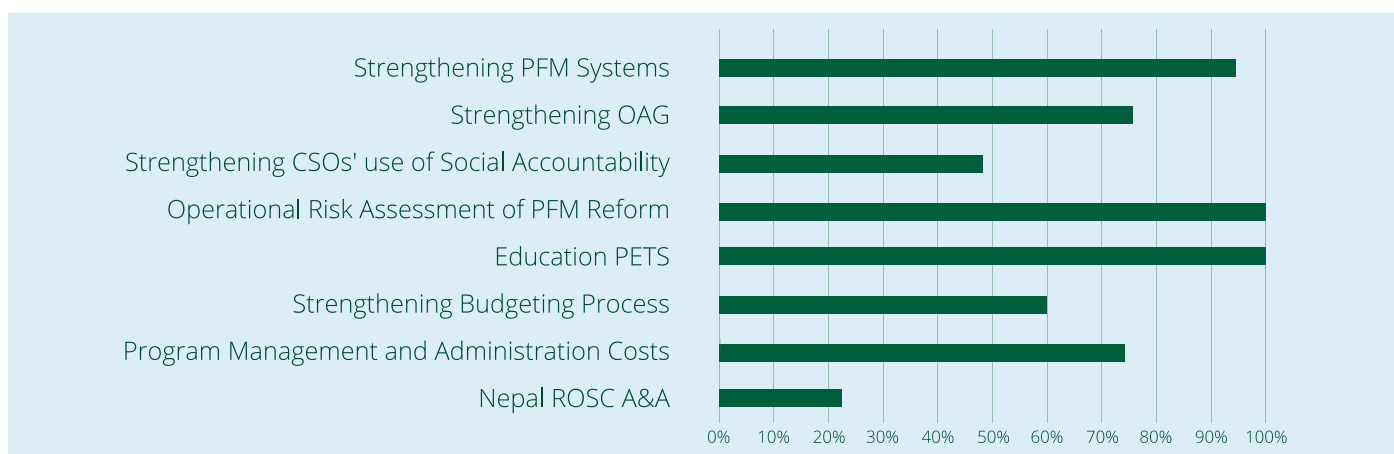
Grant Number	Grant Name	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD
TF010452	Strengthening Public Financial Management (PFM) System (Treasury System, Financial Reporting and PFM Capacity Building)	6/30/2016	4,300,000.00	4,281,528.06	99.57%	18,471.94	18,471.94	0
TF010454	Preparation, appraisal, supervision, monitoring, reporting costs of Strengthening PFM Systems	6/30/2017	350,000.00	289,451.61	82.70%	60,548.39	1,547.03	59,001.36



Grant Number	Grant Name	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD
TF010455	Strengthening the Office of the Auditor General Project	6/30/2016	2,300,000.0	1,727,511.09	75.11%	572,488.91	572,488.91	0
TF010482	PREPARATION AND SUPERVISION COSTS OF STRENGTHENING OFFICE OF THE AUDITOR GENERAL PROJECT	6/30/2016	185,000.00	165,039.35	89.21%	19,960.65	4,700.39	15,260.26
TF010623	Program Management and Administration Costs	6/30/2017	585,411.39	348,806.08	59.58%	236,605.31	11010.53	225,594.78
TF012485	Strengthening Civil Society Organizations' use of Social Accountability to improve Public Financial Management in Nepal	9/30/2014	800,000.00	800,000.00	100%	0	0	0
TF012492	NP ED PETS	12/31/2014	148,346.99	148,346.99	100%	0	0	0
TF012524	Strengthening Civil Society Organisations' Use of Social Accountability to Improve Public Financial Management in Nepal	11/30/2015	700,000.00	663,849.22	94.84%	36,150.78	1,177.36	34,973.42
TF012668	NLTA under the SPFM Project to Govt of Nepal	6/30/2017	500,000.00	252,730.57	50.55%	247,269.43	24363.26	222,906.17
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
TF015354	Nepal: Strengthening Budgeting Process	6/30/2016	905,000.00	543,260.59	60.03%	361,739.41	53245.83	308,493.58
TF017673	Nepal ROSC A&A	6/30/2015	35,000.00	7,720.19	22.06%	27,279.81	0.00	27,279.81
TF0A0369	Strengthening Civil Society Organizations' use of Social Accountability to improve PFM in Nepal 2	12/31/2016	950,000.00	0	0.00%	950,000.00	950,000.00	0
TF0A0370	Strengthening Civil Society Organizations' use of Social Accountability to improve PFM in Nepal 2	12/31/2016	550,000.00	0	0.00%	550,000.00	196855.38	353,144.62
	TF Admin Fee		333,220.09	333,220.09	100.00%	0.00	0.00	0.00
	Unallocated from the paid in funds		3,819,042.46	0.00	0.00%	3,819,042.46	0.00	3,819,042.46
	<b>Total</b>		<b>16,661,004.68</b>	<b>9,761,447.59</b>	<b>58.59%</b>	<b>6,899,557.09</b>	<b>1,833,860.63</b>	<b>5,065,696.46</b>

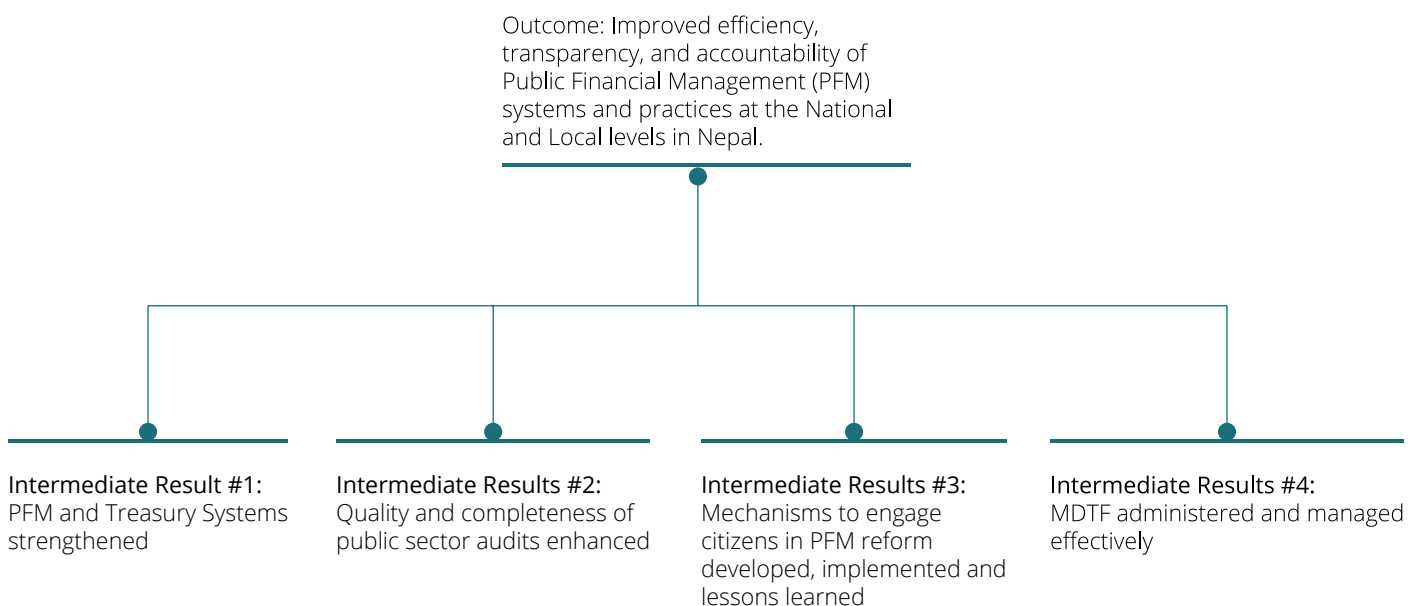
Note: Investment Income till this period is USD 120,197.57, which is not included in the above table.

Chart 1: 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 Nepal MDTF Program Management)



### 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 the fiscal year	Baseline: 70% (2011) Target : 60% (2015)	The major earthquake affected the flow of funds in last quarter of FY 2015.
	Transparency: Number of sectors for which information on budget allocation and expenditures are made available to the public	Baseline: No information on budget allocation and expenditure of sector ministries available to the public (2011)  Target: Information on budget allocation and expenditure in 2 sector ministries made public by June 2015.	FCGO has enhanced BER monthly reports to contain budget and variance information, effective late 2013; and monthly and quarterly reports are being published on the web --monthly reports before the 7th of the following month and quarterly reports before the 15th of the month following the end of the quarter.
	Accountability (a): Time for submission of audit reports to the legislature (in months).	Baseline: 12 months from 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 FY2013/14 audited financial statements within 9 months of the end of fiscal year in April 2015.
	Accountability (b): Percentage of individuals getting the right amount of entitlements at the right time in 80 VDCs of the 10 targeted districts	Baseline: 0 (2013) Target: 75% (2014)	Done (Project Closed)

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 so far. Analysis has been undertaken as to how further rationalize the bank accounts under a specific activity in the follow-up project.
IR #2: Quality and completeness of public sector audits enhanced <sup>2</sup>	Increase in the number of audits of Financial Statement as Per ISSAI.	Baseline: Nil (2011).  Target: 7 (June 2015).	Achieved  Audit of 7 Units undertaken. These include 2 DDC, 1 PE, 1 Board, 1 Committee and 2 Ministries.
	Increase in the frequency of performance audit reports meeting quality and completeness criteria set by OAG	Baseline: One per year (2011).  Target: 3 per year (June 2015).	Achieved  The Performance Audits include two each in Local Development Department, Health Sector and Infrastructure project sector.

<sup>2</sup> On March 4th, 2015, the Result Framework for the Capacity Building of OAGN Project was revised. The indicators are taken from the revised framework.

IR # 3: Mechanisms to engage citizens in PFM reform developed and implemented, and lessons learned.	Increase in the number of independent budget analyses at national-level conducted and shared by social accountability grantees	Baseline: 0 (2013) Target: 3 (June 2014)	Done (Project Closed)
	Number of VDCs in which social security allowance expenditure is tracked	Baseline: 0 (2013) Target: 60 VDCs (June 2014)	Done (Project Closed)
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 on and adopted (September 2013). Program results indicators monitored and reported through 6 monthly progress reports.
	MDTF work program results and reports disseminated	Baseline: No organized system in place for the dissemination of program results and reports (2011). Target: Program results and reports uploaded and disseminated through a program website (2014).	MDTF website effective from October 2013. Website updated regularly with relevant reports, newsletters, and project documents. In future a potential Phase II will require MDTF Program Results Framework to be updated.

# ANNEX B: DEMAND SIDE

The annex gives details of demand-size activities planned for Phase 1 of the Strengthening CSOs Use of Social Accountability to Improve PFM Project that were planned for May - June 2015 but due to the earthquake had to be postponed to August - November 2015.

## **Activity 1: Peer- Assisted Expert Visit to Nepal**

The multi-stakeholder working group has developed broad guidelines to mainstream citizen participation in performance audits in Nepal. While the guidelines provide some basis for this collaboration, it will be important to help OAGN with the development of an operational manual to implement this work. This manual will help streamline the process and enable OAGN and civil society partners to level off and manage their expectations given their difference in institutional mandates and responsibilities. Since similar processes to engage civil society organizations in conducting a performance audit has already been successfully implemented by the Commission on Audit, it is proposed that an expert on the topic, Ms. Vien Suerte-Cortez (ANSA-EAP, Manager, Citizen Participatory Audit Project & Consultant, PPBA Team) will travel to Nepal in mid August 2015 and undertake a peer-assisted technical support mission along the following detailed agenda:

Activities: During the peer-assisted process, the expert will (1) conduct consultation meetings with key stakeholders to determine strategic partnership interventions within the audit process; (2) conduct a half-day workshop to introduce the operational manual developed by the Citizen Participatory Audit Project and Commission on Audit to OAGN and selected civil service organizations (if possible the working group members); (3) work with a small team of OAGN officials to start drafting the outline and topics to be covered in the e-manual for engagement with civil society organization on performance audit.

Expected outcomes of the process: A first draft of the operational manual (produced by the peer expert/Dr. Ligal) is completed to serve as an initial guide for OAGN in engaging civil service organizations during performance audits.

## **Activity 2: OAG Study Tour Proposed for the Philippines**

At a May 2013 workshop with OAGN and civil society organizations, Chairperson Grace Tan first presented the experience of the Commission on Audit (COA) in the Philippines. To build on the sustained engagement between the Citizen Participatory Audit (CPA) Project and Commission on Audit, Philippines, and the successful implementation by COA of citizen engagement in performance audit, a study tour to Philippines has been proposed with the following objectives:

- a) Build deeper understanding among OAGN officials and CSO representatives on how the Citizen Participatory Audit Project was designed and is being implemented in the Philippines;
- b) Experience and take part in joint audit (involving citizen auditors) while the actual audit is underway;
- c) Provide an opportunity to the delegation to interact with COA auditors on other topics beyond the CPA experience, including the work done by COA in implementing International Public Sector Accounting Standards as well as other technical aspects of implementing performance audits at the local level.

The peer-assisted expert visit could also prepare the OAGN team to have a more productive and enriching interaction with COA auditors and ANSA EAP. Expected outcomes of the study tour would be that the delegation will be able to disseminate the practical, hands-on knowledge acquired from their colleagues and also share with civil society organizations interested in supporting the institution with the implementation of a performance audit. A number of follow-up activities would be organized after the study tour with the support of the World Bank team.



## ANNEX C: PROJECT DATA

*Table C.1: Strengthening PFM System Project*

Project name	Strengthening Public Financial Management Systems
Grant amount	USD 5.15 million
Duration	October 31, 2011-June 30, 2016
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	USD 4.82 million
Status of disbursement	On track
Results achieved	<ul style="list-style-type: none"> <li>• TSA system has been rolled out across all 75 districts in Nepal with effect from July 2013 and operating on an on-line basis.</li> <li>• Out of 14,000 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.</li> <li>• The Government of Nepal has been able to save around US\$2 million from commissions/ operating costs due to closure of accounts.</li> <li>• FCGO website 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.</li> <li>• NPSAS aligned to IPSAS piloted in two ministries: Ministry of Physical Infrastructure and Transport; and Ministry of Women, Children, and Social Welfare.</li> <li>• NPSAS based financial reports certified by ICGFM.</li> <li>• Preparation Mission conducted on the additional financing of this project.</li> </ul>

*Table C.2: Strengthening OAG Project*

Project name	Strengthening the Office of the Auditor General Project
Grant amount	USD 2.48 million
Duration	February 23, 2012 – June 30, 2016
Implementing agency	Office of Auditor General, Nepal
Objective	The development objectives of the SOAG Project are to enhance the quality and impact of public sector audit in Nepal.
Disbursement	USD 1.89 million
Status of disbursement	On track
Results achieved	<ul style="list-style-type: none"> <li>• Risk-based audit planning according to ISSAI framework of risk-based audit.</li> <li>• OAG has received the draft report of the peer review completed by a team from the Comptroller and Auditor General of India.</li> <li>• OAG has been collaborating with CSOs in the performance auditing process.</li> <li>• Workshop held on Independence of supreme audit institutions and the need for new audit legislation in Nepal.</li> </ul>

*Table C.3: Strengthening CSOs Use of Social Accountability to improve PFM*

Project name	Strengthening CSO Use of Social Accountability to Improve PFM Nepal
Grant amount	USD 3.0 million (Recipient executed USD 1.75 million and USD 1.25 million Bank executed)
Duration	August 30, 2012 –December 31, 2016
Implementing agency	Centre for International Studies and Cooperation(CECI), The World Bank
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	USD 1.46 million
Status of disbursement	On track
Results achieved	<ul style="list-style-type: none"> <li>• Citizen Engagement Framework for Office of the Auditor General of Nepal</li> <li>• Multi-stakeholder Knowledge Forum on Social Accountability</li> <li>• Closure of the Strengthening of CSOs Phase 1 Recipient-Executed Component</li> <li>• Strengthening of CSOs Phase 2 Additional Financing Concept Note</li> </ul>

MDTF Contact Person

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