

NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT | July - December 2016

Nepal Public Financial Management Multi-Donor Trust Fund

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ACKNOWLEDGMENTS

This Nepal PFM MDTF Progress Report for July 1 to December 31, 2016, was prepared by Franck Bessette, Shraddha Shah, and Nagendra Nakarmi, on behalf of the World Bank which serves as MDTF Administrator.

The report includes inputs and guidance from the MDTF task team, Akmal Minallah, Luiza A. Nora, and Roshan D. Bajracharya. The MDTF management and team is especially grateful to the PEFA Secretariat Nepal for their continued support.

Cover photo: Gajendra Shrestha
Design by: Rajan Shakya

ABBREVIATIONS AND ACRONYMS

CSO	Civil society organization
DFAT	Department of Foreign Affairs and Trade (Australia)
DTCO	District Treasury Controller Office
EU	European Union
FCGO	Financial Comptroller General Office
FMIS	Financial Management Information System
FRBM	Fiscal Responsibility and Budget Management (Bill)
GRM	Grievance Redressal Mechanism
ICAN	Institute of Chartered Accountants of Nepal
IPSAS	International Public Sector Accounting Standard
IT	Information technology
MDTF	Multi-Donor Trust Fund
MoFALD	Ministry of Federal and Local Development
NGO	Nongovernmental organization
NPSAS	Nepal Public Sector Accounting Standard
OAGN	Office of the Auditor General of Nepal
PEFA	Public Expenditure Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PRAN	Program for Accountability in Nepal
RMIS	Revenue Management Information System
SOAG	Strengthening the Office of Auditor General of Nepal (Project)
SOE	State-owned enterprise
SPFM	Strengthening PFM System (Project)
TSA	Treasury single account
TOR	Terms of reference
USAID	United States Agency for International Development
VDC	Village development committee

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FOREWORD

Dear PFM MDTF Partners and Friends,

Looking back at the period July 1 to December 31, 2016, it was a time of transition for Nepal. The country got a new government and faced uncertainties about the organization of the electoral process. This period was also fairly transitional as well for the PFM MDTF. Phase 1 of our support to Government's PFM strategy moved to Phase 2. Several "historic" projects faced closure or were phased out, like OAGN I, supporting Office of the Accountant General of Nepal; or PRAN, supporting citizens' engagement in PFM. Even the "Strengthening PFM I and II" series will reach closure with a formal evaluation process from the World Bank starting in April 2017.

Nevertheless, this period was also been rich in consultations, brain-storming opportunities, and key decisions for the future of PFM reform in Nepal.

First, the PEFA Secretariat has started the challenging process of operationalizing the PFMRP2 National PFM Strategy and Action Plan Phase 2 (2016-2026). This step will transform this national strategy and plan into a monitorable set of PFM support operations, with greater integration and coordination than in the previous period. The PEFA Secretariat is slowly but surely becoming the center of excellence for PFM reform design and implementation – just as it was always meant to be. We of course welcome and continue our support to this process, which will prove crucial at a time when Nepal embraces a complex federal structure.

Second, PFM MDTF development partners have continued discussions about designing and prioritizing their support to Government's PFM priorities and preparing an engagement matrix for the next 3 to 4 years. This matrix will be presented at the next Program Coordination Committee meeting. During these discussions, it has become clear that the upcoming federalization/decentralization process will change the way stakeholders approach PFM reform and that any initiative in this area would have to go through a "federalization filter" to test its adequacy and relevance in the context of the new state structure.

In parallel, consultations have begun on the future of the citizen engagement window of our program with the objective of taking stock on the successes of past operations, providing stakeholders an opportunity to express and frame their support to this dimension of PFM reform, evaluating the shortcomings of the modalities through which the program has thus far been delivered, and starting to shape new modalities for the future. With this objective in mind, a joint mission (with MDTF Donors, PEFA Secretariat, PRAN Partners, and World Bank) visited Banke and Dang Districts of Mid-Western Region of Nepal to learn more about activities covering citizen engagement in public financial management and the support provided by our program to increase community access to local budgets. The process is likely to

continue during the following months so stay tuned for more on this.

One clear success of the first phase of the PFM reform strategy is the citizen participatory audit program conducted under the OAG leadership. The program places Nepal as one of the few pioneer countries in this area and is receiving a lot of attention among development partners and interested supreme audit institutions. A presentation of the program will be made at the Governance Week in Washington, D.C. in May 2017.

Also during the first phase, a consensus has been shaped among stakeholders around the necessity to build on the various existing financial management information systems across government as a means to increase efficiency and transparency of public finance through greater integration and optimization. Based on this, the Government has decided to launch an ambitious and wide-ranging study to help sequence and prioritize FMIS activities. Needless to say that once again this work stream will be critical to support efficiency and accountability of public moneys in the new federal context.

In August 2016, a new grant, Support for Fiscal Management for US\$450,000 was activated to support the improvement of fiscal policymaking through analytical work, institutional strengthening, and capacity-building activities. The grant is further described in the report under component 3 of Part I.

Finally, it is my great pleasure to congratulate the European Union for providing an additional contribution of EU 3 million to the PFM MDTF in December 2016.

Warm Regards,

Franck Bessette
Program Manager, Nepal PFM MDTF



INTRODUCTION

Public financial management (PFM) is a key element of the Government of Nepal's strategy for ensuring effective resource allocation, strengthening public service delivery, and creating 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 PFM MDTF is administered by the World Bank and jointly funded by five donors —Australian Government's Department of Foreign Affairs and Trade, European Union, Government of Denmark, Government of Norway, Government of the Swiss Confederation, United Kingdom's Department for International Development, and United States Agency for International Development (USAID).

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

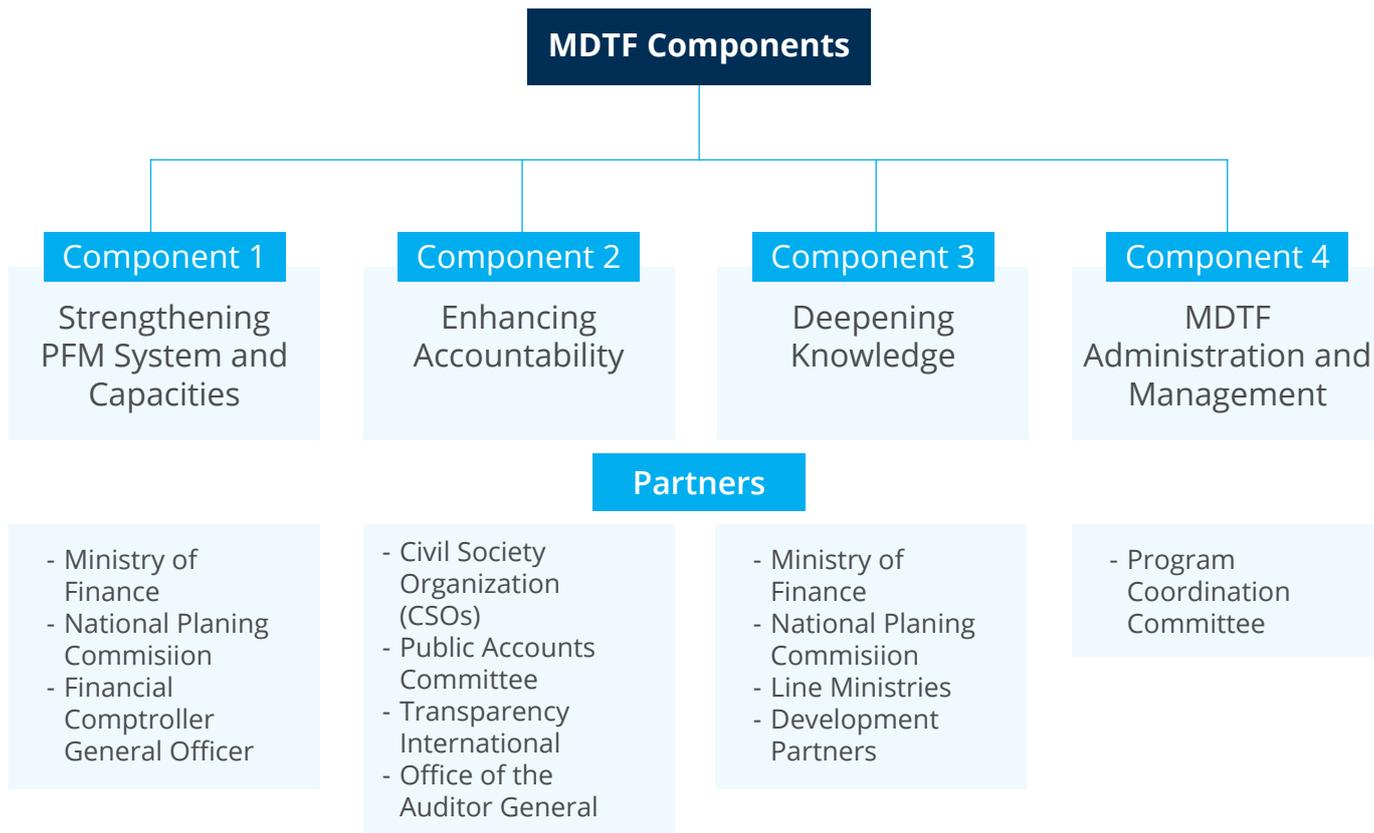
- Strengthen PFM systems and processes (supply side);
- Strengthen institutions of accountability and civil society to enhance their oversight of PFM processes and performance (demand side), and
- Deepen knowledge about current PFM practices and options for improvements (analytical assessments).

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

- **Component 1, Strengthening PFM System and Capacities**, has one main operation and three sub-components: (a) supporting implementation of treasury single account (TSA) system, (b) implementation of public sector accounting standards, and (c) strengthening the PEFA Secretariat.
- **Component 2, Enhancing PFM Accountability**, has two sub-project operations that relate to (a) strengthening the Office of the Auditor General Nepal (OAGN) and (b) strengthening civil society organization (CSO) use of social accountability to improve PFM.
- **Component 3, Deepening PFM-related Knowledge**, carries out analytical work for knowledge dissemination. Two analytical works have been completed: the Public Expenditure Tracking Survey (PETS) in the education sector and the Operational Risk Assessment in the PFM sector.
- **Component 4 deals with program management and administration.**

The four components are illustrated in Figure 1.

Figure 1: MDTF Components



PART I

OVERVIEW OF RESULTS

Part I covers progress on two components: (1) Strengthening PFM System and Capacities (SPFM) and (2) Enhancing Accountability in Public Financial Management. The first component has one sub- project on Strengthening PFM Systems. The second component comprises two sub-projects that relate to strengthening the OAGN and strengthening CSOs' use of social accountability to improve public financial management.

A. Component One: Strengthening PFM System and Capacities

The development objective of this component, comprised of SPMF I and II projects, is “to improve expenditure control and enhance government accountability and transparency by strengthening the treasury system, improving financial reporting, and building PFM capacity”.

A World Bank team led by Franck Bessette (Task Team Leader) carried out the implementation review and support mission of SPMF II project during November 28-December 8, 2016. In addition to providing implementation support, the team discussed the preliminary scope and identified possible areas of support for the next phase of the project for supporting the Government's PFM strategy. The team met with the Financial Comptroller General, heads of Budget and International Economic Coordination Divisions, senior officials of the Financial Comptroller General Office (FCGO) in Kathmandu and Dolakha District, and officials of the Public Expenditure and Financial Accountability (PEFA) Secretariat. The team also met with the Assistant Auditor General.

Key areas of progress and agreed actions can be accessed for details in the mission's Aide-Memoire. ¹ A specific mission will be fielded in the last week of April 2017 for preparing an implementation completion report (ICR) that will evaluate and compare achievements of both SPMF I and II with those of the agreed development objectives. The mission team will meet with the various stakeholders. Following a review by the Independent Evaluation Group (IEG) of the World Bank, it is expected that the results and recommendations of this evaluation will feed into preparation of the follow-on PFM operation.

¹ http://mdtfdpfm.org.np/uploads/files/projects/other_document/SPFM_AM_Nov_28-_Dec_8,_2016.pdf

For reference, results against development objectives are summarized in Table 1:

Table 1: Results and Development Objectives

Indicators	Evidence	Baseline	Year 4 target	Status as of December 2016 and Comments
Percentage of overall budget executed through DTCOs where TSA system has been implemented.	%	7	98	100%. Target achieved a year in advance.
Budget Execution Reports and financial statements produced by TSA system on a real-time basis.	Number of districts	Nil	75	For all 75 districts.
Preparation of consolidated financial statements for pilot ministries in accordance with Part 1, Cash IPSAS.	Number	Nil	2 for SPFM-I; 7 for SPFM-II	15 central economic entities have prepared consolidated financial statements based on NPSAS.
Numbers of research studies into high priority PFM areas completed and disseminated.	Number	Nil	5 for SPFM-I; 8 for SPFM-II	7 reports completed. No new reports produced since April 2016.
Improved sustainability of TSA system.	Enhanced network and infrastructure	Nil	Implementation initiated	Several procurement packages are being processed and will be completed before June 2017.
Improved quality of in-year and end of the year financial statements.	Financial reports	-	Implementation initiated	Commitment module initiated needs enhancement both for reporting and control purposes. RMIS has been rolled out to 50 districts covering more than 95% of central budget review. FMIS report system has been improved.

Key Agreed actions for the next reporting period are summarized in Table 2:

Table 2: Agreed Actions

Agreed Actions	Date	Agency
Finalize TORs for IFMIS Strategic Study and FCGO IT Strategy and start procurement of firm.	12/31/2016	FCGO/ World Bank
Organize first meeting of PFM task force to take place on leadership of PEFA Secretariat.	01/30/2017	PEFA Sec
Design time-bound action plan for implementation of recommendations of this aide memoire before SPFM-II closure (suggested by Government of Nepal at wrap-up meeting).	01/15/2017	FCGO
Establish action plan under FCGO leadership and in collaboration with other stakeholders (MoFALD, OAGN, SOEs, and ICAN) to strengthen public sector accounting.	05/01/2017	FCGO
Organize program of PFM events that would (i) officially launch the National PFM Strategy phase II and create awareness and ownership of the reform process, and brainstorm about modalities of external support; (ii) assess how PFM system needs to evolve to support decentralization and fiscal federalism; and (iii) promote IFMIS agenda among main stakeholders.	01-06/2017	PEFA Sec

See Annex 1 for detailed results framework for SPFM-II through December 2016.

B. Component Two: Enhancing Accountability in Public Financial Management

Subcomponent 1. Strengthening the Office of the Auditor General of Nepal

(Approved total budget, US\$2.46 million)

1. Context overview

The Strengthening the Office of the Auditor General (SOAGN) Project was launched in an effort to enhance the quality and impact of public sector audit in Nepal. A primary focus of the project was to help OAGN to modernize audit methodologies and introduce computer audit technologies in line with international auditing standards and good practice approaches. The last mission was held on March 22-29, 2016. The objectives of this mission was to assess implementation progress and to brief all stakeholders on achievements made under the project as well as to identify future reform areas to inform the draft concept note for Phase-II under PFM MDTF. An implementation completion report mission took place during this time. The report confirms satisfactory completion of the project milestones. The UK Department for International Development has also separately prepared a completion report. Both of these reports have been approved by OAGN. The Phase-I project culminated on June 30, 2016.

2. Challenges/Achievements

- The appointment of the Auditor General has been in a limbo.
- On the basis of the project implementation completion report and after detailed discussions with the Auditor General, Public Accounts Committee Secretary, OAGN staff, and other stakeholders, a concept note was prepared discussing continuation of the SOAGN project and identifying future reforms for next phase.
- Settlement of all outstanding payments has been made.

Subcomponent 2. Strengthening CSOs Use of Social Accountability to Improve PFM

(Approved total budget, US\$1.5 million)

The Program on Accountability in Nepal (PRAN), the demand-side of PFM MDTF, closed on December 31, 2016. PRAN had originally begun under the World Bank's State-and Peace-Building Trust Fund in 2010 to train NGOs and CSOs across Nepal, after the Maoist conflict, in an innovative range of social accountability tools, particularly on public financial management, good governance, and service delivery activities.

During 2012-14, PRAN supported MDTF by introducing and aligning these demand-side accountability and transparency tools with an expanded donor effort on public financial management. PRAN specifically worked in 10 districts with local governments on budget planning and implementation, initiated PETS research on social security

entitlements through local citizens' participation, as well as conducted research on national budget expenditures in specific ministries aligned with a national media component through mainstream media and community radio to raise awareness on budget transparency and accountability.

Funded from 2015-16, PRAN 2 expanded its work on local governance in 15 districts with 30 local CSOs as well as conducted more detailed and in-depth PETS research in 5 districts on national social security entitlements, specifically assessing the distribution of old-age pensions and widow/single women payments. Due to the action-research, many village development committees (VDCs) updated their social security entitlement records by deleting the name of citizens who had already died.

PRAN 2 funded studies on local grievance-redressal mechanisms, the use of community scorecards in public education, and the potential benefits of recent implementation of real-time TSA at district and local levels. Due to the action-research that engaged local communities, the existing practice of proportional distribution of scholarship was discouraged in the targeted primary schools.

Participants were trained on social accountability tools such as Citizens Participatory Audit, Grievance Redressal Mechanism (GRM), and Community Scorecard leading to the development of social accountability practitioners in select districts who helped improve local public financial management. Steps toward improving transparency and accountability were taken in the targeted village development committees when these committees started to publish their annual and quarterly income-expenditure status through local notice boards, community FM radio, and local newspaper. Similarly, there was increased citizen interest on public procurement monitoring of the local infrastructure projects as well as greater awareness regarding the proper use of the target group development budget that enabled citizens to raise their voices against diverting the target budget allocation into irrelevant activities. To expand awareness of these achievements, there was expanded coverage of these PFM issues in local newspapers and on community radio programs by journalists trained by the project.

Also, in close association with OAGN, initial steps were taken to implement an innovative Citizens Participatory Audit process in Nepal. Technical assistance was provided by consultants from the Philippines, along with a consultative body of experienced Nepali professionals who prepared the new guidelines and procedures to implement this Citizens Participatory Audit in selected districts during performance audits in 2017.

Lessons Learned and Recommendations for the Future:

With the closing of the second phase of the PRAN program, there are lessons learned that can help shape future citizen's engagement activities in public financial management:

- All PFM demand-side, citizen engagement activities should be intimately aligned with the Government-implemented supply side of MDTF from the initial planning stages.
- Close, trusting linkages between civil society organizations and the Ministry of Finance, PEFA Secretariat, and OAGN should be established before the actual implementation of the activities.
- The NGOs, think tanks, and public policy institutes representing Nepali civil society should be engaged in PFM MDTF process planning at the start of the next phase.
- Clear lines of authority are required among MDTF, Ministry of Finance, and other specific service delivery ministries (e.g., MoFALD, Ministries of Health and Environment) included in project activities and outcomes.
- There should be a consensus between Government officials and MDTF donors (as well as among development partners) on the exact role and expected outcomes of citizen engagement in PFM.
- Any future overlap of PFM activities with existing Local Governance and Community Development Programs and Local Governance Assessment Framework or any transitional local MoFALD-supported PFM governance initiative should be avoided.
- Demand-side research using social accountability tools by citizens at the local or district/provincial level should be continued, especially PETS and Community Scorecards.

- The OAGN Citizens Participatory Audits should be expanded rapidly in coming years as well as community engagement with OAGN on annual audits of local government.
- Citizen engagement in PFM initiatives should never again be funded for one-year timeframes. Given the effort and coordination required for actual results, activities should be 3-5 years.
- While planning new citizen engagement PFM activities, international experience and lessons learned from other countries and regions should be sought during the pre-planning stage.
- Funding for new federal PFM activities should be prepared but not funded until decisions made by the Government of Nepal ensure widely acceptable local and provincial structures and elections.

Looking forward toward the next stage of PFM MDTF involvement with the Government, there is a consensus among development partners on the need for continued citizen engagement closely aligned with implementation of Government PFM activities, both at the national and, soon to be proposed, federal structure levels.

In addition, the rollout in coming years of the Citizens Participatory Audit with OAGN will require significant amount of assistance in training OAGN staff as well as district-based, civil society organizations. Already neighboring nations of the South Asian Association of Regional Cooperation have learned about the Nepalese Government's implementation of the Citizens Participatory Audit. Continued dialogue and dissemination on the benefits of citizens' engagement on the audit process can be supported by the MDTF, as well.

Table 3: Progress as Against Indicators

Program Outcomes	Outcome indicators	Activities	Accomplishments (for the reporting period) (Quantitative/qualitative)	Source
<p>Outcome1: Local Budget</p> <p>Communities in the program areas, especially disadvantaged groups are empowered to hold local governments accountable for participatory, pro-poor/gender-inclusive budgeting and accurate budget execution.</p>	<ol style="list-style-type: none"> 1. Citizen awareness of local budget and existing avenues to influence it. 2. Citizen participation in ward planning meetings. 3. Citizens' awareness of GRM, local-level PFM (TSA) in their village development committees. 4. Citizen's perception of GRM, local-level PFM (TSA) as effective. 	<ol style="list-style-type: none"> 1. Trained 30 principal social accountability practitioners implemented social accountability tools to improve PFM at local level. 2. Principal social accountability practitioners conducted focus group discussions in each village development committee to inform about their participation in ward planning meetings. 3. Principal social accountability practitioners worked closely with VDC secretaries in Dang, Kailali, Rolpa, Bajura, Kapilbastu and Palpa districts to install grievance boxes and citizen charters in public offices. 4. Joint field visit to Banke and Dang Districts of Nepal to gain deeper understanding of PETS exercise on social security entitlements and implementation of GRM and TSA at local level. 	<ol style="list-style-type: none"> 1. Village development committees started making annual budget public, produce final consolidated report on budget release, and expenditures based on real time. 2. VDC council held locally and followed the procedure. 3. GRM and local level PFM (TSA) reviewed and information/data collected from 60 village development committees. Initial draft report on GRM and TSA submitted by CSOs and district-level validation meeting conducted. Policy Research and Development is finalizing report on GRM and TSA. 4a. 12-member joint mission comprising MDTF donor partners, PEFA Secretariat, and FCGO officials participated in field trip. 4b. Published compilation of success stories of citizen engagement in improving PFM system at local level. 	<p>3rd review meeting of CSOs held in September 21- 23, 2016, in Chitwan.</p>

Program Outcomes	Outcome indicators	Activities	Accomplishments (for the reporting period) (Quantitative/qualitative)	Source
	<p>5. Local media engagement in covering and advocating selected PFM issues.</p> <p>6. OAGN performance audits at local level with CSO involvement.</p>	<p>5a. 15 journalists awarded fellowships from 15 different districts in order to report on gap findings at policy level of its program activities.</p> <p>5b. National-level workshop in Nagarkot for media persons on PFM issues accomplished.</p> <p>5c. Radio programs on various social security entitlements and good practices were produced and aired from 15 community radios.</p> <p>6a. Two-day workshop on Citizens' Engagement in Audit Process in Nepal organized with focus on social accountability tools for performance audit.</p> <p>6b. Workshop on Citizens' Engagement: The role of civil society organizations, opportunities for collaborations on Nov 17, 2016, attended by delegation from Supreme Audit Office of Afghanistan.</p> <p>6c. Joint Mission of Supreme Audit Office of Afghanistan, OAGN, and World Bank to Gorkha district to learn about citizens' participatory audit process in Nepal in general and its actual application in the field.</p> <p>6d. Two-day workshop supporting citizens participatory audit implementation.</p>	<p>4c. Prepared a booklet on good practices of PFM based on audio reports.</p> <p>4d. Produced documentary on role of citizen engagement in PFM reform.</p> <p>5a. 30 fellowship articles on PETS, social security entitlements, participatory budgeting, integrity tracking tools and GRM published in national newspapers.</p> <p>5b. 35 journalists trained on role in raising PFM issues.</p> <p>5c. 30 radio showcase programs produced and aired from 15 local radio stations (FM radios).</p> <p>6a. 34 participants attended workshop on performance audit in joint OAG/CSO familiarization.</p> <p>6b. 6-member delegates from Supreme Audit Office of Afghanistan attended workshop to learn about initiative of OAGN on advancing citizen participation in the audit process.</p> <p>6c. 12-member delegation visited Gorkha district to learn about Government of Nepal's earthquake-response housing activities and more about the housing project's fund transfer process.</p>	

Program Outcomes	Outcome indicators	Activities	Accomplishments (for the reporting period) (Quantitative/qualitative)	Source
	7. Capacity building at local level for social mobilization.	7. 3 capacity-building training sessions organized for CSO members on social accountability tools.	7. 87 participants (51 male and 36 female) from 41 districts across Nepal trained on social accountability tools such as Citizen Participation in Audit, GRM, and Community Scorecard for PFM improvement at local level.	
Outcome 2: Entitlements Improved citizens' access to individual social security entitlements (specifically, senior citizen and single woman entitlements) and quality basic education services, including scholarship entitlements for girls and Dalits.	1. Citizens are informed about their social security entitlements. 2. Quality scores (using Community Scorecard) of basic education services at primary school level increased. 3. Access improved for girls and Dalit students to their scholarship entitlements	1. Focus group informal meetings held as part of PETS to inform beneficiaries about social security entitlements. 2 and 3. Implementation of second round of Community Scorecard focused on tracking scholarship for girls and Dalit education in selected primary Schools in Dhanusha, Siraha, Saptari and Gorkha districts.	1. PETS completed on social security entitlements in 5 districts: Dhankuta, Bara, Banke, Bajhang and Bardiyai. Final report of PETS and Quantitative and Service Delivery Survey on social security entitlements prepared. 2. and 3. Community Scorecard and Dalit and Girl Child Scholarship tracking final draft report completed.	
Outcome 3: National PFM Environment Evidence-based analysis and feedback provided to national agencies to enable them to make informed decisions around PFM-related issues.	1. Support to OAGN with its citizen engagement efforts. 2. Analysis conducted on use of Community Scorecard for assessing quality of basic education services, including scholarship entitlements.	1a. Organized two-day, national-level workshop for OAGN and CSOs on citizens' engagement in performance audit and newly adopted Citizens Participatory Audit guidelines. 1b. Operational Manual on Participatory Audit Planning Process reviewed and approved by OAGN. 2. Finalization of analytical report on lessons learned from implementation of Community Scorecard and Dalit and girls scholarship tracking held.	1a. 8 CSOs identified and trained to support OAGN in implementing performance audit in two areas -- Disaster Risk Recovery and Constituency Development Fund -- beginning January 2017. 1b. Leaflet on Citizens Participatory Audit Operational Manual is ready for printing. 2, 3, and 4. PRAD Analytical Reports on Community Scorecard, local-level PFM (TSA), and GRM final draft completed.	

Program Outcomes	Outcome indicators	Activities	Accomplishments (for the reporting period) (Quantitative/qualitative)	Source
	<p>3. Analysis of GRM situation at local level and recommendations for improving its effectiveness.</p> <p>4. Analysis of budget release and expenditure based on local-level budget data.</p> <p>5. Analysis of VDC-level distribution process of social security entitlements for senior citizens and single woman.</p>	<p>3. Follow-up activities of GRM at the village development committees (Dang, Kailali, Rolpa, Bajura, Kapilbastu and Palpa) held.</p> <p>4. Finalization of Analytical Report on GRM with evidence-based recommendations.</p> <p>5. Finalization of Research Findings of PETS and QSDS on social security entitlements in 5 districts.</p>	<p>5. New ERA Analytical Final Report of PETS on Social Security Entitlements completed.</p>	

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

Nepal: Strengthening Fiscal Management Grant (US\$450,000)

The Strengthening Fiscal Management Grant aims to support Nepal in facing two distinct challenges: (a) address the impact on the economy from twin economic shocks (earthquake and trade blockades) that will require aggressive public investment; (b) implement the newly promulgated Constitution by what is now a federated state with minimum roadmap for implementation.

These three challenges will put pressure on an otherwise healthy fiscal balance. Only external resource inflows can balance the fiscal books. To address these near- and medium-term fiscal challenges, the Government of Nepal needs to strengthen the quality of evidence-based policy-making to provide a supportive policy environment to deliver its near- to medium-term development objectives.

If evolution of macro-fiscal aggregates is not prudently managed, the country could risk reversing the laudable gains in growth and poverty reduction achieved during the past decade.

With those gains taken into consideration, the grant would build on current partnerships and a proposed list of activities identified by the Government in the past. A select menu of interventions will be carried out based on current Government demand and priorities. Since many of these outcomes cannot be achieved in a single fiscal year and while guidance under fiscal federalism is still evolving, the MDTF team proposes a programmatic approach in assisting the Government to achieve the program development objectives.

Four intermediate outcomes will be expected by the end of the program:

- a. The Government of Nepal would increasingly use revenue and expenditure analytics to inform budget planners and formulators and tax revenue policy formulators and administrations in setting fiscally prudent policies while ramping budget allocations in key spending areas;
- b. The Government of Nepal would increasingly use evidence-based approaches to formulate central-level fund transfer to second- and third-tier government.
- c. The Government of Nepal would increasingly use evidence-based approaches to formulate its debt policy and its management.
- d. Institutional and human capacity among government agencies would be strengthened, particularly in Ministry of Finance, National Planning Commission, MFALD, and Fiscal Commission, to design and conduct high-quality, policy-relevant research and analyses on fiscal policy issues.

Identifying and addressing the bottlenecks to capital budget execution, low-capital expenditure outturn compared to allocation, and last trimester spending bunching are not only endemic but have become a new norm. This must change to increase spending efficacy. The proposed work

would combine analysis of transaction-level data from the PFM Information System with institutional reviews and field-based case studies in order to diagnose the main causes for delays in capital budget execution and identify potential remedies. More specifically, sectorial public expenditure review will be completed and together with field-based case studies, recommendations to improve capital expenditure will be made. The aim is to institutionalize preparation of sectorial public expenditure reviews become part of the annual mid-year budget review process (January) to influence new fiscal year budget formulation process (May) and make changes to budget directives (July). Continuous evidence-based budget execution changes will improve budget efficacy.

In addition, support will be provided to the Ministry of Finance to complete the process of securing cabinet approval for submitting the proposed Fiscal Responsibility and Budget Management (FRBM) Bill to the Parliament. The proposed bill has many mandatory activities that will lend to improvement of capital expenditure management. The expected results would (a) inform and influence the FY18 budget formulation process; (b) secure the FRBM Bill submission to Parliament and Cabinet approval; and (c) identify through analytics those areas of reforms that stand to improve capital expenditure management.

D. Component Four: Program Management and Administration

Program Coordination Committee Meeting

The 11th Program Coordination Committee meeting held on November 7, 2016, was chaired by Fily Sissoko (Practice Manager, Governance Global Practice, World Bank) and attended by representatives of the Budget Division (Ministry of Finance), PEFA Secretariat, and MDTF development partners. Discussions at the meeting focused on implementation of PFM national strategy and short-term priorities; the draft MDTF Strategy; and status of pipeline projects. Some development partners also put forward their commitment for additional pledges to support the next phase of MDTF.

Technical Review Meeting

In the technical review meeting held on September 30, 2016, all development partners and the Government confirmed that an immediate four-year extension of PFM MDTF would be the best approach and would in fact facilitate the mobilization of additional support for phase two. All development partners except the European Union mentioned their willingness to process an administrative extension for four years. The EU will initially extend for two years rather than four.

The PRAN team organized a joint field visit to Banke and Dang district during August 22- 24, 2016, where the teams saw PFM-related social accountability activities implementation. USAID presented its PFM project in the meeting.

PART II

FINANCIAL REPORT

As of December 31, 2016, the total pledged amount to PFM MDTF by its seven donors (Denmark exited the MDTF in June 30, 2016) was US\$22.92 million (Table 4). A supplemental arrangement was signed between Australia's Department of Foreign Affairs and Trade and the World Bank to include an additional contribution of US\$2.02 million. Likewise, EU made an additional contribution of US\$3 million (which does not reflect in this period).

Subsequently, the trust fund account (TF072582) in parallel to the original trust fund (TF071617) was created to accommodate the new contributions (Table 5). Current deposits (meaning funds received by MDTF Administrator) stand at US\$21.42 million, with a 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 December 31, 2016, and detailed in Table 6, is US\$14.44 million (about 97 percent of total fund receipt).

Table 4: Donor Contribution to MDTF as of December 31, 2016

Trust Fund Account #TF071617	In millions					
	Pledged Amount		Receipts		Balance due	
Customer Name	Country currency	Equiv. USD	Country currency	Equiv. USD	Country currency	Equiv. USD
United Kingdom- Department for International Development (DFID)	GBP 3.50	5.57	GBP 3.50	5.57	-	-
Royal Norwegian Embassy	NOK 15.00	2.62	NOK 15.00	2.62	-	-
Embassy of Denmark	DKK 2.00	0.38	DKK 2.00	0.38	-	-
Department of Foreign Affairs and Trade, Australia	AUD 2.85	2.99	AUD 2.85	2.99	-	-
European Union	EUR 4.50	5.59	EUR 4.05	5.10	EUR 0.45	0.47
Government of the Swiss Confederation	CHF 3.00	3.04	CHF 2.00	2.03	CHF 1.00	0.99
United States Agency for International Development (USAID)	AUD 0.71	0.71	AUD 0.71	0.71	-	-
Total		20.9		19.40		1.46

Table 5: Additional Contributions

Trust Fund Account #TF072582	In millions					
	Pledged Amount		Receipts		Balance due	
Customer Name	Country currency	Equiv. USD	Country currency	Equiv. USD	Unpaid in Country currency	Equiv. USD
Department of Foreign Affairs and Trade, Australia	AUD 2.80	2.02	AUD 2.80	2.02	-	-

Table 6: Nepal PFM MDTF Disbursements as of December 31, 2016

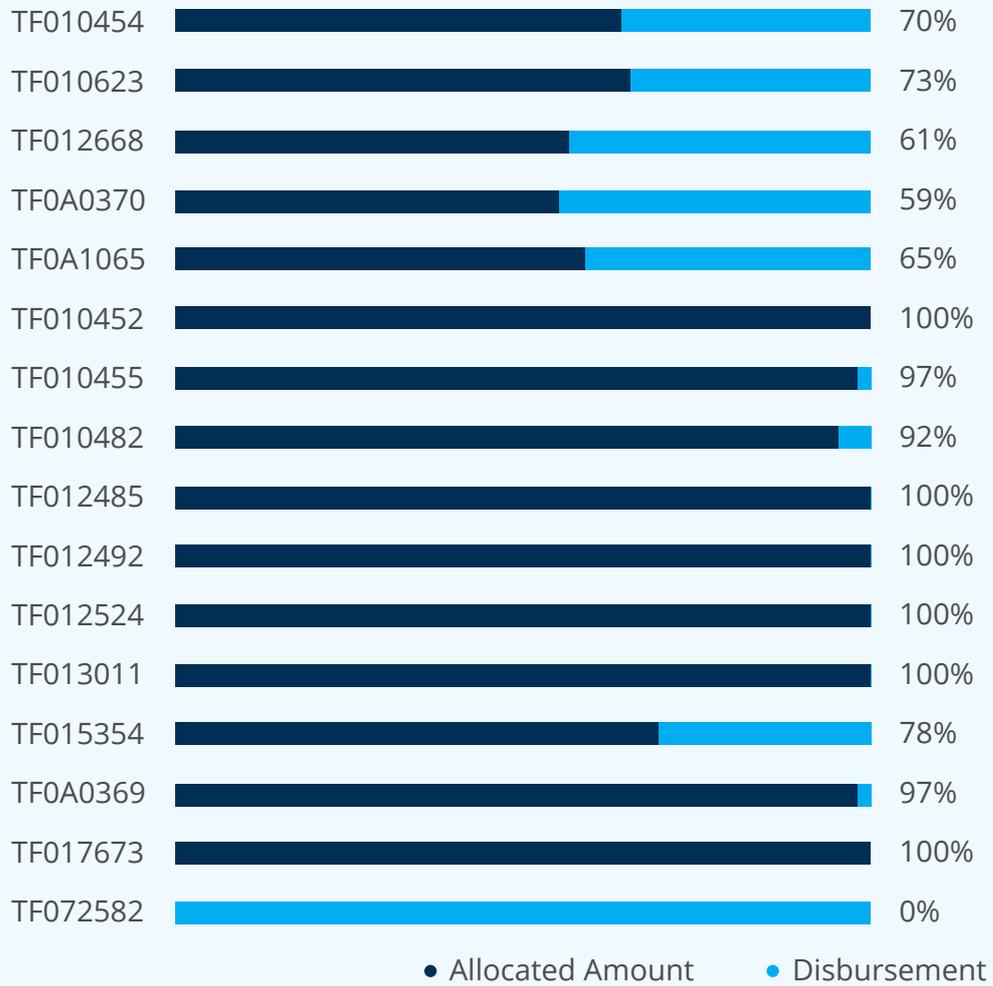
Grant Number	Grant Name	Project ID	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD	TTL
TF010454	Preparation, appraisal, supervision, monitoring, reporting costs of Strengthening PFM Systems	P125770	6/30/2017	550,000.00	387,697.08	70%	162,302.92	-	162,302.92	Franck Bessette
TF010623	Program Management and Administration Costs	P121853	6/30/2017	585,411.39	429,975.28	73%	155,436.11	11,493.85	143,942.26	Franck Bessette
TF012668	NLTA under the SPFM Project to Govt of Nepal	P125770	6/30/2017	500,000.00	304,237.47	61%	195,762.53	-	195,762.53	Franck Bessette
TF0A0370	Strengthening Civil Society Organizations' use of Social Accountability to improve PFM in Nepal 2	P153514	7/30/2017	550,000.00	325,178.61	59%	224,821.39	213,345.25	11,476.14	Luiza A. Nora
TF0A1065	Nepal : Strengthening Public Financial Management II	P154401	7/31/2017	3,680,000.00	2,392,087.28	65%	1,773,689.16	1,287,912.72	485,776.44	Franck Bessette
Sub Total Active TFs				5,865,411.39	3,839,175.72	65%	2,512,012.11	1,512,751.82	999,260.29	
TF010452	Strengthening Public Financial Management (PFM) System (Treasury System, Financial Reporting and PFM Capacity Building) (C)	P125770	6/30/2016	4,300,000.00	4,281,528.06	100%	18,471.94	18,471.94	0.00	Franck Bessette
TF010455	Strengthening the Office of the Auditor General Project (C)	P127040	6/30/2016	2,300,000.00	2,241,428.68	97%	58,571.32	58,571.32	-	Akmal Minallah
TF010482	PREPARATION AND SUPERVISION COSTS OF STRENGTHENING OFFICE OF THE AUDITOR GENERAL PROJECT (C)	P127040	6/30/2016	235,000.00	215,236.19	92%	19,763.81	1,077.01	18,686.80	Akmal Minallah
TF012485	Strengthening Civil Society Organisations' use of Social Accountability to improve Public Financial Management in Nepal (C)	P131860	9/30/2014	800,000.00	800,000.00	100%	-	-	-	Luiza A. Nora
TF012492	NP ED PETS (C)	P131381	12/31/2014	148,346.99	148,346.99	100%	-	-	-	Saurav Dev Bhatta
TF012524	Strengthening Civil Society Organisations' Use of Social Accountability to Improve Public Financial Management in Nepal (C)	P131860	11/30/2015	699,283.48	699,283.48	100%	-	-	-	Luiza A. Nora
TF013011	Operational Risk Assessment of PFM reform in Nepal (C)	P132738	6/30/2013	199,983.75	199,983.75	100%	-	-	-	Hirmani Ghimire
TF015354	Nepal: Strengthening Budgeting Process	P145814	6/30/2016	905,000.00	701,591.45	78%	203,408.55	-	203,408.55	Roshan D. Bajracharya
TF0A0369	Strengthening Civil Society Organisations' Use of Social Accountability to Improve Public Financial Management in Nepal 2	P153514	12/31/2016	950,000.00	925,998.44	97%	24,001.56	24,001.56	0.00	Luiza A. Nora
TF017673	Nepal ROSC A&A (C)	P147582	6/30/2015	7,720.19	7,720.19	100%	-	-	-	Yogesh B. Malla
Sub Total Closed TFs				10,545,334.41	10,221,117.23	97%	324,217.18	102,121.83	222,095.35	
	Admin Fee			388,092.96	388,092.96	100%	-	-	-	
	Unallocated from the Paid in Funds			4,625,169.14			4,625,169.14		4,625,169.14	
Total				21,424,007.90	14,448,385.91		7,461,398.43	1,614,873.65	5,846,524.78	
Parallel Trustee Account										
TF072582	Nepal Public Financial Management Support Multi Donor Trust Fund (successor of TF071617)			2,019,360.00	-	0%	2,019,360.00	-	2,019,360.00	Franck Bessette
Grand Total				23,443,367.90	14,448,385.91	62%	9,480,758.43	1,614,873.65	7,865,884.78	

Notes:

The total paid in contributions from DPs is USD 19,404,647.93.

Investment Income till this period is USD 179,728.05.

Figure 2: Activity-wise Allocation and Disbursement



ANNEX I:

SPFM II Results Framework as of December 8, 2016

Annex 2: SPFM II Results Framework as of December 8, 2016

PDO Level Results Indicators*	Unit of Measure	Achievement as of June 2015 (*)	YR 1 target (June 30, 2016)	Actual achievement as of Nov, 2016
1. Percentage of overall budget executed through the DTCOs where the TSA system has been implemented	% of exp.	98	99	100
2. Budget Execution Reports and Financial Statements produced by the TSA system on a real time basis	No. of districts	75	75	75
3. Preparation of consolidated financial statements for PILOT Ministries in accordance with Part 1, Cash IPSAS;	No.	7	7	15
4. Numbers of research studies into high priority PFM areas completed and disseminated	No.	2	8	5
5. Number of DTOs/districts where TSA implemented	No.	75	75	75
6. Number of Spending Unit (SU) Bank Accounts Closed	No.	13500	13850	14250
7. Number of FCGO, line department and DTCO staff trained or oriented; and still deployed to perform the functions envisaged	No.	5500	7300	7992
8. Number of master trainers trained (TSA and IPSAS and working as trainers under the project	No.	40	50	65
9. Software redeveloped after removing bugs as reported in current software;	-	Functional	Functional	Functional
10. New features added in software such as commitment recording	-	Pilots	Partial Implementation	Under Implementation
11. Roll out of Revenue Management Information System (RMIS) at districts and paying centres	No. of districts	Pilots initiated	5 districts	35 districts
12. Online access of real time budget and financial information to line departments	No. of deptts	1 deptt	5 department	39 deptts
13. System based monitoring of IT networks and devices	NA	-	Under Implementation	Procurement is in process
14. IT Strategy, organization structure and detailed plan prepared and implemented	-	-	Under prep	Not started
15. Conduct of IT/Functional Audit in FCGO	Third party audits	Nio audits	Functional audit done	Not yet started
16. Implementation of commitment controls in the budgetary entities of GoN	-	-	Implementation initiated	Process being enhanced
17. Number of GoN finance and accounts staff trained in application of Cash based IPSAS and still deployed to perform the functions envisaged	No.	0	80 staff	140 staff
18. PFM accreditation courses designed and courses initiated		None	Signing of MoU and initiation of course design	Course has been started with 30 PFM Staff
19. Number of GoN Employees enrolled/completed in Diploma/Certificate Courses in local accredited PFM academic Institution	No.	Nil	15	30
20. Number of National level PFM Steering committee meetings supported during the project period	No.	16	20	24
21. Carried out repeat PEFA assessment and prepared PFM reform strategy Phase II		Completed PEFA II	Prepared PFM II strategy	PFMRP II is approved on 24 th Feb, 2016



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