

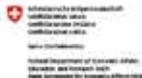


NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT | January - June 2019

Nepal Public Financial Management Multi-Donor Trust Fund

Supported by:



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WORLD BANK GROUP

NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT

January - June 2019

ACKNOWLEDGMENTS

This progress report has been prepared by Franck Bessette, Shraddha Shah and Nagendra Nakarmi, on behalf of the World Bank as MDTF Administrator. The MDTF management and team is especially grateful to the PEFA Secretariat Nepal for their continued support.

Photo courtesy: Narendra Shrestha

ABBREVIATIONS AND ACRONYMS

BER	Budget Execution Report
CAAT	Computer-Aided Audit Techniques
CIAA	Commission for the Investigation of Abuse of Authority
CSO	Civil Society Organization
DPC	Development Policy Credit
DP	Development Partners
EU	European Union
FCGO	Financial Comptroller General Office
FMIS	Financial Management Information System
GESI	Gender Equity and Social Inclusion
ICAN	Institute of Chartered Accountants of Nepal
ICGFM	International Consortium of Government Financial Management
ICR	Implementation completion report
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standard
ISSAI	International Standard of Supreme Audit Institutions
IT	Information Technology
LMBIS	Line Ministry Budget Information System
M&E	Monitoring and Evaluation
MDTF	Multi-Donor Trust Fund
MOFAGA	Ministry of Federal Affairs and General Administration
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
NAMS	National Accounting and Management Service
NFRS	Nepal Financial Reporting Standard
NPSAS	Nepal Public Sector Accounting Standard
OAGN	Office of the Auditor General (of Nepal)
OPCS	Operation Policy and Country Services
PAC	Public Accounts Committee
PCC	Program Coordination Committee
PEFA	Public Expenditure Financial Accountability
PFM	Public Financial Management
PPMO	Public Procurement Monitoring Office
RMIS	Revenue Management Information System
SAI	Supreme Audit Institution
SDC	Swiss Development corporation
SOAG	Strengthening the Office of Auditor General of Nepal (Project)
TSA	Treasury Single Account
USAID	United States Agency for International Development
VFM	Value for Money
WB	World Bank

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FOREWORD

Dear Partners and Friends,

As we all know, Nepal has become, in the last three years, the laboratory of one of the most ambitious State restructuring of our time, from a very centralized State to a federal one, with three non-hierarchical levels of government, i.e. the federal government, the seven provincial governments and the 753 municipal governments. The public financial management (PFM) implications of the 2015 Constitution have been analyzed already, including here [<https://blog-pfm.imf.org/pfmblog/2019/07/-moving-forward-with-fiscal-federalism-in-nepal-.html>]. Almost two years after the November 2017 elections at the subnational and national Parliaments, what is the situation? As it turns out, achievements have been quite remarkable and far from the chaos that some experts predicted. In summary:

- Much of the legal framework to move to federalism has been or is about to be completed. It includes an Intergovernmental Fiscal Arrangement Act, a Local Government Operations Act, a National Natural Resources and Fiscal Commission Act, an Audit Act, and a Financial Procedures and Fiscal Responsibility Bill.
- All provinces and local governments have established a consolidated treasury single account, as required by the Constitution, and have received federal grants based on published formulas. Nearly all local authorities have submitted their accounts to the Auditor General. Two-thirds of them have passed a law regulating their budget process, and almost all have voted a budget on time.
- Financial reporting by subnational governments is still an area of weakness but the federal Treasury published in February the budget execution report for FY 17/18 which included for the first time detailed revenue and expenditure data at subnational level.
- Important regulations and guidelines relating

to PFM were issued in 2019, including Internal Control Guidelines and Gender Responsive Budgeting Guidelines for Provinces.

Critical weaknesses remain. Capacity at the subnational level is still very thin. The general quality of reporting by subnational governments remains poor and ongoing work to improve accounting and IT systems will take time to yield significant results. The Auditor General noted in his April 2019 report that financial irregularities at local level were slightly lower than at federal level, but this result may mainly signal his lack of capacity to audit local governments. Besides, decision makers at the provincial and local level lack the tools to ensure that their priorities are reflected in the budget and that value for money is obtained from public expenditures. For key public services such as health, education, and water, services are delivered at the subnational level, but priorities, strategies and financing envelopes are mainly defined at the federal level. This creates a disconnect that is detrimental to service delivery and creates uncertainty about political roles and responsibilities at the various levels of government.

The journey will be long and bumpy, but the following suggestions, while clearly not exhaustive, could be considered by reformers who want to make federalization a success.

First, the many laws, regulations, frameworks and guidelines that have been issued recently need to be implemented. This will require a vast effort in terms of awareness raising of local politicians and decision makers, as well as training of the administrative cadre at local and provincial level. So far, the training efforts have been piecemeal at best. In PFM, a training needs assessment is being conducted and the establishment of a PFM Academy is being considered. Progress is nevertheless slow and may be hampered by the lack of trust between the federal government and some local governments.

Second, responsibilities for service delivery should be clarified and match responsibilities for financial management. A performance-based approach for service delivery funding could be considered but should go hand in hand with increased responsibilities for local decision makers in defining their strategic priorities and resource requirements and in managing their budgets.

Third, subnational governments should be allocated enough resources to fill existing gaps in human capacity and IT systems. This might require provincial civil service commissions to be established. In addition, subnational governments will need the fiscal space to recruit staff and pay salaries and benefits that are sufficiently attractive to lure federal employees to the provinces. For this, the current arrangements for sharing taxes among the provinces and municipalities would have to be reexamined.

Finally, the new Constitution has given the Auditor General responsibility for auditing subnational governments and to be the cornerstone of the public sector's accountability framework. To fulfill this enlarged mandate, the auditor will have to use his resources with imagination and creativity. For example, the financial statements of subnational governments could be audited over a 3- or 4-year cycle. This would allow the auditor to visit individual municipalities less frequently, while engaging in a deeper analysis of the accounts during these visits, focusing on specific areas of risk such as multiyear investment projects or recurring patterns of suspicious transactions.

In support of this agenda the MDTF-funded IPFMRP has started in the first half of 2019 its operations in all four components. Important activities have been initiated like the PFM Training Needs Assessment or the IFMIS study for which a draft is expected in 4 or 5 months. A sizeable and critical contract between PPMO and ICT-ILO for capacity building of the procurement function has now been signed and a team should land in Nepal around mid-July. Work to improve the Chart of Account has started as well as the NFRS gap analysis for SOEs conducted by ICAN. Citizen Participatory Audit activities have been conducted by the OAG under a GPSA grant, now

closed but which will be continued under the IPFMRP. Besides, key discussions have been conducted with the Public Accounts Committee, with the deputy Speaker of the House as well as with the Finance Committee by the PEFA Secretariat and the Bank/MDTF and hopefully this will allow us to proceed with our support under the PFM project.

Other activities include an IPSAS study visit to Vienna (4-8 March) for a Nepali delegation (more on this in the report), a presentation by the Office of the Auditor General of their latest report at the Bank office in June and a knowledge exchange event with government on Open Government Data (more in the report also).

In parallel but in close coherence with the above, the Board of the Bank has approved 13 June the US\$ 100 M Fiscal and PFM DPC II which has supported the policy dialogue and the quasi completion of the legal and regulatory framework for fiscal federalism.

In the meantime, around May, a formal request to the FCGO and the Bank has been sent by the municipality of Nepalgunj, requesting MDTF support to conduct a municipal PEFA assessment. This is an exciting development which hopefully will inform our future engagement in subnational PFM.

The next PCC meeting will be critical as it will have to decide on the extension of the PFM MDTF closing date as well as clarify amounts and calendar from donor partners. It will also provide an outline of the way we could make the best use of additional resources.

Best wishes for the rest of the Summer!



Franck Bessette
Program Manager, Nepal PFM MDTF

PART I.



Pic 1.

Joint workshop
with all IAs
of IPFMRP

The PFM reform agenda in Nepal has been heavily informed in the last 10 years by analytical analysis conducted under the leadership of GoN and with support from development partners. This analytical underpinning has used the PEFA framework and has promoted a common approach on the diagnostic, on the priorities for reform as well as on the funding modalities, with the creation of a basket fund, the PFM MDTF. The PFM multi-donor trust fund (MDTF) managed by the World Bank has been created in 2010 and is currently supported by six development partners: DFID, EU, Norway, Swiss Embassy, USAID and Australian DFAT. After a first phase (2010-2016), in support of the GoN's PFM strategy, a second phase (2016-2022), following the second PEFA assessment (2015) is currently being implemented, notably through the Integrated Public Financial Management Reform Project (IPFMR), effective since October 2018, which supports implementation of key reforms linked to strengthening budget execution and systems for reporting under the new federal system. In complement, the Bank is supporting key policy reform through a series of budget support operations (DPC1, delivered in March 2018 and DPC2 under preparation).

1. Implementation Support Consultation, Feb 18 – 22

An implementation support consultation was organized from February 18 until 22 with the following

objectives : (a) review and evaluate the project's implementation performance, including a follow-up on the progress made in implementing actions agreed at last mission including disbursement progress (b) agree with the stakeholders, key actions required to further enhance the implementation performance of the project towards achieving the PDOs and results. In order to achieve above objectives a joint workshop with all implementing agencies was held on Feb 19 where all implementing agencies were present and had an opportunity to discuss the implementation progress and related bottlenecks. Key achievements such as three days training for 35 female staffs in procurement was also highlighted.

The Aide memoire of the mission is attached as annex I

2. IPFMRP Results Framework

Twice a year, a Bank implementation support mission updates the result framework of the project and measures progress towards the development objectives and the intermediate results. The progress report will provide a summarized version of this work as below:

PDO Indicators by Objectives / Outcomes

Strengthening the effectiveness of selected PFM and procurement institutions, systems and procedures				
Contracts awarded within the initial bid validity period by 5 key sector agencies and selected Sub National Governments (SNGs) (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	30.00	30.00	30.00	70.00
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021
Improved aggregate capital budget out-turns at the federal level (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	64.00	64.00	64.00	75.00
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021
Comprehensive accounting and reporting procedures in place in Federal and SNGs (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	(a) Consolidated annual financial statements are not prepared as per NPSAS	Consolidated annual financial statements are not prepared as per Nepal Public Sector Accounting Standards (NPSAS)	Consolidated annual financial statements are not prepared as per Nepal Public Sector Accounting Standards (NPSAS)	(a) NPSAS based annual financial statements for federal level prepared within 9 months from the end of the financial year. (b) SNGs that cumulatively manage 50% of overall SNG budget have their own reporting procedural manual adopted.
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021
Improved audit planning and quality management for audit of federal and sub-national entities. (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	SAI PMF (indicator 9) Score 2	Supreme Audit Institutions (SAI) Performance Management Framework (PMF) (indicator 9) Score 2	Supreme Audit Institutions (SAI) Performance Management Framework (PMF) (indicator 9) Score 2	SAI PFM (indicator 9) Score 3
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021

Intermediate Results Indicators by Components

Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments				
Credible Medium Term Expenditure Framework (MTEF) in place (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Basic guidelines for MTEF at federal level in place.	Basic guidelines for MTEF at federal level in place.	Basic guidelines for MTEF at federal level in place. In addition a model planning guideline for SNGs have been developed by NPC.	difference between multi-year estimates and subsequent setting of annual budget ceilings are clearly explained.
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jan-2021
Comprehensive internal control procedures adopted at SNGs. (text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	(a) No coherent internal control framework exists that ensures consistency in these practises across the three tiers of Government	No coherent internal control framework exists that ensures consistency in these practises across the three tiers of Government	An overarching general internal control framework has been prepared by the FCGO. The next step is to prepare guidelines for the 3 tiers within this framework.	SNGs that cumulatively manage 50% of overall SNG budget have their own internal control manual adopted.
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jan-2021
Integrated Financial Management Information System (IFMIS) developed and pilot tested (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Zero Pilots	Zero Pilots	Zero Pilots	2 Pilot sites
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021
Enhancing participation and capacity of technical female staff in trainings / workshops (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0%	0%	30%
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021

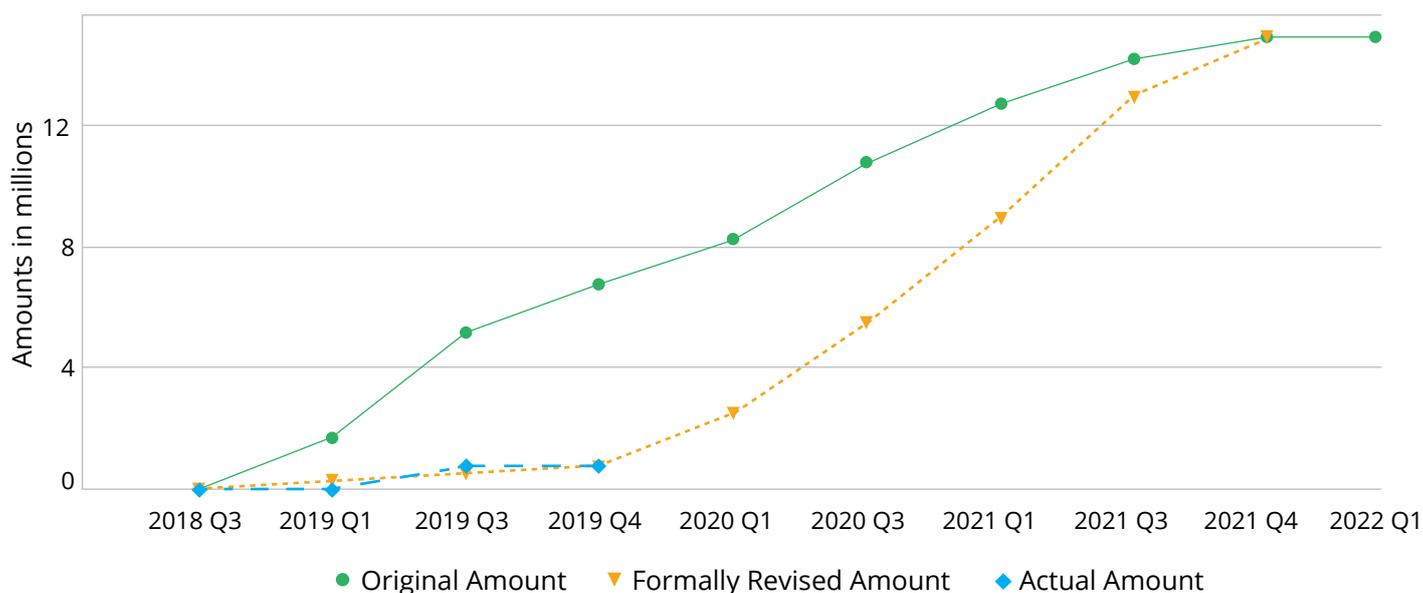
Unified budget guidelines including gender responsive budget processes introduced to SNGs (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No unified budget guidelines including gender responsive budget processes for SNGs	No unified budget guidelines including gender responsive budget processes for SNGs	No unified budget guidelines including gender responsive budget processes for SNGs	SNGs that cumulatively manage 50% of overall SNG budget have adopted the unified budgeting guidelines
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021
Component 2. Strengthening the Office of the Auditor General Nepal				
Timely submission of financial audit reports of SNGs to appropriate authorities within legal time frame (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	60.00
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021
Number of citizens mobilized and involved in audit process through Civil Society Organizations (CSOs) of which 50% are female. (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	80.00	80.00	80.00	400.00
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021
Effective audit follow-up (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Score of 0 SAI PMF dimension 7 (iii)	Score of 0 SAI PMF dimension 7 (iii)	Score of 0 SAI PMF dimension 7 (iii)	Score of 2 SAI PMF dimension 7 (iii)
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021
Public Procurement Improvement				
Complaints resolved following an effective complaints handling mechanism in electronic Government Procurement (e-GP) (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	60.00
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021

Basic procurement documents and guidelines developed for sub-national government (out of a master list of sub-national level documents to be prepared) (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	80.00
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021
Procuring entities of Key Sector Agencies (KSAs) with at least one certified procurement staff established (As a percentage of the total procuring entities) (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	10.00	10.00	10.00	80.00
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021
System generated performance reporting prepared for KSAs (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	Generation of Performance Report for KSA's
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jan-2021
PFM reform management and coordination				
A citizen's engagement strategy is prepared and implemented as per proposed sequence (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No Strategy exists	No Strategy exists	No Strategy exists	Strategy exists and implemented
Date	31-Jan-2018	04-Oct-2018	22-Feb-2019	30-Jun-2021

Disbursement Summary

Source of Funds	Net Commitment	Total Disbursed	Remaining Balance	Disbursed
GRANTS	15.00 M	1.00 M	14.00 M	6.7%

Cumulative Disbursement



3. 3. IPFMRP Status of Risks (SORT)

During project preparation, risks have been systematically assessed and reflected in the project document. During implementation support mission, Bank team updates the risk assessment and discusses

with government appropriate mitigation measures. The progress report provides an update of the risk assessment.

Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	● High	● High	● High
Macroeconomics	● Moderate	● Moderate	● Moderate
Sector Strategies and Policies	● Moderate	● Moderate	● Moderate
Technical Design of Project or Program	● Substantial	● Substantial	● Substantial
Institutional Capacity for Implementation and Sustainability	● Substantial	● Substantial	● Substantial
Fiduciary	● Substantial	● Substantial	● Substantial
Environment and Social	● Low	● Low	● Low
Stakeholders	● Substantial	● Substantial	● Substantial
Other	--	--	--
Overall	● Substantial	● Substantial	● Substantial

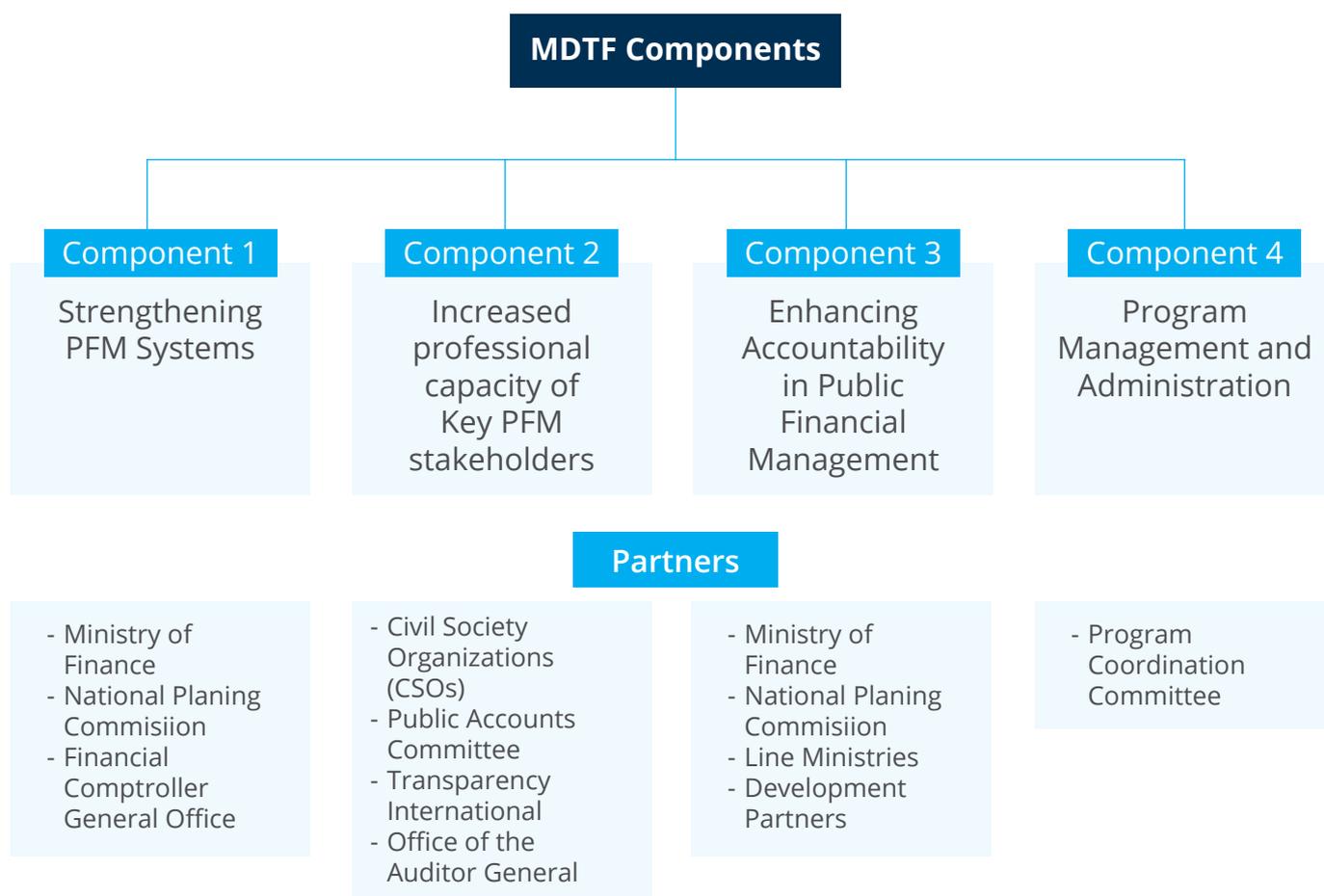
PART II.

Program Results

1. MDTF Components

Based on the MDTF strategy, the MDTF is composed of the following components:

Figure 1: MDTF Components



2. Areas for future MDTF engagement

The objective of this short note is to provide a presentation of potential resources available and an outline of areas for future PFM MDTF engagement in the PFM reform agenda.

The current MDTF situation

The IPFMRP has made use of the entire balance of available resources from Phase 1 of the MDTF and of the entire resources for Phase 2 available in the first quarter of 2017 (US\$ 15M, to which US\$3M from government's budget have been added). Consequently, pledges that have not been transformed into administrative agreements by the end of the first quarter of 2017 (the EU and the Swiss embassy) have not yet been mobilized. In addition, Australian DFAT has provided since then an additional contribution of around \$ 2M which is still mostly uncommitted.

Potentially available resources for future engagement are therefore quite substantial:

- a) 2\$M from Australia
- b) 3M Swiss Francs from Switzerland

- c) 7M euros from the EU (5 M under the PFM engagement and 2 M under the federalism engagement)
- d) 2M £ of conditional top-up from DFID (conditional to an internal assessment)

Additional resources from DFAT are readily available and are currently used for activities which are not funded under the MDTF (diagnostic studies, knowledge exchange events and workshops). For the additional resources to be mobilized, several conditions will have to be met. First, the extension of the closing date of the MDTF will have to be approved by the PCC and processed administratively. Second, pledges from Swiss and the EU will have to be transformed into administrative agreements. Third, an internal assessment from DFID will decide whether the top-up will be made available; and fourth, at least an agreement on the general outline for future engagement will have to be agreed between MDTF partners. The size and scope for future engagement will depend on how many of these conditions will be met. The form of this engagement (calendar, modalities of intervention, size and number of operations) will also depend on the calendar in which they will be met. Please see below a possible calendar:

Date	Event	Result	Remark
5 September 2019	PCC meeting	PCC approves extension of MDTF's closing date	
5 September 2019	PCC meeting	PCC approves areas for future engagement (this note)	
September-October 2019	Administrative processing of Swiss AA	Pledges can be committed	
October 2019	EU and DFID confirm their pledges	Available envelop for next operation is known	EU and DFID need to confirm if this schedule is realistic
End-December 2019	Draft Concept Note is discussed between partners	Authorization is given to the Bank to process it internally.	
January-March 2020	EU and DFID sign AA	Pledges can be committed	EU and DFID need to confirm if this schedule is realistic
January-June 2020	Project paper is prepared in coordination with government and partners and processed in Bank system		This is an indication. The project will be approved as soon as possible.

The following is mainly based on conversations with PEFA Secretariat, key government stakeholders in the PFM area as well as MDTF donor partners. The content of future engagement will also be heavily informed by various studies currently conducted under the IPFMRP like the IFMIS study, the PFM TNA (Training Needs Assessment), or the Nepalgunj PEFA assessment which will not be available before October-November.

There is currently a consensus that the MDTF should strengthen and deepen areas of intervention where it has achieved results in the past and also that its scope of intervention should be expanded to areas where it has not been at the forefront (e.g. Tax policy and tax administration). There is also a consensus among donors and government that the MDTF should contribute more directly to subnational PFM by targeting more directly Provinces and local governments. This will necessarily imply that the coordinating role of the PEFA Secretariat and its capacity to reach out beyond boundaries will have again to be increased. Working directly on PFM with municipalities and Provinces means that they will have to be associated in the decision-making process and in the implementation of their program. The recent experience acquired by the PEFA Secretariat under the IPFMRP will be critical to make this possible.

The below possible interventions are not costed, and the scope of the components is not detailed at this stage for reasons explained in the previous section.

These interventions are also meant to overlap as little as possible with the USAID-funded PFMSP and the DFID-funded PFMA2 but instead to seek complementarity. They are in line with the PFM MDTF Strategy for phase II.

Possible areas of intervention are the following:

1. Strengthening and institutionalization of IT PFM systems

The PFM MDTF has been quite successful in supporting the development of IT systems that have now become the backbone of government, like the TSA for monitoring expenditures or more recently the

RMIS which provides real time data on tax collection. Currently, the MDTF is supporting NAMS (Nepal Audit Management System) being supported in OAG and SUTRA system for which three modules have been developed by DFID and which is being roll-out at the local level with support from USAID. It is also supporting the e-GP system for procurement. There is nevertheless a multiplicity of other IT systems around which support PFM functions and are alive or semi-defunct and often compete. The government has approved a strategic note with the aim of rationalizing financial management information systems (FMIS) and develop a medium-to-long term vision of integrating the various systems into a single platform. A study is being conducted (IFMIS study) to take stock of the current situation and propose various scenarios for the future development of this platform. In the meantime, short-term needs have been identified by the government: 1. Development of the SUTRA with integration of additional modules (tax collection; grant management for instance) and institutionalization of its development and maintenance through strengthening of government with a focus on sustainability. The government has officially adopted SUTRA “for the purpose of formulation, accounting and reporting of budget of the local level” (ref. Directive 26 May 2019). The MDTF will support the enhancement of the tool to other functions and the institutionalization within FCGO and for local governments. In particular, it is critical to demonstrate the usefulness of SUTRA for local decision makers and the potential to link up the development of the system with the Open Government Data agenda. In particular, it would be interesting to develop an online data portal that would enable visualization of expenditure and budget data and comparability across years.

Development of an adequate suite of software at the Provincial level, based on systems that are already working at the federal level (LMBIS for budget formulation, CGAS for accounting and TSA) and institutionalization at the FCGO level.

This component will also take into account the decisions made by government on the basis of the IFMIS study.

2. Establishment of a PFM training and capacity building support framework.

A PFM training needs assessment (TNA) is ongoing and will inform government's decisions in this area. The needs assessment drills down on the FCNA (Federalism Capacity Needs Assessment) in the specific area of PFM. The government has already indicated its intention to develop the newly established PFM Training Center (successor of the tax training center). The conversion of the PFM TC into a PFM academy including archive facilities and a resource and research center is one of the possible options. The activity could involve the establishment of curricula or the translation of existing and certified curricula. The capacity building framework that will result from these activities could serve as the tool for: (i) identifying existing capacity and capacity deficits in key PFM areas such as FM, procurement, PIM etc. across all levels for Government; and (ii) working with the Government to develop PFM capacity improvement strategy/with annual action plans, focusing on key PFM areas for all levels of Government. The strategy could also include a vision on how to strengthen training institutes and promote long-term training/capacity building for public servants on PFM. There are several risks to envisage: First, the services offered by the PFM TC need to take into account other training facilities like the Nepal Staff College and coordinate with them a strategy that would integrate the various training facilities into a learning and training network. Besides, this network would have to respond to the specific needs of sub-national government and to do so, might make use (or not) of the Provincial governance centers that MOFAGA plans to develop. Finally, individual provinces and perhaps even municipalities might want to develop their own training facilities and a careful approach which would avoid redundancy or competition would have to be designed. This component in particular, but also others, could support an active gender agenda. Under the current project, gender activities have been designed within the training and capacity building component. This could be deepened and streamlined.

3. Tax policy and tax administration at the federal and subnational levels

Various activities are being conducted in this area under the MDTF (IPFMRP or Bank-executed grant) or under the Federalism platform. Other donors are also present in the area like GIZ or DFID. In particular, the IPFMRP will support a diagnostic of the tax administration system which will be used to support government in preparing a strategy and workplan for strengthening the full system including links across all levels of government. In addition, the government has recently approached the Bank to support them in strengthening the revenue potential and capacity to forecast revenues at the subnational levels. The work will also entail provision of technical support to local and provincial governments in the identification of tax sources, including the sensitization of localities on the related tax provisions that apply to these sources in the key legislations. It will also support the strengthening of subnational administrative systems for the collection and reporting on revenues. This work would also inform ongoing support to government in refining their formula for fiscal transfers based on a fiscal gap approach which would entail two key tasks: (i) assessment of subnational expenditure needs; (ii) assessment of subnational revenue potential. Based on the diagnostics that come out of the work, discussions will be held with IRD, NNRF and key stakeholders at subnational levels to develop a technical assistance program. Effective and efficient revenue mobilization and administration mechanisms at the subnational level is foundational to a sustaining the fiscal federalism arrangement.

4. Subnational PFM performance enhancement

In terms of analytics, a pilot PEFA assessment in Nepalgunj is planned. If successful, a series of municipal PEFA assessments will be conducted in “old” municipalities where three full years of data are available. The PEFA methodology can only be applied when there are 3 consecutive budgets under review, so another PFM assessment would have to be considered at the Provincial level for the time being.

These assessments will help design appropriate technical support activities at the subnational level and also will help measure PFM performance over time. Measuring PFM performance of subnational governments is an essential feedback loop to ensuring that weak performers are prioritized, and that PFM systemic failures that can undermine service delivery are identified, prioritized and addressed.

Working directly with subnational governments implies to have a “pilot and expand” approach. It is virtually impossible to work directly with 753

municipalities. The choice of local government and Provinces will be based on interest and capacity of these governments but also on potential synergies with Bank or other development partners’ interventions (e.g. The Bank Urban Project or other donor engagement in specific provinces).

PFM TA activities that will follow this diagnostic series will have the following objectives:

41. Increase the capacity to collect own revenues
42. Increase the capacity to manage physical and financial assets
43. Improve strategic allocation of resources in the Budget
44. Improve budget execution rates and quality of expenditures
45. Improve delivery of services
46. Improve the accountability framework at the local levels (internal and external audit, citizen engagement notably)

3. Program Results Framework

The achievement of MDTF outcomes is currently supported through its main vehicle, the IPFMRP. The table below shows how the outcomes and results of the MDTF (the program) are linked to the objectives of the IPFMRP. It also shows how other PFM initiatives are supporting the same objectives.

MDTF Outcome	MDTF Intermediate Results	IPFMRP indicators	Current Status	Other relevant activities (outside MDTF)	Next Steps
Strengthened efficiency and results orientation of the budget cycle at national and sub-national level	Execution rate of the capital budget reaches 50% at the end of the second trimester and 90% at the end of the year	<ul style="list-style-type: none"> • Improved aggregate capital budget out turns at federal level • Comprehensive accounting and reporting procedures in place in federal and SNGs • Credible MTEF in place • Contracts awarded within the initial bid validity period by 5 KSAs and selected SNGs • Basic procurement docs and guidelines developed for SNGs (out of master list of sub-national level docs to be prepared) • System generated performance reporting prepared for KSAs 	<ul style="list-style-type: none"> • MTEF guidelines FOR **SNGs issued by NPC (one for provinces, one for local governments) in Nov 2018. Related TA has starting, including establishment of a federal project bank. • NPSAS implementation support through action plan developed by FCGO. A/c professionalization for FCGO and other selected staff in three levels of GoN. Shortlisting done for consulting. • General internal control guidelines have been prepared by FCGO and adopted by MoF for three levels of government • Revision of 2017 CoA 	Bank's Development Policy Credit2is supporting key policy reforms to strengthen budget cycle across three levels of government. Operation approved by Board in June and signed in July.	<p>IPFMRP Implementation support mission in September 2019</p> <p>Operationalization of internal control guidelines (started)</p> <p>Finalization and OAG approval of new CoA (done)</p> <p>Training on NPSAS</p>
	Enhanced efficiency and integration of core financial IT systems is evidenced	<ul style="list-style-type: none"> • IFMIS developed and pilot tested 	<ul style="list-style-type: none"> • IFMIS study consultancy advertised • SuTRA, LMBIS and TSA roll out implemented by DFID and USAID. MDTF providing advisory support 	<ul style="list-style-type: none"> • Sutra is being enhanced and rolled-out by DFID and USAID 	<p>Finalization of Sutra roll-out</p> <p>IFMIS study finalized (in January 2020)</p>

	Revenue collection and tax administration improved resulted in improved scores in PI-20	<ul style="list-style-type: none"> Unified budget guidelines including GRB process introduced to SNGs 	<ul style="list-style-type: none"> Strengthening tax admin at 3 levels of GoN- Not started. Pending GoN decision to conduct a TADAT assessment. Coordination with bilateral support needed 		
Increased professional capacity of key PFM Stakeholder	Increased capacity of PEFA Secretariat to design, manage and coordinate PFM reform	<ul style="list-style-type: none"> Procuring entities of KSAs with at least one certified proc. Staff established (as a % of total procuring entities) 	<ul style="list-style-type: none"> TOR being finalized in consultation with PFM TC. PEFA will try to share with us by Dec 21. The aspects to be included in the TOR was discussed. PFM capacity building course developed and contracted 	<ul style="list-style-type: none"> Federalism Needs Assessment is ongoing and will provide stock taking of PFM at Sub-national level (joint WB and UNDP) 	<p>New PFM strategy covering three levels of government finalized. (not started)</p> <p>PEFA self-assessment for federal level</p> <p>PEFA training of Trainers (by December 2019)</p> <p>Municipal PEFA series (started)</p>
	Capacity building institutions in Nepal have strengthened capacity to deliver high quality professional development and training	<ul style="list-style-type: none"> Enhanced participation and capacity of technical female staff in training/ workshops Strengthening PEFA secretariat capacity 	<ul style="list-style-type: none"> PPMO develops procurement templates for SNGs PPMO trains SNG level staff , multi year capacity bldg. prog for PPMO staff is developed 2 consultants are being hired (procurement and admin) . a training plan is being prepared Contract between ITC-ILO and PPMO signed. At the end of the previous Fiscal year (July 2019) 3743 staff have been trained out of which 630 are women. 	<ul style="list-style-type: none"> PLGSP (pipeline) plans to develop Provincial Governance Capacity Building Centers 	<ul style="list-style-type: none"> Training Needs Assessment conducted (done) PFM Academy will have to be funded once PFMTCC*** strategy is finalized ITC-ILO mission before December 2019.
	A critical number of staff received internationally accredited diploma in PFM (30 per year over 5 years)		<ul style="list-style-type: none"> PFMTC strategy under preparation Certifying training program in PFM at approval stage 		<p>PFM Academy will have to be funded once PFMTCC</p>
Enhanced accountability in Public Financial Management	Strengthened OAG capacity to deliver on its mandate in compliance with ISSAI	<ul style="list-style-type: none"> Improved audit planning and quality mgmt. for audit of federal and sub national entities Comprehensive internal control procedures adopted at SNGs Timely submission of financial audit reports of SNGs to appr. Authorities within legal time frame Effective audit follows up 	<ul style="list-style-type: none"> *CPA deepening. Auditing professionalization through ISSAI implementation. Strengthening use of IT tools for audit support Contractor selected. 	<ul style="list-style-type: none"> DFID providing bilateral support to OAG (IT) 	<p>CPA work has been completed under separate grant and will be deepened under MDTF. Bank STC is being recruited.</p>
	Increased transparency and citizen participation in the budget process	<ul style="list-style-type: none"> Number of citizens mobilized and involved in audit process through CSOs of which 50% is female Citizen engagement strategy is prepared and implemented as per proposed sequence Complaints resolved following an effective complaint handling mechanism in e-GP 	<ul style="list-style-type: none"> Hiring not started to develop basic procurement documents for SNG level (direct contracting, quotation, national bidding, tool kit/ guidelines) 		

	Increased involvement of relevant Parliamentary committees and oversight bodies in the budget process in acting on OAG report and assessing public expenditure quality and impact		<ul style="list-style-type: none"> • Support to federal and provincial PAC. • Additional support to finance committee has been approved by PEFA, the Bank and the committee SG. 		
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- *CPA – citizen participatory audit
- *SNGs – sub national Governments
- ***PFMTC – PFM Training Centre (PFM Academy)

4. Sub National PEFA Assessment

PEFA Assessment: The PFM MDTF Strategy (2016-2022) foresees the conduct of a PEFA assessment in 2019. On May 2019, we received a request letter from the Nepalgunj Sub-Metropolitan City for a pilot PEFA assessment that they would like us to undertake. As a response we have come up with a proposed programmatic series that would produce an increased understanding of the impact of the constitutional changes on PFM performance in Nepal, to identify areas where PFM reform efforts should be targeted in priority, and to inform development partners on the best delivery modalities for their support. It would also aim at fostering a technical dialogue with sub-national authorities and functionaries around PFM issues and challenges and provide a baseline for the subsequent evolution of PFM performance during the transition to federalism. This series, based on the

PEFA framework, would be implemented from March 2019, after two years or more of implementation of the new Constitution and four years or more after the publication of the previous PEFA assessment.

This would be a sort of proof of concept that would inform, if conclusive, a series of municipal and provincial PEFA that we have in mind for next FY. We need to see if the methodology is suited in the context (even though across the world, 70% of new PEFA assessments are conducted at sub-national level), if we have the data etc. The knowledge gathered will help us inform our fiduciary work as well as our upcoming engagement in subnational PFM under the MDTF and will also provide some useful insights for MoF. Hopefully, the municipality will also see the benefits of having a clear picture of where the weaknesses are in the PFM area.

5. Proposed Value for Money Strategy and Framework for IPFMRP

The VFM framework will be updated in the next IPFMRP mission to be held in September. The team is in touch with the GoN counterparts and are exchanging frequent dialogue on this.

Proposed VfM Framework

VfM Domain	Indicator	Reporting Responsibility	Remarks/Evidence/Source
Economy	Standard (Routine) Procurement Lead Time	PEFA Secretariat, MDTF PM team	Achievement of shorter time for procurement over program implementation will provide a proxy for improved economy performance. World Bank's STEP helps track detailed information about all procurement.

Economy	Cost savings (tracked and monetized) examples through procurement or other cost-conscious behavior	All implementing agencies to record and report to PEFA Secretariat, MDTF PM team	Quantified or monetary records of how much the savings amount to.
Efficiency	Cost per Beneficiary of Capacity Building Support	PEFA Secretariat, MDTF PM team	Trainings will be a significant part of the IPFMRP and therefore tracking the performance on that is important.
Effectiveness	Trends on spending performance on capital budget by GoN vs spend to date (on program funds from the basket fund)	PEFA Secretariat, MDTF PM team	This is also a key result agreed by MDTF (requires the execution rate of the capital budget to reach 50% at the end of the second trimester, and 90% at the end of the year, by the program end.
Effectiveness/Cost effectiveness	Efficiency savings (quantified or monetized)	PEFA Secretariat, MDTF PM team	Such as from reduction of leakage of public funds, better integrated IT systems, IFMIS implementation, etc. This may require additional external support at reviews of the program.
Effectiveness	Evidence of Enhanced Capacities at Civil Service	PEFA Secretariat, MDTF PM team	Can be qualitative. Annual OAG Report is also likely to have examples of these.
Equity	Evidence of equitable reach or better pro-poor resource allocation.	PEFA Secretariat, MDTF PM team	Examples such as in the areas of implementation of Gender responsive budgeting principle, or evidence of better resource allocation to pro-poor sectors, better citizen participation in budget preparation and monitoring processes.

PART III.

Program Management and Administration

1. Various Activities

A. PCC meeting, January 10

A PCC meeting was chaired by Faris H. Hadad Zervos, Country Manager, World Bank and Shree Krishna Nepal, Joint Secretary and Chief IECCD, Ministry of Finance. All MDTF partners were present at the meeting. All three key implementing agencies from GoN side also participated. WB, CM talked about the approval, effectiveness and speedy implementation start for the US\$ 18 M IPFMRP; the success of Bank's Fiscal and PFM budget support operations for which the second phase for US\$ 100 M should be approved soon. He also mentioned the ongoing Federalism Needs assessment, which government and donors are waiting to contribute key analysis for the federalism transition process, including in its PFM dimension. Mr. Nepal thanked all MDTF development partners for their support and talked about emerging challenges in the federal context. He said that due to implementation of fiscal federalism, now is the right time to revise the PFM Reform strategy. He also mentioned that it will be a good idea to do a PEFA Assessment after three years of implementation of federalism. He talked about the emerging issues and a need for a robust IFMIS system for reporting, accounting etc in order to demonstrate accountability and transparency. He emphasized the fact that FCGO remains the focal point for all PFM reforms within the guidance approved by MoF. He mentioned that the MoF was working with WB on the prior actions of the DPC to meet the triggers on time. He also thanked DFID and USAID in SuTRA implementation.

Franck had two main objectives to his presentation mainly: a) propose/ reopen discussion on PFM Reform

Strategy and b) talk about the complex landscape of PFM support and bring it into a single narrative. He started his presentation by discussing on – going PFM actions and potentially transformative aspects. He also informed the group about Auditor General participation in the annual meeting of the Global Partnership for Social Accountability (GPSA) and participation of OAG in Kuwait INTOSAI capacity development committee bringing international recognition to OAG.

B. IPSAS Study Visit, Austria, March 4-8, 2019

Yogesh Bom Malla, Sr. Financial Management Specialist traveled to Vienna, Austria along with Nepal Government Delegation led by Mr. Jagan Nath Devkota, Joint Financial Comptroller General, between March 4-8, 2019 on the invitation of Austrian Ministry of Finance (MoF). The purpose of the visit was to:

- Study on implementation of International Public Sector Accounting Standard (IPSAS).
- Meet and exchange experiences with key stakeholders in IPSAS implementation such as select federal ministries, MoF, Court of Audit, Parliamentary Budget Office, Regional Governments etc.
- Study technical aspects of IPSAS implementation such data entry and consolidation process of the economic entities.
- Understand application of information technology in IPSAS implementation.
- Study on trainings and training modules regarding IPSAS.
- Study the transition process of IPSAS cash to IPSAS accrual in Austria.

The program was organized by MoF, Austria and coordinated by Mr. Benedikt Gamillscheg. It was designed for five working day schedule with class room discussions and selected field visits. Each topic was led by selected team which shared their experiences and knowledge in IPSAS implementation. The Nepal Government Delegation was composed of officials from MoF, FCGO, OAG, DTCO, MoCIT, MoUD and State Finance Comptroller -Province 5. The Delegation benefitted with the understanding of IPSAS implementation, its challenges and some of the lessons learnt and shared their existing IPSAS experiences with the Austrian counterparts.

The study visit also gave the Delegation some understanding of the transition process of IPSAS cash to IPSAS accrual and Road Map of implementing IPSAS accrual in Nepal. Lessons learned during the study visit can be useful for Nepal regarding the implementation of IPSAS.

The Delegation also visited CFFR World Bank Office in Vienna and exchanged their work areas and opportunities for future co-operations and collaboration. On next steps, it was suggested to have some sort of MoU between the two Governments which will open the way for future collaboration and co-operation.

C. Technical Review Meeting

May 13, 2019: In the technical review meeting WB briefed on the progress report of July- Dec 2018 which focused on the results framework of IPFMRP (integrated Public Financial Management reform project). This report has added value with the VFM framework. The meeting also informed that DPC 2 is negotiated with GoN (100 Million USD). The board date was June 13, 2019. In support of federal transition, through DPC we have some legal and regulatory framework in place. It was also noted that full implementation of IPFMRP will require an



extension of the project, which will necessitate an extension of the MDTF. Additional resources from Australian DFAT have been recently disbursed, and pledges made in support of the second phase of the MDTF are likely to materialize soon (SDC and EU). Though additional resources are not necessary for the extension to happen, signature of new administrative agreements can be an opportunity to formalize the pledges that have been made previously and still not confirmed. Several DPs asked for an extension that was beyond two years to avoid repetition of heavy administrative process. which will open the way for future collaboration and co-operation.



attending the knowledge exchange program on OAG

D. Knowledge Exchange Event - June 4

The work of Supreme Audit Institution like the OAG, Nepal is important for us as they have mandate to conduct external audit of projects financed through IDA and implemented by the Govt. of Nepal. It was an opportunity to understand about OAG and its mandate, role especially in the federal context. The OAG team was led by Mr. Ramu Prasad Dotel, DAG and includes Mr. Bam Dev Adhikari, AAG and Mr. Chandra Kant Bhandari, Director, Office of the Auditor General, Nepal.

Mr. Chandra Kant Bhandari made a presentation covering on the overall OAG such as its mandate (new constitution/audit act), organization structure, audit planning, execution and reporting, share key issues of their latest audit report on select sectors – education, health, transport, earthquake housing etc. and highlights of MDTF support on OAG. The team also presented key challenges observed in the audits of subnational governments and their plans to redefine itself on federal structure. Most MDTF DPs also attended this event.

E. Open GoN Data workshop, June 26, 2019

Over 75 Nepali professionals from the academia, media, and private and non-profit sectors successfully completed the first phase of the Nepal Data Literacy Program today on July 4, 2019. The first of the

three-phase data literacy program which began on 23rd June provided 40 hours of classroom-based introductory lessons on data analysis, visualization and data-driven decision making and storytelling to participants.

An initiative of the World Bank's 'Partnership for Knowledge-based Poverty Reduction and Shared Prosperity Project' supported by DFID, the Nepal Data Literacy Program aims to sustainably transfer data literacy skills to Nepali professionals to strengthen their capacity to proactively engage in evidence-based policy making, increase data literacy and support federalism in the country. The curriculum developed through this course has been published in an open source format to be adapted and used to increase data literacy capacity for groups of diverse backgrounds. With the completion of the training, the participants are expected to provide data literacy training to their colleagues within their organizations while representatives from the academia are expected to incorporate concepts from the data literacy program in their existing courses.

The next two subsequent phases of the program scheduled for July to September of 2019 will cover intermediate lessons and guide participants in writing contextual analysis papers and blog posts to get hands-on experience with data-driven storytelling and decision making.

On the sidelines of the program, an interactive workshop on Open Government Data with officials from the Government of Nepal was also organized in Kathmandu on 26 June in collaboration with the World Bank's Public Financial Management Multi-Donor Trust Fund. The workshop discussed the importance of Open Government Data in accelerating government priorities and increasing access to

government data in Nepal, together with ideas to pilot initiatives to increase quality use of government data in the country. "Open Government Data has enormous potential in Nepal, and I look forward to partnering with the World Bank to make our data publicly available in a user-friendly way so everyone can benefit more from our data," said Mr. Ramesh Siwakoti, Joint Financial Comptroller General.



MDTF Manager, Franck Bessette addressing the workshop

2. Field Trip Update

Follow up Technical Mission, May 21- 24:

Maxwell Bruku Dappah, task team leader for IPFMRP visited from May 21- 24 for a follow up technical mission to oversee the bottlenecks in the implementation of IPFMRP. The team met with new Head of the PEFA secretariat and his team, the Financial Controller General (FCG), the Auditor General, Joint Secretary of the National Planning Commission (NPC), PPMO, MOFAGA, the Deputy Speaker of Parliament and the Auditor General.

The team also met with officials of two District Treasury offices (in Damauli and Pokhara), the Pokhara Provincial Planning Commission, the Pokhara Provincial Treasury Commission. The visit was quite helpful in that they were able to observe some of the emerging federalism implementation challenges at the sub-national level. They also joined an IPFMRP-funded citizen engagement training for local and municipal officials organized by the PEFA secretariat.



Attending social audit workshop in Pokhara

PART IV.

FINANCIAL REPORT

As of June 30, 2019, the total pledged amount to PFM MDTF by its six donors was US\$20.95 million (Table 1). Subsequently, the Trust Fund account TF072582 parallel to the original TF071617 was created to accommodate the new contribution. Current deposits — meaning funds received by the MDTF Administrator — stand at US\$ 15.89 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 (TF 071617+ TF072582) as of June 2019 is 17.14 million (around 67.81 % of total fund receipt). For the further details refer to (Table 2)

Table 1: Donor Contribution to MDTF as of June 30, 2019

Trustee Account: TF071617							
Name of Development Partners	Currency	Amt in Commitment Currency	Eqv. USD	Paid in Commitment Currency	Eqv. USD	Unpaid in Commitment Currency	Eqv. USD
Australia-Department of Foreign Affairs and Trade	AUD	2.85	2.99	2.85	2.99	0.00	0.00
EU-Commission of the European Communities	EUR	4.50	5.62	4.50	5.62	0.00	0.00
Norway - Ministry of Foreign Affairs	NOK	15.0	2.62	15.0	2.62	0.00	0.00
Swiss State Secretariat for Economic Affairs (SECO)	CHF	3.0	3.07	3.0	3.07	0.00	0.00
United Kingdom - DFID	GBP	3.50	5.57	3.50	5.57	0.00	0.00
Denmark - Royal Ministry of Foreign Affairs	DKK	2.00	0.38	2.00	0.38	0.00	0.00
United States Agency for International Development (USAID)	USD	0.71	0.71	0.71	0.71	0.00	0.00
Sub Total			20.96		20.96		0.00

Trustee Account: TF072582							
Name of Development Partners	Currency	Amt in Commitment Currency	Eqv. USD	Paid in Commitment Currency	Eqv. USD	Unpaid in Commitment Currency	Eqv. USD
Australia-Department of Foreign Affairs and Trade	AUD	5.30	3.79	5.30	3.79	0.00	0.00
EU-Commission of the European Communities	EUR	3.00	3.37	3.00	3.37	0.00	0.00
Norway - Ministry of Foreign Affairs	NOK	34.00	3.93	13.00	1.57	21.00	2.36
United Kingdom - DFID	GBP	3.00	3.90	3.00	3.90	0.00	0.00
United States Agency for International Development (USAID)	USD	0.60	0.60	0.60	0.60	0.00	0.00
Sub Total			15.59		13.23		2.36
GRAND TOTAL			36.54		34.18		2.36

Nepal PFM MDTF Financial Status
Table 2: Disbursements as of June 30, 2019

Financial Report fo Trustee Account TF071617											
Trustee Account	Legal Status	Project ID	Grant Number	Grant Name	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD
TF071617	ACTV	P121853	TF010623	PROGRAM MANAGEMENT AND ADMINISTRATION COSTS.	9/30/2021	0.84	0.84	100%	0.00	0.00	0.00
		P125770	TF010454	PREPARATION, APPRAISAL, SUPERVISION, MONITORING, REPORTING COSTS OF STRENGTHENING PFM SYSTEMS	9/30/2021	0.55	0.55	100%	0.00	0.00	0.00
			TF012668	NLTA UNDER THE SPFM PROJECT TO GOVT OF NEPAL	1/1/2022	0.80	0.65	82%	0.15	0.00	0.15
		P157724	TF0A3254	NEPAL-SUPPORT FOR FISCAL MANAGEMENT (TA)	6/30/2019	0.45	0.45	100%	0.00	0.00	0.00
		P164783	TF0A7475	INTEGRATED PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT	7/31/2021	4.80	0.00	0%	4.80	4.80	0.00
	ACTV Total					7.44	2.49	33%	4.95	4.80	0.15
	LCLS	P125770	TF010452	STRENGTHENING PUBLIC FINANCIAL MANAGEMENT (PFM) SYSTEM (TREASURY SYSTEM, FINANCIAL REPORTING AND PFM CAPACITY BUILDING)	6/30/2016	4.24	4.24	100%	0.00	0.00	0.00
		P127040	TF010455	STRENGTHENING THE OFFICE OF THE AUDITOR GENERAL PROJECT	6/30/2016	2.22	2.22	100%	0.00	0.00	0.00
			TF010482	PREPARATION AND SUPERVISION COSTS OF STRENGTHENING OFFICE OF THE AUDITOR GENERAL PROJECT	6/30/2016	0.22	0.22	100%	0.00	0.00	0.00
		P131381	TF012492	NP ED PETS	12/31/2014	0.15	0.15	100%	0.00	0.00	0.00
		P131860	TF012485	STRENGTHENING CIVIL SOCIETY ORGANISATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PUBLIC FINANCIAL MANAGEMENT IN NEPAL	9/30/2014	0.80	0.80	100%	0.00	0.00	0.00
			TF012524	STRENGTHENING CIVIL SOCIETY ORGANISATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PUBLIC FINANCIAL MANAGEMENT IN NEPAL	11/30/2015	0.70	0.70	100%	0.00	0.00	0.00
		P132738	TF013011	OPERATIONAL RISK ASSESSMENT OF PFM REFORM IN NEPAL	6/30/2013	0.20	0.20	100%	0.00	0.00	0.00
		P145814	TF015354	NEPAL: STRENGTHENING BUDGETING PROCESS	6/30/2016	0.70	0.70	100%	0.00	0.00	0.00
		P147582	TF017673	NEPAL ROSC A&A	6/30/2015	0.01	0.01	100%	0.00	0.00	0.00
		P153514	TF0A0369	STRENGTHENING CIVIL SOCIETY ORGANIZATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PFM IN NEPAL 2	12/31/2016	0.92	0.92	100%	0.00	0.00	0.00
			TF0A0370	STRENGTHENING CIVIL SOCIETY ORGANIZATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PFM IN NEPAL 2	12/31/2017	0.55	0.55	100%	0.00	0.00	0.00
		P154401	TF0A1065	NEPAL : STRENGTHENING PUBLIC FINANCIAL MANAGEMENT II	7/31/2017	2.69	2.69	100%	0.00	0.00	0.00
	LCLS Total					13.40	13.40	100%	0.00	0.00	0.00
TF071617 Total						20.84	15.89	76%	4.95	4.80	0.15

Admin Fee	1.26
Disbursement	15.89
Unallocated from the Paid in Funds	3.81
Total Commitment	20.96

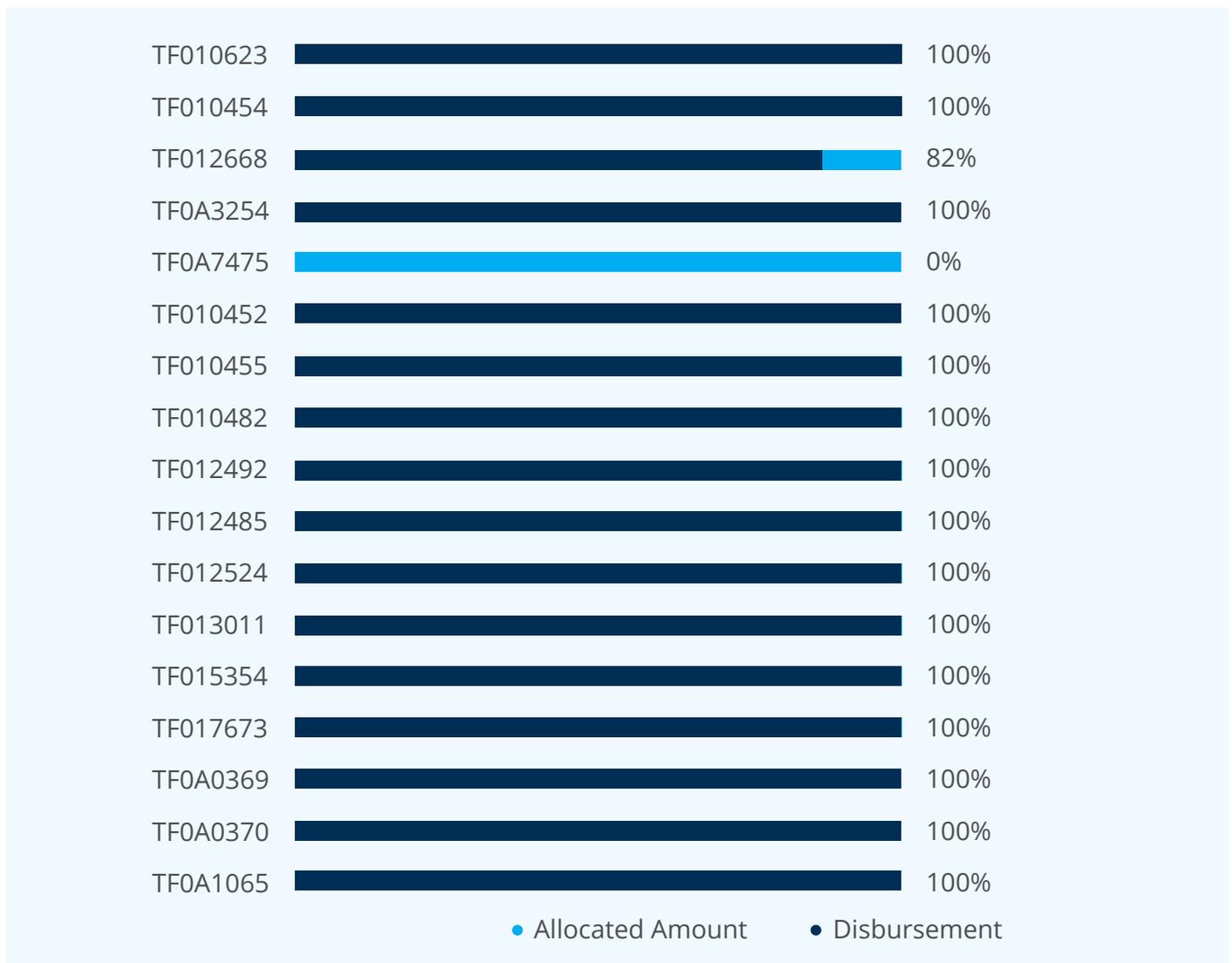
Note: The total paid in contributions from DPs is USD 20.96 m investment income till this period is USD 0.44 m is not included in the above table.

Financial Report fo Trustee Account TF072582											
Trustee Account	Legal Status	Project ID	Grant Number	Grant Name	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD
TF072582	ACTV	P121853	TF0A8864	PROGRAM ADMIN. AND MGMT COST		0.50	0.09	18%	0.41	0.00	0.41
		P164783	TF0A7474	INTEGRATED PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT		10.20	1.04	10%	9.16	9.16	0.00
			TF0A9105	IPFMRP SUPERVISION ALL COMPONENTS		0.50	0.12	24%	0.38	0.00	0.38
	ACTV Total					11.20	1.25	11%	9.95	9.16	0.79
TF072582 Total						11.20	1.25	11%	9.95	9.16	0.79
						32.04	17.14	54%	14.90	13.96	0.93

Admin Fee	0.51
Disbursement	1.25
Unallocated from the Paid in Funds	14.16
Total Commitment	15.92

Note: The total paid in contributions from DPs is USD 13.23 m Investment Income till this period is USD 0.43 m is not included in the above table.

Figure 2: Activity-wise Allocation and Disbursement



Annex 1.

Nepal: Integrated Public Financial Management Reform Project (P164783)

Implementation Support Review

February 18 - 22, 2019

Aide Memoire

1. During February 18 - 22, 2019, a Bank Team (see annex 1) carried out an Implementation Support Review of the Nepal: Integrated Public Financial Management Reform Project (P164783). This Aide Memoire (AM) summarizes the findings on the status of project implementation, recommendations and agreements reached with the relevant agencies to take corrective measures and/or to expedite implementation. The AM was discussed at the wrap-up meeting on February 22,

2019 with Mr. Sushil Pandey, PEFA Coordinator as the chair. Summary findings will be presented at the next Public Financial Management (PFM) steering committee meeting. Going forward for future Implementation Support Reviews, a wrap up will be held with PFM Steering Committee. The Task Team leadership of the Project was handed over from Jiwanka Wickramasinghe to Maxwell Dapaah during the Review.

OVERALL STATUS AND KEY PROJECT DATA

2. Project has completed its first 6 months of implementation since effectiveness. All key project activities have been initiated, however with a slow start. One main reason has been the change in key officials at Financial Controller General's Office (FCGO), Public Procurement Monitoring Office (PPMO), Public Expenditure and Financial Accountability (PEFA) Secretariat and component coordinators. All officials are now familiar with the project and its objectives and the implementation

momentum has picked up. With support from the PEFA Secretariat, some bottlenecks faced during these initial stages of implementation were fixed during the implementation support review. Another reason for delays is the weak procurement capacity. The review paid special attention to this issue and actions have been agreed to rectify it.

Table 1: Project Data

Project Data		Projects Performance Ratings		
Approval Date:	June 27, 2018	Summary Ratings	Previous	Current
Effectiveness Date:	August 24, 2018	Achievement of PDO	S	MS
Closing Date:	July 30, 2021	Implementation Progress	S	MS
Grant Amount:	USD 15,000,000	Monitoring & Evaluation	S	MS
Amount Disbursed (As at March 2018)	USD 1,010,000	Project Management	S	MS
Ratings: HS=Highly Satisfactory; S=Satisfactory; MS = Moderately Satisfactory; MU = Moderately Unsatisfactory; U=Unsatisfactory; HU=Highly Unsatisfactory		Procurement	MS	MS
		Financial Management	S	S
		Counterpart Funding	S	S

KEY POINTS DISCUSSED AND AGREED ACTIONS

Component 1: Strengthening Public Expenditures and Revenue Management in Federal and Subnational Governments (US\$ 7 million)

3. Medium Term Expenditure Framework (MTEF):

The process of finalizing the consultancy support Terms of Reference (TORs) for this component, which was discussed in the previous review, has been slow. The Government reconfirmed to the Bank team the need to strengthen the existing fiscal forecasting model and further strengthening the existing MTEF processes. The Government also reconfirmed that National Planning Commission (NPC) plans to establish an inventory of projects (Project Bank) that will feed into the MTEF process. It was agreed that two consultancy firms will be hired to cover these activities: (1) enrich the current MTEF guidelines for the three tiers of government and strengthen fiscal forecasting, and (2) for project bank related activities including the preparation of project appraisal guidelines. The Bank team reiterated the importance of close coordination between NPC and Budget and Program Division of MoF to ensure a clear link is established between the MTEF and the annual budget as well as to avoid duplication on revenue forecasting strengthening work. For project activities, PEFA Secretariat will coordinate day to day activities and the PFM Steering Committee will ensure there is high level coordination.

4. Revenue Management: Discussions are underway for World Bank and Norway Tax for Development team to jointly conduct an assessment of tax systems at both the federal and subnational levels in agreement with the government. The World Bank (Bank) team was informed by the Revenue Department of MoF and the Inland Revenue Department about the need for institutional and system strengthening to enhance transparency and effectiveness of the taxation system. The Bank team clarified that while the study will inform the specific areas

for improvement, the current project design does not include in-depth support to revenue management.

5. Just-in-time support for improving subnational government (SNG) fiduciary assurance:

A series of workshops to meet immediate PFM training requirements are planned under the project, starting from March 2019. The PEFA Secretariat is coordinating with the respective agencies to deliver the training. Government has not requested support from the project on the IT system used at local level for budgeting and accounting/reporting (SuTRA) in terms of enhancements, roll out, equipment and other infrastructure and refresher training. DFID is providing ad-hoc support to address some quick fixes in the system. Further roll out of SuTRA to the remaining local governments has stalled due to lack of refresher training and glitches in the system. Some local governments have discontinued its use as a result. Government is in the process of preparing a boarder plan to recommence SuTRA implementation.

6. Integrated Financial Management Information Systems (IFMIS):

Government has shortlisted the firms for an IFMIS Study that covers all tiers of Government and will provide recommendations for a medium-term strategy and action plan to implement an integrated solution to improve financial management. Selection is expected to be finalized by mid May 2019.

7. Chart of Accounts (CoA):

It was agreed during the previous review that an individual consultant will be hired to carry out a quality assurance of the chart of accounts and provide support to improve the CoA. TOR has been finalized and the EOI will be published.

8. **Strengthening fiscal reporting and controls:**

FCGO has prepared NPSAS based reporting formats under previous framework for all tiers of the Government which was approved by OAG. FCGO is now moving to International Public Sector Accounting Standards (IPSAS) 2017 framework and a request has been sent to the Accounting Standards Board. As discussed in the previous review, two TORs (individual international consultant and local firm) for consultancy support have been finalized and the procurement process has commenced. FCGO team has prepared a consultancy TOR to develop detailed model internal control guidelines for the three tiers of Government, with an overarching general internal control guideline. Institute of Chartered Accountants of Nepal (ICAN) has signed a Memorandum of Understanding (MoU) with the PEFA Secretariat. ICAN is finalizing consultancy TORs to initiate the revision of Nepal Financial Reporting Standards (NFRS)¹ and hire consultants for Quality Assurance activities. A State-Owned Enterprise has been selected in consultation with the Government to implement NFRS.

9. **Capacity building:** With inputs from PFM Training Centre (PFM TC), the consultancy TOR has been finalized for conducting Training Needs

Assessment (TNA) and Developing roadmap for establishing sustainable set-up for capacity building in the federal structure. As MOU between PFM TC and PEFA Secretariat will be signed to formalize the arrangement for PFM TC to lead this assessment, it was agreed that the procurement process for the consultancy will commence immediately while the MOU is being finalized. The TNA being a broader assessment, it is expected to also inform planned activities of the other components, e.g. OAG capacity building. It was agreed to award the contract for the same by June 30, 2019.

10. **The Public Accounts Committee (PAC):** The activity planned for capacity building of Federal and Provincial Public Accounts Committees is yet to progress as authority for nominating the project team is in process, given the required protocol of parliamentary committees. It has been agreed with PEFA Secretariat to facilitate expediting of the process. Meanwhile the leadership at the Parliament Secretariat has also expressed interest to broaden support to other committees such as the Finance Committee. Parliament Secretary General will be invited to the next PFM Steering Committee meeting to agree on the way forward.

Component 2: Strengthening the Office of the Auditor General (US\$4 million)

11. **Support to audit planning and execution of federal and sub-national entities:** During the last review, it was agreed that a consultancy firm will be contracted to support audit planning and execution in the federal structure by January 30, 2019. This activity is on a critical path and further delay may impact the project milestones. Comprehensive ToRs covering support to risk-based audit planning, IT governance and CPA is finalized and EOI is widely advertised. Last date for submission of EOI was February 20, 2019 and

about eight firms have expressed their interest. Draft RFP is prepared and under review. OAGN has for the first time conducted audit of all 760 sub-national entities. Risk based audit is applied in the planning stage. For the current audit year, based on the risk profile, audit entities have been reduced from 6000 to 4000. The use of risk-based audit approach has been provisioned in the new Audit Bill and this may enable the OAGN to deploy more resources for the audit of sub-national entities.

¹ Standards followed by the private sector and state-owned enterprises.

12. Effective use of IT systems: Procurement of consulting firm to support up-grading the National Audit Management Systems and conducting Computer Based Audit Techniques is underway as part of the consultancy support for audit planning and execution.

13. Citizen Participatory Audit (CPA): OAGN continues to champion CPA. The Auditor General visited Washington DC in the month of November 2018, where he shared Nepal's experience of CPA at the GPSA conference. Support to the CPA is included in the comprehensive ToRs for a consulting firm which is expected to be on board by end of April 2019. Meanwhile, OAGN is collaborating with Global Partnership for Social Accountability (GPSA) for immediate needs of the CPA, which includes, updating the guidelines,

mapping the CSOs in select districts, intensive training of performance auditors and CSOs and implementation of CPA in selected performance audits. This activity is expected to be completed by April 2019. It is recommended that all training sessions should be documented to demonstrate that 30% of participants are female to meet the intermediate indicator.

14. Training and Capacity Building: Training and Capacity building is a critical feature of the project design. OAGN has a unique opportunity to tap resources from the INTOSAI community and professional bodies. A TNA for the OAGN will be carried out by the consulting firm which is being procured. In the meantime, OAGN should share the training requirements up to the end of fiscal year with the Bank team.

Component 3: Public Procurement Improvement (US\$ 4 million)

15. Overall progress of this component is substantially behind schedule compared to the agreements reached during the first implementation support review (October 2018). PPMO has initiated actions on a few key activities but with a slow pace.

16. Public procurement governance and oversight: The two key consultants, Lead Project Management Specialist and Procurement Specialist, are not yet onboard (scheduled for October 2018). PPMO received CVs that are now at the evaluation stage. The Bank team emphasized the need and importance of these two professionals to assist PPMO in its implementation of the project. Similarly, for the sub-national government (province and local governments), there is limited progress in developing the basic simple procurement documents and initiating trainings. Out of the five key sector agencies (KSAs), two KSAs, i.e, Department of Local Infrastructure Development and Agricultural Roads, Department of Irrigation still need to nominate Focal Persons.

17. Procurement capacity development and professionalization: For the main capacity

development program of procurement practitioners (8-15 day program), PPMO has not yet signed the key contract (originally scheduled for November 2018), with the pre-identified institution i.e. International Training Center of ILO (ITC-ILO)/ Turin, with Nepal Administrative Staff College (NASC), as the nominated sub-consultant. Evaluation of the proposal received on January 15, 2019 and subsequent negotiations has not yet been completed. The Bank team expressed its concern over the inordinate delay of this important contract and provided detailed guidance for the incoming negotiations. For the remaining 14 types short trainings of 1-5 days duration including the sub-national level, limited progress has been made.

18. Performance monitoring with e-GP platform: PPMO reported that, as per its revised program, as a first step, they are processing the selection of a consulting firm to identify the gaps in the existing system, and based on the consultant's report, PPMO will finalize the TOR for the selection of firm for e-GP system enhancement. The Bank team requested PPMO to share the TOR of the consultant for gap identification.

Component 4: PFM Reform Management and Coordination

19. PFM Reform Strategy: PEFA Secretariat plans to commence the process of updating the current PFM Strategy. As a starting point, information will be gathered guided by the PEFA methodology, to identify the gaps.

20. To strengthen the PFM reform coordination and oversight process, PEFA plans to hire a senior PFM advisor with international expertise in PFM reforms.

FIDUCIARY COMPLIANCE

22. Procurement performance: It's is rated "Moderately Satisfactory" based on delayed implementation status of the key consultants' selection activities in each of the three major implementing agencies, PEFA secretariat, Office of Auditor general (OAG) and Public Procurement Monitoring Office (PPMO) including the ITC-ILO, Turin consultancy for procurement capacity building activity. All the three implementing agencies need to expedite ongoing procurement process to complete pre-award phase of the key consultancies. All procurement activities in approved Procurement Plan (PP) on the STEP system should be implemented following the agreed timelines. Approved procurement activities should be updated in the first week of each calendar month by uploading bidding/ proposal documents, evaluation reports, contract documents and by revising the dates of those activities that remain to be initiated and/or with red flags on STEP.

23. Procurement documents of each activities must be uploaded on the STEP system irrespective of prior/post review requirements of The World Bank and bids/proposals opening records should be uploaded soon after completion of the process. The Project Procurement Strategy for Development (PPSD) should be followed with special attention to provided procurement caveats.

24. Financial Management (FM) Performance: Financial reports including audit reports have

21. Citizen's Engagement (CE): It was discussed and agreed that CE strategy will be developed by the PEFA Secretariat on consultation with all key stakeholders and an action plan prepared and adopted, no sooner the key technical contracts commence implementation.

been timely. The audit report for last FY's retroactive expenditures has been received with an unqualified opinion. While FCGO and PEFA Secretariat are using Computerized Government Accounting System (CGAS) for accounting, the other implementing agencies have also been trained and are in the process of recording expenditures in CGAS. The total expenditures for the FY as of the first trimester-end (mid-November 2018) is NPR 3.92 mil., which is 0.51% of the annual budget of NPR 774.30 mil. (GoN - NPR 131.89 mil. and TF - NPR 642.41 mil.). The expenditures are primarily for training/ workshops and operating costs. The expenditures are expected to increase with progress in procurement of large consulting contracts. Given the evolving needs in the federal context, the budget for some of the activities are planned to be revised. The total budget, including counterpart funding is considered adequate. Based on overall assessment, the financial management performance has been maintained as "Satisfactory".

25. Disbursements Status: The total disbursement for the Project to date is USD 1.01 mil. (6.73% of USD 15 mil.) which includes advance to Designated Account of USD 1 mil. and reimbursement for retroactive expenditures of OAG component of NPR 1.18 mil. (USD 10,000). Based on the cash projections, around USD 2.73 mil. will be claimed from the Bank shortly upon clearance of the revised first trimester financial report.

SAFEGUARD MANAGEMENT

26. Environmental and Social Safeguards:

Project is a category C and does not trigger any environment safeguards actions. There are no issues related to social safeguards as OP 4.12 on resettlement and land acquisition has not been triggered.

27. Gender Considerations: It was agreed that a list of female staff trained in the first year will be compiled.

NEXT REVIEW: The next review is tentatively agreed around July/August 2019.

Government of Nepal Ministry of Finance Public Expenditure and Financial Accountability Secretariat Integrated Public Financial Management Reform Project								
Major trainings conducted by the implementing agencies during FY 2075/76 (2018/19)								
SN	Agency	Training Name	Training Venue/No. of Trainings	Participants of the Training	Duration	Number of the Participants		
						Male	Female	Total
1	Office of the Auditor General	International Intensive Training on Performance Auditing	1 Training (Pakistan)	Directors, Audit Officers	25 Days	3	-	3
2	Ministry of Finance	No trainings conducted						
3	Ministry of Federal Affairs and General Administration	No trainings conducted						
4	Financial Comptroller General Office	Training on Revenue Management Information System (RMIS)	FCGO/10	Accounts/Officers of paying offices of different districts	1 day	286	27	313
		Training on Computerized Government Accounting System (CGAS)	FCGO/3	Different paying offices of Lalitpur District and paying officers inside Singha Durbar	3	83	15	98
		Training on TSA/RMIS/E-payment/CGAS	FCGO/5	Accounts/Officers of paying offices of different districts	5	118	13	131
5	National Planning Commission	No trainings conducted						
6	Public Procurement Monitoring Office	Fundamental Procurement Training	3 Trainings (Kathmandu, Pokhara, Kailali)	Officers working in PFM sectors	3 Days each	12	107	119
7	Public Accounts Committee Secretariat	No trainings conducted						
8	PEFA Secretariat	PFM National Training on Procurement	1 Training (Kathmandu)	Female officers working in PFM Sectors	2 Days	-	40	40
		Training for economic journalist	3 Trainings (Kathmandu, Biratnagar, Butwal)	Economic journalists	1 Day each	84	12	96
		Social Audit Training	4 Trainings (Kathmandu, Pokhara, Surkhet and Rautahat)	Deputy Chief, Executive head and Personnel working in social development section of local bodies	2 Days each	111	73	184
		DPIUs Capacity Development Training	35 DPIUs	Officers, Accountant working in PFM sectors	1 or 2 Days each	2,292	300	2,592
9	ICAN	General English Training (Business / Office Communication Training)	ICAN Building, Lalitpur, Province no 3/ 1 Training	ICAN Employees	28 Days	18	16	34
		Capacity Development Program on Audit Documentation	3 Trainings (Bharatnagar, Biratnagar, Nepalgunj)	B Class Registered Auditors Members of ICAN Practicing Outside Kathmandu Valley	3 Days	56	1	57
		Leadership and Team Building Training	Chandagiri Hills Limited, Kathmandu, Province no 3/ 1 Training	ICAN Employees	2 Days	23	10	33
		Excel Basic and Intermediate Training	ICAN Building, ICAN Marg, Satdobato, Lalitpur, Province no 3 / 1 Training	ICAN Employees	7 Days	27	16	43
						3,113	630	3,743



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