

NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT | January- June 2020



Nepal Public Financial Management Multi-Donor Trust Fund

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WORLD BANK GROUP

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ACKNOWLEDGMENTS

This progress report has been prepared by Franck Bessette, Shraddha Shah and Victor Boakye Bonsu, 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
BCP	Business Continuity Plan
CP	Contingency Plan
CAAT	Computer-Aided Audit Techniques
CIAA	Commission for the Investigation of Abuse of Authority
CSO	Civil Society Organization
CPA	Citizen Participatory Audit
DPC	Development Policy Credit
DP	Development Partners
EU	European Union
FCGO	Financial Comptroller General Office
IFMIS	Integrated 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
NNRFC	National Natural Resource and Fiscal Commission
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
PFMTC	Public Financial Management Training Centre
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)
SNG	Sub National Government
TSA	Treasury Single Account
USAID	United States Agency for International Development
VFM	Value for Money
WB	World Bank

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FOREWORD



Franck Bessette
Program Manager, Nepal PFM MDTF

Dear Partners and Friends,

The period covered by this report has been one of uncertainty and fear, internationally and in Nepal. The sanitary crisis has tested all around the world not only Health systems and crisis preparedness but also political systems, the resilience of the private sector and what we could call the social compact. As was to be expected, the most vulnerable are impacted the most. This crisis has also tested performance of administrations and public sector as well as its adaptability and capacity to respond timely to the many challenges. It is not over yet and uncertainty remains.

What we know, to narrow down on our specific matter, is that solid and resilient PFM systems have been key to ensure the continuity of the main functions of the State, social transfers, reallocation of resources to the new priorities and adequate monitoring and oversight of the resource flow. In Nepal, as it had been the case in the immediate aftermath of the earthquakes, the PFM systems have shown flexibility and resilience and have been ever to weather solidly this crisis.

In terms of the PFM MDTF, partners have decided to stay the course and continue improving the various sub-systems of PFM. Commitment to the program has been expressed at the June 2020 PCC meeting. This being said, it has been recognized that this crisis would change the operating modalities of the MDTF. Besides, MDTF-funded activities would have to go through a Covid-19 screening to ensure the emerging priorities are addressed and that these resources would be targeted to building resilience and ensuring recovery. This is reflected in the recently approved PFM MDTF Contingency Plan, explained more in the report.

In the chapter of good news, the period has also seen the approval by SECO/Swiss embassy of a CHF 3 million support to the MDTF which comes at a critical moment. Finally, the transition to a new MDTF manager, Victor Boakye-Bonsu has been as smooth as the situation permits and all partners know him already, at least virtually. Victor will be firmly on board and in charge from September 1st.

It is time for me to bid farewell to the program and to a wonderful team from whom I have learned a lot and shared a lot of warmth. My dear colleagues in the Bank, donor partners and government counterparts, you will be missed!



Victor Boakye Bonsu
Incoming MDTF Program Manager

Victor Boakye Bonsu has joined the Kathmandu-based Governance Team to take over from Franck as the MDTF Program Manager to lead, manage, and coordinate the PFM MDTF task support in addition to other priorities including building on, and strengthening the strong partnership with development partners and clients on PFM dialogue and reforms. He rotated from Sierra Leone in the Africa Region, where his work over the last 4 years has focused on public financial management, leading the task teams for the main PFM operation in Sierra Leone and the Bank's capacity building project for the Supreme Audit Institution in Sierra Leone, supporting the PFM operation in Liberia, managing the PFM MDTF, and providing fiduciary quality assurance support. He chaired the PFM Donor Working Group and led dialogue with the Government on PFM and Governance strategic reforms in several areas.

Victor is a Chartered Accountant with more than 20 years' experience. He has been working for the World Bank since 2008 and have led a wide range of financial management assignments in more than 10 countries in the Africa Region. Additionally, he has worked in top management positions in several Companies in Ghana and was an Adjunct Lecturer at the University of Ghana Business School. Victor holds a Doctorate in Business Administration, an MBA in Finance, and LLM -International business law. He is a Fellow of Chartered Certified Accountants (FCCA), a member of CPA (Canada), and ICA (Ghana).

PART I.

IPFMRP Implementation Status

1. Implementation Support Mission, September May 11- 15, 2020

During May 11- 15, 2020, a Bank Team led by Mr. Maxwell Dapaah carried out Implementation Support Mission of the Integrated Public Financial Management Reform Project (IPFMRP). Due to the current COVID-19 crisis, the mission team had virtual discussions with implementing entities. 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 May 15, 2020 with Mr. Shishir Kumar Dhungana, Secretary, Ministry of Finance as the Chair of the Public Financial Management Reform Steering Committee

OVERALL STATUS AND KEY PROJECT DATA

While some progress has been made in implementation, COVID-19 crisis raises issues of business continuity in core Public Financial Management (PFM) areas that needs attention. The Project has completed two years of implementation. Some progress has been made since the last review in September 2019. Disbursement has increased to 13.1% from 7%. Besides, the three main consultancies – PEFA Secretariat’s Integrated Financial Management Information System (IFMIS) study, the Office of the Auditor General’s (OAG) capacity and systems assessment and development, and Public Procurement Monitoring Office’s (PPMO) procurement training and professionalization- are underway.

Since the pace of progress has been steady during the lockdown period, the impact of COVID-19 on implementation was assessed as mild in the immediate term. However, with respect to the continuity of government public financial management (PFM) operations, the crisis has revealed weaknesses that strengthen the business case for the various interventions supported by the Project. The crisis has also underscored an urgent need for a coherent business continuity plan for all tiers of government. The IPFMRP is committed to supporting the development of model plans for the three tiers of governments. All these interventions require a much more strengthened and capacitated PEFA Secretariat to coordinate the PFM program. In view of the underlying issues and very low rate of disbursement in two years implementation period, the overall implementation progress is downgraded to “Moderately Unsatisfactory”; while the likelihood of achieving the Project Development Objective retains as “Moderately Satisfactory” as three key contracts related to PEFA Secretariat, OAG and PPMO are now in place for implementation. The next review will tentatively take place in November 2020. This will be a midterm review.

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. Below is the updated Results Framework based on the latest implementation support mission:

PDO Indicators by Objectives / Outcomes Results Framework

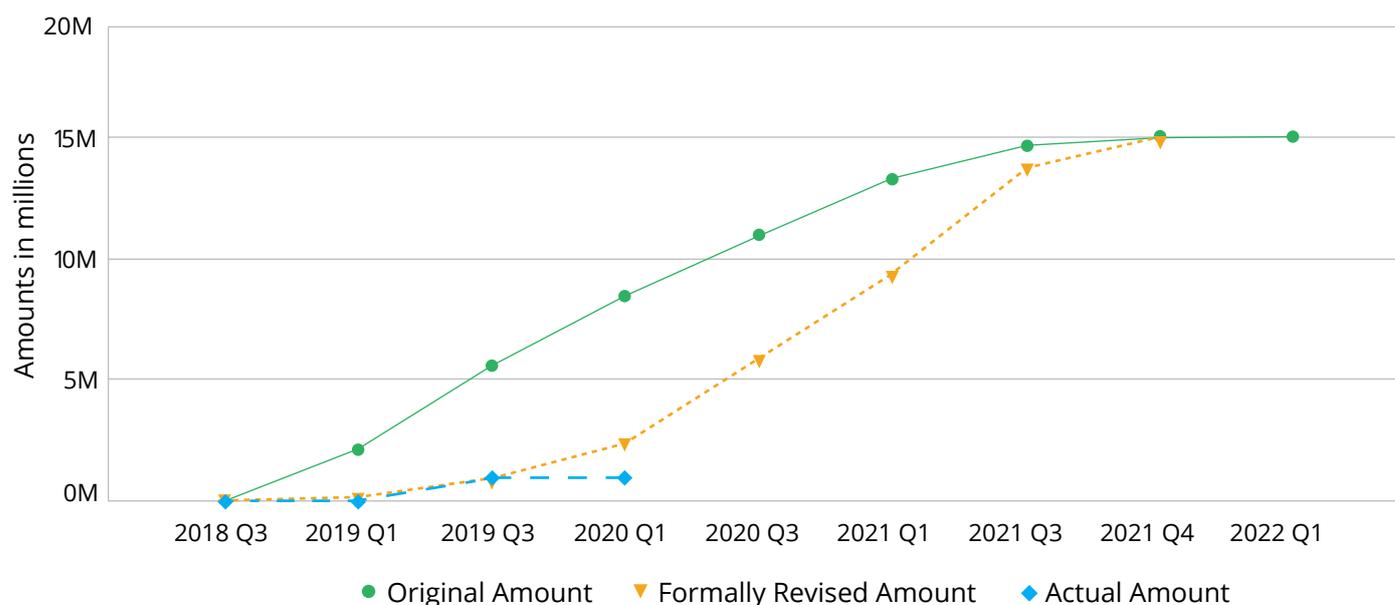
Indicator Name	Baseline	Intermediate Targets				End Target	Status as of May 2020
		1	2	3	4		
Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments							
Credible MTEF in place (Text)	Basic guidelines for MTEF at federal level in place.		MTEF review completed and procedures revamped			Difference between multi-year estimates and subsequent setting of annual budget ceilings are clearly explained.	NPC has developed model guidelines for Planning (incl. MTEF) of Provinces and LGs with GoN regular funds. TOR for MTEF review developed. EOI to be published.
Comprehensive internal control procedures adopted at SNGs. (Text)	a) No coherent internal control framework exists that ensures consistency in these practices across the three tiers of Government;		Approved of internal control procedures comprehensive/ consolidated that are adopted (Federal and provincial level –FCGO, Local Governments- MOFAGA)			P/LGs that cumulatively manage 50% of overall SNG budget have their own internal control manual adopted.	General Internal Control Guidelines for three tiers of government developed. Consultant hiring for developing internal control framework for federal and Provincial Governments is at negotiation phase. For local level internal control guidelines, MOFAGA to publish EOI.
IFMIS developed and pilot tested (Text)	Zero Pilots		IFMIS review completed and implementation roadmap developed	Pilot IFMIS designed		2 pilot sites	Diagnostic completed.
Enhancing participation and capacity of technical female staff in trainings/ workshops (Text)	0		20% participation in all PFM trainings	30% participation in all PFM trainings		30%	Till FY 2018/19, 17% female participation rate in trainings achieved out of 3,743 trainings offered. For FY 2019/20, information on trainings could not be collected because of the COVID-19 Lockdown.
Unified budget guidelines including gender responsive budget processes introduced to SNGs (Text)	No unified budget guidelines including gender responsive budget processes for SNGs		Approval of guidelines by appropriate authority at federal and SNG levels			SNGs that cumulatively manage 50% of overall SNG budget have adopted the unified budgeting guidelines	Simplified template provided to MOF
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)	0	20	40	60		60	Yet to be tracked OAG to confirm
Number of citizens mobilized and involved in audit process through CSOs of which 50% are female. (Number)	80	150	300	400		400	266 people trained on CPA of which 182 (68%) were CSOs representatives in 5 CPA workshops, among them 44% were female
Effective audit follow-up (Text)	Score of 0 SAI PMF dimension 7 (iii)			Conduct SAI PMF		Score of 2 SAI PMF dimension 7 (iii)	SAI PMF to be conducted in October

Indicator Name	Baseline	Intermediate Targets				End Target	Status as of May 2020
		1	2	3	4		
Component 3: Public Procurement Improvement							
Complaints resolved following effective complaints handling mechanism in e-GP (Percentage)	0	0	0	30	60	60	Consultancy TOR for e-GP system gap identification being prepared and following this, E-GP system enhancement will commence to enable this result to be achieved.
Basic procurement documents and guidelines developed for sub-national government (out of a master list of sub-national level documents to be prepared) (Percentage)	10	10	20	60	80	80	ITC/ILO Consultancy underway to carry out these certification trainings. Training has been delayed due to COVID-19
System generated performance reporting prepared for KSAs (Text)	0		Generation of Performance Report for at least 2 KSAs			Generation of Performance Report for KSA's	Once the e-GP consultancies are awarded and work completed, this result will be achieved. TOR is being prepared for the first step of doing a gap analysis in the e-GP system.
Component 4: PFM reform management and coordination							
A citizen's engagement strategy is prepared and implemented as per proposed sequence (Text)	No Strategy exists		Draft Citizen engagement strategy developed for consultations	Citizen engagement strategy developed		Strategy exists and implemented	TOR developed. EOI yet to be published.

Disbursement Summary

Source of Funds	Net Commitment	Disbursed	Balance	% Disbursed
IBRD	-	-	-	0%
IDA	-	-	-	0%
GRANTS	15.00 M	2.21 M	12.79 M	15%

Cumulative Disbursement



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 as follows:

Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	● High	● High	● Substantial
Macroeconomics	● Moderate	● Moderate	● Substantial
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
Fiduciary rating from IRT: ● Substantial as of 07 Aug, 2017			
Environment and Social	● Low	● Low	● Low
Environmental Risk rating from Specialist: ● Low as of 14 Aug, 2017			
Social Risk rating from Specialist: ● Low as of 07 Aug, 2017			
Stakeholders	● Substantial	● Substantial	● Substantial
Other	--	--	--
Overall	● Substantial	● Substantial	● Substantial

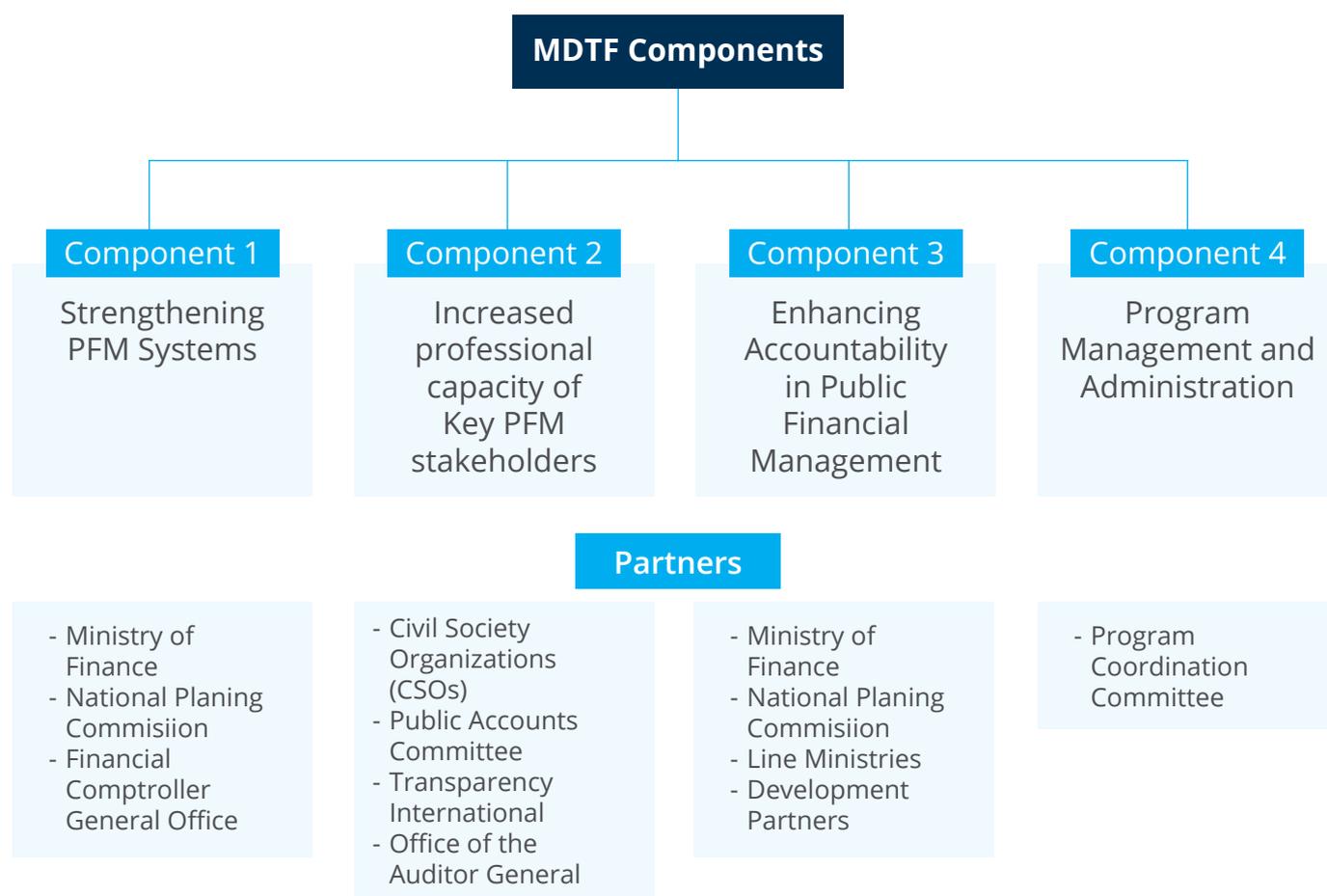
PART II.

Program Results

1. MDTF Components

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

Figure 1: MDTF Components



2. Contingency Plan for Nepal PFM MDTF

It was proposed at the virtual technical meeting of March 19, 2020 (during lockdown) to establish a contingency plan for the Nepal PFM MDTF. Responding to this request, a note was prepared by the MDTF program manager which presented the ways in which MDTF objectives, activities and implementation modalities could be adapted to

respond to the current sanitary crisis. Since March 2020, several principles discussed in earlier versions of the note have been already implemented and this final version incorporates lessons learned since the crisis broke globally and in Nepal. It also incorporates some of the principles and guidelines issued by the Governance Global Practice of the Bank. In that case, the scope of the proposed project would have to be expanded.

The recommendations and orientations are meant to be implemented in the medium to long term and some of them may be current until the end of the Program in 2026. It is, nevertheless, proposed to review the note annually to assess its continued relevance and amend as needed. We are still waiting for comments from the GON side on the note. Full CP in Annex 1

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). NPSAS implementation support through action plan developed by FCGO. A/c professionalization for FCGO and other selected staff in three levels of GoN. Individual consultant selection process is being finalized General internal control guidelines have been prepared by FCGO and adopted by MoF for three levels of government. Operationalization is ongoing (procurement not finalized) Project Bank concept approved and sector TORs have been prepared. High-level endorsement. 	Bank's Development Policy Credit2 is supporting key policy reforms to strengthen budget cycle across three levels of government	<p>IPFMRP Implementation support mission in November 2020. This will be a midterm review</p> <p>Operationalization of internal control guidelines. Consultants hired.</p> <p>NPSAS consultancy has started. Consultation in 4 provinces done and in other 2 provinces is planned. Online consultations on-going</p> <p>The Prime Minister launched the National Project Bank and instructed line ministries to adhere to it. NPC unveiled the guideline and circulated the National project Bank information system. This is yet to be translated in Nepali</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 ongoing. Delivery planned for April-May SuTRA, LMBIS and TSA roll out implemented by DFID and USAID. MDTF supporting LMBIS, TSA, RMIS, CGAS implementation at Province level. FCGO servers upgrade/ extension ongoing through consultancy. 	<ul style="list-style-type: none"> Sutra is being enhanced and rolled-out by DFID and USAID 	<p>Sutra roll-out</p> <p>IFMIS study on-going. Inception report shared. Stakeholder consultation/ on-going</p> <p>Consultant hired and work completed on upgrade / extension of FCGO server.</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"> TADAT assessment planned before June as part of the Public Expenditure Review. 		TADAT likely funded by MDTF.

MDTF Outcome	MDTF Intermediate Results	IPFMRP indicators	Current Status	Other relevant activities (outside MDTF)	Next Steps
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 finalized in consultation with PFM TC. Procurement has been canceled and restarted. 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 finalized and being disseminated. (joint WB and UNDP) 	<p>New PFM strategy covering three levels of government finalized. It has not been started but a concept note has been drafted by PEFA.</p> <p>TNA ongoing.</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 building program for PPMO staff is developed 2 consultants are being hired (procurement and admin) a training plan is being prepared 	<ul style="list-style-type: none"> PLGSP plans to develop Provincial Governance Capacity Building Centers 	<ul style="list-style-type: none"> Training Needs Assessment conducted. It is still ongoing.
	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>No progress. Pending TNA results.</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 	<ul style="list-style-type: none"> DFID providing bilateral support to OAG (IT) 	<p>Citizen Participatory Audit ongoing in 24 municipalities. Specific report to be issued.</p> <p>ENY contract ongoing.</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) 		<p>Bank consultant working with PEFA Secretariat to support hiring of local consultant and drafting of MoF's CE strategy.</p> <p>Ongoing work with FCGO on open data.</p>
	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. ToRs waiting for Speaker's approval. 		<p>WB Expert from DC on Parliamentary committee is coming to hold a 3day workshop on learning from good practices around the world. Working on the date. Working on the TORs.</p>

PART III.

Program Management and Administration

1. Update on Activities

A. MDTF Extension until January 31, 2026

In the last PCC meeting held on September 2019, it was unanimously agreed by all DPs and GoN to extend the closing date of the MDTF from January 31, 2022 to January 31, 2026. Since then, the WB has completed its internal administrative process and obtained approval from senior management to extend the MDTF. WB then sent the AAs to MDTF DPs since this was simply a no cost time extension and no additional funding was involved at this stage. This extension decision has been taken because new contributions from the partners are currently being processed and would only be contributing efficiently to the Government's PFM Reform agenda through the processing of additional operations. The current PFM reform effort is a long-term undertaking, especially in the context of the new federal structure, aiming to address the needs to strengthen PFM at all three levels of government for which persistence and predictability of funding is required.

B. Citizen Engagement Workshop with clients

A workshop with PEFA Secretariat, OAG and related clients was held in World Bank office and headed by the WB lead CE consultant, Lena. The objective of the meeting was to discuss entry points for citizen engagement along the PFM cycle, in order to verify the findings of the CE Review and to inform the

upcoming work on developing CE strategy in PFM in Nepal led by PEFA under the WB Multi-donor Trust Fund.

Following the workshop some process recommendations are as follows:

- Ensure link between the CE in PFM assessment and the role of the Steering Committee on Federalism (which can provide inputs to the assessment ToR and guidance to the assessment process).
- ToR for the assessment and methodology need to be drafted in the nearest future, as soon as a consultant is hired by PEFA.



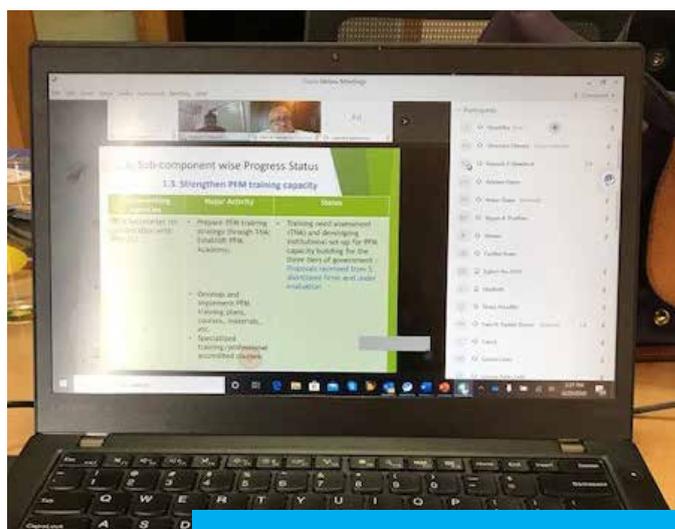
Pic 2. CE engagement workshop

C. PCC meeting, June 29, 2020

A PCC meeting was chaired by Shree Krishna Nepal, Joint Secretary and Chief IECCD, Ministry of Finance and Faris Hadad Zervos, Country Manager, World Bank. All MDTF partners and key implementing agencies from GoN side also participated. In his opening remarks, Faris welcomed the DPs, Government officials, and all participants. He mentioned that PCC meeting is a good opportunity in the time of COVID 19 crisis to discuss the PFM agenda to see how MDTF can adjust and stay relevant moving forward. We are all aware of emerging challenges of current crisis and importance of PFM as potential tool and PFM reform to help GoN. He highlighted the importance of public funding particularly at the time of relief, recovery and resilience phase and how funding should reach the most vulnerable groups. It is crucial to ensure how these resources are allocated efficiently. He also talked about how PFM reform strategy will adopt new reality we are living in and reflect on the new post COVID 19 world. He mentioned that WB has approved MDTF until 2026. Clearly federalism agenda continues to be important to Nepal economic story line and COVID offers opportunity to move with vigor. He thanked all DPs for their continued collaboration and in particular Swiss State Secretariat for Economic Affairs (SECO) for their recent contribution. Mr. Shree Krishna Nepal thanked all MDTF development partners for their support and talked about emerging challenges in the COVID 19 context. He said that due to pandemic many challenges arose but also acknowledged some of the progress and joint efforts made by GoN and DPs. He stressed that the GoN is fully committed for PFM reforms particularly to have a consolidated system, to roll out to local level, quality of expenditure, real time reporting for better tracking, and reporting. He also talked about GoN Public Financial Management Reform Plan (PFMRP), OAG, FCGO, MOF capacity, detailed activities and budget is place where achievement and absorption of resource is not very satisfactory. He appreciated MDTF as a platform for focused discussion on PFM cycle.

Mr. Ramesh Shiwakoti, JS PEFA Coordinator made a presentation on overall IPFMRP implementation status and reported sub-component wise progress. He also mentioned that MOF has forwarded request for extension letter to WB for the Integrated Public Financial Management Reform Project (IPFMRP). He updated on various activities that were about to close when the COVID crisis hit. However, they have been able to work online from home and continue some of this work such as the consultations in IFMIS study etc. His presentation is attached herewith.

WB presented the Contingency Note for Nepal PFM MDTF (Annex 1): Taking COVID 19 crisis in mind, a note was prepared by the MDTF Program Manager which presented ways in which MDTF objectives, activities and implementation modalities could be adapted to respond to the current sanitary crisis. It is, nevertheless, proposed to review the note annually to assess its continued relevance and amend as needed. When the crisis hit Nepal, everyone was anxious and nervous but working from home modality has worked for most of us. The MDTF group remains active and engaged via skype and other meeting modalities. We have adapted to the situation along with our GON counterparts. The note is shared with GoN and it was agreed that the GON will send their comments on the contingency note soon.



Pic. PCC meeting with GON and DPs

D. Technical Review Meetings:

(i) Technical review meeting on March 19, 2020

Due to recent outbreak of COVID-19, this technical meeting convened via Skype which was preferred by all DPs to be the common mode of communication with all partners until foreseeable future. WB encourages all Partners to meet more often via this means until we get back to normalcy. The team also discussed MDTF extension. In the last PCC meeting in September 2019, it was unanimously decided by all DPs and GoN to extend the closing date of the MDTF from January 31, 2022 to January 31, 2026. Since then, the WB has completed its internal administrative process and obtained approval from senior management to extend the MDTF. WB then sent the AAs to MDTF DPs since this was simply a no cost time extension and no additional funding was involved at this stage. We will do a separate AA for those DPs who are interested to put more funding at a later stage. We thank DFAT for the signed AA and will provide cover letter for those who need rationale for extension. The team also discussed additional financing concept note and upcoming PCC meeting.

(ii) Technical Review Meeting on April 8, 2020

Due to current lockdown, the technical meeting was held on Skype. All partners except DFID were present at the meeting. The main agenda were to take stock of how everyone was doing and discussed the contingency plan (CP). WB started the meeting by expressing relevance of MDTF and its support to PFM system in Nepal in context of COVID-19. It will be important how we adjust and work in this fluid situation. It is advisable to finalize MDTF extension to avoid any further issues. The extension of the

NEPAL PFM MDTF has not been impacted yet by this evolution, but we need to keep the momentum. In IPFMRP, OAG component is moving well. NAMS assessment is done by ENY (to improve the NAMS- IT system to support audit in all three levels of GON). Also, CPA report has been made available. WB will share the reports with DPs.

Contingency Plan (CP): there will be slowdown in activities in IPFMRP and we are thinking of what / how we can do things differently. It will be crucial to empower our GON counterpart's capacity to react quickly. The PFM system is supporting the entire GON system (e-GP, transfers, social safety) and there are risks (late audit report, delay in reporting, corruption, mis procurement due to the emergency etc. In terms of risk matrix, we will update CP more often as situation evolves. After the IPFMRP mission (planned in end April/ early May), the idea is to get this CP approved in the PCC meeting. It will be good to present concrete options in the PCC meeting. If we decide to do BE small grants for specific need PCC will decide.

(iii) Technical Meeting on May 20, 2020

WB started the meeting by updating DPs about the IPFMRP virtual mission that was successfully conducted from May 11- 15, 2020. As part of this mission, DPs were briefed by the project TTL. It was good to note that things are moving except Public Procurement Monitoring Office (PPMO) component. The issue of capacity of PEFA secretariat was reopened in the warp up discussion with the MOF Secretary. WB was happy that the response of MOF Secretary is encouraging. A lot of effort is being done in terms of staffing and rethinking the positioning of PEFA Secretariat. The Aide Memoire (AM) of the mission will be shared with all DPs once finalized. Also, as part of Development Policy Credit (DPC), WB will continue to push for this in the form of prior action/ trigger.

The main agenda of this meeting was to discuss on Update on Contingency Plan (CP), PCC meeting and DFID PIP. WB had an internal discussion about this with the Country Management Unit (CMU) and WB is of the opinion that a high-level discussion on PFM agenda in Nepal should take place. The PCC meeting which is at HOA level is a good avenue for this.

Duration of CP: the current crisis could last between 3 to 6 months, so it is difficult to specify the duration for CP but very probable for the duration of the IPFMRP project. Impact of COVID 19 will be long term and our interventions will be reoriented for the medium term. We see this as a new way of doing business under MDTF, as much as possible within IPFMRP where we have embedded flexibility that allows us to do things that emerge. We are also preparing AF which will be oriented in the COVID 19 context, so this CP/ note also talks of possibility to use BE funds for more targeted intervention. There is possibility to split resources. In terms of simplified guideline, we have talked about it with FCGO. In terms of IFMIS - future of this work, there will be 2 steps – to improve, upgrade existing systems, restructure a new system. The GON will provide their view on the report and we will have a clear idea of a specific intervention. Currently, GON consultation is on-going on the diagnostic report.

DFID PIP: During September 2019 an annual review was conducted by DFID where few recommendations were made by the external adviser. Based on those recommendations and further discussions with DPs and WB, an action plan was drafted with intention to steer the programme towards achieving better results and ensuring a robust and monitoring and evaluation system.

Update on next PFM MDTF Manager: Victor Boakye Bonsu will be on board as soon as situation allows. Franck has talked to him about the program and has shared critical information

with him. He plans to invite him to next technical meeting. He has strong MDTF management experience with donors in Africa and is a PFM person.

(iv) Technical Meeting on June 24, 2020

WB took the opportunity to introduce Victor Boakye-Bonsu, Sr. Financial Management Specialist at the Bank who will take over from Franck. For now, Franck will stay on his position in Nepal until August 31, 2020. Franck thanked all DPs and his team for a wonderful stay and work in Nepal. He mentioned MDTF is a collective undertaking and it has been a good experience for him and hopes the same for Victor. The main objective of the meeting is to prepare for PCC meeting on June 29

Main discussion in PCC would be around the contingency plan (CP) which is trying to shape the future of the direction for MDTF. We need to show that everything we are doing is to help the country overcome the crisis, in terms of economic, social point of view and address resilience and recovery. What MDTF is doing is relevant in time of crisis and we can adjust our engagement so it will address the crisis. WB also informed the group that they have received Letter for extension of IPFMRP from MOF. This is shared with all DPs. Also, we will try to do the Federal PEFA assessment as early as FY 2021, starting this July to June 2021 – CMU will put all its force behind PEFA assessment.

The team also followed up on AAs: SECO is moving ahead for signing with additional resources. WB and Norway working on it together; it should be signed soon. USAID indicated the AA is being reviewed and hopefully will be signed soon. DFID team will follow up and advice. EU has received time extension from MOF; will be able to sign soon. DFID also informed that they have recruited a PFM person who will be on board soon to work on MDTF. The team wished farewell to Vivian and wish her best in future.

PART IV.

FINANCIAL REPORT

As of June 30, 2020, 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 (TF072582) as of June 30, 2020 is 2.1 million (around 16 % of total fund receipt). For further details refer to (Table 2)

Table 1: Donor Contribution to MDTF as of June 30, 2020

Trustee Account: TF071617							
Customer Name	Currency	Amt in Country Currency	Eqv. USD	Paid in Country Currency	Eqv. USD	Unpaid in Country 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
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							
Customer Name	Currency	Amount in Country Currency	Amount in USD	Paid in Country Currency	Paid in USD	Unpaid in Country Currency	Unpaid in 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	4.20	13.00	1.57	21.00	2.4
United Kingdom - DFID	GBP	3.00	3.93	3.00	3.89	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			15.89		13.22		2.4
GRAND TOTAL			36.85		34.18		2.40

Nepal PFM MDTF Financial Status
Table 2: Disbursements as of June 30, 2020

Financial Report for TF071617 until June 30, 2020											
Grant Number	Grant Name	Legal Status	Project ID	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD	Investment Income USD
TF010623	PROGRAM MANAGEMENT AND ADMINISTRATION COSTS.	ACTV	P121853	09/30/2021	838,313.37	837,018.46	100%	137.06	-	137.06	-
TF010454	PREPARATION, APPRAISAL, SUPERVISION, MONITORING, REPORTING COSTS OF STRENGTHENING PFM SYSTEMS	ACTV	P125770	09/30/2021	551,574.17	551,555.31	100%	18.86	-	18.86	-
TF012668	NLTA UNDER THE SPFM PROJECT TO GOVT OF NEPAL	ACTV	P125770	01/31/2022	800,000.00	701,427.91	88%	98,572.09	5,394.65	93,177.44	-
TF0A7475	INTEGRATED PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT	ACTV	P164783	07/30/2021	4,800,000.00	-	0%	4,800,000.00	4,800,000.00	-	-
TF0A3254	NEPAL-SUPPORT FOR FISCAL MANAGEMENT (TA)	LEGALLY CLOSED	P157724	06/30/2019	450,000.00	449,765.46	100%	-	-	-	-
TF099621	STRENGTHENING THE TSA SYSTEM, FINANCIAL REPORTING, AND PFM CAPACITY BUILDING	DROPPED	P121853	07/15/2014	4,000,000.00	-	0%	-	-	-	-
TF0A5038	NEPAL MDTF-IFMIS	DROPPED	P163681	09/30/2017	200,000.00	-	0%	-	-	-	-
TF013011	OPERATIONAL RISK ASSESSMENT OF PFM REFORM IN NEPAL	LEGALLY CLOSED	P132738	06/30/2013	199,983.75	199,983.75	100%	-	-	-	-
TF010482	PREPARATION AND SUPERVISION COSTS OF STRENGTHENING OFFICE OF THE AUDITOR GENERAL PROJECT	LEGALLY CLOSED	P127040	06/30/2016	218,757.49	218,757.49	100%	-	-	-	-
TF012492	NP ED PETS	LEGALLY CLOSED	P131381	12/31/2014	148,346.99	148,346.99	100%	-	-	-	-
TF012524	STRENGTHENING CIVIL SOCIETY ORGANISATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PUBLIC FINANCIAL MANAGEMENT IN NEPAL	LEGALLY CLOSED	P131860	11/30/2015	699,283.48	699,283.48	100%	-	-	-	-
TF015354	NEPAL: STRENGTHENING BUDGETING PROCESS	LEGALLY CLOSED	P145814	06/30/2016	701,591.45	701,591.45	100%	-	-	-	-
TF017673	NEPAL ROSC A&A	LEGALLY CLOSED	P147582	06/30/2015	7,720.19	7,720.19	100%	-	-	-	-
TF0A0370	STRENGTHENING CIVIL SOCIETY ORGANIZATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PFM IN NEPAL 2	LEGALLY CLOSED	P153514	12/31/2017	547,921.69	547,921.69	100%	-	-	-	-
TF010452	STRENGTHENING PUBLIC FINANCIAL MANAGEMENT (PFM) SYSTEM (TREASURY SYSTEM, FINANCIAL REPORTING AND PFM CAPACITY BUILDING)	LEGALLY CLOSED	P125770	06/30/2016	4,242,311.23	4,242,311.23	100%	-	-	-	-
TF010455	STRENGTHENING THE OFFICE OF THE AUDITOR GENERAL PROJECT	LEGALLY CLOSED	P127040	06/30/2016	2,219,468.89	2,219,468.89	100%	-	-	-	-
TF012485	STRENGTHENING CIVIL SOCIETY ORGANISATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PUBLIC FINANCIAL MANAGEMENT IN NEPAL	LEGALLY CLOSED	P131860	09/30/2014	800,000.00	800,000.00	100%	-	-	-	-
TF0A0369	STRENGTHENING CIVIL SOCIETY ORGANIZATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PFM IN NEPAL 2	LEGALLY CLOSED	P153514	12/31/2016	923,734.12	923,734.12	100%	-	-	-	-
TF0A1065	NEPAL : STRENGTHENING PUBLIC FINANCIAL MANAGEMENT II	LEGALLY CLOSED	P154401	07/31/2017	2,692,114.05	2,692,114.05	100%	-	-	-	-
	Admin Fee				419,156.69						
	Unallocated from the Paid in Funds				(4,502,443.27)						
TOTAL					20,957,834.29	15,941,000.47	76%	4,898,728.01	4,801,017.65	93,333.36	

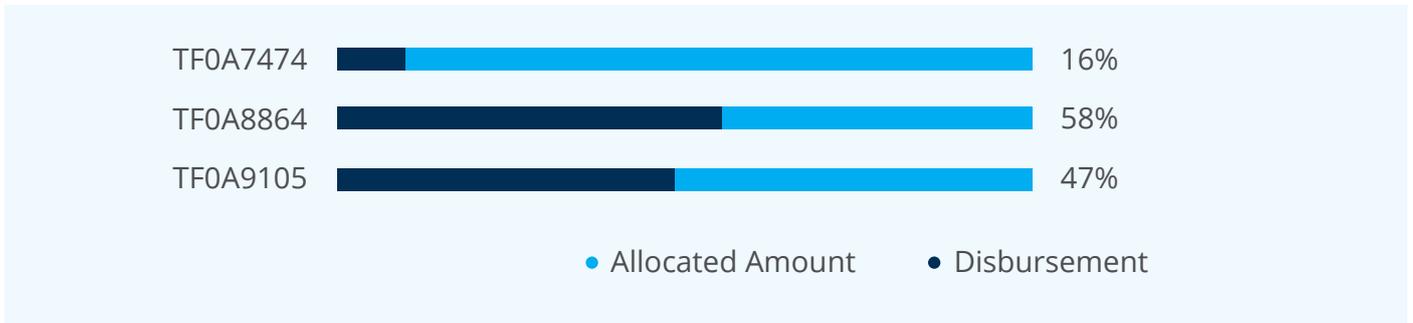
Note: The total paid in contributions from DPs is USD 20,957,834.29 investment income till this period is USD 546,983.19 is not included in the above table.

Financial Report for TF072582 as of June 30, 2020

Grant Number	Grant Name	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD	Investment Income USD
TF0A7474	INTEGRATED PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT	07/30/2021	10,200,000.00	1,585,494.78	16%	6,896,424.86	8,614,505.22	-1,718,080.36	0.00
TF0A8864	PROGRAM ADMIN. AND MGMT COST	09/30/2021	500,000.00	288,924.26	58%	11,075.74	10,283.53	792.21	0.00
TF0A9105	IPFMRP SUPERVISION ALL COMPONENTS	09/30/2021	500,000.00	237,044.93	47%	99,980.72	0.00	99,980.72	0.00
	Admin Fee		510,000.00						
	Unallocated from Paid in funds		1,516,760.50						
TOTAL			13,226,760.50	2,111,463.97	16%	7,007,481.32	8,624,788.75	(1,617,307.43)	

Note: The total paid in contributions from DPs is USD 13,226,760.26 investment income till this period is USD 665,609.06 is not included in the above table.

Figure 2: Activity-wise Allocation and Disbursement



Annex 1.

Contingency Plan for Nepal PFM MDTF

Context

The Technical Committee of the PFM MDTF proposed to establish a contingency plan for the Nepal PFM MDTF at its meeting on March 19, 2020. This note presents the ways in which the MDTF objectives, activities and implementation modalities could be adapted to respond to the current COVID-19 crisis. Since March, several principles discussed in earlier versions of the note have been already implemented and this final version incorporates lessons learned since the crisis broke globally and in Nepal. It also

incorporates some of the principles and guidelines issued by the Governance Global Practice of the Bank.

The recommendations and orientations are meant to be implemented in the medium to long term and some of them will probably be on-going until the end of the Program in 2026. It is, nevertheless, proposed to review the note annually to assess its continued relevance and amend as needed.

Summary of orientations:

PFM MDTF partners consider that the current reform programs strengthening PFM systems are still relevant in time of crisis and should be maintained and in some cases (IT system for instance) strengthened. Nevertheless, the following orientations should help adapt this reform program to the current crisis.

1. The PFM MDTF will support GoN's capacity to use efficiently and transparently PFM systems to respond to the crisis, increase resilience and recover. This will be done by using the existing flexibilities in the current IPFMRP project and by making sure the uncommitted and additional resources will be programmed and used towards this goal.
2. New remote work working modalities will be tested. These will include virtual

implementation support, virtual MDTF management, supporting the capacity of the PEFA Secretariat to work remotely to coordinate the government's development of business continuity frameworks and plans for federal and model plans for provincial and local governments.

3. The MDTF will target new or strengthened areas of focus which include the capacity to monitor, report on and account for public resources, in particular those dedicated to the sanitary crisis and its consequences; and the capacity of provincial and local governments to collect, program, allocate, spend and report on their resources in compliance with a strong accountability framework.

Impact of the crisis on PFM systems in Nepal

Nepal's government and administration has had some experience in managing emergency crises in recent past. The ability of the Ministry of Finance and FCGO to maintain business continuity with minimal disruption in IT systems, tax collection, Treasury flows in the immediate aftermath of the 2015 earthquake was remarkable. A pandemic has a different duration, is less palpable, but is immediately felt. It is more likely to affect the capacity of civil servants to operate than infrastructure and systems.

The closure of most government offices at the federal, provincial and local levels with limited operations remaining is having an impact on the capacity of finance officers to run their offices. This is compounded by the fact that most staff do not have the systems, tools and training to work remotely.

The Federal government has automated tax collection, e-payments, and most of the budget cycle. These systems can be run with a limited number of personnel and it is, therefore, not likely that the crisis will massively disrupt the major PFM functions of tax collection, expenditure monitoring, cash management, federal budget preparation and financial reporting. Functions needing presence on the ground, like external audit, for instance, might be impacted more or will have to rearrange their operating modalities. Nevertheless, since the crisis, even if IT systems have proved resilient so far, it appears that major tax collection has been disrupted because of closure of trade and its impact on customs duty collection at border points. In addition, deadlines for collection of major taxes have been postponed. Federal and sub-national budget execution rates appear to be already impacted partially due to the disruption to procurement arising from impediment on business operating environments and closures. Finally, reports of cases of non-compliance with procurement rules and corruption cases have arisen. This crisis constitutes a major risk which could translate into social unrest.

More pressure will be put on automated systems and Nepal is relatively well placed with regards to infrastructure. The e-procurement system, supported by the MDTF under the IPFMRP can be used, in the health sector for efficient procurement of local supplies thus ensure traceability of transfers and assets. The existing social safety nets delivered through cash transfers operated through FCGO network of district offices can provide additional cash grants to the citizens to compensate for their loss of livelihood. Nepal has digital payment technology which minimizes human interaction and the transmission of the virus through currency notes or coins. Elderly pensioners are at high risk of being infected, and digital pension payments eliminate the need for a physical pick up of their pension. The beneficiaries should be encouraged to use digital payment mechanisms that do not require human interaction. Most of these systems have been and are still are supported by the PFM MDTF.

The sub-national government may be impacted more and be less equipped to respond favorably to the crisis. They experience the same lockdown constraints as the Federal Government but more of their activities necessitate physical presence. This is the case for collection of revenue which is almost never fully automated. They are also not fully equipped with the digital payments or cash transfer systems that have been deployed at the federal level. The network of Treasury offices is still based on districts, caters for the needs of the federal government and is fully operated, controlled and maintained by the federal FCGO.

The intergovernmental fiscal transfer system managed by the NNRFC will be crucial to mitigate the impact of the crisis. It should allow more resources to be transferred to the sub-national government subject to fiscal constraints and government policy.

The impact of the crisis on PFM MDTF projects and programs

The single active project under the MDTF is the US\$ 18 IPFMRP which was declared effective in October 2018. The project is picking up pace slowly with total disbursement of 13.13% as at May 2020, i.e. approximately USD 2 million out of MDTF financing of USD 15 million. The impact has not been evaluated systematically yet. Nevertheless, anecdotal evidence shows that a slowdown of project implementation is to be expected. This is because international consultants are not allowed to travel to Nepal, national consultants and government staff are submitted to a strict lockdown and the remaining human resource have been allocated tasks considered more urgent or critical. In addition, the project relies on the country systems, including the PEFA Secretariat as the project coordination unit and nine other government implementing agencies. Due to poor internet connectivity and IT infrastructure, the implementation of programmed activities during the COVID-19 crisis will be severely impacted for activities that do not even require face to face interaction and could have continued remotely, as government communication systems are not set-up to communicate remotely for home-based work.

The IPFMRP has, embedded in its structure and explicitly mentioned in the program document, some flexibility to respond to emerging needs in the form of an emergency subcomponent called “just-in-time interventions for federalization of PFM functions” (US\$1.15m). This subcomponent aims to support both federal and subnational governments with evolving institutional needs in performing PFM functions aligned to the project objective. This subcomponent could potentially be mobilized to respond to the crisis.

The recent (May 2020) implementation support mission has nevertheless shown that critical activities have still progressed to this date.

The MDTF has a reserve of unspent Bank-executed funds amounting to around US\$ 0.2m that can be used for short term interventions, with some restrictions. In addition, the MDTF has a reserve of uncommitted funds of around US\$ 1m that could be utilized for emerging needs, under Bank-execution to avoid delay. Finally, partners have pledged additional resources (notably EU and SECO) but these will probably take several months to materialize.

Contingency Plan Proposal

Working differently

MDTF partners and management consider that the objectives of the MDTF and the IPFMRP are still valid in the current context and that activities planned under IPFMRP needs to be continued as much as possible. It is nevertheless necessary to use the flexibility imbedded in the current programs to adapt to the current sanitary and economic crisis. Furthermore, additional resources, existing or upcoming would have to be targeted more decidedly to the COVID -19 relief, resilience and recovery strategy of the government.

Managing MDTF remotely

MDTF partners and associated teams should take advantage of e-meeting and remote conferencing facilities to work together. A technical meeting between seven donor partners was successfully organized on the March 24th using Skype. It is possible that this could be replicated for an increased number of participants, which will be likely be necessary for the next PCC meeting. The proposed date for the next PCC is June 29, 2020.

Expansion of virtual implementation support

The Bank team managing the IPFMRP is already conducting bi-weekly virtual implementation meetings with government counterparts. These meetings would continue and in addition the bi-annual implementation support mission would most likely also be virtual. Continuing the virtual meetings would maintain implementation momentum and avoid reporting delays between the government, Bank and donor partners. A virtual mission has been organized from May 11-15, 2020 and the Aide-Memoire shared with donor partners.

Strengthening PEFA secretariat capacity to work remotely

PEFA secretariat staff, critical staff from PEFA units in ministries and agencies and other government counterpart agencies could be equipped with the

New or Strengthened Areas of Focus:

Evaluate the impact of the sanitary crisis on PFM

This crisis is rapidly evolving and an effort to monitor as closely as possible its impact on PFM systems should be made. The PEFA secretariat has already been approached by the Bank team to take stock of the financial progress and status of project activities and consultancies. This monitoring would allow appropriate and timely reallocation of PFM resources. The PFM monitoring would consider

necessary capacity to perform their work remotely. An assessment, through questionnaire, administered by PEFA Secretariat, could be undertaken quickly to assess the needs and identify possible local vendors. Subcomponent 4.1 of the IPFMRP could be accessed¹ PEFA Secretariat should also assess government needs for remote work capacity for PFM staff, at the federal level and subnational levels.

PEFA Secretariat should be provided adequate support to finalize activities that were “almost” finalized when the crisis struck. This is typically the case for the IFMIS study which was at consultation stage and was to be delivered in April. Consultations should be conducted online as much as possible and review of the draft report start as soon as possible. Information systems are more critical than ever in the current context and any delay or loss of momentum could be extremely detrimental.

the macroeconomic and macro fiscal monitoring conducted by the Bank and would complement it with an assessment based on systems. In addition to fiscal data, the PFM monitoring would be based on conversations with key counterparts at federal and sub-national level. While the Bank team will be responsible for this monitoring and will produce a short and focused monthly report, it would be useful if partners exchange information.

¹ Strengthening the PEFA Secretariat and supporting project management (US\$1,600,000). The aim of this subcomponent is to strengthen the PEFA Secretariat as the overall PFM reform coordinator and support project-specific administration, coordination, and M&E. Activities include (a) building PFM knowledge of PEFA Secretariat staff aligned with overall PFM training strategy; (b) supporting the Secretariat to carry out key research to inform PFM policy and institutional building; (c) strengthening project management skills of the PEFA Secretariat; (d) supporting the Secretariat to implement and update the PFM Reform Plan and implement a change management strategy; and (e) funding operating costs to coordinate project activities. The PEFA Secretariat will implement this subcomponent.

Provide just-in-time maintenance support for key electronic systems

Regular maintenance and possibly extension of key electronic systems like e-GP, electronic cash transfers, e-payments, tax portals etc. will be crucial for reasons mentioned above. MDTF could provide short term local expertise to solve issues identified in this area. This has been done recently at the request to support of FCGO, maintenance and replacement of existing servers. As needed, the Bank could mobilize its global expertise on the topic.

Close attention should be placed on appropriate accounting reporting, tracking, control and audit and parliamentary oversight of COVID-19 response and recovery for the parliament, government, media, civil society, citizens and donors.

Support online inventory and asset management systems

This is an area which is generally not developed in Nepal but could be crucial to manage the supply-chain for COVID-19 related medical supplies among other things. MDTF team could liaise with existing or emergency-triggered health programs and provide additional technical assistance support on this topic. If this is considered a priority by the government, some targeted additional support could be provided.

Support external audit activities

External audit is the cornerstone of the accountability framework in Nepal. An independent consultant is assessing the OAG automated audit system (NAMS) which has had limited functionality. The COVID-19 crisis buttresses the urgent need to accelerate the improvement and generalization of IT audit capacity, which are at the core of the OAG component of the IPFMRP. While the crisis will slow down the pace of the NAMS assessment, the Bank team will reach out to the consultant to work together on a revised timeline, taking into the account the urgent need to revitalize the automated audit capacity OAG.

Promote simplified internal controls and procurement mechanisms

The need to respond urgently to the crisis may put key accountability mechanisms at risk. Controls might be skipped, or the emergency may be used as an excuse to circumvent controls. It is suggested that FCGO come up with guidelines on minimum internal controls, which do not disrupt rapid response. For sub-national entities, these guidelines can be developed in coordination with MOFAGA. Similarly, since procurement must be expedited in emergencies, simplified procurement guidelines with minimum requirements as mentioned in the Public Procurement Act and regulations should be implemented. An assessment of actual implementation of these provisions would be useful. E-GP system could also be customized to cater to such needs. Although e-GP changes cannot happen promptly to cater to this emergency, it will be useful for future emergencies.

Strengthen donor coordination mechanisms in PFM

In times of crisis, coordination between donors and development partners is more important than ever, and the usefulness of the MDTF as a platform for discussing emergency measures has proved extremely valuable. The PFM reform support landscape has become more complex. A fresh look at the donor coordination mechanisms seems to be warranted. The PFM donor group which met last December 2019 seems an opportune platform for coordination of PLGSP and PFM MDTF as well as bilateral initiatives. This coordination would have to be in sync with the wider IDPG coordination mechanisms.

Next steps

It is recommended that the MDTF partners stay engaged with the government counterparts during this difficult period and in the aftermath of the crisis. They should remain active, assess the impact of the crisis on PFM systems periodically, salvage as much of the ongoing activities as possible, use the internal flexibility of the IPFMRP, the uncommitted resources of the MDTF or additional resources to prepare activities more directly responsive to the crisis.

The MDTF should use several engagement modalities to adjust to the crisis. (i) The embedded flexibility within IPFMRP; (ii) Bank-executed modalities to use uncommitted resources and potential additional resources.

The proposed IPFMRP additional resource concept note, though still valid should be revised considering the evolution of the crisis. Although the horizon for the approval of the Additional Financing probably exceeds 6 to 8 months, the crisis might still be with us for a long time and may substantially impact the general context in which PFM reform happens in Nepal.

The Nepal PFM MDTF management urges donor partners to stay engaged. The systems and the people that this common endeavor has been supporting for years are now more critical than ever.

Since March 2020, steps have been taken to implement some of the recommendations that this note envisages. In particular:

- The draft deliverable of the phase 1 of the IFMIS study (assessment of the existing systems) has been finalized and shared with stakeholders. It has been decided that the consultation with stakeholders in government and outside will be conducted online. This is ongoing. The Bank provided comments and will forward other partners' views on this. This assessment will be the basis for the establishment of scenarios for the improvement of IT systems in PFM.
- Several online meetings have been conducted with our main government counterpart to assess the status of ongoing activities under the MDTF. Government and the Bank have decided that the planned bi-annual implementation support mission will happen remotely in May. The capacity of the Bank and its government counterparts to work remotely have been tested.
- The Bank's Governance team is preparing an interim guidance note for business continuity plan (BCP) with inputs from MDTF manager and IPFMRP TTL. Early experience under the MDTF will be drawn upon. The assumption is that BCP will have to be designed by government and maybe by each governmental agency. The note, which will be finalized soon can be used by subnational as well as federal governments.
- The Bank has shared with government counterparts (and MDTF partners) good practice notes on several issues including agile Treasury functions and PFM functions in relation with COVID-19 as well as a note on the role of Supreme Audit Institution during the crisis and one on tax administration response. The application of these notes to Nepal have been discussed during the May IPFMRP supervision mission.



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