



# NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT | January – June 2021

## Nepal Public Financial Management Multi-Donor Trust Fund

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WORLD BANK GROUP

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# ACKNOWLEDGEMENTS

This progress report has been prepared by Victor B. Bonsu, Timila Shrestha and Shraddha Shah, 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: Nabin Baral*

# ABBREVIATIONS AND ACRONYMS

BCP	Business Continuity Plan
COVID-19	Coronavirus disease of 2019
CSO	Civil Society Organization
CPA	Citizen Participatory Audit
DP	Development Partners
EU	European Union
FCGO	Financial Comptroller General Office
GRB	Gender Responsive Budgeting
IA	Implementing Agency
ICAN	Institute of Chartered Accountants of Nepal
IFMIS	Integrated Financial Management Information System
IPFMRP	Integrated Public Financial Management Reform Project
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
MOF	Ministry of Finance
MOFAGA	Ministry of Federal Affairs and General Administration
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
NAMS	National Accounting and Management Service
NBCMG	National Business Continuity Management Guideline
NFRS	Nepal Financial Reporting Standard
NPSAS	Nepal Public Sector Accounting Standard
NPC	National Planning Commission
NRB	Nepal Rastra Bank
OAGN	Office of the Auditor General (of Nepal)
PAC	Public Accounts Committee
PAP	Partner Performance Assessment
PCC	Program Coordination Committee
PDO	Program development objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIP	Program Improvement Plan
PLG	Provincial and Local Governments
PLGSP	Provincial Local Government Support Program
PPMO	Public Procurement Monitoring Office
SAI	Supreme Audit Institution
SDC	Swiss Development Corporation
SOAG	Strengthening the Office of Auditor General of Nepal (Project)
SNG	Sub National Government
USAID	United States Agency for International Development
VFM	Value for Money
WB	World Bank

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# FOREWORD



**Victor Boakye Bonsu**  
MDTF Program Manager

Dear Partners and Friends,

During the period covered by this report, the South Asia Region has been beset by the second wave of COVID-19 resulting in the loss of numerous lives, great anxiety and emotional stress. While we have all been adapting to the pandemic for over 15 months, the recent surge has stretched the coping capacity of many. Many of us and our families are struggling and overwhelmed by the challenges of balancing work, parenting, and virtual schooling for children.

In Nepal, the Multi Donor Trust Fund (MDTF) Development Partners (DPs) are highly committed to improving the various sub-systems of Public Financial Management (PFM) in the country. DPs have participated actively in technical meetings and bilateral discussions during the last few months. During the period of this report two Heads of Agencies meetings were successfully organized, in addition to the regular six monthly Program

Coordination Committee (PCC) meeting in order to improve communication and ensure timely guidance and feedback. DPs also resolved to extend the MDTF original account for two years until January 31, 2024 to ensure that funds in this account are available to support the on-going activities of the MDTF.

The MDTF team continues to carry on work on the Integrated Public Financial Management Reform Project (IPFMRP) despite the COVID-19 crises, albeit with several delays and restrictions. These include delays in procurement, contract management issues, delay in initiating the Project Bank Sectoral Guidelines by the National Planning Commission (NPC), and slow implementation of activities under the Ministry of Finance (MOF) and Public Accounts Committee (PAC) although the latter have now been initiated. The restructuring of the IPFMRP was completed and the project will now close on July 15, 2022. Although it was not possible for the task team to conduct an implementation meeting as expected due to continuing prohibitory orders in the country, the team managed to have virtual consultations with Implementing Agencies, on an individual basis, between June 15-17, and had in depth discussions on various bottlenecks and the way forward.

While it was noted that the second wave of COVID-19 has significantly impacted implementation of activities, the team noted the following progress in the preparation of an accounting manual for three tiers of government based on Financial Procedures Regulations; development of internal control guidelines and Medium-Term Expenditure Framework (MTEF) guidelines for all levels of governments;

Integrated Financial Management Information System (IFMIS) assessment; and training needs assessment with roadmap for the three tiers of government. Several activities have been also completed. These include development of various audit guidelines and the Nepal Audit Management System based on International Standards of Supreme Audit Institutions (ISSAIs) and enhancement of the Computerized Government Accounting System based on Nepal Public Sector Accounting Standards (NPSAS).

It gives me pleasure also to note that the Model Guidelines on Gender Responsive Budgeting (GRB) for provincial and local governments have been issued by the MOF and posted on the MOF's website, and subnational governments have been informed by the Ministry of Federal Affairs and General Administration (MOFAGA) of this development. The guidelines have been simplified for easy understanding to support GRB implementation by subnational governments. However, unfortunately, the planned training could not be conducted due to the worsening COVID-19 situation. The MDTF team is exploring the possibility of providing virtual training to the provinces and at the local level to ensure adoption of these guidelines in the next FY's budget with MOF. The World Bank team has also requested the Provincial Local Government Support Program (PLGSP) and other support initiatives to collaborate on this as appropriate.

The MDTF team is also encouraged that the Government of Nepal (GoN) is committed to improved government service delivery in response to COVID-19 through the initiation of the National Business Continuity Management Guidelines (NBCMG) and Business Continuity Plans (BCPs) for the three tiers of government, which will enable the government to function more smoothly during crises. The Inception Report of the BCP National Guidelines is finalized and the GoN and counterparts demonstrated strong interest in meeting with the consultants. The

consultants will hold consultations with counterparts by means of virtual focus groups and the Public Expenditure and Financial Accountability (PEFA) Secretariat is forming a Steering Committee to support the development of these guidelines.

It also gives the team great pleasure to share that the PFM working group has been meeting regularly and have started collaborating with other Donor Working Groups in the country. The group has also invited the PEFA Secretariat to one of its meeting to brief the GoN about the objectives of this group.

Following a successful dialogue with the GoN, the program will support both national and subnational PEFA assessments in the country during FY22.

On behalf of the MDTF team, I would like to thank Dr. George Addo Larbi, our immediate past Practice Manager, South Asia of the World Bank, for his great professional guidance and support to the program throughout his tenure and wish him the very best in his next assignment. Additionally, I would like to thank Mr. Maxwell B. Dapaah, who has been rotated to another region, for his effective leadership of the IPFMRP in a very challenging period and wish him every success in his next assignment.

On behalf of the team, it is also my pleasure to welcome our new Practice Manager, Mr. Hoon Sahib Soh, to the MDTF family. We are honored to have him with us and look forward to his leadership. I also welcome Ms. Timila Shrestha on board as the new task team leader of the IPFMRP and wish her all the best in her new role.

Finally, I would like to thank my colleagues for their extra hard work during this difficult time and our MDTF Partners and Government counterparts for their continued support and suggestions. Let us hope the days ahead will be safer for us and our families.

# PART I

## The MDTF Program

### Background

Strengthening Public Financial Management (PFM) is a key element of the Government of Nepal's (GoN) strategy for strengthening governance, optimizing outputs from public resources and ensuring inclusive and broad-based development. There has also been increasing interest in recent years on the part of non-state actors, civil society organizations (CSOs) and development partners (DPs) in strengthening financial accountability, with the goal of improving the use of public resources and value for money. The GoN has been working closely with DPs in the design and implementation of PFM reform initiatives at the country and sector level.

### Development Objective

The overall program development objective (PDO) of the MDTF is "to strengthen the performance, transparency and accountability in public financial management in Nepal".

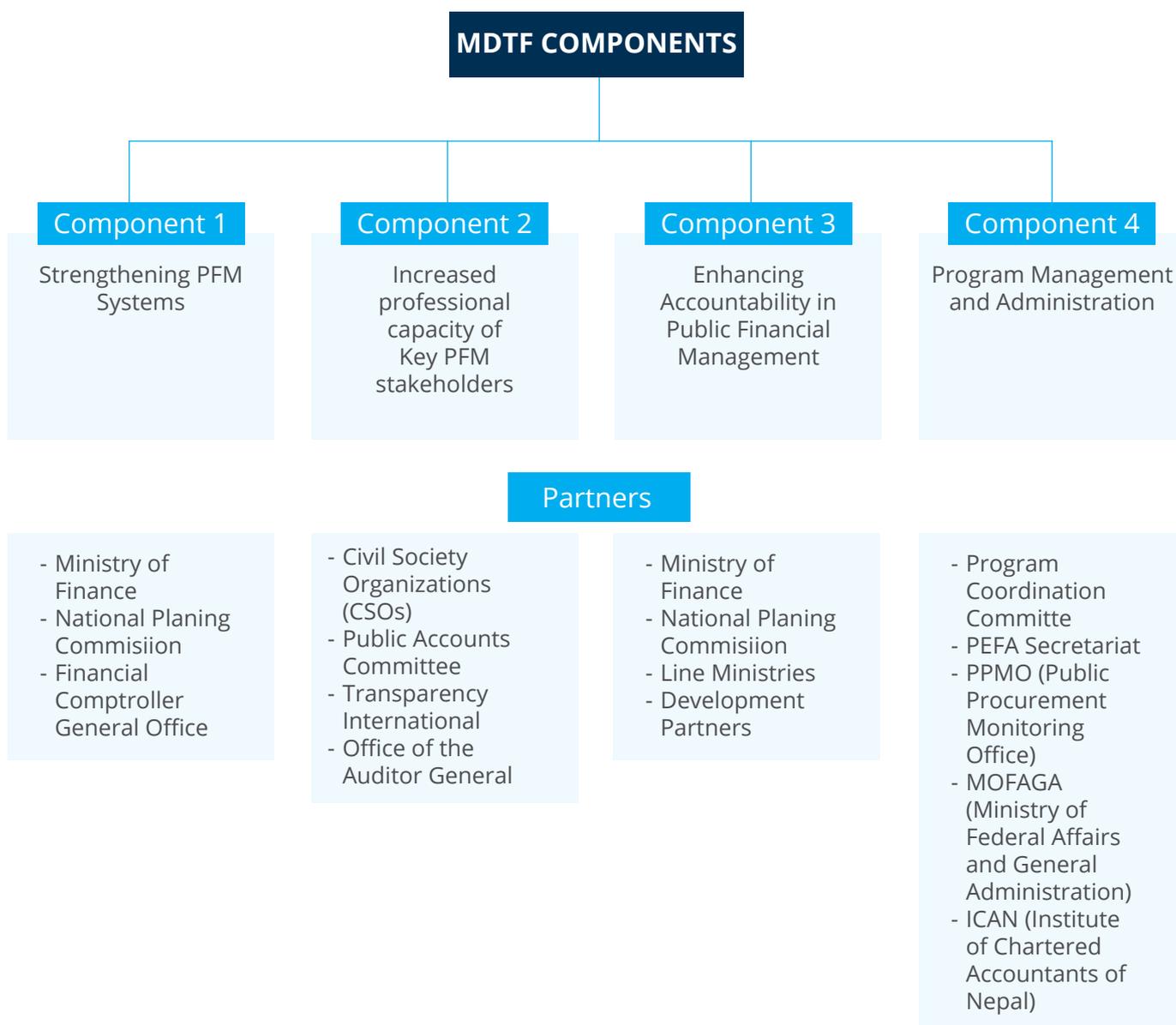
The key results expected from MDTF-funded projects are:

- i. Improved resource management as a result of strengthened PFM systems and processes
- ii. Increased awareness and oversight of government PFM processes by diverse constituencies
- iii. Better knowledge of value for money challenges and PFM governance gaps, contributing to improved design of PFM interventions at the country and sector level.

## Program Components

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

Figure 1: MDTF Components



# PART II.

## Integrated Public Financial Management Reform Project (IPFMRP)

Currently, IPFMRP is the main vehicle through which the MDTF program is being implemented.

### (a) Overall Status and Key Project Data

1. The Project proactively cancelled US\$6 million for non-moving activities, particularly of the procurement component. These efforts together with an improvement in project implementation have resulted in the total disbursement of US\$3.96 million (US\$2.34 million for TF0A7474 and US\$1.62 million for TF0A7475, both of which are IPFMRP Grants) as of July 31, 2021, which is 44% of the net committed amount of US\$9 million. Given the pandemic situation, the switch to virtual mode for many of the planned activities, e.g. training, consultations etc., also resulted in a reduction in planned disbursements.
2. The components implemented by the PEFA Secretariat, Financial Comptroller General Office (FCGO), Office of the Auditor General Nepal (OAGN), and Ministry of Federal Affairs and General Administration (MOFAGA) are progressing well. Procurement activities for other agencies – National Planning Commission (NPC), Public Accounts Committee (PAC), Ministry of Finance and Institute of Chartered Accountants of Nepal (ICAN) – have also picked up. The Public Procurement Monitoring Office (PPMO) has also initiated the process of contract extension and adjustment of the ITC/ILO contract given the pandemic situation.

### (b) Implementation Status:

#### Consultation review, June 15 - 17, 2021

The last implementation support mission of the project was conducted in October 2020. Due to the second wave of COVID-19, the team could not conduct the mission planned for June 2021. However, between June 15-17, the team led by the Task Team Leader, Ms. Timila Shrestha, carried out an extensive consultation review with all Implementing Agencies (IAs) of the project. The objectives of the review were to: (i) review and evaluate the project's implementation performance including a follow-up on the progress made on actions agreed to during the last mission; (ii) agree on key actions required to further enhance the implementation performance of the project towards achieving the PDO and expected results; and (iii) evaluate the possible impact of COVID-19 on the project and emerging needs that could be incorporated into the Project as a result.

The team noted that despite the use of virtual means of implementation by IAs to the extent possible, the second wave of COVID-19 affected implementation of project activities significantly. Many of the consultants and their families were infected resulting in significant delays in many of the contract deliverables. The contracts had to be amended since travel by the consultants was not possible. While the use of virtual communication is encouraged to the extent possible, some activities cannot be implemented virtually. For example, establishment of an IT excellence center for capacity building in the OAGN is contingent upon

completion of the new building, the construction of which is impacted by the pandemic; pilots of the various developed guidelines require the physical presence of concerned stakeholders who cannot connect virtually; and certain capacity building activities, particularly for subnational governments with connectivity issues, cannot be conducted virtually.

The team also noted the following activities facing challenges:

1. Payment to consultants for the IFMIS assessment is delayed despite submission of the diagnostic report as the contract requires a field presence, which was not possible due to the pandemic. Although the government is trying to amend the contract, the COVID-infection of consultants and their families is delaying the process.
2. Development of Project Bank Sectoral Guidelines is yet to be initiated, awaiting a decision by the NPC on the procurement approach.

The team emphasized the need to expedite the implementation of the Project, since the extension is only until July 15, 2022. Additionally, expenditures incurred after the Project closing date will have to be borne by the government while the Project may potentially close with unutilized balances. Efforts needed to improve the female participation rate in capacity building activities (currently 18% against a target of 30%) and civil society mobilization in audits (currently 19% against a target of 50%) was also underscored.

Despite the COVID-19 crisis, the following activities have been completed:

**Financial Comptroller General Office-** development, roll-out, and training on the use of the Public Asset Management System for national and subnational governments; enhancement of the Computerized Government Accounting System based on Nepal's Public Sector Accounting Standards (NPSAS) to enable activity-based

accounting for federal and provincial government agencies; enhancement of the Electronic Fund Transfer System enabling e-payments in federal and provincial government agencies; development of the Reimbursement Management Information System to manage reimbursement with DPs; and various capacity building activities on the above.

**Office of the Auditor General Nepal (OAGN)-**

Development of various audit guidelines and the Nepal Audit Management System based on International Standards of Supreme Audit Institutions (ISSAIs); and supporting implementation of Nepal's Government Auditing Standards based on ISSAIs.

**Ministry of Finance-** Issuance of and training on the Model Gender Responsive Budgeting (GRB) Guidelines for subnational governments, which was attended by counterparts of the Provincial and Local Government Support Program (PLGSP) and Swiss Agency for Cooperation and Development's Provincial Support Program to further facilitate mainstreaming of GRB in subnational governments through collaboration of various PFM initiatives.

**Ministry of Federal Affairs and General**

**Administration-** Capacity building for local governments on irregularities settlement and the Local Revenue Advisory Committee.

The following activities under the respective components are also progressing well:

**Strengthening public expenditure and revenue management in federal and subnational**

**governments-** Development of MTEF Guidelines, Internal Controls Guidelines, Training Needs Assessment and roadmap for PFM capacity building for three tiers of government; IFMIS assessment with road map; and development of the Citizen Engagement Strategy.

**Strengthening the capacity of the OAGN-** Piloting of the various developed audit guidelines and Nepal Audit Management System based on international standards.

**Strengthening public financial management reform management and coordination-** Theory of Change Orientation provided by the World Bank to all implementing agencies to facilitate embedding in the PFM Reform Strategy.

Framework of the project and measures progress towards the development objective. Below is the updated Results Framework based on the review conducted in June 2021.

### (c) IPFMRP Results Framework

The World Bank team periodically updates the Results

**Project Development Objective:** Strengthening the effectiveness of selected PFM and procurement institutions, systems and procedures at the federal and subnational levels.

## Results Framework

Indicator Name	Baseline	Intermediate Targets				End Target	Status as of June 2021
		1	2	3	4		
<b>Component 1: Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments</b>							
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.	Draft guidelines for federal and provincial governments received, and comments provided based on the revised guidelines recently received (being reviewed)  Regarding MTEF guidelines for the local level, NPC plans to build on the guidelines recently issued by MOFAGA, which were also prepared based on NPC inputs  MTEF software development initiated with interoperability between LMBIS and Project Bank systems
Comprehensive internal control procedures adopted at SNGs. (Text)	No coherent internal control framework exists that ensures consistency in these practices across the three tiers of Government		Approval and adoption of comprehensive/ consolidated internal control procedures (Federal and provincial level – FCGO, Local Government level – MOFAGA)			P/LGs that cumulatively manage 50% of overall SNG budget have their own internal control manual adopted.	Draft guidelines prepared and comments provided  FCGO and MOFAGA are in the process of incorporating comments  Embedding citizen engagement into the procedures and establishing required procedures for emergencies have also been emphasized
IFMIS developed and pilot tested (Text)	Zero Pilots		IFMIS review completed and implementation roadmap developed	Pilot IFMIS designed		2 pilot sites	Diagnostic report finalization impacted due to COVID-19 as consultants could not come to Nepal  Virtual means are being explored and the contract will be revised accordingly, which is also impacted due to consultants being infected

Indicator Name	Baseline	Intermediate Targets				End Target	Status as of June 2021
		1	2	3	4		
<b>Component 1: Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments</b>							
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% participation in all PFM trainings	As of June 2021, 4,611 out of a total 25,000 participants trained were female (around 18%)  While IAs are challenged by the low number of female Officials in PFM, IAs have been requested to emphasize the need to enhance female participation
Unified budget guidelines including gender responsive budget processes introduced to SNGs (Text)	No unified budget guidelines including gender responsive budget processes exist for SNGs		Approval of guidelines by appropriate authorities at federal and SNG levels			SNGs that cumulatively manage 50% of overall SNG budget have adopted the unified budgeting guidelines	Simplified Gender-responsive Budget Guidelines for provincial and local governments issued by MOF  Virtual orientation conducted for all provincial governments and some local level  Orientation was also attended by counterparts from the PLGSP and SDC's Provincial Government Support Program, which will help to mainstream GRB throughout various initiatives
<b>Component 2: Strengthening the Office of the Auditor General Nepal</b>							
Timely submission of financial audit reports of SNGs to appropriate authorities within legal time frame (Percentage)	0	20	40	60		60	The submission timeline for audit reports is not specified in any policy. OAGN has adopted a practice of submitting the AG's Annual Report within 9 months of FY end, which was being followed up to the FY18 audit report.  OAGN is also submitting SNG audit reports on the same date to the President and Province Chief. Local level reports are also submitted on that date.  This timeline is impacted due to the pandemic including for the federal government. The FY19 annual report was submitted within one year from FY end due to pandemic challenges.  There is a potential for further delays in the submission of the FY20 audit report due to the COVID-surge. Nevertheless, the preliminary audit reports are submitted within 15 days of the exit meeting with the Audited Entities.

Indicator Name	Baseline	Intermediate Targets				End Target	Status as of June 2021
		1	2	3	4		
Number of citizens mobilized and involved in audit process through CSOs of which 50% are female. (Number)	80	150	300	400		400	<p>During Year 1, 266 persons (44 of which were female) were trained</p> <p>During Year 2, 21 CSOs and 675 citizens (131 of which were female) were engaged in the performance audit</p> <p>During the current year (Year 3), 9 CSO members (3 of which were female) and 90 citizens (10 of which were female) have been engaged on two audit topics to date. 95 citizens were selected for CPA training, however this could not be conducted due to the COVID surge</p> <p>Nine topics (including the above two) have been selected for piloting the citizen participatory audit by using the new CPA Guide, which is currently progressing.</p> <p>Based on the above, 774 citizens were mobilized in total, of which 144 were female, i.e. 19%. Required emphasis on and appropriate strategy for female participation have been stressed to OAGN.</p>
Effective audit follow-up (Text)	Score of 0 SAI PMF dimension 7 (iii)			Conduct SAI PMF		Score of 2 SAI PMF dimension 7 (iii)	<p>Draft SAI PMF report from Thailand SAI has been received by OAGN; however there has been a delay in finalizing the report due to the pandemic</p> <p>As informed by OAGN, the draft report reflects an improved score, which is yet to be confirmed by the final report</p>
<b>Component 3: Public Procurement Improvement</b>							
Complaints resolved following effective complaints handling mechanism in e-GP (Percentage)	0	0	0	30	60	60	Indicator dropped as e-GP activity <sup>1</sup> has been cancelled
Basic procurement documents and guidelines developed for sub-national government (out of a master list of sub-national level documents to be prepared) (Percentage)	0	0	20	50	80	80	Draft documents being prepared by technical assistance under IPFMRP Supervision Budget as agreed with PPMO due to slow progress by PPMO
Procuring entities of KSAs with at least one certified procurement staff established (As a percentage of the total procuring entities) (Percentage)	10	10	20	60	80	80	PPMO to agree on alternatives to face-to-face trainings given the pandemic and to extend contract expiring in July 2021 with ITC/ILO

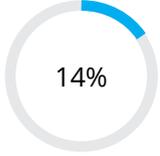
<sup>1</sup> The various activities, including the enhancement package of the e-GP system, had to be dropped from the Project through restructuring of the legal agreement due to the frequent changes in key staff and the lackluster performance of PPMO in initiating the procurement activities for advancing the reform.

Indicator Name	Baseline	Intermediate Targets				End Target	Status as of June 2021
		1	2	3	4		
System generated performance reporting prepared for KSAs (Text)	0		Generation of Performance Report for at least 2 KSAs			Generation of Performance Report for all KSA's	Indicator dropped as relevant activity cancelled
<b>Component 4: PFM reform management and coordination</b>							
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 is implemented	Draft received and extensive comments provided. Consultants are in the process of incorporating comments  PEFA Secretariat's consultants are also being supported by WB consultant

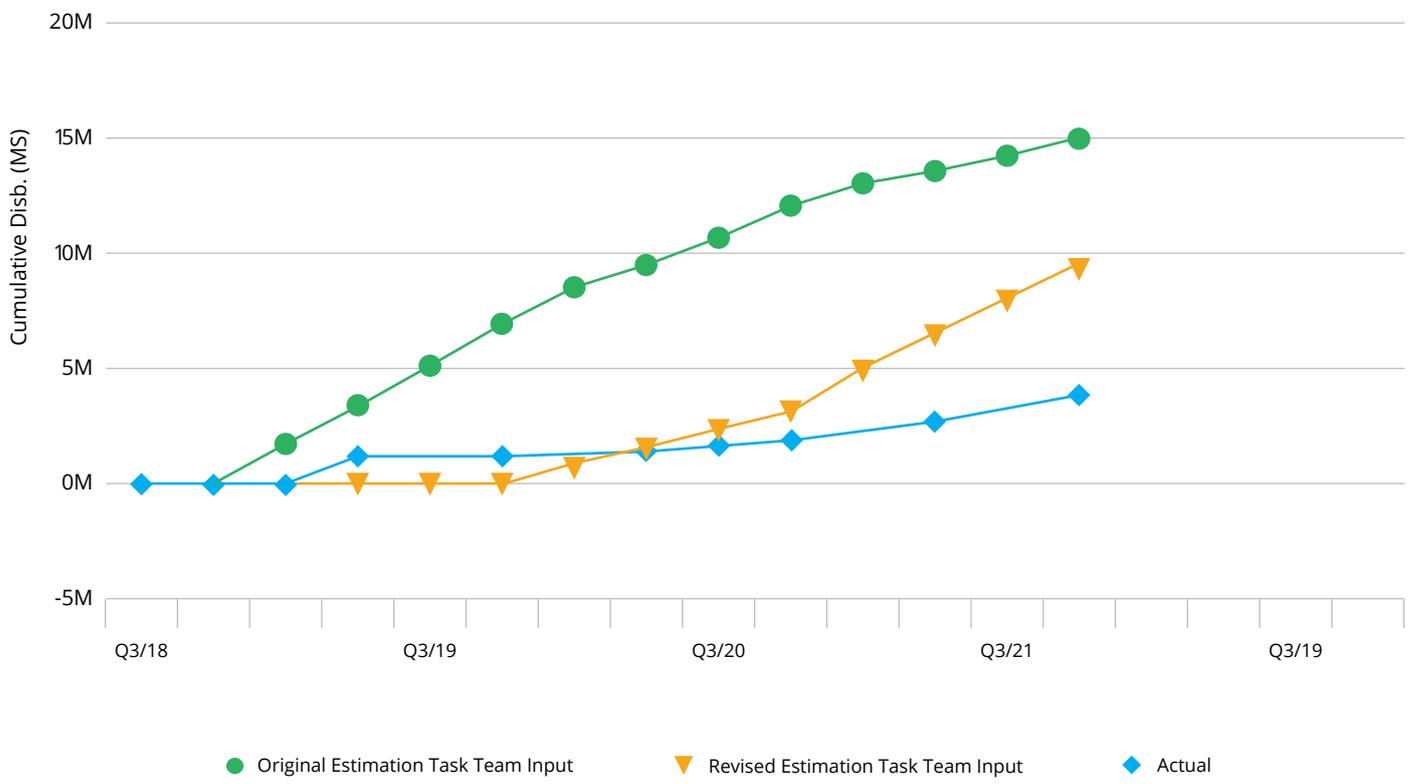
### (d) Disbursement (Commitment and disbursement summary USD)

Source of Funds	Net Commitment	Total Disbursed	Undisbursed	% Disbursed
TF	9.00M	3.96M	5.04M	44.05
Total	9.00M	3.96M	5.04M	44.05

FY Disbursement Ratio



### Disbursement



## (e) IPFMRP Status of Risks (SORT)

During project preparation, risks have been systematically assessed and reflected in the project document. During the implementation support mission, the World Bank team updates the risk assessment and discusses the appropriate mitigation measures with the government. The progress report provides an update of the risk assessment as follows:

Risk Category	19-Sep, 2017	27-Jun, 2018	30-Oct, 2018	09-May, 2019	25-Nov, 2019	10-Jun, 2020	04-Dec, 2020
Political and Governance	High	High	High	High	High	Substantial	Substantial
Macroeconomics	Moderate	Moderate	Moderate	Moderate	Moderate	Substantial	Substantial
Sector Strategies and Policies	Moderate						
Technical Design of Project or Program	Substantial						
Institutional Capacity for Implementation and Sustainability	Substantial						
Fiduciary	Substantial						
Environment and Social	Low						
Stakeholders	Substantial						
Other	None						
Overall	Substantial						

■ High   
 ■ Substantial   
 ■ Moderate   
 ■ Low   
 ■ None

# PART III.

## i. Program Management and Administration

### **(a) Extension of the MDTF's Original Trustee Trust Fund**

The Nepal PFM MDTF currently has two active Trustee Trust Funds: The original TF 071617 (established in 2010) and the Parallel TF 072582 (established in 2016). The Parallel TF 072582 has been extended to January 31, 2026 based on the decision of the PCC during the meeting on September 6, 2019. At that time, the balance of the original TF was fully committed and there was an expectation that it would be fully utilized by the end of its disbursement date of January 31, 2022, hence it was not extended.

However, due to slow implementation it has now become necessary to extend the original TF as it has a balance of US\$3.44 million, and based on the MDTF's current disbursement projection, it will not be fully utilized by its current end disbursement date. Additionally, about US\$1.26 million of the original TF's balance supports the implementation of the IPFMRP, the closing date of which has been extended in response to the government's request. Given the crisis caused by COVID-19 and resulting implementation delays, it is unlikely that the Project will utilize the committed funds by January 31, 2022. A closing date extension is necessary in order to complete the on-going activities of the IPFMRP and to achieve the project development objective.

Following approval by the DPs and World Bank Management of the proposal submitted by MDTF management to extend the closing date of the original TF, the MDTF team is working to finalize the necessary documentation to complete the extension to January

31, 2024. The team would like to take this opportunity to express its sincere thanks to the DPs and World Bank Management for its guidance, support, and timely actions.

### **Technical Review Meetings**

#### **(b) Technical Meeting on February 11, 2021**

The Task Team Leader of the IPFMRP, Maxwell Dapaah, provided an update on the IPFMRP restructuring. The MDTF Program Manager, Victor Bonsu, provided a status update on the proposed PEFA assessment. British Embassy Kathmandu (BEK) informed the group that it was conducting a review of its PFM portfolio including the PFM Multi-Donor/ Development Partner Trust Fund. The group was informed that the objective of the review was to identify key results of BEK's engagement in the PFM sector so far, document key lessons, analyse the current PFM context, and inform further engagement.

#### **(c) Program Coordination Committee (PCC) Meeting on April 19, 2021**

A PCC virtual meeting, conducted through webex, was co-chaired by Mr. Shree Krishna Nepal, Joint Secretary of the IECCD, Ministry of Finance and Mr. Faris H. Hadad Zervos, Country Director, World Bank. All the MDTF partners were present at the meeting. The PEFA Secretariat Coordinator, Mr. Gyanendra, presented the status of the IPFMRP. An update on the MDTF including the PEFA assessment was presented by Mr. Victor Bonsu, MDTF Manager, and Mr. Bogdan Constantinescu, TTL of the PEFA assessment from the World Bank side.

The Joint Secretary thanked everyone for their constructive participation and suggestions in the meeting. He mentioned that the GoN is fully aligned with the spirit expressed in the meeting and that the government wants to see a robust PFM system in place that would ensure transparency, comprehensiveness and compliance throughout the PFM cycle, from budgeting, procurement to auditing. He shared that while implementation of some activities of the IPFMRP are on track, the GoN agrees that overall implementation progress on the IPFMRP has been slow and that some activities had to be dropped. He further expressed the commitment that the government team will continue to work hard and pick up the pace in the future. He acknowledged that the current IT solutions are not very reliable so there is need for enhancement. On the PEFA assessment, he mentioned that there was a need for open discussion and requested the World Bank team to meet with the PEFA Secretariat (Nepal) to have further discussions to explore what is practically achievable, including to agree on which Fiscal Years to include in the assessment in order to present a recent diagnosis of PFM which will enhance fiscal federalism. He also emphasized the need to include a diagnosis of COVID-19's impact.

#### **(d) PFM Working Group Meeting on May 12, 2021**

The group remains active and committed through regular meetings. The last meeting was held on May 12, 2021 and was attended by the PEFA secretariat. FCDO shared findings from the PFM DP mapping (with USAID) and progress on the workplan. The PFM Working Group was informed that the Urban Sector Working Group, consisting of nine DPs, meets to discuss urban sector and urban developmental issues. The PEFA Secretariat was informed of the objectives of the working group, which include promoting effective DP collaboration so that synergies

are created. The Secretariat was also informed that it is the intention of the group to work with other groups such as the Federalism Working Group and Urban Sector Working Group. The group will invite the PEFA Secretariat to relevant meetings in the future.

The PEFA Secretariat thanked the group for clarifying its role and expressed its eagerness to know the overall functions and approach of the working group. The Secretariat reiterated the need for effective coordination in PFM as many DPs are involved in the country and advised that the PFM working committee should play an effective role in this. The PEFA Secretariat also shared its objective of ensuring DP efforts do not overlap, which has been difficult to achieve given DP interest in working on the same themes and activities in SNGs, and therefore the Secretariat has been unable to control duplication. To that end, the Secretariat noted the contribution of the PFM Working Group in this area is timely and welcome. The PEFA Secretariat also shared that in their bilateral deliberations with DPs, they have always emphasized the need for DPs to work through a common mechanism such as the PFM MDTF for effective collaboration and to create synergies.

#### **(e) Managerial Meeting on Strategic Issues on June 23, 2021**

World Bank Country Director, Faris H. Hadad-Zervos, chaired the Nepal PFM MDTF meeting with Heads of Agencies to discuss strategic issues in the PFM MDTF. This meeting was the first of a series of bimonthly meetings. The meeting provided an update on MDTF activities, especially on the implementation of the IPFMRP and the planned national and SNG PEFA assessments. As a key agreed action, the MDTF team was asked to identify five or six milestone activities to be discussed and implemented with active involvement of technical colleagues of DPs. This step is tactically good for the team as it will promote

collaboration, effective communication, and improved performance.

## **(f) DP Program Reviews**

During the period of the report, British Embassy, Kathmandu (BEK) initiated a Program Improvement Plan (PIP) with MDTF Management following BEK's 2020 Annual Review where the program scored a consecutive "B". This was an update/extension of the 2019 PIP and covers measures to be implemented by October 2021 (when the next review will initiate). The PIP includes recommendations on an updated theory of change, delivering key/priority activities strengthening fiscal federalism; Value for Money (VFM Framework implementation); communication and management; and strengthening coordination with other fiscal federation and PFM work. The report noted that performance against this PIP and the 2021 annual review will help determine the UK's decision to continue with the program.

The Australia-Department of Foreign Affairs and Trade (DFAT) also conducted a Partner Performance Assessment (PAP) in which it noted that in 2020-21, the overall progress of the IPFMRP was slower than initially planned, with disbursements of only 18.6 percent after two years of implementation. While, to some extent, the COVID-19 situation has impacted project implementation significantly, delays predate the COVID-19 crisis due mainly to slow procurement processes. The assessment also noted some of the key achievements in the reporting period and progress being made as mentioned in earlier paragraphs.

The PAP noted the PIP and the need for timely implementation of the recommendations under the PIP to improve the effectiveness and efficiency of activities funded under the MDTF. It recognized the efforts being made by MDTF Management to

improve communication with Heads of Agencies following the DPs request for frequent reporting on the implementation of the IPFMRP. Additionally, the assessment noted the smooth transition to a new MDTF Program Manager in 2020 by the World Bank and appreciates the initiative undertaken by the MDTF team to reach out to the DPs and hold regular technical meetings. The World Bank has also demonstrated flexibility in its operations in responding to the challenges posed by the COVID-19 pandemic in Nepal. It, however, recommends that the World Bank identify operational and programmatic risks with clearly identified risk mitigation measures in future progress reports.

## **ii. Other Activities**

### **(a) Update on Provincial and Local Government (PLG) Budget Execution, Tax Policy & Study, and Macro-Fiscal Model Activities supported through the BETF**

#### **i. PLG Budget Execution and Tax Policy & Administration Study**

Due to the nature of the data to be collected, the two studies have been undertaken simultaneously so that data collection is ongoing at the same time. Various surveys have been conducted, and preparation for the validation of data and qualitative information on PFM, budgeting and tax systems of PLGs is ongoing. A selection of PLGs will be virtually consulted on the data collected with the aim of validating it and doing the necessary analysis. Challenges faced by the study include poor quality of the data and inconsistencies between various data sources; delays in organizing virtual meetings with PLGs, difficulty in conducting data validation because of the lack of available counterparts at PLGs, and the impact of data limitations and

quality on the accuracy of conclusions from the findings of the study.

## ii. **Macro-Fiscal model**

The Macro-modelling team has developed the initial version of the Nepal macro-fiscal model and provided a 5-day training (March 4 - March 10, 2021) to government counterparts consisting of NPC, MOF, and Nepal Rastra Bank (NRB). A team of focal points from government consisting of staff from NPC, MOF, and NRB (as per the suggestion of government counterparts) has been formed to strengthen coordination between the three agencies. The model is currently being revised to incorporate feedback from the first phase, and the team is discussing with the World Bank's Climate Adaptation and Resilience Project team on how to incorporate the climate change component in the model. After the revision, a second round of training will be organized.

## **(b) PEFA Assessments**

During the PCC meeting in April 2021, the need for a repeat PEFA assessment in the country was discussed. Following the meeting, a formal request has been made by the GoN, through the PFM Steering Committee, to the World Bank for the PEFA assessment to be conducted from 2022. The assessments will include the PEFA Climate assessment and Gender Responsive Budgeting assessment, in addition to the main PEFA assessment. It is also expected that the Sub National Government (SNG) PEFA assessment will be conducted when the COVID-19 situation is under control. In preparation for these assessments, the Bank will help train selected participants from the government team on the new 2016 PEFA framework, which will be used for the assessments.

# PART IV.

## FINANCIAL REPORT

The MDTF has two active trustee accounts: TF071617 and TF072582. The TF071617 is the original TF, which initially had seven DPs but one left the partnership in June 2016. As of June 30, 2021, the total pledged contributions stood at US\$20,957,834, which has been fully paid by the partners. Total disbursements (including administration fees and expenses) were US\$18,071,274. Total investment income was US\$562,754. The total fund balance stood at US\$3,449,314, of which US\$1,262,081 is committed.

The trustee account TF072582 is parallel to the original trustee account TF071617. This was created

to accommodate new contributions from the six DPs. The total pledged contributions stood at US\$21,275,477, of which paid contributions by the DPs amounted to US\$15,493,311. The balance of the pledged contributions to be paid by Partners was US\$5,782,166. The total disbursement was US\$3,929,166 (including administrative fees and expenses), total investment income was US\$705,817, and total fund balance as of June 30, 2021 was US\$12,269,962 of which US\$3,836,132 is committed.

For further financial details of the two trustee accounts please refer to tables below:

Table 1: Trustee: 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	2,850,000	2,991,120	2,850,000	2,991,120	0	0
EU-Commission of the European Communities	EUR	4,500,000	5,623,628	4,500,000	5,623,328	0	0
Norway - Ministry of Foreign Affairs	NOK	15,000,000	2,615,314	15,000,000	2,615,314	0	0
Swiss State Secretariat for Economic Affairs (SECO)	CHF	3,000,000	3,066,371	3,000,000	3,066,371	0	0
United Kingdom - DFID	GBP	3,500,000	5,570,360	3,500,000	5,570,360	0	0
United States Agency for International Development (USAID)	USD	712,578	712,578	712,578	712,578	0	0
Denmark-Royal Ministry of Foreign Affairs ***	DKK	2,000,000	378,465.32	2,000,000	378,465	0	0
<b>Sub Total</b>			20,957,834		20,957,834		0

\*\*\* Embassy of Denmark left the partnership in June 2016

Table 2: Trustee: 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	5,300,000	3,791,860	5,300,000	3,791,860	0	0
EU-Commission of the European Communities	EUR	5,000,000	5,747,525	3,500,000	3,974,825	1,500,000	1,772,700
Norway - Ministry of Foreign Affairs	NOK	34,000,000	3,935,465	18,000,000	2,110,835	16,000,000	1,824,630
United Kingdom - DFID	GBP	3,000,000	3,895,593	3,000,000	3,895,594	0	0
United States Agency for International Development (USAID)	USD	600,000	600,000	600,000	600,000	0	0
Swiss State Secretariat for Economic Affairs (SECO)	CHF	3,000,000	3,305,034	1,000,000	1,120,197	2,000,000	2,184,837
<b>Sub Total</b>			<b>21,275,477</b>		<b>15,493,311</b>		<b>5,782,167</b>
<b>GRAND TOTAL (Trustee TF 071617 and TF072582)</b>			<b>42,233,311</b>		<b>36,451,145</b>		<b>5,782,167</b>

Table 3: Trustee TF071617-Grants

Grant Number	Grant Name	Status	Project ID	Execution	Grant Amount USD	Disbursements USD
TF010452	Strengthening PFM Systems and Capacity Build	Legally closed	P125770	Recipient Executed	4,242,311.23	4,242,311.23
TF010454	Prep., Appraisal, Supervision, Monitoring & Rep	Legally closed	P125770	Bank Executed	551,555.31	551,555.31
TF010455	Strengthening the Office of Auditor-Gen Project	Legally closed	P127040	Recipient Executed	2,219,468.89	2,219,468.89
TF010482	Prep and Superv Costs of Strengthening Office	Legally closed	P127040	Bank Executed	218,757.49	218,757.49
TF010623	Program Management & Admin Costs	Legally closed	P121853	Bank Executed	838,176.31	838,176.31
TF012485	Strengthening CSOs Use of Social Accountability	Legally closed	P131860	Recipient Executed	800,000.00	800,000.00
TF012492	NP ED PETS	Legally closed	P131381	Bank Executed	148,346.99	148,346.99
TF012524	Strengthening CSO Use of Social Accountability	Legally closed	P131860	Bank Executed	699,283.48	699,283.48
TF012668	NLTA Under SPFM Project to Govt of Nepal	Active	P125770	Bank Executed	707,263.99	701,440.02
TF013011	Operational Risk Assessment of PFM Reform	Legally closed	P132738	Bank Executed	199,983.75	199,983.75
TF015354	Nepal: Strengthening Budgeting Process	Legally closed	P145814	Bank Executed	701,591.45	701,591.45
TF017673	Nepal ROSC A&A	Legally closed	P147582	Bank Executed	7,720.19	7,720.19
TF0A0369	Strengthening CSOs Use of Social Accountavility2	Legally closed	P153514	Recipient Executed	923,734.12	923,734.12
TF0A0370	Strengthening CSOs Use of Social Accountability2	Legally closed	P153514	Bank Executed	547,921.69	547,921.69
TF0A1065	Nepal: Strengthening PFM II	Legally closed	P154401	Recipient Executed	2,692,114.05	2,692,114.05
TF0A3254	Nepal-Support for Fiscal Management (TA)	Legally closed	P157724	Bank Executed	449,765.46	449,765.46
TF0A7475	IPFMRP	Active	P164783	Recipient Executed	2,880,000.00	1,619,953.65
TF0B5037	IPFMRP Supervision	Active	P164783	Bank Executed	334,516.45	89,993.44
<b>Grand Total</b>					<b>19,162,510.85</b>	<b>17,652,117.52</b>

Table 4: Trustee: TF072582- Grants

Grant Number	Grant Name	Status	Project ID	Execution	Grant Amountt (USD)	Disbursements (USD)
TF0A7474	INTEGRATED PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT	Active	P164783	Recipient Executed	6,120,000.00	2,344,706.81
TF0A8864	PROGRAM ADMIN. AND MGMT COST	Active	P121853	Bank Executed	800,000.00	631,719.40
TF0A9105	IPFMRP SUPERVISION ALL COMPONENTS	Active	P164783	Bank Executed	837,025.65	442,740.07
TF0B5144	PEFA Assessment	Active	P175522	Bank Executed	100,000.00	-
<b>GRAND TOTAL</b>					<b>7,857,025.65</b>	<b>3,419,166.28</b>



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