

# NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT | July - December 2018

## Nepal Public Financial Management Multi-Donor Trust Fund

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WORLD BANK GROUP

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PROGRESS REPORT

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# ACKNOWLEDGMENTS

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

# ABBREVIATIONS AND ACRONYMS

BER	Budget Execution Report
CAAT	Computer-Aided Audit Techniques
CIAA	Commission for the Investigation of Abuse of Authority
CSO	Civil Society Organization
EWP	Electronic Working Paper
FCGO	Financial Comptroller General Office
FMIS	Financial Management Information System
GESI	Gender Equity and Social Inclusion
ICAN	Institute of Chartered Accountants of Nepal
ICGFM	International Consortium of Government Financial Management
ICR	Implementation completion report
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standard
IPFMRP2	Integrated Public Financial Management Reform Plan 2
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
MoFALD	Ministry of Federal And Local Development
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
NAMS	National Accounting and Management Service
NFRS	Nepal Financial Reporting Standard
NPSAS	Nepal Public Sector Accounting Standard
OAGN	Office of the Auditor General (of Nepal)
OPCS	Operation Policy and Country Services
PAC	Public Accounts Committee
PCC	Program Coordination Committee
PEFA	Public Expenditure Financial Accountability
PFM	Public Financial Management
PRAN	Program for Accountability in Nepal
RMIS	Revenue Management Information System
SAI	Supreme Audit Institution
SOAG	Strengthening the Office of Auditor General of Nepal (Project)
SPFM	Strengthening PFM System (Project)
TSA	Treasury Single Account
USAID	United States Agency for International Development
VDC	Village Development Committee

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# FOREWORD

Dear PFM MDTF Partners and friends,

Last semester has seen the conclusion of the preparation and approval of the Integrated Public Financial Management Reform Project (IPFMRP) with the formal signing of the grant agreement between the Bank and the government in August as well as the declaration of effectiveness in September and the first disbursement of US\$ 1 million in November. We are now in a phase where the MDTF resources are entirely committed towards this project. The total contributions to this PFM MDTF since its creation in 2010 are US\$ 36.7 M and US\$ 15 M from this amount is now being used for the current project, which shows its importance in our joint undertaking.

The progress report, in its structure and narrative will, from now on, be closely reflecting the implementation of the project. We are providing a single results framework (P.9-11) to reflect the linkages between the high-level objectives of the MDTF, the result framework of the IPFMRP and the various other activities outside of the MDTF which are contributing to these objectives. Other activities might include PFM-related budget support operations that the Bank and maybe others might provide (Fiscal and PFM DPC1 and 2 as far as the Bank is concerned), other TA activities provided by bilateral agencies and also activities initiated and conducted by the government without external partners' involvement. This framework is likely to be quite incomplete at this stage, especially when outside-MDTF activities are concerned but hopefully, it will become more accurate with time.

The PCC meeting co-chaired by Sri Krishna Nepal, IECCD Chief and Faris Hadad-Zervos Bank Country Manager that closed the period has been scheduled 10 January 2019 and has been positive as well as productive. It has been decided that the government would update the PFM strategy and action plan (2016-2026) to reflect the substantial changes that

have occurred since the 2017 elections and the implementation of the transition to federalism. The new document will provide a comprehensive vision and plan for PFM reform across the three levels of government. It has also been decided that a federal PEFA assessments will be conducted by the government as soon as three full fiscal years will have passed since the beginning of the transition to federalism i.e. first half of calendar year 2020.

During this meeting the Australian ambassador Peter Budd pledged an additional contribution to the MDTF in the amount of AUD 2.5 M.

Even if the issue has not been raised at the last PCC, the first months of IPFMRP implementation, the updated government PFM strategy as well as additional contributions will warrant a discussion on the possible extension of the MDTF closing date, which is now January 2022. It is hoped that a decision on this can be reached at the next PCC meeting.

I hope you will enjoy reading this issue of the PFM MDTF progress report.



**Franck Bessette**  
Program Manager, Nepal PFM MDTF

# PART I.

## IPFMRP Implementation Status

### 1. Launch of the IPFMRP



*Pic 1.*

FCG Suresh Pradhan and WB Country Manager, Faris H. Hadad Zervos at the formal launch of the IPFMRP project

The Project Launch and first Implementation Support Mission for the Nepal Integrated Public Financial Management (PFM) Reform Project (P164783) took place from Sept 25, Oct 04, 2015. The mission was led by Jiwanka Wickramasinghe (Task Team Leader); Akmal Minallah (Co-TTL) and Zafrul Islam (Co-TTL) under the overall guidance of Franck Bessette (program manager, PFM MDTF).

### 2. First Implementation support Mission

The mission was organized to: (a) formally launch the project to creating awareness of the project among key stakeholders including decisions makers, civil society organizations, SNGs etc; (b) provide essential training on fiduciary; (c) carry out the first implementation support mission which will discuss

and approve the annual implementation plan, guide the preparation of the initial procurement packages and assess other readiness actions to enhance the implementation performance of the project towards achieving the PDOs and results.

The Aide memoire of the mission is attached as annex I in page 20.

### 3. IPFMRP Results Framework

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

## PDO Indicators by Objectives / Outcomes

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



## Intermediate Results Indicators by Components

<b>Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments</b>				
<b>Credible Medium Term Expenditure Framework (MTEF) in place (Text, Custom)</b>				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Basic guidelines for MTEF at federal level in place.	-	Basic guidelines for MTEF at federal level in place.	difference between multi-year estimates and subsequent setting of annual budget ceilings are clearly explained.
Date	31-Jan-2018	-	04-Oct-2018	30-Jun-2021
<b>Comprehensive internal control procedures adopted at SNGs. (text, Custom)</b>				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	(a) No coherent internal control framework exists that ensures consistency in these practises across the three tiers of Government	-	No coherent internal control framework exists that ensures consistency in these practises across the three tiers of Government	SNGs that cumulatively manage 50% of overall SNG budget have their own internal control manual adopted.
Date	31-Jan-2018	-	04-Oct-2018	30-Jun-2021
<b>Integrated Financial Management Information System (IFMIS) developed and pilot tested (Text, Custom)</b>				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Zero Pilots	-	Zero Pilots	2 Pilot sites
Date	31-Jan-2018	-	04-Oct-2018	30-Jun-2021
<b>Enhancing participation and capacity of technical female staff in trainings / workshops (Text, Custom)</b>				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	-	0%	30%
Date	31-Jan-2018	-	04-Oct-2018	30-Jun-2021

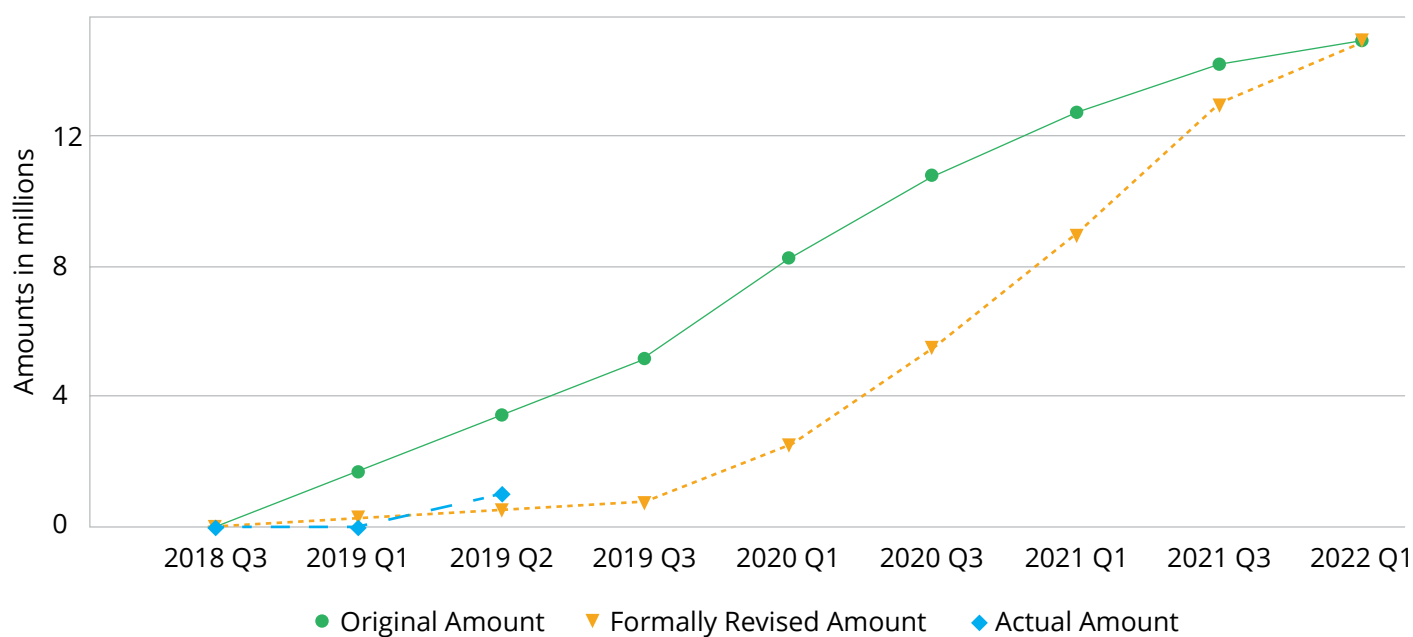
<b>Unified budget guidelines including gender responsive budget processes introduced to SNGs (Text, Custom)</b>				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No unified budget guidelines including gender responsive budget processes for SNGs	-	No unified budget guidelines including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

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

## Disbursement Summary

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

## Cumulative Disbursement



## 4. 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 will update the risk assessment and

discuss with government appropriate mitigation measures. The progress report will provide an update of the risk assessment.

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

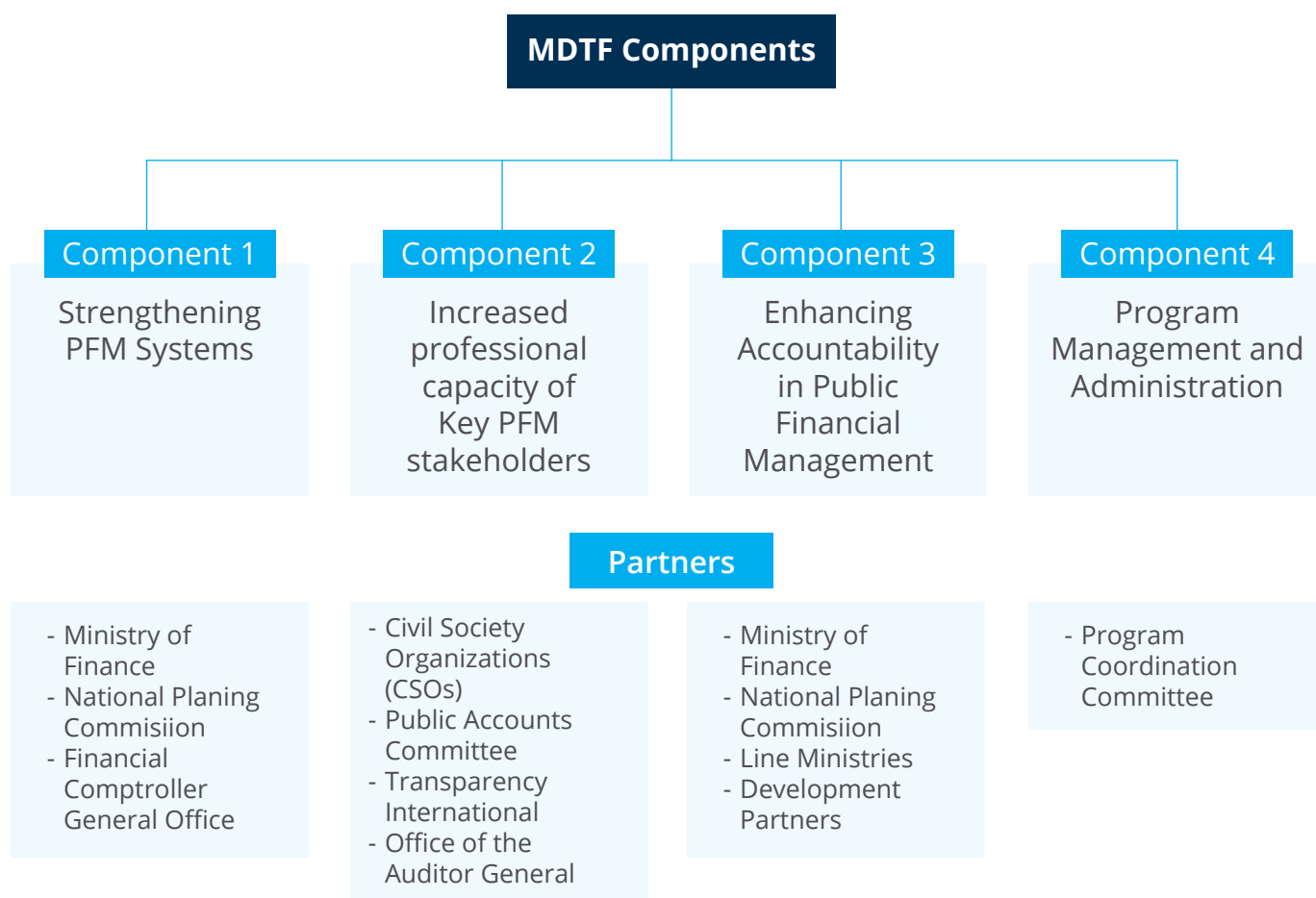
# PART II.

## Program Results

### 1. MDTF Components

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

Figure 1: MDTF Components



## 2. Ongoing key PFM Reform Actions

Below are a sample of key reform actions supported under the PFM MDTF which are critical for the federalism transition and could potentially impact positively PFM performance in Nepal.

### 1. MoF's strategic note on IT and the IFMIS study

The MoF, under an adhoc committee represented by Budget Division, FCGO and IECCD, has developed a strategic paper on IT development, which has been approved by the Minister. The paper envisions the establishment, in a medium-term perspective, of an integrated financial management information system (IFMIS) that will cover all functions of the MoF and the entire budget cycle and encompass the three levels of government. Such an undertaking would provide a solid backbone not only for planning, allocating, budgeting, spending, reporting and auditing public finances but also increase opportunities for transparency and citizen engagement. The various modalities through which this vision can be implemented as well as their respective cost will be clarified by a comprehensive study taking stock of the existing financial management systems and proposing scenarios for future development. This study has been internationally advertised in December 2018 and should be finalized at the end of this fiscal year.

The strategic note also envisages the strengthening of the current systems and their roll-out at the provincial level in a shorter term as well as immediate measures to fill in the system gap at the local level.

### 2. Roll-out of Sutra and enhancement of current systems

The IT strategic note has decided, as an immediate stop-gap measure targeted to local levels, the addition to the Sutra package of several modules, including a tax collection module and the roll-out of this package to the 60% or more of local entities which are currently not using Sutra. The government has asked DFID and USAID's support to effectuate this series of activities. The government expects this expanded package to be fully operational for next fiscal year. MDTF has offered support for this very important undertaking if need be.

### 3. Internal control guidelines

Sound internal control systems are designed to ensure that government operations attain some basic fiduciary standards. This has been identified for several years as one of the weaknesses in Nepal PFM framework. This is now compounded with the transition to federalism which increases notably fiduciary risks. The FCGO has prepared internal control guidelines for the three levels of government, which will be presented to cabinet for approval in January 2019. The implementation of these guidelines will require substantial training and capacity building.

### 4. Engagement with Parliaments

The objective is to build capacity of the federal and provincial legislative/parliamentary public accounts committee in the changed context of federalism, to provide training opportunities for staff

as well as knowledge exchange opportunities for Parliamentarians and develop operational guidelines for them. The exact modalities of this support are still being discussed with PAC Secretariat and at the level of Speaker.

### 5. PFM Academy

The government has decided to transform the revenue training center into a PFM Training center. This PFM TC has developed

a strategy (2018-2023) to become a PFM Academy, covering all aspects of PFM training and capacity building and all three levels of government. The Academy also aims at producing knowledge in the PFM area and steer professional and public debate in this field. While initial activities are supported by the MDTF, additional resources will be required to support implementation of the strategy.

## 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"> <li>Improved aggregate capital budget out turns at federal level</li> <li>Comprehensive accounting and reporting procedures in place in federal and SNGs</li> <li>Credible MTEF in place</li> <li>Contracts awarded within the initial bid validity period by 5 KSAs and selected SNGs</li> <li>Basic procurement docs and guidelines developed for SNGs (out of master list of sub- national level docs to be prepared)</li> <li>System generated performance reporting prepared for KSAs</li> </ul>	<ul style="list-style-type: none"> <li>MTEF guidelines FOR **SNGs issued by NPC (one for provinces, one for local governments) in Nov 2018.</li> <li>NPSAS implementation support through action plan developed by FCGO. A/c professionalization for FCGO and other selected staff in three levels of GoN</li> <li>General internal control guidelines have been prepared by FCGO and adopted by MoF for three levels of government</li> <li>Revision of 2017 CoA</li> </ul>	Bank's Development Policy Credit2is supporting key policy reforms to strengthen budget cycle across three levels of government	<ul style="list-style-type: none"> <li>IPFMRP Implementation support mission in February 2019</li> <li>Operationalization of internal control guidelines</li> <li>Finalization and OAG approval of new CoA</li> <li>Training on NPSAS</li> </ul>
	Enhanced efficiency and integration of core financial IT systems is evidenced	<ul style="list-style-type: none"> <li>IFMIS developed and pilot tested</li> </ul>	<ul style="list-style-type: none"> <li>IFMIS study consultancy advertised</li> <li>SuTRA, LMBIS and TSA roll out implemented by DFID and USAID. MDTF providing advisory support</li> </ul>	<ul style="list-style-type: none"> <li>Sutra is being enhanced and rolled-out by DFID and USAID</li> </ul>	<ul style="list-style-type: none"> <li>Finalization of Sutra roll-out</li> <li>IFMIS study finalized</li> </ul>

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



	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"> <li>• Support to federal and provincial PAC. ToRs waiting for Speaker's approval.</li> </ul>		
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\*CPA – citizen participatory audit  
 \*SNGs – sub national Governments  
 \*\*\*PFMTC – PFM Training Centre (PFM Academy)

### 3. Proposed Value for Money Strategy and Framework for IPFMRP

At the initiative of DFID and as agreed with government and MDTF partners, a mission to come up with a VfM strategy for the program took place late September 2018 in Kathmandu. During this mission, discussions were held with key stakeholders (Government of Nepal, DFID and the World Bank) on data availability and identification of VFM indicators for detailed analysis. During a technical discussion workshop of IPFMRP, there was an opportunity to present VfM concept and its applications as it applies to the program. It seems that the necessary buy in of those partners for the strategy was secured. What is proposed below as a framework is a result of those consultations. This write-up is the summarized version of a longer note, presented and discussed among MDTF partners.

#### Key Considerations for the Proposed Strategy

There are a number of issues that were taken into account while drafting the proposed framework. They are summarized below:

- **A simple and brief framework** which does not add undue reporting burden. This was emphasized by all MDTF partners. A complex and lengthy framework is unlikely to be used going forward.
- **Choice of indicators** was made also considering the ability to be tracked in terms of results and corresponding costs.
- **Presenting a useful tool which can guarantee GoN's buy in and sustainability** going forward. A

VfM framework and its reporting can help GoN demonstrate good program management performance and help in getting more financial aid.

- **Covering 4 Es sufficiently** to address DFID processes and requirements such as internal audit and annual review reporting.
- **VfM metrics proposed here can be reviewed periodically** with a view to their utility. The metrics can be improved as PFM (that provides the information) improves.
- **The VfM strategy should fit into the wider M&E activities and results frameworks of IPFMRP.** All VfM reporting should contribute to better learning for the program itself, and where applicable, for wider DFID Nepal country program.
- **The experience from other programs was reviewed.** A set of VfM metrics used in DFID-funded PFM programs elsewhere and in Nepal was compiled and referred to for the proposed VfM framework.
- One key challenge about IPFMRP is that the **financial reporting may not be amenable to making VfM calculations.** During the consultations in Kathmandu, it was understood that a financial report format was agreed, and this was shared with the VfM Consultant. The template follows mainly government budget categories and therefore, it may not be possible to link results with all associated costs. For results monitoring, it is expected that PEFA

Secretariat will task officials to carry out this function in a way that results articulated in the World Bank PAD and GoN PFM Strategy document can be monitored and reported against. Nevertheless, the VfM framework below is designed considering this significant challenge.

- Similar to the above issue, **VfM frameworks normally designate responsibilities for data collection and reporting.** For IPFMRP, reporting responsibilities might evolve and become better defined once implementation starts. However, at the time of writing, this was not entirely clear. Overall, PEFA secretariat will be responsible for coordination and collection of results from agencies involved. It is conceivable that MDTF program management team will also be involved. Where possible, recommendations

are made as to the designation of reporting responsibility under each indicator.

- **Frequency of VfM reporting,** should be harmonized with periodic reporting by MDTF/ PEFA Secretariat. In the previous phase this was done biannually, and at the time of writing, our understanding is that financial reporting will be done on trimester (every 4 months) basis. **It is recommended to have annual VfM reporting, and at the very least at IPFMRP program reviews, this should be carried out.**
- **VfM is a relative concept,** and therefore VfM results make sense in comparison to something. For IPFMRP, **a trend analysis covering year-on-year performance comparison, or external benchmarking to other similar PFM programs** in Nepal and/ or the region should be used.

## Proposed VfM Framework

VfM Domain	Indicator	Reporting Responsibility	Remarks/Evidence/Source
Economy	Standard (Routine) Procurement Lead Time	PEFA Secretariat, MDTF PM team	Achievement of shorter time for procurement over program implementation will provide a proxy for improved economy performance. World Bank's STEP helps track detailed information about all procurement.
Economy	Cost savings (tracked and monetized) examples through procurement or other cost-conscious behavior	All implementing agencies to record and report to PEFA Secretariat, MDTF PM team	Quantified or monetary records of how much the savings amount to.
Efficiency	Cost per Beneficiary of Capacity Building Support	PEFA Secretariat, MDTF PM team	Trainings will be a significant part of the IPFMRP and therefore tracking the performance on that is important.
Effectiveness	Trends on spending performance on capital budget by GoN vs spend to date (on program funds from the basket fund)	PEFA Secretariat, MDTF PM team	This is also a key result agreed by MDTF (requires the execution rate of the capital budget to reach 50% at the end of the second trimester, and 90% at the end of the year, by the program end.

Effectiveness/Cost effectiveness	Efficiency savings (quantified or monetized)	PEFA Secretariat, MDTF PM team	Such as from reduction of leakage of public funds, better integrated IT systems, IFMIS implementation, etc. This may require additional external support at reviews of the program.
Effectiveness	Evidence of Enhanced Capacities at Civil Service	PEFA Secretariat, MDTF PM team	Can be qualitative. Annual OAG Report is also likely to have examples of these.
Equity	Evidence of equitable reach or better pro-poor resource allocation.	PEFA Secretariat, MDTF PM team	Examples such as in the areas of implementation of Gender responsive budgeting principle, or evidence of better resource allocation to pro-poor sectors, better citizen participation in budget preparation and monitoring processes.

# PART III.

## Program Management and Administration

### 1. Various Activities

#### A. Technical Review Meetings

- i. **November 13, 2018:** In the technical review meeting held on Nov 13, MDTF management started the meeting by informing everyone on the implementation status of IPFMRP. On Nov 1 and 2, the Bank FM and procurement team were invited to participate in a residential workshop in Dhulikhel that the PEFA Secretariat organized with all implementing agencies to discuss IPFMRP's implementation. The workshop was successful, and it was nice to notice PEFA play its coordinating role. MOFAGA, PPMO, OAG were among the agencies represented. The management also shared that a first disbursement of US\$ 1 million has been processed, under the IPFMRP, with a value date of 26 October. Aide Memoire and the agreed actions were discussed in the meeting. The next implementation supervision mission will take place in the first quarter of 2019. Besides these missions that take place twice a year, the Bank team will organize frequent technical meetings for MDTF partners and share updates via emails.
- ii. **December 20, 2018:** In the technical review meeting held on Dec 20, DFID started by giving an update on SUTRA. While DFID is responsible for development and further enhancement of SUTRA at local level, USAID is responsible for its roll out, training of people etc. both may fund different phases, but their objective remains same which is for SUTRA to be effectively implemented and used at the local level. MDTF management mentioned that it is important for us to understand what enhancement of SUTRA means as the timeline will depend on it. The management also suggested that the current package with a tax module would be

a good one to start with. The management also emphasized that we need to start thinking of the sustainability and strengthen the training of trainer's component of the work.

MDTF management gave an update on a workshop between World Bank and PEFA Secretariat organized on Dec 19 to mainly follow up on the agreed actions of the previous mission of IPFMRP which was held in October. This was a technical discussion and was very useful to expedite the planned activities. The next mission is tentatively planned for the 18 of February 2019.

The preparation of PCC meeting was planned for January 10 at the world bank office. MDTF management met with IECCD chief, Mr. Shreekrishna Nepal ahead of PCC meeting. GoN is planning to present a list of additional reforms that they need support for. The donors are very keen to showcase this to their Heads of Agencies to secure future commitments.

#### iii. Workshop with PEFA Secretariat, December 19, 2018

A one-day workshop was held with World Bank and PEFA Sec. Team on Dec 19 Wednesday at The World Bank office). The agenda of the meeting was to: Review status of agreed actions from previous mission, then review status of Work Plan along with status of ongoing TORs and see how we can help finalize (NPSAS, IFMIS study, PAC, Training needs). Apart from this, the joint team reviewed status of Sutra roll-out and status of recruitment of the procurement expert for PEFA. The team also discussed training plan for PEFA staff and modalities. They also Followed up about PEFA assessment in 2019 and talked about the possible use of additional funds and Quickly touched upon upcoming PCC meeting agenda.

## 2. PFM MDTF Field Trip, Baglung and Mustang in Gandaki (Province 4)



*Pic 1.*

With Jomsom, Mustang DTCO team

A joint field trip with donors was organized to Province 4 during this period. The main objective of the trip was to discuss the status and challenges of PFM systems in the Province, Municipalities and Rural Municipalities in the federal context. The team met with various Chief Treasury Controllers and also District Coordination office of the committee.

We discussed establishing a Provincial Treasury Comptroller's Office (PTCO). Also Maintain divisible funds and allocate funds to respective governments (province, municipalities). Financial reports from the local governments (LGs) have been received to District Treasury Control Office (DTCO) from this fiscal year as a condition to release next trimester budgets. The reports are based on old template and on manual basis. Out of 10 Palikas in Baglung, eight (8) receive support from the DTCO on internal audits. Other two have not sought for this support. The DTCO encounters three challenges to run an online system – i) low capacity of the server, ii) unreliable internet access and iii) inadequate bandwidth. SUTRA is being used by two Palikas. Following are the challenges in using SUTRA:

- Unreliable internet access
- Low technical capacity. Some two staff in each

Palika have received training, while, they are yet to develop necessary skills

- Lack of political commitment. They may not want to use a standardized system.

### **Some key Issues were:**

- Transition is not yet completed and affected the sub-national government functioning. For instance, provincial offices are being set up in the district where as there already exist federal offices doing similar works. This has created confusion in the provincial and federal offices about their jurisdiction and delivery of services.
- DTCO is running TSA, LMBIS, RMIS and CGAS system. SuTRA training is provided to all LGs and only 2 LGs are currently using this system. Both DTCO and LGs are having challenges in terms of capacity of server, internet access and competency of staff.
- There is lack of internal controls in the LG due to absence of system and lack of financial management understanding among the elected leaders. There is need of strengthening internal audit function in the LGs. A separate division can be mandated for audit function at provincial level.

### In the office of the DCC: key findings.

1. The DCO is in Mustang for last eight months.
2. The DCC is responsible for coordination and monitoring of the activities at the district level. However, its functions and responsibilities are largely unclear. It is also unclear if the DCO reports to the provincial or federal government. At present, the DCO reports to the MOFAGA.
3. There is a total of 13 staff in the DCC. Out of 13, six are temporary staff.
4. Each provincial MP gets a budget of 40 MNPR. The DCC coordinate prepare plan to implement projects under this budget.
5. The crime rate is almost zero in Mustang. The district court mainly deals with divorce cases.



*Pic 2.*  
At DCC office in mustang



*Pic 3.*

#### USAID and DFAT team at Upper Mustang (Lo Manthang)

Lo Mantang DTCCO and rural municipality (Mr. Pradeep Poudel, Accountant, Lomantang Gaupalika, Jhigmi Dabur Gurung, Ward Member, Pasang Gurung, Ward Member, Karjung Bista, Women Member)

# PART IV.

## FINANCIAL REPORT

As of December 31, 2018, the total pledged amount to PFM MDTF by its six donors was US\$ 20.58 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\$ 14.21 million, with the balance of pledged funds to be paid into the

MDTF account, administered by the World Bank, as per the Administration Agreements.

The total disbursement (TF 071617+ TF072582) as of December 2018 is USD 16.77 million (about 94% of total fund receipt). For the further details refer to (Table 2)

Table 1: Donor Contribution to MDTF as of December 31, 2018

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	.0
EU-Commission of the European Communities	EUR	4.50	5.62	4.50	5.62	.0	.0
Norway - Ministry of Foreign Affairs	NOK	15.0	2.62	15.0	2.62	.0	.0
Swiss State Secretariat for Economic Affairs (SECO)	CHF	3.0	3.07	3.0	3.07	.0	.0
United Kingdom - DFID	GBP	3.50	5.57	3.50	5.57	.0	.0
United States Agency for International Development (USAID)	USD	.71	.71	.71	.71	.0	.0
<b>Sub Total</b>			<b>20.58</b>		<b>20.58</b>		<b>.0</b>

Trustee Account: TF072582							
Customer Name	Currency	Amt 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	2.80	2.02	2.80	2.02	.0	.0
EU-Commission of the European Communities	EUR	3.0	3.37	3.0	3.37	.0	.0
Norway - Ministry of Foreign Affairs	NOK	34.0	4.20	13.0	1.57	21.0	2.4
United Kingdom - DFID	GBP	3.0	3.93	3.0	3.89	.0	.0
United States Agency for International Development (USAID)	USD	0.60	0.60	0.60	0.60	.0	.0
<b>Sub Total</b>			<b>14.21</b>		<b>8.8</b>		<b>2.4</b>
<b>GRAND TOTAL</b>			<b>35.17</b>		<b>29.76</b>		<b>2.4</b>

**Nepal PFM MDTF Financial Status**  
**Table 2: Disbursements as of December 31, 2018**

Financial Report for TF071617 As of December 31, 2018										
Grant Number	Grant Name	Legal Status	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.	ACTIVE	9/30/2021	838,313.37	824,461.16	98%	11,824.13	11,248.65	575.48	0.00
TF010454	Preparation, appraisal, supervision, monitoring, reporting costs of Strengthening PFM Systems	ACTIVE	9/30/2021	551,574.17	551,555.31	100%	18.86	-	18.86	-
TF012668	NLTA under the SPFM Project to Govt of Nepal	ACTIVE	1/31/2022	800,000.00	594,787.51	74%	200,571.18	-	200,571.18	-
TF0A3254	Nepal-Support for Fiscal Management (TA)	ACTIVE	6/30/2019	450,000.00	363,548.91	81%	86,451.09	2,276.24	84,174.85	-
TF0A7475	Integrated Public Financial Management Reform Project	ACTIVE	7/30/2021	4,800,000.00	-	0%	4,800,000.00	4,800,000.00	-	-
TF099621	Strengthening the TSA System, Financial Reporting, and PFM Capacity Building	DROPPED	7/15/2014	4,000,000.00	0.00		0.00	0.00	0.00	0.00
TF0A5038	Nepal MDTF-IFMIS	DROPPED	9/30/2017	200,000.00	-		-	-	-	-
TF013011	Operational Risk Assessment of PFM reform in Nepal	LEGALLY CLOSED	6/30/2013	199,983.75	199,983.75		0.00	0.00	0.00	0.00
TF010482	PREPARATION AND SUPERVISION COSTS OF STRENGTHENING OFFICE OF THE AUDITOR GENERAL PROJECT	LEGALLY CLOSED	6/30/2016 12/31/2014	218,757.49	218,757.49		-	-	-	-
TF012492	NP ED PETS	LEGALLY CLOSED	12/31/2014	148,346.99	148,346.99		-	-	-	-
TF012524	Strengthening Civil Society Organisations' Use of Social Accountability to Improve Public Financial Management in Nepal	LEGALLY CLOSED	11/30/2015	699,283.48	699,283.48		-	-	-	-
TF015354	Nepal: Strengthening Budgeting Process	LEGALLY CLOSED	6/30/2016	701,591.45	701,591.45		-	-	-	-
TF017673	Nepal ROSC A&A	LEGALLY CLOSED	6/30/2015	7,720.19	7,720.19		-	-	-	-
TF0A0370	Strengthening Civil Society Organizations' use of Social Accountability to improve PFM in Nepal 2	LEGALLY CLOSED	12/31/2017	547,921.69	547,921.69		-	-	-	-
TF010452	Strengthening Public Financial Management (PFM) System (Treasury System, Financial Reporting and PFM Capacity Building)	LEGALLY CLOSED	6/30/2016	4,242,311.23	4,242,311.23		-	-	-	-
TF010455	Strengthening the Office of the Auditor General Project	LEGALLY CLOSED	6/30/2016	2,219,468.89	2,219,468.89		-	-	-	-
TF012485	Strengthening Civil Society Organisations' use of Social Accountability to improve Public Financial Management in Nepal	LEGALLY CLOSED	9/30/2014	800,000.00	800,000.00		-	-	-	-
TF0A0369	Strengthening Civil Society Organizations' use of Social Accountability to improve PFM in Nepal 2	LEGALLY CLOSED	12/31/2016	923,734.12	923,734.12		-	-	-	-
TF0A1065	Nepal : Strengthening Public Financial Management II	LEGALLY CLOSED	7/31/2017	2,692,114.05	2,692,114.05		-	-	-	-
<b>TOTAL</b>				<b>4,843,689.25</b>	<b>15,735,586.22</b>		<b>5,098,865.26</b>	<b>4,813,524.89</b>	<b>285,340.37</b>	<b>-</b>

Admin Fee	419,156.69
Unallocated from the Paid in Funds	15,694,988.35
<b>Total</b>	<b>20,957,834.29</b>

Note: The total paid in contributions from DPs is USD 20,957,834.29. Investment Income till this period is USD 365,177.73 is not included in the above table.

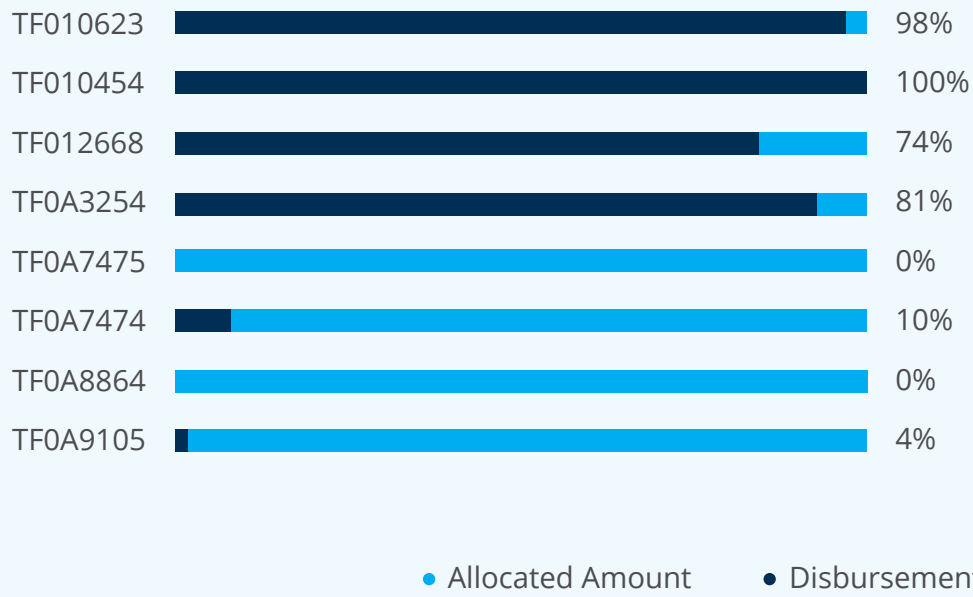
Financial Report for TF072582 as of Dec 31, 2018										
Grant Number	Grant Name	Legal Status	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD	Investment Income USD	
TF0A7474	IPFMRP Supervision all components	ACTIVE	10,200,000	1,010,225.5	10%	7,471,694.14	9,189,774.5	-1,718,080.36	0.00	
TF0A8864	Program Admin. and Mgmt Cost	ACTIVE	500,000.00	0.00	0%	300,000.00	0.00	300,000.00	0.00	
TF0A9105	IPFMRP Supervision all components	ACTIVE	500,000.00	18,518.67	4%	318,506.98	0.00	318,506.98	0.00	
<b>TOTAL</b>			<b>11,200,000.00</b>	<b>1,028,744.17</b>	<b>14%</b>	<b>8,090,201.12</b>	<b>9,189,774.50</b>	<b>(1,099,573.38)</b>	<b>-</b>	

Admin Fee	510,000.00
Unallocated from the Paid in Funds	255,739.45
<b>Total</b>	<b>11,965,739.45</b>

Note: The total paid in contributions from DPs is USD 11,454,260.55. Investment Income till this period is USD 250,874.35 is not included in the above table.



Figure 2: Activity-wise Allocation and Disbursement



# Annex 1.

## IPFMRP Aide Memoire of the first implementation support mission September 26 to October 4, 2018

- During September 26 to October 4, 2018, a Bank Team led by Jiwanka Wickramasinghe, Akmal Minallah and Zafrul Aslam (refer Annex 1) carried out the formal project launch and the first Implementation Support consultations for the Integrated Public Financial Management Reform Project (IPFMRP). This Aide Memoire (AM) summarizes the findings on the status of the 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 October 4, 2018 with the PEFA Coordinator Mr. Sushil Pandey, as the chair. The persons met is attached in Annex 2. As agreed during the wrap-up meeting, this Aide Memoire will be at public disclosure as required by the Bank's Access to Information Policy.

### OVERALL STATUS AND KEY PROJECT DATA

- The development objective of the IPFMRP is "Strengthening the effectiveness of selected Public Financial Management (PFM) institutions and procurement institutions, systems, and procedures at the federal and subnational levels."
- accounting and reporting procedures in place in federal and subnational governments;
- (3) Improved audit planning and quality management for audit of federal and subnational entities; and (4) Improved timeliness of contract award in selected key sector agencies (KSAs) at federal level and selected subnational governments.
- PDO-Level Results Indicators/Key Results: (1) Improved aggregate capital budget out-turns at the federal level; (2) Comprehensive

Project Data		Projects Performance Ratings	
Approval Date:	June 27, 2018	Summary Ratings	Current
Effectiveness Date:	August 24, 2018	Achievement of PDO	S
Closing Date:	July 30, 2021	Implementation Progress	S
Grant Amount:	USD 15,000,000	Monitoring & Evaluation	S
Amount Disbursed (As of September 30, 2018)	0	Project Management	S
		Procurement	MS
		Financial Management	S
		Counterpart Funding	S
Ratings: HS=Highly Satisfactory; S=Satisfactory; MS = Moderately Satisfactory; MU = Moderately Unsatisfactory; U=Unsatisfactory; HU=Highly Unsatisfactory			

4. The Government of Nepal in collaboration with the Bank, formally launched the Project on September 27, 2018 under the leadership of the Financial Comptroller General (FCG) and the World Bank Country Manager. Senior officials and project teams from all project implementing agencies, representatives of development partners of the Multi Donor Trust Fund and the Bank task team participated in the event.

The objective of the event was to provide an overview of the project objectives, results and components and discuss implementation arrangements. FCG and other senior Government officials pledged support for project activities. Leading up to the formal launch, the essential operational training was provided to all the implementing agencies.

## KEY POINTS DISCUSSED AND AGREED ACTIONS

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

5. **Medium Term Expenditure Framework (MTEF):** The Bank team was informed of the need to strengthen the existing fiscal forecasting model and further strengthening the existing MTEF processes. There exists a manual for preparation of MTEF, which needs to be improved and updated to suit its usage at the provincial and local levels. The Intergovernmental Fiscal Arrangement Act mandates the subnational level governments to prepare MTEFs, and therefore it is crucial to develop uniformity in the preparation of MTEF templates and guidelines at Sub-National Government (SNG). Additionally, the National Planning Commission (NPC) also requires a software for forecasting and for sectoral projections. NPC also plans to establish an inventory of projects (Project Bank) that will feed into the MTEF process. It was agreed that a consultancy firm will be hired to cover these activities and start with a Quality Assurance (QA) review of the existing arrangements. A draft Terms of Reference (TOR) has been prepared.
6. **Revenue Management:** The Bank and Norway Tax for Development team are exploring the possibility to jointly conduct an assessment of tax systems at both the federal and subnational levels

in agreement with the government. Furthermore, the Internal Revenue Department (IRD) has proposed an awareness program on tax issues for SNGs executives and parliamentarians.

7. **Just-in-time support for improving subnational government (SNG) fiduciary assurance:** Government counterparts noted that despite some gaps, Sub-national Treasury Regulatory Application (SUTRA) provides an immediate term solution to the budgeting, accounting and reporting requirements at the local level and informed the mission that SUTRA development and roll out work will continue. Additionally, the Bank team requested the Government to provide support to SNGs to clear the backlog and prepare financial statements for FY 2017/18. Directly aligned with project results, the Project will support the FCGO to prepare a model budgeting, accounting and reporting procedural manual for SNGs; To complete the support to the local level, Government via other sources of financing, will continue to maintain a help desk and establish additional help desks at the Provincial Government HQs; provide IT equipment, internet connectivity and refresher training.

- 8. Integrated Financial Management Information Systems (IFMIS):** The team discussed and agreed to fast track the IFMIS Study that covers all tiers of Government that will provide recommendations for a medium-term strategy and action plan to implement an integrated solution to improve financial management. A draft TOR was discussed during the mission, accordingly PEFA Secretariat will finalize the ToR and communicate to the Bank.
- 9. Chart of Accounts (CoA):** Currently, there is partial use of the old CoA – GFS 2001 for expenditures at the federal level– while for revenues and SNG (province and local) at the lowest levels are using GFS 2014 compliant CoA effective FY2017. The team noted that the CoA can be improved further. It was agreed that an individual consultant will be hired to carry out a quality assurance of the chart of accounts and provide support to improve the CoA.
- 10. Strengthening fiscal reporting and controls:** FCGO is exploring to move to International Public-Sector Accounting Standards (IPSAS) 2017 framework in consultation with other stakeholders. The Government plans to conduct quality assurance of the current Nepal Public Sector Accounting Standards (NPSAS) and its implementation, training on how to prepare Financial Statements on the updated IPSAS and prepare a road map for accrual accounting, through consulting support including international expertise. Recommendations of this exercise will be used by the Government to inform the Accounting Standards Boards to update NPSAS on the basis of IPSAS 2017. It plans for an exposure visit to understand IPSAS implementation in a similar country and enhance FCGO capacity to prepare consolidated financial statements based on NPSAS. FCGO team is preparing a general internal control guideline for the GoN and seek consultancy support for quality assurance of these guidelines and to develop sector specific guidelines. An exposure visit is sought to study the best practices of internal control system and inform the general internal control guidelines. Institute of Chartered Accountants of Nepal (ICAN) has signed a Memorandum of Understanding (MoU) with the PEFA Secretariat. The Bank team urged ICAN to initiate the revision of Nepal Financial Reporting Standards (NFRS)<sup>1</sup>, hire consultants for Quality Assurance activities/NFRS training and start dialogue with select State-owned Enterprises (SoEs) in consultation with the Government to implement NFRS.
- 11. Capacity Building:** The Government of Nepal (GoN) has recently renamed the Revenue Administration Training Center as the Public Financial Management Training Center (PFM institute) which is responsible for fulfilling the skill and capacity gap of the government personnel in revenue and all areas of PFM. The PFM Institute is also expected to cater to the needs of sub-national government until such resource is available at the sub-national level. For developing a structured approach to fulfil this vision, an assessment has been planned to guide GoN on the required sequence of actions which is underpinned by a comprehensive Training Needs Assessment (TNA) for the three tiers of the government. With inputs from PFM Institute, the initial draft TOR is being revised for conducting Training Needs Assessment and developing a roadmap to strengthen the PFM Institute.
- 12. The Public Accounts Committee (PAC):** The PAC Chair has now been appointed and the PAC team is finalizing the initial draft of TOR for capacity development of PAC members and PAC Secretariat for Federal and Provincial governments.

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<sup>1</sup> Standards followed by the private sector and state-owned enterprises.

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

- 13. Support to audit planning and execution of federal and sub-national entities:** It was agreed that a consultancy firm will be contracted to support audit planning and execution in the federal structure, updating the existing manuals in the light of extended mandate of OAGN, support to quality assurance and effective follow up.
- 14. Effective use of IT systems:** OAGN has developed Nepal Audit Management System (NAMS) for better management of risk-based audit and acquired IDEA software for Computer Assisted Auditing Techniques. These applications should be optimally used through setting up of IT governance structure, improving the NAMS application for its seamless usage, access to information systems data like SuTRA, Treasury Single Account (TSA) etc., establishing Centre for Excellence for audit to enable effective use of data and training of auditors and adoption of disruptive technology like mobile phones, artificial intelligence to support effective audit in IT environment. These activities are included in part II of the ToRs.
- 15. Citizen Participatory Audit (CPA):** OAGN is collaborating with Global Partnership for Social Accountability (GPSA) for immediate needs of the CPA, which includes, updating the guidelines, mapping the CSOs in seven provinces, intensive training of performance auditors and CSOs and implementation of CPA in selected performance audits. This activity is expected to be completed by January 2019. Concurrently, OAGN is preparing a ToR for engaging a firm to support CPA for three years. Since hiring of firm will take around six months, the support from GPSA shall fill the gap. It was agreed that the development and implementation of citizen participatory performance audits with 50% female participation will increase to 150 in select 2 or 3 SNGs in year 1.

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

- 16. Capacity Development and Professionalization:** The TOR for the contract of capacity development and professionalization (about \$1.7 M) is finalized. The process of contracting has been initiated for award on a Direct Contracting method to the pre-identified institutions, that is, International Training Center of ILO (ITC-ILO)/ Turin in collaboration with the local institute, Nepal Administrative Staff College (NASC), as the nominated sub-consultant.
- 17. Other Major Consultancies:** The TORs of the two individual consultants (Lead Project Management Consultant and Procurement Specialist) have been finalized. Concurrently, PPMO is progressing to finalize the TOR of enhancing e-GP system.
- 18. Support to Sub-National Government (SNG):** The Bank team has broadly identified capacity constraints at the SNG level to deal with procurement. PPMO will prepare and issue at least the basic procurement documents and initiate training.

#### **Component 4: PFM Reform Management and Coordination**

- 19. Implementation Arrangements:** The Bank team discussed the legal covenants on the project related governance arrangements and established that the arrangements are in place. If there are any changes to these arrangements, it was agreed that, the Government will keep the bank abreast of the situation and take necessary actions to maintain satisfactory arrangements. The team was informed that the current PEFA Member Secretary is being rotated as per the official rotation policy, and subsequently his replacement was appointed and currently overlapping with the outgoing Member Secretary. The project teams in implementing agencies are in place,
- 20. Project Operations Guideline:** With due consultation with the Bank, PEFA Secretariat has finalized the IPFMRP Operation Guideline and it has been approved by the Secretary of Ministry of Finance as decided by the PFM Reform Steering Committee, which now forms the basis for all implementing agencies to implement project activities.
- 21. Citizen's Engagement (CE):** It was discussed and agreed that CE strategy will be developed by the PEFA Secretariat in consultation with all key stakeholders and an action plan prepared and adopted.

#### **FIDUCIARY COMPLIANCE**

- 22. Procurement Performance:** From the initial TORs received for Bank's review, it was evident that procurement related capacity needs further strengthening for the client to be able to distinguish information relevant for the TOR and information to be included in the subsequent stages of the procurement process. All three implementing agencies need to expedite the procurement activities of approved Procurement Plan (PP) on the Systematic Tracking of Exchanges in Procurement (STEP) system of the Bank. Approved procurement activities (prior/post review) should be updated in the first week of each calendar month by uploading bidding/ proposal documents, evaluation reports, contract documents and by revising the dates of those activities remains to be initiated and/or with red flags on STEP. The Project Procurement Strategy for Development (PPSD) should be followed with special attention provided to procurement caveats. In view of current progress, Procurement performance is rated "Moderately Satisfactory".
- 23. Financial Management (FM) Performance:** The Designated Account for the Project has been opened, Authorized Signatory Letter has been received and project account is being set up in the Client Connection. The budget for the current FY including counterpart funding is considered adequate. The Finance Officer dedicated for the Project has been assigned in PEFA Secretariat. As there are retroactive expenditures, it has been agreed with PEFA Secretariat to submit external audit report for the Project for FY 2017/18 by January 15, 2019. It was agreed to implement Computerized Government Accounting System (CGAS) in all IAs (already implemented in FCGO, PEFA Secretariat and PAC) upon assurance of its technical soundness. The 'Treasury Single Account' system will be used to generate project reports. There are no pending agreed actions at this stage. In view of the current progress, Financial Management rating is "Satisfactory".
- 24. Disbursement:** The retroactive expenditures for OAG component of around NPR 1.18 million (around USD 10,000) has been incurred. The project team is in the process of requesting reimbursement for this along with an advance into the Designated Account (advance up to the ceiling of USD 1 million). Approximately USD 1 million is planned to be spent during FY2018/19.

## ***SAFEGUARD MANAGEMENT***

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

**26. Gender Considerations:** It was agreed that as part of the Training Needs Analysis, a list of female staff and their training status will

be compiled, and the training plan developed in year 1. The team noted that no guidelines exist for the adoption of Gender Responsive Budgeting processes at SNGs. It was agreed that GRB procedures will be included in the unified budgeting guideline to be developed, and for the transition period the SUTRA guideline to include a separate section on GRB.

***NEXT REVIEW:*** The next review is tentatively agreed for March 2019.

# Annex 1.

## Bank Team

Name	Title
Franck Bessette	Lead FMS/MDTF Program Manager
Jiwanka Wickramasinghe	Sr. Financial Management Specialist and TTL
Zafrul Islam	Lead Procurement Specialist and Co-TTL
Akmal Minallah	Sr. Financial Management Specialist and Co TTL (The Co-TTLship was handed over to Yogesh Bom Malla).
Yogesh Bom Malla	Sr. Financial Management Specialist
Winston Cole	Lead Financial Management Specialist
Kene Ezemenari	Senior Economist
Timila Shrestha	Financial Management Specialist
Jaya Sharma	Sr. Social Development Specialist
Pragya Shrestha	Public Sector Specialist
Chandra Kishore Mishra	Procurement Specialist
Shraddha Shah	Operations Analyst
Shreeram Ghimire	Team Assistant
Nagendra Nakarmi	Sr. Program Assistant



# Annex 2.

## List of Persons Met

### **Ministry of Finance**

1. Mr. Adesh Khadka, IT Director

### **Financial Comptrollers General office**

1. Mr. Suresh Pradhan, Financial Comptroller General
2. Mr. Sansar Jung Dewan, IT Director
3. Mr. Baburam Subedi, Deputy Financial Comptroller General
4. Mr. Dinesh Regmi, Deputy Financial Comptroller General
5. Mr. Niraj KC, Deputy Financial Comptroller General

### **PEFA Secretariat**

2. Mr. Sushil Pandey, Coordinator, PEFA Secretariat
3. Mr. Murari Niraula, Member Secretary, PEFA Secretariat
4. Mr. Rajendra Bajracharya, National PFM Consultant, PEFA Secretariat
5. Mr. Shreeram Thakur, Accounts Officer, PEFA Secretariat

### **National Planning Commission**

1. Mr. Sushil Bhatta, Member
2. Mr. Khomraj Koirala, Joint Secretary
3. Mr. Narayan Khatiwada, Program Director-PPP
4. Mr. Arjun Prasad Poudyal, Under Secretary
5. Mr. Narhari Ghimire, Under Secretary
6. Ms. Babita Bhattarai, Planning Officer

### **Public Accounts Committee**

1. Mr. Netra Bhattarai, Under Secretary

### **Office of the Auditor General**

1. Mr. Tanka Mani Sharma, Auditor General
2. Mr. Ramu Prasad Dotel, Deputy Auditor General
3. Mr. Padam Raj Paudel, Assistant Auditor General
4. Mr. Ashok Kumar Karki, Director
5. Mr. Chandra Kanta Bhandari, Director

### **Public Procurement Monitoring Office (PPMO)**

1. Mr. Madhu Prasad Regmi, Secretary
2. Mr. Manish Bhattra, Director, IT Section
3. Mr. Ram Chandra Sharma, Director

### **Institute of Chartered Accountants Nepal (ICAN)**

1. Mr. Jagannath Upadhyay, President
2. Mr. Prakash Thapa, Immediate Past President
3. Mr. Ghnashyam Kafle, Director

# Annex 3.

## Agreed Actions

	Actions	Responsibility	Agreed timeline
1	a. Finalize TOR for consultancy to strengthen the MTEF related activities b. Recruit a firm with international expertise	NPC	November 15, 2018 January 31, 2019
2.	Finalize IFMIS TOR and share with the Bank	PEFA Secretariat	October 28, 2018
3.	Roll-out existing SuTRA modules to all SNGs, clear backlog, and extend support arrangements to be located at the Provincial Government HQs to service the LGs in the vicinity.	PEFA Secretariat	Within 3 months of recommencement of work
4	Undertake improvements of the CoA and seek approval of the OAGN.	FCGO	To be ready for inclusion in budget call circular for FY19/20
5	Prepare ToR for hiring consultants for NPSAS implementation	FCGO	October 31, 2018
6	Prepare ToR for hiring consultants for Internal Control guidelines	FCGO	October 31, 2018
7.	Hire consultants for QA activities and NFRS training	ICAN	November 15, 2018
8.	Finalize TOR for developing institutional set-up for PFM capacity building for the three tiers of Government and commence procurement	PEFA Secretariat	November 15, 2018
9.	Finalize TOR for capacity development of PAC members and PAC Secretariat and commence procurement	PAC	November 15, 2018
10.	Sign contract for capacity development and professionalization	PPMO	November 30, 2018
11.	Make on-board the Lead Project Management Consultant and Procurement Specialist	PPMO	October 31, 2018
12.	Develop basic procurement documents for SNG level (direct contracting, quotation, national bidding, tool kit/guidelines)	PPMO	December 31, 2018
13.	PPMO to coordinate with the 5 KSAs so that each of them nominates a Focal Person for the respective organization (DOR, DOLI, DOHS, DOI, DWSS)	PPMO/ KSAs	October 31, 2018
14.	Submit to the Bank time-bound Detailed Activity Plan (using format of PEFA) for the three sub-components covering all activities under Component 3	PPMO	November 7, 2018
15.	Prepare training module and initiate procurement training for SNG level	PPMO	December 31, 2018
16.	Sign contract for consulting firm/s to public sector audit and IT support	OAGN	January 30, 2019
17.	Finalize arrangements for CPA with GPSA	OAGN	January 30, 2019
18.	Submission of the first Withdrawal Application	PEFA	October 8, 2018
19.	Finalize the ToR for Procurement Consultant for IPFMR	PEFA	November 15, 2018
20.	Submit audit report for the Project for FY 2017/18	PEFA	January 15, 2019



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