



NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT | July – December 2021

Nepal Public Financial Management Multi-Donor Trust Fund

Supported by:



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WORLD BANK GROUP

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PROGRESS REPORT

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ACKNOWLEDGEMENTS

This progress report has been prepared by Victor B. Bonsu 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
BEK	British Embassy Katmandu
CE	Citizen Engagement
CGAS	Computerized Government Accounting System
CPA	Citizen Participatory Audit
CSO	Civil Society Organization
DFAT	Australian Department of Foreign Affairs and Trade
DP	Development Partner
e-GP	e-Government Procurement
EU	European Union
FCDO	UK Foreign, Commonwealth & Development Office
FCGO	Financial Comptroller General Office
FY	Fiscal Year
GRB	Gender Responsive Budgeting
HOA	Heads of Agency
IFMIS	Integrated Financial Management Information System
IPFMRP	Integrated Public Financial Management Reform Project
IT	Information Technology
LMBIS	Line Ministry Budget Information System
MDTF	Multi-Donor Trust Fund
MOFAGA	Ministry of Federal Affairs and General Administration
MTEF	Medium-Term Expenditure Framework
NAMS	Nepal Audit Management System
NBCMG	National Business Continuity Management Guidelines
NPSAS	Nepal Public Sector Accounting Standard
OAG	Office of the Auditor General (of Nepal)
PAMS	Public Asset Management System
PCC	Program Coordination Committee
PEFA	Public Expenditure Financial Accountability
PFM	Public Financial Management
PPMO	Public Procurement Monitoring Office
RMIS	Revenue Management Information System
SAI	Supreme Audit Institution
SNG	Sub National Government
TSA	Treasury Single Account
USAID	United States Agency for International Development
VFM	Value for Money
WB	World Bank

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FOREWORD



Victor Boakye Bonsu
MDTF Program Manager

Dear Partners and Friends

During the period covered by this report, the COVID-19 crisis continued to have a significant impact in the South Asia Region, including with respect to the loss of lives, as well as the great anxiety and emotional stress it has created, particularly as many families are struggling with the challenges of balancing work, parenting, and virtual schooling for children.

In Nepal, the Multi-Donor Trust Fund (MDTF) Development Partners (DPs) continued to be highly committed to improving the various sub-systems of public financial management (PFM) in the country. They have actively participated in technical meetings, several bilateral discussions and high-level meetings, including the Program Coordination Committee's (PCC) and Heads of Agency (HOA) meetings, to

provide guidance and support to the MDTF operation. The MDTF team continues to carry on the work of the Integrated Public Financial Management Reform Project (IPFMRP) despite the COVID-19 crisis, albeit with several delays and restrictions. The team is managing virtual consultations with Implementing Agencies on a bilateral basis. While the second wave of COVID-19 has significantly impacted implementation of activities, the team has noted the following progress: finalization of an accounting manual for three tiers of government based on Financial Procedures Regulations; finalization of internal control guidelines and Medium Term Expenditure Framework (MTEF) guidelines for three tiers of government; conducting an Integrated Financial Management Information System (IFMIS) assessment; operationalization of MTEF software; capacity building on Project Bank for provincial governments; and carrying out a training needs assessment for three tiers of government with roadmap development. The interim report on drafting the citizen engagement strategy has been shared with the Bank team and comments have been provided to the Government of Nepal (GoN). Further consultations on this will begin within government to advance work on completion of the strategy.

The MDTF team is also encouraged by the GoN's commitment to improved government service delivery in response to crises by strongly supporting 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 consultants will complete consultations by the end of February and disseminate the final guidelines to stakeholders by the end of March 2022.

We are also pleased to report that the final draft of the Tax Policy on Tax Systems and Administration of Provincial and Local Governments is ready, and the work on the Subnational Government (SNG) Budget Execution is progressing well with delivery expected by the end of March 2022.

Following successful dialogue with the GoN, the MDTF will support both national and subnational PEFA assessments in the country beginning in January 2022. Training was successfully organized by the PEFA Secretariat (Washington DC) for selected participants of the Government team. Data collection is expected to start in late February to early March 2022. A provincial PEFA assessment is also expected to start halfway through the national assessment.

Based on reviews of MDTF performance in 2021, the British Embassy Katmandu (BEK) and the Australian Department of Foreign Affairs and Trade (DFAT) in consultation with the World Bank have developed Performance Improvement Plans to monitor performance of the MDTF for a specified period and decide whether to remain partners in the MDTF or withdraw from it. It is the wish of the MDTF team to

ensure their continued stay in the program. 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 continuous support and recommendations. Let us hope the days ahead will be safer for us and for 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 an increasing interest in recent years on the part of non-state actors, civil society organizations and development partners (DPs) in strengthening financial accountability, with the goal of improving the use of public resources and obtaining 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".

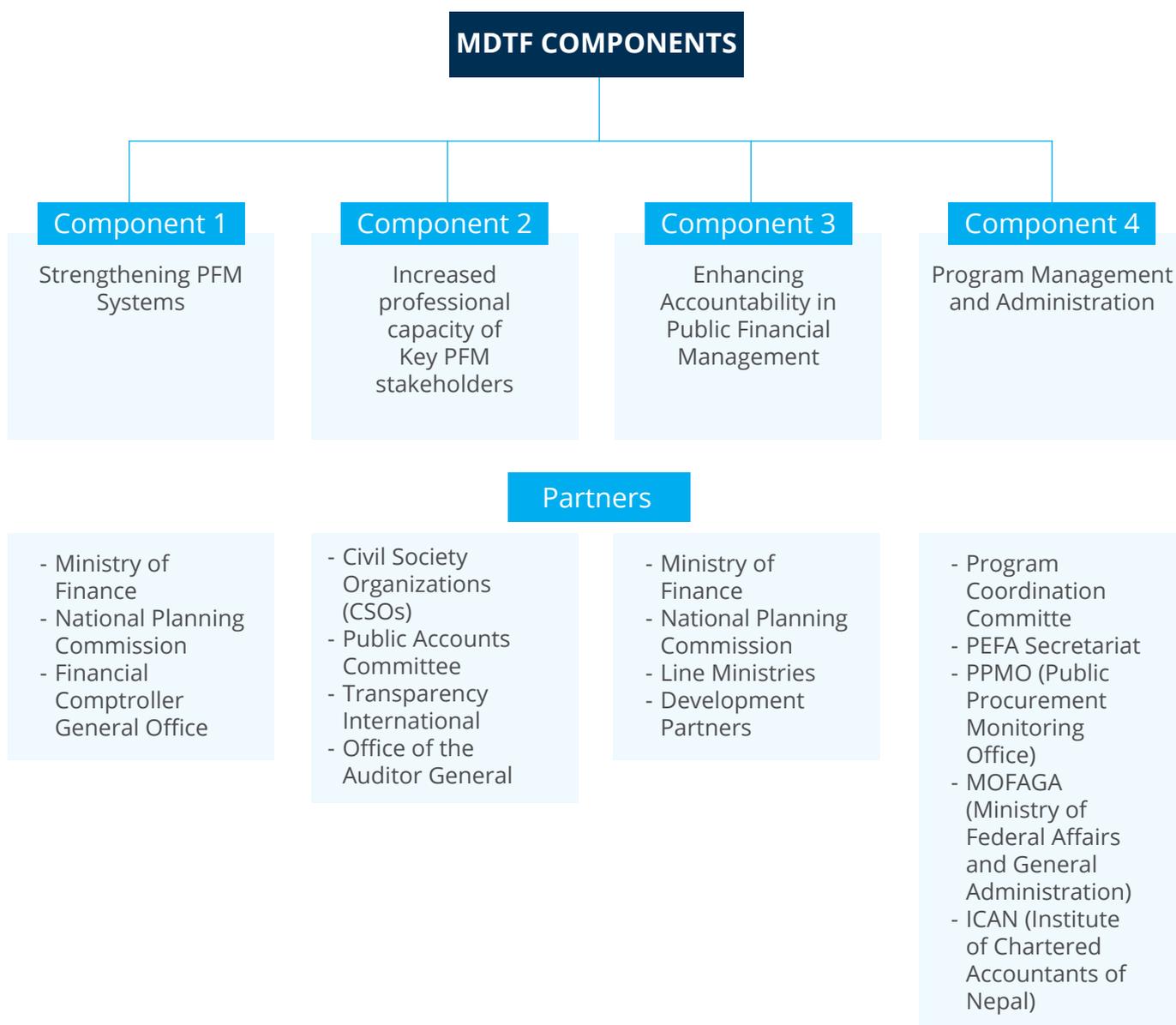
The key results expected from MDTF support are:

- 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)

The Integrated Public Financial Management Reform Project (IPFMRP) is the main vehicle through which the MDTF program is being implemented.

(a) Overall Status and Key Project Data

To improve performance of the IPFMRP, the team restructured the project, which has led to the dropping of non-performing activities and cancellation of US\$6 million in funding. The closing date of the project has also been extended to July 15, 2022. Following the restructuring, the current disbursement rate of the project is 52%.

(b) Implementation Status

The Bank is providing regular updates on the project's implementation status to the DPs. On October 1, 2021 a meeting was organized together with Government counterparts to give a detailed update to DPs on the project. The PEFA Secretariat presented on the status of progress of each Implementing Agency. Progress made in the last three months, actions agreed with concrete timelines to accelerate implementation, main challenges, as well as way forward were discussed. A summary of the discussion is captured in **Annex I**. Subsequently, updates were provided on progress up to November 2021.

Disbursement – The project disbursed US\$4.38 million (49%) as of December 2021, which increased to US\$4.69 million (52%) as of January 2022.

Key Achievements of IPFMRP

- There has been significant progress in the last six months. Key guidelines and assessments, development and enhancement of information systems and various capacity building activities have been completed despite the pandemic situation. These include: (a) Internal Control Guidelines for local level government, and various audit guidelines; (b) various assessments involving the three tiers of government of the Integrated Financial Management Information System (IFMIS), Citizen Engagement Strategy and Capacity Building Roadmap based on the Training Needs Assessment, which form the basis of planned reforms in these key areas; (c) various software for the Medium Term Expenditure Framework (MTEF), Project Bank for federal and provincial governments and Nepal Audit Management System (NAMS) for audit of the three tiers of government; (d) software enhancements of the Computerized Government Accounting System (CGAS), Electronic Fund Transfer System and Revenue Management Information System (RMIS) for federal and provincial governments and Public Asset Management System (PAMS) for the three tiers of government; (e) integration of CGAS, the Treasury Single Account (TSA) and the Line Ministry

Budget Information System (LMBIS); (f) integration of NAMS with various accounting systems; and (g) various capacity building activities for the three tiers of the government based on the developed guidelines, software and important PFM areas.

- CGAS enhancement has enabled activity-based accounting as well as supported internal audit. The electronic fund transfer system has strengthened internal controls in addition to increasing transaction efficiency. Internet banking, mobile banking and the digital wallet for revenue collection has supported revenue generation as well as business continuity, especially considering emergencies such as COVID-19. The integration of CGAS, TSA and LMBIS has enabled a more seamless exchange of information between budget, treasury, and accounting functions. Integration of NAMS with the Subnational Treasury Regulatory Application (SuTRA), CGAS, and RMIS has enabled system audit of revenue and expenditure transactions. With operationalization of NAMS, the Office of the Auditor General (OAG)

has now completely moved from manual to paperless audits. PAMS enhancement enabled multiple users of the respective cost centers to account for and monitor their assets effectively.

- Even the previously slow-moving component of the Public Procurement Monitoring Office (PPMO) is now rapidly progressing with 55 percent of the ITC/ILO contract already completed, with 40 percent completed after August 2021. A total of four procurement documents have also been completed. Procurement for other added activities, including for the e-Government Procurement (e-GP) gap assessment, has also been initiated and is expected to be completed by project closing.

(c) IPFMRP Results Framework

The World Bank team periodically updates the project's results framework and measures progress towards project development objectives and intermediate results. Below is the updated Results Framework as of December 31, 2021.

PDO Indicators by Objectives / Outcomes

Indicator Name	Baseline	Actual (Current)	End Target	Comments
Contracts awarded within the initial bid validity period by 5 key sector agencies and selected Sub National Governments (SNGs) (Percentage, Custom)	30	30	70	The required information is currently being collected to assess the timeliness of the contract award. As the procurement capacity building activity of the key sector agencies has only recently progressed, it will take time to realize the results.
Improved aggregate capital budget out-turns at the federal level (Percentage, Custom)	64	65	75	The capital budget out-turns in recent years (65 percent in FY21 and 47 percent in FY20 compared to 76 percent in FY19) have been impacted by the pandemic situation in addition to other factors. Nevertheless, the supported activities of the Medium-Term Expenditure Framework and Project Bank are expected to contribute to improved planning and budgeting, while procurement capacity building is expected to contribute to improved capital budget execution.
Comprehensive accounting and reporting procedures in place in Federal and SNGs (Text, Custom)	(a) Consolidated annual financial statements are not prepared as per NPSAS	Consolidated annual financial statements for the federal government are prepared as per Nepal Public Sector Accounting Standards (NPSAS)	(a) NPSAS based annual financial statements for federal level prepared within 9 months from the end of the financial year. (b) SNGs that cumulatively manage 50% of overall SNG budget have their own reporting procedural manual adopted	NPSAS-based financial reporting formats have been approved for the three tiers of government, based on which NPSAS-based financial statements are being prepared every year at the federal level. Provincial level financial statements based on NPSAS are also being initiated. However, as manual interventions are required in preparing and consolidating such financial statements, efforts are currently underway to enhance the information systems to enable their production. Efforts are also underway to finalize the Accounting Manual based on NPSAS for the three tiers of government, based on which subnational governments can adopt NPSAS based reporting procedures. Nevertheless, the accounting systems of subnational governments – the CGAS at the provincial level and SuTRA at the local level – are largely based on NPSAS and further enhancements are also planned to be completed by the project to ensure full NPSAS compliance.
Improved audit planning and quality management for audit of federal and sub-national entities. (Text, Custom)	SAI PMF (indicator 9) Score 2	Supreme Audit Institutions (SAI) Performance Management Framework (PMF) (indicator 9) Score 3 (indicator 9)	SAI PFM (indicator 9) Score 3	Based on the results of the various supported activities, the indicator on improved audit planning and quality management has already been met as per the Supreme Audit Institution of Thailand's Performance Report for the Office of the Auditor General of Nepal.

Intermediate Results Indicators				
Indicator Name	Baseline	Actual (Current)	End Target	Comments
Credible MTEF in place (Text)	Basic guidelines for MTEF at federal level in place.	MTEF software for federal government operationalized with guidelines expected to be approved by February 2022. Local level MTEF guidelines issued. Provincial government guidelines and software planned.	Difference between multi-year estimates and subsequent setting of annual budget ceilings are clearly explained.	The MTEF software at the federal level has been developed and operationalized. MTEF guidelines for the federal government have also been revised incorporating our comments. These guidelines are expected to be approved by February 2022. Based on approval of the federal level guidelines, the guidelines for provincial governments will also be finalized. MTEF software will also be customized for use by provincial governments. MTEF software and guidelines for provincial governments are expected to be completed by the project closing. The MTEF guidelines for local government have already been issued.
Comprehensive internal control procedures adopted at SNGs. (Text)	a) No coherent internal control framework exists that ensures consistency in these practices across the three tiers of Government	Internal control guidelines for local government have been issued. The guidelines are also being developed for federal and provincial governments.	SNGs that cumulatively manage 50% of overall SNG budget have their own internal control manual adopted.	The Internal Control Framework has been developed based on international standards. Based on this framework, internal control guidelines for the local level have been developed and issued. Information is being collected to assess the status of implementation of the guidelines by local level. The guidelines are also being developed for federal and provincial governments, which is being delayed due to concern on quality of work by the consultant.
IFMIS developed and pilot tested (Text)	Zero Pilots	IFMIS assessment final report received, which needs to be implemented and piloted	2 pilot sites	IFMIS assessment final report received. Based on its recommendations, the Government needs to approve the preferred approach. The aim is to develop the interim IFMIS solution by the Project closing to the extent possible, which is contingent on prompt approval of the recommendations.
Enhancing participation and capacity of technical female staff in trainings/ workshops (Text)	0	18% female participation rate in trainings so far. The government is struggling to meet the indicator due to limited number of female staff in PFM.	30%	The government is struggling to meet the indicator due to limited number of female staff in PFM. In addition to adopting an emphasis on female participation, the government has been requested to also organize female-targeted trainings to the extent possible.
Unified budget guidelines including gender responsive budget (GRB) processes introduced to SNGs (Text)	No unified budget guidelines including gender responsive budget processes for SNGs	In addition to unified budget guidelines, simplified budget guidelines on GRB also issued to address the capacity constraints of SNGs	SNGs that cumulatively manage 50% of overall SNG budget have adopted the unified budgeting guidelines	Unified Budget Guidelines that include GRB were previously issued to SNGs. Given the complexity of those guidelines and capacity constraints of SNGs, simplified GRB guidelines for SNGs were further issued and first phase training provided. Various additional trainings are also planned which are being impacted by the pandemic situation.

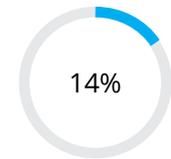
Indicator Name	Baseline	Actual (Current)	End Target	Comments
Timely submission of financial audit reports of SNGs to appropriate authorities within legal time frame (Percentage)	0	0	60	The required timeline for audit reports is not specified in any legal document. Thus, there is no legal time frame. The practice has been to submit reports by nine months of the fiscal year (FY) end. Accordingly, the submission of FY 2017/18 audit reports was by nine months of FY end. However, submission of audit reports thereafter has been impacted by the pandemic situation as field audits were delayed. As the NAMS has now been operationalized and with the expected improvement in the pandemic situation, audit reports are expected to be submitted by nine months in the future.
Number of citizens mobilized and involved in audit process through CSOs of which 50% are female. (Number)	80	774	400	The number of total citizens mobilized has far exceeded the end target of 400 as 774 have already been mobilized. However, OAG is struggling to attract female participation as only 19% of those mobilized have been female thus far. OAG has been requested to devise a strategy to specifically target and incentivize female participation to the extent possible.
Effective audit follow-up (Text)	Score of 0 SAI PMF dimension 7 (iii)	Score of 2 in Dimensions 11 (iii), 14 (iii) and 17 (iii), which replaced the earlier Dimension 7 (iii)	Score of 2 SAI PMF dimension 7 (iii)	The indicator has been met based on Supreme Audit Institution of Thailand's Performance Report for the OAG. This is demonstrated by the score of 2 in Dimensions 11 (iii), 14 (iii) and 17 (iii), which replaced the earlier Dimension 7 (iii) of the report. The improvement in the score is the result of previous and ongoing activities supported by the PFM MDTF.
Complaints resolved following effective complaints handling mechanism in e-GP (Percentage)	0	Dropped	Dropped	Indicator dropped as e-GP activity 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	40	80	Out of ten, four procurement documents have been developed and the rest are planned to be developed incrementally by the Project closing.
Procuring entities of KSAs with at least one certified procurement staff established (As a percentage of the total procuring entities) (Percentage)	10	10	80	55% trained under the procurement capacity building activity and the rest are planned to be completed by the project closing. The pandemic situation is impacting the planned timeline. As this activity recently progressed, PPMO is in the process of collecting data on the status of the number of procurement trained staff.

Indicator Name	Baseline	Actual (Current)	End Target	Comments
System generated performance reporting prepared for KSAs (Text)	0	Dropped	Generation of Performance Report for KSA's	Indicator dropped as part of restructuring as relevant activity cancelled
A citizen engagement strategy is prepared and implemented as per proposed sequence (Text)	No Strategy exists	The final report on the Strategy received	Strategy exists and implemented	The final report for the Citizen Engagement Strategy has been received, which needs to be promptly approved to enable implementation by the Project closing to the extent possible. Given the large number of recommendations, the government has agreed to prioritize key recommendations in the process of obtaining approval for initiating implementation.

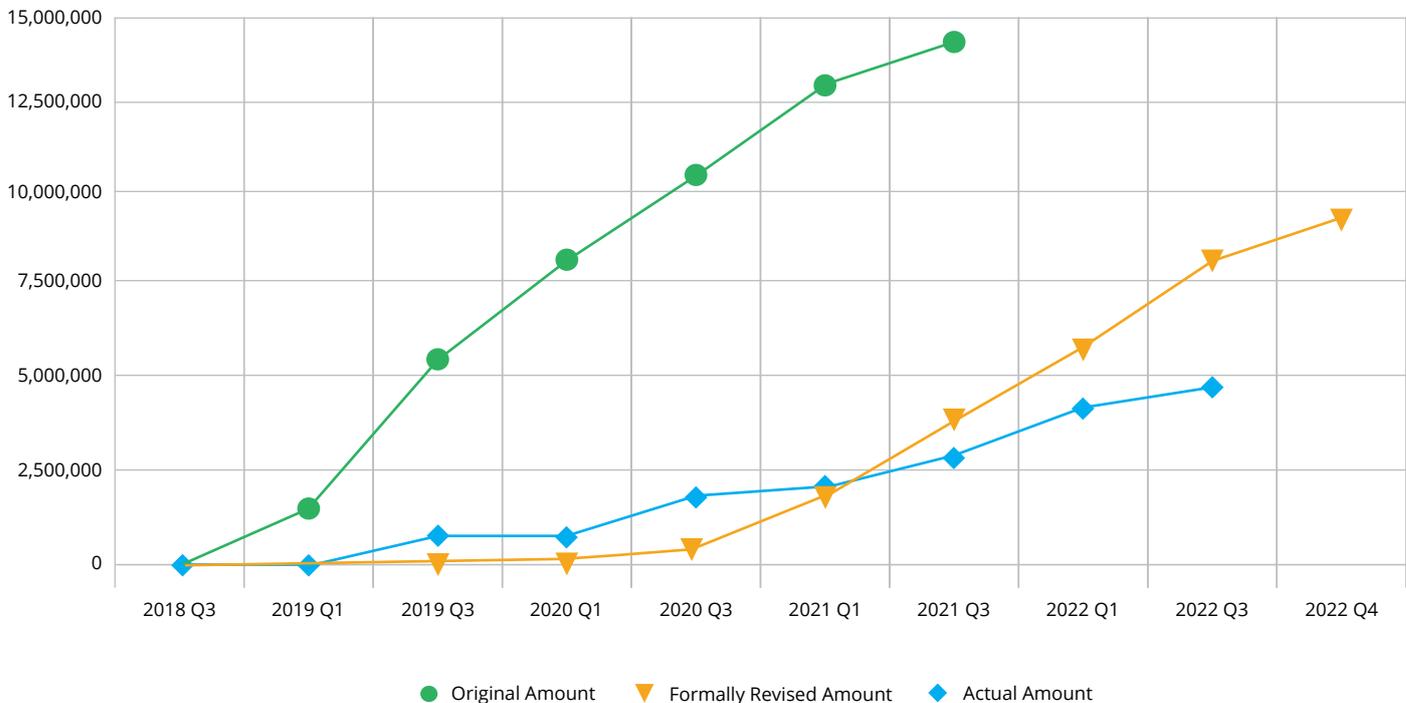
(d) Disbursement (Commitment and disbursement summary USD)

Source of Funds	Net Commitment	Total Disbursed	Undisbursed	% Disbursed
TF	9.00M	4.69M	4.31M	52.14
Total	9.00M	4.69M	4.31M	52.14

FY Disbursement Ratio



Cumulative Disbursements (USD)



(e) IPFMRP Status of Risks (SORT)

During project preparation, risks were systematically assessed and reflected in project documents. During implementation support missions, the Bank team updates the risk assessment and discusses with government appropriate mitigation measures. The progress report provided an update of the risk assessment as follows:

Risk Category	19-Sep, 2017	27-Jun, 2018	09-May, 2019	25-Nov, 2019	10-Jun, 2020	04-Dec, 2020	27-Jul, 2021
Political and Governance	■	■	■	■	■	■	■
Macroeconomics	■	■	■	■	■	■	■
Sector Strategies and Policies	■	■	■	■	■	■	■
Technical Design of Project or Program	■	■	■	■	■	■	■
Institutional Capacity for Implementation and Sustainability	■	■	■	■	■	■	■
Fiduciary	■	■	■	■	■	■	■
Environment and Social	■	■	■	■	■	■	■
Stakeholders	■	■	■	■	■	■	■
Other	■	■	■	■	■	■	■
Overall	■	■	■	■	■	■	■

■ High ■ Substantial ■ Moderate ■ Low ■ None

PART III.

i. Program Management and Administration

Technical Review Meetings

A technical meeting was held on July 29 among the GoN, World Bank and MDTF DPs. The meeting was organized by the PEFA Secretariat (Nepal) with all DPs in attendance to ensure a focused discussion on important government initiatives that cut across various engagements. The PFM Training Needs Assessment, citizen engagement (CE) and IFMIS assessment were discussed. It was agreed that more frequent discussions should be held as required going forward. The meetings are expected to help the government achieve synergy across various government initiatives for the best possible outcome for the PFM reforms by enhancing the quality of the recommendations coming out of these important assessments.

Another technical meeting was held remotely on November 22, 2021. The main topic of discussion was Value for Money (VFM), a tool that the BEK uses to assess the value of an intervention / program. It was decided that the FCDO will organize a dedicated workshop to discuss a set of ideas and indicators with MDTF colleagues based on the experience of DPs. DFAT reiterated the need for VFM as a tool to measure investment and advised colleagues to think of VFM in two stages. During the meeting, the World Bank also presented initial findings of the

Nepalgunj PEFA, focusing on the lessons learned. Overall, the assessment points out the need to put in place basic reform systems for the strategic budget, planning, budget execution, procurement practices, oversight needed. All DPs agreed and understood the challenges of undertaking the SNG PEFA.

IPFMRP Monthly Review, October 1, 2021

The IPFMRP Monthly Review Wrap-up Meeting was held on October 1, 2021 with government counterparts and DPs to discuss the outcome of the week-long consultations (September 27 - 30, 2021) held with each implementing agency. Progress made in the previous three months along with the actions agreed with concrete timelines to accelerate implementation were discussed. The main challenges and the way forward were also discussed. The PEFA Secretariat presented the progress status of each implementing agency. The World Bank presented progress on the results indicators along with an update on the preparation of the Business Continuity Plans. DPs appreciated the efforts from the Government and the Bank to provide regular updates. The PFM MDTF Manager closed the meeting by thanking DPs and the government for their active participation. While the progress being made was acknowledged, the need to accelerate implementation of remaining project activities was emphasized.

HOA Meeting on Strategic Issues, December 7, 2021

World Bank (WB) Country Director, Faris H. Hadad-Zervos, chaired the Nepal PFM MDTF meeting with Heads of Agencies (HoAs) to follow up on the last managerial level meeting held on June 23, 2021. The meeting was attended by the UK Embassy, EU, Swiss Embassy, DFAT, USAID, Royal Norwegian Embassy and World Bank (WB). It was agreed that this type of meeting would be organized on a regular basis to complement the technical level meetings with all DPs and clients. Victor Bonsu (MDTF Program Manager) and Timila Shrestha (the Task Team Leader of the IPFMRP) presented an update on the MDTF, including the engagement with DPs with reference to the last HOA agreed actions and issues on planned PEFA assessments and the IPFMRP project, respectively. Faris discussed the ongoing dialogue with the PEFA Secretariat (Nepal) regarding PEFA assessments.

DPs expressed the need for revising the PFM Reform Strategy as well as the need to respond to fiscal federalism and Provincial and Local Governments. DPs would like to engage in more policy dialogue with the GoN (OAG and FCGO included). They offered to be

of assistance for joint advocacy at the HOA level.

Program Coordination Committee (PCC) Meeting December 16, 2021

A PCC virtual meeting was co-chaired by Mr. Ishwori Prasad Aryal, 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. Than Prasad Pangani, presented the status of the IPFMRP. An update on the MDTF was provided by Victor Bonsu, MDTF Manager. The importance of carrying out the PEFA assessment in 2022 was emphasized. It was also agreed that the scope of the next PFM project would be expanded to cover more PFM actors as well as local and provincial governments as service delivery is crucial.

Performance Improvement Plans

The FCDO and DFAT have placed the MDTF program under Performance Improvement Plans for 12 months after which each will decide whether to continue to participate on the program.

ii. Activities Supported Through BETF

(a) PEFA Assessments

(i) National PEFA Assessment

Throughout the period, the Bank team had several meetings and discussions with key counterparts. These discussions focused on the key preparatory activities to be conducted leading up to the formal launch of the assessment by the Government in January 2022. A PEFA methodology training was delivered online by the HQ PEFA Secretariat experts

on October 21-22 and 28, 2021. The Government has clearly indicated its interest in having ownership of the assessment, similar to the previous 2014 PEFA Assessment, with the Bank team's support, technical assistance and quality assurance. The Government, however, has yet to announce the names for the assessment team. The Government has also asked for assistance to conduct further training on the PEFA methodology in the local language for local participants.

(ii) Sub-National PEFA Assessment

The Bank team also had several meetings with government counterparts including officials from the PEFA Secretariat, Ministry of Finance (MoF), and MOFAGA. In some of the meetings, there were DPs in attendance. Discussions focused on government commitment, timing, scope, methodology, and funding of the assessment. Government is in agreement with the Bank on the importance and need to conduct the SNG PEFA assessment, and it is keen to take ownership of the assessment. Government preference, however, is for the assessment to take place after the federal PEFA assessment. The task team, however, has pointed out the problems with this view, and suggested instead to start the SNG assessment midway through the federal assessment. No conclusion has yet been reached on this issue, and the two teams will continue to discuss. Following discussions, the two teams agreed that sample size should be determined based on the availability of resources and timing. It was also agreed that a phased approach should be adopted with one provincial government selected for the assessment in

FY23. Depending on the outcome, another SNG will be assessed in FY24.

(b) Other Activities

(i) Business Continuity Plans

Consultation on developing the guidelines for preparation of Business Continuity Plans (BCPs) for government institutions has reached the final phase and the final report is expected by the end of March 2022.

(ii) SNG Tax Policy

The study on SNG tax policy has been completed and will be presented to DPs in the next PFM Working Group meeting.

(iii) SNG Budget Execution

The study on SNG Budget Execution is ongoing and planned to be completed in March 2022.

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 December 31, 2021, total pledged contributions stood at US\$20,957,834 which have been fully paid in by DPs. Total disbursements recorded were US\$18,073,385. Administration fees and expenses amounted to US\$419,157 while the investment income earned was US\$566,207. Total fund balance stood at US\$3,031,499 with commitments of US\$845,730. The original TF account is scheduled to close on January 31, 2024.

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

to accommodate new contributions from the six remaining DPs. As of December 31, 2021, total pledged contributions stood at US\$21,185,895 of which US\$16,032,104 have been paid in by the DPs. The balance of unpaid contributions was US\$5,153,791. Total disbursements amounted to US\$3,585,298. Administration fees and expenses equaled US\$510,000 while total investment income was US\$718,848. The total fund balance as of December 31, 2021 was US\$12,655,654 with commitments of US\$4,434,308. The parallel TF account is scheduled to close on January 31, 2026.

For further financial details of the two trustee accounts please refer to the 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
Sub Total			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	5,672,675	3,500,000	3,974,825	1,500,000	1,697,850
Norway - Ministry of Foreign Affairs	NOK	34,000,000	3,923,661	18,000,000	2,110,835	16,000,000	1,812,826
United Kingdom - FCDO	GBP	3,000,000	3,895,594	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	3,302,105	1,500,000	1,658,990	1,500,000	1,643,115
Sub Total			21,185,895		16,032,104		5,153,791
GRAND TOTAL (Trustee TF 071617 and TF072582)			42,143,729		36,989,938		5,153,791

Source: SAP Report

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	Legally closed	P125770	Bank Executed	701,440.02	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 Accountability2	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	2,034,269.56
TF0B5037	IPFMRP Supervision	Legally closed	P164783	Bank Executed	96,945.88	96,945.00
Grand Total					18,919,115.40	18,073,385.00

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	1,300,000.00	726,230.09
TF0A9105	IPFMRP SUPERVISION ALL COMPONENTS	Active	P164783	Bank Executed	837,025.65	513,021.80
TF0B5144	PEFA Assessment	Active	P175522	Bank Executed	300,000.00	1,339.20
GRAND TOTAL					8,557,025.65	3,585,297.90

Annex 1: IPFM RP Discussion of key activities

Financial Comptroller General Office (FCGO) -

The internal control guidelines being prepared by the FCGO are planned to serve as overall guidance for the three tiers of the government. In addition, the FCGO is working on a model internal control manual for federal and provincial governments and the Ministry of Federal Affairs and General Administration (MOFAGA) is working on the same for local governments. The Bank has been emphasizing the need for harmonization and consistency of documents and has been providing technical assistance as required to ensure the model manuals are simple, user-friendly, and risk-focused for easy adoption and maximum use in terms of risk mitigation. The model manual for the local level is almost finalized and will be approved with the appointment of the new Minister.

Public Procurement Monitoring Office (PPMO) -

There has been a request from the PPMO for e-Government Procurement (e-GP) system enhancements. As the new leadership in PPMO has shown a strong commitment to complete enhancements by the Project closing date of July 15, 2022, the Bank is assessing the potential to incorporate this activity under the Project by reallocating funding that was saved from (a) the cancellation of activities that had not yet been initiated and could not be completed by the project closing, and (b) the switch from in-person to virtual trainings during the pandemic. As e-GP enhancements had previously been dropped from the project with the removal of the relevant results indicator, the Bank's lawyers are being consulted to ensure eligibility under the current project scope. The Bank is also supporting the government in preparing

important procurement documents. One of the documents, Guidance on Bid Evaluation of Works Contracts is already developed, and a few others are also being prepared, which are expected to be developed by March 2022.

National Planning Commission (NPC) -

Medium Term Expenditure Framework (MTEF) guidelines for the local level have already been issued by MOFAGA in partnership with NPC. NPC is currently finalizing MTEF guidelines for federal and provincial governments based on comments from the Bank. Based on these guidelines, trainings will also be provided to the three tiers of government by November 2022.

Office of the Auditor General (OAG) -

OAG has already met the relevant results indicator with a score of 2 on audit follow-up for all three aspects – financial, compliance and performance audit as per the Supreme Audit Institution (SAI) Performance Measurement Framework (PMF) assessment conducted by the SAI of Thailand. DPs are encouraged to continue contributing to building the capacity of OAG. The pandemic has unfortunately caused delays in the timely submission of audit reports by subnational governments in the last two FYs. Before this, while it is not a legal requirement, OAG had been submitting annual reports together with the reports to subnational governments by nine months from the end of each FY. Nevertheless, reports to all three tiers are submitted on the same day. The Bank has also been emphasizing the need to develop a strategy for promoting female participation in the citizen participatory audit (CPA), and has requested that OAG explore the potential to incentivize female participation to the extent possible.

Female participation in capacity building - The PEFA Secretariat is compiling information for training, with a target of 30% for female participation. To date, only 18% has been achieved due to the low number of female staff in PFM. Nevertheless, the Bank has been emphasizing the need for female targeted activities to the extent possible. The Training Needs Assessment team has also been requested to come up with statistics on female staff in PFM if possible.

Integrated Financial Management information system (IFMIS) - Due to the delay of the IFMIS assessment, the results indicator for IFMIS development and pilot testing will not be achieved by the date of project closing. The IFMIS contract has finally been amended in light of the COVID-19 context and the final report is expected by November 2022.

Ministry of Finance (MOF) - MOF has requested an additional activity to support enhancements of the Line Ministry Budget Information System (LMBIS) in order to track physical progress against budget as

well as for security enhancements. Given the strong commitment from MOF to ensure the relevance and timeliness of project activities, project savings as indicated above are being reallocated to fund these enhancements.

Related Challenges -

One of the main challenges for the project has always been the delay in decision making, particularly in procurement. As only a few months are left for project implementation, it will be unfortunate if the project closes with unutilized funding while the government would have to fund any contractual obligation beyond project closing. Hence, the Bank emphasized the urgency of expediting procurement and implementation by meeting the timelines agreed during the one-week extensive consultations. The Bank has also emphasized that slow performance discourages development partners from continuing their support on much needed PFM reforms.



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