



NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT | July- December 2019

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.

Photo courtesy: Narendra Shrestha

ABBREVIATIONS AND ACRONYMS

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

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FOREWORD

Dear Partners and Friends,

What we know about PFM reform is that it is a long process with phases of rapid progress and phases of consolidation and sometimes stagnation. We also know that PFM cannot be considered in isolation but is deeply connected with the wider governance structure and its evolution and is also impacted by policy decisions. How public resources are mobilized, collected, allocated, spent, monitored, controlled is the result or the reflection of a collective project and priorities defined at the highest level and discussed in public fora. PFM in Nepal is a sector which, for more than a decade now, has received the attention of government and development partners and this continued interest has materialized in the PFM MDTF, created in 2010 and which partners have, in September 2019, decided to extend until January 2026. What has been achieved since the last extension has been decided in 2016 ?

1. The structure of the MDTF has been simplified and the PFM reform governance structure strengthened. MDTF resources now contribute to a single project, integrating and putting in coherence various workstreams that were before separated, under the coordination of the PEFA Secretariat. Besides, MDTF resources are now entirely managed by the government, as Bank executed grants have now closed. Previous workstreams like citizen engagement of external audit are now synced with other PFM activities. A revised "PFM reform operational guidelines", issued in September 17, 2018 is formalizing this cross-cutting and integrative role of the PEFA Secretariat under the leadership of the PFM Reform steering committee.
2. The link between the MDTF and other DP interventions has been consolidated. Within

the Bank, synergies have been systematically sought between the MDTF priorities and the policy level intervention supported under the Fiscal and PFM DPC series (budget support). Relevant PFM dimensions have been incorporated in the Federalism Capacity Needs Assessment (FCNA). Linkages between MDTF activities and relevant engagement with government in matters like citizen engagement, gender, open data have also been systematically sought. Outside the Bank, coordination efforts have been made with other PFM interventions as well as governance interventions as much as possible.

3. The Federal PFM systems have been consolidated, have adapted successfully to the change in State structure and have been moved to Provinces. The Chart of Accounts (CoA) has been amended, unified across the three levels of government. Financial Management IT systems have been amended, strengthened and adopted at the Provincial level (LMBIS, TSA, RMIS, CGAS).
4. The PFM legal and regulatory framework has evolved to support the Federalism structure. In particular, the new Financial Procedures Act of 2019 as well as multiple guidance supporting the federalism process.
5. Accountability and supervisory institutions are now fully part of the reform process and considered legitimate and even important PFM stakeholders. The important engagement with the OAG has been strengthened and should be pursued as this institution constitutes the main guarantee that public resources are used in a regular and efficient.
6. Various important workstreams are ongoing that will form the basis for future

engagement. This is the case for the IFMIS study, expected for release in April, which will lay out the various options for consolidating and integrating the various financial management information sub-systems. This is also the case for the PFM Training Needs Assessment which is taking stock of the current and future PFM training needs and the current training capacity to see how they can match in an efficient and coordinated fashion. Work is also ongoing on internal control, Nepal Public Sector Accounting Standards (NPSAS), Citizen Engagement, Capacity development of PPMO, PAC Secretariat capacity building as well as the establishment of a project bank and its related information system, launched by the Prime Minister and for which the NPC is leading the work.

What are the main risks for the upcoming period?

First, the coherence of the PFM reform process is still fragile and the idea that there should be a single PFM system encompassing the three levels of government is still finding de facto hurdles and is being weakened by the disaggregation of government's initiatives and sometimes development partners' support

modalities. It is hoped that the national PFM strategy/ action plan that government is planning to launch will help provide this unified vision in compliance with the Constitution. Second, local level PFM remains a high-risk area. To this day, around one third of public resources are spent at local level, without the basic reporting and accountability mechanisms in place and without any possibility to assess the impact of this spending on service delivery.

As you see, despite substantial progress, the risks remain high. I am confident that our group will find in the future the right answers to move this important agenda forward.



Franck Bessette
Program Manager, Nepal PFM MDTF

PART I.

IPFMRP Implementation Status

1. Implementation Support Consultation, September 23- 27, 2019

During September 23 - 27, 2019, a Bank Team led by Maxwell Dapaah carried out an Implementation Review of the Integrated Public Financial Management Reform Project. The Team held discussions with implementing entities on the progress achieved and provided necessary technical support. The Aide Memoire (AM) summarizes the findings on the status of project implementation, recommendations and agreements reached with the relevant agencies to take corrective measures and/or to expedite implementation. The AM was discussed at the wrap-up meeting on September 27, 2019 with Dr. Rajan Khanal, Secretary, Ministry of Finance as the Chair.

The Project has completed one year of implementation since it was effective. Despite a slow start in the beginning, implementation has gradually picked up now. As the Project is now in the second year of implementation, close monitoring of activities and deliverables is needed to ensure the achievement of relevant milestones. In addition, the evolving implementation of fiscal federalism requires clarity of roles and responsibilities among federal agencies with respect to PFM capacity development at the subnational level and – continued- emphasis in positioning the

Project in the broader context of strengthening country PFM systems. Moreover, prioritization of change management is needed if non-technical bottlenecks to implementation are to be adequately addressed. All these require a much more strengthened and capacitated PEFA Secretariat that has a clearer and sharper focus on managing the PFM program. Furthermore, the weak procurement capacity observed at implementing agencies in the last review has not been fully addressed. Given that major consultancies under the various components have started, contract monitoring is now critical to ensure that expected results are achieved on time as stipulated in the relevant agreements. Overall implementation progress and progress towards PDO achievement are retained as moderately satisfactory.

The Aide memoire of the mission is attached as annex I

2. IPFMRP Results Framework

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

PDO Indicators by Objectives / Outcomes

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

Intermediate Results Indicators by Components

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

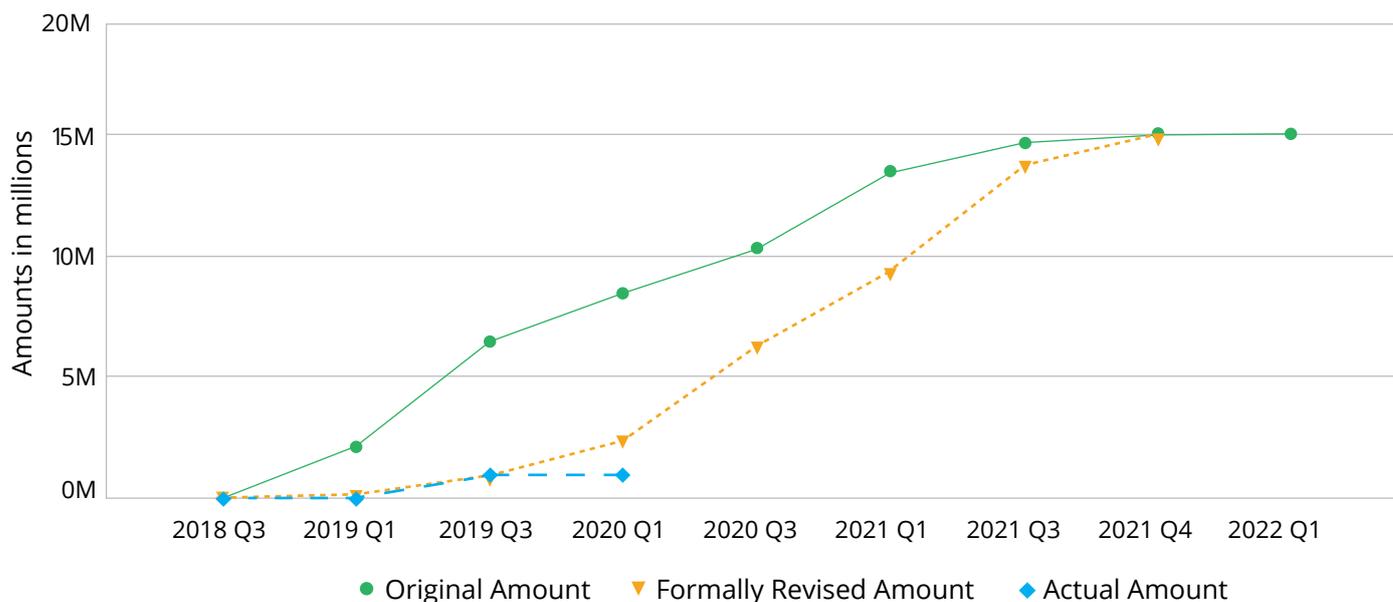
Unified budget guidelines including gender responsive budget processes introduced to SNGs (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No unified budget guidelines including gender responsive budget processes for SNGs	No unified budget guidelines including gender responsive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

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

Disbursement Summary

Source of Funds	Net Commitment	Disbursed	Balance	% Disbursed
IBRD	-	-	-	0%
IDA	-	-	-	0%
GRANTS	15.00 M	1.59 M	13.41 M	11%

Cumulative Disbursement



3. 3. IPFMRP Status of Risks (SORT)

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

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

Systematic Operations Risk-rating Tool

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

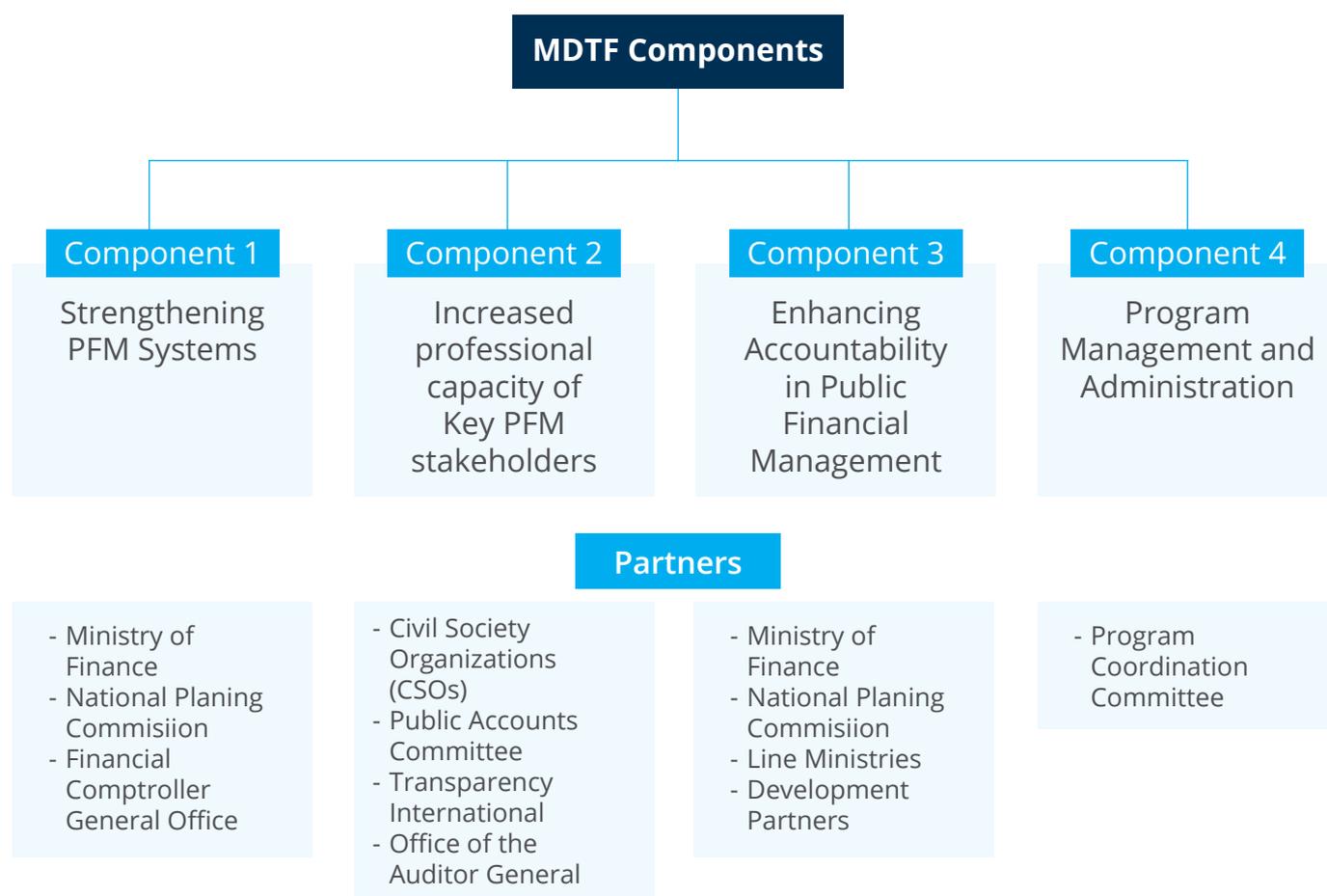
PART II.

Program Results

1. MDTF Components

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

Figure 1: MDTF Components



2. Areas for future MDTF engagement

As per the decision of the PCC, a draft concept note for an additional financing to the IPFMRP has been shared with MDTF partners in November 2019. The concept note is currently indicative as the amount of the additional financing has still to be confirmed by several development partners. It is annexed to this report (Annex 2)

This concept note will be presented to the Nepal PFM MDTF Program Coordination Committee (PCC) for review as agreed during the September 2019 PCC meeting. It is based on two funding scenarios, one where US\$ 6 million (existing balance plus contribution from Switzerland plus contribution from EU) would be made available at the time of project approval. There is a possibility that this additional funding could be widened to around US\$ 8 million if and when the potential top-up from DFID materializes. In that case, the scope of the proposed project would have to be expanded.

2. Areas for future MDTF engagement

The achievement of MDTF outcomes is currently supported through its main vehicle, the IPFMRP. The

table below shows how the outcomes and results of the MDTF (the program) are linked to the objectives of the IPFMRP. It also shows how other PFM initiatives are supporting the same objectives.

MDTF Outcome	MDTF Intermediate Results	IPFMRP indicators	Current Status	Other relevant activities (outside MDTF)	Next Steps
Strengthened efficiency and results orientation of the budget cycle at national and sub-national level	Execution rate of the capital budget reaches 50% at the end of the second trimester and 90% at the end of the year	<ul style="list-style-type: none"> Improved aggregate capital budget out turns at federal level Comprehensive accounting and reporting procedures in place in federal and SNGs Credible MTEF in place Contracts awarded within the initial bid validity period by 5 KSAs and selected SNGs Basic procurement docs and guidelines developed for SNGs (out of master list of sub-national level docs to be prepared) System generated performance reporting prepared for KSAs 	<ul style="list-style-type: none"> MTEF guidelines FOR SNGs issued by NPC (one for provinces, one for local governments). NPSAS implementation support through action plan developed by FCGO. A/c professionalization for FCGO and other selected staff in three levels of GoN. Individual consultant selection process is being finalized General internal control guidelines have been prepared by FCGO and adopted by MoF for three levels of government. Operationalization is ongoing (procurement not finalized) Project Bank concept approved and sector TORs have been prepared. High-level endorsement. 	Bank's Development Policy Credit2is supporting key policy reforms to strengthen budget cycle across three levels of government	<p>IPFMRP Implementation support mission in April 2010</p> <p>Operationalization of internal control guidelines. Consultants hired.</p> <p>NPSAS consultancy has started. Consultation in 4 provinces done and in other 2 provinces is planned.</p> <p>The Prime Minister launched the National Project Bank and instructed line ministries to adhere to it. NPC unveiled the guideline and circulated the National project Bank information system. This is yet to be translated in Nepali</p>
	Enhanced efficiency and integration of core financial IT systems is evidenced	<ul style="list-style-type: none"> IFMIS developed and pilot tested 	<ul style="list-style-type: none"> IFMIS study consultancy ongoing. Delivery planned for April-May SuTRA, LMBIS and TSA roll out implemented by DFID and USAID. MDTF supporting LMBIS, TSA, RMIS, CGAS implementation at Province level. FCGO servers upgrade/ extension ongoing through consultancy. 	<ul style="list-style-type: none"> Sutra is being enhanced and rolled-out by DFID and USAID 	<p>Sutra roll-out</p> <p>IFMIS study ongoing. Inception report shared. Stakeholder consultation/ conference is being planned in the second week of January</p> <p>Consultant hired and working on for upgrade / extension of FCGO server.</p>
	Revenue collection and tax administration improved resulted in improved scores in PI-20	<ul style="list-style-type: none"> Unified budget guidelines including GRB process introduced to SNGs 	<ul style="list-style-type: none"> TADAT assessment planned before June as part of the Public Expenditure Review. 		TADAT likely funded by MDTF.

Increased professional capacity of key PFM Stakeholder	Increased capacity of PEFA Secretariat to design, manage and coordinate PFM reform	<ul style="list-style-type: none"> • Procuring entities of KSAs with at least one certified proc. Staff established (as a % of total procuring entities) 	<ul style="list-style-type: none"> • TOR finalized in consultation with PFM TC. Procurement has been canceled and restarted. The aspects to be included in the TOR was discussed. • PFM capacity building course developed and contracted 	<ul style="list-style-type: none"> • Federalism Needs Assessment finalized and being disseminated. (joint WB and UNDP) 	<p>New PFM strategy covering three levels of government finalized. It has not been started but a concept note has been drafted by PEFA.</p> <p>TNA ongoing.</p>
	Capacity building institutions in Nepal have strengthened capacity to deliver high quality professional development and training	<ul style="list-style-type: none"> • Enhanced participation and capacity of technical female staff in training/ workshops • Strengthening PEFA secretariat capacity 	<ul style="list-style-type: none"> • PPMO develops procurement templates for SNGs PPMO trains SNG level staff , multi year capacity bldg. prog for PPMO staff is developed • 2 consultants are being hired (procurement and admin) . a training plan is being prepared 	<ul style="list-style-type: none"> • PLGSP plans to develop Provincial Governance Capacity Building Centers 	<ul style="list-style-type: none"> • Training Needs Assessment conducted. It is still ongoing.
	A critical number of staff received internationally accredited diploma in PFM (30 per year over 5 years)		<ul style="list-style-type: none"> • PFMTTC strategy under preparation • Certifying training program in PFM at approval stage. 		<p>No progress. Pending TNA results.</p>
Enhanced accountability in Public Financial Management	Strengthened OAG capacity to deliver on its mandate in compliance with ISSAI	<ul style="list-style-type: none"> • Improved audit planning and quality mgmt. for audit of federal and sub national entities • Comprehensive internal control procedures adopted at SNGs • Timely submission of financial audit reports of SNGs to appr. Authorities within legal time frame • Effective audit follows up 	<ul style="list-style-type: none"> • *CPA deepening. Auditing professionalization through ISSAI implementation. Strengthening use of IT tools for audit support 	<ul style="list-style-type: none"> • DFID providing bilateral support to OAG (IT) 	<p>Citizen Participatory Audit ongoing in 24 municipalities. Specific report to be issued.</p> <p>ENY contract ongoing.</p>
	Increased transparency and citizen participation in the budget process	<ul style="list-style-type: none"> • Number of citizens mobilized and involved in audit process through CSOs of which 50% is female • Citizen engagement strategy is prepared and implemented as per proposed sequence • Complaints resolved following an effective complaint handling mechanism in e-GP 	<ul style="list-style-type: none"> • Hiring not started to develop basic procurement documents for SNG level (direct contracting, quotation, national bidding, tool kit/ guidelines) 		<p>Bank consultant working with PEFA Secretariat to support hiring of local consultant and drafting of MoF's CE strategy.</p> <p>Ongoing work with FCGO on open data.</p>

	Increased involvement of relevant Parliamentary committees and oversight bodies in the budget process in acting on OAG report and assessing public expenditure quality and impact		<ul style="list-style-type: none"> Support to federal and provincial PAC. ToRs waiting for Speaker's approval. 		WB Expert from DC on Parliamentary committee is coming to hold a 3day workshop on learning from good practices around the world. Working on the date. Working on the TORs.
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*CPA – citizen participatory audit

*SNGs – sub national Governments

***PFMTC – PFM Training Centre (PFM Academy)

4. Sub National PEFA Assessment (Nepalgunj Sub-Metropolitan City)

The World Bank is carrying out a PEFA assessment in Nepalgunj Sub-Metropolitan City, the first in a programmatic series of PEFA assessments and is pilot testing the new adjusted SNG PEFA framework in that municipality. In December, WB internal team met where the team agreed to send their final inputs

for indicators by Jan 20, 2020. The team will organize an internal workshop to work on the first draft which will be shared with PEFA Secretariat and Nepalgunj Municipality for comments. Progress has been slower as expected because PEFA Secretariat in DC is yet to issue their sub-national guidelines in February 2020. Also, data collection was more challenging than expected. New final draft is expected end-March 2020.

5. Proposed Value for Money Strategy and Framework for IPFMRP

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

Proposed VfM Framework

VfM Domain	Indicator	Reporting Responsibility	Remarks/Evidence/Source
Economy	Standard (Routine) Procurement Lead Time	PEFA Secretariat, MDTF PM team	Achievement of shorter time for procurement over program implementation will provide a proxy for improved economy performance. World Bank's STEP helps track detailed information about all procurement.
Economy	Cost savings (tracked and monetized) examples through procurement or other cost-conscious behavior	All implementing agencies to record and report to PEFA Secretariat, MDTF PM team	Quantified or monetary records of how much the savings amount to.

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

PART III.

Program Management and Administration

1. Various Activities

A. PCC meeting, September 6, 2019

A PCC meeting was chaired by Shree Krishna Nepal, Joint Secretary and Chief IECCD, Ministry of Finance and Faris H. Hadad Zervos, Country Manager, World Bank. All MDTF partners and key implementing agencies from GoN side also participated. WB, CM Mr. Faris H. Zervos mentioned this as an important meeting because there was a need to discuss the future of the PFM MDTF. The closure date of the fund is now set to 30th of January 2022. Potential additional funding and potential additional interventions was discussed the IPFMRP (Integrated PFM Reform Project)'s implementation which was a bit slow in the first year but was gaining momentum. He reminded everyone that this MDTF puts the government in the driver's seat on the PFM reform agenda. It ensures alignment of donors around government priorities. **Joint Secretary (MoF), Shree Krishna Nepal** thanked all MDTF development partners for their support and talked about emerging challenges in the federal context. He said that due to implementation of fiscal federalism many challenges remained but also acknowledged some of the progress and joint efforts made by GoN and DPs. New intervention like the PLGSP (provincial and local governance support program) which was signed recently gives an opportunity to MDTF to further conceptualize their future area of interventions and for all PFM interventions and programs to coordinate and align with government's priorities.

Mr. Ramesh Shiwakoti, JS/Coordinator made a presentation on overall IPFMRP implementation status and started with two important updates on (i) SuTRA – 617 municipalities and rural municipalities have prepared budget using SuTRA. GoN is working together with DFID and USAID for developing

additional modules and upgradation of the system. He also updated that reporting for last FY (for all local bodies) will be done for all three tiers of GoN. The DTCOs will help local bodies to feed data. This report has to go to the office of the Auditor General. (ii) He also mentioned that provincial LMBIS (line management budget information system) and other systems like RMIS (revenue management information system) etc was also done by provinces. He shared his satisfaction that most procurements under the project were either signed or issued.

Mr. Franck Bessette, Program Manager had two main objectives to his presentation mainly: a) Extension of the MDTF and b) concept note which will be an opportunity to discuss potential activities that would be funded when additional pledges (EU, Swiss and potentially DFID) are decided and made available. Also, in terms of coordinating with other stakeholders outside MDTF he talked about reviving the PFM Donor group which consists of UNDP, GIZ, ADB etc. He also recognized the need to speed up implementation of the activities and remained assured that the figures will be encouraging in the future as well as the progress

Hence, the following was agreed:

- Revive the PFM donor group between PFM MDTF, PLGSP, ADB and other potential DPs.
- Start immediately the administrative process of extending the closing date of the PFM MDTF until January 2026
- Prepare a concept paper delineating the potential areas and modalities of engagement for a future operation to be submitted to PCC by December end.



Pic: Nepal PFM MDTF PCC Meeting at Hotel Royal Singi

B. PEFA Training Nov 11- 22, 2019

Helena Grandao Ramos and Guillaume Brule of the PEFA Secretariat, EPSPF, traveled to Katmandu, Nepalgunj and Pokhara in Nepal. The mission worked closely with Franck Bessette, Program Manager Nepal PFM MDTF, ESAG2, and TTL of the programmatic series of PEFA assessments in Nepal, Prakash Thapa, consultant, Nepalgunj PEFA assessment, Shraddha Shah, consultant, MDTF and Anjalee Thakali, consultant. The WB in Nepal is carrying out a PEFA assessment in Nepalgunj municipality, the first in a programmatic series of PEFA assessments and is pilot testing the new adjusted SNG PEFA framework in that municipality.

The mission delivered a series of learning and knowledge events in Kathmandu, Nepalgunj and Pokhara municipalities for a total of around 140 government officials, civil society organizations and development partners with the aim at presenting the new PEFA products, provide training on the PEFA methodology and promote the adjusted framework for subnational PEFA assessments and supplementary framework on gender responsive budgeting (GRB). Overall, the learning and knowledge events were

very welcome by the participants. The adjusted PEFA SNG methodology and the PEFA supplementary GRB framework were received with enthusiasm and strong interest by government officials and development partners, in particularly by those stakeholders engaged in working with SNG and GRB issues in Nepal. The mission used the opportunity to collect feedback and explore opportunities for collaboration with the Government, CSO, WB and DP on the application of the new products in Nepal. Participants in all events recognized that the adjusted SNG framework and its new features is better suited for conducting PEFA assessments at the SNG level and the supplementary PEFA GRB is a good fit to facilitate the collection of information to assess the extent to which countries' PFM systems promote and contribute to gender equality. The supplementary GRB framework (version of November 20, 2019) was subsequently shared with the interested stakeholders. On the latter, the Norway representative attending the Pokhara training course highlighted the importance of the supplementary GRB framework particularly considering the work at SNG level supported by the PFM MDTF and other federalism support programs (i.e. PLGSP).

More specifically, the mission undertook and delivered the following activities:

1. A learning event for the WB staff and key development partners in Nepal on the new PEFA products, including the adjusted PEFA framework for subnational PEFA assessments (which, as mentioned above, is being tested in the municipality of Nepalgunj) and the PEFA supplementary framework on gender responsive budgeting (GRB); around 40 participants attended the event, including DFID and UNCDF;



Pic: - learning event in Kathmandu, Nepal country office, WB

2. A two-day PEFA training course in Kathmandu for government officials, including the Nepal Municipal Association, the Nepal PEFA Secretariat, Ministry of Finance, Ministry of Federal Affairs and General administration, Ministry of Commerce and Supplies, Public Procurement monitoring office (PPMO), Office of the Auditor General (OAG), Inland Revenue Department (IRD), Financial Comptroller General Office (FCGO) and development partners (EU, DFID, UNCDF, DFAT, USAID, ADB, GIZ, SECO) on the PEFA methodology, adjusted SNG PEFA Framework, GRB framework and PEFA and PFM improvement; around 40 participants attended the event;



Pic: - WB Country Manager Mr. Faris H. Zervos and MDTF Program Manager Mr. Franck Bessette in opening session of PEFA Training in hotel yak and yeti, Kathmandu



Pic: - participants in PEFA training in Kathmandu

3. Technical meetings with the World Bank team carrying out the PEFA assessment in Nepalgunj municipality which is applying the adjusted framework for SNG assessments; the teams review the status of the ongoing assessment, provided clarifications on the adjusted SNG framework and discussed technical issues;
4. A two-day PEFA training course in Nepalgunj, for the Nepalgunj municipality staff, rural municipalities and provincial staff, Forest office Division, District Treasury Controllers office (DTCO), Rural municipality, Chamber of Commerce and other SNGs of Western Nepal, on the PEFA methodology, adjusted subnational PEFA framework and supplementary GRB framework; around 25 participants attended the event;



Pic: - group presentation during PEFA Training in Hotel Soaltee, Nepalgunj



Pic: - participants for PEFA Training in Hotel Soaltee, Nepalgunj

5. Consultation with CSO in Nepalgunj on Local Government PFM to discuss: (i) the existing practice of Planning and Budgeting process at the local level, (ii) collaboration between Municipalities and CSOs in Banke, (iii) the voices of marginalized and vulnerable communities including women in Planning and Budgeting processes, (iv) capacity building on PFMs of Local bodies and CSOs, (v) the roles and responsibilities of Users Committee and (vi) areas where CSOs and Nepalgunj Municipality in close collaboration with MDTF- PFM Nepal can work in the future. The WB team informed that CSOs in Banke districts will be invited for the next round of consultation on the draft report along with the Nepalgunj Municipality and capacity building on PFM for selected CSOs is being considered based on the need's assessment; around 10 CSO Banke attended the meeting;

6. A two-day PEFA training course in Pokhara, for the Pokhara municipality, rural

municipalities and provincial staff, CSOs, Chamber of Commerce, Media, Ministry of Economic Affairs and Planning (MOEAP), rural municipalities, NGO federation, Wards (subdivision of SNGs), other SNGs of Eastern Nepal and development partners (Norway, DFID, UNCDF), on the PEFA methodology, the adjusted SNG PEFA Framework and supplementary GRB framework; around 26 participants attended the event.



Pic: - PEFA Training in Pokhara Municipality

C. Technical Review Meeting; Dec 9, 2019

The meeting discussed the need to formalize the PEFA assessment of the federal level in 2020. All DPs want to push the GoN to do PEFA and WB agreed to talk to PEFA secretariat to put this as an agenda in the next finance steering committee meeting. On Revival of PFM TWG, an idea to change the Meeting Chair was discussed. Along with, adding a geographic dimension to the existing donor mapping exercise. (who is doing WHAT and WHERE). Second part of the meeting discussed the concept note for IPFMRP AF and the next steps as:

1. Extension of MDTF (memo is waiting for final approvals)
2. Signing of AA with various donors
3. Process Additional financing within six months in the scenario which comprises 2 million EUROS from EU and 1 Million USD from SDC.

Some comments from the DPs on the concept note was:

- Mention complementarity between PLGSP and IPFMRP
- Change / update results indicators (fit into context)
- Clarity on support to fiscal commission with the AF
- Clarity and add an indicator on work with finance committee and PAC
- Allocation of resources for planned PEFA assessment – on the basis of which GoN PFM Reform Strategy will be updated
- Emphasis on concrete coordination with all partners
- CGAS and IFMIS study was also discusses
- Stress on Gender (add something on PEFA new GRB framework)
- SUTRA and the need for an independent assessment
- Nepalgunj PEFA assessment and its draft – this exercise will serve as good baseline for other sub national PEFA

D. PFM TWG Revival Meeting - December 10, 2019

The meeting was chaired by Egbert Pos, DFID and Franck Bessette, World Bank. The last PFM TWG meeting was held on May 3, 2017. The objective of the PFM TWG meeting was to share knowledge in the area of PFM and harmonize donors support for PFM in Nepal. This particular meeting was focused on reviving the group as decided in the PCC meeting in September 2019. The value addition of this group in addition to other groups such as federalism working group, macro fiscal group under overall IDPG group was also discussed. While doing so, the group was also cautious of the fact that our counterpart in the GoN is limited and that we do not want to overwhelm them. In future meetings, the GoN representatives will also be invited as appropriate. Everyone agreed that the need for concrete coordination is crucial and as a first step the group has decided to update the Donor mapping exercise. Colleagues from UNCDF and GIZ were also present in the meeting while ADB, SDC and DFAT were not able to join.

All donors presented their work in the area of PFM during the meeting and ideas on how to revive the group and link up with GoN was discussed. The idea is to meet quarterly in order to effectively revive the group. In the meantime, it was agreed that relevant GoN representatives (PEFA Secretariat and other IAs) would also be invited in future meetings where appropriate. Sequencing of these meetings will also be key, e.g. after OAG/CIA annual audit reports. Everyone will share on a regular basis any news/ translated documents etc. that is relevant for the group by emails. Most of this information will be collectively put up on MDTF website or any other platform for restricted use documents, yet to be decided. <http://mdtfpfm.org.np/>

An update was provided by Raj Kumar (Norway) on Provincial and Local Governance Support Program

(PLGSP). PLGSP activities mainly under the PFM component of 9 million USD is as follows: (1) PFM related activities in provincial and local level such as SUTRA development, implementation and roll out and institutionalization of SUTRA is mentioned. Training will be given to local GoNs from 1st year. Local level revenue improvement plan and Gender budgeting is also a big chunk of this program (both in province and local level) and overall framework is being discussed. There is no resistance from MOFAGA on this. There is also local level revenue improvement action plan. Also, the local GoNs will identify their PFM related needs. LISA (local institutional self-assessment) tool will be used. The FCGO will lead the overall PFM component.

Some possible agenda for future meetings were:

- World bank first draft report of the Nepalgunj municipal PEFA will be shared soon (end of Dec, 2019).
- Start the donor mapping exercise and discuss this in the next meeting. The WB will circulate the existing format with useful addition, e.g. location of implementation and converted in excel format for making the tool useful for analysis purpose.
- Updates of progresses on project and specific areas by DPs.
- Share any studies or translations that is relevant to this group.
- World Bank has offered its co-chairmanship of the group to any other agency that may be interested or at least to open a discussion on this.

Also, a Joint Field Visit will be organized around February/ March 2020.

PART IV.

FINANCIAL REPORT

As of December 31, 2019, the total pledged amount to PFM MDTF by its six donors was US\$20.95 million (Table 1). Subsequently, the Trust Fund account TF072582 parallel to the original TF071617 was created to accommodate the new contribution. Current deposits — meaning funds received by the MDTF Administrator — stand at US\$ 15.89 million,

with the balance of pledged funds to be paid into the MDTF account, administered by the World Bank, as per the Administration Agreements. The total disbursement (TF072582) as of December 31, 2019 is 1.96 million (around 15 % of total fund receipt). For further details refer to (Table 2)

Table 1: Donor Contribution to MDTF as of December 31, 2019

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

Trustee Account: TF072582							
Customer Name	Currency	Amount in Contr Curr	Amount in USD	Paid in Contr Curr	Paid in USD	Unpaid in Contr Curr	Unpaid in USD
Australia-Department of Foreign Affairs and Trade	AUD	5.30	3.79	5.30	3.79	0.00	0.00
EU-Commission of the European Communities	EUR	3.00	3.37	3.00	3.37	0.00	0.00
Norway - Ministry of Foreign Affairs	NOK	34.00	4.20	13.00	1.57	21.00	2.4
United Kingdom - DFID	GBP	3.00	3.93	3.00	3.89	0.00	0.00
United States Agency for International Development (USAID)	USD	0.60	0.60	0.60	0.60	0.00	0.00
Sub Total			15.89		13.22		2.4
GRAND TOTAL			36.85		34.18		2.40

Nepal PFM MDTF Financial Status
Table 2: Disbursements as of December 31, 2019

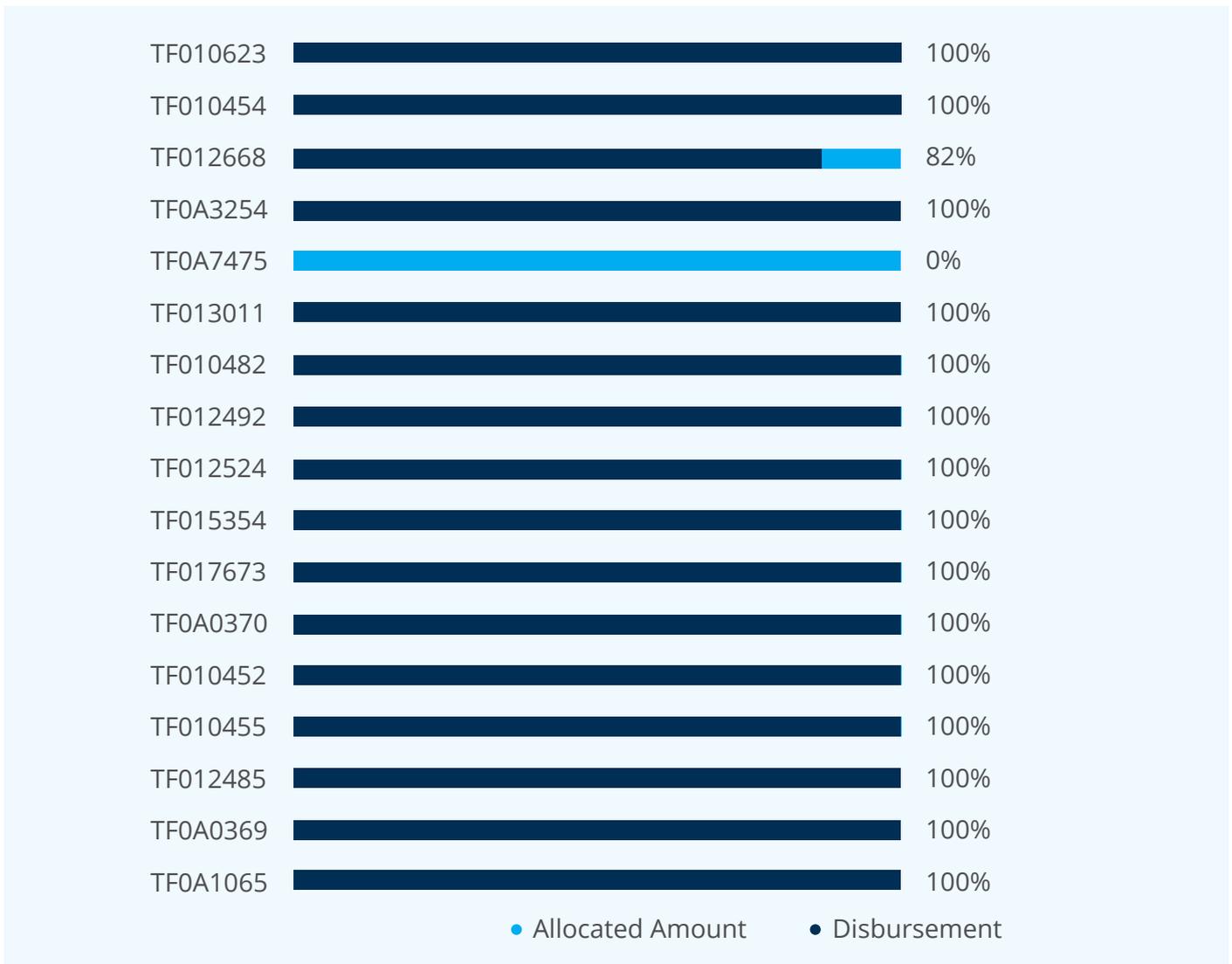
Financial Report for TF071617 until December 31, 2019											
Grant Number	Grant Name	Legal Status	Project ID	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD	Investment Income USD
TF010623	PROGRAM MANAGEMENT AND ADMINISTRATION COSTS.	ACTV	P121853	09/30/2021	838,313.37	837,018.46	1.00	1,294.91	1,017.65	277.26	-
TF010454	PREPARATION, APPRAISAL, SUPERVISION, MONITORING, REPORTING COSTS OF STRENGTHENING PFM SYSTEMS	ACTV	P125770	09/30/2021	551,574.17	551,555.31	1.00	18.86	-	18.86	-
TF012668	NLTA UNDER THE SPFM PROJECT TO GOVT OF NEPAL	ACTV	P125770	01/31/2022	800,000.00	653,661.04	0.82	146,338.96	-	146,338.96	-
TF0A3254	NEPAL-SUPPORT FOR FISCAL MANAGEMENT (TA)	ACTV	P157724	06/30/2019	450,000.00	449,765.46	1.00	234.54	-	234.54	-
TF0A7475	INTEGRATED PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT	ACTV	P164783	07/30/2021	4,800,000.00	-	-	4,800,000.00	4,800,000.00	-	-
TF099621	STRENGTHENING THE TSA SYSTEM	DROPPED	P121853	07/15/2014	4,000,000.00	-	-	-	-	-	-
TF0A5038	NEPAL MDTF-IFMIS	DROPPED	P163681	09/30/2017	200,000.00	-	-	-	-	-	-
TF013011	OPERATIONAL RISK ASSESSMENT OF PFM REFORM IN NEPAL	LEGALLY CLOSED	P132738	06/30/2013	199,983.75	199,983.75	1.00	-	-	-	-
TF010482	PREPARATION AND SUPERVISION COSTS OF	LEGALLY CLOSED	P127040	06/30/2016	218,757.49	218,757.49	1.00	-	-	-	-
TF012492	NP ED PETS	LEGALLY CLOSED	P131381	12/31/2014	148,346.99	148,346.99	1.00	-	-	-	-
TF012524	STRENGTHENING CIVIL SOCIETY ORGANISATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PUBLIC FINANCIAL MANAGEMENT IN NEPAL	LEGALLY CLOSED	P131860	11/30/2015	699,283.48	699,283.48	1.00	-	-	-	-
TF015354	NEPAL: STRENGTHENING BUDGETING PROCESS	LEGALLY CLOSED	P145814	06/30/2016	701,591.45	701,591.45	1.00	-	-	-	-
TF017673	NEPAL ROSC A&A	LEGALLY CLOSED	P147582	06/30/2015	7,720.19	7,720.19	1.00	-	-	-	-
TF0A0370	STRENGTHENING CIVIL SOCIETY ORGANIZATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PFM IN NEPAL 2	LEGALLY CLOSED	P153514	12/31/2017	547,921.69	547,921.69	1.00	-	-	-	-
TF010452	STRENGTHENING PUBLIC FINANCIAL MANAGEMENT	LEGALLY CLOSED	P125770	06/30/2016	4,242,311.23	4,242,311.23	1.00	-	-	-	-
TF010455	STRENGTHENING THE OFFICE OF THE AUDITOR	LEGALLY CLOSED	P127040	06/30/2016	2,219,468.89	2,219,468.89	1.00	-	-	-	-
TF012485	STRENGTHENING CIVIL SOCIETY ORGANIZATIONS	LEGALLY CLOSED	P131860	09/30/2014	800,000.00	800,000.00	1.00	-	-	-	-
TF0A0369	STRENGTHENING CIVIL SOCIETY ORGANIZATIONS	LEGALLY CLOSED	P153514	12/31/2016	923,734.12	923,734.12	1.00	-	-	-	-
TF0A1065	NEPAL: STRENGTHENING PUBLIC FINANCIAL MANAGEMENT	LEGALLY CLOSED	P154401	07/31/2017	2,692,114.05	2,692,114.05	1.00	-	-	-	-
	Admin Fee				419,156.69						
	Unallocated from the Paid in Funds				(4,502,443.27)						
TOTAL					25,041,120.87	15,893,233.60	15.81	4,947,887.27	4,801,017.65	146,869.62	

Note: The total paid in contributions from DPs is USD 20,957,834.29 investment income till this period is USD 415,167.19 is not included in the above table.

Financial Report for TF072582 as of December 31, 2019									
Grant Number	Grant Name	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD	Investment Income USD
TF0A7474	INTEGRATED PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT	07/30/2021	10,200,000.00	1,585,494.78	16%	6,896,424.86	8,614,505.22	-1,718,080.36	0.00
TF0A8864	PROGRAM ADMIN. AND MGMT COST	09/30/2021	500,000.00	192,175.65	38%	107,824.35	19,794.87	88,029.48	0.00
TF0A9105	IPFMRP SUPERVISION ALL COMPONENTS	09/30/2021	500,000.00	187,110.69	37%	149,914.96	3,279.90	146,635.06	0.00
	Admin Fee		510,000.00						
	Unallocated from Paid in funds		1,516,60.56						
TOTAL			13,226,760.56	1,964,781.12		7,154,164.17	8,637,579.99	(1,483,415.82)	

Note: The total paid in contributions from DPs is USD 13,226,760.26 investment income till this period is USD 573,443.13 is not included in the above table.

Figure 2: Activity-wise Allocation and Disbursement



Annex 1.

Nepal: Integrated Public Financial Management Reform Project (P164783)

Implementation Support Review

September 23- 27, 2019

Aide Memoire

1. During September 23 - 27, 2019, a Bank Team led by Maxwell Dapaah¹ carried out an Implementation Review of the Integrated Public Financial Management Reform Project. The Team held discussions with implementing entities on the progress achieved and provided necessary technical support. The list of persons met is in Annex-1. This Aide Memoire (AM) summarizes the findings on the status of project implementation,

recommendations and agreements reached with the relevant agencies to take corrective measures and/or to expedite implementation. The AM was discussed at the wrap-up meeting on September 27, 2019 with Dr. Rajan Khanal, Secretary, Ministry of Finance as the Chair. As agreed during the meeting, this Aide Memoire will be publicly disclosed as required by the Bank's Access to Information Policy.

OVERALL STATUS AND KEY PROJECT DATA

2. The Project has completed one year of implementation since it was effective. Despite a slow start in the beginning, implementation has gradually picked up now. As the Project is now in the second year of implementation, close monitoring of activities and deliverables is needed to ensure the achievement of relevant milestones. In addition, the evolving implementation of fiscal federalism requires clarity of roles and responsibilities among federal agencies with respect to PFM capacity development at the subnational level and – continued- emphasis in positioning the Project in the broader context of strengthening country PFM systems. Moreover, prioritization of change management is needed if

non-technical bottlenecks to implementation are to be adequately addressed. All these require a much more strengthened and capacitated PEFA Secretariat that has a clearer and sharper focus on managing the PFM program. Furthermore, the weak procurement capacity observed at implementing agencies in the last review has not been fully addressed. Given that major consultancies under the various components have started, contract monitoring is now critical to ensure that expected results are achieved on time as stipulated in the relevant agreements. Overall implementation progress and progress towards PDO achievement are retained as moderately satisfactory.

¹ Other members of the Team are : Zafrul Islam, Lead Procurement Specialist and Co-TTL; Timila Shrestha, Financial Management Specialist; Franck Bessette, Program Manager; Kene Ezemenari, Senior Economist; Robin Van Kippersluis, Senior Knowledge Management Officer; Gabriel Dedu, Senior Public Sector Specialist; Shambhu Prasad Uprety, Senior Procurement Specialist; Jaya Sharma, Senior Social Development Specialist; Chandra Kishor Mishra, Procurement Specialist; Anjalee Maiya Thakali, Consultant; Shradha Shah, Consultant; Nagendra Nakarmi, Senior Program Assistant and Shreeram Ghimire, Temporary

Table 1: Project Data

Project Data		Projects Performance Ratings		
Approval Date:	June 27, 2018	Summary Ratings	Previous	Current
Effectiveness Date:	August 24, 2018	Achievement of PDO	MS	MS
Closing Date:	July 30, 2021	Implementation Progress	MS	MS
Grant Amount: TF A7474 TF A7475	USD 10,200,000 USD 4,800,000	Monitoring & Evaluation	MS	MS
Amount Disbursed (As at September 30, 2019) TF A7474 (9.9% of committed amount)	USD 1,010,000	Project Management	MS	MS
Ratings: HS=Highly Satisfactory; S=Satisfactory; MS = Moderately Satisfactory; MU = Moderately Unsatisfactory; U=Unsatisfactory; HU=Highly Unsatisfactory		Procurement	MU	MS
		Financial Management	S	S
		Counterpart Funding	S	S

KEY POINTS DISCUSSED AND AGREED ACTIONS

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

3. Medium Term Expenditure Framework (MTEF):

Model MTEF guidelines have been prepared for provinces and local governments and some training has been conducted. This has prompted the need for a more in depth and comprehensive manual to guide the MTEF preparation process, as well as TORs for related IT solutions that would facilitate integration with the Line Ministry Budget Information System (LMBIS). There is also the need to strengthen the existing fiscal forecasting model as well as a robust project inventory that will feed into the MTEF process. It was agreed that the National Planning Commission (NPC) will share the following with the Bank by **October 30, 2019**²: (1) Terms of References (TORs) for the detailed MTEF guidance/manual; (2) TORs for IT solution for MTEF preparation process; (3) TORs and a request for the preparation of detailed guidelines for preparing and including projects in the Project Bank; and (4) TORs and a request for support to develop a robust system for macro-fiscal analysis.

4. Just-in-time support for improving subnational government (SNG) public financial management:

To ensure coordination and synergy among capacity building initiatives of various implementing agencies (IA), it was agreed that each IA share their training plan with the Bank team by October 30, 2019. In parallel the PEFA secretariat will consolidate the training plans and share the consolidated plan with the Bank by October 30, 2019.

5. The Computerized Government Accounting System (CGAS)

has been integrated with the Electronic Fund Transfer (EFT) System, which is a service extension of the Treasury Single Account (TSA) System. As the Financial Comptroller General's Office (FCGO) has planned to use CGAS in all paying offices of the Federal and Provincial Governments within the next six months, FCGO plans to enhance CGAS and EFT to meet the various business requirements Nepal Public Sector Accounting Standards (NPSAS)- based reporting requirements, such as central level

² As of the date of this Aide Memoire, the documents have not been submitted yet.

accounting, progress reporting, operational fund accounting, deposit/retention accounting, virement/program revision commitment controls and compliance, etc. The concept notes and TORs for the proposed CGAS and EFT upgrades are under review by the Bank.

6. Integrated Financial Management Information Systems (IFMIS):

The consultancy for the IFMIS Study, a key activity under this component, has been awarded to PricewaterhouseCoopers LLP (PwC), India. Implementation of this activity has started as of September 25. The study is expected to comprehensively document the status of the FMIS landscape at all tiers of Government, existing weaknesses, risks and gaps and propose a medium to long term strategy and action plan to implement an integrated FMIS in Nepal. The Team met with the representatives of PwC who were in Kathmandu for their first visit and agreed that the work plan of the consultancy be shared via PEFA Secretariat with the Bank team by October 30, 2019.

7. Chart of Accounts (CoA): The Team was informed that the FCGO has prepared a revised chart of accounts. It is expected that the IFMIS consultancy will review the COA and provide feedback on its adequacy for comprehensive financial reporting involving the three tiers of government.

8. Strengthening fiscal reporting and controls: FCGO has prepared NPSAS-based reporting format (using the previous International Public Sector Accounting Standards (IPSAS) framework) for all tiers of the Government which was approved by the Office of the Auditor General (OAG). Moreover, since the last review, FCGO has made commendable progress in preparing the first NPSAS consolidated financial statements for FY2017/18 involving federal agencies. The financial statements of provincial governments were also prepared based on NPSAS. FCGO had also published a compiled set of financial statements for FY2017/18 for the three tiers of

government. FCGO will be requesting OAG to provide an independent audit opinion on the FY2019 NPSAS-based consolidated financial statements of all federal agencies. The Government has now decided to move to the 2017 IPSAS framework. As agreed in the previous review, the procurement process for hiring a local consulting firm to support the NPSAS 2017 implementation has commenced. However, FCGO has decided not to hire an individual international consultant for this task any longer. Concerning improving the internal controls regime, FCGO plans to develop detailed model internal control guidelines for federal and provincial governments. The Expressions of Interest (Eoi) notice to hire a consultancy to support this task has been published. The Ministry of Federal Affairs and General Administration (MOFAGA) is preparing the TORs for internal control guidelines for the local level. It was agreed that the TORs be finalized and shared with the Bank by November 15.

9. Nepal Financial Reporting Standards: Regarding the implementation of the Nepal Financial Reporting Standards (NFRS), the Team discussed and agreed with the Institute of Chartered Accountants (ICAN) that support to State Owned Enterprises (SOEs) should be prioritized. It was encouraging to note that ICAN had signed a Memorandum of Understanding (MoU) with the Nepal Oil Corporation (NOC) in July 2019 to provide such services. The Team urged ICAN to systematically expand its engagement with other SOEs to provide similar services. ICAN shared that it has now planned for an overall gap analysis of NFRS implementation in the State-Owned Enterprises (SOEs) sector and the gap analysis for NFRS application in NOC is about to conclude. The Team further clarified ICAN's role on NFRS implementation as facilitatory and providing quality assurance. It was agreed that ICAN will (i) Share the TOR for SOEs NFRS gap analysis by October 30, 2019; and (2) share the draft of NFRS training program prioritizing SOEs by January 30, 2020.

10. Accountancy Curriculum of Universities: Since the last review, ICAN has held a stakeholder workshop with Universities in Nepal on strengthening the accountancy curriculum at these institutions. A working group consisting of leaders in Academia and in ICAN is developing an integrated curriculum. A draft report is expected by the end of December 2019. Related to this, ICAN informed that it has had discussions with the MOF on certification of students who have passed some levels of the Chartered Accountancy (CA) exams but are taking a much longer time to pass all the levels of the exams. In addition to supporting public sector accountants, this initiative aims to recognize the efforts of students who have undergone three years of full time Articledship training and have completed chartered accountancy professional – II (CAP – II) level and/ or partly at the final level of the CA examination. It was agreed that ICAN share: (i) the concept note regarding utilization of these partly qualified students in the public sector i.e. three tiers of Government by December 31, 2019; and (ii) the report of the integrated curriculum Working Group by January 30, 2020. The team advised ICAN to closely coordinate the implementation of these with the Ministry of Finance, the Public Service Commission, the PFM Academy and Development Partners.

11. PFM Capacity building: The activities to be undertaken here will primarily be driven by the findings and recommendations of the Training Needs Assessment (TNA) to be conducted at the federal level and the findings of the Federalism Capacity Needs Assessment conducted by the Government. The procurement process using

Consultant Qualification Selection (CQS) to hire a firm to conduct the TNA was cancelled. PEFA Secretariat plans to move with a more competitive procurement process using QCBS, for which the Expression of Interest (EoI) notice was agreed to be issued by October 30, 2019. The Team highlighted the need to coordinate and synergize the TNA work with Provincial and Local Governance Support Program (PLGSP).

12. Public Accounts Committee (PAC) and Finance Committee: Since the last review, a project implementation unit (PIU) has been formed at the PAC Secretariat to help implement the PAC activities. It was agreed that the TORs for the proposed consultancy to support the PAC's capacity strengthening shared with the Bank by October 30, 2019. The consultancy is expected to cover: (a) capacity building of federal and provincial PACs, and (b) in-depth review of the latest audit report. Besides, the Bank's global team on Parliaments will provide technical advice to help in programming appropriate support under the Project to meet the needs of the PAC. The Team also met with the Finance Committee to discuss its request for capacity strengthening support. The committee had discussed its request for support with the PEFA Secretariat. As strengthening fiscal oversight institutions in the scope of the Project, it was agreed to support prioritized capacity building activities involving the federal and provincial Finance Committees. It was agreed that the Finance Committee will share a draft TOR for capacity strengthening by October 30, 2019, upon which budget can be provisioned under the Project for next FY.

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: Since the last review, the Office of the Auditor General of Nepal (OAGN) has hired Ernst and Young LLP, India (E&Y) to support the implementation of the main activities under this component. A range of activities covering risk-based audit planning, quality assurance processes of financial and

performance audits, IT governance, namely OAG's Nepal Audit Monitoring System (NAMS) and Electronic Working Papers system (EWP) and Citizen Participatory Audits, etc. are in the scope of the E&Y consultancy. The Team advised OAG to monitor implementation of the consultancy closely due to the wide range of deliverables that are expected to help improve OAG's SAI

PMF scores in financial audit (Indicator 7) during the term of the Project. It was agreed that the inception report and work plan of the consultancy be shared with Bank by the end of October 2019. Furthermore, the Team advised OAG and the PAC to collaborate on the NAMS aspect of the E&Y consultancy such that the recommendations of the review will accommodate of the PAC's needs to avoid the development of a parallel system by the PAC. Since the main milestone of the OAGN component is improved SAI PMF score for Indicator 7, the Team advised and the OAGN agreed to conduct a SAI PMF by June 30, 2020 rather than at the end of the Project. This will help OAGN to implement any recommendations that can help improve upon its score, if necessary.

14. Citizen Participatory Audit (CPA): Since the last review, OAGN, in close collaboration with Global Partnership for Social Accountability (GPSA) and Helvetas Swiss Interco operation/Sky Samaj, has organized five workshops (two days each) targeting Civil Society Organizations (CSOs) and local government staff from February 7 to May 31, 2019 in five locations (see Annex 2). Altogether, 266 people were trained of which 182 (68%) were CSO representatives in five CPA workshops, among them 44% were female. Subsequently,

a training manual to support future trainings on citizen participation in performance auditing was prepared. The E&Y consultancy is expected to help identify new engagement areas and strategies for scaling up the CPA support.

15. Training and Capacity Building: Training and capacitation of Provincial OAGN Satellite offices is critical. The Team was encouraged to note a clear articulation of OAGN's engagement strategy to ensure effective audit of provincial and local level entities. Besides, the government has approved the set-up of 7 Provincial OAGN offices which will also audit local level governments. According to the approved plan, 500 of the 614 positions provisioned have been filled so far. A key challenge in getting the offices operational is limited infrastructure and lack of logistics. The Bank team will assess the progress of the Provincial and Local OAGN training and capacity building activities in the next mission by visiting selected Satellite offices. A TNA for the OAGN will be carried out under the E&Y consultancy. In the meantime, OAGN agreed to share its training requirements up to the end of fiscal year with the PEFA Secretariat for inclusion in the consolidated training plan for the project that will be shared with the Bank team.

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

16. Public procurement governance and oversight: Since the last review, all five Key Sector Agencies (KSAs) have nominated their Focal Persons for PPMO to coordinate their procurement activities. However, the two project support consultants- Lead Project Management Specialist and Procurement Specialist- have not been hired yet. The Bank team emphasized the importance of these two professionals to gaining traction on the

PPMO-related activities of the Project. Similarly, there is limited progress on the preparation of basic procurement documents at the sub-national level. The Bank team requested PPMO to review the subnational procurement capacity needs and submit a detailed training plan for the Bank's consideration by March 15, 2019. Furthermore, the Team urged PPMO to finalize hiring of the two Procurement Consultants by December 31, 2019.

17. Procurement capacity development and professionalization: The key contract for capacity development and professionalization has been signed with ITC/ILO. In partnership with the Nepal Administrative Staff College (NASC), ITC/ILO has started implementation of activities. Plans are on course to conduct one training on procurement management (course B1) for PPMO and KSA key officials in Turin/Italy. Also, the first batch of at least two main trainings (course B2 and B3) is expected to be completed by December 2019. PPMO has also conducted a few short training courses with its in-house resources. However, given capacity challenges, the Bank team advised

PPMO to conduct future trainings using the individual consultants -referred to in paragraph 16 above.

18. Performance monitoring with e-GP platform: PPMO is still in the process of identifying the gaps in the existing system for improvement. Based on this assessment, PPMO will finalize the TOR by December 15, 2019 for the selection of a firm to undertake the e-GP system enhancement. Since this activity has been significantly delayed, the Bank team urged PPMO to expedite the firm selection to avoid further slippages of agreed timelines

Component 4: PFM Reform Management and Coordination

19. The PEFA Secretariat has made significant progress in coordinating, aligning and providing support to the nine implementing entities of the Project. Since the last review, it has instituted monthly status meetings to discuss implementation progress. These efforts are commendable- as they are helping to address implementation bottlenecks- and should be continued and strengthened. However, the implementation of fiscal federalism has introduced additional complexities in the scope and content of the reform at the three tiers of government that were not envisaged in the original mandate of the Secretariat. As a result, the Secretariat's capacity is overstretched. Furthermore, its legitimacy to coordinate the broader PFM reform agenda at all tiers of government needs to be clarified and consolidated. To this end, the Team advised that the PEFA Secretariat work more closely with the Ministry of Finance, leverage critical support from the PFM steering committee and be given further training in the leadership of PFM reforms work. These will help to strengthen its capacity to not only coordinate activities, but also to lead the PFM reform agenda. As noted in the change management section below, it will also need in-house capacity and expertise on change management to help it manage the political economy and change imperatives of fiscal federalism.

20. PFM Reform Strategy: PEFA Secretariat plans to commence update of the current PFM Strategy. Sub-national PEFA's are planned to gather relevant information for updating the Strategy. While this is a good starting point, the Team suggested that conducting a federal level PEFA is ultimately needed to both guide the update of the strategy and to provide the required baseline performance information for the strategy's results framework. The last PEFA in Nepal was completed in 2015, therefore an update is critically needed. Also important is the need to map all the development partner PFM reforms support. Many partners are providing support at the different tiers of government and at the sector level, but such support is uncoordinated and fragmented. Besides the high cost to government of such parallel and often duplicative support, it is challenging for the PEFA Secretariat to support monitoring and alignment of these programs with national priorities. It was agreed that the PEFA Secretariat will work with the International Economic Cooperation Coordination Division (IECCD) of MOF to map all development partner support on PFM in Nepal. A report of the mapping is expected to be completed by December 31, 2019.

- 21. Citizen's Engagement (CE):** Preparation of the CE strategy for PFM has delayed due to the lack of clarity over who should lead the preparation of the strategy document. It was clarified during the review that the PEFA Secretariat, in consultation with all key stakeholders will lead the preparation of the strategy. The Secretariat will hire a consultant who has expertise in preparing CE strategies by December 15, 2019 to support this task. The Team emphasized the urgent need to start work on the development of the strategy due to the elaborate consultation processes involved in its preparation and adoption.
- 22. Change management:** The focus of IAs and the PEFA secretariat is on a set of activities that are insufficiently positioned as part of an overarching PFM ambition or vision in the context of the federalism process and with clear linkages to improved service delivery to citizens. Having a more explicit and overarching 'Theory of Change' (ToC) for PFM reform and its various dimensions in Nepal would help both implementing agencies as well as development partners in aligning support efforts and creating synergies, compared to different smaller projects with separate results frameworks. It is suggested that, along with the mapping of donor programs above, a broader ToC is discussed with PEFA secretariat within the next three months.
- 23.** The coordinating role of Public Expenditure and Financial Accountability (PEFA) Secretariat is not an easy one to fulfill effectively. While technically skilled, they have limited experience with change management and providing specific guidance to implementing agencies on overcoming challenges and leveraging successes. Furthermore, the Secretariat does not have the high profile it deserves as national coordinator and would benefit from both better publicity as well as a stronger explicit profile of being part of the Ministry of Finance. The Team recommends the following activities: (a) develop a PEFA communication plan that can include quick wins such as a newsletter that shares emerging progress against a larger theory of change to help raise the profile of the reform work and the secretariat's role and; (b) basic training on change management tools for PEFA secretariat staff that can be applied with implementing agencies including a 'force field analysis' exercise that helps unpack and address challenges and leverage implementation drivers; (c) stronger MoF leadership. The Bank team will provide technical support and guidance to the secretariat in fulfilling these recommendations, where necessary.

FIDUCIARY COMPLIANCE

- 24. Procurement performance:** Previously delayed consultants' selections in the three major implementing agencies- PEFA secretariat, Office of Auditor general (OAG) and Public Procurement Monitoring Office (PPMO)- are progressing well, as noted in the respective sections above. Despite this progress, the Team observed that the procurement processes of some approved activities is taking longer than required. The Bank team reiterated the importance of implementing all procurement activities in the approved Procurement Plan (PP) in the STEP system as per the agreed timelines. The implementing agencies were reminded to update the approved procurement activities in STEP, in the first week of each calendar month. Considering the overall improvements, the procurement rating is upgraded to "Moderately Satisfactory".

25. Financial Management (FM) Performance:

The timeliness and quality of the financial reports have been maintained. As agreed, all the implementing agencies have implemented CGAS. This mitigates the potential risk of delayed or poor-quality reporting by IAs. The risk of lack of coordination on financial management of various IAs is mitigated by the Finance Officer in PEFA Secretariat designated to ensure coordination. The total expenditures for FY2018/19 as of the first trimester-end (mid-November 2018) is NPR 3.92 mil., which is 0.51% of the annual budget of NPR 774.30 mil. (GoN - NPR 131.89 mil. and TF - NPR 642.41 mil.). There has been recent additional expenditure on advance payment to

ITC/ ILO of NPR. Based on overall assessment, the financial management performance has been maintained as "Satisfactory".

26. Disbursements Status: As of September 30, 2019, total disbursement is USD 1.04 million (6.93% of USD 15 million) which includes advance to Designated Account of USD 1 million. Upon setting up of the new signatory in Client-connection, the Project will submit withdrawal application of around NPR 62.96 million for reimbursement which is expected by November 15, 2019. The disbursement forecast for FY20 is USD 6 million.

SAFEGUARD MANAGEMENT

27. Environmental and Social Safeguards: The 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.

28. Gender Considerations: The Team noted effort to include female staff in proportion to the female employees in training events. Out of the total 3,743 participants that have attended training under the Project, 17% were female staff. Targeted training on procurement was also provided to 40 female staff. It is advised that TNA include identification of PFM related training needs of female staff for inclusion in the capacity building plan.

29. Unified budget guidelines including gender responsive budgeting processes is yet to be fully

introduced at the sub-national governments (SNGs). Model budget guidelines were developed by MOF and provided to SNGs for planning/ budgeting last fiscal year. However, SNGs have yet to develop relevant guidelines in their planning and budgeting processes. At the provincial level, the Provincial Line Management Budget Information System (LMBIS) has adapted the Federal LMBIS, which includes Gender Responsive Budget (GRB) coding. For the local governments, Sub-National Treasury Regulatory Application (SUTRA) needs further enhancement to ensure that GRB coding is well captured. Considering the capacity constraints of SNGs to follow the existing guideline and coding processes, it was discussed and agreed that the project will support in developing a simplified template to guide SNGs to follow GRB in the budgeting processes and provide training on the same by January 30, 2020.

NEXT REVIEW: The next review is tentatively agreed around March 2020.

AGREED ACTIONS: Please refer to Annex 3.

Annex 2.

Progress Reporting on Various Activities

Change Management

The focus of implementing agencies and PEFA secretariat is on a set of activities and insufficiently positioned as part of an overarching PFM ambition or vision in the context of the federalism process and with clear linkages to improved service delivery to citizens. Having a more explicit and overarching 'Theory of Change' (ToC) for PFM reform and its various dimensions in Nepal would help both implementing agencies as well as development partners in aligning support efforts and creating synergies compared to different smaller projects with separate results frameworks. It is suggested that the mapping of donor programs is updated, and a broader ToC is discussed with PEFA secretariat within the next three months.

The coordinating role of PEFA Secretariat is not an easy one to fulfill effectively. While technically skilled, they have limited experience with change management and providing specific guidance to implementing agencies on overcoming challenges and leveraging successes. Furthermore, the Secretariat does not have the high profile it deserves as national coordinator and would benefit from both better PR/ Communications as well as a stronger explicit profile as part of the Ministry of Finance. The following activities are recommended: a) to develop a PEFA communication plan that can include quick wins such as a newsletter that shares emerging progress against a larger theory of change to help raise the profile of the reform work and the secretariat's role and; b) basic training on change management tools for PEFA secretariat staff that can be applied with implementing agencies including a 'force field analysis' exercise that helps unpack and address challenges and leverage implementation drivers. For adaptive/ more complicated challenges in implementation specific task teams may be considered that cut

across agencies; c) stronger public affiliation with MoF. The Bank team will provide technical support and guidance to the secretariat in fulfilling these recommendations, where necessary.

The federalism context provides challenges but can - in contrast - be emphasized much more as opportunity to work differently and better across government levels. An example of this is that at the federal level there is at times hesitation to produce 'guidelines' for the local levels, as these would be prescriptive, while at the same time such guidance is much needed. Another way of expediting such guidance is to tap into, and recognize, emerging good practices at the local levels as part of the guidance materials, therefore putting less emphasis on being prescriptive and more emphasis on leveraging collective expertise. When this is done in a dynamic manner (rather than one off guidelines) it can start functioning as a learning system and center of excellence.

Training efforts take place at multiple levels and led by different agencies to help implement reform activities and strengthen capabilities. The TNA that is starting, together with the competency framework will create a more coherent view of what is needed but may not fully address issues of quality assurance of coordination and evaluation of training efforts. Guidance on how to effectively organize and design PFM related trainings and evaluate its effectiveness would increase impact of country-wide efforts. PEFA Secretariat does not necessarily need to lead such efforts but could play a key role as a coordinator in the larger reform aligning with training agencies and with support of MoF. A similar logic applies to research and the PFM research agenda for Nepal to increase coordination, the quality and joint agenda setting for PFM priorities.

Revenue Management

The planned assessment of tax administration systems under TA support provided by Norway has yet to be conducted. This Project if required can support this assessment. Therefore, the Bank team will continue to monitor progress on the planned assessment with the Inland Revenue Department. The Bank team clarified that while the study will inform the specific areas for systems improvement, the current project design does not include in-depth support to federal revenue management. At the subnational level however, support could be provided under the Project to scale up the assessment of sub-national governments' (SNGs) revenue potential and/or support, on a pilot basis, the implementation of the recommendations of the SNGs assessments planned to be conducted under the Bank's Revenue Potential and Expenditure Needs Assessment.

Just-in-time support for improving SNG public financial management

To ensure coordination and synergy among capacity building initiatives of various implementing agencies (IA), it was agreed that each IA share their training plan with the Bank team by October 30. The Team was informed that SuTRA had been rolled out to 700 local governments and a complete roll out to all SNGs is expected by the end of this fiscal year. While SuTRA's implementations is not earmarked for support under this Project, due to its impact on some of the project's outcomes – for example with respect to preparing financial reports involving all tiers of government- the Bank team will continue to monitor its implementation progress.

Accountancy Curriculum of Universities

Since the last review, ICAN has held a stakeholder workshop with Universities in Nepal on strengthening the accountancy curriculum at these institutions. A working group consisting of leaders in Academia and the ICAN is working on an integrated curriculum. A draft report is expected by the end of December

2019. Related to this, ICAN informed that it has had discussions with the MOF on certification of students who have passed some levels of the Chartered Accountancy (CA) exams but are taking much longer time to pass all the levels of the exams. In addition to supporting public sector accountants, this initiative aims to recognize the efforts of students who have undergone three years of full time Articleship training and have completed chartered accountancy professional – II (CAP – II) level and/or partly at the final level of the CA examination. It was agreed that (i) ICAN share the concept note regarding utilization of these partly qualified students in public sector i.e. three tiers of Government by December 31, 2019; (ii) the report of the integrated curriculum working group by January 30, 2020. These activities require close coordination among stakeholders such as Ministry of Finance, the Public Service Commission and Development Partners. ICAN also shared that it has envisioned introducing post qualification courses related to public financial management to help support the development of PFM cadre in Nepal. It has entered into an MoU with the Chartered Institute for Public Finance and Accountancy (CIPFA), UK in this regard. The Team advised ICAN to work closely with the PFM Academy of Nepal on this as they are the lead agency for PFM continuing professional training for the government as well as under this project

Citizen Participation Audit: Provinces where training has occurred

The Provinces and districts include: Butwal, Province 5 (February) - participants from: Arghakhanchi, Gulmi, Kapilvastu, Palpa, Parasi, Rupandehi; Hetauda, Province 3 (March) - participants from: Bara, Chitwan, Dhading, Makwanpur, Parsa, Rautahat; Nepalgunj, Province 5 & 6 (April) - participants from: Banke, Bardiya, Dailekh, Dang, Jajarkot, Surkhet; Dhangadhi, Province 7 (April) - participants from: Achham, Bajura, Dadeldhura, Doti, Kailali, Kanchanpur; Biratnagar, Province 1 & 2 (May) - participants from: Dankanta, Jhapa, Morang, Sunsari, Udayapur, Dhanusha, Saptari, Siraha

Annex 3.

Agreed Actions

	Actions Agreed	Responsibility	Agreed Timeline in Last Review	Status During Current Review	New Milestones Agreed in Current Review
1.	a. Finalize TOR for consultancy to strengthen the MTEF related activities b. Recruit consultant with expertise to support MTEF guidelines update and preparation of MTEF Manual	NPC	November 15, 2018 January 31, 2019	TORs prepared by NPC and commented on by the Bank	Finalize TORs, submit in STEP and publish EOs by October 30, 2019 Complete selection of consultant by February 30, 2020
2.	a. Finalize TORs for IT solution for MTEF preparation process b. Hire short term consultant to document MTEF business process and requirements	NPC		TORs prepared by NPC and commented on by the Bank	Finalize TORs, submit in STEP and publish EOs by October 7 and 15, 2019 respectively. Complete selection of consultant by February 15, 2019
3.	Share TORs for developing Project Bank guidelines with the Bank Team	NPC			October 30, 2019
4.	Develop and share with the Bank Team TORs for developing robust macro-fiscal modeling	NPC			October 30, 2019
5.	Share IFMIS study work plan	PEFA Secretariat			October 30, 2019
6.	Roll-out existing SuTRA modules to all LGs, 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	Outstanding. This activity is not supported by the Bank. Its supported by DFID and USAID. But continuously monitored due to connection with project results	Some enhancements of SuTRA has been completed. MToT, ToT and user's trainings have been provided to all the Municipalities/Rural municipalities and they have started to prepare the budget through SuTRA for the next Fiscal Year 2019/20.
7.	Issue RFP for hiring consultants for NPSAS implementation Hire local consultant	FCGO	April 15, 2019	REoI notice published for Consulting services for NPSAS implementation (Federal, State and Local Level) & NoL is sought from World Bank for Shortlist.	(a) RFP issued on September 22, 2019 (b) Hire local firm by January 15, 2020

8.	Prepare ToR for hiring consultants for Internal Control manuals	FCGO		A general internal control guideline applicable for three tiers governments have been approved by MoF and FCGO is planning to hire consultant for specific ICS manual for FCGO, model manuals for Federal and Provincial governments, capacity development of concerned officials etc.	(a) TOR cleared and EOI published on September 23, 2019. (b) Hire by January30, 2020.
9.	NFRS	ICAN			(a) Share TOR for SOEs NFRS gap analysis by October 30, 2019 (b) Share the draft of NFRS training program prioritizing SOEs by January 30, 2020.
10.	Utilization of Partly Qualified Accountants in the public sector	ICAN			Share Concept note regarding utilization of partly qualified students in public financial management sector i.e. three tiers of government. – End of December 2019
11.	Re-issue EoI for TNA Hire consultant	PEFA Secretariat	October30, 2019	Procurement changed from QBS to QCBS and hence EOI needs to be reissued	Issue by October 31, 2019 March 30, 2019
12.	Share training plans of implementing entities	PEFA Secretariat			October 30, 2019
13.	Finalize TORs and share for capacity building support	PAC & Finance committee			October 30, 2019
14.	Develop program for PAC and Finance Committee and their secretariat strengthening	PAC, Finance Committee & World Bank team			Finalize capacity strengthening program by December 31, 2019
15.	Complete at least (i) two main procurement training course on goods/works/services, and (ii) one course on procurement management	PPMO/ ITC-ILO			December 31, 2019
16.	Submit Inception Report for the capacity development and professionalization program	PPMO/ ITC-ILO			October 10, 2019
17.	Make on-board the Lead Project Management Consultant (LPMS) and Procurement Specialist (PS)	PPMO	March 15, 2019	Partly completed.	December 31, 2019
18.	Assess SNG procurement capacity needs	PPMO			March 15, 2020

19.	Develop basic simple procurement documents for SNG level (direct contracting, quotation, national bidding, tool kit/guidelines)	PPMO	April 15, 2019	Not yet developed; starting	December 31, 2019
20.	Submit to the Bank time-bound Detailed Activity Plan as per agreed format (PEFA) for the three sub-components covering all activities under Component 3	PPMO			November 15, 2019
21.	Submit to the Bank time-bound Detailed Training Plan to conduct the agreed 14-types short courses (1-5 days) starting by November 2019 including whether by individual consultants or by firm	PPMO			October 20, 2019
22.	Submit to the Bank the TOR for e-GP system enhancement including identification of existing gaps	PPMO			December 15, 2019
23.	Complete the selection of firm for e-GP system enhancement	PPMO			February 29, 2020
24.	Share work plan of consultancy to support financial, performance audit, IT review etc	OAGN			October 30, 2019
25.	Undertake SAI PMF	OAGN		Undertake an independent SAI PMF	June 30, 2020
26.	Submit Withdrawal Application for reimbursement of funds paid to ITC/ ILO	PEFA			October 30, 2019
27.	Finalize the ToR for Procurement Consultant for IPFMR	PEFA Secretariat	Procurement consultant recruited by April 15, 2019	Since major procurement activities have been finalized, the consultant seems redundant.	
28.	Develop communication plan with activities to highlight achievement of IPFMRP and showcase best practices	PEFA Secretariat			November 30, 2019
29.	Learn from one relevant country where successful IFMIS have been implemented in a federal context	PEFA Secretariat			By November 30, 2019
30.	Learn from one relevant country where successful internal controls have been implemented in a federal context	FCGO			By November 30, 2019
31.	Learn from one relevant country on PFM reforms leadership and coordination in a federal context	PEFA Secretariat			By December 31, 2019
32.	Undertake basic training on change management	PEFA Secretariat			By February 29, 2020
33.	Commence data collection and other preparatory work for PFM reform Strategy update	PEFA Secretariat			December 31, 2019
34.	Conduct PFM training workshops in all provinces to meet urgent needs of SNGs	FCGO			January 31, 2020

35.	Training Plan for immediate training for this FY	OAGN	March 15, 2019	delayed	November30, 2019
36.	Share concept Note for e-Learning platform	ICAN			November 15, 2019
37.	Share draft of report of working group on curriculum integration	ICAN			January 30, 2020
38.	a. Develop TOR for preparing the Citizen engagement strategy	PEFA Secretariat			October 30, 2019
	b. Hire consultant to support preparation of the citizen engagement strategy	PEFA Secretariat			December 15, 2019
39.	Develop guidelines for Gender Responsive Budgeting at Subnational Level build on guidelines developed for Provinces	Budget Division, MOF			January 30, 2020
40.	Map development partner PFM support in coordination IECCD	PEFA Secretariat			December 31, 2019

Annex 4.

Results Framework Update

Indicator Name	Baseline	Intermediate Targets				End Target	Status as of September 2019
		1	2	3	4		
Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments							
Credible MTEF in place (Text)	Basic guidelines for MTEF at federal level in place.		MTEF review completed and procedures revamped			Difference between multi-year estimates and subsequent setting of annual budget ceilings are clearly explained.	NPC has developed model guidelines for Planning (incl. MTEF) of Provinces and LGs with GoN regular funds. This year, NPC is planning to strengthen MTEF and develop manuals. ToR for consultancy shared with the Bank
Comprehensive internal control procedures adopted at SNGs. (Text)	a) No coherent internal control framework exists that ensures consistency in these practices across the three tiers of Government;		Approved of internal control procedures comprehensive/ consolidated that are adopted (Federal and provincial level –FCGO, Local Governments-MOFAGA)			SNGs that cumulatively manage 50% of overall SNG budget have their own internal control manual adopted.	Internal Control guidelines federal developed. TOR for developing internal control framework for federal and Provincial Governments developed, EoI published (September 23, 2019)

IFMIS developed and pilot tested (Text)	Zero Pilots		IFMIS review completed and implementation roadmap developed	Pilot IFMIS designed		2 pilot sites	IFMIS study consultancy work has started
Enhancing participation and capacity of technical female staff in trainings/ workshops (Text)	0		20% participation in all PFM trainings	30% participation in all PFM trainings		30%	17% female participation rate in trainings achieved out of 3,743 trainings offered so far
Unified budget guidelines including gender responsive budget processes introduced to SNGs (Text)	No unified budget guidelines including gender responsive budget processes for SNGs		Approval of guidelines by appropriate authority at federal and SNG levels			SNGs that cumulatively manage 50% of overall SNG budget have adopted the unified budgeting guidelines	Model budget guidelines were developed by MOF and was provided to SNGs for planning/budgeting last FY. However, this is yet to be translated by the SNGs through development of guidelines in their planning and budgeting processes.
Comprehensive internal control procedures adopted at SNGs. (Text)	a) No coherent internal control framework exists that ensures consistency in these practices across the three tiers of Government;		Approved of internal control procedures comprehensive/ consolidated that are adopted (Federal and provincial level –FCGO, Local Governments- MOFAGA)			SNGs that cumulatively manage 50% of overall SNG budget have their own internal control manual adopted.	Internal Control guidelines federal developed. TOR for developing internal control framework for federal and Provincial Governments developed, EoI published (September 23, 2019)

Component 2. Strengthening the Office of the Auditor General Nepal

Timely submission of financial audit reports of SNGs to appropriate authorities within legal time frame (Percentage)	0	20	40	60		60	Yet to be tracked
Number of citizens mobilized and involved in audit process through CSOs of which 50% are female. (Number)	80	150	300	400		400	266 people trained on CPA of which 182 (68%) were CSOs representatives in 5 CPA workshops, among them 44% were female
Effective audit follow-up (Text)	Score of 0 SAI PMF dimension 7 (iii)			Conduct SAI PMF		Score of 2 SAI PMF dimension 7 (iii)	SAI PMF to be completed in year 2

Component 3: Public Procurement Improvement							
Complaints resolved following an effective complaints handling mechanism in e-GP (Percentage)	0	0	0	30	60	60	consultancy TOR for e-GP system gap identification being prepared and following this, E-GP system enhancement will commence to enable this result to be achieved.
Basic procurement documents and guidelines developed for sub-national government (out of a master list of sub-national level documents to be prepared) (Percentage)	0	0	20	50	80	80	Not done yet
Procuring entities of KSAs with at least one certified procurement staff established (As a percentage of the total procuring entities) (Percentage)	10	10	20	60	80	80	ITC/ILO Consultancy underway to carry out these certification trainings.
System generated performance reporting prepared for KSAs (Text)	0		Generation of Performance Report for at least 2 KSAs			Generation of Performance Report for KSA's	Once the e-GP consultancies are awarded and work completed, this result will be achieved. TOR is being prepared for the first step of doing a gap analysis in the e-GP system.
Component 4: PFM reform management and coordination							
A citizen's engagement strategy is prepared and implemented as per proposed sequence (Text)	No Strategy exists		Draft Citizen engagement strategy developed for consultations	Citizen engagement strategy developed		Strategy exists and implemented	Not done yet

Annex 2.

Concept Note for IPFMRP Additional Financing

This concept note will be presented to the Nepal PFM MDTF Program Coordination Committee (PCC) for review as agreed during the September 2019 PCC meeting. It is based on two funding scenarios, one where US\$ 6 million (existing balance plus contribution from Switzerland plus contribution from EU) would be made available at the time of project approval. There is a possibility that this additional funding could be widened to around US\$ 8 million if and when the potential top-up from DFID materializes. In that case, the scope of the proposed project would have to be expanded.

I. Strategic Context

A. Country Context

- 1. Over the past decade, Nepal's economy has performed reasonably well.** Real gross domestic product (GDP) growth averaged 4.9 percent (at market prices) over FY2010-FY2019, and inflation has been in single digits for most of the past decade³. Poverty significantly declined from 15 percent in 2010 to 9.3 percent in 2018⁴, although vulnerability remain high in Nepal⁵. Fiscal balances also remained sustainable owing to strong revenue growth (17.7 percent in FY2019) and modest spending. However, the delays in the operationalization of the ongoing federal transition in Nepal, together with the lack of technical capacity of existing staff, led to an underspending of the federal budget by 18.8 percent. There was also bunching of spending, with 14.4 percent of recurrent and 36.5 percent of capital spending occurring in the last month of the fiscal year. Federalism has also exacerbated the challenges linked to weak budget execution with significant underspending of provincial budgets, resulting in significant opening balances of 17 percent of FY2020 provincial budgets (equivalent to the provincial budget share for conditional transfers).
- 2. A new government, backed by an unprecedented majority in Parliament, which took office on February 15, 2018 has recently completed one and half years.** Nepal has undergone a process of radical reform of its intergovernmental institutional and fiscal structure with the introduction of a new federal constitution in 2015. The new constitution—the country's single most comprehensive political reform in terms of decentralization—established a three-tiered government system comprising the federal government, seven provincial governments, and 753 local governments, for which new legislation, institutions and administrative procedures are being formalized as constitutionally prescribed⁶. Elections were successfully held at all three levels of the government in 2017-18, marking a protracted-but-successful conclusion of a political transition that began with the signing of the Comprehensive Peace Agreement in November 2006. Meanwhile, the central level authority is being streamlined with a focus on national policies and oversight. This profound level of state restructuring is expected to result in improved outreach and service delivery in the medium term but is likely to take time before becoming fully operational.

³ Given good agricultural production and the existing peg to the Indian Rupee, inflation in FY2019 (4.5 percent) remained below target (5.5 percent), according to data released by the Central Bureau of Statistics (consisting of a revision of the FY2018 growth rate coupled with the preliminary estimate for FY2019)

⁴ The applied international poverty line is at the US\$3.20 per person per day

⁵ Almost 10 million people or close to 32 percent of the population are estimated to live between US\$1.90 and US\$3.20 a day (2018). The worst floods in decades in Nepal contributed to the slowdown in growth from its peak of 7.9 percent in FY2017 to an estimated 6.3 percent in FY2018.

⁶ Out of all local governments, 293 are urban local governments that are further categorized into 6 metropolitan, 11 sub-metropolitan and 276 urban municipalities based on a criterion comprising population, fiscal and infrastructure indicators.

B. Sectoral and Institutional Context

3. Public financial management (PFM) is key to the Government of Nepal's strategy for ensuring effective resource allocation, strengthening public service delivery, and creating inclusive and broad-based development. Aligned with these objectives, in August 2009 the government prepared Phase I of a PFM Reform Program, followed by a Phase 2 PFM Reform Program (FY16/17-25/26) that aims to achieve 8 outcomes⁷. Nepal's PFM reform strategy is supplemented by agency-specific plans such as OAGN Strategic Plan 2016-20 and Nepal Public Procurement Strategic Framework II 2013-16. A decision has been recently made by the PFM MDTF Program Coordination Committee to update the PFM Reform Program based on the results of a PEFA assessment to be conducted in 2020.

4. At policy level, Nepal is undergoing an overhaul of the PFM legal framework in support of its new federal structure. The World Bank-funded programmatic fiscal and PFM Development Policy Credit (DPC I and II) incentivizes the government on passage of key PFM laws. The DPC also advocates for other upstream and downstream improvements for well-functioning PFM. Timely and predictable budget releases, enhanced budget realism, increased transparency in government spending, reduction in audit irregularities, availability of information on tax collection, and timely reporting to Parliament are a few such expected improvements under the DPC operations which have concluded in the first half of 2019. The backbone of the legal framework, the Financial procedures and fiscal responsibility Act which is the PFM law of the country, has been officially approved 11 October 2019.

5. The PFM agenda has also been a top priority for development partners to promote efficient and effective public service delivery. A World Bank-administered Multi-Donor Trust Fund (MDTF) was established in 2010⁸. The

PFM MDTF has been assisting government to modernize Nepal's PFM systems through (a) modernizing payments through a Treasury Single Account (TSA), availability of real-time fiscal information on the Financial Comptroller General Office (FCGO) website, revenue management by means of a Revenue Management Information System (RMIS), and upgrading audit systems through intervention with OAGN; and (b) strengthening civil society engagement with government's supply-side services on PFM accountability.

6. Underscored by the government's strategy, MDTF focuses on 3 priority outcomes at the three levels of government. These outcomes are (a) strengthened efficiency and results orientation of the budget cycle at federal and subnational levels, evidenced by improvement in the capital budget execution rate and tax collection and supported by improved tax administration processes and efficient PFM-related IT systems; (b) increased professional capacity of key PFM stakeholders, improving capacity-building institutions, and enhancing capacity of the PEFA Secretariat to design, manage, and coordinate PFM reform; and (c) enhanced PFM accountability by means of a strengthened external audit function, increased transparency and citizen participation in the budget process, and increased involvement of relevant Parliamentary committees and oversight bodies. Proposed project activities closely align with these priority areas.

7. In spite of the MDTF arrangement and of the integrative effort that led to the approval and implementation of the IPFMRP, donor support to PFM reform is increasingly disaggregated. A brief outlook of main current or planned PFM interventions outside the PFM MDTF is provided below:

- a. USAID is financing a US\$ 14 million project (2016-2021) to enhance the capacity of

⁷ Outcome 1, Improved budget credibility; Outcome 2, Improved comprehensiveness and transparency of the budget; Outcome 3, Improved policy-based budgeting; Outcome 4, Predictability and control in budget execution; Outcome 5, Improved accounting, recording, and reporting; Outcome 6, External scrutiny and audit; Outcome 7, Improved human resource management for PFM; and Outcome 8: Improved donor practices.

⁸ Currently there are 6 MDTF donors: European Union (EU), UK Department for International Development (DFID), Government of the Swiss Confederation, Government of Norway, Australian Government Department of Foreign Affairs and Trade (DFAT), and United States Agency for International Development (USAID).

targeted Government of Nepal ministries and agencies to improve transparency and accountability of public financial management systems. It has announced its willingness to pursue and expand this engagement after this date.

- b. DFID is funding the £ 3 million Improving PFM and Accountability Project (PFMA2) (2017-2021) with the aim to support reforms in government policies, systems and activities to improve PFM and revenue systems, and reduce opportunities for corruption in Government of Nepal (GoN) service delivery sectors that matter most for the poor.
- c. Norway is working on a TA intervention under its Tax for development program (Tax4Dev) to support mainly the federal tax system.
- d. DFID, the EU, Switzerland and Norway are with UN agencies and the government funding a US\$ 130 million Provincial and Local Governance Support Program (PLGSP) of which a substantial amount will support PFM reform, including US\$ 9 million targeted directly to federal and local PFM and managed jointly by MOFAGA and the FCGO.
- e. In its Country Partnership Strategy (2020-2024) approved in October 2019, ADB has emphasized its focus on local PFM.

To mitigate the potential negative effects of this multiplication of often sizeable initiatives, a particular effort in terms of coordination will have to be made. It is expected that the updating of the government's PFM reform strategy and the upcoming PEFA assessment will be an opportunity to do so. This multifaceted support

constitutes also a challenge for the government's capacity to express its vision and manage coherently and efficiently these various sources of support. Clarification in responsibilities and adequation between responsibilities and resources will have to be reassessed.

8. **The IPFMRP, which has become effective in October 2018, is addressing key federal-level PFM reforms with a view to support the federal transition.** It endeavors to (a) establish coherent and improved PFM procedures for planning, budgeting, reporting, internal control and internal audit across all tiers of government; to (b) establish sustainable PFM training arrangements; to (c) address the strategic objectives of OAGN as articulated in its comprehensive strategic plan and workplan; to (d) improve public procurement performance in terms of procurement governance and oversight, professionalization and use of the electronic government procurement platform (e-GP). After a slow start and a disbursement rate of around 7% after one year, IPFMRP implementation has now gained substantial momentum (ref. II.C.).
9. **The governance framework for PFM reform has been recently amended and clarified** with the issuance 23 September 2018 of the "GoN's PFM Reform Operation Guideline 2018" which replaces the 2011 version. The framework establishes the 17 member PFM steering committee, chaired by the Finance Secretary as the apex body and the possibility to establish an ad-hoc working committee. The PEFA Secretariat is the implementing body of the PFM steering committee. The Secretariat coordinates the PEFA implementation units located in various agencies at the federal, provincial and district level.

C. Higher-Level Objectives to which the Project Contributes

10. **The project and its proposed AF is fully aligned with the priorities expressed by the government, with the PFM MDTF strategy and with the Nepal Country Partnership Framework (CPF) 2019-2023.** The CPF under

Focus Area 1 emphasizes strengthening PFM institutions for improved budget and revenue management, effective fiscal decentralization and improved efficiency of public service delivery.

II. Rationale for Additional Financing

A. Project Scale-Up

11. The size of the IPFMRP has been determined in great part by the resources available at the time it has been processed. The activities included in the IPFMRP are the result of a vast outreach effort conducted by the PEFA Secretariat towards the various PFM stakeholders in government that led to an ambitious PFM Strategy and Action Plan (2016-2026). MDTF support nevertheless had to be tailored to the available resources available around the first half of CY 2018. Potential areas of engagement had to be substantially scaled down or have been supported through other interventions. This is the case for tax administration and policy for which the IPFMRP component is quite limited but is supported under other interventions, including from the Bank. This is also the case for sub-national PFM for which major building blocks are supported by the IPFMRP like the integrated Chart of Accounts, issuance of guidelines and provision of training for IPSAS implementation or budget preparation (including MTEF, Gender budgeting), upgradation of CGAS for Provinces) for instance. But direct engagement with sub-national entities is still fairly limited. Adding financing to the project will allow expanding MDTF engagement in these areas and others and increase the coherence and the synergies between the various PFM sub-sectors.

12. The IPFMRP is exploring engagement areas which were quite new for the MDTF and for which the initial ambition was fairly limited and mainly analytical. The government's vision of a holistic approach to PFM reform has led to an expansion of the scope of intervention of the MDTF towards areas that were not primarily targeted by its support. This is the case for the above-mentioned tax administration and policy area. This is also the case for support to the Parliament's PAC. Also, for the systematic and strategic support to PFM training capacity which have been previously supported through a

piecemeal approach. The IPFMRP is conducting comprehensive analytical interventions in this area that can potentially be expanded into targeted support. For instance, the PFM training needs assessment (TNA) now ongoing can lead to a more targeted and informed support to the government's priorities in this area.

13. With the implementation of the 2015 Constitution picking up pace and with a rapid evolution of the institutional landscape, new needs and priorities have emerged recently. Management of public resources has become more complex in federal Nepal, in terms of collection, programming, allocation, expenditure, monitoring and control. This is leading to increased risks bearing on these resources of which public decision makers at all levels of government are fully aware. While energetic interventions have been aimed at filling the immediate gaps with a notable success most of the times (in terms of deployment of PFM staff, minimal financial reporting mechanisms, establishment of an appropriate legal and regulatory framework in the fiscal and PFM area), the government is also willing to adopt a long-term vision, like in the digital area. The ongoing IFMIS study will propose various scenarios for integration and increased efficiency of the Financial Management IT systems of government at the three levels of government. The study could potentially inform the wider Digital Nepal Framework that the government is planning to launch. This is a traditional area of intervention for the MDTF, which has supported the TSA and RMIS systems in particular and substantial activities are conducted under the IPFMRP to upgrade and deploy systems (CGAS and EFT for instance). It is obvious that the upcoming phases will require substantial additional resources and that the MDTF will continue to play a leading role. Parliament has also been reaching out recently to the MDTF for support beyond the initial support

provided to PAC. The finance committee has developed a capacity building action plan for which they are seeking support from the MDTF. The finance committee is not a beneficiary of the MDTF and most of the related activities would be accommodated only under the additional financing. Emerging needs that are not fully addressed in the IPFMRP have also surfaced in other areas like citizen engagement, sub-national PFM or internal control and audit.

B. Assessment of Project Performance

14. After one year of implementation, the Project is rated moderately satisfactory. The Project has completed twelve months of implementation from the date of effectiveness. The latest Aide-Memoire states that after a slow start in the first six months, the pace of implementation has picked up. Key activities under each component have been initiated and back on track. However, as the project is now in its second year of implementation, close monitoring of activities and deliverables -of contracts awarded- is needed to ensure improved financial progress and the achievement of relevant milestones. Also, while the new leadership of the PEFA secretariat has now settled-in and has a better grasp of the project scope and its coordination work, the secretariat's institutional and technical capacity is overstretched by the demands of the new federal structure that require that the Secretariat coordinates PFM reforms across the three tiers of government. Besides, the evolving implementation of fiscal federalism requires clarity of roles and responsibilities among federal agencies with respect to PFM capacity development at the subnational level and – continued- emphasis in positioning the

project in the broader context of strengthening country PFM systems. In addition, prioritization of change management is needed if non-technical bottlenecks to implementation are to be adequately addressed. All these require a much more strengthened and capacitated PEFA secretariat that has a clearer and shaper focus on managing the PFM program as opposed to managing a project. Lastly, the weak procurement capacity observed at implementing agencies in the last review has not been fully addressed. Given that major consultancies under the various components have started, the need for good contract management - to avoid slippages and to ensure value for money- makes addressing this weakness urgent. Depending on progress made by the next two missions, the government may consider extending the closing date of the project to allow for more time to complete ongoing activities. Overall implementation progress and progress towards PDO achievement is assessed as moderately satisfactory. Procurement is rated Moderately Satisfactory and Financial management Satisfactory.

C. Changes triggered by the additional financing

15. Procurement and Financial Management arrangements and risk evaluation will remain the same than in the original project.

It is not expected that new implementing agencies will be added to the current project. Current implementing agencies, like MOFAGA, might have their scope of work and responsibilities extended because of new activities. The new Bank environmental and safeguards framework will be triggered under the AF since its approval will be posterior to 31 December 2019.

16. The closing date of the original project will have to be extended.

The IPFMRP is due to close 31 January 2021. It is not likely that by that date development objectives will be fully met and that resources allocated to the project will be fully spent. The additional financing will make the

closing date extension all the more necessary. The government has declared its willingness to ask for a two-year extension, i.e. to the 31 January 2023. For such an extension to happen, the MDTF closing date, also 31 January 2021, would also have to be extended. A four-year extension of the PFM MDTF has been decided at the Program Coordination Committee of July 2019, i.e. to 31 January 2025.

17. While the project Development objectives will remain the same, the structure of the project will be slightly changed at the sub-component level as well as the results framework.

This will be the consequence of the introduction of new activities/sub-components in the project design.

III. Project Development Objectives

18. The PDO will remain the same: "Strengthening the effectiveness of selected PFM institutions and procurement institutions, systems, and

procedures at the federal and subnational levels."

A. Project Beneficiaries

19. Project beneficiaries will broadly remain the same with the exception of the finance committee

of Parliament which has been added through the enlargement of (d). Through contributions to improved management of public finances for greater efficiency and transparency in resource allocation and usage, the government and citizens of Nepal at large will benefit from project activities. The primary target beneficiaries will be (a) Ministry of Finance, notably the Budget

and Program Division, Revenue Management Division, FCGO, and PEFA Secretariat; (b) National Planning Commission Secretariat; (c) OAGN; (d) Parliament committees and committee Secretariats dealing with PFM issues; (e) PPMO; (f) subnational governments; (g) Ministry of Federal Affairs and General Administration and other line ministries; and (h) Institute of Chartered Accounts of Nepal (ICAN).

B. PDO-Level Results Indicators

20. The key results of the proposed Integrated PFM Reform Project are based on the strategic objectives of the Government's PFM Reform Program (PFMRP). These results are as follows:

- Improved aggregate capital budget out-turns at the federal level;
- Comprehensive accounting and reporting procedures in place in federal and subnational governments;
- Improved audit planning and quality management for audit of federal and subnational entities;
- Improved timeliness of contract award in selected key sector agencies (KSAs) at federal level and selected subnational governments.

- Improved PFM performance of selected Provincial and local government entities.

21. One additional PDO-Level result indicator has been added to the existing four indicators.

It relates to improved PFM performance of selected Provincial and local government entities. This performance will be measured by using the PEFA framework, once in 2020 and then in 2022. Selected indicators of the framework will be used. All seven Provinces will be selected as well as around 10 to 20 municipalities. A pilot PEFA assessment for the sub-metropolitan municipality of Nepalgunj is ongoing and will serve as the basis for the assessment of a wider set of municipalities.

IV. Project Description

22. The original project is organized around four complementary components which will be complemented by additional activities and subcomponent. These components are (a) strengthening public expenditure and revenue management in federal and subnational government; (b) strengthening OAGN; (c) public

procurement improvement; and (d) PFM reform management and coordination. There is a multitude of interlinked actions across these components. The structure of the project will therefore remain the same at the component level.

A. Project Components

23. Component 1: Strengthening Public Expenditure and Revenue Management in Federal and Subnational Government (original US\$7 million; with AF: US\$11 million). Component 1 contributes to the PDO by (a) establishing coherent and improved PFM procedures for planning, budgeting, reporting, internal control, and internal audit across all tiers of government; and (b) establishing sustainable PFM training arrangements. This

component will now have 5 subcomponents with the addition of a specific IT sub-component as well as a specific sub-national PFM sub-component: enhancing budgeting and revenue management, strengthening fiscal reporting and controls, enhanced integration of FMIS systems, strengthening PFM training capacity and strengthening sub-national PFM performance.

24. This component will be substantially

increased under the AF (by US\$ 4 million).

These resources will be allocated to two sub-components. (i) The first one (US\$ 1.5 million) is “development and integration of FMIS systems” and will strengthen the efficiency and integration of a few existing systems. With MDTF support, several systems which today constitute the backbone of government’s financial management IT systems have been developed and are now still maintained and enhanced as needed. This is the case for the TSA and RMIS systems which support the flow of funds management (expenditures and collection) under FCGO’s responsibility. FCGO has progressively adopted an e-Governance approach for its business operations. In this endeavor, various functions have been digitized and thus replaced manual process of operations. The Computerized Government Accounting System (CGAS) system has been recently developed as a system which facilitates budget authorization, authorization distributions, journal vouchers, and payment requests. The users of CGAS are Paying Offices, DTCOs, line ministries and departments and are within federal government but also Provincial governments (around potential 3000 users in federal government and around 1000 users in provincial governments). Under the current project, urgent upgradations are ongoing, in particular with a view to equip all seven provinces with CGAS before the end of the current fiscal year (July 2020). More ambitious development will be necessary in the medium-term to allow CGAS to cater comprehensively to accounting, recording and reporting needs of all 4000+ cost centers. For this, development of various modules will be needed, as well as integration to other government FMIS systems (TSA, RMIS, EFT...). Security and capacity building aspects would have to be adequately addressed. Under sub-component (i), the upgradation of the Electronic Fund Transfer (EFT) system will be also supported. EFT is an existing system developed under the MDTF, which is an extension service of TSA (Treasury Single Account). Government Agencies have been making almost 50% of all the Government payments transactions through

EFT. Enhancements will aim at developing and enhancing EFT as a secure platform to integrate Government’s National e-Payment gateways, NRB’s Real Time Gross Settlement (RTGS), NCHL (Nepal Clearing House)’s National Payment Interface (NPI). For this also, security and capacity building aspects would have to be adequately addressed.

25. Under component 1, the second new sub-component will address sub-national PFM.

The second sub-component (US\$ 2 million) “strengthening sub-national PFM performance” will engage in the following activities: (i) Development of analytical tools and database for sub-national PFM by using the PEFA framework to measure and monitor PFM performance at local level; by establishing a Census of sub-national government finance and a federalism fiscal and PFM database, which is a strong suggestion of the FCNA; (ii) Support better PFM performance in a selected number of local government and provinces to strengthen budget planning and formulation, internal control framework, support to finance-related legislative committees, support to citizen engagement in the local budget processes. In addition, particular focus will be brought to enhancing the capacity of sub-national government to generate own revenue, including through better performance of tax administration and better tax policy ; (iii) Establish a support network for PFM capacity building at sub-national level as a result of the training needs assessment (TNA) and harmonization of the various initiatives in this area. The possibility to create a center of excellence in PFM will be considered; (iv) increasing access to financial and budget data within different tiers of the government and among citizens to strengthen transparency and accountability through development of open budget dashboards, provision of data literacy courses to citizens, development of platforms for citizen participatory budgets and of civic technology to monitor government spending at all levels and connecting online data with off-line communities.

26. Additional activities will be added in relation to Parliament. These additional activities (US\$ 0.5) will in particular support PFM capacity building of the finance committee in addition to support already provided to the Public Accounts Committee (PAC). A concept note is being developed through dialogue between the PEFA Secretariat and the Finance Committee Secretariat.

28. Component 2: Strengthening the Office of the Auditor General (original US\$4 million; with AF US\$ 5 million). Component 2 is implemented by OAG and aims to address the strategic objectives of OAGN as articulated in its comprehensive strategic plan and workplan. Project objectives will be met by (a) deepening the knowledge and coverage of the new ISSAI-compliant methodology, (b) strengthening quality assurance and audit follow-up function, and (c) catering to the new SNG audit requirements. Accordingly, Component 2 will support three sub-components: enhance audit quality and reliability in federal and SNG audits; enhance the sustainability and use of IT tools for audit management, and strengthen citizen participatory performance audits. The additional financing of US\$ 1 million will be added to the first sub-component and in particular to activities linked to the audit of sub-national governments. Experience from federalism implementation as well as IPFMRP implementation show that OAG constitutes a major constituent of the accountability framework at the sub-national level and that conducting adequately this function will require substantially more resources than originally anticipated. In particular, provincial OAG offices will have to be established in each of the seven provinces and be adequately staffed and capacitated (buildings, IT systems and communications, transport etc.). AF will be targeted to these emerging needs.

29. Component 3: Improving Public Procurement (original: US\$4 million; with AF: US\$ 4.3 million). Component 3 supports the PDO by improving public procurement performance

progressively in 5 KSAs.⁹ There are three sub-components: (a) public procurement governance and oversight, (b) procurement capacity development and professionalization, and (c) performance monitoring with electronic government procurement (e-GP) platform. The PPMO has overall responsibility for implementation. Additional funding of US\$ 0.3 million will be allocated to sub-component 2 and will be targeted to the development and hosting of an online training course on procurement. This will be designed and implemented by the Nepal Administrative Staff College (NASC) with help from ITC-ILO under a contract with PPMO. In addition, GoN has requested an independent review of the current public procurement environment of Nepal including review of procurement legislation. For this activity (US\$ 0.1 million), the Just-in-time sub-component of component 4 will be mobilized.

30. Component 4: PFM Reform Management and Coordination (original: US\$3 million; with AF US\$ 3.9 million). Component 4 aims to strengthen PFM reform management in government by strengthening the PEFA Secretariat as the overall PFM reform coordinator; enhance citizen engagement in PFM reform activities; provide flexible support as required to subnational governments and support project-specific administration, coordination, monitoring and evaluation (M&E), and change management as integral means of managing project risks. There will be three sub-components: (a) strengthening the PEFA Secretariat and supporting project management; (b) preparing and implementing a citizen engagement strategy that will span all major PFM reform activities; and (c) just-in-time interventions for federalization of PFM functions. The PEFA Secretariat will be the responsible implementing agency for Component 3 and will closely coordinate with other agencies responsible for PFM reforms under the project. Support will be in the form of consultancies, training, and incremental operating costs.

⁹ Departments of Roads, Local Infrastructure Development and Agricultural Roads, Irrigation, Health Services, and Water Supply and Sewerage; or their future restructured corresponding organizations and selected subnational governments.

31. The AF will add US\$ 0.9 million to this component with the objective of strengthening the PEFA Secretariat’s capacity to coordinate PFM reform at the sub-national level. PEFA’s responsibilities have been recently enhanced, in particular in terms of sub-national PFM and harmonization of public financing at the three levels of government. The PEFA Secretariat, as per chapter 10 of the “PFM reform operation guideline, 2018”, which describes composition and mandate, will create PEFA implementation units in Provinces and districts. The PEFA Secretariat will also have an expanded role in coordinating development partners’ support as per Operation Guideline:” The Secretariat will function under the Ministry of Finance for designing and implementing the GoN’s PFM reform activities in different government entities

through the coordination of development partners related to the sector” (chapter 6). The AF will add resources to the existing sub-component of component 4 to help cope with the additional mandate and responsibilities in change management that was not adequately catered for in the original IPFMRP design. It will in particular add resources (US\$ 0.3 million) to the just-in-time component which has proved useful in the first year of implementation of the original project. It will also add US\$ 0.3 million to the citizen engagement component, which will ensure continuity and adequate implementation of the CE strategy undertaken under the original project, as well as coherence and technical soundness to initiatives in this area that will be supported under component 1.5 as well as under other programs.

Table 1: Comparative structure of IPFMRP before and after additional financing

Original Structure		New Structure (with additional financing)		Total
Component	Amount	Component	Amount	Total Amount
I. Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments	7,000,000	I. Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments	4,000,000	11,000,000
• Enhance budgeting and revenue management	1,790,000	• Enhance budgeting and revenue management		
• Strengthen fiscal reporting and controls	4,080,000	• Strengthen fiscal reporting and controls		
• Strengthen PFM training capacity	1,130,000	• Strengthen PFM training capacity	0,500,000	1,630,000
		• Development and integration of FMIS systems	1,500,000	1,500,000
		• Strengthening sub-national PFM performance	2,000,000	2,000,000

II. Strengthening the Office of the Auditor General	4,000,000	II. Strengthening the Office of the Auditor General	0,800,000	4,800,000
• Enhancing audit quality and reliability in federal government and subnational entities	1,450,000	• Enhancing audit quality and reliability in federal government and subnational entities	0,800,000	2,250,000
• Enhancing the sustainability and use of IT tools for audit management	1,527,000	• Enhancing the sustainability and use of IT tools for audit management		
• Citizen participatory performance audits	1,023,000	• Citizen participatory performance audits		
III. Public Procurement Improvement	4,000,000	III. Public Procurement Improvement	0,300,000	4,300,000
• Public procurement governance and oversight	0,974,000	• Public procurement governance and oversight		
• Procurement capacity development and professionalization	2,602,000	• Procurement capacity development and professionalization	0,300,000	2,902,000
• Performance monitoring with e-GP platform	0,420,000	• Performance monitoring with e-GP platform		
IV.PFM reform management and coordination	3,000,000	IV.PFM reform management and coordination	0,900,000	3,900,000
• Strengthening the PEFA Secretariat and supporting project management	1,600,000	• Strengthening the PEFA Secretariat and supporting project management	0,300,000	1,900,000
• Citizens engagement in PFM reforms	0,250,000	• Citizens engagement in PFM reforms	0,300,000	0,550,000
• Just-in-time interventions for federalization of PFM functions	1,150,000	• Just-in-time interventions for federalization of PFM functions	0,300,000	1,450,000
	18,000,000		6,000,000	24,000,000

A. Project Cost and Financing

32. This operation will be financed by the Nepal PFM MDTF. The total additional financing will be US\$ 6 million, which will bring the total cost of the project to US\$24 million, of which US\$21 million in total will be funded by MDTF; Government of

Nepal is already co-financing under the original project the balance of US\$3 million (Table 2). The duration of the operation is now brought to five (5) years.

Table 2: Proposed IPFMRP Cost with additional financing

Project Components	Project cost US\$	Trust funds	Counterpart funding	Additional Financing
Component 1: Public Expenditure and Revenue Management in Federal and Subnational Governments	7,000,000	5,833,310	1,166,690	4,000,000
Component 2: Strengthening OAGN	4,000,000	3,333,320	666,680	0,800,000
Component 3: Improving Public Procurement	4,000,000	3,333,320	666,680	0,300,000
Component 4: PFM Reform Management and Coordination	3,000,000	2,500,050	499,950	0,900,000
Total Costs	18,000,000	15,000,000	3,000,000	6,000,000
Total Project Costs	24,000,000			
Front End Fees				
Total Additional Financing Required	6,000,000			

C. Lessons Learned and Reflected in the Project Design

33. Institutional and implementation arrangements established for the IPFMRP were quite novel in the long history of the MDTF but have proved efficient. First because this PFM intervention was meant to integrate various workstreams which were either established a long time ago but so far managed separately or were new. Also, because this integration meant an increased coordinating and convening role for the main counterpart agency; i.e. PEFA Secretariat. The first year of implementation of the project has demonstrated that even if the coordination of a substantial number of agencies from various branches of the executive but also of independent agencies or institutions like OAG, PPMO or Parliament remains a challenge it has worked satisfactorily and has created new working channels and coordination practices. If resistance has happened, which can partly explain the slow start of the project, they have eventually always been overcome so far.

34. The multiplication of government agencies in federal Nepal as well as the multiplication of external channels of support to the PFM agenda will create an additional challenge. Increased capacity of the PEFA Secretariat and the consolidation of its role as the main counterpart for designing, implementing and monitoring PFM reform is necessary, even though not necessarily sufficient, to mitigate the risk of disaggregation and misalignment of efforts. In parallel, development partner should strengthen mechanisms for coordination and alignment to government's priorities.

35. Therefore, institutional and implementation arrangements will remain the same than for the original project, as described pp. 8-10 of the project paper. Risks rating will also remain unchanged as described pp.10-11 of the project paper. Stakeholder risk, though increased as explained above, will remain "substantial".



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