

Minutes of PCC Meeting, March 23, 2018

Program Coordination Committee (PCC) Meeting Nepal Public Financial Management Multi-Donor Trust Fund Friday, March 23 at The World Bank Office

A PCC meeting was chaired by Bigyan Pradhan, Acting Country Manager, World Bank and Kewal Prasad Bhandari, Joint Secretary and Chief IECCD, Ministry of Finance. All MDTF partners were present at the meeting including Swiss Ambassador H.E. Elisabeth Von Capeller. Co Task Leaders Akmal Minallah and Zafrul Islam who were here for appraisal of the Integrated Public Financial Management Project also joined the meeting.

1. Opening Remarks

Welcome Remarks, Acting Country Manager, World Bank: In his opening remarks, Bigyan welcomed the development partners, government officials, and all participants. He said that one of the core areas of focus for the World Bank as an extensive outcome of the Systematic Country diagnostic (SCD) exercise is Public Financial Management (PFM). There is urgent need for building capacity at the local level so that service delivery is not affected. He also pointed out the delay in organizing PCC meeting and urged all partners to keep the momentum of the MDTF vehicle. He informed the participants that the Fiscal Development Policy Credit (DPC) operation of 200 million USD was approved by Executive Directors of the World Bank. The operation will support the government of Nepal in its efforts to establish a framework to move towards fiscal federalism and improve public financial management. This operation builds on prior analytical work, on-going PFM activities and assistance to the government in fiscal devolution. The main risks to the operation arise from political vulnerabilities, stakeholder risks and weak institutional capacity. He emphasized harmonization in donor coordination and institutional building which are substantial for the success of the PFM reform agenda.

Opening Remarks by Joint Secretary (MoF), Kewal Bhandari: Mr. Bhandari thanked all MDTF development partners for their support and talked about challenges that remain. He also requested all DPs to complement and not compete when designing their projects. He requested Donors to support the GoN to establish efficient administrative systems for all levels in the federal structure. He also talked about various fragmented systems within the GoN and the challenges to integrate them mentioning Sub National Treasury Regulatory Application (SuTRA) and Management Action Records system (MARS) as examples. He requested the Bank to negotiate the Integrated Public Financial Management Reform Project (IPFMRP) project as soon as possible. Mr. Bhandari raised concerns about substantial delay in preparing the IPFMRP and urged that this should be delivered immediately before the end of this fiscal year.

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2. Presentation on Progress Report by Franck Bessette, MDTF Program Manager

Franck thanked the GoN for giving The Bank sometime to finalize the IPFMRP project. The progress report consists of status of IPFMRP, the Implementation completion reports on Office of the Auditor General Nepal (OAGNI) and Strengthening Public Financial Management (SPFM I&II), Fiscal DPC and Financial report. Since the last PCC meeting, three donors have formalized their pledge into Administrative Agreements (AAs). Due to miscommunication, Switzerland was not able to provide its final pledge so far. Hence, to finance the IPFMRP we have used available funding of 18 million. However, there will be more need of resources and once the AA will be finalized with Switzerland and other DPs, more resources will be available and additional financing activities will be implemented on priority basis as per the agreement with Government of Nepal. The EU reiterated its support to the MDTF although its scale and magnitude would only be further defined and formalized in the course of 2019/20.

On CPA part, Anjalee highlighted that the team has been busy documenting all the products under PRAN mainly on CPA. Once the products are approved and finalized, it will be uploaded into the MDTF Website. She informed the participants that to keep the momentum of CPA going, 11 CSOs are still mobilized in close collaboration with Performance Audit Division of OAG Nepal and Franck (team). She also highlighted that the CPA work will be continued even in the future as per the existing CPA guideline.

3. Remarks from Heads of Agencies

The Swiss Ambassador communicated her commitment to the MDTF and mentioned that appropriate way to be involved in second phase would be sought. She highlighted the need to link the political elected bodies and people with future Sub National Governments (SNGs). She also expressed her concern that we do not support agencies (e.g. DOLIDAR under procurement component) that are bound to disappear in the context of federalism through our projects.

DFAT: The First Secretary of DFAT highlighted the importance of effective governance and good financial management practices in the context of federalism. She also expressed their commitment to the MDTF and suggested we revive and review the coordination mechanism.

Norway: The Head of Development Corporation in Norway expressed their concern about potential overlap in the Fiscal DPC and MDTF. She requested if such operations were discussed more in the advance with partners. She also expressed concerns in delayed process and encouraged Bank to advance quickly.

USAID: **USAID:** The Deputy Director, Democracy and Governance Office suggested that we review donor coordination mechanism. The team also mentioned that USAID is going to carry out training in SuTRA for two officials from all local governments starting next week.

DFID: Governance Advisor highlighted the context of federalism and issue of coordination around IT system improvements. He mentioned that SuTRA, which is a GoN initiative, was quickly

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developed on order to help new local GoNs and Provinces to carry out basic accounting and reporting. This initiative costed a few hundred thousand dollars. He strongly recommended strategic thinking in future around integrating the PFM systems in federal context. Taking stock of existing systems and planning is a good way to go.

EU: Head of Cooperation appreciated the frank comments of the GoN and emphasized the need for domestic revenue generation, echoing the "Collect more - Spend better" EU approach. He recalled that GoN earlier underlined that the MDTF is the main platform for GoN DPs policy dialogues on PFM and suggested that led by GoN the MDTF makes a presentation on PFM cooperation in one of the next International Donor Partner Group (IDPG) meetings, to raise awareness about the important reform topic also at head of missions' level. He conveyed his concern regarding the past 6 months activities which were mainly limited to a planning exercise, expressed the expectation that implementation of new project activities will start soon, and suggested to highlight 'success stories' to better promote the achievements of the MDTF and PFM reform in Nepal more generally (WB kindly requested to provide drafts).

4. Presentation by PEFA Secretariat on PFMRP project and way forward, Murari Niraula, PEFA Member Secretary

The Decision Meeting held on March 16 has authorized the World Bank team to go ahead with appraisal of the project. The World Bank and GoN team carried out Appraisal from March 21 to 23 where implementation arrangements and few other items were revisited. Murari Niraula made a brief presentation on the project. (*attached to these minutes*).

5. Evaluation of Phase I

a) Presentation on Office of the Auditor General Nepal (OAGN I) Project

Findings of the ICR for the project, Strengthening of the Office of the Auditor General of Nepal (SOAGN) was shared with the participants. The project was a small grant project of \$ 2.3 million, yet a lot was achieved through the project. Risk Based Audit Methodology was adopted, Financial Audit Manual and Audit Working Papers were developed, Audit Management Information System installed and a software for computer assisted audit techniques was procured and tested. Citizen Participatory Audits were piloted and officials were trained in CAATs, AMIS, Financial Audits, Performance Audits and CPAs. Lessons learnt were incorporated in the new design. These included shifting from an isolated approach of project design to a more integrated approach in which SOAGN is now component of an integrated project instead of a standalone project; emphasis on mainstreaming and embedding of tools acquired during the first phase, enhancing the using of CPA and supporting OAGN in its transition to a federal structure.

b) Presentation on Strengthening Public Financial Management (SPFM I&II) Projects

SPFM I&II made incredible achievements for modernizing and reforming the PFM systems in Nepal. The key achievements of Nepal Strengthening Public Financial Management – Phase 1 (SPFM-I) were to implement a Treasury Single Account (TSA) across all 75 districts, which meant

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(a) closure of 14,300 government bank accounts; (b) huge savings in interest; (c) automation of the budgeting and execution of all government expenditures through a customized application (also called TSA); and (d) availability of financial reports on a real-time basis. This reform involved significant behavioral change of government staff to give up their cheque-writing authority in favor of a centralized treasury operation. Similar initiatives have taken 6-7 years in several countries – but Nepal achieved this in three years. SPFM II continued along the same path by supporting and consolidating the TSA fund and system rollout, with major emphasis on enhancements, such as commitment control and revenue management. The second phase also helped the government to upgrade the information technology (IT) infrastructure for enhanced sustainability, security and efficiency of the TSA system. The system has evolved over time and provides read-only access to the line ministries and auditors through web-enabled portals. This real-time information has facilitated the funds allocation, re-appropriation, and spending decisions. Finally, 31 central ministries (out of 34- to be verified with Public Expenditure and Financial Accountability (PEFA) now prepare annual financial statements compliant with Nepal Public Sector Accounting Standards (NPSAS).

Similar to several other developing countries, the key challenges involved the limitations related to the PFM reforms governance structure and in-house IT capacity, retention of parallel manual records, and fragmentation in donor support for PFM reforms. Going forward, it is imperative for PFM reforms to emphasize the efficiencies for service delivery (value-for-money).

6. Closing Remarks by Bigyan Pradhan

Bigyan thanked participants for the fruitful discussion and highlighted few points:

- As suggested by partners, he requested the Team to share progress report two weeks in advance of PCC meeting so that partners get opportunity to read and be prepared for the meeting
- Re-energize and re organize ourselves to support PFM agenda, invited suggestions for better coordination mechanism
- Requested the team to finalize preparation and deliver the IPFMRP by April 2018. He also requested the team to work with PEFA Secretariat to mitigate implementation challenges so that we do not have to restructure the project in future due to complexity.

7. Agreed actions:

- As suggested during the meeting, World Bank will share revised Project Appraisal Document (PAD) for IPFMRP as soon as it is ready for comments from DPs
- Recirculate evaluation reports for SOAGN and SPFMI&II projects
- Share PEFA Secretariat presentation on IPFMRP
- IPFMRP to be negotiated in April. Activities will start immediately, through use of retroactive financing and government's contribution to the project.

attached: attendance sheet and PEFA Sec Presentation, pics