

The Public Financial Management (PFM) Agenda has been a top priority for the development partners to support the government in promoting sustainable and efficient public service delivery in Nepal. The Multi Donor Trust Fund (MDTF) was established in December 2010 to support the GoN's PFM strategy, now in its second phase (2016-2026). It is administered by the World Bank and jointly funded by the following donors: UK Department for International Development (DFID), The Government of Norway, Australian Embassy, USAID (United States Agency for International Development), European Union and Government of the Swiss Confederation.

The Nepal PFM MDTF envisions a country where solid foundations for credible and performing PFM systems at federal, provincial and local levels support economic development and service delivery for citizens. On August 24, 2018 The Government of Nepal and the World Bank signed a financing agreement for \$15 million in Kathmandu towards strengthening the country's Public Financial Management. The Integrated Public Financial Management Reform Project (IPFMRP) comes at a critical time in Nepal's development trajectory when strengthening public financial management institutions, systems and procedures have become critical to support federalism transition. The Project aligns with this requirement and aims to strengthen PFM holistically across its various sub-systems, from planning and budgeting to accounting, reporting, external audit and legislative scrutiny, with due attention to investing in people, gender balance and innovative citizen engagement platforms. The IPFMRP project detail is as follows:

Project Data

Project Status:	Approved. Signing of Grant Agreement on August 24, 2018
Financing:	RETF USD 15 Mn; Government Counterpart funds USD 3 Mn
Project Closing Date:	July 31, 2021

Project Development Objective

Strengthening the effectiveness of selected PFM and procurement institutions, systems, and procedures at the federal and subnational levels.

PDO-Level Results Indicators

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.

Project Components:

Component 1: Strengthening Public Expenditure and Revenue Management in Federal and Subnational Government (US\$7 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 have 3 subcomponents: enhancing budgeting and revenue management, strengthening fiscal reporting and controls, and strengthening PFM training capacity.

The proposed project will support this component through consultancies, training and workshops, and IT-related goods. The component will develop PFM-related procedural manuals at federal level and model manuals for subnational levels, and build capacity in planning, budgeting, top-down support toward a medium-term expenditure framework (MTEF), fiscal reporting, internal controls, and internal audit. The component will also carry out an IFMIS study, develop a roadmap, and implement the first- phase of IFMIS development. It will design and implement sustainable training arrangements, including capacity building of training institutions, training of trainers, and training modules for both federal and subnational levels. An assessment on how to strengthen revenue management, including opportunities for subnational governments to raise revenues, will also be conducted. The PEFA Secretariat will closely coordinate the component.

Component 2: Strengthening the Office of the Auditor General (US\$4 million). Component 2 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 OAGN will implement all activities under Component 2. Support will be primarily in the form of consultancies, training, office furniture and fixtures, and software and hardware relating to establishment of training and IT centers. Activities include updating manuals and guidelines to strengthen audit planning, execution, reporting, and quality assurance; expand the use of the Nepal Audit Management System and computer-assisted auditing techniques (CAAT) and its replication in SNG offices as well as supporting citizen participatory performance audits and change management. Support will also be provided for cross-learning through exchange programs with supreme audit institutions.

Component 3: Improving Public Procurement (US\$4 million). Component 3 supports the PDO by improving public procurement performance progressively in 5 KSAs.¹ There will be 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 will have overall responsibility for implementation and coordinate with the 5 KSAs and subnational governments. Support to this component will be in the form of procurement consultancies; refurbishment of PPMO; capacity development, including twinning arrangements; and exposure visits.

The main professionalization and capacity development activities will be undertaken using services of training institutions. It will be implemented by PPMO mainly through contracting arrangement with internationally recognized and reputable training institutions in collaboration with local institute(s). For professionalization and long-duration capacity development courses of procurement officials (4 types), both the international and local institutes have been identified. For other training courses (14 types), PPMO will either manage alone or through contracting services with local institute(s). It also has provisions for developing procurement professionals with international accreditations, strengthening research and analytical functions of PPMO, developing systems for complaints-handling mechanism in e-GP, and developing and implementing procurement performance monitoring in e-GP platform. SNG support will be structured to have flexibility to adapt over time. Component 3 will also support subnational government in framing local government procurement regulations; building capacity, including that of bidder on the use of e-GP; and making available certified public procurement trainers.

Component 4: PFM Reform Management and Coordination (US\$3 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 subcomponents: (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.

¹ 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.