

Nepal: Integrated Public Financial Management Reform Project (TF A7474 and A7475)
Supported by Multi-Donor Trust Fund
Fifth Implementation Review and Support, October 5-12, 2020
Aide Memoire

INTRODUCTION

1. During October 5-12, 2020 a Bank Team¹ led by Mr. Maxwell Dapaah, Senior Financial Management Specialist, carried out a Mid-Term Review of the Integrated Public Financial Management Reform Project (IPFMRP). Due to the current COVID-19 crisis, discussions were held virtually with implementing entities. The list of persons met is in Annex 1. The review assessed the impact of COVID-19 on the project activities. This Aide Memoire (AM) summarizes the findings of the review, recommendations and agreements reached with the relevant agencies. The AM was discussed at the wrap-up meeting on October 14, 2020 that was chaired by Mr. Shreekrishna Nepal, Joint Secretary, International Economic Cooperation Coordination Division (IECCD), Ministry of Finance. As agreed during the meeting, this Aide Memoire will be publicly disclosed as required by the Bank's Access to Information Policy.

OVERALL IMPLEMENTATION STATUS AND KEY PROJECT DATA

Project Data		Projects Performance Ratings		
		Summary Ratings	Previous	Current
Approval Date:	27-Jun-18	Achievement of PDO	MS	MS
		Implementation Progress	MU	MU
		M & E	MS	MS
Effectiveness Date:	24-Aug-18	Project Management	MS	MS
Closing Date:	30-Jul-21	Procurement	MU	MU
Grant Amount:		Financial Management	S	S
TF A7474	US\$10,200,000	Counterpart Funding	S	S
TF A7475	US\$4,800,000			
Amount Disbursed (As at October 12, 2020) (Cumulative)	US\$2,790,000 (18.6%)			
TF A7474	US\$2,170,000 (21.25%)			
TF A7475	US\$617,204 (12.9%)			
Ratings: HS=Highly Satisfactory; S=Satisfactory; MS = Moderately Satisfactory; MU = Moderately Unsatisfactory; U=Unsatisfactory; HU=Highly Unsatisfactory				

2. **Progress remains slow since the last review in May 2020, due to the COVID-19 pandemic and major activities are unlikely to be completed by the Project closing of July 30, 2021.** Disbursement has marginally increased to 18.6% from 13.1% from the last review. Besides, an additional disbursement of about \$729k is expected to be made soon due to progress made in the two main consultancies, involving the implementation of the Integrated Financial Management Information System (IFMIS) and the systems and capacity development consultancy of the Office of the Auditor General (OAG)

¹ Members of the Team are : Ms. Timila Shrestha, Senior Financial Management Specialist and Co-TTL; Mr. Victor Boakye Bonsu, Program Manager; Ms. Kene Ezemenari, Senior Economist; Mr Nayan Krishna Joshi, Economist; Mr. Cem Dener, Lead Public Sector Specialist, Mr. Shambhu Prasad Uprety, Senior Procurement Specialist; Ms. Jaya Sharma, Senior Social Development Specialist; Mr. Chandra Kishor Mishra, Procurement Specialist; Mr. Bishwa Raj Basaula, FM Specialist; Ms. Shraddha Shah, Consultant; and Mr. Nagendra Nakarmi, Senior Program Assistant and Mr. Shreeram Ghimire, Temporary

3. Although, the implementing agencies have been advised to explore virtual means, implementation is not expected to be as effective as in physical mode. Therefore, it is also planned that face-to-face trainings take place, but this is contingent on the COVID-19 situation which is uncertain.

Based on the proposed interim IFMIS solution for example, it will take at least one and half years to finalize the plan and develop interfaces between existing systems for consolidated financial statements for the three tiers of the Government to be prepared. Also, the newly developed Nepal Audit Management System (NAMS) system will be transitioned to the proposed Office of the Auditor General (OAG) IT Excellence Centre which requires both IT skills and infrastructure capacitation to assume such responsibility. Besides, the pandemic has impacted the IT excellence center's building completion that was planned for December 2020. It is now only expected to be completed by FY21 (mid-July 2021). Completion of these activities will not be possible within the current closing date.

4. Even with a closing date extension, some activities are unlikely to be completed due to slow progress predating the COVID-19 pandemic. Restructuring of the Project with the goal of reducing the scope and cancelling related funds (of about \$6 million – see Annex 2 for details) is therefore necessary to improve overall project performance. These actions are necessary to take the project out of the problem status. The Public Procurement and Monitoring Office (PPMO) has made limited progress in building the procurement capacity of federal officials under the ITC/ILO contract and has not made the required payments due for work done so far. The review team urged the Government to take urgent action to resolve the overdue payments. Furthermore, no progress has been made towards enhancing electronic-Government Procurement (e-GP) system. Except for the ITC-ILO contract, the review team discussed the potential cancellation of PPMO activities given that they cannot be completed even if the project closing date is extended. Furthermore, due to the evolving federal context at the time of preparing the project, a Just-in-time component (of \$ 1.15 million) was built into the Project design to provide flexibility for addressing emerging demands. After two years of implementation, it is noted that the full commitment amount has not been absorbed by the Project. Thus, cancellation of buffer funds has also been taken into consideration.

5. In addition, the review team considered dropping activities such as the Project Bank Management Information System (MIS) upgrade, development of institutional set-up for Public Financial Management (PFM) capacity building as these will not be completed even with project closing date extension. For example, the Project Bank MIS upgrade is contingent on approval of sectoral guidelines for which consultants are not yet hired, and the development of institutional set-up for PFM capacity building for the three tiers of government is contingent on finalization of the training needs assessment (TNA) for which the consultant has just been hired.

6. The review team assessed that dropping e-GP upgrade and the other activities specified above will not affect the achievement of the Project Development Objective (PDO). The procurement institutional and capacity strengthening will still be carried out under the ITC/ILO consultancy which will be continued under a shared arrangement for implementation. The results framework will however be revised as the e-GP system implementation was to contribute to two of the intermediate milestones. The milestones include: (i) complaints resolved following an effective complaints handling mechanism in e-GP (Percentage), and (ii) system generated performance reporting prepared for Key Sector Agencies (KSAs). The Project Bank MIS has no direct link to the PDO nor the intermediate milestones. Hence, the PDO does not need to be revised.

7. Since the IPFMRP is financed by the PFM Multi Donor Trust Fund (MTDF) the cancelled funds will be returned to the MTDF and could be reprogrammed for future PFM support. The funds cancelled will not be lost but will be returned to MTDF for a future PFM operation in Nepal.

8. The review team noted that although a closing date extension is not immediately feasible, this will be needed in the future for the Government to meet its contractual obligations under the initiated activities which have progressed well but have been delayed by the pandemic. Activities such as IFMIS and NAMS require an extension of contracts beyond current project closing dates.

In addition, the component activities are pivotal building blocks for building the fiscal federalism architecture and building resilience of PFM systems at the three tiers of government that should not be discontinued mid-way but given time to fully come to fruition. See Annex 3 for a list of some of the main examples. Moreover, by helping to develop a business continuity plan, investment in PFM IT systems, such as, operationalizing digital signature and enabling web-based systems for payment processing and accounting, developing systems for paperless and remote audit the project directly contributes to the Fiscal Policy for Growth Development Policy Credit (DPC) currently being prepared by the Bank.

9. Nevertheless, given the current problem status of the Project, the review team emphasized that consideration of closing date extension is contingent upon improved financial performance and restructuring proposal as discussed above.

Therefore, restructuring to reduce the scope of the project and to cancel funds will be pursued as a first step, followed by considering a closing date extension request, possibly in February 2021 when the financial performance of the project is expected to improve which will be subject to the Bank management review based on progress.

10. In view of the underlying issues, the overall implementation progress is retained “Moderately Unsatisfactory”. With restructuring of the Project through fund cancellation, the overall performance of the Project is expected to improve. With proposed cancellation of funds, the likelihood of achieving the Project Development Objective remains “Moderately Satisfactory” based on the progress achieved on other components.

KEY POINTS DISCUSSED AND AGREED ACTIONS

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

11. Medium Term Expenditure Framework (MTEF): The inception report for developing an MTEF preparation Manual for the three tiers of the government has been completed. The Manual is expected to be completed by December 2020. It was also noted that Line Management Budget Information System (LMBIS) has been upgraded and ready for interfacing with the MTEF system when developed. Meanwhile, Due to this upgrade, the MTEF and the annual budget and program are presented together to the Parliament which is good development. Yet, the review team underscored the continuing need to link LMBIS and MTEF systems in the future. NPC is yet to start the procurement process for hiring a consultant to support the development of the five² sectoral Project Bank guidelines. Accordingly, it has been agreed with NPC to hire the consultants no later than **November 15, 2020**. NPC has also agreed to share the TOR for the two remaining sectoral guidelines by **November 30, 2020**. Given that the specifications for upscaling of the Project Bank MIS are contingent upon the final sectoral guidelines that are yet to be developed, upgradation of the Project Bank MIS is unlikely to be covered under the Project any longer.

12. Revenue Administration: The Revenue Management Division of Ministry of Finance (MOF) proposed activities including revenue exemption, revenue forecasting, double tax advance agreements etc. for inclusion in the project. The review team advised that except for the revenue assessment of the three tiers of government, the activities proposed are beyond the scope of the Project. The Division was requested to provide details of the proposed assessment with consideration of the Project closing of July 2021. The Inland Revenue Department (IRD) was also proposed to be added as a new implementing entity. However, it could not be added because its planned activities³. cannot take place due to the pandemic.

13. Just-in-time support for improving provincial/local government (P/LG) public financial management: The preparation of a Business Continuity Plan (BCP) agreed upon in the last review has been delayed.

² Energy, Urban Development, Irrigation, Transport and Social Sector

³ Included training on transfer pricing, change in equity, permanent establishment, general anti-avoidance rule, digital economy etc

To expedite the process, it was agreed with the PEFA Secretariat that the World Bank will hire a consultant to support the preparation of the National Business Continuity Management Guideline (NBCMG) and BCPs for the three tiers of the government. PEFA Secretariat has agreed to provide feedback on the draft TORs for these tasks shared by the World Bank team by **November 15, 2020**.

14. Upgrade of Legacy Systems: Key PFM systems including LMBIS, Computerized Government Accounting system (CGAS) with e-payment system, Treasury Single Account (TSA), Subnational Treasury Regulatory Application (SUTRA) and Revenue Management Information Systems (RMIS) have been updated and enhanced. The LMBIS, CGAS, TSA have been made ready for interfacing in line with the vision of integration.

CGAS and TSA systems have been updated to enable activity-based expenditure accounting in line with the activity-based budgeting of LMBIS. This is an important contribution towards improved budget controls and program management.

15. Integrated Financial Management Information Systems (IFMIS): PricewaterhouseCoopers LLP (PwC), India has prepared the design for the interim/reporting IFMIS solution. The consultants were advised to revise the draft with recent developments of software updates at FCGO. Given the urgent need to implement the system within limited project period, the review advised focusing on priority enhancements of 5-6 existing systems and development of interfaces to connect the dots with low cost and rapid adjustments. The draft roadmap is being reviewed by the PEFA Secretariat/FCGO. It has been agreed to finalize the draft roadmap and bidding document by **November 30, 2020**.

16. Strengthening fiscal reporting and controls: A draft Accounting Manual has been prepared for the three tiers of government based on the international public sector accounting standards (IPSAS), and the Bank team has provided comments on the manual. The Manual is expected to be finalized after the approval of the Fiscal Procedures Regulations. This is a prior action in the proposed Fiscal DPC 3.

17. Internal Audit and Internal Controls: The inception report for developing model internal control guidelines for the local level by Ministry of Federal Affairs and General Administration (MOFAGA) has been prepared. The Bank team has provided detailed comments. The consultant for reviewing the internal controls guidelines and developing the internal controls manual for federal and provincial governments has also submitted a gap analysis report to FCGO. The review team emphasized that FCGO and MOFAGA work closely to ensure alignment between the guidelines, and to also identify and risks associated with COVID-19 and similar emergency situations that need to be incorporated in the manual. Furthermore, draft Internal Audit Standards applicable to all three tiers of government have been developed. They are based on standards issued by the Institute of Internal Auditors (IIA). Since the Fiscal Procedures Act 2019 envisages a separate pool of internal auditors to be created, it was agreed that FCGO share a concept note for internal audit cadre development and professionalization through certified trainings by **November 30, 2020**.

18. Nepal Financial Reporting Standards (NFRS): The Institute of Chartered Accountants of Nepal (ICAN) has agreed with two State-Owned Enterprises (SOEs) to conduct an NFRS gap analysis. Accordingly, TORs have been prepared and agreed with the Bank. The gap analysis is expected to be completed by December 31, 2020. After the gap analysis, ICAN plans to conduct trainings to SOEs and relevant government officials (MOF, FCGO, OAG, Company Registrar Office etc.)

19. Revision of ICAN curriculum: The task force reviewing the ICAN syllabus is expected to finalize its the assessment by mid-November 2020. ICAN plans to sign an agreement with the Institute of the Chartered Accountants in England and Wales (ICAEW) in November 2020 to support implementation of the initiative. ICAN was reminded to obtain the Bank's no objection before signing the agreement. ICAN is also exploring development of short- and long-term courses in PFM in partnership with ICAEW, The Chartered Institute of Public Finance and Accountancy (CIPFA) or The Institute of Chartered Accountants of Sri Lanka. ICAN was reminded to work closely with PEFA Secretariat and PFM Training Centre to align with the endeavors on the Training Needs Assessment (TNA).

20. Accountancy Curriculum of Universities: ICAN has prepared TORs to hire a consultant to review the Accounting syllabus of universities and provide recommendations for strengthening the programs. The study is expected to be completed by **January 31, 2021**. This activity is expected to help close the gap between the syllabus of universities and the current financial reporting standards /auditing standards in Nepal.

21. Utilization of partly qualified ICAN students: ICAN is yet to share concept note for the same, which has been agreed to be shared by **October 30, 2020**.

22. Public Accounts Committee (PAC): The procurement process of hiring a consultant to support the capacity building of Federal and Provincial PACs has delayed. The consultant will develop an operational manual for PAC and provide training based on the same. It was agreed that the PAC hire a consultant by **January 15, 2021**. The Bank team is supporting the PAC MIS development with a consultant to help refine the TOR/ bidding document and to ensure that the system can interface with PFM systems, particularly OAG NAMS system.

23. Training Needs Assessment: PEFA Secretariat has recently signed the contract for conducting Training Needs Assessment. An action plan for developing sustainable institutional set-up for PFM capacity building for the three tiers of government will be developed after the assessment. The review team reminded to closely coordinate with Provincial and Local Government Support Program (PLGSP) to achieve possible synergies.

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

24. The Nepal Government Auditing Standards (NGAS): The NGAS that is based on INTOSAI's International Standards for Supreme Audit Institutions (ISSAI) has been approved and will be gazetted shortly. Draft manuals for Financial, Compliance and Performance audits have been prepared with support under the Ernst and Young LLP, India (E&Y) consultancy. The draft guidelines for Citizen-participatory audit along with the Concept Note for Civil Society Organization database have also been prepared. The Bank has provided comments on the manuals/ guidelines. OAG is currently conducting virtual consultations with the E&Y on the documents prepared.

25. Nepal Audit Management System: The upgrade of NAMS completed by E & Y is currently undergoing User-Acceptance Testing by the OAG. The review team highlighted the need for a Quality Assurance assessment and Security audit prior to concluding the user-acceptance testing. To ensure the operational sustainability and maintenance of NAMS, the Bank team urged OAG to include a warranty and a lifetime commitment in the E & Y contract, either as an Addendum or as a separate agreement. These are not included in the current contract. The concept note for OAG's IT Excellence Center has also been prepared. The center is expected to takeover NAMS operations from E & Y by February 2021. However, the construction of the OAG's new building that will host the IT infrastructure of the excellence center has been delayed due to the pandemic, therefore the transition will be delayed until mid-July 2021. Accordingly, the E&Y contract for NAMS and IT Excellence Centre will also have to be extended beyond the Project closing of July 2021 to allow E&Y to train and handover the system after the required infrastructure is in place. NAMS remains central to the OAG's goal of conducting paperless audits in the future, including in times of emergency such as COVID-19.

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

26. Public Procurement Governance and Oversight: The inability of PPMO to recruit the Lead Management and Procurement Consultants as agreed during the previous review, frequent staff attrition and lack of understanding of PPMO staff have impacted this component's overall progress. To help expedite implementation of pending activities, the review team emphasized the need to activate the project implementation unit (PIU). Due to inadequate leadership at PPMO, the PEFA Secretariat will have a shared responsibility for coordinating implementation of the ITC/ILO contract forward.

27. Procurement Capacity Development and Professionalization: No additional professionalization training has occurred. The COVID-19 lockdown grounded the ITC/ILO procurement professionalization training to a halt. The ITC-ILO has proposed to shift training online due to the COVID-19 restrictions, but PPMO has rejected this offer stating that they prefer face-to-face training only. PPMO remains unresponsive to follow ups by the Bank team about the need to restart the training program without further loss of time and unfulfilled contractual obligations with ITC/ILO.

28. Performance Monitoring with e-GP Platform: TORs for the e-GP gap analysis are still outstanding. Due to the significant delay, the e-GP enhancement cannot be completed even if the closing date is extended. Therefore, this activity will be dropped. As a result of the cancellation, the results framework milestones related to the implementation of the e-GP will be dropped as well. The milestones include: (i) Complaints resolved following an effective complaints handling mechanism in e-GP (Percentage), and (ii) System generated performance reporting prepared for Key Sector Agencies (KSAs). Dropping these milestones will not affect the achievement of PDO since procurement institutional and capacity strengthening will still be carried out under the ITC/ILO consultancy.

Component 4: PFM Reform Management and Coordination

29. Program Management: As highlighted in the previous review, the PEFA Secretariat continues to be under enormous stress in coordinating, aligning and providing support to the nine implementing entities of the Project. Further, the entire team of PEFA Secretariat (PEFA Coordinator, Member Secretary, Account Officers) has been changed. The long-term PFM national consultant provided by the DFID/UK to the PEFA Secretariat has provided institutional memory and supported overall implementation of IPFMRP. The Bank team has been working closely with the new team to ensure effective project management. The monthly status meeting to discuss implementation progress is also ongoing. However, as observed in the last review, the implementation of federalism has introduced additional complexities in the scope and content of the reform at the three tiers of government. As a result, the Secretariat's capacity to coordinate the PFM program at all tiers of government and to provide hands-on support with respect to procurement to implementing entities needs to be adequately strengthened. On procurement, a "Summarized Procurement guidelines, 2020" in Nepali has been issued by the PEFA Secretariat to help IAs under the Bank guidelines.

A staff has also been designated to support and update STEP entries of IAs. While these initiatives are good, Bank team reiterated the need to hire a Procurement consultant by PEFA Secretariat to support implementing agencies, since they continue to face challenges. Besides, the Secretariat was encouraged to work closely with MOFAGA to implement the local government activities.

30. Updating PFM Reform Strategy: PEFA Secretariat will soon initiate preparation for developing PFM Reform Strategy required for the federal context. Although the PEFA assessment is planned for next FY22, it was agreed that the preparatory work for the strategy can still commence and findings of the PEFA assessment be used to finalize the strategy.

31. Citizen's Engagement (CE): The PEFA Secretariat is in the process of evaluating proposals received. It has been agreed to hire consultants by December 15, 2020 to support the CE development for the three tiers of the government. The results indicator of the Project also includes implementation of the citizen engagement strategy, hence the review team emphasized the need to expedite the strategy development process to enable its integration into SNGs policies and procedures to be approved by their Annual Assembly for next FY's budget.

32. Gender Responsive Budgeting (GRB): A team of consultants⁴ hired by the Bank is supporting MOF in developing simplified templates under MOF supervision. A GRB Committee (GRBC) chairperson and task team⁵ has been formed to provide guidance on the development of the templates. See Annex 5 for findings of preliminary assessment of SNG GRB. The simplified template is expected to address these shortcomings and help mainstream GRB in overall planning and budgeting process of SNGs.

⁴ Comprising Gender Equity and Social Inclusion (GESI) expert; PFM expert and the Research Associate.

⁵ Includes representatives of GRBC, Budget Division of MOF, representatives from the selected provinces, municipalities and rural municipalities.

It was agreed that the draft templates will be completed by **November 15, 2020** and finalized by **December 31, 2020**. Based on this, MOF will train SNGs to enable embedding GRB into their FY 22 planning and budgeting processes.

33. Consultation with Development Partners (DPs): MDTF Development Partner meeting was organized to update all DPs on the implementation status of the Project. Based on the progress made and challenges faced with the pandemic, the DPs were fully supportive of the Government's proposed project extension by at least a year and restructuring of activities.

FIDUCIARY COMPLIANCE

34. Procurement Performance: Among 92 active procurement activities under the Project, 10 contracts are signed and 8 contracts are completed, 54 activities are flagged as pending implementation, meaning procurement process has not started after approval of the activities or might not be updated in STEP, 13 activities are in process and are yet to be awarded to prospective qualified firms. Table in Annex 4 shows comparison of procurement activity status between the last review and this review.

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. Considering the overall performance and progress of some of the key activities, the procurement rating is retained at "Moderately Unsatisfactory".

35. Financial Management (FM) Performance: The Project has submitted interim financial reports and external audit report timely. The external audit report of FY19 has been received with unqualified opinion. The auditors observed low physical and financial progress in their management letter. The internal audit report for FY20 raised no major issues. With multiple implementing agencies involved, the main risk in the Project is potential delay in receiving and consolidating information. The implementation of CGAS by all implementing agencies has mitigated this risk, however. As CGAS has been updated with activity-based expenditure accounting from FY20, this has further supported activity and expenditure monitoring of the Project. Although the entire team of PEFA Secretariat has changed, the full-time PFM national consultant provided by the DFID/UK has supported the new team including on financial management. The Bank team is also closely handholding the new team to ensure smooth financial management of the Project. The expenditure for FY20 is only NPR 79.95 million (10.33%) out of the total budget of NPR 774.3 million. The budget of FY21 of NPR 1,358.10 million is considered more than adequate including that of counterpart funding. Based on overall performance, the FM rating is retained as "Satisfactory".

36. Disbursement: As of October 31, 2020, the total disbursement is US\$ 2.79 million (18.6% of US\$ 15 million) which includes advance to Designated Account (DA) of US\$ 1 million. The disbursement forecast for the first two quadrimesters of FY21 is US\$ 6.31 million out of total budget FY21 US\$ 11.22 million subject to potential delays caused by the pandemic.

SAFEGUARD MANAGEMENT

37. 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.

NEXT REVIEW: The next review is tentatively agreed to take place in May 2021.

Annex 1: List of Persons Met

Ministry of Finance

1. Mr. Sishir Kumar Dhungana , Secretary
2. Mr. Shreekrishna Nepal, Joint Secretary, IECCD
3. Mr. Rameshwor Dangal, Joint Secretary, Revenue Management Division
4. Mr. Dhaniram Sharma, Joint Secretary, Budget and Program Division

Inland Revenue Department

5. Mr. Mukti Prasad Pandey, Director, Undersecretary

Public Finance Management Training Center

6. Mr. Khagendra Dahal, Senior Instructor, Undersecretary

Public Debt Management office

7. Mr Baburam Subedi, Chief of the Office

Financial Comptroller General Office

8. Mr. Madhu Kumar Marasini, Financial Comptroller General
9. Mr. Gyanendra Paudel, Joint Financial Comptroller General
10. Mr. Bhesh Prasad Bhurtel, Deputy Financial Comptroller General
11. Mr. Prakash Pudasaini, Deputy Financial Comptroller General
12. Mr. Krishna Pudasaini., Deputy Financial Comptroller General
13. Mr. Sansar Dewan, IT Director
14. Mr. Krishna Sharma Sutihar, IT Officer

PEFA Secretariat

15. Mr. Gyanendra Paudel, Coordinator
16. Mr. Gorakh Bahadur Shahi, Member Secretary
17. Mr. Muktiraman Parajuli, Accounts Officer
18. Mr. Ramesh Raj Paudel, Accounts Officer
19. Mr. Rajendra Bajracharya , PFM National Consultant

Office of the Auditor General

20. Mr. Tankamani Sharma, Auditor General
21. Mr. Ramu Dotel , Deputy Auditor General
22. Mr. Ghanshyam Parajuli, Project Director

Public Procurement Monitoring Office (PPMO)

23. Mr. Sushil Dhakal, Joint Secretary
24. Mr. Mr. Shreedhar Panthi, Director

National Planning Commission

25. Mr. Kiran Rupakheti, Joint Secretary
26. Mr. Diwakar Luitel Under Secretary,
27. Ms. Munaka Neupane, Program Director, Under Secretary
28. Mr. Shivaranjan Paudyal, Under Secretary

Institute of Chartered Accountants Nepal (ICAN)

29. Mr. Sanjay Kumar Sinha, Executive Director
30. Mr. Ghanshyam Kafle, Deputy Director

Public Accounts Committee

31. Mr. Rojnath Pandey, Secretary of PAC Secretariat
32. Mr. Pradip Nepal Under Secretary

Ministry of Federal affairs and General administration

33. Mr. Baburam Gyanwali, Under Secretary

Annex 2: Proposed changes and cancelled funds

38. The cancelled funds result from the following:

i. the upgrade of the e-GP system under Component 3 has been dropped. Since the e-GP gap analysis that will inform the e-GP upgrade has not been conducted yet, the upgrade cannot be completed within the project extension period. The cost savings related to dropping the e-GP system enhancement and other PPMO-led trainings is US\$2,350,000.

ii. there are cost savings of US\$784,490 under Component 1, of US\$902,550 under Component 2 and US\$1,962,960 under Component 4

39. Table 1 below summarizes the activities that have been dropped or included and cost savings from the components.

Description	Action	Cost implication	Amount (US\$)
Project Bank	Dropped from Component 1	Cost savings for the activity	
e-GP system upgrade	Dropped from component 3	Cost savings for the activity	2,350,000
DOMS upgrade	Added to component 1	Added cost	235,500
Component 1 overall cost savings	none	Cost savings	784,490^[1]
Component 2 overall cost savings	none	Cost savings	902,550
Component 4 overall cost savings	none	Cost savings	1,962,960

[\[1\] After adding the DOMS upgrade cost](#)

40. Since the IPFMRP is financed by the PFM Multi Donor Trust Fund (MTDF) the cancelled funds will be returned to the MTDF and could be reprogrammed for future PFM support.

Annex 3: Activities in progress that require time to complete.

- i. Completion of MTEF Guidelines and Manuals for the three tiers of Government
- ii. Completion of IFMIS assessment and development of interim IFMIS to enable consolidation of financial statements of the three tiers of government
- iii. Completion of OAG IT Excellence Centre to operationalize already developed NAMS enabling paperless audit for the three tiers of government
- iv. Completion of Training Needs assessment and Development of PFM capacity roadmap for three tiers of government
- v. Development of Strategy for Citizen Engagement in PFM for the three tiers of government
- vi. Roll out of Internal Control Guidelines for the three tiers of government
- vii. Development of new CGAS and rollout in federal and provincial spending offices
- viii. Development of internal audit standards for three tiers governments
- ix. Implementation of Accounting Manual based on internal public sector accounting standards for the three tiers of government

Annex 4: Status of Procurement Activities

Implementation Support Mission	Active Activities	Signed/completed	Pending	Under Implementation	Delayed
May-20	65	4/1	47	13	59
Oct-20	92	10/8	54	13	65

Annex 5: Findings of Preliminary assessment of SNG Gender Responsive Budgeting

Preliminary assessment of SNGs. indicates that: (a) GRB is not integrated in planning and budgeting process of SNGs; (b) GRB code availability only for economic codes and not for activity codes impacts GRB preparation and monitoring process and (c) GRB coding has not been practiced even for economic codes.

Inputs for assessment were solicited from MoF, NPC, MOFAGA, FCGO, PEFA Secretariat, Ministry of Women, Children and Senior Citizen, Municipality Association of Nepal and National Association of Rural Municipality in Nepal.

Annex 6: Agreed Actions

S.N	Action Agreed	Agreed Timeline in Last review	Status During Current Review	New Milestones Agreed in Current Review (Fifth Mission)
Component 1: Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments				
National Planning Commission (NPC)				
1	MTEF: Recruit consultant support MTEF guidelines update and preparation of MTEF Manual	June 30, 2020	Consultant hired and inception report received	Manual expected to be completed by December 2020
2	Project Bank:	June 30, 2020	ToRs for 5 sectors cleared by the Bank and the process initiated	November 15, 2020
a.	Hire consultant(s) for developing Project Bank guidelines for the five sectors (Transport, Urban Development, Energy, Social and Irrigation)			
b.	Share 2 more ToRs for developing Project Bank guidelines for Agriculture and Industry	July 31, 2020	TOR preparation under process	November 30, 2020
Ministry of Finance (MoF)				
5	Share details (concept note) of the proposed revenue assessment for three tiers of the government	New activity		November 30, 2020
6	Develop simplified templates/guidelines for mainstreaming Gender Responsive Budgeting at Subnational Levels building on the existing guidelines	New activity	World bank hired consultants (under PFM MDTF to facilitate MOF) are supporting to prepare guidelines. The consultants are entirely supervised by MOF	December 31, 2020
Financial Comptroller General Office (FCGO)				
7	Learn from one relevant country where successful internal controls have been implemented in a federal context	To be scheduled after COVID-19 situation is lifted	To be scheduled after improvement in pandemic situation	
8	NPSAS Implementation:	RFP was issued but the procurement process was cancelled. Thereafter individual consultants were hired for preparing NPSAS based Financial Statements (Federal and	NPSAS based financial statements of federal and provincial governments were prepared on individual basis for FY 2018/19 and submitted to OAG.	Agreed to hire individual consultants for preparing NPSAS based financial statements for FY 2019/20 and submit to OAG by Dec. 2020. Also agreed to consolidate federal and provincial
a.	Issue RFP for hiring consultants for NPSAS implementation			

		Provincial) for FY 2018/19 financial statements		government NPSAS based financial statements for FY 2019/20
9	Internal Control System: Hire consultants for Internal Control Manual for federal and provincial governments	June 30, 2020	Consulting firm has submitted Gap analysis report	The assignment will be completed within this FY 2020/21
11	Internal Audit System: Hire Consultant to develop Internal Audit Standards / Manual	Draft internal audit standards were under review	Internal Audit Standards prepared and Copyright received from IIA to apply the standards in all three tiers governments	
a				
b	Share a concept note for Internal Audit Cadre Development and Professionalization through certified trainings	New activity		November 30, 2020
	CGAS, SuTRA and PAMS Support: Share ToR for consultant to support in developing Guidelines and Operational Manuals	New activity		November 30, 2020
Ministry of Federal affairs and General Administration (MoFAGA)				
12	Issue EOI for hiring consultant for developing model Internal Control Guidelines for Local Governments	May 31, 2020	Consulting firm has submitted Inception Report	
13	Share Concept note and ToR for developing Digital Linkage with Local governments	New Activity	Concept note and ToR shared with the Bank	
Institute of Chartered Accountants of Nepal (ICAN)				
14	Share TOR for NFRS gap analysis	June 30, 2020	TOR cleared by the Bank for in-depth gap analysis of two SOEs with overall gap analysis on NFRS compliance	Gap analysis expected to be completed by December 31, 2020
15	Share concept note on utilizing partly qualified accountants in the public sector	June 30, 2020	No progress	November 15, 2020
16	Share Universities Accountancy Curriculum Integration Report	June 30, 2020	TOR for consultant shared with the Bank to support in assessment and proposed roadmap for bridging the university curriculum	Consulting assignment expected to be completed by January 31, 2021

			gap in terms of applicable accounting and auditing standards	
Public accounts Committee (PAC)				
17	Hire consultant to develop Manual and provide training for capacity building of federal and provincial PACs	August 30, 2020	Consultant hiring process initiated	Consultant to be hired by January 15, 2021
18	Revise PAC-MIS ToR based on the Bank's comments and inputs from IT personnel from PEFA Secretariat	May 30, 2020	The Bank's consultant is currently supporting PAC to revise the TOR and develop bidding document given IT capacity constraint in PAC ToR and will be completed on Oct. 2020	To finalize and clear TOR by November 30, 2020
Public Expenditure and Financial Accountability (PEFA) Secretariat				
	Hold consultations with stakeholders to agree on interim IFMIS solution	Diagnostic report shared	Consultant shared design for proposed interim IFMIS with cost estimate	Finalize the roadmap and bidding document by November 30, 2020
	Hire consultant for TNA	RFP issued	Contract signed	Assignment expected to be completed by 4 months
Component 2: Strengthening the Office of the Auditor General				
Office of the Auditor General (OAG)				
19	Develop functional and technical requirements for NAMS	June 30, 2020	NAMS already upgraded on a new system architecture and currently under user-acceptance testing	Agreed to complete user-acceptance testing only with quality assurance and security assessment
20	Pilot NAMS	October 30, 2020	The construction of IT Excellence Centre delayed due to the pandemic, which is supposed to take over NAMS operation and maintenance	Agreed with OAG to add to the consultant's scope the requirement of warranty and lifetime commitment (which is a general practice)
21	Undertake SAI PMF	November 30, 2020	Agreed with SAI of Thailand to conduct PMF	To be completed by December 31, 2020

22	Prepare all manuals	June 30, 2020	All required manuals prepared and being reviewed by OAG through virtual consultations	
Component 3: Improving Public Procurement				
Public Procurement Monitoring Office (PPMO)				
25	Respond to ITC-ILO proposal for online training	May 31, 2020	No response provided yet	
26	Make on-board the Lead Project Management Consultant (LPMS) and Procurement Specialist (PS)	June 30, 2020	No progress	
27	Assess SNGs procurement capacity needs	June 30, 2020	No progress	
28	Develop basic simple procurement documents for SNGs level (Direct contracting, quotations, national bidding, Tool kit guidelines)	August 31, 2020	No progress	
29	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	June 15, 2020	No progress	
30	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 consultant or by firm	June 15, 2020	No progress	
31	Submit to the Bank the ToR for e-GP system enhancement including identification of existing Gaps	May 31, 2019	No progress	
32	Complete the selection of firm for e-GP system enhancement	July 31, 2020	No progress	
Component 4: PFM Reform Management and Coordination				
Public Expenditure and Financial Accountability (PEFA) Secretariat				
	Learn from core relevant country where successful IFMIS have been implemented in a federal context		To be scheduled after improvement in pandemic situation	
	Learn from one relevant country on PFM reforms leadership and coordination in a federal context		To be scheduled after improvement in pandemic situation	

	Undertake basic training on change management		To be scheduled after improvement in pandemic situation	
	Update second phase PFM reform strategy based on the federal context	New activity		By FY 2020/21 (mid-July, 2020)
	Develop citizen engagement strategy in PFM		Under RFP evaluation	Expected to be hired by December 15, 2020
	Develop National BCP		Upon clearance of TOR by PEFA Secretariat, the Bank will hire a consultant for supporting in preparation of ToR and bid documents	

VII. RESULTS FRAMEWORK AND MONITORING
Updated Results Framework: Intermediate Results Indicators by Components

Project Development Objective(s): Strengthening the effectiveness of selected PFM and procurement institutions, systems and procedures at the federal and subnational levels.

Indicator Name by Components	Baseline	Intermediate Targets Upto 2 nd year (2019/20)	End Target	Progress Status upto Oct. 2020 (Fifth ISC Mission)
1. Strengthening Public Expenditure and Revenue Mngement in Federal and Subnational Governments.				
Credible MTEF in place (Text)	Basic guidelines for MTEF at federal level in place	MTEF review completed & procedures revamped	Difference between multi-year estimates and subsequent setting of annual budget ceilings are clearly explained.	The existing MTEF guidelines is being updated through consulting support for three tiers of the government. After updating the guidelines, an MTEF software system will be developed for linking with LMBIS and Project Bank. This will support in effective planning and budgeting process with clear linkages between Project Bank, MTEF and annual budget. Further, Project Bank sector guidelines will also be developed for effective project identification, appraisal, selection and prioritization
Comprehensive internal control procedures adopted at SNGs. (Text)	No coherent internal control framework exists that ensures consistency in these practices across the three tiers of governments.	Approved of internal control procedures comprehensive/ consolidated that are adopted (Federal & provincial level-FCGO, local governments-MoFAGA	SNGs that cumulatively manage 50% of overall SNG budget have their own internal control manual adopted.	Internal Control Framework has been developed based on international standards. Based on this framework, internal control guidelines for federal and model guidelines for provincial and local governments are being prepared, for which inception report/ gap analysis report have been submitted. Based on these guidelines, training will be provided to SNGs to adopt the guidelines into their procedures.
IFMIS developed and pilot tested (Text)	Zero pilot	IFMIS study or review completed and roadmap developed for implementation.	2.0 pilot sites	Consultant has provided Diagnostic report with proposed design of interim IFMIS solution with cost estimate, which is under review by the Government. The aim is develop the interim IFMIS solution by the Project closing to the extent possible.
Enhancing participation and	0.00	20% participation in all PFM	30%	17% female participation rate in trainings out of 3,743

capacity of of technical female staff in trainings/ workshops		trainings.		trainings offered so far. For FY 2019/20, information on trainings could not be collected due to the pandemic.
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	Consultants are supporting MOF in developing simplified templates/ guidelines to mainstream GRB in SNGs based on the model guidelines issued by federal government. Based on the simplified templates/ guidelines, training will be provided to SNGs to ensure embedding GRB into their policies, procedures and practice.

2. Strengthening the Office of the Auditor General

Indicator Name by Components	Baseline	Intermediate Targets 2 nd year	End Target	Progress upto Oct. 2020 (Fifth ISC Mission)
Timely submission of financial audit reports of SNGs to appropriate authorities within legal time frame (%)	0.00	40%	60%	Submission time for audit reports not specified. The practice has been to submit by nine months of FY end. Accordingly, submission of FY 2017/18 audit reports were by nine months. However, submission of FY 2018/19 audit reports were impacted by COVID-19 situation. To address the challenges posed by the pandemic, NAMS system has been upgraded to enable paperless audit. The system can also cater to remote audit when the applicable systems such as CGAS, TSA etc. have been upgraded to allow for remote audits.
Number of citizen mobilized and involved in audit process through CSOs of which 50% are female. (Number)	80	300	400	266 people trained on CPA of which 182 (68%) were CSOs representatives in 5 CPA workshops and among them 44% were female. Draft CPA Guideline has been submitted by consultant, upon its finalization, citizen mobilization process will be mainstreamed.

Effective audit follow-up (Text)	Score of O SAI PMF dimension 7 (iii)	Conduct SAI PMF	Score of 2 SAI PMF dimension 7 (iii)	SAI Thailand is selected to conduct SAI PMF, which has been agreed to be completed by December 2020. The assessment will report on the said dimension. As per the current procedure, OAGN re-examines as per the auditees request as the Financial Procedure & Financial Accountability Act, 2019 requires Chief Accounting Officer or Responsible Person to settle the irregularities and request to OAGN for re-examination. Based on re-examination, OAGN notifies clearance of the same or otherwise within 15 days of request letter received..

3. Public Procurement Improvement

Indicator Name by Components	Baseline	Intermediate Targets 2 nd year	End Target	Progress upto Sept. 2019 (Fifth ISC Mission)
Complaints resolved following an effective complaints handling mechanism in e-GP (%)	0.00		60.00	No progress
Basic procurement documents and guidelines developed for sub-national government (out of a master list of sub-national level documents to be prepared)-(%)	0.00	50%	80%	No progres
Procuring entities of KSAs	0.00	60%	80%	Progress on ITC/ILO consultancy contract impacted due to

with at least one certified procurement staff established (As a percentage of the total procuring entities) (%)				the pandemic as trainings cannot be conducted. Potential of virtual trainings has not been agreed yet by PPMO.
System generated performance reporting prepared for KSAs. (Text)	0	Generation of Performance Report for atleast 2 KSAs	Generation of Performance Report for KSAs	No progress

4. PFM Reform Management and Coordination

Indicator Name by Components	Baseline	Intermediate Targets 2 nd year	End Target	Progress upto Sept. 2019 (Fifth ISC Mission)
A citizen's engagement strategy is prepared and implemented as per proposed sequence (Text)	No Strategy Exists.		Strategy exists and implemented.	Proposals from consultants under evaluation. Upon contract award, consultant will support in development of strategy for citizen engagement in PFM for three tiers of government.