

Minutes of PCC Meeting August 31, 2015

**Program Coordination Committee (PCC) Meeting
Nepal Public Financial Management
Multi-Donor Trust Fund
Monday August 31, 2015 at the World Bank Office**

The meeting was jointly chaired by the Finance Secretary Mr. Suman Prasad Sharma, Government of Nepal and the Country Manager Mr. Takuya Kamata, World Bank. The Finance Secretary highlighted the continuing successful implementation of the overall PFM reform program of the Government of Nepal and the need to continue the momentum. Specifically he highlighted the completion of the repeater PEFA assessment with endearing commitment and ownership of all stakeholders. He also acknowledged the ground realities of implementing the activities going forward and the need for preparing an updated work plan in various areas of PFM, as reported by the assessment.

Agenda

1. Welcome Remarks and Progress Update

The Practice Manager, Governance Global Practice, Fily Sissoko, and MDTF Program Manager, Manoj Jain, provided highlights of accomplishments since the last PCC held in September 2014. Details are provided in the latest half yearly progress report (January - June 2015), of which main achievements are summarized below:

- USAID became the seventh donor following the signing of the Administrative Agreement with the World Bank in February 2015.
- Administration Agreements with all donors (wherever applicable) have been amended to extend closing date to January 31, 2018.
- Since last PCC meeting, five technical review meetings have been organized in an effort to provide open discussions on substantive PFM issues; similarly, three virtual PCC review meetings have also organized to review sub-project proposals.
- **Recent earthquake and its impact on MDTF** – In Strengthening Public Financial Management (SPFM) II Project, a new component has been added to finance loss of goods, equipment, and furniture in the affected districts which will help resurrect the treasury and payment functions immediately. Under Strengthening Office of the Auditor General (SOAG) Project, support is being provided to OAG to resume normal work from the new premise at the earliest and requisite goods, networking etc. will be financed for this purpose (existing building of OAG has been declared unsafe).
- The Nepal PFM MDTF team was recognized with Vice President's Award in South Asia Region of the World Bank in April 2015 – there was serious competition for this highly coveted award and the criteria for selection included results, collaboration, innovation, and client focus. This success reflects the excellent collaborative and results-focused spirit among the PFM MDTF development partners.
- Fily also summarized the major achievements made in the sub projects, notably the following:

Strengthening PFM Project

- Extension of SPFM I project to June 30, 2016.
- Implementation of commitment module across all 75 districts has been initiated. Pilots completed in respect of the newly designed Revenue Management Information Systems (RMIS) in three large revenue-receiving districts. Plans are afoot to expand the coverage to additional 12 districts in current year to reach 90% of overall revenue.
- Closure of over 13,500 bank accounts (implementation of TSA) leading to interest saving of over USD 2 million.
- 100% coverage of the budget (red book) in the financial reporting system. Real-time budgetary expenditures made available through the website of FCGO

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Results are also clearly evident in the upgrade to several ratings (19 indicators or 61%) in the PEFA II report, which was recently completed following a large and unique effort led by GoN.

Strengthening the Office of the Auditor General Nepal

- As a result of the force majeure, SOAG has been extended by one year to June 30, 2016 which will allow for completion of activities that were in progress and facilitates attainment of development objectives.
- For the above purpose, the World Bank has approved the extension of the contract for the Co-water consultancy to December 31, 2015.

Strengthening CSOs Use of Social Accountability to Improve PFM

- Phase 1 of this sub project closed on September 30, 2014 which had 40 sub-grants to CSOs, in ten districts (west) covering 80 VDCs (two per CSO) – which completed participatory gender and pro-poor budget analysis and participatory procurement monitoring and monitored a public expenditure tracking survey (PETS).
- Phase 2 of the project has been approved and is currently under implementation. This gives continuity to the momentum on the demand side activities under the MDTF.

Strengthening Budgeting Process for Results (TA)

- One-year extension has been processed to June 30, 2016 to carry out (i) strengthening the analytical capacity of the Ministry of Finance (MoF), the National Planning Commission (NPC) and the Nepal Rastra Bank (NRB), (ii) preparation of a fiscal devolution framework, (iii) operationalizing MTBF (iv) supporting payments to beneficiaries for recent earthquake, and (v) supporting for a wider consultation process amongst stakeholders (parliamentarians, line ministries, and others).
- Upstream issues will be discussed in depth with the DPs in the next technical review meeting.

Program Administration and Management

- Fily apologized for the delay in the appointment of the new Program Manager which mainly occurred because the level of this position was upgraded from GG level to GH level. This illustrates the significant importance that the World Bank attaches to this MDTF and especially on the need to get in a person with right mix of skills in respect of PFM and MDTF management. He also made it clear that there will be no more delays and that the World Bank should be able to announce the name of the candidate by October, 2015. Fily also took this opportunity to also formally introduce Akmal Minallah, the new task team leader of the Strengthening OAG sub project, who takes over from Manoj Jain.

Suggestions from DPs and responses

- The DP group felt that there was a need to update the Results Framework (RF) at the level of MDTF and to make it more outcome focused. The team agreed with the need to update the RF which was framed about two years back on account of new project/activities. The team explained that RF will be best updated after we have the PFM work-plan for Phase II and to also take into account the iteration that will be required for incorporating results from recently recent sub-project approvals (SCSO II and SPFM II) and restructuring (SOAG).
- The DP group felt that the half yearly progress report could provide more details on progress made in the last six months (not just cumulative progress). The financial report should also be detailed and could possibly consist of a forecast. The team responded that a quarterly report format has been circulated to DPs for comments (which is based primarily on financial progress achieved) and will be finalized shortly. A training will also be organized for DPs to allow them to access the required information on a direct basis. The next half yearly progress report will also provide more details on progress made in the last six months.

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- Keeping in mind all the achievements made till now and the recent PEFA II report, the group felt that this is an opportune time for the MDTF to draft a longer term strategy for the next phase. A long term design or strategy was also stated to be important by DPs in order to commit their funding. The team agreed to form a small working group (no more than five persons) consisting of the World Bank, government, development partners and expert consultant to help develop a strategy for PFM MDTF by November 15, 2015.
- DPs raised concerns regarding delay in hiring Program manager. The team apologized for the delay as the position was upgraded (explained earlier) and that the World Bank should be able to announce the name of the new program manager by October, 2015.
- DPs raised the issue of proposed formation of federal state in the country, once the new constitution is promulgated, and the accompanying PFM issues that MDTF could work on. This will be taken into account when the PFM reform action plan phase 2 is being drafted.

2. Status update on the preparation of the PFM Reform Action Plan Phase II: a presentation by Government of Nepal:

The GoN (PEFA secretariat supplemented by Finance Secretary) made a detailed presentation on the PFM action plan phase II which is attached.

- DPs appreciated the efforts made by the government in this regard and suggested to outline the expected time in each of the planned activities going forward especially on the need for wider consultation and preparing a well-defined, realistic and holistic strategy. This strategy should also be driven by the absorptive capacity of the various actors along the PFM spectrum and sequencing the various actions accordingly.
- DPs also requested GoN to develop a tentative costing of these activities, aggregate them together as possible sub-projects to allow for better discussion and debate to which GoN responded positively. There would also be a need to determine GoN's own commitment to this plan -- both financial and non-financial which would need to be brought into this strategy/action plan.
- DPs also noted the need for GoN to further strengthen coordination among themselves to take full ownership of this plan.
- There is a need for action plan to be suitably sequenced based on the identified gaps and absorptive capacity.
- There would also be a need to keep the possible evolving federal structure that the country is anticipating while developing this plan.
- DPs also noted the need for international expertise to assist the GoN in the further developing the strategy/plan.

A joint working team including the WB, DPs and PEFA members will be established (as described earlier) and help identify the areas where MDTF can contribute. The MDTF Results Framework (RF) will also be revised after this effort is completed and a work plan for MDTF has been agreed.

3. Proposed procurement sub-project: WB team had recently presented a proposal for procurement sub-project at the 5th technical review meeting of PFM MDTF held on August 26, 2015. The presentation focused on rationale for involvement with details on proposed main objectives, components, implementation arrangements and responded to comments previously received.

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The proposal requires USD 4 million for first phase whereas the uncommitted cash balance with MDTF as on date is USD 1.87 million¹ necessitating more pledges/funds. This proposal was further discussed in the PCC meeting wherein several delegates (including DFAT, Norway, and Swiss) expressed their desire to additionally pledge to the PFM MDTF subject to receiving a detailed PFM work strategy/plan for the next phase for endorsement by their senior management. It was agreed that a small group/team (as described earlier) will start working on these aspects and simultaneously the WB team will also start preparing a PCN for procurement sub-project which will address comments/suggestions received during the technical review meeting.

4. Closing Remarks by the Finance Secretary

The Finance Secretary reiterated the GoN's commitment in continuing the momentum of PFM reform in the next phase, like the first phase which has been very successful as evidenced by 19 upgrades ratings in the PEFA II and a successfully running PFM MDTF.

Despite the several challenges faced by the country over the last few years both politically and economically, PFM reforms have had major impact. He encouraged the group that despite political difficulties in the country, GoN was doing its best and that PFM will continue to be a top priority for them. He assured the group that his Ministry continues to closely monitor the planning and execution of the budget; and will spare no efforts in making the next phase as successful.

He thanked everyone for their valuable contribution in the meeting and for their participation.

5. Next Meeting

The next PCC meeting will be held in this calendar year after the new program manager is on board. Advance notice will be sent.

Agreed Actions:

- Continue to move forward by fast tracking with the appointment of the new program manager for Nepal MDTF (likely to be appointed by October 2015)
- DPs to provide comments on draft format of quarterly reports (based primarily on financial progress achieved) by September 15, 2015 to allow them to be finalized and used for September 2015 quarter.
- Training will also be organized for DPs on financial information and access to bank systems - to allow them to access the required financial information on a direct basis.
- The team agreed to form a small working group (no more than five persons) consisting of World Bank, PEFA secretariat, development partners and expert consultant to help develop a strategy for PFM MDTF by November 15, 2015
- Update the Results Framework (RF) at the level of PFM MDTF after PFM work-plan/strategy for Phase II has been prepared which will also take into account proposed results from recently recent sub-project approvals (SCSO II and SPFM II) and restructuring (SOAG).
- Team to initiate preparation of PCN for procurement sub-project that incorporates comments received from technical review meeting.

Enclosed: all presentations and attendance

¹ This does not include uncalled pledges from (i) Swiss (2 million CHF) and (ii) EU (0.45 mn Euros); which can be called forth later as per Administration agreements.