



NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT | January–June 2022

Nepal Public Financial Management Multi-Donor Trust Fund

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ACKNOWLEDGEMENTS

This progress report has been prepared by Waseem Kazmi, MDTF Manager, and Shraddha Shah, Operations Analyst, on behalf of the World Bank as MDTF Administrator. The MDTF management and team is especially grateful to Sarita Sapkota, Governance Advisor, FCDO, for her input for the foreword section as well as for her other useful advice related to structure of the report. We would also like to acknowledge the PEFA Secretariat Nepal for their continued support.

ABBREVIATIONS AND ACRONYMS

BCP	Business Continuity Plan
CSO	Civil Society Organization
DP	Development Partners
EU	European Union
FCGO	Financial Comptroller General Office
GIZ	German Agency for International Cooperation
IFMIS	Integrated Financial Management Information System
ICAN	Institute of Chartered Accountants of Nepal
IT	Information Technology
LMBIS	Line Ministry Budget Information System
MDTF	Multi-Donor Trust Fund
MOFAGA	Ministry of Federal Affairs and General Administration
MTEF	Medium-Term Expenditure Framework
NAMS	National Accounting and Management Service
NPSAS	Nepal Public Sector Accounting Standard
OAGN	Office of the Auditor General (of Nepal)
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
SNG	Sub National Government
TSA	Treasury Single Account
TTL	Task Team Leader
USAID	United States Agency for International Development
WB	World Bank

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FOREWORD



Sarita Sapkota
Governance Advisor, FCDO

During the first half of 2022, the period covered by this report, the COVID-19 crisis continued to have a significant impact on Nepal and wider South Asia region. People and communities are learning to live with COVID-19 managing health, livelihood, work, parenting, and other challenges. In Nepal, the MDTF continued their work on public finance management (PFM) and achieved many milestones, which the report covers. DP, with their continued commitment to support PFM, have actively engaged with the government and partners, participating in technical meetings, bilateral discussions, and high-level meetings, including the Program Coordination Committee's (PCC) and Heads of Agency meetings to provide guidance and support to the MDTF operation. The face-to-face interactions are slowly resuming, and this has helped the programme management and delivery.

DP are encouraged by the Government's leadership and commitment in taking forward PFM reform, despite COVID and changing political economy.

Finalization of key documents such as the accounting manual for three spheres of government, internal control guidelines, the medium term expenditure guidelines, and training needs assessment are some examples. It has also been useful, through the MDTF, to engage in service delivery in response to crises by supporting the initiation of the National Business Continuity Management Guideline (NBCMG) and Business Continuity Plan (BCPs), which will enable the government to function more smoothly during crises.

The first ever PEFA assessment in a federal context, which has progressed during the reporting period, will be a critical input in moving forward in the PFM landscape. Findings from this, followed by a planned provincial level assessment, will be key in shaping the PFM reform strategy and priorities. This will also help coordinate development partner initiatives and strengthening partnership with the government.

The programme remains committed to improving its delivery with support from DP. The UK and Australia, at different stages of the programme, have worked with The World Bank on Performance Improvement Plans to help the programme deliver better. I would like to thank colleagues at The World Bank for their cooperation and support in working together with the government and DP. This has been instrumental in the programme receiving its first 'A' in UK's annual review of the programme. I look forward to continued engagement and opportunities to work together to help the programme even further.

PART I. PROGRAM RESULTS

The MDTF Program

Background

Strengthening Public Financial Management (PFM) is a key element of the Government of Nepal's (GoN) strategy for strengthening governance, optimizing outputs from public resources and for ensuring inclusive and broad-based development. There has also been an increasing interest in recent years on the part of non-state actors, civil society organizations and DP in strengthening financial accountability, with the goal of improving use of public resources and obtaining value for money. The GoN has been working closely with DP in the design and implementation of PFM reform initiatives at the country and sector level.

Development Objective

The overall program development objective (PDO) of the MDTF is "to strengthen the performance, transparency, and accountability in public financial management in Nepal".

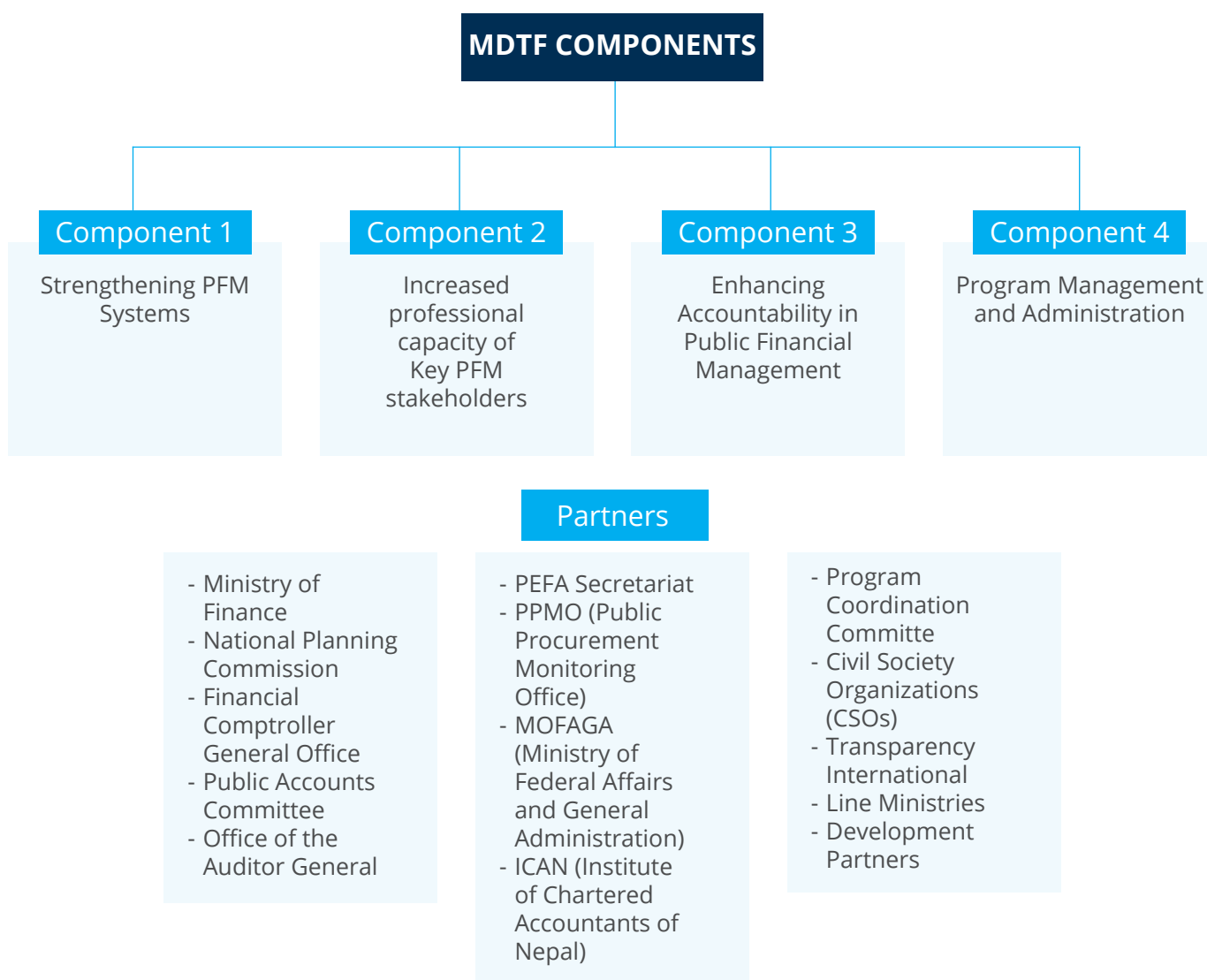
The key results expected from the projects to be funded through the MDTF are:

- i. Improved resource management as a result of strengthened PFM systems and processes
- ii. Increased awareness and oversight of government PFM processes by diverse constituencies
- iii. Better knowledge of value for money challenges and PFM governance gaps, contributing to improved design of PFM interventions at the country and sector level

Program Components

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

Figure 1: MDTF Components



PART II.

IPFMRP Implementation Status

The Integrated Public Financial Management Reform Project (IPFMRP) is the main vehicle through which the MDTF program is being implemented.

(a) Implementation Support Review Meetings, March 10- 22, 2022

A World Bank (WB) Team led by Ms. Timila Shrestha (Sr. Financial Management Specialist/Task Team Leader) carried out the implementation review of the IPFMRP from March 10 to 22, 2022. The objectives of the review were to: (i) assess progress since the last technical review of July 2021, (ii) discuss the potential for project extension by an additional year to July 16, 2023, and (iii) agree on the next steps for expediting lagging activities. The Bank team appreciates the progress made since July 2021 review. Most of the implementing agencies have delivered notable results despite the challenges of the pandemic by pursuing virtual means to the extent possible, of which the key outputs are:

- Various software procured for Macro-fiscal modelling
- Three key assessments – IFMIS, Training Needs Assessment, and Citizen Engagement completed
- Training provided at the local level on Irregularities Management and Revenue Advisory Committee
- 64 percent of procurement capacity building to three tiers of government completed under ITC/ILO contract
- Training on e-Government Procurement (e-GP) system provided to the three tiers of government

The Project is now supporting the implementation of the approved guidelines and software, as well as recommendations of the completed studies. Various capacity building activities in the three tiers of government are continuing.

(b) Results Achieved to Date:

Achievements under IPFMRP after last HOA meeting in December:

- Medium Term Expenditure Framework Guidelines issued, and training provided to federal and provincial governments
- Public Accounts Committee Management Information System developed
- Ministerial FMIS developed (under testing) to consolidate data of all cost centers under the respective ministries/departments

Based on the overall recent progress, the Project has now been extended to July 16, 2023 to enable completion of the activities that are progressing well. The work plan has been revised to reallocate projects funds to activities that are making good progress, given the flexibility with the single disbursement category in the legal agreement. The Bank team also informed that the Project would have no further extension. Despite good progress on many fronts, some reforms are stalled, risking the achievement of intended development results and outcomes.

- Completion of the procurement training is commendable, but the rest of the procurement reform activities are stalled.

- The three key studies mentioned above have been pending approval for the last three months. With less than a year to IPMFRP closure, there is limited time to implement the recommendations of the studies.
- The progress on results indicator for female participation in training, workshops, and audits is significantly below the target. While we note the limited number of female staff in PFM, striving for maximum female participation is essential.

There is also urgency to accelerate various other activities. The finalization of the Accounting Manual based on Nepal Public Sector Accounting Standards and Internal Control Guidelines with model guidelines for provincial governments needs to be expedited to support in establishing required procedures, especially in the subnational governments. The earlier delayed activities of MOF have now picked up with initiation of procurement process mainly for hardware and IT equipment. Nevertheless, MOF needs to accelerate implementations for all activities. Considering the slow progress of ICAN activities, it has been agreed to only continue support for activities already initiated. While the procurement capacity building activity is now progressing, as the new leadership in PPMO has requested the Bank to support some of the activities under the Bank's execution, clarity is required in terms of activities to be supported under the Project. Also, the turnover of PPMO senior officials has adversely affected the progress of the other activities, which need to be accelerated.

As the gender-based results indicators are significantly falling behind the target, there is a need to reorient strategy of the respective agencies to ensure maximum female participation in training, workshops, and audits. While the government's challenge with limited female staff in PFM is noted, it is important to strive for maximum female participation with change in strategy as required.

Some of the **key Implementation Constraints:**

- Slow progress on approving recommendations of the three assessments – IFMIS, Training Needs Assessment, Citizen Engagement
- Other than Procurement Capacity building activities, no progress observed on remaining PPMO implemented activities since February 2022. The impacted activities are (i) e-GP gap assessment, (ii) development of procurement documents, (iii) development of MOOC (online procurement courses), and (iv) PPMO web-portal
- WB was verbally requested to provide consulting support for e-GP gap assessment and development of some of the procurement documents – a task that is to be completed by PPMO
- MOF/ PEFA Secretariat is of the view that these should be undertaken by PPMO in line with the Project Agreement - WB waiting to hear back based on MOF, PEFA Secretariat consultations with PPMO
- Concern communicated to PPMO on the lack of progress of other activities

The MDTF team has started to design the future MDTF work program in consultation with the government and Development Partners (DP). We look forward to co-creating the MDTF Strategy for the next three years. At the June 7 HOA meeting, there was broad approval to design the MDTF strategy although the timing for developing the strategy was debated. The majority view was to start the work immediately and prepare the draft strategy by November 2022, which can then be discussed with the new government. The PFM reforms priorities will not change significantly, and an early start will provide additional time to utilize the maximum amount of MDTF grant. The other viewpoint was to start the process in 2023 after the new government is in place. The rationale was the risk of spending money without government ownership and the assurance required to commit funds. The WB team would continue discussing the way forward with the DPs technical teams.

(c) IPFMRP Results Framework

The World Bank team updates the results framework of the project and measures progress towards the development objectives and the intermediate results. Below is the updated Results Framework as of June 30, 2022

PDO Indicators by Objectives / Outcomes				
Indicator Name	Baseline	Actual (Current)	End Target	Comments
Contracts awarded within the initial bid validity period by 5 key sector agencies and selected Sub National Governments (SNGs) (Percentage, Custom)	30	30	70	Based on the progress of the capacity building activity, the required information is currently being collected to assess the timeliness of the contract award
Improved aggregate capital budget out-turns at the federal level (Percentage, Custom)	64	65	75	The capital budget out-turns of the recent years (65 percent in FY21 and 47 percent in FY20 compared to 76 percent in FY19) have been impacted by the pandemic situation in addition to other factors. Nevertheless, the supported activities of Medium-Term Expenditure Framework and Project Bank are expected to contribute in terms of improved planning and budgeting and that of procurement capacity building is expected to contribute towards capital budget execution.
Comprehensive accounting and reporting procedures in place in Federal and SNGs (Text, Custom)	(a) Consolidated annual financial statements are not prepared as per NPSAS	Consolidated annual financial statements for the federal government are 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	NPSAS based financial reporting formats have been approved for the three tiers of the government, based on which NPSAS based financial statements are being prepared every year for the federal level. The provincial level financial statements based on NPSAS are also being initiated. However, as manual interventions are required in preparing and consolidating such financial statements, efforts are currently underway to enhance the information systems to enable producing NPSAS based consolidated financial statements. Efforts are also underway to finalize the Accounting Manual based on NPSAS for the three tiers of government, based on which subnational governments can adopt NPSAS based reporting procedures. Nevertheless, the accounting systems of subnational governments - CGAS of provincial governments and SuTRA of local level are largely based on NPSAS and further enhancements are also planned to be completed by the project to ensure full NPSAS compliance.
Improved audit planning and quality management for audit of federal and sub-national entities. (Text, Custom)	SAI PMF (indicator 9) Score 2	Supreme Audit Institutions (SAI) Performance Management Framework (PMF) (indicator 9) Score 3	SAI PFM (indicator 9) Score 3	Based on the results of the various supported activities, the indicator on improved audit planning and quality management has already been met as per the Supreme Audit Institution of Thailand's Performance measurement Report- scored 4 on the relevant indicator for audit planning (now replaced with indicator 7) and scored 3 or more for the various 10 indicators for audit quality and reporting (now replaced with indicators 8,9,10,11,12,13,14,15,16 and 17)

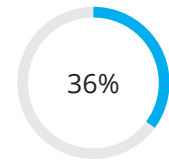
Intermediate Results Indicators				
Indicator Name	Baseline	Actual (Current)	End Target	Status update
Credible MTEF in place (Text)	Basic guidelines for MTEF at federal level in place.	MTEF software for federal government operationalized with guidelines expected to be approved by February 2022. Local level MTEF guidelines issued. Provincial government guidelines and software planned	Difference between multi-year estimates and subsequent setting of annual budget ceilings are clearly explained.	The MTEF guidelines for federal government has been issued. MTEF software for federal and provincial governments has also been developed. MTEF guidelines for local level were already issued earlier. Support is now being provided to ensure operationalization of MTEF by three tiers of Government.
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	Internal control guidelines for local level have been issued. The guidelines are also being developed for federal and provincial governments	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 local level have been developed and issued. Information is being collected to assess the status of implementation of the guidelines by local level. The guidelines are also being developed for federal and provincial governments, which is being delayed due to concern on quality of work by the consultant. FCGO is now working towards finalizing guidelines with internal resources.
IFMIS developed and pilot tested (Text)	Zero Pilots	IFMIS assessment final report received, which needs to be implemented And piloted	2 pilot sites	IFMIS assessment final report received. The government needs to approve its recommendation promptly to start implementation. Nevertheless, for the interim solution, integration of LMBIS, RMIS, TSA, and CGAS is already completed and broader IFMIS to consolidate three tiers of GON, Ministerial IFMIS/ Provincial IFMIS with SUTRA for producing consolidated financial statements also planned to be completed by this FY. Other interfacing/ integration of existing systems are planned for next FY as part of interim solution.
Enhancing participation and capacity of technical female staff in trainings/ workshops (Text)	0	18% female participation rate in trainings so far. The government is struggling to meet the indicator due to limited number of female staff in PFM	30%	17% female participation in trainings so far. The government is struggling to meet the indicator due to limited number of female staff in PFM. In addition to emphasizing on female participation, the government has been requested to also organize female-specific targeted trainings to the extent possible.
Unified budget guidelines including gender responsive budget processes introduced to SNGs (Text)	No unified budget guidelines including gender responsive budget processes for SNGs	In addition to unified budget guidelines, simplified budget guidelines on GRB also issued to address the capacity constraints of SNGs	SNGs that cumulatively manage 50% of overall SNG budget have adopted the unified budgeting guidelines	Unified Budget Guidelines that include GRB was earlier issued to subnational governments. Given the complexity of those guidelines and capacity constraints of SNGs, simplified GRB guidelines for subnational governments were further issued and first phase training provided. Additional trainings are also underway. Orientation was also provided to DPs and their supported programs to scale up GRB implementation through collaboration.

Indicator Name	Baseline	Actual (Current)	End Target	Status update
Timely submission of financial audit reports of SNGs to appropriate authorities within legal time frame (Percentage)	0	0	60	The required timeline for audit reports is not specified in any legal document. As a good practice, OAG has been maintaining the timeline of submission by nine months from the FY end which have been impacted in the recent years due to pandemic challenges. Nevertheless for audit of last FY21, OAG issued Audit report of 602 local level (out of 760 SNGs – 753 local level and 7 provincial governments) by nine months, which exceeds the end target of 60%. Also as Nepal Audit Management System has now been operationalized and with the expected improvement in the pandemic situation, the audit reports are expected to be submitted by nine months in future for all levels.
Number of citizens mobilized and involved in audit process through CSOs of which 50% are female. (Number)	80	774	400	The total citizens mobilized number has far exceeded the end target of 400 as 774 have already been mobilized. However, OAG is struggling to attract interested females as only 19% have been mobilized so far. OAG has been requested to devise strategy to specifically target and incentivize female participation to the extent possible.
Effective audit follow-up (Text)	Score of 0 SAI PMF dimension 7 (iii)	Score of 2 in Dimensions 11 (iii), 14 (iii) and 17 (iii), which replaced the earlier Dimension 7 (iii)	Score of 2 SAI PMF dimension 7 (iii)	The indicator has been met based on Supreme Audit Institution of Thailand's Performance Report for the OAG. This is demonstrated by the score of 2 in Dimensions 11 (iii), 14 (iii) and 17 (iii), which replaced the earlier Dimension 7 (iii) of the report.
Complaints resolved following effective complaints handling mechanism in e-GP (Percentage)	0	Dropped	Dropped	Indicator dropped as e-GP activity has been cancelled.
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	40	80	Out of ten, four procurement documents have been developed and the rest are planned to be developed incrementally by the Project closing.
Procuring entities of KSAs with at least one certified procurement staff established (As a percentage of the total procuring entities) (Percentage)	10	10	80	Based on 64% completion of procurement capacity building activity, it is estimated that 100% target has already been met for 3 KSAs out of 5 KSAs . Data is being collected to validate this along with determination for the remaining 2 KSAs.
System generated performance reporting prepared for KSAs (Text)	0		Generation of Performance Report for KSA's	Indicator dropped as part of restructuring as relevant activity cancelled
A citizen's engagement strategy is prepared and implemented as per proposed sequence (Text)	No Strategy exists	The final report on the Strategy received	Strategy exists and implemented	The final report for the Citizen Engagement Strategy has been received, which needs to promptly approved to enable implementation by the Project closing to the extent possible. Given the large number of recommendations, the government has agreed to prioritize the key recommendations in the process of obtaining approval for initiating implementation.

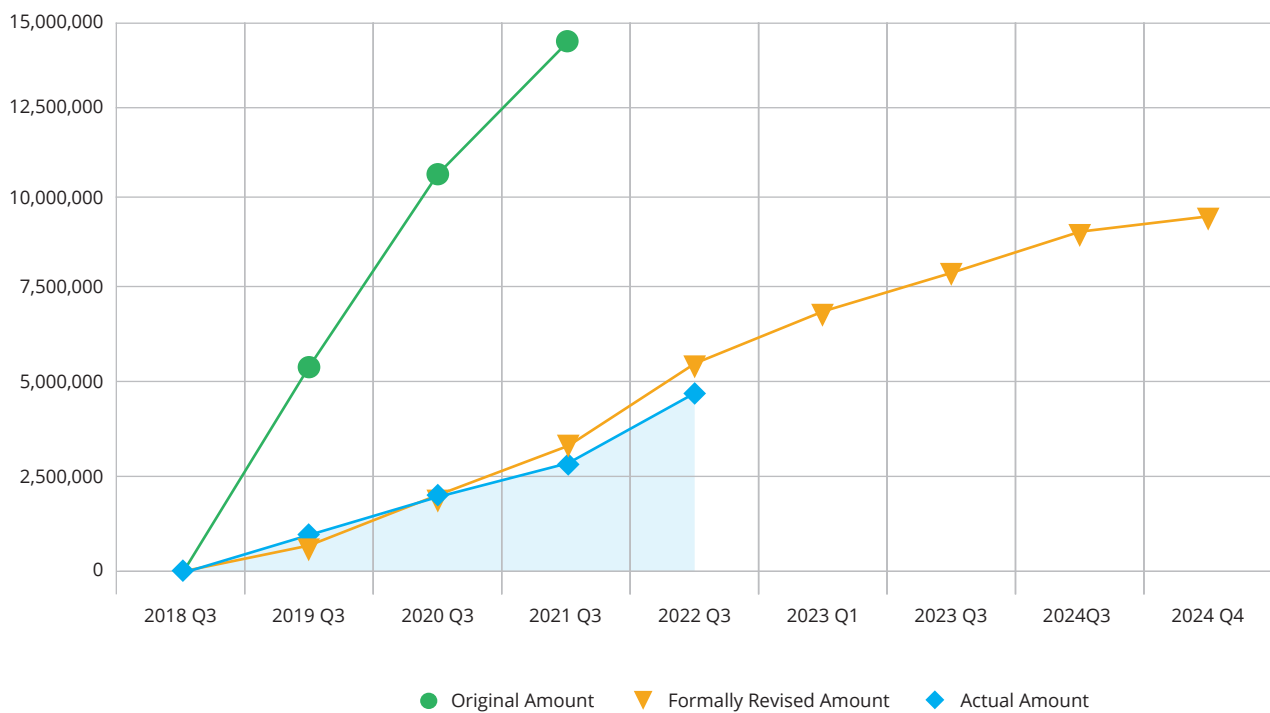
(d) Disbursement (Commitment and disbursement summary USD)

Source of Funds	Net Commitment	Total Disbursed	Undisbursed	% Disbursed
TF	9.00M	5.76M	3.24M	63.98
Total	9.00M	5.76M	3.24M	63.98

FY Disbursement Ratio



Cumulative Disbursements (USD)



(e) IPFMRP Status of Risks (SORT)

During project preparation, risks have been systematically assessed and reflected in the project document. During implementation support mission, the Bank team updates the risk assessment and discusses with government appropriate mitigation measures. The progress report provides an update of the risk assessment as follows:

Risk Category	19-Sep, 2017	27-Jun, 2018	25-Nov, 2019	10-Jun, 2020	04-Dec, 2020	27-Jul, 2021	17-Feb, 2022	30-Jun, 2022
Political and Governance	■	■	■	■	■	■	■	■
Macroeconomics	■	■	■	■	■	■	■	■
Sector Strategies and Policies	■	■	■	■	■	■	■	■
Technical Design of Project or Program	■	■	■	■	■	■	■	■
Institutional Capacity for Implementation and Sustainability	■	■	■	■	■	■	■	■
Fiduciary	■	■	■	■	■	■	■	■
Environment and Social	■	■	■	■	■	■	■	■
Stakeholders	■	■	■	■	■	■	■	■
Other	■	■	■	■	■	■	■	■
Overall	■	■	■	■	■	■	■	■

■ High
 ■ Substantial
 ■ Moderate
 ■ Low
 ■ None

PART III.

Analytical and Advisory Activities

1. PEFA Assessments

National PEFA Assessment: Throughout the period, the Bank team has had several meetings and discussions with key counterparts during the period covered by this report. The in-person Nepal PEFA Orientation and Training workshop was jointly organized by the Government of Nepal (GoN) and the World Bank and took place at the Kathmandu Marriott during March 20-22, 2022. There were about 80 participants daily on average, representing various ministries and agencies. The purpose of the workshop was to provide orientation on the latest PEFA assessment methodology to the various officials representing various blocks of public financial management who will be leading in the exercise of self-assessment of various PEFA indicators. The training sessions have been well received by the participants, and discussions were open and interactive, with questions asked and clarifications provided. Overall, the training finished on a high note, with the participants ready to start working immediately on the data collection, as planned.

On June 24, a one-day review meeting was organized at hotel Royal Singi. The purpose of the review meeting was to get an update on the indicators assigned to the committees. This helped identify short comings and provided opportunity to give feedback to improve the quality of the assessment and to ensure we are on track to achieve the key

milestones that include the preparation of the draft report by mid July 2022. The MDTF DPs have communicated to the GON that the national PEFA assessment needs to be completed per agreed timelines, and the new PFM reforms strategy should be updated considering PEFA findings.

Sub National PEFA Assessment: The government plans to initiate the PEFA assessment of Gandaki province in January 2023, using the self-assessment approach, after completion of the federal PEFA assessment. The government will establish a committee of eleven officials under the leadership of the Secretary of the Ministry of Economic Affairs and Planning of Gandaki Province for the assessment. The Bank team is starting consultations with the government and DPs on the Concept Note (CN) of the assessment.

2. Sub National Government (SNG) Studies:

The SNG studies on Tax Policy and Budget Execution were completed in May 2022. The team presented the SNG tax assessment to the PFM working group in the meeting on February 10. The team also organized initial discussions with the Development Partners (DP) to support the implementation of the recommendations from the SNG studies. Macro Fiscal Model is also developed, and government officials were given in person training from June 6-10, 2022. The formal handover of the model to the government is being planned.

3. Business Continuity Guidelines:

The National Guideline for the preparation of Business Continuity Plans by Federal Ministries and Agencies, Provincial and Local Governments has been drafted by the World Bank and Consultant under the guidance of the PEFA Secretariat. The PEFA Secretariat will now proceed by taking the necessary steps for the finalization of the draft. The formal hand over of the model to the government is being planned.

Technical Review Meetings:

1. IPFMRP Update Meeting for MDTF DP- February 3, 2022

The meeting was held at PEFA Secretariat with MDTF DP and Implementing agencies (IAs) of the project. The objective of the meeting was to seek DPs' inputs based on presentation by Financial Comptroller General Office (FCGO) and Ministry of Finance (MOF) on PFM IT systems reforms; presentation on IFMIS assessment by the consultants of PEFA Secretariat - PWC and presentation of IPFMRP progress update based on technical discussions conducted with all IAs by WB.

PWC presentation on IFMIS focused on the recommended roadmap for development of IFMIS in two stages – (a) interim IFMIS and (b) End-state IFMIS, whereby eventually replacing legacy platforms and supporting some advance applications and emerging technologies, such as, block chain. The team also talked about required capacity building of all tiers of the government to be able to use such a system. PWC highlighted that the government is on the right track in implementation of the roadmap and with the progress being made within the government, the recommended roadmap is likely to be achieved within the timeline.

2. Meeting on IPFMRP Mission Update and PFM Reform Outcome Level Discussion- March 22, 2022

This meeting was chaired by Mr. Than Prasad Pangani, PEFA Coordinator by inviting all MDTF DPs and members of all IAs. He talked about the importance of the IPFMRP project and the need for its extension to complete crucial activities that have gained momentum. Also, he mentioned the importance of the foundation for integration that the project approach has laid. IPFMRP TTL Timila Shrestha updated all members on the project mission that was recently held from March 10 to 22, 2022. Although the project faced legacy delays and COVID challenges, tangible outputs have been achieved which was also showcased in the BEK review where the project scored an "A" for the first time. For this, she thanked the PEFA Secretariat team and all the IAs for their hard work and efforts. The DPs are regularly updated by WB TTL and Timila shared recent update after January 2022 sequentially over a presentation. She highlighted some major achievements such as MTEF software, project bank software which is now published in the NPC website.

Apart from the achievements, Timila mentioned ongoing activities such as NPC capacity building, MOF activities, MOFAGA trainings, OAG excellence center etc which will depend on the extension of the project for next eleven months. Also, the final reports for the three key assessments under PEFA secretariat is received. However, its implementation awaits as some of them require cabinet approval. In the end, at the request of MDTF DPs Timila presented the outcome level discussion. PEFA Secretariat is working on broader outcome-level discussion. It was acknowledged that slow decision making in the GON side and related accountability for the decisions, delays in procurement, and compliance

of fiscal responsibility Act, etc are hampering achievements of many initiatives. It was also discussed that some of the end targets in the results indicators were over ambitious and the lessons learnt from them will be taken into consideration in future. Everyone agreed that we should look at news ways and modalities on how we can increase female participation in PFM as well as overall citizen engagement in PFM.

3. Nepal PFM MDTF Technical Meeting- May 24, 2022, Via Webex

The officials of FCDO, DFAT, Norwegian Embassy, EU, USAID, and the World Bank (WB) attended the meeting. The meeting discussed the Sub National Government Public Expenditure Financial Accountability (PEFA) Concept Note (CN): IPFMRP procurement component and transfer of MDTF Management. WB explained that Sub-National PEFA was suggested in the Heads of Agencies (HOA) meeting on Dec 7, 2021. Based on further discussions, it was decided to start a provincial assessment in FY23 and move to the local level in FY 24. Gandaki province was selected based on the provincial government's appetite and commitment for PEFA, participation of provincial government staff in PEFA training, and geographical access. WB aims to deliver the Gandaki PEFA assessment by June 2023 and, based on success, may undertake another subnational assessment at the local government level in FY24. The CN includes a brief justification for the selection of Gandaki, and the team will review CN to augment the rationale further.

WB explained the implementation issues in IPFMRP's PPMO component. With DP's consent, WB agreed to bring back the e-GP gap assessment, preparation of procurement documents, and online training under IPMFPR. These activities were earlier cancelled due to lack of progress but reinstated due to the strong

demand and interest of the former PPMO secretary. However, the process has stalled since the change of PPMO Secretary. The WB has raised the issue with the government during meetings and through formal letters. This issue has been proposed as an agenda for the upcoming PCC meeting. Lastly effective June 1, 2022, Syed Waseem, Sr. FM Specialist (TTL), and Marcela Rozzo, Sr. Public Sector Specialist (Co-TTL) will take over the management of MDTF. Victor has relocated to Washington DC but would continue to be the TTL of sub-national PEFA assessment.

4. HOA Meeting on Strategic Issues, June 7, 2022

The WB Country Director welcomed a frank discussion on the MDTF progress, results, and needs for adjustments. He requested HOA's guidance on further improving the MDTF performance, designing the MDTF forward look, and the key messages for the government in the upcoming Program Coordination Committee (PCC) meeting. Lastly, he introduced Waseem Kazmi and Marcella Rozo, who will jointly manage the MDTF, and thanked the outgoing Manager, Victor, for his leadership over the last couple of years.

The WB team made a presentation covering MDTF progress, including analytical activities and IPFMRP, implementation challenges, and the proposal to co-develop the MDTF strategy. Over the last six months, the WB teams kept DPs informed and engaged through technical discussions, progress reviews, briefs, and regular updates. The implementation progress of the MDTF is on a positive trajectory. IPFMRP has delivered notable results, analytical activities have been completed, and the Public Expenditure and Financial Accountability (PEFA) assessment has started. However, some key reforms are delayed due to the lack of ownership and

approvals. These include implementing procurement reforms and approving three key assessments under IPFMRP. There is also a risk of slippages in PEFA assessment timelines. The team highlighted that DPs could further enhance collaboration to support fiscal federalism and avoid duplication. The DPs and WB can co-design the MDTF Strategy 2023-25. The WB team will continue technical discussion with the DPs on developing the MDTF Strategy.

5. PFM working group meeting- Feb 10, 2022

WB presented on the tax assessment policy. WB also took the opportunity to update the group on both federal and SNG level PEFA assessments. Priorities for new year including expression of interest from DPs in chairing the group was discussed during the meeting. UNDP colleague, Anders from Integrity and Accountability Working Group (IAWG) also participated in the meeting and informed members that he would be happy to coordinate to organize an initial meeting among the respective co-chairs in the coming days. The same goes for Federalism working group.

6. PFM working group meeting April 20 – Handover of chairmanship

USAID welcomed opportunity to chair and touched upon the priorities. They talked about putting them in one document and choosing top five priorities for the year. This is a good platform for information sharing. ADB discussed two areas: knowledge and utilization of experience of working in five years into federalism, etc. They advised that we should take stock of what we learnt over these years of federalism implementation. We need also to have a more systematic dialogue with key GON in all three levels in order to understand issue in PFM and fiscal

federalism and inspire them for reform. In addition, we also need to learn from field visits. GIZ expressed their interest to co-chair the Working Group together with USAID. They also talked about the synergy we have with mixture of partners on both financial cooperation and technical cooperation. The meeting endorsed both Chair and co-chairs.

7. Bimonthly updates:

Over the last six months, the WB teams kept DPs informed and engaged through technical discussions, progress reviews, briefs, and regular updates. One of these exchanges were made through bimonthly updates that was shared by WB with all DPs on February 11 and May 10 over email from WB Operations Manager for Sri Lanka, Maldives, and Nepal, Lada Strelkova.

PART IV.

Financial Report

The MDTF has two active trustee accounts: TF071617 and TF072582. The TF071617 is the original TF which initially had seven DPs but Embassy of Denmark left the partnership in June 2016. As of 30 June 2022, the total pledged contributions stood at US\$20,957,834 which has been fully paid by the partners. Total disbursements recorded was US\$18,708,035. Administration fees and expenses amounted to US\$419,157 while investment income earned was US\$567,138. Total fund balance stood at US\$1,800,791 with commitments of US\$211,080

The trustee account TF072582 is parallel to the original trustee TF071617. This was created to

accommodate new contributions from the six DPs. The total pledged contributions stood at US\$20,746,584 of which paid contributions by the DPs amounted to US\$16,032,104. The balance of the pledged contributions was US\$4,714,480. disbursements balance amounted to US\$4,709,199 Administration and fees recorded was US\$510,000 while total investment income was US\$726,918 The total fund balance as of 30 June 2022 was US\$11,539,823 of which commitment amounted to US\$3,853,560.

For further financial details of the two trustee accounts please refer to tables below:

Table 1: Trustee TF071617

Customer Name	Currency	Amt in Country Currency	Eqv. USD	Paid in Country Currency	Eqv. USD	Unpaid in Country Currency	Eqv. USD
Australia-Department of Foreign Affairs and Trade	AUD	2,850,000	2,991,120	2,850,000	2,991,120	0	0
EU-Commission of the European Communities	EUR	4,500,000	5,623,628	4,500,000	5,623,328	0	0
Norway - Ministry of Foreign Affairs	NOK	15,000,000	2,615,314	15,000,000	2,615,314	0	0
Swiss State Secretariat for Economic Affairs (SECO)	CHF	3,000,000	3,066,371	3,000,000	3,066,371	0	0
United Kingdom - DFID	GBP	3,500,000	5,570,360	3,500,000	5,570,360	0	0
United States Agency for International Development (USAID)	USD	712,578	712,578	712,578	712,578	0	0
Denmark-Royal Ministry of Foreign Affairs ***	DKK	2,000,000	378,465.32	2,000,000	378,465	0	0
Sub Total			20,957,834		20,957,834		0

*** Embassy of Denmark left the partnership in June 2016

**EC formal exit from this TF on January 31st, 2022

Table 2: Trustee: TF072582

Customer Name	Currency	Amount in Country Currency	Amount in USD	Paid in Country Currency	Paid in USD	Unpaid in Country Currency	Unpaid in USD
Australia-Department of Foreign Affairs and Trade	AUD	5,300,000	3,791,860	5,300,000	3,791,860	0	0
EU-Commission of the European Communities	EUR	3,500,000	3,974,825	3,500,000	3,974,825	1,500,000	1,497,000
Norway - Ministry of Foreign Affairs	NOK	18,000,000	2,110,835	18,000,000	2,110,835	16,000,000	1,661,302
United Kingdom - FCDO	GBP	3,000,000	3,895,594	3,000,000	3,895,594	0	0
United States Agency for International Development (USAID)	USD	600,000	600,000	600,000	600,000	0	0
Swiss State Secretariat for Economic Affairs (SECO)	CHF	1,500,000	1,658,990	1,500,000	1,658,990	1,500,000	1,556,178
Sub Total			21,190,499		16,032,104		4,714,480
GRAND TOTAL (Trustee TF 071617 and TF072582)			42,148,333		36,989,938		4,714,480

Table 3: Trustee TF071617- Grants

Nepal PFM MDTF TF071617 Financial Statement for the period until June 30, 2022						
Grant Number	Grant Name	Execution	Legal Status	Project ID	Grant Amount USD	Disbursements USD
TF013011	OPERATIONAL RISK ASSESSMENT OF PFM REFORM IN NEPAL	Bank Executed	LEGALLY CLOSED	P132738	199,983.75	199,983.75
TF099621	STRENGTHENING THE TSA SYSTEM, FINANCIAL REPORTING, AND PFM CAPACITY BUILDING	Recipient Executed	DROPPED	P121853	4,000,000.00	0.00
TF010623	PROGRAM MANAGEMENT AND ADMINISTRATION COSTS.	Bank Executed	LEGALLY CLOSED	P121853	838,176.31	838,176.31
TF010454	PREPARATION, APPRAISAL, SUPERVISION, MONITORING, REPORTING COSTS OF STRENGTHENING PFM SYSTEMS	Bank Executed	LEGALLY CLOSED	P125770	551,555.31	551,555.31
TF010482	PREPARATION AND SUPERVISION COSTS OF STRENGTHENING OFFICE OF THE AUDITOR GENERAL PROJECT	Bank Executed	LEGALLY CLOSED	P127040	218,757.49	218,757.49
TF012492	NP ED PETS	Bank Executed	LEGALLY CLOSED	P131381	148,346.99	148,346.99
TF012524	STRENGTHENING CIVIL SOCIETY ORGANISATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PUBLIC FINANCIAL MANAGEMENT IN NEPAL	Bank Executed	LEGALLY CLOSED	P131860	699,283.48	699,283.48
TF012668	NLTA UNDER THE SPFM PROJECT TO GOVT OF NEPAL	Bank Executed	LEGALLY CLOSED	P125770	701,440.02	701,440.02
TF015354	NEPAL: STRENGTHENING BUDGETING PROCESS	Bank Executed	LEGALLY CLOSED	P145814	701,591.45	701,591.45
TF017673	NEPAL ROSC A&A	Bank Executed	LEGALLY CLOSED	P147582	7,720.19	7,720.19
TF0A0370	STRENGTHENING CIVIL SOCIETY ORGANIZATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PFM IN NEPAL 2	Bank Executed	LEGALLY CLOSED	P153514	547,921.69	547,921.69
TF0A3254	NEPAL-SUPPORT FOR FISCAL MANAGEMENT (TA)	Bank Executed	LEGALLY CLOSED	P157724	449,765.46	449,765.46
TF0A5038	NEPAL MDTF-IFMIS	Bank Executed	DROPPED	P163681	200,000.00	-
TF0B5037	IPFMRP SUPERVISION	Bank Executed	LEGALLY CLOSED	P164783	96,945.88	96,945.88
TF010452	STRENGTHENING PUBLIC FINANCIAL MANAGEMENT (PFM) SYSTEM (TREASURY SYSTEM, FINANCIAL REPORTING AND PFM CAPACITY BUILDING)	Recipient Executed	LEGALLY CLOSED	P125770	4,242,311.23	4,242,311.23
TF010455	STRENGTHENING THE OFFICE OF THE AUDITOR GENERAL PROJECT	Recipient Executed	LEGALLY CLOSED	P127040	2,219,468.89	2,219,468.89
TF012485	STRENGTHENING CIVIL SOCIETY ORGANISATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PUBLIC FINANCIAL MANAGEMENT IN NEPAL	Recipient Executed	LEGALLY CLOSED	P131860	800,000.00	800,000.00
TF0A0369	STRENGTHENING CIVIL SOCIETY ORGANIZATIONS' USE OF SOCIAL ACCOUNTABILITY TO IMPROVE PFM IN NEPAL 2	Recipient Executed	LEGALLY CLOSED	P153514	923,734.12	923,734.12
TF0A1065	NEPAL : STRENGTHENING PUBLIC FINANCIAL MANAGEMENT II	Recipient Executed	LEGALLY CLOSED	P154401	2,692,114.05	2,692,114.05
TF0A7475	INTEGRATED PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT	Recipient Executed	ACTIVE	P164783	2,880,000.00	2,668,919.66
TOTAL					20,957,834.29	18,708,035.97

Table 4: Trustee: TF072582- Grants

Nepal PFM MDTF TF072582 (successor of TF 071617) Financial Report for the month of June 2022						
Grant Number	Grant Name	Execution	Legal Status	Project ID	Grant Amountt (USD)	Disbursements (USD)
TF0A7474	INTEGRATED PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT	Recipient Executed	Active	P164783	6,120,000.00	3,089,268.56
TF0A8864	PROGRAM ADMIN. AND MGMT COST	Bank Executed	Active	P121853	1,300,000.00	880,628.18
TF0A9105	IPFMRP SUPERVISION ALL COMPONENTS	Bank Executed	Active	P164783	837,025.65	716,293.64
TF0B5144	PEFA Assessment	Bank Executed	Active	P175522	300,000.00	57,275.07
GRAND TOTAL					8,557,025.65	4,743,465.45



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