



# NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT | July–December 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 are especially grateful to Kamakshi Yakthumba, Program Manager, DFAT, for her input for the foreword section as well as for her other useful advice. We also would like to acknowledge the PEFA Secretariat Nepal for their continued support.

# ABBREVIATIONS AND ACRONYMS

CSO	Civil Society Organization
DFAT	Department of Foreign Affairs and Trade
DPC	Development Policy Credit
DP	Development Partners
EU	European Union
FCGO	Financial Comptroller General Office
IFMIS	Integrated Financial Management Information System
ICAN	Institute of Chartered Accountants of Nepal
IPSAS	International Public Sector Accounting Standard
IPFMRP	Integrated Public Financial Management Reform Program
ISSAI	International Standard of Supreme Audit Institutions
IT	Information Technology
M&E	Monitoring and Evaluation
MDTF	Multi-Donor Trust Fund
MOFAGA	Ministry of Federal Affairs and General Administration
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
NAMS	National Accounting and Management Service
NFRS	Nepal Financial Reporting Standard
NNRFC	National Natural Resource and Fiscal Commission
NPSAS	Nepal Public Sector Accounting Standard
OAGN	Office of the Auditor General (of Nepal)
PAC	Public Accounts Committee
PEFA	Public Expenditure Financial Accountability
PFM	Public Financial Management
PPMO	Public Procurement Monitoring Office
SAI	Supreme Audit Institution
SDC	Swiss Development corporation
SOAG	Strengthening the Office of Auditor General of Nepal (Project)
SNG	Sub National Government
USAID	United States Agency for International Development
WB	World Bank

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# FOREWORD



**Kamakshi Yakthumba**  
DFAT

In the second half of 2022, the PFM MDTF made significant progress with the achievement of several major milestones including the cabinet approval of the Nepal Public Sector Accounting Standards, development of simplified Project Bank Guidelines, hand-over of the source code for the Nepal Audit Management System to the Office of the Auditor General, training on government finance statistics based on the revised Chart of Accounts and procurement management. This has been possible because of the proactive engagement and monitoring by the World Bank (WB) team with guidance and support extended by the Development Partners (DP). We welcome the WB's initiative to co-design the new MDTF Strategy and proactive engagement with DPs in identifying strategic priorities for future MDTF activities.

As the MDTF's flagship program, the Integrated PFM Reform Program (IPFMRP) draws to a close in July 2023, it has presented an important opportunity to review and assess the MDTF's contributions to PFM reform in Nepal. The MDTF has made significant strides in strengthening the country's financial management systems with the pace of reforms

accelerating in recent years under IPFMRP. The Government of Nepal (GoN) has accomplished noteworthy outcomes including better information management systems, trained PFM personnel, enhanced policies and procedures, and analytical studies such as the training needs assessment and the IFMIS study, that will help guide future reforms.

As the GoN finalizes its new PFM Reform Strategy, it is an opportune time to discuss, plan, and align MDTF support with the strategy. Continued support for this new round of PFM reforms activities is critical, as PFM systems serve as the foundation of fiscal federalism. It is also crucial that the reform strategy has ownership across all spheres of government and reflect the needs of all governments to ensure effective implementation, collaboration and accountability. Our support through MDTF should be aligned to this strategy and we need to actively work together to ensure that the reform strategy is discussed, disseminated, and validated by all relevant stakeholders.

The national PEFA assessment, which began in the previous reporting period, has experienced delays, and while the data collection has been reasonably successful, the write-ups have been of unsatisfactory quality. The sub-national PEFA's concept note is currently under review, and there are concerns about the capacity of the provincial government to conduct a self-assessment. With PEFA assessment expected to provide a robust foundation for developing a PFM Reform Strategy that is evidence-based, realistic, and tailored to the specific needs of the country, the DPs and WB should collectively advocate to ensure that the reform strategy is informed by the PEFA assessment and a monitoring mechanism is put in place to report progress against reform actions.

# PART I.

## 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 development partners (DPs) 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 DPs 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”.

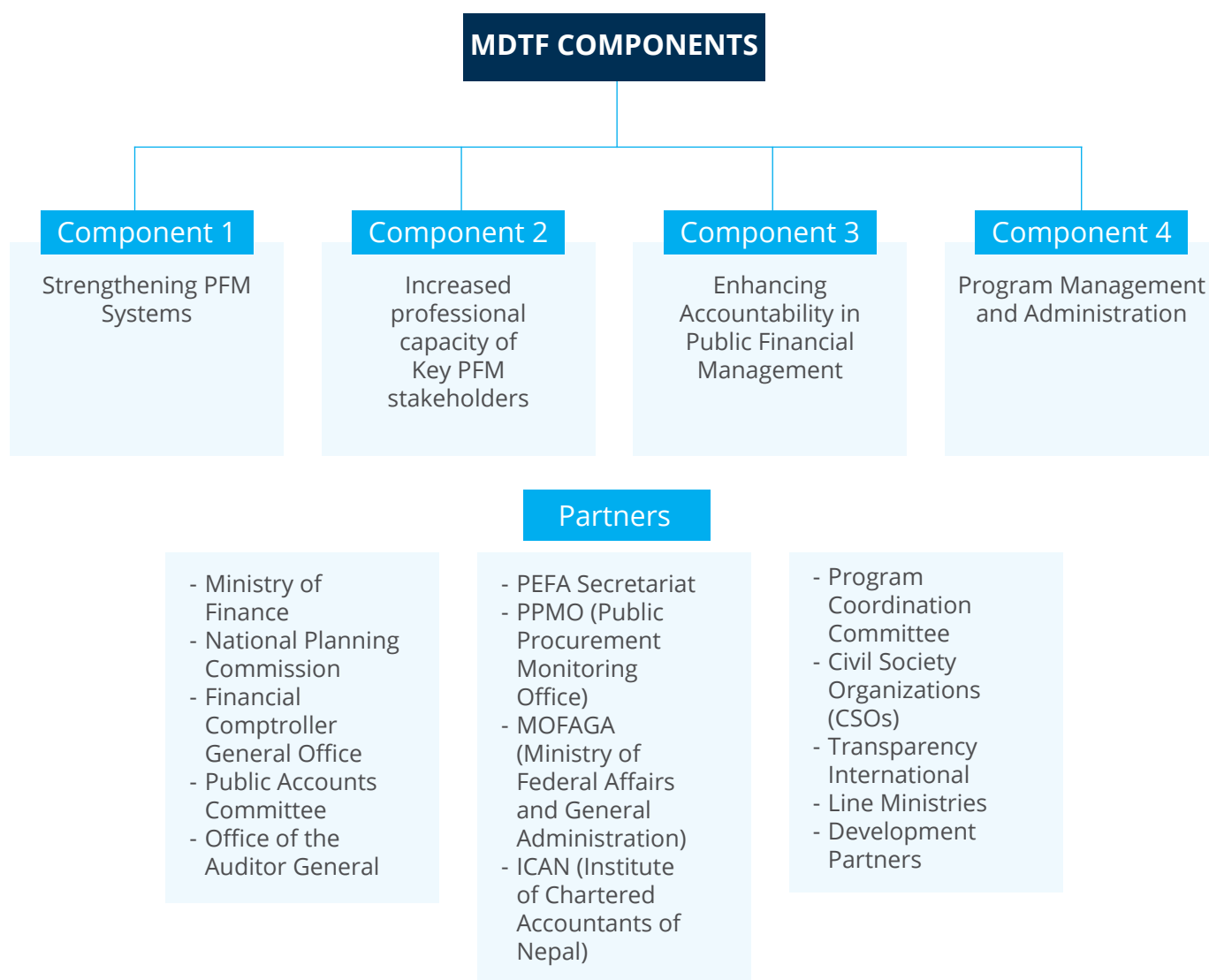
The key results expected from the projects to be funded through the MDTF are:

- 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

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

### Implementation Support Review Meetings, November 14 – 25, 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 November 14- 25 with a wrap up meeting on December 22 that was attended by MDTF partners. The objectives of the review were to: (i) assess the project's implementation and disbursement progress, (ii) agree on key actions required to further enhance implementation performance of project that are critical to be completed prior to project closing on July 16, 2023. The Bank team appreciates the progress made since March 2022 review. Most of the implementing agencies have delivered notable results with cumulative disbursement of 79 percent, of which the key outputs are:

- a) Development of Project Bank Guidelines
- b) Required enhancements and integration of various systems (Treasury, Revenue, Accounting and Asset Management) have enabled production of consolidated financial reports for the three tiers including Extra Budgetary Units (EBUs) based on Nepal Public Sector Accounting Standards
- c) Launch of Revenue Management Information System Version 2 enabling revenue collection through all digital platforms in a secure manner
- d) Development of Public Accounts Committee Management Information System (MIS) along with training to concerned Ministries
- e) Approval of Code of Conduct for Internal Auditors
- f) Approval of Public Assets Auction Procedures
- g) Training for Public Asset Management System Users of the three tiers of government
- h) Trainings to various local level for Internal Control, Gender-Responsive Budgeting (GRB) Guidelines, Irregularities Management, and Revenue Advisory
- i) Training of Trainer for Internal Control Guidelines in Provinces 1 and 7
- j) All trainings and activities of ITC/ILO contract completed for the three tiers
- k) Additional trainings on various aspects of procurement management conducted for the three tiers
- l) Online Procurement Learning Module on Massive Open Online Course (MOOC) posted in PPMO's website
- m) Training to Civil Society Organizations for Citizen Participatory Audit
- n) Cross Learning with Supreme Audit Institutions of Bhutan and Malaysia for Performance Audit and for Financial, Compliance and Performance Audits using IT systems respectively
- o) The three assessments –Integrated Financial Management Information System (IFMIS), Training Needs Assessment and Citizen Engagement Strategy, endorsed by the PFM Steering Committee and disseminated to concerned agencies and Ministry of Federal Affairs and General Administration (MOFAGA) for further dissemination to local governments

Considering the project closing on July 2023 there is a need to accelerate completion of project activities to ensure the results indicators are met in a timely manner. The key delayed activities that require priority attention include:

- a. **Ministry of Finance (MOF)**- Further enhancements/ integration of Line Ministry Budget Information System (LMBIS), procurement of revenue forecasting software and support to Debt Operation and Management Software (DOMS)
- b. **National Planning Commission (NPC)**- Approval of Simplified Project Bank Sectoral Guidelines
- c. **PEFA Secretariat**- Coordination for implementation of the three assessments
- d. **Financial Comptroller General's Office (FCGO)**- Issuance of Internal Control Guidelines and Accounting Manual for the three tiers
- e. **Public Accounts Committee (PAC)**- Development of PAC Operational Manual and Training Materials
- f. **The Institute of Chartered Accountants of Nepal (ICAN)**- Curriculum revision and Training on Nepal Financial Reporting Standards
- g. **Office of the Auditor General (OAG)**- issuance of various audit guidelines and full operationalization of some of the remaining modules of NAMS

To ensure sustainability of capacity building efforts beyond project closing, it has been agreed with all concerned agencies to aim at developing standardized training module and provide training of trainers to the relevant training institutes, particularly PFMTTC and provincial centers for good governance so that the capacity building efforts can be institutionalized in a systematic manner in line with the recommendation of the TNA. To this end, training plan has been requested with relevant agencies (MOF, NPC, FCGO and MOFAGA). In addition, for sustainability of other relevant activities, it was agreed to develop a sustainability plan by March 2023 to ensure reform work is further built on beyond project closing.

**Monitoring and Evaluation:** The regular monitoring and evaluation mechanism has been set up facilitated by the PEFA Secretariat and with support from the Bank. Monthly monitoring of all implementing agencies is conducted to the extent possible and actions agreed based on the evaluation.

**Next Review and Agreed Actions:** To support in expediting the implementation, the Bank has been conducting technical reviews monthly to the extent possible. The next implementation review and support is planned for June 2023.

Footnote: the project has been rated Moderately Satisfactory, for both progress on achieving the Project Development Objective (PDO) and Implementation Progress (IP), per the (January 2023) publicly disclosed ISR.

## 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 December 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	Information being collected	70	the required information is being collected to assess the timeliness of the contract award. As the procurement capacity building activity has been recently completed, the impact needs to be assessed accordingly.
Improved aggregate capital budget out-turns at the federal level (Percentage, Custom)	64	65	75	The capital budget out-turns of the recent years ( 57 percent in FY22, 65 percent in FY21, 47 percent in FY20 compared to 76 percent in FY19) have also been impacted by the pandemic situation in addition to other factors. Nevertheless, the supported activities of Medium-Term Expenditure Framework, Project Bank and Procurement Capacity building are expected to contribute to certain extent in terms of improved planning and budgeting and execution respectively, thus contributing towards capital budget execution. However, the target of 75 % is unlikely to be met given the consecutive low capital budget outturns and the factors unrelated to project interventions impacting on the outcome
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. Additionally, relevant systems have been enhanced to produce NPSAS based consolidated financial statements for the three tiers of GON including extrabudgetary units from FY23 onwards. Efforts are also underway to finalize the accounting manual based on NPSAS for the three tiers of GON, based on which SNGs can adopt NPSAS based reporting procedures. Nevertheless, the accounting system of SNGs – CGAS of provincial governments and SuTRA of local level are largely based on NPSAS, and further enhancements are also planned based on revisions required with finalization of accounting manual.
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)

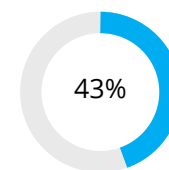
Intermediate Results Indicators				
Indicator Name	Baseline	Actual (Current)	End Target	Status update
Credible MTEF in place (Text)	Basic guidelines for MTEF at federal level in place.	MTEF software for federal government operationalized with guidelines expected to be approved by February 2022. Local 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 have 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. To ensure difference between multiyear estimates and subsequent setting of annual budget ceilings are clearly explained, it has been agreed with NPC to include a provision in this FY's budget preparation guidelines for FY 24 budget
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 recommendations endorsed by the PFM Steering committee for implementation by relevant agencies. Based on the recommendations, treasury, revenue, accounting, and assets management systems are already integrated as required to produce specific Ministry/ Department wise consolidated information as well as consolidated NPSAS based information for the three tiers of GON and Extrabudgetary units. There are further plans to integrate key systems such as MTEF, project bank, e-GP, and SuTRA
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%	The government continues to struggle 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 and training being provided to ensure operationalization.	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.

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	79% submitted by nine months	60	The required timeline for audit reports is not specified in any legal document. Thus, there is no legal time frame. 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 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
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. The improvement in score is the result of previous and ongoing activities supported under PFM MDTF
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	Information being collected	80	Based on completion of procurement capacity building activity, it is estimated that 100% target has already been met Data is being collected to validate this
A citizen's engagement strategy is prepared and implemented as per proposed sequence (Text)	No Strategy exists	The final report on the Strategy received, which needs to be implemented	Strategy exists and implemented	The Citizen Engagement Strategy has been endorsed by the PFM Steering committee and disseminated for implementation of the recommendation by the concerned agencies. PEFA Secretariat has agreed to provide orientation and implementation support to concerned agencies to ensure implementation to the extent possible by project closing.

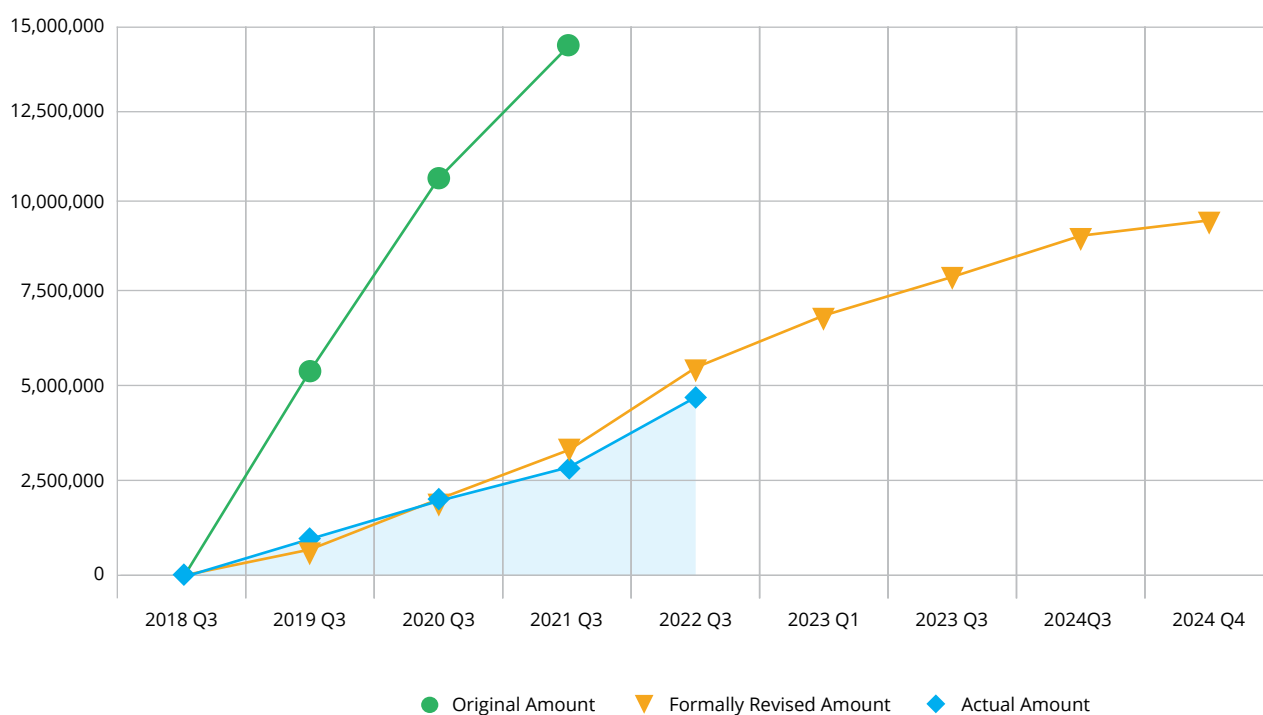
## Disbursement (Commitment and disbursement summary USD)

Source of Funds	Net Commitment	Total Disbursed	Undisbursed	% Disbursed
TF	9.00M	7.16M	1.84M	79.52%
<b>Total</b>	<b>9.00M</b>	<b>7.16M</b>	<b>1.84M</b>	<b>79.52%</b>

FY Disbursement Ratio



## Cumulative Disbursements (USD)



## 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	Concept	Appraisal	Implementation					Latest ISR
	19-Sep, 2017	27-Jun, 2018	10-Jun, 2020	04-Dec, 2020	27-Jul, 2021	17-Feb, 2022	30-Jun, 2022	12-Jan, 2023
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.

## Program Management and Administration

### PEFA Assessments

1. **National PEFA Assessment:** Bank team has started receiving the initial drafts of different indicators, which is under review. The teams have done a reasonable job collecting the data; however, the quality of write-ups is inferior. A PEFA update meeting was scheduled on September 21 to review the progress and timelines, where DPs were also invited. Waseem and Nayan have taken over the TTL ship and dedicated most of their time to have the draft report ready for review by early December.
2. **Sub National PEFA:** PEFA Secretariat has informed us that the PFM Steering Committee has decided to conduct the Gandaki province PEFA Assessment as a self-assessment and start the fieldwork after completion of Federal PEFA, i.e., from January 2023. We are waiting for the minutes of the meeting. The concept note is being finalized to schedule the review meeting. WB has clarified that there is no possibility of PEFA Allowance payment for the provincial assessment. The team is also discussing the capacity of the provincial government to carry out a self-assessment.

### DP Engagement and MDTF Strategy:

The objective of the retreat held in Gokarna Forest resort from September 27-28 was to agree on the strategic direction of the MDTF, and on the roadmap to prepare the program for the next three years. It was an opportunity to renew our collective

commitment to the PFM and fiscal federalism. We learnt from each other's experiences in an open safe space for dialogue. At the end of the session, we agreed on the strategic priorities of the MDTF for the future and a high-level plan outlining the activities to be undertaken to complete the MDTF strategy.

WB team had an excellent discussion with the DPs. The DPs highly appreciated the co-design approach to developing the MDTF Strategy and the thoughtfully designed workshop. They mentioned that it's the first time they were engaged in the design process, and we will jointly take the credit and responsibility. They requested the Bank team to propose interventions for MDTF financing and have another two-day retreat to discuss those. Then it was agreed to have a joint consultation with the government to finalize the interventions.

### Technical Review Meetings:

#### 1. Nepal PFM MDTF Technical Meeting- July 5, 2022

The officials from FCDO and USAID, and the World Bank (WB) attended the meeting. The World Bank, under MDTF, has completed two policy notes on Tax and Budget Execution of the provincial and local governments. WB shared the policy notes with the MDTF DPs. The notes make policy recommendations for the government to improve tax and budget execution systems. The meeting focused on how we can support the implementation of these recommendations.



The meeting acknowledged the importance of revenue mobilization and tax administration reforms at the provincial and local levels. There is a need for capacity building and coordination across the three tiers of the government. Tax policy reforms, strengthening tax administration, and staff capacity building have been identified as the three areas of focus. Municipal Association of Nepal (MUAN) has started a refresher program for the municipalities, which is a good start. For implementation, a bottom-up approach of initiating reforms dialogue with local governments (LGs) and then going up to provincial governments (PGs) could be adopted. The meeting discussed the option of picking some recommendations, providing technical assistance (TA), and piloting in a few palikas.

The MDTF can provide some support for the tax reforms however, some more analytical work is required to ascertain what support the MDTF can provide. As the next step, the team can expand the study on revenue potential at the provincial and local levels. The starting point can be the review of past studies and stock take of data available to identify the need for additional analytics. A half-day session in the upcoming DPs retreat was proposed to discuss sub-national governments' tax and budget execution reforms. WB sent a questionnaire to all DPs ahead of the session to compile data of related analytical studies and technical assistance at the sub-national level. The Bank team will also liaise with the Provincial and Local Governance Support Program (PLGSP) to collect details of the support provided on tax and budget execution.

## **2. Nepal PFM MDTF Technical Meeting on PEFA allowance, August 1, 2022**

Ms. Lada Strelkova, Operations Manager for Maldives, Nepal, and Sri Lanka, World Bank, chaired the meeting. Heads and representatives of the MDTF partners, including H.E Nona Deprez, EU

Ambassador were in attendance. Mr. Bigyan Pradhan, Sr. Operations Officer, apprised the meeting on the discussions with the government and consultations within the Bank team. The MOF's Joint Secretary of Budget Division had clarified that the decision to pay allowances could not be reversed as this would cause a credibility issue for MOF and PEFA Secretariat. The Joint Secretary emphasized that the PFM Steering Committee endorsed, and MOF approved the allowances based on discussion with the DPs during the IPFMRP mission. The Bank team has extensively reviewed the legal and operational aspects related to the payment of allowances. The Bank's Country Financing Parameter does not prevent funding allowances, and meeting allowances are being provided in various Bank projects as guided by the applicable legal agreements. The MDTF Administrative Agreements with the DPs does not include a clause for exclusion of such expenditures as per the Bank's legal team. Considering these factors, he requested the DPs to approve, on an exceptional basis, payment of these allowances based on results.

Ms. Strelkova added that we would ensure the allowances are paid on an exceptional basis for PEFA assessment by making it explicit in the Legal Agreement of the Project. The clarity will also be ensured in future legal documents as required. As a way forward, DPs met separately on how best to proceed and got back to the Bank. Ms. Strelkova assured the DPs that this would not create a precedent as the allowances would be explicitly specified in the existing and future legal documents as required.

## **3. Half-Day Brain Storming Session on MDTF Strategy, December 15, 2022**

Most DPs talked about the relevance of the PFM Reform strategy and its sequencing. The PEFA Assessment results are yet to come out. There was a consensus among all that a meeting is required

at the HOA and MOF Finance Minister/ Secretary level to talk about reform work. This will also help to operationalize federalism and justify the rationale behind PFM support. WB Operations Manager, Lada Strelkova, chaired the session by thanking the DPs for their collective commitment to PFM and fiscal federalism in Nepal. The MDTF platform enabled harmonized approach that provided a competitive advantage by pooling the resources, creating synergies, delivering results, and reducing the transaction cost for the government. MDTF has delivered notable results in strengthening country systems. Over the last couple of years, the pace of PFM reforms under IPFMRP has accelerated, and the government has achieved notable results. Now the government has better information systems, trained staff, improved policies and procedures, and analytical studies providing the roadmap for future reforms. The government is finalizing its PFM Reform Strategy, and it is the right time to discuss,

plan, and align MDTF support with the strategy. She appreciated DP engagement to co-create the future MDTF Strategy.

MDTF Program Manager, Syed Waseem presented the PFM reform strategy focus areas and areas covered as per PEFA framework. This brain storming session is a follow up discussion from the strategic meeting/ retreat that was held in September at Gokarna resort. He also talked about areas where GON could improve while finalizing the strategy. He then presented areas of Government request for support and presented the MDTF financial scenario. Proposals were made on how MDTF can support. Five bank executed activities were presented where some were endorsed by the DPs and supported as very relevant while it was agreed that the others needed more follow-on technical discussions. Field Trips was planned for Gandaki Province and Madhesh Province for next FY along with HOA retreat in February/ March.

# 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 31 December 2022, the total pledged contributions stood at US\$20,957,834 which has been fully paid by the partners. Total disbursements recorded was US\$18,919,116. Administration fees and expenses amounted to US\$419,157 while investment income earned was US\$591,480. Total fund balance stood at US\$1,614,052.

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\$20,788,038 of which paid contributions by the DPs amounted to US\$17,629,191. The balance of the pledged contributions was US\$3,146,976. Total disbursements recorded was US\$ 6,224,064. Administration and fees recorded was US\$510,000 while total investment income was US\$881,652. The total fund balance as of 31 December 2022 was US\$11,776,780 of which commitment amounted to US\$1,927,935.

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	5,623,628	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
<b>Sub Total</b>			<b>20,957,834</b>		<b>20,957,834</b>		<b>0</b>

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

\*\*EC formal exit from this TF on January 31<sup>st</sup>, 2022

Table 2: Trustee: TF072582

Customer Name	Currency	Amount in Country Currency	Paid in Eqv. USD	Paid in Country Currency	Paid in Eqv. 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	5,000,000	5,571,912	5,000,000	5,571,913	0	0
Norway - Ministry of Foreign Affairs	NOK	18,000,000	2,110,835	18,000,000	2,110,835	16,000,000	
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	
<b>Sub Total</b>			<b>17,629,191</b>		<b>17,629,191</b>	<b>17,500,000</b>	
<b>GRAND TOTAL (Trustee TF 071617 and TF072582)</b>			<b>38,587,025</b>		<b>38,587,025</b>		

Table 3: Trustee TF071617- Grants

Nepal PFM MDTF TF071617 Financial report for December 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	2,880,000.00
<b>TOTAL</b>					<b>23,119,116.31</b>	<b>18,919,116.31</b>

Table 4: Trustee: TF072582- Grants

Nepal PFM MDTF TF072582 (successor of TF 071617) Financial Report for the month of December 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	4,276,920.87
TF0A8864	PROGRAM ADMIN. AND MGMT COST	Bank Executed	Active	P121853	1,300,000.00	1,005,240.20
TF0A9105	IPFMRP SUPERVISION ALL COMPONENTS	Bank Executed	Active	P164783	877,025.65	762,754.51
TF0B5144	PEFA Assessment	Bank Executed	Active	P175522	300,000.00	181,728.52
<b>GRAND TOTAL</b>					<b>8,597,025.65</b>	<b>6,226,644.10</b>



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